

CHAPTER II

OVERSEAS INVESTMENT INSURANCE

THE KOREAN MODEL

OVERSEAS INVESTMENT INSURANCE

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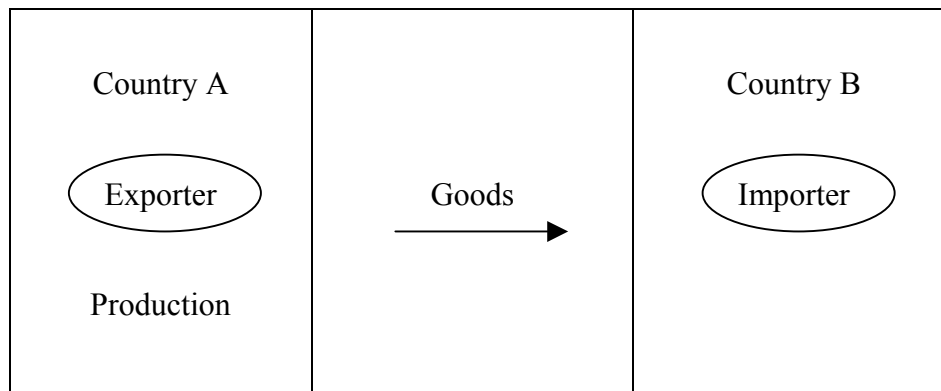
OVERSEAS INVESTMENT INSURANCE

1. INTRODUCTION

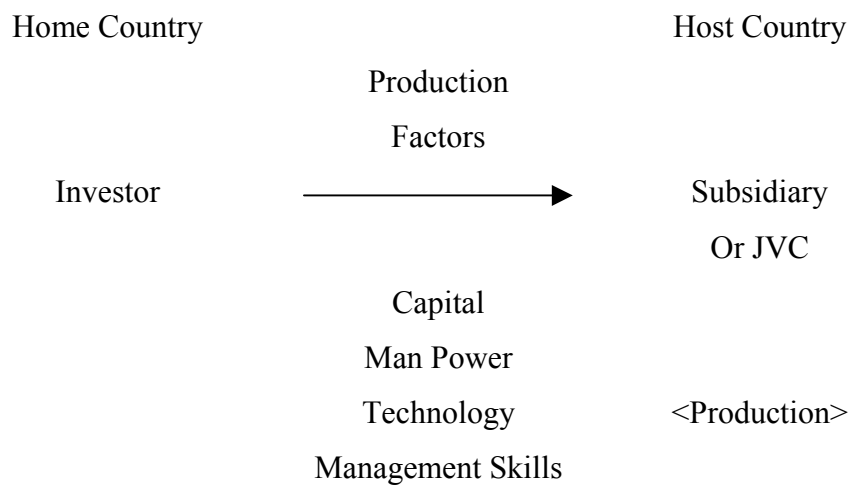
1. Concept of Overseas Investment

(Export vs Overseas Investment)

