



Kristiina Korhonen

FOREIGN DIRECT INVESTMENT IN A CHANGING POLITICAL ENVIRONMENT

FINNISH INVESTMENT DECISIONS IN SOUTH KOREA

HELSINKI SCHOOL OF ECONOMICS

ACTA UNIVERSITATIS OECONOMICAE HELSINGIENSIS

A-265

Kristiina Korhonen

FOREIGN DIRECT INVESTMENT
IN A CHANGING POLITICAL ENVIRONMENT

FINNISH INVESTMENT DECISIONS IN SOUTH KOREA

HELSINKI SCHOOL OF ECONOMICS

ACTA UNIVERSITATIS OECONOMICAE HELSINGIENSIS

A-265

© Kristiina Korhonen and
Helsinki School of Economics

ISSN 1237-556X
ISBN 951-791-973-5
ISBN 951-791-974-3 (e-version)

Helsinki School of Economics -
HSE Print 2005

Acknowledgements

The initial impetus for this study was given years ago by Professor *Park Sam-Ock* at the Seoul National University. Therefore, with great honour, it has been a pleasure to have him as official examiner and opponent of this study. Accordingly, it has been a great privilege to have the leading Finnish scholar in foreign direct investment, Professor *Jorma Larimo* from the University of Vaasa as the official examiner of my study.

The study was conducted at the Helsinki School of Economics (HSE), including the Department of Marketing, the Center for Doctoral Studies and the Center for Markets in Transition (CEMAT). I am also thankful for an opportunity to conduct parts of my study at the Nordic Institute of Asian Studies (NIAS) in Copenhagen in 2004.

I would like to express my deep appreciation to several individuals for their support. I started my studies under the guidance of Professor Emeritus *Kai-Veikko Vuoristo*, who is certainly one of the key persons behind my interest in Asia. Especially, I want to thank him for writing dozens of successful references throughout the years. His successor, Professor *Jarmo Eronen* read carefully several versions of my study and gave many constructive comments that helped me to progress in my study. Professor Emeritus *Niilo Home* made a significant contribution in supervising my study in terms of thesis structure and logic. Dr. *Pekka Killström* shared his insight into the strategy-performance model and made numerous valuable suggestions for the improvement of my study. Professor Emeritus *Reijo Luostarinen* discussed with me on the general setting of the study and the methodologies. I am also thankful to Professor *Riitta Kosonen*, who has offered me an opportunity to continue with the post doctoral studies at the CEMAT. My sincere thanks for the inspiring discussions go to Dr. *Erja Kettunen-Matilainen*. I have also received help and suggestions from Dr. *Jorma Pietala*, Dr. *Sonn Jung-Won*, M.Sc. *Laura Erkkilä*, M.Sc. *Virva Haltsonen*, Manager *Lee Byung-min*, System Architect *Antti Lehtinen*, M.Sc. *Jarkko Lehtinen*, M.Sc. *Mervi Lipponen*, M.Sc. *Réa Maxwell*, and LL.M. *Mikko Saarikivi*.

I am grateful to all respondents and interviewees involved in this study. Their interest and patience in answering my questions has been invaluable. The personnel of the Korean Embassy and the Korea Trade Center in Helsinki has always been willing to help me. Furthermore, I am indebted to all of those Korean professors, research fellows, civil servants, diplomats and other individuals, who deepened my understanding of Korea and Koreans during seven years in Korea, in and out, in the 1990s.

For the financial support, I want to express my gratitude to the Foundation for Economic Education, the Jenny and Antti Wihuri Foundation, the Ella and Georg Ehrnrooth Foundation, the HSE, the Research Foundation of the HSE, Marcus Wallenbergin liikeloudellinen tutkimussäätiö, and the NIAS. This is probably the right place to thank also my mother *Eira Korhonen* for financial aid as well as childcare. My father *Rauno Korhonen*, who found himself in Korea long before me in the 1950s, could not see this study completed.

This study would not have been possible without the support and persuasion of Dr. *Pekka Killström*. I want to thank him on the intellectual companionship we have shared. My daughter *Choi Yoon-Hee* has sacrificed evenings, weekends and holidays for *omma's* research. I hope that I did not place too heavy demands on the ten year old girl and that my love tempered her longing.

Helsinki, November 2005

Kristiina Korhonen

Abstract

This dissertation contributes to an understanding of foreign direct investment (FDI) in a changing political environment. The theoretical framework of the study is positioned to the geography of enterprise approach, but it has been contributed with theories from the fields of strategic management, international business, and political economy. The empirical focus is on the Finnish investment decisions in South Korea (hereafter Korea). The research problem of the study asks how a transnational corporation (TNC) perceives and reacts to the change in the host country's political environment.

Investment literature has basically studied the spatial aspects of FDI separately from the growth and performance of the firms, while the present study aims to combine them. The present study argues firstly that the relevant factors having an impact on the investment decisions and the performance of the TNCs can be recognised with the help of Lahti's strategy-performance model. The model is modified by incorporating the general macro-environment of the firm explicitly to the model. Based on literature, it is believed that firms interpret the location conditions of the host country into a special set of location factors, which are crucial from their strategy perspective. With the help of the modified strategy-performance model, the firm's relative optimal location can be explained by linking the location of the firm to the purposes of the firm: the firm invests where it can operate successfully.

Secondly, the present study argues that the political environment of the firm in the host country may have a special role among the other parts of the firm's environment (natural, economic, demographic, cultural, and technological). The argument is based on the supremacy of the host government to use its political power in order to intervene in FDI. On the other hand, the literature has emphasised the TNCs abilities to bargain with the host government. The present study states that TNC may not need to bargain alone but may lobby help from its home government. Therefore, this study adds a concept of authority services to the list of TNC's bargaining techniques.

The modified strategy-performance model was empirically applied to the case of Finnish investment in Korea during 1984-2002 when Korea's political environment and investment policy in particular underwent profound change. The turning point is year 1998 when the Korean government drastically liberalised its investment policy in the aftermath of the Asian crisis. Therefore, the present study compares Finnish investment during the restrictive period in 1984-1997 with the liberal period in 1998-2002. The data includes national and regional level statistical data from both Finnish and Korean sources, as well as firm level data from Finnish investors collected using a questionnaire. Both types of data are supplemented and cross-checked by interviews.

The empirical results suggest that the change in the political environment in Korea in 1998 had a clear impact on Finnish investment in Korea. However, the change cannot be totally separated from the other simultaneous changes, among which, the role of technological environment of the firm in Korea has been the most influential. The empirical results indicate that repeat investments had been engaged regardless of the investment policy liberalisation, but the acquisitions had not taken place without the change in Korea's investment policy. In a changing political environment, the authority services provided by the Finnish government were crucial to Finnish investors.

The empirical results suggest that the the modified strategy-performance model can be successfully used to analyse the impact of change in the firm's external environment. However, any further evidence on the particular role of the political environment among the other parts of the firm's general macro-environment was not found. Each firm emphasised different variables of the external environment, which reflects the fact that firms perceive the same host country differently according to their strategies. Therefore, each firm also reacts to the political change differently. This justifies the use of concepts of location conditions and location factors. The results indicate that firms scan their political environment continuously in order to anticipate and respond to possible changes. Therefore, respondents did not regard the political environment of the firm as important, although it had an impact on their investment decision-making.

