

ОСОБЛИВОСТІ РОЗВИТКУ СВІТОВОГО ГОСПОДАРСТВА

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FOREIGN DIRECT INVESTMENT INFLUENCE ON THE ECONOMIC DEVELOPMENT OF NEWLY INDUSTRIALIZED COUNTRIES IN ASIA (SOUTH KOREA CASE)

Abstract. *South Korea's economy (hereinafter referred to as "Korea") has become one of the most diversified and technologically advanced in the world in the past 50 years. Korea began to pursue a broad policy of liberalization towards foreign investments, including foreign direct investment (FDI), and due to well-conducted reforms, governments were able to direct financial flows to the priority areas of economic development of the national economy. FDI began to play an important role in the country's economy and acted as the main catalyst in the country's industrial development and technical upgrading of industries. Of particular importance for the development of the country's national productive capacity is the question of the specific nature of foreign capital penetration forms (contract and contracting forms, creation of joint ventures, although later they gave way to the practice of using mergers and acquisitions) and the establishment of cooperative relations between local companies and foreign subsidiaries of multinational enterprises (MNEs), and this not only increased the productivity of domestic firms, facilitated the transfer of complex management methods and advanced technologies but has also strengthened the industry structure. Cooperation with foreign companies gradually increased the competitiveness of local companies. Korea's attractiveness in terms of FDI was the result of the country's rapid economic development and its specialization in new information and communication technologies.*

The main factors of the country's effective economic development were the combination of market mechanisms development and active state regulation in all spheres of the economy. It has become important to protect national development priorities and support national exporters in regulation of the activities of foreign investors. However, the government pursued an active policy of attracting foreign investments. One of the tools for attracting additional capital to the country's economy was the creation of special economic zones (SEZs), in particular export production zones with a favorable tax regime.

Keywords: *South Korea, foreign capital, foreign direct investment, industrial development, regulation of foreign investment, special economic zones, benefits and requirements for foreign investors.*

Problem statement. The industrialization of newly industrializing countries (NICs) in East and Southeast Asia was characterized by the extensive involvement of foreign capital, in particular FDI (foreign direct investment). Although there were certain differences in the policy of attracting FDI in various NICs, in particular, the forms of MNEs (multinational enterprises) operations, the size of their shareholding control and industry priorities, all these countries focused on the creation of export-oriented and modern industries. From the 1970s to the present, Asian NICs have been the area of the most active operations of transnational companies that have transferred many products from their countries in search of benefits from low labor costs. Later, modern productions were also established in high-tech industries that took their place in the system of global international production of MNEs. As a result, new export industries were created in Asian NICs, making them dynamic world exporters of industrial products. This concerned Korea, for example, the electrical and automotive industries, the production of household appliances, electronics, etc. FDI plays an important role in the country's economic development by enhancing capital formation, transfer of technology and scientific knowledge, productivity and social standards in the domestic market. National firms adopt experience in the production, management and marketing of the MNEs foreign subsidiaries. Increased competition forces national firms to make more efficient use of resources, advanced and productive technologies that allow them to gain additional profit.

One of the main factors in the effective economic development of South Korea was the combination of market mechanisms development and active state regulation in all spheres of the economy. The transition from capital- and labor-intensive to knowledge-intensive industrial production is important, as well as state support for the foreign capital flow through the creation of special export production zones with a favorable tax regime. Studying and using foreign experience of FDI influence on the economies development of recipient countries and creating effective SEZs on the example of South Korea can be very useful for Ukraine.

The purpose of the article. The main purpose of this study is to determine the FDI influence on the economic development of newly industrialized countries in Asia, South Korea case. In order to determine the relationship between foreign investment and economic development, the FDI influence on the formation of the country's modern production structure and on the formation of its competitive export-oriented industries will be considered. The role of the SEZs is considered as the main tool for attracting foreign investment and the tool for conducting industrial policy in the country. The article also focuses on the study of the policy of the South Korean government regarding the attraction of foreign capital, which developed a mechanism for combining the interests of foreign investors with the priority goals of the country's national development program.

