Going Multinational: The Korean Experience of Direct Investment
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CHAPTER NINE

Globalization and Korea's Development Trajectory: The Roles Of Domestic and Foreign Multinationals

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At the beginning of the 90s, Korean firms embarked on a wave of foreign direct investment. By contrast, at the end of the 90s, the tide of inward investment flows has been rising as outward investment has stagnated. During its 30-year dash from one of the world's poorest nations to one of its richest, Korea has been familiar with such changes in course linked to policy evolutions. In 1996, FDI to Korea was just above USD 3bn; in 1998 it reached nearly 9 bn and it has increased further by 70 per cent in 1999 to USD15.5 bn. Since 1998, acquisitions of *chaebol* businesses by foreign firms and joint ventures have been on the rise, including in high-tech and traditionally sensitive sectors. Philips of the Netherlands purchased half of LG Electronics flat-screen business for USD 1.6bn. Samsung has handed over its defense-related operations to the defense equipment Samsung-Thomson CSF joint venture, to which Thomson will transfer advanced manufacturing technology. The French defense electronics group will also handle global marketing. Another topical example is the USD 610 million capital increase by Microsoft, Qualcomm and Canada's Capital Communications CDPQ in Korea Telecom's KT Freetel as part of a strategic alliance with the personal communications service provider.

This book started out as an exploration of Korean ODI and the rapid expansion of indigenous multinationals in the 1990s. This last chapter builds on all the contributions of the book to interpret the recent turnaround in favor of a more open policy towards FDI. It draws on the conclusions of the various chapters with respect to the two major issues studied in the book. First, the analysis of the specific profile of the Korean multinationals shows that they had relatively weak competitive advantages and that they have been pushed to internationalize too rapidly by a mix of protectionist pressures and oligopolistic rivalry or, alternatively, by the need to source technology abroad. This goes a long way towards explaining that their ambitious international strategies were not sustainable.

Second, the interactions between firms' strategies and Korea's development strategy suggest that the rapid rise of the *chaebol* as multinationals resulted from their *national champion* status. As such, they have been protected from foreign competition and have internalized a large share of Korea's productive resources. Yet as the Korean economy became more sophisticated and global competition became tougher, the *chaebol* system became less efficient as an instrument of development. In this new context, the unbalanced Korean pattern of internationalization, including in particular restrictive policies vis-à-vis FDI, has been undermined. The last part of the chapter builds on these results to suggest that Korea's "selective nationalistic strategy" (Lall, 1996) actually amounted to an attempt to substitute ODI for FDI, especially to transfer knowledge and accumulate technological capabilities domestically. Consequently, the issue is to assess the scope for such a substitution and its possible contribution to the development process.

SUSTAINABLE STRATEGIES?

As multinationals, Korean firms feature quite a specific profile and do not mesh with the best known analytical frameworks. The observation of American firms after World War II has had a deep and long-lasting influence on theories of the multinational firm. In particular, one early insight into the determinants of multinationality has been the proposition that firms need to have own specific competitive advantages to venture abroad successfully (Hymer, 1976). In the 60s, it was mainly American firms which possessed such advantages, based on innovative and marketing capabilities.[1] European and Japanese competitors also gradually built up specific competitive strengths, and the idea that firms' *ownership advantages* stemmed from their home country environment could still be defended. Such advantages are more difficult to identify for latecomer MNEs[2], which typically do not belong to the world leaders. This issue is particularly relevant in the case of Korean MNEs, as this book has underscored the competitiveness and profitability problems which they have encountered in their international operations.

