

Entries and Exits: Case Studies of the Foreign Direct Investment of Korean Consumer Electronics Chaebols in the European Union

유럽연합(EU)내 한국 가전 대기업들의 진입과 퇴출

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Abstract

The aim of this paper is to explore the processes of three Korean consumer electronics chaebols' entries into, and exits from the EU in the context of European integration and enlargement and at the global, regional(EU), national and local level. Korean FDI in the EU has increased sharply since the late 1980s, while interacting with the processes of European integration and enlargement. In particular, the chaebols' FDI was caused by reactions against the intensification of Euro-trade regulations. As a result, these defensive entries have led such chaebols to create a strategy of 'defensive Europeanisation' through the formation of forward and backward linkages between chaebols' affiliates and Korean suppliers within the EU. Nonetheless, defensive FDI has given rise to exits through active relocation within and outside the EU since the 'late 1980s' due in the main to (1) sensitive reactions against changing EU trade regulations and (2) failures to maintain cost-competitiveness in particular host regions. Along with these trends, chaebols' entries and exits are placed in contingent and paradoxical structures of the global-regional-national-local nexus, which has resulted from the mismatch of different EU policies such as trade, industry, inward investment and regional policies.

Key Words: Korean foreign direct investment, EU trade regulations, entry, exit, defensive Europeanisation.

1. Introduction

Korean foreign direct investment (FDI) in the European Union (EU)¹⁾ has increased dramatically since the late 1980s while interacting with the processes of European integration and enlargement. However, since the late 1990s

further investment has been delayed, and in many cases there has been temporary or complete disinvestment due to the Korean financial crisis after 1997 (Financial Times, December 19 1997, January 7 1998 and January 9 1999). Although the crisis impacted more critically on active relocations than before, the locational and relocational

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processes of Korean firms in the EU (especially, those based upon the consumer electronics industry) have been gradually revealed since the initial stages of investment in the late 1980s. This locational instability results from the structural limitations of Korean firms' entries into the EU, which could be characterised as 'defensive FDI.' What defensive FDI means is that firms' entries are considerably sensitive to changing EU trade regulations and that the firms are heavily dependent upon cost-competitiveness on the European market. As a result, the defensive entries of Korean firms determined the size of the firm and gave rise to sectoral and regional unevenness of investment across the EU.

In terms of the size of firms, in 1995 chaebols shared around 81.5 per cent of Korean manufacturing FDI in the EU. With regard to sectoral and regional distribution, Korean manufacturing FDI was focused to a considerable extent upon the electronics industry (especially, the consumer electronics industry) which had a share of 68.6 per cent in amount in 1995, and in which chaebols mainly invested. Regionally, chaebols' FDI was concentrated on EU objective 1 or 2 regions (Jung, 2000)²⁾. This identification of entries of Korean FDI has influenced the types of exits since the initial stage of the investment. These have been mainly caused by changing EU trade regulations and mismatching economic performance of Korean firms and host regions in maintaining cost-competitiveness.

The main aim of this paper is to explore the processes of three Korean chaebols' entries into, and exits from the EU in the broad context of European integration and enlargement and at the global, regional (EU), national and local level. In addition, it also examines how such different

geographical scales are paradoxically intertwined, surrounding the entries and exits of Korean chaebols. To do this, it has focused upon the activities of three Korean consumer electronics chaebols, namely Samsung, Lucky Goldstar (LG) and Daewoo, which have an considerably high share of Korean FDI in the EU. The paper is divided into three main sections. Firstly, the macro trends of Korean FDI in the EU and the rest of Europe are presented in terms of periodical characteristics. Secondly, the sequential processes of the three chaebols' entries since the late 1980s are considered both quantitatively and qualitatively. Finally, while putting the processes of three chaebols' exits into the global, regional, national and local context, the processes are explored on the basis of documentary work and interviews with three chaebols.

2. Periodisation of Korean FDI in the EU and the Rest of Europe

Outflows and inflows of European FDI have increased gradually since the late 1960s (Dent, 1997). In particular, inflows of its FDI have increased sharply since the mid 1980s (Thomsen and Woolcock, 1993; UN, 1996). Within the European context, the massive influx of inward investment is closely related to the deepening and widening processes of European integration and enlargement. In terms of Korean FDI in the EU and the rest of Europe, there are four main driving forces, which have interconnectedly influenced its FDI since the late 1980s: (1) the intensification of extra-EU trade regulations. Since 1958 the formation and then intensification of a regional trading bloc have led to the attraction of global non-

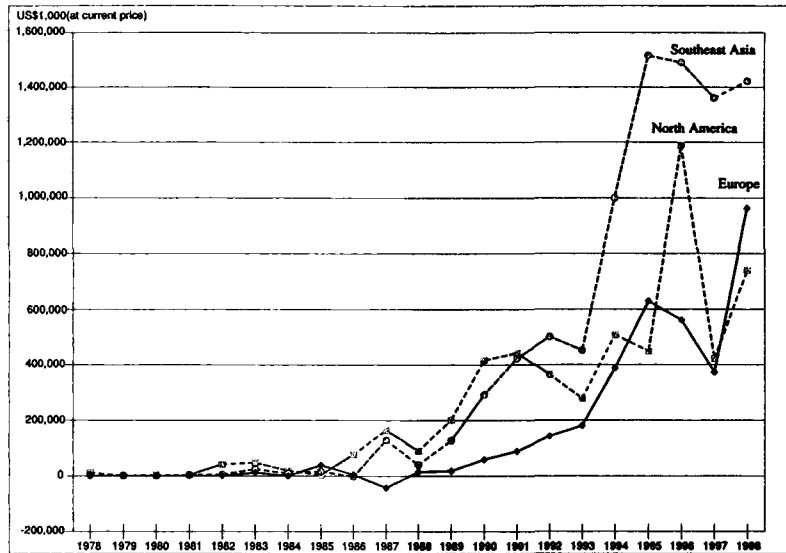


Figure 1. Trends of Net Flow of Korean FDI in Europe, Southeast Asia and North America

source: The Bank of Korea, 1997; The Korea Federation of Banks, 1998-1999.

