



Investment Climate Analysis of China and South Korea : Based on Grading Method

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Abstract

Purpose – This study analyzes the investment environment of South Korea by using the rating scale of Robert B Stobaugh, Jr, and draws conclusion implication.

Research design, data, and methodology – The study conducted a survey on according to the political stability, capital repatriation, foreign ownership allowed, discrimination and controls, foreign vs domestic businesses, currency stability, willingness to grant tariff protection, availability of local capital, and annual inflation for last 5 years. The score of these eight aspects will be given based on the current situation in South Korea and the sum of the scores will be calculated.

Result – China-Korea economic and trade relations are in a stage of transformation and upgrading, and the level of economic and trade cooperation in various fields is reaching a new level. It is hoped that Chinese enterprises will grasp business opportunities, strengthen research and analysis of the Korea market and achieve mutually beneficial cooperation.

Conclusion – The investment environment of South Korea is superior according to the political stability, capital repatriation, foreign ownership allowed, discrimination and controls, foreign vs domestic businesses, currency stability, willingness to grant tariff protection, availability of local capital, and annual inflation for last 5 years.

Keywords: China-Korea, Grading Method, Investment Climate Analysis Model.

JEL Classification Code: F20, F21.

1. Introduction

Complex and profound changes are taking place in the world today. The underlying impact of the international financial crisis continues to manifest itself. The world economy is recovering slowly and development is uneven. In this study, the smooth implementation of the "Belt and Road" strategy is conducive to speeding up the pace of Chinese enterprises "going global", but outbound investment is also accompanied by great uncertainties and high risks. Therefore, it is particularly important to analyze the investment environment of the investment destination. As close neighbors, South Korea are one of China's largest trading partner, and will inevitably become the focus of Chinese enterprises' investment in countries along the "Belt and Road" initiative. By analyzing South Korea's investment environment, this study will help Chinese enterprises further master the initiative and reduce risks.

The investment environment can not only provide opportunities for investors, but also cause investment risks or threats. Identifying the investment environment is the prerequisite for investors to invest successfully. Investors' understanding, analysis and evaluation of the investment environment directly affect the level of investment benefits. In the process of recovering funds and putting them into production, the investment environment is a top priority. We can deeply understand and make use of this important factor in the actual investment environment.

2. Literature Review

American economist Robert B Stobaugh, Jr put forward a method for evaluating the international investment environment – the Roche Rating System in 1969. The factors of investment environment are divided into eight parts: political stability, capital repatriation, foreign ownership allowed, discrimination and controls, foreign vs domestic businesses, currency stability, willingness to grant tariff protection, availability of local capital, and annual inflation for last 5 years (Du, 2016). There are four to seven different scenarios for each. When evaluating the international investment environment, score the above eight aspects according to the situation, and then add them up. The higher the total score, the better the investment environment (Ma et al, 2015).

Table 1: Corporate rating scale for determining a country's investment climate

Item	Individual Subcategory	Range for Category
Political stability		
stable long term	12	0~12
Stable, but dependent on key person	8	
Internal factions, but government in control	6	
Strong external and/or internal pressures that affect policies	4	
Possibility of coup (external and internal) or other radical change	2	
Instability, real possibility of coup or change	0	
Capital repatriation		
No restrictions	12	0~12
Restrictions based only on time	10	
Restrictions on capital	8	
Restrictions on capital and income	4	
Heavy restrictions	2	
No repatriation possible	0	
Foreign ownership allowed		
100% allowed and welcomed	12	0~12
100% allowed, not welcome	10	
Majority allowed	8	
50% maximum	6	
Minority only	4	

Less than 30%	2	
No foreign ownership allowed	0	
Discrimination and controls, foreign vs domestic businesses		
Foreign treated same as local	12	0~12
Minor restrictions on foreigners, no controls	10	
No restrictions on foreigners, some controls	8	
Restrictions and controls on foreigners	6	
Some restrictions and heavy controls on foreigners	4	
Severe restrictions and controls on foreigners	2	
Foreigners not allowed to invest	0	
Currency stability		
Freely convertible	20	4~20
Less than 10% open/black market differential	18	
10% to 40% open/black market differential	14	
40% to 100% open/ black market differential	8	
Over 100% open/ black market differential	4	
Willingness to grant tariff protection		
Extensive protection granted	8	2~8
Considerable protection granted, especially to new major industries	6	
Some protection granted, mainly to new industries	4	
Little or no protection granted	2	
Availability of local capital		
Developed capital market; open stock exchange	10	0~10
Some local capital available; speculative stock market	8	
Limited capital market; some outside funds (IBRD, AID) available	6	
Capital scarce, short term	4	
Rigid controls over capital	2	
Active capital flight unchecked	0	
Annual inflation for last 5 years		
Less than 1%	14	2~14
1% —3%	12	
3% —7%	10	
7% —10%	8	
10% —15%	6	
15% —35%	4	
Over 35%	2	
Total		8~100

