

Direct Foreign Investment of Korean Firms : The Case of Samsung Group*

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Present-day world economy is characterized by: technology nationalism, economic regionalism, market protectionism, multinational corporations, etc. All nations are striving for intensifying national economic rivalry and seeking after their own interests above everything else. Many regions of the world are also forming trading blocs, which could negatively affect non-member states. The ultimate way to meet these difficulties is to establish production facilities in the countries imposing trade regulations. However, as the existing models of direct foreign investment (DFI) do not account for the particular nature of Korean firm's DFI activities, a new point of departure is imperative. It is because of this that Korean firms have only limited firm-specific advantages, the basic precondition of extant DFI theories, compared with their developed counterparts.

Key Words: direct foreign investment, firm-specific advantages, cost of foreignness, locational changes, trade regulations.

1. Introduction

Direct foreign investment is the most fundamental foreign market entry mode compared with exporting and licensing. It has become a particular concern to industrial geographers because it not only accompanies commodity flows but also the overseas movement of capital, management, personnel, technology and production facilities. Its

regional economic impact is more striking than trade activity. Highlighting the comparative disadvantages of developing countries' firms compared with their counterparts in advanced capitalist countries, the fundamental question is how to develop a new DFI model that is applicable to developing countries, like Korea. In tackling this question, series of research issues are raised: how has the DFI of developing countries occurred; what is the logic of the developing country's direct foreign investment, particularly in the advanced capitalist countries; and what is the changing pattern of DFI from developing countries' firms?

Since the early 1980s Korean firms have expanded their business arena to encompass

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overseas locations in a bid to overcome the problem of trade regulations and increased domestic labor costs. Initially most of Korean DFI in manufacturing was concentrated in advanced capitalist countries to circumvent their trade regulations. As DFI in advanced capitalist countries by the firms in developing countries is not well explained by extant DFI theories, this study focuses its interest on developing a new explanatory framework which is applicable to the case of Newly Industrializing Countries.

Before tackling this fundamental task, this study reviews contemporary DFI models, particularly Dunning's eclectic model. Then it identifies the general features of Korean firms' DFI. With this general background, an in-depth empirical case study is undertaken on the Samsung Group. Lastly, interest is focused on Samsung's electronics affiliates, especially Samsung Electronics Corporation.

2. Theoretical Underpinning of Direct Foreign Investment

With the rise of 'indigenous' multinationals originating in developing countries, research interest has focused on developing a model that will account for the particular nature of their direct foreign investment activities. Although researchers have recognized that Third World multinationals are different from their developed counterparts the starting point has always been the advanced capitalist countries, the birth place of DFI theories. As the DFI of the corporations in developing countries are different from their counterparts in the industrialized West, a new point of departure is necessary.

Mainstream direct foreign investment theory involves: monopolistic advantage theory; internalization theory; and eclectic theory. Direct foreign investment has to overcome a variety of handicaps compared with a corporation headquartered in the host country—the cost of 'foreignness'. Thus, a corporation's direct foreign invest-

ment is only feasible when its firm-specific (or ownership) advantages¹⁾ can surmount this cost. As substantial parts of these firm-specific advantages are non-salable—joint production economies, centralized purchasing, organization economies and financial economies—they can only be realized by internalizing these activities within the corporate organization (Clegg, 1987, p.23). The third advantage is a geographically bounded heritage, such as natural resources and abundant high quality laborers.

In a bid to compensate for the weaknesses of existing models Dunning developed his eclectic model by amalgamating the monopolistic advantage model, internalization model and location model developed by other researchers. Its application predicts that a corporation's engagement in direct foreign investment stems from: its ownership advantages over other foreign firms; the relative efficiency of its internal transactions versus external exchange; and the relative location costs of home versus host-country production (Clegg, 1987, p. 22). Yet it leaves many outstanding issues: (a) how is the behavior of direct foreign investment in developed countries by the corporations derived from developing countries to be interpreted; (b) how do they manage their overseas business without the basic precondition of extant direct foreign investment theory—firm-specific advantages; and (c) how can a synthetic model be developed which accounts for the different types of direct foreign investment activities of developing countries, developed countries and different scales of firms?

Dunning's eclectic model also starts by recognizing firm-specific advantage that is not the case in developing countries like Korea. Nevertheless, his eclectic model provides the most useful explanatory tool for identifying and comprehending different kinds of direct foreign investment activities (Dunning, 1981). It incorporates three noted advantages: ownership, internalization and location. Hence, three major different

types of direct foreign investment activities can be distinguished: (a) firm-specific advantages common to developed country multinationals which surmount the cost of 'foreignness', (b) firm-specific advantages which do not exceed the cost of 'foreignness' but can be compensated by exploiting the efficiency of a corporation's internal transactions (i.e., internalization advantages) stemming from organizational economies; and (c) locational advantages which are the only recourse for smaller firms without organizational economies and unable to compensate for their 'foreignness' with firm-specific and internalization advantages. Consequently, this model implies that a nation's direct foreign investment activities are the unique combination

of ownership, location and the advantages of internalization (see Figure 1).

