GLOBALISATION OF THE SOUTH KOREAN ECONOMY AND ITS IMPACT ON KOREA-INDIA ECONOMIC RELATIONS

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CERTIFICATE

This Dissertation entitled **"Globalisation of the South Korean Economy and Its Impact on Korea-India Economic Relation"** by Ms. Rupa Bagga for the Degree of **Master of Philosophy** is an original work and has not been previously submitted for any degree of this or any other University.

We recommend this dissertation be placed before the examiners for evaluation.

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PREFACE

Within the span of last two decades one of the world's most diverse geographic regions--the Asia-Pacific--has been transformed in the last two decades into a global centre of development, trade and investment. A significant proportion of the economic vitality associated with the region is attributed, among others, to the newly industrialising countries (NICs) of Asia of which South Korea is importantly one. Viewed by some as one of the newly maturing economies (NMEs) Korea since 1960s has built a dynamic and resilient economic system which, it is widely acknowledged, has already had significant influence on the East and southeast Asian countries. Current indications are that this chain or "ladder of development" would, in time, encompass the south Asian economies too.

Much analytical research generated in the past few years to explain the Korean phenomenon has largely attributed its success in whole or in part to such internal variables as cultural homogeneity, human resource development programme, close government-business cooperation, long-term business strategy, consensus decision-making and quality control in the industrial system, post-Korean War industrial reconstruction, various tariff and non-tariff barriers, and pronounced need to compensate for domestic deficiencies of vital foodstuffs and raw materials.

Understanding Korean economic transformation requires, in addition, however, a closer scrutiny of external factors, particularly the pattern of Korea's investment and trade with other countries. What is striking, and also instructive in this regard is Korea's dynamic effort at phasing its economic activities internally in the initial period, and then, externally in the subsequent years. In the process, the pattern of Korean foreign investment from 1960s records several shifts through the following stages: first, a focus on investment in resource development in the region proximate to Korea to guarantee supply of relatively inexpensive raw materials; second, a shift to investment in foreign manufacturing and to avoid trade barriers in the developing and developed countries; and third, a growth in investment directed at establishing market shares in host countries and/or at gaining access to new technologies and skills.

So much so, today South Korea has the largest and most advanced industrial structure among the other Asian NICs viz. Hong Kong, Singapore and Taiwan. Also, its foreign direct investment (FDI) stock reached a total of $3.4 billion by the end of 1991, showing a very rapid increase from 1980, when it totalled only $142 million. Within this, manufacturing FDI had increased sharply from 18 per cent of the total stock in 1980 to 40 per cent in 1981. Primary sector investments accounted for another 20 per cent, with such services as trading, transportation, construction and real estate making up the remaining 31 per cent.

Large firms account for the overwhelming bulk of FDI from South Korea --73 per cent by value but 28 per cent by number in total FDI stock as of 1991, indicating a high level of market concentration within the country--the manufacturing sector in south Korea is dominated by a relatively small number of private conglomerate groups, *chaebol*. But utilizing a highly interventionist strategy, the *chaebol* pushed industry to large-scale complex, technologically demanding activities while simultaneously restricting FDI inflows tightly to promote national ownership. The advantages of *chaebol* derive from two other significant factors: first, the level of investment in research and development (R&D) far exceed the levels recorded anywhere in the developing countries; (The R&D expenditure in South Korea is estimated around 1.9 per cent of the gross national product (GNP) compared to 0.9 per cent for India); second, the extraordinary investments in human resources development or skill creation. The combination of high skills level with intense technological efforts within large conglomerate enterprises with powerful export drives and supported by an efficient science and technology (S&T) infrastructure, it is argued, accounts for the Korean economic structure and its global role. These characteristics of the country's economic strategy make

Korea unique among the developing countries giving its diverse economic sectors a level of technological depth and global competitive edge. They also account for the preponderance of the *chaebol* in the country's overseas investment activity which, in turn, accounts for its wider geographical dispersion in southeast Asia and in other parts of the World.

Academic studies focussing on the transformative changes witnessed in Korea during the last four decades is abundant. It may however be added that most studies are far from being definitive. So much so, the paradigm inherent in growth performance of the Asian NICs including importantly Korea is not apparent. Broadly speaking, it is possible to identify two major streams in the available analytical literature--one, based on neo-classical theory of economic policy suggesting that Korea's transformation is largely the result of the free-play of market force. Critics of this approach, however, point out that while the dynamic efficiency and free trade have dominated NICs practice, many rules of the neo-classical theory were violated and are still being violated. What is more, they argue, that the Korean "miracle" took place during the very decades when the market system was rudely shaken by such factors as oil shocks, stagflation and productivity declines in the capitalist economies. It is for these considerations the other stream of analysis underplay the stylised version of "neo-liberalism" and highlight that Korea's success along with other Asian NICs goes beyond the narrow confines of neo-classical economics. To them, NICs practice is a successful application of economic planning from import substitution industrialisation (ISI) to export-led growth seemingly coinciding with a deliberate and concerted effort in shifting from governmental intervention to internal liberalisation, eventually leading to external penetration. Studies published in the 1980s focussing on the experience of the 1970s generally reveal a more complex analysis involving a mix of market forces and state-inspired initiatives that overall offers a more *dirigeste* cast to the Korean developmental model. In a sense, each view is right. Yet, each masks the complexity of the transformative process witnessed in Korea as in other Asian NICs.

Scholarly literature on the major thrust of the present study viz. Korean economic interaction with the global economy by way of its foreign investment through multinational corporations of Korea and of their activities and operations is practically non-existent. Newspaper accounts offer descriptive insights into Korean foreign investments through the leading Korean business corporations. While these descriptive accounts are useful yet they hardly shed any light on the domestic compulsions and the global imperatives that are forcing these national corporations seeking investment opportunities both in the developed and the developing countries.

It is for these considerations, a modest attempt is made in the proposed monographic study to examine at some length the role and functioning of the Korean business corporations outside Korea. As has been mentioned earlier, today the total stock of Korean FDI is no more than $ 3billion. No doubt, the magnitude of Korean FDI is insubstantial compared to the industrially advanced countries and in some respects less than even the FDI of some of the other Asian NICs. However, over the years as FDI grew in volume, its dispersion has gone through an uneven trajectory. In the 1980s only 32 per cent of Korean FDI reached the developed countries, importantly the United States; in recent years it is showing a steady increase reaching out to more than 50 per cent in the advanced industrial economies. Concomitantly, the developing countries' share of Korean FDI has decreased from a high of 68 per cent in 1980s to about 40 per cent in the 1990s. It must however be underlined while the share of the developing countries has diminished, its spread is much larger in the sense that a number of countries in the developing world are the targets of Korean foreign investment. Yet another feature of Korean FDI is that its present accent is beyond its immediate neighbours to encompass other major Asian countries including India.

Limited Korean FDI has already set up plants producing consumer durables in Sri Lanka and Pakistan.

Questions relevant to the present study are as follows: what are the basic motivations of the Korean FDI? Are there any apparent domestic or regional compulsions which encourage Korea's FDI to seek newer avenues? And, finally, is its dispersion born out of any concerted policy shift? Related to these questions are other issues such as how different are the Korean FDIs in comparison to FDIs originating from developed industrial economies. FDIs from developing countries have been made for one or other of the following considerations: either they are market-seeking or export-oriented or resource-seeking or technology-seeking or efficiency-seeking direct investments. Into which one or the other considerations/categories can one place Korean FDIs?

With these objectives in view, the present study will begin a descriptive survey and offer some critical assessment based on secondary sources of the economic transformation of Korea highlighting the role performance of the state and the *chaebol*. Following this general outline, the monograph will examine in some depth the globalisation of the Korean economy especially in respect of the FDI outflows both in terms of its origins and destinations. The analysis would incorporate the motivations of the Korean business corporation seeking foreign investment. To substantiate the analysis, an attempt will be made in the final part of the study to examine Korean economic incursions in South Asia having a bearing on Korea's evolving economic relations with India. While focussing on the bilateral economic relations with India, a descriptive account of Korean multinational corporation will be made.

The study is largely based on secondary source material of books and journalistic research articles examining the Korean economic development and the strategies adopted both by the state and private sector. What is attempted is a descriptive analysis of Korea's maturing into an industrial power and study the ramifications both to the internal industrial structure and its impact on the global economy. Wherever possible data available both from Korean and other international sources will be used. Newsletters of the major Korean corporations including Daewoo and newspaper accounts will be extensively used to reconstruct Korean foreign economic relations including India. Discussions with Korean government and corporate officials present in India have helped to gather additional information and perspectives.

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Rupa Bagga

20 March 1996

Rupa Bagga

CHAPTER I

CHAPTER I

ECONOMIC DEVELOPMENT OF KOREA SINCE 1960S

Ever since the decade of 1960, the economy of South Korea (hereinafter referred as Korea) has grown at an unprecedented rate. Analysts and observers have attributed this phenomenal growth of the Korean economy to a combination of several factors and circumstances. Most, however, are of the view that it has largely been thanks to the significantly judicious roles of three major institutions: the government, the business community and the labour unions.[1] Of the three, according to many, the

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1. See importantly the works of Leroy Jones and Il Sa Kong, *Government, Business and Entrepreneurship in Economic Development: The Korean Case*, (Cambridge: Harvard University Press, 1980); Alice H. Amsden, *Asia's Next Giant : South Korea and Late Industrialization* (New York: Oxford University Press, 1989); Lee Kyu-uck, *Government-Business Relation in Korea: With A Special Reference to the Concentration of Economic Power* (mimeo). (Seoul: Korea Development Institute (KDI) Policy Forum on Private-Public Interaction Towards Economic Development, 1989). It has been often pointed out that characteristics of the three institutions of Korean economy and their inter-relation have much contributed to the successful economic development during the past three decades. These analyses emphasized importance of the Confucian value in forming characteristics of the three economic institutions and their inter-relations. This view has been depicted in the works of E.S. Mason et al, *The Economic and Social Modernization of the Republic of Korea*, (Cambridge: Harvard University Press, 1980). Byong-Nak Song, *The Rise of the Korean Economy* (Updated Edition) (New York: Oxford University Press, 1994).

paramount role played by the government of Korea has been doubtless decisive. Others have laid no less emphasis on the business and labour sectors too.

In the present Chapter, an attempt is made to describe the historical background of Korea in respect of its economic development process through the 20th Century and highlight its evolving industrialization policy laid down by the state since 1960s with special focus on the role performance of *chaebol*, an institution native to Korea.

Historical Background

The tradition of a strong authoritarian state in the history of Korea is traced back to the Yi dynasty (1392-1910) by most writers.[2] The early history of Korea shows that Korea was unified as a nation-state by the Silla dynasty through the unification of the three ancient Kingdoms--the Koguryo, Paekche and Silla in 669 AD. Even after the disintegration of Silla dynasty, the Koryo dynasty ruled as a unified state in the medieval period (935-1392). It was only after a long period of these two

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2. Henderson, *Korea: The Politics of the Vortex* (Cambridge: Harvard University Press, 1968), p.10; James B. Palais, "Stability in Yi Dynasty Korea: Equilibrium systems and Marginal Adjustment," *Occasional Papers on Korea*, no.3 (Seattle: University of Washington, 1975); and Palais, *Politics and Policy in Traditional Korea* (Cambridge: Harvard University Press, 1976), pp.16-18; Amsden, n.1, pp. 29-31.

monarchies of Silla and Koryo that the Yi dynasty was established and evolved into a strong Yangban bureaucratic state. With Confucianism becoming a state ideology during these years, its beliefs further enhanced a strong centralized bureaucratic state. Transnational linkages were prevalent even during these dynasties. First, Korea had a ritual and military relation with China and in the year 1865, Russian and United States trading vessels sought Korea to open its ports to their traders. Several efforts by the French traders in 1866 and by the United States traders between 1867-71 to open traditional Korea were all futile, as the then monarch did not adhere to these overtures of Western powers. However, these developments paved the path of Korean modernization in later years. And finally, in 1876, the Yi Korea did open its three ports initially to Japan and the West. Later by the year 1878, it established its trade links with the United States, and then in 1882 with Great Britain. Thus, from 1876 to 1910, the Yi Korea experienced rapid change both domestically and globally.

The degeneration of the Yi dynasty which began in the late 19th and collapsing in early 20th Century led to the emergence of a society imbibed with a weak state apparatus. Thereby the state proved to be utterly incapable of responding to the encroachments of newly arisen industrial powers, be it Japan or other Western nations. The landed aristocracy which was successful in utilizing the state to perpetuate its domains fatally weakened the Korean nation itself in its effort and capability to resist outside pressures. With the repression of these so called societal actors under the Japanese rule, the colonial rule in Korea lasted for a period of more than three decades (1910-1945).

The Japanese colonial state in Korea (1910-1945), according to scholars, had been a `totalitarian' state i.e. its main motive was to organize, mobilize, and exploit Korea for the benefit of the metropole."[3] Very shrewdly,

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3. For more details on Japanese Colonialism, see Henderson, *Korea: The Politics of the Vortex* (Cambridge: Harvard University Press, 1968) pp.24-64; Bruce Cumings, *The Origin of the Korean War: Liberation and the Emergence of Separate Regimes, 1945-1947*, (New Jersey:Princeton University Press,1981), pp. 3-99; Ramon H. Myers and Mark P. Peattie, (eds), *The Japanese Colonial Empire, 1895-1945*, (Princeton, New Jersey: Princeton University Press, 1984), pp.347-399; Sang Chul Suh, *Growth and Structural Changes in the Korean Economy, 1910-1945* (Harvard, Mass.: Council on East Asian Studies, Harvard University Press, 1978), p.34; Henderson, n.1, p.72. The Japanese call the policy applied to Korea from 1910 to 1919, "military control" or *budanteki tojisaku*; I-te Chen, "Japanese Colonialism in Korea and Formosa: A Comparison of its Effects upon the Development of Nationalism, *Ph.D. Dissertation* (University of Pennsylvania, Philadelphia, 1968), pp. 220-223. Andrew C. Nahm (ed), *Korea under Japanese Colonial Rule: Studies of the Policy and Techniques of Japanese colonialism* (Kalamazoo Mich: Centre for Korean studies, Western Michigan University, 1973), p.101.

the Japanese colonialists were able to manipulate tensions among the Korean upper class by mobilizing them into pro-Japanese organisations as the Ilchin-hoe. From the beginning, the Japanese colonial administration was primarily looked upon as a military police state, its bureaucracy bei typically security-oriented. The colonial state system stood above the Korean society, exercising authoritative and coercive control. Although it is said that Korean industrialization had begun in the second half of the last century following Japanese incursions, in reality Korea had become merely a colony of Japan for a span of nearly thirty five years.

On the whole, the Japanese ruled over Korea with an iron-hand showing no concession whatsoever and suppressing all efforts towards independence of Korea. During these years, Japan coerced Korea to open its doors to foreign trade and, in the process, especially since 1910s, the course of economic development was largely determined by Japan as a colonial power. In this on-going process, the colonial power favoured a Korean economy which was to be based primarily on agriculture. From Japan's perspective, Korea was a valuable asset if only because of its rich agricultural and natural resources. The Japanese were not just interested in the uninterrupted supply of agricultural products of Korea to the mother country but they had a wider interest in the industrial raw materials which were of greater significance to boost their own industrial growth back home. Additionally the limited Korean domestic markets was a further attraction for Japan. The Japanese colonial policies also shifted over time. As with the outbreak of rice riots in Japan, the Japanese colonialists emphasised more on agricultural production in their colony, Korea, but the same policy was reversed when the Japanese farmers protested over declining domestic farm prices in early 1920s.

During the period between 1910s and 1930, the Korean economy evolved as a typical colonial economy, essentially agricultural, the mainstay of which was to produce for a market in Japan. The internal demand in Japan largely determined the agricultural production. In a way, therefore, in the period of 1910-1930, Korea appeared to be categorized as a dependent colonial economy. Even after 1930, when Japan established its supremacy over Manchuria and encouraged a modicum of industrialization in Korea, the peninsula was no less exploited in respect of its agricultural resources and thereby remained subservient as a typical colony to Japanese settlers.

Apparently, the decade of 1920 did witness the emergence of an entrepreneurial class in Korea drawing its members from the Yangban and the commoner class. However, what is interesting to note is the fact that the Korean industrial development was largely the offshoot of the already evolved Japanese industrialisation process.

According to available data, Japan moved into heavy industry, thanks to the exigencies of the Second World War. It could do so by bringing in capital which by the year 1941 amounted to about 70 per cent of total Japanese investment in industry in Korea, divided between six *zaibatsu* groups of Japan (financial cliques). The fall-out of all these was that the Korean entrepreneurs were altogether excluded from all such enterprises and were also excluded totally from any decision-making role, thereby typifying Korea to the status of a dependent colonial economy. So much so, when Korean economy was revived in the 1950s, it bore some basic unique features but with several familiar imprints of colonial distortion. There was overcapacity in textiles and light manufactures and undercapacity in basic industries. The skeletons of Japanese owned corporations in basic industry which Korea inherited, were aplenty but nonetheless remained ill-managed and technically problematic to operate.

The retreat of Japanese colonialism created a situation in which Korea found itself incapable of supporting itself. The transitional years witnessed a kind of a class-war in which the peasants opposed the landlords, and those who resisted Japanese colonialism opposed those who collaborated. Under these critical circumstances, the government machinery which Japan had bequeathed appeared as a useless inheritance. Noted historian of Korea, Bruce Cumings has showed how the colonial bureaucracy destroyed the rules of an agrarian bureaucratic dynasty that had administered Korea for five hundred years and had long considered itself far superior to Japan. Thus, the colonial rule did leave behind a painful legacy but then it also gave Korea an opportunity to modernise its economy and helped facilitate the country to get an exposure to the outside world. By 1945 when the colonial rule finally ended, the Koreans themselves began evolving their own perception of a modernisation process.

When the Japanese left Korea they bequeathed to it a relatively advanced transportation network, with links to the world market system through a host of processes which included substantial industrialization of the Korean peninsula in the 1930s and 1940s. So much so, at the time of the annexation, Korea's occupational distribution reflected its agrarian structure, with 8.4 per cent of all households engaged in agriculture and a small 0.81 per cent were engaged in mining and manufacturing.[4] But by 1936, heavy industry accounted for 28 per cent of total industrial production and more than half a million Koreans were engaged in industrial sectors. These numbers tripled by 1941.[5] Thus, a rapid industrial revolution began in earnest during the last fifteen years of colonial rule which by all means was a stark contrast to the experience of other colonies. They also bequeathed to the

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4. Literature on modernization during the colonial period is voluminous. From an economic perspective, the classic work is that of W.W.Rostow, *The Stages of Economic Growth: A Non-Communist Manifesto* (Cambridge: Cambridge University Press, 1960); E.S. Mason et. al., *The Economic and Social Modernization of the Republic of Korea* (Cambridge, Mass : Harvard University Press, 1980), p.75. Mason is of the view that the Japanese colonial rule cannot be seen as an unrelieved disaster. It is true that, during the period of colonial rule, many Koreans experienced an absolute, not just a relative, decline in their standard of living. And yet, for all the hardships imposed on the Korean people, Japanese colonial rule laid some of the key foundations for Korea's later entrance into modern economic growth". For a critique on modernization process, see Paul Baran and E.J. Hobswan, "The Stages of Economic Growth", *Kyklos* (Basel, Switzerland), no.14, 1961, p. 234-242; and Sang Chul Suh, n.3, p.34.

5. I-te Chen, n.3, pp. 220-223.

ancient homogeneity of Korea the physical essentials of modern national integration and, in the process, a highly dispersed population was mobilized through the conscious, forced policies of the war years. Various modern irrigation facilities along with the land reforms that were implemented did bring about a positive result to some extent for Korea's transformation after 1945. To some extent, a modern Western educational system was also introduced which although did not have a strong impact initially, certainly did help the Koreans later to compete with the Western world[6]. The most crucial point to be examined is the fact that the Japanese simply left Korea when they were defeated in the Second World War; the colonial overlordship dissolved abruptly in 1945, and the pressure that had been building in Korea was unleashed.

But then, with an overall weak set up with no national defense force, Korea fell prey to the Great Powers which divided it along the 38th parallel into two geographically and ideologically separate Koreas. The southern half of Korea was left with a disabled economy and chaotic politics

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6. For an overview of colonial education in Korea, see E.P.Tsurumi, "Colonial Education in Korea and Taiwan", in R.H.Myers and M.R. Peattie (eds), *The Japanese Colonial Empire, 1895-1945* (Princeton, N.J: Princeton University Press, 1984), pp. 275-311.

and the outside powers were ready to dominate its affairs.

So the thirty five years of Japanese colonial' rule in Korea (1910-45), followed by a three year (1945-48) rule of the American Military Government in South Korea (MGIK) that came in the wake of an unexpected division of one of the most homogenous nations in the world which characterized the four decades of the ante-state history of Republic of Korea, made its debut on 15 August 1948 in the comity of nation-states. These features of the pre-state history of Republic of Korea were different from those states in Asia that witnessed a direct transition from Western colonial status rule to sovereign independent rule through the medium of transfer of power without the mediation of a powerful outside power with global strategic interests.[7]

The American Military Government in Korea introduced land reforms in Korea after the retreat of the Japanese landlords who held most of the Korea's agricultural resources (for instance, the Oriental Development Company which owned nearly one fifth of the Korea's land

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7. R.R. Krishnan, "The State and Economic Development in Korea", Paper presented at the seminar on "Future International Roles of India-Korea: Long Term Policy Implications", India International Centre, 17-18 December, 1990, New Delhi.

resources)[8]. Land reforms, considered as the main foundation for the later day economic transformation of Korea was based on the principle of land-to-the-tiller. Such that the land now was transferred back to the Korean tenants by the MGIK, the ceiling on land holding was fixed, to less than three chongbo (1 chongbo = 0.992 hectares) along with sale and distribution of land to tenants and landless farmers of lands owned by absentee landlords. Also, any portion of land which was owned by Korean farmers in excess to three chongbo were not to be made the object of tenancy lease or cultivation by proxy. The effects of these reforms were such that approximately 1.5 million farmers (70 per cent of the total farm households) received land and became owner-tiller. Such land reforms did have certain shortcomings and problems, but the most fascinating aspect was that the MGIK and the Korean state did achieve a historic task by making a positive effort to uplift the

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8. The rather substantial industrialization of the Korean peninsula in the 1930s and 1940s was accompanied primarily by a trio of big institutions: the Government-General, including "national public companies" such as the Oriental Development Company, the South Manchurian Railway Company; the Central banks, such as the Bank of Chosen and the Shokusan Ginko or Industrial Bank and the Great Zaibatsu houses of Japan, such as Mitsubishi, Mitsui, and Sumitomo. The Oriental Development Company for instance owned nearly one-fifth of the Korea's land resources. For more details see K. Moskowitz, "The Creation of the Oriental Development Company: Japanese Illusions Meet Korean Reality", *Occasional Papers on Korea, No.2* (Seattle: University of Washington, 1974).

economy. By intervening in the rural land issue, the Korean state was able to establish an egalitarian socio-economic order which contributed enormously to the industrial transformation of the economy in the 1960s.[9]

The State and the Industrialization Policy

Korea has shown by its experience that the drawing force has to be a strong interventionist state in order to overcome the curse of economic backwardness. As growth began to accelerate, it was largely in response to government initiatives, rather than merely the interplay of market forces. The power of the state was used to maintain control over the workers as well as the owners and managers of capital. Over the years, the state even mediated between the market forces. Initiatives to enter new manufacturing branches were assigned by the state. Every major shift in industrial diversification in 1960s and 1970s was being instigated by the state defined as the

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9. For more details see Iae-hong Cho, "Post-1945 Land Reforms and their Consequences in South Korea" *Ph.D. Dissertation* (Indiana University, 1964), Jeong-Koo Kang, "Rethinking South Korean Land Reform: Focusing on US Occupation as a Struggle Against History" *Unpublished Ph.D. Dissertation* (Madison: University of Wisconsin, 1987); Although land reforms caused temporary dislocations in agricultural production, it begot a highly productive system once peasants were provided with capital, fertilizers and other inputs to pursue scientific farming. For more details see Amsden, n.1, pp.37-38; B. Cuming, n.3, p. 69 and Myers and Peattie, n.3, pp. 437-452.

"bureaucratic apparatus and institutionalized legal order in its totality."[10]

A closer scrutiny of the various areas would illustrate the economic strategy adopted by the state by different regimes and in different circumstances. During the phase of the First Republic (1948-60), the Korean state along with economic reforms intervened in other areas too. Following the elections in 1948, in the southern part of the Korean peninsula, Syngman Rhee was designated as the

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10. R.R. Krishnan, n.7; W.D. Reeve, *The Republic of Korea: A Political and Economic History* (London: Oxford University Press, 1963); Paul W. Kuznets, *Economic Growth and Structure in the Republic of Korea* (New Haven: Yale University Press, 1977); Leroy Jones and Il Sa Kong, n.1. pp.38-165; Kim Kwong-Suk and Park Jeong Kyong, *Sources of Economic Growth in Korea: 1968-1982*, (Seoul: KDI, 1985); Watanabe T., "Economic Development in Korea : Lessons and Challenges", in T. Shishido and R. Sato, eds., *Economic Policy and Development: New Perspectives* (London, 1985); Lee Kyu-Uck, *Industrial Development Policies and Issues*, (Seoul: KDI, 1986); Jon Woronoff, *Asia's "Miracle" Economies: Korea,Japan, Taiwan, Singapore, Hongkong* (Seoul: Si Sa-yong-o-sa, Inc., 1983), pp.91-119; Peter Evans, Dietrich Rueschemeyer, et al. *Bringing The State Back In* (Cambridge: Cambridge University Press, 1985); K.S. Kim, "Industrial Policy and Industrialization in South Korea: 1961-1982", Lessons on Industrial Policy for Other Developing Countries, *Working Paper 39*, (Kellogg Institute: University of Notre Dame, 1985); K.S.Kim and M. Roemer, *Growth and Structural Transformation*, Harvard East Asian Monograph (Cambridge, Mass.: Harvard University Press, 1979); S.K. Kim, "Business Concentration and Government Policy: A Study of the Phenomenon of Business Groups in Korea, 1945-1985", *Dissertation* (Boston: Harvard Business School, 1987); J.K. Kwon, *The Korean Economic Development* (New York: Greenwood Press, 1990); and Hyun Chang Cho, *Government and Politics in Korea*(Silver spring, ND : The Research Institute on Korean Affair, 1972).