Determining the exact role that ownership advantages play in the expansion of multinational firms is a major area of debate among the different analytical frameworks of international business. This issue has become more complex both because international business has diversified far beyond industry leaders and because multinationals tend to grow and develop global strategies. Fundamentally, the complexification of the relationships between national comparative advantage, firms' ownership advantages and the direction of FDI is thus to be understood as a consequence of the dynamics of international production.[3] In this context, one development is of greater importance for discussing the Korean case, i.e. the dilution of the very notion of *ownership advantage* - from a strong version as a competitive advantage of multinationals over firms in the host country to a weaker version, implying some competitive advantage on specific segments of international markets.[4]

Competitive and monopolistic advantages of Korean multinationals

Early conceptualizations of ownership advantages proposed two different interpretations of this central notion. The *efficient* version considered them as resulting from successful investment in innovation or brand assets. According to this interpretation, foreign investment stemmed from firms' competitive strengths. The *monopolistic* version on the contrary viewed ownership advantage as another name for barriers to entry and foreign investment as the result of the international extension of oligopolistic rivalry. The empirical results of this book suggest, quite unexpectedly, that the monopolistic interpretation may be quite relevant for Korean multinationals, even more so than the efficient interpretation in a number of cases.

The monopolistic reading has lost its appeal as the expansion of MNEs and globalization have increased competition across the board and exposed many national monopolies and oligopolies to stronger competition (Cantwell, 2000). In such a context of pervasive international competition, multinationalization is neither necessary nor sufficient to undermine domestic oligopolistic rivalry. Moreover, multinational firms find strong competitors and often other MNEs on the foreign markets where they invest. As explained in this book, Korea actually entered globalization in an unbalanced way, with very dynamic exports and then outward direct investment, but with strong protection against imports and inward investment up until the late 90s. This protected domestic market and the concentrated market structure have constituted a favorable context for the development of strong oligopolistic rivalry among the *chaebol*. In turn, this rivalry has spilled over the international strategies of the *chaebol*, as argued in chapters 3 and 5. *Chaebol* considered foreign investment as one way to boost sales and increase scale, but also as one strategy to beat each other by becoming multinational companies. International expansion could in particular strengthen a brand name or provide better access to technological resources.[5]

The role of an efficient version of ownership advantage is more difficult to identify in the case of Korean MNEs. Korean firms are latecomers which are typically weak competitors vis-à-vis American or European firms on their own turf, i.e. capital-intensive and knowledge-intensive sectors, especially high-tech activities. On the contrary, they have built strong competitive positions in labor-intensive sectors and a few capital-intensive ones. In the latter case, they tend however to concentrate at the standardized end, such as steel, DRAM for semiconductors or low-end products in automobile or consumer electronics.[6] This type of product is typically difficult to produce efficiently in industrialized high-income, high-wage countries.

The *chaebol* structure may be considered as a major source of competitive strength. Indeed, the *chaebol* have benefited from low-cost funding which has enabled them to diversify and venture abroad.[7] Moreover, as conglomerates, they have been able to take advantage of synergies in their internationalization strategies, both between different businesses and at the corporate level, for distribution and marketing purposes in particular (chapter 3). However, these advantages give them a competitive edge mainly over other Korean firms, not necessarily over foreign competitors such as local firms in North America and Europe. Moreover, the *chaebol* have not specifically developed efficient management techniques, as was the case with Japanese firms before their internationalization drive in the 1980s. On the contrary, the Korean management model appears rather ill-suited to contemporary best practices.[8] Chapter 4 cites a number of examples of acquisitions in the United States which failed, at least in part, due to cultural and managerial problems.

Since Korean firms enjoyed only weak ownership advantages on American and European markets, the explanation for their large investments in these markets lies elsewhere. In this connection, protectionism has constituted a major pressure to invest in North America and Europe. Chapters 3 and 5 examine the trade restrictions which Korean firms have faced on these markets[9] and determine their influence on their decision to invest locally. These trade barrier-jumping investments have been concentrated in major Korean export sectors, more particularly in electronics.

These investments would therefore seem *prima facie* to fit into the received theoretical frameworks: Korean firms have invested in sectors where they enjoyed a competitive advantage which they could not exploit through exports because of protectionism. Moreover, the empirical investigation in chapter 4 suggests that Korean firms aim at internalizing the exploitation of their ownership advantages, an approach which fits the usual transaction cost or organizational arguments. Indeed, they tend to establish majority-owned American production units when they manufacture products for which Korea has a comparative advantage, such as in clothing, consumer electronics and some electronic components. This tendency can also be seen with European operations, which are very concentrated in consumer electronics.