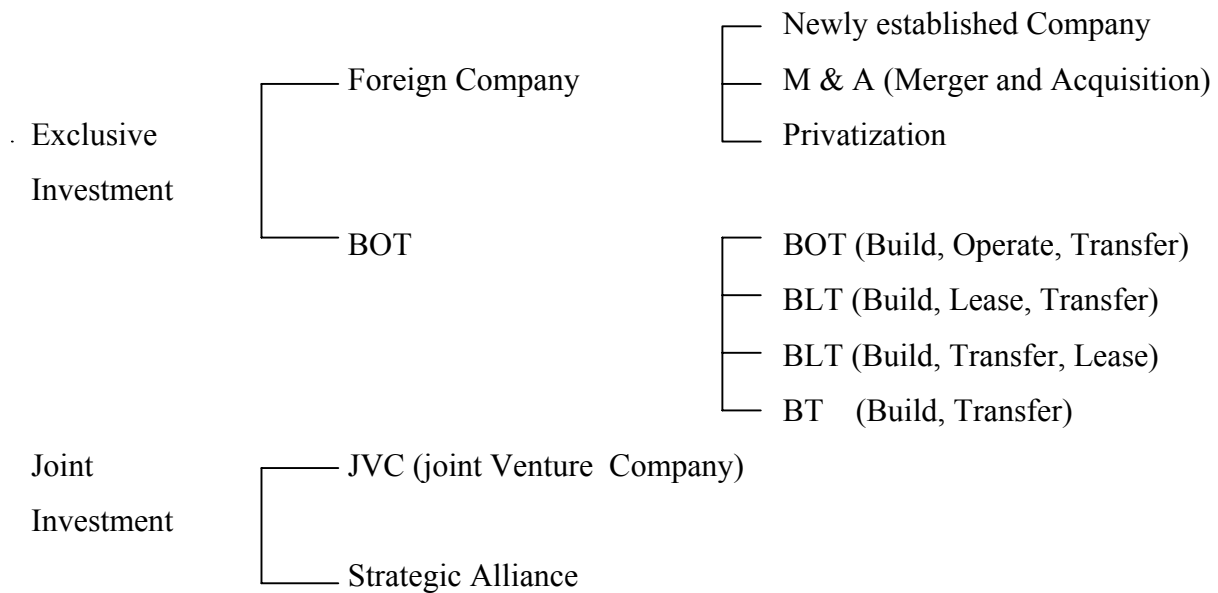
- Export



- Overseas Investment



2. Types of Overseas Investment



3. Environment Surrounding Overseas Investment

- Expansion of Overseas Investment Opportunities
- Accelerated Integration of World Economy
- Enlargement of Regionalism
- Intensified Protection of Technology
- Reorganisation of International Economic Structure
- Extensive Privatization in the Transitional Economies

<Trend of Integration of World Economy>

1960	1970	1980	1990	2000
9%	13%	19%	24%	31%

(Trade & Sales by Overseas Investment/GDP)

4. Motives of Overseas Investment

- Market-Oriented Investment
 - to maintain already established markets in response to tariff and/or non-tariff barriers

- to develop and enter new markets with great potential purchasing power
- Production Efficiency-Oriented Investment
 - to secure long-term and stable supply of natural resources
 - to strengthen competitiveness by taking advantage of cheap and good-quality production factors (man power, etc.)
- Technology-Oriented Investment
 - to acquire advanced manufacturing technology, marketing skills and management know-how
- Economic Cooperation-Oriented Investment
 - Development Aid, Direct loan into host country

Globalization of Company

		Domestic Production and Management
Phase 1:	Export	Marketing through Local Agent or Representative Office
Phase 2:	Internationalization & Localization	Active Overseas Investment Local Production, Marketing and Diversification
Phase 3:	Globalization	Global Optimization of Production, Resources & R&D

5. Economic Effects of Overseas Investment

(from the view point of Home Country)

- Effect on Balance of Payment

	Financial Effects	Trade Effects
Feature	<ul style="list-style-type: none"> • Flow of Funds 	<ul style="list-style-type: none"> • Export and Import of Goods
Affirmative Factors	<ul style="list-style-type: none"> • Inflow of Dividend, Interests, Royalty and Commissions, etc. • Recovery of Invested Principal and Loan • Investment in kind and Local Finance, etc. (substitution of out-flow of funds) 	<ul style="list-style-type: none"> • Induced Export of Capital Goods and Intermediary Goods • Decreased Import of Raw Materials and Intermediary Goods • Increased Export due to growing Income of Host Country
Negative Factors	<ul style="list-style-type: none"> • Investment in cash • Repayment of Debt 	<ul style="list-style-type: none"> • Substitution of Export • Reimport of Finished Products

Employment

- | | | |
|--|---|-----------|
| <ul style="list-style-type: none"> • Declined Domestic Investment • Reimport • Substitution of Export | <div style="border-left: 1px solid black; border-right: 1px solid black; border-bottom: 1px solid black; width: 20px; height: 20px; margin: 0 auto;"></div> | ⇒Decrease |
| <ul style="list-style-type: none"> • Inducement of Export | <div style="border-left: 1px solid black; border-right: 1px solid black; border-bottom: 1px solid black; width: 20px; height: 20px; margin: 0 auto;"></div> | ⇐Increase |

Industrial Structure

- | | | |
|---|---|--|
| <ul style="list-style-type: none"> • Domestic Fading Industry • Labour-Intensive Industry • Technology-Oriented Investment | <div style="border-left: 1px solid black; border-right: 1px solid black; border-bottom: 1px solid black; width: 20px; height: 20px; margin: 0 auto;"></div> | ⇒Promotion of Adjustment of Industrial Structure |
| <ul style="list-style-type: none"> • Comparative-Advantage Industry | <div style="border-left: 1px solid black; border-right: 1px solid black; border-bottom: 1px solid black; width: 20px; height: 20px; margin: 0 auto;"></div> | ⇒Overseas Transfer of Technology, Weakening of International Competitiveness |

