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貿易學碩士 學位論文

A Study on the Policies to Promote Chinese FDI toward
Korea

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國文抄錄

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외국직접투자(FDI) 유입은 개혁개방이후 중국경제성장에 크게 기여하였다. 그러나 1990년부터 중국기업들이 해외직접투자를 통해 해외로 진출하기 시작했다. 다시 말해서 조우추취(走出去)전략이 시작된 것이다.

이러한 중국의 전략은 FDI 이론에도 변화를 가져왔다. 지금까지 FDI에 관한 이론은 선진국들이 개도국에 진출하는 현상을 여러 가지 요인을 바탕으로 설명하고자 하였다. 그러나 이러한 이론은 중국과 같은 개도국의 해외직접투자를 설명하는데는 한계가 있다. 이에 따라 한계산업확대이론, 소규모 기술이론, 생산능력 현지화이론 등 새로운 이론들이 나타나고 있다.

한국과 중국은 지리적 근접성, 문화적 근사성 등 여러 가지 이점이 있음에도 불구하고 중국의 대한국 직접투자는 100만달러 미만의 소규모의 투자가 주류를 이루고 있다. 이것은 중국기업의 한국투자에서 얻은 경험적 요소가 강하다. 중국은 쌍룡자동차나 HYDIS와 같은 대규모 투자에서는 실패하고 소규모 투자에서는 상당히 성공하였다.

중국의 대한국투자의 가장 기본적인 동기는 선진기술의 흡수이다. 이런 전략은 현지국과 상당한 갈등을 가져온다. 기술을 흡수하려는 중국경영진과 기술을 방어하려는 한국경영진과 갈등과 경영진과 현지노동자간의 갈등 등이다.

이러한 장벽을 극복하고 중국의 대한국투자를 활성화하기 위해서 다음과 같은 사항들이 고려되어야 한다. 첫째 중국의 성급한 기술이전전략이 수정되어야 한다. 현지국의 시장상황을 무시한 기술이전전략은 실패할 수밖에 없다. 현지국에서 경영안정성이 모든 전략의 시발점이 되어야 한다. 둘째 양국 정부는 해외투자의 엄격한 규제조항의 완화와 원활한 행정서비스가 이루어지도록 해야한다. 셋째 문화적 동질성을 확대하기 위해 노력하여 양국의 이해의 지평을 넓여야 한다.



Abstract

A Study on the Policies to Promote Chinese FDI toward Korea

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The Chinese government's "going out" strategy has not only contributed to China's economic development, but also to the prosperity of the World economy. Economic development mainly depends on foreign trade and foreign investment in South Korea. China's "going out" strategy is to get a win-win relationship between this two countries.

Since 1992, China and Korea have established officially diplomatic relations and two countries have achieved remarkable development in various fields such as politics, economics and culture. The Korean government policies are intended to attract continued investment from the Chinese enterprises by increasing close diplomatic relations between both countries. In addition, Korea and China are close neighbors. Similar lifestyle and culture are only some of the many advantages which directly lead to favorable conditions which may attract the investments of Chinese enterprises in Korea.

Recently Chinese enterprises' goals are to construct a network of international operations, to expand overseas markets and to ensure that resources improve R&D

capability to target active FDI. Therefore, China's foreign investment has increased by more than 50 percent annually, placing China next to the United States and Japan as the third largest foreign investor, especially after the 2008 global financial crisis. China's use of abundant funds actively promotes the development and acquisition of vehicles and other core manufacturing high-tech enterprises for the development of foreign minerals and energy. Moreover, M & A like Chinese SsangYong Motor, HYDIS and other events are strongly believed to contribute to Chinese companies giving attention to and investing in Korea.

This paper introduces the theory of FDI and related literature, which thereafter explains the necessity of Chinese direct investment toward Korea and also features the present states simply explained on China's direct investment in Korea. After SsangYong Motor is acquired by Chinese companies, HYDIS and Actoz Soft (the most recent Chinese enterprises to make recommendations to promote investments in Korea) analyze the results of the operations and inquire about the direct investment of Chinese enterprises in Korea.

I personally wish that the above statements will encourage and convince Chinese enterprises to invest in Korea, not only now but also in the future.

Key words: FDI, 'going out' strategy of China, M & A

Chapter 1. Introduction

1.1 Research background and significance

1.1.1 Research Background

since the establishment of diplomatic ties in 1992, in the past 22 years, bilateral trade between China and Korea has achieved rapid development. The volume of trade between them is rising so fast and they have been an important trade and investment partner. In recent years, China continues to be Korea's largest trading partner, export market and import source country. And South Korea is the fourth largest trade partner of China. When it comes to investment, China is the first major country of Korea.

With the rapid development of global enterprises through FDI and under "going out" strategy promoted by Chinese government, Chinese enterprises continue to further accelerate the pace of going abroad to develop overseas. South Korea, as the neighbor of China, is taking advantages of its unique geographical and humanistic environment, automobile, shipbuilding, electronics and other representatives of the characteristics and advantages of industry and preferential investment policies to attract Chinese business. And Chinese enterprises are building international business scope, expanding the overseas market, ensuring that resources are stable and improving the innovation ability and R&D

capital as the target to actively do the investment overseas.

Chinese foreign investment can be raging like a storm. Over the past few years, the annual average investment is increased by 50%, And China became to be the third place of FDI. As of the end of 2012, Chinese FDI flows has been more than 8.4 billion dollar, which is very high. But at the year of 2013, the amount of the total Chinese enterprises direct investment in South Korea was less than 5 billion which was less than 30% of all FDI.

1.1.2 Research Significance

China should decide to adopt what kind of FDI theory as the basis, to use what kind of investment and choose how to overcome the difficulties and obstacles and so on. These problems are closely related with the economic development of China. Facing with the rapid development of economy, it brings the enormous opportunities to China and South Korea. So the problem about how to promote the Chinese direct investment in South Korea is very essential.

At present, there are not so many researches about this. And there are not so many enterprises to succeed in the foreign direct investment. Therefore, we need to make sure the necessity of foreign direct investment in China and Korea, to do research on the status and characteristics about Chinese direct investment in Korea, to find out the existing questions, to put forward to corresponding countermeasures and suggestions, to be a guidance and reference for domestic enterprises successfully to invest in Korea.

1.2 Research foundation, method and originality

1.2.1 Research Structure

The content and structure of this study are as follows:

The first part is the introduction part, to introduce this background and the significance of the topic, and the research content, method, Innovation and Insufficient.

The second part is elaborating the concept of foreign direct investment, and synthesizing the international direct investment theories and literature review.

The third part is introducing the necessity of China enterprises' FDI in Korea from two views of China and Korea respectively.

The fourth part is conducting the research on the status and characteristics of enterprises taken over by China, and mainly introduces the investment subject, the scale of investment and industrial distribution and other aspects.

The fifth part analyzes the operating results of Korean enterprises taken over by china.

The sixth part introduces the existing problems of Chinese enterprises' FDI in Korea.

The seventh part puts forward the recommendations to promote China's FDI in Korea.

1.2.2 Research Method

This paper mainly analyzes the characteristics of China's FDI in Korea from the following several aspects.

Firstly, by the literature research, the results of previous research will

be summarized for the comprehensive understanding of the status and characteristics of China's FDI in Korea.

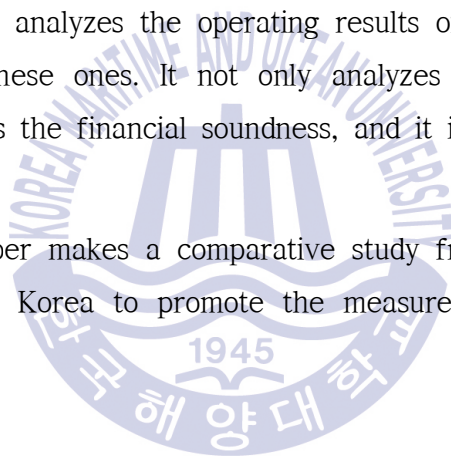
Secondly, collecting the various information and data from Korea and China, based on this reliable data, I will analyze these things by using a lot of diagrams to describe the problems.

1.2.3 Originality and deficiencies of research

The innovation of this paper is mainly reflected in the following two aspects:

Firstly, this paper analyzes the operating results of Korean enterprises taken over by Chinese ones. It not only analyzes the investment and profit, but also does the financial soundness, and it is different from the existing literature.

Secondly, this paper makes a comparative study from the two aspects between China and Korea to promote the measures of China's FDI in Korea.



Chapter 2. Review of relevant theory and literature

2.1 Review of FDI Theory

FDI begins at the developed countries, which formed the theory of FDI. They also take the major enterprises of developed countries as the research subject, to discuss the motives, direction and strategies of FDI in the developed countries.

2.1.1 Theoretical Research on FDI in Developed Countries

In this section will several theories of FDI be introduced. Monopolistic Advantage Theory, Internalization Advantage Theory, The Eclectic Theory of International Production, The Eclectic Theory of International Production and Marginal Industrial Expansion Theory are the main theories of FDI. These theories have the power of good explanation in a certain period of time and under some conditions. But with the world in progress, these theories are facing many kinds of challenge.

2.1.1.1 Monopolistic Advantage Theory

In 1960, the American economist S. Hymer put forward the earliest FDI theory in his doctoral dissertation “international business domestic company: foreign Study on direct investment” . And it has become the starting of monopolistic advantage theory(MAT). After the modification of his teacher P.Kindleberger and Caves, it developed into the complete

theory¹). According to MAT, multinational corporation(MNC) will do the foreign investment in order to fully utilizing their monopoly advantage. The monopoly advantage may be caused by the patent technology, scale of economic, controls to production elements and technical advantages and other reasons. If a MNC has the monopoly advantage, they will occupy the substantial market share of the enterprise in the host country to get monopoly profits. So the multinational corporations want monopoly advantage to be spreaded around the world to obtain more monopoly profits. And this kind of intention can be said to the motive power for MNC to carry out FDI.

