

The Effects of Conventional and Unconventional FDI on the Host Country: A Case Study of the Korean Automobile Industry

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I. INTRODUCTION

With the emergence of Asia's economic power led by China and India, foreign direct investment (FDI) from this region to other parts of the world has significantly increased. Between 2005 and 2014, FDI from non-OECD countries has quadrupled from USD 112 billion to USD 443 billion. In particular, China stands out as a special case. Over the same period of time, it has accounted for almost 20 percent of all FDI outflows from the emerging markets (Gestrin 2016). When examining the various trends of FDI, mergers and acquisitions (M&As) has led since 2007 (Leowendahl 2016).

There has been increasing focus on two specific cases of M&As. The first is with firms from developed countries (DCs) acquiring companies from other DCs, while the second is firms from lesser-developed countries (LDCs) acquiring other DC firms, a trend which has been more visible since the early 2000s (Hemerling, Michaels and Michaelis 2006, United Nations 2006). In particular, companies in DCs have been the targets of Chinese or Indian companies. For example, a Swiss biotechnology company, Syngenta, the largest crop chemical producer was taken over by ChemChina, a Chinese state-owned chemical company. GE Appliances was bought by Haier Group, a Chinese multinational consumer electronics and home appliances company. Arcelor, a European steel company, entered into a merger with the Indian-owned multinational steel maker Mittal Steel.

Despite the increase of M&As by companies from LDCs, this type of FDI, from

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multinational corporations (MNCs) in LDCs to DCs, has been criticized severely. Globerman and Shapiro (2009) mentioned US criticism over the mode of entry that brings lower benefits than greenfield investment and the motivation of FDI considering that most of the Chinese companies are state-owned; Sauvart (2013) highlights the fact that most of Chinese investing companies are state-owned and claimed that China did not participate in the creation of the world's financial and trade frameworks; Anderlini (2014) pointed out the fact that Chinese MNCs do not respect local regulations; and Bershidsky (2015) emphasized the lack of reciprocity in investment policies between Europe and China and Chinese MNCs' excessive focus on M&As, rather than greenfield investment. This has notably been the case with FDI from Chinese MNCs.

Hence, FDI from Chinese auto companies that have in recent years taken over Sweden's Volvo and Korea's SsangYong, is usually not considered as positive as FDI from the American Big Three in LDCs (Xu and White 2012, Waldmeir 2013, Shirouzu 2014). By contrast, conventional-style FDI, from MNCs in DCs to LDCs is usually seen as positive in most of the existing literature. For instance, FDI from the American Big Three carmakers, such as Ford, Chrysler, and GM, into developing countries has been recognized as a booster for economic development or as a transfer of technology and/or management skill.

This perception has emerged because conventional FDI is usually considered to generate net economic benefits to the host country, particularly in the case of LDCs.¹ At the same time, unconventional FDI has been viewed as an attempt to acquire at best, steal at worst, technology, know-hows, and managerial resources from DCs. As such it is believed to have less direct economic benefits to the host country's economy. Moreover, FDI theories have traditionally concentrated on conventional types of investment, such as greenfield and joint venture investment in developing countries. In fact, some critics even believe that entry by M&As brings lower benefits than greenfield entry (Globerman and Shapiro 2009); in particular, M&As undertaken in DCs by firms from LDCs are viewed more negatively.

In order to better understand the effects of FDI, it is crucial to examine and comprehend more clearly the related theories. In this respect, there are two types: conventional and

¹ It is necessary to distinguish typologies of FDI. The definition of conventional and unconventional FDI is based on the country of origin; conventional FDI flows from DCs to LDCs, whereas unconventional FDI flows from LDCs to DCs. From a country perspective, if foreign FDI comes into a country, this FDI is called inward FDI. On the other hand, if domestic direct investment goes abroad from a country, this type of FDI is called outward FDI. The main point of this paper is the different effects of 'inward' conventional and unconventional FDI on the host country.

unconventional. Conventional FDI theories have tended to focus on the motivations of FDI that flows from DCs to LDCs. This is also the case for research carried out on the effects of FDI. These perspectives are based on the *OLI (Ownership, Location and Internalization) paradigm* or *eclectic paradigm* developed by Dunning (1979, 1981, 2000).² In contrast, the *imbalance theory* developed by Moon and Roehl (1993) explains why unconventional FDI flows from LDCs to DCs.³ This unconventional FDI has increased considerably due to the emergence of large developing countries such as the BRIC grouping of Brazil, Russia, India, and China (United Nations 2006).

