KOREAN MULTINATIONALS AND INDIA'S ELECTRONICS INDUSTRY: A CASE STUDY OF SAMSUNG AND LG

Dissertation submitted to the Jawaharlal Nehru University
in partial fulfilment of the requirements for
the award of the Degree of

Master of Philosophy

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CERTIFICATE

This is to certify that the dissertation entitled, "**Korean Multinationals and India's Electronics Industry: A Case Study of Samsung and LG**" submitted by **Brajesh Kumar** in partial fulfilment of the requirements for the award of the degree of **Master of Philosophy**, has not been previously submitted for any degree of this or any other university. This is his own work.

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I hereby declare that the dissertation titled, **"Korean Multinationals and India's Electronics Industry: A Case Study of Samsung and LG"**, being submitted to the Centre for East Asian Studies, School of International Studies, **Jawaharlal Nehru University,** in partial fulfilment of the requirements for the award of the degree of **Master of Philosophy**, has not been previously submitted for any degree of this or any other university.

Brajesh Kumar

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Dedicated to...

MY PARENTS

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CONTENTS

CHAPTER – 1

CHAEBOL AND KOREAN PATTERN OF DEVELOPMENT: GLOBAL PRESENCE AND PERCEPTION AS MULTINATIONAL

A striking feature of the economic development of Republic of Korea (hereafter Korea) during the last four decades has been its emergence as an important industrial and trading power in the world. It is difficult to find another ex-colonial, divided, resource poor, war ravaged and densely populated small state like Korea that has witnessed such a substantive and speedy economic transformation in less than four decades after it launched its strategy of planned development and export led growth.

Korea's all round industrial development and its commitment and capability to make its presence felt in the global economic scene have been truly impressive. Its membership of OECD, APEC, ASEAN + 3, ASIA – EUROPE etc. testifies to its remarkable industrial and technological transformation and growing share in the world market. It is, therefore not surprising that the context and characteristics; the process, pattern and pace of the Korean "model" of development have been extensively debated and analyzed.

While there are considerable differences in assessing the relative importance of the various factors that have contributed to the industrial

transformation, there is a consensus in recognizing the close relationship between Korea's leading industrial conglomerates, i.e., Chaebol and the state, especially during the period from the early 1960s to mid 1990s. In other words there emerged a close interaction between what have been characterized as "The Hard State" "The Authoritarian State", "The Developmental State" and the virtual domination of the economy by the Chaebol.[1]

Chaebol can be defined as "A business group consisting of large companies which are owned and managed by family member or relatives in many diversified business areas"[2].

The following section attempts to focus on two issues: -

a) The dominant and visible role of a group of Chaebol in the Korean pattern of industrialization and exports,
b) How two leading Chaebol Samsung and LG may be set to have acquired the attributes and appellations of multinationals?

While the factors that facilitated the emergence, expansion and enormous power of Chaebol have to be located in the colonial history the post-Korean War economic strategies, political processes, social priorities etc., the leading

[1] Krishnan, R.R; "The State And Economic Development in Korea" in Sharma, R.C. and Dalchoong, Kim (eds.) , *Korea- India Tryst with Change and Development*, (Delhi ,Khama Publishers, 1993). P.123
[2] Ungson, Gerardo R., Steers R.M, and Park Seoung Ho, *Korean Enterprise: The quest for globalization*"; (USA) Harvard Business School Press, 1997), p.26. (II) Also see Steers R M., Shin

Chaebol came to acquire some of the attributes and orientations of multinationals. According to a definition "Multinational corporations (MNCs)" views itself as a collection of relatively autonomous subsidiaries operating in two or more countries. Each subsidiary is managed relatively independently to maximize involvement in the local market. There is no attempt however, by the headquarters to play a significant role in advocating issues that enhance market integration on a global scale".[3]

Chaebol too have leading subsidiaries in many countries. They also have substantive presence in global market and also have autonomy in local market. For example, Samsung has 24 subsidiaries, 35 sales subsidiaries and 20 branch offices around the world including North America, Europe, and Southeast, Asia, Central Asia, China, the CIS and Latin America. It is a global leader in semiconductor, tele-communication and digital range of products. [4]

The rapid industrialization of Korea's economy has been achieved through the close cooperation between the Chaebol and the state. The cooperation greatly facilitated the Chaebol groups to expand into big multinationals. In the course of their expansion the Chaebol diversified their business and obtained a competitive advantage in the world market. It has dominated the Korean economy from 1960s. Initial activities of the Chaebol were capital intensive

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Y.K, and Ungson GR., "*The Chaebol: Korea's New Industrial Might* " (New York: Harper and Row, 1989) P .34

[3] For details see Ali, J. Abbas, *Globalization of Business: Practice and Theory* (New York, International Business Press, 2000) P.

and included sugar refining, soap manufacturing construction, steel manufacturing and metallurgy.[5]

There are four distinctive aspects of the Chaebol that can be summarized as following[6]: —

1. Chaebol are managed by one central paternalistic figure, the CEO, who is generally the founder member or relative of that family.
2. Unlike the Japanese counterpart many Chaebol are tightly controlled by families through stock ownership.
3. Chaebol have an existence of central planning function, whose representatives work closely with the group, known as planning and coordination offices.
4. It is fact that success of Chaebol is largely credited to their close relationship with the government.

The rise and expansion of Chaebol as prominent industrial and commercial giant started mainly from 1962 after Park Chung Hee Government came into power by a military coup in May 1961. This government implemented the export-led industrialization policies to achieve

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[4] Larkin, John/New York: "Samsung Tries to Snatch Sony's Gown", Far Eastern Economic Review, Hong Kong, (October 10, 2002), p. 38. Also refer to http://www.samsung.com

[5] For details see Kwon, Seung –Ho and Donnel, Michel O " The Chaebol and Labour in Korea: The Development of Management Strategy on Hyundai (London /New York: Routledge, Asian Studies Association of Australia, 2001), p.2; Ungson, Gerardo R., Steers R.M, and Park Seoung Ho, No 2, p. 26;

its economic strategy[7]. The most successful exporters were provided with a range of benefits-including access to loan at subsidized interest rates, exemption from certain taxes, discounts on power and freight costs and access to import licences for their machinery and components. The Chaebol were the main private sector agencies, which used to implement the government's export-led industrialization policies.[8]

The Park Government introduced four "Five year Economic Development Plans respectively in 1962, 1967, 1972 and in 1977. During the first Five-Year Economic Development Plan the main business activities of the Chaebol were diversified in line with the Government's economic and industrial policies. For example, in the 1960s, the ten leading Chaebol were involved in light industries, such as garment, footwear, assembly of domestic electronic appliances and civil engineering construction. These industries were designated key export sectors in the first and Second Five-year plan.[9] The emerging Chaebol were also able to take advantage of the shift towards heavy and chemical industries promoted under the Third Five-year Plan (1972-1976). In the process of internationalization, loans were granted to

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[6] Steers R M., Shin Y.K, and Ungson GR., "*The Chaebol: Korea's New Industrial Might* " (New York: Harper and Row, 1989); p 37-46, Also see, Cumings, Bruce; Korea's *Place In The Sun: A Modern History* (New York London, W.W. Norton And Company, 1997), p 370

[7] Kwon, Seung –Ho and Donnel, Michel O, NO. 5, P.19-20

[8] Bloom, Martin D.H, Globalization And The Korean Electronics Industry: A ChandlerianPerspective In Schutte, H. (Ed.) The Global Competitiveness of the Asian Firms, (USA, The Macmillan Press Ltd., 1994). , P. 140.

[9] Kwon , Seung –Ho and Donnel ,Michel O, No. 5 p.21.

large companies to encourage their entry into shipbuilding, electronics and automobile production, which were also encouraged by sector- specific policies in this period. This began a pattern in which Chaebol grew through diversification rather than by deepening their technological capabilities in any one product.[10] Since 1960s, the electronics industry has grown at an annual rate of over 30%. In 1965, the electronics industry was selected by the Ministry of Commerce and Industry (MCI) as one of the 13 priority sectors for exports. This special status entitled electronics sector for several special benefits and incentives. One of the most significant moves of the state to promote this sector was the enactment of Electronics Industry Promotion law 0n November 1969.[11] It made electronics a strategic export industry and encouraged domestic firms to broaden their product range to include not only simple products but complicated high-tech products also. The policy options of Samsung and LG (Lucky Goldstar) were largely determined by the government's decision for export led growth. These two have been the leading electronics Companies moving overseas. The decisions of these two companies to globalize their electronics activities were a direct response to the policies of the government and the prevailing international economic and

[10] Mytelka, Lynn and Ernest, Dieter. Catching Up, Keeping Upand Getting Ahead: The Korean Model Under Pressure in Ernst, Dieter, Ganiattsos, Tom and Mytelka Lynn et.al (Ed.), Technological Capabilities and Export Success in Asia, (London and New York, Rutledge, 1998). p. 91

[11] Hong, Sungt Gul, The Political Economy of Industrial Policy in East Asia: *The Semiconductor Industry*

political environment The industry was soon upgraded as a result of the entry of TNCs, first from the United States and Japan and later from Europe. By the mid-1960s, foreign affiliates were driving the industry. They assembled imported components for exports.[12]

The first Japanese investment had been made in the electronics industry in 1969. The initial development of the Korean electronics industry in the 1960s depended on joint ventures with Japanese firms and focused on increasing production capability with imported foreign technology. The Chaebol strengthened its connection with Japanese electronics firms during this period. For example, NEC formed joint ventures in 1970, with Goldstar Electronic and Samsung-NEC. The Goldstar group in 1970 and the Samsung group in 1973 entered into the electronics parts and components market through joint ventures with Japanese firms. In 1988 the electronics industry became the largest export industry replacing the textile industry. The share of electronics in total exports rose from 6.9% in 1970 to 28.2% in 1990.[13]

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in Taiwan and South Korea, Massachusetts, Edward, Elger Publishing, Inc, 1997, pp. 84-89. Also see Amsden, Alice. H. *Asia's Next Giant: South Korea and Late Industrialization.* (New York, Oxford University Press 1989.).P.

[12] World Investment Report, 1995, "Transnational Corporations and Competitiveness", p. 251.

[13] Lim, Haeran, Korea's Growth and Industrial Transformation" (New York, St. Martin's Press, INC, 1998, London, Macmillan Press Ltd., 1998). p. 108.

Figure :
The evolution of the electronics industry in the Republic of Korea

Period	Product, Product groups and types of operation: Components		Consumer electronics	Marketing	Role of TNCs, FDI and trade
1960s	Transistors Integrated Circuit's Memory planes	Labour-intensive assembly markets	AM radios, black and white television sets for domestic markets	Original-equipment manufacturing arrangements with TNCs	Assembly by foreign affiliates of imported parts and components
			Transistor radios Radio-cassette tape recorders		
1970s	Capacities Resistors		Colour television sets Microware ovens		Increasing role of licensing
1980s	Magnetic heads Semiconductors DRAM chips		Video-cassette recorders Cassette-disk players Telecommunications Equipment Computers and Peripherals		Outward FDI Alliance with foreign TNCs
1990s		R&D-intensive operations		Efforts to establish brand name exporting	Efforts to produce components locally

Source: UNCTAD, Division on Transnational Corporations and Investment, based on Ozawa (1995a).

The Government's General Trading Company system in 1975 for export promotion was also critical for the rapid expansion of the Chaebol. Under this system the Chaebol had first to receive a contract from overseas buyers. The leading Chaebol like Samsung, Lucky-Goldstar, Ssangyong,

Hanil, Daewoo, Sunkyang, Samhwa, Kumho and Hyundai were licensed as General Trading Companies. Many Chaebol used this economic position to expand their business operations by buying up small and medium sized firms producing goods for export, rather than passing on the overseas order to these small firms. Daewoo was typical of those Chaebol who relied upon this tactics to diversify and expand in 1970s.[14] In the 1970s, the construction boom in the Middle East presented the Chaebol yet another opportunity for expansion. Hyundai emerged as the largest Chaebol as a result of its success in winning and completing projects profitably in the Middle East. Most Korean firms began their rise by borrowing and importing technology that had already been developed by experienced firms in more advanced economies and by mass production with competitive labour (low wages) cost. The Chaebol continued their explosive growth in export market in the 1980s. By the late 1980s, it had become financially strong.

