Assessing nationalistic expressions of Korean companies: Korean FDI in Mexico

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1. Introduction

The project investigates the characteristics of Korean investment in Mexico. It attempts to explore business practices of Korean companies and the weight Korean national identity has in competitiveness. It pays special attention to the linkages that Korean companies (commercial subsidiaries, affiliates, producers, or maquiladoras) maintain with their parent companies and/or with other Korean-origin firms. The investigation concentrates in two issues: the control and decision-making within the firm and the preference for doing business with Koreans.

The idea to study a Korean business community abroad and the nationalistic notions that may affect their business practices came about after realizing that most literature on Korean nationalism, especially the study of overseas Koreans, seldom considers this particular group of society. Numerous studies deal with the issue of economic nationalism and how business groups in Korea responded to the incentives and demands of government’s development project. In different ways, the literature suggests that economic nationalism in Korea shapes corporate structures and practices, many of which remain features of the business environment within the country. However, it does not explicitly explore the idea that some of those practices may be reproduced outside Korea. In that sense, this project intends to elucidate if exclusivity practices—an effect of economic nationalism—are reproduced in other settings, if these are suitable for maintaining identity cohesion and strengthen

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1 The authors would like to thank the UCLA Center for Korean Studies and the Academy of Korean Studies for the financial support provided for this research through the Small Research Grant Program. We also appreciate the invaluable help of Mr Um Ki-Woong from KOTRA-Mexico for the information and assistance for establishing the contacts with Korean companies’ representatives. Many thanks to the colleagues who provided valuable feedback to the project in its early stages and to all interviewees for their willingness to spare some time for us during field work.
efficiency and competitiveness. In other words, we ask if nationalism is compatible with global business practices and competitive strategies.

As the project and our ideas evolved, we found that to make the research feasible, we should explore what we called “expressions of nationalism”. We set up three levels of expressions suitable to our purposes: ownership preferences (control and decision-making within the firm); production or business networks (structure of supply chains), and management organization (national origin of top-management). This research focuses not on the question of why Korean firms became internationalized but in more qualitative and subjective aspects, such as how they do so. In that sense, the objective is to find out if there is a style paradigm characteristic of Korean TNCs (transnational corporations) and the extent to which such style is shaped by clear expressions of Korean nationalism.

Research questions and objectives

After a quick look to the general figures of Korean outward FDI (foreign direct investment) in Mexico, we noticed that most companies, regardless of size and sector, are 100% owned by Koreans and that suppliers of key components of assemblers are mostly Korean companies. These figures raised our initial research questions, i.e., the extent to which national control of Korean firms constitutes a prerequisite to succeed in global competition; the degree in which the internationalization of Korean corporations is driven by cost-benefit rationality (controlling the cross-border value-chain of buyers and sellers -suppliers), an implicit preference for Korean firms or even aiming at strengthening the national economy.

In order to answer these questions, the research project identified expressions of industrial nationalism among Korean firms investing abroad, relating them to a strategic vision linked to strengthening the national economy. The project aimed at large TNCs whose headquarters are based in Korea, as well as to those Korean suppliers that followed them and clustered around their clients.

Though as we found out, the results cannot be considered conclusive, due to the size of the sample and the complexity of issues covered, we think that as an exploratory exercise it provides a potentially rich starting point for further research related with the activity of Korean FDI in Latin America. We believe that Korean TNCs, despite many commonalities with other TNCs, are unique entities that may help to understand certain aspects of competition in the context of globalization. We also believe that it is possible to gather some clues about Korean national character through the study of Korean companies abroad. In this sense, the research is also a contribution to the study of Korean communities abroad. Consequently, the results might be of interest for colleagues in Argentina, Brazil, and Chile, as well as other Latin American countries with some presence of Korean firms.

Structure of the paper

This paper is divided in five parts. The first part briefly describes the research strategy. The second part reviews the literature on three issues related to the research: TNCs from developing countries, current tensions between global and local imperatives, and Korean outward investment. The third part sets the background of Korean FDI in Mexico, using basic statistical data and a few references about Korean firms in Mexico. The fourth part examines the results of the fieldwork, summarizing our findings on the different issues covered by the interviews. The final part draws some preliminary conclusions based on the analysis of findings from field research.
2. Research strategy and methodology

The research utilized three sources of information. The primary sources were statistical data and qualitative, in-depth interviews with Korean top-executives; the secondary source consisted of published and unpublished academic materials about Korean outward FDI.

Selection of Korean companies to be interviewed was made on criteria of location, sector and availability. The firms were chosen from three entities in Mexico with a major concentration of Korean companies, mainly from the industrial and commercial sectors. The target interviewees were Korean top-executives. Most contacts were made through KOTRA’s office in Mexico City. The interviews were conducted between the 26th of June and the 11th of July, 2008.

The sample consisted of 12 companies. Four companies had their offices in Mexico City’s Metropolitan Area, one in Puebla, five in Tijuana, and two in Mexicali. It covered a total of three companies dedicated to commercialize products from the same group (two for electronic products and one for processed food), one liaison office, one processing plant, two final assembly plants, and five component suppliers for final assembly plants. Of all these companies 9 were in the electronic business, two in steel, and one in processed food.

The open ended and semi-structured interviews were organized around problems which we thought would elicit Korean nationalist feelings among high managers, in particular around the following issues: ownership and associations with non-Korean companies; the position of the companies along the production chain and the willingness to buy components and services from Mexican or other non-Korean suppliers; the origin of the machinery and other key components for the company’s products; the management style of the company; the national origin of top-managers, organizational patterns and comparisons with local patterns; and the contribution of the company to Korean development. Interviews were conducted in English and in Spanish (in two cases a translator assisted the interview).

3. Literature Review

Multinationals from developing countries

During the 1970’s multinational corporations from developing countries emerge and become an object of increasing attention among academics and the media. The largest corporations from Latin America and Asia (especially Korea, Taiwan and India) expand towards other countries where they find similar institutional frameworks; geographic, cultural and linguistic proximity, or where they can find partners that can facilitate their expansion (Lall 1983).

Two waves of internationalization of corporations from developing countries have been identified (Chudnovsky, Kosacoff, et al. 1999). According to Lall (1983) and Wells (1983), during the first wave, lasting roughly from the 1970’s to the 1980’s, these corporations developed competitive advantages in the adaptation of mature and mass production technologies to small markets, where they could profit from abundant and cheap labor. Until recently this process of technology transfer

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2 These explanations draw on Vernon’s (1987) product cycle approach, according to whom every product undergoes three phases: (1) product is introduced generally in industrialized countries where markets are large enough to make innovation profitable; (2) product is standardized and exported to other countries to profit and control ownership advantages; and (3) replication and imitation of the product expands and the product standardizes world wide, eroding innovating advantages. The cycle is meant to internalize technological advantages, avoid technological diffusion and
from developed to developing countries was conceived as a passive process which only entailed adaptation and adjustment of concepts, equipment and technology. Today it is widely accepted that such process can lead to development of technological, entrepreneurial, marketing and, in some cases, even scientific capabilities, some of which cannot be easily codified. Under certain circumstances it can also transform competitive advantages of firms and become instrumental for development and growth. Licenses, technological contracts, know how and training generates intangible knowledge embodied in trained labor, organizational and managerial capacities. In addition, businessmen and executives undergo processes of learning allowing them to negotiate better contract conditions and associations with foreign capital. The development of these capabilities depends, among other factors, on the intervention of the state, the orientation of its economic and industrial policies and the links with productive sectors (business and labor, particularly), as several authors have extensively documented (Amsden 1989, 2001; Evans 1995; Wade 1990, among many others). Intangible know how can be stimulated or inhibited by state policies.

