

Interview with Prof. Choong Yong Ahn, author of *South Korea and Foreign Direct Investment: Policy Dynamics and the Aftercare Ombudsman* (Routledge, 2024)

Aftercare, FDI & Supply-Chain Resilience in an Era of Geo-Economic Fragmentation

By Japan SPOTLIGHT

Introduction

In an era of geopolitical fragmentation, supply-chain disruptions, and rising investor-state disputes, attracting foreign direct investment is no longer sufficient. What increasingly matters is whether host economies can retain, support, and upgrade existing foreign investors. Few countries illustrate this challenge – and opportunity – better than South Korea.

Prof. Choong Yong Ahn, former Foreign Investment Ombudsman of Korea and Distinguished Chair Professor at Chung-Ang University, offers a rare practitioner's perspective on how institutionalized aftercare services can strengthen investor confidence, prevent costly disputes, and enhance supply-chain resilience. Drawing on nearly a decade of hands-on experience resolving thousands of investor grievances, Prof. Ahn explains why aftercare should be treated as an essential economic infrastructure rather than an auxiliary investment incentive.

This interview distills South Korea's lessons for policymakers across Asia and beyond, particularly as mega-regional agreements such as the CPTPP and RCEP seek to adapt to a more volatile global economy. It argues that aftercare services should be recognized as a public good for resilient and sustainable globalization.

JS: Could you briefly explain why you decided to publish a book on aftercare services for existing FDI?

Ahn: I am very pleased to share South Korea's experience with foreign investor aftercare through *Japan SPOTLIGHT*. My book reflects both academic research and my nine-year experience as Korea's Foreign Investment Ombudsman. Its core message is straightforward but often underestimated: aftercare services for existing foreign investors are just as important as investment attraction itself. In an era of geopolitical fragmentation, pandemics, and supply-chain shocks, resilience depends largely on whether incumbent foreign investors can continue operating, reinvest, and expand during periods of uncertainty.

South Korea's aftercare system emerged in the aftermath of the



Prof. Choong Yong Ahn

Asian Financial Crisis. Facing a severe foreign-exchange shortage and the risk of sovereign default, South Korea shifted decisively from loan-based development financing toward proactive FDI promotion. In 1999, South Korea institutionalized one of the world's first comprehensive aftercare systems, recognizing that foreign investors needed a credible problem-solver on their side – someone who could address grievances related to taxation, customs, labor relations, land use, and regulatory interpretation.

Over time, the results became clear. In the past decade, nearly 70% of South Korea's inward FDI has come from reinvestment by foreign firms already operating in the country, a strong indicator of investor confidence. The

effectiveness of South Korea's aftercare system has also been recognized internationally. UNCTAD, the World Bank, and ICSID acknowledged the merits of our aftercare model and awarded me a merit trophy, while the Japanese government and the European Chamber of Commerce in South Korea also recognized my contribution with a national medal and a commemorative plaque. Many foreign CEOs told me directly that while South Korea was a demanding place to do business, the existence of an effective aftercare system gave them confidence to stay and expand. My motivation in writing the book was to document these experiences systematically and to share our lessons with other FDI-seeking economies.

JS: How do you view aftercare as a pillar of cross-border FDI facilitation?

Ahn: Unlike trade transactions, FDI involves long-term physical and organizational commitments – factories, R&D centers, logistics hubs, and regional headquarters – that cannot be relocated overnight. This embeddedness allows multinational enterprises (MNEs) to diversify production locations and respond flexibly to shocks, which is the essence of supply-chain resilience.

However, foreign investors inevitably face administrative frictions arising from opaque regulations, inconsistent interpretation of laws,

or regulatory gaps created by rapid technological change. During my tenure, many grievances were not about discriminatory intent, but about uncertainty and delay. Effective aftercare services provide a reliable institutional channel to resolve such problems quickly, often through administrative coordination rather than legal confrontation. From an investor's perspective, the existence of a trustworthy aftercare institution functions as a form of *institutional insurance*. It reduces uncertainty, lowers transaction costs, and encourages long-term commitment to the host economy.

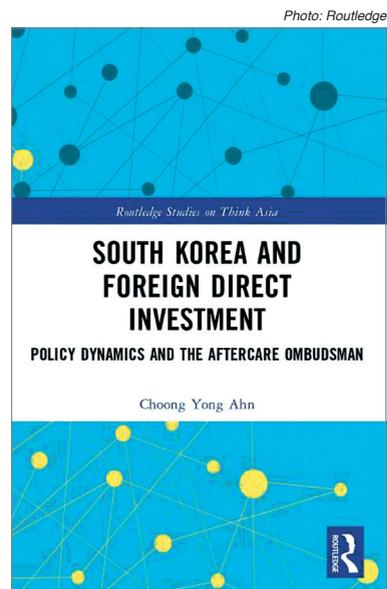
JS: How is South Korea's experience useful for policy recommendations on aftercare services?