The growth strategies of the Chaebol involved intensive diversification from one business and across their business boundaries. This strategy reduced production cost and allowed the Chaebol to maximize their increasingly monopolistic economic power. For example, Lucky Goldstar in 1977 produced forty-six monopoly products from toothpaste to electronics

[14] For details see, Jo Sung -Hwan, Promotion Measure for General Trading Companies, (1975) in Cho, Lee Jay and Kim, Yoon Hyung, (Ed.), Economic development in the Republic of Korea, A Policy

goods[15]. Most of the today's leading Chaebol built their monopolistic based between 1960s and 1980s. Following table highlights the competitive struggle between the ten largest Chaebol from the late 1960s to the early 1990s.

Table:

Changes in the ranking of the ten largest Chaebol by total assets, 1960-1993.

Rank	1960	1971	1977	1987	1993
1.	Samsung	Samsung	Samsung	Hyundai	Hyundai
2.	Sam	Lucky	Hyundai	Samsung	Samsung
3.	Samsung	Hanjin	LG	LG	LG
4.	Gaepung	Injin	Daewoo	Daewoo	LG
5.	Lucky	Ssangyoung	Sungyung	Sungyung	Sunyung
6.	Deahan	Hyundai	Ssangyoung	Ssangyoung	Ssangyoung
7.	Dongyang	Korea	Korea	Korea	Lotte
8.	Hwasin	Geugdong	Kukjean	Hajin	Kia
9.	Korean Galass	Daenong	Hanjin	Hyoseong	Explosive
10.	Geudong	Sunyung	Hyoseong	Lotte	Doosan

Source: Cho Dongseoung 1991:166-211,Donga Ilbo 25, June 1993.

There are more than fifty Chaebol groups in Korea. The Korean government identifies thirty business groups (Chaebol) each year based on total assets. In 1999, the minimum total asset was $2.0 billion.[16]

Perspective Hawaii, East- West Centre, 1991), pp. 511-525. Also see Kwon , Seung –Ho and Donnel ,Michel O, No. 5 , p.21-22

[15] Kwon , Seung –Ho and Donnel ,Michel O, No. 5, p.22

[16] Kim, Eun Mee, Globalization of the South Korean Chaebol in Kim, Samuel S. ed. *Korea's Globalization*, (U.K., Cambridge University Press, 2000), p.103

Table:
KOREA'S TOP 30 CONGLOMERATES, 2000

(Unit:Billion Won)

Ranking	Group	No. of Affliates	Assets	Liabilities
1(2)	Samsung	64	69,873	103.5
2(1)	Hyundai	26	53,632	329.3
3(3)	LG	43	51,965	166.1
4(4)	SK	54	47,379	150.8
5(-)	Hyundai Motor	16	36,136	160.5
6(5)	Hanjin	19	21,307	215.6
7(-)	POSCO	15	21,228	88.4
8(6)	Lotte	31	16,694	74.5
9(-)	Kumho	17	11,606	259.6
10(9)	Hanwha	25	11,496	151.5
11(12)	Doosan	18	11,192	162.3
12(10)	Ssangyong	20	9,039	512.3
13(13)	Hyundai Oilbank	2	7,243	556.1
14(11)	Hansol	19	6,983	229.3
15(19)	Dongbu	19	5,831	165.3
16(17)	Daelim	17	5,395	134.1
17(21)	Dong Yang	30	5,107	232.5
18(16)	Hyosung	15	4,950	177.7
19(23)	Cheil Jedang	30	4,763	128.6
20(20)	Kolon	25	4,640	160.9
21(15)	Dongkuk Steel	8	4,342	164.1
22(25)	Hyundai Development Company	9	4,070	234.2
23(-)	Hanaro	7	3,369	100.4
24(29)	sShinsegae	9	3,221	197.1
25(30)	Young Poong	24	2,897	109.1
26(-)	Hyundai Department Store	15	2,858	141.9
27(-)	Oriental Chemical	22	2826	125.8
28(24)	Daewoo Electronic	4	2725	
29(-)	Taekwang	15	2598	35.5
30(26)	Kohap	6	2,501	
TOTAL		**642**	**437,866**	**171.2**

Source : Korea Foreign Company Association (KOFA), SER

Note:1-Samsung Corning is a joint venture between the Samsung Group and Corning of the United States.

Note-2- Pan Asia Paper Korea is a joint venture between Hansol Paper, Abitibi (Canada), and Norske Skong (Norway).

Samsung and Goldstar[17], entered into joint ventures with Europe's Alca-Tel and AT&T of the United States, respectively, the beginning of the 1980s to manufacture and install the foreign partner's electronic switching systems in Korea.[18] A number of Chaebol began opening research centers in advanced countries in the late 1980s. By the end of 1992, the top four Chaebol had established seventeen overseas research centers in electronics alone, nine in the United States, five in Japan, two in Germany, and one in Ireland. Goldstar and Sunkyong joined hands in 1994 to develop a double-density video compact disk. It also formed alliance with Hitachi Electronics and Kia in 1993 to develop new visual equipment and robots, respectively, by combining each partner's technical competence. In 1992, Goldstar made another agreement with Samsung for the unconditional exchange of 2,000 patents that belong to each partner .

To focus an export-led strategy and increased production capability, Korean electronics manufacturers relied substantially on foreigners, typically in the form of OEM (Original Equipment Manufacturing) agreements, to get both technology and access to overseas markets in its early stages.[19]The outflow of foreign investment by Korean firms was liberalized. From a total outflow of US $ 457.4 million in 1981-1985, direct foreign investment rose is

[17] LG (Lucky Goldstar) group at first glance seems to be two companies. Its chemicals and cosmetics are manufactured and sold under the Lucky label while its electronics products use the name Goldstar; for details see Ungson, Gerardo R., Steers R.M, and Park Seoung Ho, No. 2 , p 24.

[18] Korea Economic Report, July 1990 ,p.40.

US $ 2347.1 million in the period between 1986-1990 and in 1990 alone reached 70 percent of the outflow of the preceding five years. [20] The Chaebol have initiated Korea's Outward Foreign Direct Investment (OFDI). Globalization of the Chaebol includes Inward Foreign Direct Investment (IFDI) for technology transfer from multinational corporations to the Chaebol, OFDI from the Chaebol, global competitiveness and global management. It is interesting to note that leading Chaebol were the major recipients of IFDI and technology transfers. Much of the groundwork for globalizing Korean industry was completed in the 1970s and 1980s through state controlled inducement of foreign investment. Western multinationals were encouraged to invest in Korea as a means of acquiring vital technology for the private sector. Not only were the foreign firms encouraged to transfer technology, they were usually required to enter the Korean market through a joint venture with an existing Korean companies [21]

The involvement of the Chaebol in OFDI was quite impressive. At the end of 1995, the total accumulated amount of OFDI of all Korean enterprises was more than $10 billion. The leading Chaebol, in particular Daewoo, Hyundai, and Samsung, had the largest OFDIs. In 1994 the total OFDI (actual investment figures) of the largest five Chaebol was nearly $1.4 billion, accounting for almost 70 percent of all OFDI. The same five Chaebol plan to

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[19] Lim, Haeran, No. 13, p. 135
[20] Mytelka, Lynn and Ernest ,Dieter. NO.10, P. 93

invest more than $60 billion in the next ten years. It is particularly noteworthy that in 1994, Daewoo was the largest overseas investor with almost $450 million, when it was only the fourth largest Chaebol.[22]

Korea has also shown remarkable competitive performance in IT industry. Share of the IT industry in the GDP rose from 4.2% in 1993 to 6.3% in 1998. It achieved a 26.9% percent increase annually during period 1993 to 1998. There are over 2000 software companies registered in Korea, employing over 45,000 workforces. Export of software rose from US$ 31 million in 1995 to US $ 81 million in 1997 but declined to US$ 58 million in 1998 due to economic crisis and picked up again to US$113million in 1999. Leading products for exports were semiconductors TFT – LCD, mobile handsets, etc. Major international software companies including Microsoft, Oracle, mentor graphics, cadence, IBM, lotus, Bayan, yahoo etc. have subsidiary or branch offices in Korea. Among the leading Chaebol Samsung, Hyundai, LG, SK and Daewoo are major players in the IT sector and having their own software development centers in India and aboard. There are 25.8 million mobile Internet service used in Korea as of April 2002. LG claims that it provides system for about 13 million of subscribers. [23]

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[21] Ibid

[22] Kim, Eun Mee, No. 16, p. 108,111-112. *Outward Foreign direct investment (OFDI) is the recent phenomenon of 1990s.Chaebol's OFDI was based on excessive borrowing from international financial institutions, and when they (Chaebol) could not pay back the loan it brought financial crisis in the Korea.*

[23] Software Market in Korea , Embassy of India, Seoul, 2000

The 2001, Global 500

World's largest electronics companies including Samsung Electronics and LG Electronics ranked as follows among THE GLOBAL 5OO (2001)

INDUSTRY: Electronics, Electrical Equipment

Rank	Company	Global 500 Revenues Rank	Revenues		Profits		Profits as % of	
			$ millions	% Change From 2000	$ millions	% Change From 2000	Revenues %	Assets %
1	Siemens	22	77,358.9	3.3	1,856.6	-78	2	2
2	Hitachi	32	63,931.2	-16.0	-3,869.5	-510	-6	-5
3	Sony	37	60,608.0	-8.4	122.4	-19	0	0
4	Matsushita Electric Industrial	45	54,997.1	-20.8	-3,447.0	-1,018	-6	-6
5	Toshiba	77	43,139.4	-19.9	-2,031.5	-334	-5	-5
6	NEC	84	40,796.0	-16.6	-2,495.4	-587	-6	-7
7	Tyco International	103	36,388.5	18.6	3,970.6	-12	11	4
8	Samsung Electronics	105	35,968.9	-6.6	2,366.0	-55	7	6
9	Mitsubishi Electric	141	29,183.2	-21.9	-623.6	-155	-2	-2
10	Royal Philips Electronics	143	28,959.5	-17.2	-2,331.9	-126	-8	-7
11	ABB	194	23,726.0	3.3	-691.0	-148	-3	-2
12	LG Electronics	202	23,136.9	15.2	795.6	124	3	4
13	Sanyo Electric	293	16,892.0	-16.7	13.8	-96	0	0
14	Emerson Electric	326	15,479.6	-0.4	1,031.8	-28	7	7
15	Sharp	346	14,426.1	-20.8	90.5	-74	1	1
16	Electrolux	386	13,130.6	0.8	374.2	-20	3	4
17	Sumitomo Electric Industries	431	11,876.6	-11.2	66.1	-82	1	0
18	Whirlpool	491	10,343.0	0.2	21.0	-94	0	0
TOTAL	--	--	600,342	--	-4,781	--	--	--

SOURCE: Fortune, July 22,2002

Table

In FORTUNE 500 List Of 1997, Korean Companies Retained Following Rank.

(In $ million)

Rank	Company Name	Revenues	Profits
34	Daewoo	51,215.3	N.A.
67	Samsung	35,060.0	119.1
111	Ssangyong	24,392.0	60.1
118	Sunkyung	24,218.0	475.0
120	Samsung Electronics	24,150.9	2,865.6
127	Hyundai	23,221.2	7.1
220	Samsung Life	16,448.8	32.7
285	Hyundai Motor	13,188.5	18.0
304	LG International	13,726.5	18.0
311	Korea Electronics Power	12,955.1	1,77.2
340	LG Electronics	13,188.5	668.4
389	Pohang Iron & Steel	11,180.7	1,226.8

In 1995 , the top 30 Chaebol produced 16% of Korea's GDP and accounted for 41% of manufacturing value added and 50% of exports. Among the top 30 Chaebol, the top four groups at the time Hyundai, Samsung, Daewoo and LG clearly dominated, producing 9% of GDP in 1995.