However, TNCs from different developing countries follow different paths depending on the institutional environment in their home country. In some countries (for example Korea and Taiwan) such environment provides incentives to developing higher technological capabilities not only in mature sectors, but in capital intensive and sophisticated consumer markets, though not necessarily at the technological frontier (van Hoesel 1999). Those TNCs that followed this second path during the second wave of internationalization (from the 1990s to the present) are better equipped to gain access to industrialized countries and, simultaneously, to expand to higher value activities in the production chains, develop ownership advantages stemming from technological innovation, particularly organizational and production engineering and less so R&D (Chudnovsky, Kosacoff, et al. 1999: 49).

The increasingly greater innovative capacity and ownership advantages of these TNCs from developing countries are simultaneously cause and effect of the higher levels of development of their home countries productive structure and, consequently, a more competitive position world wide. For this reason states have strengthened and subsidized large corporations, though the degree of success depends too on the multiplying effect these firms have on clients and suppliers and the economy, in general.

Wilson Peres (1993) distinguishes internal and external factors (in the corporation and the environment, respectively) motivating firms from developing countries to become transnational. Among the first, he mentions the need to be more efficient, fasten the process of learning in technological, marketing and management, and to reduce the risk by monitoring new developments in advanced countries. Among environmental factors, he refers to the economic policies, the company’s positioning, the economic situation in general and the reorganization of global markets. But in some cases –such as Korea and Taiwan- the drive towards internationalization is also closely linked to the need to pursue the export oriented strategies so crucial to the success stories of these economies and firms. Outward foreign investment by these TNCs encourage in different ways foreign trade, either intra-firm or through the complex network of suppliers in their home country.
In the 1990s an increasingly greater number of scholars consider the institutional context, particularly industrial policies, to be paramount in the potential for the international projection of corporations (Michalet 1991). Corporations expand not only to profit from their competitive or ownership advantages, but to enhance them and create new ones. As the information economy expands, competitive advantages depend increasingly on the creation and spread of knowledge and intellectual assets, which are particularly dynamic in industrial corridors where clusters have built up (Castells 2000). As the search for intellectual assets acquires greater weight in the logic of expansion and localization of TNCs, clustering and social networks are particularly attractive and subsidiaries become the main vehicle to identify and acquire new assets, directly or through transborder strategic alliances (Dunning 2001).

**TNCs and the tension between globalizing and localizing trends**

TNCs are widely considered as one of the main actors furthering global trends, influencing decisively economic structures, as well as international regimes. They also sway enormous power over patterns of distribution and consumption, eliciting new forms of interaction between national and international actors and, consequently, new understandings of nationalism and identity.

There is wide agreement regarding the origin of TNCs—that could be traced to the middle of the XIX Century— as well as the relationship between their expansion and the progress of communications. By contrast, there are no shared criteria to define TNCs and distinguish them from multinational or global corporations. While some authors underline quantitative criteria others prefer qualitative factors. Until the 1970s definitions stressed quantitative criteria. Dunning (1993: 3-4), for example, who has conducted numerous and far reaching research on TNCs, identifies the quantitative variables most often used to assess the scope of multi or transnational corporations, i.e., the number and size of subsidiaries in foreign countries, the number of countries in which the corporation has value adding affiliates, the percentage of assets, income, sales and workers abroad, the origin of high executives (number of foreigners in the corporate staff), stock circulating in foreign markets, and the degree to which high value activities (including R&D) have been internationalized.

From the 1980s onwards definitions give more attention to qualitative factors. Among these, Dunning (1993) highlights, on one hand, the coordination of several productive units adding value across one or more borders and, on the other hand, the internalization of transactions across borders (intra-firm trading), both of which reduce production costs. Vernon and Wells (1981: 4) emphasize as the most important factor the integration not only on the level of ownership, but on the level of common strategic goals.

The concepts of transnational, multinational and global are often used indistinctly. But recent rends distinguish between, on one side, multinational or international business and, on the other, transnational or global corporation. Jonathan Aronson and Peter Cowhey (1993: 43-47), for example, argue that the main difference is the level of integration. Whereas subsidiaries of multinationals respond to the logic of the local markets where they are established, transnational or global corporations require a high degree of integration in order to profit from specific advantages of the firm, obtain complementary assets through strategic alliances and networks of cooperation.

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3 Large trading companies, such as the British India Company, Hudson Bay Co., British Royal Co. had complex organizational structures during the XVII y XVIII Centuries, but their activity was limited to Trading luxury products and only marginally to industrial production (Held, McGrew, et al., 1999: 238-9).
Managing networks or coalitions becomes a fundamental task among global corporations in order to guarantee that each unit contributes to these advantages making the firm more competitive.

Concepts are further refined from the 1990s onwards, allowing a deeper understanding of the changes undergone by large TNCs in their corporate strategies and structures. The most complex and advanced corporations must develop the strategic capacity to meet both, global and local imperatives. While the latter express the particular needs and preferences of the markets where TNCs operate, the former demand standardizing and integrating processes and products across borders. Striking a balance between these imperatives becomes an extremely complex task, because each of the markets –consumer, labor, financing and services- represents particular demands, which in addition are very dynamic. The equilibrium is thus temporary, fragile and flexible, and therefore can be uncertain and subject to permanent adjustments and negotiation.

Nevertheless, the process going from territorial expansion to enlarge markets, increase profitability, diversify risks and earnings, to integration, diversification and complex organizational combinations internalizing diverse activities to overcome market imperfections is a continuous process. But different levels of organizational complexity overlap, with particularities by sector. Thus, the tension between local and global imperatives is particularly strong in the automobile, electronic and telecommunications sectors, due on one hand to markets and consumers increasingly demanding, differentiated, segmented and stratified; and on the other hand, to the high degrees of standardization of supplies and integration of production chains. In more traditional sectors, such as textiles, coordinating outsourcing and marketing networks becomes particularly relevant. By contrast, the logic of food production responds predominantly to local requirements. Several authors argue that the more traditional multinational organizational structures prevail and the number of authentically global firms is insignificant (Doremus, Keller, et al. 1998). Other authors conceptualize transformations experienced by these firms. Thus, Martinez and Jarillo (1989) contend international business has undergone three phases of development: (1) from 1920 to 1950 when multinational or multidomestic corporations prevail; (2) from 1950 to 1980 the global firm emerges and develops and (3) from 1980 to the present the transnational as a more complex global corporation expands. Bartlett and Goshal (1989), in turn, classify corporations according the their strategies, identifying three types: (1) Multinational corporations whose advantage relies basically on efficiency; (2) global corporations relying predominantly on standardization of products and (3) international business which depend increasingly on the flux of knowledge across the organization (ITT, NEC, Ericsson).