The case of the automobile industry explored in chapter 6 casts some doubt on this neat match between Korean MNEs' behavior and theoretical frameworks. First, the one major case of foreign investment by a Korean carmaker on a leading market was a failure; Hyundai closed its Canadian assembly plant just a few years after this risky strategic move based on export success and fears of mounting protectionist pressures. Second, during the 1990s, Korean carmakers have generally sought to maximize their exports of components and parts to their foreign assembly units. This can be interpreted as a strategy to have foreign production generate as many exports as possible, or, rather, to be as similar to exports as possible. This perspective reinforces the above argument about constrained foreign investment as it suggests that Korean firms' *competitive advantages* were still deeply rooted in Korea's *comparative advantage* and depended on the domestic economic and institutional context. Large Korean firms have indeed built up specific competitive advantages step by step, but such advantages are still quite fragile on international markets. In any event, they are much weaker than the ownership advantages referred to in most of the literature on multinationals, particularly those from the Triad.[10]

This conclusion fits the automobile sector like a glove but is less well-suited to the electronics sector, which features less recent internationalization and higher local content (even though precise figures are not available). Investment in developed countries has been a defensive response to protectionism in consumer electronics, as shown in chapter 5.[11] Moreover, Korean and Japanese producers are still not in the same league as far as a number of electronics markets are concerned.

Strategic gaps as forces of multinationalization

Korean firms have partially used foreign investment as part of their catching-up strategy. Korean firms have resorted to acquisitions, minority shareholdings and joint ventures in the US to access sophisticated R&D resources. These investments are to be interpreted along with the establishment of R&D laboratories in high-tech clusters which enable Korean firms to tap frontier scientific and technological resources and to work with Korean-American graduates. They are but a single component of the technological learning strategies of Korean firms, which have also included various forms of technological cooperation along with more traditional licensing agreements.

Korean firms have resorted to acquisitions and majority shareholdings to take control of broader resources, including both technological and marketing assets. Chapter 7 explains how Samsung Aerospace has integrated both types of assets from the German firm Rollei which it acquired as part of its diversification strategy.[12] On the contrary, chapter 4 concludes that acquisition is ill-suited when the major motivation is access to technological resources. It further suggests that Korean firms cannot use foreign acquisitions to diversify into activities with which they are not familiar and/or to engage in overly ambitious technological leapfrogging. A number of examples indeed show that in situations characterized by a very large gap between internal and external competences, Korean groups have found themselves facing serious organizational and management problems.

Korean firms have seized the opportunities opened up by globalization, just as they previously seized the opportunities offered by internationalization using export-driven strategies. In the context of globalization, they have been able to rely on more sophisticated technology transfer channels, including direct investment in the most relevant high-tech clusters. Accordingly, they have embarked on a series of strategic asset-seeking ODI moves.

As mentioned in different chapters, Korean ODI has thus been both market-seeking and strategic asset-seeking.[13] Actually, the Korean experience (coming after that of European and Japanese firms) suggests that the theory of the multinational enterprise should now consider these two motivations in a more balanced way. Granted, asset-seeking is mentioned regularly, but its growing importance has not yet led to an overall reconsideration of the theoretical frameworks, which still tend to "think" as though market-seeking based on ownership advantage was the motivation leading firms to embark on international production.[14] Notwithstanding, this remark is less relevant for macroeconomic developmental frameworks.

When both types of motivations are considered, one major conclusion emerges from the analysis of Korean groups going multinational. They have followed bold internationalization strategies, which were not entirely sustainable given their competences or ownership advantage. In market-seeking or export-preserving cases, a combination of protectionist threats and oligopolistic rivalry has pushed Korean groups to venture onto risky markets. As a result, in a number of cases, they have gone abroad prematurely insofar as Korean groups had not built up strong enough advantages to cope with the intense competition on leading markets.[15] The failure of Hyundai's first foreign car plant which was opened in Canada in 1989 and closed in 1993 is a case in point. More generally, Korean operations in Europe and the United States have posted very low profits (chapter 3).