Key words: foreign direct investment, political environment, strategy-performance model, location conditions, location factors, South Korea, Finnish investment

Table of contents

Abstract.....	1
Table of contents	3
List of figures	5
List of tables	6
PART I INTRODUCTION	10
1 Research setting.....	10
1.1 Earlier studies on Finnish direct investment	13
1.2 Research problem	20
1.3 Positioning and the scope of the study	24
1.4 Outline of the study	34
PART II THEORETICAL PART	37
2 Foreign direct investment as a strategic decision of the firm	37
2.1 Major foreign direct investment theories.....	37
2.2 Types of investment	43
2.3 Strategic management view on the investor	48
2.4 Adapting the strategy-performance model for investment studies.....	52
3 Political environment in the context of international investment.....	60
3.1 Political environment as a part of the firm's general macro-environment	61
3.2 The specific role of the political environment.....	66
3.3 Political relations having an impact on international investment.....	79
3.4 Summary: The role of the political environment for the firm's investment decision.....	84
4 Theoretical framework of the study.....	87
PART III EMPIRICAL PART	92
5 Korea as a host country for Finnish investors	92
5.1 Finno-Korean relations.....	94
5.2 Location conditions in Korea	96
5.3 Political environment of the firm in Korea.....	118
5.4 Patterns of foreign direct investment in Korea.....	130
5.5 Summary: Korea as a host country for foreign direct investment.....	145
6 Research design.....	149
6.1 Research method and data collection	149
6.2 Specification of statistical data	152
6.3 Questionnaire development	160
6.3 Validity and reliability of the study.....	164

7	Results: Finnish investment in Korea.....	167
7.1	Patterns of Finnish investment in Korea	167
7.2	Firm-specific results	175
7.3	Location factors of Korea	192
7.4	Managing the relations of a political nature	204
7.5	Synthesis of the results	207
PART IV DISCUSSION.....		216
8	Perceptions of the firms on the change in their political environment.....	216
8.1	Theoretical implications	216
8.2	Policy implications for home and host governments.....	225
8.3	Managerial implications	226
8.4	Recommendations for future research.....	228
REFERENCES		230
APPENDICES		247
APPENDIX 1: Development of Finnish exports to its major Asian destinations		247
APPENDIX 2: Major indicators of the natural environment of the firm in Korea ..		248
APPENDIX 3: Major indicators of the cultural environment of the firm in Korea .		249
APPENDIX 4: Major indicators of the economic environment of the firm in Korea		250
APPENDIX 5: Major indicators of the demographic environment of the firm in Korea		254
APPENDIX 6: Major indicators of the technological environment of the firm in Korea		255
APPENDIX 7: Major indicators of the competitive environment of the firm in Korea		256
APPENDIX 8: Major indicators of the political environment of the firm in Korea		257
APPENDIX 9: Development of Korea's country risk		258
APPENDIX 10: Comparison of Korean investment policy periodisations.....		262
APPENDIX 11: Gross regional domestic product in Korea		265
APPENDIX 12: List of Finnish investors in Korea		266
APPENDIX 13: Original Questionnaire in Finnish		267
APPENDIX 14: Translation of the questionnaire		269
APPENDIX 15: Number of answers according to the variables.....		283

List of figures

Figure 1	Cumulative volume of Finnish direct investment in Korea (1984-2002) with special reference to investment policy liberalisation in Korea in 1998.....	12
Figure 2	Development of Finnish outward and inward investment flows in 1994-2002.....	16
Figure 3	Finnish exports to East Asian countries	19
Figure 4	Conventional trade between countries and the internal markets of transnational corporations	25
Figure 5	Geographical studies in comparison to investment studies	43
Figure 6	The basic strategy-performance model.....	50
Figure 7	Lahti's strategy-performance model.....	52
Figure 8	The interplay between the internal and the external factors of the firm	56
Figure 9	Hierarchical structure of the different macro-environments of the firm	61
Figure 10	Relations of a political nature in the context of international investment	85
Figure 11	Positioning of the present study	87
Figure 12	Theoretical building blocks of the present study.....	88
Figure 13	Relevant elements having an impact on the firm's investment decision.....	89
Figure 14	The framework of the study	90
Figure 15	Development of Finnish economic interaction with Korea (1977-2002).....	95
Figure 16	Map of Korean provinces and metropolitan cities.....	99
Figure 17	Growth of gross domestic product and gross domestic product per capita in Korea	105
Figure 18	Inward and outward direct investment flows in Korea (1984-2002).....	131
Figure 19	Foreign direct investment in Korea by industry (1962-2001)	133
Figure 20	Korea's regional structure	136
Figure 21	Industrial clusters in South Gyeongsang – Ulsan region.....	137
Figure 22	Regional gross domestic product and the share of cumulative foreign direct investment in Korea (2002).....	140
Figure 23	Comparison of Finnish and Korean investment statistics in the case of the development of Finnish direct investment stock in Korea (1994-2000)	155
Figure 24	Number of Finnish firms that have invested in Korea during the two investment policy phases.....	159
Figure 25	Operation modes of Finnish companies doing business in Korea in 2001	168
Figure 26	Development of Finnish direct investment annual flows to Korea (1984-2002)	169
Figure 27	Comparison of the largest Finnish investment inducements in Korea	171
Figure 28	Average investment inducements of repeat investors	173
Figure 29	Location of Finnish production sites in Korea	174
Figure 30	The importance of the relevant elements of the modified strategy-performance model according to Finnish investors in Korea, average grades	177
Figure 31	Relative importance of modified strategy-performance model elements among Finnish investors, change from 1984-1998 to 1998-2002, average grade.....	182
Figure 32	The realised results of the investment projects.....	188
Figure 33	Importance of the elements of the modified strategy-performance model by MNEs and smaller firms, average grades.....	190
Figure 34	Relative importance of variables on Korea's environments, change from 1984-1998 to 1998-2002, "important" and "very important" categories	193
Figure 35	Importance of the modified strategy-performance model elements in average grades.....	218

List of tables

Table 1	Share of Asia in Finnish trade.....	19
Table 2	Summary of industrial geography approaches.....	28
Table 3	Summary of the geography of enterprise approach	30
Table 4	Outline of the study.....	35
Table 5	A general framework for political risk assessment.....	68
Table 6	Components of the political environment.....	69
Table 7	Types of government intervention in foreign direct investment.....	75
Table 8	Political risk assessment of Korea	128
Table 9	Change in location conditions in Korea.....	145
Table 10	Development of Korea's overall policies and economic policies in terms of national and international conditions.....	147
Table 11	Different data collection techniques at different levels of analysis.....	150
Table 12	Comparison of total foreign direct investment in Korea on an approval and arrival basis in 1993-1999 (USD billion)	154
Table 13	Comparison of data on the company Ahlstrom Korea's capital inducement in Korea	156
Table 14	Variables used in the questionnaire.....	161
Table 15	Parent conglomerates definable as a multinational enterprise.....	169
Table 16	Profiles of the Finnish investors in Korea prior and since 1998.....	209
Table 17	Location factors of Korea as interpreted by the Finnish investors	210
Table 18	Impact of change in location conditions in Korea on the Finnish investment decision-making	212
Table 19	Management needs in Korea in three phases of investment.....	227