Dunning's model, despite its usefulness, does not give any clear explanation of direct foreign investment in advanced capitalist countries by corporations from developing countries. Corporations from developing countries have only limited firm-specific advantages over their counterparts from advanced capitalist countries. Their sole strategy is to transfer 'the locational and scale economy advantages in their home countries' to the developed host countries through intra-organizational transactions (i.e., by supplying cheaper parts from home-based subsidiary plants).²⁾ Indeed, the motives behind foreign investment by a developing country are not inherent in their ownership advantages but in protecting a previously developed foreign export market.

3. Direct Foreign Investment of Korean Firms

In the early 1980s, direct foreign investment by corporations with headquarters in developing countries captured the popular imagination. Their direct investment in developed countries challenged direct foreign investment theories derived from Western sources. The latter were based on the assumption that outward direct investment is conducted in underdeveloped countries by companies with headquarters in developed countries to exploit their ownership (or firm-specific) advantages and the host countries' locational advantages. Yet, this extraordinary phenomenon is now being undertaken by Korean firms. Although direct foreign investment by Korean companies is still small, its rapid growth is sufficient to capture the interest of researchers.

A number of issues are raised about the uniqueness of Korean firm's DFI. The key question is whether extant theories are applicable to Korean DFI activities. How do the firm-specific advantages of corporations in developed countries compare with

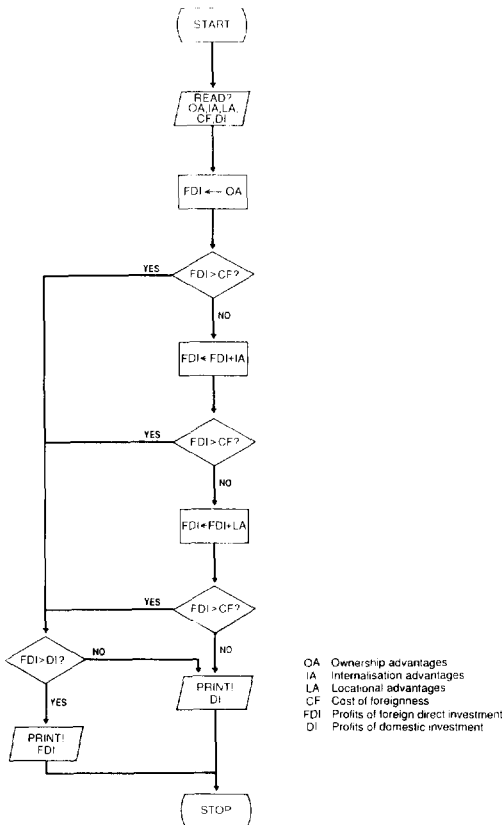


Figure 1. The foreign direct investment decision-making algorithm.

those having headquarters in Korea; and how do their locational advantages differ? If answers to these questions are in favor of developed countries it behooves us to question: what other advantages drove Korean firms overseas? Assuming that there are factors particular to Korea we need to question: how have these differences affected the regional economy?

1) General Background of Korean Direct Foreign Investment

In 1968, the first Korean direct foreign investment was made in Indonesia by the Nambang Development Corporation which developed timber for use in the plywood industry (Koo and Lee, 1985, p.18). Until 1980, however, outward direct investment was regulated by the Government because of ever-mounting trade deficits and the threat of currency flight. After 1980, the regulations were relaxed because the Korean Government needed DFI to offset unabated trade protectionism, resource nationalism, rapid appreciation of the Korean currency (*won*) and the rising cost of domestic labor. Since 1986, there has been further liberalization prompted by Korea's trade surplus.

Initially, Korean DFI was focused on the mining sector to secure raw materials. Later, it shifted to the trade sector in a bid to develop new export markets. Now, the emphasis is on an overseas investment in the manufacturing sector. It has been led by major home electronics manufacturing companies, such as Samsung, Goldstar and Daewoo. When trade restrictions were applied to Korean commodities they moved their assembly lines off-shore. Otherwise they would have lost their export markets.

Since the late 1980s, labor-intensive and low-wage industries, such as garment-making, footwear and stuffed toys have moved their production facilities off-shore because of increasing value of the *won*, labor disputes, and the increasing cost of labor per unit of production. A marked feature

has been the increased participation of small and medium-size firms in the process. Even so, in 1988, the proportion of Korean DFI in the GNP was less than one per cent (Bank of Korea, pers. comm).