Although the different motivations of conventional and unconventional FDI have been thoroughly analysed, a comparison of their effects on the host country has been less examined. Most studies have focused on the effects of either conventional or unconventional FDI separately or on their effects without differentiating between these two types of FDI. For example, when analysing the effects of FDI, Nair-Reichert and Weinhold (2001), Lipsey and Sjöholm (2004), Cheung and Lin (2004), Thangamani, Xu, and Zhong (2010), Liu and Lu (2011), and Moon and Parc (2014) focus on the impact of either conventional or unconventional FDI, whereas Blömstrom and Kokko (2001), Blömstrom, Globerman, and Kokko (2001), Becker and Muendler (2008), Van Wyk and Lal (2008), and Vissak (2009) deal with these two types of FDIs together without differentiating them from one another. As yet only a few studies have compared the different effects of both conventional and unconventional FDI on the host country with a comprehensive analytical tool.

The fact that few studies have compared and analysed the different effects of conventional and unconventional FDI on the host country calls for a more rigorous and structured analysis of this question. In particular, does unconventional FDI have fewer economic benefits than conventional FDI? Furthermore, what impact does unconventional FDI have on boosting economic development? This paper deals with this academically and practically important issue in two steps. First, it defines the differences of these two types of FDI and their effects on the host country by relying on a set of models derived from Porter's diamond model. Second, it tests the results obtained from a real-world case example of the Korean automobile industry. This is a meaningful choice since the Korean automobile industry received significant FDI from both DCs and LDCs.

² See section 'Conventional FDI.'

³ See section 'Unconventional FDI.'

II. LITERATURE REVIEW: DEFINING TWO TYPES OF FDI

1. Conventional FDI

The most popular FDI theory is Dunning's OLI or eclectic paradigm which is still regarded among scholars in this field as the most comprehensive way to explain FDI movement (Moon 2005). This theory explains the motivations for FDI from the investing firm's perspective and identifies three variables in this regard: ownership, location, and internalization. The brief definition of each motivation are as follows in *ceteris paribus* terms: (1) ownership (O) - the greater the competitive advantages of the investing firms, relative to those of other firms, the more they are likely to be able to engage in, or increase, their foreign production; (2) location (L) - the more the immobile, natural, or created endowments, which firms need to use jointly with their own competitive advantages, favour a presence in a foreign, rather than in a domestic location, the more firms will choose to augment or exploit their ownership advantages by engaging in FDI; and (3) internalization (I) - the greater the net benefits of internalizing cross-border intermediate product markets, the more likely a firm will prefer to engage in foreign production itself, rather than to license the right to do so to a foreign firm (Dunning 1988, 1995, 2000).

The OLI paradigm is largely based on advantages, particularly those related to ownership, of MNCs that originated from DCs. Hence, Moon and Roehl (1993, 2001) argued that this theory cannot explain well why companies from LDCs invest in DCs. For example, in the late 1990s, LG, one of Korea's largest *chaebols* or conglomerates, invested in Silicon Valley in the United States. At that time, Korean firms did not have any ownership advantages compared to their American counterparts. Similarly, the OLI paradigm has difficulties to explain why Chinese MNCs, such as Geely took over MNCs in DCs such as Volvo, with no clear advantages in terms of ownership or location. There is, thus, a need for a new approach, and the imbalance theory developed by Moon and Roehl (1993, 2001) provides a better explanation.

2. Unconventional FDI

The imbalance theory was developed in order to answer the broader question: 'what is the fundamental motivation for *any* firm to go abroad?' Hence, it seeks to explain the investment

behaviour of firms that have less advantages or even clear disadvantages, such MNCs from LDCs. Moon and Roehl (2001) argue that firms, both from DCs and LDCs, choose to invest abroad when they expect that the investment will lead to higher returns on ‘firm-specific’ assets. In order to achieve high returns despite the disadvantages, MNCs from LDCs look for advantages in the host country that can offset some of their disadvantages. In other words, an asset in which a firm has a deficiency will induce it to invest abroad in order to look for the complementary assets, such as advanced technology, management skills, or managerial resources that are not available at home. This logic can be applied to FDI of MNCs from DCs as well. Often, companies from DCs have disadvantages in cheap labour force or market access and therefore may invest in LDCs in order to overcome these disadvantages.

The imbalance theory can also better explain various trends of FDI. For instance, a lot of FDI from LDCs to DCs in the late 1980s and 1990s was triggered by the desire to circumvent protectionist barriers in DCs—mostly quantitative restrictions, e.g., voluntary exports restrictions and anti-dumping duties. This is especially true with cars (e.g., quotas in the EU, antidumping in the United States) and electronic goods (e.g., antidumping both in the United States and the EU). In this context, it is important to note when looking at the effects of FDI on the host country that ‘tariff-jumping FDI,’ induced by increasing trade barriers, is likely to exacerbate the problems of these countries. For instance, DCs which impose these barriers in order to ‘protect’ their domestic firms may, in fact, trigger large FDI flows from LDC firms in the FDI hosting country, exacerbating the competitive pressures in their home economy (Blonigen, Tomlin, and Wilson 2004).