Share Of Top 5 And Top 30 Chaebol In The Economy (%)

Definition	1996	1997	1998	1999	2000
Share of top 30 Chaebol in GDP	13.6	12.0	11.9	10.2	12.9
Share of top 30 Chaebol in value added in manufacturing	30.5	26.3	24.2	29.6	30.3
Share of top 30 Chaebol in total assets	46.6	46.3	47.8	39.0	41.8
Share of top 30 Chaebol in total sales	47.9	45.9	46.5	42.4	43.7
Share of top 5 Chaebol in total assets	26.3	26.9	30.0	19.2	24.1
Share of top 5 Chaebol in total sales	32.0	30.9	32.5	28.4	29.8

Note: figure for top five Chaebol since 1999 refer to the top 4 Chaebol.

Sources: Choe Seoung –no (2001,123), Fair Trade Commission (2001b, 1675).

In essence, the story of the remarkable growth of the Korea's economy is the story of the growth of its Chaebol.

The rapid development in the electronics sector took place under the initiative of leading Chaebol including Samsung and LG. To see the rapid growth of electronics industry in Korea one can look at the US$6.5 billion Samsung Electronics Co., which was the third largest producer of Dynamic

Random Access Memory (DRAM) in world in 1991; and also the amazing success of the US$4.8 billion Goldstar Co. in consumer electronics.[24]

In order to understand how two of the leading Chaebol Samsung and LG group came to acquire economic power and industrial and non-industrial assets, it is necessary to examine the size, diversity and market power of these two companies. These two Chaebol have been the most active of the Korean Electronics Companies. Electronics goods have been among the Chaebol's most profitable exports.[25]

Samsung was founded in 1938 by Lee Byung Chull with a capital of $ 21,000 and started its business in import trade. In the mid 1950s, it moved into the business of sugar, flour and textiles and from there into a wide range of services and products. By the end of 1960s it had an annual turn over of $100 million. In the 1970s the company entered into electronics and heavy industry.[26]

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[24] Electronics: Short Circuits: Korea Economic Report, (November 1991), p. 35.

[25] World Technology Evaluation Centre, (WTEC), Maryland, Report on the Korean Electronic Industries, Summer, 1996.

[26] Leroy P. Jones and IL. Sakong, "Government Business and Entrepreneurship in Economic Development: The Korean Case: *Harvard University* : Council of East Asian Studies, 1980, pp.349-353.

Lucky Gold Star's beginning was in the field of chemicals industry. The Lucky Chemical Company was founded by Koo In Whoi in 1947 to manufacture cosmetics .In 1958 Gold Star Company was established to produce radios, refrigerators and televisions. In 1980s, LG group had 29 affiliated companies with 88,400 employees. The group was ranked thirty second in the world in terms of total sales, in the Fortune International 500 lists of 1988. In 1982, it also opened a major manufacturing plant for television and microwave oven in USA for sale in North and South America. This was the first major manufacturing facility built in the United States. A second facility was opened in Wormo, West Germany in 1987 with annual capabilities of 300000 televisions and 400,000VCRs. In 1989, Gold Star built a television manufacturing facility in China. It was a first such venture for a Korean company.[27]

Samsung Electronics began as a joint venture with Sanyo of Japan in 1969. Joint ventures benefited both Japanese and Korean firms. Korean firms could absorb foreign technology by means of purchasing machinery and equipment for production and training of the workforce. MNCs benefited by low-cost labour, management and engineering when wages and other costs became high in Japan.[28]

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[27] Ungson, Gerardo R., Steers R.M, and Park Seoung Ho, No.2, p. 31.
[28] Lim, Haeran, No. 13, pp. 110-116.

From the early 1970, the main sources of foreign technology were from the Japanese companies with whom they established Joint ventures especially in consumer electronics sector. [29] Capitalizing on its contacts with TNCs, and especially on FDI and original equipment-manufacturing(OEM) arrangements, the local industry acquired the basic skills and absorptive capacity to utilize successfully the imported technologies. Later Samsung and Goldstar established and expanded their own research activities in the electronics sectors, when their Japanese partners withdrew from Joint Ventures. The assembly of foreign components using low cost labour provided the basis for the success of these two Chaebol. Both companies sold their products initially as original Equipment Manufacture (OEM)[30]. After reaching a certain level of sophistication, companies such as Daewoo, Goldstar, Hyundai and Samsung started competing in global markets. Although they still depended on United States and Japanese TNCs for marketing, mainly through OEM export arrangements, they have recently become successful in development and selling their own brand name products (colour television sets, microwave ovens and personal computers) in the United States and Europe. Furthermore, to overcome cost pressures at home due to rising wages and a depreciation of domestic currency, these companies

[29] Bloom, Martin D.H , No. 8, p. 143.

began, in the early 1980s, to shift the production of colour television sets and microwave ovens to Indonesia, Malaysia, the Philippines and Thailand, as well as to China, India, Mexico, Portugal and Turkey. Another motivation for outward FDI was the need to catch up technologically, taking the form of strategic alliances with TNCs from developed countries. Such alliance in semiconductors helped companies of the Korea to close the technology gap.[31] As their dependence on foreign components and technology reduced and as the restrictive conditions of their OEM agreements lapsed, Samsung and Goldstar, started to buildup their overseas marketing networks. The 1986 US – Japan semiconductor trade agreement, which led to worldwide shortages of semiconductor memories, provided a ready market for the products of Samsung and Goldstar. Since 1987 these two companies set up assembly operations in US, Mexico and Europe to overcome the problems of market access. [32]

It was in the 1980s and 1990s, when the Korean electronics sector began to register an impressive growth, for example; in 1982, Samsung was the first Korean Corporation to establish an overseas production line for television assembly facility in Portugal, with a capacity of 300000 units for sale within the European common market. Its average annual revenue

[30] Ibid , p.144, OEM refers to the situation, whereby a company arranges for another company to produce and often to its own design) It is a type of subcontracting relationship.)

increased to $29.4 billion in 1997. In 1980s itself they opened many television, and VCRs, microwave ovens plant in USA, England, Thailand and china. Samsung Electronics has been Samsung's most active company in terms of OFDI. In 1993, it established a joint venture manufacturing plant for a telecommunication switching system in Shandong Province in China and expanded its products to include fiber-optic cables, transmission equipment, and headset. By the end of 1996, It owned twenty overseas plants.[33] Now it has become an innovative competitor along with sleek gadgets and breakthrough technology. It's a top-three player in a host of products and a top-five patent receiver worldwide.[34]

In the 1990s, SAMSUNG Electronics was emerging as a global enterprise through joint R&D projects with leading overseas companies; along with technology transfer arrangements and joint investments. It was the largest Chaebol in 1996, with an investment of 600 billion Korean won in OFDI in that year. Although its OFDI was only the third largest among the leading Chaebol, it has pursued a vigorous OFDI strategy since 1993, when

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[31] World Investment Report, 1995, "Transnational Corporations and Competitiveness", p. 252.
[32] Bloom, Martin D.H, No. 8, p. 145.
[33] Kim, Eun Mee, No. 16, p. 117.
[34] Larkin, John/New York: "Samsung Tries to Snatch Sony's Gown", Far Eastern Economic Review, Hongkong, (October 10, 2002), p.37.

its top management launched the "new strategic management" initiative and made OFDI one of its top priorities.[35]

Among Korea's chaebol Samsung Electronics Co. (SEC) is by far the most successful to date. In November of 1988, Samsung Semiconductor and Telecommunications merged with SEC (Samsung Electronic Company). In 1990, the company's semiconductor sales reached 869 billion won (about US$1.2 billion), most of that come from the sale of DRAMs. It's US$836 million in 1990 DRAM sales accounted for 11% of the US$7 billion global DRAM market placing SEC a close third behind Japanese against Toshiba (15%) and NEC (12%), and ahead of Hitachi (9%) and Fujitsu (8%).[36] It has long been a titan among memory-chip makers. Now it's also No.1 worldwide in the ultra-thin screens used in most hi-tech computers and televisions. It's No. 3 in wireless handsets and No. 2 in DVD players.[37] During January to March 2002 the semiconductor division constituted 29.9 percent of the total sales, followed by telecommunications with 29.6 percent, digital media with 26.8 percent and home appliance with 9.3 percent.[38]

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[35] Kim, Eun Mee, No. 16, p. 117

[36] "Semiconductors: Seoul's Silicon Rush" Korea Economic Report, Seoul, ((July 1991), p. 56.

[37] Larkin, John / No. 4, p.38.

[38] Samsung Electronics Ranked 34th in the World's 100 Top Brands, Korea News world, Vol. 10, No. 114, August 2002, p. 48.

Samsung wants to be not just a global brand but "*The global brand*", to beat mighty Sony by 2005. For this it must at least double 32 trillion Won 2001 in revenues on the cash inflow alone. Since world electronics industry has switched from analogous to digital product and therefore it is also banking on its cutting edge technology to meet consumer demands.[39] It is also promoting its brand value, which is a key engine of business growth. It's brand value increased to US$8.3 billion in 2002 from US$6.37 billion 2001 and was recognized by Interbrand Corporation, USA as the fastest growing global brand. It ranked 34th with an estimated brand value of US$ 8.31 billion in the worlds "100 top brands" list for 2002 released by Interbrand Corporation and Business Week.[40] In this list, it ranked ahead of Nike (35th), Volkswagen (38th), and Canon (43rd); Apple (50th); Philips (60th). It was included in Asia's top 5,after Toyota ranked 12th; Honda 18th; Sony 21st and Ericsson. 71st. [41]

It makes microwave ovens (No.2 behind Sharp), refrigerators, air conditioners, and washing machines. It is one of the world's largest chipmakers company. It manufacture different kinds of consumer devices,

[39] Larkin, John , No.4 ; p. 38.
[40] http://www.samsung.com
[41] Business Week selected these companies according to two criteria: their brand had to have a value of more than one billion US $. They had to be global in nature, deriving 20 percent or more of sales from outside their home country. To calculate the brands strength, interbrand looks at seven factors; including the brands market leadership, its stability and ability to cross-geographical and cultural boarders.
Korea's News World, August 2002.

including DVD players, computers, colour monitors (No. 1 globally), and printers; TVs, LCD panels, and digital cameras; semiconductors such as DRAM (No.1), SRAM (No.1), and flash memory; and communications devices ranging from cellular phones to networking switches. Its exports account for more than two-thirds of sales. It ranked 34th with an estimated brand value of US $ 8.31 billion in the world's top 100 brands list for 2000 released by Interbrand Corporation and Business Week.

It has four top products in world market share. Addition to this No.1 world M/S products, - memory chips, TFT-LCDs, CDMA handsets, and display devices.

TABLE:

Market share of Samsung Electronics:

[DECEMBER 2002]

Product	Market Share	Rank
TV	10%	1st
Monitor	22%	1st
VCR	25.10%	1st
DVDP	14.80%	2nd
Camcorder	15.10%	3rd
Printer (Mono LBP segment)	9.60%	3rd

SOURCE: http://www.samsung.com

Samsung electronics has succeeded in securing the number one global market share for its thirteen products and it has been among the world's top 10 in US patent for four consecutive years. Also it has 13,000 researchers representing a US $1.7 billion investment in research and development (R&D). R&D has always been the keystone of this company. In 2002, it has invested 2.4 billion dollars, approximately 7% of its revenue, in R&D.Annually, it invests 6-8% of its revenue in technology and product development. With six research centers located in Korea and nine research centers worldwide, It has established a strong Global R&D Network that drives its effort to develop leading technologies in areas of digital media, telecommunication, digital appliance and semiconductor. As of the end of 2002, 17,000 researchers, which are 34% of our total employees, are dedicating themselves in developing the finest products that serve as pioneers in the digital era. [42]

[42] http://www.samsung.com

Table:

Samsung's Technological Alliances And Acquisitions, July 1995.

Company	Country and Equity stake, Percentage	Product or technology involved
A. Alliance partner		
General Instrument	United States	Development and marketing of digital television
USA Video	United States	Development of set-top boxes, including video file servers.
NEC	Japan	Development of 256-megabit DRAM chips.
ISD	United States	Development of multilevel storage sound process
Toshiba	Japan	integrated circuits.
Fujitsu	Japan	Development and production of 64-megabit flash mem
AT&T	United States	chips.
Motorola	United States	Sharing of TFT liquid-crystal displays technology.
		Development and production of pen-based computers.
		Development of the next-generation of personal dig
		assistants
B. Acquisitions	United States	(Based on Motorola's Dragon Ball microprocessors).
Array	20 per cent	
Harris Microwave	United States	Digital processor chip technology used in multime
Semiconductors	100 per cent	products.
Lux	Japan,	
	51 per cent	
	United States	Optical semiconductors and gallium arsenide chips.
Integrated Telecom	100 per cent	CAD/CAM software.
Technologies	United States	
AST Research	40 per cent	ATM technology.
		Personal computers.