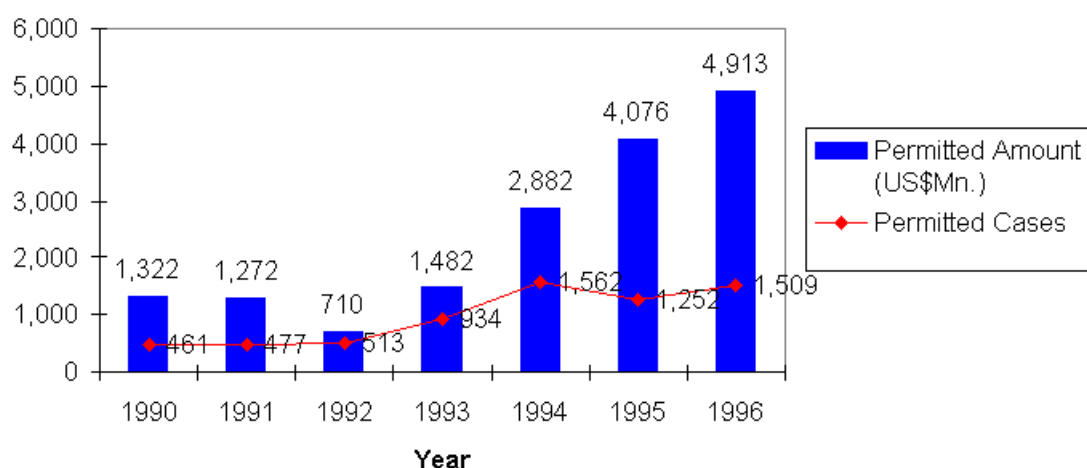
II OVERSEAS INVESTMENT OF KOREA

1. Overview

	Major Industry	Feature
1968-1974	<ul style="list-style-type: none"> • Forestry • Fishery 	<ul style="list-style-type: none"> • In 1968, first Overseas Investment made by Korea Nambang Development Co. for the forestry development project in Indonesia
1975-1980	<ul style="list-style-type: none"> • Natural Resources • Construction 	<ul style="list-style-type: none"> • Oil, Gas, Coal, Iron Ore, etc during period of oil shock • Construction Boom in Mid-East Countries
1981-1985	<ul style="list-style-type: none"> • Labour-Intensive Industries • Trade 	<ul style="list-style-type: none"> • Textile, Footwear, Leather, etc. • To the Developing Countries • Made by Medium & Small Companies • To North America & Europe to meet import restrictive measures • Made by large Companies

	Major Industry	Feature
1986-	<ul style="list-style-type: none"> • Capital and Technology Intensive Industries 	<ul style="list-style-type: none"> • Communication, Electronics, Semiconductor, Automobiles • R & D • Outstanding Investments as of the end of 1996 <p>:US\$13,8 Billion (6,653 Cases, 2.8% of GDP)</p>

2. Recent Overseas Investment Trend



3. Outstanding Balance of Overseas Investment (As of the end of 1996)

(1) By Industry

	Manufacturing	Trade	Construction	Fishery	Transport & Storage	Mining	Forestry	Others	Total
Project	4,459	982	208	143	88	65	21	687	6,653
Amount (US\$ million)	7,723	2,819	528	90	91	900	84	1,521	13,756

(2) By Region

	South-East Asia	North America	Europe	Latin America	Oceania	Africa	Middle East	Total
Project	4,806	920	384	268	179	57	39	6,653
Amount (US\$ Million)	6,055	4,327	2,104	556	312	274	128	13,756

(3) By Project Size

	Less than 1,000 thou	1,000-2,000	2,000-5,000	5,000- 10,000	Over 10,000	Total
Project	5,107	643	483	200	220	6,653
Amount (US\$ Million)	1,361	944	1,565	1,465	8,421	13,756

III. Financial Assistance Program for Overseas Investment of Korea

1. The Export-Import Bank of Korea

- The largest supplier of Overseas Investment Credit with preferential rate
- Non Eligible Projects
 - Projects in countries which received E rating(5/5) from the Bank
(Exception: Investment in free-trade zone, and countries which concluded an agreement on the promotion and protection of investments with Korea)
 - Real estate-related projects such as real estate rent, management of entertainment and leisure facilities, etc.
 - Projects related to banking, insurance, housekeeping, entertainment
 - Projects that are operated by an individual, not an entrepreneur

Major Terms and Conditions of Overseas Investment Credit

- Eligible Borrower : Korean investor
- Credit Coverage :Up to 90% of investment amount
- Maturity :Up to 10 years (including a 3-year grace period)
- Interest Rate(per annum)

Floating rate	Fixed rate	Remark
<ul style="list-style-type: none"> • Payment guarantee by domestic or foreign financial institutions :Libor + 0.5% • Secured Mortgage :Libor + 0.75% • Credit 	Swap rate +0.5% ~ 1.25%	Investor's Option

:Libor +1.0 ~1.25%		
* LIBOR - London Inter Bank Offer Rate		

2. Economic Development Cooperation Fund (EDCF)

- Operation
Ministry of Finance and Economy : Management of EDCF
KOREA EXIM BANK : Projects Appraisal, Execution of Loan Agreement and
Administrative Work related to extending loans
- Eligible Project
 - Business not suitable for borrowing from the Korea EXIM Bank or other commercial financial institutions with general terms and conditions
 - Investment business of the economic cooperation for developing countries
 - Agriculture, Forestry, Fisheries, and Development of Mineral Resources
- Eligible Borrower : Small / Medium size companies
- Major Terms and Conditions of EDCF
 - Interest Rate :5~6% p.a.
 - Maturity :15 years (including a 5 year grace period)