Analysis of recent studies and publications. In the scientific literature, a number of Ukrainian and foreign scientists in different time periods conducted studies of the positive and negative effects of transnationalization and the foreign capital influence on the economy of the host country. The main thematic areas of studies and authors include: 1) The FDI role in the formation of gross national product, FDI influence on economic growth in the country investing FDI (Rogach O. I., Filipenko A. S., Shnyrkov O. I., Kuznietsova N.V., Prasad E., Rajan R., Subramanian K., Alfaro L., Areendam C., Kalemli-Ozcan S., Selin S., Carkovic M., Levine R., Haddad M., Harrison A. E., Mansfield E., Romea A.,

Lipsev R. G., Theodore H. Moran, Blomstrom M., Graham E. M. Bengoa M., etc.); 2) The FDI influence on the level of technological and innovative development, the influence on the development of human capital in the country investing FDI (Borensztein E. J., De Gregorio J., Lee J. W., Findlay R., Radosevic S., Blomstrom M., Kokko A., Venables A. J., etc.); 3) The FDI influence on the economic competitiveness, on the export and import of countries receiving FDI (Barry E., Goldberg I., Klein I., Markusen J. R., Venables A. J., Rojec M., Fosu O. E., Magnus F. J., Siddiqui K., Gestrin M., etc.); 4) The foreign capital influence on the economic, industrial and technological development in East and Southeast Asia (Tiwari A., Mutascu M., Sachwald F., Wad P., Kim L., Ritter L., Sachwald F., etc.).

The economic departments of international organizations such as UNCTAD, UNIDO, as well as the analytical departments of IMF and the World Bank, in particular the annual publications of the Global Investment Competitiveness Report, are responsible for the publication of analytical and statistical materials on the main indicators, figures and processes of foreign investment, in particular in NICs of Asia. The article also uses statistical data of KOSIS (Korean Statistical Information Service).

The main results of the study. In the second half of the twentieth century (mainly the 60s and 80s), the Asian region saw a small group of countries among a number of developing countries that had been extremely active in industrializing and restructuring their economies, in particular through attracting large flows of foreign capital. Asian NICs group included South Korea, Hong Kong, Singapore, and Taiwan. They got the name "Asian dragons" for their high economic growth, industrial development and export. The economies of these countries have become the most successful export-oriented models and have achieved significant results in the creation of manufacturing industry and social progress. The abovementioned countries are usually referred to the first wave of NICs. Over time, their economic development model began to be introduced by a number of other Asian countries, the so-called second wave of Asian NICs: Malaysia, Indonesia, the Philippines, Thailand, and subsequently Vietnam. In the 80-90s of the twentieth century, these countries actually began to copy the main stages of the NICs development of the first wave, taking advantage of the fact that they had lost their previous comparative advantages by this time, first of all, it refers to labor-intensive industries [1].

Two subgroups of countries can be distinguished among the first wave of NICs. The first are the most open economies: Hong Kong (separate administrative district) and Singapore. In terms of the annual flow of new FDI capital and the amount of accumulated FDI, these economies are leading among all NICs countries (\$ 141 billion and \$99 billion respectively, 2021) [2].

The second subgroup is Taiwan and South Korea. The FDI flows are \$8,8 billion and \$8,7 billion in Taiwan and South Korea. The economies of the second subgroup are characterized by a more selective approach to attracting FDI and limiting the share of MNEs stock ownership in certain sectors. For example, South Korea has long banned 100% ownership of MNEs in many industrial sectors and forced foreign companies to establish joint ventures or enter into contract agreements with local producers. However, despite the relatively smaller focus on attracting equity forms of MNEs operations than the first subgroup, South Korea and Taiwan have also made significant progress in developing export potential and industrializing their economies. Unlike the countries of Latin America, in Asia the state has taken on a major role in implementing reforms. Economic transformations and investment attraction were implemented according to national economic development plans. In the mid-1990s, Hong Kong had 6 300 subsidiaries, South Korea 11 500, Singapore 24 000, Taiwan 2 800, Malaysia 15 500, the Philippines 14 800.

Over the twenty-year period (2000-2020), FDI flows into developing countries, including NICs, have shown extremely active positive dynamics. Among developing countries, Asia received the largest volumes of FDI, where FDI flows increased to almost \$517 billion in 2019 out of \$159 billion in 2000. The region accounted for more than 30% of global FDI flows. The latest data of this index show that in the South and Southeast Asia countries in 2019 the share of foreign enterprises in total employment was 9.9%, in value added was 10.5%, in research costs was 22.5%. But MNEs played a particularly important role in the region's exports, accounting for 31% of export supplies from these countries [1,2].

The study of South Korea's FDI flows over the past 30 years can be divided into several periods, which is associated with changes in the country's public policy towards foreign investment and development and strengthening of its domestic economic capacity. In the past, the country has taken a restrictive position on foreign investment. From 1960 to 1990, FDI flow as a share of total foreign capital flows to the country was only 5%, one of the lowest rates in the world among developing countries. At that time, the largest FDI share (20% of total foreign capital) was in the textile sector, focused on exports mainly to the Japanese and American markets. The average annual FDI flow during the period 1990-1994 was \$1 billion [3].