Source: UNCTAD, Division on transnational corporations and investment, based on "Look out World Samsung is Coming " Business Week, July 10, 1995.

Among the 30 largest Chaebol, the Samsung group has remained superior. It all alone account for 25 percent of the total value of listed stock as of 9 January 2002, compared to 12.6 percent in June 1995. The total net profits by the 30 largest Chaebol were only 2.3 trillion won, but Samsung alone earned 7.4 trillion won.[43]

LG (Lucky Goldstar) played an instrumental role in turning electronics into a powerful engine as one of the nation's exports as Korean endeavor to join the ranks of advanced countries. Goldstar Co. assembled the nation's first vacuum-

tube radio in November 1959.[44] It entered into the industry's first joint venture with a foreign company- Japan's Hitachi in 1965, and went on to tie-ups with foreign firms by the end of the 1980s. On the export side, the first foreign currency was earned in 1962 with the production of radios. The products worth $4,00 shipped out overseas in that year are now represented by total exports of $6.2 billion. Looking at its product line, it was dominated by black-and-white televisions, refrigerators and washing machines in the

[43] Won, Kim Ky, "Corporate Restructuring with an emphasis on Chaebol", Korea Journal Vol. 42, No. 1, Spring 2002, p. 31.

[44] Korean Economic Report, November 1991, P. 35.
The first vacuum-tube radio developed in 1959 was followed by black-and-white television in 1966 and colour television in 1973, by LG Electronics. Korean companies came up with the first video cassette recorders in 1979 as the domestic electronics industry began to make an impact in the global market and quickly expanded into industrial electronics.

1960s, cassette recorders, colour televisions and switching machines in the 1970s and computers in the 1980s.

In its first year, LG employed only 30 workers. The number has now multiplied to over 34,000 in Korea and 26,000 in overseas operations, making it a formidable force in the global marketplace. Its turnover has naturally increased by leaps and bounds as well, soaring from 50 million won in that first year to an 11 trillion won in 1998 through the distribution of its products in 193 countries.[45]

LG Electronics[46] have 72 subsidiaries around the world with 51300-employee worldwide. It manufactures, home appliances (refrigerators, microwaves, air conditioners), and multimedia devices like VCRs, DVD players, CD-ROM drives, MP3 players, display products (TVs, monitors). It owns Zenith Electronics and has a flat-panel display joint venture with Philips Electronics (LG.Philips LCD). It has been increasing its sales to North America and Europe; Asia counts 38 per cent of sales of LG electronics goods.

[45] LG's History Gives Nation New Hope, Korea News world, August 1998, p. 47.

[46] Lucky Goldstar established on October 1st, 1958 (As a private Company)
Number of Employees in LG Electronics are 51,300 in which 25,700are in Korea and rests 25,600 are in overseas. LGE focuses on Digital TV, CD-RW, DVD, CD-ROM, DVD-ROM Drives, PCs, Monitors, Mobile Handsets,CRTs and PDPs. LGE is strengthening core competencies even more to further its reputation as the "Digital Leader" in electronic products and equipment in the digital era. For details refer to http://www.lge.com

It is a major player in the field of digital products like digital TV, CD ROM Drives, PCs Monitor, mobile hand set, AC and Refrigerators. [47]

It benefits from international competitiveness for information appliances and home appliances such as refrigerators, washing machines, air conditioners, microwave ovens and vacuum cleaners. Earlier, company implemented a strategy of both globalization and localization to dominate national markets around the world. Innovation activities of overseas operations were particularly impressive in 2000. With Innovation in TV sales in Brazil, it is becoming the people's brand in Kazakhstan, securing number one position in Thailand's washing machine market, logistic process innovation in China and much more The list of it's innovation success in overseas markets is remarkable.[48]

Business Area of LG Electronics:

Main Products:[49]

Digital Display & Media Company

Digital TV, PDP, Monitor, DVD Player, Audio, Security System, Recording Media CD-ROM Drives, DVD-ROM Drives, CD Rewritable Recorder, VCR, Video Phone, PC Camera, Banking Automatic System, PCB

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[47] http://www.lge.com
[48] *Ibid.*
[49] *Ibid.*

Digital Appliance Company

Microwave Oven, Washing Machine, Air Conditioner, Refrigerator, Vacuum Cleaner, Compressor for Air Conditioner, Compressor for Refrigerator

Telecommunication Equipment & Handset Company

TDX, STAREX, optical switching systems, Implementation of advanced IBS (Information Building System), System Integration (SI) service, etc. Implementation of advanced IBS (Information Building System), System Integration (SI) service, Handsets for satellite, mobile multimedia and IMT-2000 services, etc.

Financial Highlights of LG Electronics.
(in billion won)

SALES		1997	1998	1999	2000	2001	2002
	TOTAL	9,239.70	9,852.80	10,546.1	14,835.7	16,601.0	18,602.9
	DOMESTIC	3,503.20	2,569.80	2,704.00	4,881.20	6,084.10	6,654.90
	EXPORT	5,736.50	7,283.00	7,842.10	9,954.50	6,084.1	6,654.9
ORDINARY PROFIT		115.9	167.1	2,587.9	728.5	573.7	675.2

Source: http://www.lge.com/about/digitallg/lgis/images/g_arrow.gif

The subsidiaries of Samsung and LG control around 45% of Korean Electronics and telecommunications industry production and employ well over half of all research personnel in these sectors. They have become

multinational companies as a result of overseas investment and market share, product innovation, research and development, diversification, cost reduction, brand image and market strategies etc. They are highly internationalized and during the past few years have started to establish overseas assembly operations, joint ventures and research facilities, sometime through the acquisition of overseas companies.

CHAPTER – 2

INDIA'S ECONOMIC REFORMS AND KOREAN RESPONSE

India's post independence economic history witnessed significant changes when substantive reforms were introduced in 1991. These changes later came to be known as "structural economic reforms" including "liberalization", "privatization" and "globalisation". During the last decade several policy pronouncements were made to facilitate the opening of the Indian market.

Economic reform initiated in 1991, among other things, sought to accelerate the pace of economic growth, and assigned greater importance to the integration with the world economy. Reforms began with liberalisation and delicensing of a majority of industrial sector. As the reform process gained momentum several areas came under its purview. These include restricting the public sector to certain core industries; financial liberalisation specifically in the banking sector and the capital market; revision of tax structure lifting of the quantitative restrictions in trade; encouragement of the FDI; technology transfer; assuring'Multilateral Investment Guarantee' to

foreign investors and infrastructure development including power, road, telecom and consumer goods.[1]

In this chapter, we will examine how the substantive, significant and striking changes in the Indian economic policies since 1991 provided an opportunity to Korean investors to be associated with the new patterns and thrust areas of industrial developments in India.

Changes in Foreign Direct Investment (FDI) policy has facilitated the leading MNCs to invest and set up manufacturing facilities, R&D Centers and offshore software development facilities. New policies and plans are promoting foreign investment and focusing on providing impetus to consumer electronics industry as well.

New industrial policy (NIP) which was announced on July 24, 1991, has started the process of full-scale liberalisation. The specific changes initiated in the foreign direct investment (FDI) policy in 1991 were [2]

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1 Krishnan R.R , "India Korea Summit : Background And Significance" *Facts For You* , September 1993 , Vol- 15 ,No. 3 , P. 34-35

2 (1) Chelliah, Raja J., Towards sustainable growth: Essays in fiscal and financial sector reforms in India: (Delhi; Oxford University Press, 1996). (2) Perdikis , Nicolas , The Indian Economy: Contemporary Issues (England , Ashgate Publishing Ltd .2000), p.41

(3) Chaudhary ,Sudip, Economic Reforms and Industrial Structure in India ,*Economic and Political Weekly* , January 12, 2002 ,p.155 ; (4) Mishra and Puri, *Indian Economy*, (New Delhi, Himalaya Publication House, 1996), p. 669-673.

(5) Batra , G. S and Dangwal, R .C, Globalization and Liberalisation : New Developments, (New Delhi ,Deep and Deep Publication Pvt. Ltd. 2000), pp 40-41.

(i) Direct foreign investment was permitted in virtually every sector of the economy. The industrial approval system in all industries was abolished except for 18 strategic or environmentally sensitive industries. In these industries reserved for the small scale sector, foreign equity up to 24 per cent was allowed. Foreign equity up to 100 per cent was encouraged in export-oriented units in the power sector, electronics sector and software technology parks. In other industries also, foreign equity up to 100 per cent was permitted on merit basis.

(ii) Foreign investment approvals up to 51 per cent of equity in a specified list of 34 priority industries were given through automatic route for FDI/NRI investment with some exception.

(iii) A foreign investors can take 'government approval' through a simple fast track mechanism or 'automatic approval' for projects of certain kinds, e.g. up to 51 per cent equity in units in Export Processing Zones and also in 100 per cent export-oriented units. The same was allowed for all foreign technology agreements which met certain economic parameters. The FDI/foreign technology collaboration agreement proposals which do not suit to the guidelines for automatic approval require approval through the Foreign Investment Promotion Board (FIPB). The Government has set up this special Board (FIPB) as a fast mechanism to invite and facilitate foreign investment in large

projects in India. Technology transfer was not made mandatory with Foreign Direct Investment.

(iv) The Foreign Exchange Regulation Act (FERA)[3] was amended to make investment easier for the foreign companies. Multinationals have been given the opportunity to acquire majority equity share in their Indian operations in most of the sectors.

(v) There was no restriction on the use of foreign brand names/trademarks for internal sale.

(vi) India became a member of Multilateral Investment Guarantee Agency (MIGA) for promoting foreign investment and is currently negotiating bilateral investment treaties with several countries[4].

(vii) Abolition of the need for separate permission of MRTP (Monopolies and Restrictive Trade practice Act).

With the liberalization of various rules governing foreign investments, there has been a substantive increase in FDI inflows. Approved FDI rose from about Rs. 500 Crore in 1992 to about Rs. 55 thousand crore in 1997. Cumulative approved foreign investment during 1991 and 2000 is about $67

[3] Restrictive provisions earlier applicable to FERA companies, i.e. companies with more than 40 per cent foreign equity, have been abolished. (The FERA has now been replaced by the Foreign Exchange Management Act (FEMA).

billion, [5]as against just $1.0 billion during the whole of the previous decade (1981 – 1990). [6]A fifth of it came from the USA. Korea has emerged as a new source of foreign investment. A quarter of the approved FDI is for power generation (25.7%) followed by Tele communication (Mobile phone from (18.5 %) and electrical equipment, mainly software (10%). Electrical equipments including computer software and electronics are the sector that have attracted the highest approvals of technology transfers with 1174 technical collaboration approvals, accounting for 16.6 percent of total technical collaboration approved.[7]

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4 Mani ,Sunil; Economic Liberalization and The Industrial Sector (New Delhi , Economic and Political Weekly , May 27,1995) P. m-38

5 Economic And Political Weekly , April 2003, vol 38, no.17 ,p. 1704

6 Mishra and Puri, Indian Economy .,New Delhi ,Himalaya Publication,1996,p.669-673

FDI into India by Major Countries including Korea

(US$ millions)

	1991-95	1996-2000	2001	2002(1~11)	Total (91~02.11)
USA	5034.54	9436.14	1093.67	410.70	15975.05
Mauritius	786.94	6975.9	642.78	368.96	8774.58
U.K.	1225.03	3306.78	1109.83	207.91	5849.55
Japan	948.76	1861.22	163.39	139.64	3113.01
Korea	161.25	2453.48	14.83	6.05	2635.61
Germany	715.53	1674.62	91.97	46.01	2528.13
Total	19330.69	48716.37	5972.16	2056.03	76075.25

Source: www.embkoreain.org

[7] Economic And Political Weekly , April 2003, vol 38, no.17 ,p. 1704

Foreign Direct Investment (FDI)

ACTUAL FDI, 1991-2000

	Economic Survey (Rs Crore)
1991	351
1992	675
1993	1787
1994	3289
1995	6820
1996	10389
1997	16425
1998	13340
1999	16868
2000	19342
Total	89286

Source: Economic Survey, Government of India

(Economic And Political Weekly, Vol. 38, No.17, P. 1704)

India's annual average growth of GDP was at 6.2 percent and GDP per capita was at 4.4 per cent for the decade of 1990-2000, and annual average growth of GDP at 5.9 percent and GDP per capita was at 3.8 per cent for the decade of 1980-1990. The growth rate in GDP per capita can be attributed to

higher growth in capital accumulation and technological progress than population growth. It shows that in the 1990s there was higher level of capital accumulation and technological progress than the previous four decades in the economy.[8]

It is important to stress that leading industrial and trading powers like Korea and institutions like IMF and World Bank have welcomed the objectives and the package of reforms announced by Government of India from time to time. The advanced and rapidly developing economies were closely watching certain specific areas of reforms, which had a direct bearing on their place, performance and prospects in India. The economic reforms provided an opportunity to develop and diversify Korea's economic interaction with India. During the past decade and particularly since mid 1990s the economic diversifications of the relation have assumed enormous significance.