2) Motivation for Korean Direct Foreign Investment

Korea's direct foreign investment has been distributed throughout the world. The lack of concentration suggests a multi-variate explanation. Essentially, the pattern stems from the result of exploiting differing location factors (e.g., cheap labor cost and large potential market) and adapting to changing world economic environments (e.g., alterations in trade regulations). The main factors, however, can be classified as resource development, export promotion, new market development, productive efficiency, acquisition of advanced technology and avoidance of trade regulations.

According to a MTI and SMIPC survey (1988, p.30), the top two major motivations behind Korean direct investment have been: (a) Avoidance of trade barriers posted by developed countries (25.0 per cent); and (b) maintenance of existing export markets (18.8 per cent). These reasons are different from those firms derived from developed countries. The former exploited ownership advantages whereas Korean firms sought to circumvent trade regulations. Although locational advantages, such as low labor cost, was another important reason (18.8 per cent), in the Korean case, it was confined to investment in less-developed countries. This does not explain Korean firm's DFI in developed countries which account for 60 per cent of the investment in value.

Further, MTI and SMIPC investigation (1988, p.33) suggests that the subsidy to Group companies was the most important advantage (36 per cent). Thus, the survey underlines why Korean DFI is dominated by large business groups in its initial step. According to Koo and Lee (1985, p.18) the twenty largest companies accounted for 80 per cent of Korean DFI in 1983 (based on

value). Although DFI by small and medium-sized firms has increased sharply since the mid 1980s, it is still small in amount.

Korea's DFI in manufacturing has been concentrated in Southeast Asia (50 per cent of projects and 25 per cent of value) and North America (19 per cent and 54 per cent respectively). The difference between the former and the latter reflects different characteristics and motives. Projects in Southeast Asia are labor-intensive and involve small-scale investment to secure better rates of labor. Conversely, those in North America are capital-intensive and concern large-scale investments by major business groups to capture specific markets.

3) Evaluation of Korea's Direct Foreign Investment

Why have Korean firms invested overseas, particularly in developed countries when they have limited 'ownership' advantages? Given their poor overseas performance explanation is difficult (Table 1). Unless Korean firms develop ownership advantages direct foreign investment is not a recipe for long-term success. At present, it is a defensive strategy to secure existing export markets. Without its adoption Korean firms would have been deprived of export markets. It is definitely the second best choice of Korean entrepreneurs. Indeed, di-

rect foreign investment must be understood as an extension of exports rather than an attempt at the internationalization of production based on the exploitation of ownership advantages.

This rationale raises another issue: how have Korean firms minimized their obvious disadvantages in overseas markets? Clearly, Korean firms' disadvantages are offset by the supply of parts and components from their subsidiaries in Korea which still have a competitive advantage in production costs. Firms have just moved their assembly activities off-shore and left their other production segments in Korea. Indeed, their initial direct foreign investment by Korean firms was only possible by internalizing their transactions within corporate organizations. As noted, Korean firms' Key advantage was a subsidy from their Group companies. Korean firm's profit rate was buoyed by sourcing parts and components from Korea. Some overseas (electronics) plants drew 80 per cent of their parts from home (*Korea Business World*, October 1988, p. 11). Thus, they were able to offset losses involved in direct foreign investment by profits from parts and components.

Initially, Korean electronics companies located their assembly factories in the United States and European countries to avoid quota restrictions. Also, they established research institutes in developed countries to acquire sophisticated technologies and management skills. However, when the host country governments started to regulate the supply of parts and components from Korea by imposing quotas and anti-dumping taxes, they established their parts-manufacturing factories in adjacent countries, such as Mexico, which were free of duties and quotas. These firms supplied produced parts to assembly factories in developed countries. In 1988, European Community countries increased localization requirements of parts-supply from 40 per cent to 50 per cent—the USA remained at 40 per cent. Also, many labor-intensive industries,

Table 1. Regional Profit Rates Stemming from Korean Direct Foreign Investment, 1986-1988

	Compa- nies no.	1986 per cent	1987 per cent	1988 per cent
Southeast Asia	25	0.3	0.3	5.1
Middle East	7	6.9	23.1	28.4
Europe	3	-0.9	-2.0	0.2
North America (U.S.A.)	25 23	-5.1 -3.1	-2.0 -3.2	-2.2 -1.9
Latin America	13	0.5	-0.3	0.8
Africa	2	-0.5	1.6	0.7
Oceania	9	2.1	4.9	3.6
Total	84	-3.7	0.1	4.2

Source: Bank of Korea (pers. comm.).

such as garment, textile, shoes, and stuffed toys moved out their production sites to Caribbean nations and Southeast Asian countries to counter rising labor costs in Korea and to avoid import restrictions imposed in advanced capitalist countries.