3. Commercial Banks and State-run Companies

	Major Terms and Conditions of Loan
Foreign Exchange Banks	-Up to 70% of Investment Amount (Up to 80% in case of small / medium size companies) -Interest Rate : Libor + 1.0% p.a. -Repayment Period : Maximum 10 years
Korea Mining Promotion	-Up to 80% of Investment Amount -Interest Rate : 5% p.a. -Repayment Period : Maximum 15 years

Corporation	-Important Development Projects of mining resources except for petroleum
Korea Petroleum Development Corporation	-Up to 70% of Investment Amount -Interest Rate : less than 6% p.a. -Repayment Period : Maximum 18 years -Petroleum Development Project

List of Countries which concluded an Agreement on the Promotion and Protection of Investments with Korea (As of June, 1996)

Contracting parties (38 Countries)

U.S.A., Germany, Switzerland, Netherlands, Belgium, Luxemburg, U.K., France, Sri Lanka, Senegal, Hungary, Tunisia, Denmark, Bangladesh, Malaysia, Thailand, Poland, Pakistan, Mongolia, Austria, Russia, Italy, China, Uzbekistan, Vietnam, Lithuania, Paraguay, Indonesia, Romania, Turkey, Czech, Peru, Finland, Greece, Spain, India, Laos, Tajikistan

Signatory parties (9 Countries)

Philippines, Argentina, South Africa, Portugal, Sweden, Brazil, Egypt, Kazakhstan, Bolivia

List of Countries which concluded an Agreement on Avoidance of Double Taxation with Korea : As of June, 1996

Contracting parties (45 Countries)

Japan, Thailand, Germany, U.K., Denmark, Belgium, U.S.A., Canada, France, Singapore, Netherlands, Switzerland, Finland, Sweden, Malaysia, New Zealand, Australia, Norway, Bangladesh, Turkey, Sri Lanka, India, Philippines, Luxemburg, Pakistan, Austria, Indonesia, Tunisia, Hungary, Ireland, Brazil, Poland, Italy, Mongolia, Egypt, Vietnam, China, Romania, Spain, Mexico, Fiji, Czech, Bulgaria, Russia, South Africa

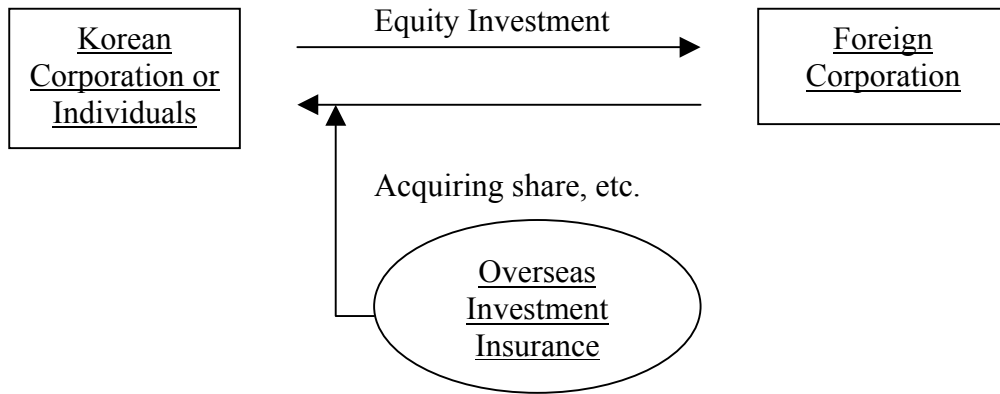
Signatory parties (2 Countries)

Greece, Portugal

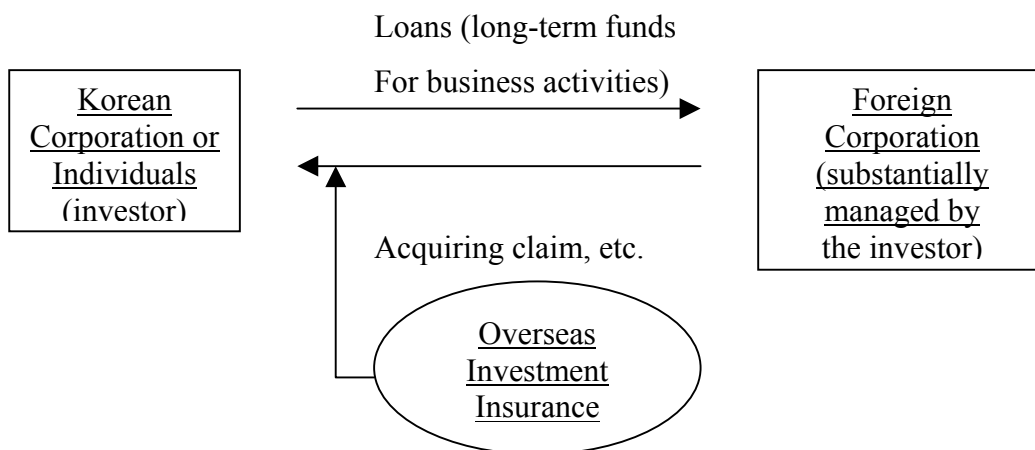
IV. Overseas Investment Insurance Scheme of KEIC