It can be seen from the table that the factors selected by Robert have a direct impact on the investment environment and are the most concerned factors for investment decision-makers (Shi, 2020). At the same time, they all have more specific contents, and the information required for evaluation is easy to obtain and compare. In the evaluation of the specific environment, the simple cumulative scoring method is adopted, so that the qualitative analysis has a certain quantitative content. At the same time, it does not need advanced quantitative knowledge (Sun, 2016; Wang, 2012). It is simple and easy, which can be used by ordinary investors. In determining the score of various factors, he adopted the principle of differential treatment, which to a certain extent reflects the differences in the role of different factors on the investment environment and reflects the general views of investors on the investment environment (Bao, 2016).

3. Research Methodology

3.1. Political Stability

South Korea's political system is a democratic republic, and its political system is the separation of legislative, judicial and administrative powers. As the head of state, the President of the Republic of Korea has the highest executive power. He is directly elected by the People of the Republic of Korea and serves a term of five years. He cannot serve another term. The National Assembly is South Korea's unicameral legislature, elected for four-year terms through a combination of single-constituency and proportional representation. The Judiciary is independent of the executive and legislative branches (Li, 2000). The supreme judicial body is the Supreme Court, whose members are appointed by the President and approved by the National Assembly. There is also a Constitutional Court, which protects the constitution and guarantees basic rights.

Currently, the ruling Democratic Party of Korea, its affiliated Citizens Party, the opposition United Future Party and its affiliated Future Korea Party hold 95 percent of the seats in the National Assembly, and have the right to negotiate bills, consult major agendas in the National Assembly, and nominate candidates for special committee chairs. Other small parties include the Justice Party, the People's Party, and the Open Democratic Party.

After World War II, Korea's diplomacy with the United States and Japan is the focus. The open-door policy was implemented in the early 1970s. After Kim Dae-jung became president in 1998, he continued his efforts to consolidate the alliance with the United States and Japan, while strengthening friendly relations with China and Russia. Since taking office in February 2003, President Roh Moo-hyun has emphasized the development of reciprocal and equal relations between South Korea and the United States, the promotion of regional cooperation among South Korea, China and Japan in Northeast Asia, the strengthening of relations with Russia, ASEAN, the European Union and other countries, and the active participation in regional and international affairs. Up to now, South Korea has established diplomatic relations with 190 countries, 163 diplomatic missions and representative offices abroad (not including branch libraries, offices and Taiwan representative offices). August 24, 1992, China and South Korea established diplomatic relations. Since the establishment of diplomatic ties, bilateral relations in all areas have developed rapidly with frequent high-level visits. Since the outbreak of COVID-19, China and the ROK have been helping each other and working together to set a good example in the international joint fight against the epidemic. President Xi and President Wen had a phone conversation on joint fight against the epidemic and the development of China-ROK relations.

In conclusion, South Korea's political situation is considered to be stable long term, with a score of 12.

3.2. Capital Repatriation

In May 2012, China, Japan and the ROK signed the Trilateral Investment Agreement in Beijing. According to Article 13 of the Agreement, each contracting party shall ensure that investors of the other contracting party can freely transfer their investments in and out of its territory without delay. These transfers include but are not limited to: initial capital and additional amounts to maintain and increase investments; Profits, capital gains, dividends, royalties, interest, charges and other current account income from investments; Proceeds from the sale or liquidation of investment in whole or in part; Payments related to investment contracts, including repayment of investment-related loans; Each Contracting Party shall ensure that such transfer can be made in freely usable currency at the market exchange rate on the date of transfer.

Cases in which a contracting party may delay or prevent a transfer by applying the relevant laws in a fair, equitable, non-discriminatory and good faith include: bankruptcy, insolvency or laws related to the protection of creditors' interests; Laws relating to the issuance, sale and trading of securities, futures, options and other derivatives; Laws relating to criminal offences; Ensure compliance with the laws relating to orders or judgments of judicial proceedings; Or declaration of transfer of currency or other monetary instruments.

According to Article 23 of the Foreign Investment Promotion Law, foreign investors are required to report to the Minister of Commerce, Industry and Energy in advance if they want to sell their stocks to others or reduce their holdings due to a decrease in capital.