4) Regional Economic Effects of Outward Direct Investment

It is too early to analyze the impact of Korean direct foreign investment on the regional and national economy because of its short history and relative insignificance to the economy as a whole. According to the Bank of Korea, overseas manufacturing in 1987 accounted for only 1.4 per cent of domestic production.³⁾ It was less than 1 per cent of the Gross National Product. Yet, it could still have a substantial impact on both regional and national economies. In 1988, Goldstar's off-shore production accounted for 7 per cent. Three years later it was expected to reach 15 per cent (*Far Eastern Economic Review*, 1989, p.89).

If these trends are sustained direct foreign investment will reduce exports of manufactured goods and increase those of parts and components. This reliance on home-made parts and components will minimize its effect on small and medium-sized subcontractors. The domestic economic impact of the direct foreign investment in assembly industries, such as electronics, is minimal due to the strong linkages of parts-supply from home countries. Thus, the negative effect of direct foreign investment on regional and national economies has been minimal (see Park, 1992).

Further, direct foreign investment will lead to the long-term upgrading of Korea's industrial structure by shifting matured and less-competitive industries to overseas locations. The relocation of labor-intensive industries, however, is likely to undermine employment growth. Already much of the plywood industry—a major export commodity in 1980—has shifted overseas. Similarly, shoe manufacturing has moved over-

seas which has had a marked deleterious effect on Pusan—the industry's core. Indeed, the Shoe Manufacturing Industry Association forecasts that by 1990 about 30 per cent of production capacity will have moved off-shore (Korea Economic Newspaper, 22 February 1990). The same process is affecting the textile, garment and stuffed-toy industries. Thus, the direct foreign investment in labor-intensive and matured industries, such as garment, shoe manufacturing and plywood industries which are specialized in peripheral areas, is likely to undermine local economic growth.

4. Direct Foreign Investment of Samsung Group

Samsung started as a small rice-processing factory in 1936, but has grown into a global network corporation. In 1992, it ran a total of 37 overseas production facilities, 272 overseas subsidiaries and offices, and 13 research institutes. In order to respond more flexibly to changes in their respective local markets, Samsung has introduced a regional headquarter system. In the same year Samsung exported 18 billion dollar which is equivalent to 13 per cent of Korea's total exports (*Samsung 1992 Annual Report*, pp.6-14).

Samsung's internationalization has occurred spasmodically in many business fields. Initially, it used foreign loans to establish import-substitution industries. Then it established joint-venture companies to acquire advanced technologies and overseas sales networks before developing as an aggressive exporter. Since the early 1980s, its emphasis has shifted to overseas manufacturing and finance. Its outward direct manufacturing investment is of paramount interest to researchers attempting to explain direct foreign investment from developing countries.

After the first 'Oil Shock' (1973-1974) Samsung sought overseas raw material processing sites. In 1977, the first outward di-

rect investment of Samsung, Winston-Samsung Industries Ltd, in manufacturing was made between Chonju Paper Co. (20 per cent) and its New Zealand partner Winston Co. (80 per cent) to secure a stable raw material supply. In 1981, Samsung's second overseas venture—Goulburn Wool Processors Proprietary Ltd. (GWP)—was established between Cheil Wool Textile Co. (49 per cent) and its Australian partner FGC (51 per cent). Its main purpose was to secure a steady supply of wool. Both of these overseas ventures ended as a failure, in 1987 and 1984, due to: lack of overseas venture experience; incorrect forecast of the required raw material supply; high capital supply cost; and general management failure by misunderstanding the host country's social and cultural characteristics.

Except for the two initial manufacturing overseas ventures, all of Samsung's direct foreign investments in manufacturing were established after 1981. The subsequent rapid increase suggests a strong influence of external forces, such as trade regulations, rather than internal forces, such as labor cost increases. Initially, Samsung's direct foreign investment was focused on advanced capitalist countries to overcome the trade regulations of the host countries. However, as Samsung had only limited comparative advantage over its developed country counterparts, it had to discover alternative overseas locations which had lax trade regulations and offered high labor productivity rate per unit cost.

Almost all DFI was carried out by Samsung Electronics Co. and Samsung Co. Yet, Samsung Co. is not a manufacturing company but a trading company. When Samsung Co.'s export activities were interrupted by the quota imposition, the company moved its commodity-supply activities overseas. As a large proportion of Samsung Co.'s export commodities were supplied by small and medium-sized domestic firms, its overseas ventures were conducted as joint-ventures with them. Most joint-ventures were established in

tariff-free developing countries. They included: Star Garment S.A. (Taejong Synthetic Textile: 50 per cent), Star Garment Doogo (Doogo: 70 per cent), P.T. Sun Star (Iljin; 70 per cent) and Indonesia Sweater Plant (Taejo Garment: 67 per cent).