However, as these and other authors acknowledge, these strategies are complementary, responding to the specificities of the products, markets and corporations. In other words, several strategies and corporate structures coexist. Held, McGrew, et al. (1999: 255), argue that even when the traditional hierarchical structure does not disappear altogether, the network structure becomes more important, as can be seen in (1) more horizontal relationships between headquarters and affiliates that can simultaneously assure the autonomy and communication needed for integration and standardization, particularly when new technologies are employed; (2) subcontracting and outsourcing of small and medium size companies which produce at low cost and are more flexible to changes in the environment; (3) cooperation and strategic alliances, even among companies in the same sector. One of the advantages of the network structure is the capacity to process information and organize markets, essential to coordinate productive process (Held, McGrew, et al. 1999: 255).

To be able to manage networks and alliances, global corporations must put flexibility at the basis of all its procedures, not only administrative and labor, but technological and cognoscitive as well (Dunning 1997). Doz et al. (2001)’s concept of meta-corporations underlining the need to search and
control intellectual resources and capacities around the world becomes paramount to reach strategic goals.

**Korean outward FDI**

The literature on TNCs from developing countries has a fairly long pedigree and the phenomenon has been studied from different perspectives. In general, the focus account for ‘push’ and ‘pull’ factors that partly explain Korean outward FDI as well as the strategies to succeed.

Studies on Korean outward FDI and TNCs, according to region of destination focus predominantly on the particularities of Korean investment in Europe (Cherry 2001; Dent and Randerson 1997; van Hoesel 1999). Kwak and Mortimore (2007) and the report from CEPAL (2006: chapter 3) made important contributions to the literature on Korean outward investment and corporate strategies in Latin America. The analysis of these authors explain Korean FDI as a consequence of structural limitations due to the industrial maturity (higher production costs), thus internationalization of firms was a strategy to escape from ruin against other global competitors with advantages in labor costs. By the time Korean economy reached higher stages of industrialization –around 1980s– there was a number of national firms that were already investing abroad, whether for assuring supply of raw materials or establishing manufacture facilities. The issues covered by these authors are interesting in the sense that Korean companies show they have had a clear understanding of the workings of transnational business and had set appropriate strategies not only to survive but to win in global competition. Although substantial part of the learning has been by trial and error, the investment flows targeting Europe, North America, Southeast Asia, and Latin America have generally a reasonable basis according to the advantages of the hosts. Nonetheless, the studies mentioned above do not intend to explain the Korean ways of accomplishing competitiveness.

The study of Korean investment in Mexico is scarce and tangential at best. For instance, abundant research has been done about the maquiladora industry in Mexico, but almost all research on foreign manufacturing companies is done on sectoral basis rather than focusing on any the particular origin of investment. Research has seldom concentrated in asking about the particularities of these companies. The work of Choi and Kenney (1997) might be an exception. They examine Korean factories operating in Mexico during the 1990s. They highlight the fact that Korean companies actively invested abroad and that Mexico became very attractive for manufacturing plants to serve the US market given its condition as NAFTA member, and its land and labor cost advantages. Choi and Kenney’s work nicely embroils push and pull factors that explain part of the phenomenon. However, it’s is not explicit in their results, why Korean investment follows the ownership and organizational patterns as they do, which is similar to that of Japanese firms.

Furthermore, literature on economic relations between Mexico and Korea focus predominantly on trade relations. References to investment are few and they tend to recognize that the trade deficit with Korea is partly due to intra-firm trade, as it is argued by Falk and Rodríguez (2004: 75-6) and less critically mentioned by Mun and Quintana (2003: 1151).

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4 The report was directed by Michael Mortimore.

5 The most important effort to study particular attributes of Asian companies is the work of Alonso, Carrillo and Contreras (2000); see also Carrillo and Barajas (2007) for a general picture of the electronics and automobile maquiladoras in Mexico.

6 Japanese internationalization and TNCs workings have received more attention in the past (Han 1994; Mason and Encarnación 1994; Ozawa 1979).
This research aims at filling some gaps in the literature of Korean outward FDI, focusing on the activities of business communities. In order to do that, it makes the Korean internationalized company (either big or medium size) the main object of study. From the theoretical point of view the literature reviewed raises questions of great interest which can be addressed in this research to explore the ways Korean affiliates and top executives in Mexico confront and digest the tensions between global and local trends. For instance, to what extent these tensions represent challenges to the firms and in what ways? But before we examine our findings on these and the previous questions, we proceed to give a background of Korean investment in Mexico.

4. Background of Korean FDI in Mexico: The case of Korean internationalized companies

Korean FDI in Mexico is not a recent phenomenon, although the larger scale investment started to be more conspicuous since mid 1990s. The first investments were registered in the early 1980s, mostly for the establishment of commercial and representative offices to promote Korean exports and probably for settling operations in order to secure the supply of some raw materials. As it is often recognized, it is difficult to be sure about the origin of the foreign investment, especially in the Mexican case. This is due to the close economic relationship with US and the fact that the maquiladora program in which much of the Korean manufacturing investment is concentrated, leads to the establishment of a Korean regional HQ in US and investment to Mexico is made through such entity, thus sometimes registered as a US investment. Such triangulation—which has deepened even further with NAFTA—may produce some confusion when looking at statistical data. In any case, even if the investment is redirected through the US, we assume that it is Korean capital.

In the late 1980s, the Korean economy started to suffer from high production costs, especially due to the rise of wages and escalating land prices. In consequence, the competitiveness of Korean manufactures started to decline. This structural limitation was a serious push factor at that time. However, only the big companies started to look for better locations to transfer some parts of their manufacturing operations, including plants in the US to assemble televisions using parts imported from Korea (Choi and Kenney 1997: 10). Small and medium size companies had no relevant experience in dealing with foreigners and overseas operations; understandably, this sector focused on the difficulties of investing abroad, especially in Mexico which seemed so distant, both in geographical and cultural terms. Even the big companies who had established offices in Mexico before launching full-blown projects found it difficult understanding their host. The investment targeted mainly labor intensive industries, especially those segments in which price competition is important.