MAT can well explain the FDI of the MNCs in developed countries which keep the monopoly advantages. It can also explain why the MNCs in many developed countries implement foreign investment. but this theory does not seem to explain China's direct investment behavior in Korea, because Chinese MNCs often do not have a monopoly advantage in the aspect of technology or management experience. China is a little behind South Korea in both areas.

The monopoly advantage theory is the earliest study about foreign direct investment. And it can be relevant to the study done later.

2.1.1.2 The Internalization Theory

In 1976, the internalization theory is proposed by British scholar J. Buckley and C. Carson²). The internalization theory can be called the

1) The International Operations of National Firms: A Study of Direct Foreign Investment, PhD dissertation. Published posthumously. The MIT Press, 1976. Cambridge, Mass

2) Buckley, P. J. & Casson, M. (1976). The Future of the Multinational Enterprise. London: Macmillan.

theory of market internalization. If market failures exist, or if the products or capital can flow in the subsidiaries and the parent MNCs with the internal price, the company will avoid external market barriers. And when the benefit of internal transaction is greater than the cost of internal transaction and external transaction, the MNC will choose to replace the external market with internal transaction. This is why MNC gives the technical advantage to subsidiary company in the host through internal transfer rather than sells to domestic enterprises with a market price. Therefore, the internalization theory can better explain the motivation of the MNC's FDI.

The internalization theory is a good description of MNC's FDI from the perspective of internal transaction cost. However, As the calculation of the internal transaction costs is a relatively high degree of difficulty in practice, this may lead to a considerable difficulty in the application.

2.1.1.3 The Eclectic Theory of International Production

The Eclectic Theory of International Production is also called the eclectic paradigm of international production. And the concept of the eclectic paradigm of international production was first suggested by the present author in 1976 at a presentation to Nobel Symposium in Stockholm on the international allocation of economic activity. The intention was to offer a holistic framework by which it was possible to identify and evaluate the significance of the factors influencing both the initial act of foreign production by enterprises and the growth of such production.

The choice of the word eclectic was an ambitious, yet deliberate one. It was meant to convey the idea that a full explanation of the

transnational activities of enterprises needs to draw upon several strands of economic theory; and that FDI is just one of a number of possible channels of international economic involvement. Each is determined by a number of common factors. The eclectic paradigm remains useful and robust as a general framework for explaining and analyzing not only the economic rationale of international production but many organizational and impact issues relating to MNC activity as well.

Conceptually, there are close parallels between the main tenets of the paradigm and that of modern theory of business strategy; though neither approach is sufficient to explain the international profile of any particular MNC. It is likely, however, that newly theorizing work in the next decade will take a different form of that of the last ten years, if for no other reason than the character and organization of international production is itself undergoing fundamental change. More especially, we foresee more efficient system that through steady efforts by trade economists, incorporates transactional market failure into more general theories of international economic involvement, while industrial and business economists are likely to become more interested in the dynamics of the OLI configuration³⁾, and its impact on the strategy of individual firms, through such techniques as game theoretic analysis and network models (Johanson and Mattson 1987). We expect more attention to be paid to the determinants and effects of collaborative ventures now being formed between MNEs from advanced countries (Contrator and Lorange 1987), and between MNEs and their customers and suppliers.

We foresee renewed interest in identifying and evaluating the

3) The eclectic paradigm is also known as the OLI-Model or OLI-framework. It was published by John H. Dunning in 1993. OLI represents Ownership advantage, Location advantage and Internalization advantage respectively.

ownership-specific advantages of firms, with particular focus on entrepreneurship, the ability of management to identify and coordinate a range of core skills and assets through a variety of organizational routes, and to promote operational flexibility in a volatile world environment; global marketing networks; the creation and use made of computer-related information and communications technology; and a variety of cross-cultural management-related issues. Finally, we would perceive a gradual interweaving of the approaches of the economist, business analyst and organizational theorist to our understanding of international production, although within these and related disciplines, theorizing and empirical work will become both more technically sophisticated and more policy oriented.

2.1.1.4 The Product Life Cycle Theory

The product life cycle theory was put forward by Harvard University professor Raymond Vernon (Raymond Vernon) in 1966⁴). It is about the international investment and international trade in the product cycle through the long-term research about USA's MNC products production and sales. He found that FDI of MNC is connected to the product life cycle. When the new product was just listed, the scope of market was very small. And then the production and sale of products were in the domestic market. Making full use of their monopoly advantage, MNC is able to make huge profits in the domestic market. When the product demand is increasing, quite a few competitors in the domestic market

4) Raymond Vernon, International Investment and International Trade in the Product Cycle. The quarterly journal of economics. Vol. 80, No. 2 (May, 1966), pp. 190-207

will appear. And the companies gradually lose the monopoly advantage, and then they begin to turn their eyes to overseas market, because their products have certain technical advantages in other countries. Therefore, exporting to foreign countries may make them better off.

When the products in the foreign market become mature, and foreign enterprises have more mature technology, trade may make the profits of MNCs gradually decline, while FDI in the host country, like setting up factories will be more lucrative. So the production, development and maturity of the products is often accompanied by the foreign trade and the FDI of MNCs.

But the theory has been a great challenge because of the economic globalization, as the tendency of economic globalization is being strengthened. Many high-tech products have been listed in the global synchronization at the same time around. Therefore, the product life cycle theory has currently been not very good explanation of FDI.

2.1.1.5 The Theory of Marginal Industry Expansion

Japanese scholar K. Kojima⁵⁾ in 1987 put out the theory of marginal industry expansion, based on the actual situation of Japanese MNC. The “marginal industry“ in this theory is one which has comparative disadvantage in the home country and try to do FDI to get over disadvantage, whose scope is wide and big. FDI should begin with the investment in the country that already is in or will be in inferior position industry. This is the basic core of this theory. These industries

5) Kiyoshi Ko jima, Direct Foreign Investment: A Japanese Model of Multinational Business Operations. Tokyo: Charles E. Tuttle Company, Inc. 1978

have the potential comparative advantage or comparative advantage in host country. Starting foreign investment in the marginal industries can make abundant resources of home country such as the technology and management skills combined with relatively cheap labor resources in host country. Then they will soon play the role of the comparative advantage industries in host country.

The “marginal industry” in the theory of marginal industrial expansion has double meanings. Its status in investor countries is in lower level but in higher level in host countries. The investor country through “marginal industry” can create the conditions for the upgrading of the industrial structure. At the same time, the industries that transfer to foreign countries can make full use of comparative advantages of host countries to exert its positive effects on the domestic economy.

As for FDI, it considers not only the full use of comparative advantages of the host country, but also lead to the export substitution, which is quite different from Heckscher-Ohlin’s theory.

2.1.2 Theoretical Research on FDI in Developing Countries

These FDI theories mentioned above take into account only Europe and the United States MNCs as the object of study. They has been began earlier, and developed more maturely. Since a great amount of FDI flew in developing countries, these theories related to developed countries cannot be accurately interpreted in the context of the new foreign direct investment in the developing countries. Numbers of scholars have done research on FDI in developing countries. The explanatory power of these theories concerning developing countries and regions is getting better.

2.1.2.1 The Theory of Small-scale Technology

In 1997, the American economist Lewis Wells (Louis J. Wells) published the paper “development State enterprises and Multi-National Corporation” which represented the theory of small-scale technology. The theory suggested that compared with MNCs of developed countries, those in the developing countries has obviously competitive advantage. We can look into the advantages of FDI investment in developing countries from the three aspects.

(a) Developing countries have the advantage of small-scale technology in production that consists of the small market. The big market demand for low quality manufactured goods is a significant feature of the low and middle income countries. It is difficult for the developed countries to obtain economies of scale in this small market, while developing countries have advantages and can meet this kind of market demand;

b. The developing countries have the advantages close to the special market, especially in the national production.

c. They have price competitiveness in their market. This is the main factor to get the share of market in the developing countries.

The theory of small-scale technology combines the competitive advantages and the market characteristics about MNCs in developing countries. It also provides the explanation and reasonable theoretical basis for foreign investment in developing ones. It has a very important guiding significance for FDI. But Wells pointed out that the competitive advantage of developing countries was limited to the small-scale production technology. It may say that the position about these countries in the international production system is always at the edge of the

product life cycle. And it is difficult to mention that many developing countries have competitive products in production with high technology content by means of FDI.

2.1.2.2 State on Localized Technological Capacities

British economist Sanjaya Lall Published the book which was named as “new Multi-National Corporation in 1983: Third World Development Company” . And this Book says that we should use ‘State on Localized Technological Capacities’ to explain the FDI of developing countries. Lall thought that although technical characteristics of the developing countries showed a small scale and used the labour intensive technology or the standardized technology, the internal innovation ability of local enterprises was embodied in this technology.

The theory keeps two kinds of implications. One is that the technology developing countries absorbed from the developed countries is not a replication. It was constantly improved and innovated by companies, which resulted in difference from original technology. The other one is that developing countries formed their own unique advantages. there are four main factors: (1) the base elements of price and quality are connected to the technical knowledge in developing countries: (2) The developing countries will improve the technology imported from developed countries and make the products closely linked to the local supply and demand : (3) The technology that embodies the innovation activities will obtain a higher economic benefit from small-scale production conditions of enterprises in developing countries: (4) The products manufactured by the developing countries can meet the demand of countries with similar income level.

This theory put forward 2 features: firstly, at the initial stage of economic development, it can get the advanced technical information by the introduction of foreign capital, and then improve the technology to meet the need for their own development. Secondly, before developing countries implement FDI abroad, they need to understand the economy status and scale in capital market through the investigation and study to increase the success rate of investment. Finally, Chinese and Korea has its own cultural bases. So the FDI can play the bridge role for their cultures to broaden their field of investment.