The liberalization of FDI policy since the mid-90s of the last century has led to increased private capital flows. In 1994, the Korean government announced the opening of many industries previously restricted to foreign investors. FDI flows increased between 1994 and 1997 (\$2.5-3 billion annually) even despite the global financial crisis in 1997 (Table 1). There are several main factors contributing to the increase in FDI flows during this period: 1) adoption of a new liberal law on the regulation of foreign investors activities in the country in 1997; 2) policy reform addressed current issues, namely the facilitated authorization of mergers and acquisitions, new tax benefits and a significant reduction in restrictions on ownership of foreign investment; 3) devaluation of the South Korean won at the end of 1997. So, the South Korean won to the US dollar decreased by 40.4%, and to the Japanese yen by 33.2% compared to the previous year (which led to a new wave of mergers and acquisitions, and the main portion of FDI in 1999 and 2000 was mergers and acquisitions).

Since 1997, Korea has been the largest reformer of its FDI restrictions among OECD members and key market economies, and thanks to well-conducted FDI policy reforms the latter have become important players in the country's economy. The great majority of FDI has become the main driver of growth in industries that are important to the country's economy. 2000 marks the beginning of a stable period of FDI flows into the Korean economy (with the exception of some years), in particular, South Korea entered the top twenty countries receiving FDI (\$17.91 billion) in 2017 (Table 1). The average annual FDI flow over the past 20 years is more than \$10 billion. In addition to Korea's traditional manufacturing industries, investors have demonstrated growing interest in the highly developed electronics sector, research and development facilities, logistics centers and establishment of regional headquarters. Korea's attractiveness in terms of FDI is the result of the country's rapid economic development and its specialization in new information and

communication technologies. Some manufacturing industries that are currently targeted for FDI in South Korea include automobile manufacturing, semiconductors, displays, environmental goods and services, logistics and photovoltaic (electric) energy production, and others [4,5].

Accumulated volumes of FDI reached \$248 billion in 2020 (compared to \$135 billion in 2010). FDI per capita has increased significantly in recent years to \$205 in 2020 (in 2015 it was only \$80). The ratio of annual FDI flows to GDP in Korea is quite low, on average up to 1% during the study period. This is largely due to the significant predominance of portfolio investment flows over direct investments (\$41.74 billion and \$8.76 billion in 2020) [3]. Cooperation between local companies and foreign investments has become particularly important in recent decades, as they not only increased the productivity of domestic firms through the transfer of sophisticated management methods and advanced technologies, but also strengthened the industry structure. Foreign investments also increased the competitiveness of local companies in the global market by helping Korean partners, who own technology but do not have the financial capital, to enter new markets. Foreign and domestic companies also complemented each other's weaknesses in large value chains [6,7].

Table 1.

FDI flows into South Korea (billion US dollars)

Year	FDI flow	Ratio of FDI to GDP, %	Commodity exports
1990	1.05	0.4	59.86
1991	1.46	0.4	67.40
1992	1.00	0.3	73.46
1993	0.83	0.2	80.79
1994	1.14	0.2	91.98
1995	2.49	0.4	119.58
1996	2.78	0.5	124.43
1997	3.30	0.6	132.37
1998	5.99	1.6	127.54
1999	10.73	2.2	136.03
2000	11.51	2.0	169.52
2001	6.52	2.1	146.42
2002	5.48	0.9	160.96
2003	7.01	1.0	194.91
2004	13.29	1.7	256.05
2005	13.64	1.5	285.26
2006	9.16	0.9	329.11
2007	8.83	0.8	382.80
2008	11.19	1.1	432.91
2009	9.02	1.0	363.93
2010	9.50	0.8	463.83
2011	9.77	0.8	587.21
2012	9.50	0.7	606.66
2013	12.77	0.9	618.39
2014	9.27	0.6	613.40
2015	4.10	0.3	543.08
2016	12.10	0.8	511.93
2017	17.91	1.1	580.31
2018	12.18	0.7	626.27
2019	9.63	0.6	556.67
2020	8.76	0.5	517.91

Source: Made by author based on data [3]

In terms of the MNEs contribution to the economy, it should be noted that as of 2019 total sales of foreign-invested companies in Korea was 12% of total national sales, and their exports was 19.4% of total Korean exports. In addition, foreign-invested companies accounted for 5.5% of employment and 5.7% of R&D in Korea, making a corresponding contribution to the Korean economy [8].

It should be noted that the composition of the main investing countries in the Korean economy is too dependent on the implementation of individual investment projects by their investors. From 2013 to 2019, the top of the largest foreign investors in Korea included: the United States of America, Japan and EU countries (such as Spain, the Netherlands, Germany, France, Great Britain, and Switzerland), countries of Southeast Asia, such as Singapore, China, and Hong Kong [9]. The United States is one of the largest investors and FDI suppliers to Korea (for example in 2015, the US share of total FDI flows into the country reached 25%). FDI from the USA has a tendency to constant growth and reached \$2 billion per year. This was facilitated by the entry into force of the Free Trade Agreement between the USA and Korea in 2012 and some of the measures taken by the Korean government in areas of the most interest to American investors, in particular, the Telecommunications Sector Act and the Investment Promotion Act with appropriate amendments that eliminate a number of sectoral restrictions. Investments from the USA have grown rapidly in the IT sector and production of electronic components.