The first significant investment was made in 1987 by Goldstar (now LG) to manufacture color televisions in Mexicali. It was followed in 1988 by Samsung setting up a plant in Tijuana; Hyundai undertook substantial investments in Tijuana in 1991 and 1993, while Daewoo established manufacturing operations in 1993. By early 1980s these companies were already big and competitive in foreign markets. Investments in Mexico were followed by further expansion, sophistication, and diversification (Choi and Kenney 1997: 12). In 2006, POSCO made its appearance as a significant

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7 In 1981, for example, POSCO established a liaison office in Mexico City. At first it did not have commercial activities. It was a HQ’s information center about the steel industry in Mexico and Latin America.
8 Such practice was benefited by a relaxation of Korean regulations for investing abroad, which occurred during the 1980s (Cherry 2001: 83-94). An additional factor was the gradual deregulation in the financial sector, which made easier for big Korean firms to finance their ventures with domestic and international credit (Thurbon 2001).
9 These opinions were expressed by Lee Joong-jae, former General Director of Goldstar Mexico (Lee K. and Ruiz de Chávez 1995: 67-70)
investor and is now currently building important steel production and processing plants in different locations.

The negotiation and final ratification of the North America Free Trade Agreement in 1994 was a turning point for Korean investment in Mexico. The Korean investment increased almost four-fold between 1994 and 1995 and continued rising ever since. NAFTA was, indeed, a critical institutional pulling factor, which overshadowed the cultural and bureaucratic concerns that smaller companies had, mostly suppliers of big Korean assemblers established earlier in Mexico to comply with local content, thus offsetting existing trade barriers and take advantage of low labor costs. It is worth noting at this point that Mexico has never been a destination aimed to secure sophisticated technology.

In April 2002, Mexico and Korea signed the Foreign Investment Protection and Promotion Agreement. The agreement encourage both countries to promote and create conditions for business to invest in either territory guaranteeing fair and equal treatment and assuring protection to the investment. This instrument set the institutional grounds for secure investment of Korean affiliates.

According to the Mexican Ministry of Economy, by September 2006 there were 1,105 companies with Korean capital, or 3.2% of foreign invested companies registered in Mexico. Between January 1999 and September 2006, Korean firms invest US$ 296.0 million, accounting for 0.2% of total IED flows into Mexico in the same period (US$ 145,763.5 million) and 7.8% of East Asian countries. Korea holds a third place of foreign investment inflows from the Asia Pacific region.

Table 1. Korean investment in Mexico, 1994-2006* (Thousand US$)

<table>
<thead>
<tr>
<th>Year</th>
<th>Annual amount</th>
<th>Aggregate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1994</td>
<td>15,064.5</td>
<td>15,064.5</td>
</tr>
<tr>
<td>1995</td>
<td>103,753.6</td>
<td>118,818.1</td>
</tr>
<tr>
<td>1996</td>
<td>85,836.2</td>
<td>204,654.4</td>
</tr>
<tr>
<td>1997</td>
<td>199,168.6</td>
<td>403,822.9</td>
</tr>
<tr>
<td>1998</td>
<td>52,577.9</td>
<td>456,400.8</td>
</tr>
<tr>
<td>1999</td>
<td>46,177.7</td>
<td>502,578.6</td>
</tr>
<tr>
<td>2000</td>
<td>30,161.6</td>
<td>532,740.2</td>
</tr>
<tr>
<td>2001</td>
<td>48,223.2</td>
<td>580,963.4</td>
</tr>
<tr>
<td>2002</td>
<td>31,538.5</td>
<td>612,501.9</td>
</tr>
<tr>
<td>2003</td>
<td>37,135.5</td>
<td>649,637.4</td>
</tr>
<tr>
<td>2004</td>
<td>34,753.2</td>
<td>684,390.7</td>
</tr>
<tr>
<td>2005</td>
<td>48,479.5</td>
<td>732,870.2</td>
</tr>
<tr>
<td>2006*</td>
<td>19,502.4</td>
<td>752,372.6</td>
</tr>
</tbody>
</table>

* September
Source: Ministry of Economy (Mexico)

The sectoral distribution of Korean investment in Mexico between 1999 and 2006 shows that the majority of investment projects concentrates in the manufacturing industry (53.6%), followed by

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10 According to information provided by KOTRA, Korean investment in Mexico increased from US$ 9.3 million in 1994 to US$ 42.2 million in 1995.
11 The full document in Spanish can be found in http://www.economia.gob.mx/pics/p/p1210/APPRICorea.doc (recovered June 23, 2008)
12 Japan and Singapore are the main investors in aggregate level (Falck and Rodriguez 2004: 76); http://www.economia.gob.mx/pics/p/p1239/CORSEP06.doc (recovered May 16, 2008)
13 http://www.economia.gob.mx/pics/p/p1239/CORSEP06.doc (recovered May 16, 2008)
commerce (43.1%), services (2.7%), construction (0.5%) and agriculture (0.1%). In the same period investment is directed to five states: Mexico City (40%), Baja California (26.9), Nuevo Leon (11.0%), Estado de Mexico (5.9%), and Sonora (5.5%).

Table 2. Main sectors receiving FDI from Korea (from January 1999-September 2006)

<table>
<thead>
<tr>
<th>Sectors</th>
<th>Amount thousand US$</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Commercializing non food products on large scale</td>
<td>115,299.9</td>
<td>39.0</td>
</tr>
<tr>
<td>2 Manufacturing electronic equipment (radio, TV, communications, medical equipment)</td>
<td>53,558.0</td>
<td>18.1</td>
</tr>
<tr>
<td>3 Manufacturing domestic appliances</td>
<td>42,280.7</td>
<td>14.3</td>
</tr>
<tr>
<td>4 Manufacturing plastic products</td>
<td>40,636.4</td>
<td>13.7</td>
</tr>
<tr>
<td>5 Other manufacturing products</td>
<td>10,994.4</td>
<td>3.7</td>
</tr>
<tr>
<td>6 Commercializing non food products, retail</td>
<td>10,158.8</td>
<td>3.4</td>
</tr>
<tr>
<td>7 Manufacturing textiles</td>
<td>7,886.9</td>
<td>2.7</td>
</tr>
<tr>
<td>8 Clothing with textile materials</td>
<td>5,518.3</td>
<td>1.9</td>
</tr>
<tr>
<td>9 Manufacturing metal products</td>
<td>4,328.3</td>
<td>1.5</td>
</tr>
<tr>
<td>10 Clothing</td>
<td>3,838.6</td>
<td>1.3</td>
</tr>
<tr>
<td>Other</td>
<td>1,471.5</td>
<td>0.4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>295,971.8</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

Source: Ministry of Economy (Mexico)

Table 3. By Destination (from January 1999-September 2006)

<table>
<thead>
<tr>
<th>Ranking</th>
<th>Federal entity</th>
<th>Amount thousand US$</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Distrito Federal</td>
<td>118,322.3</td>
<td>40.0</td>
</tr>
<tr>
<td>2</td>
<td>Baja California</td>
<td>79,675.4</td>
<td>26.9</td>
</tr>
<tr>
<td>3</td>
<td>Nuevo León</td>
<td>32,637.1</td>
<td>11.0</td>
</tr>
<tr>
<td>4</td>
<td>Estado de México</td>
<td>17,323.9</td>
<td>5.9</td>
</tr>
<tr>
<td>5</td>
<td>Sonora</td>
<td>16,357.8</td>
<td>5.5</td>
</tr>
<tr>
<td>6</td>
<td>Puebla</td>
<td>10,139.1</td>
<td>3.4</td>
</tr>
<tr>
<td>7</td>
<td>Guanajuato</td>
<td>7,166.8</td>
<td>2.4</td>
</tr>
<tr>
<td>8</td>
<td>Jalisco</td>
<td>4,029.4</td>
<td>1.4</td>
</tr>
<tr>
<td>9</td>
<td>Querétaro</td>
<td>2,558.3</td>
<td>0.9</td>
</tr>
<tr>
<td>Others</td>
<td></td>
<td>7,761.7</td>
<td>2.6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>295,971.8</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