President of South Korea, with the strong support of the US. Rhee's regime pursued "anti-communism" policy and took the "unification" proposal as a major state ideology.[11] With the outbreak of the disastrous Korean War (1950-53), most of the industrial bases and agricultural lands were devastated which brought a sudden fall in the economic performance of the peninsular Korea. To cope with the devastated economy, the state had to look furthur for external assistance in the post-Armistice Agreement period. US military and economic aid had been a crucial variable in bolstering the Rhee regime. About 70 per cent of total imports were in the form of US aid between 1953 and 1961 and 75 per cent of the total fixed capital.About three-quarters of all aid between 1953 and 1960 was in the form of commodity imports; one half of this being agricultural commodities and the rest fertilizers and

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11. For specific illustration of Rhee's political goals, see I.J. Whang, "Elites and Economic Programmes: A Study of Changing Leadership for Economic Development in Korea 1955-1967," *Unpublished Ph.D. Dissertation* (University of Pittsburgh, 1968); David C. Cole and Princeton N. Lyman, *Korean Development: The Interplay of Politics and Economics* (Cambridge: Harvard University Press, 1971), p.167. In a special policy message on November 30, 1995, after the War, Rhee emphasised: "As we all know there are two most urgent and important problems that our country is facing at present; one is reunification of the South and the North; the other is economic stabilization".

petroleum products. The three major raw materials -- wheat sugar and cotton were brought in as aid.[12] The other main objective under the Rhee regime, was that of beefing up of the security-related institutions such as the military of South Korea and, this was possible with the assistance of US aid which equipped the Korean military with modern managerial techniques and skills under their supervision. The Korean state utilized its power and authority to distribute the external aid which gave it an additional power to intervene in the economic and political processes. Responding to North Korean initiative, land reforms were implemented under the MGIK. The major thrust of the Land Reforms Programme was to transfer agricultural capital to industrial investment, on one hand, and to increase agricultural productivity on the other. Despite all these attempts at reallocation, the economic growth was modest under the import substitution policy.[13] GDP growth averaged 3.9 per cent from 1953-55 to 1960-62. Unfortunately, because of the disaffection within the local bourgeoisie in the National Assembly and the widespread

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12. R.R.Krishnan, "The State and Economic Development in Korea", Paper presented at the seminar on "Future International Roles of India-Korea: Long Term Policy Implications", India International Centre, 17-18 December, 1990, New Delhi.

13. The real growth of GNP which had peaked at 7.7 per cent in 1957, declined to 5.2 per cent in 1958, 3.9 per cent in 1959 and 1.9 per cent in 1960.

student protests in April 1960, Rhee's regime was toppled causing a set back to the economic development and at the same time giving rise to a strong dictatorship. But on the whole, it is difficult to accept the proposition that the state became "weak" during the First Republic because of its "poor economic performance" or, because Rhee did not pay much attention to economic transformation as he was more inclined towards a policy of *laissez-faire*.[14]

The Chang Myon regime (1960-1961) or the Second

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14. As during the 1950s, the Rhee administration moved quickly to import-substitution which produced some growth in basic commodity and light industries, such as textiles, paper products, chemicals, electrical machinery, metal products and basic metals. In an official economic sense, import-substitution mainly contributed to manufacturing growth in the 1955-1960 period. Through a series of constitutional amendments, Rhee transferred government monopolies into selected private hands at cheap prices with numerous privileges. The credit instruments included the privileged allocation of aid funds and materials, and selective access to cheap loans. Many of the big firms grew through close linkages of the state and in general, some of Korea's largest groups developed rapidly, particularly in textiles and light consumer goods. For details see K.S. Kim and M. Roemer, "Macro-economic Growth and Structural Change in Korea," *Working Papers No.7705* (Seoul: KDI, 1977), p.122; Frank, Kim and Westphal, *Foreign Trade Regimes and Economic Development : South Korea*, (New York: Columbia University Press for the National Bureau of Economic Research, 1975), p.92. For specific illustrations concerning state-business relations, see Leroy Jones and IL Sa Kong, n.1, pp.78-140; and Kyong-Dong Kim, "Political Factors in the formation of the Entrepreneurial Elite in South Korea", *Asian Survey* (California), May 1976, pp.465-477; R.R. Krishnan, n.7.

Republic pursued both economic and political goals.[15] This regime although short-lived, did give considerable importance to planned development efforts and its first Five-Year Economic Development Plan is said to have been formulated by Chang Myon along with national land development plan.[16] The military forces were reduced and were substituted by economy-related institutions.[17] The plan document also spelt the role of the state as that of `Guided Capitalism' and it stressed the need for a `leading sector' approach, the main task of which was to concentrate in projects such as power, coal, cement and several other significant industries and improvement in agricultural sector. In other words, it may be said that by formulating

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15. The Chang Myon regime has also been known as the Minjudang Jungbu (The Democratic Party's Government). Tae-Youn Han, "Constitutional Development in Korea," *Koreana Quarterly* (Seoul), vol.1, Spring 1963, pp.45-55.

16. Most media accounts showed much interest on government policies, such as economic policies including the national land development programmes and foreign policies including the Korean-Japan official talks and Japanese visit to Korea for the talks.

17. This reduction plan was agreed with the US Military Commander and the US welcomed to assist Korean economic development projects by complementing the reduced forces with modern military machinery. Chang's inaugural address also emphasised the replacement of the resources from the military to economic projects. On July 12, Chang as the President of the Democratic Party stated that his government would reduce the number of military forces from 700,000 to 400,000. For more details see, Amsden, n.1.

and implementing this plan, Chang was able to enhance the level of state investment and interventions in transforming the economy.[18] The credit of establishing a new central planning economic agency, viz the Economic Planning Board (EPB) with the avowed objective of reorganizing the state bureaucracy goes to Chang's regime.[19]

Thus, in the early stages of economic development, the

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18. The second Republic pursued the first Five-year Economic Development Plan and national land development programme whose major objectives were: to resolve unemployment and rural poverty, to develop resources and the base for industrialization, and to launch a spiritual movement of self-reliance. For more details see H.J. Chung, n.18, pp.271-272.

19. A few significant institutional reforms were also implemented in 1960s, whereby the government established the Economic Planning Board (EPB) by merging several policy-making functions of different ministries, for example, the budget from the Ministry of Finance, and the collection and evaluation of national statistics from the Ministry of Internal Affairs. Since the effective coordination of policies among ministries required both jurisdiction and power, the EPB was transformed into a super ministry which enabled to make important contributions to Korean economic development for the next 30 years until it merged with Ministry of Finance and Economy subsequently. The government also created other institutions such as the National Tax Administration which facilitated in tax collection. Even in the preparation of the Five-Year Development Plans, the EPB took the initial step by preparing and issuing preliminary guidelines in terms of major policy targets and directions, together with macroeconomic projections for both the international and domestic environment of the economy during the plan period and beyond. For more details on EPB see Gilbert Brown, *Korea Pricing Policies and Economic Development in the 1960s* (Baltimore: Johns Hopkins University Press, 1973); EPB, Republic of Korea, *Economic Planning Board, Economic Survey, 1980* (Seoul, 1980); EPB, Republic of Korea, *Major Statistics of Korean Economy, 1985* (Seoul: EPB, ROK, 1986); and EPB, *Social Indicators in Korea*, Seoul, (various issues).

state fostered import-substitution industrialisation which produced such basic intermediate materials as cement and fertilizers. This transformation went on to outward-oriented growth strategy in Park Chung Hee's regime, which ushered in a turning point in the Korean economic development of the 1960s[20]. Thus, during the Third, Fourth and Fifth Republics, the 'military elite' dominated the politics, administrative set up and the economy of Korea. The main motive of Park Chung Hee was to mobilize national energy for the rapid industrialization of the country along with transforming the bureaucratic set up and the political system. Korean Central Intelligence Agency (KCIA) was established in June 1961 in order to consolidate political power. The KCIA was empowered to look into political, security and economic functions of the country. The major drive for economic growth and expansion

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20. Park Chung Hee, who presided over Korean industrialization from 1961 until his assassination in 1979, revealed his vision -- "Discipline by the State over private enterprise was part and parcel of the vision that drove the state to industrialize" -- in 1963 in a book modestly entitled "The Country, the Revolution, and I" Park's ideas were influenced by the "revolutionaries", Sun Yat Sen, Kamal Pasha, Nasser, and the Meiji rulers From the Meiji, the only unreservedly successful of the revolutionaries, Park learned the importance of indigenizing foreign ideas, of crowning a political hierarchy with an emperor (the I of the Revolution), and o allowing "millionaires who promoted the reform" to enter the centre stage, "thus encouraging national capitalism". For more details see Park Chung Hee, *The Country, the Revolution and I* (Seoul: Hollym Corp., 1962), p.120.

in the 1960s created the special circumstances which were conducive to significant growth and achievement. With the assistance of EPB, the industrial entrepreneurs closely monitored the progress of every important development project and gave full assistance to the significant industries and companies to grow and prosper. The State also adopted an outward-oriented growth strategy and thereby promoted labour intensive export industries such as textiles, oil refining and plywood. This export-oriented development strategy was an ideal choice for a small economy with limited natural resources and abundant labour force, since cheap labour costs made it possible to generate comparative advantage in international market. It was also able to absorb unemployed and under-employed labour. Through a series of Five-Year Plans, the Korean government selected companies that were given free reign to produce and export. The role of large scale enterprises was emphasised and regarded as indispensable for economic development. However, coordination and supervision were to be under the control of central authority. In other words, the rationale of economic development lay, in the fact that while market forces operated under the capitalist economy, any distortion within the market was to be corrected by the state authority only. This, in a sense, as many writers suggest could be termed as "state capitalism".[21] The government cleared roadblocks to corporate growth and often created monopolistic conditions which were conducive to success.

In order to achieve rapid industrialization, the nation's tax administration was strengthened and streamlined to eliminate the fiscal deficit, the multiple exchange rate was also abolished which was soon followed by a 100 per cent devaluation. The official interest rate was drastically raised so as to stimulate savings deposits in banking system, low-interest rate loans were granted to assist firms facing financial crunch. Various forms of preferential tax treatment such as tax exemptions and tariff rebates were instituted by the state and its agencies in 1965. Together with this, the government provided repayment guarantees to foreign banks to encourage capital inflow and the Foreign Capital Inducement Act was revised in 1965 which further facilitated the inflow of

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21. ibid, p. 120-122; see also Gilbert Brown, *Korean Pricing Policies and Economic Development in the 1960s* (Baltimore: Johns Hopkins University Press, 1973); Jam Halliday, "Capitalism and Socialism in East Asia," *New Left Review* (London), no.124, November/December 1980; Leroy Jones and Il Sa Kong, n.1; Kil Jeongwoo, "The Development of Authoritarian Capitalism: A Case Study of South Korea," *Unpublished Ph.D. Dissertation* (Yale University, 1986); and L.E. Westphal, "The Republic of Korea's Experience with Export Led Industrial Development", *World Development* (Washington), vol.6, no.3, 1978, pp.347-382.

foreign capital and technology. The government also built up the country's infrastructure which facilitated private investments and exports.[22] In the early 1960s, the level of Korea's infrastructures ranked well below that of Turkey, or Taiwan. But by 1980, the same witnessed an average annual growth in electricity generation projects and length of highways that was quite impressive.[23]

With favourable international environment during the 1960s, the results of the outward-oriented development strategy surpassed all expectations. Exports which were the engine of growth, expanded by almost 40 per cent annually. Propelled by this rapid export growth, the GNP

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22. World Bank, *Korea: Managing the Industrial Transactions,* Volume 1 and 2, (Washington D.C. : World Bank, 1984); and Korea Development Bank, *Industry in Korea* (Seoul: Korea Development Bank, 1984).

23. The construction of the Seoul-Pusan highway and many other dams for electricity generation contributed massively to the subsequent export growth. A good example of this can be seen in the Pohang Iron and Steel Company (POSCO) which was established in 1968 by the Korean government as a major steel producer and competitor in the world market. In addition, POSCO was designed to provide much needed inputs for Korea's manufacturing sector. POSCO has been a great success. Not only has the venture been profitable--in an area like steel industry -- but it also had become the largest such venture in the world and a symbol of national pride. For details, see Richard M. Steers et al., *The Chaebol: Korea's New Industrial Might* (New York: Harper and Row, 1989) pp. 26-27; Amsden, n.1, pp.291-297.

grew at an annual rate of over 9 per cent.[24]

In the course of growth-oriented industrialization, a large amount of foreign capital had to be attracted since domestic savings were insufficient to finance the enormous investment demand. Along with this, money supply increased rapidly to finance various government projects. No manufacturer of exports could dare to challenge the export priorities or targets set by the state during the Park Chung-Hee's regime. On the whole, however, the Korean economy had successfully laid out the foundation for industrialization in the 1960s and was well-prepared for a second take-off. Thus began the globalization of its trade, exports and investments, reaching out to several regions of the world, Korean economy during these initial plans which gathered further momentum.[25]

Entering the 1970s, after the general export promotion phase, the Korean economy was confronted with serious internal and external problems. Following the first oil

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24. Bank of Korea, *Base Year Adjustment of GNP Statistics by Bank of Korea* (Seoul:Bank of Korea,1984).

25. Y.W. Rhee, B. Ross-Larson et al., *Korea's Competitive Edge: Managing the Entry into World Markets* (Baltimore: Johns Hopkins University Press, 1984); see also B.R. Scott "National Strategies: Key to International Competition," in B.R. Scott and G.C. Lodge (eds), *U.S. Competitiveness in the World Economy* (Boston: Harward Business School Press, 1985); and ROK, *Heavy and Chemical Industry Development Plan*, Seoul, 1973.

shock, the industrialized countries raised protective barriers against light-manufactured goods from developing countries. The emergence of China and other developing countries posed a major threat to Korea's export growth. Also, the US in 1971 had pulled out one third of its troops stationed in Korea and, as a consequence, the latter had to deal with a more imminent security threat from the North. These circumstances forced the Korean economy to modify its strategic objectives.

The government began promoting the Heavy and Chemical Industries (HCI), aimed at building an indigenous defense industry and, at the same time, upgrading the export structure. The overriding objective of tax, credit, access to foreign exchange, interest rate and trade policies was to encourage the investment in heavy and chemical industries, such as ship-building, iron and steel, automobiles, machinery, petrochemicals and electronic industries. Such incentives assisted these industries to be competitive at the global level. Providing tax incentives and limiting the import of competing goods played an important role in affecting the resource allocation among industries. The government also used credit allocation through the banking sectors as its most powerful means for supporting favoured industries. Credits at very low interest rates were provided by the Korea

Development Bank, the Korea Exchange Bank and other government-owned agencies and commercial banks. Thus, the government's Five-Year Economic Plan outlined the direction in which the government sought the economy to move on the basis of which credits were made available to strategic industries on a preferential basis. The industries that evolved during this period acquired a leading position among the export sectors in 1980s.[26] As a result, the share of heavy and chemical product output produced by manufacturing industries expanded from 38 per cent to 52 per cent in 1980, which helped Korea to retain a strong pace of growth[27]. Exports increased rapidly at the rate of approximately 40 per cent per annum. The economy grew at an average rate of 9 per cent per annum and per capita GNP rose from US $252 in 1970 to $1644 in 1980.[28] This remarkable progress allowed Korea to emerge as one of Asia's Newly Industrializing Economies (NIEs).

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26. See W.D. Reeve, Paul W. Kuznets, Leroy Jones and Il Sa Kong, Kim Kwong-Suk and Park J.K., Lee Kyu-Uck, n.10; and E.S. Mason et al., n.1.

27. Figures are from Economic Planning Board, *Major Statistics of Korean Economy*, Seoul *Annual Reports*, various years; and also from World Bank, *Korea: Managing the Industrial Transition*, Volume 1 and II, (Washington, D.C. : The World Bank, 1987).

28. Economic Planning Board, n.28; see also Bernard Renaud, "Economic Growth and Income Inequality in Korea," *World Bank Staff Working Paper No.240*, (Washington D.C.World Bank,1976).

The success of governmental initiative in the private sector can be explained by the lack of capital or access to capital in Korea during its early development phases. Admittedly, it turned the Korean corporate sector to become dependent on the government for financial assistance. In turn, the resultant situation provided the government greater leverage in implementing its export goals. The policy of selecting and supporting particular individuals and their companies who were considered loyal and reliable led to the formation of large business groups, the *chaebol* .[29] Coming into prominence in the 1970s, the *chaebol* have been Korea's leading agents of export of capital goods and related services. The *chaebol* spurred growth in a variety of basic and advanced industries, such as steel, ship-building, consumer electronics and

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29. For studies on *chaebol*: see these business groups consisting of large companies are owned and managed by members or relatives of families in many diversified business areas. They may also be termed as financial cliques consisting of varied corporate enterprises engaged in diverse businesses and owned and controlled by one or two inter-related family groups. Hyundai, for example, is largely owned and managed by Chung family under Chung Ju-Yung, while Daewoo is largely owned and controlled by Kim Woo-Choong. See Richard M. Steers, et. al., *The Chaebol: Korea's New Industrial Might* (New York : Harper and Row, 1989); Leroy Jones and Il Sa Kong, n.1,pp.166-373, Alice H. Amsden, n.1; and E.S. Mason, n.1. Also See Youngil Lim, *Government Policy and Private Enterprise: Korean Experience in Industrialization* (Berkeley: University of California, Centre for Korean Studies, 1981).

industrial construction.

Today there are over fifty *chaebol* groups of varying sizes in Korea which are of great significance not only to Korea but also to the outside world where they hold key positions. During 1968, *chaebol* began their outward FDI activities in sectors like forestry, fishery, mining, manufacturing etc. However, they remained insignificant until the mid-1980s, because their activities were construed as capital outflow by the government. So much so, they were discouraged by the government except in special cases which aimed at securing a stable supply of important raw materials or facilitating growth. But the fact remains that the Korean business class with little assistance from government were successful in establishing their presence globally and by the mid-1980s its outward FDI rose rapidly. Today, the Korean firms sponsored by *chaebol* are investing enormously both in developed and developing countries and are a power to reckon with.[30]

Between 1961 and 1981, the economy developed at an

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30. Koo Boh-Young, Lee Eon-Oh,"Korean Business Ventures Abroad: Patterns and Characteristics", *Working Paper No.8502* (Seoul: KDI, March 1985); Jai-Won Ryou and Byung-Nak Song, "Korea's Foreign Direct Investment in Southeast Asia", *Working Paper No.93-102* (Seoul: Korea Institute for International Economic Policy, March 1993); and B.Y.Koo, "Role of Foreign Direct Investment in Recent Korean Economic Growth", *Working Paper No.8104* (Seoul: KDI, 1985).

enormous rate which brought changes in the ratio between the primary (agriculture, forestry, fishery) and secondary (mining and manufacturing) sectors from 40.2 per cent to 15.2 per cent, respectively, (in 1961) to 25.4 per cent to 29.4 per cent in 1975, and 18.5 per cent to 39.7 per cent in 1981. As a result, the origin of GNP of the primary sector dropped to 18 per cent in 1981 and that of the secondary sector grew to 40.9 per cent. The number of workers engaged in primary sector decreased from 63 per cent of the total work force in 1963 to 39.7 per cent in 1981, while the percentage of work force engaged in mining and manufacturing increased from 8.7 to 26.7 per cent during the same period. Meanwhile, as the heavy industries grew, the ratio between light and heavy industries changed from 70.4 per cent to 29.6 per cent in 1961, and 57.2 per cent and 42.8 per cent by 1978.[31]

Among the new modern industries that developed were automobiles, electronics, petroleum, petro-chemicals, ship-building and manufacturing industries. Korean businessmen or *chaebol* like Hyundai, Daewoo, Samsung and the Lucky Gold Star (LG) groups took keen interest in transforming the economy and making inroads into foreign

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31. EPB, Republic of Korea, *Major Statistics of Korean Economy* (Seoul: EPB, ROK), various annual issues.

markets. Encouraged by the Korean government's policy of "*segyehwa*" or globalization, the big domestic enterprises made and still are making hard efforts to penetrate into more and more foreign markets. The automobile production in Korea rose from 28,819 in 1970 to 121,060 in 1980. Petroleum production was up from 4.6 million barrels in 1963 to 776 million barrels in 1978 and petro-chemical production grew from 17,000 tonnes in 1968 to 2,071,000 tonnes in 1980.[32]

The production of cement greatly increased and brought about self-sufficiency and cement exports increased from 90,000 tonnes in 1966 to 4,409,000 tonnes in 1980. Textile products also earned an enormous amount of foreign currency. The expanded ship-building capacity contributed to the earnings of foreign exchange and by 1980, Korea's ship-building capacity grew to 2.8 million gross tonnes.

In carrying out ambitious economic development plans with insufficient domestic savings, the economy had been handicapped by the serious lack of funds. Although the investment-saving gap was bridged by inducing inflow of foreign capital or expanding money supply, foreign debt kept piling up and chronic inflation lingered on. Also,

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32. EPB, n.31.

disproportionate incentives given to heavy industries led to excessive investment in the domestic economy which, in turn, resulted in serious sectoral imbalances.

At the beginning of 1979, Korea witnessed a variety of problems. The sectoral policy adopted in the earlier plan had negative consequences such as serious misallocation of resources, inappropriate scale choices, retardation of trade and financial liberalization. It was during this phase that Korean policy-makers felt the need for trade liberalization and financial reforms as well as the realignment of other industrial incentives.[33]

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33. Park Pil Soo, "Incentive System For Export Expansion and Industrialization," *Paper* Presented at International Forum on Industrial Planning and Trade Policies, (Seoul IFI, June 1982); Leroy Jones and Il Sa Kong, n.1; also Alice Amsden, n.1; Y.W. Rhee et. al., n.26; W.D. Reeve and Paul W. Kuznets and Kim Kwong-Suk, n.10; A.H.Amsden, "Republic of Korea, Stabilization and Adjustment Policies and Programmes", *Country Study, No.14* (Finland: World Institute for Development Economics Research of the United Nations University, 1987). The World Bank believed that Korea had, in fact, liberalized trade: Korea's liberalization programme is very much on track, and government merits unequivocal high marks for its effective implementation. Whereas, the US disagreed with World Bank's claims, it pointed out that it was the US government which pressurised the Korean government to liberalize imports (as in 1987 U.S. trade deficit with Korea amounted to a $ 7 billion which was the same amount as Japan) which Korea did only by increasing imports from Japan (Korea Traders Association, 1987). According to a US Embassy report, the extent to which Korea liberalized was fictitious. The US also pressured Korea to liberalize its financial system from which the big business groups won massive concessions from the government in the area of finance. For more details see, Amsden, n.1, pp.134-135; and also see United Nations Transnational Corporations and Management Division, Department of Economic and Social

Recognising the fact that economic liberalization increases efficiency by promoting competition and eliminates the misallocation of resources, private initiatives were encouraged along with the opening up of domestic market. Besides, there was also a government-led rationalization through mergers and acquisition among enterprises which were in trouble due to over-ambitious investment or poor management. It was observed that the government began reversing to its past preferences for large, heavy industry firm in favour of smaller and medium -sized firms. In the 1980s, Korean industrial policy shifted away from direct government intervention towards indirect assistance through R & D. The government also terminated its role in specific credit allocation decisions, forced the corporates to rely more on stock offerings and borrow on the open market. At the same time, however, the government substantially liberalized trade regimes, whereby tariff and non-tariff barriers were lowered. Major commercial banks were privatized, interest

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Development, *Transnational Corporations From Developing Countries: Impact on their Home Countries*, ST/CTC/133, (New York: United Nations Publication, 1993), pp.43-45.

subsidies on direct credit were reduced, and in addition to these incentives the government also relaxed the entry requirements for non-bank financial institutions (NBFIs) and that of foreign financial institutions. Because NBFIs were governed by fewer regulations than the regular commerical banks of Korea, the former were able to proliferate quickly into the economy and thereby creating a more competitive financial market.

The policy reforms had a sound effect on Korean economic performance. One of the remarkable accomplishments was the considerable reduction in the inflation rate. Consumer price inflation decreased from an annual rate of 25 per cent during 1980-81 to 7 per cent in 1982. Along side a 6 per cent annual economic growth was also achieved during the 1980s.

In the 1990s, Korea initiated a comprehensive deregulation programme. With changes in both internal and external economic environments, the government attempted to boost the role of the market and private sectors in economic decision-making and provide resource allocation through deregulation of finance and industry. This comprehensive deregulation programme if it proceeded successfully, would have created a major change in the role of government in economic development. However, this does not necessarily imply the reduction of government's role, but rather, the refocusing of its role.

On the basis of the foregoing outline, analysts are of the view that the industrial policies pursued by Korea had proven to be successful. Financial liberalization promoted competition and efficiency with relaxed restrictions on financial markets. Korea emerged as the eleventh largest global trader in 1995 in terms of absolute size with a trade volume of US $ 167.6 billion during January-August period of the same year. The economy which advanced at 8.4 per cent in 1994, grew at a 9.9 per cent annual rate in first quarter of 1995, and at 9.6 per cent in the second quarter. Based on import and export growth, Korea has become the fifth largest contributor to the expansion of the world's commodity market.[34] Korea has also increased its exports to 33.4 per cent during the first half of 1995 which is the highest growth achieved by a developed or leading developing nation. No longer is Korea a closed market. Today, it ranks fifth among the largest contributors to world trade growth. It has been forecasted by Korea Trade and Investment Promotion Agency (KOTRA) that in the near future, possibly by 1997, Korea will be able to

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34. "Export-led Boom in Korean Economy", *Korean News* (New Delhi), vol.23, no.5, September-October 1995, pp.14-15

enter the list of top ten traders' of the world which would be a great achievement in itself and would show to the other NICs of the world that how a resource-poor and war-devastated economy could accomplish a remarkable transformation from an essentially agricultural economy into an industrial economy and has made its impact felt both domestically and as well as globally.

EVOLUTION AND ROLE PERFORMANCE OF *CHAEBOL*

To understand how the major companies of Korea arrived on the international scene, it is helpful to examine the role played by the *chaebol* and to see how they developed strategies for growth and development.[35] It is also

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35. *Chaebol* or the big business Korean firms have been the leading agents of Korea's export of capital goods and other related services ever since they came into prominence in the 1970s. The Korean "miracle" is said to have been envisaged during Park Chung-Hee's regime (1961-1979). Besides, the other driving force for the economic development was the Korean enterprise which was suppressed during the years of Japanese colonialism and was subsequently devastated during the Korean war. The entrepreneurial power first emerged in Korea with the implementation of its industrial development efforts from 1960s. The credit of Korea's industrial and economic take-off lies largely in the joint government-entrepreneurial efforts. The state policies which underwent tremendous changes i.e. from ISI to EPI, gave a boost to the economy with mutual assistance of Korean entrepreneurs. *Chaebols* success in the recent past can be attributed to the fact that the government as an instrument for economic development pushed these corporates to develop nationally and on a global environment. Numerous business corporates emerged in the Korean economic transformative phase, but because of the scarcity of capital, it was only the

important to look at the size, diversity, and market power of these major players in this field. In this section, a brief historical sketch of the so-called "Big-Four" -- Samsung, Hyundai, Lucky-Goldstar and Daewoo -- *chaebol* will be made, with the focus on not only how they evolved but also their role performance in the economic development of Korea.

Hyundai

It is said that the story of Hyundai is the story of Chung Ju-Yung who had come to Seoul as a teenager to seek his fortune in the 1930s.[36] In a little under 50 years, what was started as a small automobile repair shop business by Chung Ju-Yung has transformed Hyundai into an

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key business groups who could derive favours from the government and could succeed nationally and globally. A significant point to be noted is that Park Chung Hee in the initial years of his reign was strongly anti-business; so much so that he even imprisoned owners of large business groups and confiscated their accumulated wealth, which he assumed was accumulated through illegal means. But he soon realized that to formulate and boost the economic development plan, he needed cooperation from businessmen. It was only then the government sought the *chaebols* like Daewoo, Hyundai to invest in key industries.

