Internationalization of Korean Companies as Multinational FDI Networks

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Abstract

Foreign Direct Investment (FDI) as a form of business internationalization occurs in flexible, dynamic and accessible business networks. This chapter focuses on Korean companies and their internationalization process in order to respond to the way companies use multinational networks. The interactions of the semi-closed *chaebol* network of subsidiaries, subsidiaries and traditional suppliers followed the Japanese experience that allowed them to establish operations abroad together with the leading company. This chapter specifies the process of internationalization of Korean companies in the region through networks, sequential argumentative methodology is used to explain the reasons and the path followed by South Korean companies for their internationalization in the region. Some examples include the electronics and automotive industries.

Keywords: foreign direct investment, internationalization, production networks, South Korea.

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Internacionalización de las empresas coreanas como redes multinacionales de inversión extranjera directa

Resumen

La inversión extranjera directa (IED) como forma de internacionalización empresarial ocurre en redes empresariales flexibles, dinámicas y accesibles. Este capítulo se centra en las empresas coreanas y su proceso de internacionalización para responder a la forma por la cual las empresas utilizan redes multinacionales. Las interacciones de la red semi-cerrada *chaebol* de filiales, filiales y proveedores tradicionales siguieron la experiencia japonesa que a manera de expansión les permitió establecer operaciones en el extranjero junto con la empresa líder. Este capítulo especifica el proceso de internacionalización de las empresas coreanas en la región a través de redes, la metodología argumentativa secuencial se utiliza para explicar las razones y el camino seguido por las empresas surcoreanas para su internacionalización en la región. Algunos ejemplos son las industrias electrónica y automotriz.

Palabras clave: inversión extranjera directa, internacionalización, redes de producción, Corea del Sur.

Introduction

This chapter analyzes the internationalization of South Korean companies in Asia and their participation in the changing production landscape driven by national and regional competitive networks. In this respect, internalization is determined by the contribution of FDI by locating the foreign assets of multinationals and total foreign sales. Built on national and regional networks that reproduce the Japanese experience of flying goose theory.

To discover the position of Korean companies in this process, we followed two research strategies. First, we look at Korean investment patterns in the region and, secondly, two examples are specified, the electronics industry and the automobile industry. Both strategies serve to test the regional composition of investment as a sample of value-added R&D and research and development based on the preferences of Korean companies towards internationalization through national and regional chains production and supply.

The research question is, why did Korean companies develop their internationalization process through national and global production networks?

The hypothetical answer is the production and supplier networks in Asia are built in order to create a competitive advantage at the enterprise level, and are influenced by the characteristics of the home country of the major companies. This means that Korean corporations internationalize, create and modify supply chains by making their orientation and structures regionally focused but led by a national company that has traditionally coordinated the production process and the appropriation of value, sensitive to knowledge and other regional ownership advantages that are concentrated at the edge of the home economy but follow hierarchical networks similar to those of Japan in the 1980s (McNamara, 2009).

That is, they integrate supply, production, knowledge and customer service units into national and regional networks, but at the same time remain deeply Korean in terms of ownership origin, supplies and key suppliers. We are talking about an international expansion that recreates networks similar to domestic *chaebol* abroad, a model similar to that of Japanese keiretsu. Thus, maintain or strengthen the traditional ties of first-tier and second-tier national affiliates with suppliers, subcontractors and major national and international clients (Hatch, 2000; Yang *et al.*, 2009; Banerji & Sambharya, 1996). Subcontractors of low value-added supplies located at the third level and generic ones are preferred for their participation in the arm's length market. To do this, Korean corporations in the process of internationalization are in a spaghetti dish of national, regional, and global networks, distinguishable, according to Dicken (2011, pp. 122-125) through companies integrated into the institutional, cognitive, cultural, social framework, international, political, and economic.

The document is divided into three parts. The first one identifies, within the literature, the regional internationalization patterns of Asian companies at three levels of the process as structure, territory-national, and network. The second part specifies the general and historical aspects of the internationalization of the Korean company. The third part shows the investment patterns of Korean companies focused on internationalization through built networks, using two cases. Although the sample of cases is small and not generalizable, it makes it possible to provide evidence that answers the question of the investigation. Finally, the conclusions are shown.

For this purpose, the main sources of general data and statistics on the investments of Korean public organizations and the annual reports of companies were consulted with sequential argumentative methodology. In some cases, electronic sources and reports are used to illustrate the specific activities of Korean companies in East Asia. We also draw on previously published and unpublished research on Korean companies, magazine articles and books.

The Regional Internationalization Patterns of Asian Companies

The most relevant literature to examine the internationalization of companies in Asia is based on studies focused on its structural dimension to highlight the multiple interdependencies between different countries and corporations in the region. Several authors point out that this dimension is exposed with the concept of "flying geese", because it is best suited to identify that the interdependencies of companies in the region are dynamic and opens the opportunity for new strategies of international insertion. The second body of literature, part of the dimension at the country

level or policies and strategies. In that dimension, the role of specific counties in the internationalization process is discussed. Special attention was paid to Japan in this literature, leaving a model to be followed by countries. The third body of literature focuses on the micro level, that is, in the role played by corporations that have woven an increasingly complex network of financial, commercial and technological networks. This body of literature will be discussed in greater depth, as it is the most relevant to the arguments of the work.

Internationalization at the Structural-Level

Internationalization through a structure precedes institution-building. For which de facto market integration in Asia is presented regularly, as the region is interdependent in terms of participation in intraregional trade, investment, and financial flows (ESCAP, 2014; ASDB, 2008; Petri, 1995). This allows it to join a variety of growth groups, growth triangles or subregional economic zones (Zhao, 1998; Thant *et al.*, 1998; Yue & Lee, 1993; Hiratsuka, 2006). Whose choices are conveyed in the ADB report (2008:11) which stated "where markets lead, governments are following."

It has been found that the concentration of economic exchanges in Asia and until recently, seeks to avoid formal legalistic ties of Western style. This has historical, systemic, geopolitical and socio-cultural roots (Rumley *et al.*, 1996; Dent, 2003a; Liu, 2003; Kahler, 2000; Arrighi, 1996). Historical roots by perennial competition between old antagonists, but also, for a controversial issue that still drags confidence and contaminates the formal agreements that deals in the region with Japanese military and economic expansionism from the late nineteenth century to the middle of the twentieth century. Thus, memories of invasive and violent expansionism fuel anti-Japanese sentiments in the region and concerns about any use of formal arrangements to advance its hegemonic order, inducing regional integration to follow a more "politically neutral" market-driven path.

An economic vision of the structural aspects of trade and investment for the internationalization of the region was recognized more than 50 years ago by Kaname Akamatsu (1962), who coined the concept of "flying geese" as a metaphor for explaining the dynamics of structural internationalization through Japanese foreign direct investment (FDI) and technological leadership throughout the post-war division of labor in Asia, answering the question how industrial cycles work in the process of economic integration in Asia (Ozawa, 1993, 2003; Cumings, 1984; Lincoln, 2005; McNamara, 2009). Although the concept received some criticism for the terms of knowledge and technology transfers (Ravenhill & Bernard, 1995), it found analytical appeal among scholars (Terry, 2002; Hayter & Edgington, 2004). This allowed us to establish a clear structural analysis factor of international insertion that indicates, for Asia, the socio-cultural roots of business organizations in

the form of ethnic-national networks of Chinese, Korean and Japanese diasporas (Peng, 2000; Carney, 2008; Bergsten & Choi, 2003), occur and operate through functional networks within the market that intertwine national "production islands" with regional spaces.

