KOREAN MNCS' FDI STRATEGIES IN THE IMF ERA

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Changes in Korean MNCs' Overseas Investment Practices

Overseas investment by Korean multinational corporations (MNCs) began to decline in 1997. There were 727 cases of foreign direct investment (FDI) by Korean MNCs in the first half of 1997, which amounted to $27.3 billion. In comparison with 928 cases and $29.8 billion in 1996, Korean MNCs' FDI decreased 21.7% in case number and 8.4% in investment size. The contracted domestic market and shortage of investment capital account for the reduction of FDI. Successive bankruptcies of Korean conglomerates including Hanbo, Sammi and Kia had negative impacts on credit ratings for Korea and Korean companies. Under such circumstances, foreign affiliates of Korean MNCs could not use local financing and had to abandon overseas operations.

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Enjoying the economic boom times from late 1980s, Korean businesses sought ways to compete globally. To compete successfully in the world market, the following needed to be in step with one another: capabilities and strategies to achieve global efficiency; local responsiveness; and worldwide innovation. With the turn to the 1990s, Korean companies were standing in front of two diverging roads to global competition, overseas investment and export. They saw that domestic costs were becoming too high and the foreign exchange rate was not favorable for exports; they also needed to detour trade frictions with advanced countries.

Korean firms chose FDI instead of exports for their multinational strategy or global strategy in early 1990s. The export strategy's limits acted as obstacles to achieving their globalization goals, except for a few key industries including semiconductor.

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Hyundai, Samsung, LG and Daewoo, the top Korean MNCs, have stopped their new overseas investment projects. They have also put off indefinitely their investment plans to acquire local market bases for entry into new markets and to enhance production capacity of their current markets. Southeast Asian countries in particular were subject to their pullout decisions.

In place of stalling overseas investment projects, export strategies reemerged as main global operation strategies for Korean companies. As the relative value of the Korean won decreased, the cost advantage of Korean companies improved. That turned the export strategy into the most efficient vehicle to compete against the global market players.

Table 1. Changes in Korean MNCs' FDI Strategy

Group	1997-1998	1999
Hyundai	- Hyundai Electronics • Factory building project in Scotland: put off - Hyundai Motors • Indonesia factory: postponed indefinitely	- Hyundai Electronics • Considering to change factory location from Scotland to mainland Europe - Hyundai Motors • Planning to establish a local affiliate in Miami, FL
Samsung	- Samsung Electronics • Implementation of 2nd investment plan to Winyard in England: delayed • Investment in China: stopped • Operation of semiconductor factory in Austin, USA: reduced - AST • Downsizing • Closing AST Singapore affiliate	- Samsung Electronics • Moving color TV production site from northern England to Hungary • New operating capital injected into Austin facilities - Samsung Electric • Building a local part factory in the Philippines
LG	- LG Electronics • Reconsidering to build China HQ • Delaying semiconductor production factory in Southeast Asia and U.S. • Replanning investment to Wales • Selling off Zenith	- LG Telecom • Strategic Partnership with British Telecom - LG Chemicals • Enlarging production facilities in India & Planning to build 2nd production factory
Daewoo	- Daewoo Corporation • Holding back investment plan in Morocco • Reconsidering supplementary investment to Kazakhstan - Daewoo Electronics • Canceling investment plan in France	- Daewoo Motors • Planning to build 140 dealer networks within U.S.

Source : HRI

From Scale-driven Globalization to Core Competence-led Globalization

Question arises regarding this FDI-shy behavior as signalling the end of globalization of Korean companies. As the Korean economy began to edge out of the time of economic hardship better known as the IMF era, Korean MNCs redirected their attention to FDI. To transform themselves from current domestic or uninational players to global players, Korean companies set out to take on the challenge once again.

Hyundai and Samsung decided to re-launch part of their overseas projects they had abandoned earlier. In terms of efficiency, they have changed their strategy to increase production capacity in incumbent markets; they are considering moving their production locations in Europe and Southeast Asian countries to other areas where production cost would be lower. Investment plans to enter advanced markets of the United States and Japan are resurfacing.

The Korean MNCs' FDI projects in early 1990s were aimed at overcoming the shortcomings of high-cost/low-efficiency structure. Therefore, the dominant trend was to find sites that would reduce production cost and invest there. This pattern of FDI reflects scale-driven globalization plans. Today Korean companies are faced with the challenge of restructuring process, e. g. downsizing, reallocation of corporate resources and reform in corporate governance. After massive restructuring, the pattern of Korean MNCs' FDI will experience quantum and qualitative changes. Destinations of FDI will be determined not by efficiency based on low production cost but market and technology.

The Korean MNCs' FDI strategies in 1999 differ from their expansionary overseas investment goals of the pre-crisis economic boom times. The companies are showing a positive change: along with concentrating on their traditional key industries, i. e. electronics, automobile and telecommunications, they are making investments in fostering their core competences.

Investments used for the acquisition of market knowledge and ties with local agents will enhance marketing capability. Building R&D centers in local markets will broaden technology bases. Pursuing strategic alliances are an effective way to acquire complementary resources and build core competences. By accomplishing FDI projects through strategic alliances, Korean MNCs should complement their capabilities (not capacity) and strengthen their managerial competence for global business. VIP