Korean outward investment has been mainly targeted towards U.S.A. and China. India occupied the 10th position behind the European Union, Netherlands, Hong Kong, UK, Canada and Australia. [9]

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8 Patibandala , M. , Phani B. V. "Market Reforms and Industrial Productivity" ,*Economic and Political Weekly,* January 5, 2002. Vol-37, No 1 , P.59

9 A Study Conducted By The Federation oF Indian Chambers of Commerce and Industries (FICCI)On "India : As Destination For Foreign Direct Investment In The 21st Century: The Korean Perspective"; 2003

KOREAN OUTWARD DIRECT INVESTMENT

(US$ million)

	1999		2000		2001		2002.1-10		Total (1968-2002.10)	
Countries	**No of cases**	**Amount**	**No. Of cases**	**Amount**	**No. Of cases**	**Amount**	**No. Of cases**	**Amount**	**No. Of cases**	**Amount**
U.S.	349	1,809	704	1,300	513	1,822	390	1,178	3,634	14,257
Canada	13	19	35	41	30	51	16	5	190	1839
Brazil	4	115	2	5	6	41	4	7	4	609
Mexico	10	11	15	38	2	7	9	36	95	362
Argentine	1	29	2	9	1	4			48	287
ASEAN	125	450	197	676	217	500	211	328	2796	9060
Japan	37	99	136	139	117	101	74	63	653	904
China	552	481	898	921	1116	960	1132	1467	8708	10654
Singapore	10	78	19	216	15	28	9	30	161	848
Hong Kong	28	398	56	291	46	74	46	143	582	2128
India	5	216	4	12	11	35	7	18	132	1290
Australia	17	54	26	123	16	11	14	45	251	1488
E U	32	322	49	173	52	2190	43	533	566	6791
UK	4	153	15	55	8	323	8	28	133	2079
France	8	18	7	9	5	31	5	12	69	436
Germany	7	89	13	64	19	118	21	135	190	1125
Netherlands	4	10	4	23	11	1685	1	302	63	2496
Belgium	1	33	1	5	1	25		9	12	112

Source: Export Import Bank of Korea

Following the liberalization of Indian economy, Korean companies started to invest in India and formed joint venture with Indian companies or established wholly owned subsidiaries in various sectors. In pre-liberalization period, total investment approval from Korea amounted to Rs 8.2 crore in 74 projects. But during the period from January 1991 to December 1995 investment approvals stood at Rs 496 crore in 230 projects. In September 1993, the first ever visit by India Prime Minister P.V. Narshimha Rao to Korea was seen as a landmark development in the Indo – Korea economic relations in terms of attracting Korean investments in India.

Korean investment rose sharply during the period 1996 – 1997 when leading Cheabol like Daewoo, Samsung, Hyundai, LG, Ssangyong setup subsidiaries in India. Investment was given an impetus by the ministerial level talk held in November 1995 in Seoul and thereafter by the visit of Korean president Kim. Young Sam to India February 1996.

India and Korea signed on investment promotion and protection agreement on February 26 ,1996 for the protection of the Korean investment

in India as well as Indian investment in Korea. This agreement was a sign of the growth of Korean interest in India.[10]

Since 1995, Korean investment increased significantly and its total cumulative investment in India as per FDI approvals rose from a meager US$ 2.5 millions in 1991 to US$ 2.63 billions in 2002 making it the fifth largest investor in India after the U.S., Mauritius, UK. and Japan. In terms of cumulative (actual) FDI inflows, Korea accounted for 3.39% of the total inflows. Korea accounts for 4.15% of total FDI approvals from January 1991 to June 2002. (Excluding the amount approved by ADRs/GDRs) [11]

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[10] Korea News Review , March 2, 1996, Vol-25, No.9, P.7

[11] A study conducted by the FICCI on "India : As Destination For Foreign Direct Investment In The 21st Century: The Korean Perspective";2003

FOREIGN DIRECT INVESTMENT APPROVED

(US$ Million)

Year	WITH SOUTH KOREA	WITH ALL COUNTRIES	% OF SOUTH KOREA WITH APPROVED IN RUPEE TERMS
1991	2.5	218.3	1.16
1992	15.1	1485.5	0.10
1993	9.6	2890.5	0.33
1994	34.1	4522.5	1.19
1995	100.1	10213.9	1.02
1996	936.6	10510.9	10.43
1997	545.3	15302.9	3.88
1998	93.3	7800.9	1.34
1999	868.8	6753.9	14.51
2000	9.6	8613.8	0.24
2001	14.8	5972.2	0.32
2002 Jan – June	3.5	1615.9	0.22
Total (1991 – 2002)	2633.3	75901.2	4.21 (in US$ terms is 4,15%

Percentage figures do not take into account the amount of FDI approvals for ADRs/GDRs/FCCBs as these are not categorized country-wise from 1994 onwards.

Source: Federation of Indian Chambers of Commerce and Industries (FICCI), 2003

The rate of actual inflow of Foreign Direct Investment approvals on an average has been found to be around 23 percent during the period from 1991 to June 2002.

YEARWISE RERALISATION RATE OF INFLOWS WITH FDI APPROVED FOR KOREA

(US$ million)

Year (Jan – Dec)	Amount of FDI Approved	Amount of FDI inflows	Realization Rate (%)
1991	2.5	-	-
1992	15.1	3.2	21.19
1993	9.6	2.1	21.88
1994	34.1	10.7	31.38
1995	100.1	16.6	16.58
1996	936.6	46.2	4.93
1997	545.3	342.3	63.00
1998	93.3	111.1	119.08
1999	868.8	39.5	4.55
2000	9.6	17.7	184.38
2001	14.8	4.5	30.82
2002 (Jan-June)	3.5	11.2	-
Total (1991-2002)	2633.3	605.1	22.98

Source: FICCI, 2003

Korean business groups such as Hyundai, Samsung , Daewoo, LG , Dalnia Telecommunications are expanding their business in different sectors. There is now increased focus on cooperation between small and medium

companies of the two countries. Sector wise direction of the Korean approvals during the period 1991-2001 are as follow:[12] -

Transportation industry-	42%.
Fuel (power and oil refinery)-	36%
Electrical equipment (including computer software)-	11%
Chemicals (other than fertilizers)-	7%
Commercial office and household equipments -	4%

Cooperation in the field of IT (Information Technology) is emerging as an important sector in India–Korea bilateral economic relations. Korea also accounts for 2.78 percent of the total technical collaboration approvals since 1991, with 203 collaborations granted .[13]

The growth of Korean investment in India has been quite remarkable since 1995. Earlier many Korean majors had small trading outfits operating in India from mid 1980s, platforms for ONGC (Oil and Natural Gas Corporation) and supply of ships to the shipping corporation of India were two frontline activities of these liaison offices. The largest investment

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[12] A Study Conducted By The Federation oF Indian Chambers of Commerce and Industries (FICCI)On "India : As Destination For Foreign Direct Investment In The 21st Century: The Korean Perspective"; 2003

[13] Ibid

undertaken was the production of Cielo car by Daewoo motors in collaboration with DCM. in 1995[14]. The pace has picked up substantially since 1995. In 1995, India emerged as the fourth largest overseas construction market for Korean contractors, who won orders totaling $935 million. In 1996, Daewoo corporation won a $1.5 billion order to build a power plant in korba.[15]

The Koreans, who were little known a few years ago in India, have made an aggressive presence. According to the Korea International Trade Association (KITA), India has become the 12th largest market for local exporters in June 2002. .[16]

Korean investment in India was mainly led by Hyundai, Daewoo[17] Samsung and LG group, amongst others, either through electronics or automobile ventures. Now they are getting into other fields like power, oil, engineering and telecom. There success could be measured with the fact that these companies are competing more among themselves than with Indian companies here. There are many products from such as cars, refrigerators,

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14 Korean Mega Corps, *Dalal Street Journal* , July,24aug 6,1995.

15 Korea News Review , March 2, 1996, Vol-25, No.9, P.

16 Indian Lose Track of Japanese Brands By Indrajit Basu, April 19, 2003 In Asia Times Online at http://www.atimes.com

17 Daewoo had invested in automobiles sector but after the financial crisis in Korea,it suffered most and now its Indian operation is also running into trouble.

computer monitors, TVs, microwaves and electric washers , cell phones, etc which are being produced by Korean companies in the Indian market.

Samsung and LG groups are making huge profits in the Indian electronics industry and Indian markets are flooded with their latest and innovative products. These two companies are competing against each other for the top spot and actually dominating India's electronic home appliances market. Speed and flexibility of decision-making as well as localization of products and employees are the main factors behind their success. LG Electronics got the Foreign Investment Promotion Board's clearance to set up its factory in January 1997 and started operations in May itself and its products hit the market later that year. It was the fastest nation-wide launch by a company. Comparatively, Hyundai was a slow starter. It took seven months to start its operations.[18]. Its small car "Santro" is now one of the largest selling car in India. Product localisation was another key element which made Korean successful in India . LG came out with Hindi and regional language menu's on its TVs and introduced low-priced "Cineplus" and "Sampoorna" range for the rural markets. Samsung has a 1000W model only in India while LG has come out with a 1200 PMPO set. Samsung washing machines have a "sari guard", as well as a 'memory re-start' for India, which is troubled by frequent power failures. It is now visible that Korean companies are bringing the latest model

and innovative technology in India, that can see that in case of "Santro" which debuted here, or "Samsung 29" colour TV. LG came out with 18 new models in 2002. Samsung is looking at 16 new models this year (2003), including seven refrigerators and two new microwave ovens. While they brought in the best, they perfected the art of selling locally. LG came up with 'health' platform for its marketing campaign. Samsung too launched 'Bio' range of products and recently moved to the *'DigitAll'* campaign, emphasizing its technological edge. All four Korean companies invested huge amounts in their Indian factories, Hyundai, near Chennai and LG, Daewoo and Samsung in Noida.

They tried to localize their brand via aggressive marketing activities featuring cricket, India's favorite sport, and sponsorship of international film festivals. LG Electronics' Indian branch confided its most important tasks to Indian workers, while its Korean members only monitored and consulted with the local staff. Samsung Electronics also implemented a localization strategy including education of promising Indian workers in Korea. [19]

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[18] Kushan Mitra Hyundai Motar Zip Driving On The Fast Track , Hindustan times , New Delhi, September,28,2002..