Ahn: Our experience demonstrates that aftercare services are not merely investor-friendly policies but also sound economic governance. Between 1999 and 2020, more than 8,300 investor grievances were formally filed with the Office of the Foreign Investment Ombudsman. Of these, approximately 2,300 cases were resolved through corrective administrative action, over 400 cases required amendments to laws or regulations, and the remainder were addressed through expert consultation.

These efforts improved regulatory transparency and administrative efficiency not only for foreign investors but also for domestic firms. Importantly, South Korea's strong reinvestment performance has been accompanied by a very limited number of investor-state dispute settlement (ISDS) cases – only three to date – suggesting that many potential disputes were resolved upstream through aftercare mechanisms.

JS: What role does cross-border FDI facilitation play in ensuring supply-chain resilience?

Ahn: Firstly, the following facts are to be noted: (1) around **two-thirds of global trade** involves intermediate goods and services, (2) nearly **80% of world trade** is linked to multinational enterprises, and (3) global value chains are governed primarily through **cross-border FDI**, not arm's-length trade. Modern trade is increasingly organized around global value chains. These production networks are created and governed primarily through FDI. As recent global shocks – from the Covid-19 pandemic to geopolitical conflicts – have demonstrated, supply-chain resilience depends less on diversifying suppliers on paper and more on diversifying production capacity on the ground. Cross-border FDI provides this capacity by enabling firms to



reallocate production, adjust logistics, and manage disruptions internally.

JS: How do you assess the investment rules in the CPTPP and RCEP?

Ahn: From a supply-chain perspective, the CPTPP and RCEP represent two complementary but incomplete models of investment governance. The CPTPP provides strong legal certainty for long-term, efficiency-driven FDI, while the RCEP emphasizes flexibility and inclusiveness for diverse development stages. However, neither agreement fully addresses post-establishment investor support – a gap that has become increasingly visible during recent global shocks.

Both the CPTPP and RCEP recognize the importance of FDI, but they differ significantly in depth and legal enforceability. The CPTPP offers one of the most advanced investment regimes currently in force, with strong provisions on national treatment, investor protection, and ISDS. The RCEP adopts a more flexible and development-oriented approach, emphasizing cooperation, transparency, and facilitation.

However, both agreements remain largely focused on market entry

and legal protection. Neither adequately addresses post-establishment challenges faced by investors during crises. Embedding explicit aftercare provisions in their investment chapters would better align these agreements with the operational realities of supply-chain governance.

JS: Is the institutionalization of aftercare services urgently needed in East Asia and the Pacific?

Ahn: Yes, very urgently. Rising geopolitical tensions, supply-chain disruptions, and growing economic uncertainty have increased risks for investors across the region. In particular, the recent turn toward US isolationism and the weakening of the rules-based global free trade order have placed additional pressure on open and export-oriented economies in East Asia and the Pacific. In this environment, regional economies cannot afford fragmentation. They need to act collectively to salvage and uphold a free, open, and liberal economic order. Strengthening cross-border investment facilitation is one of the most practical ways to do so.

For this purpose, the institutionalization of aftercare services offers a fast and feasible policy option. Unlike complex tariff negotiations or treaty renegotiations, aftercare mechanisms can be implemented relatively quickly through administrative coordination, dedicated investor-support units, and information-sharing arrangements. Such measures are low-cost, easily scalable, and immediately visible to investors. By embedding aftercare services across the region – particularly within the CPTPP and RCEP frameworks – East Asian and Pacific economies can reinforce mutual trust, encourage reinvestment, and stabilize regional production networks at a time when global economic governance is under strain.

JS: Can aftercare services help prevent ISDS disputes?

Ahn: Yes. Many ISDS cases originate from unresolved administrative grievances rather than outright expropriation. South Korea's experience shows that timely and credible aftercare mechanisms can resolve such issues before they escalate into costly international arbitration.

In one notable case, foreign firms faced relocation pressures due to urban redevelopment plans. Through dialogue and regulatory coordination, a flexible solution was found that allowed R&D-oriented and non-polluting firms to remain in place, avoiding

disputes that could have escalated internationally. In this sense, good governance and effective aftercare services are the most reliable form of ISDS prevention.

JS: Do aftercare services contribute to improving domestic regulations?

Ahn: In South Korea, many investor grievances revealed structural weaknesses in existing regulations. Addressing these grievances often required revising outdated rules or correcting administrative practices. Over time, aftercare services became a channel for continuous regulatory improvement.

This process benefited not only foreign investors but also domestic firms, by creating a more predictable and transparent business environment aligned with international best practices.