The Country-Level Approach: Policies and Strategies

Although Asia's internationalization was initially led by companies, especially Japanese and Chinese business networks (Hiratsuka, 2006), some authors consider it important not to discard the role of States and foreign policy to support such international integration of companies and attract foreign investment to achieve strategic development objectives (Dent, 2003b, 2002a; Kim, 2013). In this sense, FDI did not operate in the institutional and political vacuum, but reacted and was driven by institutional change and national policies that established market conditions and factor endowments (Walter, 2000). Therefore, as Wilson (2014) points out: "Many states are involved as public sources of governance [of global production], with governments [...] influencing the nature of networks through their investment, trade and industrial policy regimes" (p. 2). Understanding regional production networks in Asia therefore has to be based on formal domestic market arrangements that empower States and companies to achieve each other's interests (Dicken, 2011).

The above also indicates that the nationalist economic projects of the Asian development state (Cerny, 2000; Dent, 2002b; Weiss, 2003; Hall, 2004; Kim, 2013), are relevant to the internationalization that was born of the country and its national strategies. As they encouraged competing States to achieve the recovery of promising emerging industries with higher value added under the trade and investment regimes of the 1980 era (He, 2015) providing the basis for international integration agreements through regional global agreements through the proliferation of bilateral and multilateral trade agreements (Stubbs, 2002; Schönfisch & Seliger, 2004; Seliger, 2008).

In this sense, Japanese trade and investment that was once predominant in the region, was gradually modified, to give part to other actors with desires of internationalization in the region (Lincoln, 2004, 2005). This was attributed to the recovery strategies of the developing economies of the region (Ajami, 2010), which also highlighted the rise of China that stood out in the region with the policies of openness and evident with the special admission to the WTO in 2001, which made China a leading trading partner for its neighbors in Asia and a source with regional FDI targets (Yusuf & Nabeshima, 2010; Yang, J. *et al.*, 2009; Yang, L. *et al.*, 2009; Kim & Mah, 2006; Paul & Mas, 2016).

China's remarkable economic growth, the expansion of interests throughout the region and its consequent political firmness fueled its resurgence as a regional leader, which generated a process of reconfiguration of rules for the internationalization of the region through regional economic integration agreements and regional development financing organizations (Ahn, 2004; Sierra, 2008; Beeson, 2009) such as: Comprehensive Regional Economic Partnership (RCEP) and Asian Infrastructure Investment Bank. And it is at this time that countries like South Korea and others located in the Southeast respond individually or collectively to new strategies of internationalization with their participation in ASEAN (Nicolas, 2007; Kim, 2009), ASEAN+3 and ASEAN+5 (Zerpa de Hurtado, 2022, pp. 80-90).

The Micro-level: Variation in Firm's Strategic Choices, Production Networks and Ownership

The literature on business networks and their relevance to internationalization through regional production and innovation indicates that the forms these networks take, start from the distinctive character of industry and nationality with the organization and management of political economy and geography (Ernst, 2009; Gereffi *et al*., 2005; Yang, 2014; Kang *et al*., 2015; Chiang, 2015; Dicken, 2011).

For example, the internationalization of Japanese investment as the first non-Western capital to create production networks in the region, was able to restructure Japanese industries not only at national level, but also international borders, overcoming the trade barriers of several Asian economies through their own export platforms. Japan organized most of this investment as intra-industrial or intra-trading transactions and reproduced the production chains of Japanese conglomerates in the country in the region through symbiotic relationships between suppliers of small components and of the electronics industry (Hatch, 2000; Banerji & Sambharya, 1996). In Asia, Japan was the pioneer in international insertion with a very particular business style. According to Dieter Ernst (1994) Japanese companies behaved as main "carriers of regionalization" and this helped in the configuration of the specialization patterns of the region particularly in the electronics industry, that after 1990 reproduced structural changes in the process of internationalization of Asian corporations to become the main actor of the expansion of export base.

In this process, although the corporate business network focused on procurement of supplies, international insertion activities gradually opened up to give space to other corporations affiliated with Japanese companies. This allowed both the control over the main technologies and components that the network exchanges, but also created the constant strategic advantage within the regional business networks led by Japan (Ernst, 1994, pp. 10-12; McNamara, 2009; López Aymes, 2015).

This network link from Japan to the Asian region established the generation of technological knowledge that "remains largely national and local" of international ascent (Borrus *et al*., 2000, p. 11). Michael Carney noted that this was due to relational recruitment and long-established inter-agency partnerships as a dominant practice in Asia. For which, integration in the form of business networks (Carney, 2004, 2005) to include both the cultivation of inter-firm relationships and the harvesting of close ties among government officials interested in the internationalization process of Asian corporations.

Several authors agree that differences in management styles and the international business organization of emphasis are very important factors in determining their rise. In their research, Richard Whitley (1992a, 2007) and Peter Dicken (2011) argued that international business systems in Asia and elsewhere vary because they are deeply rooted in institutional, cultural, and social determinants. For them, they become contextual elements that greatly influence strategic choices and the organizational capacities of companies both nationally and internationally. The results of such studies also suggest that the diversity of business systems actually slow down the process of regional integration and institution-building in support of internationalization (Lincoln, 2005; McNamara, 2009).

Within the organizational and international management perspectives, Carney (2005) argued that both government structures and the agency have significant implications for the formation of business networks and their renewal. To this end, it analyzed two types of family business governance structures. Each type carries attributes that facilitate, inhibit, and shape the process of building contractors' and/or suppliers' networks. Therefore, with the variation of behavior resulting from historical processes (both local and international), cultural, institutional, and political economy (see also Hamilton & Biggart 1988; Yang, 2014), as well as the diverse interests and identity of owners that form patterns of network behavior, there are differences between the structures and form of family or international management governance of Korean companies, and the types of production chains and regional networks they build (Whitley, 1992b, 1998; Chiang, 2015; Borrus *et al*., 2000). Moreover, by considering the agency as a relevant factor for international networking, it can also be inferred that even within a national context several business structures and therefore multiple network routes can be found (i.e., Hyundai, Samsung, and Daewoo). From this point of view, certain production chains may resemble the structure of dominant business groups and possibly even reproduce rather than mitigate their problems.

The latest finding on business networks justifies that the internationalization of Asian companies focuses on international actors and types of business such as the development and diffusion of technology. Technology has profound implications for

the international survival of companies. In this sense, although knowledge networks have proliferated geographically in centers and actors have diversified, knowledge and technology are still highly dominated by the United States, Europe, and Japan (Ernst, 2009). However, according to several authors, Asian business networks were stratified in relation to global innovation hierarchies and achieved equal status through the development of technology absorption capacities through learning, R&D, and technological diversification as a complementary option to the most expensive technological leadership, as was the case of Korean corporations since 1970 (Ernst, 2009, p. 6; Sun *et al*., 2007; Zhou & Xin, 2003; Zerpa de Hurtado, 2023).

Whether or not technological leadership is the only option to succeed in global competition (Ernst, 2009, p. 43-47), is undoubtedly a major concern for internationalization at the enterprise level. This is because industry leaders can have lasting dependency implications, but also R&D and innovation cooperation with people outside corporate control can compromise technological advantages against competitors. Moreover, while Asian States are committed to national development priorities, as Dennis McNamara (2009) pointed out, the position may frustrate international cooperation on innovation.