The overseas joint-ventures including Samsung Co. and associated subcontracting companies highlights its role as a general trading company. Samsung Co. supported the outward direct investment of small and medium-sized firms by providing its overseas market information and sales network to associated companies. Like Japanese general trading companies, Samsung Co. has facilitated the overseas relocation of matured industries. It supplied raw materials to overseas joint-venture companies and marketed the products in developed countries. Since 1990, Samsung Co. has established five manufacturing plants in Caribbean countries. All of them were joint-ventures with its associated subcontracting companies.

In 1988, Cheil Sugar & Co. established Cheil Samsung Astra Co. to raise its international competitiveness by moving out to a country with lower production costs and abundant raw materials. In Indonesia, Cheil Sugar & Co. is planning to establish another overseas venture, vaccine manufacturing, with its local partners, Farma (30 per cent) and Wigindo (19 per cent). Further, in 1989, Cheil Synthetic Textile Co. established an overseas manufacturing joint-venture (P.T. Yasam Textiles) in Indonesia with Samsung Co. (30 per cent) and an Indonesian partner, Yasonta (30 per cent). Also, Cheil Industries established joint venture plants with Indian and Thailand partners. Samsung Co. has worked as a midwife company in facilitating Samsung's overseas manufacturing production and direct foreign investment by associated companies.

5. Direct Foreign Investment of Samsung's Electronics Affiliates

Direct foreign investment by Korean

electronics companies was prompted by the United States quota on color television sets in 1978. This regulation was a great threat to Korean electronics manufacturers. Samsung Electronics Corporation's dependency rate on the the United States market declined immediately. In late 1982, regulation shifted from quotas to anti-dumping tax impositions. Although the anti-dumping rates imposed on Korean color television sets were dropped from 16 per cent in 1984 to 3 per cent in 1987, it pressured the Corporation to reduce its export to the United states.

Trade regulations in advanced capitalist countries pressured the Corporation to diversify its export markets and commodities. The nature of export commodities changed markedly with television sets declining from 80 per cent in 1978 through 58 per cent in 1982 to less than 17 per cent in 1985. By 1988, VTRs (almost 25 per cent) and microwave ovens (almost 20 per cent) had emerged as major exports. Also, the proportion of unclassified electronics goods rose from less than 6 per cent in 1982 to almost 44 per cent in 1985 (SEC, 1989, p.422, pp. 1027-1032).

Diversification of both export markets and commodities were temporary measures to overcome immediate difficulties. The fundamental solution was to establish manufacturing factories in the countries imposing trade regulations.⁴⁾ The Corporation turned its concern to Europe which constituted the second largest color television set market. This market was also blocked by high tariff rates, quotas and strict protection of the patent rights of its PAL-system.⁵⁾ The only way the Corporation could penetrate it was to establish manufacturing plants there. In 1982, the first off-shore plant—Samsung Electronica Portuguesa Sarl. (SEP)—was established in Estoril City, Portugal. Its aim was to capitalize on its: cheap labor costs,⁶⁾ participation in the European Common Market scheduled in 1985; and high utility value as a new market base

not only for Europe but also for Africa and the Middle East (SEC, 1989, p.345). Samsung Electronica Portuguesa was established as a joint-venture business between the Corporation (55 per cent), Emacet Co. of Portugal (35 per cent) and MRI of UK (10 per cent). Its annual production capacity was 300,000 PAL-system color television sets. The Corporation's contract promised royalties for the technology and the right to supply 50 per cent of the parts from Korea. Emacet Co. had the sales rights in Portugal, Spain and their African colonies. On the other hand, MRI had the sales rights in the UK.

In 1984, after accumulating some overseas business experiences by managing its Portugal venture, the Corporation established its second overseas manufacturing subsidiary—Samsung International Inc. (SII)—in Roxbury, New Jersey, USA. In 1986, its initial annual production capacity—360,000 units of color TVs—was expanded to 600,000 units (SEC, 1989, p.511 and 1071). In the same year the Corporation established its third overseas manufacturing subsidiary—Samsung Electronics Manufacturing United Kingdom (SEMUK)—in Billingham, United Kingdom. Its annual capacity was 300,000 microwave ovens, VCRs and color TVs, respectively. In 1987, the fourth overseas manufacturing subsidiary—Samsung Semiconductor Inc. (SSI)—was established in the Silicon Valley, USA. Originally, established as an export and research institute in 1983, it became the Corporation's first overseas subsidiary covering three different functions—sales, research and production.