Abbreviations and expressions

Acquisition	Acquisition involves purchase of existing business, in the present study acquisition refers always to a cross-border acquisition
Afta	ASEAN Free Trade Area
ASEM	Asia-Europe Meeting, which brings together seven ASEAN members, all EU member countries and East Asian countries of Japan, China and Korea
ASEAN	Association of Southeast Asian Nations, aims to improve economic and political co-operation in Southeastern Asia
ASEAN + 3	Annual meetings of leaders and ministers of ASEAN countries, Japan, Korea, and China to discuss on key political, economic and security issues
APEC	Asia-Pacific Economic Co-operation, promotes greater economic and trade co-operation in the Pacific Rim
ARF	ASEAN Regional Forum, aims to maintain peace and stability in the region
Asian Crisis	Financial crisis, which spread out at the end of 1997 in many Asian countries
Authority services	Public means to promote internationalisation of the TNCs by the home government.
BOF	Bank of Finland
Born global	usually small high technology firm, which has a managerial global vision from inception
Chaebol (재벌)	A unique Korean corporate organisation
CMES	Comprehensive Measures for Economic Stabilisation, stabilisation exercise of Korean government in 1979
Cold War	Ideological war with no direct fighting, which took place after the Second World War between USA-led capitalist countries and Soviet Union-led socialist countries
Developmental state	Countries, such as Japan and NIEs, where industrialisation took place later than Western countries and where the state led the industrialisation drive and took on a developmental function in order to achieve its social and economic goals (see eg Johnson 1982, 18-19).
DIMO	Direct investment marketing operations (See Luostarinen 1979, 105-112)
DIPO	Direct investment production operations (See Luostarinen 1979, 105-112)
Direct investment	Long-term capital movement from home country to host country involving continuing control by the investor
Divestment	Voluntary closure or the sale of a foreign subsidiary, also called disinvestment
EOI	Export Oriented Industrialisation strategy
EPB	Economic Planning Board (of Korea)
EPZ	Export Processing Zone, special kind of SEZ established particularly for production.
EU	European Union
ETLA	Elinkeinoelämän tutkimuslaitos, Research Institute of the Finnish Economy
EUR, euro	Euro (€) is a monetary unit that has replaced national currencies in several EU countries, Finnish currency since 2002
FDI	Foreign Direct Investment, inward investment to the host country
FIBO	Finland's International Business Operations, a research project at the Helsinki School of Economics
FIM, <i>Markka</i>	Finnish Markka, Finnish currency before 2002

Finpro	Finnish public organisation aiming to speed up the internationalisation of Finnish businesses
FIPA	Foreign Investment Promotion Act set in Korea in 1998
FIZ	Foreign Investment Zone
FTA	Free Trade Agreement
G-7	The Group of Seven, international organisation, which aims to facilitate economic co-operation among the world's largest industrial nations: United States, Japan, Great Britain, France, Germany, Italy, and Canada
GATT	General Agreement on Tariffs and Trade, multinational agreement, which set the basic rules for international trade. In 1995, GATT was replaced by WTO.
GDP	Gross Domestic Product
GDR	German Democratic Republic
GRDP	Gross Regional Domestic Product
Greenfield investment	Investment that involves building new facilities from the ground up
Hangul (한글)	Korean indigenously developed alphabet
HDI	Human Development Index, a summary measure of human development
Home country	Origin of FDI (see also host country)
Host country	Destination of FDI, in some studies, host country also used to refer to a country in which inward investment is larger than outward investment, ie its net investment is positive.
ICT	Information and Communication Technology
IMF	International Monetary Fund, aims to lower trade barriers between countries and to stabilise currencies
Inward investment	Foreign direct investment that the host country receives from the home country
KAIST	Korea Advanced Institute of Science and Technology
KFI	Korean Federation of Industries
KHRIS	Korea Research Institute for Human Settlements
KIST	Korea Institute of Science and Technology
Korea	This study uses Korea as coterminous with South Korea, or the Republic of Korea
Korean War	Conflict between North and South Korea in 1950-1953 in which at least 2.5 million persons lost their lives
KOTRA	Korea Trade-Investment Promotion Agency (former Korea Trade Promotion Corporation)
KRW, won (원)	Korean won, Korean currency
KTC	Korea Trade Center
M&A	Mergers and Acquisitions
MNE	Multinational Enterprise. According to Harvard criteria, MNE has a turnover of more than USD 200 million and at least six production units abroad. All MNEs are also transnational corporations (see TNC).
MOCIE	Ministry of Commerce, Industry and Energy (of Korea)
MOST	Ministry of Science and Technology (of Korea)
NATO	North Atlantic Treaty Organisation, which aims to improve the collective security of the member countries
NIEs	Newly Industrialised Economies, which in the present study refer to Korea, Taiwan, Hong Kong and Singapore.
North Korea	Democratic People's Republic of Korea
OECD	Organisation for Economic Co-Operation and Development, a meeting ground for 30 countries with a free market system to discuss and reach even legally binding agreements

OEM	Original Equipment Manufacturing, a production system in which a company orders components from other firms to build a product that it sells under its own company name and brand
Outward investment	Direct investment that the home country companies direct to the host country
OY	Osakeyhtiö, a Finnish term for incorporated or stock company
Parent firm	A firm that controls assets of other firm
ppm	Parts per million, a unit of concentration often used when measuring levels of pollutants in air, water, body fluids, and others
PPP	Purchasing Power Parity
R&D	Research and Development
Repeat investment	Additional investment by a foreign firm into the same unit in the same host country than earlier
SCM	Supply Chain Management
Sequential investment	Additional investment by a foreign firm into the same host country than earlier in order to set multiple units there
Segyehwa (세계화)	Literally <i>globalisation</i> , Korean policy in the 1990s aiming at increasing interaction with foreign countries.
SEZ	Special economic zones are industrial complexes, which are selected within a country for a special policy purpose and designed to induce domestic or foreign companies to engage in business activities by providing a series of preferred treatment measures. SEZs are enclaves enjoying a status that does not extend to the whole territory of the country.
South Korea	Republic of Korea
SME	Small and Medium-sized Enterprise, in Finland, SME is defined as a firm with less than 250 employees and maximum turnover of EUR 40 million and balance sheet of EUR 27 million.
Strategy-performance model	Strategy-performance model is developed gradually by Lahti (1983a, 1985, 1987) from the basis of Hofer and Schendel (1978) and is thus a part of the Ansoffian strategic management research tradition with a recognisable chain of evidence backwards. It aims to recognise all the significant factors, which help the firm to achieve economic performance.
Subsidiary	A firm that is partly or wholly owned by the parent firm
Technopolis	Science park or property-based high technology development project
TNC	Transnational Corporation, a firm that implies operations in at least two countries including the firm's home country (see also MNE)
TOE	Tonnage of oil equivalent
TT	Teollisuuden ja Työnantajien keskusliitto, Confederation of Finnish Industry and Employers (later Confederation of Finnish Industries, Elinkeinoelämän keskusliitto, EK)
UN	United Nations, an organisation of independent states to promote international peace and security
UNCTAD	United Nations Conference on Trade and Development
USA	United States of America
USD, dollar	United States Dollar, \$
WTO	World Trade Organisation, an international organisation, which encourages trade between member nations by global trade agreements
Won (원)	see KRW

PART I INTRODUCTION

1 Research setting

Foreign direct investment (FDI) is one of the indicators of the increasing interdependence of economies in global terms. Since the mid-1980s, the world economy has experienced a rapid increase in FDI flows, even faster than world trade or output. For example, over the period 1993-2000, the global FDI increased six-fold. In 2004, global FDI stock reached about USD 7 trillion. FDI has had a general upward trend and the expansion of international production is likely to continue in the future, although at a slower pace. (UNCTAD 2003, 26)

Most FDI has taken place in intra-core context¹, as developed market economies serve both as the major source (two-thirds) and the major destination (nine-tenths) of world investment stock (ibid., 23). However, recently also the most prosperous developing countries² have attracted increasing flows of FDI. The new recipients of FDI include especially China³ and other East Asian economies, notably Hong Kong, Taiwan, Singapore, Malaysia, Thailand, and the Republic of Korea (hereafter Korea).