This is a relevant issue since companies, especially in high-tech products, require increasing contributions from multiple actors that are located outside national borders, evident in R&D centers (Nooteboom, 2004). This author argues that most Asian production and technology and innovation networks in Asia face a similar basic problem of confidence and potential opportunism (Nooteboom, 1996), which is always justified in terms of national progress, that becomes a concern for intellectual property. This line of analysis points to a combination of economic theories of transaction costs and how a company balances its own values with those of the counterparty and the risks involved. Dikova & Brouthers (2016) revealed that the lack of a single explanation of why Asian companies choose one mode of internationalization over another —new field or acquisitions— that implicitly shows how difficult it is for companies to determine which is superior in terms of performance, represents a present attribute, which explains the ability of Asian companies to adapt to their preferences, needs, and capabilities. Therefore, companies in their internationalization process must weigh and produce subjective estimates of international conditions that are often beyond their control.

Despite all the problems and constraints faced by Asian companies in implementing offshoring strategies in the form of international production and innovation chains and networks, these actors continue to view foreign investment and its control as a means to market survival, despite the level of development (Yang, J. *et al.*, 2009; Yang, L. *et al.*, 2009). In addition, as several authors have pointed out (Castley, 1996, 1998; Ernst, 1994; Asakawa, 2007), whether deliberately or not, the

internationalization of Japanese companies represents a model for several companies in the region to access markets and seek guarantees of access to human and natural resources, and pursue technological improvement in a relatively orderly manner.

However, as Kim and Park (2015, p. 462) concluded, these company-specific qualifications and advantages (organizational and managerial skills) are not widely found in other Asian transnational corporations, so those other companies should rely on their "country-of-origin-specific advantages, which they are able to internalize and use outside their national borders." The table 1 summarizes the three levels of internationalization analysis that allow us to respond to the question: Why did Korean companies develop their internationalization process through national and global production networks?

Table 1. Levels of Internationalization Analysis

Levels	Scope and Variable
The Structural-level	Flying Geese
	Intraregional Trade, Investment and Financial Flows
The Country-Level Approach: Policies and Strategies	The Nationalist Economic Projects
	Initially Led by Companies
	The Trade and Investment Regimes
The Micro-Level: Variation in Firm's Strategic Choices, Production Networks and Ownership	Production Networks in the Region
	Technology Absorption Capacities
	Investment and Financial Flows

Source: Own elaboration.

General and Historical Aspects of Korean Firm's Internationalization: Setting the Context

Kwon *et al*. (2004, p. 423) argued that "most large Korean firms grew with a strong international orientation." For similar reasons to Japanese multinationals, the first Korean firms that invested overseas did so under the imperative to secure long-term supply of primary resources and goods to sustain its infant export industries since the 1960s (Yang, L. *et al*., 2009). The action was considered a survival issue due to Korea´s limited nature resource endowment. Thus, at the early stages, internationalization was carried out through the establishment of overseas subsidiaries, which functioned as representative and/or sales offices to support the export drive (Kwon *et al.,* 2004, p. 423). The patterns of Korean outward investment have changed over

time as the economy and firms reached higher stages of demographic, organizational, and technological maturity. As institutional changes were introduced in the 1980s —through liberalization of capital flows and FDI—, Korea and big corporations were able to profit from the opportunities which the process of globalization brought about, in particular information technology and transport, and much less restricted access to financial capital (Kim, 2000).

The shift from pure export-based industrialization to capital export economy started in late 1980s. In that period, Korean firms became increasingly internationalized in response to both internal and external conditions. Among the latter, wage hikes, land prices, higher education levels, and changes in the economic structure were the most salient (Yang, L. *et al.*, 2009). Among the former, the most influential are the intensification of competition due to economic liberalization policies and, consequently, the need to reduce production and transaction costs (Kim & Park, 2015). However, the weight of these factors varied over time depending on the stage of industrialization and technological development of firms, as well as on public policies.

Until the 1980s, government control on foreign exchange hindered outward FDI. Foreign exchange regulations were removed after the Plaza Accord in 1985. Since then, the government has stimulated outward investment to upgrade technological development of Korean firms (Kwon *et al.*, 2004). When Korea became a member of the OECD in 1996, state restrictions were additionally reduced. However, the financial crisis of 1997 forced the government to liberalize further outward and inward FDI, to adopt a more flexible floating foreign exchange regime, and to appreciate the won significantly, all of which contributed to boost investment outflows. In 2003, foreign trade law was reformed, not only reducing and removing restrictions but also encouraging forms to invest abroad. Incentives included, financial support, exemption on taxes paid overseas, services providing information and administrative help, and special attention to small and medium-sized firms wishing to invest abroad (Moon, 2010).

Korean total outward FDI rose from US $5.2 billion in 2000 to US $22.9 billion in 2008. However, during the following two years, it dropped due to the global financial crisis. In terms of regions, Asia accounts by far for the greatest share of Korean FDI, more than 50 % from 2005 to 2008, although again during the following two years the proportion got smaller to 32.7 % in 2009 picking up in 2010 to 46.3 %, averaging US$28,400 billion from 2011 to 2015.

Pressures for currency appreciation have continued since then encouraging Korean FDI outflows. As can be seen in Table 1, Asia has benefited from these flows and will almost certainly continue to be the most favorable place for Korean investors in the future, not only because of low labor and transport costs but also because

the population in the region enjoys an increasingly greater purchasing power and technological capabilities. The total amount of FDI invested in Asia reached nearly US $64 billion from 2010-2015, about 61% of the total amount of Korean foreign direct investment and considerably higher than invested amount in North America in the same period (US $39 billion). Then, during 2015 and 2022, the amount of investment remained at 37,85%.

Recent Trends of Outward FDI from Korea

As Dunning's eclectic theory (2001, 2003) would predict, Korean FDI has been focused on building additional ownership, internalization, and localization advantages, as well as on securing markets, two aims closely intertwined. FDI entails trading, financial and knowledge transactions, and they all have been increasingly more intense between Korea and the Asia Pacific region (Yang, L. *et al.*, 2009; Yoon 2007; Kim & Mah, 2006; Bhasin & Paul, 2016).

The increasing importance of East Asia for Korean companies' investment is particularly noticeable in the case of China who is getting the largest amounts, mostly targeting the manufacturing sector (Kim & Mah, 2006). Korean foreign direct investment to China jumped almost sevenfold from 2000 to 2007 (from US $756 million to US $5.2 billion), falling the next three years due to the crisis and recovered afterwards averaging US $3.7 billion from 2011 to 2015. By 2015, six of the first 15 countries where Korea invests were Asian.

As shown in tables 2a and 2b, China has had remarkable growth, escalating to the highest position in the amount of FDI that Korea channels to any country in Asia. Vietnam's growth has also been spectacular, displacing other countries, such as Singapore and the Philippines. Korean investment in Vietnam rose from almost nothing to nearly US $1.5 billion from 2000 to 2015.

Taking China as the most important destination of Korean investment, it is clear that firms are taking advantage of labor costs and construction opportunities, as well as several services related to manufacturing and infrastructure (see Table 3). Although followed far behind, a similar behavior and objectives can be seen in Vietnam, especially in the last 10 years. Hong Kong also stands out as a major recipient of Korean FDI.

