An Analysis of Private Equity Funds in Korea and Their Role in the Korean Economy in the Post-Crisis Period

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This paper aims to argue that private equity funds play a critical role in the Korean economy and that their presence, now and in the future is essential. Moreover, domestic private equity funds will be complementary to foreign private equity funds, not a substitute, at least for the time being. In arguing so, we will look into the investment experiences of foreign private equity funds and see how foreign private equity funds have helped transform the economy in the post-financial crisis era. We will also look at the domestic private equity funds market to examine the replicability of private equity-driven growth in Korea. The paper will conclude with further recommendations for the growth of the private equity market. In the past five years or so, Koreans have come to be familiar with names such as Carlyle, Newbridge Capital, Lone Star, etc. These are the names of major foreign institutional investment firms that bought out the Korean domestic banks, Koram Bank, Korea First Bank, and Korea Exchange Bank. Recently, with the incident of the Lone Star scandal disclosed in regards to its acquisition of Korea First Bank, the Korean media have given extensive coverage to the issues relating to private equity funds. Especially after the scandals involving foreign investors, there is public discontent about the large volume of foreign private equity funds, mainly in the financial sector, that seem to 'eat and run' once increased profits have been made. People have scrutinized investments of this kind with critical eyes. Nevertheless, we should acknowledge the contributions that the foreign private equity funds have played in various sectors of the economy in the post-crisis period. Foreign funds have invested in troubled Korean firms, understanding any risks involved, and successfully turned them around for the better. To that end, even if domestic private equity funds that have been set up since 2004 have not yet performed to the market expectation, we have to understand that they have further roles to play as we anticipate growth of the M&A market in the coming years.

Keywords: Private Equity Funds, Korea, Post-crisis Period

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I. INTRODUCTION

In the past when we referred to foreign investment in Korea, we mainly talked about foreign direct investment in the manufacturing sectors. In the 1970s and 1980s, Nike brand merchandise made in Korea was commonly found in the US market and Korea was known for exports such as shoes, clothes, wigs, etc. However, these days, not as much investment flows into Korea to build manufacturing plants. As Korea's comparative advantage has moved away from labour-intensive to medium-to high-tech skilled industries, investment in the manufacturing sector has moved out of Korea to other countries that can supply a lower cost labour force. Instead, Korea receives a massive volume of foreign indirect investments called portfolio investments that hold the shares, bonds and assets of Korean companies and the government.

In the past five years or so, Koreans have come to be familiar with names such as Carlyle, Newbridge Capital, Lone Star, etc. These are the names of major foreign institutional investment firms that have bought out the Korean domestic banks, Koram Bank, Korea First Bank, Korea Exchange Bank. Recently, with the incident of the Lone Star scandal disclosed in regards to its acquisition of Korea Exchange Bank, the Korean media have given extensive coverage to the issues relating to private equity funds. Especially after the scandals involving foreign investors, public discontent has grown about a large volume of foreign private equity funds that seem to 'eat and run' once profits have been made. People have scrutinized investments of this kind with critical eyes.

Korea has recovered from the financial crisis in a relatively short period of time, in part, due to foreign funds. A number of questions are raised such as whether or not there exists a national boundary within funds, Korean domestic private equity funds have the capacity to replace foreign funds, and foreign funds threaten the health of the Korean economy.

This paper aims to argue that private equity funds play a critical role in the Korean economy and that their presence, now and in the future, is essential; the domestic private equity funds will be complementary to foreign private equity funds, not a substitute, at least for the time being. In arguing so, we will look into the financial industry and see how foreign private equity funds have shaped the Korean financial industry in the post-financial crisis era.

In the first part of the paper, we will briefly explain the concept of private equity funds and the positive roles that private equity funds play in the economy. Then, we will look at the trend of private equity funds in Asia covering the Korean market in detail. Both investment experiences of foreign and domestic private equity funds will be discussed. We will review the major transactions of foreign private equity funds in the financial industry and assess the impacts of those transactions. Finally, we will examine the replicability of private equity funds in the Korean market and analyse whether or not private equity-based growth can be realized.
Another question to be answered in the final analysis is whether or not the origin of the funds matter to the economy. The paper will conclude with further recommendations for the growth of the private equity market.

II. UNDERSTANDING PRIVATE EQUITY FUNDS

The concept and legal regulations on private equity funds differ by country. However, in the most general terms, private equity funds refer to pools of capital invested by private equity firms who act as the general partner of the obtained funds. Private equity funds are a part of portfolio investment that is becoming popular in many countries.

Private equity funds are generally organized as limited partnerships and the fund obtains capital commitments from certain qualified investors such as pension funds, endowments, financial institutions and wealthy individuals to invest specified amounts for a number of years. Compared to other forms of investment, there exist substantial entry costs that require a large amount of initial investments. Private equity funds are less regulated than ordinary mutual funds and are more flexible in terms of organization and operation. Depending on the strategy of each fund, they are termed a buyout fund, corporate governance fund, vulture fund, venture capital, etc.

There are a number of ways that private equity funds help the economy:

First, private equity funds are based on a long-term investment strategy. Unlike hedge funds that are often criticized for their focus on short-term profits, private equity funds allow some time to restructure and revitalize the operation of acquired businesses. During this time, a new and temporary owner may choose to cut unnecessary costs and use different business strategies to make improvements. Distressed companies get a chance to save their companies from going bankrupt, while the previous owners or management have to face the challenges of new ownership.

Second, private equity funds are preferable to public equity because those funds let management take actions without much constraint. Private equity funds are only responsible to their investors, which are small in number. It becomes easier to control and make changes to the company, as necessary. That is why some companies, as long as they have cash on hand, prefer to stay in the private sector. Especially after a merger and/or an acquisition, the integration process is often so painful that the restructuring becomes arduous if there are too many stakeholders to respond to.

Third, private equity funds, as a threat, can improve firms’ corporate governance. Especially in Korea, investment analysts say that Korean companies are undervalued and this provides a good rationale for foreign investments. The Korea discount argument explains that, in general, Korean assets, even the big companies, are undervalued in terms of what the real value should be when applied to reliable valuation methods. The equity price that sells freely in the market based on
the law of demand and supply is determined by multiple factors, so it is very hard to estimate one effect or the other. Factors such as unresolved political conflict, dependence on the US financial system and conglomerate-driven economy can all affect the equity price. Some experts do not agree that an actual Korea discount exists as they believe that Korean firms are valued equal or even higher than comparable companies in the other markets.