The imbalance theory also explains better FDI related to the transition in economic development. For example, Korea has changed its level of economic development through the 1980s to the 2000s: it was still a LDC in many aspects in the 1980s, but became a DC economy by the 2000s. FDI from Korea still seeks to overcome disadvantages which have changed over time; for example, acquiring advanced technology and management skills in the earlier years, but avoiding strong labour unions, tough red tape, and other restrictions in Korea more recently.

To sum up, the motivation of FDI according to the imbalance theory is not just to search for complementary assets (Teece 1986, 1992), but also to enhance the productivity of firm-specific assets. This will strengthen the existing advantages and/or create new advantages which will increase productivity. Therefore, in this new approach, Moon and Roehl (2001) insist that the role of ownership disadvantages is as important as that of ownership advantages in motivating

investment. As conventional and unconventional FDI have very different motivations, their effects on the host country would be different from each other as well. The next section is dedicated toward analysing, comparing, and distinguishing these differences. As both types of FDI could affect the competitiveness of industries or nations, it seems reasonable to use Porter's (1990) diamond model as a rigorous basis for analysis and as explored further by Dunning (2003), Jung and Moon (2008), and Moon and Parc (2014).

III. COMPARISON: THE EFFECTS OF TWO TYPES OF FDI ON THE HOST COUNTRY

1. The effects of conventional FDI on the host country

Regarding the diamond model, Porter (1990, 1) raises a basic question on international competitiveness: 'why do some nations succeed and others fail in international competition?' This question led him to analyse successful industries in different countries and Porter consequently developed the diamond model which consists of four interrelated components: (1) factor conditions, (2) demand conditions, (3) related and supporting industries, and (4) firm strategy, structure, and rivalry, as well as two exogenous parameters (1) government and (2) chance. Porter argues that countries are more likely to succeed in industries or industry segments where the national diamond is most favourable. This model is useful as it includes a more comprehensive and systematic approach, and there have already been attempts to link FDI theories to the diamond model by Dunning (2003) and others. Jung and Moon (2008) and Moon and Parc (2014) take it one step further by analysing the effects of FDI on the host country with the help of the diamond model.

When a country hosts FDI from MNCs, Jung and Moon (2008) and Moon and Parc (2014) delineate its effects on the host country that are illustrated in Table 1. First, regarding factor conditions, significant capital inflows can be legitimately expected to create employment (Mullen and Williams 2005). However, arguments on inappropriate compensation can be raised when the wage level of MNCs' home country (DCs) and the host country (LDCs) are compared, since the average wage of MNCs in their home country is usually higher than that in the host country. Furthermore, in order to achieve higher returns on investment, MNCs would voluntarily bring advanced technologies as well as better managerial skills which induce technology spill-over and increase of productivity.

Table 1

The Effects of Conventional FDI on the Host Country (based on OLI paradigm)

		Positive effects	Negative effects
Factor conditions	Basic	Capital inflows, Employment	Inappropriate compensation
	Advanced	Tech transfer, Productivity increase	
Demand conditions	Size	Larger market, Export increase	Unnecessary consumption
	Quality	Consumer sophistication	
Related sectors⁴	Cluster	Cluster and spill-over on suppliers	Cut off existing domestic linkage
	Synergy	Linking global network	
Business context⁵	Rivalry	Enhanced competition	Crowding-out of domestic firms
	Structure	Better resource allocation	

Source: Based on Jung and Moon (2008) and Moon and Parc (2014), with modification by the author.

Second, concerning demand conditions, as MNCs established in the host country export abroad, the market size of the host country can be increased due to the distribution capacity of MNCs. Therefore, overall exports as well as the market size can eventually increase. On the other hand, these newly produced goods by MNCs—which are often better than the host country’s products in terms of quality, for example—can also be sold in the local market. This can be seen, in the short-term, as a source of consumption which is seen as ‘unnecessary’ or ‘excessive.’⁶ However, from a longer-term perspective, it can also be analysed as enhancing consumers’ sophistication by introducing better quality goods and widening consumer choices in terms of product variety.

Third, regarding related sectors, the existence of MNCs in the host country can generate industrial clusters and spill-over effects on suppliers. Since MNCs look for competitive business partners, such domestic companies can link their position to a global network through partnering with them. At the same time, the relatively uncompetitive domestic partner companies will be cut

⁴ ‘Related and supporting industries’ is referred to as ‘related sectors’ to adjust to a different unit of analysis, FDI, in lieu of country which was the original unit of analysis for analysing national competitiveness done by Porter (1990).