Asset-seeking ODI may seem more adequate as it aims at building up stronger competitive advantages. In some cases, this approach has been quite successful. Yet here as well, Korean groups have tended to be overambitious, attempting to diversify and upgrade simultaneously. Besides, they have acquired relatively large American high-tech businesses which in reality were falling stars and which they just could not manage. Albeit more modest, the longer route of minority shareholding and alliances which is suggested in chapter 4 is less risky and costly.

To sum up, Korean firms have embarked on ambitious internationalization strategies relying on weak or unsustainable ownership advantages in unprotected and highly competitive environments. As suggested by the discussion of the "can do" spirit of the *chaebol* and the role of their oligopolistic rivalry, these risky strategies are due in part to the idiosyncratic Korean context. Actually, the only way to arrive at a full understanding of firms' internationalization strategies is to examine the gradual build-up of their competences as Korea's development path has unfolded.

The Korean Model and Globalization

From the 1960s to the 1990s, the Korean development strategy has relied on an intimate relationship between the State and family-controlled diversified business groups. Accordingly, the *chaebol* have been nurtured as Korea's national champions. The State has largely relied on their entrepreneurial drive to achieve its goals in terms of industrial upgrading and export performance while providing the *chaebol* with low-cost financing. In this context of State entrepreneurial capitalism (Amsden 1989, 1997), internationalization is biased towards exports and against imports and towards ODI and against FDI.[16] Basically, exports are seen as a growth strategy, as they enable firms to reap economies of scale beyond the domestic market. The analysis of the development trajectory of the Korean automobile industry in chapter 6 emphasizes this absolute drive for export markets. It also underscores the restricted role given to FDI as a technology transfer channel which had to be used with great caution. Beyond the specific strategies adopted in each sector, the fundamental objective was to develop national champions which would internalize as many skills as possible and gain as large a market share as possible. These groups were viewed as crucial agents of the national development strategy, as they were instrumental in industrial and technological deepening.[17]

The rationale of the "Korean model" of development implies severe restrictions on FDI, combined with "*aggressive insistence upon licensing and other technology-sharing arrangements that leave control of firms in national hands*" (Moran, 1998). The detailed examination of Korean FDI regulations in chapter 2 confirms this general characterization.[18] In its analysis of technology sourcing strategies in the automobile industry, chapter 6 also emphasizes the efforts the Korean carmakers have to remain as independent from their foreign partners as possible. Beyond these confirmations, this book makes two contributions to the issue of the relationships between development and MNEs. First, it studies the dynamic interactions between the development process, firms' international strategies and regulations vis-à-vis both inward and outward direct investment. Second, these different perspectives are used to discuss the tricky issue of national ownership.

Multinationalization as a restructuring strategy

Korean firms have delocalized labor-intensive manufacturing operations in Asia while siting research-intensive operations in advanced countries. As a result, resource-seeking ODI can be interpreted as part of the industrial upgrading of the Korean economy since the 1980s and should therefore be included in a dynamic model of learning and changing comparative advantage.

Macroeconomic developmental approaches relate international direct investment flows to the development stage of the countries involved. They are predicated on the notion that countries are ranked hierarchically according to stages of economic development. Yet they do not necessarily consider a truly dynamic framework where national resources and policies interact with inward and outward flows.[19] Chapter 2 emphasizes the role of government policies in explaining the specific shape of Korea's investment development path (IDP) and in particular the persistently low level of inward investment flows. It also observes that inward and outward direct investment has not only reacted to the evolution of Korea as it has climbed the development ladder, but that these international flows have also been used to speed up this evolution. More generally, the book confirms previous cross-country studies suggesting that outward direct investment flows have been used by firms from emerging countries to adapt to changing factor costs and skill requirements (Tolentino, 1993; Hoesel, 1999).

