

**WHAT CAN KOREAN INTERNATIONAL
COMPANIES LEARN FROM JAPANESE
MULTINATIONAL CORPORATIONS?**

KIM TONGHWAN

The Economic Growth of Korea

Korea is currently undergoing a remarkable transformation which can be measured in terms of its political, economic, and social development. Rapid economic growth over the past quarter century has been one of Korea's major achievements. In 1962, when Korea launched its first five-year economic development plan, its per capita GNP (in current prices) was no more than \$81. By 1988, this figure had risen to \$3,728. Korea also achieved a current account surplus during the three consecutive years to 1989. It is apparent that Korea is now on the brink of joining the ranks of the lower OECD industrialized nations.

The literature on Korean economic development cites a number of factors which have played important roles in the nation's economic success during the last 25 years. It is reasonable to cite the following three basic elements as primary factors of that success: first, an internationally oriented economic development strategy; second, a quality

labour supply with a high level of education; third, a favourable international economic environment. Even though these three factors are often cited as the key elements of success, it is safe to say that exports are the engine of the contemporary economic development, and that exports will continue to be the critical ingredient in the economic transformation until the end of this century. Over the past 25 years, export growth has stimulated the inflow of technology and the acquisition of knowledge, and has at the same time helped raise Korea's total productivity growth to unusually high levels.

Despite the successful trade performance and economic growth of the recent past, Korea is expected to face substantial hurdles that must be overcome if it is to maintain economic growth. As examples of major current challenges, I may cite protectionism in major markets and the recent current account surplus.

The Challenge of Rising Protectionism

Because of its export-oriented trade strategy, Korea's growth has become highly dependent on trade. In 1988, more than 85% of the GNP was accounted for by exports and imports. Because of this, Korea is now extremely vulnerable to protectionism. It is more vulnerable than other trading nations because of its heavy dependence on the United States, Japan, Canada, Germany and the United Kingdom, which together account for two-thirds of its exports; the United States alone currently accounts for nearly 40%. Another reason for this vulnerability is that Korea's exports consist predominantly of unusually protection-prone products such as textiles and clothing, steel, consumer electronics and cars. These products are all highly sensitive politically either because they are labour-intensive or because market shares can be gained

only by displacing existing suppliers. In recent years there has been a marked trend towards bilateralism on the part of large industrial countries in an attempt to solve trade problems. If this continues Korea, a small country with limited bargaining power, will be at a disadvantage when dealing with large trading partners. At present, there are reports that a large proportion of Korea's major exports are or will be subject to import restrictions in the countries of the OECD. If Korea's new exports—cars, electronics, computers, auto parts, and machinery—are subject to controls in the future, then a large amount of Korea's investment for export growth will be short-circuited.

To go some way towards meeting the current challenge of sustaining Korean economic growth, it is worth examining the activities of Japanese multinational corporations closely.

Japanese Multinational Corporations: Sources of Growth

I start with the observation that there is nothing wrong with learning useful lessons from others. Korea has thus followed the model for economic development set by the Japanese in both the private and government sectors. This strategy has been facilitated by geographic and economic proximity. And this is why Korea and Japan are comparable in the speed and structure of their development. Yet it is crucial to recognise their different strategies towards foreign direct investment and the development of technology.

Operating with two severe handicaps—poor natural resources and the sheer distance from important foreign markets—many Japanese multinational corporations, especially those facing intense foreign competition and

pressure, have overcome their difficulties through careful analysis of the exact situation and the adoption of a long-term strategy.

Japan is critically dependent on overseas resources, resources of both a physical and technological nature. Trade, the absorption and transfer of technology, and direct foreign investment are the integral instruments of Japan's industrial progress. Japan has proved itself more adept than any other industrialized nation at deliberately making the best use of its environment, systems, and policy structures. It has also maximised the benefits arising from the force of ownership advantage, location advantages, and the internationalization of production. External commercial contracts, notably for the transfer of technology and direct investment, have been used to upgrade the industrial structure and improve the trading competitiveness of the Japanese economy at home.