2.1.2.3 The technology innovation and industry upgrading theory

The Britain economist John A.Cantwell and Paz Estrella Tolentino wrote the book of “Technology innovation and Multi-National Corporation” through the study on the developing countries’ FDI. They mentioned the technology innovation and industry upgrading theory to deal with the FDI of third world countries. Since the twentieth Century for 80 years, the rapid growth of the FDI developed countries had mainly been explained.

Their main point was that: (1) the technical ability developing countries improved and embodied was a result of knowledge accumulation and experiences accumulation. They helped developing countries ultimately achieve the updating of industrial structure. (2) the existing technology level of developing countries is an important factor of FDI and it makes an effect on the way of investment and its growth rate of MNCs. (3) The geographical and the industrial distribution of FDI will vary slowly over time, which ended up keeping the track of “neighboring countries, developing country, developed country” model.

John A. Cantwell and Paz Estrella Tolentino thinks that the developing countries and developed countries are different in terms of the technology innovation behavior. The developed countries mainly invested great amount of budget on R&D for technology innovation, while the developing countries can rarely carry out technical innovation because they don't have enough basics for the innovation and enough budget. They make a steady effort to improve the existing technology using imitation, learning and experiences for further development.

The technology innovation and industry upgrading theory showed that developing countries' FDI should focus on neighboring countries, because they are more familiar with the market environment for investment. Then the success rate will get relatively high. If a certain foreign investment talent and investment experiences are accumulated over time, they will begin to invest to the developing countries geographically far from their own countries to make full use of their comparative advantages. After arriving at a certain level of development, they started to invest to developed countries in order to acquire more advanced technology.

2.2 Research Status: Domestic and Abroad

Rios-Morajes and Brennan thinks that as for China's FDI, the Chinese government opens the door for overseas investment of Chinese enterprises through "going out" policy which required the establishment of database, providing investment information, investment market survey methods and measures. Such a policy push government to support the export market and encourage Chinese enterprises to expand the existing market, to improve product quality and to keep their own advantages in the overseas market and the establishment of local distribution network.

Aguiar (2007) insisted that one of the biggest problems in Chinese multinational enterprises were lack of foreign managers who have enough experiences to manage. Moreover they still don't understand the MNCs concepts fully and even form the international management team. The Chinese enterprises are still in the primary stage of development, compared with American MNCs as the representative of the international competition. Additionally Chinese MNCs are still lack of successful experience in multinational investment management.

According to Kiggund and Hui (2008), China's current FDI mainly concentrated on the resource access. But playing a more important role in the foreign investment activities, Chinese private enterprises can get more experience and confidence in the international business. They will enable Chinese MNCs to make a different decision from the present and then pay more attention to the new economic investment.

According to Wen Qiaofu & Li Minqiang (2006), when it comes to the overseas M&A of enterprises between 2000 and 2005, Chinese enterprises faced both economic risk factors and non-economic risk factors. In order to avoid the risk of overseas M&A, the Chinese enterprises should make corresponding counter-measures.

Li Baomin (2008) believes that from point of view of the institution and foreign trade system, for FDI promotion, China should reform the legislation, service system of overseas investment, the support for private enterprises "going out", funding support and so on.

Zhou Shengqi (2009) thinks that China's FDI has began to go out during the period of rapid development since 2004. Judging from general characteristics of developing countries' FDI, the development process of FDI, incentive factors of FDI, the characteristics of location choice and

industrial distribution, China's resources endowment conditions to expand the market space determine the internal motivation and conditions of Chinese FDI further development. Facing the demand of Chinese enterprises' FDI and the unfavorable factors, Chinese government still have the improvement and innovation of large storage space in the construction of foreign investment policy support and service system.

Jin Meiai and Jin Yuepei (2010) analyzed the status of Chinese enterprises' FDI in Korea. They think that because of the similar culture and geographical location, the highly complementary industry in both country, the Chinese government's support policy in FDI, the Korean response to China's trade policy and the influence of the employment of Chinese enterprises in South Korea, China's FDI has a rapid growth in Korea, and the distribution in the investment industry reflects these characteristics.

After reviewing the development course of China's FDI in Korea, Quan You(2011) analysed the status, the necessity and the investment environment of China's FDI in Korea. And he pointed out the strategies and suggestions of China's FDI in Korea.

Wol-ra, Park and Ik-hyeon, Choi (2011) studied the present situation and method of Chinese FDI and analyzed the main case and results of chinese enterprises. They believe that a lot of Chinese enterprises which have invested in foreign countries are in poor operating conditions, especially in case that the enterprises have larger scale and higher technology level than the parent company.

Mi-hui, Kim(2012) studies the countermeasures of the North Jeolla in order to promote China's FDI. She believes that the Korean government must actively support and improve the system in order to attract

Chinese capital.

2.3 Commentary

According to the theories about the FDI, the study on China's FDI in Korea are mainly focused on Wells's the small-scale technology theory including Lall's technology localization theory and Kanter's technology innovation and industry upgrading theory. In the past, the purposes of China's M&A in Korean are on obtaining advanced industrial technology and management experience, promoting domestic industrial upgrading and creating new comparative advantage. After 20 years of development, China's FDI in Korea has been covering the agriculture, manufacturing and service industry including trade, transport, finance and other fields. Based on such a diversification, China's FDI in Korea can be divided into several types: resource-seeking type, industrial transfer type, export-oriented type, technology-seeking type and so on.

As the developing countries are playing a more and more active role in FDI stage, a lot of economists and management experts begins to pay attention to the developing countries and try to find out what have been going on in FDI led by these countries. As far as these achievements they have made are unavoidably connected with the MNC theory for developed counties, it is also not mature and perfect. We need a certain guiding practice for developing countries. At the same time, we must also recognize that as the global economic integration is going on more and more, developing countries' FDI will be in progress. The FDI theory for developing countries will also become more and more perfect. I think The establishment of a more perfect FDI theory for developing countries including China will be a more important task.

Going through the article survey for FDI, I found that the type of China's FDI are different from that of Korea's FDI. China's FDI pay more attention to the comprehensive research. Some scholars in China published the results of their research to expound the situation of China's FDI and made some disadvantages clear. It is not the results of the specific case to analyze Chinese direct investment in Korea. But Korean FDI paid more attention to the profits of the large companies. Most of their scholars are working for some of large corporations, so their researches tend to contribute to their corporation's benefit.



Chapter 3. Analysis on the Necessity of Chinese Investment to Korea

In this chapter, we will discuss why Chinese enterprises try to do FDI to Korea and what kinds of factors affect FDI for both countries to enjoy mutual benefits through FDI.

3.1 Chinese Factors

Foreign investment is affected by various aspects of factors and constraints. High-impact factors in China's FDI has been divided into favorable factors and unfavorable factors. As shown in Table 3-1, favorable factors are like these: market potential of investment destinations, "Going Out" strategy and related preferential terms, the natural resources of investment destination and the amount of money which is available for investment and so on. These favorable factors have a huge impact on enterprises to invest overseas. Followed by the low cost and high quality of the labor force in investment destination, overseas investment can save transportation costs, absorb advanced technology and use well-known brands of investment destination. These factors have less effect on corporations' decision-making. This shows that the main purpose of China's enterprises is to open up foreign markets and develop and utilize foreign resources through taking advantage of preferential policies of the country. Therefore, Chinese government should provide more information and services for enterprises

in these areas, and promote enterprises to going-out” better.

China Council for the Promotion of International Trade (C.C.P.I.T.) has conducted surveys about the influence of various factors on enterprises to invest overseas focusing on the investment destination for developed and developing countries.



Table 3-1 The advantages of Chinese enterprises' FDI

Content	determining factor	Important factor	Unimportant factor	No effect	Total
“Going out” policy and preferential conditions	25	67	5	3	100
experiencing soft market	7	50	45	8	100
The amount of money to invest	17	63	18	2	100
The rising labor costs	7	44	37	12	100
Overseas investment saving the transportation cost	12	48	28	12	100
The market potential of investment country	37	49	12	2	100
Natural resources of investment country	21	7	34	38	100
The lower labor cost of investment country	8	37	40	15	100
The advanced technology of investment country	11	37	40	12	100
To obtain well-known brands	10	28	46	16	100
To profit from preferential policies of investment country	15	55	22	8	100
To avoid trade barriers	9	57	25	9	100

Data source: china council for the promotion of international trade (ccpit) : The situation and intention survey Chinese enterprise foreign investment [R]. www.ccpit.com,2008

The results found that the driving factors of Chinese enterprises investing in developed countries were favorable terms from the government and the demand of foreign market, while the main driving force of the investment in developing countries derives from the government's preferential policy and the increasing labor costs in domestic market. In the adverse environment of FDI, financing difficulties and lack of talents in international operation and management are the main factors to restrict enterprises to invest overseas, and more than 60% of enterprises think that these two factors are the decisive obstacles for enterprises to invest overseas. Therefore, in order to promote Chinese enterprises foreign investment activities, governments need to provide more talent introduction services and financing channels and be able to effectively solve the bottleneck problem of China's foreign investment.



Table 3-2 The disadvantages of Chinese enterprises' FDI

Content	Determining factor	Important factor	Unimportant Factor	No effect	Total
Local consumers' no-understanding for Chinese products	11	43	35	11	100
Local consumers' worry for Chinese products	8	44	36	11	100
Difficulties for financing	11	53	25	9	100
The lack of international business and management personnel	11	54	27	8	100
The lack of understanding for the legal framework and market risk	6	59	27	8	100
The lack of competitiveness for products and technology	11	44	39	10	100
Cultural differences	8	44	37	11	100

Data source: China Council for the promotion of international trade (ccpit): The situation and intention survey Chinese enterprise foreign investment [R].(www.ccpit.com,2008)

3.1.1 Chinese Government's "Going out" Strategy

Since the reform and opening in 1979, China has maintained an average annual economic growth rate of approximately 9%, with the rapid growth of exports. Trade has showed a surplus of balance of payment. After joining the WTO, FDI into China has grown rapidly and accumulated massive foreign exchange reserves. In order to alleviate the pressure of the result caused by renmingbi appreciation in the middle of

2000s, the Chinese government are actively encouraging Chinese enterprises to do overseas investment. The main reasons are to utilize FDI to get foreign advanced technology and well-known brands and to enhance the technical level and international competitiveness of Chinese enterprises.