1. Eligible Investments

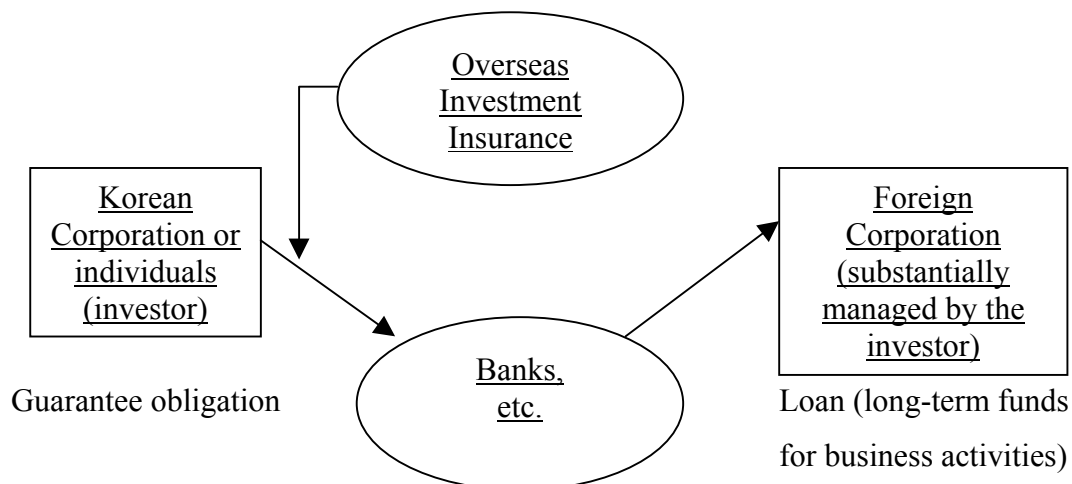
- **Equity**



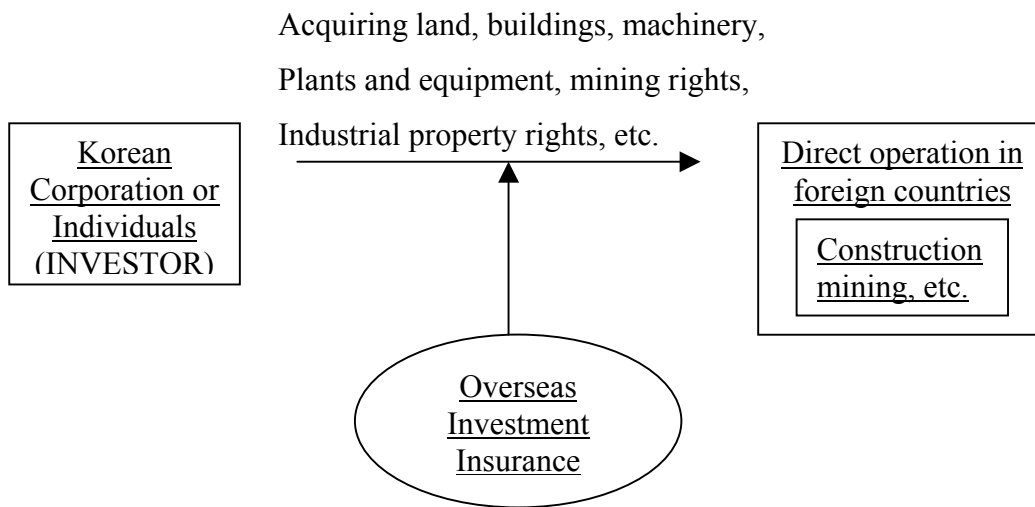
- **Loan**



- **Loan Guarantees**



- **Rights**



2. Underwriting Requirements

- Contribution to the Sound Development of Overseas transaction
- A New Investment
- No Adverse Political and Economic Situation in the Host Country
- Foreign Investment Protection Treaty with the Host Country

3. Risk Covered (Political Risks only)

- Expropriation Risk

1)

Expropriation by a host government of

- right of the principal of equity or claims
- right to claim dividends from stock
- right to claim interest from loan
- right related to real estate

2)