Until 1987, all the four off-shore manufacturing subsidiaries had been established in developed countries to circumvent trade regulations, and by doing so, to keep the export markets. The Corporation's limited competitiveness against its counterparts in advanced capitalist countries remained as a major problem contravened. Indeed, the four initial overseas subsidiaries have laboriously managed their weak international

competitiveness by deriving a large proportion of their parts from Korea. This strategy soon confronted the host country's regulations governing imported parts and components. Since 1986, the United States had imposed anti-dumping taxes on the imported Korean-made parts equivalent to finished goods. Local content ratios imposed on overseas manufacturing subsidiaries have been increased. In producing color television sets it incurred a deficit of 10 US \$ per unit.

In 1988, it established Samsung Mexicana Semex De Tijuana S.A. De Cv (SAMEX) as its daughter company, in Mexico to overcome the United States' regulation on imported parts. Its Mexico plant produces color television chassis—the bulkiest parts—for Samsung International Inc. in the United States.⁷⁾ Indeed, the latter's limited competitiveness prompted it to relocate its two color TV production lines in Mexico leaving only one in the United States. Its Mexico plant is supplying small-size color television sets to the sales subsidiary in USA—Samsung Electronics America Inc. (SEA)—using the country's advantages as a duty-free area and high productivity per unit labor (SEC, 1989, pp.1071–1074). This relocation boosted SAMEX's annual color TV production capacity from 200,000 units in 1988 to 600,000 units in 1989.

Regulations by advanced capitalist countries on imported parts pressured the Corporation to establish further parts-manufacturing plants in developing countries. Following the Mexico plant, the parts-manufacturing sister companies have established their overseas parts-producing plants for the Corporation's overseas assembly factories. Samsung Electro-Mechanics Co.'s (SEM) parts-manufacturing plants in Portugal and Thailand supply television, audio and video tape recorder parts to the Corporation's manufacturing subsidiaries in Europe and Southeast Asian markets. SEM's plant in Dongguan, China produces audio decks, speakers and keyboards. The Corpo-

ration also plans to set up electronics parts-manufacturing plants in Mexico to serve the North American market.

Further, Samsung Display Devices (SDD) acquired Werk Für Fernsehelektronik GmbH (former Eastern German company) to aggressively respond to the integration of the European Community. This factory's products (color picture tubes) will be supplied to Samsung Electronics Corporation's plants in Hungary, United Kingdom and Turkey as well as to local TV makers throughout Europe. Meanwhile, the Malaysian color picture tube plant of SDD, which started up operation in April 1992, supplies the Samsung Electronics Co.'s color TV plant in Thailand. Samsung Corning built a magnetic ferrite assembly plant in Tianjin, China, to supply required parts to a Samsung Electronics VCR plant there.

In 1992, the European Common Market planned to increase local content ratio of parts supply from 45 per cent to 60 per cent. This requirement forced Samsung to establish a parts-manufacturing plant in Portugal. Samsung Electronics established a joint venture semiconductor plant in Portugal with Texas Instruments of the USA. Samsung Electro-Mechanics is also planning to supply parts not only to the Corporation's subsidiaries but to the manufacturing plants of Goldstar and Daewoo. Until 1989, SEC has supplied 80 per cent of VCR parts and 45 per cent of microwave oven parts from Korea (*Business Korea*, June 1989).

Since 1988, Samsung Electronics Co.'s major direct foreign investment area has shifted to developing countries and the Socialist bloc. This shift was influenced by the poor performance of its ventures in advanced capitalist countries. The Corporation sought to realize moderate profits and overcome trade regulations by establishing overseas manufacturing subsidiaries in Mexico, Thailand, Indonesia, Malaysia, Turkey, Hungary, Yugoslavia, and China. Most of these overseas subsidiaries were es-

tablished as joint-venture companies: Thai-Samsung Electronics (SEC, 51 per cent; Saha Pathana Interholding Co., 49 per cent), Samsung Electronics Ticaret A.S. (SEC, 51 per cent; Tatis Group, 49 per cent), PT Samsung Maspion Indonesia (SEC, 49 per cent; Maspion Group, 51 per cent) and Samsung Electronics Hungarian (SEC, 50 per cent; Orion Co., 50 per cent.).

Another very important but unrevealed factor that pressured the Corporation to establish overseas plants was the establishment of the overseas manufacturing subsidiary of Goldstar—Goldstar America Inc.—in 1981, as an extension of the 'Star Wars' between the two companies (i.e. the three stars of Samsung and Goldstar). Later, Hyundai Electronics Co. and Daewoo Electronics Co. participated in the 'Star Wars'. As the imprinting of a high-tech enterprise image was a crucial point in Group-level's growth strategies, a defeat in the 'Star Wars' was perceived as fatal to a Group's growth potential (Jun, 1988). The importance of the electronics industry to a Group's growth strategies pushed Group-based electronics companies to establish their initial overseas manufacturing subsidiaries in the advanced capitalist countries—a good advertisement of their high-tech image. Indeed, the advertisement of the Samsung Group has been focused on raising the Group's high-tech image.