Table 1. Korean Outward FDI by Region, 2005-2022 (Invested amount; US$ Million)

	Year																	
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
TOTAL	7,288	11,877	22,701	24,04	20,731	24,658	29,083	28,541	30,193	26,999	27,18	33,92	35,74	37,56	39,37	41,19	43,00	44,82
Asia	4,355	6,462	12,05	11,904	7,083	10,154	11,037	11,48	11,181	8,964	11,053	9,67	9,68	9,70	9,72	9,74	9,75	9,78
M. East	132	398	368	264	377	342	473	303	374	1,123	1,513	143,52	138,03	133,17	128,84	124,94	121,40	118,18
N. America	1,297	2,284	3,761	5,275	6,019	4,686	8,639	6,441	6,389	6,637	6,167	98,85	97,61	96,39	95,20	94,06	92,95	91,89
C&S America	562	1,092	1,273	2,095	990	2,226	2,622	3,41	3,373	4,253	4,59	110,66	108,97	107,39	105,90	104,49	103,16	101,90
Europe	658	1,227	4,465	3,405	5,34	6,187	4,391	4,192	5,372	3,767	2,745	98,68	98,12	97,51	96,87	96,22	95,57	94,92
Africa	130	207	239	320	374	284	372	367	222	315	128	127,63	125,16	122,93	120,89	119,02	117,29	115,68
Oceania	154	208	543	777	549	779	2,55	2,349	3,282	1,94	984	158,49	154,13	150,27	146,81	143,70	140,87	138,28

Source: Own elaboration based on Investment Amount 2005-2022 and Investment Amount Region 2005-2022 (Korea Eximbank, 2023).

Table 2a. Korean Outward FDI by Country in Asia, 2000-2015 (Invested Amount; US$ Million)

Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
TOTAL (World)	5,219	5.289	3,974	4,683	6,473	7,068	11,62	21,42	22,904	19,437	11,877
China	756	644	1,071	1,77	2,351	2,806	3,424	5,247	3,748	2,082	2,246
Hong Kong	269	98	235	109	233	277	857	1,291	2,543	1,565	637
Indonesia	96	175	73	134	57	100	148	253	528	324	730
Malaysia	34	22	56	37	61	43	51	159	329	102	226
Philippines	145	77	27	17	19	41	61	109	198	118	95
Singapore	108	41	59	235	169	126	304	515	551	271	275
Taiwan	10	22	8	12	21	57	34	61	38	23	10
Thailand	33	31	34	32	46	52	75	142	88	31	39
Vietnam	71	59	154	161	180	315	593	1,304	1,345	588	528
Cambodia	4	6	-	-	14	32	126	629	525	192	76
Japan	101	91	79	54	295	156	244	523	428	382	321

Source: Own elaboration based on Investment Amount Region 2005-2022 (Korea Eximbank, 2023).

Table 2b. Korean Outward FDI by Country in Asia, 2000-2015 (Invested Amount; US$ Million)

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
TOTAL (World)	29,083	28,541	30,193	26,999	27,18	-495,47	-594,54	-693,61	-792,68	-891,75	-990,81	-1089,88
China	3,542	4,043	5,146	3,157	2,854	0,04	-13,05	-23,32	-30,79	-35,47	-37,40	-36,64
Hong Kong	1,632	1,619	881	629	1,812	159,18	150,14	141,48	133,05	124,70	116,28	107,65
Indonesia	1,297	995	450	723	686	221,71	211,88	202,16	192,51	182,90	173,32	163,76
Malaysia	164	729	444	132	57	207,97	200,68	193,32	185,88	178,38	170,81	163,20
Philippines	203	936	455	92	101	197,48	192,13	186,60	180,91	175,08	169,11	163,02
Singapore	1,043	381	539	977	1,405	210,73	205,57	200,28	194,86	189,32	183,67	177,91
Taiwan	21	9	33	61	43	186,71	183,49	179,98	176,21	172,22	168,02	163,64
Thailand	583	86	149	181	104	176,35	174,10	171,53	168,67	165,55	162,19	158,61
Vietnam	1,052	974	1,139	1,593	1,498	182,33	180,03	177,45	174,62	171,56	168,29	164,84
Cambodia	103	94	81	64	42	179,60	177,60	175,31	172,78	170,03	167,06	163,91
Japan	256	650	694	420	1,716	191,08	188,57	185,86	182,98	179,93	176,74	173,40

Source: Own elaboration based on Investment Amount Region 2005-2022 (Korea Eximbank, 2023).

Table 3. Korean Invested Amount in Selected Asian Countries by Industry, 2005-2015 (US$ Millions)

	China			Japan			Singapore			Vietnam		
Industry/Year	2005	2010	2015	2005	2010	2015	2005	2010	2015	2005	2010	2015
Total*	2,806	2,246	2,854	156	321	1,716	126	275	1,405	315	528	1,498
Agriculture, Forestry and Fishing	8	5	0.6	N.A.		0.4	N.A.	N.A.	N.A.	1	2	0.8
Mining and Quarrying	14	7	3	N.A.	0.1	0.8	N.A.	55	721	111	158	152
Manufacturing	2,306	2,757	2,239	13	34	1,140	23	20	43	186	467	1,060
Electricity, Gas, Steam and Water Supply	0.4	9	0	N.A.	0.7	1,100	N.A.	5	14	N.A.	N.A.	20
Construction	68	32	3	0.4	4	12	0.7	0.2	6	4	35	22
Wholesale and Retail Trade	193	218	271	25	58	1,485	36	153	337	0.6	29	98
Transportation	25	39	9	0.6	0.6	30	8	53	0.3	0.1	5	12
Accommodation and Food Service Activities	27	47	19	11	6	146	0.2	7	10	8	14	41
Financial and Insurance Activities	94	350	168	3	126	393	0.1	7	4	N.A.	76	54

Note: *Total refers to the overall invested amount in each particular country.

Source: Own elaboration based on Korea Eximbank (2023).

The Korean Corporations as Relevant Agents of Internationalization

Korean corporations followed different paths to internationalization, although common patterns can also be found. During the first stages, internationalization of Korean companies depended on the firms' strategy which was generally designed after family in control. The founder's vision made a profound imprint on the corporate structure of both home and overseas operations. Most of the top 20 Korean transnational corporations originally belonged to a *chaebol*, which were characteristic conglomerate groups each controlled by a powerful family. These groups received massive government incentives from the 1970's to the 1980's to undertake large investments in sectors entailing high technological risks (Kim & Park, 2011). However, after the 1997 financial crisis relations between the government and these groups changed, among other reasons, because institutional investors gained controlling stock forcing a more independent management of the companies (Moon, 1997; Cho, 2003; Chang & Shin, 2003; Salas-Porras, 2007; Kim, 2013).

As mentioned earlier, internal and external conditions pushed corporations towards similar strategies. As Kim & Park (2015) observed on emerging Asian multinational corporations, Korean firms did not have any organizational or managerial advantage to compete successfully in investing abroad. Policy incentives, thus, count as relevant internal factors to improve and supplement the set of competitive advantages built around the industrial base, including the establishment of general trading companies in 1975 to manage international trade of conglomerates and SMEs (Yang, L. *et al.*, 2009; Jo, 1991).