Changes in the world economy and the rapid increase of FDI, especially during the 1990s, have led to significant revisions in investment regimes in most countries that earlier had maintained restrictions on and control of FDI. Numerous countries are nowadays facing pressure to pursue liberal investment policies. They have started to relax legislative restrictions on inward investment and on other aspects of transnational corporation activities. However, liberalisation of the investment policy alone does not

¹ The concept of the *core* refers to core-periphery model that interprets the spatial organisation of the world economy through core, semi-periphery, and periphery. The core is dominated by quaternary sector of the economy, use of advanced technology, and high wages. Consequently, in the periphery, industrial technology, low consumption level and low wages are typical. The borderline between the two is dynamic and forms the transition region called semi-periphery. According to international trade theories, economic growth spreads from core to periphery along with free trade and results in economic development in participating countries. The core-periphery model has its roots in Wallerstein's model in sociology, and has been applied to economic geography by Friedmann (1966) and Grotewold (1979), among others.

² According to OECD, East and Southeast Asian *developing countries* include China, North Korea, Vietnam, Malaysia, Thailand, the Philippines, Laos, Myanmar, Cambodia, and Indonesia, while *the more advanced developing countries* include South Korea, Taiwan, Hong Kong, Singapore, and Brunei. (OECD 2003)

³ In 2002, FDI in China totalled over USD 53 billion, which makes it the first country since 1980s to attract more FDI in a year than the United States (UNCTAD 2003).

necessarily increase FDI in a certain country, although it makes inward investment possible. Attracting FDI requires also strong locational advantages and promotion. (UNCTAD 2003, 85-86)

FDI is engaged by transnational corporations (TNC). Broadly defined, TNC is “a firm which has the power to coordinate and control operations in more than one country, even if it does not own them” (Dicken 1998, 8). This definition refers to the TNC’s power to extend its control over legally independent firms by its web of collaborative relationships. In addition to that, TNCs are able to take advantage of geographical difference including natural endowments and policies in a particular country, and move their operations between various geographical scales. (Dicken 1998, 177) In practice, TNCs are firms having operations in at least two countries including the firm’s home country⁴. (Dicken 1998, 15) In the world, there are at least 61,000 TNCs with over 900,000 foreign affiliates (UNCTAD 2004, xvii).

Worldwide liberalisation of investment regimes means increasing opportunities for TNCs to choose among attractive investment destinations. Basically, TNCs are able to take advantage of those discontinuities on the global politico-economic surface that are created by the national boundaries, and they shift activities between locations. TNCs certainly would like to remove all barriers to entry, but national governments are eager to intervene in the TNC entry and operations, because TNCs incorporate parts of the host country within their own firm boundaries through investment. Host governments are able to determine the terms on which TNCs have access to the market or resources, and the rules of operation with which TNCs must comply within a territory of the host country. (Dicken 1998, 243-244) TNCs cannot just pick up the most suitable taxation levels or the infrastructure, as those are subject to bargaining with the host government. These discontinuities make it worthwhile to study both TNCs, which operate across the boundaries, and the national governments, which formulate the rules.

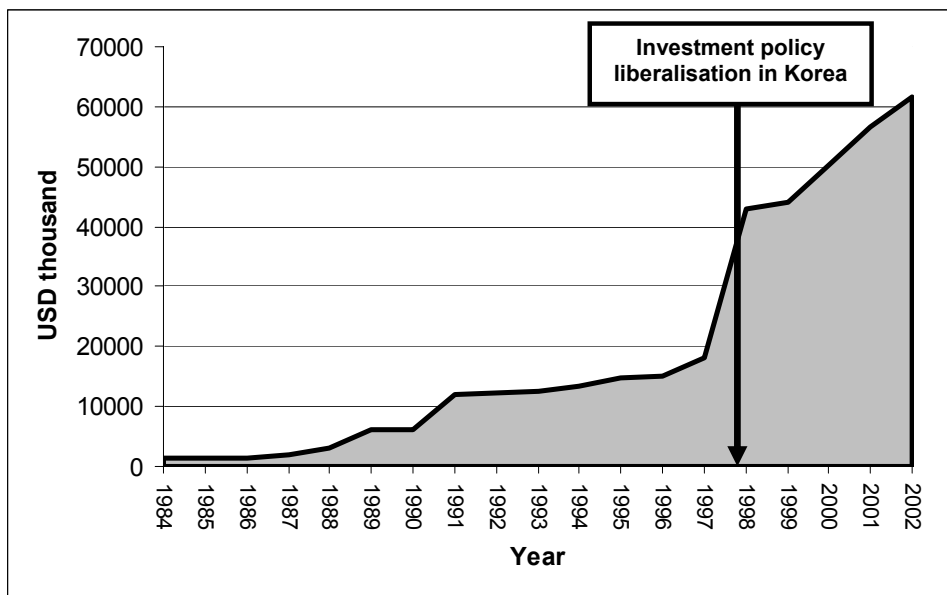
TNCs’ international operations are not only economic in their nature, but include also the political aspects, as the TNCs are dependent on the political decision-making of potential host governments. This fact makes it justified to study the FDI in terms of

⁴ The term multinational enterprise (MNE) is a more specific term implying operations in a substantial number of countries (Dicken 1998, 15).

political environment, which the TNC has to cope with when investing in the host country. Thus, the present study focuses on the host country's political environment and aims to explain how TNCs' interpret the political environment when making investment decisions. The political environment can be broadly defined to consist of any national or international political factors that can affect the operations and decision making of TNC (Terpstra 1978, 119).

The empirical focus of the present study is directed at Korea because the case of Korea is especially interesting in the context of the political environment. FDI was kept away from Korea for a long time, but not by its climate, natural resources, language, religion, culture, or purchasing power, but a government that imposed restricted investment policy (cf. Boddewyn & Brewer 1994, 125). In 1998, the Korean government liberalised its investment policy drastically and allowed large-scale inward investment into the country for the first time. This rapid change and its consequences are worth detailed analysis. Furthermore, there is an obvious peak in Finnish investment stock in Korea in 1998, as illustrated in Figure 1⁵.

Figure 1 Cumulative volume of Finnish direct investment in Korea (1984-2002) with special reference to investment policy liberalisation in Korea in 1998



Source: Ministry of Finance and Economy (of Korea).

⁵ All investment figures presented in this study are at their original values if not otherwise stated.