3.1.2 Structural Change of Industry

In November 2010, China's State Council issued 'seven strategic emerging industries' which should be cultivated during "the 12th five-year plan" period. The seven industries right here, as <table 3-3> indicates, mean the leading industry for the long-term development of Chinese industry by 2020, including namely, energy conservation, environmental protection, the emerging information industry, biology industry and so on. These seven emerging industries need the Chinese government's support. In addition, high industrialization of automobile, IT, electronics and other industries need to innovate technology. So the government put emphasis on independent innovation of the enterprise, through relocating technology, introducing the high technology industry and positive strategy of "going out" to encourage enterprises to absorb foreign advanced technology.

Chinese enterprises endeavor to generally merge with the R&D departments of host countries to get high technology enterprises and multinational enterprise, or to cooperate with high technology overseas enterprises, or to set up a joint venture and FDI. they hire the local high-quality talents to get overseas advanced technology. South Korea has highly industrialized technology compared with China. So it can be expected that Chinese positive participation in FDI into Korea in the near future will encourage both countries create mutual cooperation

business template.

Table 3-3 The seven emerging industries of China

Industry	the major area
Energy conservation industry	High efficiency and energy saving, environmental protection, advanced recycling
The emerging information industry	The next generation of communication networks, the Internet of things, triple play, new flat panel display, high performance integrated circuit, high-end software
Biological industry	Bio-medicine, bio-agriculture, bio-manufacturing
High end manufacturing equipment industry	Aerospace, marine engineering equipment, high-end smart equipment
New energy industry	Nuclear power, solar energy, wind energy, biomass energy
New materials industry	Special function, high performance composite materials
alternative-fuel cars industry	Plug in hybrid vehicles, pure electric vehicles

Data source: China's commerce ministry (<http://data.stats.gov.cn>)

3.1.3 The Promotion of Cultural Industries

The government plans to accelerate the development of cultural industry during the twelfth five-year. Cultural industries such animation and advertising industries are closely linked to service industry. the problems are that cultural industry can hardly get support from financial institutions, because the account of physical capital is too small and intangible assets can hardly get access to the policy of financial support for cultural industries. As the Chinese government are willing to promote and support the development of cultural industry, it can be predicted that network game development, film production, etc., will bring many

international cooperation opportunities⁶⁾.

3.2 Korean factors

3.2.1 Geographical proximity, cultural similarity and industrial complementarity

China is geographically close to Korea. When it comes to cultural, both countries have a similar base. These can help understand consumer psychology and consumer demand between these two countries and also make reduce market risk, and expand trade and investment. Moreover, because of the two state-owned industrial complementarity, governments can take advantage of the industrial structure complementarity between the two countries to introduce Chinese enterprises' investment. The products exported from South Korea to China are mainly high added-value one manufactured in capital-intensive industries and technology intensive industries, such as electronic products, semi-conductor, petro-chemicals, steel, and machinery. On the contrary, Chinese export products to South Korea have given priority to the textile fiber and other low value added labor-intensive industries products, such as electronic products, accessories, steel, oil, fuel etc.

3.2.2 FTA between Korea and the United States, Korea and the EU, Korea and China

Since free trade agreement (FTA) between China and South Korea

6) Bok-seon, Gwak. The solution to promote the Cooperation of economy and trade between Korea and China. [R].Economic Social and Human Research Council ,2011:36-38

started, its process has done quickly. The signing the FTA will further help both countries promote economic and trade exchanges between the two countries, and promote to establish closer trade relations of cooperation and will give epoch-making significance to China and Korea for mutual economic development. Through the investment to build factories in South Korea, Chinese enterprises can enter the United States and the European Union market, taking advantage of the convenient conditions of Korea-USA free trade agreement and Korea-EU free trade agreement.

3.2.3 FDI Policies of South Korea

South Korea began FDI in 1962 and amounted to the \$100 million for the first time in 1972 and more than \$1 billion in 1987. In the face of the foreign exchange crisis in 1997, Korean government actively tried its best to get FDI to overcome the sharp depreciation of Korean currency, that is foreign exchange crisis. The inflow of FDI scale was expanded from 7 billion in 1997 to more than \$15 billion in 2000. After 2000, as the world economy slowed down and international M&A reduced, Korean FDI began to shrink and fell to \$6.5 billion in 2003. Under the push of Korean government, FDI amounted to \$ 12.8 billion in 2004 and keep in a roughly \$11 billion level after a long period of time. (see table 3-4)

Table 3-4 The situation about FDI in Korea

Unit: million of dollars

	2007	2008	2009	2010	2011	2012	2013
contract value	10516	11712	11484	13071	13673	16286	14548
The actual use value	7872	8393	6756	5419	6593	10690	9708

Data source: Korean Ministry of industry and trade(www. mke. go. kr)

3.3 Korean Project for Expectation of Chinese Enterprise Investment

3.3.1 Northern Area

This area includes the capital of Korea, Seoul, Incheon, Gyeonggi province and Gangwon. Seoul Digital Multimedia City (DMC), the frontier region to North Korea, and western area, was designed so that it might play a role of an important hub of international trade. This industrial area has an IT and leading enterprise in the field of multimedia industry, entertainment industry or a new business.

Another project is what is called ‘Prosperity of Pyongtaek Port’ . The fact that this area is very close to Yantai city and Weihai city in China, motivate Korean government to develop this area into the third biggest port in Korea making the most of potential of hinterland including the steel industry. After the completion of 2011, Pyongtaek port will become a large international port which has 97 berths. The project included building the port facility (terminal) (sightseeing park),

logistics parks, theme parks, such as international business center four specific projects.

Incheon Pine Island city' was also planned with foreign investment promotion including Chinese one and capital inflow in mind. This area focuses on building International business center, knowledge information industry park, life-science park, cultural park. Sightseeing entertainment development projects was also promoted in Incheon free economic zone which included building dream Marine parks and outdoor recreational facilities, tourism, entertainment facilities, Weihai culture street, golf courses, circuit, course and other related facilities, etc.

3.3.2 Central Area

Daeduck technology valley, the core of the central area, is located in the Daejeon downtown area. There are roughly 110 units in the region and more than 80 Venture enterprise in the village. Most of them have the abundant cutting-edge science and technology and are ready to introduce electronic, electrical, information field, precision instruments, new projects, new material, such as life engineering, institute of foreign investment projects.

Gwanchang Industrial district is located in the Cheonan Boryeong area. The industries mainly for machinery, transportation machinery and other manufacturing industries cluster together. Kamadami national industrial park is located in the South Chungcheong province area and introduce industries for rough machining metal, machinery, etc. Dogo which is famous for hot spring is located in South Chungcheong province. That area is the most famous tourist resort in South Korea and encourages the industry for tourist hotels and various entertainment facilities. Asan

Local industry park is located in South Chungcheong province, Asan and has Samsung electronics, HYDIS motor and 4 iron and steel company and more than 900 small and medium-sized enterprises within 10 km radius, mainly to bring industry for rough machining of metal machinery, metal, machinery assembly.

The development project for life science park is supported by Korean food pharmaceuticals security hall and other organizations, such as the national health care organizations, health science and technology institute, institute of medical sciences and other research institutions. They mainly invest the industries for pharmaceuticals, medical equipment, food, cosmetics, and other areas of the life and health and research of high value-added industries(life project, development of new drugs, food, etc.;Knotty treatment technology such as AIDS and alzheimer's disease: artificial organs and other cutting-edge medical technology and equipment; Traditional medical technology such as the scientific Korean medicine⁷⁾).

7) Gao Chao, Korea launching investment to get China enterprise investment[J],Chinese foreign investment,2004(2):72-73

Chapter 4. China enterprises' status and characteristics of FDI to Korea

4.1 FDI status of Chinese enterprise in Korea

In 1991, the International Chamber of Commerce in China and KOTRA established the representative office in Beijing and Seoul. The agreements of private level of trade between China and Korea helped further improve economic and trade cooperation between both countries, promote bilateral trade, investment and other areas for rapid development.

As shown in table 4-1, Chinese investment to South Korea began at 1989, before the two countries established diplomatic relations (including 1992). Projects of Chinese FDI to South Korea are a total of 11 pieces, and the agreement of investment amounts to \$4.6 million since the establishment of diplomatic relations in 1992, the two countries recorded great increment in mutual investment. On the one hand, Korea 's FDI to China increased rapidly with reform and opening up policy.

At the beginning, Chinese FDI to Korean was focused on the small scale of investment. In 1993, Projects of its FDI to Korea are a total of 29 pieces in number and the agreement of investment amounts to \$6.8 million. In 1995, the number of projects are a total of 45 pieces, and the agreement of investment amounts to \$10million.

Table 4-1 Chinese FDI to Korea at 1989 to 2013

Unit: piece, thousand of Dollars

Particular year	Project	Amount of money
1989	1	2800
1990	1	100
1991	3	690
1992	6	1056
1993	29	6864
1994	33	6145
1995	51	10892
1996	63	5578
1997	76	6519
1998	97	8381
1999	323	26585
2000	1165	76288
2001	810	69739
2002	442	249380
2003	552	50206
2004	596	1164760
2005	672	68414
2006	332	37887
2007	363	384131
2008	389	335601
2009	537	159607
2010	616	414178
2011	405	650853
2012	512	727052
2013	402	481186
Total	8446	4944891

Data source : Korean Ministry of industry and trade (www.mke.go.kr)

In 1996-1998, though the agreement of China's investment in South Korea still showed a rising trend, the value of the amount is declining. For example, in 1996 the number of projects of Chinese FDI to South Korea are a total of 56 pieces, but the agreement of investment amounts to only about \$5.5 million in value. In 1999, in order to

promote export, speed up the adjustment of industrial structure, transfer the domestic technology, and encourage the domestic enterprises China has to turn its eyes to overseas investment. Therefore, in 1999 Chinese FDI to Korea was increasing rapidly. the number of projects reached a total of 323 pieces, accounting for 14.8% of all the South Korean foreign investment. The value of investment amounts to 265.85 millions of dollars.