Family-dominated conglomerates with a complex share-holding structure, characteristic particular to the Korean businesses, give rise to emerging issues, such as succession problems, transparency, slush funds, cross shareholding, etc. Apart from the political environment or some other factors that cannot be controlled by market itself, aforementioned issues that tend to discount Korean asset prices may be improved if private equity funds, especially activist funds that focus on shareholders, can stimulate family-owned companies with a complex governance structure to be more transparent and responsible for their management.

Fourth, private equity funds facilitate M&A activities and the growth of the market. While the M&A market is at a developed stage in the US and EU, the idea of taking over a company by taking advantage of depressed asset prices is not well accepted in the Asian market. Many M&A deals these days are no longer hostile; instead, the deals emerge as management or financial strategy. If the M&A market is active, the firms that are technologically competitive and financially strong and stable should be able to survive. Looking at the current global M&A trend, and the increasing supply of assets on sale, the growth of the M&A market in Korea seems to be inevitable. However, the market capitalization of many listed companies in general has risen so high in the past few years, especially in 2007, that it has become difficult for companies to make an acquisition with only their reserved cash. In that sense, the role of private equity funds as the financial base for acquisitions is vital for the growth of the M&A market.

**Table 1. Percent of M&A Volume that is Private Equity**

| Year | Germany | UK | US | Japan |
|------|---------|----|----|-------|
| 1985 | 3%      | 10%| 7% | 0%    |
| 1986 | 1%      | 9% | 9% | 0%    |
| 1987 | 5%      | 8% | 5% | 0%    |
| 1989 | 10%     | 11%| 5% | 2%    |
| 1999 | 3%      | 14%| 4% | 1%    |
| 2000 | 3%      | 7% | 4% | 2%    |
| 2001 | 9%      | 16%| 3% | 2%    |
| 2002 | 13%     | 18%| 7% | 3%    |
| 2003 | 27%     | 31%| 15%| 9%    |
| 2004 | 55%     | 29%| 14%| 15%   |
| 2005 | 35%     | 15%| 19%| 7%    |

Source: Thomson Financial.
Fifth, utilization of capital such as pension funds and endowments as a source of private equity funds allows for efficient allocation of funds and gives people a chance to engage in investment activities indirectly. Funds can be reutilized and can benefit small investors. In the Korean market especially, raising private equity funds provides an access for the large amounts of cash that conglomerates hold. Instead of using cash to save underperforming sister companies, conglomerates may utilize cash to make investments.

III. MOVEMENT OF PRIVATE EQUITY FUNDS

In the past, the main activity of private equity funds was generally confined to venture capital investment in small, fast-growing companies, which facilitated the growth of companies such as Intel and Google. However, in recent years, particularly after the IT bubble burst, only a small proportion of investment goes on providing venture capital for young firms and a larger proportion of private equity money is spent on the buyout of established companies.1 The size of buyout funds has grown significantly, as indicated by the more than US$ 180 million raised globally in 2005.2

| Year | Number of Funds | Gross Amount Raised |
|------|-----------------|---------------------|
| 1991 | 58              | 9,449               |
| 1992 | 83              | 13,781              |
| 1993 | 110             | 20,337              |
| 1994 | 142             | 30,460              |
| 1995 | 57              | 36,138              |
| 1996 | 173             | 46,423              |
| 1997 | 217             | 69,806              |
| 1998 | 279             | 99,795              |
| 1999 | 265             | 88,184              |
| 2000 | 301             | 114,150             |
| 2001 | 276             | 102,090             |
| 2002 | 243             | 67,756              |
| 2003 | 227             | 70,390              |
| 2004 | 250             | 91,742              |
| 2005 | 281             | 180,595             |

SOURCE: Thomson Financial VentureXpert.
Terms such as the 'new conglomerates'\(^3\) and the 'new kings of capitalism'\(^4\) are used to describe the private equity firms, demonstrating the significance of the industry in our economy today. Private equity firms, which used to be called the 'corporate raiders' back in the 1980s for their hostile deals, are now teaming up with or even being approached by large companies to raise funds, buy other businesses, etc.

In terms of the regional breakdown of private equity funds, the US takes the largest share, followed by the UK/Europe. Together they control over 90% of the funds. Meanwhile, Asian private equity is increasing its share in the total global funds. The modern private equity era in Asia began in 1998 following the financial crisis, with the arrival of global private equity houses.

**Table 3. Number of Funds and Amount Raised Globally by “Buyout Fund” Private Equity Firms**

| Fundraising Year | US | Europe | Asia-Pacific |
|------------------|----|--------|--------------|
| Gross Amount      | 51,756 | 81,305 | 87,752 |
| Number of Funds   | 155 | 191 | 198 |
| Raised in Year    | 44 | 58 | 78 |
| Gross Amount      | 13,943 | 15,557 | 22,764 |
| Number of Funds   | 12 | 10 | 15 |
| Raised in Year    | 1,480 | 1,638 | 2,432 |
| Gross Amount      | 24,474 | 22,958 | 22,764 |
| Number of Funds   | 21 | 18 | 16 |
| Raised in Year    | 1,528 | 1,056 | 1,295 |
| Gross Amount      | 16,413 | 22,256 | 22,764 |
| Number of Funds   | 33 | 14 | |
| Raised in Year    | 6,705 | 7,739 | |

Source: Thomson Financial.

Although the Asian private equity funds take a minimal proportion of the total funds raised, according to a Financial Times article, the private equity market in Asia has expanded by 300% within the last decade.\(^5\) Since the financial crisis in the late 1990s, buyout funds have become the favourite theme in the Asian market. During the crisis, foreign investors acquired many troubled Asian businesses faced with bankruptcy at a discount by utilizing their financial leverage. As some investment experiences in Asia turned out to be unexpectedly profitable, global private equity firms set up offices in Asia and raised funds that specifically targeted Asia.

Japan has the largest buyout market, followed by Korea. Telecommunication, financial and technology are the primary industries targeted for foreign investment. M&A transactions, facilitated by private equity funds, are ever increasing. In particular, China and India are experiencing growth at a rapid rate and are becoming the investment targets of multinational and private equity firms.
IV. Private Equity Funds in Korea

Since the financial crisis in the late 1990s, Korea has become one of the largest and most advanced private equity and buyout markets in Asia. Korean private equity investments have centered mainly on financial institutions and telecommunication sectors. Several factors, such as its proven track record of successful exits and attractive returns, an advanced economy, support of private equity industry development by government, etc. make Korea an attractive place for investment. Korea was ranked 13th globally for the amount invested and raised by private equity funds in 2005.