The second major investing country is Japan (7.9%) with an average FDI capital investment in Korea of \$1.3 billion annually during the study period. Although it is necessary to note the strong fluctuations in FDI flows from Japan and highlight that in 2013 Japanese investments in the Korean economy reached \$2.4 billion or 40% of total FDI invested (the largest sectors of investments are metallurgy, advanced technology, manufacturing and real estate).

Companies from the EU countries make a significant contribution to FDI flows into Korea, the volume of their

investments accounted for 35% of the total volume into the country. Cooperation between the EU countries and Korea was based on the implementation of the Free Trade Agreement between the EU and the Republic of Korea in 2011, which eliminated almost 98% of customs duties. After the conclusion of this Agreement, the annual average growth rate of FDI in Korea increased significantly and fluctuated between 8-18%. However, despite fluctuations in some years, there has been a clear positive trend in the increase of the FDI share from EU countries into Korea.

Table 2.

Distribution of FDI flows by industry in South Korea, in miln US dollars, 2019

Total	13267	100%
Production	5245	39.5%
Production of food products, beverages, tobacco, products	142	2.7%*
Production of textiles, clothing, wood and paper products	30	0.6%*
Production of oil, chemical, pharmaceutical, plastic products	2049	39.0%*
Production of metal, machines and equipment	964	18.4%*
Production of motor vehicles	1873	35.7%*
Other production	185	3.6%*
Service sector	7872	59.5%
Information and communication	2821	35.9%*
Financial and insurance activities	2057	26.0%*

* share in the relevant sector

Source: Made by author based on data [9].

FDI flows into Korea's production sector account for 39.5% of total capital invested, and the lion's share of investment falls on three main groups: production of oil, chemical, pharmaceutical, plastic products; production of metal, machines and equipment; production of motor vehicles (Table 2). In the last decade, a significant FDI flow from the United States (as one of the main investors) has been directed to sectors such as chemical products, mechanical engineering, wholesale, computer and electronics, and food products. Most of the EU investments were in chemical products, electrical and electronic equipment, and mechanical engineering. The service sector accounted for 59.5% of the total FDI flow, of which 52% was concentrated in the information and communication subsector, and banking and insurance subsector.

Special attention is to be paid to main forms of MNEs penetration into the local Korean market (due to the long period of severe restrictions on the share of foreign investors in companies) and the following directions should be highlighted:

1. Contract form of cooperation. Of particular importance for the development of national productive capacities is the question of cooperation between local companies and foreign subsidiaries of the MNEs through a contract and contracting system, as they not only increased the productivity of domestic firms through the transfer of sophisticated management methods and advanced technologies but also strengthened the industry structure. Due to cooperation with foreign companies, the competitiveness of local companies gradually increased. Foreign and domestic companies also complemented each other's weaknesses in large value chains

2. Establishment of joint ventures. The practice of establishing joint ventures led to the transfer of their technologies, new ways of production processes. MNEs usually identified the equipment to be purchased, designed the production process for new products and provided detailed management assistance, such as quality control. Knowledge received from foreign companies about changing product demand or about new products allowed local companies to move more quickly from low-price products to new products that were still in the early stages of growth cycle. Foreign companies such as Samsung-Tesco and Lotte-Nestle established joint ventures with South Korean companies to better enter the consumer market. This helped, firstly, to take better account of the local market, and secondly, to use the MNEs experience in many areas, thirdly, to eliminate the need for infrastructure from scratch.

3. Active processes in the field of mergers and acquisitions. The intensification of these actions coincides with the wave of general liberalization in Korea after 1997. Thus, the semiconductor company Fairchild (USA) acquired a semiconductor factory from Samsung Electronics (trade size is \$455 million); American company eBay Inc. acquired a controlling stake in Internet Auction Co. Ltd. (trade size is \$120 million); American automobile company General Motors acquired Daewoo Motors (\$1.2 billion), including two factories in Korea, one factory in Vietnam and sales offices in Europe and Puerto Rico; Norwegian company Wallenius Wilhelmsen Logistics acquired Hyundai Merchant Marine Co. a car shipping company (\$1.5 billion) [10]. MNEs that made investments in Korea through cross-border acquisitions and mergers with local Korean companies, focused on long-term goals, contributed to the transfer of their technologies, and contributed to the competitiveness of a number of Korean industries, which are the main export sectors. Before the entry of a foreign partner, the technological level of local Korean companies was significantly lower. Complex production processes, management, marketing and technological innovations were launched through FDI channels, and at the expense of a national partner the new technology was better adapted to the needs of the local market, more familiar to specialists, and it worked effectively in favor of both parties.