In addition, according to the regulations, when entering South Korea, if you carry more than \$10,000 in cash, you must declare to customs officers. Non-resident passengers leaving Korea must obtain permission from the Bank of

Korea or customs if they carry foreign or Korean currency (including traveler's checks and bank checks) equivalent to more than us \$10,000.

To sum up, South Korea has capital restrictions on capital withdrawal, and is in bankruptcy, insolvency or protection of creditors' interests; The issuance, sale and trading of securities, futures, options and other derivatives; Criminal offences; Ensure compliance with orders or judgments of trial proceedings; When reporting the transfer of money or other monetary instruments, the transfer may be delayed or prevented by applying relevant laws in a fair, just, non-discriminatory and good faith manner. It gave South Korea a score of 6.

3.3. Foreign Ownership Allowed

South Korea bans foreign investment in more than 60 sectors of public interest, such as those that affect national security or public order, harm the health of the people and violate its domestic laws. Korea has a license system for restricted sectors and a stock ownership limit. A total of 27 industries has limits on foreign investment. The main areas of restriction include agriculture, livestock, fisheries, publishing and distribution, transport, transmission and distribution, broadcasting and communications. For example: meat wholesale industry, power transmission and distribution industry, some air transport industry, magazine and periodical publication industry, beef cattle breeding industry, coastal and offshore fisheries and other industries, when the proportion of foreign investment is less than 50%, will be recognized; When the proportion of foreign investment in newspaper distribution industry is less than 30%, it will be recognized; When the proportion of foreign investment in news service industry is less than 25%, it will be recognized.

In conclusion, although the Korean government prohibits foreign investment or allows only partial investment in some industries, but most of these industries involve national infrastructure and security, and in most other industries, foreign equity is not restricted. Therefore, Korea's foreign ownership allowed is majority allowed, the score is 8.

3.4. Discrimination and Controls, Foreign vs Domestic Businesses

Article 3 of the Foreign Investment Promotion Law of the Republic of Korea stipulates that foreign investors and foreign-invested enterprises are entitled to the same treatment as Republic of Korea nationals or legal entities in terms of operation, unless otherwise specified by law. Unless otherwise provided for by law, the provisions on tax reduction and exemption in laws applicable to nationals of the Republic of Korea or legal persons of the Republic of Korea shall also apply to foreign investors and foreign-invested enterprises. Article 4 Foreigners may conduct foreign investment business in China without restriction unless otherwise stipulated by laws.

Article 2 of the Trilateral Investment Agreement signed in May 2012 stipulates that each contracting party shall encourage investors from other contracting parties to invest in its territory and create a favorable environment for them. Article 3 provides that a contracting party shall, within its territory, accord investors and their investments of the other contracting Party no treatment less favourable than that accorded to domestic investors and their investments under similar circumstances in respect of investment acts. Article 4 As mentioned in the most-favored-nation treatment, the treatment accorded to investors and their investments of the other Contracting Party in its territory shall be no less favourable than that accorded to investors and their investments of third parties or non-contracting Parties under similar circumstances. Article 4 In general investment treatment, one contracting party shall give fair and just treatment and adequate protection and guarantee to the investment of investors of the other contracting party.

To sum up, foreign treated same as local, with a score of 12.

3.5. Discrimination and Controls, Foreign vs Domestic Businesses

Here, the monetary stability of South Korea is measured in terms of its foreign exchange reserves and the change in the inflation rate from the previous period. The ratio between recent data and previous data of relevant economic indicators on trading Economics website is selected as reference. The increase of foreign exchange reserves is beneficial while the decrease of foreign exchange reserves is unfavorable. "1" can be used as a reference. The inflation rate is also judged according to "1". If it is greater than 1, it is weak, and if it is less than 1, it is good.

Foreign exchange reserves: recent data 458680.00 USD, previous data 454110.00 USD, the ratio is about 1.01, although the change is not obvious, but it is still regarded as good; Inflation: recent 2.6%, previous 2.4%, weaker at 1.08. Comprehensive foreign exchange reserve and inflation rate Ratio of recent data and previous data, the change

of South Korea's foreign exchange reserve and inflation rate are slight, generally speaking, the currency is relatively stable.

Conclusion: Therefore, South Korea's currency stability is considered to be freely convertible, 20 points are given to South Korea.

3.6. Willingness to Grant Tariff Protection

South Korea currently imposes an average tariff rate of 8 percent on imported goods. The tariff rate includes the basic tariff rate, provisional tariff rate, flexible tariff rate, alternative rebate preferential tariff rate, and concessionary tariff rate negotiated by the South Korean government and other countries.