JS: What are the merits of adopting the Korean model in other countries?

Ahn: Many countries already offer generous incentives to attract FDI. South Korea's experience shows that effective aftercare services can function as one of the most powerful non-financial incentives for investors. In one case, the resolution of an improper customs duty on imported industrial gold led a German CEO to publicly remark that South Korea's aftercare system was the best investment incentive he had experienced. Several countries, including Brazil and Kazakhstan, have since drawn lessons from the Korean model, underscoring its broader relevance.

JS: In the Physical AI era, why does sustaining foreign investment via aftercare services matter more than attracting it?

Ahn: The Physical AI era transforms trade and foreign investment from one-time transactions into continuous, system-based operations and capital intensive. The AI-driven manufacturing and services depend on tightly integrated machines, software, data flows, skilled labor, and stable regulation. Under these conditions, aftercare services therefore assume a strategic role, more critical than its initial attraction. Even small disruptions can quickly halt production and disrupt cross-border supply chains. Proactive aftercare helps resolve such issues early and encourages upgrading and reinvestment, enhancing supply-chain resilience in an increasingly

AI-driven global economy.

JS: How do you evaluate the inclusion of aftercare services in the CPTPP or RCEP going forward?

Ahn: I strongly support the explicit inclusion of aftercare provisions in both the CPTPP and RCEP. As supply chains become more vulnerable to systemic shocks, investment policy must evolve from a narrow focus on attraction and protection toward retention, upgrading, and crisis management. Recognizing aftercare services as a public good for supply-chain resilience would strengthen investor confidence, enhance regional cooperation, and contribute to long-term economic stability.

Lastly I would like to emphasize the following:

— In today's supply-chain-centric global economy, cross-border FDI has become a cornerstone of economic resilience. Aftercare services are no longer optional; they are essential infrastructure for sustaining investment, preventing disputes, and ensuring stable growth in an era of uncertainty.

— My book was written with this objective in mind – to provide policymakers with a practical, evidence-based guide on how aftercare services can strengthen investment retention, reduce disputes, and safeguard supply-chain resilience in an increasingly fragmented global economy.

— Positive remarks from readers:

“In particular, South Korea's foreign investment aftercare system needs to be widely shared for cross-border investment liberalization and facilitation. This is a 'must read' for government officials, business, and academics worldwide.” – Carla A. Hills, former US Trade Representative and chair and CEO of Hills & Company

“The author, a renowned senior economist, lucidly documents South Korea's entire FDI policy dynamics and institutions from a restrictive to a liberalized regime, most notably the highly effective foreign investment aftercare Ombudsman system.” – Dr. Il SaKong, chairman emeritus, Institute for Global Economics and former Minister of Finance, South Korea

“Choong Yong Ahn uses his considerable experience and insights to cover often neglected aspects of FDI. Although late to FDI, Korea's innovative use of an Aftercare Ombudsman allowed it to deal with a

wide range of vexing issues.” – Danny M. Leipziger, professor of International Business, George Washington University and former Vice President of the World Bank

“While a great deal has been written on how countries can attract FDI, much less – indeed nothing – has been written on how countries can provide 'aftercare' for the FDI once it is in place. This book is rich in examples and explanations of how and why an FDI Ombudsman really should be part of every nation's FDI package. I heartedly recommend this book to all scholars as well as government and corporate economists dealing with FDI.” – Richard Baldwin, Professor of International Economics at the Graduate Institute, Geneva and Founder & Editor-in-Chief of VoxEU.org

“This book presents innovatively empirical axioms for why business grievances for foreign investors in host economies continue to arise. The author eloquently suggests that a successful aftercare service should be connected with government deregulation efforts and pins this down explicitly in the investment chapter of free trade deals to mitigate rising investor-state disputes...” – Jang Hee Yoo, member of Korea National Academy of Sciences and professor emeritus of Economics at Ewha Woman's University

“Professor Choong Yong Ahn is really an unsung hero of the Korean economy. Much has been written and said about the miracle of the Korean economy, but Professor Ahn was on the front lines constantly battling for reform and liberalization of a very tight regulatory system that was choking foreign investment opportunities in Korea. – Jeffrey Jones, international lawyer at Kim & Chang and Board Chairman of American Chamber of Commerce in Korea

“In our first Investment Advisory Series publication back in 2007, UNCTAD recognized the Foreign Investment Ombudsman (FIO) system of the Republic of Korea as a best practice. That same year, FIO received a joint UNCTAD-WAIPA Award. The Korean experience is a highly valuable reference to FDI seeking economies and effective measures for cross-border investment facilitation.” – James X. Zhan, director, Investment and Enterprise, and lead, World Investment Report at UNCTAD

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