36. Hyundai Corporation, *Trading and Marketing Arm of Hyundai*, Seoul, 1986; Mark L. Clifford, *Troubled Tiger: Businessmen, Bureaucrats, and Generals in South Korea* (New York: M.E. Sharpe, 1994); Richard M. Steers, et. al., Leroy Jones and Il Sa Kong, Alice Amsden, Youngil Lim, n.30; and Song-Hyon Jang, *The Key to Successful Business in Korea* (Seoul: Young Ahu, 1988).

international conglomerate with 40 subsidiaries with a sales turnover of US $60 billion. With little formal education and belonging to a rural family, Chung Ju-Yung learned various manual labour skills and first established a truck and motor service business in 1940s which was further expanded in 1947. Hyundai as the first Korean construction company gained a great deal of expertise in civil engineering, architecture, industrial plants, off-shore projects and housing projects all over the world. Its activities included projects in Indonesia, Malaysia, Singapore, Thailand where it undertook highway projects, harbour-dredging in South Vietnam and Australia, bridge in Alaska, and housing complexes in Guam. By actively undertaking complex projects in many different environments, Chung's enterprise expanded abroad as early as 1966, when Hyundai won contracts from the US military for highway construction in Thailand and dredging in Vietnam. Earlier, Chung ingratiated himself with Park Chung Hee by bidding a token contract and won one to rebuild the original Han river bridge, which was in ruins even in the mid-1960s. Inspite of loosing money, he achieved what he had desired for, i.e. Park's attention for finishing the job ahead of schedule. It was Hyundai again that was tapped to build the lion's share of the 424 kilometer highway that linked Seoul with the southeastern port of Pusan, the country's second largest city, during the late 1960s.

The highway was another of those unpredicted successes which international experts viewed as economically unfeasible. After spending many months and about $1 million on studying the project, the World Bank team too recommended against the project. Against these odds and with strong will, Chung took the challenge and completed the task with an estimate which was much below what the government expected to pay. As one observer says: "Chung worked hard day and night and confirmed Park's view that Chung had the same dynamic, driving desire to build his company that the President had to build the nation".[37] So much so, when Park decided that South Korea needed a large scale shipyard, he chose Hyundai to build it. It was said: "Both men believed in the power of human will, and they believed that Korean economic development was to be built on these work ethos with the help of Western technology"[38]

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37. Mark L. Clifford, n.36, p.115.

38. Mark L. Clifford, n.36 states that during the construction of the Seoul-Pusan highway Park made Chung the informal construction minister and the two men often dined together on Thursday evenings in a private second-floor quarters of the Presidential Blue House. These were informal affairs, with the men drinking the fermented traditional rice drink, *makkolli*, and wearing open-necked shirts - an anomaly in buttoned down, suit and tie of South Korea. Corporate historians writing on Hyundai enterprise and the dynamic role played by its founder Chung Ju Yung often relates the story of how

The ship-building activities alone would have been enough to keep most of the constituent companies of Hyundai busy. Nevertheless, around the same time, Hyundai had started expanding its overseas construction activities at the insistence of Chung Ju Yung. Although Hyundai had suffered great losses (of about $ 56 million) in the Indonesian project and a $ 50 million contract to build a highway from Jakarta to Bogor, Chung decided to move to

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Hyundai made its debut in the ship-building sector of the Korean economy. It is said that in the early 1970s Hyundai constructed the world's largest shipyard at the Eastern Port of Ulsan, booking orders even before the shipyard was completed. Chung had to face financial hardships from the initial stage, as he was refused finance by British, Swiss and French bankers. The reason behind it was quite clear as Hyundai itself had no ship-building experience, and none of the Korean firms had ever built a vessel larger than 10,000 tonnes, yet Chung desired a $ 60 million loan to build a shipyard that could produce 260,000 tonnes crude oil carriers. The Korean ship-building Industry Association refused to back Chung stating that the project was impossible. Even Park refused any favours from government side. International lending agencies also believed that Korea had no chance of making a success of ship-building. But eventually Hyundai was able to get a loan from the British and orders from a Greek ship owner for two big tankers. Again, because the world shipping industry had plunged into a recession, delays continued to haunt the company with further delivery delays. October 1973 witnessed the first oil crisis which further delayed the Greek ship owner to take the delivery of the first ship. Chung asked assistance from the US diplomatic mission to sell the oil tanker to Gulf through its contacts. Finally, Gulf took the ship and formed a joint-venture with Hyundai with an insurance policy to protect its interest in Korea. For more details see Leroy P. Jones and Il Sa Kong, n.1, p.119.

West Asia. With the sharp rise in oil prices and Korea's complete dependence on petroleum imports led to a hammered effect on the economy. The government also pushed Hyundai and other Korean construction companies to establish business links in West Asia. In 1976, Hyundai alone won a staggering $ 1.4 billion in West Asian construction contracts which included $ 931 million industrial port at Jubail, Saudi Arabia.[39] From 1977 through 1979 nearly 300,000 Korean workers went to West Asia under the leadership of Chung.[40]

It was also noted that in 1968 Chung decided to enter the automobile industry and established Hyundai Motor company to assemble Ford passenger cars for domestic sale. With this experience Hyundai designed and produced (with technical assistance from Mitsubishi) Korea's first integrated passenger car, the Pony. In 1983, the midsized Steller model was introduced, and by 1988 Hyundai had started producing a luxury sedan, the Grandeur, under the licence from Mitsubishi. In the subsequent years a redesigned version of the Pony Excel and Steller were introduced first into Canada in 1986 and then in the US a year later, and a newly designed Hyundai Sonata was

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39. ibid.

40. Alice Amsden, n.1.

introduced to the North American markets while at the same time, it competed with many of Japanese imports, such as the Honda and Toyota Canury.

In 1973, Hyundai Heavy Industries Co. Ltd., was established as a major ship-building enterprise which became one of the largest enterprise in the world, and soon won ship-building contracts away from Japanese and Western European companies with its highly skilled labour force and competitive prices.

As these companies grew and uncovered new economic opportunities, many units were spun off as independent companies which included Hyundai Engine and Machinery Co., Hyundai Electrical Engineering Co. Ltd., and Hyundai Rolling Stock Co Ltd. The group also acquired Inchon Iron and Steel Co. Ltd., and Aluminium of Korea Ltd. In late 1970s Hyundai Electronics Industries Co. Ltd., was established as Chung decided to take the company to deploy high technology. In 1984, Hyundai Offshore and Engineering Co. Ltd., was formed which further pursued the increasing business in offshore drilling platforms.

Also, to increase the number of engineering students in Korea, Chung laid the foundation of the Ulsan Institute of Technology in the year 1977, and established Asian Foundation to help fund rural hospitals, educational scholarships and social welfare programmes.

Today Hyundai is a thriving enterprise and transforming itself from a small repair shop to a world giant corporation of great significance, its total assets as of 1994 is estimated at approximately $37.2 billion, the highest among all the other major *chaebols* of Korea.

Daewoo

Starting with nothing after the devastating Korean War, Kim Woo-Choong built one of the world's largest corporations, Daewoo (which in Korean language means Great Universe).[41] The founder and chairman of the big Korean *chaebol* i.e. Daewoo, Kim personified the drive and imagination that makes East Asia a dynamic centre of economic growth. The Daewoo Corporation began in 1967 as a small textile trading company with an investment of $ 18,000 and four employees. Daewoo exported knitwear made by small Korean manufacturers to Singapore, where the goods were shipped on to the markets in Indonesia and Africa. In the initial years Daewoo exported $ 580,000 worth of

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41. For more on Samsung see, Louis Kraar, "Kim Woo-Choong: Korea's Export King", *Fortune* (New York), 5 January 1987, p. 74; Kim Woo-Choong, *Every Street is Paved with Gold*, (New York: Willam Morrow and Company, 1992); and Mark L. Clifford, Richards M. Steers, Leroy Jones and Il Sa Kong, Alice Amsden, n.30.

textiles which reached to $ 4 million in a span of three years. Its first textile factory was opened in 1968 in the southeastern city of Pusan in 1968 and by 1972, five more factories were established. In 1970, Daewoo's exports doubled to $ 8 million. From the very beginning Kim was oriented towards the international market and revitalizing ailing companies. Most incredible however, is that he also found profits in such forbidding markets as Iran. Daewoo's international network combined with its high quality mass production facilities in South Korea won it business from major US retailers. To get big orders from Sears supermarket, Daewoo made an exact copy of the US company's garment testing facility at one of its factories in Korea.

From a firm manufacturing base, Kim took over an ailing company, improved the management system and product quality and turned the Company into a successful unit. As a noted scholar, Louis Kraar says that Kim had a gift for converting problems into opportunities. He also excelled at acquiring existing companies, exploiting them in a way that entrepreneurship worked within the confines of Korea Inc. In the nine years after Daewoo Industrial was founded, Kim Woo-Choong acquired eleven firms.

The first major takeover occurred in 1975, when Korean President Park asked Daewoo to acquire a state-owned machinery plant that had been losing money for thirty-seven years. Kim Woo-Choong changed the name of the Company to Daewoo Heavy Industries and took personal control of the new company. Within a year the company broke even and by the second year, it began paying dividends. Shortly thereafter, President Park asked Kim to take over Okpo Ship-building Company, renamed Daewoo Ship-building and Heavy Machinery Ltd., Kim invested $ 500 million in completing the facility which today ranks as one of the world's largest and finest ship-building entities. Finally, Daewoo took over Sachan Motor Company, renaming it as Daewoo Motor Company in 1979.

Through Kim's efforts, the enterprise was transformed into one of Korea's two largest auto industries. Since 1986, Daewoo has built the successful Pontiac Le Maus for the US market and in 1987 began exporting the Le Maus to Taiwan and Canada.

Based on the success of the Daewoo General Motors partnership, Daewoo in 1980s began a series of joint ventures. It established some eighty offices scattered around the world. Kim marched into China and Eastern Europe and in a big way Daewoo began producing refrigerators in southern China. An agreement to export cars, electronic equipment and other machinery to Hungary were finalised by Kim. Daewoo has also set up a joint-venture investment bank in the same country. Offices have been established in Moscow, Sofia, Warsaw, New Delhi and Ho Chi Minh City.

Kim as an official ambassador, has also helped South Korea to gain diplomatic relations with most of the countries with which this corporation does business, including Algeria, Hungary, and the former Soviet Union republics. Very recently, Kim crossed another long forbidden border viz., business with North Korea. In January 1992, with permission from his Government, Kim travelled to the North Korea, which he terms "the world's last closed market", and made a deal to set up nine factories to make goods such as shirts, toys, luggage etc.

Kim is also diversifying Daewoo Ship-building into mini cars, heavy trucks and excavators. Daewoo continues to grow (approximately 20 per cent per year) and develop into one of the world's front rank most dynamic companies.

Samsung

The Samsung Group grew as Korea grew under the leadership of Lee Byung-Chull, from its inauspicious beginning in 1938 and its rebirth in 1951.[42] In 1950s, soon after the Korean war, the company provided basic necessities to resupply a war-torn economy. In 1953, it founded the Ch[illegible]l Sugar and Co. Ltd., which was followed by Cheil Wool Textile Co Ltd in 1954. These ventures were named Ch[illegible]l (meaning "number one" in Korea) which was to reflect the founder's desire to be the best.

As Korea's economic and social life progressed, Samsung moved into the service sector with businesses in insurance, broadcasting, securities and even a departmental store. With an annual turn-over of $100 million in the 1960s, the company entered into electronics and heavy industries (ship-building and petrochemicals) by 1970s which brought the turn-over to about $ 300 billion. In the era of 1980s, it laid more emphasis on high technology ventures. Samsung Semiconductor & Telecommunication Co., was established in 1978 which became the first Korean Co. to manufacture the 64K DRAM chip, followed shortly by the 256 K and IMB chips. In 1986, Samsung Aerospace was designated by the Government as systems integrator for the

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42. For more on Samsung see Samsung Group, *Samsung: Its Role and Activities as a General Trading Company*, Seoul; Samsung Group, *Annual Report, 1986,* Seoul; Samsung Group, *Samsung Today*, Seoul, various issues; Samsung Group, *Samsung Ltd., : Financial Statements 1987*, Seoul; Richards M. Steers et.al., Leroy Jones, Il Sa Kong, Alice Amsden and Mark L. Clifford, n.37.

F-16 Fighter Plane project.

To capitalize on its competitive edge in high technology both in semiconductors and genetic engineering, Samsung established twelve research centres in Korea and two in the United States. In 1987, it established the Samsung Advanced Institute of Technology with well-equipped research laboratories in electronics, computers and communication.

Samsung, like other *chaebol* also had an ambitious plan to become a truly international corporation. In 1982, in Portugal it established a television assembly facility with a capacity of 300,000 units for sale within European Common Market. Then in 1984, a plant in New Jersey which produced 1 million televisions and 400,000 microwave ovens per year was established, which amounted to an investment of $ 25 million. With the same amount in 1987 the same facility was opened in England. From here it moved to Thailand and China with its main objective being to double its exports from $ 2.2 billion to $ 5 billion by the 1990s, and acquired one of the top seven electronics manufacturers place in the world.

Today the Samsung Group comprises of more than twenty-six affiliated companies. And its major investments under

Samsung Electronics with variety of components is mainly with US, Britain, China, Mexico, Germany and Portugal where the investments vary from about $ 1,500 million to $ 30 million. The August 1995 figures of foreign direct investment shows that Samsung is the leading *chaebol* with actual overseas investment totalling $ 1,388 million. Samsung is also looking at India as a manufacturing base not only for domestic Indian market, but also as a base for exporting to other countries all over the world.

Lucky Goldstar

Whereas Samsung's origins can be traced to general trading and Hyundai's to construction, Lucky-Goldstar's early beginnings were in the field of chemicals.[43] Founded by Koo In-Whoi in 1947, the Lucky Chemical Company (later Lucky Ltd) initially manufactured cosmetics. The company later expanded into plastics (including combs, toothbrushes, and plastic basins). After the Korean war, the predominantly home products company added toothpaste and laundry detergents. A trading company was established in 1953, followed by the creation of Goldstar Co. Ltd., in

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43. For more details on L G Group see Lucky Goldstar Group, *Annual Reports*, Seoul, and also see Richard M. Steers et. al., Leroy Jones and Il Sa Kong, Alice Amsden, Youngil Lim, Mark L. Clifford, n.37.

1958 which produced radios, refrigerators (1965) and televisions (1966). An oil refinery was established in 1967, and thereafter the company proliferated into chemicals (Lucky Ltd) and electronics (under Goldstar Co Ltd) and later adding services and public welfare to its areas of responsibility.

As a group, Lucky-Goldstar is somewhat unique and different from the rest of the Korean enterprises. Although the employees recognise the achievements of its founder, there is little of the personality cult that typifies other *chaebol* . This group is somewhat more decentralized. As competent professional managers are recruited to manage various business and major strategic decision are made by the chairman of the company within given guidelines, individual companies are free to pursue their businesses as they wish. That indeed is the hall-mark of Lucky-Goldstar. It is also a conservative, stable company that avoids risky ventures and stresses group harmony. Many of its new ventures are extensions of existing business.

The main area in which the group is committed to is applied research. Lucky-Goldstar invests heavily in research in which total spending amounted to $ 348 million in 1986 and $ 470 in 1987, totalling to about 5 per cent of all its sales. Apart from maintaining numerous research laboratories, Lucky-Goldstar's main emphasis is laid on its Central Research Institute in Taedok (established in 1979) which carries out research in chemical technologies and advanced material sciences, and in major R & D complex in Amyang (established in 1985) the main focus of which is on electronic research.

The company also has specific plans to expand its overseas plants to Latin American and European countries for the production of VCRs and televisions. In 1981, it had established a colour television factory in United Stateswhich has been currently operating ten overseas factories including six joint ventures. In China too, it is planning to invest $ 100 million in Changsha to produce colour television Braun tubes.

On 1st March 1995, the Lucky-Goldstar group synonymous with electronics in India changed it's corporate name to LG. Bon-Moo Koo, Chairman of the LG group, stated that the new name symbolises the group's readiness for the new challenges that the future would bring. According to him, the entire corporation is moving towards the future as a single unit and concentrating its efforts on creating products that provide real value. In India, the multi-billion dollar conglomerate LG is focussing on the electronics and electrical appliances segment. LG intends investing initially in excess of US $ 600 million. Policy makers in the corporate headquarters in Seoul have identified India as a target market for 1995-96.

CHAPTER II

CHAPTER II

CORPORATE STRATEGY AND GLOBAL COMPETITION

In the preceding Chapter an attempt was made to sketch the economic history of Korea highlighting especially its broad contours during the years of Japanese occupation and since. Following the retreat of Japanese colonial rule, the latent economic and entrepreneurial potentials of Korea, as has been described earlier, seem to have been harnessed largely thanks to a deliberate state policy to usher in rapid economic transformation. In the process, the Korean corporate conglomerates viz., *chaebol.*, as has been argued in the previous Chapter, admittedly have played a critical but positive role facilitating the country to attain not only high levels of growth in a short span of time, but also a competitive edge in the global economy.

Against the historical background of Korean economic development, in the present Chapter, an attempt is made to identify at some length the competitive strategies evolved by the Korean business corporations and examine how the implementation of the strategies brought about the rapid economic transformation of Korea.

Competitive Strategy of Korean Corporations

According to some writers, Korean economy in spite of being highly concentrated, nevertheless had experienced intense competition amongst its corporate constituents both in domestic and overseas markets. That the Korean business corporations played a paramount role in ushering basic economic transformation in the domestic economy and soon thereafter built a network of global contacts cannot be gainsaid. Commonly known as *chaebol* these corporate conglomerates, with the support of the state apparatus initially launched modest business ventures, and before long, through carefully crafted competitive strategies enlarged their business both within and outside Korea. So much so, in less than two decades, these business Corporations were able to achieve a stature unmatched by the larger companies of even the most advanced countries. Admittedly, several intrinsic and circumstantial factors have made their success possible.[1]

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1. For more details on Korean business corporations see: Richard M. Steers et al., *The Chaebol : Korea's New Industrial Might* (New York: Harper and Row, 1989); Mark L. Clifford, *Troubled Tiger : Businessmen, Bureaucrats, and Generals in South Korea* (New York: M.E. Sharpe, 1994); Song-Hyon Jang, *The Key to Successful Business in Korea* (Seoul: Young Ahu, 1988); Leroy Jones and Il Sa Kong, *Government, Business and Entrepreneurship in Economic Development: The Korean case* (Cambridge: Harvard University Press, 1980); Alice Amsden, *Asia's Next Giant : South Korea and Late Industrialization* (New York : Oxford University Press, 1989); Lee Kyu-uck, Government-Business Relation in Korea; With a special reference to the concentration of economic power (mimeo), KDI Policy Forum on Private Public Interaction Towards Economic Development, Seoul, 1989; E.S.Mason et al., *The Economic and Social Modernization of the Republic of Korea* (Cambridge: Harvard University Press, 1980); and, Paul W. Kuznets, *Economics Growth and Structure in the Republic of Korea : 1968-1982* (Seoul: KDI, 1985).

One primary factor contributing to the success of the *chaebol*, as has been argued by most authorities on Korea, is the deliberate but evolving strategy of the state to turn the economy from a primary source exporter through an import substituting phase to export-led industrialization process. The process of a gradual industrialization through the shifting strategies of the state no doubt benefitted the Korean business corporations both within and outside the country.[2] To the credit of the business corporations, it is often stated that the *chaebol* scrupulously followed the directives of the state in terms of the economic strategies.[3] Credit is also attributed to the Korean institutions providing the much needed infrastructural support facilitating Korea enter world markets at the low end, and over a period of time, gaining surplus market shares at the higher ends of the global economy. Also, through a series of perspective planning and selective and appropriate mechanism the government too was able to steer the economy in the desired direction.

In a sense the rapid economic transformation of Korea, often described as the Korean "economic miracle" has been

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2. For more details on the role of government, see : Jones and Sa Kong, n.1, pp.38-165 and Steers et al, n.1, pp.22-29.

3. For the role of entrepreneurs see: Jones and Sa Kong, n.1, pp.166-373; and Steers, n.1, pp.37-46.

achieved largely on the basis of mutual understanding and cooperation among the three major constituents of the economy--government, management and labour.[4]

Not only the vision but also the determination with which the *chaebol* took advantage of every opportunity that came in their way explain the success of these Korean conglomerates. For achieving all this, the founders of the *chaebol* were very careful in adopting policies which would help them in the long run.[5] Not only did they select those product lines which would be significant for them nationally, they also implemented highly developed business plans that would meet their objectives. At the same time, through a process of maintaining cordial relations with the government they were able to convince it to finance them for their new ventures which would yield results and help in the economic development of the country. The *chaebol* had to follow this strategy because the Government being a

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4. Jones and Sa Kong, n.1, pp.46-102; E.S. Mason et al. *The Economic and Social Modernization of Korea* (Cambridge: Harvard University Press, 1980) pp.75-78; Alice H. Amsden, "The World Bank's East Asian Miracle: Economic Growth and Public Policy", *World Development* (Washington), vol.22, April 1994, pp.615-70; and Jon Woronoff, *Asia's "Miracle" Economies : Korea, Japan, Taiwan, Singapore, Hong Kong* (Seoul: Si-sa-yong-o-sa, Inc., 1983), pp.92-119.

5. Founders of the *chaebol* refers to the Chairman of the firm as Hyundai under the leadership of Chung Ju Yung, Daewoo under Kim Woo Choong, Samsung under Lee Byung-Chull and LG under Koo In-Whoi.

powerful entity controlled all the finances and the financial sectors which were to assist them on their projects. In a sense, it may be said that this was a specific non-price factor that the *chaebol* competed.[6] Additionally, procuring industrial licences from the government was the other strategy which the *chaebol* pursued. Instances such as the two leading *chaebol*--Daewoo and Hyundai--seeking such favours from the government abound especially in the early years. Such close nexus of relations between the government and the business class, no doubt helped the economy to grow and eventually penetrate into world markets.

In subsequent years, other *chaebol* too forged such close linkages with the government to seek its patronage. However, it may be noted that these *chaebol* (numbering to about 40) sought governmental package only in the initial phase of their business expansion. By 1980s, when the *chaebols* had become financially independent and viable, they no more looked towards the government for any assistance or patronage. In fact, according to some writers the equation between the *chaebol* and the government had changed so dramatically over the last thirty years, today the *chaebol* seem to dictate terms to the government.

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6. Amsden, n.1, pp.129-130.

Yet another important element of the *chaebols* competitive strategy relates to their policy on acquisition of technology.[7] Recognising the importance of superior technology which alone would enhance their competitive edge both in the domestic and international markets, *chaebol* even from the beginning resorted to US and Japanese technology. With a view to have access to these technologies *chaebol* initiated joint-ventures to begin with and, then moved into other diversified business activities. Some scholars are of the view that irrespective of the process of industrialization--be it based on indigenous skills or foreign technology--the *chaebol* , more often than not attempted to diversify their business activities ranging from production, acquisition of technology to marketing. Hyundai, fits into this typical pattern of Korean *chaebol* . From construction, it moved vertically to manufacturing of construction material, cement and from shipbuilding to shipping and steel projects.[8] Reasons for seeking such diversification are not far to seek. In some instances, diversification offered economies of scale largely on account of the inefficiency

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7. For more details on acquisition of technology see Amsden, n.1, pp.173-75; Leroy Jones,n.1, pp.166-210.

8. For more details on Hyundai see Amsden, n.1, pp.116-287; Clifford, n.1, pp.115-118; Steers, n.1, pp.51-58 and Woronoff, n.4, pp.102-112.

of the work force. In other instances, local inputs were in short supply, the *chaebol* themselves resorted to producing those inputs. A third imperative relates to the size of the market and the risks involved in penetrating into that market. Notwithstanding these efforts to diversify their business activities, it is not as though that this strategy produced the desired results. In some instances, diversification enabled the *chaebol* to penetrate swiftly into the global markets but there are also instances, where thanks to the diversification, some *chaebol* had to face huge losses in the face of fierce competition from other well entrenched multinationals of industrially advanced countries or sometimes from rival *chaebol* themselves.[9]

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9. On the issue of diversification by Korean firms see: Amsden, n.1, pp.119-129. It has been observed that the initiative to enter new manufacturing branches came primarily from the public sectors. Ignoring the 1950s, when economic policy in Korea was under foreign control, every major shift in industrial diversification in the decades of the 1960s and 1970s was instigated by the state. The state masterminded the early import-substitution projects in cement, fertilizers, oil refining--along with keeping alive some unprofitable factories inherited from the colonial period. The transformation from light to heavy industry came at the state's behest in the early 1960s, in the form of an integrated iron and steel mill and finally it was responsible for the Big Push into heavy machinery and chemical industrialisation process,that carried the electronics and automobile industries beyond the stage of assembly. The Economic Planning Board (EPB) used an input-output planning model, supplemented by industry studies which provided profiles on projects in the manufacturing sector for the government to promote the business firms with its industrial, trade and credit policies. The founders of the *chaebol* with the assistance of the government diversified into related sectors gradually; for more details see, Amsden, n.1, pp.79-92.

The diversification strategy adopted by the Korean business corporations essentially to achieve economies of scale, however, was greatly impeded by the size of the domestic market. Basic to the globalization posturing of the Korean business corporationss, unlike in the case of Japan, the absence of an extensive and sizeable domestic market. For instance, although there existed a market for indigenously produced automobiles, yet on account of the fact that the government had set the ceiling on the sale price of automobiles based on litre capacity, Korean automobile manufacturers looked to the overseas market more than the domestic. Moreover, a range of consumer durables and non-durables produced by Korean manufacturing units did not enjoy non tariff trade barriers providing some protection against foreign competitors. Also, the domestic saving rate, compared to that of Japan was insubstantial, capital investment from domestic savings greatly handicapped Korean business corporations. In sum, lack of adequate investible capital resources within and the absence of sizeable domestic market--are the two major factors responsible for the *chaebol* seeking market outlets overseas.[10] These two factors themselves were, in a sense

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10. See Amsden, n.1, pp.139-152 and Steers, n.1, pp.71-80.

a blessing to the Korean business ventures for (i) their low-priced products were competitive anywhere in the world and their higher profit margins on the basis of the quantum of exports enabled them to reap substantial profits that could be ploughed back into their diversification ventures. The best example of this pattern of growth of Korean manufactures is in the product line of black and white and colour televisions. In the manufacturing and sale of sets and a range of other durables, Korean manufacturers were able to maiantain a competitive edge by maintaining their sale prices 10 to 15 per cent lower than competitors anywhere else.[11] Together, a fortuitous circumstances which greatly helped Korean manufacturers penetrating the world market is the emergence of fluid capital markets and portfolio investments. No less important are other contributing factors (especially during the 1970s) such as standardization of durable consumer goods all around the world and perceptibly declining tariff barriers and the homogenization effects of technology.[12]

Nevertheless, what accounted for the emergence of *chaebol* as powerful economic entities both within and outside Korea was the foresightedness of the founders of the *chaebol* to use judiciously and selectively appropriate

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11. See Steers, n.1, pp.78.

12. n.1.

hi-technology borrowed from Japan and the United States. And the application of borrowed technology will have to be either indigenized or efforts will have to be made to replace them by developing technological skills within the country. It is to the credit of the Korean entrepreneurs and business managers who were aware that unless and until they evolved a corporate strategy in respect of the use and application of imported technology, Korean business corporations over time could loose their competitive edge in the domestic as well as in foreign markets.[13] In this regard, they were acutely aware of the dangers of depending upon importing technology. To over come problems related to the technology issue such of the *chaebol* as Daewoo have simultaneously being involved in recruiting necessary scientific and engineering skills in their ventures.[14] So much so, it is claimed, that today Korea has the best prodigy of engineers and scientists who no less have contributed to the expansion of the business corporations. As and when, it was deemed necessary Korean manufacturing units in need of appropriate technology forged joint-ventures with overseas firms or brought licences for

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13. For more details see, Michael Porter, *Competitive strategy* (New York: Free Press, 1980); and Michael Porter, *Competition in Global Industries*, (Cambridge, Mass: Harvard Graduate School of Business Administration, 1985).

14. Amsden, n.1, p.127, Steers n.1, pp.64-70; and Woronoff, n.4, pp.102-112.

the use of the needed technology. While doing so, they were no less keen to invest substantial resources in R & D at home.