The change of industrial policy focus in the mid-1980s from sectorial to functional implied that planning was less restrictive and more firms could benefit from generic supports. This shift of policy was accompanied by changes in domestic factor conditions as wage and land cost increased rapidly as well as substantial currency appreciation, loosing Korea's comparative advantage hence pushing private firms to transfer some manufacturing facilities abroad to remain competitive, especially to Southeast Asia (Lee, 1994). The so-called globalization (*segyehwa*) policy during early and mid-1990s was another major component of the domestic environment to encourage expansion offshore, which was culminated with much fanfare, but also concerns, with Korea's accession to the OECD in 1996. Unsurprisingly, the usual *chaebol* organizations benefited the most from such milieu, as they were freer and already had accumulated technological competencies to engage in ventures overseas.

Among external factors, we regard economic liberalization since the 1980s, the availability of cheap credits from Japan in the 1990s (King, 2001) and, more

recently, the 2008 global financial crisis, as important events that provided a major impulse for local companies, whether big or SMEs, to start operations abroad. As the backbone of this context, the financial deregulation in the last 30 years has contributed further to expand financial resources, thus encouraging and funding outward investment. Finally, concerns over protectionism from advancement of the European Union and negotiations of free trade agreements in North America were also external factors that can explain Korean outward investment in the 1980s and the 1990s (Dent & Randerson, 1996; Cherry, 2001).

As controls for inward foreign investment were relaxed and financial capital was more available in the 1990s, Korean firms were exposed to new competition at home and in foreign markets so they needed to find ways to catch up with challenging new market conditions. But approaches differed. In some cases, (i.e., Hyundai), the network was rather closed and ownership control was an imperative condition in new greenfield investment, whereas in others (i.e., Daewoo) the expansion strategy was rather reckless and focused on acquiring firms undergoing financial troubles (Jeong, 2004; Enright *et al.*, 2001). This was the case for domestic as well as international business expansion (Kim, 2000).

The paths to internationalization have also been contingent on the host country's factors endowment and institutional environment. That is, if full ownership is not allowed in some specific industries, then the firm may need to find alternative forms of entry (e.g., JV or M&AS). It may also be that a JV or M&AS represented the best option for acquiring advanced technology or profit from a larger and well-established supply chain.

The geographic distribution of the foreign affiliates varies from industry to industry, though they are quite similar to the general trends underlined above. As can be seen in table 4, more than 43 % of the foreign affiliates of the top 20 Korean transnational companies (TNC) as a group are located in Asia and the Pacific, followed by 25 % in Europe and just under 20 % in North and South America.

For 2020, Ku- Hyun (2022) pointed to:

> Given the size of South Korea and how competitive the globalized economy is, even having a few companies like Samsung and Hyundai in the Fortune 100 and other rankings is a remarkable achievement. Meanwhile, other South Korean companies are moving forward. Several other South Korean companies fall off the Fortune 100 list, but are still listed on the Fortune 500 list, including LG, POSCO, Hyundai Heavy Industries and SK Hynix. Large South Korean technology companies like Naver and Kakao are still lagging behind the world's leading sales companies, but their market ratings are growing rapidly.

Table 4. Location of the Top 20 Multinationals Affiliates, 2009 (number of affiliates)

Rank	Multinational Firm	Total		East Asia & the Pacific, South Asia, Developed Asia-Pacific		Eastern Europe & Central Asia, Other Europe		Latin America & the Caribbean, North America	
1	Samsung Electronics Co., td.	94	10.62	41	43.62	22	23.40	18	19.15
2	LG Electronics	77	8.70	24	31.17	26	33.77	15	19.48
3	Hyundai Heavy Industries Co., Ltd	35	3.95	14	40.00	9	25.71	7	20.00
4	DSME Co., Ltd.	13	1.47	4	30.77	4	30.77	2	15.38
5	LG Display	17	1.92	9	52.94	3	17.65	5	29.41
6	Hyundai Motors	47	5.31	17	36.17	11	23.40	12	25.53
7	Samsung Heavy Industries Co., Ltd.	13	1.47	5	38.46	4	30.77	3	23.08
8	SK Energy	18	2.03	9	50.00	4	22.22	4	22.22
9	POSCO	19	2.15	15	78.95	0	0.00	4	21.05
10	Hynix Semiconductor Inc.	31	3.50	12	38.71	9	29.03	10	32.26
11	KIA Motors	28	3.16	6	21.43	15	53.57	6	21.43
12	S-Oil	1	0.11	0	0.00	1	100.00	0	0.00
13	Samsung C&T Corp.	106	11.98	58	54.72	23	21.70	12	11.32
14	Doosan Heavy Industries & Construction	42	4.75	17	40.48	6	14.29	11	26.19
15	Korea Electric Power Corp. (KEPCO)	18	2.03	8	44.44	1	5.55	2	11.11
16	Daewoo International Corp.	67	7.57	30	44.78	13	19.40	10	14.93
17	Lotte Shopping Co., Ltd.	4	0.45	3	75.00	1	25.00	0	0.00
18	Hyundai Merchant Marine Co., Ltd.	180	20.34	68	37.78	62	34.44	32	17.78
19	Hyundai Mobis	35	3.95	14	40.00	11	31.43	8	22.86
20	LG Chem. Ltd.	40	4.95	28	70.00	4	10.00	8	20.00
Total		885	100.00	382	43.16	229	25.88	169	19.10

Source: Own elaboration based on Moon (2010).

Because the same author notes:

> As the aforementioned statistics show, in the early twenty-first century, South Korea has an edge in R&D investments and falls in the middle in terms of its economic size and industrial ecosystem. The South Korean market is also known as a key test bed for global firms, due to its wealth of early adopters of key trends and its choosy consumers. (Hyun, 2022)

In table 5, related to the leading innovation, South Korea highlights out as leading for innovation.

Table 5. Leading Innovative Economies

Country	WIPO's Global Innovation Index (2022)	IMD's World Digital Competitiveness Ranking (2022)	StartupBlink's Global Startup Ecosystem Index (2022)	Share of Global Unicorn Firms (% of Global Share as of September 2022)
United States	2	2	1	53.8%
China	-11	17	10	14.6%
Japan	13	29	20	0.5%
Germany	8	19	6	2.4%
South Korea	6	8	21	1.4%

Source: Own elaboration based on World Intellectual Property Organization (WIPO, 2022); IMD World Competitiveness Center (2022); StartupBlink (2022); and CBI Insights (2022).

Table 5 shows the main leading innovative economies, most notably South Korea. While South Korea's share of 1.4 percent of the world's unicorns is small compared to those of the United States and China. The table confirms the rapid transformation and permanency of companies in the market but now since the launch of South Korea's digital economy system and new South Korean companies, that show that the total capital flows to these companies to become organizations of more than 100 billion dollars as a result of the Startup Alliance strategy.

So, in table 6 it also shows an interesting pattern of Korean outward FDI: in only three years (2007-2009) the 20 top Korean transnational corporations increased the proportion of investments abroad from 16.4% to 23.2%. The growth in foreign investment is even more striking in some cases: LG Electronics, for example, increased foreign assets from 24.0% to 56.5%, Samsung Electronics from 16.2% of total assets to 24.6%, Hyundai Motors from 16.6% to 19.8%, Hyundai Heavy Industries from 29.0% to 39.0% and Samsung Heavy Industries from 18.8% to 33.5%. This allows us to recognize that, historically, Korean companies increased

assets abroad and this served to establish the foundations of what in 2022 is known as the digital economy at the service of innovation.