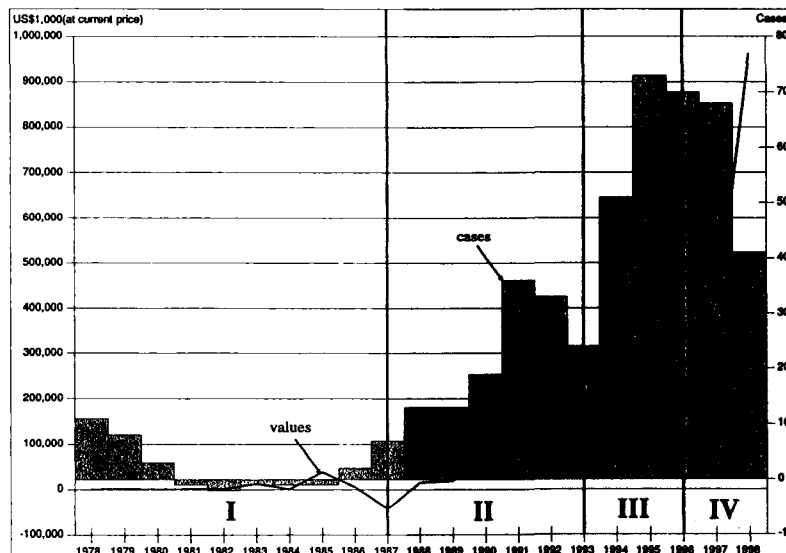


Figure 2. Periodisation of Net Flow of Korean FDI in Europe

Note: I - Market-seeking investment based upon export commodities, II - Defensive investment due to the EU trade regionalism focused upon manufacturing, III - Offensive-expansionist investment projects in the EU (with defensivity) and CEE, IV - Floating investment due in part to the Korean financial crisis

source: see Figure 1.

European capital, including US investment in the 1960s, Japanese investment in the early 1980s and in their turn, Korean and other East Asian investment in the late 1980s (Dent, 1997; Jung, 1999a; Phelps, 1997; Yannopoulos, 1989); (2) the impacts of the Single European Market (SEM) on cross-border investment across the EU, as well as on non-European investments. This type of investment was geared into deregulation, privatisation and market liberalisation since the mid 1980s (Dunning, 1993); (3) the collapse of former socialist Eastern European countries and subsequently, their transition and transformation into market economies through privatisation and the attraction of FDI as a new regulatory fix, along with the prospect of some of them joining the EU around the millennium (Dent, 1997; Smith 1997); (4) the attraction of FDI as a fix for long-term recession and unemployment in EU host regions, which started in the mid and late 1970s (Alden, 1999; Dunford, 1994; Dunford and Perrons, 1994; Hudson, 1998).

These forces have influenced temporally and spatially the nature and direction of Korean inward investment in the EU and the rest of Europe, and have acted as the main pull and push factors.

Europe was the third continent in terms of Korean FDI overseas on the basis of number and amount in 1998. With respect to its FDI in Europe, since the late 1980s the amount of its net flow has increased sharply and then fast caught up with that in Southeast Asia and North America, while overtaking that in North America in 1995 and 1998 (Figure 1). In 1996 and 1997 its investment in Europe decreased because of the Korean economic recession, as did its investment in Southeast Asia and North America.

However, in 1998 investment increased dramatically, even though the Korean economy was in severe recession due to the Korean financial crisis. Along with these fluctuating trends and tendencies, characteristics of its FDI in the EU and other European countries can be periodically divided into four main stages on the basis of net flow since the late 1970s (Figure 2); (1) *market-seeking investment based upon export commodities, 1978-1987*, (2) *defensive investment due to EU trade regionalism focused upon manufacturing, 1988-1993*, (3) *offensive-expansionist investment 'projects' in the EU (with defensiveness) and Central and Eastern Europe (CEE), 1994-1996*, and (4) *more vigorous floating investment due in part to the Korean financial crisis after 1997*.

Firstly, as the first stage of Korean FDI in Europe, the period between 1978 and 1987 could be characterised as 'market-seeking investment based upon export commodities.' In terms of average number and amount during the period (Table 1), Korean FDI in Europe was quite small with about 2.6 cases in number and US\$1.2M in amount on the basis of net investment.

In addition, most Korean firms' investment in the EU were focused upon trade-related wholesale and retail rather than on manufacturing (Table 2), aiming at the European commodity market as an export strategy. For example, while thirty-four trade-related wholesale and retailers invested in the EU, only five manufacturers did so. With respect to Korean FDI in Europe by the size of the firm, its FDI was mainly conducted by large firms (Table 1). Furthermore, in terms of entries of Korean firms into the EU during this period, of thirty-nine firms thirty firms were chaebols and consequently, had high shares in wholesale

Table 1. Some indicators of the periodisation of Korean FDI in Europe

(unit: cases, US\$1million)

period	total		average		large firms		small and medium-sized firms	
	number	amount	number	amount	number	amount	number	amount
1968-1987	52	23.2	2.6	1.2	46	22.5	4	0.5
1988-1993	137	506.1	22.8	84.3	98	487.9	38	16.6
1994-1996	200	1,580.6	66.7	526.9	99	1,464.2	80	113.1
1997-1998	109	1,401.0	54.5	700.5	48	1,363.9	46	23.9

Note: All numbers and amounts are based upon the cumulation of net investment in each period.
 Source: elaborated from The Bank of Korea, May 1996; The Korea Federation of Banks, 1999.

Table 2. Entries of Korean firms into the EU by year¹⁾

period	total		wholesale and retail		manufacturing		others	
	number	NoC ²⁾	number	NoC	number	NoC	number	NoC
1974-1987	39	30	34	27	2	3	0	0
1988-1993	97	51	55	29	30	17	12	5
1988	14	11	8	6	4	4	2	1
1989	9	5	4	1	5	4	0	0
1990	21	9	11	5	6	3	4	1
1991	23	11	13	6	5	3	5	2
1992	17	11	11	8	5	2	1	1
1993	13	4	8	3	5	1	0	0
1994-1995	58	32	24	16	24	8	11	8
1994	31	17	16	10	11	3	4	4
1995	27	15	8	6	13	5	7	4
total	194	113	113	72	59	28	23	13

Note: 1) EU=15. 2) NoC - number of chaebols.
 Source: elaborated from The Bank of Korea, 1995.

and retail, and manufacturing (Table 2)³⁾. What it implies is that during this period Europe, especially western Europe, was one of the main export markets for most Korean firms. Since there were a few trade restrictions enacted by Western European countries (especially, the EU), they could maintain market-share holdings with the establishment of trade-related wholesale and retail (trading) companies or relevant offices rather than manufacturing plants.