Table 4. Top 20 Countries by the Amount Invested and Raised by Private Equity Funds

| Rank | Country  | Invested Amount | Fund Raised | Rank | Country  | Invested Amount | Fund Raised |
|------|----------|-----------------|-------------|------|----------|-----------------|-------------|
| 1    | US       | 46.41           | 159.00      | 11   | Italy    | 2.56           | 1.58        |
| 2    | UK       | 27.92           | 53.48       | 12   | Australia| 2.32           | 2.08        |
| 3    | China    | 8.81            | 2.14        | 13   | Korea    | 2.10           | 2.52        |
| 4    | France   | 8.55            | 13.42       | 14   | India    | 1.94           | 2.48        |
| 5    | Japan    | 7.95            | 4.42        | 15   | Denmark  | 1.24           | 1.17        |
| 6    | Singapore| 4.41            | 0.74        | 16   | Canada   | 1.24           | 1.49        |
| 7    | Sweden   | 3.52            | 2.25        | 17   | Israel   | 1.08           | 1.34        |
| 8    | Germany  | 3.16            | 3.37        | 18   | South Africa| 0.89         | 0.40        |
| 9    | Spain    | 3.12            | 1.20        | 19   | New Zealand| 0.75         | 0.22        |
| 10   | Netherlands| 2.74         | 2.86        | 20   | Indonesia| 0.56           | -           |

Source: PwC Global Private Equity Report 2006.
Based on the number of exit results on investments, the median internal rate of return (IRR)\textsuperscript{6} for investments made during 2000-2004 was 45%, the highest being 91% from Capital International's investment on Hite Brewery, a local brewery. However, not every investment was rewarding. Neither Warburg Pincus' investment in LG Capital Service Corp (LG Card) nor Olympus Capital's investment in KEB Credit Service made profits.

Foreign private equity funds have utilized various strategies to make investments in different sectors of industry in Korea. The following deals illustrate cases that could be useful in understanding various investment techniques that the foreign private equity firms used. Foreign private equity firms invested in distressed businesses that were in need of capital or had been looking for a new owner and management for a number of years. Private equity firms sometimes formed a consortium with other private equity firms or strategic buyers in completing a deal, often because of domestic regulations, investment size and risk diversification reasons.

Strategic buyers included the original family owner, another private equity firm for additional years, competitors or larger businesses in the same industry. If not sold to a strategic buyer, the private equity firms took their shares to the public market through an initial public offering (IPO). Private equity firms divested at once, or divested over time, realizing returns at different times when making an exit from their investments.

The following cases are limited to non-financial sector investments for the purpose of strategy explanation.

1. TGI Fridays (FoodStar)
   In September 2000, HSBC Private Equity invested US$ 26 million and obtained 75% ownership of the company, AsianStar. HSBC made a complete exit in June 2002 by selling its ownership and the investment yielded an IRR of around 24%. It is interesting to note that the original family owner bought back the business. In a way, the private equity fund helped a troubled family business at a difficult time by injecting the capital needed to continue the business.

2. Shinsegae
   Henderson Private Capital acquired US$ 20 million of unlisted convertible preference shares from another private equity house in 2002 and exited in 2004 by selling its entire stake to an investment bank. The investment yielded an IRR of 67% and a cash-on-cash return of 2.8%. This was a secondary buyout and the investment was classified as an expansion fund that helped the business to position itself as the most profitable discount store in Korea. Shinsegae's E-mart in China, which opened its first store in 1997, opened its 10th store in 2007, accelerating its advance into the Chinese market.
### Table 5. Korea Disclosed Exits on Investments (2000-2004)

| Investment | IRR Used | Reported IRR | Calculated IRR | Holding Period (Yrs) | Equity Investment | Exit Value | Absolute Dollar Return | Return on Invested Capital |
|------------|----------|--------------|----------------|----------------------|-------------------|------------|------------------------|---------------------------|
| KEB Credit Service/Olympus Capital | -9.4% | -9.4% | 4.0 | 101 | 68 | -33 | -0.3x |
| Korea First Bank/Newbridge | 24.4% | 24.4% | 6.0 | 454 | 1,683 | 1,229 | 2.7x |
| TGIFriday's/HSBC | 23.9% | 23.9% | 3.5 | 26 | 55 | 29 | 1.1x |
| Oriental Brewery/Hops Cooperatives | 25.7% | 25.7% | 2.6 | 430 | 779 | 349 | 0.8x |
| Koram Bank/Carlyle | 27.3% | 27.3% | 3.4 | 440 | 999 | 559 | 1.3x |
| Kookmin Bank/Goldman Sachs | 50.0% | 50% | 21.7% | 4.0 | 500 | 1,098 | 598 | 1.2x |
| Good Morning Securities/H&Q Asia Pacific | 54.5% | 54.5% | 3.3 | 69 | 290 | 221 | 3.2x |
| Shinsegae/Henderson PE | 67.0% | 67% | NA | 1.3 | NA | NA | NA | 2.8x |
| Hite Brewery/Capital Intl | 91.2% | 91% | 50.1% | 3.5 | 30 | 123 | 93 | 3.1x |
| Pantech-Curitel/Pantech, KTB Networks | 94.0% | 94% | 109.6% | 1.8 | 31 | 117 | 86 | 2.8x |

**Median**

38.6%

**Average**

44.9%

**Source:** Guide to Venture Capital in Asia/Asian Venture Capital Journal.

**Note:** IRR = (Exit Value/Equity Investment) * (1/Holding Period) - 1.
3. Oriental Brewery

Hops Cooperatives (A Dutch Investment Company) invested US$ 430 million in Oriental Brewery, known as OB Beers, and acquired 45% ownership in 2001 by purchasing the stake from Doosan, the mother company. In 1998, Interbrew (the third largest brewery in the world, based in Belgium) purchased its 50% stake from Doosan, and entered into a joint venture. During the investment period, Interbrew transferred its advanced management system, production and technological know-how, and marketing strategy and this has helped OB strengthen its position in the domestic market and acquire its competitor in the market, Cass. Also, this was the time when Oriental Brewery was looking into international investment opportunities. In the meantime, Hops sold its stake to another major shareholder, Interbrew, yielding an IRR of 25.7%. Oriental Brewery is now a part of Interbrew's global portfolio.

Utilizing different investment strategies, many foreign private equity funds that came into Korea in the post-crisis period have indeed earned enormous profits on their investments. However, not all Koreans welcomed and shared in this success together. The media covered the stories of the big transactions, which have allowed foreign investors to take multiples of their initial investment without paying proper tax to Korea. The activities of foreign private equity funds were termed 'eat and run' by the Korean media. Some view these investments by foreign funds as speculation rather than investment. In spite of the huge profits foreign private equity firms made through transactions, they were not subject to domestic taxation as their headquarters were located in tax havens.