Table 6. Korea: Foreign and Total Assets of the Top 20 Multinationals, 2007-2009 ($US Million)

Multinational Firms		2007		2008		2009	
Rank	Name	Foreign	Total	Foreign	Total	Foreign	Total
1	Samsung Electronics Co., Ltd.	11270	69522	11246	57669	18093	73676
2	LG Electronics	3676	15281	4759	13788	10467	18480
3	Hyundai Heavy Industries Co., Ltd	5198	17905	6495	20104	8221	21302
4	DSME Co., Ltd.	3341	8833	5801	12687	8087	12964
5	LG Display	6023	14277	3929	13123	6257	16174
6	Hyundai Motors	5233	31536	5305	25581	5983	30358
7	Samsung Heavy Industries Co., Ltd.	2125	11256	347	20743	5797	17290
8	SK Energy	5728	16734	4648	17857	4874	18554
9	POSCO	4040	32501	3779	29450	4774	34252
10	Hynix Semiconductor Inc.	3570	15846	2647	10496	4107	11498
11	KIA Motors	2661	13700	2580	12288	2826	14510
12	S-Oil	2587	10082	1404	6088	2065	7751
13	Samsung C&T Corp.	1550	10583	1631	8966	2021	11892
14	Doosan Heavy Industries & Construction	695	5949	965	7888	1677	7859
15	Korea Electric Power Corp. (KEPCO)	829	69967	919	53175	1425	59940
16	Daewoo International Corp.	964	2307	1037	2127	1353	3327
17	Lotte Shopping Co., Ltd.	22	12729	525	10579	1282	15980
18	Hyundai Merchant Marine Co., Ltd.	805	6145	701	6586	1245	7144
19	Hyundai Mobis	652	7224	897	6162	1179	9583
20	LG Chem. Ltd.	1284	7514	1204	6391	1126	7159
Total		62255	379892	60819	341749	92859	399692

Source: Own elaboration based on Moon (2010).

Furthermore, Korean transnational corporations concentrate an increasing proportion of total sales in foreign markets, as can be seen in the table 7.

Table 7. Korea: Foreign and Total Sales of the Top 20 Multinationals, 2007-2009 ($US Million)

Multinational Firms		2007		2008		2009	
Rank	Name	Foreign	Total	Foreign	Total	Foreign	Total
1	Samsung Electronics Co., Ltd.	54404	67337	47234	58014	64062	76887
2	LG Electronics	18100	25050	16854	21979	20425	26133
3	Hyundai Heavy Industries Co., Ltd	14660	16556	14291	15870	16298	18107
4	DSME Co., Ltd.	7455	7573	8592	8807	10309	10656
5	LG Display	14002	15096	11771	12616	16423	17231
6	Hyundai Motors	18719	32637	15823	25598	13525	27286
7	Samsung Heavy Industries Co., Ltd.	8290	9080	7843	8481	10417	11215
8	SK Energy	8450	15841	21478	36372	18126	30685
9	POSCO	7141	23669	7840	24368	8093	23085
10	Hynix Semiconductor Inc.	8792	8989	5002	5165	6213	6442
11	KIA Motors	11827	16999	9040	13028	9817	15772
12	S-Oil	9747	16233	11574	18290	9016	14923
13	Samsung C&T Corp.	4413	8331	4818	8784	5024	9548
14	Doosan Heavy Industries & Construction	2139	4359	2941	4540	3254	5378
15	Korea Electric Power Corp. (KEPCO)	N.A.	30893	N.A.	25068	4830	28850
16	Daewoo International Corp.	4413	8331	4818	8784	5024	9548
17	Lotte Shopping Co., Ltd.	N.A.	10412	N.A.	8357	6690	9879
18	Hyundai Merchant Marine Co., Ltd.	5427	5427	6364	6364	5238	5238
19	Hyundai Mobis	5325	9050	4432	7454	4965	9107
20	LG Chem. Ltd.	7046	9486	6979	10056	8676	11729
Total		210351	341350	207693	327996	246425	367700

Source: Own elaboration based on Moon (2010).

Korean Networks

As Yoon (2007) indicates, the largest amount (not number of cases) of Korean outward investment is done by large enterprises. Those are the main actors driving

Korean internationalization entailing production, supply, and knowledge networks whose patterns depend not only on localization advantages, but on the trajectories followed by the firms and the institutional context of particular countries. Although Korean TNCs have evolved from predominantly vertical and closed production and value chains towards increasingly open and modular networks, preference for Korean suppliers remains outstanding. This pattern is more acute when there are no institutional constraints (or incentives) to integrate local suppliers into the network (López-Aymes & Salas-Porras, 2012).

Korean TNCs got their first lessons of how to manage international networks from US and Japanese multinationals. As Castley points out, Korean joint ventures with Japanese firms:

> [...] were mainly responsible for the initial development of several (Korean) industries. Samsung Electronics, for example, started as a joint-venture with Sanyo in 1969 and later formed other joint-ventures with Japanese companies (Sony, NEC, JVC, Toshiba Sumitomo) to manufacture electronic consumer goods and components. (Castley, 1996, p. 37)

When the Korean economy reached a stage in which investing abroad became a necessity, tantamount to survival, the new big companies had to take several decisions, especially at the organizational level to develop manageable production chains in foreign economies. One critical decision regarded the amount of control in the production process and the other, the options to improve efficiency and reduce production and transaction costs.

Korean firms' globalization, like the Japanese, started with a vertical and closed intra-firm cross border system, which we conceptualize as *globalized-national network*. Japanese and Korean big manufacturers seem to present a similar path when localizing the supply network: they encourage traditional suppliers to go abroad with them, often under the promise to guarantee a long-term purchase of their production creating in this way clusters, business networks and industrial corridors in foreign countries (Debaere *et al*., 2009; López-Aymes & Salas-Porras, 2012; Lee, 1994).

Another common feature of Korean firms when they internationalize is the preference for full or significant control of operations, especially in Asia (Kwon *et al*., 2004; Debaere *et al*., 2009), although this pattern depends on local regulations or necessities of the firm (financial and/or strategic for technology absorption). This means that firms' ownership plays a prominent role in the internationalization process. Cross-border M&As only became a real option for corporate restructuring and debt resolution after the 1997 economic crisis (Sohn, 2002). Since then, the Korean government has made institutional changes to facilitate M&As, especially focused on

SMEs. However, it was difficult to adopt such a strategy, often due to concerns over business control and conflicts with shareholder's interests and management rights (KCCI, 2004).

In some cases, and depending on the industry, the local conditions or the management philosophy, firms like Hyundai prefer to invest in greenfield projects with full control of management and decision making, partly to "ensure a smooth transfer of know-how from the head office and quality control" (Kwon *et al*., 2004, p. 432). Korean firms' internationalization is, thus, embedded into the *chaebol* governance structure, managing a centralized and vertical network (controlled from Korea and mostly by Korean ownership) (Hamilton & Feenstra, 1998) with a concentrated decision making that allows management swift execution and adaptation capabilities, and buttressed by consistently recruiting senior executives from Korean origin. In such a governance structure and recruitment practices, local suppliers are frequently limited to follow technical specifications, procure low-tech inputs and benefit from a relatively secure buyer (López-Aymes & Salas-Porras 2012). This scheme surely provides some degree of certainty and stability, a collective form of watching each other's back, which has been crucial for the success of Korean business networks in electronics and automotive industries, especially in times of crisis (Lee & He, 2009).