In the year of 2000, the world economic recession has caused a sharp decrease in FDI. So Chinese FDI to Korea is decreasing. In 2002, it gradually returned. The number of the projects is about 442 pieces as for the third country in all of the investment countries directly.

It is noteworthy that in 2003, the number of the projects reached a total of 522 pieces and the value of its investment amounts to 502.1 millions of dollars. Compared with in 2003, the number of its projects increased by 74 pieces and the investment increased by the amount of \$111.46 millions of dollars. The main reason are that the merge between China Enterprises Shanghai Motor car and Korea Ssangyong Motor car and the merge between BOE Technology Group Ltd and Korea TFE-LCD business department was achieved.

Since large scale M&A of 2004 to 2013, the trend of Chinese FDI to Korea has been forming. By the end of 2013, the number of the projects reached a total of 8446 pieces and the value amounted to 494.5 millions of dollars.

On the whole, the projects and the average amounts of Chinese FDI to Korea are relatively small. While the number of projects accounted for 18% of all of projects about foreign countries' FDI to Korea, the value of investment accounted for only 3%.

4.2 The subject of investment

The subjects of Chinese FDI to Korea are mainly focused on the state-owned or state-owned shares of enterprises, private enterprises. But the private investment is very small.

The state-owned enterprises that supply the raw materials are mainly Chinese Minmetals Limited by Share Ltd(中国五矿股份有限公司) Anshan Iron And Steel Group Corporation(鞍山鋼鐵集團公司)、Benxi iron and Steel Group(本溪鋼鐵集團)andFangyuan nonferrous metal group company(方圓有色金屬集團公司)and so on. And their purpose is to make their business more easily export to raw material to Korea.

The private enterprises that mainly supply the manufactured goods are Huawei(ZTE), Haier, and Beijing Tongrentang etc. They are the Chinese enterprises which succeeded in achieving successful internationalization And their investment to sell products in Korea. However, because demand of Korean for its products is not so much, they do not invest directly on production but focus on product marketing activities.

With the deep communication between China and Korea, many enterprises associated with financial services, shipping, aviation, travel agency and so on in order to form the international mode of operation, set up a subsidiary in Korea.

Also there are a lot of retail industries. And their operations are mainly dealing with Chinese commodity. They are located in Seoul. Numbers of retail companies are taken up as the agent of the trade about China and Korea, and they have no communication with the third country. They only focus on the deal between China and Korea.

4.3 The scale of investment

As shown in Table 4-2, from the view of the scale of Chinese FDI to Korea, by the end of 2013, the most project in the cumulative values was less than \$1.0 million, even though its total number is 8239. And it accounted for 97.5% in the total investment but only for 13.7% in money. The projects that were between a million dollar and \$10.0 million amounted to 166 pieces. This accounted for 1.9% in the total number but for 8.7% in the amount of money.

Table 4-2 The scale of China' s FDI(1989-2013)

Unit: piece million of dollars

Less than 1 million		Between 1 million and 10 million		Between 10 million and 100 million		More than 100 million		Total	
project	Amount	project	Amount	project	Amount	project	Amount	project	Amount
8239	680	166	432	44	1611	7	2223	8446	4945

Data source : Korean Ministry of industry and trade (www.mke.go.kr)

The projects that in the cumulative values is between \$10.0 million and \$100.0 million were 44 pieces. And it accounted for 0.5% in the total investment but for 32.5% in the amount of money. The projects with more than \$100.0 million is getting less and its total number was 7 pieces. And it accounted for 0.08% in the total investment but accounted for 44.7% in the amount of money.

Table 4-3 shows, in recent years, although Chinese FDI to Korea is fluctuating, but overall its trend is on the rise.

Table 4-3 The scale of Chinese FDI(1989-2013)

Unit: piece , million of dollars

Year	Less than 1 Million		Between 1 million and 10 million		Between 10 million and 100 million		More than 100 million		Total	
	project	Amount	project	Amount	project	amount	project	Amount	project	Amount
1989-2005	4847	324	38	84	3	80	3	1267	4890	1754
2006	323	22	9	16	-	-	-	-	382	38
2007	350	27	11	31	1	20	1	306	363	384
2008	385	31	3	5	-	-	1	300	359	336
2009	525	32	12	30	1	98	-	-	537	160
2010	603	48	12	52	2	65	1	250	616	414
2011	373	60	25	77	10	414	1	100	405	651
2012	476	70	22	44	15	613	-	-	512	727
2013	357	66	34	95	12	320	-	-	402	481

Data source : Korean Ministry of industry and trade (www.mke.go.kr)

4.4 Industrial distribution

The overseas investment of Chinese enterprises has deeply developed during only 30 years of time. However, as a view of investment field, they mainly distributed on the trade in services, agriculture and agricultural development, industrial production and processing, resource development and other sectors of investment. In other words they focused on especially the service trade and production and processing. And they accounted for more than 50% .

Table 4-4 The korean enterprises of China' s FDI (1989-2013)

Unit: piece ,thousand of dollars

Year	Livestock, aquaculture and Mining industry		Manufacturing industry		Service industry		Water, electricity, gas industry and construction business		Total	
	Project	Amount	Project	Amount	Project	Amount	Project	Amount	project	Amount
1989-2005	29	4353	504	1436027	4315	309351	42	4665	4890	1754395
2006	5	1614	29	10638	296	25323	2	312	332	37887
2007	3	164	35	33426	321	350314	4	227	363	384131
2008	5	383	32	4397	348	33017	4	651	389	335601
2009	6	745	50	17164	472	139979	9	1719	537	159607
2010	16	1763	75	310414	516	101145	9	855	616	414178
2011	11	54193	49	132619	341	46306	4	980	405	650853
2012	5	4004	58	167680	440	553034	9	2335	512	727052
2013	6	577	47	45211	344	432902	5	2495	402	481186

Data sources: The Korean Ministry of Commerce Industry, (www. mke. go. Kr)

Table 4-5 The total of korean enterprises of china' s FDI(1989-2013)

Unit: piece, thousand of dollars

Industry	Livestock, aquaculture and Mining industry	Manufacturing industry	Service industry	Water, electricity, gas industry and construction business	Total
Project	86	879	7393	88	8446
Amount	67796	2157576	2705280	14240	4944891

Data sources: The Korean Ministry of Commerce Industry, (www. mke. go. Kr)

According to the statistics of Korean Industry Ministry of Commerce(as shown in table 4-5, until the year of 2013, the number of projects of Chinese FDI to Service industry in Korea, are a total of 7393, accounting for 87.5% of the total. In the amount of money did it account to about \$2.7 billion. It indicated 54 70% of the total. The second one is the manufacturing industry, which its projects is a total of 879, accounting for 10% of the total 40 and the amount of money is about \$2.2 billion, accounting for 43.6% of the total.



Chapter 5. Analysis: Chinese acquisitions of Korean companies

This part aims to analyse the situation about the Shanghai motor car, the BOE and the NASDAQ:GAME's acquisition of Ssangyong Motor car, and the Modern Display Technology Corporation(HYNIS) and Actoz Solt before and after the merging.

It was said that the Ssangyong Motor car are the well-known motor car corporation with its high-end technology in Korea. And the HYDIS is the Modern Display Technology Corporation which is attached to the HYNIX (SK Hynix Semiconductor Inc). And the Actoz Solt is the famous game corporation which developed the EPIC game.

5.1 Investment analysis

Table 5-1 China's investment path in Korea (2008-2013)

Unit: million of dollar

Year		Investment path		
		M&A	Green field	Total
2008	Number declared	332	3413	3745
	Amount declared	4431	7281	11712
2009	Number declared	268	2863	3131
	Amount declared	3375	8109	11484
2010	Number declared	249	2861	3110
	Amount declared	2015	11056	13071
2011	Number declared	245	2466	2710
	Amount declared	1971	11702	13673
2012	Number declared	247	2618	2865
	Amount declared	3749	12537	16286
2013	Number declared	241	2367	2608
	Amount declared	4979	9569	14548

Data sources: The Korean Ministry of Commerce Industry, (www.mke.go.kr)

The period of analysis is from 2001 to 2010, in order to understand the operating conditions. I take advantage of financial ratios and DART electronic bulletin board system in Committee on financial supervision to analyze the various business data, and use the KisValue information data, the average date for the evaluation of Korea credit utilization industry.

Chinese investment path to Korea is through two ways : Greenfield investment and cross-border mergers and acquisitions. As shown in Table 5-1, its main path is through the greenfield investment.

In order to know the operating conditions of Korea enterprises which have been taken over by Chinese enterprises, we take the analysis of the growth rate of total assets, the investment spending, and the

passage of research and development expenses.

At first, as seen in table 5-2, since the Ssangyong Motor was taken over by Shanghai Motor in 2004, the growth rate of total assets was less than the industry average. Especially in 2006, it was -13.20%, in 2008, -29.45%, and in 2009, -18.58%. On the whole, the total assets of other business were growing, while the total assets of Ssangyong Motor were reducing. The growth rate of total assets in the HYDIS in 2008 had reached 46.23%, which was under the industry average level. Before the two enterprises' M&A, they were recording a growth rate of the industry average level. Compared with foreign enterprises, their results were less. But In contrast, although at the early time of M&A, the total production growth rate of the Actoz Soft was lower, but then 3 years it maintained a high growth rate.