A very interesting example of how Korean corporations refined and practised the aforementioned technology strategy is perhaps the manner in which Korea made forays in micro-chip semi-conductor manufactures. According to available data until 1974, no micro-chips were manufactured in Korea. The semiconductor industry was controlled by US and Japan. It was in the same year one of the leading Korean *chaebol* , Samsung entered the market followed by Lucky Star in 1979 and Hyundai and Daewoo in 1983. Initially each one of these with the help of imported technology from US and Japan manufactured chips for the domestic market. However, thanks to huge investment of resources on chip research especially during 1985-87, in the following year, the net sale of Korean made micro-chips was estimated $ 1.2 billion and in less than two years the sale turnover increased by more than 20 per cent.[15]

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15. Along with the *chaebol* entry into worldwide semiconductor market for global competition another example illustrates the success of Samsung's entry into the household appliance market, specifically in microwave ovens. As the microwave oven was invented in the US by Raytheon engineers in 1949, American companies manufactured this product and dominated the world markets. But with the emergence of Japanese consumer electronics in the same field, it was observed that the American product could not compete against the production efficiency established by Japanese concerns. However, at the same time,

According to reliable reports, of the four *chaebol* , three of them -- Samsung, Hyundai and Lucky Goldstar -- are today capable of manufacturing IBM DRAM chips, designed for the latest computers and HDTV. In the process today Korean manufactured micro-chips are sold both in Korea and outside.

While underlining the state-orchestrated development process facilitating the *chaebol* to expand and diversify their business ventures both inside and outside Korea, it may be pointed out that the process itself underwent transformative change by the beginning of the 1980s.[16]

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Samsung's engineers prepared themselves to compete with their formidable competitors in the field. In 1976, Samsung's Vice President J.U. Chung's visit to the U.S. fascinated him to enter into manufacturing of microwave ovens at home. In spite of several monumental obstacles (as Japanese and US manufacturers dominated the market and also being expensive,it was believed that the product could not be marketed in Korea), it did not discourage the innovators. In 1978, at the instance of Chu Yun Soo, Samsung was able to design and produce its first microwave oven in 1979 and obtained their first order from Panama which although yielding financial loss to the Company did not dissuade the company to suspend the manufacturing of this product. For further details see Richard M. Steers, n.1, pp.80-82.

16. From 1981, when the Fair Trade Act was passed, until June 1986, there were 1,136 reported cases of *chaebol* beginning to own new businesses. Among these the number of horizontal integrations (intra-industry) was 324 (28.5 per cent of the total), that of vertical integration was 215 (19.9 per cent) and that of diversification into other industries (inter-industry) was 597 (52.6 per cent). The methods of expansion included acquiring stocks, establishing new companies, merging, acquiring management participation, and acquiring business rights. Acquiring stocks accounted

With the private business groups augmenting quite considerably their economic power, the credibility and the overarching assertive role of the state began to decline. Concomitantly or, as a consequence of these developments, the government initiated a process of market liberalization and privatization,thereby freeing the business from governmental control. The liberalization in its wake resulted in the aggregation and merger of major *chaebol* engaged in the different sectors of the economy. Simultaneously, the privatization of the banking sector opened the financial markets which provided adequate opportunities for the business corporations in respect of their investment needs. Yet another trend related to the *chaebol* is that they themselves are moving directly into the banking sector.[17] That, it was a trend in the

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for 45.7 per cent of all cases; establishing new companies accounted for 19.8 per cent. For more details see, Amsden, n.1, pp.122-29.

17. It was witnessed that the aggregate economic concentration doubled in less than five years after liberalisation was introduced in 1979. The ownership of commercial banks fell from government hands into those of the private sector. With increased deposits in the nonbank financial intermediaries many of which had long been under the *chaebol* ownerships, with *chaebols* new major interests in national banks, the Korean big business groups became more like the Zaibatsu of Japan (i.e. financial cliques). The *chaebol* became more liquid and the new financial resources were used : to buy state enterprises that were being privatized and to buy financially troubled firms, sometimes at government's instigation. In the 1980s, the *chaebol* grew almost exclusively through acquisitions. For further details see, Amsden, n.1, pp.134-137 and S.K. Kim, "Industrial Policy and

aftermath of the government's liberalization policy was underlined by the World Bank which said "there are, perhaps, surprisingly, some similarities between Korea and Chile's reform. In both cases, big conglomerates (corporations) bought major interests in the national banks".[18]

So far an attempt has been made on the basis of available accounts of the *chaebol* and their evolving competitive strategy. On the basis of such an analysis, it has been pointed out that the rapid expansion and the diversification of Korean business ventures were the product of a harmony of interest between the state and the private enterprise. The expansion and the transformation of the Korean business corporations, by all accounts have been quite impressive. Also, no less was the vital and positive role that the state had played in supporting the corporate sector. Notwithstanding these accounts which offer positive insights into the dynamic role played both

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Industrialization in South Korea: 1961-1982 : Lessons on Industrial Policy for other Developing Countries", Working Paper 39, Kellog Institute, University of Notre Dame, Notre Dame Ind. January 1985, and S.K. Kim, "Business Concentration and Government Policy": A study of the phenomenon of Business Groups in Korea, 1945-1985", *Dissertation*, (Harvard Business School, Boston, 1987).

18. World Bank, *Managing the Industrial Transaction*, vol.1 and 2, (Washington D.C. : World Bank, 1987), p.82.

by the government and the corporate sector in the rapid economic transformation of Korea, there are those who are critical of the process of economic development. To them the recent economic transformation of Korea has to be explained not so much on account of the entrepreneurial and managerial qualities and skills of the Korean private sector. They instead suggest that the success of the *chaebol* is largely on account of the selective governmental patronage which while ushering in the rapid economic transformation of Korea has nonetheless resulted in the destruction of medium and small entrepreneurship. In the process, Korean economic development is, by and large, controlled by "big business". Besides the diversification process itself has been based on irrational economic considerations, resulting in inefficiency and lack of specialization. Added to these is the problem of external debt incurred by the government on behalf of the *chaebol* . According to available figures the external debt liability of Korea had doubled between 1980-84, reaching to an outstanding debt of $ 40.1 billion by mid 1980s, thanks largely to the indiscriminate borrowing for heavy industry projects, such as that of Daewoo Okpo Shipyard which on account of heavy losses had to be closed subsequently. It is against these rather negative developments, critics have questioned the viability and the future growth of the economy.[19]

Korean FDI Outflows, Destinations and Motives

Mention has already been made about the economic growth strategy adopted by Korea. In the first phase of Korea's economic development, import substitution, industrialization (ISI) process was emphasised promoting intermediate capital goods production. Eventually, the inward looking import substitution industrialization process was replaced by export promotion growth strategy providing for the Korean economy to accelerate export of manufacturing goods through labour-intensive export industries, as textiles, oil refining and plywood. The shift towards export oriented development strategy was considered an ideal choice for a small economy such as Korea endowed with limited natural resources and abundant labour. Cheap labour costs made possible not only to generate comparative advantage in the international market, also thereby absorb the unemployed and under-employed labour in the economy. Under the aegis of the Economic Planning Board (EPB), a strong central agency, institutional arrangements were evolved to mobilize available resources.

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19. For further details see, Clifford, n.1, pp.230-234. The critiques included technocrats in the government's institutions as Economic Planning Board, Korea Development Institute.

With a view to support export industries, extensive export promotional measures were undertaken. Various forms of preferential tax treatment, such as tax exemptions and tariff rebates along with low-interest credit facilities were extended to help firms facing resource crunch.[20]

In the larger context of favourable international environment of the 1960s, the success and efficiency of the outward looking development strategy surpassed all expectations. Exports which were the engine of growth, expanded by almost 40 per cent annually. Propelled by this rapid growth the GNP grew at an annual rate of over 9 per cent.[21]

Korea's development trajectory showed neither any outward investments by Korean firms until 1967 nor any government regulations concerning outgoing foreign direct investment (FDI).[22] It was only in 1968, for the first

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20. Jones and Il Sa Kong, n.1, pp.22-29.

21. Clifford, n.1, pp.54-58 and Amsden n.1, pp.64-72, talks on the development of export policy, concentrating on the textile industry.

22. For more details on Korean FDI outflows, destinations and motives, see, Koo Bohn-Young, Lee Eon-Oh, *Korean Business Ventures Abroad : Patterns and Characteristics*, Working Paper 8502, (Seoul, KDI, 1985); Bank of Korea, *Korea's Overseas Investment*, Seoul, 1982; Krishna Kumar and Kee Young Kim, "Multinationalisation of Firms from the Republic of Korea : A study of the Overseas Investment in Manufacturing Sector", (mimeo), University of Hawaii,

time a Korean national firm made an investment in Indonesia to develop timber for its use in the plywood industry which was then one of Korea's major export industries.[23] It is only since the need for monitoring FDI by Korean firms was felt and, in the late 1968, that the government announced the first set of regulations concerning FDI by Korean firms. It defined FDI as including exports on deferred payment of over one year, loans to non-residents or foreign nationals, technical licensing agreements with royalty payment for periods of more than one year and, purchases of stock issued in foreign countries. In the beginning only those countries which had diplomatic relations with Korea were being taken into account and the projects were limited to those generating foreign exchange for Korea (either through import substitution or exports) and also to those nations which contributed to long term stable supplies of

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East West Centre, 1981; Ministry of Finance, *Status of Korea's Overseas Investment*, Seoul, various years; Overseas Construction Association of Korea, *White Paper on Korea's Overseas Construction Activity*, Seoul, 1984; "Korean Contractors Expand Global Ambitions", *Korea Trade and Investment* (Seoul: Korea Trade Promotion Corporation (KOTRA)), vol.12, no.5, September-October 1994, pp.32-35; Economic Planning Board (Republic of Korea), *Major Statistics of the Korean Economy*, Seoul, various issues; *Korea Annual*, Seoul: Yonhap News Agency, various years; Il Sa Kong, *Korea in the World Economy* (Washington D.C.: Institute of International Economics, 1993); World Bank, *World Development Report* (New York : Oxford University Press, 1989).

23. For more details see, Koo Bohn-Young and Lee Eon-Oh, n.22, p.7.

essential raw materials.

Until 1978, these regulations remained in force with minor revisions and, by the end of the same year these regulations were made more restrictive. Reporting requirements for subsidiaries of Korean firms were strengthened so as to oversee their activities; and the government also enforced strict and rigorous controls over domestic firms from making wasteful foreign investments.[24]

The decade of 1980, however, witnessed a more effective and meaningful approach when both industrial as well as developing countries increasingly adopted trade restrictive protectionist policies. In the process, resource nationalism had gained further momentum. Thus, in October 1980, some foreign investment liberalization steps were formulated which among others, included: (i) loosening of requirements for domestic firms eligible to make FDIs; (ii) widening of eligible countries which included

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24. Investors were being subjected to controls on capital flight and remittances of liquid capital overseas. A law passed in the 1960s stipulated that any illegal overseas transfer of $ 1 million or more was punishable with a minimum sentence of ten years imprisonment and a maximum sentence of death. These harsh terms were believed to have been a credible deterrent to private investors who might had otherwise used public subsidies to build personal fortunes abroad. These regulatory devices also helped check capital flight and at the same time enabled the government to keep a watch on the mushrooming of Korean subsidiaries operating outside the country.

countries that did not have diplomatic relations with Korea; (iii) elimination of the so called "restricted" category of eligible projects, and (iv) simplification of approval procedures. At the same time discipline was imposed on virtually all large size firms--no matter how politically well-connected they were. Also, the government pressurised the corporate leaders to establish their linkages globally and make Korea one of the leading exporters among the developing and developed nations of the world. The basic objective was not only to increase efficiency of Korean business corporations but also to achieve rapid heavy industrialization.

Exim Bank of Korea, a major financing institution for the country's outward investment, in its lending regulation had simply stated that ownership ratios in the case of equity investment was to be appropriate in relation to the investment and the rules and regulations of the host country. Hence, no preference either for `new' or traditional forms of investment was identified. Exim Bank of Korea granted concessions to various corporate firms including importantly low-cost, long-term loans to certain exporters who were to sell their products on long-term credits. For equity investors, upto 70 per cent of their investment funds were provided by the Exim Bank at a relatively low cost on a long term basis (7-10 years). The

Korean Commercial banks too provided payment guarantees to investors which helped them to acquire financial assistance from international or host country banks. Finally, for investment projects which developed mineral resources overseas, the Overseas Resource Development Fund provided upto 80 per cent of the necessary investment at relatively low cost for 3-10 years.

Together with tax reliefs for Korean firms, investing overseas, insurance schemes were formulated to provide protection to such investors. Information services were readily made available on investment and marketing environments in host countries along with investment guarantee agreements and avoidance of double taxation treaties were being signed with numerous countries.

Encouraged by these initiatives towards achieving "Segychwa" or globalization, domestic enterprises made inroads into other regions exploring new overseas markets and thereby building global business networks, focussing on such manufactures as electronics, chips and automobiles, where they enjoyed a decisive competitive edge.

Until 1978, Korea's FDI was meagre and much of it was financed by foreign savings. In 1978, Korea's total FDI authorized by the government was $ 149 million, of which only $ 125 million materialized. By the beginning of

1980s, because of the growing need to secure steady supplies of raw materials and energy sources and because of the rising protectionism abroad, Korea's FDI firms rose substantially. By 1983, authorised FDI totalled $,587 million which further increased to $ 2.2 billion in 1995, on the basis of government approvals.[25]

Since 1994, overseas investment by Korean companies have been attracting attention because of its volume exceeding US $ 1 billion in certain specific projects as well as in the hi-tech, state-of-the-art product areas like electronics and semi-conductor manufacturing. Korea has also emerged as the eleventh largest global trader in terms of absolute size with a trade volume of $ 167.6 billion during the January-August 1995. It has also registered higher export growth in 1995, than any of the 25 members of the organisation for Economic Cooperation and Development

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25. It has been observed that, in 1994, Korea emerged as the sixth largest automaker in the world producing 23,11,663 vehicles or 4.7 per cent of world production. It exported 7,37,943 vehicles under the brand name of its leading companies and has acquired the eighth position as an exporter. Hyundai Motor, according to the Korean Automobiles Manufacturers Association, was the world's 13th largest automaker, Kia motors 17th largest and Daewoo holding 23rd largest rank in the year 1994. In figures, Hyundai manufactured over 11.3 lakh vehicles, as against Kia which manufactured over 6.1 lakh and Daewoo over 3.4 lakh vehicles in 1994, which were exported to various countries. For more details see "Globalizing Korean Conglomerates Expand Overseas", *Korean News* (New Delhi), vol.23, no.5, September-October 1995, p.14.

(OECD) and the Newly Industrialized Economy (NIE) Group of countries.[26] The rapid rise of FDI from 1979 to 1983, is partly accounted by three large investments made by Korea's Pohang Steel Co. (POSCO) in order to develop coking coal in the US, Australia and Canada and partly on account of investments in other sectors including forestry development, manufacturing, construction and trade.

Before analysing the pattern of Korean FDI, it may be appropriate to examine available data on equity investments and loans that were made by the Korean firms to their subsidiaries. Though the frequency of such loans were low (20 out of 401 outstanding cases of FDI, in value terms, they were substantial. The 1983 figures show that out of a total $ 386 million in outstanding FDI, $ 153 million was in the form of loans, and only $ 233 million in the form of equity investments.[27] These direct investments did pose some technical problems as the loans were provided by

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26. "Export-led Boom in Korean Economy", *Korean News* (New Delhi), vol.23, no.5, September-October 1995, p.15.

27. *Korea Annual*, (Seoul : Yonhap News Agency), various years; Korea Eximbank, *Annual Report, 1984* (Seoul: Korea Eximbank); Korea Development Bank, *Industry in Korea*, (Seoul: Korea Development Bank, 1984); It has been observed that except in one case where only loans and no equity was involved, all loans were made to subsidiaries established by Korean firms. Hence, among 401 cases of foreign direct investment, 400 equity investment cases existed at the end of 1983. For more details see, Koo Bohn-Young and Lee Eon-Oh, n.22, pp.6-8.

Korean firms, either with their own funds or with funds raised from international or domestic banks, and the final burden of repayment for loan was on Korean companies because of guarantees they had provided to the banks from which they secured loans.[28] The resources so invested were not used to purchase equity shares of subsidiaries in host countries. Further, where the money provided was their own, such loans represented an investment from the perspective of the investing firms. But all of these loans were a part of Korean firms' direct foreign investments.

In the beginning Korea's FDI was limited mainly to forestry development in Indonesia to ensure assured supply of timber for the Korean Plywood industry and construction activities in Guam and Indonesia. Such that, Korea's FDI was largely confined to resource development and overseas construction activities. But then, it may be added that the country was lacking in natural resources and was endowed with a small domestic market. It is for this consideration, the outward orientation of Korean corporates became inevitable. Alongside in 1973, the first instance of Korean FDI went to manufacture food seasonings in Indonesia and in fishery and trade to promote deep sea fishing and merchandise exports.[29]

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28. For more details see, Amsden, n.1, pp.84-96.

29. Koo Bohn-Young, n.22, pp.7-12.

By 1974, several Korean manufacturing firms and general trading companies also expanded globally with the help of trade agencies in various countries in order to promote Korea's exports to these countries.[30] And by late 1970s, with resource management gaining impetus in many countries and as stable supply of industrial raw materials and energy resources became essential for sustained development of a range of Korean industries, the mining sector emerged as a major area of Korean FDI. Investments also grew in transportation and warehousing activities with an enormous increase in the net volume of Korea's international cargo. Along with these, the Korean firms also purchased major real estate during this period.[31]

With the ascent of protectionism abroad and the changing nature of Korea's comparative advantage, since the 1980s, massive investments became imperative in the manufacturing sector. With the diversification of Korea's

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30. At the end of 1983, there were 208 such trade agencies with investments totalling $ 48 million. Thus, in terms of the frequency of investments, these trade agencies accounted for more than half of all investment cases by Korean firms abroad, although, in terms of the amount invested, they accounted for only 12.4 per cent of the FDI by Korean firms.

31. The real estate purchases included four purchases by Korean Air of lodging or land bases for its crews, two purchases of showrooms by the Korean Traders' Association, two purchases of lodging for seamen by the Korean Deep Sea Fisheries Association.

export markets and with localization efforts strengthening Korea's major construction markets, FDIs also expanded in the avenues of trade and construction.

While examining the nature of Korean investing firms one observes that most investments abroad have been made by private firms, except in the field of real estate (largely on account of the shortage of foreign exchange). However, the Pohang Steel Co., and the Korea Heavy Industries Co., which made investments in developing coking coal and cement respectively in Malaysia were the two companies which are defined as semi-public in the sense that government banks or corporations owned a majority of their equity. Among these firms which invested abroad there were both large firms and some medium-sized firms. The presence of some of Korea's small firms in foreign markets in the early stages of outward investment was possible because of the financial support extended to them by the Korea Eximbank and their ability to use appropriate technologies for small scale production in developing countries.

The investment by some of the big business groups in Korea, such as Hyundai, Daewoo, Samsung, Lucky Goldstar etc., has been substantial. The cumulative figures of the actual overseas investments by these corporations in 1995 show that Samsung leads the table with a total overseas investment of $ 1,386 million, followed by Daewoo $ 1,277 million, then Hyundai with $ 753 million and Lucky Goldstar with $ 647 million.[32] These outward directed investments sometimes took the form of traditional majority-owned investments, and sometimes the so called less-than-majority-owned investments. According to available estimates, two-thirds of all such investments were by Korean firms having majority-ownership.[33]

Although Korea's FDI in volume remained insubstantial until mid-1980s, these investments were nonetheless significant because they did lay down the foundations of Korean FDIs on a worldwide basis. The sectoral distribution of such investments reveal that a total number of eight investments were made in the forestry sector in Indonesia alone, along with one in Papua New Guinea, then in Solomon Islands and also in the US. The point to be noted here is that except for one project where Korean partner held only 49 per cent of the equity, all the rest ten projects were majority ownership by the Korean firms

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32. n.27.

33. An example of such majority-ownership investment can be noted as: Daewoo invested about $ 2 billion in India to manufacture cars, engines and transmission assemblies. It is considered as the biggest foreign investment in Indian automobile manufacture. Daewoo plans to invest Rs.510 crore in two phases into DCM Daewoo Motors (DDML). In this joint-venture, Daewoo Corporation holds 51 per cent stake in DDML and 34 per cent is held by its Indian collaborator, DCM, and the remaining equity is being shared by Toyota of Japan and the Indian public.

ranging from 65 to 100 per cent.

All these projects were involved in producing timber for Korea's wood processing industry and, between 1968 and 1983 timber valued at $ 227 million was imported from these subsidiaries.[34] Altogether there were eight Korean companies which made investments on forestry development. All investing firms have been relatively large firms by Korean standards. Among these eight, four had been mainly involved in overseas forestry development and not in domestic activities, while the rest had either a sawmill or furniture manufacturing plant in Korea. Thus, these FDI included processing companies which secured raw materials, while the rest were purely resource developing investments for sales to home market. On the whole, the comparative advantage Korean firms had been seeking mainly is ready market access for exports, along with the supply of capital and well-trained technicians (at relatively low cost). Admittedly, Korean firms did gain handsome profits from these investments. Figures reveal that by the end of 1983, $ 27.1 million had been remitted home from a cumulative investment of $ 52.2 million. With interest payments and wages, the total foreign exchange remitted home totalled $ 57.5 million.

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34. n.27, and Koo Bohn-Young, pp.30-33.

The Korean plywood industry was a major export industry until the late 1970s (1979 exports: $ 388 million); however, it lost much of its comparative advantage thereafter because of the restrictions on timber exports and rising competition from forest rich countries (1983 exports: $ 70 million). In the fishery sector, it was observed that twenty out of thirty investments were in less-than-majority-owned firms. Here also five major investments were directed to the US, two to New Zealand and one to Spain. In Latin America, eight investments were made in Panama, one in Venezuela and one in Chile, which were wholly-owned investments.[35] Because of the restrictions on foreign ownership by host country governments to protect their own fishing companies, Korean firms along with other developing firms had to form less-than-majority-owned joint ventures in order to obtain fishing rights in the coastal waters of the host countries. All investments in this area were made by the fishing companies which became relatively large deep sea fishing companies and fish processing companies in Korea. Also the Korean companies provided capital and skill to these joint

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35. It has been observed that the eight wholly-owned investments in Panama were possible because no restrictions on foreign ownership prevailed in this state. This facilitated the Korean firms to establish their subsidiaries in Panama and use them as their advance bases for deep sea fishing operations in the wider Pacific and Atlantic Ocean rim.

ventures. Profit remittances home from subsidiaries were meagre, amounting to only $ 1.2 million on $ 9.3 million of investments made through the end of 1983. The harvested fish was being sold mostly in the international market, and a very small amount was imported into Korea.

In the mining sector, the Bank of Korea data shows that there were some ten outward FDIs during 1960s and 1970s. Little investments were made by the Korean metal mining firms because Korea lacked competitiveness in non-ferrous metal refining industry. Whereas, energy-related investments, particularly for coal development have been large due to Korea's heavy dependence on imported energy. The ownership shares reveal that most of these investments were less-than-majority-owned, although there were two ventures which were wholly-owned.

The firms making FDIs in the mining sector were both users of the resources and trading companies. Pohang Steel Co. (POSCO) made heavy investments in the development of bituminous coal, Korea Electric Power Company (KEPCO) which made investment for prospection of uranium and Korea Oil Corporation (KOCO) which made investments in oil explorations were all direct users of the resources, with other investors being mostly trading companies or purely resource-developing companies.[36] In most cases, the contribution of the Korean companies to the projects was limited to financing, with only one company which did engage in exporting heavy mining equipments to its subsidiary. The advantage to Korean firms in these ventures was mainly access to export markets.

In the field of manufacturing Korean firms invested both in the developing and the developed countries of the world. Figures reveal that Korea's manufacturing investment in industrial countries amounted to about $ 12.3 million in eleven projects which although being a small amount, yet was significant for Korea initially. Most of the investments were based in the US, with some in Portugal, Australia and Japan. In these industrially advanced countries, Korean FDIs varied from colour televisions to consumer electronics assembly plants, while investments to produce furniture and golf bags were made in the US and Portugal. The Korean conglomerates also made investments to acquire modern technologies for manufacturing semi-conductors, and to produce metal structure for its works in Australia where it produced wool tops. In New

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36. For details on Pohang Iron and Steel Co. Ltd., (POSCO), see, Pohang Iron and Steel Co. Ltd., *POSCO: A Graphic History*, (South Korea: Pohang Iron and Steel Co. Ltd., 1985); and Paine Webber, *POSCO : Korea's Emerging Steel Giant*, World Steel Dynamics Core Report, (New York, 1985).

Zealand, Korean investments went to produce chemical pulp.

In developing countries such as Thailand, Singapore, Malaysia, Indonesia, Philippines, Saudi Arabia, Sri Lanka, India, Bangladesh, Nigeria, Dominican Republic in Central America, Korean investments amounted to $ 46.9 million for as many as 37 projects, considerably a larger number than compared to that in industrially advanced countries. The manufactured products of Korean joint-ventures in these countries varied from garments in Sri Lanka, Bangladesh, Iran and Dominican Republic, to plywood in Indonesia; shoes in Sri Lanka; lighters and electric fans in Thailand; and various construction material like cement, concrete, veneer and steel sheets in various other countries. The point to be emphasised with regard to outward manufacturing investments by Korean firms in developing countries, is that all the investments were made in labour-intensive or technologically `mature' industries.

Recent spurts in Korean FDI in the manufacturing sector is mostly concentrated in labour-intensive industries which in a way reflects the industrial restructuring of the Korean economy. Investments in industries such as textiles, garments, footwear, electric and electronic appliances are of great consequence. Korean firms have also been able to successfully acquire and improve, mostly intermediate technologies through a series of processes which include exporting activities, imports of machineries, imports of foreign technologies and joint ventures.[37] Furthermore, the abundant supply of lower wage technicians and engineers in Korea whose wages were still cheaper than those from industrially advanced countries further helped the Korean firms to operate their overseas projects at a much more competitive cost than the multinational corporations of industrially advanced countries. The advantages of the Korean firms lay in better efficiency in the operation of their plants in terms of management, and marketing skills than the host country's local firms. It is for these reasons, subsidiaries were mostly under the control of the Koreans, regardless of ownership ratio, particularly during the initial stage of the projects operation.[38]

Korean firm's investments in other developing countries were concentrated in bulky or low-cost, price

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37. For different impacts of these various activities on Korea's acquisition of technology, see, Larry Westphal, Yung W. Rhee and Garry Pursell, *Korean Industrial Competence : Where it came from?*, World Bank Staff Working Paper No.469, (Washington D.C.: World Bank, 1981); and Larry Westphal, Linsu Kim and Carl J. Dahlman, *Reflections on Korea's Acquisition of Technological Capability*, Discussion Paper, Development Research Department, (Washington, D.C.: World Bank, 1984).

38. For details see Krishna Kumar and K.Y.Kim, n.22; and The Bank of Korea, Exchange control Department, *Overseas Investment Policy of South Korea*, September, 1982, pp.53-58.

sensitive products. This was natural as Korean firms lacked comparative advantage vis-a-vis firms from industrial countries in the production of most differentiated products like pharmaceuticals, food products, automobiles or consumer electronics. In other words, in the decade of 1960s, there were very few Korean products with world renowned trade marks or designs.[39] Most of these firms produced the same or similar products in Korea in relation to its outward investments in manufacturing sector.