At the second stage between 1988 and 1993, defensive investment in manufacturing was manifested. There were two main historical events concerned with the surge of Korean FDI in Europe; more intensified European integration towards the SEM and the collapse of former socialist countries in the CEE. This period was important to European countries as well as extra-European ones. With the change from 'Euro-pessimism' to 'Euro-optimism' during this period (Tsoukalis, 1997), the extra-EU trade

regulations against developing countries, mainly Asian newly industrialising countries (NICs) such as Korea, Taiwan, Singapore and Hong Kong were enacted more vigorously (National Consumer Council, 1990).

As a consequence, defensive Korean FDI increased massively across the EU in order to avoid EU trade regulations or to prepare for fears of a restrictive regime in the near future (see Section 3 and 4). In this period, its investment in manufacturing increased sharply as well as it did in wholesale and retail. In addition to the average number and amount of investment of about 22.8 cases and US\$84.3m (Table 1), there were thirty new entrants in manufacturing and fifty-five in wholesale and retail (Table 2).

Furthermore, the share of large firms in Europe was still high in both number and amount, even though that of small and medium-sized firms increased dramatically in number. In terms of the context of Korean FDI in the EU and CEE, Korean firms began to invest in the CEE, with their

Table 3. Korean FDI in Europe, 1992-1998(total investment)

(Unit: cases, US\$1,000, %)

Year	EU ¹⁾		CEE		Rest of Europe		Europe	
	case	value	case	value	case	value	case	value
1992	18(48.6)	127,697(88.6)	15(40.5)	14,886(10.3)	4(10.8)	1,604(1.1)	37(100.0)	144,187(100.0)
1993	11(33.3)	157,003(82.8)	20(60.6)	31,610(16.7)	2(6.1)	1,019(0.5)	33(100.0)	189,632(100.0)
1994	28(50.0)	280,044(65.5)	26(46.4)	146,715(34.3)	2(3.6)	1,096(0.3)	56(100.0)	427,855(100.0)
1995	34(43.0)	353,984(57.7)	42(53.1)	253,999(41.4)	2(2.5)	3,262(0.5)	79(100.0)	613,815(100.0)
1996	39(50.6)	382,333(58.4)	30(39.0)	242,504(37.1)	5(6.5)	23,101(3.5)	77(100.0)	654,257(100.0)
1997	25(36.8)	135,153(36.2)	38(55.8)	225,252(60.3)	5(7.4)	12,918(3.5)	68(100.0)	373,333(100.0)
1998	19(46.3)	487,489(50.6)	21(51.2)	474,481(49.3)	1(2.4)	612(0.1)	41(100.0)	962,582(100.0)

Note: 1) EU=15

Source: elaborated from The Bank of Korea, 1996-1997: The Korea Federation of Banks, 1998-1999.

transformation towards market economy after 1989 and subsequently their active policies to attract inward investment through privatisation. In reality, in 1992 and 1993 the cases of its FDI in the CEE increased progressively, even though the share of the amount of Korean investment in the CEE was relatively small compared with that of its investment in the EU during this period (Table 3). Nonetheless, CEE countries had the potential to attract Korean FDI, which was related to the programme of European enlargement into some CEE countries such as Poland, Hungary, the Czech Republic, Slovak, Bulgaria and Romania, the lower cost location and potential of an emerging market.

The third stage between 1994 and 1996 was a short-term boom of Korean FDI in the EU. In terms of the annual growth rate of net investment between 1993 and 1994, the rate increased dramatically from -24.2 per cent to 104 per cent in number, and from 26.4 per cent to 114.5 per cent in amount. Compared with the second stage, there was a significant increase in number and amount for only three years.

In terms of average number and amount of investment, cases increased sharply from 22.8 in 1988-1993 to 66.7 cases in this period, and the amount increased dramatically from US\$ 84.3m to US\$ 526.9m (Table 1). With respect to the size of the firms, both numbers and amount of small and medium-sized firms' FDI in Europe increased massively, even though they did not reach those of the FDI of large firms, which increased slightly in number and sharply in amount (Table 1). Within the EU during 1994 and 1995, the cases of Korean FDI in wholesale and retail, and manufacturing was identical with the still high share of

chaebols (Table 2). This short-term sharp increase at this stage was also geared into a strategy of globalisation since 1993 induced by the Korean government through the deregulatory policy of outflow FDI. Additionally, the increase was one of the results of chaebols beginning to mobilise their affiliates and Korean suppliers into the EU and the rest of Europe. Within this context, this period could be characterised by offensive-expansionist investment 'projects' in the EU (while still maintaining a defensive character) and CEE. Whereas investment at the previous stage was closely related to a passive and defensive adaptation to EU trade regulations and mostly concentrated in the EU, investment at this stage was still defensive with regard to the nature of the investment, but was quite ostentatious and offensive with regard to the investment 'plans' by chaebols. In addition, its FDI in the CEE countries has increased sharply since 1994 (Table 3) even though its investment share in the CEE was relatively lower than that of the EU. However, the nature of the investment in the CEE differs from that of the investment in the EU, which is not only more offensive rather than defensive, but also is focused upon the application of lower wages and the expansion of market share.

The fourth stage since 1997 can be identified as 'more vigorous floating investment due in part to the Korean financial crisis.' As shown in Table 3, in 1997 Korean FDI in the EU decreased sharply. In contrast, in terms of case and amount, the share of its FDI in the CEE of the European total increased dramatically while overtaking that of its FDI in the EU, even though in 1998 the rank between the amount of its FDI in the EU and CEE was reversed. Along with this trend, there are some controversies

regarding Korean FDI during this period. Despite the Korean financial crisis since late 1997, the average number and amount have been relatively high. Although the average number decreased somewhat to 54.5 cases, the amount increased to US\$ 700.5m which surpassed the previous stage. In terms of growth rate of number and

amount, while the number decreased sharply from -9.3 per cent in 1997 to -39.7 per cent in 1998, the amount increased massively from -22.3 per cent in 1997 to 119.6 per cent in 1998. The reasons for this are two-fold as can be seen by investigating the data on *Overseas Direct Investment Statistics Yearbook* (The Korea Federation of Banks, 1998

Table 4. Who has gained Korean FDI since 1997?¹)

country	number			ammount(US\$1,000)		
	1997(A)	1997(A)	(B-A)	1997(C)	1998(D)	(D-C)
EU	24	19	-5	188,068	487,489	+299,421
UK	8	2	-6	55,752	311,186	+255,434
Rest of EU	16	17	+1	132,316	176,303	+43,987
CEE	40	21	-19	237,625	474,481	+236,856
Poland	23	4	-19	44,698	202,608	+157,910
Ukraine	-1	4	+5	2,700	190,470	+187,770
Rest of CEE	18	13	-5	190,227	81,403	-108,824
Rest of Europe	4	1	-3	12,712	612	-12,100
Europe	68	41	-27	438,406	962,583	+524,177

Note: 1) On the basis of net investment

Source: elaborated from The Korea Federation of Banks, in house data.