The Korean automotive industry is a successful example of how cross-border acquisitions and mergers have contributed to the industry's revival after the crisis. Korea today is one of the most advanced car-producing countries in the world. Korea's automotive industry is now the fifth largest passenger cars producer in the world. The automotive industry accounts for 13% of industrial production, 12% of added value, and this is a very important industrial zone, which accounts for about 12% of total employment in South Korea [11]. The automotive industry is generally regarded in all countries as an important indicator for assessing a country's industrial level (it brings enormous added value to the economy). It is an industry that affects a number of other industries, from metallurgy, non-ferrous metals and glass production to transport, advertising, financial services and construction. That is why the development of the automotive industry has a great influence on the economy of any country.

Foreign investment in Korea's automotive industry was limited in scope before the Asian financial crisis (1995-1997). Korean car producers were largely dependent on foreign technology, but in most cases access to this technology was provided through licensing agreements rather than through investment flows into equity capital from foreign

partners. Local car companies depended on sales in less developed markets, and sales to Western Europe and the United States accounted for only 33% of total exports in those years. Korean companies specialized in exporting small and low-cost cars where profits were minimal. Despite the reduction of car tariffs in the 1990s under constant pressure from Korea's foreign trade partners and the acceleration of its trade liberalization efforts, the gradual liberalization of FDI, foreign penetration into the domestic car market was insignificant, with only 15 000 cars imported in 1996, equivalent to 1% of the local market. The financial crisis has accelerated Korea's opening to foreign investment. Due to the devaluation of the Korean won after the Asian financial crisis, Korean automotive companies became the targets of active cross-border mergers and acquisitions. But thanks to this, Korean companies were able to improve the quality of cars due to increased investment in R&D. Since 2000, exports began to increase rapidly, and the Korean automotive industry has entered a new phase. Major mergers and acquisitions in the Korean automotive industry have come from the MNEs of USA, France, India, China, particularly from GM and Renault Group, Mahindra & Mahindra Ltd, Shanghai Automotive Industries Co. and Tata Motors. As a result, the Korean automobile industry became more competitive and integrated [12,13].

GM and Renault invested in Korea to expand their market and increase their production efficiency, which is a typical feature of traditional FDI. GM and Renault provided significant capital flows into companies such as Daewoo and Samsung Motors. The first major project with foreign capital was realized in this sector due to sales of Samsung Motors to Renault. Renault acquired 70% of the company's shares in the amount of \$560 million. Since then, Renault has increased its stake to 80.1%. In particular, Renault increased investment in R&D, resulting in technology transfer and increased productivity. GM acquired Daewoo for \$1.2 billion. Renault and GM pledged to contribute significant capital to their new subsidiaries. Thus, Renault pledged to invest more than \$5 billion to create production, research and dealer centers. In addition, Renault took over the debt of Samsung of \$250 million and agreed to pay a further \$270 million on the future profit of the factory. General Motors and its alliance partners acquired 67% of Daewoo Motors domestic and foreign assets amounting to \$400 million. In the automotive production sector, with full control of the Incheon and Busan factories, the abovementioned MNEs formed well-developed clusters. Furthermore, a number of Korean companies producing parts and components were able to access the global network and export their products to Renault's partner, Renault-Nissan alliance, and other foreign companies [12].

All this leads to the conclusion that the processes of cross-border acquisitions and mergers in the Korean automotive industry have been accompanied by significant additional investments in the industry (except the MNEs contributions to these local companies in kind in the form of equipment or technology supply). The advantage of the presence of foreign investors in the Korean automotive industry was the fact that they gave their subsidiaries access to technologies developed in other regions of their global networks. Most companies made improvements in production processes and export volumes. This allowed the Korean car producers to sell through global MNEs networks. MNEs role in transforming the industry into a strong export-oriented sector was evident as foreign companies played a coordinating role by supplying local companies with components and spare parts, thus increasing the rate of export activity and strengthening export structure. They also encouraged R&D to modify and develop new indigenous technologies, and increased the probability of positive influence on the development of domestic research. Thus, the active operations of the MNEs in Korea led to the development and expansion of innovation, development of its own technological potential, which gave new impetus to the economic development of Korea.