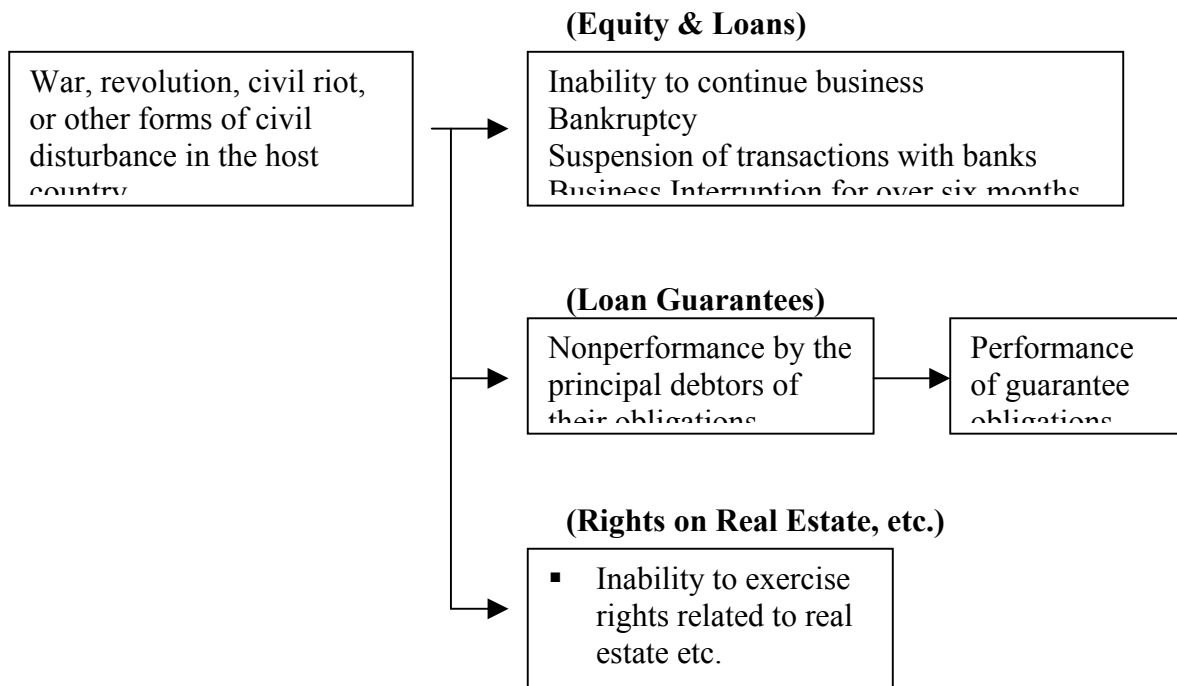
Interference of a host government in

- the rights related to real estate, plants and equipment, raw materials, mining or industrial property rights, etc.

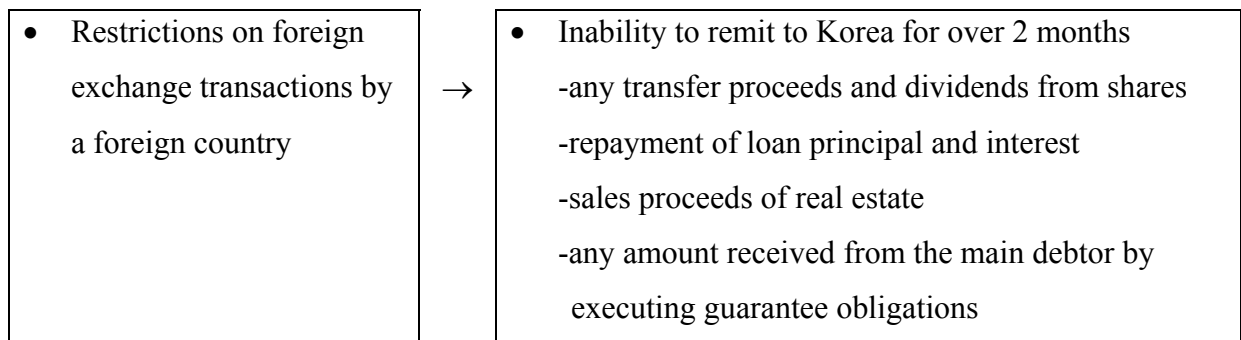
⇒

- inability to continue business
- - bankruptcy
- -suspension of transactions with banks
- business interruption for over 6 months

- **War Risks**



- **Transfer Risks**



3. Insurance Period

- Minimum 1 year to Maximum 15 years

4. Percentage of Cover & Claims Paid

- Percentage of Cover

- Insurable Value : Korean Won equivalent to the Invested Amount

- Insured Amount : Up to 90% of Insurable Value (Up to 95% in Case of Small / Medium size Company)

- Claims Paid

$$\begin{array}{|c|} \hline \text{Amount of} \\ \hline \text{Claims Paid} \\ \hline \end{array} = \begin{array}{|c|} \hline \text{Amount of} \\ \hline \text{Loss} \\ \hline \end{array} \times \begin{array}{c} 90\% \\ \text{(or 95\%)} \end{array} < \begin{array}{|c|} \hline \text{Insured} \\ \hline \text{Amount} \\ \hline \end{array}$$