Of all the sectors, construction has been one in which Korean firms invested enormously. In this sector, of the total number of FDIs, six investments were based in industrially advanced countries, and importantly thirty-five in developing countries.[40] In all these wholly

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39. For more details see, Donald Lecraw, "Direct Investments by Firm's from Less Developed Countries", Oxford Economic Papers, vol.29, no.3, 1977, pp.442-57; Louis Wells, "The Internationalization of Firms from Less Developed Countries", in T. Agmon and C.P.Kindleberger (eds), *Multinationals from Small countries*, (Cambridge: MIT Press, 1977); United Nations Transnational Corporations and Management Division, Department of Economics and Social Development, *Transnational Corporations From Developing Countries : Impact on their Home Countries*, ST/CTC/133, (New York, United Nations Publication, 1993), pp.17-19; and Khushi M. Khan, *Multinationals of The South : New Actors in the International Economy* (New York: St.Martin's Press, 1985).

40. Koo Bohn-Young, n.22, pp.47-49; Korea Trade and Investment, Korea Trade Promotion Corporation, n.22, pp.32-35; and Richard M. Steers n.1, pp.216-228.

owned subsidiaries the main objective was to buy construction matèrials or equipment rather than carrying out construction activities in the host country. Of the thirty-five subsidiaries established in developing countries, twenty-five took the form of less-than-majority-owned joint ventures, mainly concentrated in Saudi Arabia, Korea's major construction market, along with Malaysia, Nigeria, Sudan and Egypt. Hyundai as the first Korean construction company won overseas contracts to construct highway projects in Thailand and Australia, bridges in Alaska, and housing complexes in Guam and all of its business was carried out through its mother company as against other major companies who carried out more of its business through its subsidiaries.

In the field of trade, out of 208 subsidiaries, only 21 were less than majority owned. As in most countries, no ownership restrictions existed, except for in some West Asian and African countries. Direct investments abroad by Koreans, regardless of its ownership structure, have been the result of efforts on the part of Korean general trading companies or machine makers (including shipbuilders) to increase their sales and let their presence be felt on a global environment.[41] Both exports to and imports from these subsidiaries amounted to billions of dollars and included technology export in different forms. This included exports of technical consulting services by various engineering and consulting firms which were being compiled by the Korean Technical Consulting Association. These services range from planning, feasibility studies and project design to advice on procurement of raw materials, testing and on pilot operation of the plant. Korean firms that provided technical consulting services abroad ranged from industrial plant engineering firms, integrated construction engineering firms and industry-specific professional engineering firms.

Most of all these sectors lost their significance in respect of Korean FDI by the mid-1980s. But in the manufacturing sector, the total of existing investments increased. Service sector also showed a steady growth following the establishment of trading companies. The

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41. The government's primary objective in establishing Korean general trading companies (GTCs) was to promote exports, and it used all kinds of means to increase the exports of Korean GTCs. The Government annually increased the minimum requisite export amount that a Korean GTC needed to retain its GTC title. The government also provided low cost financing for each dollar exported which often compensated for losses incurred in export transactions. These government measures together with the competitive spirit of the management, encouraged Korean GTCs to vie fiercely against each other to increase the export amount. For more details see Amsden, n.1, pp.125-131.

currently witnessed shifting trends in Korea's FDI can be attributed to a variety of changes that have occurred in domestic, as well as in the global economic environment. What are these trends and how they impacted Korea's outward FDI are discussed in the following section of this Chapter.

Recent trends

The role of FDI from Asia's NIEs and especially that of Korea underwent massive change over the last few decades. While debt and debt-related crises of the 1980s had apparently affected overseas investment activity of the developing countries especially that of Latin America, the internationalization of business firms based in Asian developing countries gathered momentum in the past decade. Hong Kong which had traditionally dominated overseas investment by Asian developing countries, greatly expanded its activities in China and neighbouring newly industrializing economies. Singapore's investors also spread in to Association of Southeast Asian Nations (ASEAN). Taiwan emerged as the fastest-growing investor in the developing world in the latter half of the 1980s.[42] Its economic boom endowed it with a large trade surplus. China also expanded its overseas investment rapidly in neighbouring regions and specially in resource-rich

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42. For more details on recent trends in FDI, see UNCTC, n.39, pp.21-33, and Richard M. Steers, n.1.

countries during the 1980s, the stock of outward FDI increased to more than $ 2 billion by 1989, spreading in almost all major countries in the world. In the same way, investors from the Republic of Korea, led by the large conglomerate business houses, raised their foreign presence rapidly in the late 1980s. The total stock of FDI from developing countries in 1980 was estimated anywhere between $ 5 billion to $ 10 billion, while a United Nations Center for Transnational Corporations (UNCTC) study puts the total at $ 15.3 billion.[43] The FDI stock of developing countries in 34 host countries was estimated at some $ 50 billion in 1985, with around $ 36 billion invested in developed countries and the balance in the developing world. Estimates on the basis of data available from 58 host countries had put FDI stock of developing countries at $ 109 billion in 1990. It was, however, observed that more than one-quarter of FDI by developing countries came from offshore investment sites as Bermuda, the Cayman Islands, Liberia, Panama and the Netherlands Antilles, where TNCs based in developed countries--not indigenous firms--predominated. But the share of developing countries in total FDI remained constant at about 6 per cent during the 1980s. The outflow data on share of stock showed that FDI originated in developing countries grew faster, with its

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43. UNCTC, n.39, p.23.

share in world FDI outflows rising from 0.7 per cent in 1970-1975 to 3.7 per cent in 1986-1991. This cumulative flow during 1970-1991 is estimated at $ 46 billion about 3 per cent of total world outflows. Thus relatively speaking, these figures do signify that FDI from developing countries remains marginal.

Analysing FDI outflow trends from developing countries, it has been observed that the FDIs have continued to grow both in absolute terms and as a share of total flows over time. At the same time, it is also observed that there have been changes in the relative importance of source regions for FDI. Whereas Latin America and Asia accounted for almost the same share in the 1970s, the share of Latin America's foreign direct investment, among developing countries, fell from 36 per cent in 1970-1975 to just 7 per cent in 1986-1991. Asia, on the other hand, accounted for more than four-fifths of developing country FDI flows in 1986-1991, compared to about 36 percent in 1970-1975. This dramatic growth from Asia has been as much due to the surge of FDI from China, which has emerged as one of the largest investors in the developing countries, as on account of massive accelerated outflows from NIEs, such as Korea and Taiwan.

Available data shows that economies such as Brazil, Hong Kong, Malaysia, Korea, Singapore and Taiwan had invested each more than $ 1 billion by 1990 in their overseas ventures. Hong Kong topped the list by being the largest investor among developing countries by investing $ 19 billion--which is far more than FDI of the late 1980s from developed countries of Belgium and Luxembourg ($ 13.2 billion as of 1988), Denmark ($ 8.7 billion in 1990), New Zealand ($ 800 million in 1985) during the same period. But as one of the observers noted, more than half of Hong Kong's FDI is estimated to have been made by non-indigenous firms.[44] Among the 19 developing countries for which the destination of outward FDI is available Argentina, Brazil, Saudi Arabia, Mexico and Iran had invested more in developed nations than in developing countries.[45] By the late 1980s, China, Indonesia, Korea and Venezuela also placed more than one-half of their investments in developed countries. However, developing countries continued to attract substantial portions of investment from these countries as well, accounting for about 30 per cent of FDI by China and 40-45 per cent of outflows from Brazil, Indonesia and Korea.

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44. ibid., n.39, p.26.

45. *ibid.*, n.39, p.30.

Table 1

Outward Stock of Foreign Direct Investment from Selected Developing Countries (Millions of Dollars and Percentage)

Home Country		Host Countries: Total		Developed Countries		Developing Countries	
		Volume	Share	Volume	Share	Volume	Share
Asia							
China	1981	40	100	14	34	26	66
	1987	542	100	387	71	154	28
Hong Kong	1980	5607	100	468	8	5139	92
	1990	18930	100	3369	18	15538	82
India	1985	96	100	1	1	95	99
	1988	76	100	6	8	70	92
Indonesia	1980	6	100	1	17	5	83
	1990	183	100	94	51	81	44
Republic of Korea	1976	57	100	14	25	42	75
	1980	142	100	45	32	57	68
	1991	3373	100	1899	56	1451	43
Malaysia	1976	18	100	-	-	-	-
	1980	406	100	-	-	-	-
	1988	1489	100	-	-	-	-
Pakistan	1980	40	100	6	16	34	84
	1990	244	100	13	5	231	95
Philippines	1980	171	100	-	-	-	-
	1988	154	100	-	-	-	-
Singapore	1981	819	100	71	9	748	91
	1989	1554	100	321	21	1232	79
Taiwan Province of China	1980	101	100	57	57	44	43
	1991	4733	100	2340	49	2393	51
Thailand	1980	13	100	6	47	7	53
	1990	404	100	146	36	216	53

Source: UN., Transnational Corporations and Management Division, *Transnational Corporations from Developing Countries: Impact on their Home Countries*, (New York, 1993), p. 27.

Recent trends have shown that although some developing countries spread their FDI throughout the world, but most developing countries have concentrated their investments in a limited number of countries. Brazil, Korea, Singapore and Taiwan showed more diversified geographical orientations, making investments exceeding $ 50 million in each of eight, eleven, ten and seven countries respectively. Neighbouring countries still are the important hosts of FDI from developing countries. Nearly eighty-two per cent of FDI stock from Hong Kong (1990), sixty-six per cent from Singapore (1989) and fifty three per cent from Thailand (1990) were located in other East, South and Southeast Asian countries. For Asian NIEs, ASEAN has been an important host area: at least one ASEAN member ranks among the three largest host countries for Hong Kong, Korea, Singapore and Taiwan.

By 1990, nineteen countries (eleven developed and eight developing) had absorbed more than $ 1 billion each in FDI from developing countries. US being the largest host country to FDI from developing countries, absorbed about $ 11 billion in 1980 and $ 27 billion in 1990. It has accounted for some one-quarter of total FDI stock from developing countries during the 1980s and in 1990.

In general, data show that developing countries are still important host countries to FDI from developing world. China, Indonesia, Malaysia, Taiwan, Thailand and Mexico each have apparently attracted more than $ 1 billion of FDI from developing countries by 1990. FDIs from developing countries account for about 19 per cent of total inward FDI in the developing world--nearly five times higher than their share in host developed countries at 4 per cent. But by 1990 while the developing world remains an important host target for developing country investors, the share of FDI in developing countries has fallen to less than one-half in all host countries. This represents a decline by a few percentage points from 1980, when FDI in host developing countries was equivalent to more than one-half of all host countries. All this shows that the developed countries have been gaining importance as host area to FDI from developing countries, due to better access to modern technological innovations, or particular resource-seeking investments.[46]

The four newly industrializing economies of East Asia--Hong Kong, Singapore, Taiwan and Korea--rank among the leading overseas investors, and have emerged as models of dynamism and success for other developing countries to emulate. Firms from these countries have invested in several individual overseas markets that offered factor conditions similar to their own, and they did not have to compete head-on with developed countries. This, in a way, has assisted in the process of internationalization, whereby TNCs from developing countries, after acquiring greater technological competence, are attempting to compete with developed country TNCs directly, both at the domestic level and globally. World Bank reports that from a strategic perspective, the TNCs from these countries have effectively reoriented themselves to pursue a global strategy; from a technological perspective, their ownership

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46. *ibid*, pp. 31-33

advantages are now sufficient so as not to require the protection afforded by inward-oriented markets. Also, with the conclusion of the Uruguay Round in late 1993, the world has witnessed the concept of a global community linked by the free flows of trade and investment. The establishment of the World Trade Organisation (WTO) in 1995 also ushered in an age of unlimited competition. While studying the economic history of Korea, it has been witnessed that the foremost task facing Korea has been to search for ways to cope with this new current in the world economy. It is against these trends, should one examine Korea's foreign investment in recent years.

Ever since the advent of President Kim Young Sam's government in February 1993, far-reaching political and economic reforms have been initiated. A drive for massive deregulation in the foreign direct investment sector is one of the highlights of the current reforms. The government has decided to improve the domestic investment environment, putting it on the same level with competing nations, with the understanding that the reforms are essential in order to activate foreign investment and strengthen international competitiveness. This has resulted in a simplified procedure for foreign investments along with dozens of business sectors restricted to foreign investors which have recently been opened up. The Five-Year Foreign Investment Liberalization Plan was adopted to enhance predictability for foreign investors. These have facilitated further Korea's FDI.[47]

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47. See, "Righting History Towards Just Progress", *Korean News* (New Delhi), November-December 1995, pp.6-7.

Mention has already been made about Korea's outward FDI increasing rapidly since the mid-1980s. It has also been observed that Korea had the largest, heaviest and most advanced industrial structure of the four newly industrializing economies (NIEs). Its FDI stock reached a total of $ 3.4 billion by the end of 1991, showing a very rapid increase from 1980, when it totalled only $ 142 million.[48] The total number of cases of approved outward FDI increased from 74 in 1986 to 632 in 1992, along with its total value from US $ 0.36 billion to US $ 1.2 billion. Actual outward investment also continued to grow, with its annual amount surpassing US $ 1.0 billion in 1991 and 1992. As a result, the total value of Korea's existing investment rose from US $ 0.65 billion in 1986 to US $ 3.4 billion in 1991 to US $ 4.3 billion in 1992, followed by a further rapid increase to US $ 10 billion in 1995.[49]

One major factor responsible for the rapid increase in Korea's outward FDI is undoubtedly the liberalization of government regulations on outward FDI since 1986. In order to reduce inflationary pressures from the current account balance surplus during 1986-88, monetary authorities undertook a series of measures in order to encourage outward FDI, e.g., by introducing the notification system and allowing private firms to purchase real estate in foreign countries. This resulted in the current account balances to return to deficit in 1990. However, even under

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48. UNCTC, n.39, p.43.

49. Jai-Won Ryou and Byung-Nak Song, Korea's Foreign Direct Investment in Southeast Asia, KIEP Working Paper No.93-02, (Seoul, March 1993), pp.3-4.

these circumstances, the outward FDI continued to grow. In spite of the dangers of negative effects of outward FDI on the balance of payments, the Korean government showed little noticeable change in its liberalization initiatives in respect of FDI.[50] Other factors encouraging outward FDI are the change in Korea's domestic investment environment as well as the changing global climate with regard to foreign investment. The Korean economy had to endure domestic macroeconomic instability and also the growing protectionism of the advanced countries since the mid-1980s. For example, unit labour cost in the manufacturing sector denominated in the US dollar almost doubled during 1986-91. This was followed by the appreciation of the Korean *won* by 16 per cent which accelerated the demise of Korea's comparative advantage.

By destination, the US has been the largest recipient, at 35 per cent of total Korean FDI stock in 1991. South and East Asia ranked next at 34 per cent which increased to 43.2 per cent at the end of 1994, with Indonesia alone accounting for one-half of FDI in the region. Europe which accounted for additional 7 per cent in 1991, at the end of 1994 accounted for 30.9 per cent. Other regions took smaller share in total investment : 5 per cent each for Latin America and Australia, New Zealand and Oceania; and two per cent for Africa. This overall geographical spread seems to be more broader than other NIEs.[51]

Large firms account for the overwhelming bulk of FDI

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50. ibid., p.5.

51. UNCTC, n.39, p.43.

from Korea, 73 per cent by value (28 per cent by numbers) in total FDI stock as of 1991. All this was possible by a substantial change in the investment structure. The Korean firms by late 1980s, had begun to invest more in the manufacturing sector, while resource-related investments in the forestry, fisheries and mining sectors became stagnant by mid-1980s. The share of the manufacturing sector in total existing investments increased from a mere 25.5 per cent to 48.9 per cent between 1986 and 1991. Along with manufacturing, service sector also claimed a share of US $ 4687 million in 1,425 investments projects at the end of 1994. The manufacturing sector absorbed US $ 7675 million in 3,004 investment projects which was the largest share and accounted for more than 80 per cent of total amount through the mid-1970s. However, the share of FDI in the manufacturing sector decreased to 61.3 per cent at the end of 1994.[52]

Within the manufacturing sector, chemicals, electric and electronics, transportation equipments received the greatest share of total FDI. The chemicals sector ranked first with US $ 1,965 million for 391 investments at the end of 1994. Since the 1980s, however, foreign investments in the manufacturing sector began to diversify after getting phenomenal attention from global markets, and are concentrated in labour intensive industries as textiles, footwear, fabricated metal sector etc.[53]

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52. Bank of Korea, *Current Status of Foreign Direct Investment*, (Seoul) various years.

53. n.27.

Meanwhile, FDI in the service industry increased to a 37.4 per cent share at the end of 1994, up from only 1 per cent in the 1960s.

Investment in capital intensive industries is linked closely to the favourable investment environment provided by the host countries which may match the industrial policy objectives of the host countries. In the case of developed countries, Korean FDIs were made in the consumer electronics industry in the 1980s.

The *chaebol* which dominate the manufacturing sector in Korea reported total sales of 136 trillion *won*, which accounted for a 15 per cent of the nation's economic growth in 1990.[54] The ownership advantages of the *chaebol* derive two main factors. First, levels of investment in research and development far more exceeds the levels recorded anywhere else in the developing world. The R & D expenditure in Korea was around 1.9 per cent of GNP (1988), compared to 1.2 per cent of Taiwan (1988), 0.9 per cent for India and Singapore, 0.6 per cent of Mexico and so on.[55]

With enormous amount of overseas investments, Korea's largest companies are ardently advancing their presence into global markets. The conglomerates continue to invest heavily in overseas projects, Samsung, Hyundai, Daewoo and the LG Group are focussing on electronics, chips and

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54. UNCTC, n.39, pp.43-45.

55. n.47.

automobiles as main areas for overseas investment.[56]

Encouraged by the Korean government's ongoing policy of "Segyehwa" or globalizations, the big corporates are taking every opportunity to make their presence felt, in the world markets. The government on its part has brought about several recent changes in recent years in order to improve the investment environment for both inward and outward going FDIs. Under the auspices of Financial Liberalization, the Korean government announced in September 1994, a draft of financial reforms focussing on the areas of foreign exchange and capital account liberalization. The reforms included deregulation of interest rates which included the norms such as all loans from commercial banks and other financial institutions, excluding government financial loans were liberalized, along with long term deposits with maturity of over two years. The Korean government recently announced several measures to improve deregulations on FDI, focussing on the simplification of approval procedures and encouraging FDI to facilitate the structural reform of the economy. To promote foreign capital inflows, the Korean government has removed a number of restrictions in order to provide additional incentives for foreign investors. The basic direction of the Korean government's FDI policy is not just expanding the volume of investments, but also to achieve harmony with the policy of economic structural advancement.

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56. Details regarding *chaebol* overseas investments are scattered in a number of reports that have appeared in the print media. One of the more detailed and exhaustive analysis has appeared in *Far Eastern Economic Review* (Hong Kong), 2 November, 1995, pp.46-52.

Therefore, the majority of the measures liberalizing foreign investments, supports and benefits areas that can effectively contribute to upgrade the quality of the Korean economy. In recent years, Korea's big industrial groups, have unleashed almost daily announcement on overseas plants, alliances and take overs. Samsung, Hyundai, Daewoo and LG have invested substantially in various projects on a world wide basis.

Samsung, in its overseas investment plan for 1994-95 proposed mergers and acquisitions of foreign companies and construction of off-shore industrial bases. It was estimated that this conglomerate would pour a total of US $ 2 billion into foreign markets by the end of 1995, which in itself would be up by 25 per cent from the previous year. Along with this Samsung also plans to spend US $ 4 billion on projects in China by the turn of the century including US $ 2.5 billion in direct investment. The largest investments would be directed in sectors like electronics, textiles and chemicals.

Hyundai Electronics is setting up a semiconductor plant in the US for eight inch chip wafers with a monthly capacity of 30,000 units and with a total investment of about US $ 1.3 billion.

Daewoo, Korea's third biggest business group intends to disburse a total of US $ 700 million by the end of the century in order to establish home electronics factories in European countries including France, the UK and Poland. The Company is pushing ahead with its automobile factory in Surajpur near New Delhi, India with a total investment of US $ 1 billion in capital.

Likewise, the LG business group is also eager in promoting overseas investments in the electronics sector. In June 1994, this group took control of the Zenith Electronics Corporation which is said to be one of the third biggest TV manufacturers in America. LG also plans to construct a US $ 70 million factory in Tianju, China and a US $ 450 million industrial complex for electronic products in Indonesia.

At the same time, Korea has also registered higher export growth during the year 1995, unsurpassed by any of the member countries of either the OECD or the NIE group. Figures reveal that Korea has increased its exports by 33.4 per cent during the first half of 1995 alone; it is far higher than the average 20.7 per cent posted in world trade expansion during the period. A survey conducted by KOTRA perviews that Korea is no longer a closed market and is the fifth largest contributor to world trade growth. KOTRA has also forecasted that Korea will expand its economic overseas ventures considerably so that by 1997, Korea would rank as one among the top ten trading countries in the world.

CHAPTER III

CHAPTER III

ECONOMIC PRESENCE AND PENETRATION OF KOREA IN ASIA

In the preceding two Chapters an attempt was made to sketch briefly the historical evolution of Korea highlighting the rapid strides the Korean economy made in the decades beginning from 1960. While describing the process of economic transformation witnessed in the past three decades, it was underlined that the process of transformation of a resource-poor, war-ravaged economy into one of Asia's fastest growing economies would not have been possible but for the major initiatives undertaken by the country's private sector, importantly the *chaebol* and the overarching support lent by the government to the overall economic development. So much so, within a span of three decades, Korea has, by all accounts, achieved an unprecedented high growth rate. According to reliable computations, the economy has been able to maintain and sustain the high growth rate which in the second quarter of the year 1995 reached to 9.6 per cent as compared to 8.4 per cent during the preceding year.

Accompanying the high growth rate of the Korean economy is the increasing presence and penetration of Korean conglomerates, particularly the major Korean business corporations into the different and even remote regions of the world. As a result, it is claimed that the spread and the role performance of the Korean conglomerates will bring the peninsular country to the level of other industrially advanced countries of the world. In respect of their role performance, two aspects need distinct mention --one, their capital investments overseas, and the other, their substantially increasing commodity and service exports, which according to most estimates are likely to grow more in the coming years. According to an estimate made by the Bank of Korea, the overseas investments of the Korean firms during the first seven months of 1995 was around US $ 2.2 billion of about 909 investment projects approved by the government. With this quantum of foreign investment, Korea has emerged as the eleventh largest global trader both in respect of size and volume which is estimated around $ 167.6 billion during January-August 1995. Based on its external trade, Korea has become the fifth largest contributor to the growth of world commodity market.[1]

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1. "Globalizing Korean Conglomerates Expand Overseas", *Korean News* (New Delhi), vol.23, no.5, September-October 1995, pp.14-15.

It is against this background, an attempt is made in the present Chapter to examine Korea's economic penetration into its immediate neighbourhood region of Asia focussing on the antecedents of Korea's economic linkages with the countries of southeast Asia and the emerging responses and impact of Korea's presence in Asia.

Antecedents of Korea's Penetration into South Asia

Mention has already been made that Korea began its foreign direct investment in the latter half of the decade of 1960. In fact, until the mid-1980s its FDI remained rather insignificant and was largely confined to a few countries in the world. Until the end of the decade of 1980, Korea's FDI totalled to no more than $ 142 million as against a phenomenal increase to $ 3.4 billion by the end of 1991.[2] Also, during the initial phase of Korea's foreign investment, southeast Asian countries received investments only marginally. Whereas, in the years since mid-1980s Korean FDI in this region had increased rapidly and, in fact, is emerging as an important source of capital for some of the countries of the region. It is suggested

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2. United Nations Department of Economic and Social Development, *Transnational Corporations from Developing Countries : Impact on their Home Countries* ST/CTC/133, (New York : United Nations Publications, 1993), p.43.

that in the years to come Korea is expected to rank among the largest investors in the region of southeast and south Asia together with Japan and Taiwan.

The dynamism of Korea's outward FDI in southeast Asia can be explained by domestic and global changes in the investment environment which redefined the international competitiveness of these east and southeast Asian countries. In quick succession one country after another in the region initiated an outward looking development strategy under which they have been actively seeking foreign capital, advanced managerial skills and advanced technologies to modernize their domestic industries in order to make them globally competitive. Together, the well-trained industrial workers and a highly perceptive capitalist market economy that these countries evolved enabled them to acquire competitive edge in world markets. No less important and critical to these transformative changes was the judicious and far-sighted policy initiatives made by the political leadership in these countries to restructure and liberalise their economies.[3]

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3. For more details on Korea's outward FDI in Southeast Asia see, Jon Woronoff, *Asia's "Miracle" Economies : Korea, Japan, Taiwan, Singapore, Hong Kong* (Seoul: Si-sa-yong-o-sa, Inc. 1986), pp.346-356; Jai-Won Ryou and Byung-Nak Song, *Korea's Foreign Direct Investment in Southeast Asia* (Seoul: Korea Institute for International Economic Policy (KIEP), March 1993); Pang Eng Fong, "South Korea and Southeast Asia: Partners and Competi-

Interestingly enough, just as the newly industrialising countries of the region began adopting a sustained policy of economic restructuring and liberalisation, other countries of the region importantly the member countries of the Association of South East Asian Nations (ASEAN), as well as countries of south Asia like India too had initiated policies intended to usher in basic restructuring of their economies.

The upshot of these policy initiatives had not only encouraged FDI by the leading countries of the Asia-Pacific rim but more importantly their external trade linkages. At least in the initial phase, that external trade was basic to their economic dynamism is evident from the phenomenal increase in the volume of external trade of the Asian NIEs which while in 1965 constituted only 2 per cent of world trade went up to 8 per cent by 1980s. Of this increasing volume of external trade, the share of intra-regional trade i.e. trade within the East Asian region including some select countries of southeast Asia was more than their trade exchanges with other regions of the world. According

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tors" (Conference Paper Presented at the National University of Singapore), February 22-24, 1993; and Jang-Hee Yoo, "*The ANIEs - An Intermediate Absorber of Inter-regional Exports*"? (Seoul: KIEP, July 1991).

to available data, intra-regional trade in the East Asian region increased from anywhere between 54 to 59 per cent in 1970 to nearly 66 per cent by 1987, reflecting thereby that the Asian NIEs had by then become as much an important importing economic entities while at the same time maintaining their export-promotion development strategies.[4]

Thus Korea's export-promotion development strategy exerted, just as in the case of Japan around the same time, an overwhelming influence on trade flows within the region.