Since then, foreign private equity funds have been the target of criticism. The strategies that foreign private equity firms used in transactions seemed to disregard domestic regulations. Some said that foreign funds received special treatment from the government and used their leverage to make the deal happen in their favour. Private equity firms focused on aggressive downsizing during the restructuring process and often sold valuable corporate assets they judged to be inefficient. They also bought the shares in the public market when the share price seemed to be depressed with the aim of increasing the share price in the short term. The proxy contest also added costs to companies in the pursuit of protecting their management, which pushed those companies to utilize cash to acquire more shares when this unnecessary investment could have been spent in financing other needed investments.

There were worries that foreign private equity firms' strategies of focusing just on profit maximization could depress growth potential. In addition, since foreign investments tended to flow into industries that are vital to the economy, and nowadays the utilization of buyout funds tends to target the once big names such as former business units of conglomerates, the perspective that the operation of the major industries are in the hands of foreigners cannot be disregarded.
V. FOREIGN PRIVATE EQUITY FUNDS IN THE FINANCIAL INDUSTRY

Throughout the 1990s, foreign involvement in the financial sector of emerging economies in Latin America, Central and Eastern Europe and Asia increased, followed by the privatization of previously state-owned banks and the sales of distressed financial assets. After experiencing the severe financial crisis in the late 1990s, countries that were hit hard by the crisis started to restructure their economies by liberalizing industries that were once closed to foreign investment, such as the telecommunication and financial industries. Whether the restructuring was due to the countries' own choice in accordance with their economic agenda or to the IMF or other lending agencies' directions, many Asian countries revised their economic plans and introduced a series of legislations to open their markets to attract more foreign investment. Despite the trend of Asia being one of the most popular FDI-receiving destinations, the presence of foreign banks in the domestic banking sector was still weak.

During the period of IMF surveillance, Korea had become attractive to foreign investors as there were many distressed assets, including companies with bankruptcy status. Foreign investors became particularly interested in the Korean banking industry due to recognizing the potential profits that could derive from the industry backed by the strong saving culture, the old-time drive for industrialization and rapid economic development of Korea. During the crisis, the Korean banking industry itself went through several stages of restructuring. The beginning of M&A in the Korean banking industry started in 1998 as one of the government initiatives in response to the financial crisis.

For the first phase, five local banks, Kyung-gi, Chung-chong, Dongwha, Dongnam and Daedong merged with banks of good standing which are Koram, Hana, Shinhan, Kookmin, Housing and Commercial Bank, respectively. Recently, the banking industry has witnessed the merger between Chohung and Shinhan, and Korea First and Standard Chartered. In less than a decade, more than ten banks were involved in M&As either forcefully or strategically.

Carlyle's acquisition of Koram Bank and Newbridges Capital's acquisition of Korea First Bank broke the traditional notion that the banking industry would never be controlled by foreign capital. Koram Bank and Koea First Bank were officially classified as foreign banks for the first time in history, while the Goldman Sachs' acquisition of Kookmin Bank was classified as an equity investment.

1. Carlyle: Koram Bank

Carlyle Asia first bought the US Bank's stake in Korea, 16.8% in 1999, went on to acquire a total of 36.6% by forming a consortium with JP Morgan and became the controlling shareholder of Koram Bank. Koram was approached by one of the largest domestic banks, Shinhan, in the first quarter of 2002, who offered an all-stock deal that valued Koram's stock at between 13,000 won and 14,000 won, but the deal was aborted. In
2003, Standard Chartered bought a 9.8% stake in the bank from Samsung, a founding shareholder of Koram. This started a battle between the potential strategic new owners, including Citibank. In 2004, Carlyle made an exit on investment by selling its entire stake to Citibank, which spent $2.73 billion. The IRR on exit was about 28%, or a 2.5 multiple of equity invested. In this deal, Carlyle made close to $1 billion.

2. Newbridge Capital: Korea First Bank
In 1999, Newbridge Capital acquired a 51% stake in the bank for US$454 million. Newbridge Capital held the investment for 6 years, from 1999 until 2005, making a complete exit in early 2005. In the process of finding strategic buyers, Newbridge Capital had entered into discussions with HSBC in November 2004 to sell their stake for $1.7 billion. Standard Chartered Bank, who had shown an interest in acquiring Koram Bank previously, acquired a 100% stake in Korea First Bank in January 2005 from Newbridge Capital and the Korean government. Subsequent to the acquisition, the bank was de-listed from the stock market fifty years after its debut in 1959. The exit value was US$3,300 million, of which US$1,683 million was paid to Newbridge Capital upon exit.

3. Goldman Sachs: Kookmin Bank
In 1999, Goldman Sachs invested US$500 million in Kookmin Bank, consisting of US$300 million equivalent of new shares and US$200 million subordinated bonds warrants. Goldman Sachs acquired a 16.8% stake of the bank with the right to nominate a non-executive director and an additional non-permanent director. The transaction also had additional conditions.

4. Lone Star Funds: Korea Exchange Bank
Lone Star Funds was better identified for its acquisition of Star Tower, now called Gangnam Finance Center, and Kuk Dong Building in the early 2000s. After the Funds reaped profits from the real estate market and enjoyed the favourable business environment of the revitalizing economy, it sought for opportunities in other industries, which was then the financial industry. After two failures to acquire domestic banks (Seoul Bank and Cho Hung Bank), Lone Star was finally successful in acquiring a 51% stake of Korea Exchange Bank in 2003. The deal allowed Lone Star the right to acquire new shares at face value of 4,000 won and old shares at 5,500 won per share, amounting to a total investment of US$1.5 billion. Nevertheless, in the acquisition process, the Board of Korea Exchange Bank granted Lone Star to acquire 268.75 million shares below the face value. In 2006, Lone Star was accused of illegal acts in acquiring the Bank, such as manipulation of financial data and bribery to Korean bureaucrats. Kookmin Bank was interested in acquiring Lone Star's stakes in Korea Exchange Bank but talks failed during the probe on Lone Star's acquisition of the Bank. Now, Hong Kong Shang Hai Bank is waiting for approval to become the new owner.
**Figure 2. The M&A of Korean Domestic Banks in the Post-Crisis Period**