Table 5. Who has invested more since 1997?

(unit: US\$1,000)

country	large firms			small and medium-sized firms		
	1997(A)	1998(B)	(B-A)	1997(C)	1998(D)	(D-C)
total	411,541	952,348	+540,807	25,573	-1,624	-27,197
manufacturing	121,626	468,064	+346,438	24,681	7,198	-17,483

Source: see Table 4.

and 1999)⁴. Firstly, in terms of Korean FDI in each country within Europe, this trend resulted in the massive increase in three European countries, namely the UK in the EU and Poland and the Ukraine in the CEE (Table 4). Secondly, with regard to its FDI by the size of the firm, there is a significant gap between large and small and medium-sized firms' FDI in amount (Table 5). The number of investments by both large and small and medium-sized firms decreased somewhat: in the case of large firms, the number decreased from 29 in 1997 to 19 in 1998; in that of small and medium-sized firms, it decreased from 27 in 1997 to 19 in 1998. However, whereas the amount of FDI by large firms increased dramatically, that of FDI by small and medium-sized firms decreased sharply. In terms of the FDI of large firms, there was a massive increase in manufacturing. There are some controversies and questions regarding these trends: Firstly, has Korean FDI really gone beyond the stage of defensiveness? Secondly, are there any real impacts of the Korean financial crisis on its FDI in Europe? Thirdly, furthermore, is there a relationship between the chaebols' investment in Europe and the Korean financial crisis before and since 1997 in terms of the suspicion of their overinvestment in Europe as well as in other continents? Even though these questions cannot be answered correctly at present, I argue that the impact of the Korean financial crisis on its FDI in Europe exists clearly, along with the instability of Korean firms within the EU since the initial stage of their investment in the late 1980s (Jung, 2000). Whereas before the Korean financial crisis, a geography of Korean FDI in the EU was represented as a fierce or aggressive convergence on some European regions with huge investments and projects, since then it

can be characterised as an active divergence along with disinvestment or relocations, on the one hand and an investment' polarisation due to concentration on a few European countries, on the other. Nevertheless, the crisis has tended to 'intensify' the instability of Korean firms and host regions rather than to 'create' it as a new phenomenon. This turbulent geography of the 'fragile' globalisation and Europeanisation of Korean production across EU regions results in the aspect of passive and defensive trajectories of its FDI strategies. In addition, the firms and host regions of the EU have undergone only limited pathways to their development and growth.

3. Entries of Three Tiers of Korean Consumer Electronics Chaebols into the EU

Sequential processes of entries of Korean consumer electronics chaebols into the EU present a typical example of the defensive Europeanisation of the firms⁵. There are three different investment tiers, such as the investments by chaebols' trading companies (trade-related wholesale and retailers) as the first tier, the final assemblers as the second tier, their manufacturing affiliates and Korean suppliers as the third tier. Each investment has different motivations and periods of entries as shown in Figure 3. The sequential processes of the entries have primarily been a result of the response to the intensification of European integration since the mid 1980s. In particular, at a supranational level, the entries of the second and third tiers were products of the reaction to EU anti-dumping duties, import quotas and local content rules⁶. As a consequence, these entries of

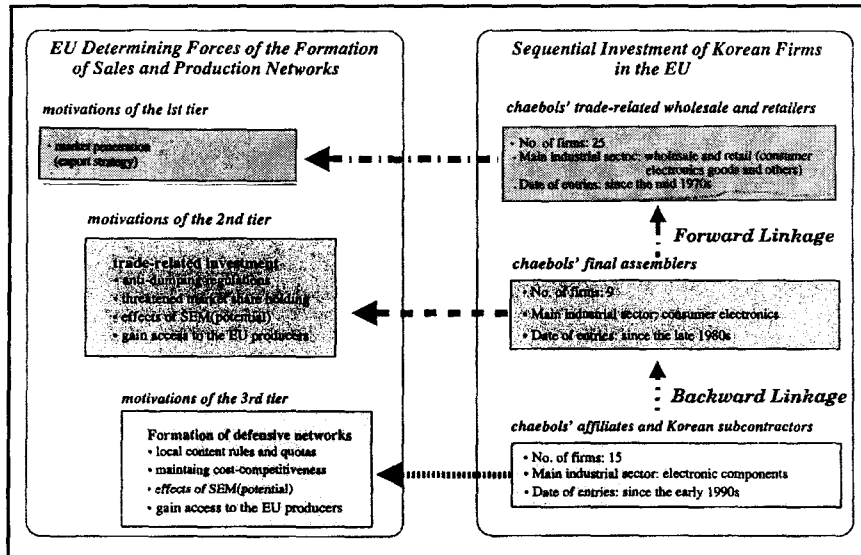


Figure 3. Sequential Entries of Korean consumer electronics firms and the formation of sales and production networks

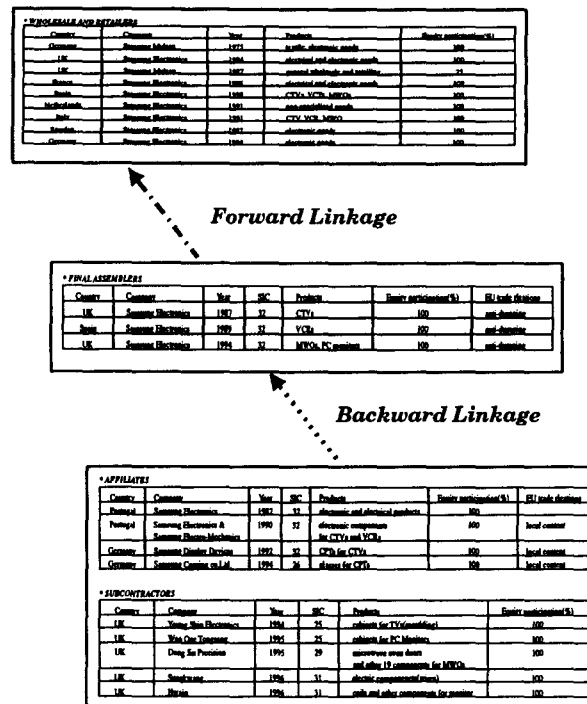


Figure 4. Entries of Samsung's affiliates and suppliers
 source: elaborated from The Bank of Korea, 1995; author's survey(1997)