⁵ Since 1998, Porter has used ‘context for strategy and rivalry’ instead of ‘firm strategy, structure and rivalry’ for firm strategy, structure, and rivalry. See Porter (1998), Porter (2000), and Porter and Stern (2001). In this study, ‘context for strategy and rivalry’ is referred to as ‘business context’ by adopting Parc and Moon (2013).

⁶ Excessive consumption can also be increased as a result of imports by the FDI-investing MNCs in the host country (Mencinger 2003).

off or eliminated from the value chain of MNC's production activities. Lastly, for the business context, the participation of new foreign MNCs in the local market is likely to enhance local competition. This more intense competition may cause the crowding-out of relatively uncompetitive domestic firms, but this also leads to better resource allocation. Hence, it is more effective for sustainable economic development (Jung and Moon 2008, Moon and Parc 2014).

The analyses done by Jung and Moon (2008) and Moon and Parc (2014) combine FDI theories and the diamond model in a very comprehensive and systematic way. However, their analysis deals with the effects of conventional FDI on the host country, even though they do not specify the type in their analysis. In addition, the agents of this FDI are MNCs which are assumed to have ownership advantage, such as advanced technology, management skills, larger global networks, better products, and higher competitiveness. In fact, the effects listed in Table 1 are mostly those based on the OLI paradigm and conventional FDI.

2. The effects of unconventional FDI on the host country

We need thus an analysis on the effects of unconventional FDI on the host country by linking the imbalance theory to the diamond model. This approach not only offers a more systematic and holistic perspective but also has the advantage to allow for the comparison of the different effects of these two FDI with the same analytical framework. Based on the same approach, this study recognizes the various effects of unconventional FDI which are dispersed and found in existing studies and adds other effects to present a better understanding.

Regarding factor conditions, capital inflows from LDCs should create jobs (Ernst & Young 2013, Meunier, Burgoon, and Jacoby 2014). However, the magnitude of these effects may be smaller than those for conventional FDI. This is because the M&As seek to take over existing firms without creating more jobs (Mencinger 2003). Hence, it is often considered that further job creation is more connected with conventional FDI which has been dominated by greenfield investments. Meanwhile, looking at the technology aspect of FDI, MNCs from LDCs tend to acquire the host country's advanced companies which then may cause a technology drain (Dollar 2015, Meunier 2015). This is why many governments intervene during the negotiations for M&As to prevent the disclosure of technology, which is mostly considered as harmful for the domestic industry (Sengupta 2016).

In regard to demand conditions, MNCs from LDCs usually have their own global networks, even in lesser developed markets. Thus, the size of the market can still be enlarged through unconventional FDI in the same way as conventional FDI does (Shah, Jiang, and Hasnat 2014). On the other hand, if FDI is meant to avoid trade barriers in the host country, the increase of the host country's imports will be limited. Instead, substitutes are produced in the host country, and the price and cost for the same production will increase compared to before when the products are imported. There can also be less efficiency or lagging when utilizing acquired technology compared to the more advanced host country's local companies in DCs. Therefore, unlike conventional FDI, little effect on the sophistication of the local market can be expected through unconventional FDI. A good example in this regard was the prevailing misperception about Tata Motor's (hereafter Tata) acquisition of Daewoo Commercial Vehicle Co. (hereafter DCV) in Korea. This case will be examined further in the next section. When it comes to price sensitive goods, despite its low technology due to price competitiveness, a relatively low quality product can be more prevailing in the market of the host country; thus, unconventional FDI is less engaged in enhancing customers' sophistication.

For related sectors, the MNCs from LDCs may have difficulties or a reluctance to team up with the host country's local partners due to cost or (semi-) product compatibility: the cost can be comparatively more expensive, and the technology in products may be more advanced compared to what exists in the home country (Chung, Mitchell, and Yeung 2003). These MNCs may prefer to continue cooperation with other established sub-contractors (or partners) from its home country. Therefore, there is a risk of cutting off the existing local linkages from production activities in the value chain (Lee 2014).

Regarding the business context, an increase of local competition in the case of greenfield investment can be weakly or negatively related to the profitability of existing local firms (Lipsey 2004). However, as M&As have dominated unconventional FDI in recent years, particularly from LDCs, there has been less competition enhancement; the number of competing companies has not changed considerably. Moreover, workers from DCs are sometimes not willing to cooperate with companies from LDCs because of cultural differences and different style of management and operations. This is often due to a distorted sense of superiority related to the level of economic development of origin countries or LDCs. On some occasions, these barriers may hinder the restructuring of a firm (Brennan 2015). Last but not least, much of the unconventional FDI from

LDCs seeks to acquire new technology and management skills of firms that are facing financial problems, rather than normalization of operation or management.