Working from this developmental perspective, Terutomo Ozawa (1992, 1996) has designed a "*dynamic paradigm of development facilitated by transnational companies*" which is quite relevant to the Korean case.[20] A major contribution of this approach is the introduction of the notion of "*factor incongruity*", defined as the incompatibility that appears between the factor endowment of a country and the factor intensity of the new goods it produces as it climbs the development ladder. The steady accumulation of physical and human capital typically generates a sequential pattern of dynamic comparative advantage which ensures that the factor requirements of production and the domestic availability of the latter are compatible. However, factor incongruities may occur in transition periods from one development stage to another[21] and constitute an incentive to invest abroad. In particular, as the comparative advantage in labor-intensive products wanes, the domestic firms which do not manage to move up-market feel compelled to shift part of their operations to other developing countries where they can find a supply of low-wage labor. Simultaneously, catching-up strategies create a reverse factor incongruity and generate ODI aimed at sourcing technology and marketing skills which have not yet been developed from more advanced countries. The symmetry of this presentation may be misleading because one factor incongruity is the result of the development process while the other is prospective, stemming from firms' catching-up strategies.

Ozawa's stage approach is framed as an extension of the outward-looking export-oriented development path. In particular, the stage-by-stage upscaling of the industrial structure involves both inward and outward investment. In Korea, however, inward investment has been strictly restricted and only permitted as part of State-monitored technology transfer schemes. This is due to the fact that the Korean model has actually been a hybrid of the export-oriented and import-substituting ones; in particular, it has nurtured export-driven national champions. In the automobile industry (chapter 6) and in the case of Samsung's diversification into the camera business (chapter 7), export-led growth strategies constituted a strong ODI push factor to reap yet larger scale economies. Similarly, ambitious technological catching-up strategies have constituted another compelling motivation behind some of the most costly and risky investments in leading countries (chapter 4). These strategies have been remarkable up to a point, beyond which they have overstretched the model.

Breathtaking globalization strategies by the *chaebol* have been one underlying cause of the recent crisis.[22] The immediate cause of the crisis was financial. However, the unsustainable indebtedness of the *chaebol* was actually rooted in their overambitious growth strategies. The latter resulted in over-investment across the board, in both Korea and abroad, and in both equipment and R&D. Moreover, in a number of cases, investments were particularly risky. In reference to Ozawa's stage development model, the Korean situation in the 1990s may be characterized as one of unsustainable factor incongruity. Korean groups have tried to accelerate the transition to the innovation-intensive stage of development[23] by sourcing cutting-edge technology from abroad. As this strategy has been used to leapfrog to the frontier, it has come up against three major limits. Two are internal to firms and have already been mentioned. The first is the constraint of technological absorption discussed in chapter 4; the second is related to Korean management and work practices, which have been overstretched by the organizational changes required by industrial and technological upgrading (Pluchart, 1999). The third limit is related to the absorptive capacity of the Korean economy more generally, pertaining to both technological sophistication and the weakness of the industrial fabric around the main groups.

Thus, the firm-level analysis developed at the beginning of this conclusive chapter fits neatly into the stage approach. Indeed, *factor incongruity* may be considered as a macro equivalent of the micro notion of *strategic gap*. From both perspectives, absorptive capacity has proved to constitute a major obstacle to ambitious leapfrogging strategies. This issue is related to the insufficient sophistication of the Korean innovation system and, ultimately, to the role of the *chaebol* as the main instruments of technological accumulation.

Does national ownership matter?

The magnitude of Korea's outward investments as well as the aggressive strategies pursued to minimize its dependence on OEM[24] are embedded in the Korean model of development. Chapter 2 emphasizes the role of restrictive FDI policies in altering the shape of Korean investment development path and suggests that the more general economic environment has also played a role, in particular the very existence of the *chaebol*. The above attempt to relate the micro and macro dynamic approaches actually shows that these two aspects of Korean policy have been highly interdependent, as the restrictive FDI policies actually aimed at fostering the emergence of strong national competitors. Restrictive FDI policies have two types of effects. First of all, they protect domestic firms from foreign competition, acting as an equivalent of infant industry trade protection. Second, they are used to impose more favorable technology transfer terms on foreign firms. The fundamental objective is to maximize the internalization of technological assets and know-how by national champions, technological accumulation being focused on those firms.