Source: Ministry of Economy (Mexico)

The importance of Mexico as a destination for Korean FDI can be partially explained by Dunning’s eclectic paradigm in which ownership, internalization and locational factors are relevant. Despite red-tape and other bureaucratic obstacles, Mexico offers several advantages, from institutional to locational. The institutional advantages in terms of property are the increasingly open rules for foreign ownership. As in many countries, restrictions to partial or whole ownership have been greatly

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14 Ibid.
15 Ibid.
16 Ibid.
reduced and today they are relevant on very few industries and sectors. Furthermore, Mexican industrial policy—sometimes sarcastically defined as no industrial policy by the highest public officers—does not impose requisites or conditionalities to FDI from any source. In this sense, Korean companies enjoy ample freedom to establish operations in Mexico.

Internalizing and coordinating operations across borders is another factor why Korean companies consider the Mexican institutional environment as favorable. Since a great portion of investment goes to manufacturing facilities, the production chain is often simple and suitable for keeping control on suppliers.

Locational factors are also quite significant in the decision-making process of Korean firms. To reiterate, Mexico has been generally considered a very attractive location not only to cut labor costs, but more importantly to profit from the advantages of vicinity to the US market, and the fact that major Korean clients had already established in site (Douw and Koops 1999: 784). Furthermore, in addition to the significance of NAFTA market (Mun and Quintana 2003: 153-4), Mexico also offers a well established infrastructure for export manufacturing, especially in the northern border. This advantage has been well recognized and has led 29% of Korean FDI to be located in such industrial belt. The companies established in industrial cities such as Mexicali, Tijuana, Monterrey, Ciudad Juarez, Altamira, among others, export most production to the United States.

These situational conditions are implicitly acknowledged by the Korean businessmen as well as by government officials who have been active in promoting closer relations with Mexico (KIEP 2005). Likewise, Mexican authorities (federal and local governments) have been interested in attracting Korean FDI as an alternative source of employment and income for the abundant and skilled workforce, in some cases, expecting this investment to provide new learning experiences that could eventually enhance technological capabilities. Whether these expectations are realistic, given the type of investment of Korean firms is not the focus of this research, although it has been analyzed by other authors.

A relevant starting point for the activities of Korean foreign investment in Mexico is the well documented article by Choi and Kenney (1997). These authors account for the practices of Korean firms in terms of their tendencies to predominantly rely on other Korean firms for supplies of equipment and key components up- and downstream the production chain. Large Korean assemblers actually encourage their Korean suppliers to relocate in México (p. 13). Such pattern, as they convey, is not exclusive to the Mexican case, but it is also present in other developing economies in East and Southeast Asia. As the findings of our research show in the next section, the conditions described have not changed since the publication of Choi-Kenney survey. And even if local content seems fairly high, it is because many suppliers are Korean companies registered in Mexico, thus technically they are Mexican vendors. In that sense, indigenous Mexican suppliers provide low-valued and generic inputs (such as boxes, uniforms, and basic services) (Carrillo and Contreras 2004; Douw and Koops 1999).

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17 For instance, Mexico does not dictate requisites on industrial integration with local producers—aimed to trigger spillover effects—, nor does it establish guidelines for localization or performance requirements (e.g., domestic content, government procurement, know-how and technology transfer, joint-venture, and export quotas), percentage of national ownership, ratios or minimum size of investments. There are no legal conditions for repatriation of revenues and there are no restrictions on M&As other than abiding to competition standards.

18 For the issue of learning see Alonso, Carrillo, et al. (2000)

19 This pattern is also apparent in Japanese companies, which started operations in Mexico much earlier than Korean (Kenney and Florida 1994).
5. Fieldwork results (summary and analysis)

Ownership

From the sample of Korean firms established in Mexico, all of them have their parent company in Korea, although most of them report directly to a regional headquarter (HQ) established in United States. Only one of the companies was registered in Mexico as a foreign company; the rest had been registered as local entities. Especially the presidents of plants established in Northern Mexico as maquiladoras are also presidents of the regional HQ in US.20

All the companies of the sample had majority of Korean investment; all but one were 100% Korean owned. There is only one case in which 10% of the ownership is split in two foreign partners, with 5% each. In the same company, a Korean trade company had 29% of the overall investment. The parent company, though its branch in US, had a majority control of 61%. Another case of shared partnership was a medium-size company established in Tijuana in 1997; the company started with a 50-50 partnership with another Korean company closely related to Samsung, its traditional main client. Since 2007, the supplier bought the partners’ share and now is 100% owned by the parent firm.

None of the Korean companies in the sample have had, or plan to have Mexican or non-Korean partners for their operations in Mexico. At most, some commercial companies establish investment partnerships with local retailers for co-promotion of their products, thus sharing decision in marketing activities. Either single or combined, some of the reasons mentioned by interviewees for preferring full property control are: a) they don’t see the need to look for local partners (mainly because of the type and amount of investment for activities in Mexico); b) expansion of facilities has been financed with their own (or parent’s) resources; c) partnerships with locals or non-Koreans may drive to performance difficulties, especially in terms of fast decision-making, communication with HQ and networks with sales and other Korean suppliers;21 d) full (or majority) property control of the company is a characteristic of Korean style and/or part of the HQ’s globalization policy; e) full ownership is required to keep brand’s prestige, information, technology standard, and quality control, and f) ultimately, the Mexican legislation does not require co-investment with local capital. Overall, there is no explicit rejection of non-Korean partners; however, Korean ownership prevails.

In the case of two medium-sized firms, the chairman of the company was also the owner. In one case, the president of the plant in Mexico was a relative of the owner. In another case, the president has the 10% share of the company (though it is not clear if 10% of the affiliate in Mexico or the whole firm). In two cases, the presidents of medium-sized plants had worked for the main client company (it can thus be inferred that they were hired on the basis of their experience and personal networking with their former employers. It tends to be the case among Korean companies that when

20 The maquiladora program was established in Mexico in 1969 to promote exports from Mexico. In practice, maquiladoras cover a wide range of activities, mainly for assembling final consumer goods. Despite the evolution of the program, there is no obligation to co-invest with local capitalists or to use local firms as suppliers. Although the maquiladoras had fostered a good deal of technical and managerial learning, the development of local suppliers for key added-value components is practically nonexistent.

21 A few interviewees recall bad experiences in joint-ventures where decision-making has to be shared, especially with non-Koreans.
senior executives of big companies retire they often occupy top-level positions in subsidiaries or supplier firms).