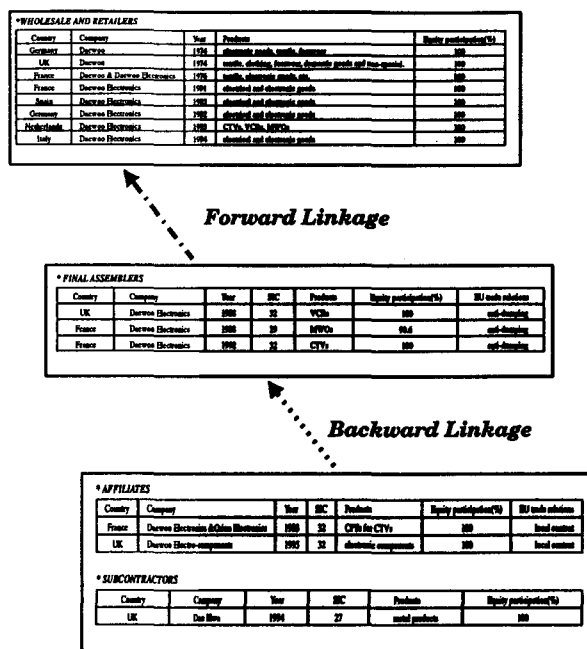


Figure 5. Entries of Daewoo's affiliates and suppliers
source: see Figure 4.

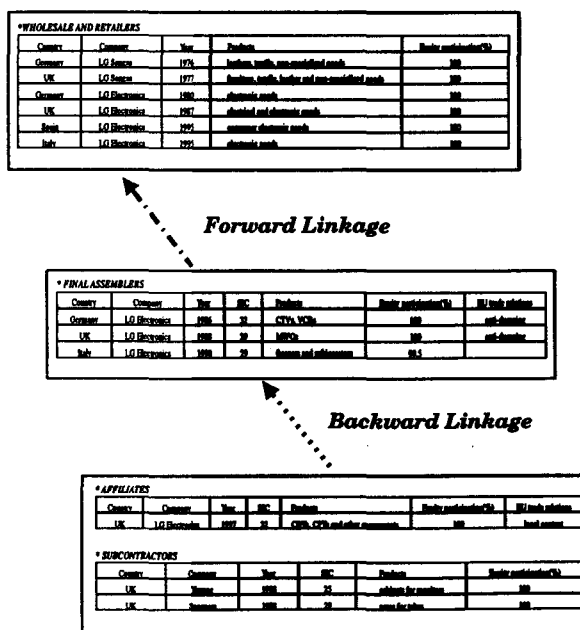


Figure 6. Entries of LG's affiliates and suppliers
source: see Figure 4.

investment created defensive Europeanisation through the 'defensive' formation of vertically integrated production networks between Korean firms within the EU.

Since the mid 1970s twenty-five electronics-based trading companies have invested in the EU as the first tier in order to penetrate the European commodity market.

Before the imposition of extra-EU trade regulations and the entries of second tier investment, they played critical roles in the sales of Korean goods to the European market as export agencies. Along with investments by final assemblers, their affiliates and Korean suppliers, the number of trading companies have increased gradually while establishing European sales' centres and simultaneously forming more dense forward linkages to final assemblers. As presented in Figure 4, 5 and 6, whereas during the 1970s they sold the whole range of goods, such as textiles, clothing and other non-specialised goods in addition to electronic goods; since the 1980s they have established more specialised trading companies dealing only in electronic goods. In the case of Samsung, until 1995 it had nine trading companies for electronic goods in the EU (Figure 4): one affiliate was established in the 1970s, three in the 1980s and five in the 1990s.

In the case of Daewoo, it had eight affiliates (Figure 5): three were established in the 1970s, and five in the 1990s. In the case of LG, it had six affiliates (Figure 6): two were established in the 1970s, two in the 1980s and two in the 1990s. With respect to investment by member states, in general they established their main sales platforms in Germany, the UK and France in the 1970s, and from the 1980s up to the mid 1990s, they expanded to Spain, the Netherlands, Italy and Sweden. In addition, Samsung has

established its affiliates more broadly in eight member states than have Daewoo and LG, in seven and four member states, respectively. The reason why the sales affiliates of Samsung, Daewoo and LG were established first in Germany, was that they regarded Germany as the gateway to continental markets before the collapse of the former socialist countries in the CEE. Despite the UK being the second sales platform followed by Germany, since the early 1990s the UK has become the European headquarters of Samsung, Daewoo and LG, because of important locational determinants, such as a favourable financial market and a more familiar language (*see* Christodoulou, 1996; Jung, 1997; Thomsen and Woolcock, 1993). In terms of equity participation, they have a share of 100 per cent with the exception of one of Samsung's affiliates in the UK.

Since the late 1980s nine final assemblers of Samsung, Daewoo and LG have entered as the second tier in order to avoid fears of EU anti-dumping duties before and after their imposition, as duties have been enacted more vigorously against consumer electronic goods such as colour televisions (CTVs), microwave ovens (MWOs) and video cassette recorders (VCRs) and other electronic goods. The final assemblers' investment by only three chaebols was high; they had a share of around 29.1 per cent of the total Korean manufacturing FDI in the EU, 35.7 per cent of total Korean manufacturing FDI by chaebols in the EU, and 79.5 per cent of total Korean manufacturing FDI due to the reaction to EU anti-dumping regulations in 1995 (Table 6).

In addition, the factors of the 'potential effects of SEM' and the need to 'gain access to EU producers' become the second and third important motives for their investment (Jung, 2000). This type of reactionary investment implies

Table 6. The FDI of Korean consumer electronics chaebols in the EU as a reaction to EU anti-dumping duties(1995)

country	region	company	year	products	realised investment (US\$1,000)
UK	North	Samsung Electronics	1987	CTVs	n.a.
UK	North	Samsung Electronics	1994	MWOs	n.a.
UK	Northern Ireland	Daewoo Electronics	1988	VCRs	19,880
UK	North	LG Electronics	1988	MWOs	12,090
France	Est	Daewoo Electronics	1988	MWOs	14,379
France	Est	Daewoo Electronics	1990	CTVs	21,353
Germany	Nordrhein-Westfalen	LG Electronics	1986	CTVs, VCRs	39,258
Spain	Este	Samsung Electronics	1989	VCRs	11,973
% of total Korean manufacturing FDI in reaction to EU anti-dumping duties					79.5%
% of total Korean manufacturing FDI in the EU by chaebols					35.7%
% of total Korean manufacturing FDI in the EU					29.1%

Source: elaborated from The Bank of Korea, 1995; author's survey, 1997.

