

**Korean companies
are short of cash
but rich in assets**

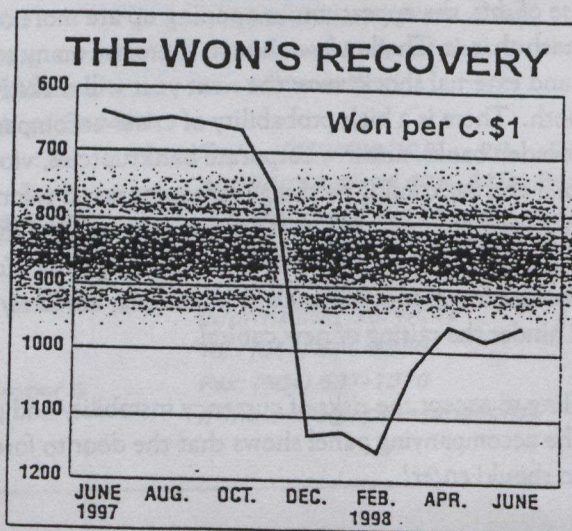
South Korea's urgent need is for new capital and strong management. It has a technologically up-to-date industrial base, efficient infrastructure and a large, skilled workforce. But, the quest by its business groups for output growth, at the expense of productivity improvements and financial return, made it vulnerable to the break in lender confidence which came in November. Without rapid sales growth, there was insufficient cash flow in many companies to service outstanding loans. However, the material assets underlying those loans are, in most cases, sound — although usually heavily leveraged. The reforms implemented or underway are intended to attract foreign direct investment (FDI) into those assets for both the capital and the management expertise foreign owners can bring.

**The service sector
offers the best match
for Canadian skills**

For Canadian companies which already have a good understanding of the Korean market and Korean business practices, the reforms have issued an invitation to find a liquidity-strapped business in need of the added strength a foreign partner can offer. There are sound manufacturing assets available in areas of Canadian expertise like food processing and biotechnology products. However, the best opportunities are probably in more service-oriented sectors such as environmental services, information technology areas like value-added network services, specialized computer software and systems integration, management consulting, provision of low-cost housing and in the troubled but newly liberalized area of financial services.

**Investors should
beware of the many
pitfalls facing
foreign buyers
of Korean assets**

But a warning. New investors should not delude themselves that their progress will be smooth. While they may be saviours of the enterprises in which they invest, they may also find themselves accepted only as a necessity. There is widespread resentment at the need to cede control of Korean companies to foreign investors. New offshore owners may find this reflected in difficulty in dealing with senior employees. Working with Korean partners always presents challenges for Canadians because of the very different management styles of each country. Also, any potential investor must tread with care — and have good legal advice — when negotiating to buy Korean assets: one of the weaknesses of the Korean financial system is that a maze of loan cross-guarantees often means the same assets have been pledged as collateral several times



FDI REFORMS SO FAR

Major reforms already undertaken in South Korea to make foreign investment easier and more attractive include:

- ❖ Foreigners can now purchase up to 55% equity in a company on the Korean stock exchange. The ceiling will be removed entirely by the end of 1998. Purchase of up to 33% equity without the consent of the existing board, is now also permitted in most companies.
- ❖ All but 18 of 1,148 business areas are now open to direct foreign investment. Excluded or still restricted are certain defence-related or cultural industries (for instance, foreign ownership of cable TV program producers will be limited to 30%). In 24 sectors where some restrictions still apply, lengthy prior approval of investments has been replaced with a system of simple notification, with automatic approval unless an objection has been raised within a set time. Restrictions on further business areas like real-estate leasing, land development and petroleum retailing, will be removed in July and August.
- ❖ Restrictions on foreign ownership of land will be removed by mid-year.
- ❖ Many controls on corporate foreign exchange transactions will be removed on July 1 with further liberalization from April 1, 1999.