The effects of unconventional FDI on the host country are aggregated and illustrated in Table 2. When compared with the effects of conventional FDI on the host country as shown in Table 1, unconventional FDI looks less beneficial in terms of economic benefits. However, one should not miss a crucial point: without the M&As with firms from LDCs, companies in the host country would simply go bankrupt. In such a case, existing investments and jobs would disappear completely, a factor that is often overlooked or dismissed by the majority of media outlets and scholars. Again, it is extremely important to emphasise that one of the hidden—but crucial—functions of unconventional FDI is to rescue existing firms in the host country: half a loaf is better than none.

Table 2

The Effects of Unconventional FDI on the Host Country (based on the imbalance theory)

		Positive effects	Negative effects
Factor conditions	Basic	Capital inflows, (Employment)	
	Advanced		Technology drain
Demand conditions	Size	Larger market, Export increase	
	Quality		Indifference with sophistication
Related sectors	Cluster		Cut off existing domestic linkage
	Synergy	Linking global network	
Business context	Rivalry	(Enhanced competition)	Diminishing profits of local company
	Structure		Difficulties for restructuring

Note: () means low probability and/or smaller magnitude.

IV. APPLICATION AND ANALYSIS: A CASE STUDY OF THE KOREAN AUTOMOBILE INDUSTRY

1. The evolution of inward FDI trend in the Korean automobile industry

The Korean automobile industry started off from a zero-base. The origins of the industry can be traced back to 1962 and the Automobile Industry Protection Law as part of the government's first

Five-Year Economic Plan. During this period, the Korean government focused on restructuring unorganized facilities, improving related systems and regulations, and increasing localization of auto-parts and manufacturing. Backed up by huge capital from the Korean-Japanese business man No-jung Park and further government support, Saenara Motors was established through a technology partnership with Nissan. This is considered as the first inward FDI in the history of the Korean automobile industry. Afterwards, several Japanese firms began to partner with Korean ventures. In this new context, the Korean government did not encourage inward FDI, but instead promoted technology partnerships with foreign companies (Park 2007, Truett and Truett 2012). Korean companies assembled completely-knocked-down (CKD) vehicles through partnerships with foreign companies.

These partnership companies enjoyed an oligopolistic situation—few competitors—without any significant technological advance. Thus, the Korean government pushed several under-performing companies to be merged with another Korean company, such as Shinjin Industry, or tried to minimize the influence of foreign investing firms. Furthermore, Mainland China changed its trade and investment policies due to political reasons in the 1970s and began to prohibit the import of goods produced by companies operating in South Korea and Taiwan. Thus, most of the partnerships with Japanese companies transferred to other countries, such as the United States. For example, Shinjin Motors partnered with GM and established a joint venture, GMK which became later Daewoo Motors (hereafter Daewoo), for automobile assembly in 1972. Kia Motors also had a partnership with Ford in the 1970s.

Instead of receiving FDI, other Korean companies tried to form partnerships with foreign companies to acquire manufacturing skills and technologies. However, they soon realized the difficulties in cooperating with foreign MNCs which preferred to have Korean companies as original equipment manufacturers (OEM) without the transfer of advanced technologies (Parc 2014a). Hence, a few companies tried to overcome this technological barrier without the help of other foreign companies. For instance, Hyundai emerged as the most innovative company in the Korean automobile industry without any FDI from or tight partnership with foreign companies. Once this successful model spread to other companies, these initiatives began to change the structure of the whole industry and transformed the companies from simple assemblers to automobile developers.

In the 1980s, the Korean government gradually relaxed its regulations on inward FDI as

one of the efforts to globalize Korea's economy (Park, 2007). The most noticeable FDI to the Korean automobile industry appeared during and after the Asian financial crisis of 1997, when the Korean automobile industry faced turmoil. It is interesting to note that most of the FDI invested in the Korean automobile industry during the 1980s had a conventional aspect. Since the late 1990s, unconventional FDI has increased as the development level of the Korean industry has enhanced, notably during and after the Asian financial crisis, when most of the merged companies suffered from serious economic difficulties.

2. The effects of conventional FDI on the Korean automobile industry

The increase in FDI into the Korea automobile industry after the 1997 Asian Financial crisis was spearhead by companies such as GM and Renault S.A. (hereafter Renault) from DCs, and Mahindra & Mahindra, Ltd. (hereafter M&M), Shanghai Automotive Industries Co. (hereafter SAIC), and Tata from LDCs. As a result, the Korean automobile industry naturally became more globalized. With the help of a depreciated Korean won following the Asian financial crisis, acquired Korean automobiles had both price and quality competitiveness. In particular, the latter was achieved through heavier investment in R&D, notably through FDI. Since 2000, exports abroad increased, boosting the recovery of Korea's automobile industry (Parc 2014b).