5. Premium Rate

- Basic Rate

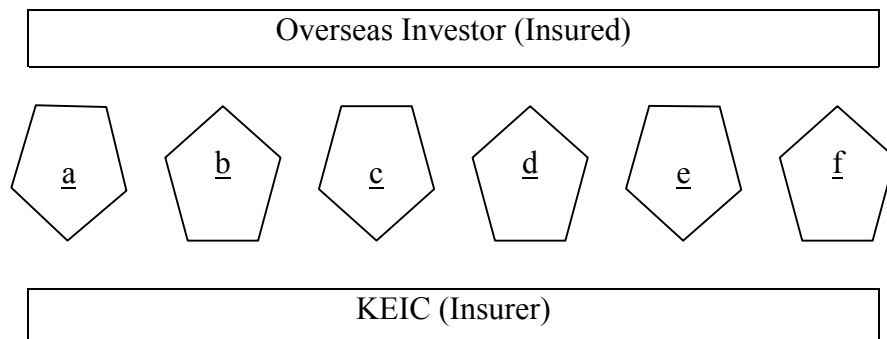
Country Grade	A	B	C	D	E	F	G	H
Premium Rate (1Year Basis)	0.18	0.36	0.47	0.58	0.68	0.79	1.08	1.44

- Discount Rate

	Discount Rate
*Discount Rate for Payment Guarantee	25%
Discount Rate for Small or Medium-Size Enterprises	15%

*Payment Guarantee by institutions in the host country is not eligible for the discount rate.

6. Underwriting Procedure



a. Preliminary Application

- Before the investment is made

- Documents to be attached
- Business plan or estimated financial statement
- Outline of investment partner in case of Joint-Venture

b. Acceptance Notice for Preliminary Application

- Main Check Points
- Political risk of the host country
- Prospects of the investment

c. Main Application

- Within one month after the investment is made
- Documents to be attached
 - Investment Agreement, Loan Agreement, or Guarantee Agreement
 - Certificate of Remittance
 - Approval of the Host Country (if any)
 - Approval of Korean Government (if necessary)
 - Business Plan, etc.

d. Approval of the Main Application

- Main Check Points
 - Business Environment of the Host country
 - Host Country's Ability to repay the external debts
 - Contents of the Investment Agreement or Investment Plan
 - Types and Purposes of the Investment
 - Credibility and Financial Standing of the guarantor (if any)

e. Payment of Premium

	Premium Period	Payment of Premium
1 st Business Year	Approval Date~Dec.31 of the following year	Within 10working days from the approval date
Business Years thereafter	Jan, 1~Dec.31	Within 10 working days from last day of the previous year

f. Issuance of Insurance Policy

After the insured has paid the premium for the 1st business year

7. Overseas Investment Insurance (Loan) vs Medium & Long Term Export Insurance (Buyer Credit) in Project Financing

	Overseas Investment Insurance (Loan)	Medium & Long Term Export Insurance (Buyer Credit)
The Insured	Overseas Investor or Financial Institution	Financial Institution
Eligible Object	Loan to Overseas Project Company	Export Credit
Risks Covered	Political risk	Political risk, Commercial risk
Coverage Ratio	Up to 90%	Up to 95%
Merit	OECD Guideline not applied	Commercial risk covered
Demerit	Commercial risk not covered	OECD Guideline applied

V. Recent Developments of ECA's Overseas Investment Insurance Program

1. Major ECA's Overseas Investment Insurance Scheme

	KEIC	EID/MITI (Japan)	OPIC (USA)	ECGD (UK)	MIGA (Multi-national)
Eligible Investor	Entities with legal capacity in Korea	Any person or corporation existing in Japan	U.S. citizens, corporations and foreign corporations at least 95% owned by U.S. citizens	Persons and companies carrying on business in the UK	Natural persons and juridical persons in a member country

			or commercial entities		
Eligible Investments	Equity, loans, loan guarantees, rights or real estate Portfolio investment ineligible	Equity, loans, loan guarantees, rights or real estate Portfolio investment ineligible	Equity, loans, loan guarantees Portfolio investment ineligible	Equity, loans, loan guarantees Portfolio investment ineligible	Equity, loans, loan guarantees Portfolio investment eligible
Eligible Foreign Enterprises	No restrictions	No restrictions	Developing countries and some post-communist countries	No restrictions	Category Two (developing country) members of MIGA. Members are signatories of the MIGA Convention
Risks Covered	Expropriation, War, Transfer blockage, Breach of contract by host government	Expropriation, War, Transfer block, Breach of contract by host government, Bankruptcy after 2 years operations	Expropriation, War, Transfer blockage, Breach of contract by host government	Expropriation, War, Transfer blockage, Breach of contract by host government	Expropriation, War, Transfer blockage, Breach of host government commitments
Coverage Ratio	90%	95% (Political) 40% (Commercial)	90%	90%	90%