It makes sense to focus on defining the role of SEZs in Korea's economic development. In many Asian countries, special economic zones and business centers are effectively used to achieve dynamic and innovative growth. The creation of economic zones is a catalyst that can stimulate industrial activity in one region and attract FDI, mainly in the manufacturing sector in order to expand exports and create jobs. The development goals have various motives, such as the development of small and medium-sized enterprises, foreign currency, economic diversification, investment and trade, development of the foreign currency accumulation sector, regional development, job creation, industrialization and experimental laboratories for new policies and approaches [14].

The link between FDI and development plans of the Korean state was established in 1961 with the centralization of FDI policies within the Economic Planning Council of the Korean development agency. During the 1960s and 1970s, the Council supervised the "active" list system that allowed FDI only in sectors identified by the Council. The Council limited FDI in sectors designed for strategic advance in which Korea lacked the necessary skills and technology to advance. The government's powers to regulate FDI in these sectors were set out in the Foreign Investment Promotion Act (FIPA), along with various national criteria that foreign investors had to meet, if they wanted to get permission to invest in Korea. As part of the export-oriented economic development strategy, Korea began to pursue a policy of creating export processing zones. In the export processing zone (renamed free trade zone (FTZ) in 2000), the government offered foreign investors very favorable incentives and conditions for entrepreneurial activity. The zones have been active in providing a number of incentives, while meeting the requirement of foreign investors to transfer technology and know-how [15].

Over time, Korea's foreign investment policy has gradually evolved to quality growth, especially in high value-added industries that can enhance the global competitiveness and potential of the Korean economy and create more jobs. The free trade zone policy aimed at transforming Korea into an international business center by attracting high-tech and service industries, and the free trade zone policy was considered a success story of South Korean policy in the field of FEZ. The reason why these two zones were chosen is that both were tools of structural changes in Korean industry as a result of attracting FDI. The accumulated FDI in FEZs of Korea amounted to \$178 billion as of 2018, 5 250 companies participated in them [16].

Since 1960, the Korean government has consistently pursued a policy of attracting foreign investment to financially support the country's national industrialization programs, modernize a number of industries and develop a competitive export sector in manufacturing. In the late 1990s, South Korea's foreign investment policy in regulating foreign investors in the country was significantly amended towards broad liberalization of the foreign investment regime. Thus, in 1998, the Korean government significantly deregulated and opened the country's investment market to foreign investors with the adoption of the Foreign Investment Promotion Act. The new act was aimed to actively attract foreign investment through the creation of a mechanism for providing incentives and benefits depending on the "quantitative" and "qualitative" sides of investment. In fact, this mechanism provided for the creation of a system for exchanging

“benefits for claims” while maintaining a balance of interests from both the government and foreign investor side. The “quantitative” side of foreign investments refers to the volume of investments by foreign investors, and the “qualitative” side refers to the potential contribution of the foreign investor to the implementation of the national development programs of the country, which were aimed (and still are) to increase the country’s global competitiveness, develop the potential of the Korean economy, create high-value-added industries, create new jobs. In fact, this has potentially directed and stimulated investments in the creation of competitive, export-oriented, high-tech production, conducting scientific research, and improving the professional skill of personnel, etc [16].

The updated procedure for the registration of foreign investments requires the foreign investor to provide only a notification to the Korea Investment Agency (KOTRA). Foreign investors are monitored by the Foreign Investment Committee (FIC) when necessary [17,18]. Under the program for stimulating foreign capital flows, a number of benefits may be granted to foreign investors if their activities coincide with the main directions of the national economic program for the development of the Korean economy in three main directions: 1) Improvement of the industrial structure (development of key economic sectors; development of the latest competitive export industries; development of high value-added services industries); 2) In the area of fiscal policy (expansion of budget revenues); 3) Other important areas of the economy (increasing labor market flexibility (job creation, advanced training).

In order to encourage foreign investment, the Korean government offers foreign investors: 1) tax benefits; 2) monetary subsidies; 3) provision of benefits system in the framework of creating special economic zones (SEZs).

The national program for promoting foreign investment provides for the elimination or reduction of corporate income taxes, local taxes and customs duties. So, the corporate tax and income tax are adjusted if the investor meets such requirements (corporate tax and income tax are reduced by 100% over the first five years and by 50% over the next two years) [17,19]:

1) Support for industrial sectors of the Korean economy. In order to receive appropriate benefits, conclusions and recommendations are needed with subsequent approval of the Foreign Investment Committee on the role of the foreign investor in development, for example, international competitive industries are required for national economies.

2) Providing targeted benefits. Providing benefits under the operation of separate “foreign investment zones”. Benefits under certain zones: Saemangeum zone / Jeju zone. Minimum investment of \$1 million, requirements for production, system integration, logistics, R&D, etc. Granting of tax benefits: Free economic zone / Saemangeum zone. In order to receive tax benefits, there is a requirement for a minimum investment of \$1 million and specific cost requirements for development, production, system integration, logistics, scientific and technical research, etc.