Second, from the view of investment spending, since 2006 the Ssangyong Motor has been a negative growth for 4 years. And from 2007 to 2009 the HYDIS also showed a negative growth. They recorded a low performance during this period. But the investment costs of the Actoz Soft were relatively low, which was relatively close to the average level of the industry.

Third, from the view of research and development, the 3 companies which were taken over showed the higher investment than the industry average level. The higher research and development cost means that technology development is an important objective of the acquisition of Chinese enterprises in South Korea enterprise.

Table 5-2 The change index of Korean enterprises which were taken over.

Year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
The growth rate of total assets(%)										
The Ssang Motor	-0.89 (5.90)	5.92 (8.08)	15.12 (13.57)	3.18 (5.64)	3.78 (9.04)	-13.20 (3.44)	2.80 (6.79)	-29.45 (11.30)	-18.58 (15.84)	6.25 (19.17)
HYDIS	36.00 (-6.02)	83.58 (-2.66)	50.40 (6.76)	8.31 (21.40)	10.01 (15.87)	0.07 (7.17)	9.29 (9.10)	-46.63 (8.23)	21.27 (19.76)	33.86 (19.11)
Actoz Soft	177.7 (41.83)	15.70 (0.72)	98.90 (0.17)	-15.78 (-7.76)	1.34 (19.25)	5.09 (21.15)	29.96 (5.58)	17.59 (1.92)	21.22 (20.21)	0.48 (9.21)
Foreign investment enterprises	-5.01	-2.73	0.94	3.13	6.55	4.20	4.30	14.46	12.37	15.56
investment spending(%)										
The Ssang Motor	-5.02 (-0.10)	-2.35 (-1.20)	0.47 (1.82)	7.22 (2.48)	1.69 (1.63)	-1.40 (1.38)	-2.91 (0.17)	-32.24 (-0.63)	-2.00 (0.75)	1.08 (1.32)
HYDIS	-3.58 (-0.10)	19.49 (-2.91)	11.26 (3.42)	-2.38 (11.45)	2.71 (8.14)	1.92 (4.29)	-1.83 (0.27)	-35.92 (0.61)	-0.06 (-0.72)	5.22 (6.01)
Actoz Soft	1.00 (3.09)	2.45 (0.85)	0.64 (1.17)	-0.13 (0.28)	0.66 (2.14)	0.08 (0.75)	0.11 (1.15)	0.13 (1.30)	0.14 (1.50)	-0.02 (1.41)
R&D spending (%)										
The Ssang Motor	2.82 (0.63)	2.04 (-1.02)	2.96 (0.70)	3.11 (0.95)	4.03 (1.10)	4.37 (0.65)	3.34 (0.88)	6.65 (0.96)	4.95 (0.94)	4.81 (0.84)
HYDIS	1.10 (0.35)	-0.20 (1.39)	0.45 (1.39)	0.62 (1.23)	1.09 (1.37)	1.10 (1.58)	0.59 (1.43)	0.98 (1.69)	1.25 (1.46)	1.09 (1.14)
Actoz Soft	11.10 (2.13)	-1.26 (1.32)	5.05 (0.87)	2.25 (1.61)	10.36 (3.08)	18.56 (2.35)	8.69 (3.85)	8.72 (1.73)	3.53 (2.26)	8.59 (1.74)

Data sources: KisValue (<http://dart.fss.or.kr>)

5.2 Risk return profile

The risk return of business is the benefit index compared with assets or sales. If the South Korean Enterprises were successful in adjusting industry structure to reduce the expenditure structure after M&A, the

benefit index will turn better. But the Chinese parent company, due to lack of management power management, can not reverse the benefit index.

As shown in table 5-3, before M&A the benefit of the Ssangyong Motor proceeds over the average. However, after 2005 the benefit index which included the profitability index rate of return on total assets cannot keep up with the average level and it even began to turn to a negative growth. This means that asset utilization efficiency is very low and its income is not low. From 2008 to 2009, the income index of Ssangyong company had recorded a negative growth, and finally in 2009 January it appealed to the court for custody. At the year of 2010, after the structure readjustment, the India Mahindra Group merged them again.

HYDIS showed that since M&A, a negative growth had been recorded in the business efficiency of enterprise sales profit rate. So the HYDIS applied for the court management in 2010. In contrast, though the Actoz Soft did not reach an average level, compared with the same company that got a negative growth, it had a good result.

5.3 Financial standing

Compared with other enterprises, before the M&A, the financial situation of most enterprises taken over was bad. Because of the cumulative deficit and lack of operating funds, they need new investors. Financial soundness can be divided into the liquidity ratio which can evaluate the ability of repayment of debt in short-time and the debt ratio which can evaluate the ability of repayment of debt in long-time. The better situation is that the former is more, and the latter is less.

Table 5-3 The change income index of Korean enterprises taken over

Year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
net profit margin of total assets (%)										
The Ssang Motor	0.88 (7.02)	14.98 (7.14)	24.95 (8.69)	0.44 (7.04)	-3.89 (7.62)	-7.75 (4.31)	0.49 (4.67)	-41.62 (3.31)	-24.94 (7.96)	0.55 (11.99)
HYDIS	n/a (-4.75)	n/a (6.36)	n/a (6.37)	-1.70 (15.68)	-17.45 (8.24)	-48.60 (6.24)	17.58 (6.51)	-59.65 (0.16)	1.33 (7.52)	-3.45 (8.20)
Actoz Soft	11.01 (-9.33)	2.38 (-8.39)	22.77 (-8.49)	14.23 (-5.69)	2.14 (-0.66)	2.17 (3.34)	14.94 (2.64)	8.93 (-4.69)	1.12 (4.90)	1.60 (3.34)
Foreign investment enterprises	0.58	3.16	3.32	6.98	5.95	5.65	5.53	2.13	2.73	5.58
net profit margin of sales amount(%)										
The Ssang Motor	0.39 (5.78)	6.38 (5.79)	17.97 (7.55)	0.35 (5.67)	-3.01 (6.40)	-6.64 (3.60)	0.37 (4.09)	-28.44 (3.13)	-32.46 (8.45)	0.39 (11.63)
HYDIS	n/a (-4.78)	n/a (6.02)	n/a (5.65)	-1.63 (12.62)	-26.53 (7.76)	-87.46 (6.08)	29.92 (6.66)	-24.40 (0.16)	0.85 (7.38)	-4.10 (7.96)
Actoz Soft	30.12 (-13.21)	4.06 (-10.98)	25.57 (-11.0)	23.18 (-7.25)	4.31 (-0.99)	4.41 (-4.68)	20.45 (-4.03)	8.88 (-6.17)	0.91 (6.73)	1.75 (4.43)
Foreign investment enterprises	0.60	3.23	3.22	6.19	5.16	4.95	5.17	1.92	2.78	5.13
Operating profit ratio of sales amount (%)										
The Ssang Motor	6.55 (7.21)	9.32 (6.50)	8.82 (7.88)	0.94 (5.88)	-0.06 (4.05)	0.92 (3.46)	1.41 (4.49)	-9.11 (4.84)	-27.50 (6.66)	-2.66 (7.68)
HYDIS	n/a (2.14)	n/a (9.75)	n/a (9.40)	-5.09 (13.84)	-23.66 (8.61)	-64.86 (6.22)	-37.39 (5.91)	9.80 (3.57)	2.88 (5.55)	-8.79 (7.85)
Actoz Soft	30.48 (1.26)	-6.76 (-4.23)	14.81 (-2.58)	21.59 (2.77)	7.26 (3.17)	-13.27 (3.26)	11.60 (4.15)	19.21 (5.76)	16.58 (13.55)	14.74 (11.23)
Foreign investment enterprises	5.59	5.81	6.22	7.39	6.27	5.81	6.29	5.70	5.03	6.59

Data sources: KisValue (<http://dart.fss.or.kr>)

Table 5-4 liquidity ratios of Korean enterprises taken over

Year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
liquidity ratios (%)										
The Ssang Motor	53.14 (89.97)	73.50 (108.57)	94.05 (108.83)	80.69 (116.74)	94.54 (111.46)	77.20 (112.22)	99.92 (115.47)	71.49 (113.47)	120.52 (116.78)	58.52 (124.68)
HYDIS	n/a (93.27)	n/a (117.71)	n/a (125.63)	88.37 (135.440)	120.23 (141.57)	29.09 (131.45)	199.43 (146.38)	46.30 (122.20)	51.73 (135.39)	34.07 (126.74)
Actoz Soft	2278.12 (282.20)	477.40 (245.83)	179.08 (247.06)	418.73 (283.90)	425.26 (281.02)	317.22 (246.68)	354.80 (220.65)	299.06 (185.75)	316.10 (207.57)	305.27 (204.39)
Foreign investment enterprises	86.45	84.86	92.74	107.68	120.08	120.07	120.52	112.68	119.72	118.83
The debt ratio (%)										
The Ssang Motor	740.13 (39.33)	256.53 (117.61)	109.75 (106.95)	113.88 (97.94)	141.56 (91.04)	154.10 (86.78)	150.12 (84.35)	561.30 (85.040)	361.87 (76.20)	377.61 (64.25)
HYDIS	n/a (123.33)	n/a (77.35)	n/a (67.30)	183.02 (57.34)	484.41 (55.64)	On capital (53.31)	276.34 (46.82)	On capital (53.95)	On capital (57.02)	On capital (58.85)
Actoz Soft	5.00 (46.70)	17.91 (51.13)	65.96 (44.17)	13.70 (36.25)	13.07 (37.78)	15.73 (42.00)	21.43 (43.73)	29.69 (50.28)	46.08 (45.86)	41.31 (49.71)
Foreign investment enterprises	162.68	160.10	152.51	129.31	116.12	114.68	107.42	125.30	119.86	113.05

Data sources: KisValue (<http://dart.fss.or.kr>)

As seen in table 5-4 , the Ssangyong Motor car's debt ratio was increasing rapidly after the M&A. By 2008, this ratio reached 7 times of the average. And the ability of repayment of debt in long-time was worsen. The liquidity ratio was also lower than the average. And in 2001-2003, the financial soundness was worse. This means that after the M&A, their financial operation mechanism is not good.