From the Finnish perspective, Korea is an attractive investment destination, as the East and Southeast Asian region is expected to remain a growth centre of the world economy for the foreseeable future. Korea has had the highest annual average growth (7.0 %) in the region, second only to China (8.8) during 1974-2003. China is expected to remain the largest recipient of FDI flows in the region (UNCTAD 2003, 52), while Korea is characterised below-potential countries with high FDI potential but low FDI performance, even after the investment policy liberalisation in 1998 (UNCTAD 2003, 12-14). In some cases, however, Korea may be a more comfortable investment destination than China due to its increasing transparency, pace of post Asian crisis reforms, advanced technologies, and highly skilled work force.

Altogether, the significant development of East and Southeast Asian nations during the previous decades together with investment liberalisation have resulted in new and effective ways of doing business in the region. However, investing in East and Southeast Asia contains always a considerable risk because in rapidly developing economies the politico-economic changes may be rapid and unexpected.

1.1 Earlier studies on Finnish direct investment

The present study has been inspired by the strong research traditions at the Helsinki School of Economics, the author's *alma mater*, on the internationalisation of the Finnish firms and economy, based especially on studies in the fields of international business (eg Luostarinen 1979) and economic history (eg Pihkala 2001). The internationalisation of Finnish firms has been studied since the late 1960s, when Luostarinen started his studies on FDI (Luostarinen 1968), enlarged to foreign operations of the firm (Luostarinen 1970) and finally published his study on the internationalisation of Finnish firms (Luostarinen 1979) based on answers from over 1000 Finnish companies. Later, Finnish direct investments have been studied in detail in many Finnish universities and research institutes (eg Larimo 1987, 1993; Björkman 1989; Kinnunen 1990; Hirvensalo 1996; Ali-Yrkkö & Ylä-Anttila 1997; Tahir 2003; Tahir & Larimo 2004a, 2005).

Luostarinen (1990) has produced a rough periodisation of the internationalisation of Finnish industries as follows:

1. Export stage of Finnish companies in 1945-1970, including the export stage of forest and metal industries in 1945-1960 and the export stage of other industries in 1960-1970;
2. Foreign operations stage of Finnish companies in 1970-1980
3. International stage of Finnish companies in 1980-1990
4. Global stage of Finnish companies since 1990

Increasing participation of Finnish firms in the world economy started through exports that were enabled by significant worldwide changes such as the liberalisation of world trade (eg General Agreement on Tariffs and Trade, GATT since 1947), development of transportation systems (eg standardisation of containers in 1967) and communication technologies (eg satellites for commercial telecommunications since 1965). (cf. Dicken 1998, 145-161) Since the very beginning, Finnish exports were dominated by the forest industry, but the role of the metal industry increased gradually and reached the forest industry in the mid-1980s.

The internationalisation of Finnish firms on a larger scale started in the 1980s, especially the latter half of it, when the Finnish economy had already integrated in international development and world economy through foreign trade. Since the beginning of 1990s, Finnish exports have been characterised by the rapid growth of the electronics industry. Thus, exports⁶ in 2002 were dominated equally by the forest (27 %), metal (27 %) and high technology⁷ (28 %) industries (Finnish Board of Customs). The composition of imports has remained rather stable. Nowadays, Finnish imports are mostly composed of consumer goods, which have exceeded raw materials as the largest category. Other large categories include electronics and fuels. (Pihkala 2001, 72)

As Finnish trade forms only 0.6-0.8 % of world trade, Finland has basically limited opportunities to influence the development of the world economy, but has to adjust to external fluctuations. With regard to Finnish trade policy Pihkala (2001, 60) divides it into two periods. The first period, 1948-1991, refers to the unique trade policy characterised by a large share of trade with the Soviet Union. During the second period, since the beginning of 1990s, Finland has adjusted itself to the trade policy of the European Union (EU), which officially was adopted in 1995 when Finland joined the

⁶ The total value of Finnish exports in 2002 amounted to EUR 47 billion (Finnish Board of Customs).

⁷ High technology industries refer to industries in which more than 4 % of turnover is directed to R&D.

EU⁸. Consequently, the geographical pattern of Finnish trade was long characterised by the major role of the Soviet Union, Great Britain, West Germany and Sweden (in that order), accounting together for 50-60 % of both exports and imports. (ibid., 62) Still in 2002, Germany, Sweden, Russia, United States, and Great Britain (in this order) accounted for almost half of Finnish exports and imports (Finnish Board of Customs).

The Finnish foreign investment pattern has followed the other industrial economies, but started relatively late. The first Finnish outward investment took place in the 1930s when the Kymi company, which used to be one of the largest wood processing enterprises in Finland, bought a production plant in the United Kingdom. Among the first ones were also the Kone company that established an escalator manufacturing subsidiary in Sweden in 1957 and the Ahlström company that acquired a majority holding in an Italian paper firm in 1963. In the early phase, outward investments were mainly implemented by the forest industry that increased the number of sales-offices abroad, but also other companies, among which Kone was the forerunner (Pihkala 2001, 58). However, Finnish direct investment abroad remained modest because the prerequisites for international operations were not developed. According to Kinnunen (1990, 66), Finnish firms did not yet possess such special skills, which could create a competitive advantage against foreign competitors⁹. In the 1970s, the value of outward investment averaged less than EUR 100 million annually, and the increase was slower than the increase of inward investment until the 1980s. The level of both inward and outward investment used to account for only about 0.2-0.3 % of gross domestic product (GDP).

In 1981, when Finnish firms had entered the internationalisation stage, according to Luostarinen's (1990) periodisation, they had a staff of 20,000 working abroad. The average annual investment totalled almost EUR 1 billion in the 1980s, the record year being 1989 when outward investment exceeded EUR 2 billion. Investment abroad was started only with traditionally strong export industries, such as the forest and metal industries, and large manufacturing companies, such as Nokia, Ahlstrom and Valmet (later Metso). Most outward investments were acquisitions and horizontal investments.

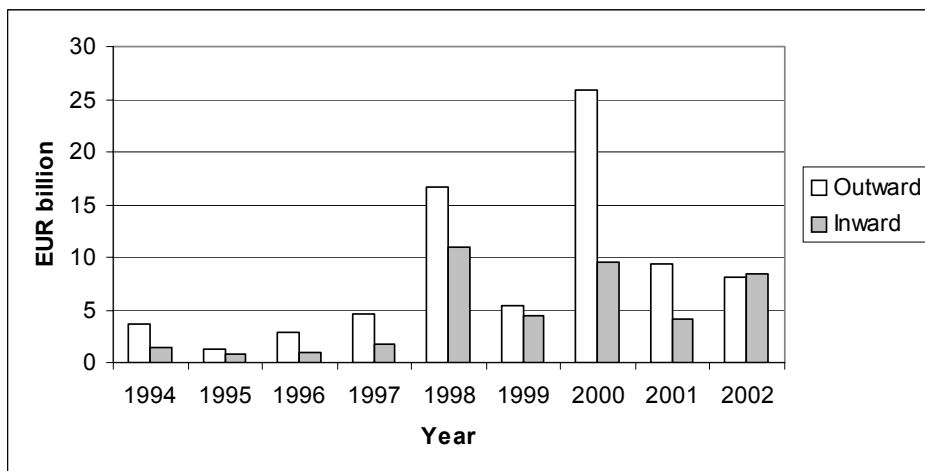
⁸ In practice, Finnish trade with the European Economic Community, or EEC, was liberalised gradually starting from year 1984.