As large Korean corporations have to embed their operations in regional networks in order to increase flexibility and respond to local technological imperatives and preferences, they must relocate or outsource a larger quantity of supplies and change supply networks from predominantly closed and vertical structures towards more horizontal and open structures. Consequently, along the localization and offshoring process they also have to undertake training at different levels of operation and layers of the network, and to transfer technical and managerial knowledge across production and supply chains, something that has proved difficult to accomplish (Yang, 2014; Kang *et al*., 2015). Since Korean networks resemble in style and practices those of Japanese networks (marginal reliance and importance of local firms and high executive personnel in the regional network), conflicts with local authorities and stakeholders may arise or innovation could be slow (McNamara, 2009).

Korean firms, especially exporting champions such as Samsung, Hyundai, LG, and Daewoo, benefited temporarily from the mid-1980s revaluation of the Yen, boosted their exports of electronic goods and components by taking over chunks of the Japanese market share in the region (Ernst, 1994). Because Japanese firms were reluctant to open up their production networks to local firms, their competitive advantages eroded as they were slow to adapt to new competitive conditions, such as new entrants and new regional production networks, new local capabilities to

substitute Japanese component suppliers, rising costs of local workers, currency adjustments, etc. This was particularly acute during the 1990s.

Consequently, competition in Asia is not only between brands and transnational firms, but also between networks (Borrus *et al*., 2000). This is quite evident in the case of Korean and Japanese network governance structures, if we consider them as global-national networks, driven by the industrial trajectories and tecno-nationalist concerns (McNamara, 2009). Notwithstanding these general characteristics of business networks in East Asia, sometimes it has been necessary to put rivalries aside and establish alliances to cooperate and compete successfully with Western multinationals. Such is the case of Sony and Samsung partnerships, especially in the production of LCD monitors, in which both networks of suppliers and distribution channels are mutually supportive. It is in this case where Samsung's tight domestic and international network proved to be better organized and open enough to face the challenges of international competition, whereas Sony turn out to be rather vulnerable to both Samsung and LG Electronics, struggling to cope with the supply of TV parts.

The cooperation between Japanese and Korean firms in other areas, such as automobiles, has been difficult and rather unlikely to become the norm (Jung, 2007). An exceptional case is Nissan-Renault's lifesaving role in the buyout of Samsung Motors in the midst of the 1997 financial crisis. Both network schemes are quite similar and competitive, but network and national competition makes them rivals and unable to fully trust one another. This also applies to Chinese counterparts, so Korean investors are often concerned by intellectual property and other regulatory issues. That may explain the persistent localization of core R&D activity in Korea and the export of key high-tech and value-added components to the Korean affiliates in China for assembly into final goods (Kim & Mah, 2006), which is a similar practice in Japanese networks (Chiang, 2015).

Case Studies

Electronics and automobile industries are two of the most representative economic achievements of Korea. These industries hold prominent positions in the national economy in terms of employment, output, value added, as well as in exports (Jung, 2007). Furthermore, they are the most internationalized and have been the main carriers of manufacturing investment, which makes them quite noticeable around the world. Their trajectories can shed light on the impact Korean firms had in the regional process of integration, despite some particularities in patterns of networking.

Internationalization of Korean Electronics Industry and Samsung Electronics

Since the early 1980s, the Korean electronic industry has been a pillar in Korean industrialization and technological development. In addition, it has been one of the main sources of exports and foreign direct investment, which makes this industry a flagship of Korean presence around the East Asian region and the world.

According to Castley (1998), the growth of Korean electronics industry "was not so much a national, but instead a regional, phenomenon, partly based on a triangular trade pattern that was largely masterminded by the Japanese" (p. 46). It is not surprising, therefore, that the development of such a complex industry was not only due to government policies (Amsden, 1989; Kim, 2013) or the individual efforts of Korean firms and strategic vision of *Chaebol*'s founders and heirs (Kim, 1998; Michell, 2010), but also to a significant contribution of the Japanese electronics industry. Korean firms gradually acquired their own skills to assimilate, learn and innovate (Kim, 1997). By the late 1980s, Korean electronics firms were able to grow in a sustained and relatively independent way, following processes of internationalization that replicated the patterns of expansion at home.

Several Korean electronics companies have undergone successful internationalization, but the trajectory of Samsung Electronics has become an archetype. The Samsung group was founded in 1938 and since the 1970s, it diversified its core businesses geographically and has expanded its global market share for 13 products, including semiconductors, TFT-LCDS, monitors, and CDMA mobile phones. Currently is one of the world's leaders in the electronics sector.

The 1997 financial crisis in Korea provoked profound changes in the property structure, greatly dispersing ownership. As of December 2015, the National Pension Service and Samsung Life Insurance hold the largest share of common stock (8.87 and 7.55 %, respectively), followed by Samsung Corporation with 4.06 % and Samsung Fire & Marine Insurance (1.26 %). The largest individual shareholder is Lee Kun-hee, the chairman of Samsung Group, with 3.38 % of common stock. Family members and Board of Directors and some group's subsidiaries and affiliates own 15.31 % of combined common and preferred stock. Foreigners (institutional investors, in particular) hold 53 % of total stocks (49 % and 75 % of common stocks and preferred stocks, respectively); domestic institutional and individual shareholders have 15 % and 3 % respectively.

The financial crisis had a significant impact on most large Korean corporations. Expansion to foreign markets, especially Asian markets, was a means to compensate for contraction in the US and European markets. Samsung Electronics augmented its foreign assets by increasing the number of foreign affiliates and their

size. As can be seen in table 5, foreign assets in the case of Samsung Electronics increased from 16.2% of the total investment in 2007 to almost 25% in 2009. In the same period the share of foreign sales increased from 80.8% in 2007 to 81.4% in 2008, and 83.3% in 2009, although total sales decreased from US $67.3 billion in 2007 to US $58.0 billion in 2008 and went up again to US $76.9 billion in 2009 (see table 6).

Samsung global presence included, by 2010, a total of 111 economic organizations around the world: 34 production subsidiaries, 49 sales subsidiaries, 21 distribution subsidiaries, 21 research laboratories and eight overseas business divisions distributed throughout the world. China concentrates 11 of the production facilities, 10 sales subsidiaries, 5 research labs, and 14 other facilities; and Southeast Asia accumulates a total of 7 production facilities, 7 sales subsidiaries, and 8 other facilities. Most of subsidiaries are 100% owned by Samsung Electronics.

Samsung China increased local supplies to almost US $20 billion in 2016, up from US $15.3 billion in 2008 and became the second-largest market and manufacturing base for Samsung. However, with about 4,600 suppliers, Samsung often faces challenges to upgrade its sourcing supply chain management and its relationship, particularly in strategic production areas, such as mobile handsets and big-screen TVs. Focused training programs are certainly a constant concern for expansion plans for Samsung and other Korean firms in China (Kang *et al.*, 2015).

To be able to increase the proportion of sales and improve its production network in the Southeast Asian markets, Samsung's had first to bypass trade barriers by building offshore production bases and gradually embedding their operations in regional supply chains. Vietnam has benefited from this strategy when Samsung expanded its global mobile phone supply chain with a production factory located in Yen Phong Industrial Zone, Bac Ninh Province, an investment amounting to US $670 million. In addition, this company relocated 17 suppliers from Korea, who also invested in this province to supply the Samsung plant with spare parts and services, bringing the total investment to nearly US $1 billion. Over 90% of production was exported and the rest serves the Vietnamese domestic market.