Table 7. The FDI of Korean consumer electronics chaebols in the EU as a reaction to EU local contents rules(1995)

country	region	company	year	products	realised investment (US\$1,000)
UK	Northern Ireland	Daewoo Electro-components	1995	electronic components	1,579
France	Est	Daewoo Electronics & Orion Electronics	1993	CPTs for CTVs	48,900
Germany	Berlin	Samsung Display Devices	1992	CPTs for CTVs	3,741
Germany	Brandenburg	Samsung Corning	1994	glass for CPTs	9,670
Portugal	Continente	Samsung Electronics & Samsung Electro-Mechanics	1990	electronic components for CTVs and VCRs	18,140
% of total Korean manufacturing FDI in the EU by chaebols					24.6%
% of total Korean manufacturing FDI in the EU					20.1%

source: see Table 6.

that, when they made decided on a particular location among member states, they had to seek suitable export platforms for their low-cost production because (1) they are aiming primarily at exports to the European market rather than at domestic market of host countries and (2) have low and intermediate production and product technology with standardised mass production system. By 1995 Samsung had established two assembly plants in the UK and one in Spain; Daewoo established two in France and one in the UK; LG established one each in Germany, the UK and Italy (Figure 4, 5 and 6). Nevertheless, what happened to these investments is that relocations have continuously occurred since the initial stage of the investments, due in the main to mismatching levels of productivity and local wages, and the changing extra-EU trade regulations (see Section 4). This reflects the limitation of entries of defensive FDI.

The third tier is composed of component suppliers and is closely related to the defensive formation of backward linkage to final assemblers across the EU. Since the early 1990s seven chaebol affiliates and eight Korean suppliers have followed final assemblers. As a result, vertically integrated networks between Korean firms in the EU were built up across the EU in a defensive way.

This type of vertical integration resulted from the following reasons at a macro and micro level. The first reason was that, at a macro level, final assemblers should meet the EU local contents rules. At the same time, some affiliates of the third tier such as colour picture tubes (CPTs) plants, faced EU import quotas. At a micro level it was quite difficult for final assemblers to maintain cost-competitiveness in transactions with other European partners before the entries of third tier investment. In this

respect, the entries of third tier investment are profoundly related to local contents rules, other extra-EU trade regulations and to the imperative of maintaining cost-competitiveness.

Third tier investments, related to local contents rules, had a share of 24.6 per cent of total Korean manufacturing FDI in the EU by chaebols and of 20.1 per cent of total Korean manufacturing FDI in the EU in 1995 (Table 7). As the case of the final assemblers, the factors of the 'potential effects of SEM' and the need to 'gain access to EU producers' become the third and fourth important motives for their investment.

With regard to the entries of the second and third tier investment, it is important that there is a 'paradoxical structure of global-regional(EU)-national-local nexus' surrounding the attraction of Korean FDI to the EU. The investment of the second and third tiers was highly concentrated on EU objective 1 or 2 regions such as the Northeast of England (UK), Northern Ireland (UK), Lorraine (France), Berlin (Germany), Bochum (Germany), Brandenburg (Germany), Barcelona (Spain) and Sintra (Portugal). It focused mainly upon greenfield investment rather than on M&As with 100 per cent of equity participation, except for Daewoo in France and LG in Italy (Figure 5 and 6).

When they invested in these regions, they were provided with highly favourable institutional packages, such as several ranges of grants related to industrial sites, production facilities, employment and finance by central and local governments (Jung, 1999a). As a result, their entries, resulting in part from the reaction to EU anti-dumping duties and other factors are ironically involved

Table 8. EU anti-dumping regulations against Korean consumer electronic-related goods, and entries and exits (relocation) of Korean chaebols in-and outside of the EU

product	year	action by the EU ¹⁾	trade-related entries of Korean chaebols ²⁾	exits(relocation) of Korean chaebols ²⁾
microwave ovens(MWOs)	1986	investigation opened		
	1987-88	determination of no-dumping	*Samsung to the UK (1987) * Daewoo to France (1988)	*Samsung relocated from the UK to Malaysia (1987)
	1995	definitive duties imposed	* LG to the UK (1995)	*Samsung returned to the UK (1995)
small screen colour TVs (CTVs)	1987-88	investigation opened	*Samsung to Portugal (1982)	
	1989	provisional duties imposed	*LG to Germany (1987)	
	1990	definitive duties imposed		*Samsung relocated from Portugal to the UK (1992)
			*Daewoo to France (1994)	*LG relocated from Germany to the UK (1995) *Samsung relocated from the UK to Hungary (1998) *LG relocated from the UK to Poland (1999)
video cassette recorders(VCRs)	1987	investigation opened	*LG to Germany (1987)	
	1988	provisional duties imposed	*Daewoo to the UK (1988) * Samsung to the UK (1988)	
	1989	definitive duties imposed		*Samsung relocated from the UK to Spain (1992) *LG relocated from Germany to Southeast Asia (1997)

source 1) National Consumer Council, 1990; Electronics Industries Association of Korea, 1992.

2) author's survey, 1997.

with 'social and geographical dumping' provided by national and regional investment agencies. It shows paradoxical dilemmas of mismatching EU trade, industry, inward investment and regional policies at the global, regional, national and local level. In other words, the EU trade policy which sought to protect the European market and industry against extra-EU producers (*global and EU level*), did not exert its forces properly because of (1) the market-led model for inward investment (*EU and national level*), (2) imperatives for investment in the EU by Korean firms (*global level*) and (3) imperatives for a solution to mass unemployment in those regions of member states by the attraction of foreign investors (*national and local levels*). It shows clearly how different politico-spatial levels of institutions are interconnected paradoxically with regard to the entries of Korean firms into the EU.

4. Exits of Korean Consumer Electronics Chaebols within and outside of the EU

Since setting-up plants in the EU in the late 1980s, some Korean plants, especially final assemblers, have faced severe restructuring such as relocation (a type of exits).

This has resulted in the nature of their entries (defensiveness) and it, in turn, influences the types of exits, while revealing the limitations of their defensive investment. In this section, the focus is upon two main types of exits of three chaebol plants in the EU at the (1) global, regional and national, and (2) local level.

1) Exits at the Global, Regional and National Level

Defensive entries of Korean consumer electronics chaebols into the EU have given rise to active exits through relocation processes across member states and even outside of the EU (Table 8).