Table 4. Ownership of affiliates

<table>
<thead>
<tr>
<th>FIRM</th>
<th>% OF KOREAN OWNERSHIP</th>
<th>HQ</th>
<th>Regional HQ</th>
<th>Partnerships in Mexico</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>100</td>
<td>Korea</td>
<td>LA, USA</td>
<td>No</td>
</tr>
<tr>
<td>2</td>
<td>100</td>
<td>Korea</td>
<td>New Jersey and San Jose, USA</td>
<td>No</td>
</tr>
<tr>
<td>3</td>
<td>100</td>
<td>Korea</td>
<td>USA</td>
<td>No</td>
</tr>
<tr>
<td>4</td>
<td>100</td>
<td>Korea</td>
<td>USA</td>
<td>No</td>
</tr>
<tr>
<td>5</td>
<td>90</td>
<td>Korea</td>
<td>USA</td>
<td>Mitsubishi and a firm from Taiwan</td>
</tr>
<tr>
<td>6</td>
<td>100</td>
<td>Korea</td>
<td>USA</td>
<td>No</td>
</tr>
<tr>
<td>7</td>
<td>100</td>
<td>Korea</td>
<td>USA</td>
<td>No</td>
</tr>
<tr>
<td>8</td>
<td>100</td>
<td>Korea</td>
<td>N/A</td>
<td>No</td>
</tr>
<tr>
<td>9</td>
<td>100</td>
<td>Korea</td>
<td>N/A</td>
<td>No</td>
</tr>
<tr>
<td>10</td>
<td>100</td>
<td>Korea</td>
<td>USA</td>
<td>No</td>
</tr>
<tr>
<td>11</td>
<td>100</td>
<td>Korea</td>
<td>N/A</td>
<td>No</td>
</tr>
<tr>
<td>12</td>
<td>100</td>
<td>Korea</td>
<td>USA</td>
<td>No</td>
</tr>
</tbody>
</table>

Source: interviews

**Production networks**

The companies for the empirical sample occupy different positions in the Korean global network. Three of them are the commercial affiliates of the group, one is a liaison office of a big steel company and the rest are manufacturers.

The commercial affiliates have ranked the Mexican market as strategic, thus the scale of their investment. These branches concentrate in commercializing and marketing activities of their own brand products. They import finished products from Korea or from the Korean affiliates in East Asia or US. In the case of two of these commercial firms (home appliances and mobile-handsets) they also commercialize finished goods produced in Mexican plants for the Mexican and some Latin American markets. However, they do not commercialize components for the Mexican maquiladora-affiliates of the group. The producers do the component purchases by themselves; sales of final goods to the US market are made through the US affiliate.

The localization policies of commercial firms are more extensive, especially in human resources (including management cadres), distribution, recruitment, logistics, and marketing activities. After service departments are controlled directly by the companies, mainly due to the technological knowledge and communication with the central factory and R&D departments in Korea.

Despite the emphasis on claiming administrative independence from HQ’s, the firms are clearly subject to the global strategies and goals established by the parent company in Korea.

The other group of Korean companies are located at different stages of the manufacturing chain. This group can be subdivided into steel processing (one company), final assemblers (two companies), and suppliers (some plastic processing and some component assemblers, five companies). In the case of the former, it established in Mexico to supply the automobile industry. Investing in a processing center is more cost effective than importing the pieces separately. It currently imports all the
machinery and material (steel rolls) from Korea and basically cuts and moulds the pieces in-site. The Korean steel company is constructing two more plants in different locations, one of them with the same profile -“processing (service) center”- and the other will actually produce galvanized steel, also targeting the automobile industry in Mexico and the US. 22 So far, the only role for Mexican companies is in logistic and transportation areas.

In the case of the final assemblers and suppliers, the reasons for establishing operations in Mexico vary, depending on their position within the network. For instance, the final assemblers target the US market, while the suppliers invest in Mexico following their clients. 23 All suppliers had a previous business relationship with their Korean clients; in some cases, the relationship was characterized by an uneven interdependence, typical of the Korean chaebol system. 24 In most cases, suppliers were explicitly encouraged to invest in Mexico; all of them established their manufacturing facilities in the same city as their main client, thus forming a cluster. The support from the main clients to suppliers varied, ranging from financial and technological assistance, to the guarantee of absorbing a substantial production volume during the start-up period. As time goes by, most Korean suppliers in overseas operations have diversified their clientele to other Korean and non-Korean firms; however, the relationship with the original main client tends to remain strong.

The supplier companies purchase most of the key components (60% to 100%) from their parent company or from Korean firms, whether imported from Korea or East Asia. In most cases, respondents claimed that their preference for Korean components and/or raw materials is based on: a) price, b) quality, c) technological level, d) volume capacity, and e) delivery time. Other reasons are: f) that Korean firms know what they need and facilitate the process; g) communication and cultural-language affinities generate a smoother business environment (e.g., shared sense of speed); h) previous networks and relationships with suppliers, and i) the client decides which company to use for components or raw materials, and j) in equal conditions, the client prefers the supplier that provides better service and support without (or less) complain. All the companies maintain R&D activities in Korea. Mexican suppliers, if any, are unable to satisfy these minimal requirements. The most common obstacles to develop local suppliers are: a) Mexican culture has a different sense of time and responsibility, which makes them unable to meet production and delivery targets; b) big technological gaps (due to education system), not easy to catch-up; c) lack of infrastructure, and d) developing suppliers is an obsolete practice. Overall, Mexican companies are unreliable as suppliers of key value-added components. They only provide packaging services.

In terms of machinery installed in the Korean plants, there is no a clear pattern of national preference. Although in some cases machinery was mostly Korean made, in other cases the origin of machinery was rather diverse. No Mexican machinery was mentioned, not even parts for repairs.

22 According to an interview conducted by an electronic business-news magazine in 2007, the company’s president said that in the initial period the raw material will be imported from the company’s factories in Korea. The plant is programmed to be finished in June 2009 and 95% of employees will be Mexican.
23 All of them take advantage of the maquiladora program.
24 For example, the whole production of a manufacturer went to the chaebol. While forming part of a chaebol’s network may represent some advantages, it often becomes a liability because of contracted volumes, payment policies, and de-facto dependence, notwithstanding the legal restrictions to vertical integration.
Table 5. Position in production networks