[19] http://www. the- week.com ,February 16, 2003

After starting off with automobiles and consumer electronics, Korean companies are now getting into other segments of the industry. The Hyundai group, is now getting into power and engineering sectors in India. Hyundai (along with Mazagaon Docks) bagged a $ 300 million project for the construction of booster-compressor platform in South Basin oilfield. Here, the other major competitors for the contract were Samsung and Daewoo. The $ 74 billion LG group (May 97) was planning to invest around Rs 500 crore through its cent-per-cent subsidiary. Hansol, another Korean company, has tied up with Sri Venkateshwara Paper Mills and Kesariwal Industries to manufacture high quality paper. Ssangyong, Kohap , Hanjung , Korea Heavy Industries ,Doory etc. are also taking up projects in India . Small and medium Korean companies are also active and their inflow of investments is also increasing substantially.[20]

Korea and India have also maintained close relationship in the field of shipbuilding and energy exploitation. Korean companies like Hyundai Heavy Industry, Daewoo Shipbuilding Marine & Engineering, and Samsung Heavy Industry have contributed to the development of offshore plant project and supplied various vessels such as oil tanker carriers, cargo-ships and LNG carriers. Many Korean companies are currently using India as an export base

[20] Korean Fortify Positions , Indian Express, May 12,1997

for third countries or seriously considering this option. Steel, automobiles, chemicals, textiles, recombinant, biological pharmaceuticals items, IT hardware, consumer electronics to name a few for which India could be used as an export base.[21]

A study conducted by the FICCI on "India : As destination for foreign direct investment in the 21st century: the Korean perspective"; reveals that "all Korean companies making profits in India are looking at future expansion of the scale of operations. 50 per cent of the companies that are breaking even in their Indian operations are targeting expansion and 44 percent of the Korean companies making losses are keen to increase their activities while 22 percent of them are looking at maintaining status quo in their operations"

Since our study focuses on investment by Samsung and LG electronics in the electronics sector of India, it is desirable to see the significant policy changes made in the electronics sector which had given an opportunity and space to these companies to set up their subsidiaries in India.

The electronics industry, in particular, is emerging as one of the most important industries in India.. Until 1984, the electronics sector was primarily

[21] Korean Mega Corps, *Dalal Street Journal*, July,24aug 6,1995

owned by government. The late 1980s witnessed a rapid growth of the electronics industry due to sweeping economic changes [22]

The industrial policy as applicable to the electronic and IT sector has been continuously revised to make this sector conducive to investors. Following are the major policy changes related to electronics sectors from 1991 to 1996[23]. During the period 1991 – 92, custom tariff on consumer electronics was brought down heavily and quantitative restriction on specific electronics and IT good were abolished. Electronics sector became free from licensing procedure (excluding consumers electronic and few strategic areas like defence) and in 1997 licensing procedure were virtually abolished in all areas of electronics and IT (barring defence and strategic electronic). In 1993–1994 when foreign equity participation was liberalized and foreign investment was allowed up to a ceiling of 49per cent in basic and other value added telecom services. Custom tariff was brought down further in line with the import competition policy initiated since mid 1991. In 1995 and 1996 foreign subsidiaries with 100 percent equity were given permission to operate in India and no license was required on the imports of most electronic products.

The Export-Import policy which was implemented on April 1st 1997, had validity for next five years, with regards to electronics industry. It

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[22] Ministry of Information Technology,Government of India, Industry Profile, Dec.2002

[23] Electronics Industry Component Association Directory , 2000-2001

allowed Capital goods, raw materials, intermediates, components, consumables spares, parts, instruments, accessories and other goods to be imported without any restriction[24]. Special schemes were made available for setting up export-oriented units for the electronics sector; foreign investment of up to 100 per cent was permitted in units set up only for export. Provisions of various incentives and concessions were made available for export oriented units. These schemes included 100 per cent export oriented units (EOU)/Export Processing Zone (EPZ) scheme; Electronics Hardware Technology Parks Scheme (EHTP); and Software Technology Park Scheme (STP). The eligible exporters of electronics products also had an option to avail the special advance licensing scheme for export of electronic products. [25]

All these reforms have created an environment conducive to an enterprise, investment and innovation with an anticipated revival of the economy structural reforms, removal of control on private and Foreign Direct Investment, opening of the economy to foreign trade, dismantling of quantitative restriction, liberalizing imports and reducing tariffs, exchange rate flexibility, public sector reforms , disinvestments, private investment in infrastructure banking and insurance sector reforms. All of these provided a favourable condition for multinational companies (MNCs) to invest in

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[24] Ibid. Except to the extent such imports are regulated by the book titled 'ITC (HS) classification of Export and Import Items'

[25] Electronics Industry Component Association Directory , 2000-2001

India.[26] It is reflected in the large number of Indian companies seeking foreign joint venture partners, while a number of Fortune 500 and other large multinationals have already focused on India. These include General Motors, Ford, Toyota, Honda , Mercedes Benz, Sony, Coca Cola, Pepsi, Hewlett - Packard, Texas Instruments, LG , Hyundai, Daewoo, Westinghouse ,Whirlpool, Samsung, Du Pont, AT & T, BT, Enron, Shell etc.

New Industrial Policy has boosted India's effort to accelerate industrialization, to improve international competitiveness and to facilitate closer integration with the global economy. Indian companies are attracting foreign portfolio investment or equity participation in new ventures. This enabled Samsung and LG as well as other Korean multinationals to set up their subsidiaries in India. In the following chapter the profile and the performance of these two Korean companies would be discussed.

[26] Arif Md. and Khalid, M. Ahmed, Liberalization, Growth and the Asian Financial Crisis: Lessons for Developing and transitional Economies in Asia. (U.A.A., Edward Elgan Publishing Inc. 2000) pp. 332-333.

CHAPTER – 3

SAMSUNG AND LG IN INDIAN ELECTRONICS INDUSTRY

Korean investment in Indian electronics sector of India was led by the Samsung and LG groups. These companies have already established their market. Samsung recorded Rs. 2,800 crore in 2001 against Rs. 1,700 crore a year before. LG became the fastest ever company in India to touch a Rs. 5000 crore cumulative turnover. In last five year of their presence in the Indian market they have already made their presence felt in India.

Before examining the profile and performance of these two Korean multinationals, a brief background of the Indian electronics Industry may be in order.

The Indian Electronics industry dates back to the 1960s. It was like many other sectors driven by the state. It was restricted to the development and maintenance of fundamental communication systems including radio broadcasting, telephonic and telegraphic communications and augmentation of defence capabilities. The major players were public sector giants like Bharat Electronics Ltd and Indian Telephone Industries Ltd. The electronics industry too witnessed a boom, mainly in the consumer electronics area,

thanks to the purchasing power of the growing middle class(estimated between 250-300 million) with larger disposable incomes.

The industry saw an imperative growth rates in excess of 30% in 1980s, this had slowed down to 7% by 2001-02 due to various factors including saturation of demand in products such as TVs and increasing competition from cheaper imports due to a fall in customs duties. India's promising software sector is likely to generate huge demand for IT hardware. It is estimated that by 2008, India would export software worth US$ 87 billion, which would generate a demand for IT hardware to the tune of US$ 50 billion. The Indian IT and Electronics market in 2002-03 was worth US$ 20.63 billion of which US$ 12.7 billion consisted of software. Electronics and IT hardware production stood at US$ 7.93. Some 3,500 units are engaged in electronics production manufacturing goods as diverse as TV tubes, test and measuring instruments, medical electronics equipment, analytical and special application instruments, process control equipment, power electronics equipment, office equipment, components etc. [1]

Consumer electronics is by far the biggest segment of the total electronics market in India with a 30% share. . It includes White goods

[1] http ://w ww.tradeparterns.gov.uk

(refrigerators, washing machines, cookers, freezers etc.) and Brown goods (CTV, VCR, Audio, Camcorders etc.)

The major world players in consumer electronics are Sony, Panasonic, JVC, Hitachi, Philips, Daewoo, Electrolux, Samsung, LG, Whirlpool etc in 2002-03, and production of consumer electronics stood at US$ 3.06 billion, an increase of 13% from US$ 2.70 billion in 2001-02. The consumer electronics market has grown at a consistent 10% in the past five years and almost all the major global names are present in the Indian market, offering the wider choice to the customer in terms of products, quality, technology and prices. The Indian Colour TV market at 6 million units is relatively small compared to China (22 million units), but sales have grown at over 25% in a market dominated by MNCs such as LG, Samsung, Philips, Sony, Panasonic etc. The last decade has seen a shift in market preference from B&W TV to CTVs. The TV market is likely to see sustained growth as of the 142 million Indian households that have access to TV, only 42% actually own a TV set. Presently, more than 40 million homes are connected to Cable television and the number has grown at over 31% in the last 2 years. India has a low PC penetration of 6 per 1,000 people. PC shipments increased by 35% every year from 1997 till 2000-01 when it reached 1.8 million PCs. The growth of the component sector in India is influenced by the consumer

electronics sector. Production of components in 2002-03 stood at US$ 1.32 billion, up by 9% from US$ 1.21 billion in 2001-02.[2]

Historical Growth Trends : Electronics & IT Hardware Production

Period	Growth (%)
1980-81 to 1984-85 (Sixth Plan)	25.0
1985-86 to 1989-90 (Seventh Plan)	34.0
1990-91 to 1991-92 (Annual Plan)	8.7
1992-93 to 1996-97 (Eighth Plan)	17.1
1997-98	8.7
1998-99	14.3
1999-2000	9.6

Annual growth rate for 1997-98 and 1998-99 and cumulative average annual growth rates for the Plan periods.

Source: Electronic Industry Component Association, Directory (ELCINA), 1999-2000

[2] Ministry of Information Technology, Government Of India , Industry Profile ,Electronics Industry 2002

Table

ELECTRONICS PRODUCTION

Items	1995-96	1996-97	1997-98	1998-99	1999-2000[1]
Consumer Electronics	58.00	65.00	76.00	92.00	112.00
Industrial Electronics	29.00	31.00	31.50	33.00	34.00
Computers	22.25	27.40	28.00	23.00	20.00
Communication and Broadcast Equipment	26.00	30.00	32.50	44.00	44.00
Strategic Electronics	10.75	13.00	9.00	13.00	14.50
Components	35.00	37.00	44.00	47.50	52.00
Sub-Total	181.00	203.40	221.00	252.00	276.50
Software for Export	25.50	37.00	65.00	109.40	170.00
Domestic Software	16.90	26.00	34.70	49.50	73.50
Total	223.40	266.40	320.70	411.40	519.50

[1] Estimated

Source : India 2001, Annual

Samsung and LG have already established themselves firmly in the consumer electronics market. This chapter examines the profile and performance of Samsung and LG in the Indian Electronics Industry.

The global brand campaign of "Samsung digitalAll experience" brings communication, entertainment and information together on a common platform for a consumer. The Company is expecting to consolidate its existing business in India by manufacturing some products in selected segments in which it is operating, like home appliances. Simultaneously, with it's global leadership in semiconductors and thrust on R&D, It is also trying to establish its leadership in the digital convergence era. In keeping with its digital focus, it is looking at introducing and developing the Indian market for its digital technology products. Though its telecom business in India is quite small in relation to consumer electronics and IT business, it is hoping that this will grow in the near future. Samsung Electronics India, is a subsidiary of the $26billion Samsung Electronics (Korea) . It had decided to invest US$630 million in three phases to produce consumer electronics, communication equipments and computer software through a wholly owned subsidiary in 1996. Its operations in India include its Consumer Electronics and Home Appliances Company i.e. Samsung India Electronics Ltd (SIEL) established in 1995 with R&D centre in Bangalore, Samsung India Software Operations unit (SISO), came into being in 1996 and it is a wholly

owned subsidiary for IT/Telecom products, Samsung Electronics India Information and Telecommunications (SEIIT) was set up in May 2000.[3]

Recently Samsung has decided to merge its subsidiaries — Samsung Electronics India Information Ltd (SEIIT) with Samsung Electronics India Ltd (SEIL). The merger is being planned to explore the synergies that exist between these two business divisions and enhance its operational efficiencies. SEIIT is one of the country's largest IT & telecom company, with manufacturing facilities.[4]

Samsung electronics had planned to invest US$200 million of its own money and joint venture partners and banks would raise the remaining US$430 million. Recently Samsung Electronics, Korea has decided to buy out the 26% stake in Samsung India Electronics held by Videocon to make Samsung India Electronics a wholly owned subsidiary[5]. At present the company is having production facility for colour television, washing machines, monitors and microwave ovens. Samsung had made a total investment of $84 million in India till october 2002 mainly in areas like

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3 http://www.samsungindia.com

4 Business Line ,Jan.15,2003

5 Videocon May Sale Samsung India Stake For Rs. 230 Crore, Hindistan Times ,Nov.27th,2002.

consumer electronics, home appliances, IT and R&D. This investment has been estimated to go up to $165 million by the year 2005.[6]

Samsung India invested US$ 5 million in setting up an R & D Centre at its Noida facility. This R&D centre is not only working for the designing and development of colour television models for the Indian market but also supporting the Southeast Asian market for R&D requirements. Globally, Samsung had invested $1.82 billion in R&D, which formed nearly 7 to 8 per cent of the total revenue from its 14 R&D centers across the globe[7].

