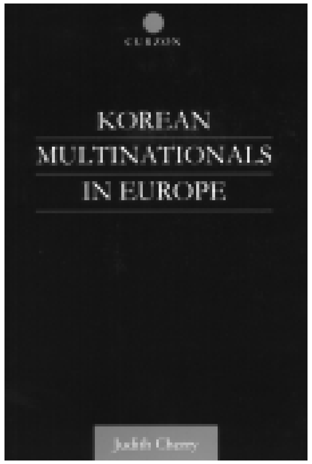
Korean Multinationals in Europe



Review >
Korea

In this era of increasing internationalization and globalization, whatever these terms mean, foreign direct investment (FDI) is increasing not only quantitatively but also in terms of diversity and the point of origin. *Korean Multinationals in Europe* attempts to analyse this process in light of the experience of Korean consumer electronics firms in Europe.

By Anil Khosla

The major strength of the book lies in its extensive use of the Korean-language materials, giving the reader a taste of Korean thinking on the processes of globalization and internationalization of the Korean economy. The structure of the book is very much guided by the conviction that one needs to look at the existing global economic environment and changes therein to understand the process of multinational enterprise (MNE) growth, especially reverse direct investment (RDI) – investment by less industrialized countries in the industrially advanced countries. Major theories of FDI and the Korean perspectives are taken up in Chapters 1 and 2, followed by a quick tour of the post-war Korean economy (Chapter 3), its consumer electronics industry (Chapter 4), Korean FDI (Chapter 5), and Korea-Europe relations (Chapter 6). The last two chapters, covering about forty pages, are devoted to the main theme: Korean FDI in Europe in general and the Korean consumer electronics MNEs in Europe. Though the wide coverage of the book is very informative, especially for those unfamiliar with the Korean economy, it fails to do justice to the title. An in-depth discussion of the process of establishment and operation of the Korean MNEs in Europe would have been more interesting.

Based on a survey of the 'Western' theories of FDI and the Korean contributions to the debate, the author seems to conclude that the former set of theories was inadequate in explaining the phenomenon of RDI as exemplified in the growth of Korean MNEs in the US and EU. The Korean firms did not have any, or at best weak and transitory, 'compensating', firm-specific advantages to compensate for the 'cost of foreignness'. Latching onto the concepts of 'involuntary internationalization' (Yun) and 'structural irreversibility' (Jun), she calls for a 'theoretical/macroeconomic' perspective to understand Korean FDI and RDI. In a nutshell, the argument is as follows: the export-led growth path chosen by the Korean economy (and the electronics industry), with government help, resulted in heavy export dependence on a limited number of markets (especially the US and the EU) leading to trade frictions. Higher living standards based on this extensive growth eroded the 'work ethic', the costs of production (wages, interest rates, etc.) rose, and emerging competition from new low-cost locations required the Korean firms to seek lower costs abroad. The obsession with quantum growth and exploitation of cheap labour to begin with also resulted in weak incentives for R&D investment and skill formation required for moving production up the value-added chain. At the same time, deteriorating trade frictions and the threat of actual and perceived potential barriers in the major markets 'forced' the Korean firms to set up shop in the advanced country markets. Thus, Korean FDI in Europe and the US was more in the nature of 'market defence' than voluntary. Some of the Korean FDI in Europe is also explained in terms of Knickerbocker's oligopolistic reaction framework. The oligopolistic rivalries in the domestic market also spilled over into the international activities of the Korean MNEs. Despite this emphasis on a more comprehensive approach, nothing in the book sheds any light on how this 'theoretical/macroeconomic' framework provides an explanation for the ability of the Korean firms to overcome the 'cost of foreignness'.

This inability to provide an explanation arises perhaps from the author's eagerness to combine the theoretical and macroeconomic issues to explain Korean FDI and RDI. While the theoretical question – what factors induce and enable a firm to go global – is definitely linked to the macroeconomic environment, the latter cannot, in itself, become a motive for FDI. Without the existing and perceived threat of protectionism in the advanced countries, Korean firms may not have engaged in RDI without a compensating advantage, whatever the macro environment. The operative constraint and the raison d'être for RDI was 'market imperfection' introduced by a rise in protectionist sentiments in the US and the EU and not the macro policies followed by the Korean government. The 'Western' FDI theories are fully equipped to handle such market imperfections as a source of FDI, including RDI. What caused the rise in protectionist tendencies, though important, is distinctly a separate question and the theoretical framework for analysing motivation for FDI or RDI is not designed to handle this aspect. It is therefore moot to criticize a theory for not explaining something it is not designed to do.

The thin coverage of the process of establishment and operation of Korean MNEs in Europe leaves a number of questions unanswered. How was it that, while lacking firm specific advantages, Korean firms were able to set up and compete with the European companies? Does not the fact that Korea had become the fourth largest producer with more than 5 per cent of global exports of consumer electronics by the mid-1990s reflect some sort of intrinsic advantages and brand following? Could it be that the *chaebŏl* structure provided an opportunity to internalize advantages of low-cost financing within the group? The fact that Korean FDI suffered in the aftermath of the financial crisis indicates that availability of finance was possibly one factor in the rapid increase in Korean FDI. Furthermore, the possibility that the Korean electronic firms may be investing in the advanced countries for strategic capability- or asset-seeking motives is also left unexplored. The rise of competitive pressure from other low-cost producers, coupled with the relatively weak R&D and skill-formation structures, may have induced the Korean firms to look for investments in advanced countries to search for ways to move up the value-added chain. Finally, though the oligopolistic reaction framework finds some support as an explanation of Korean FDI in Europe, the analysis fails to separate out the impact of 'market defence' motive from that of oligopolistic reaction. The original theory is set up to explain voluntary FDI, whereas the Korean FDI in Europe was, by the author's own admission, rather 'involuntary' by nature. Just because one firm followed the other in particulair economies does not imply oligopolistic reaction without controlling for other factors. Such a conclusion is post-hoc fallacy. Further evidence, perhaps by way of case studies or questionnaire surveys, is required to say anything definitive in this regard.

To sum up, the book is, no doubt, a useful quick reference guide to the development of Korean economy, electronic industry, and FDI. It also provides access to some Korean thinking on the subject of internationalization of the Korean economy. However, a little less emphasis on background information and the generalities of Korean FDI and further in-depth analysis of the behaviour of Korean MNEs in Europe, perhaps in the form of some case studies, would have strengthened the work substantially. <

– Cherry, Judith, *Korean Multinationals in Europe*, Richmond, Surrey: Curzon Press (2001), xiii + 241 pp., ISBN 0-7007-1480-4.

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