The active relocations result in the identification of their products and production in the EU. The nature of their plants is a typical screwdriver plant to produce low and intermediate levels of standardised products, because they have focused upon export-led and standardised mass production. Thus, low-cost production and location are important ingredients in their competitive strategies. As Salais and Storper (1992) have pointed out, 'competition of these products comes to be almost completely centred on price, resulting in an emphasis on attaining internal economies of scale.' However, in terms of their exits, their location did not properly match their competitive strategies (cost-competitiveness), because in general their plants were and are located in EU host regions with low productivity, high unemployment and relatively higher wages than Korea (Jung, 2000). In addition, some cases of relocation are closely related to the changing EU anti-dumping regulations. These processes of relocation have occurred in connection with MWO, CTV and VCR production, which Samsung, LG and Daewoo have mainly focused within the EU. The first is a case of MWO production. The exit and re-entry are closely related to the changing EU anti-dumping regulations. When an investigation opened in 1986, Samsung invested in the UK in mid 1987 and Daewoo invested in France in 1988. As soon as the EU decided to cancel anti-dumping regulations on Korean MWOs as a result of low dumping margins of less than 5%, Samsung

withdrew the MWO production line from the UK at the end of 1987.

However, in 1995 definitive duties on MWOs were reimposed, and immediately, Samsung reinvested and LG invested in the UK in 1995. The second is a case of CTV production where relocation is extremely active. It is mainly concerned with the maintenance of cost-competitiveness and the programme of European enlargement. The three chaebols established plants before and after the imposition of anti-dumping duties. In the case of Samsung, it invested in Portugal in 1982 and then relocated to the UK in 1992, due to continuous conflicts with other partners in Portugal. However, in 1998 it relocated a CTV plant from the UK to Hungary due to (1) the weakened cost-competitiveness resulting from the revaluation of the British sterling, (2) making use of the lower wages in Hungary, and (3) the potential of emerging markets in the CEE. In the case of LG, in 1995 it relocated a CTV plant from Germany to the UK because of the lower wages in the UK.

Subsequently, the CTV plant in the UK was relocated to Poland in 1999 for the same reasons as Samsung's relocation to Hungary. These processes of relocation are related to European enlargement with regard to the CEE. Hungary and Poland intend to join the EU in 2005 and currently are included in European free trade areas. It implies that EU trade regulations have continuously influenced the direction of Korean firms' location and relocation.

The final case is of VCR production. When an investigation into Korean VCRs was opened in 1987, LG invested in Germany. After that, when provisional duties

were imposed, Samsung and Daewoo invested in the UK in 1988. However, in the case of Samsung in the UK, it relocated a VCR plant from the UK to Spain in 1992. In 1997 LG relocated its production from Germany to one of the Southeast Asian countries because the EU cancelled anti-dumping duties on VCRs. The reason for the cancellation was that there were no European producers of VCRs within the EU, because the main European producers had already relocated to South Asian countries.

These exits reflect the fact that as Young *et al.* (1991) pointed out earlier, 'the Pacific Rim investments being induced into the EC are chiefly import-substituting or market-share holding.' Therefore the impact of EU trade protectionism on its FDI in the EU still matters in terms of Korean firms' locational and relocational activities in and outside the EU. In addition, the active relocation of firms reveals the instability of defensive Korean FDI at particular industrial sites within the EU and demonstrates how much Korean assemblers have struggled with their localisation in host countries and their regions. Moreover, the relocations are profoundly related to the erosion of EU local economies at a local level. This will be presented in the next subsection.

2) Exits at the Local Level

Since June 1987 when Samsung started MWO production at the plant in Billingham, in Northeast England, Samsung has changed five products and their production processes in around twelve years: MWOs, VCRs, Faxes, CTVs and printed circuit boards (PCBs) (Figure 7). In the case of MWO production, it started in

June 1987 and ceased in December 1987. Subsequently production was relocated to one of Samsung's plants in Malaysia. As a result, the production life cycle for MWOs was only six months. It was then replaced by VCR production in 1988, VCRs were produced only for around two and half years and then production was relocated to Spain. Subsequently in 1991 fax production was substituted, but faxes were produced for only around one year, giving way to CTV production in 1992. In the case of CTV production, it was carried out for around eight years, which is relatively longer than the others. However, within CTV production, small CTVs which are designated by a 14" screen, were produced for only five years, due to relocation to Pakistan. After eight years, even though the size of screen was increased from 20" to 28", in early 1999 all CTV production ceased and was then relocated to Hungary.

Since then it has been replaced by PCB production for

PC monitors. Consequently, the production life cycle of an individual product within a particular industrial site varies from six months to eight years, depending on Samsung's strategies of changing products and productions over a short term.

The type of exit is related to product and production shifts *in situ*. These shifts also entail locational shifts of a particular product with 'out of production line' (see Clark and Wrigley, 1997; Stafford, 1991). With respect to local development, this investment has been initially combined with local imperatives, such as the search for a solution to local mass unemployment through attracting foreign capital, and with the achievement of 'flexibility' of the local labour market in the Northeast of England since the 1980s (Dunford, 1997; Hudson, 1998).

This example reflects the fact that in order to secure a market-share holding within the EU, Korean firms have

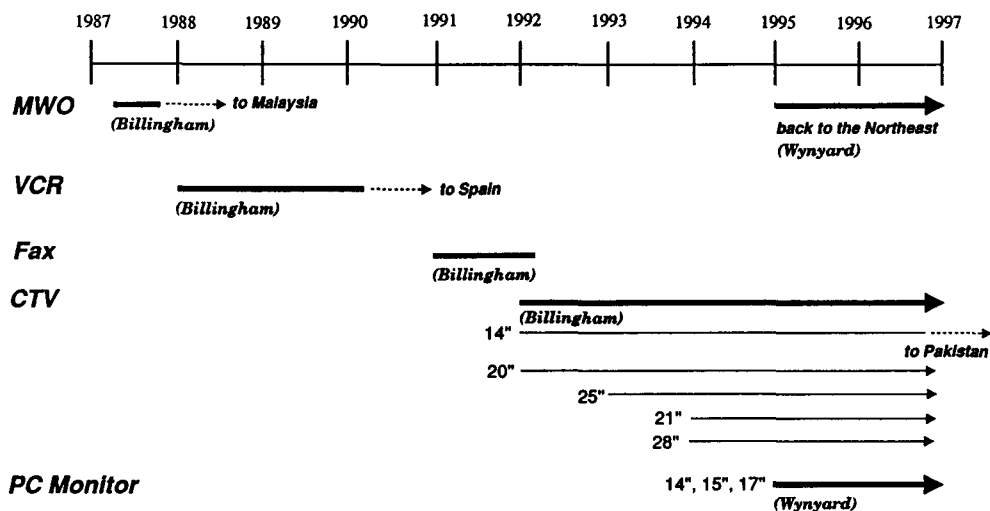


Figure 7. Entries and Exits of Samsung in Billingham, Northeast England
 source: author's survey(1997)

continued to search for market adaptability of a particular range of products through the continuous switch of products. In addition, this strategic relocation, which is based upon trade regulations and the search for cost-competitive rents in host countries which are suitable for Korean firms' competitiveness, is geared into institutional, market and productivity contingency within the member states. Furthermore, while matching or mismatching the competitive assets of the firm and region for the short-term, the firm and workers at a factory within the region have been 'floating' simultaneously. As a consequence, the nature of the global-local interplay of Korean firms and the Northeast of England is one of 'instability' and 'floating' which can be characterised as continuously switching products and production lines at a factory and consequently making the position of the workers at the plant more insecure.