3) Tax benefits under the program “Developments in the Jeju Zone”. Various tax benefits are offered when investing more than \$10 million and with a total investment of more than \$100 million, and with a foreign investment ratio of 50% or more.

4) Tax benefits under the program “Foreign Investment Zone”. Contains requirements for production and logistics.

5) Tax benefits under the program “Business City Zone”. Tax benefits are granted subject to cost requirements for developments, production, development of system integration and logistics, conducting R&D, etc.

6) Customs benefits. Customs duties may be eliminated or substantially reduced for foreign investors for capital goods (i.e. machinery, equipment, parts, devices, etc.) which are: 1) imported by a foreign investor as investments, qualified under the Foreign Investment Promotion Act (FIPA); 2) directed for business purposes by companies located in the foreign investment zone, free economic zone, free trade zone, Saemangeum zone, Jeju zone, etc.

The program of the Korean government to attract foreign investments in addition to tax benefits also provides monetary subsidies, if the investment is in line with the national economic development plans of the country and is aimed at the creation or expansion of production plants, factories, institutions, research centers, etc [18,19]. The granting of subsidies depends on factors such as: the level of production complexity and the potential to transfer appropriate technology; the potential to create new jobs; interaction with domestic investment projects; influence on local or national economies. Financial subsidies may be granted if the foreign investment ratio is 30% or more and the necessary conditions are met. The total amount of the subsidy varies between 30% of the investment amount (40% for the creation or expansion of the research center). To receive financial subsidies, the following conditions must be met: 1) investing in the high-tech industry or providing services of great importance to other industries; 2) investing in the production of components and materials (to achieve a significant effect of producing high value-added end products or introducing new technologies); 3) creation of new jobs: (a) 300 employees in the fields of production, mining, construction, transport, publishing, mass media, broadcasting, information services, management, sanitation, social security; or b) 200 employees in the fields of agriculture, fisheries, forestry, electricity, gas, wholesale and retail trade, hotel and restaurant business, financing, insurance, maintenance, art, sports, leisure; or c) 100 employees in the fields of waste disposal and processing, education, associations or institutions, other personal services; or d) 50 employees in real estate and rental.

Thus, special economic zones were used as policy instruments to promote industrialization and economic development. Special economic zones are a compromise between the state and private investors, and at the same time they contribute to the globalization of the economy, and present themselves as an additional or alternative approach to integration into the world market [20].

Currently, special economic zones in South Korea can be divided into 8 categories [16,17]:

- Free trade zones (15 zones). Guarantee flexible production, logistics and trade activities to encourage foreign investment, promote trade, international logistics and regional development. The first free trade area has been in operation in Korea since 1970 (Masan export processing zone was created to increase foreign capital flows and attract advanced technologies in order to increase the region’s employment and competitiveness of exports);

- Free economic zones (8 zones). They were created in 2003 to encourage foreign investment and make Korea the main business center in Northeast Asia. They are characterized by a significant easing of the regulatory system to attract FDI;

- Foreign investment zones (20 zones). The zones provide various administrative incentives, such as tax exemptions or rent exemptions for foreign corporations wishing to invest in a particular region. This contributes to foreign capital flows to improve the productivity of the industry structure, promote technology transfer and increase employment.

- Saemangeum special zone (covers 26.5% of Korea’s territory). Started for the first time for the purpose of cultivating agricultural land. Later, the Saemangeum region was transformed from 100% agricultural area to 70%

industrial and 30% agricultural area.

- Business cities zones (5 zones). Created to promote the development of underdeveloped areas of Korea. This category of SEZ allows businesses to invest the capital and technologies and to build an administrative city with independent production, research, housing, education and health care services. The purpose of this SEZ is to decentralize the concentration of business in Seoul.

- Special R&D zones (5 zones). Created to develop and promote new technologies through R&D and their commercialization. In these SEZs, research institutes, universities, corporations, financial institutions and auxiliary organizations create clusters that form a single system based on mutual cooperation.

- International scientific business zones (4 zones). They were based to create a science-based innovation cluster (global research base) for the country's economic growth and the promotion of Korea as a superpower.

- Special economic zones of regional development. SEZs that actively adapt regulatory reforms to the local context and promote regional decentralization and differentiation, thereby contributing to the regional economy. The regional balanced development strategy, led by the central government, is unable to fully reflect the individuality of a particular region, and this impedes the autonomous expansion of regional growth. A special scheme of regional zones was introduced to properly remove this deficiency in order to create special regulatory reforms and achieve decentralized economic development in local regions.