Japan sees itself as a trade-dependent nation. Since it has a relatively large population with very limited natural resources, its industrialization was from the outset designed to make it a workshop which would import raw materials from overseas, process them into finished goods at home, and export them back onto the international market. In order to survive, Japan consequently has to export to pay for its required import of resources. In this sense, Korea is in a very similar situation to Japan.

i. *Foreign direct investment of Japanese multinational corporations*

Despite its large domestic market supported by the free world's second largest economy, Japan has been the host country for a relatively small amount of foreign direct investment. Yet it has grown quickly to become the world's third largest overseas investor, after only the United States and the United Kingdom. In 1980, Japan's

foreign direct investment of \$36,497 million, was twelve times greater than its inward investment. That one year's \$2,979 million rapid growth (over previous years) in overseas investment was designed to increase Japan's exports by setting up marketing networks that would secure vital supplies of industrial resources by organizing resource-extractive ventures abroad. Further, those segments of manufacturing that are no longer suitable to be based at home for a variety of politico-economic and environmental reasons have been transferred overseas.

To understand the essence of Japanese multinational corporations' foreign direct investment, it is vital to bear in mind the geographical location and the types of industry favoured. The location of Japanese foreign investment has been determined by the desire to multinationalize production in mature rather than technologically intensive sectors of industry. Therefore, Japanese multinational production is highly concentrated in the currently industrializing Third World countries of Asia and Latin America. By steering international production towards the NICs (newly industrialized countries), Japanese firms gain from very low production costs and highly productive labour forces. They also get to participate in the world's fastest growing markets.

The foreign investment of Japanese firms in the United States and Europe does include some production, undertaken largely in response to real or threatened trade restrictions. But such production is both modest in proportion and overwhelmingly geared towards supporting the sales of goods actually produced in Japan or the NICs. Western industrialized countries have been considered more as important markets than as production sites.

The geographical distribution of Japanese foreign production sites stands in sharp contrast to the United States and European patterns. American foreign direct investment in manufacturing has long been oriented

toward Canada, Europe, and to a lesser extent Latin America; British investment has been directed to Europe and to former Dominion, Empire, and Commonwealth countries.

There has also been a shift in Japan's overseas manufacturing from a heavy concentration in developing Asian countries towards a diversification into the more advanced countries, particularly into the United States and Europe. Most of these manufacturing ventures, as I have indicated, have been in response to the rise of protectionism. Recently, bowing to pressure from foreign countries to produce locally, many of Japan's export-competitive manufacturers, particularly those active in the production of electronics and cars, have been forced to experiment with direct production as their second best strategy. Yet, because of the unfavourable manufacturing environment overseas, Japan's new ventures in industrialized countries are reportedly barely breaking even. Profitability is often achieved only by the use of intermediate inputs of parts and components imported direct from Japan, which has a comparative advantage in terms of trade since it builds up the technology of the mother country.

ii. *The technological advancement of Japanese multinational corporations*

Japan's dependence on advanced foreign technology is clearly revealed in its balance of trade in technology. Japan was once a huge deficit country, paying more royalties and fees overseas than it received. The successful absorption of advanced foreign technology was the major factor in the miracle of Japan's structural upgrading and post-war economic growth.

The wide technological gap that existed between Japan and the West, particularly Japan and the United

States, at the end of the Second World War presented both an opportunity and a threat. There was the opportunity to use advanced foreign technologies without starting from scratch, but there was also the threat of Japan's domestic industry collapsing under the control of foreign companies. Aware of the dangers of foreign domination of industry yet eager to absorb advanced technologies from the West, the government restricted foreign direct investment at home while encouraging imports of technology through licensing agreements.

Another aspect of the Japanese research and development (R & D) effort is that more than two-thirds is funded by business. It therefore ultimately aims to produce commercial results. The Japanese proportion of business-funded R & D is the highest in any industrialized nation after Switzerland. It is almost the mirror image of the proportion of private-to-public funding of R & D in countries such as the United States, Britain and France where government funding, especially for defence, constitutes about 60% of the national R & D effort.

The vast majority of the Japanese effort is not only business oriented but also directed at improving or advancing existing technology. In contrast, the United States, France, and above all Britain are extraordinarily fertile in developing radical breakthrough innovations. These tend to produce Concorde, Rolls-Royce RB-211 jet engines, and large financial losses.