Samsung India's product portfolio comprises of Audio-Video and Home Appliances products; colour televisions in the 14"~53" screen size segment; refrigerators in the 170 litre ~230 litre Direct Cool and 250 litre~680 litre frost-free segment; Air-conditioners ; Microwave Ovens in the 20 litre~37 litre capacity segment, in the range 0.75T~2.3T package unit including both window and split type, and VCD/DVD Players.

Samsung Electronics India Information and Telecommunications Ltd[8] product portfolio that constitutes of PC Monitors - around 18 models

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6 Samsung Targets $1 Billion Revenue , Hidustan Times, Oct,5 ,2002

7 Samsung To Play Digital Tune In India , The Hindu, Oct. 20th 2002.

8 http://www.samsungindia.com

ranging from 14" to 24" sizes, including the state-of-the-art TFT-LCD Monitors, Multifunctional Products, Storage products: Hard Disk Drives ranging from 20GB to 120 GB, Optical Disk Drives, Laser Printers, and Mobile Phones including an MP3 and CDMA phones. Samsung also markets Keyboards, Speakers & FDDs in India, which if added to the above products, constitute 70% of any PC, value wise[9].

In a short span of six years since its entry into the Indian market in December '95, Samsung India has came to be recognized as a leading provider of high tech Consumer Electronics and Home Appliance Products in the country. It has a market share of 11% in the highly competitive colour television market in India and holds the No.2 Position in the Flat Television category . It holds significant market shares in the Frost free refrigerators, washing machines and Air-conditioned categories , while holding the No. 2 Slot in Microwave Ovens . Having made a strong impact in the market with its 'Bio' range of Home Appliances- 'Bio Fresh' refrigerators , 'Bio Ceramic ' Microwave ovens and its 'Bio Cool' series of Conventional refrigerators , It has plans to further reinforce its Home Appliance range by launching 4-6 new models in every product category this Year .The Company commenced the domestic production of Washing Machines (November 2001) and ACs (February 2002) , It expects the Home Appliance contribution to its

[9] ibid

turnover to grow by 44 % in Y 2002 as compared to 41.5% contribution in Y2001. [10]

In order to reinforce its marketing power, company has implemented holistic brand communications to get up a homogeneous brand image around the world. It has also allowed some of its subsidiaries to use sub-brand. In India, Bio is the sub-brand. In keeping with the on going digitalization revolution, it will add *"digitalAll"* along with the sub-brands.

Samsung is implementing a unified and consistent brand marketing programme globally along with an aggressive sports marketing strategy. Samsung has touched a total turnover of Rs 850 crore in 1999, just a year after entering into India[11]. Its marketing budget has increased continuously for the past three years.

India is a priority market for Samsung and one of the top five strategic markets in the world. By the year 2004, it is expecting the size of the Indian operations to be $1 billion. Indian market is a segmented market and, therefore, there is a need to customize the products and target specific customer segment. As a result It is differentiating products at different price

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[10] Samsung Targets $1 Billion Revenue , Hidustan Times, Oct,5 ,2002,also see Samsung To Play Digital Tune In India , The Hindu, Oct. 20th 2002

[11] *Economic Times* , November 15, 2002.

basis[12] Samsung aims to be the largest electronics company in India. By 2004 it aims to have Rs 5000crore in revenues . The company entered the Indian market with colour televisions. By June 97 It had established a new facility to manufacture its products .[13]

When Samsung entered India, there was little recognition of the Made in Korea' badge, It tried hard projects its brand image. It sought to position itself not only as a Korean Company but as a global company. There were two main reasons behind the success of Samsung in a market where there were several established names. First, many of the domestic players did not invest much money in their products, particularly in washing machine and fridge and secondly, access to latest products. An indication of Samsung's success in India is in the mobile phone arena. Today it is a second largest player in the Indian mobile market. Yet another area where it has shown its dominance is in the IT peripherals. The company has increased its focus on the home appliances business and also plans to enhance its presence in the digital technology products market through new launches.

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12 Samsung to Play digital tune in india By Shanthi Kannan THE HINDU, October 20 2002

13 ibid

Profile and performance of LG Electronics , India

LG Electronics India is a wholly owned subsidiary of LG Electronics, Korea . It was established in January 1997 , it has set up a state-of-the art manufacturing facility at Greater Noida, near Delhi, in 1998, with an investment of Rs 500 crore. This facility manufactures CTVs, washing machines, airconditioners, microwave ovens, refrigerators and PC Monitors. It has been estimated that, 10% of its global turnover will come from India by 2005. Therefore company is putting up a second plant with an investment of Rs 150 crore to meet that goal. Till now it has already invested Rs. 225 crore. We can compare this with the investment of Sony India, which had put in around only 83 crore in its plant.[14]

According to an estimate, Samsung and LG control as much as 23 % of the colour TV market. In Microwave oven Samsung and LG together have 55% hold of market share. In Air Conditioner, while LG claims it is No.1 in the retail segment Samsung is No. 2 . Between them they claim 38% of market share and they have challenged the domination of Carrier Company. In frost free refrigerator both of them have 33.5% of market share. In fully automatic washing machine, Samsung and LG together have 21% of market share. But their rivals do quite not agree with these figure.

[14] Lg Pumps Up The Volume ,Hindustan Times, Sep,21,2002

However, there is no doubt that the two giant Korean multinationals (Samsung ,LG) are having a significant presence in each segment[15].

LG Electronics, plans to further enhance its position in India by making additional investments. The company, which manufactures colour television (CTV), refrigerators, microwave ovens and air-conditioners, is already a big player in the country. Its market-share in CTV stands at 12 per cent, in frost-free refrigerators 30 per cent, in direct cool refrigerators 10 per cent, in microwave ovens 32 per cent and for air-conditioners 25 to 26 per cent[16]

LG began its operations in India in 1997. It has doubled its turnover every year. It has already recorded a cumulative turnover of Rs 5000 crore in a period of four and a half years, ever since its inception in May, 1997. Probably no other company in the Indian consumer electronics and home appliances industry has registered such outstanding gains. [17]

LG has expressed its keenness for the merger of its telecommunications company in India, i.e. LG Electronics System, with its wholly owned consumer electronics manufacturing subsidiary, LG Electronics India Ltd (LGEIL). LGEIL is targeting a turnover of Rs 4,800

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15 Monthly Commentory On Indian Economic Condition, July 2002.

16 www.prdomain.com, 8 november 2001.

crore for 2003. After the merger, LG Electronics System India will be a division of LGEIL and will be known as information and communication (I&C) division. [18]

LG registered a record turnover of Rs.1056 crore during 2000 (no other company in this business has crossed the Rs 1,000 crore mark in such a short time), LG is already India's second largest consumer electronics brand next only to BPL which clocked sales of around Rs 1,800 crore in 1999., Videocon is at the third spot with sales of around Rs 1,000 crore. Samsung is fourth with a turnover of Rs 850 crore.[19] The single most important factor is that LG, apart from Sony, is the only foreign company which has a fully-owned subsidiary in the country. This way, it has never been constrained for funds. However LG's efforts for the tie-up with the Bestavision group and with C.K. Birla, did not long live.

LG Electronics India has claimed that its sales turnover has jumped by 50 per cent during 2002 to Rs 3,315 crore in consumer electronics, home appliances and IT business. For the current year 2003, the 44.8 per cent increase in sales touching the mark of Rs .4,800 crore. According to the company sources in 2002, its consumer electronics business grew by 66 per

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17 www.lge.com, October 16, 2001.

18 http://www.businessline.com, March 28, 2003

19 http://www.businessworldindia.com ,06th Mar. 2000 .

cent while the home appliances and IT business increased by 43 and 20 per cent respectively. Further, the company sold over 11.2 lakh colour televisions last year, a 72 per cent growth over 2001 sales of 6.5 lakh units.[20]

LG Electronics India is dependent on its parent company LG electronics , Korea not only for technology, but also for financial help. For instance, a substantial chunk of the bill for sponsoring the last World Cup of cricket was picked up by LG of Korea. That apart, LG's strategy of differentiating itself from other brands has made them successful.[21]

IT has sought to introduce the latest technology. For example, its televisions were launched with "golden eye" technology, refrigerators used LG's patented "preserve nutrition" technology, and washing machines used the "chaos punch plus three" technology. Its ACs are positioned as 'LG Health Air Systems' with plasma purifying technology. Its advertising is a combination of product and corporate highlights, with a clever slant on digital technology.

Therefore it can be said that LG's success lies in giving the latest technology to the customers. At the same time, innovative features were added to the models. The most imaginative of these was in the field of

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[20] http://www.blonnet.com, Business Line, The Hindu, New Delhi, Jan. 23, 2003.

[21] http://www.businessworldindia.com

televisions, multi-lingual on-screen displays (the menu appears on the screen in five Indian languages). Then just before the cricket World Cup in 1999, LG loaded a cricket game in its televisions (it was developed by LG's software arm in Bangalore). According to an estimate two features together enabled the sale of LG televisions increased by at least 15%.

LG's success can be attributed partly to its smart marketing strategy and to the fact that it is unencumbered by joint venture partners. Also, it has the full backing of its parent company . From the beginning It has positioned itself as a high technology premium brand. It has resisted the temptation to rush into exchange offers. The USP (Unique Sales Point) of all its products are freshness and health consciousness. Through An aggressive marketing, it spent close to Rs 8 crore on its product advertisements in the Cricket World Cup in 1999.

LG has also demonstrated the keenness to focus on enhancing the perceived value of the brand and increasing its visibility. It had invested $50 million in its expansion plan in all product categories . A part of the budget was to go towards stepping up AC production capacity to two lakh units per annum. At present though, LG is marketing directly imported ACs in the Indian market.

In India, LG has a significant has a 44 per cent share in the colour monitor market which it hopes to increase to 48 per cent next year. In the home appliance segment, it has a 15 per cent share of the airconditioner market in which it entered three years ago.[22]

LG Electronics has made formidable growth in CTV, washing machines and the frost-free refrigerator segments according to the data in January, 2003, and has emerged as the market leader in all three categories during the period.[23] In the CTV category, it had a market share of 16 per cent, and inked a growth rate of 57.9 per cent, according to ORG-GFK data for January. It was followed by Onida (with a market share of 12.8 per cent) and Samsung India (at 12.1 per cent). A major gainer in market share during the month was Sansui, which saw a growth of 52.2 per cent to garner a market share of 7.8 per cent. Meanwhile, while other Indian brands saw a dip in sales or only a marginal increase during January, Onida saw good double-digit growth of 37.6 per cent. Interestingly, the growth in value sales was much lesser than growth in volume sales for most companies, indicating a drop in prices and giving discounts on CTV sets. For instance, while the volume growth for LG was 57.9 per cent, the value growth was about 31.6

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22 LG ,Samsung To Make PCs To Take On Grey Market , Economic Times, October 18,2002

23 http://www.businessworldindia.com ,March 18,2003

per cent. Similarly, Samsung saw a volume growth of 41.8 per cent and a value growth of about 26.7 per cent. [24]

In the washing machines market, LG emerged the leader with a market share of about 21.4 per cent with a 62.2 per cent growth. It was followed by Videocon (which had a market share of 20.3 per cent) and Whirlpool (with an 18.9 per cent market share). It was also the leader in the semi-automatic washing machine segment with a market share of 25 per cent followed again by Videocon and Whirlpool. Meanwhile, in the frost-free refrigerators category, LG emerged as a clear leader, growing at 75 per cent to garner a 33 per cent market share. It was followed by Whirlpool (with a market share of 27 per cent) and Godrej (15 per cent).

After the excise cut in 1993-94, the AC market[25] showed a remarkable jump in growth, by 15 per cent (1994-1996). LG was the first to enter into the Indian market followed by Samsung and National in 1998. These companies have been directly importing their latest products and marketing them at competitive prices. Lowering of import tariffs has helped here.