Conclusions. The peculiarity of the industrialization of new industrialized countries (NIC) of Southeast Asia was the large-scale attraction of foreign direct investment. Although there were some differences in the policy of FDI attraction, including the forms of MNEs operations, the amount of their shareholding control and industry priorities, all these countries focused on creating export-oriented industries. New industrialized countries in Asia are the area of the most active operations of transnational companies. As a result, new export industries were created in these countries, which transformed them into dynamic world exporters of industrial products. On the example of South Korea, the article proved that international capital flows, including foreign direct investment, are vital addition to the national economic development efforts. Foreign direct investments contribute to the financing of sustainable economic growth in the long term. This is especially important for its potential to transfer knowledge and technology, create jobs, increase overall productivity, increase competitiveness and activate entrepreneurship. Foreign investment in Korea increased due to open economic policy (liberalization of mergers and acquisitions, deregulation of foreign investors' activities), pursuing the policy of attracting foreign investment (increase in investment incentives), support of investment activities through the creation of SEZs.

One of the main factors behind the effective economic development of South Korea was the combination of the development of market mechanisms and active state regulation in all spheres of the economy. The transition from capital- and labor-intensive to knowledge-intensive industrial production, as well as state promotion of foreign capital flows through the creation of special economic zones with a favorable tax regime (which was actually provided in exchange for rather strict requirements for foreign investors activities, especially with regard to the introduction of new technologies, creation of new jobs, complication of production processes). In regulating foreign economic activity, it was important to protect the national priorities of the country's economic development, support national exporters, promote and support them abroad through the use of tools such as the creation of special export production zones.

Special economic zones were used as policy instruments to promote industrialization and economic development. Special economic zones are a compromise between the state and private investors, and at the same time they contribute to the globalization of the economy, and present themselves as an additional or alternative approach to integration into the world market. Despite the prevalence of SEZs worldwide, their efficiency and influence on the economy and structural transformations are quite ambiguous in different countries. One of the most successful experiences that may be useful for Ukraine in the future is the implementation of SEZs programs in South Korea. SEZs are effectively used to achieve dynamic and innovative growth. The creation of economic zones is a catalyst that can stimulate industrial activity in particular region and attract FDI, mainly in the manufacturing sector in order to expand exports and create jobs, to attract new technologies or conduct R&D based on the FEZs.

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ВПЛИВ ПРЯМИХ ІНОЗЕМНИХ ІНВЕСТИЦІЙ НА ЕКОНОМІЧНИЙ РОЗВИТОК НОВИХ ІНДУСТРІАЛЬНИХ КРАЇН АЗІЇ (НА ПРИКЛАДІ ПІВДЕННОЇ КОРЕЇ)

Анотація. Економіка Південної Кореї (далі Корея) стала однією з найбільш диверсифікованих та технологічно прогресивних у світі за останні 50 років. З 1997 р. Корея почала проводити широку політику лібералізації щодо іноземних інвестицій, в тому числі і по відношенню до прямих іноземних інвестицій (ПІІ), і завдяки грамотно проведеним реформам уряду змогла спрямовувати фінансові потоки у пріоритетні напрямки економічного розвитку національної економіки. ПІІ стали відігравати важливу роль в економіці країни і виступили основним каталізатором у індустріальному розвитку країни і технічному переоснащенні галузей. Особливого значення з точки зору розвитку національного виробничого потенціалу країни набуває питання особливостей форм проникнення іноземного капіталу (контрактні та підрядні форми, створення спільних підприємств, хоча згодом вони поступилися практиці використання злиттів та поглинань) та налагодження відносин співпраці місцевих компаній з іноземними філіями багатонаціональних підприємств (БНП), що сприяло не тільки підвищенню продуктивності вітчизняних фірм, передачі складних методів управління і передових технологій, а й зміцнювало структуру промисловості. Через співпрацю з іноземними компаніями поступово відбувалося підвищення конкурентоспроможності місцевих компаній. Подальша привабливість Кореї з точки зору ПІІ стала результатом швидкого економічного розвитку країни і її спеціалізації на нових інформаційних і комунікаційних технологіях. Основними чинниками ефективного економічного розвитку країни стало поєднання розвитку ринкових механізмів та активного державного регулювання в усіх сферах економіки. У регулюванні діяльності іноземних інвесторів важливим стало захист національних пріоритетів розвитку, підтримання національних експортерів. В той же час уряд проводив активну політику в сфері залучення іноземних інвестицій. Одним з інструментів залучення додаткових капіталів в економіку країни стало створення спеціальних економічних зон (СЕЗ), зокрема зонекспортного виробництва із сприятливим податковим режимом.

Ключові слова: Південна Корея, іноземний капітал, прямі іноземні інвестиції, індустріальний розвиток, регулювання іноземних інвестицій, спеціальні економічні зони, пільги та вимоги до іноземних інвесторів.