The business group structure is actually quite typical of emerging economies where conglomerates are instrumental in offsetting a number of "institutional voids" which result in higher transaction costs (Khanna, Palepu, 1997,1999). The conglomerate structure tends to internalize missing soft infrastructures, such as financial market infrastructures which reduce asymmetric information problems in developed market economies. More generally, diversified business groups serve as proxy to market institutions such as investment banks or venture capital firms but also business schools, as they provide internal training and promotion.[25] Diversified business groups have however been proportionately larger in Korea than in other emerging economies.[26] Moreover, in the context of rapidly growing internationalization of the Korean economy in the 1990s, the capacity of the *chaebol* to internalize new ventures and more sophisticated technology transfers has been overstretched. From this perspective, the careful examination of the ambitious international strategies of the *chaebol*s contained in this book suggests that these ventures have tested the Korean model to its limits. We may focus on the internalization of technological assets since this aspect is studied in the book (chapters 4, 6, 7) and debated by Alice Amsden, Byungki Ha, Bruce Kogut and Lynn Mytelka in chapter 8.

The *chaebol*s have entered the DRAM business by mobilizing their experience and financial resources gained from other businesses. Their financial resources and their strong manufacturing capabilities have been their major assets. Building on these specific competences, the *chaebol* have embarked on technological catching-up strategies, which have ultimately included foreign direct investment. The *chaebol* have thus internalized a number of institutions which may have been externalized in another context, such as venture capital and research capabilities.[27] Chapter 4 argues that, as the Korean groups have come closer to the technological frontier, they have felt a need to internalize foreign assets the value of which depended on their foreign location. This in turn explains their technology sourcing international ventures. Accordingly, there is a logical evolution from internalization within the *chaebol* in Korea to their internationalization.[28] This internalization dynamic is interwoven with the Korean model which required increasing market share and expeditious learning by the *chaebol*. Foreign technology sourcing through ODI was the most advanced internalization attempt of the *chaebol* and also a highly risky one.

In summary, the multinationalization drive of the *chaebol* constitutes the flip side of the restrictions on FDI; both are consistent with the Korean model of development relying on a group of rival national champions. Consequently, mounting criticism of excessive internalization and inadequate governance in the aftermath of the Asian crisis has had a rather radical impact on FDI policy.[29] The outcome will be the emergence of a more balanced pattern, with FDI playing a more important role. Such an evolution had been advocated earlier, especially in view of enhancing technology transfer (Sakong, 1993). In order for this more balanced approach to effectively contribute to technological upgrading, however, complementary evolutions are required.

More inward direct investment means that the *chaebol* will face stiffer competition on their home market and will also internalize less of the Korean technological capability. Does this represent a threat for Korean development and in particular for the pursuit of technological upgrading? Alice Amsden develops this argument in her comments (chapter 8). Actually, more technology transfer flowing into Korea but outside the *chaebol* would be congruent with the necessary evolution of the national system of innovation. Indeed, the latter would be stronger if technological capabilities were more widely distributed among companies and institutions. This depends on stronger basic research capabilities (Branscomb and Choi, 1996; Kim, 1997), but also on a more competitive environment, including both foreign competitors and healthy smaller firms. Such an environment would be more favorable to various innovative ventures.[30] In turn, the emergence of a more diversified set of competitors depends on the evolution of different market institutions, including in particular financial markets. Indeed, one major lesson to be learnt from comparative analysis of national systems of innovation is their close interaction with a whole set of institutions, including education and financial circuitry.[31]

Close relationships between the State and the *chaebol* have generated a specifically high value for the national ownership of firms in Korea. There has been a dynamic reinforcement between the internalization of ever greater resources by the *chaebol* and their status of national champions. However, their skyrocketing indebtedness during the 1990s[32] and their low profitability gradually called into question the legitimacy of their preferential access to scarce domestic resources. Fundamentally, and beyond the issue of cronyism, the legitimacy of the relationship has been undermined both by globalization and by the very development of the Korean economy. Indeed, fewer restrictions on the participation of foreign firms and financial institutions should go hand in hand with the establishment of a more transparent business environment in Korea. The diversification and sophistication of the Korean economy will induce a reduction in transaction costs and thus gradually weaken the rationale underlying the existence of the *chaebol* system, thereby downplaying the issue of national ownership.