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[24] Korean Brands Leads CTV Brigade , Economic Times, Feb,6,2003

[25] http:// www. domain-b. com/ marketing, 23 March 2000

LG Electronics(LGE) and Samsung Electronics are taking on each other in Indian market. They are introducing hi-tech feature- rich products as well as increasing awareness about their products among the public. We have already witnessed their success in the consumer electronics sector. In fact, both of these chaebols are dominating over the last couple of years. This new battle also seems to be equally exciting. Samsung has been aggressive in the mobile market . It has already made inroads in the GSM handset sector. As far as LG Electronics is concerned, It is already executing a $100-million order from Reliance for Phase-I of its rollout, while supplies of handsets to TTSL (Tata Telecom) have been continuing on an on-going basis. The handsets being supplied to both the companies are completely different types of models. [26]

Samsung India has moved to the number three slot in the ORG sales chart in washing machines in the month of April, 2003 pushing Whirlpool to number four. A year ago, in April 2002, Whirlpool was the second largest player in the industry with 21.1% market share, next only to Videocon at 21.6%. LG, however, has remained at number one in April this year, when compared to the month before, despite losing market share. Videocon has improved its share marginally at the second slot. The total market, however, has declined by 17% to 87,000 units in April from 1.04 lakh units in March.

[26] http://www.blonnet.com , Jan 12, 2003,

Samsung improved its market share from 14.4% in March to 15% in April, while Whirpool slipped to number four position as its share declined by 2% to 14.2%. LG's share dropped to 23.7% from 25.2% and that of Videocon improved marginally to 19.2% from 19.1% in the same period. BPL market share has increased from 3.1% to 4.5%. Godrej at 5.7% and IFB at 3.4% have gained and lost shares marginally.[27]

Advertisement and promotional campaign is also in full swing. LG is the official global partner of all ICC tournaments till 2007, which include the Cricket World Cups in 2003 and 2007. This is the second cricket-related campaign being flagged off by LG. Samsung has spent Rs 35 crore in advertising for airtime till the last World Cup, against a small amount spent last year.[28]

Korean companies, as like others, are not happy with the infrastructure facilities in India. There are many bottlenecks which these MNCs find as obstruction. There has to be remarkable improvement in all area , specially sectors like telecom, transport and roads in a big way to attract investors.

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[27] The Economic Times , June 05, 2003

[28] http://www .lge.com and lgindia.com

If India offers the right business environment and frame suitable policies in the core areas, investments from Korea and other Far East countries will increase tremendously. As Koreans have showed the willingness to invest in India, it is for the government to channelise the funds and attract more money from the region. This will also lead to a flurry of investments from Japanese companies who are their competitors in the world market.

The speed of investment, marketing aggression, their latest products and quality of the products have made these Chaebol (Samsung, LG) a household name in India. And also these two Korean multinationals along with Hyundai, have added a new dimensions to the Indo- Korean economic relations by entering into the Indian market in automobiles and electronic industries in a significant manner.

SUMMARY AND CONCLUSION

SUMMARY AND CONCLUSION

In the preceding chapters an attempt has been made to examine the context and pattern of interaction between Korea and India in the rapidly developing electronics sector in India. More specifically the study has sought to focus on how two leading Chaebol and also global players in electronics, Samsung and LG came to occupy a substantive and significant space in the consumer electronics scene in India since 1995.

The study has been divided into following **three** chapters: -

In the **first chapter**, the distinctive features of the Korean pattern of industrial development that facilitated the companies like Samsung and LG to emerge and consolidate their position as global players in the electronics sector has been analyzed.

This chapter has explained in details the crucial role played by the state in facilitating the growth of Chaebol. From the beginning of industrialization in the early 1960s, the state created a conducive environment for the healthy development of the Chaebol. The state recognized the advantages of developing the manufacturing sector with a view to exporting the value added products for the development of the economy. Exports of manufacturing goods

were assigned absolute priority. State took all the required measures to support and strengthen the private capital and market forces.

A number of measures was announced from time to time to ensure that Korea maintain its high rate of growth and diversified development and impressive export earnings. Chaebol diversified their business and obtained a competitive advantage in the world market and it has dominated the Korean economy from 1960s. The leading Chaebol comprises of many divisions that have no relation to one another whatsoever, for example; consumer electronics and petro-chemicals in case of the Lucky Goldstar group; finance and heavy machinery in case of Hyundai consumer electronics, heavy machinery, finance and entertainment in case of Samsung and so on. The state supported such diversification because it promised to provide the clout necessary for Korea to penetrate deep into world markets and to compete against the big business groups of Japan. Chaebol took the advantage of shift towards heavy and chemical industries promoted under the Third Five Year economic plan (1972-1976).

The rapid development in the electronics sector took place under the initiative of leading Chaebol Samsung and Lucky Goldstar and Daewoo. In 1965, the electronics industry was selected by the Ministry of Commerce and Industry (MCI) as one of the priority sector for exports. In 1988 the electronic

industry became the largest export industry replacing the textile industry. The share of electronics in total exports rose from 6.9% in 1970 to 28.2% in 1990. In 1995, Korea was the world's 13th largest trading nation with $ 96 billion in exports and $ 102 billion in imports. Electronics goods have been among the Chaebol's most profitable exports. Samsung and LG have been the most active of the Korean electronics companies moving overseas.

An important factor in Korea's outward foreign direct investment (OFDI) in 1990s was the intensive and Extensive globalization drive of the Kim Young Sam administration. The policy was to remove obstacles for overseas investment and to allow and encourage the private sector to take initiative in the globalization drive. These Chaebol also had to rely on international financial institution to fund their overseas projects. Government relaxed its policy on OFDI in 1986. In 1994 several OFDI related policies were introduced to ease regulations and decrease the number of sectors prohibited from OFDI. Finally, in 1996 the negative list for sectors and regions for OFDI was completely abolished, regulations on foreign real-state acquisition were relaxed and the upper limit on OFDI, by private enterprise, was raised.

During the initial stages these companies had joint ventures with Japanese and American firms. By this way these Chaebol tried to bridge the technological gap. These companies sold their products initially as original

equipment manufacturer (OEM) and soon started competing in the global markets. As their dependence on imported technology reduced and the restrictive conditions of their OEM agreements lapsed, Samsung and LG started to build up their overseas marketing networks and selling their own brand name products. In the 1990s, Samsung and LG pursued a vigorous OFDI strategy and emerged as a global enterprise through joint R&D projects with leading overseas companies. It invested 600 billion Korean won in OFDI in 1996 and it was the largest investment by a Chaebol in terms of OFDI in that year. It is now one of the market leaders in many consumer electronics, telecommunication and multimedia devices. LG had first joint venture with Japan's Hitachi in 1965 and by the end of 1980s it had many tie-ups with the foreign firms.

Many factors facilitated the emergence, expansion, and economic power of Chaebol, which in due course acquired the status of multinational.

The second chapter has dealt with the substantive, significant and striking changes in the Indian government's economic policies since 1991 which provided an opportunity to leading multinationals like Samsung and LG, to be associated with the new pattern and thrust areas of industrial development in India.

A crucial aspect of India's policy of liberalization initiated in 1991 has been to create favourable conditions and cpportunities for multinationals to play a much bigger role in the Indian economy, especially in sunrise industries. In pursuance of the significant shift in economic policy, the electronics sector began to attract multinationals especially since 1995. This was not surprising because the global electronics scenario had a strong presence of multinational corporations (MNCs). The MNCs from Korea seek relatively cheap inputs costs, better endowment of resources, demand conditions in less developed countries as well as access to advanced technology and management know – how in advanced nation. It also includes positive global political factors and low transaction costs in the global economic conditions.

After the announcement of New Industrial Policy, many reforms were introduced in the various sectors, in 1991-1992. By this way India made its tax and business procedure as investment friendly and opened its market for multinational companies. Economic liberalization of 1991 refers to major reforms that simplified and rationalized economic policy, its procedures and its regulatory aspects. It includes FDI reforms, financial sector reforms, technology transfer norms, restructuring of the bank, opening up of the insurance sector, amendment to company act, tax reforms, liberalizing imports and reducing tariffs. Liberalization in the foreign direct investment (FDI) were

more visible with the introduction of automatic route for FDI/NRI and overseas corporate bodies To accelerate the pace of FDI a simple fast track mechanism or automatic approval for more than 60 industries (except those of strategic concern) that includes electronic industry, were allowed. Direct foreign investment up to 51% was permitted in many industries. Foreign equity up to 100 % was made available in export-oriented units in the electronic, software technology and power sector.

When India began to pursue liberalization, privatisation, and opening its market from early 1990s, it encouraged greater inflow of foreign capital and welcomed multinationals across the sectors. Electronic sector, which is a knowledge and technology intensive sector, was no exception. In the field of electronic sector custom tariff for consumer electronics were reduced. Electronics sector became free from licensing procedure. Foreign equity participation policy was liberalized. New telecom policy allowed foreign investment up to a ceiling of 49% in basic services and other value –added telecom services. Foreign subsidiaries with 100% equity were given permission to operate in India. Furthermore, no license was required on the imports of most electronic and it's products. This enabled Samsung and LG as well as other major Korean multinationals to set up their subsidiaries in India.

In 1991, economic relation got a substantial boost with the implementation of liberalization policy by India. Korea's foreign direct investment approvals rapidly increased from US$2.5 million to US$6.23 billion in 2002, making it the fifth largest investor in India. Korean companies have found a conducive environment for investment and within no time LG, Samsung, Daewoo, Hyundai, became household name in India. Some of these companies are using India as its export base for central Asia, Africa and European market. Several Korean companies have invested in the auto component segment, chemicals, textiles, construction, software research and development. Most of Korea's investments in India are in capital-intensive industries. Korean technology, management and marketing skills along with Indian manpower and low cost of production can create manufacturing bases, not only for the domestic market which can absorb a lot but to exports items all over the globe. Investment should also flow from small and medium Korean companies. To attract investors, Government should provide more promotional efforts and linkages between small and medium companies of these two countries.

The third and final chapter looks on the profile and performance of Samsung and LG in the Indian electronics industry. Only within five year after entering into the Indian marker, Samsung and LG have established their strong

foothold. This is clearly visible from their extra ordinary growth in their market share. Encouraged by the performance, the two companies are focusing more on diversifying into new product ranges.

The competition among multinationals with regard to capital investment, research and development, product innovation, diversification, cost reduction, brand image, market share and strategies etc. was also intense. And yet a number of factors had stalled the leading electronics companies from entering into the Indian market. However the situation began to change from the middle of 1990s.

In 2002 Samsung India electronics Ltd. has achieved growth of 26% over its Y2001 sales turn over. The consumer electronics division contributed 60% of the sales while balance 40% came from home appliances. It claims that it is No.2 player in the flat TV segment with a market share of 25% and 13.5% market share in the colour TV category. Samsung India is increasing its service network from the existing 620 nos. to 700service point all over the country to give better service to its customers. Samsung, Korea has received approval to enhance its equity in Samsung India Electronics to 100 per cent by buying out the share of Videocon last year. In 2001, LG Electronics, Korea planned to make its Indian subsidiary as a global export center for home appliances. LG Electronics claims that its India's export income is expected to touch ten per

cent of total revenues by the year 2005. The Indian subsidiary's contribution to the LG Korea's revenue will increase to around ten per cent by the year 2005, up from the level of 5% in 2001. LG's success in India can be attributed to its making available world-class technology products to the Indian consumer, localized it to suit Indian needs. In line with its worldwide corporate philosophy to offer a healthier, better and convenient life to consumers, LG is constantly investing in R&D. The company has not just introduced new models across all its product categories but introduced revolutionary patented technologies Golden eye for colour televisions, preserve nutrition system in refrigerators, health air system for air conditioners, health wave technology in microwaves and fabricare system in washing machines. Company has also offered world-class standards in after sales service. All this enabled the company to become a premier brand in the Indian market in less than six years.

Samsung and LG can improve market share by better supply chain management and improved service centers. These companies should introduce wide range of models at regular intervals. LG and Samsung are now considered as a leading electronics companies in India and are virtually dominating the market in various consumer electronics segment. These are also projecting itself as the leader in digital technology products.

However, considering the growing competition from other MNCs of developed nations, Samsung and LG should place more emphasis on upgrading the quality of their products inconformity with market trends. For this they should invest more on in-house R&D and marketing strategy to stay competitive in the Indian market.

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