5. Conclusion

Since the late 1980s Korean FDI in the EU and the rest of Europe has been periodically placed within the ongoing process of more intensified and enlarged European integration: the birth of the SEM in 1992, the intensification of extra-EU trade regulations, the enlargement of the EU to include CEE countries in the near future, and the like. Of these trends, the intensification of extra-EU trade regulations against Korean consumer electronic goods in particular was the main motive for Korean defensive FDI in the EU, and this gave rise to sequential entries of Korean chaebols' affiliates and suppliers into the European market. As a consequence, since the late 1980s the European

geography of Korean production has changed continuously and dramatically through 'defensive Europeanisation', which could be defined by the formation of forward and backward linkages between Korean firms within the EU.

Nonetheless, this type of entry influences the characteristics and direction of their exits in the context of the FDI of Korean consumer electronics chaebols in the EU. In other words, Korean chaebols have not yet overcome the structural limitations caused by their defensive entries since the initial stage of investment in the late 1980s. In this respect, their exits through active relocation are results of disarticulating the characteristics of chaebols' standardised mass production with external (the changing EU trade regulations) and internal (the maintenance of cost-competitiveness) conditions. This turbulent geography of the 'fragile' globalisation of Korean production across the EU and the rest of Europe results in the aspect of passive and defensive trajectories of chaebols strategies. In addition, chaebols and EU host regions have undergone only limited pathways to their development and growth. Within the context of an integrating Europe, their entries and exits are placed in the contingent and paradoxical structure of the global-regional-national-local nexus, which resulted from the mismatch of different EU policies, such as trade, industry, inward investment and regional policies.

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Notes

- 1) In this paper, the term European Union (EU), which was established under the Maastricht Treaty on European Union (TEU) in 1992, is generally used rather than the earlier term European Community (EC).
- 2) There are five types of EU objective regions which are related to the distribution of the EU structural funds. The characteristics of each type of region are as shown in Sub-table 1.

Sub-table 1. Types of EU objective regions

Types of EU Objective Regions	
<i>Objective 1</i>	Development and structural adjustment of the regions whose development is lagging behind
<i>Objective 2</i>	Converting the regions or parts of regions seriously affected by industrial decline
<i>Objective 3</i>	Combining long-term unemployment (more than 12 months) and facilitating the integration into working life of young people (under 25 years of age) and of persons exposed to exclusion from the labour market
<i>Objective 4</i>	Facilitating the adaptation of workers of either sex to industrial changes and to changes in production system
<i>Objective 5</i>	Promoting rural development by: (a) speeding up the adjustment of agricultural structures in the framework of the reform of the Common Agriculture Policy (b) facilitating the development and structural adjustment of rural areas

Source: Armstrong, H. 1995, p.263.

- 3) Comparing Table 1 and 2 with regard to FDI by the size of the firm, the categorisation of large firms and chaebols is different. While in Table 1 the category of large firms indicates all firms with more than 500 employees, in Table 2 that of the chaebol indicates thirty main chaebols (see Choi, 1997). Therefore, statistical differences between Table 1 and 2 exists.
- 4) To explore the concrete reasons for this is beyond the scope of this paper. This paper only examines the reasons by an aggregate analysis of the data.
- 5) As a type of strategic regionalisation of foreign investors, the 'defensive Europeanisation' of Korean consumer electronics

chaebols in the EU means that the firms have reacted strategically but passively to EU institutions and the market milieu since the initial stage of investment in the late 1980s. In parallel they have formed forward and backward linkages between affiliates and Korean suppliers (see Jung, 1999b for more details).

- 6) In addition to EU anti-dumping duties, import quotas and local contents rules, another important factor was the birth of the SEM in 1992. During the 1980s, the SEM programme had the potential to attract Korean FDI as well as FDI from European and non-European countries since after investment firms gain an easy access to the EU's 'borderless' market without payment of any tariffs.

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유럽연합(EU)내 한국 가전 대기업들의 진입과 퇴출

정 성훈*

본 논문의 목적은 (1) 한국 가전 대기업들의 진입과 퇴출과정을 유럽통합과 확대과정의 맥락에서 살펴보는 데 있으며, (2) 그 과정이 각기 다른 지리적 규모(세계적, 지역적(EU), 국가적, 지방적 규모)와 얼마나 역설적으로 상호 얽혀있는가를 밝히는데 있다. 1980년대 이후 급격하게 증가된 한국 가전 대기업들의 對EU 해외직접투자는 EU의 강화된 무역지역주의에 대응한 결과였다. 이러한 방어적 투자는 관련 대기업의 계열사들 및 중소기업체들의 시기적으로 다른 진입을 통하여 이루어졌으며, 결과적으로 EU내 기업전략으로써 방어적 유럽화를 창출시키는 계기가 되었다. 그럼에도 불구하고, 방어적 진입은 이후 대기업들의 생산의 일부가 (1) EU 무역규제의 변화에 민감하게 반응하면서, (2) EU내 투자유치 지역에서의 비용경쟁력유지에 실패함으로써 (입지이전을 통한) 퇴출로 이어졌다. 결국, 한국 대기업들의 진입과 퇴출과정은 통합유럽을 향한 EU의 무역, 산업, 외국인투자 및 지역정책들이 일관된 방향으로 결합되지 못하면서 야기되었으며, 이와같은 맥락에서 그 과정들은 세계적-지역적-국가적-지방적 연결체라는 상호 얽힌, 역설적 구조속에서 진행되고 있다.

주요어 : 한국 해외직접투자, 진입, 퇴출, EU무역규제, 방어적 유럽화

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