Among Korean tariff, flexible tariff rate plays an important role in regulating its import and export and reasonably protecting domestic related industries. They include: anti-dumping duty, retaliation duty, emergency duty, adjustment duty, special emergency duty on agricultural and forestry products, countervailing duty, preferential duty, price balancing duty, quota duty, etc. Among them, anti-dumping duty, adjustment duty and price balancing duty account for the largest proportion.

In order to protect its own market, the South Korean government has taken some measures to restrict the entry of goods from other countries into its market. For example, most of the agricultural products and light industrial products subject to import adjustment tariffs and quota tariffs are imported from China, and many Chinese products are difficult to export to Korea due to high tariffs. After the signing of China-South Korea free trade Agreement, non-tariff barriers will become the main obstacle to trade. At present, Chinese commodities greatly affected by Korea's technical trade measures include agricultural products, aquatic products, livestock products, food and food additives, medicine and pharmaceutical raw materials, etc., mainly reflected in inspection and quarantine, bidding procedures, technical standards and other aspects.

In Conclusion, South Korea is considered to be extensive protection granted, with a score of 8.

3.7. Willingness to Grant Tariff Protection

South Korea has a relatively complete financial system, which includes financial assets, financial market and financial structure. The financial market is divided into direct financial market and indirect financial market. Direct financial markets include securities companies, stock exchanges, securities supervision boards and securities finance companies. Indirect financial institutions include banks and insurance companies.

Four domestic exchanges, the Korea Stock Exchange (KSE), the Korea Futures Exchange (Kofex), the KOSDAQ Market and the KOSEAQ Committee, merged in 2005 to form the Korea Stock And Futures Exchange (KRX). According to the 2004 statistics of the World Association of Major Exchanges, KRX ranked 15th with a market capitalization of us \$398.56 billion and 12th with a turnover of US \$488.72 billion. KRX has achieved comprehensive computerized transactions and developed online trading system, with the amount of online transactions accounting for 40-60% of the total amount of transactions. Comprehensive supervision system and electronic bulletin board system can realize real-time monitoring of each transaction KRX transaction information can be queried through the Internet, high market transparency.

To sum up, South Korea is considered to be developed capital market; open stock exchange. The score is 10.

3.7. Availability of Local Capital

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3.8. Annual Inflation for Last 5 Years

As can be seen from the figure, the inflation rate in South Korea was mostly between 1%-3% in 2017-2019 and between 0%-1% in 2019-2021.

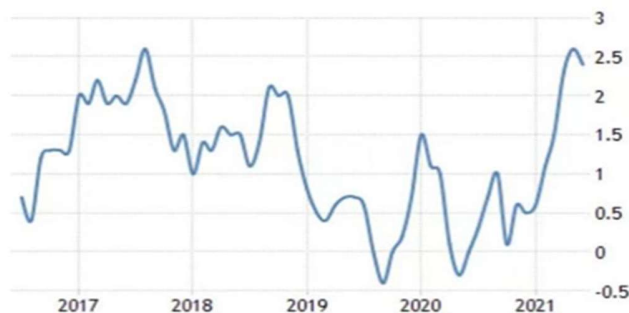


Figure 1: Inflation Rate in Korea

In conclusion, annual inflation for last 5 years south Korea is generally between 1%-3%, giving South Korea a rating of 12 points.

4. Results analysis and conclusion

This study showed that South Korea scored an overall score of 88 on the Roche scale. To sum up, the Korean economy is in good shape, the market potential is huge, and the government has good policies for foreign investors. In addition, domestic investors should also pay attention to the following points when investing in South Korea:

The first is to integrate advantageous resources to build and promote the strategic partnership between the two countries.

The second is to conduct in-depth research on the Korean market in advance, understand the local laws and investment environment, and do a good job in risk assessment, risk avoidance, safety production and management, and effectively protect their own interests and personal and property safety.

The third is to respect the local customs and habits of South Korea, operate in strict accordance with the law, fulfill corporate social responsibilities, maintain sustainable development, strengthen positive publicity, increase trust and dispel doubts, and strive to win the recognition and trust of our customers. Korean local society.

At present, China-ROK economic and trade relations are in the stage of transformation and upgrading, and the level of economic and trade cooperation in various fields has reached a new level. It is hoped that Chinese enterprises will seize business opportunities, strengthen research and analysis on the Korean market, and achieve mutually beneficial cooperation. The Economic and Commercial Office of the Chinese Embassy in South Korea is willing to provide more comprehensive and timely services for Chinese enterprises to "go global".

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