The liquidity ratio of HYDIS was also lower than the average, especially lower than the foreign investment enterprises. Before the court custody, its situation was improved, but the liquidity ratio reached 38.07% in 2010, which still did not avert a liquidity crisis. And the debt

ratio of the HYDIS got more serious. From 2006 to 2008, it has been still in the lack of funds. However, the reason for the deterioration of the financial indicators of the HYDIS was not only the failure of the BOE's business, but also the global economic crisis. On the contrary, in 2010 the financial soundness of Actoz Soft was no problem.

5.4 Overall evaluation

Although the Ssangyong Motor, HYDIS and Actoz Soft were taken over by the Chinese enterprises, the goal of overseas investment was mainly for purchasing the technology. From the point of the achievement, we can find the difference. The growth rate of total assets and investment expenditure of Actoz Soft were higher than the average value. However, the other two companies were lower than the average. Only R&D spending of all of the 3 companies were higher than the average. From the view of profitability index and financial point of Korean subsidiary companies, Actoz Soft showed good results, while the Ssangyong Motor and HYDIS applied for the court management. And in 2009 the Shanghai Motor left the management of the Ssangyong Motor company.

As shown the above, amid the 3 South Korean companies merged by chinese enterprise, only Actoz soft were successful, while the Ssangyong Motor and HYDIS were failure cases. One of the important reasons is that after the M&A, Chinese enterprises only paid more attention to the existing technology transfer, but neglected improving the competitiveness of the market. Therefore, the investment model which aimed to only get technology showed why Ssangyong Motor and HYDIS failed in Korean market. On the contrary the Acton Soft which combined the technology with the market achieved a success. Although the investment was focused on the technology transfer as the goal, it did not only pursue a

goal but also not ignore the market. If the BOE successfully transfer the technology of HYDIS, we must see the operating results of the BOE. But in fact the goal was not achieved.

So the failure of Chinese enterprises' acquisition of Korean business showed that Chinese enterprises did not have much experience in the FDI. And for the large M&A, Chinese enterprises also had no experience to control the large scale of Ssangyong Motor and HYDIS. Moreover, the Shanghai Motor and the BOE had no technological advantage and were not in the leading enterprise in Chinese market. On the contrary, the SNDA in China has been a big influence on games. So after the merge with Acton Soft in 2001, it have obtained what the company wanted to. And compared with the HYDIS and Ssangyong Motor, the Acton Soft has smaller scale, and its business condition were good before M&A.

From the above analysis, we can arrive at a such conclusion. The acquisition of Chinese enterprises should focus on the fields which they are familiar with and small scale enterprises. And like this, it will be beneficial to the purchaser and seller. The reason for the failure of China's FDI to Korea is that Chinese enterprises paid much attention to obtaining advanced technology and was lack of the scientific planning and management for the Korean enterprises taken over⁸⁾.

8) Wol-ra, Park/Ik-hyeon, Choi. The status and implications of Chinese enterprise's foreign investment[R].Institute for international economic policy,2011 :86-93

Chapter 6. Problems of Chinese enterprises' investment to Korea

Chinese investment to Korea is greatly limited by the investment environment in Korea. And major obstacles for China enterprises to enter Korean market include narrow sales market, relative technology advantage of Korean enterprises, etc. Especially it is quite difficult for the extremely poor Korean resource market to extract Chinese state-owned enterprises focusing on overseas resource field. With the growth of Chinese FDI, its investment to Korea kept increasing. But its investment amount was relatively smaller than other countries, mainly focused on catering industry, small-amount trade, house rental and other services with lower additional value. Its reasons mainly lie in the following aspects:

6.1 South Korean's negative perspective of China Enterprises

Since natural resource in South Korea is not that abundant, the Korean government pays more attention to development of high-tech industry, and focuses on developing such industries with higher additional value.⁹⁾ “Especially the technology outflow resulted from merger investment will bring adverse impact on Korea's technological

9)Hwa-nu, Jung. The reason and Inspiration for decreasing china's FDI in Korea [M].Seoul:Korea International Trade Association(KITA),2007 (5)

superiority, and “China Threat Theory” is widely spread in current South Korea’s public opinion”. Therefore, Korea is on high alert in technology transfer. Especially in terms of high technology, South Korea tries its best to avoid involving China enterprises to prevent them from shortening the gap with it.

Due to South Korea’s negative perspective of China enterprises, M&A had been rejected, such as BOE Technology Group Co., Ltd.’s merge of HYDIS in 2002 and SAIC Motor Corporation Limited’s merge of Ssangyong Company in 2004. Especially for the serious negative effects caused by China enterprises in terms of the Ssangyong Company event, China believed that the conflicting labor-capital relationship was the leading cause for China enterprises to repeal investment. However, Korea believed that only purpose of China enterprises investment lie in obtaining core technologies of South Korea.

6.2 The Korean Government problems

After China enterprises entering Korean market, South Korea frequently can not meet enterprises’ demands in terms of policy, which lowers the efficiency of foreign capital operation. This is one of the major reasons for many American and European enterprises to withdraw investment. And for foreign investment planned to enter South Korean market, the threshold set by the South Korean government is relatively higher, especially for service industry, such as finance, aviation, sea transportation, medicine, etc, which aims at reducing the impact on local enterprises. Besides, “sealing” degree in Korean market has been increased, and it becomes more difficult for foreign enterprises to enter Korean market, which is not only the problem run by Chinese investors, but also by many overseas enterprises¹⁰⁾.

10) Han Li. The political risk analysis of china's FDI in Korea[J].Foreign investment in China.2014 (305)

6.3 Chinese enterprises' lack of ability

Seen from the developed countries, in order to support foreign investment of their local enterprises, they formulate and implement insurances and policies to reduce enterprise risk, such as the Trade Insurance Law already existed in Japan, the OPIC (Overseas Private investment Corporation) in the United States, etc. Currently, the scale of China enterprises' FDI to South Korea is still extremely small, and compared with developed countries, there are still shortcomings in internationalization competence of Chinese enterprises.

6.4 Overall and the average size

The amount of Chinese enterprise investment is from ten to seventy thousand USD and number of enterprises with more than one million USD investment is very rare, which can not only be compared with the scale of South Korea investment to China, but also much smaller than the scale of China's investment to Europe, America, Japan and other countries and districts. Most of established enterprises belonged to service ones, branch company and representative offices for finance, aviation, sea transportation, tourism, catering, labor service and trading. They are relatively smaller in enterprise scale.

6.5 Improper understanding of labour relations

During SAIC Motor purchasing and integrating Ssangyong, it should have got deeper understanding of strength of the Federation of Korean

Trade Unions (FKTU). But in order to realize SAIC Motor's globalization strategy and well use Ssangyong's advanced technologies and the brand, SAIC Motor, as a major shareholder, kept hunkering down to compromise with the FKTU, and met with its requirements for many times. But disputes kept rising out between the FKTU and SAIC Motor. Though SAIC Motor had explained to the FKTU that the merge was for win-win for many times, rather than technology theft, the FKTU always believed that SAIC Motor planned to transfer Ssangyong's motor manufacturing technologies through purchasing. SAIC Motor lost its successful merger information of Ssangyong in the continuous labor dispute, and the four-year-long integration finally failed.¹¹⁾

Several years ago, minority shareholders in Hyundai Electronics jointed together to oppose to sell the semiconductor business of Hyundai Electronics to foreign companies, and media and public opinion were quite intense. All the Chinese companies and American companies planning to purchase it failed in the end. Attention should be paid to that labor dispute in South Korea. It is not a simple problem.”¹²⁾

For the merging China enterprises, the most important thing was to retain technical and managing talents. Therefore, there is much to do for China enterprises in terms of coordinating labor-capital relationship, alleviating labor- capital and establishing harmonious society.

11) Ma Jianwei. The research of performance about Chinese M&A . Researcher tied to the ministry of finance [D], 2011

12) Hwa -SMp, Kim. The analysis of foreign investment environment in Korea. KIEP industrial economy [J],2004(67) : 30

Chapter 7 Investment promotion strategy

7.1 The advice for China

7.1.1 Improving the success rate of FDI to Korea

Both China and South Korea need to jointly create successful cases for China enterprises' investment in South Korea. In the past few years, China enterprises have made large-scaled investments in South Korea for several times, wherein SAIC Motor purchasing "Ssangyong Motor" was an good example. However these merger-mode investments have never got achievements, which caused negative psychological influence on China enterprises to invest in South Korea.

7.1.2 Broadening the investment channels and innovative model

Currently, China enterprises make investment in South Korea mainly in the mode of purchasing and merging South Korean enterprises. It is proved by facts that this kind of purchasing and merging mode is quite difficult with lower success rate. In order to further increase depth and breadth of Chinese enterprises' investment in South Korea, it is necessary for China enterprises to search for new investment modes and actively explore investments in various fields, joint venture participation and other various investment methods. According to the previous cases, it is easier for large-scaled investment to cause alarm from local

government and competitive enterprises. Therefore, for first-time investment, it's better to start from small-scaled capital and expand gradually.

The reason for operation problems of purchased enterprises was that both SAIC Motor and BOE only cared to obtain advanced technology and neglect the growth of purchased enterprises. Conversely, SNDA purchased Actozsoft in South Korea in a smaller scale. Besides obtaining the intellectual property, it also tried to maintain South Korean market share of the purchased enterprise, which can be regarded as a successful case. The SNDA case shows that it's better to purchase enterprises which can be controlled by the parent company in China in terms of scale and technology level than to purchase large-scaled M&A with supports and assistance of Chinese government, which is much more proper from the perspective of foreign investment efficiency.