The 'follow-the-leader' behavior of Korean electronics manufacturing giants, in direct foreign investments, is well supported by Knickerbocker's (1973) assertion. He stresses that firms in highly-concentrated industries exhibit the 'follow-the-leader' oligopolistic reaction pattern in direct foreign investment to a greater extent than firms in less-concentrated industries. Due to the substantial interdependent relationship between a few oligopolistic firms, initial direct investment by one firm pushes other competitors to make a counter investment. A competitive imbalance in an overseas market has a direct impact on competi-

tive positions in the domestic market. Indeed, Korean firms have used the domestic market for profit generation, and foreign markets for volume generation (Jun, 1988, p.58).

6. Concluding Remarks

This study has examined the particular nature of Korean firm's direct foreign investment and the applicability of extant DFI models to developing countries like Korea. The research result, based on the case study of Samsung Group, identifies that the nature of developing countries' DFI is quite different from that of developed counterparts. Although Dunning's eclectic model is considered as a most useful explanatory tool for comprehending different kinds of direct foreign investment, it does not provide any clear explanation of DFI in advanced capitalist countries by corporations from developing countries. The rationale for Korean firm's direct foreign investment was to defend existing export markets rather than to exploit its firm-specific advantage which is a necessary precondition of DFI activities. Korean firms' main interest was just to minimize their obvious disadvantages over their developed counterparts. Their sole strategy was to transfer the locational and scale economy advantages in Korea to the developed host countries through intra-organizational transactions (i.e., by supplying cheaper parts from home country).

However, this temporary expedient could not be an amicable settlement when developed countries raised the required local content ratios of parts-supply. As a countermeasure of this change, Korean firms established parts-manufacturing facilities in developing countries that were free of duties and quotas. Thus, the subsequent locational shift of parts-producing facilities to neighboring developing countries of the major export markets was not only to bypass trade regulations but also to exploit

their cheaper labor resources. More recently, the majority of Korean firms' direct foreign investment has directed to developing countries, such as Indonesia and China, to exploit their domestic markets and cheap labor per unit cost. This shift was influenced by the poor performance of their ventures in advanced capitalist countries.

The locational shift of Korean DFI (from advanced capitalist countries to their neighboring developing countries and, more recently, to other remaining developing countries) suggests that the off-shore direct investments have been influenced by numerous factors rather than a single dominant factor. Further, as Korean firms have only limited firm-specific advantages over their developed counterparts, the nature of Korean firm's DFI is obviously different from that of developed countries. However, this does not mean that the extant DFI models cannot be applicable to all cases of direct foreign investment by firms headquartered in developing countries. Thus, the existing models explain Korean firm's DFI in developing countries very well. As the most important factor to realizing moderate profit from DFI is the firm-specific advantages regardless of the firms' source countries, the difference between the two distinct groups of DFI is not so great from a long-term point of view.

The key finding of this study is that corporations conducting DFI are transferring not only firm-specific advantages but also their home countries' locational advantages (i.e., national competitive advantages) to host countries through intra-organizational transactions. This research result seems to provide some clues to connecting the two isolated theories between trade and direct foreign investment. This is because of this that national comparative advantages affect substantial impacts on the cost competitiveness of parts supplied from home countries.

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Notes

1) As they are the property of the firm the income generating advantages of firms are termed 'ownership-specific' or 'ownership' advantages. They are also termed 'firm-specific' because most of the advantages cannot be sold in an external market.

2) In 1987, about 23 per cent of Korea's exports and 17 per cent of its imports were intra-organizational transactions between home and overseas subsidiaries (Bank of Korea, pers. comm.).

3) In 1983, comparable figures for the Japan and the United States were 4 and 17 per cent respectively.

4) In the case of Japanese color TV exports to USA, the proportion of local production increased from less than 36 per cent in 1976 to almost 78 per cent in 1986 (Company Report of the Lucky-Goldstar Group, 1989, P.47).

5) PAL-system (phase alternation by line) is one of the TV broadcasting mode together with SECAM (sequential couleur a memoire) and NTSC (national television systems committee). Except France, other EC countries were adopting PAL-type TV broadcasting system. The patent right of PAL-type broadcasting system was in the Telefunken Co. of West Germany and its use was permitted only to the countries which were adopting PAL-type broadcasting system (SEC, 1989, p.344).

6) In 1982, Portugal's labor cost by the hour was 1.7 dollars which was almost four times cheaper than that of the United Kingdom and West Germany (OESSG, 1988, p.663).