From GM (the United States) and Renault (France), there were significant capital inflows into Daewoo and Samsung Motors (hereafter Samsung), respectively, although the number of jobs did not change much in these automobile companies. In particular, Renault brought in a larger amount of investment for R&D, therefore generating technology transfer and productivity enhancement (Rasiah 2008). This outcome can be regarded as changes in factor conditions of the diamond model approach. More cars were produced and exported, and the number of foreign markets varied in the end.

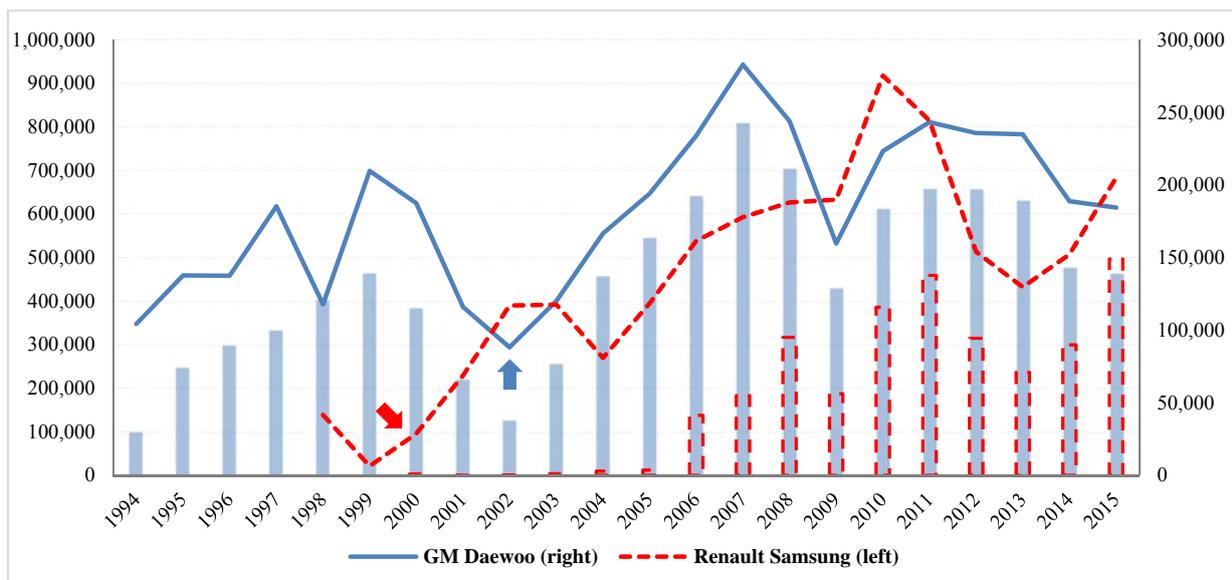
In terms of demand conditions, all this conventional FDI enhanced consumer sophistication, particularly following the introduction by Renault of several new car models based upon European designs that generated positive attention in Korea. Concerning related sectors, by taking over existing plants in the Incheon and Busan area, these two MNCs formed well developed clusters. Alongside this, a number of Korean parts and components companies could now access a global network and export their products to Nissan, the partner of Renault in the Renault-Nissan Alliance,

and other foreign companies (Wad 2008, Rasiah 2008).

Furthermore, competition in the sedan market has been greatly enhanced, and this has improved the quality of the business context (Parc 2014a, 2014b). Overall, this conventional FDI has been viewed positively and these M&As are considered to be successful cases. This positive effect can be justified by the improvement of vehicle production and exports (see Figure 1). It is clear that production and exports after M&As have gradually improved and overtaken the levels before M&As (the years of M&As are marked with arrows in Figure 1).

Figure 1

Production and export of GM Daewoo and Renault Samsung (conventional FDI)



Notes: 1) Daewoo was taken over by GM in October 2002 and Samsung was taken over by Renault in April 2000 (refer to arrows); 2) lines are for production and bars for export.
 Data source: Korea Automobile Manufacturers Association (KAMA).