7.1.3 Improving the risk coping mechanism

Chinese government should also establish an information service platform and a dedicated political risk assessment consulting institute. It can strengthen political situation, economic environment, the host country's governmental policy and information of various social interest correlation groups in foreign investment countries and districts through the help of overseas enterprises, institutions and banks abroad. And it should release the information for enterprises after professional analysis and assessment, which can provide timely, authoritative and professional information for China enterprises. It is suggested that the country establish a foreign investment risk research system jointly participated by governmental organization, professional research institute and investing enterprises, and formulate a system for professional foreign

investment risk assessment, foreign investment risk alarm and foreign investment risk report.

Although China Export & Credit Insurance Corporation has released the first National Risk Analysis Report in China which provides reference basis for China foreign investment enterprises to identify and assess risks, there is still no professional foreign investment risk assessment and analysis system in China.

7.1.4 The proper construction of overseas investment insurance system

In FDI insurance system, also referred to as FDI guarantee system, the domestic insurance institute would pay for the lost of the investor caused by various overseas risks after the investor applied to investment insurance institute in his own country for insurance. Though the system to support enterprises to make FDI through insurance has been basically formed, it started later than other countries. Even though the FDI insurance was provided by China Export & Credit Insurance Corporation set up in late 2002, it might be involved in political anarchy in the host country, limitation on currency conversion, war and governmental taxing risk, but the support is still not that powerful and not that complete enough. When setting up insurance institution, it is necessary to try to adopt more complete commercial insurance corporations owned by the state to complete loss compensation after overseas enterprises suffering from various risks in a high-quality manner; when examining and approving, it should adopt double-approval mechanism, namely governmental institute approval and insurance institute approval. The government should pay attention to the mutual benefits between its own country and the host country, and examine and approve based on the political risk grades in the host country. When examining and approving,

the insurance institute should pay attention to integrity, capability and others of overseas investment enterprises.

7.1.5 Establishment of a good image

Chinese enterprises should establish a good image in the Korean public by holding public benefit activities and advertising enterprise responsibilities in South Korea to let more and more people correctly know the positive image of Chinese foreign investment enterprises, rather than let the Korean public identify China enterprises on their prejudice. Adopt an integrated strategy to seek localization of Chinese foreign investment enterprises to adjust to the local environment, being a constituent part of Korean economy structure, rather than an apparent “foreign company” , to have interest in the public attention and reduce South Korea’ s worry about being swallowed by investors¹³⁾.

7.1.6 Cultural exchange and communication

In some way, cultural risk is the most difficult one for enterprises to solve and it is difficult to assess the losses brought by it. Because culture is the sediment of thoughts and ideas, representing thinking ways and values of groups, which is difficult to change. In the investment process in Korea, China enterprises have to pay attention to the cultural exchange and communication with Korean governments, institutes, other groups and foreign employees inside the enterprise. Before conducting FDI, it is necessary to do research on cultures based investment process,

13) Xing Linbo.[D]. Overseas investment risk assessment and strategy for Chinese enterprises. Shanghai Foreign Studies University, 2014.

which would just be the opposite to what one wishes. Enter South Korea and identify cultural difference. Try to “localize” enterprise management, blending production, management, marketing, staffing and operations in other aspects in the foreign economy, especially for respecting customs in South Korea.

Do not try to impose the elite culture concept in China on the Korean. Chinese culture should be firstly compatible with local culture. Keep exploring to form the unique and exotic enterprise culture most suitable for the enterprise itself to promote enterprise development.

7.1.7 Strengthening the training of internationalized talents

Human resource is the core for enterprises, and there is no doubt about this. What China lacks now is talents capable for international operation. There is still much to do in training international operation talents. China enterprises should set up “talents storage” , establish and improve talents growth channel, and operate mechanism for talents introduction, selection and employment. Due to the foreign-related character of FDI, it is necessary to keep improving “talent internationalization and employment localization” and establish compensation incentives and restriction mechanism to give full play to subjective initiative of talents. This is where talents come in. Only this can control the situation so that international operation talents may be improved.

7.2 the advice for Korea

7.2.1 Building a friendly investment environment

South Korea should frequently hold forum related to FDI, national investor relations, industrial investment seminar, technical seminar and other activities, which will create more chances for communication between the two governments and enterprises, especially to increase concern of China enterprises' investment in South Korea by actively inviting senior officials in South Korea to the national IR (Investor Relations) to introduce China enterprises.

7.2.2 A good image in the propaganda of Chinese-Korean investment

There are negative views on Chinese capital flowing into South Korea and lower assessment to Korean investment to China, due to the cases of SAIC Motor purchasing Ssangyong Motor and BOE purchasing HYDIS. Therefore, in order to overcome the anti-China capital emotion and encourage China enterprises' investment to South Korea, it is quite necessary to advertise the successful cases of China enterprises' investment to Korea.

7.2.3 Creating a business template

It is necessary to establish a business template mutually beneficial to both of the two countries through Chinese capital and mutual and strategic utilization with FTA as basis and brand power in Korea. With the signing of Korea-Europe FTA and Korea-America FTA which came into effects in July 2010, China can effectively avoid anti-dumping and other trade barriers by moving the production base to Korea or other

new investment methods.

7.2.4 Other investment promotion activities

Table 7-1 Different regions' industry distribution of Chinese FDI

Region	FDI details
Yangtze River Delta, Pearl River Delta	Focused on the investment of Manufacturing industry
The central region of China	Focused on the investment of service industry
The western region of China	Focused on the investment of Manufacturing industry and service industry
The eastern costal region of China	Focused on the investment for developed countries.
The central region of China	Focused on the investment for developing countries.

Data source: Chinese Council for the promotion of international trade, China enterprise foreign investment situation and intention survey report [R],www.ccpit.org, 2010.

Since the economy scales in different Chinese provinces and cities vary from each other, and so do the industrial development plans, Korean government should firstly consider economic situations, major industries and other aspects in different provinces and cities, and then establish individual investment introducing strategy. As displayed in the results of the questionnaire survey on China enterprises which had foreign investments in 2010 by China Council for the Promotion of International Trade, foreign investment industry distribution in different districts are as shown in Table 7-1

7.2.5 Promotion of the effective operation of free economic zone

There are 6 free economic zones in total formulated and operated by South Korea. However, due to the industry repetition in different areas, investment institutes which tried to attract FDI are distributed in a quite dispersive manner, which makes the efficiency to attract foreign investment relatively lower. Therefore, it is necessary to re-adjust its functions for each FEZ of Chinese capital to form an integrated operation distribution pattern.

7.2.6 Improving the existing system

Chinese investors expect to get average foreign investment return of more than 15% for every year. Therefore, compared with the foreign investment method of realizing investment income in a long term, China enterprises prefer to the financial investment method for which it is easy to get back investment capitals. So, in order to increase investment income for China enterprises, it is necessary to improve tax system, allowance, green card system and other foreign investment introduction systems for China enterprises.

7.2.7 Government expansion of the cultural industry support

South Korean government should strengthen communications between China, and insist on advertising Korean market to China. China determines to expand its support to cultural industry during the “the 12th Five-Year Plan” period. Because there is huge potential in cultural industry for China enterprises and South Korea enterprises, and because Chinese enterprises might make more investments in Korea, the country famous for “Korean Wave” culture, can capture the chance of

developing cultural industry. Korean government needs to improve infrastructures of small and medium sized cultural enterprises in South Korea to expand China enterprises' investment and in the following, consider to support animation, film, advertising and other cultural contents in many aspects¹⁴⁾.



14)Bok-seon, Gwak. The solution to promote the Cooperation of economy and trade between Korea and China. [R].Economic Social and Human Research Council ,2011:36-38

Chapter 8. Conclusion

Since the establishment of diplomatic relations between China and Korea in 1992, China began to invest to Korea. As the neighboring country and the largest-trade partner and investor to Korea, China has the advantage to do FDI to Korea. And in terms of the Chinese FDI to Korea, We can get the following conclusion.

Firstly, with the deepening of the global economic integration, the developing countries are playing a more and more active role in the foreign investment stage. the economists and management experts began to replace the existing FDI theory with new theory which can explain why developing country invest to the developed countries. In this context China is the representative country which attempt FDI to the developed one. So it is so important for Korea with lack of resources to get the cooperation from China.

Secondly, based on the investigation, the favorable factors to promote China's FDI are the preferential measures provided by foreign government and circumstance of the demand of overseas market. But there are also many unfavorable obstacles for FDI, such as the financing difficulty and lack of talent who is cut out for international trade operation and management.

Thirdly, Chinese FDI to Korea began since the year of 1992. Although the history of FDI is long, and there are several major M & A. On the

whole, the projects of Chinese FDI to Korea are relatively small in number and value, despite that most of Chinese enterprises to implement FDI are the state-owned enterprise and quasi-sovereign enterprise.

Fourthly, when it comes to the big scale M&A between Chinese and Korean enterprise, Chinese enterprises aim at getting the advanced high-technology and experience, upgrading to the industries inland and creating the comparative advantage. But thus kind of strategy have brought about the conflicts between Chinese management and trade union so often and Chinese FDI ended up to fail. I think we need to pay more attention to the scale and method of investment, otherwise we may be failed.

Fifthly, Chinese investment to Korea is greatly limited by the investment environment in Korea. And major obstacles for China enterprises to expand market in Korea include narrow sales market, relative technology advantage of Korean enterprises, etc. Especially it is quite difficult for the extremely poor Korean resource market to attract Chinese state owned enterprises focusing on overseas resource field. With the growth of Chinese foreign investment, the FDI to Korea keeps increasing, but its investment amount is relatively smaller than other countries, mainly focused on catering industry, small-amount trade, house rental and other services with lower additional value.

In spite of many advantage for Chinese FDI to Korea, it is not successful as the above mentioned. In order to activate this FDI, policy cooperation between both governments, endeavor to expand the horizontal of understanding in cultural base, common effort to search for mutual benefit including academic exchange and common research should

be considered.



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