NOTE: Listed banks are classified as the first financial service group; the banks not listed above include Chonbuk Bank, Daegu Bank, Jeju Bank, Pusan Bank, and Industrial Bank and Korea Exchange Bank.

|                | 1998     | 1999     | 2000     | 2001     | 2002     | 2003     | 2004     | 2005     | 2006     |
|----------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| Commercial     |          |          |          |          |          |          |          |          |          |
| Hanil          |          |          |          |          |          |          |          |          |          |
| Peace          |          |          |          |          |          |          |          |          |          |
| Kwangju        |          |          |          |          |          |          |          |          |          |
| Kyongnam       |          |          |          |          |          |          |          |          |          |
| Hana           |          |          |          |          |          |          |          |          |          |
| Chungchong     |          |          |          |          |          |          |          |          |          |
| Boram          |          |          |          |          |          |          |          |          |          |
| Kookmin        |          |          |          |          |          |          |          |          |          |
| Daedong        |          |          |          |          |          |          |          |          |          |
| Long-term Credit |        |          |          |          |          |          |          |          |          |
| Housing & Commercial | |          |          |          |          |          |          |          |          |
| Dongnam        |          |          |          |          |          |          |          |          |          |
| Chohung        |          |          |          |          |          |          |          |          |          |
| Kwangwon       |          |          |          |          |          |          |          |          |          |
| Chonbuk        |          |          |          |          |          |          |          |          |          |
| Shinhan        |          |          |          |          |          |          |          |          |          |
| Donghwa        |          |          |          |          |          |          |          |          |          |
| Jeju           |          |          |          |          |          |          |          |          |          |
| Seoul          |          |          |          |          |          |          |          |          |          |
| Koram          | Koram    | Koram (Carlyle) |          |          |          |          |          |          |          |
| Kyonggi        |          |          |          |          |          |          |          |          |          |
| KoreaFirst     | Korea First (Newbridge) |          |          |          |          |          |          |          |          |

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As a result, with the exception of Industrial Bank, Chunbuk Bank and Woori Financial Group in which the Korean government still owns a majority stake, more than 50% of the stakes of each listed bank currently in operation are owned by foreign investors.

| Name            | Ownership |
|-----------------|-----------|
| Kookmin         | 80.74%    |
| Shinhan         | 57.14%    |
| Hana            | 74.52%    |
| Woori           | 13.04%    |
| Industrial Bank | 21.12%    |
| Korea Exchange  | 80.91%    |
| Daegu           | 69.79%    |
| Pusan           | 61.66%    |
| Chunbuk         | 21.55%    |

SOURCE: Bloomberg (As of January 18, 2008).

Besides banking services, other financial institutions include security, insurance firms and asset management companies. Compared to foreign involvement in the domestic banking industry, foreign ownership in the financial institutions listed below is relatively weak. Foreign private equity funds that bought out Bridge Securities and Meritz Securities have sold their entire stake and now, there are no security firms with more than 50% foreign ownership. Also, there are foreign investment banks that have Seoul offices and these include Goldman Sachs, Nomura, Merrill Lynch, Morgan Stanley, UBS, etc. They compete against domestic security firms in serving foreign investors.

VI. IMPACTS ON THE FINANCIAL SECTOR FROM FOREIGN PRIVATE EQUITY FUNDS

According to a Bank of Korea study, the foreign banks' entry into the domestic financial market acts to strengthen the economy in the following ways: 1) in the process of competing against banks themselves, it reduces marginal interest rates and expands saving and loan services to customers; 2) domestic banks can introduce multiple financial products and adopt different strategies such as private banking systems, derivative products, etc., that aim to facilitate the growth of the financial market; 3) foreign banks can act as 'safe haven' for...
domestic depositors in time of financial crisis; 4) During a financial crisis, foreign banks can also expand their loan services rather than 'cut and run,' and this can stabilize the domestic financial system (Kim, 2005). However, problems with monitoring once a bank becomes completely de-listed from the stock market or the cherry-picking practice of foreign banks that select a financially strong customer base, leaving only a high-risk customer base for domestic banks, can occur with the foreign banks entry into the domestic financial market.

After the financial crisis, the banking system in Korea became unstable. The share price of Kookmin Bank was low and to make the situation worse, Kookmin Bank was forced by the government to acquire two troubled banks, Daedong and Long Term Credit. Kookmin Bank was desperate to raise capital to strengthen its balance sheet and reposition itself as a premier and profitable retail bank in Korea. Not only did the bank raise the capital it needed, but it was also able to gain expertise in risk management and other key operation skills. Through the equity investment in Kookmin Bank, Goldman Sachs, in turn, gained exposure to the Korean banking industry and earned profits.

For Koram Bank, at the time of exit in 2004, significant improvements had been made in the ratios of non-performing loans and capital adequacy. Under the management of Carlyle, the bank was able to cut costs and reduce the expense ratio from 58.4% to 32.1%, one of the lowest ratios in the banking industry.

Korea First Bank also went through dramatic changes after Newbridge Capital assumed control of the bank in 1999. Newbridge Capital identified the major problem of the troubled bank as a costly institutional branch network. The new management streamlined branch operations with simpler layouts in high-traffic consumer locations; some branches were consolidated, some were closed down. The new management focused on information technology to centralize back-office processes, customer service and risk management. Just a year after the new management came into force, the bank posted an estimated profit of 300 billion Won, compared to a loss of one trillion in the previous year.\(^9\) The bank introduced mortgage loans with maturities of more than 30 years and monthly fees on low-amount deposit accounts. The bank gradually reduced business with large conglomerates and focused on households and small- and medium-sized companies, which helped the bank reduce bad loans and maintain a high capital adequacy ratio, the top level among Korean banks. The bank maintained stable relations with its former employees from closed branches and operations by helping to train them for new positions in customer service and sales. Korea First Credit, under the management of Newbridge Capital, was credited with introducing advanced banking techniques to Korea and helping to reduce bureaucratic influence on commercial banks.\(^10\)

As a result of the past transactions, we now see two 100% owned foreign banks (excluding Korea Exchange Bank under sales process) operating in the
domestic market at the retail level. We have seen the participation by domestic private equity funds in the banking sector as well.

The presence of foreign banks as a first step secretly fulfilled the ambition of the Korean government to become the financial hub of Asia; foreign banks in Hong Kong and Singapore were already part of the picture. In an interview with Financial Asia, Michael Kim had said that he had a vision to sell Carlyle's stakes to a multinational bank. It is somewhat absurd to go back to the past and question what would have happened if Koram had not been purchased by Carlyle or Korea First Bank by Newbridge Capital. However, only massive amounts of private equity funds could have bought out troubled banks with huge non-performing loans. For other banks to jump in to acquire a bank in trouble could have been very risky at the time of crisis. Both Carlyle and Newbridge Capital made Koram and First Bank competent and increased the value of assets so much so that many strategic buyers were willing to enter negotiations. This precedent is significant not only because of the profits earned but also because it sets the mood for the participation of private equity funds.