Trade expansion, in turn, made FDI imperative for Korea in the subsequent years. For a country so poorly endowed with natural resources, the possibility of attaining high industrial growth by promoting expansion in manufacturing that are also resource-intensive depended on the availability of natural resources imports at reasonably low prices. Thus resource development has been the most important motive of Korean investment in southeast Asia even in the late 1960s and early 1970s. So much so, in order of priority, Korean FDIs in the region were in sectors such as forestry, mining, fishing and construction

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4. ibid, pp.4-6.

in these years.[5]

Between 1968 and 1978, eight Korean companies made investments for forestry development overseas. However, most of these investments were concentrated in Indonesia, (as many as eight projects), one of the richest countries in the neighbourhood region in forestry resources. Of the other three projects in forestry, one was in Papua New Guinea, one in Solomon Islands and one in the United States. All these investments were involved in producing timber for Korea's wood processing industry, mainly plywood and also for construction activities in Indonesia and Guam. What is more, most of these investment projects involved majority ownership by the Korean firms, ranging from 65 to 100 per cent. In other words, both the concentration and the pattern of investments clearly suggest that these

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5. It has been observed that part of the investment, originally the largest share, was directed towards natural resources in order to get the quantity of raw materials they needed. Thus, Japan, Korea and Taiwan invested in a series of mining operations in and around southeast Asia as partners of local companies and later invested in processing these products back home. There was distinctly less eagerness to invest in manufacturing initially, because of cheap labour availability in their home countries. But in time, with rising wage levels at home, the investors in order to benefit from the much cheaper labour abroad, shifted their focus on Asian countries. Also as trade restrictions became more severe and mounted on their exports, the NICs found it advantageous to invest across the borders and produce goods offshore and then ship it to advanced countries.

instances of vertical investments were undertaken essentially to secure raw materials for the domestic wood processing industry or to ensure development of forest resources for sales in the home market. According to available data, between 1968 and 1983, timber valued at $ 227 million was imported from these investment projects in forestry.[6]

Besides the need to secure steady supply of timber for the domestic wood processing industry, Korean firms' concentration of investments in the sector of forestry were motivated by the comparative advantage that these firms enjoyed in this area such as ready markets for exports, availability of capital and relatively well-trained technical skill. However, forestry lost its primacy in respect of Korean FDI in recent years largely on account of the restrictions imposed by host countries, importantly Indonesia (especially since 1981) or on account of the host countries themselves having established and evolved their own plywood manufacturing plants. Nevertheless, Korean firms garnered sizeable profits from their investments in forestry during these initial years. According to one

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6. Koo Bohn-Young and Lee Eon-Oh, *Korean Business Ventures Abroad : Pattern and Characteristics* (Seoul: KDI 1985), pp.30-33

estimate, at the end of 1983, $ 27.1 million had been remitted from a cumulative investment of $ 52.2 million in forestry by Korea. Together with interest payments and wages, the total foreign exchange remitted to Korea, it is calculated, was $ 57.5 million.

In order of priority, yet another major FDI by Korean firms in these early years was made in the sector of mining, in the neighbourhood regions. In the period following the oil crisis, Korean firms with the support of the government moved to making foreign investments in the energy sector especially in bituminous coal and oil. And most of these projects were again concentrated in East Asia including Australia. The only other mining resource prospecting investment project undertaken by Korea was in tin in Thailand in the year 1978. The reason for Korea's reluctance to invest in metal mining was obviously its lack of competitiveness in this sector. Whereas its investments in the energy sector especially in countries such as Australia, Indonesia and North Yemen were basically motivated by its imperative need to cope with the energy crisis. So much so, between 1979 and 1982, Korean mining companies went into Australia and Indonesia with 100 per cent ownership rights to develop mining of bituminous coal either on product sharing basis or for importing coal for domestic needs. Among them, the leading Korean company was Pohang Steel (POSCO) which made heavy investments in the development of bituminous coal.[7] During these early years of 1980s, Korea also made sizeable investments in oil prospecting and development projects in Indonesia and North Yemen (see Table 1).

While foreign investments in the manufacturing sector was modest in these early years, what is however, of importance is that the Korean companies evinced active interest in the export of manufacturing technology to most of the countries of Asia. Here the concerns of the Korean firms investment overseas were very different from that of Korean FDIs in forestry and mining, in the sense, these investments were made not so much for securing access to natural resources overseas as to promote exports of Korean manufactures. In this specialised sector of manufacturing technology, Korean investment began with the setting up of a food seasoning plant in Indonesia as early as 1972.[8] Between then and early 1980s, Korean manufacturing technology investments proliferated in a number of Asian countries and the range of products that were manufactured

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7. ibid, pp. 34-38.

8. ibid, p.42.

by Korean firms were also diversified, including a variety of durable and non-durable goods. Also, the nature of

Table 1

Mining Investments by Korean Firms in Asia and Australia

Items	Year of Investment	Host Country	Share in Exploration or Development Rights (%)	Ownership Participating Korean Subsidiaries (%)	Character of Investing Firms	Reference
Prospection Projects						
Bituminious Coal	1982	Indonesia	86.5	100	Consortium	Product Sharing Agreement
	1984	Australia	5	-	Trading Co.	
Tin	1978	Thailand	40	40	Mining Co.	
Oil	1981	Indonesia	50	-	Resource Overseas Development Co.	Exim's Resource Development Fund.
	1984	NorthYemen	25	-	Consortium	
	1984	Indonesia	24.5	-	Consortium	
Development Projects						
Bituminious Coal	1979	Australia	5	100(2)	Trading& Mining Co.	Import since 1983
	1980	Australia	20	100	Steel Co.	1983
	1982	Indonesia	Loan	-	Textile Co.	1983

Source: Koo Bohn-Young and Lee Eon- oh, *Korean Business Ventures Abroad: Patterns and Characteristics,* (Seoul, Korea Development Institute), 1985), p.37.

these technology varied from country to country and from product to product. In some instances, only production technologies were provided, and in some operation and maintenance services were furnished. Yet in others, both kinds of technologies were provided, they Also wherever such technologies were provided were mostly in products in which Korea had enjoyed comparative advantages such as in plywood, shoes, various textile products, steel products, ships and construction materials like cement (see Table 2).

The third most important sector in which Korean FDI was made in these early years was in construction activities.[9] Number of factors facilitated Korea's initial forays in overseas investment in the sector of construction activities. One most important factor was the accumulated experience of Korean companies in construction projects

Table to follow

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9. For more details on Korean construction activities abroad, ibid, pp.69-77 and "Korean Contractors Expand Global Ambitions", *Korean Trade and Investment* (Seoul), vol.12, no.5, September-October 1994, pp.32-36.

Table 2

Characteristics of Manufacturing Technology Licensed by Korean Firms

1972	Food Seasoning	P	Indonesia	4	H	DFI,Plant
1974	Medical Topic	P	Taiwan	2	H	
1978	knitwear	O.M.T.	Iran	3	E	Revoked
1978	Velvet & Rayon	O.M.T.	Iran	3	H	Revoked
1978	Fiber	O.M.T.	Iran	1	E	Revoked
1978	Textilized Yarn	O.M.	Iran	3	E	Revoked
1979	FRP Ships	P	India	1.5	H	
1979	Indus. Detergent	O.M.	Saudi Arabia	5	E	
1979	Cement	O.M.	Saudi Arabia	5	E	
1979	Cast Iron Pipe	P	Taiwan	5	H	
1979	Wattmeters	P	Thailand	10	H	DFI,Plant
1979	Engines for Agri. Equipment	P	Thailand	2	H	DFI,Plant
1979	Garments	P	Bangladesh	2	H	
1980	Cement	I.O.M.	Saudia Arabia	5	H	Plant
1980	Plywood	I.O.M.	Indonesia	5	H	DFI,Plant
1980	Galvanized Iron Sheets	I.O.M.	Nigeria	3	M	DFI,Plant
1980	Canvas Shoes	I.O.M.T.	Sri Lanka	7	H	DFI, Plant
1980	Sanitary Rubber Products	P.I.O.M.	Malaysia	3	H	DFI,Plant
1981	Soap	O.M.T.	Nigeria	3	H	
1981	Automotive Parts	O.M.T.	Saudia Arabia	1	E	
1981	Transformers	P	Bangladesh	4	H	Plant
1981	Steel	I.T.	Libya	10	H	

Table 2 Contd..

Table 2 Contd..

Year of Agree-ment	Product	Nature of Technology	Host Country	Duration Agreement	Nature of Licensor	Reference
1981	Steel Pipe	I.O.M.	Saudia Arabia	5	H	DFI,Plant
1981	Garments	P	Bangladesh	2	H	
1982	Canvas Shoes	P.O.M.	Indonesia	5	H	Plant
1982	Black Steel Plate	P	Taiwan	7	H	Plant
1982	Transformers	P.I.O.M.	Nigeria	6	H	DFI,Plant
1982	Auto. Transmission	P	India	3	H	
1982	Flavours	P	Philippines	10	H	
1982	Tire Cord	P	India	8	H	
1983	Earthen Blocks	P	Malaysia	20	H	
1983	Medicines	P	Philippines	5	H	
1983	Tire Cord	P	India	5	H	
1983	Methylisocyanate	P	Italy	3	H	
1983	Patrol Boats	P	U.S	5	H	
1983	Medicines	P	Taiwan	5	H	

Note:1) P denotes production technolgy including both process improvement and patents. I,O,M, and T denote installation, operation, plant maintence and training of labor force, respectively.

2) Hdenotes licensing by a firm which manufactures the same product in Korea; E denotes engineering firms; and M denotes machine makers.

3) DRI denotes cases where the Korean licnesors made equity investments together with the licensing; 'plant' means plant exports to the licen see related to the same project; and ' revoked' means that the agreem ent period.

Source: Koo Bohn-Young and Lee Eon- oh, *Korean Business Ventures Abroad: Patterns and Characteristies*, (Seoul, KDI),1985.p.56

since the end of the Korean war in 1953 at home as through participation in US army's construction projects in Korea from the late 1950s to early 1960s. The first construction investment project overseas was made by Hyundai as far back as 1965 when it won the contract valued at $ 5.2 million for the construction of a highway in Thailand. Many construction projects in which Korean companies invested in the decade of 1960 were in one way or another related to US army activities in Vietnam. By early 1970s, however, Korean companies carried out many other projects in other southeast Asian countries including Thailand, Indonesia, Pakistan, Malaysia, Singapore, and Australia. Since 1973 following the oil price hike when many oil-producing countries became rich with petro-dollars, it led to a boom in Korean foreign investment in construction because most of these oil-producing countries began launching ambitious economic development programmes which required huge investments in infrastructure. Lacking in skilled labour, technology and management expertise, these West Asian countries looked for foreign investment, and Korean construction companies filled these gaps with their cheap labour and ample experience in infrastructure construction both at home and abroad. As one observer states: "The main advantage of Korean firms were: relatively cheap but efficient labour; innovative Korean entrepreneurs who had superior organisational and management skills and who were willing to take more risks than their foreign competitors (e.g. promising early delivery for countries yearning for rapid development of their infrastructure); and the government's support for their overseas operations."[10] (see Table 3).

Table 3

New Orders Received Abroad by Korean Construction Firms
(in million dollars)

Year	Total	Middle East	S.E. Asia	Others
1965-73	422.7	24.1	300.4	98.2
1974	260.6	88.8	145.0	26.8
1975	814.8	751.2	42.5	21.1
1976	2,501.7	2,429.1	34.6	38.0
1977	3,516.2	3,387.0	119.3	9.9
1978	8,145.0	7.982.4	91.0	71.6
1979	6,351.3	5,958.4	378.0	14.9
1980	8,259.4	7,831.0	409.0	19.4
1981	13,681.0	12,674.2	838.2	168.6
1982	13,383.4	11,391.8	1,920.5	71.1
1983	10,443.9	9.023.3	979.2	441.4
Total	67,780.2	61,541.4	5,257.8	981.0

Source: Koo Bohn-Young and Lee Eon-Oh, *Korean Business Venture Abroad: Patterns and Characteristics* (Seoul, KDI), 1985 p. 72.

10.Koo Bohn-Young, n.6, pp. 71-72.

While the decade of 1970 offered lucrative opportunities for Korean firms engaged in construction activities in the oil-producing West Asian countries, in the 1980s with the stagnation in the world oil market, Korean companies had been forced to retreat from the region. Fortuitously, as these construction companies were winding up in West Asia, fresh outlets became available to Korean investment in construction activities nearer home i.e. southeast Asian countries. Notwithstanding entrenched Japanese competition in southeast Asia still the Korean construction companies were able to make good to some extent in the region. At the same time, the Korean construction companies too moved away from labour-intensive simple civil engineering construction activities to more sophisticated engineering projects which among other included building industrial plants, power communication construction. Project locations of these sophisticated construction works were again mostly confined to southeast Asia and West Asia (see Table 4).

Table 4

Orders Received by Characteristics of Works

(in million dollars)

	1966-75	1976-79	1980-83	Total
Civil Engineering Works	1,112 (74.2)	6,717 (32.7)	19,132 (41.8)	26,961 (39.4)
Buildings	263 (17.5)	9,570 (46.7)	21,656 (47.3)	31,489 (46.5)
Industrial Plants	98 (6.5)	2,746 (13.4)	3,200 (7.0)	6,044 (8.9)
Power and Communication	24 (1.6)	1,376 (6.7)	1,647 (0.3)	3,047 (0.4)
Technical Services	2 (0.1)	105 (0.5)	132 (0.3)	239 (0.4)
Total	1,499 (100.0)	20,514 (100.0)	45,767 (100.0)	67,780 (100.0)

Note : Figures in parentheses denote percentage compostion during the period.

Source :Koo-Bohn-Young and Lee Eon-oh, *Korean Business Ventures Abroad: Patterns and Characteristics* (Seoul, KDI), 1985) P. 74.

However, unlike in the case of civil construction where the Korean firms virtually held a monopoly position, in their power and industrial plant construction activities, many Korean firms resorted to joint-ventures with a number of industrially advanced countries including Japan.

From the above brief description of Korean FDI activities in the years beginning from 1960 to early 1980, it is possible to identify some distinct trends and characteristics. As has been stated earlier Korea's FDI began in 1968, but it remained modest and marginal until 1980. In these years, FDI was looked upon as capital outflow and therefore was generally discouraged by government. But where FDI grew and was facilitated deliberately by the government, was in instances where such foreign investment could secure stable supply of important raw materials for the development of specialised industries such as wood processing or could meet and supplement the much-needed energy resources such as coal and oil. In addition to these considerations, other factors that facilitated Korean FDI are export-promotion of manufactures in which Korean firms enjoyed some competitive edge in the Asian durable and non-durable markets as also the judicious investment of their accumulated experience in the field of construction activities. In other words, Korean FDI in these incipient years showed two motivations--one, resource-seeking and the other, market seeking. Although these foreign investments were only modest, yet the experience gained seemed to have given a decided advantage to Korea in respect of its late years penetration into Asian countries especially since the 1980s when more and more Asian countries are seeking economic restructuring and market liberalisation.[11]

Anatomy of Korean FDI in Asia

The period since 1980s is marked by a boom in Korean FDI activities in Asia. Korean outward FDI which began in 1968, if it remained insignificant throughout the 1970s, began to increase rapidly since mid-1980s, and according to available figures between 1986 and 1992 alone increased substantially from $ 0.36 billion to $ 1.2 billion.[12] Together with this phenomenal increase in the volume of Korean FDI, there is perceptible shift in the sectoral distribution of such foreign investment. While the resource-seeking foreign investments especially in Asia in such sectors as forestry and energy have declined, foreign investment in manufacturing has gained considerable increase.[13] Interestingly, the recent increase in FDI in

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11. For more details on governments policy towards FDI by the Korean firms see Richard M. Steers et.al, *The Chaebol: Korea's New Industrial Might* (New York : Harper and Row, 1989); Il Sa Kong, *Government, Business and Entrepreneurship in Economic Development : The Korean Case* (Cambridge: Harvard University Press, 1980), pp.38-165 and Jon Woronoff, n.3, pp.91-101.

12. Jai-Won Ryou, n.3, p.3.

13. Another notable change that occurred during the early 1980s was the expansion in the share of finance, insurance, real estate, and business services in the ANIEs. Thesesectors in Korea increased from 8.6 per cent in 1970 to 13.2 per cent of the GDP by 1988. Along with the exports, industry witnessed a drastic change. The importance of agricultural goods and resource-intensive goods in exports decreased drastically in Korea from about 20% in 1970 to merely 5.5% in 1988. These included foods and live animals, beverages and tobacco and crude material. Their place was taken by manufactured goods, machinery, transport equipment,

the manufacturing sector is mostly concentrated in labour-intensive industries which in a way reflects the industrial restructuring of the Korean economy in recent years. Investments in products such as textiles, garments, footwear, electric and electronic appliances have grown in volume. Moreover, the fabricated metal sector including household electric and electronic appliances dominate the manufacturing sector with a total investment of about nearly 30 per cent by early 1990s. Investment in capital-intensive industries is linked closely to favourable environment offered by the host countries dictated by their industrial policy objectives.

One of the over-riding considerations that explains the heightened outward FDI since the 1980s is "the liberalisation policies pursued by the government on the regulations on outward FDI since 1986. It is believed that in order to reduce inflationary pressures from the current account balance surplus during 1986-88, monetary authorities implemented a series of incentives in order to encourage outward FDI".[14] Although these incentives had a negative effect on the current account balance by turning it into a deficit, yet the current policy approach has

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...Continued...

chemicals and manufactured items, most of which required capital and technology intensive production systems. For more details see Jang-Hee Yoo, n.3, pp.3-10.

14. Jai-Won Ryou, n.3, p.4

evinced little concern and no noticeable change has been brought about in the liberalisation of FDI.

In respect of dispersion or distribution of Korean FDI, a recent survey conducted by the United Nations Centre for Transnational Corporations (UNCTC) shows that the pattern seems to be largely the same as with most other Asian newly industrialising countries.[15] More than one half of Korean FDI has been made in the developed countries and anywhere between 40 to 45 per cent of Korean investments have been directed towards developing countries. But unlike in the case of other Asian newly industrialising countries which have concentrated their investments in a select developing countries of Asia, Korean FDI in the developing world is more diversified geographically and yet concentrated mostly in the ASEAN region. According to figures available for 1991, while Asia's share of the total Korean FDI was only 33.8 per cent as against North America's 46.1 per cent, yet the percentage share of the number of investment projects in Asia was 47.2 as against North America's share of only 27.2. European Community's share for the same year is no more than 5 per cent of the

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15. See n.2, pp.30-33.

total value of Korean FDI.[16]

Admittedly, of the total Korean FDI in Asia, the share of the ASEAN countries is the largest. In fact, between 1986 and 1981, ASEAN's share in total existing investments witnessed a two-fold increase to 26 per cent. In recent years, China as well as the south Asian countries such as Bangladesh, India, Pakistan and Sri Lanka have emerged as viable alternatives for Korea's FDI in Asia.[17]

The sizeable increase in the volume of Korean FDI in southeast Asia is not anything unique. Other countries of the east Asian region such as China and Taiwan too in the past have moved along the same trajectory in respect of their FDIs. The experience of these two countries in the region too had shown a spectacular growth of FDI since mid-1980s. In the case of Japan, the ASEAN region replaced Asian NICs as the major recipient of its investments in Asia. From Taiwan, ASEAN received 80 per cent of its total

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16. Jai Won Ryou, n.3, p.8; and n.2, p.43, indicates that Indonesia alone accounted for one-half of the total FDI in South and East Asia, along with 5 per cent each for Latin America and the region of Australia, New Zealand and Oceania; and 2 per cent for Africa. This overall geographical spread bears testimony to the wider geographic spectrum of Korean FDI in comparison to other Asian NIEs.

17. See, Shim Jae Hoon, "Going Global", *Far Eastern Economic Review* (Hong Kong), 2 November 1995, pp.46-52 and Jon Woronoff, n.3, pp.352-57.

investment in Asia (except mainland China). In spite of the downward shift in the world FDI flows since 1990, investment in southeast Asia has witnessed an era of continued growth.[18]

While examining the anatomy of Korea's economic presence in southeast Asia it may be observed that its investments in the region has experienced a substantial change in respect of its sectoral distribution. As has been mentioned in the previous section, until early 1980s, Korea's FDI in southeast Asia was mainly concentrated in the mining and forestry sectors. But by mid-1980s, manufacturing became the dominant sector. Also, in more recent years, labour-seeking investments have registered substantial increase along with investments going into the manufacturing sector.

Beginning from 1988, Korea's exports to four fast-growing southeast Asian countries--Indonesia, Malaysia, Singapore and Thailand--have risen substantially by over 20 per cent a year reaching to a high of $ 9 billion in 1992. Singapore is now Korea's fifth largest export market, the other four being US, Japan, Hong Kong

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18. Pang Eng Fong, n.3, pp.3-7.

and Germany.[19] Regionally speaking, the southeast Asian countries have been absorbing 12 per cent of Korea's total merchandise exports,a proportion similar to that of Taiwan and Hong Kong combined exports. Expansion of Korea's exports to southeast Asia has more than compensated the loss of Korea's exports to OECD markets which since 1992 has been showing a declining trend. Proportionately, Korean investments in the manufacturing sector in these southeast Asian countries accounted for about 8.2 per cent of the total number of investment projects and 63 per cent of the total value of Korean FDI by 1991.[20]

A growing proportion of trade between Korea and southeast Asia is of an intra-industry nature, involving electronics and machinery industries, thereby reflecting the fast-evolving division of labour in the Asia-Pacific region. Hence, in contrast to the earlier period when the volume of investments was marginal and was mainly concentrated in resource-seeking sectors, it has now been transformed to this new and greatly enlarged volume of Korean investments in southeast Asia especially in labour-seeking/saving ventures. It is for the first time

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19.n.1, p.14.

20.Jai Won Ryou, n.3, pp.10-11.

in the corporate history of Korea that a growing number of small and medium-sized firms have ventured in overseas activities. Also, another important feature of Korean FDI activities in the southeast Asian region is its distribution dictated by the level of economic development of the constituent countries of the region. For instance, Korean firms are drawn more to Indonesia largely on account of the availability of labour at low wages, among the ASEAN countries.

Investment in the manufacturing sectors of the "big four" of the ASEAN countries--Indonesia, Malaysia, Singapore and Taiwan, has mostly been concentrated in the labour-intensive, low technology ventures in some instances and high-technology ventures in others. Together, these two accounted for 74.3 per cent of all Korean FDI in the region by 1991. For reasons explained above, Indonesia has been the recipient of a majority of labour-intensive, low technology investments. These investments went into manufacturing of food, textile, apparel, footwear, leather, wood, furniture and other related manufactured products. In the case of other three, Korean investments were made in labour-intensive, high technology manufactures such as electric and electronic appliances along with fabricated metals, paper, printing and related products. Among these countries, Malaysia not endowed with abundant labour supply, attracted Korean FDIs in both capital-intensive, low technology products as well as capital-intensive, high technology products, including non-metallic minerals and basic metals as well as chemicals and petroleum products (see Table 5).

Table to follow

Table 5

Korea's FDI in Southeast Asia by Factor Intensity and Technology

(unit: %)

Classification	Indone-sia	Malay-sia	Philippi-nes	Thai-land	China	S. As
Labor-intensive						
Low-technology (LL)	63.3	12.0	23.9	37.6	61.8	78.9
Foods	21.3	0	0.1	4.5	10.2	7.1
Textile & Apparel	19.4	0.8	16.1	4.7	10.8	56.3
Footwear & Leather	10.2	0	4.7	8.2	18.0	2.5
Wood & Furniture	2.8	10.9	0.4	0	0.3	0
Other Manufactured Goods	9.6	0.3	2.6	20.2	22.5	13.0
Labour-intensive						
High-technology (LH)	16.3	50.1	46.0	46.3	23.3	3.1
Paper & Printing	0.6	1.7	0	4.3	0	0
Fabricated Metals	12.6	48.4	46.0	38.4	19.7	3.1
Machine & Equipment	3.1	0	0	3.6	3.6	0
Capital-intensive						
Low-technology (KL)	3.7	23.3	1.3	10.7	3.5	11.5
Nonmetallic Minerals	2.8	23.3	1.3	10.7	3.5	10.3
Basic Metals	0.9	0	0	0	0	1.2
Capital-intensive						
High Technology (KH)	16.7	14.7	28.8	5.4	11.4	6.5
Chemicals & Petroleum	16.7	14.7	28.8	5.4	11.4	6.5

Note : The above numbers are based on the total existing investment in 1991.

Sources: Jai-Won Ryou and Byung-Nak Song, *Korea's Foreign Direct Investment in Southeast Asia* (Seoul, KIEP) March 1993, p. 13.

A survey recently conducted by the Korean Institute for International Economic Policy (KIEP) suggests that most Korean firms with their investments in southeast Asia are "optimistic" about their investment decisions and the future prospects of their businesses in the region.[21] They seem to be of the view that the abundance of low-wage labour and the potentials for third-country exports have been largely responsible for their investment decisions in this region.

On the other hand, Korea's investments in the developed countries has been largely attributed to other considerations, important among them being, information gathering, seeking a share in the host country market and, above all, gaining access to advanced technologies with a view to upgrade Korea's technology.

Notwithstanding the decided advantages such as low cost labour and proximity which have encouraged Korean capital seeking increasing investments in the ASEAN region and countries in the neighbourhood, the Korean firms operating in these countries are riddled with innumerable problems. Lack of adequate infrastructural facilities in terms of

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21. ibid, pp.13-10.

electricity, water, transportation and telecommunication has posed serious obstacles. Also, delays in procurement of raw and intermediate materials and resources have compounded their problems. Added to these are the lack of exposure of Korean entrepreneurs to the southeast Asian business environment as compared to the Chinese and the Japanese whose strong ethnic and linguistic links historically have given them a decisive advantage in the region.

As has been mentioned earlier, the cheap or low wage labour-seeking Korean foreign investments is a phenomenon of the 1980s. Increasingly, Korean firms are relocating their manufacturing units in the region largely because of the "push" factor caused by the sharply increasing value of Korean currency and the consequent rise in domestic wage structure following the government's decision to lift its control over the labour unions--all these factors have forced Korean firms to move towards countries in the regions where these problems are as yet non-existent.

It is against this background one can explain the emergent penetration of Korean capital investments into China. In a sense, being culturally and physically close to Korea and endowed with a large domestic market along with a pool of cheap labour readily adaptable to mass-production scale especially in such manufactures as textiles, home appliances and a variety of consumer electronics -- China offers admittedly the next best region for Korean FDIs. Cheap Chinese labour is increasingly becoming a life-line for several small Korean manufacturers as they are being squeezed by rising labour costs at home. Consequently, in the first of 1994, China alone accounted for nearly 15 per cent of total Korean investment, up from a mere 2 per cent in 1991. Although Korea is still way behind Japan with an estimated investment of over $ 3 billion, and leagues behind Taiwan with a current investment amounting to an incredible $ 20 billion, yet the fact that Korea too is making its presence felt in China cannot be gainsaid.

Besides China, Korean investments are making forays into south Asia. Available data suggests that Korean investments in the countries of south Asia especially during the period of 1985-1991 were meager constituting no more than 1.6 per cent of the overall FDI flows from Korea. Relative to the size of the different south Asian economies the proportion of Korean investments also vary. Available figures show that whereas India received $ 285 million during 1993-94, the figures for the same period for Pakistan was $ 103 million, for Bangladesh $ 35 million and Sri Lanka $ 32 million. Also, over the years, Korean investment flows have increased more or less in the same proportion. (See Table 6)* The same proportion is reflected in the sectoral distribution of Korean investments in these countries (see Table 7).

Table 6

South Asian Capital Import Prospects

Unit: 100 million US Dollar

	1990/91		1992/93		1993/94		1997/98	
	Import Total	Capital Import	Import Total	Capital Import	Import Total	Capital Import	Import Total	Capital Import
India	247	61 (24.9)	262	65	285	71	334	100
Pakistan	79	24 (30)	93	28	103	31	171	60
Bangla-desh	23	5.6 (25.1)	31	7.8	35	8.9	N.A.	-
Sri Lanka	26	6.2 (23.3)	29	6.1	32	7.5	N.A.	-
Total	375	96.8	415	106.9	455	118.4	505	160

Source: Import prospects, ADB,Asian Development Outlook 1992, April 1992, WEFA, World Economic Outlook; Asian Economic Outlook, July 1992.

Factors that have motivated Korean FDI into south Asia are more or less the same that facilitated Korea's investment flows into China viz., abundance of low cost labour and a fairly large market for Korean manufactures.