Policy implications

Various assessments of the respective roles of national and foreign firms show that the latter are indeed channels for technology transfer and dissemination of best practices, but that the benefits of their presence are enhanced by the quality of the local environment, including soft infrastructure, the importance of which has been emphasized above.[33] Historical experience during the post-World War II period for example shows that American multinationals have been a modernizing factor in Europe. However, sectoral studies suggest that they have stimulated R&D investment in fields of local specialization, such as pharmaceuticals in the UK (Cantwell, 1987). In the context of globalization and innovation-driven growth, international technology sourcing is a common practice, including by leading companies, as emphasized by John Cantwell in chapter 8. However, this strategy is all the more efficient for both firms and their home country when they are able to take full advantage of the acquired knowledge, which brings us back to the national innovation system. Indeed, with respect to technological upgrading, the objective should be to increase the positive feedbacks between domestic investment aimed at increasing the absorption capacity and transfers from foreign firms.[34]

The above discussion of the idiosyncratic Korean environment and the issue of national ownership of firms suggest that policy implications depend on the assessment of the interactions between the transfer of ownership advantages by MNEs and the internalization of such advantages by national business groups. Bruce Kogut remarks in chapter 8 that we actually know rather little about the degree of substitutability between foreign and domestic capital. This may indeed be an area for further research. He nevertheless discusses this issue in the case of Korea and suggests that the rapid internationalization of Korean firms has been a costly substitute for knowledge transfer through FDI in a number of cases.

As the Korean economy diversifies and its technological capability deepens, concentration of assets within the *chaebol*s has become less relevant as a development strategy. Actually, in a number of instances, inefficiency has resulted from *overinternalization* and it seems logical that reforming the "Korean model" should include both restructuring of *chaebols*'businesses and more open access for FDI. Greater penetration by foreign competitors and the pursuit of national development should not be incompatible insofar as Korea continues to reinforce its market institutions.[35]

As suggested by Pierre Jacquet in chapter 8, the 1997 crisis may be interpreted as the price Korea has had to pay for exceptionally rapid growth. Bruce Kogut rightly underscores that sustainable development includes institution-building, which Korea's breathtaking growth permitted only to a limited extent. Business groups may have been useful in compensating for "institutional voids" as argued above. The underlying financial structure and governance system have however become obsolete. In this context, Randall Jones considers that one of FDI's major benefits for Korea is to increase domestic competition and help foster more adequate market institutions. [36] These remarks suggest that the research agenda on the interactions between multinationals and development processes should be rethought to include a better understanding of the role of institutions and governance structures.

NOTES

1. Vernon (1966) is a major historical reference. European firms did not possess the same types of ownership advantages in the 70s (Lall and Siddhartan, 1982).
2. Or more precisely "Late Industrializing Economy Multinational Enterprise", to use Hoesel's (1999) vocabulary.
3. As opposed to the analyses of the 60s and 70s, which explored mainly isolated decisions to go abroad in a context where multinationals were both less numerous and less developed.
4. For a detailed discussion of this issue, see the review of the literature by John Cantwell (2000). He also mentions this issue in his comment on Korean firms' cacacity for innovation (chapter 8).
5. This strategic asset-seeking motivation has been documented in different chapters (see below), but was related to the Korean market structure and rivalry between the *chaebol* primarily in chapters 3, 5 and 6.
6. For market shares by type of product in electronics, see chapter 5 and (Hoesel, 1999).
7. During the 1970s, low-cost loans were funneled to the *chaebols*, but from the 1980s, their access to credit was made more difficult. However their sheer size and internationalization resulted in better access to credit than other Korean firms (I am grateful to Randall Jones for these precisions).
8. The Korean management style still relies strongly on hierarchy and paternalism, which may explain the difficulties in introducing a number of quality-improving methods; see (Ungson et al., 1997; Pluchart, 1999).
9. Mostly anti-dumping measures.
10. Tolentino (1993) has argued that Third World multinationals have developed specific ownership advantages. Cantwell (2000) considers that there is a continuum of ownership advantages and that all firms possess some. This is compatible with the

position taken here, since he does note that firms with the weakest ownership advantages "*hold their position more easily in domestic markets than in international markets*".