⁹ For example, the forest industry relied on domestic raw material and did not possess such production technologies that could create a competitive advantage in international competition (Kinnunen 1990, 66).

The 15 largest exporters accounted for 80 % of the outward investment in the 1980s. Later, both outward and inward investment have expanded rapidly, although the recession in Finland at the beginning of the 1990s - the worst peacetime recession since the Great Depression of the 1930s - slowed down growth temporarily. In 1990, when Finnish firms entered the global stage of internationalisation, there were 472 subsidiaries abroad with a personnel of 141,000. (Pihkala 2001, 82)

In the latter half of the 1990s, especially since 1996, the growth of Finnish outward investment intensified again¹⁰ and it exceeded inward investment in 1984. In Figure 2, the development of both outward and inward investment¹¹ is illustrated since 1994, which is chosen as a starting point because the earlier annual investment flows remained somewhat marginal. Coming to the new millennium, the cumulative amount of outward investment is over two times larger than inward investment. Still, Finland is far behind highly internationalised countries.

Figure 2 Development of Finnish outward and inward investment flows in 1994-2002



Source: BOF 2003¹².

¹⁰ The large outward investment in 1998 reflects the large-scale mergers of MeritaNordbanken (later Nordea) and Stora Enso. MeritaNordbanken's merger has also resulted in a high level of inward investment in 1998. Consequently, the record-high numbers of outward investment in 2000 are caused by only a few acquisitions, including the continuing merger arrangements of Nordea. (BOF 2001)

¹¹ Inward investment is out of the scope of the present study, but the topic has been studied eg by Pajarinen (1999).

¹² Bank of Finland has compiled investment statistics for balance of payments purposes. Figures indicate financial operations of the Finnish TNEs rather than actual investment flows and thus, considerable caution is needed in interpreting investment statistics.

According to Ali-Yrkkö and Ylä-Anttila (1997), Finnish outward investment patterns have changed along with the progress of the internationalisation of the firms. In the 1980s, outward investment was complementary to domestic investment and probably for exports, too. In the 1990s, however, outward investment has increasingly replaced domestic investment. In addition, foreign production has become to a larger degree a substitute for exports.

Considering sectoral distribution Finnish outward investment has been engaged especially in the metal industry (one third of the investments), as well as the forest (one fourth) and chemical (one fourth) industries by the end of 2000 (BOF 2002). The motives of Finnish firms to invest abroad have been listed by Larimo (1987). They include the general characteristics of the Finnish market, such as small size, keen competition, inflation, and a lack of skilled labour. Furthermore, the motives include also the existing superior technical know-how, the opportunity to increase profits, and the investment incentives provided by the host governments.

With regard to the performance of Finnish outward investment projects, it can be noticed that in 2000, foreign subsidiaries of companies resident in Finland accounted for a turnover of EUR 111 billion¹³. The turnover of subsidiaries located in Asia represents 11 % of the total turnover of Finnish subsidiaries abroad. (BOF 2002) In 1999, the share had been 9 % (BOF 2001). Both percentages are larger than the share of investment stock in Asia compared to total stock. This difference may raise a question of whether the investment efficiency might be greater in Asia compared to other regions, as the investments seem to generate larger turnover than elsewhere. Greater turnover does not automatically generate greater profit. However, the data on profits is not available. Trust in Asia has been high as, according to a survey conducted by the Confederation of Finnish Industry and Employers (2001), Finnish firms in China expected a 16 % annual growth in turnover during the period of 2000-2005. In Korea and other parts of East Asia, with the exception of Japan, Finnish firms believed in annual turnover growth of 12 %. The highest growth prospects are in the metal and electronics (expected annual growth of 18 %) and the forest industry (10 %).

¹³ According to the Bank of Finland (2001), the turnover figures for foreign subsidiaries are totals and do not take account of the size of holdings, which usually are defined as a direct investment only when the investor's holding exceeds 50 %.

An indirect indicator of the performance of Finnish outward investment projects could be the low number of divestment cases. Divestments are often seen as a correction of failures, but they can also be understood as strategic choices of the firm. Divestment is not a rare phenomenon; Larimo (2000, in ref. UNCTAD 2003, 18) states that even 30-60 % of investments will be divested within 10 years from the start of the investment project. Earlier, also Häkkinen (1994) has surveyed 237 Finnish companies and found out that 28 % of them had divested one or more of their foreign subsidiaries. However, it should be noticed that most of these divestments took place in 1990-91, during the severe recession in Finland. Thus, serious caution is needed in the generalisation of the results.

The geographical pattern of Finnish outward investment is a result of a sequential process in which the firms enter foreign markets by starting from the culturally closest markets and expand gradually to more distant markets (Luostarinen 1979, 200). Indeed, Finnish outward investment has been directed mainly to the current member countries of the EU that accounted for 66 % of the total Finnish outward investment stock in the end of 2001. Other major directions have been North America (12 %) and Asia (3 %) (BOF 2003)

Finnish investment in particular geographical areas has been studied mostly in the context of Russia and East and Central Europe (eg Hirvensalo 1996, Borsos-Torstila 1999, Larimo 1999). The first study on Finnish investment in Latin America was published in 2002 (Wilska 2002). Similarly, studies on Finnish investment in Asia have been published only recently (Larimo & Tahir 2002, Tahir 2003, Larimo 2003, Tahir & Larimo 2004a, Tahir & Larimo 2004b, Tahir & Larimo 2005) with the exception of the earlier study on Finnish investment in Japan by Karppinen-Takada (1994).

The above-mentioned studies show that Finnish firms have entered the Asia market relatively late in comparison to the general internationalisation stages of the Finnish firms. This supports the idea that in their internationalisation process, firms enter distant markets later than close markets. However, Finnish investment in Asia deserves certainly more attention, as the Asian economies have rapidly become increasingly important trade partners and investment targets for Finnish firms. Table 1 show that Asia's role in Finnish trade has increased gradually during the post-war period. In addition, the role of East Asian countries as Finnish export destination has become significant within the last

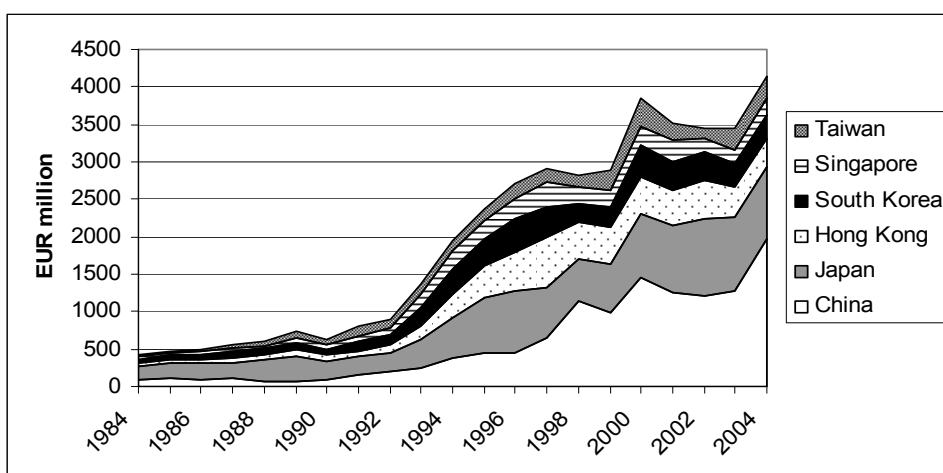
decade, as shown in Figure 3. More detailed country-specific figures are available in Appendix 1.