Duration	Up to 15 years	Minimum 3 years to maximum 15 years	Minimum 3 years to maximum 20 years	Minimum 3 years to maximum 15 years	Minimum 3 years to maximum 15 years
Maximum Amount of Cover	No Limited	US\$500M per project	US\$100M per project	No Limit	US\$50M per project
Waiting Period	2 months	2 months	Expropriation : 12 months War : None Inconvertibility : 1~2 months	Expropriation : 12 months War : 12 months Inconvertibility : 6 months	Expropriation : 12 months War : none Inconvertibility : 3 months

VII. Case Study

1. Equity Investment in Vietnam

- Description of Project
 - Investor : Samyang Tongsang Co.Ltd
 - Host Country : The Socialist Republic of Vietnam
 - Foreign Enterprise
 - Name : Samyang Vietnam Company Ltd
 - Ownership : 100% owned by investor
 - Main Line of Business
 - Manufacturing and selling leather-footware
 - Legal Capital : US\$ 9.2 Million
 - Operation Duration : 30 years
 - Purpose of the Investment
 - To raise price competitiveness of its products by hiring relatively low-wage workers

-Korea's export promotion through the supply of the equipment and raw materials from Korea

- Details of Insurance Application
 - Insured : Samyang Tongsang Co Ltd
 - Type of Insurance : Overseas Investment Insurance (Equity)
 - Insured Investment : The amount of US\$9.2 million for paying up the capital of Samyang Vietnam Co Ltd
 - Risks Covered : Expropriation, War and Transfer blockage
 - Coverage Ratio : 90%
 - Insurance Period : 1997.1.31 ~ 2011.12.31 (15 years)

Analysis of Risks

	Negative Factors	Affirmative Factors
Political situation	<ul style="list-style-type: none"> • Widening gap in the income level among regions and classes • Wide-spread decay and illegality • Possibility of territorial dispute with China 	<ul style="list-style-type: none"> • High support to the present government • Friendly relationship with neighbours and western countries • Full diplomatic normalization with U.S.A.
Economic situation	<ul style="list-style-type: none"> • Excessive external debt (US\$20.4 billion outstanding as of the end of 1995, 85.1% of GDP) • Continued Current Account Deficit • Relatively high inflation 	<ul style="list-style-type: none"> • Steady economic growth since 1986 (annually 6-8%) • Ample natural resources • National characteristics • Upward trend of foreign exchange reserves
Foreign Investment Environment	<ul style="list-style-type: none"> • Fragile banking system • Limited availability of foreign exchange 	<ul style="list-style-type: none"> • Vietnamese government's aggressive efforts to induce foreign investment • Active foreign investment

2. Loan Guarantee to Subsidiary in Papua New Guinea

- Description of Project
- Investor : Daewoo Corporation, Korea Heavy Industries & Construction Co., Ltd
- Host Country : Papua New Guinea
- Foreign Enterprise
 - -Name : Hanjung Power Pty Ltd (HPPL)
 - -Ownership : 50:50 owned by the investors
 - -Main Line of Business
 - Construction of 24 MW Diesel Power Plant in PNG's capital city, Port Moresby
 - Selling electric power to PNG Electricity Commission (ELCOM) for 15 years in accordance with the Power Purchase Agreement with ELCOM,
 - Legal Capital : US\$15.75 Million
 - Operation Duration : 15 years BOT
- Purpose of the Investment
 - to get more experience in independent power project
 - Export promotion through the supply of the equipment and raw materials from Korea
- Details of Insurance Application
 - Insured : Daewoo Corporation, Korea Heavy Industries & Construction Co., Ltd
 - Type of Insurance : Overseas Investment Insurance (Loan Guarantees)
 - Insured Investment : Loan Guarantees to financing banks by the Investors (US\$15 Million respectively)
 - Risks Covered : Expropriation, War, Transfer blockage, Breach of contract by the host government or government agency
 - Coverage Ratio : 90%
 - Insurance Period : 1997.11.1 - 2012.12.31 (15 years)

- **Analysis of Risks**

	Negative Factors	Affirmative Factors
Political situation	<ul style="list-style-type: none"> • Disharmony of coalition cabinet • Frequent tribal disputes 	<ul style="list-style-type: none"> • Close relationship with Australia • Member of International organisations such as APEC, ASEAN, etc.
Economic situation	<ul style="list-style-type: none"> • Weak industrial base • High inflation • Heavy external debt 	<ul style="list-style-type: none"> • Surplus on current account • Increasing foreign exchange reserves • Implementation of Adjustment of Industrial Structure
Foreign Investment Environment	<ul style="list-style-type: none"> • Weak Infrastructure • Shortage of skilled labour 	<ul style="list-style-type: none"> • Various incentives to foreign investors • Considerable mineral resources
Possibility of contract breach	-	<ul style="list-style-type: none"> • Strategic importance to power generation • 100% state-owned enterprise