Table 7

Korea's Capital Exports by Sectors and Countries in South Asia

(Unit: 100 million US Dollars)

	Countries							
	India		Bangladesh		Pakistan		Sri Lanka	
Items	1985	1990	1985	1990	1985	1990	1985	1990
Fabricated Metals	(71)	43	6	5	2	3	0.3	1
Ratio	43.8	33	15.8	3.1	2.8	4.2	0.3	1.3
Machinery	7	32	32	23	5	17	1	15
Ratio	0.3	1.4	10.5	8.2	0.6	1.4	0.7	8.5
Electricals & Electronics	52	26	6	1	12	37	3	11
Ratio	7.0	2.5	5.7	0.9	5.2	9.0	3.5	8.1
Transportation Equipment	(159)	94	-	2	6	0.5	30	23
Ratio	34.4	9.9	-	11.8	1.0	0.1	20.8	11.9
Precise Machinery	0.5	3	-	-	2	3	0.1	0.2
Ratio	0.2	0.5	-	-	1.8	2.0	0.3	0.6
Sum (A)	290	198	44	31	27	61	34	50
Ratio	7.8	3.2	9.2	5.5	1.7	2.6	6.6	8.1
Total Amount (B)	466	435	63	156	87	204	46	128
Ratio	2.9	1.8	2.7	6.9	1.5	2.6	2.5	4.9
A/B	62.2	45.5	69.8	19.9	31.0	29.9	73.9	39.1

Source : OECD, Trade Database, KOTRA, Trade Database.

Footnote : 1) Ratio according to countries gravity
2) Statistical errors marked in ( ).

policy initiatives taken by the constituent governments of south Asia in recent years have offered decided impetus to Korea to direct its investment flows in the region. It is against this backdrop that the following Chapter will examine and analyse Korea's evolving economic relations with India.

Impact of Korea's FDI on Southeast Asia

In the foregoing two sections of the Chapter an attempt was made to examine the antecedents and the anatomy of Korean FDI in the different regions of Asia. It was pointed out that the Korean FDI began in the latter half of the 1960s and remained modest until the middle 1980s and was largely confined to specific sectors importantly forestry, mining, fisheries and construction related activities. Not only were the investments sector specific but were also directed towards a few countries in southeast and West Asia. Reasons for these investments being sector and country-specific are not far to seek, as much as to why these investments are so modest. For one, the restrictive policy of the government in respect of capital outflows for reasons that the capital outflows would be harmful to the overall development process of the country largely accounted for the insignificant volume of Korean FDI. This is not to say that the government was opposed to FDI in principle. On the other hand, the government encouraged FDI only in instances where the domestic industry needed natural resources. In other words, it was a policy of selective FDI to meet the internal demand for natural resources. The case of Korean FDI in forestry and its initial forays into Indonesia fits into this selective approach. Similarly, with the oil price hike in the 1970s, the government encouraged again selective FDI in the energy sector specially in oil and bituminous coal thanks to which Korean FDI was directed to Indonesia and Thailand. In sum, resource-seeking was the underlying determinant for Korean FDIs in the initial years. But during these years, construction too attracted Koran FDI. Here, the basic motivating factor is the expertise that the Korean construction sector had, which offered Korea an opportunity to move its capita investments both in southeast and West Asian countries.

In the second half of the 1980s, Korean FDI in Asia began to decline in respect of resource-seeking and expertise-exporting sectors and was replaced predominantly by investments in manufactures of durables and non-durables. (see Table 8) This sectoral shift occurred at the same time when the government further liberalised

Table 8

Sectoral Distribution of Foreign-Direct-Investment Stock from Selected Developing Countries

Host Country		Primary	Secondary	Tertiary	Total
		Percentage			(Millions of dollars)
China	1981	-	5	95	40
	1987	21	56	23	542
India	1985	2	87	11	96
	1988	3	82	15	76
Republic of Korea	1970	82	-	18	5
	1980	22	18	60	142
	1991	20	49	31	3373
Malaysia	1970	67	-71	105	5
	1980	7	- 2	95	406
	1988	6	- 4	98	1489
Taiwan Province of China	1980	4	86	10	101
	1991	-	60	39	4733
Thailand	1980	3	1	97	13
	1990	-	42	58	404

Source: UN Transnational Corporations and Management Division, *Transnational Corporations from Developing Countries: Impact on their Home Countries,* (New York, 1993), p. 33.

its policy in respect of FDI. Both these, in turn, facilitated a sudden spurt in the volume of Korean FDI in Asia. At the same time, the range of manufactures in which Korea invested overseas offered the possibility for extended geographical dispersion within and outside Asia. The kind of industrial restructuring through which the domestic economy of Korea itself was passing, dictated a selective approach in respect of its foreign investment.

It is not as though the direction of Korean FDI was dictated only by domestic considerations. Externalities, particularly the response and the impact that Korean FDI made in the host countries too influenced Korea's foreign investments in Asia. Also, global as well as regional changes within Asia decided the prospects of Korean FDI. It has already been mentioned, that the boom in the construction investment in West Asia which coincided with the halcyon years of the region's oil price hike suffered a set back in the following decade when oil prices plummeted. Although such investments picked up gradually over recent years, Korean construction activities also had to move away from simple civil engineering ventures into sophisticated construction of industrial and infrastructural facilities calling for Korean FDI to tie up with other industrially advanced countries including Japan.

In all, Korean FDI has been primarily motivated by considerations such as resource-seeking, both natural and human and/or export-promotion seeking ventures. Each of these or a combination of these considerations called for a choice of countries that would be conducive to these motivations. In respect of resource-seeking investments, the choice had to be a country proximate to Korea which would assure steady and uninterrupted source of supply of raw materials, be it forestry for the wood processing industries or oil and coal to meet the domestic energy needs. Both of which in turn dictated that the ownership control must be vested with the Korean investors. Although in respect of proximity three countries of the region viz., Indonesia, Malaysia and Thailand could be the target countries for Korean FDIs, Korean investments were directed primarily to Indonesia and to a lesser extent to Thailand because both were able to ensure steady supply of the needed raw materials. Resource nationalism which characterised Malaysia during these years could not encourage Korean FDI to move into Malaysia as against Indonesia or Thailand.

Mention has been made earlier that Korea's FDI increased rapidly in the subsequent years in the manufacturing sector and the target countries were Indonesia, Malaysia, Thailand and Philippines. With the rising cost of domestic labour, Korean firms sought cheap and skilled labour for their manufactures and at the same time wanted to compete in the world market. As a result, by 1991, these ASEAN countries accounted for 74.3 per cent of the total value of the existing manufacturing investments mainly concentrated in manufactures that are labour-intensive. Other related considerations included that these countries could provide related capital/technology inputs as well as infrastructural support. Given the level of overall economic development of these countries, these ASEAN countries became fertile investment soil for Korean ventures. But with the level and pace of economic development increasing in these countries, today these ASEAN countries are taking the necessary steps to reduce incentive to foreign investments particularly in instances of foreign investments seeking low technology manufactures. The reversal of the incentive policy does in turn reflect the market condition of un-skilled and semi-skilled labour that would go into low-technology manufactures. As the merit of these countries in respect of low cost labour is steadily declining, Korean FDI in the low technology, labour-intensive manufacturing in these countries too is showing a sharp decline. Additionally, labour management disputes being on the rise in these countries pose further difficulties for Korean investors.

Generally speaking, FDIs cause both negative and positive effects on the host countries and as a consequence influence investment decisions for the home countries seeking capital investments. It has also been observed that its overall effects depend on investment climate as well as the stages of economic development of both the host and the home countries. Korean firms investing in this region are quite aware that the merits of cheap and abundant labour would disappear with the process of economic development in the near future. Obviously it would call for shifts in production sites. It is these factors that explain why Korean FDI in respect of labour-intensive, low technology manufactures is moving away from the ASEAN countries into mainland China and also in the countries of south Asia as well as into Vietnam in East Asia and across the Pacific into Mexico and other Central American region. Although southeast Asia does have a well developed market system as against that of the untested alternative areas into which Korean FDI is moving, be it China or other far-flung regions such as Latin America, the fact is that the south Asian countries with their economic liberalisation policy initiatives in the anvil could perhaps meet the needs of Korean investors.

Previous discussion in the preceding section of the Chapter has already brought to the fore, how Korean FDIs have been seeking outlets essentially to promote labour-intensive low technology manufacturers largely on account of the rising labour costs and labour shortage in the domestic economy. With this shift which has become apparent in recent years, it is observed that Korea itself is going through a process of de-industrialisation. Consequently, Korean firms investing in Asian countries in recent years especially in China and south Asian countries maintain strong linkages with their parent companies essentially to import new or second-generation capital inputs from Korea. Furthermore, these Korean firms engaged in manufacturers are also procuring large quantities of raw and intermediate materials from their parent companies in Korea. The upshot of it all is that Korean investments in these countries are likely to depend less and less on the host countries for these inputs. In other words, it would mean no more than labour value added advantage to the host countries which is unlikely to offer attractive possibilities for the host countries which are desirous of seeking foreign capital to exploit their resources both natural and human. In fact, the economic restructuring presently under way in south Asian countries is aimed at seeking foreign capital essentially to make the production process in these countries become competitive in the world market.

In regard to ASEAN, while Korean FDI has shown some declining tendencies for the reasons stated earlier, intra-regional trade between Korea and the member countries have registered an upward movement in recent years. ASEAN's share in Korea's exports had increased from 2.2 per cent to 6.4 per cent between 1986 and 1991. The enhanced share of Korea's exports to ASEAN is generally explained more as a trade diversion especially since the time when Korea's exports began to decline with the industrially advanced countries including importantly the United States. Whether it is trade diversion or not, the fact that ASEAN is able to absorb the present volume of Korean exports is interpreted by some observers as the natural evolution of a complementary relationship between Korea and the ASEAN.

CHAPTER IV

CHAPTER IV

KOREA'S BILATERAL ECONOMIC RELATIONS WITH INDIA

By all accounts, it is claimed that the evolving economic relations between Korea and India have assumed considerable significance in recent years. Not only has the volume of trade in the past decade expanded substantially, the instances of capital investment from Korea in divergent economic sectors of India too have registered noticeable increase. Most analysts are of the view that these encouraging trends are likely to continue contributing further to the strengthening of economic relations between Korea and India in the coming years. What is more, the political interaction through exchange of visits at the leadership level, it is argued, augurs well for the fostering of closer linkages between the two peninsular countries located at opposite ends of Asia and separated by the vast land mass of China. These events, notwithstanding the somewhat divergent policy orientations of both Korea and India on a number of international and regional issues, it is further argued, suggests a certain commitment on both sides to forge strong economic linkages irrespective of the past legacies which had beclouded Korea-Indian relations. What, in other words, is implicitly suggested is that the imperatives of the economic policy initiatives unleashed by both the countries in recent decades have contributed to the inevitability of economic ties between the two.

It is against this backdrop, an attempt is made in this Chapter to sketch briefly the evolution of economic relations between Korea and India and analyse at some length the potential for the deepening of economic cooperation between the two countries. The preliminary section will focus on the evolving political and economic relations between the two countries specifically since the 1970s. In the following two sections, attempt will be made to describe Korea's economic interests in the Indian sub-continent and how these interests have contributed to purposive economic cooperation between the two countries.

Origins of Korea's Economic Relations with India

While bilateral economic relations between Korea and India is a recent development commencing somewhere in the 1970s, scholars on Korean history trace the contacts between the two peninsular countries to ancient times,[1] and

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1. R.R. Krishnan, "Indo-Korean Relations: Retrospect and Prospect", Paper presented at the third India-Korea Conference on "India-Korea Cooperation in the 1990s," Institute of East and West Studies, Yonsei University, Seoul, Korea, 12-18 November, 1991, pp.4-5; B.M. Oza, "Observations on Indo-Korean Relations: Past, Present and Future," in R.R.Krishnan *The Fifth India-Korea Conference* (New Delhi: India International Center, 1994), pp.99-100; N.M.Pankaj, "Indo-Korean Cultural Relations: A Survey", in R.C.Sharma (ed), *Korea, India and the Third World* (New Delhi, Rajesh Publications, 1989), pp.22-38.

credit the frequently visiting Buddhist monks from Korea for fostering exchange of ideas and interaction of the two cultures since 4th Century A.D. Again, it appears, that the two countries revived interest in each other later during their respective anti-colonial struggle. In the aftermath of the Second World War both India and Korea became independent, the latter, two years earlier to India. In a sense, both countries following their independence went through the trauma of partition. No wonder therefore as one Indian scholar observes, that because of "its own experience of partition, India felt deeply concerned about the unexpected turn of events .. following the liberation from the colonial rule" in the Korean peninsula.[2] The subsequent events leading to open hostilities between north and south Korea and the role India played both in and outside the United Nations have since been fairly well-examined and documented[3]. Notwithstanding the fact that India maintained a diplomatic posture of equidistance between the two Koreas which as an Indian diplomat puts it

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2. ibid, p.10.

3. For details see Shiv Dayal, <u>India's Role in the Korean Question: A Study in the Settlement of International Dispute Under the United Nations</u> (New Delhi: S. Chand, 1957).

led to a "sort of parting of the ways" between India and south Korea, he nevertheless adds that there "remained... underneath a feeling of friendship, concern and understanding" between the peoples of India and South Korea.[4] In early 1970s India established consular level relations with both Koreas and in December 1973 they were raised to full-fledged diplomatic missions headed by an ambassador.[5] During all these years although both India and Korea maintained different perceptions and postures on a variety of international issues, none of them beclouded their evolving bilateral diplomatic relations.

The record of "correct but cordial" diplomatic relations between India and Korea obviously helped promote two-way trade exchanges, however modest they were, over the years. Available statistical data shows that the two-way trade exchanges between the two countries increased from $170.1 million in 1979 to nearly $2.32 billion in early 1993.[6] India's exports amounting to Rs.44 crores in 1980-1981 increased nearly five-fold at the end of the

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4. See Oza, n.1, p.101.

5. Official relations between India and South Korea began in 1962 when South Korea set up a consulate office in New Delhi.

6. Yasmin Javeri Krishan, "Korea-India Economic Relations," *Asia Prashant* (Varanasi), vol.2, no.2, 1995, p.78.

decade amounting to Rs.198 crores. Whereas India's imports from Korea totaling to Rs.135 crores in 1980-1981 increased by more than three-fold to Rs.557 crores in 1989-1990. Notwithstanding the annual incremental increase in the value of exports, India throughout these years experienced a negative trade balance which increased three-fold between early 1980s and early 1990s (See Table 1)

Table 1

India-Korea Trade

(In crores of rupees)

Year	Exports	Imports	Trade Balance
1980-81	44	135	-91
1984-85	90	167	-77
1985-86	99	271	-172
1986-87	106	346	-240
1987-88	141	329	-188
1988-89	183	432	-249
1989-90	198	557	-359

Source: *Indian Trade Journal* (Directorate General of Commercial Intelligence and Statistics, Calcutta) 1980-1990.

Even in the early 1990s, India's exports to Korea do not show any substantial increase. According to one estimate India's exports as a percentage of Korea's total imports was around 0.58 in 1992 which increased only marginally in the subsequent years. So much so, the negative trade balance that India experienced in the 1980s increased phenomenally by 1993 reaching to an all time high of $1379 million.

Until recently, India's export basket was heavily weighted in favour of primary commodities such as importantly iron ore, leather and raw cotton. In recent years, the basket includes a variety, if not a significant volume, of industrial and manufactured products which among others include cotton yarn, fabrics, textile made-ups, de-oiled meals, granite and sand stone, chemicals, dyes and dye intermediates, footwear and semi-precious stones. In addition, a variety of Indian engineering products such as floppy disk drives, bicycle parts, circuit breakers, ceramic high-tension insulators, electronic items have recently been added into India's export basket.

Korea's major exports to India include organic chemicals, synthetic yarn and fibres, steel products including fabricated structures and a variety of machineries.

India, according to Korean exporters, has a potentially huge market for heavy machineries and by the present reckoning, India's imports are likely to grow in the coming years.

Table 2

Trade Between India and Korea
India's Export By Itemwise (Value In US $ 1,000)

	1992	1993	1994 (Jan-Jun)
1.Iron Ore	109,217	116,392	57,428
2.Oil Seed Extraction	63,474	134,192	51,148
3.Iron & Steel	126,350	70,833	27,219
4.Naphtha	12,268	41,765	26,465
5.Cotton & Cotton Products	42,460	27,334	25,054
6.Organic Chemicals	28,546	33,426	18,806
7.Aluminium & Products	22,428	26,150	12,806
8.Miscellaneous	72,761	73,324	51,787
Total	477,504	523,416	270,808

Source: *India Trade Journal* (Directorate General of Commercial Intelligence and Statistics, Calcutta), 1992-94.

Over these years, both countries have exchanged trade and business delegations primarily to boost the two-way trade exchanges and also bring the trade balance to a manageable proportion. The major bottleneck in respect of enlarging India's exports to Korea, as identified by these delegations, is the lack of competitiveness or quality of

Indian products. So India's exports have remained largely its primary items and industrial raw materials. Necessarily therefore, as the recent report of India-Korea Business Council recommends (i) there is need to boost greater value added items that should go into India's export basket; (ii) small and medium industries engaged in light industry textile made-ups, handtools, casting and forging etc. have to be encouraged because they have "good prospects" for exporting to Korea; and (iii) joint project exports "hold promise" for both countries.[7] In other words, what is underlined is that economic linkages through technical and economic collaborations should be opted for because a judicious blending of the Indian professional manpower at reasonable cost with the technology of the Korean companies could offer opportunities for third country exports. And the scope for such joint ventures intended to promote exports to third countries, it is argued, has greatly increased especially since recently with India's policy decisions to economic restructuring and trade liberalisation. At the same time, from Korea's point of view the time is ripe and propitious for launching such joint ventures because its economy too is presently

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7. FICCI and ASSOCHAM, "Thirteenth Meeting of India-Korea Joint Business Council", Background Paper, 1995, New Delhi, pp.5-6.

undergoing major restructuring which adds a good deal of complementarity to mutually purposive economic ties. For, today Korea is moving out of wage-goods industries like footwear, garments, consumer electronics, construction and automobiles and moving into high-technology industries. As a result India's economic policy reforms have opened up areas vacated by Korean industries for Korean investors.

It is in the light of these developments one could assess the significance of the recent exchange of high level visits between the two countries.[8] In less than two years after being elected to the office of prime minister and in the immediate wake of announcement of major economic reforms P.V. Narasimha Rao paid an official visit to Korea in September 1993; in fact, the first-ver visit of an Indian prime minister to Korea. Hailed by the media in both countries as a significant milestone in the evolution

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8. As far back as 1983, P.V.Narasimha Rao visited Seoul as India's minister of external affairs. In the same year, Korea's president Chun Doo Hwan was scheduled to visit New Delhi which subsequently was shelved. In March 1986 Korean prime minister Lho Shinyong visited India. In the beginning of 1990s high level traffic between India and Korea increased. Korea's foreign minister Choi Ho Joong visited in 1990 followed by the speaker of the national assembly Park Hyung-Kyu in 1991. In 1992, India's foreign minister Madhav Sinh Solanki, paid an official visit to Seoul. In the same year both countries set up a policy coordinating committee to hold periodic consultations on bilateral and regional issues.

of Korea's deepening of relations with India, the logic and the timing of prime minister Rao's visit to Seoul underscored the recognition by both sides of the imperativeness and the inevitability of fostering purposive economic relations. The loss of its traditional trade partner following the collapse of Soviet Union made it imperative for India to reorient its external trade. Whereas at the same time when the industrially advanced Western countries were saturated with Korean products, Korean exporting industries with their need to maintain continued high growth in exports began looking towards as yet unpenetrated virgin markets of China and India in Asia.

What is more, the evolving political climate in Korea also augured well. It was exactly two years before Rao's official visit to Seoul, Korea became a member of the United Nations.[9] And in the following year, Korea held free and fair elections and returned for the first time in the past three decades a civilian president to head the state.

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9. In 1981, India pioneered its support for the admission of both Koreas -- North and South to the United Nations thereby creating a favourable climate both in G-77 and NAM for other members to join. And at the UN General Assembly in 1991, India initiated the proposal seeking admission of both Koreas. Recently, India supported South Korea's candidacy for the post of deputy director general of World Trade Organization (WTO). Also, India voted in favour of South Korea in its bid to become a non-permanent member of the UN Security Council.

Against these new realities in the Korean peninsula, together with far-reaching transformative changes taking place in the Asia-Pacific region, Rao's journey to Korea was as much politically significant as it was an investment in the future with India's avowed interest in seeking a foothold in the APEC.

While media reports suggested that prime minister Rao's visit made a significant impression on the Korean government and the business community, admittedly, it signalled the ushering in an era of developing a wide ranging cooperative relationship between the two countries. Although his visit consummated in the signing of three protocols-- one on tourism; the second, a cultural exchange protocol and the third, a memorandum of understanding for cooperation in science and technology--the prime minister in unequivocal terms underlined the prime objective of his visit thus:

> The common elements in our positions and approaches to the changing international situation, particularly in Asia, provide many opportunities. ... to work together for our mutual benefit. A strong and diversified bilateral relationship between us is also an important and positive factor in the Asia-Pacific region.[10]

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10. n.6, p.87.

Of the "many opportunities" for India and Korea to work together, the one he chose to explain at length related to collaborative ventures. He stated:

> There is a vast potential waiting to be tapped for combining the production and manufacturing experience and expertise of the Republic of Korea and its financial and international marketing know-how, with India's natural resources, abundant low-cost and technically skilled manpower, and established strength in advanced fields of science and technology, to produce products at competitive prices... for exports to third countries and for promoting India's own large domestic requirements.[11]

Prime minister Rao's appeal to the Korean government and the business community produced the desired results. It appeared as though they were waiting for such an open invitation. For, the very following year, two high-powered technical delegations visited India--one, sponsored by official Korea and the other, a *chaebol* sponsored delegation led by the Samsung group. Led by Tae Hyuk Hahm, a highly-placed economist of the Korean Institute of Foreign Affairs and National Security under the ministry of foreign affairs, an eleven-member delegation comprising of senior officials of the government visited New Delhi in May

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11. ibid.

1995 and exchanged views with several members of the Union Council of Ministers, officials of the different ministries and the prime minister. The range of this discussion was at the same wide and in-depth, including aspects of cooperation in science and technology, utilisation of Economic Development Cooperation Fund (EDCF), and trilateral cooperation among Korea, India and other countries of the south and southeast Asian region. Echoing the suggestions made by prime minister Rao in Seoul the previous year, Hahm pointed out that low labour costs together with the large reservoir of technically qualified people in India could be combined with the sophisticated and labour-intensive technologies from Korea. In respect of the tie-ups between the two countries, he identified specifically such complementary sectors such as soft-ware development and textiles to cater to global markets.[12] In less than three months, the Samsung sponsored delegation visited India to survey and assess the Indian market for investment opportunities. In its report Samsung pointed out importantly the built-in advantages for Korean direct investments such as i) large reserve of skilled and easily trainable human resource ii) low labour cost and

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12. "Korean Economic Delegation Visits India," Korean News (New Delhi), vol.22, no.3, May-June 1994, pp. 8-9.

cost-effective production process; iii) an increasing large market for industrial products with an estimated consumer base of 250 million people; iv) rapid pace of development requiring capital investment for facilities and equipment; v) the geographic location of India proximate to other south Asian markets; and vi) Korean investments in India could distribute the investors' risk by diversifying the sourcing between Indonesia, China, Philippines, Malaysia and India. But the Samsung report nevertheless identified the problem areas in respect of Korean investment in India. Among others, it identified factors such as lack of dependable and adequate infrastructural facilities, poor quality of raw materials; bureaucratic hurdles, high levels of local taxes and customs duties together with high interest rates and above all, the rigidity and the complexity of the investment and corporate laws governing the private sector.[13]

The findings of both these delegations were revealing for the prospective Korean investors, and in the process triggered further discussions between the two countries. No wonder therefore when president of Korea Kim Young Sam paid an official visit to India in February of the current year,

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13. n.6, 79.

among others, he gave priority to two vital agreements with India. One was the Investment Promotion and Protection Agreement between the two countries and the other was the setting up of a joint commission led by the respective foreign ministers of Korea and India to meet once a year.[14] While no trade protocol was signed, the meeting between the two ministers of Korea and India in charge of trade and commerce--park Jae-yoon and P. Chidambaram discussed issues relating to the lowering of the tariffs and customs on the import of Korean-made consumer manufactures. In an effort to bridge the ever-widening trade balance between the two countries the ministers also explored the potentials for enhancing India's export basket to include Indian farm products such as importantly the Indian tropical fruits.[15]

Admittedly, president Kim's visit to India not only heralded a new phase in the evolving relations between Korea and India but, more than that, underscored the vital significance of the Indian market for the critical needs of the present Korean economy. In fact, over the last two decades, especially since Korea adopted the export

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14. "India and the Republic of Korea : Strengthening the Bonds of Cooperation and Friendship Through Economic Reforms and Globaliztion", *Factors For You* (New Delhi), vol.17, no.9, March 1996, p.34.

15. "Korea-India Agree to Boost Ties, Trade", *Korea News Review* (Seoul), vol.25, no.9, 2 March 1996, p.7.

promotion strategy for its economic development, there has been a discernible shift in Korea's overseas investment which has been concentrating more on southeast Asia following its earlier focus on US , European community and Japan. Of late, given the rising labour costs in the ASEAN countries together with the region's economic resurgence, Korean overseas investments had to seek fresh and fertile new pastures. The obvious and immediate choice was proximate China. However, Korean investors seem to have become hesitant, if not reticent, to raise their stakes in a country where they have already sunk nearly $ 700 million which according to them has a "weak legal system". Moreover, the unwillingness on the part of China to allow Korean manufactured products to be marketed within the country has discouraged further Korean investments there. So much so, although the volume of Korean investment increased sharply in China last year, the number of such investments have declined currently. It is against this background one should assess Korea's currently surging interest in the Indian sub-continent. As one Indian national newspaper in its editorial aptly commented: "Even as the Japanese kept studying Indian economic reforms and the Europeans worried about political uncertainty, South Korean business [have] decided, with their characteristic risk-preference, to first plunge and then learn to swim in the Indian market".[16]

Mutual economic gains apart, Korea's recent meteoric ascent in its international stature--having assumed the second high office in the newly set up WTO, its likely admission shortly from now as a member of the OECD, and above all, the diplomatic edge it has secured in the unification process of the divided Korea following the end of the Cold War together with its decisive economic clout in the Asia-Pacific region--all of which have apparently persuaded India to forge close relations with Korea, more so with its well articulated aspirations to seek a place in the UN Security Council as well as in the APEC. At least, according to well-informed analysts these considerations are no less important that explain India's inclination to strengthen further its relations with Korea.

Korean FDI Flows and Sectoral Distribution

In the preceding Chapter, a brief profile of Korean FDI both in terms of volume and destinations was attempted. It was pointed that the overseas investment of Korea had increased sharply in the early 1990s, a trend that remains

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16. *Times of India* (New Delhi), 24 February 1996.

to date unabated. It was also suggested that whereas Korea's FDI was driven by a strategy for stable procurement of essential raw materials including crude oil, wood and coal during the early 1980s, since then Korean investors began venturing into foreign countries to sharpen their competitive edge that was softened by an appreciating domestic high wage rates as well as by the increasing trade frictions with the industrially advanced countries of the European Community and the US. Emerging regional trade blocs too added difficulties to the flow of Korean overseas investment. It is in these circumstances, Korea's FDI shifted to ASEAN and China especially in labour-intensive manufacturing sectors. As of early 1995, Korea's overseas investment stood at $1291 million distributed into 464 projects. Interestingly enough, of this, small and medium-sized firms accounted for $279.2 million distributed into as many as 315 projects. Most of these investments went into manufacturing (37.2 per cent), trading (7.1 per cent) and construction (4.5 per cent).