Table 1 Share of Asia in Finnish trade (%)

	1949-1950	1959-1960	1969-1970	1979-1980	1989-1990	1999-2000	2003-2004
Export (%)	2.3	4.6	2.9	6.2	7.0	11.8	14.3
Import (%)	2.4	2.8	5.4	11.8	10.7	13.8	13.9

Source: Pihkala 2001, 63; Finnish Board of Customs December 2003, December 2004.

Figure 3 Finnish exports to East Asian countries in 1984-2004 (EUR million)



Source: Finnish Board of Customs, various issues.

Despite increasing trade, Finnish investment in Asia did not pick up before the late 1990s. This relatively late awakening partly explains the lack of studies on Finnish investment in the region, so far. It is also true that the Asian crisis at the end of the 1990s¹⁴ may have slowed down the increase of the Finnish investment in the region because TNCs have a tendency to curtail their investments in the heat of a recession. Actually, however, TNCs react very differently to economic crisis. Mostly, TNCs tend to postpone their investment plans until the uncertainty related to the crisis is over, but sometimes, potential investors may see the crisis as an opportunity and expand their operations to the area.

¹⁴ Asian crisis refers to the financial crisis that spread out at the end of 1997 in many Asian countries, including Korea.

There is empirical evidence (Pieskä 2001) that some Finnish firms, depending on their industrial and financial position, saw the Asian crisis as an ideal time to enter a new market in the region or expand existing operations there. There is often increased investment demand in the host country in the recovery phase after the economic crisis, as domestic companies have to materialise both investments demanded by renewed GDP growth and the postponed investment. Thus, there may be additional investment incentives available for TNCs in the recovery phase. Altogether, the great majority of the world's largest firms kept their confidence in East Asian crisis countries as an investment destination unchanged during the Asian crisis (UNCTAD 1998).

The present study aims to complete the knowledge of Finnish business operations in East and Southeast Asia by adding an analysis of Finnish investment in Korea, a distant market whether it is a question of geography or business distance¹⁵. Due to the distance, it can be taken as given that Finnish firms have entered the Asian market relatively late in their internationalisation process. Indeed, Finnish investments in Asia started in Japan in 1973 and in Korea in 1984. However, in these cases the restrictive stance by the Japanese and Korean governments towards FDI has probably also postponed the Finnish investment. In China, FDI became possible along with the gradual opening up of the Chinese economy since 1979, and the first Finnish investments included the Valmet-Xian Paper Machinery Co. Ltd. established in 1989. In comparison, there were Finnish investments in Latin America already in the 1950s, such as the Vaisala company that invested in Buenos Aires in 1956.

1.2 Research problem

Beside the studies on the internationalisation of Finnish firms and the economy in general, the many studies conducted in an Asian context at the Helsinki School of Economics (eg Karppinen-Takada 1994, Kettunen 1998, Koivisto 1998, Korhonen 2001, Kettunen 2004) have stimulated the present study. In a Korean context, the role of the host government in intervening in FDI has been studied earlier (Korhonen 2001). The present study aims to create a more complete picture on FDI in Korea by adding Finnish

¹⁵ Luostarinen (1979) use the term business distance and refers to a combination of physical, cultural and economic distances.

TNCs to the analysis of the changing political environment. In other words, earlier study (ibid.) analysed the host country's investment environment shaped by economic and political changes, while the present study turns the attention to TNCs, which make the actual FDI decisions in that changing environment.

The behaviour of Finnish investors in Korea became interesting along with the course of the earlier study because throughout the years Finnish firms had invested in Korea although it was known generally as a difficult investment target. Thus, it is to be expected that the early Finnish investors have probably had different motivations for the investment than the later investors, which have engaged in investment in Korea after the investment liberalisation that took place in 1998. A comparison of TNC operations during different political periods in the same country may clarify the investment behaviour of the TNCs.

Turning to theoretical starting points, the earlier study (ibid.) required a scanning of FDI theories and this overview produced two major observations that call for further attention. The first deals with the importance of internal (firm-specific) and external (country-specific) factors that have an influence on the TNC investment decision-making. In this respect, Dunning (1998, 46) has pointed out a profound change in FDI studies. In the 1960s and early 1970s, the studies focused on the geographical process of locating the manufacturing units (eg. Vernon 1966). Therefore, the external factors of the investing firm, namely various locational variables, were given particular attention. Since the mid-1970s, however, attention was basically turned inside the investing firm in order to find out what internal factors push a firm to engage in international investment. An exception from this turn was the Nordic school (eg Johanson and Wiedersheim-Paul 1975; Johanson & Vahlne 1977; Luostarinen 1979).

Dunning continues by pointing out that there has recently emerged a renewed interest in the external factors having an impact on FDI, and the studies are not only in the field of international business, but also in economic geography, political economy, and others (Dunning 1998, 46). For example, Luostarinen and Welch (1997, 251) have called for a broad framework for assessing the extent of increased international involvement. According to them, this kind of framework should include six of different dimensions, namely operation mode, target market, a product, organisation structure, finance, and

personnel (ibid. 251-256). As such, it aims to combine the firm's internal and external factors in the same framework.

Dunning (1998, 46) names two reasons for the recent turn of emphasis in investment studies. First, the rapid expansion of international production since the mid-1980s is driven by profound changes in policies, economies and technologies, and requires more complete explanations. Second, the new research agendas in the above-mentioned fields have started to emphasise the fit of spatial aspects with the growth and performance of the firms. This interest has given rise to new attempts to analyse the host country specific factors also in the context of the Finnish TNCs (eg Wilska 2002). Altogether, there is a need to complement the firm-specific determinants of international investment by spatial aspects of FDI.

The earlier study conducted in Korean context (Korhonen 2001) focused solely on the external factors of the firm as it analysed how the role of government in intervening in FDI has changed in Korea in 1962-1999. The present study aims to analyse how the Finnish investors have interpreted this change and how meaningful it has been for their investment decisions taking account also the firm-specific factors pushing the firm to invest. The starting point is the analysis of both internal and external factors of the firm. As they are studied from the firm's perspective, the geography of enterprise approach is found suitable ground for the present study.

Second observation on FDI theories that calls the further attention is that a large number of empirical studies, whether surveys, case studies, or others, are at least seemingly conducted on an *ad hoc* basis. The studies produce conflicting empirical results, as the studied investment cases are very different and represent the various characteristics of different host countries, different TNCs, and different time periods. Efforts are made in the present study to overcome these weaknesses by uncovering a theoretically valid model to guide the empirical research. Moreover, the current study focuses on FDI cases from a single home country to a single host country, which makes it possible to compare the investment profiles of TNCs during different political environments in the same host country.