7) In the same line with SEC, Goldstar established color TV chassis manufacturing plants in Mexico in 1988 as a joint-venture with the local company, SYM.

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한국 기업의 해외직접투자: 삼성그룹을 사례로

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본 연구의 목적은 한국 기업에 의한 해외 직접투자의 특성을 밝히고, 한국과 같은 개발도상국 기업의 해외직접투자를 설명하는 데 있어서 기존 해외직접투자 이론의 적용 가능성 정도를 살펴보는 데 있다. 삼성그룹에 대한 조사결과 개도국 기업의 해외직접투자와 선진국 기업의 그것은 본질적으로 크게 다른 것으로 나타났다. 비록 던닝(Dunning)의 折衷理論(eclectic model)이 다양한 유형의 해외직접투자를 설명하는 데 가장 유용한 설명의 틀을 제공하고 있기는 하지만, 이 이론 또한 개도국 기업에 의한 선진 자본주의 국가에의 직접투자 현상에 대해서는 명쾌한 설명을 하지 못하고 있다. 한국 기업에 의한 초기 해외

직접투자의 근본 이유는 직접투자의 기본 전제조건인 기업특유의 우위요소(firm-specific advantages)를 이용하는 데 있었다기보다는 기존의 수출시장을 선진국의 무역규제로부터 방어하는 데 있었다. 따라서 한국 기업의 주된 관심은 선진국 기업에 대한 比較劣位(comparative disadvantages)와 外國費用(cost of foreignness)을 최소화 하는 데 모아졌다. 한국 기업의 유일한 전략은 (국내 계열기업에서 값싸게 생산된 부품을 彼投資國의 현지 조립라인에 공급하는 방식을 통하여) 한국의 立地的 優位要素와 規模經濟의 效果를 기업의 内部去來(intra-organizational transactions)를 통하여 彼投資國으로 移轉하는 것이었다.

하지만 이러한 임시방편적인 방법은 선진국 정부가 현지에서 의무적으로 조달해야 하는 域內 部品 供給比率을 크게 상향 조정하자 더 이상 이들 국가의 무역규제를 회피하는 수단이 될 수 없게 되었다. 이러한 변화에 대한 대응책으로 한국 기업은 선진국으로부터 관세와 쿼터 규제를 받지 않는 주변의 개발도상국에 부품생산 공장을 건설하였다. 부품생산 공장의 입지변화는 선진국의 무역규제를 우회적으로 회피할 뿐만 아니라 동시에 개도국의 저렴한 노동력을 활용하기 위한 것이었다. 보다 최근에 한국 기업의 해외직접투자는 피투자국(host countries)의 內需市場과 값싼 노동력을 이용하기 위하여 인도네시아와 중국과 같은 여타의 개도국에 집중되고 있다. 이러한 입지변화는 한국 기업의 對 先進國 直接투자의 수익율이 극히 저조한 데 기인한 것이다.

우리나라 해외직접투자 기업의 이와 같은 입지변화(선진 자본주의 국가 → 선진국 주변의 개도국 → 기타 개도국)는 해외직접투자가 하나의 지배적인 요인보다는 다양한 요인에 의해 영향받는 것을 암시하고 있다. 더구나 한국 기업은 선진국 기업에 비해 극히 제한된 企業特有의 優位要素만을 갖고 있기 때문에 한국 기업의 해외직접투자는 선진국 기업

의 그것과 분명히 다른 특성을 보이고 있다. 하지만 이는 기존의 직접투자 이론이 개도국 기업의 다양한 해외직접투자를 설명하는 데 전혀 도움이 되지 못한다는 것을 의미하는 것은 아니다. 실제로 기존의 직접투자 이론은 한국 기업에 의한 개도국에의 직접투자를 잘 설명하고 있다. 직접투자를 통하여 적정 수준의 이윤을 실현하기 위해서는 기업특유의 우위요소를 확보하는 것이 가장 중요하므로 선진국 기업과 개도국 기업에 의한 해외직접투자는 장기적인 관점에서 볼 때 커다란 차이를 나타내지 않는다.

본 연구가 발견한 핵심적인 내용은 해외직접투자 기업이 조직의 내부거래를 통하여 기업특유의 우위요소 뿐만 아니라 국가적 비교우위 요소를 동시에 彼投資國으로 이전한다는 사실이다. 이러한 연구결과는 상호간에 단절되어 있는 貿易理論과 海外直接投資理論을 연결시킬 수 있는 실마리를 제공하는 것으로 보인다. 이는 본국으로부터 피투자국에 공급되는 部品の 가격경쟁력에 투자국의 국가적 우위요소가 상당한 영향을 미치기 때문이다.

主要語：海外直接投資, 企業特有의 優位要素, 外國費用, 立地變化, 貿易規制