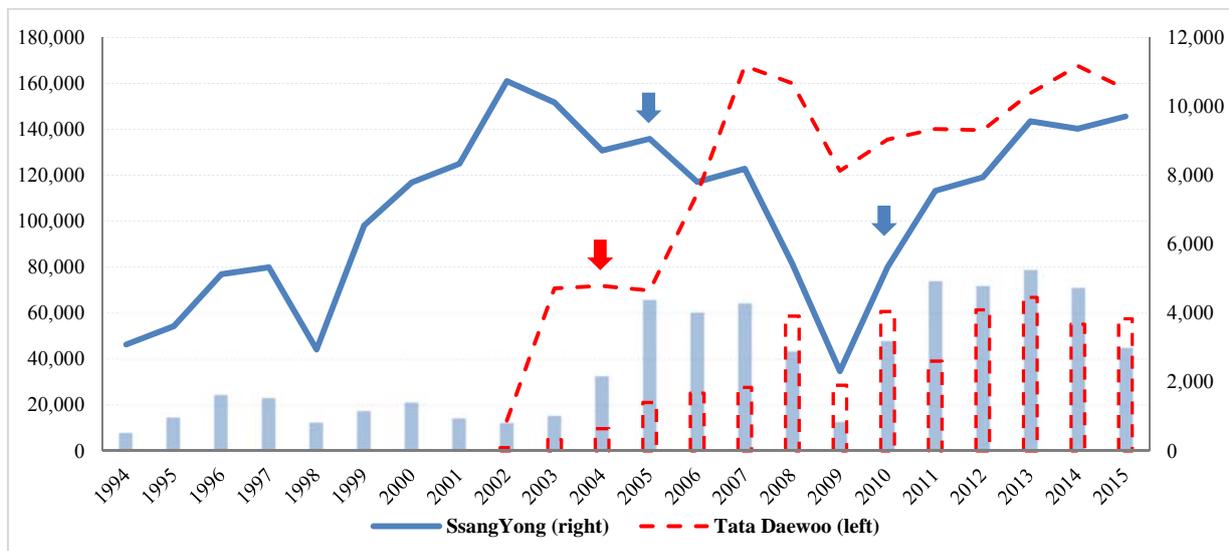
3. The effects of unconventional FDI on the Korean automobile industry

There are companies from LDCs, such as M&M, SAIC, and Tata, that took over two Korean auto producers, SsangYong and DCV. SsangYong was taken over by SAIC in 2005 and later by M&M

in 2010.⁷ However, there was huge debate on the issue of a potential technology drain. In particular, the labour union of SsangYong argued that SAIC took over the company only to take its sport utility vehicle (SUV) design technology, rather than to restructure the company back to a profitable track (Park 2005). SsangYong's production, sales, and exports have been considerably reduced during the period of 2005-2009, when it was under the dominance of SAIC (see Figure 2). In particular, its export and sales in China decreased significantly.⁸ After serious management difficulties, SAIC left SsangYong, and the company was taken over by M&M with the intention to expand its SUV sales to the United States. M&M has, more or less, restored the situation within two years. In 2015, SsangYong launched a new SUV, Tivoli and its sales in Korea has been profitable so far.

Figure 2

Production and export of SsangYong and Tata Daewoo (unconventional FDI)



Notes: 1) SsangYong was taken over by SAIC in January 2005 and again taken over by M&M in August 2010; DCV was taken over by Tata Motors in February 2004 (refer to arrows); 2) lines are for production and bars for export.
 Data source: Korea Automobile Manufacturers Association (KAMA).

⁷ In fact, Daewoo Motors took over SsangYong first, but as it encountered financial difficulties SsangYong was eventually sold off.

⁸ This decrease in production and export is alleged to be related to problems in SAIC's management. However, it is noteworthy that during the aforementioned period, the labour-management confrontations became severer and there was also the impact from the Global Financial Crisis of 2007-2008. Refer to Kim (2012).

DCV was taken over by Tata in 2004 and formed Tata Daewoo. The M&A of DCV with Tata created social and industrial anxiety in Korea since Tata was fairly unknown and there were concerns about possible technology outflow (Chung 2010). Despite all these worries, Tata Daewoo has begun to show strong performance. With the help of Tata's global network, Tata Daewoo has exported its products more, notably India, Algeria, and the United Arab Emirates (Park 2014). The trend has been mostly positive and Tata Daewoo achieved in 2014 the company's largest net profit ever (see Figure 2). In particular, when production and exports are compared, the performance of SsangYong and Tata Daewoo, both having received FDI from LDCs, have shown the same increasing trend as GM Daewoo and Renault Samsung. We should take into consideration that these cases of FDI from LDCs took over Korean companies that were relatively smaller and were suffering from severer financial difficulties than GM Daewoo and Renault Samsung at the time. It is notable that few companies were interested in taking over SsangYong and DCV.