<table>
<thead>
<tr>
<th>Firm</th>
<th>Sector</th>
<th>Origin of suppliers</th>
<th>Contracting with local business</th>
<th>Clients in Mexico</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Commercialization of food products</td>
<td>USA-Korean</td>
<td>N/A</td>
<td>Supermarket chains</td>
</tr>
<tr>
<td>2</td>
<td>Commercialization of home appliances and mobile handsets</td>
<td>Affiliates of the company worldwide</td>
<td>Services (logistics, advertising, manpower, transport, HR), after service (Korean)</td>
<td>Retailer chains (Liverpool, Electra, Sears, Walmart, etc.), Telcel and Telefonica</td>
</tr>
<tr>
<td>3</td>
<td>Commercialization of home appliances and mobile handsets</td>
<td>Affiliates of the company worldwide</td>
<td>Logistics, transports, publicity, manpower recruitment</td>
<td>N/A</td>
</tr>
<tr>
<td>4</td>
<td>Coordination of steel plants in Mexico: analysis of the steel market</td>
<td>75% of input comes from Korea, Machinery comes from Korea, Japan and China</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>5</td>
<td>Steel molding for automobile industry</td>
<td>Machinery from Korea</td>
<td>Transport and logistics in talks with HYLSA</td>
<td>N/A</td>
</tr>
<tr>
<td>6</td>
<td>Plastic cabinet for TV frames</td>
<td>Korea Machinery comes from Austria and Korea</td>
<td>Samsung and LG in BC</td>
<td>N/A</td>
</tr>
<tr>
<td>7</td>
<td>Final assembly of CTV, LCD, monitors and mobile handsets</td>
<td>Korea and Korean companies in Mexico</td>
<td>Korean companies in Tijuana</td>
<td>N/A</td>
</tr>
<tr>
<td>8</td>
<td>Final assembly of wire harness for TV, cable for electric parts</td>
<td>Most supplies from Korea Equipment 80% Korean</td>
<td>N/A</td>
<td>Samsung Electronics in Tijuana (75%), Schneider electronics (10%), Hanil and Unson (15%)</td>
</tr>
<tr>
<td>9</td>
<td>TVs, monitors, LCD and mobile handsets</td>
<td>Key components come from Korea and Japan</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>10</td>
<td>LCD TV plastic cabinet</td>
<td>90% of resin comes from Korea</td>
<td>Only basic materials</td>
<td>LG (30%), Sony (55%) and Samsung (15%)</td>
</tr>
<tr>
<td>11</td>
<td>Front frame and back cover for TVs</td>
<td>Resin is designed by clients (LG, Samsung). Machinery: Japanese (50%) Korean (50%)</td>
<td>N/A</td>
<td>Sony (70-80%), Panasonic, Hitachi, JVC and Sharp</td>
</tr>
<tr>
<td>12</td>
<td>PBC assembly for monitor and TV, PCR</td>
<td>Most from Korea and Japan, but also China, Malaysia and Mexico Machinery: from international firms</td>
<td>N/A</td>
<td>Samsung, Sony, Sharp, Panasonic, Daewoo and Philips</td>
</tr>
</tbody>
</table>

Source: Interviews

Management style

In general, respondents recognized that in fact there is a Korean managing style. Even those who denied the existence of such a style could identify some common features among Korean firms when expressing their concerns about Mexican working style.
Throughout the interviews we could sense that Korean top-level managers are very self aware and committed to follow general guidelines considered basic for success, such as the following: a) speed: fast decision-making, fast action, fast growth, impatience. Many expressions of speed are generally conceived as conditions of survival and a desire to catch-up. Speed is a trait of Korean modernization that infused many aspects of life. Therefore, as Korean companies established in Mexico, such a characteristic was even more apparent due to the significant differences in pace; b) goal oriented: targets are clear and often set in high levels (“to be number one”, “must be perfect”, “must comply with the standards of the client at all costs”); c) ambitious goals are reachable because Koreans (especially older generations) are willing to sacrifice their personal interests, including the family, to company goals; d) elevated sense of responsibility (no excuses are allowed and friendship should not be mix with work); e) highly demanding performance and strict management (follow-the-rules); f) diligence and hard work are also associated to the need for survival; g) strong loyalty appeared as one feature that reinforced responsibility and commitment, often accompanied by respect for seniority (sometimes regardless of position). Many interviewees had belonged to the company for long periods, and for some of them it has been the only company they have worked for; h) emphasis in strengthening well and clear organization as a key to success. Although in most cases top-down decision making prevail in the structure, in certain levels participation is encouraged but with clear direction from above. Korean affiliates have developed mixed systems of verticality (strict and clear leadership and direction) and local/department level discussions; i) ability to adapt to local conditions.

The majority of interviewees associate extreme weather conditions and the lack of resources in Korea as primary sources of the national character: “need to survive the winter” and “nothing is taken for granted” are the main ideas expressed. Ambition plays a significant role as the source for diligence, strong motivation, and self-sacrifice. Such ambition is moved by a desire to “escape from poverty” and “win in life”. Few respondents considered military training as a source of strong, responsible, and diligent character.

In the case of the companies’ stress on performance, the emphasis is associated to development of the country and the eagerness to develop, which was shared by both government and businessman. This is referred to the early periods of industrialization and the government’s push to foster a “Korean spirit” to outperform competitors and advanced economies. Notwithstanding such general fervor, interviewees insisted that eventually “companies developed their own way”.

Greater concern for localization is present among both commercializing and manufacturing firms: the former associates localizing trends to the need to respond and satisfy consumer preferences, whereas the latter thinks of localization in terms of managing local human resources. Thus according to some ideas expressed throughout interviews, especially to manufacturers, final consumer satisfaction is a priority, not only profit or market expansion. In that sense the importance of localization in both commercialization and production is manifested in recruiting significant talents (regardless of nationality), enhance productivity, and avoid labor conflicts.

25 Some interviewees agreed that “part of Korean tradition is that manager keeps distance from employee” and in general the relationship with superiors “among Koreans it’s like an army.”
26 For instance, at the beginning, most companies employed Korean staff for administrative and managerial activities. Top management tended to be involved in making decision and controlling all the points from A-to-Z. Top-level management is increasingly occupied by local staff, although presidential and key directions are still occupied by Koreans.
Several interviewees regard the Korean style as functional to globalization and in some cases they brought up the troubles locals had to understand the imperatives of their business goals, thus their methods. Therefore, localization and adaptation become major issues. At the beginning of their operations, the dominant belief was that “locals had to learn” (from them). However, Korean top-management realized that Mexicans needed more time to adjust, so Koreans should “adapt and accommodate both cultures”. This shows a general awareness of the tension between local and global needs and is reflected in the idea that the company’s goals (and strategies) “cannot be compromised by any local culture”, but localization is fundamental anyway. Localization as a managerial goal is generally accompanied by training programs, many of which aim to foster understanding of the firm itself, so locals can occupy top-management positions. A major problem with those policies and programs is rotation, as Mexican workers (either managers or engineers, not to mention low-skilled workers) are more opportunistic and have low loyalty sentiments for the company.

Management organization

The proportion of Mexican high management positions varies greatly, depending on the size of the company, the amount of time they have been operating in Mexico, the sector and whether they are manufacturing or assembly plants. For large TNCs the drive to localization has become a condition of their global status. Smaller companies, which usually come to Mexico following a client, take more time to incorporate Mexican managers at higher levels. When a firm first arrives in Mexico most high management positions are held by Koreans dispatched by headquarters. As companies settle in the Mexican market, they rely increasingly on Mexican management.27 Trading companies depend on Mexican management particularly for marketing, whereas manufacturing and assembly need them for human relations and production. In general terms, CEOs from Korean TNCs focus greater efforts on localizing marketing and human relations, including president position of companies and affiliates. Among firms with a family structure, concerns for localization only reach local positions.