11. See also the results of a detailed survey in Shin (1998).
12. And to break with its previous OEM strategy. This move is very costly, in particular because it implies to build up commercial assets (Hoesel, 1999; Hobday 2000).
13. Natural resource-seeking Korean ODI was relatively significant before the 80s (chapter 2).
14. A more balanced perspective could be arrived at by taking the joint development of firms' competences and strategies as a starting-point. The theory of the MNE would be much more closely integrated into the theory of the firm and the assumption of ownership advantage would not be necessary (Sachwald, 1998). In chapter 8, John Cantwell and René Belderbos also suggest to focus on firms' strategies for the development of the theory of the MNE.
15. Taking a slightly different perspective, C. Lee and K. Lee (1992) have also considered that ODI prompted by protectionism was premature, resulting in lower employment in Korea. As production costs were higher in the U.S, investment in consumer electronics was a defensive move in reaction to protectionist pressures.
16. ODI was also not encouraged until the 1980s, as explained in chapter 2.
17. Hence the very notion of national champions as an industrial policy instrument. The term was originally coined to describe the French experience, where *national champions* were less exposed to domestic rivalry than in Korea. However, the idea to nurture domestic firms which would serve national development objectives is similar. So is the progressive disappointment of the State as these firms gain strategic independence and internationalize.
18. Which is actually based on both the Korean and the Japanese experiences (Ozawa,1996; Moran 1998). Pierre Jacquet shows in chapter 8 that this policy stance results in low openness as measured by the sum of inward and outward direct investment.
19. For discussions of the product cycle model and the investment development path framework, see in particular (Ozawa, 1992; Tolentino, 1993; Narula, 1996; Cantwell, 1999; Hoesel, 1999).
20. Even if it was originally based on the observation of Japan
21. T. Ozawa (1992) distinguishes between three main stages of development: factor-driven, investment-driven and innovation-driven. A complementary stage approach is used in chapter 4 (figure 1), focusing on knowledge accumulation.
22. What follows is only a partial explanation in relation with the argument developed in this conclusion; for more comprehensive perspectives, see chapter 2 and OCDE (1998) and Pluchart (1999).
23. Using Ozawa's terminology (1996). Several dynamic stylizations could be referred to, such as the one in figure 1, chapter 4.
24. On Original Equipment Manufacture and technological dependence, see chapter 4, 6 and 7.
25. This argument may be related to Chandler's (1990) analysis of firms building organizational capabilities which may generate economies of scope.
26. Besides the discussion of the *chaebols* in chapter 3, see (Amsden, 1997; OCDE, 1998).
27. S-M. Chang (1999) argues this point after a detailed comparison of technological catching up in semiconductors in Korea and Taiwan.
28. As mentioned above this part focuses on technological sourcing and does not deal with all the motivations for Korean ODI which have been considered in the first part of the chapter.

29. FDI policy evolution is detailed in chapter 2 and discussed by Randall Jones in chapter 8.
30. Referring to S-M. Chung's (1999) typology, these evolutions would increase the *combinative* and *selection* capabilities of the Korean system, as opposed to its well developed *absorptive* and *implementation* capabilities.
31. See for example (Nelson, 1993; Dosi et al., 1994). This interaction of the system of innovation appears clearly in debates on its reform, as illustrated in various European countries since the 1980s; see for example (Boyer, Didier, 1998; Fagerberg et al., 1999).
32. The debt ratio of the largest Korean groups has risen rapidly during the 90s (OCDE, 1999), precisely when they intensified their internationalization (especially after 1994).
33. In particular, human capital accumulation tends to enhance the impact of inward direct investment on growth in developing countries (Borensztein et al., 1995).
34. This conclusion corresponds to the results of other studies on multinationals in developing countries (Tolentino, 1993; Borensztein et al., 1995; Moran, 1999).
35. On the evolutions since the 1997 crisis, see (OCDE, 1998, 1999; Pluchart, 1999).
36. A similar argument has been developed for the 1960's wave of American FDI in Europe ; see Cantwell (1989) for example.

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