It could have been the foreign banks' desire to explore an uncharted market in order to expand their operations. Nevertheless, the presence of global banks should not be a threat to the Korean economy; rather we should expect to see fair competition among domestic banks, and domestic banks should learn from the foreign banks if they possess the technology and systems that may efficiently serve Korean customers. Korea aims to become the financial hub of Asia. It is inevitable to see a global financial network in the country.

VII. DOMESTIC PRIVATE EQUITY FUNDS MARKET

At the end of 2004, the 'Indirect Investment Asset Management Act' was revised to allow domestic private equity funds to form and operate. It is not an exaggeration to say that foreign private equity funds were the major players in corporate restructuring for troubled companies in the late 1990s. As to recognizing the role of private equity funds in the market economy, especially in the time of crisis, the government amended the law, relaxing rules and regulations on domestic private equity funds. The need for a competitive market structure through domestic funds was seriously considered.

In 2007, the Korean government announced a plan to further loosen regulations on domestic private equity funds in order to facilitate the growth of funds and support funds in participating in cross-border mergers and acquisitions. Under the revised law, domestic private equity funds were allowed to establish offshore special purpose companies (SPC) and be exempt from rigorous restrictions imposed on domestic funds based in Korea if the funds were to invest more than 10% of the shares in SPC abroad. In addition, the domestic funds were also allowed
to invest in non-performing loans (NPL) abroad as foreign funds were allowed in Korea. It is said that ambiguous laws on the foreign investment of domestic funds and some restrictions limited the growth of domestic funds, and that the government aimed to create a similar investment environment that foreign private equity funds from advanced countries had benefited from.

Nevertheless, some restrictions that could hinder the growth of funds still seemed to exist, such as the minimum required investment, size of debts and required ownership stakes in the first year of establishment. Some of the participants included the major domestic banks, insurance companies and financial institutions, such as Korea Development Bank, Woori Bank, Hana Bank, Hyundai Securities and KTB Network.

**Table 7. Establishment Status of Domestic Private Equity Funds**

| Private Equity Funds                                | Amount (Unit: US$ million) |
|-----------------------------------------------------|-----------------------------|
| Mirae Asset Partners No.1                           | 140                         |
| Mirae Asset Partners No.2                           | 40                          |
| Devonshire                                          | 30                          |
| Mars                                                | 49                          |
| Consus Asset Management No.1                        | 390                         |
| Consus Asset Management No.3                        | 31                          |
| Korea Industrial Bank-KTB Network                   | 120                         |
| KDB No.1                                            | 300                         |
| Vogo Funds                                          | 511                         |
| MBK Partners                                        | 375                         |
| KTB 2005                                            | 150                         |
| Shinhan Bank-National Pension Funds                 | 300                         |
| H&Q-National Pension Servie No.1                    | 300                         |
| Macquarie Korea Opportunities                       | 125                         |
| FG 10                                               | 345                         |

**SOURCE:** Korea Institute of Finance (2006).

The activities of domestic private equity funds have become very dynamic in the past three years under the revised Indirect Investment Asset Management Act. As stated above, some domestic funds have been established by banks and security firms as an extended arm to their primary line of service, but
some funds have been formed and operated by conventional private equity houses, such as Korea Corporate Governance Fund, Vogo Fund and MBK Partners.

1. Korea Corporate Governance Fund (KCGF)

Better known as Jang Ha-sung Fund, named after the professor who established the fund in partnership with Lazard Corporate Governance Fund—the US-based investment bank—it is one of the most well-known domestic private equity funds. As the official name declares, the fund targets corporate governance, meaning that it aims to promote shareholders' profits through improving corporate transparency and governance structure of investing companies. The fund expects to increase the share price of undervalued assets, improve the stock market structure that is focused on Seoul and the metropolitan-based companies as it plans to investigate small-, medium-sized companies based in non-metropolitan regions.

However, criticism also remains strong. The fund is registered in a tax haven and is managed by Lazard, so that it is not very different from foreign private equity funds. Pinpointing the fund's ownership status and the size of the fund, the critics doubt the effectiveness of the fund in improving the corporate governance of companies it invests in. In an interview with Joongang Daily, a fund manager from Tong Yang Investment Trust Management insisted that news on the investment activities of KCGF was not good due to the stock price fluctuations of the companies that KCGF invested in or the names of potential targets of KCGF, that a mere announcement itself had led the share price to exceed an appropriate value of those companies.12

The fund had invested in Daehan Synthetic Fiber, Hwa Sung Industry, Crown Bakery, and most recently, acquired more stakes in SFA Stock, Daehan Flour Mills and SungJee Construction. Despite the criticism of the fund's ability to influence the company, the fund is expected to succeed in influencing the companies if alignment with other institutional investors, including foreign private equity funds, becomes possible.

| Target             | Ownership | First Acquisition | Majority Shareholder |
|--------------------|-----------|------------------|----------------------|
| SFA                | 5.20%     | 04. 2006         | Fidelity 8.88%       |
| Samyang Genex      | 5.11%     | 08. 2005         | Samyang Corp. 32.40% |
| Daehan Flour       | 5.09%     | 10. 2006         | Magnit 31.93%        |
| SungJee Construction | 5.11%     | 11. 2006         | Magnit 14.31%        |

SOURCE: Financial Supervisory Service (2008).
VIII. ASSESSMENT OF THE DOMESTIC PRIVATE EQUITY FUNDS MARKET

Two years after the amended law came into effect, the effectiveness and performance of the domestic private equity funds were studied by different academia, research institutions, media, banks, etc. When compared with the mega funds raised by foreign private equity firms, the size of funds was significantly smaller, one of the major reasons identified by experts why the performance of domestic funds was below the market expectation. Some funds that had been planned were not raised or cancelled, or the target amount was significantly reduced. Owing to their small size, it was difficult to diversify investments to hedge the risk as did the foreign funds. The acquired ownership percentage by domestic funds was so minimal that it was neither enough to influence nor challenge management.