Additionally, Japanese firms have also directed their R & D and innovative activity towards serving a number of distinctive user needs. First, a large proportion of Japanese innovation—more than one third—has been concerned with the conservation of raw materials and energy. Second, a large proportion has dealt with an acute problem particular to the Japanese: the nation's very limited land space. Thus, space saving miniature components have been created for small homes and small

city streets. In the process of miniaturization, numerous improvements in technology have been made.

Japan has turned many of its adversities into advantages. Resource dependent as it is, it has striven to make the most of the liberal post-war trade environment which existed beyond Japan for both commodities and technology. It has certainly succeeded in its attempt. Direct foreign investment and transfers of technology have been both the facilitators and concomitants of Japan's structural transformation.

Current Internationalization Activities of Korean Enterprises

In Korea today, the business of overseas investment by domestic enterprises is brisk, encouraged by central government's policy of expediting foreign direct investment. About \$480 million of direct investment for 253 projects was approved in 1988. The 1988 total represents a considerable increase both in the amount and the number of projects over 1987 (\$358 million for 109 projects). The Bank of Korea announced in January 1989 that overseas investment by domestic business had reached \$63 million in 25 cases over the month (up from \$47.3 million in 13 instances for the same period of 1988).

Industrial manufactures topped the list of industrial overseas investments with \$208 million for 114 projects in 1988, followed by trades with \$53 million for 92 projects. Again, in January 1989, manufacturing industries topped the list of overseas investments with \$36 million for 15 cases. By geographical region, the United States attracted the largest volume of Korean direct investment with \$230 million for 78 projects in 1988. South-east Asia followed with \$75 million for 118 projects.

These statistics show that there are clear differences between Korea and Japan in their foreign direct investment: Korean firms' major projects in this sphere during recent years have been concentrated in manufactures, and the most popular location for production is North America. International production in industrialized countries can be risky, as Japanese corporations have been aware, unless firms have technological advantages over the host country. Therefore, when Korean international companies consider their foreign investment, they need to analyse not only locations but also levels of technology. We might note that Korea's technological relationship with Japan has enabled it to move with speed into world markets in which technical quality is required. But it remains crucial to ensure against a continuing dependency, because this gets more risky as Korea and Japan begin to compete seriously for international market shares in the same product lines.

Similarly, in reviewing recent transactions between Korea and China, Korean companies need to pay careful attention to the long-term effects of foreign direct investment. China is interested in developing its own manufacturing and exporting capability rather than in the continued import from Korea of electronics, machinery and transportation equipment. What China basically wants is financial investment and the transfer of technology. It would be disturbing if some Korean companies were to promote such transfers, as they would increase the competitiveness of the country that has the greatest potential to fight for an increasing share of Korea's markets.

Even though Korea has followed Japanese multinational corporations' internationalization models and strategies, Korean firms now have to recognise the differences between the two countries in relation to the international market. Japan, still a relatively closed economy, moved into export markets with well established

industries which enjoyed relative technological advantages. Korea, on the other hand, has often entered global markets with little experience at home, relying on low labour costs and continuing substantial imports of machinery, components and technology.

Learning from other countries requires careful analysis, patience and a long-term view. Blind imitation will not pay off.

THE TRADITION OF KOREAN POETRY

KEVIN O'ROURKE

In the West we tend to look on the poet as a man apart, a prophet, a seer, someone just a little mad. Old Korea had no such conception. Rather, skill in poetic composition was a very practical business; it was one of the major indicators of a man's ability to serve his country well as a public servant, and at the same time it was the yardstick of a man's personal cultivation. Although skill in poetry is no longer the key to preferment for your average aspiring young person, the legacy of the tradition is still evident today in poetry. The poet still enjoys a special place in the Korean heart: everyone in Korea writes poetry.

A few general remarks about the tradition may help to get things in perspective. Firstly, most Korean poetry is characterised by what may be termed a movement towards transcendence. This is typical of the Buddhist-Taoist tradition which always looks toward freedom and liberation; it is also typical of the Confucian tradition which, while espousing an ideology that aspires toward order and control, still seeks the ultimate in wisdom. Personal cultivation is the methodology in both ideologies. Thus, in practice, transcendent man, to which Buddhism and Taoism aspire, and the sage or wise man, to which Confucianism aspires, are one and the same.