Internationalization of Korean automotive industry and Hyundai Motors Company (HMC)

An automobile is a very complex product made up of 15,000 to 30,000 parts. This means that the manufacturing entails a large number and variety of engineering expertise, suppliers and sub-assemblers, as well as multiple organizational structures to coordinate several tiers of suppliers from different nationalities, cultures, and geographical locations. Thus, producing an automobile requires a great deal

of coordination, collaboration and synchronization of services, data, purchasing/selling, design, management, and production and so on. Furthermore, the organizational structure not only involves production or conversion network, but also suppliers of raw materials and parts, as well as distribution networks to deliver the products (Hur *et al*., 2004). Some parts are standardized, thus suitable for modular production. Others adapt better to a vertical structure. Nevertheless, given the many different stages and levels involved, combinations of vertical and modular chains are often present in one firm's network and so is the case of HMC.

Considering such a complex process, it is understandable that companies in late developing countries start as assemblers of major automobile firms. Once know-how, quality, and even brands are developed, and domestic conditions change (labor market stringencies, salary hikes, and saturation of consumer market), a strategic decision to invest abroad in production facilities follow. When companies start overseas operations, they are more likely to keep a closed network in order to control the process. This was the case in the initial stages of automobile industrial development in East Asia, particularly in companies such as HMC in the 1970s and 1980s, so it brought its own web of subsidiaries and affiliates to its foreign ventures. Kia's network of suppliers joined after it was acquired by HMC in 1998 (Jung, 2007), becoming a sort of "friendly competitors".

Coordinating the automobile design and production with all the implications mentioned above is a complicated task, even if managing it is only focused on domestic supplier/production networks. But meeting the challenges of international competition required an extension of conglomerate practices and ownership control, at least at the beginning of the learning and network building processes, although approaches differ across companies (contrast HMC and Daewoo Motors; see Jeong, 2004; Lew, 1992).

And, as HMC reached higher technological levels, property issues become paramount in order to control some critical components, such as engines. Consequently, like Samsung Electronics, most HMC's foreign subsidiaries are 100% owned by the parent company (HMC, 2009). Meanwhile, the standardized, low-end low-technological content inputs are outsourced through more horizontal and relatively open networks. To a certain degree, technology flows from technological centers to production facilities, though the former are set up mostly for training and adaptation to local markets, rather than for R&D, which is operated in house or within strategic ventures. As a result, Korean production in China is heavily supplied with Korean-made imported components and auto parts supplied by HMC's subsidiaries in China, such as Hyundai Mobis, who happens to be the majority shareholder of HMC with 20.78% of common stock (CKP, 2004, p. 263).

Korean automotive firms and suppliers have more or less followed the Japanese pattern of network internationalization. However, despite similar trajectories, it has been hard for both to develop a cooperative relationship between firms and their respective networks (McNamara, 2009; Jung, 2007). Lee Young-seop, head of an association of Hyundai and Kia's suppliers, argued in 2010 that "global competition is rather a competition between networks of business and their contractors than individual business themselves." This vision of competition fits well with the concept of global-national networks that we are trying to develop here, at least in the case of production integration in East Asia, where the nationalist orientations of Korean business networks have a relevant presence.

HMC has become a major player both in East and Southeast Asia, managing increasingly dense production networks. This company has 17 affiliates in this region (close to 40% of all its affiliates), 9 of them in China, the majority in the Beijing area, two in Japan (including the only R&D center in Asia). As noted earlier, HMC has traditionally preferred wholly or majority owned investments in both local and overseas ventures. However, China has been an exception, among other reasons, because JVs with state firms greatly facilitate access to a growing consumer market. Thus, HMC has invested in two large Chinese firms, Beijing Hyundai Motor Co. (BHMC, now BAIC) which is a 50-50 JV with the state Beijing Automotive Industry Holding Co., and Hawtai partnership. However, the former is by far the most important, as it provides access to production and sales, mounting around 700,000 locally manufactured units sold in China.

BHMC/BAIC was the first JV automotive enterprise after China joined the WTO in 2001. The first comprehensive cooperation agreement between the two conglomerates was signed in April 2002 and in October BHMC was established. By January 2011, the imports from Hyundai-Kia in Korea combined with the BHMC production facilities hit 1 million sold automobiles, becoming the second largest auto seller in China, with 9% of market share. Currently, the joint venture has become one of the top five producers and sellers in China, and the facilities are owned and operated by BHMC/BAIC and the cars produced represent variations of well-known Korean models adapted for Chinese customers. Hyundai's Chinese plants aim for that market and by producing in a JV fashion, HMC is able to avoid trade barriers. In the plant site, Hyundai has established a technical center merely to adhere to local needs.

Similarly, HMC's cousin partner, Kia Motors, has since 2002, a 50% JV with another state owned Chinese automotive firm, Dongfeng Automotive Group (25%), and Jiangsu Yueda Holding (25%). HMC and Kia cooperate in a "friendly rivalry", which is very much alike in Korea, China, and United States production facilities.

A major challenge for all foreign assemblers and auto parts manufacturers, whether in JV or majority owned schemes, is the overarching aim of the Chinese industrial policy to promote and develop their own local auto industry (CKP, 2004, p. 262). This would mean not only to foster R&D and encourage in house technological progress, but also to review the components origin and the ways to increase local procurement in services and auto parts. This may curb or discourage the import of parts, making BHMC/BAIC a possible looser as it is one of the biggest importers of automotive parts.

Conclusions

Internalization is determined by the contribution of FDI by locating the foreign assets of multinationals and total foreign sales. It is built on national and regional networks that reproduce the experience of companies through intraregional trade, investment, and financing flows as well as national economic projects plus production in the regional network.

To discover the position of Korean companies in this process, the orientation of Japanese companies exposed in the theory of flying geese was followed. Korean investment patterns were observed in the region and two examples were specified, the electronics industry and the automobile industry, from which derived the business strategies that tested the conditions of companies for international insertion. As shown by the investment in R&D and research represented the main variables to generate added value that confirmed the base of preferences of Korean companies towards internationalization through national and regional production and supply chains.

Reason for which, the internationalization of Korean companies occurred as an extension of the structure of the *Chaebol* network that was managed as a centralized and vertical network guided from Korea, product of the type of property of the Korean company (Hamilton & Feenstra, 1998). Also, the international integration decisions based on the concentration of know-how allowed a sustained management that allowed, in 2022, the management of rapid execution and adaptation capacities reinforced with technological innovation. In addition, when the internationalization of the Korean electronics industry and Samsung Electronics was specified since 1980, its fundamental pillar was the exploitation of industrialization and technological development of Korea, which although "was not a national, [if it was] regional phenomenon, based on a triangular trade pattern that [was] largely devised by the Japanese."

This is why FDI involved trade, financial, and knowledge-intensive transactions between Korea and the Asia-Pacific region. Thus, incentives for internationalization

depended on relevant national factors to enhance and complement the set of competitive advantages created around the industrial base, but also the creation of general commercial enterprises that managed the international trade of conglomerates and SMEs independently and in the regional market (Yang, L. *et al.*, 2009; Jo, 1991). The so-called globalization policy (*segyehwa*) in the early and mid-1990s in South Korea represented an important component for the international insertion of Korean companies, since, from the domestic environment was extracted offshore promotion and expansion, which culminated in positive FDI flows in the region, which were eventually evidenced in millions of assets and foreign sales of more than twenty South Korean multinationals.

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