According to most interviewees, the number of Koreans in high management positions is still very high due to communication boundaries. However, most of the companies consider a very important goal to increase the number of Mexican managers, not only to cut costs (Korean managers receive considerably higher salaries than Mexican managers in the same position), but to be able to localize operations, and respond thereby to the specificities of the local market, especially in the area of industrial relations, production and consumer preferences. There is a general willingness to employ Mexican managers to occupy higher levels because they think they “are usually good in terms of speed and responsibility, despite differences in thinking”. However, most interviewees gave vague responses to the point of expecting local managers to speak Korean language.

All of the trading companies interviewed were organized and managed from the American regional division. Concerns for localizing are particularly strong among these corporations, whose main priority, according to all three companies in the sector, is to satisfy local consumers (although they may target different segments of the market). This goal entails hiring Mexican managers who know and understand best the logic of the market. They recruit Mexican managers through head hunters, usually American affiliates in Mexico, like Human Power. According to two of the interviewees,

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27 In the case of the food processing commercial affiliate, the general manager is Mexican. He was recruited through a head hunting company and has been in that position since the establishment of the office.
except for the CFO, all management positions—including the presidency—should be held by Mexican executives.

Among manufacturing and assembly companies, Mexican managers are preferred for HR and production areas, though not at a very high level because it is difficult to communicate (not impossible) with HQ, Korean suppliers and clients. Key technicians and engineers in manufacturing and assembly firms are Korean due to the complexity of technology, machinery and production processes, coming from Korea, Japan or other industrialized countries. And if a technical trouble occurs, they usually call HQ for assistance. High levels of rotation “is part of the reason why we are keeping so many engineers from Korea”.

**Benefits from outward FDI (considered by respondents)**

The Korean companies in our sample coincide that the structural conditions of Korean economy have pushed them to invest abroad. The two more important factors are labor and land costs, which are unsustainable to face global competition, especially in manufacturing activities. The arguments favoring outward investment are: a) retaining labor intensive facilities in Korea would eventually erode the competitive advantages in other areas such as R&D and high technology, thus putting the company at risk of complete disappearance. In that sense, outward investment is tantamount to survival of the national economy as a whole; b) the establishment of manufacturing facilities abroad generates intra-firm and intra-industry trade, which is ultimately beneficial to Korean external sector, leaving high-tech and value added segments of production to continue developing within Korea; c) some companies send profits to the parent company, although this aspect is seldom recognized by the interviewees; d) outward investment is beneficial for it ensures the supply of raw materials in overseas locations; e) the investment in certain regions also provides access to strategic and larger markets, especially the North American market, due to local content regulations and tax incentives.

Most interviewees do not expect their companies to be recognized as Korean firms. In some cases, they are even trying to decrease the sense of nationality by substituting it with a sense of a global company and client satisfaction as sources of motivation. Being a Korean firm bears little relevance for some of the top-level executives, although it may sometimes reassure their pride. Furthermore, interviewees often claimed that it was more important for them that their company to be recognized as a local firm.

**6. Final remarks**

We must underline the exploratory character of this project which consequently does not provide conclusive results. Instead, it has raised new questions and opened new and promising avenues for future research.

Though in theory Korean companies do not discriminate suppliers from any country and decisions are made considering only performance criteria, in fact they prefer those suppliers which can guarantee, in the light of previous experience, consistency and reliability in terms of price, quality, and delivery, reproducing in this way traditional practices in the Korean market, where relations of trust constitute a crucial component of productive chains. Accordingly, trust becomes a decisive factor to filter suppliers and reduce transaction costs, and trust depends on longstanding economic interaction which has an identity component, national or regional. But the connection between
Korean competitiveness and national identity is in no way straightforward, but rather subtle and should in our view be subject of further research.

Originally, Korean assembly plants imported most of their components. However, as they needed to increase the percentage of regional content to meet NAFTA’s requirements and enjoy lower tariffs to enter the US market, Korean corporations encouraged their suppliers from Korea to establish facilities in the Mexican market. Suppliers, in turn, lowered labor and transaction costs and increased competitiveness. They have in this way increased substantially the level of local content but Mexican indigenous suppliers have remained marginal, basically concentrating in packaging and some services required in order satisfy local legal procedures.

In the case of corporations commercializing in Mexico, Korean home appliances, mobile phones, computers and other electronic products manufactured in Mexico and in other countries, the links with the Mexican economy tend to concentrate in the area of services (advertising, logistics, transport and human relations), where contracting specialized consulting firms is widespread. In this area, however, the proportion of Mexican high executives is substantially higher because marketing requires a cultural knowledge of the local market, from the appropriate retailer chains for each product, consumer habits and preferences, segments of the market according to income, bargaining and promotion practices of retailers, among the most important. Just dealing with retailers to negotiate prices, quantities and conditions of payment requires Mexican intermediaries.

Consequently, the tension between local and global demands affects Korean corporations in a different way, depending on whether they are commercializing or manufacturing companies. In the case of the former, responding to clients and consumers’ preferences demands a greater proportion of high management positions for Mexican executives. In the case of the latter, dealing with the Mexican work force requires executives in the production process and industrial relations which know and understand the expectations, logics and culture of Mexican workers.

These local imperatives forces Korean high executives to revise and reinvent nationalism in terms of what is best for the corporation and how the corporation’s fate, in particular the possibility to expand to other markets, affects directly or indirectly their country and their particular interests.

Catching up during the Cold War was closely linked to the need of making the country viable. Viability, in turn, depended on export led strategies creating the minimum conditions for production because the internal market was too reduced to justify large scale investment. Today, structural economic constraints in the Korean economy (particularly increasing costs in labor and land property) as well as regional restructuring (EU and NAFTA) and its effects on patterns of trading make intra-firm and network trading increasingly more important. Since an increasingly greater proportion of exports from the country depend on intra-firm trading, the expansion of Korean TNCs is particularly important for economic growth and public policies. However, such expansion depends on the strategic capacity of these corporations of responding to both local and global imperatives, a tension having consequences on Korean corporate culture, permeating nationalist feelings at least among the members of the corporate staff interviewed.

Conventional wisdom arguing in favour of either globalizing or nationalist trends requires assessing the degree to which nationalism represents an asset or a drawback to profit from globalizing trends. Nevertheless, our findings suggest that it is instrumental to Korean TNCs to understand other cultures in order to be successful. Understanding other cultures does not entail rejecting national values, but revising their own culture and identity in the light of other experiences, defending
strengths and mending limitations. Instrumental, globalizing strategies –to follow Shin’s (2006: chapter 11) argument-, as strategies of survival in the present context, can lead simultaneously to rethink and strengthen nationalism, and our interviews point in this direction, though once again, this is a promising line of research that can be further pursued in the future.

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