On the other hand, even after the funds had been set up and had secured the contracted amount, some have remained inactive as they could not find attractive yet appropriate acquisition targets. According to the Financial Supervisory Service, there were 21 registered private equity funds in Korea. Among domestic funds in 2006, only those managed by Korea Development Bank and Mirae Asset Management made investments worth more than 100 billion won.13

**Table 9. Investment Made by Private Equity Funds in Korea**

| Name of the Fund                | Invested Amount/Contracted Amount |
|--------------------------------|----------------------------------|
| KDB No.1                       | 157.5(300)                       |
| Mirae Asset No.1               | 140(140)                         |
| Vogo Fund                      | 80.1(511)                        |
| KTB 2005                       | 27(150)                          |
| Woori PE                       | 2.6(344)                         |
| Cornerstone                    | 0(100.5)                         |
| H&Q-National Pension No.1      | 0(300)                           |
| Shinhan-National Pension No.1  | 0(300)                           |

**SOURCE:** Financial Supervisory Service (2006).

The term 'private equity fund' was still new to domestic investors as there had not yet been benchmarking cases that proved the effectiveness of domestic private equity funds. Often, management of target companies became bitter and strongly opposed the takeover by private equity funds, leading to unnecessary
costs to both the target and the acquirer, as seen in the legal battle between
the Consus Fund, the domestic fund and Medison, the domestic manufacturer
of medical equipment.\textsuperscript{14}

Another issue was related to the composition of investors. As previously discussed,
some domestic private equity funds were raised and operated by the local banks.
Some experts raised the question whether or not traditional banking and financial
services could stand apart from the activities of private equity funds. The instability
of banks from failed investments that resulted in loss could lead to the economic
instability of the country. Thus, banks were not considered to be good candidates
to lead the private equity industry. Since the private equity business generally
involved high risk, as much as high return, the National Pension Service, another
large investor of domestic funds, has not been active in participating in management.
The funds backed by the National Pension Service have avoided risky investments
by acquiring convertible bonds that did not give voting rights. The National
Pension Service maintained its position that a buyout strategy was dangerous,
even in M&A deals, which limits the scope of fund management.

The domestic Antitrust Law had also acted to block one domestic business
from acquiring another, often a competitor, instead letting it go bankrupt and
thus discouraging the growth of domestic private equity funds.\textsuperscript{15} When Samik
Musical Instruments attempted to acquire Young Chang, another domestic piano
producer, the Fair Trade Commission did not approve the deal, explaining that
the merger of the two companies would have led to a combined market share
of 92\%. The 50\% market share rule, in fact, has been discouraging strategic
buyers from corporations and private equity funds to participate in the deal
because it would become harder for private equity firms to make an exit if
there were not enough strategic buyers.

Domestic funds were often viewed as hedge funds rather than private equity
funds. The recent performances of domestic private equity funds have shown
that they tended to invest for short-term gain.\textsuperscript{16} Once a private equity firm
announces its intention to invest in a target company, the share price of a
target company soared in light of the expectation of changes in management,
which might lead to an increase in the value of an asset. In reality, some funds
that have declared their intentions to participate in management have resold
their stake back to the public market and realized capital gains in a short
period of time. This kind of strategy that domestic private equity funds employ
can add instability to the stock market.

On the other hand, the positive outcome of the $25 billion won investment
(49\% ownership) made by Seoul Asset Management on Kraze Burger-the local
hamburger chain-has been highlighted by the media. Seoul Asset Management,
as the majority shareholder, dispatched its own employees, including managers,
to Kraze Burger, and they imparted know-how on foreign operations and corporate
management, and supported the launch of a store in Shanghai, China. Kraze
Burger made the turnaround from a slow and small-scale business to a successful restaurant chain that owns a total of 24 stores, including one in China.

The participation by domestic funds in the banking industry was notable as well. KTB-SB, managed by KTB Asset Management of Korea, became the largest shareholder of Jungang Busan Mutual Bank in 2006 and improved the bank's performance with increasing deposits. HK Mutual Savings Bank was able to improve its BIS ratio to over 10% with investment from MBK Partners. Mutual Savings Bank, which had experienced internal troubles with its management, welcomed the investment as shown by the employees' willingness to reduce their salaries by 5% in order to save the bank.

Nevertheless, it is too soon to either criticize or congratulate domestic private equity funds. Perhaps the domestic funds failed to meet the market expectation. However, it is wrong to compare newly conceived domestic funds with mature foreign funds. It takes time to absorb and sow the idea into practice. There is no doubt that the full integration of private equity funds in the market will take some time and the opinion has formed that a more supportive environment needs to be created.

IX. ANALYSIS ON THE REPLICABILITY OF PRIVATE EQUITY DRIVEN GROWTH IN KOREA

In the US and Europe, the private equity system has formed naturally rather than being established by law. Since the funds are not subject to the same legal restrictions that are applicable to public funds based on law (US: Investment Company Act of 1940; UK: Financial Service and Market Act) they are freely structured and operated. Funds are divided and considered according to investment targets and strategies, not by the law. However in cases where the activities of funds lead to fraud and market distortion, private funds are applied to private equity funds as well.

The Japanese private equity system is very similar to the Korean one. The law on security investment and trust specifically confines the activity of private equity funds. Private equity is divided in accordance with the structure of the investors as either qualified institutional buyers' private equity or a limited number of investors' private equity. In the case of the former structure, it has to be set up as trust, and for the second, it has to be comprised of fewer than fifty investors. As in Korea, some activities of private funds are regulated under the law that applies to public funds. In Japan, however, the funds are required to provide more detailed information on investors.

Several incidents involving foreign private equity funds including the most recent scandal, the transaction between Lone Star and Korea Exchange Bank, have raised the question of whether or not foreign private equity funds are
hampering the Korean economy. The heavy involvement of foreign funds in the financial sector, the centre of the economy in a way, especially worries the general public that the Korean financial sector is in the hands of foreigners. However, we want to argue here that the issue at stake is not whether the origins of funds are Korean or not. Rather, the issue is how much and to what extent private equity funds can be utilized in order to facilitate growth of the M&A market, facilitate the privatization of inefficient government-owned assets, restructure underperforming assets, improve corporate governance, etc.

The investigation on the majority shareholder qualification of Lone Star for Korea Exchange Bank is still under process. Witnessing the trouble of Lone Star in selling its stake in Korea Exchange Bank, foreign private equity funds have become critical of the Korean market, thus they are refraining from investing until certainty of investment is restored for foreigners. John Grakeyn, chairman of Lone Star Funds, called the probe 'a politically motivated investigation driven by anti-foreign investor sentiment that persists in certain segments of Korean society.' While HSBC (Hong Kong Shanghai Bank) is still waiting for the approval of the acquisition of Korea Exchange Bank from the Financial Supervisory Service, the incidence itself creates negative sentiments towards the Korean government in handling the transition.