In 2003, one year before SAIC's acquisition, SsangYong produced 151,696 cars and exported 15,405 (Park 2014b); its sales reached KRW 3,298 billion (USD 2.77 billion), while its operating profit reached KRW 290 billion (USD 0.24 billions) with around 7,800 employees (National Union of Metalworkers of Korea 2012).⁹ Given these numbers, if there had been no unconventional FDI from SAIC and M&M, the loss would have been huge. It is evident then that even the apparent 'negative' case of unconventional FDI has had some important positive outcomes.

Specifically, without SAIC and M&M's unconventional FDI to SsangYong, the long term sustainability of the company—although SAIC abandoned SsangYong several years later—would have been very much in doubt. With this take-over there was a relative improvement in sales, operating profits, and even the number of jobs, although there is evidence that some of these numbers decreased after SAIC's acquisition of SsangYong. Unfortunately, this economically valid perspective has been buried under nationalistic sentiment or patriotically-biased economic viewpoints. A great number of people are happy to see their home companies acquired by well-known foreign MNCs from DCs, but show less enthusiasm when they are taken over by foreign MNCs from LDCs.

These two M&As clearly offer very different facets of unconventional FDI; one is considered as successful, but the other less so. These different results may be more related to factors such as labour-management relations or the level of motivation in the MNCs from LDCs, rather

⁹ In 2003, USD 1.00 was KRW 1,191.61 (see World Bank).

than unconventional FDI *per se*. That being said, there is a very important point which should not be missed, but is often neglected; unconventional FDI saved these two financially weak companies that no other (domestic or foreign) company was willing to take over.

V. CONCLUSION

FDI has increased and its role in the global economy is today very significant. Often countries try to attract more FDI in order to achieve sustainable economic development. There are two types of FDI, conventional flows from DCs to LDC, and unconventional ones from LDCs to DCs. Unconventional FDI is often criticized while the conventional form is usually welcomed. This is due to incomprehensive or even distorted analysis which can lead to negative public opinion and counterproductive policy decisions. Thus, a rigorous analysis is needed based on a solid theoretical background.

This paper incorporates both the OLI paradigm and the imbalance theory combined with the diamond model in order to properly assess the effects of conventional and unconventional FDI more objectively. At first glance, it seems that conventional FDI is more beneficial to the host country than unconventional FDI. However, it should be stressed that, so far, unconventional FDI is often related to the survival of a company at a critical moment, an aspect often left aside or even neglected by most studies. The case of the Korean automobile industry clearly demonstrates the different effects of both conventional and unconventional FDI on the industry.

In the Korean automobile industry, both conventional and unconventional FDI have entered for different motivations. Conventional FDI flowed in Korea to exploit its cheap labour and strategic location for production and export, whereas unconventional FDI was invested to acquire advanced technologies and management skills. However, both forms of FDI have been shown to be beneficial to the development of the Korean automobile industry. Despite the origin of FDI, most companies that received FDI have shown improvement in terms of production and export. More importantly, companies that received FDI from LDCs have also been successful on the export markets to the extent that they converge quickly to a similar export-production ratio as Hyundai, the strongest performer in the Korean automobile industry.

In particular, without this unconventional FDI, several Korean automobile companies, such as DCV and SsangYong, would not have survived the economic crisis. This means a business entity

itself would have disappeared, as well as the principal investment that was invested to establish the firm. Thus, actually the effect of unconventional FDI is bigger than what might have been perceived at first glance, and unconventional FDI emerges as important as conventional FDI for sustainable economic development. In this regard, unconventional FDI that is from LDCs should not be denigrated and should be understood as helpful as conventional FDI.

When dealing with both the effects of conventional and unconventional FDI comprehensively, this paper has left aside certain important issues related to both FDI, which are today often highlighted by a number of practitioners and media outlets, particularly in the case of unconventional FDI. These include M&As by state-owned companies, real motives of acquirers (e.g., unspecified and round-tripping investment), national security, and transparency. Incorporation of all these issues to the basis of this study would give more real-world practice and policy aspects on the effect of FDI. This could then be a good research topic for further studies.

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SUMMARY

There are two types of foreign direct investment (FDI): conventional flows that come from developed countries (DCs) to lesser-developed countries (LDCs) and unconventional ones that go from LDCs to DCs. The existing literature often perceives conventional FDI as more positive than unconventional FDI. Despite a significant increase in unconventional FDI from LDCs, scepticisms about its effects continue to prevail and have become debatable issues. In order to better understand the true impact of unconventional FDI, a more holistic assessment utilizing solid analytical tools is required. This paper expands and deepens the comparison of conventional and unconventional FDI's effects on the host country. This methodology is then applied to the case of the Korean automobile industry. The results show that the actual effect of unconventional FDI is much larger than is often perceived. Therefore, it can be argued that unconventional FDI is as important as conventional FDI for sustainable economic development.