As against the massive flow of Korean capital investment overseas, India's share by all reckoning is only marginal. According to Bank of Korea, total actual investment in India as of mid-1994 stood at $9,496,000 distributed into about 30 projects. (see Table 3). Of this, investments that were made in the period preceding India's economic liberalisation was fractional and were largely confined to trading activities. However, since liberalisation Korean approvals of investments increased both in value and the volume of projects. Majority of these approvals were in the labour-intensive sectors. Apart from labour-intensive production, Korean companies have since recently ventured into areas opened up after liberalisation including electronics, textiles, automobiles, telecommunications, financial services, shipbuilding etc. (see Table 4).

Although in the past several small and medium-sized Korean companies were setting up joint ventures in such manufactures as halogen lamps, cordless phones, pharmaceuticals, textiles and granite processing, since 1993 major Korean companies *(chaebol)* are competing to invest in sectors such as infrastructures including power generation, highway construction telecommunication, port development and other industrial sectors like cement and fertilizer and heavy and chemical industry, sectors hitherto reserved for India's public sector. Among these major companies Daewoo, Hyundai and Samsung have either already set up manufacturing units or are actively exploring possible production tie-ups.

In July 1994, Daewoo Motor Company set up a joint venture with DCM in India and Japan's Toyota Company to produce luxury passenger cars with majority shares held by Daewoo (DCM owing 41 per cent and Toyota 8 per cent). Daewoo-DCM which has already begun the manufacture of medium -sized (1500 cc) fuel-efficient Cielo brand sedans is, according to reports, the single largest foreign investment in any Indian automobile joint venture project, intended to capture more than one-third of the automobile market. The Daewoo-DCM tie-up also plans to construct separate indigenous plants to manufacture automobile engines and transmissions. Having already made an initial investment of $38 million, Daewoo, it appears, is intending to invest $1 billion in the next ten years. Daewoo has also entered into electronics beginning with an exclusive contract that it has signed with India's Ankor in 1994 to manufacture a variety of consumer durables ranging from washing machines, electric cleaners, microwave ovens to colour televisions.[17]

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17. See n.6, p.82.

Table - 3

Korean Investment in India

As on June 30,1994
Unit: US$ 1,000

Name of J/V Company	Date of Permission	Item	Equity	Approved Amount	Actu Inves
LVT. & Dong In Pvt.	27.05.83	Stone Good	40	120	1
Daeshin Denken (India)	22.12.87	Elec. Part	25	60	
Chanamama Toytronyx	11.02.88	Elec. Toy	30	24	
Disco Stone Indo Ltd.	31.05.89	Grave Stone	100	3600	36
Hyundai Indo Stone	16.11.89	Minerals		667	
Jark Needle Mfg. Co.	22.12.89	Needle	25	156	1
Indo-Korea Granite	26.03.90	Stones	60	210	
Samwoo-Vasavi Swabs	31.12.90	Needle	30	50	
Cheil Indoa Wool Text	07.04.91	Textile		1250	
Fishing Falcons Ltd.	11.01.91	Fishery	40	1029	10
Mijura Stone (P)	31.01.91	Stone Process	50	42	
Shin-A Chemical (Ind)	04.05.91	Resin	21	288	2
Gujarat Themis Biosyn	02.03.92	Petrochemical	34.2	1000	8
Hanil Era Textiles	03.04.92	Textile	15	1900	19
Karan Woo Sin Ltd.	22.10.92	Socks	20.4	351	3
Mardia Samyoung Capital	11.11.92	Antena & Elec.	25	710	6
Buoy Dae Fisheries	16.12.92	Fishery	51	15	
Montana Intl Ltd.	31.12.92	Nonmetal Goods	7	200	2
Shin-A Chemical Pvt.	16.03.93	Petrochemical		91	
Korin Hair Processing	19.05.93	Human Hair	100	200	1
Advanced Lighting	18.06.93	Halogen Lamp	50	250	
Chang Yun India Ltd.	23.11.93	Auto Parts	49	147	
TDT Copper Ltd.	27.12.93	Copper	36	1940	
DCM Hyundai Ltd.	29.12.93	Container	37.5	1500	
Tai Chonbang Textile	27.01.94	Nonmetal	28	994	
Samcor Glass Ltd.	31.01.94	Textile	5	1330	
Daeyu Continental Ltd.	01.02.94	Textile	20	161.29	
Ellyoung Metal Prdts.	22.02.94	Assy, nonmetal	50	320	
Gujarat Themis Biosyn	01.02.94	Textile	398	469	
Indocount Choongnam	27.05.94	Textile	50	3500	

Source: Bank of Korea

Quoted in *Asia Prshant* (Varanasi), vol. 2, no. 2, 1995, p. 84.

Table 4

Korea's Investment Approvals in India: Major Areas (August 1991 to February 1995)

Area	No. of Collaborations			Korean Investment (in Rs. Million)
	Technical	Financial	Total	
Textiles	4	16	20	289
Electrical & Electrical	10	7	17	135
Electronic Products	7	9	16	380
Chemicals & Pharmaceuticals	6	6	12	294
Minerals & Metals	4	7	11	206
Halogen Lamps	3	8	11	54
Plastics	2	5	7	38
Textiles Machinery	6	1	7	N.A
Telecommunications	4	1	5	49
Marine Products	0	4	4	128

Source: Indian Investment Centre, New Delhi.

Hyundai too in collaboration with DCM Shriram Industries has set up a venture to manufacture various sizes of marine freight containers intended for exports. With a 15 per cent participation in the total initial capital investment $10 million, the agreement with DCM provides for technical and sales assistance from Hyundai by using its global customer network. DCM's participation will be provision of labour, land and some machinery. For the Hyundai, this is part of its globalization strategy to have an overseas plant. Stimulated by Daewoo's success in the automobile manufacture, Hyundai too has plans to move into automobiles beginning from 1997. Yet another Korean company, has announced a manufacturing unit designed to produce its sportage car which will commence production next year.[18] Unlike in the case Daewoo which has begun manufacturing Cielo on a collaboration with DCM, Hyundai's is a fully owned subsidiary because, as it claims that it could not find a "suitable match" in India as a partner.[19] However, Hyundai has future investment plans on collaborative basis to go into capital goods production of heavy industries, rolling stock and machine tools.

One of the other Korean giants, Samsung is venturing to diversify its investments in a variety of manufactures. Already, it is technically cooperating with Usha Rectifiers to set-up an export promotion unit to manufacture

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18. n.14, p.36.

19. *Times of India* (New Delhi), 10 February 1`996.

semiconductors. "Due to Samsung's limited production capacity in Korea", it appears "their object is to gain outside sourcing and secure supply stability for its customers". Its intentions are to generate "slightly greater margin from overseas production than from the local production".[20] The tie-up arrangement is that Usha would receive technology along with a loan of $6 million loan repayable over the next seven years. In a sense, there is no capital investment made by Samsung except it would provide the three key components to Usha and buy back the finished products from the Indian partner. According to present reckoning, if the Indian partner proves good in the collaborative venture, Samsung, it appears, will go for other similar arrangements with Indian companies. Samsung also plans to co-produce with Voltas consumer electronics such as washing machines, food processors and a host of other home appliances.[21] Recently, a team of Samsung visiting India is exploring the possibility of setting up a joint venture to manufacture knitwear in India by buying yarn from India and re-exporting them to other countries.[22]

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20. n.6, p.83.

21. *Times of India* (New Delhi), 17 January 1996 and 27 February 1996.

22. *Economic Times* (New Delhi), 21 June 1995.

Presently, the company is holding discussions with Indian shipping majors such as Great Eastern, Shipping Corporation of India and Essar Shipping for collaborating in shipbuilding industry. Also, Samsung has bid for ONGC contract for supply of offshore structures for the Hazira project.[23]

Lucky Goldstar too is competing in India to move into oil refining, semi-conductor, petro-chemical construction and telecommunication ventures in line with its "strategy to aggressively explore the ... dynamic markets". The LG through its spokesman has stated that "China and India and other Asian markets hold the highest growth potential in the world.... [Our] commitment in those markets will greatly contribute to making us the top player there.[24]

Korea Mobile Telecom (KMT) and its local subsidiary DSS have built India's first nation-wide paging service system named Multi-City Paging Service, linking southeast Asian metropolitan centres with India's. Through the transfer of advanced paging technologies, KMT holds nearly one-third stakes in DSS. A consortium led by Korea Telecom (KT) has

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23. ibid.

24. *Times of India* (New Delhi), 4 February 1996.

also launched a paging service.[25] No less are the interests of the lesser known Korean companies in India. Sunkyong considers India as a major potential market for investments and is planning to invest $ 1 million in the petrochemicals and refinery sector and $50 million in the telecom sector in India. In fact, it has already finalised tie ups with Essar Gujarat for setting up a refinery in Gujarat, with the Khaitan group for a polyester fabric project in Baroda and with SKC Ltd. for a polyester film plant to be set up at Delhi.

Others include the Choongnam Group of South Korea which is investing in a cotton yarn project in India in collaboration with Indo Count Industries Ltd. the Kongsung Group of South Korea which has set up a joint venture with Himachal Futuristic Co Ltd. (HFCL) Group for production and export of radio pagers and video satellite receivers worth $.24 million a year, Woopyung which has entered into a joint venture with the Indian Paam Drugs and Pharmaceuticals Ltd (PDPL) and Shiplax Laboratories Ltd., Korea Mobile Telecommunication Ltd (KMT) which in collaboration with the Dalmia Group of India and Samsung has launched a paging services company and Manjin Corp Ltd (MCL) of South Korea

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25. n.14, p.37.

which has signed a technical collaboration with Indus Valley Exports Ltd (IVEL) of India to manufacture 3.3 million pieces of socks per annum.[26]

From the above brief description of Korean conglomerates ventures in India, it is possible to make some generalisations regarding their nature of investment, sectoral distribution as well as their motivations. As in the case of other countries into which Korean companies have made, in India too there are a few which are joint ventures, either majority or minority or wholly owned production ventures. In automobiles whereas Daewoo is majority-owned, Hyundai is going for wholly owned passenger car manufacture. Again, some of these ventures, either wholly or partially owned, are intended essentially for the domestic market whereas others are intended for re-exports to third countries.

In respect of motivations, India's attraction for Korean investors are not dissimilar to that of China. Large pool of low wage labour, a large market and, above all, the potential to become a low-cost manufacturing base for exports are clearly factors weighing in favour of India. In fact, in a sense, India appears to be more attractive

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26. For more details see n.7, pp.14-15.

because unlike in the case of China which although has encouraged Korean investments, nevertheless has placed severe restriction on the marketing of Korean products inside China. India, on the other hand, has encouraged Korean investments not only for domestic sales but also for third country exports.

Recent Trends

That there has been, in recent years, a sudden surge of Korean economic presence in India cannot be gainsaid. The increasing economic interaction is evident both in respect of two-way trade exchanges and flow of Korean FDI in India. Bilateral trade at a level of $.1.5 billion annually since recently is heavily in favour of Korea. While Indian exports are heavily weighted in favour of traditional primary resources such as importantly iron and manganese ores, cotton yarn and animal feed, in recent years other agricultural products are being exported in marginal quantities. Whereas Korea's exports to India in the past generally comprised of machinery and heavy equipment for oil drilling and gas pipelines, some special steel and at irregular intervals ships and ocean-going servicing vessels, however now the trends are suggesting that Korean exports in the coming years could include technology, know-how and equipment relating to Korean investment projects. While the volume of trade may increase, yet the gap between Indian exports and imports from Korea are unlikely to be bridged. Consequently, the prevailing negative trade balance will continue, and perhaps will sharply increase over the years, thanks largely to the inflow of Korean capital investment in the Indian economy. Given the accent of the Korean investment in the different sectors to produce goods to be marketed either in India or to be re-exported to third countries, the potential for enlarging India's exports appears limited. Before long the issue of bridging the trade gap will become critical in the evolving economic relations between India and Korea. Korean governmental authorities seem to be aware of this. As one official of Korea's ministry of foreign affairs recently stated: "As the trade deficit with Korea will be widening...the Indian government will urge Seoul to work out measures to reduce the deficits. India will also ask for closer industrial and technological cooperation with Korea."[27]

What has been, on the other hand, encouraging in respect of Korea-India economic relations is the increasing volume of Korean FDI flows into India. So far actual Korean

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27. n.14, p.36.

investments in India as of June 1995, according to Bank of Korea estimates, are of the order $.58.8 millions. By no means it is substantial against the overall overseas investments of Korea which even in 1994 exceeded $.2.5 billions. In comparison to Korean investments in China which has already crossed $.1.2 billion, India for the present stands nowhere. Indications are that all this is likely to change substantially in the coming years. Following the Daewoo-DCM collaboration for manufacturing passenger cars in India, Hyundai and Kia group, Korea's other major automobile manufactures have announced that they plan to set up plants to eventually produce luxury and sport cars involving an investment which by present reckoning is likely to exceed billion US dollars. Some of the other Korean conglomerates which have already established their presence, as yet although on a modest scale, are Samsung and LG business houses. Not only are the big *chaebols* keen on investing in India, a number of small and medium sized Korean companies have already tied up with Indian partners. The textile sector is said to be one definite area earmarked for investment by medium-sized Korean companies. Adding up all these proposals that have been put forward, the investments envisaged totals up to a massive $10 billions. However, a more realistic estimate arrived at a meeting of the commerce and trade ministers of India and Korea last November in Seoul is in the region of $2 billion by about the year 2000.

Expectations are running high ever since Korean president Kim's visit in February of the current year. Among others, the agreement on investment promotion and protection -- an agreement which India has already signed with Britain, Germany, France and Malaysia, which Korea has sought and signed with India during Kim's recent visit not only augurs well for the flow of Korean FDIs into India, but admittedly evidences a certain earnestness on the part of Korea to direct its investments into India.

Against these positive trends, two questions that need careful attention are: i) Where does India figure in the changing overseas investment scheme of Korea and what are likely to be the future trends? Equally important from the point of India is the question relating to the long-term advantages of Korean investment to the Indian economy.

By most accounts, the recently witnessed shifts in Korean FDI seem to suggest that China is the major beneficiary. However, the euphoria of China being the most attractive country for Korean investment has visibly died down. As has been mentioned earlier, Korean investors apparently seem to be wary of China for reasons of given uncertainties which include the "weak legal system" as well as the restrictions that China has placed on Korean investments producing for the Chinese domestic markets. Much more than these, according to the Korean business community, are the cultural and historical factors. There is a predominant view shared by the Korean business community that although China has had cultural linkages with Korea over very long years, this does not work in Korea's favour as Korean firms are seeking to establish close economic ties on a new and fresh basis with other countries; and China, they seem to think, is no exception. It is for these considerations, in their search for newer avenues, Korean investors have recently identified India and Vietnam as their target countries for forging "special" relations.

But are Korean investments meant to cater to Indian domestic market or are they intended to set up production bases for export to third countries? Present indications suggest a mix of both objectives. The Korean investment profile delineated in the preceding section indicates that investments so far made by the Korean companies belong to both the categories. While a chunk of consumer durables are intended for the emerging middle class Indian market, there are a few sectors of sophisticated specialized technology production where Korean investments are intended for third country exports. Also, textile manufactures through Korean-Indian tie-ups have been identified for exports. Be that as it may, the initial catalyst attracting Korean investments in India seems to be based on the consideration that India is the "last" big as yet "untapped" market in the world. While this may be the over-riding consideration explaining the significant forays that Korean investors have made in India, no less, it needs to be stressed that sustained flow of Korean investment resources will largely be dictated by rigid economic rationale. Shrewd and rated for high business acumen, Korean investors would in the final analysis move where returns are attractive and adequate at any given point of time. As Jongsoo Park of Gyeonsang University of Seoul who has been a leading consultant to Korean companies seeking investments in India, says: "Business is business and Korean companies will go wherever there are business opportunities, be it China or India".[28] On more than one occasion, Korean authorities both in government and business have underlined that in order to strengthen the evolving Korean-Indian economic cooperation an "atmosphere" has to be created. It is repeatedly pointed that India's policy to attract foreign

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28. *The Hindu*, (Delhi) 14 December 1995.

investment is not as "positive" as envisaged in the economic reform. Such efforts as dispatching missions overseas to induce foreign investments, simplifying the investment approval procedure, providing investments incentives and information have been made only by the central government and not by the state or local governments. Here, quite often they draw a parallel between India and China and say that "Chinese efforts to induce foreign investments gives us a lesson to think about how they have achieved what they have today through cooperative and competitive efforts by each local province as well as the central government to improve the investment environment and attract foreign investment". Evidently, given their recent exposure to China, it is likely that such comparisons will be repeatedly drawn and investment decisions will be suitably revised.

Yet another factor presently weighing in favour of India for Korean investment flows is that the Indian market has not as yet been attractive to the investors of the industrially advanced countries of Europe, US and Japan for ostensible reasons such as the prevalent political instability and the inadequate progress made by India in respect of its economic restructuring. In contrast, given that the Chinese market is already occupied by these industrially advanced countries Korean investors perforce have to opt for gradually phasing-off from China. With the process of economic liberalisation gathering further momentum in the coming years, offering opportunities for the industrially advanced countries to stake their claims in India, under those circumstances, how Korean investors would respond is a question that future alone can answer, though Korea's current reaction to China could be a pointer. What, however, is important to underline is that there are several imponderable as to the future flow of Korean investments in India.

The other question raised relates to the advantages that accrue to India in fostering its economic relations with Korea. Mention has already been made about the two-way trade exchanges which by present reckoning will continue to be disadvantageous to India because of the increasing negative trade balance which in the future is likely to only increase further. However, in the wake of the collapse of the Soviet Union with its attendant disastrous economic consequences impinging on its external trade structure, India had to resort to economic liberalisation. But having opted for a gradual process of economic liberalisation, Indian economic reforms have so far not been able to attract sufficient foreign investments. India's expectations that

Japan would be inclined to target India for its overseas investment -- given the historical hostilities between Japan and China -- has not become a reality. Japan for whatever considerations (an aspect which is outside the scope of the present analysis) has chosen, at least for the time being, not to seek any joint ventures following India's economic reform initiatives.

It is against this backdrop, India seems to have opted in favour of Korea. Mention has already been made about the recent overtures that India has made both at the governmental level and through its business chambers to attract Korean FDIs essentially for co-production ventures. And in projecting its recently warming up of relations with Korea, underlining especially the economic linkages, Indian officialdom has even gone so far to point out that Korean technology is a notch superior to the Japanese. Whether it is true or not is beside the point. What, however, calls for caution and circumspection on the part of Indian policy-makers is the adventurous spirit characteristic of the Korean investors. Perhaps, time is ripe that India should examine in-depth the experience of other countries in Asia and elsewhere which have in the past been recipients of Korean capital investment as much as it should be of other industrialising countries seeking foreign investment.

While much has been written on the economic resurgence of Korea to be touted as the newly emergent Asian "tiger", much of the literature is, however, somewhat uncritical. Lately, some serious questions have been raised regarding the "miracle-making" East Asian countries including Korea. Among them, one frequent question relates to the very strategy of economic development adopted by these countries to accelerate the process of growth both within and outside their economies. Put in simple, it boils down to the argument that the East Asian "tiger" economies have been successful because their strategy seems to be one of mobilising ever-increasing volume of capital and labour to accelerate growth rather than the efficient use of factor endowments.[29] In other words, they are given to greater use rather than higher productivity of factor endowments. Using the concept of Total Factor Productivity (TFP) which is seen as a measure of the increase in output commensurate with every combined unit of all inputs -- importantly labour and capital, it is argued that TFP growth in East Asian economic development has been very low. Seen in this perspective viz., that growth is a function of greater use

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29. Paul Krugman, "The Myth of Asia's Miracle", *Foreign Affairs* (November 1994), pp.158.173.

of inputs rather than the efficient use of inputs, diffusion of Korean know-how and technology could have questionable consequences in economies such as India endowed with abundant human and natural resources.

CHAPTER V

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SUMMARY AND CONCLUSION

A primary objective of this monograph has been to examine Korea's economic development process especially since the 1960s and relate it to the country's ever-expanding linkages with the world economy. Against this primary objective, it was also intended to study specifically Korea's evolving, and in recent years, rapidly expanding economic relations encompassing both trade exchanges and capital/technology diffusion in Asia and how these have influenced and are influencing Korea's growing economic ties with India in recent years.

In pursuing the study along the afore-mentioned objectives, the monograph was divided into four major sections. In Chapter I, an attempt was made to describe the course of Korea's historical development focussing attention on the post-Second World War period and through the traumatic years of the partition of Korea and its debilitating impact on decolonized Korea. Despite these historical set-backs, South Korea by 1960, was poised for an economic take-off largely on account of certain fortuitous domestic developments as well as the far-sighted initiatives made both by the government and the private sector including importantly the *chaebol*. As has been argued, according to most observers, the success of the breakthrough, generating positive growth in an economy characterized as resource-poor and war-ravaged, was the consequence of a tacit understanding between the government and the *chaebol*. Beginning from a strategy of an import-substituting industrialization process, in less than a decade, the economy moved to implementing an export-promotion strategy with considerable efficacy and success. So much so, the entrepreneurial role of the *chaebol* in harnessing the limited natural endowments under the overarching, and to some extent even an interventionist role by the state, gave the economy a head start as against other countries of the region placed as they were in the historical predicament somewhat similar to Korea. The upshot of all these developments has led analysts to engage in an interminable debate as to what in the final analysis triggered the so called Korean economic "miracle". There are those who attribute the transformative economic changes witnessed in Korea during the 1960s to the unique institution of *chaebol* native to Korea and its role performance while others argue that it was the over-riding paramount role played by the state. It is indeed very difficult to draw a dividing line between the state and the *chaebol*. A more meaningful approach to an understanding of the rapid economic transformation of Korea since 1960s is the symbiotic relations that had evolved between the two viz., the state and the *chaebol*.

In the second Chapter, the analysis was confined to the strategies adopted by the *chaebol* to carry further the export-promotion strategy both in respect of trade and investment. Apparently the *chaebol* having exhausted the ISI option and at the same time seeking to sustain the growth rate felt the imperative need to expand globally. In fact, by the end of 1960s, external trade had become the engine of Korea's growth. Obviously, expanding external trade called for a strategy that would give Korean exports a competitive edge in a global market controlled by MNCs of the industrially advanced countries. Should Korea exports have to compete in the global market they need to engage in capital investments overseas. Keeping these in view, in Chapter II, an attempt was made to sketch at some length Korean FDI outflows both in respect of their destinations and motivations. In their effort to compete effectively in the global market and also to modernize their productive processes, Korean firms in this initial phase of export-promotion directed investments into more advanced industrial countries, especially in OECD member countries. At the same time with a view to compete in the global market where Korean firms enjoyed built-in competitive edge, they directed their foreign investments in resource-rich neighbourhood countries of the region. Admittedly Korean FDI outflows in the initial phase was not substantial for two basic considerations--one, exportable capital was meagre and two, the government too adopted a restrictive policy on FDIs.

By mid-1970s, it appears, Korea seemed to have turned a corner. A number of factors, domestic, regional and global seemed to have brought about change in the trends regarding Korea's FDI outflows as well as external trade. The oil crisis of the 1970s in a sense can be treated as a catalyst for Korea's outward oriented development. The energy scarcity both in respect of oil and coal compelled the government as well as the private sector to search for uninterrupted and steady supply of the much-needed energy resources for the domestic industrialization process which led to Korea's substantial investment of its capital in Indonesia and Thailand in Asia, and elsewhere, in Australia and Canada. At the same time, a glut in petro-dollars in the oil producing West Asia gave a fillip to Korean construction investments in the region.

As has been argued in Chapter III, Korean foreign direct investments had surged in the 1980s especially in Asia. In some respects this trend of increasing Korean FDI flows into the different regions of Asia may be treated as a continuation of the earlier years. But in some other respects, it may be looked at as a significant shift in Korea's FDI outflows. For, during the second half of the 1980s, available statistical data suggest a down swing in Korean FDI outflows into industrially advanced countries and though not necessarily in the same proportion, an upward swing of Korean investments in the developing countries.

Also, around the same time a shift was noticeable in respect of the sectors into which Korean FDI moved in Asia. Whereas, in the 1970s, for reasons explained in Chapter III, Korean FDIs were resource-seeking and therefore moved into resource-rich countries of Asia--such as forestry in Indonesia and energy in Indonesia and Thailand--in the period since mid 1980s for different considerations, importantly the rising domestic labour costs, the Korean FDIs were targeted in the countries with low labour costs for its low technology manufactures. In turn a process of industrial restructuring was witnessed in Korea. The same motivation viz., seeking low labour costs impelled Korean FDIs to be directed towards other countries of Southeast Asia including Malaysia, Singapore and Taiwan. An insignificant volume of Korean capital went even as far as Mexico and Central American region. These were the very years when Korea's exports to the industrially advanced countries in terms of its non-traditional consumer durables and non-durable exports suffered largely because of recessionary tendencies. In turn, this led Korea to redirect more of its export trades with the ASEAN countries, resulting in significant expansion in intra-ASEAN trade. However, before long, Korean FDIs in respect of labour-intensive, low-technology manufactures came to be exhausted in the ASEAN region precisely for reasons of rising labour costs in the southeast labour region. It is in these critical circumstances, Korean investors had to look for new lucrative regions in Asia that would offer potentials for FDI in the manufacture of labour-intensive low technology sectors. The obvious choice was China which by this time had adopted economic liberalization and was able to provide a climate for foreign investment. Towards the end of 1980s, with its own policy of economic liberalization, Korean investors moved further into China taking advantage of its expanding market and the abundant supply of unskilled and semi-skilled labour. Presently, it appears that Korean FDIs are seeking increasing avenues in China though the future prospects seem to be rather uncertain.

That the Korean FDIs have come of age and are moving globally cannot be gain said. Number of factors explain the forays that Korean FDI is making globally. For one, foreign investment climate in the different regions of the world has become very attractive with more and more countries resorting to restructuring and liberalizing their economies. At the same time the strides the Korean economy has taken in recent years in different sectors in terms of capital and consumer producing industries have enabled Korean investors to expand globally. It is in these evolving circumstances one should make an assessment of Korea's economic relations with India and on that basis offer any prognostication about the future course of Korean-Indian relations. Interestingly enough,Korea's forays both in trade and capital investment have become significant since the beginning of 1990. Having had a track record of mutually friendly relations uninhibited by the divergent stances that both have taken in the past on a number of regional and global issues, the irreversible economic liberalization policy iniated by India since 1991, has turned Korea to more closer towards the major country of the South Asian continent. The familiarity of India and the historic cultural links between the two countries spanning over several centuries have added further impetus to growing bilateral economic relations. The rapidity and the pace at which the economic linkages are forged bear testimony to the mutuality of interests. Between the time India's Prime Minister made the first ever visit to Korea and the recent visit of the President of Korea in early 1996, the leading Korean *chaebol*--Hyundai, Daewoo, Samsung, LG have announced and have already implemented sizeable investments, in the leading economic sectors of India. According to one estimate, it is observed that in no country other than India, has Korea moved as fast in terms of its investment. It is expected that with growing investments the unfavourable balance of trade that India has with Korea will soon be corrected. A growing middle class with its attendant benefits of an expanding market in a political setting both stable and democratic, India admittedly will in the years to come, be a dependable partner in Korea's globalization process. At the same time, India in its efforts to integrate itself with an enormously growing ASEAN-Pacific rim region is finding Korea an important asset and input.

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