Hence, the question is why does the Korean market needs private equity funds and how can private equity funds help transform the market?

As in the case of Korean Corporate Governance Funds, or as we see with foreign funds, most private equity funds are registered in tax havens in order to take advantage of the tax exemption. This practice is very frequent in the developed markets whether it is a business or funds. Also, the Korean government itself first solicited foreign private equity funds and realized the need for and impact upon its economy during the restructuring process after the crisis. Based on their pure investment thesis and strategies, private capital freely flowed into the Korean market, including the decision to pick any of the offshore tax havens when registering companies. It is also hard to define what constitutes foreign and local capital because it is possible that domestic funds registered under Korean law are, in fact, composed of foreign capital.

The differences between domestic and foreign private equity funds emanate from their histories. Domestic private equity funds are in the beginning stage and not well-established. For that reason, the amount raised for funds and the funds' investment strategies have to be weak. However, their roles will not be different once domestic private equity funds grow and become rooted in the Korean economic system. The domestic private equity funds are set up and regulated by government-initiated law, but they are not designed to get rid of or confront foreign funds.

Although it will not be easy for domestic private equity funds to compete against mega foreign funds, there are ample opportunities for growth in the coming
years. The trend is that new funds are looking into unique assets for investment. KDB Asset Management Co. has offered a fund invested in an industrial waste disposal site. The fund has also invested in the construction of new dormitories at Konkuk University in Seoul, in exchange for management rights of the buildings for 15 years.\(^{18}\) Private equity funds also expand their scope of investment by purchasing art works by famous artists, investing in films and television soap operas, building constructions, etc.

In addition, large-scale M&A deals are expected to continue. Some big firms, such as Hyundai Engineering & Construction, Ssangyong Engineering & Construction, Daewoo International and many more are listed to be on sale sooner or later. They are fairly strong brand names in Korea and have the potential for growth. Korean companies are no longer the bargain that they used to be; however, a higher valuation means more flexibility for resource allocation into strategic opportunities for future growth.\(^{19}\) The participation of domestic private equity funds, as well as local strategic buyers, is strongly encouraged.

**X. RECOMMENDATION FOR PRIVATE EQUITY DRIVEN GROWTH IN KOREA**

In recent years, the competition for foreign investment among developing countries, especially in Asia, has became severe. The role of foreign investments in the economy is crucial in order to supplement a lack of domestic capital that is needed to further expand the economy. The Korean government should not take any actions that would create a hostile investment environment for foreigners. The newly elected President Lee Myung Bak has pledged that his regime would encourage conglomerates to participate in private equity funds and eliminate any obstacles that hinder the development of the M&A environment.

If, by any means, foreign investors take actions that lead to fraud, market distortion or anything else illegal, then their acts should be regulated and investigated by the law. However, they should not be targeted merely due to the fact that they are foreign funds. Again, the issue at stake is not the origin of funds. It gets problematic if funds are speculative, whether it is domestic or foreign. Developed private equity markets in the West have recently devised and implemented a series of measures against private equity funds that commit illegal acts, which could equally be applied in the Korean market. The government should be able to act quickly against speculative foreign investment and against any hostile M&A attempts.

A number of measures can be implemented to facilitate the growth of domestic private equity funds as well:

First, the foremost issue lies with how to convince investors and utilize different sources of possible private equity funds in the market. Because Korean investors
are not familiar with the concept of private equity funds and since foreign private equity funds were not perceived as an ethical source of investment it has become harder to persuade potential investors to put their money into funds. In 2006, Lone Star, Newbridge Capital and Bain Capital held a media seminar together to explain the ins and outs of the private equity industry to local reporters. This type of seminar was particular to Korea, where the public did not seem to understand the private equity market. Although it was held to defend the position of foreign private equity houses, seminars similar to this seem feasible to educate the public and investors about private equity funds and the benefits coming from the use of funds in the economy.

Second, the government needs to assess the law on domestic private equity funds and construct a study that compares these with other advanced private equity markets to see how other governments have modified or complemented their laws in order to facilitate the growth of the private equity market. As explained, many domestic banks participated in raising private equity funds in Korea; however, given the role of banks in the financial system, it is viewed as unhealthy to depend on banks to lead the private equity funds industry. Thus, the government needs to promote and support the role of institutional investors. That is where foreign institutional investors can play a positive role by utilizing their experience and knowledge in fund raising and managing.

Third, institutional investors should participate more in the stock markets. It is known that domestic private equity funds are largely utilized for investments in safe products, such as bonds, in order to avoid risk. Not all of the foreign funds came to Korea and made profits, but those funds that made huge profits also fully understood the risks involved in their investments. Although the Korean stock markets seem to be volatile and cyclical in terms of their performances, the focus should be around the listed companies in stock markets.

XII. CONCLUSION

The year 2007 marked the 10th year since the Asian financial crisis. Korea was one of the countries that were bailed out by the International Monetary Fund. The strength of the Korean economy is now beyond the pre-crisis level and it has become one of the most liberalized and advanced economies in the world. Korea has gone through a series of reforms to revive its economy and, in doing so, has been competing against neighbouring countries for foreign investment.

There is no doubt that foreign private equity funds, as a form of foreign investment, have played a critical role in revitalizing the economy in the post-crisis period. Foreign funds have invested in troubled Korean firms, understanding the significant risks involved, and successfully turned them back into healthy
operations. Private equity funds have attracted the attention of people through negative images, such as 'corporate raiders,' portrayed in the media. To that end, even the domestic private equity funds that have been set up since 2004 have not yet performed to the market expectation and have been evaluated as hedge funds that focus on short-term gains rather than as private equity funds. However, it needs to be understood that private equity funds still have more roles to play on the back of the rapid development of the M&A market in Korea.

In this paper, we have argued that we should not avoid and criticize private equity funds based on their origin. As we have seen, foreign private equity funds have led the growth of the M&A market in the post-crisis period and have contributed to bringing in a more competitive business environment.

Korean businesses and domestic funds are now looking at foreign assets. Korean banks aim to go abroad to serve foreign markets rather than to merely serve Korean expatriates. If Korea is to become a truly globalized economy and gain name recognition, it is inevitable that the notion of foreign or domestic is removed. Rather than criticizing foreign funds, we should analyse their investment strategies. Rather than criticizing domestic funds for their inability to compete against foreign funds, we should instigate various policy measures to facilitate the growth of the private equity markets in Korea.

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