The above-mentioned reasons have led to the formulation of the research problem of the present study as follows: **How the transnational corporations perceive and react to the change in the host country's political environment in their investment decisions?** The research problem can be approached through three objectives among which the first two are clearly theoretical:

1. to propose a model that recognises both the general internal and external factors that have an impact on the investment decisions of transnational corporations;
2. to identify what is the relative importance of the political environment among the general factors

The last research task focuses on a Finno-Korean case:

3. to explain how Finnish firms have interpreted the political change in Korea, and how this interpretation has influenced their investment decisions

The research problem and the associated research tasks culminate in five concepts:

- 1) the investing firm, or the TNC, whose perspective is adopted in the present study;
- 2) the foreign direct investment, which refers to the activity that is controlled by TNC outside of their home country where decision-making takes place;
- 3) the location, which refers to the place where the TNC can operate successfully;
- 4) the locational decision-making, which refers to the strategic decision taking account both internal (firm-specific) and external (country-specific) factors; and
- 5) the political environment, which refers to the political space of foreign sovereignty. The political power is used by the host government, which may intervene in TNC.

The starting point for theorising about the research problem is the positioning of the study to the field of economic geography, which aims to understand the spatial organisation of economic activities in time and space. As the discipline is wide and complex, it is difficult to distinguish any distinct, solid research traditions. Firms and location decisions, however, have been studied in industrial geography, which has been derived from different approaches in organisation theories and economics. As the present study has adopted a firm perspective, the geography of enterprise, the sub-discipline of industrial geography, provides a suitable research tradition for the research problem stated above.

1.3 Positioning and the scope of the study

It has been argued that geographers have not taken research on FDI seriously (eg McConnel 1986, Johnston 1989, Morsink 1998). McConnel (1986, 471) supposes that geographers have earlier considered research on FDI to be external to the substance of the discipline, and believed that all the relevant research has already been conducted within other disciplines. This belief may be based on the lack of permanent contacts with related disciplines, such as international economics and international business, because economic geography is often part of university geography where FDI is not the most common topic. This is different from the Nordic tradition, where economic geography is studied in business schools. However, with the words of Dunning (1998, 46) it has been typical for all FDI studies, not only in economic geography, that after the 1960s-1970s, attention has turned away from the act of FDI *per se* to the institution making the investment, namely the TNC. Recently, however, economic geographers, among others, have become activated in this field¹⁶.

The focus of traditional economic geography is on the friction of distance¹⁷, but beside purely spatial and economic view, contemporary economic geography pays attention also to the historical, political and environmental contexts. This extensiveness has led economic geography to abandon the use of formal modelling and to focus on more realistic, empirically-oriented types of research that tries to solve real-world problems. Basically, the geographical angle highlights 1) spatial differences, 2) processes in space, and 3) spatial interaction (Laulajainen 1998a, 2, 295).

In the context of FDI, spatial differences are manifested by the investment supply and demand, as well as the existing legislation and rules, which differ from country to country. The ongoing processes in space refer to the increasing role of TNCs, the

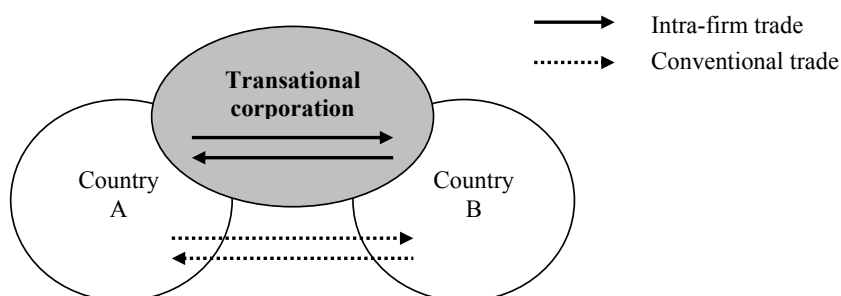
¹⁶ In addition to an increasing number of articles on FDI in economic geographical journals, a case in point are also the textbooks of economic geography, which earlier used to pass over the international trade and investment in a few pages (eg Carr 1987) while the increasing interest in the international economy has later produced whole books, such as Hanink's (1994, 1997), which contain a review of various trade and investment-related theories from the perspective of economic geography and integrate these topics with other subjects (Hanink 1997, V). Also the introductory books on economic geography have started to emphasise trade and investment-related topics. For example, Stutz and de Souza (1998) have more than doubled their pages covering international trade and FDI since the first edition in 1990.

¹⁷ Friction of distance is a concept of physical geography referring to the forces that resist the movement of one surface over another. In economic geography, friction of distance takes place over relative distance in the form of time, cost, or convenience. The technologies of transport and communications are the most important ways to overcome the frictions of distance. (Mayhew & Penny 1992)

hollowing out¹⁸ of the nation state, and the globalisation process resulting in production processes that transcend national boundaries and are operated on different geographical and organisational scales. In the case of FDI, this phenomenon is visible in the form of increased investment flows and liberalised investment policies throughout the world. Finally, spatial interaction takes place between firms undertaking direct investment (parent-subsidiary relation), between the TNC and the host government bargaining over an FDI decision, and between the home and the host countries developing their politico-economic relations.

TNC's investment decisions are especially interesting for economic geographers because they are not only decisions on capital transfer but also decisions on location. Originally, location decisions were defined as greenfield investment decisions, which means the decision of an existing firm to establish a plant at a new site. Later this definition has been enlarged to include various changes in firm location, such as acquisitions, mergers, transfers, exits, deaths, or *in situ* changes. In all of these cases, however, location decision is an investment or divestment decision. (Watts 1989, 64) To put it briefly, FDI refers both to establishing a new production site and the relocation of existing production. Another reason why economic geographers have become increasingly interested in FDI is the TNC's spatial role. Conventional trade takes place between firms located in different countries, but TNCs tie places together through their internal markets in the form of intra-firm trade, as illustrated in Figure 4.

Figure 4 Conventional trade between countries and the internal markets of transnational corporations



Source: Dicken 1998, 243.

¹⁸ Hollowing out means that the government's capacity to project power within its own national borders is becoming limited. Thus, some state capacity is transferred either to supranational bodies, to the local levels inside the nation state, or to the regional networks established across state borders. (Jessop 1992, 3)

Parts of the FDI flows are intangible, such as money or information flows, and they may lead to the impression that the friction of distance has become somewhat irrelevant. Physical distance may seem to lose its meaning due to the development of better communication and transportation technology. It is true that the friction of distance has become less important than earlier, but communication over long distances still creates higher costs. The physically conditioned geographical surface causes such costs as larger phone bills, increased travel costs, and costs due to the shorter business hours in the east-west direction. In addition, costs are caused due to the man-made regulative surface comprising taxes, laws, rules, standards and conventions. (Laulajainen 1998b)

As such, an absolute distance that is expressed in physical units such as directional coordinates or kilometres, and is unchangeable, is not very interesting from the economic perspective. Differently, relative distance that refers to location with respect to other relevant locations is important. Relative distance can be expressed, for example, as time distance (expressed in hours and minutes, and changes with varying technology: location may be 12 hours away by train versus 50 minutes by air), cost distance (expressed in terms of currency, and varies with the transport mode, volume and type of traffic and goods, and their destination), or convenience distance (ease of travel). (cf. Mayhew & Penny 1992, 63) Luostarinen (1979) has studied the role of distance explicitly in the context of direct investment. He uses the concept of business distance, which he has defined as a combination of physical, cultural and economic distances¹⁹.

¹⁹ Luostarinen (1979, 128-136) measures physical distance by the distance (km) between the capital cities of the countries, cultural distance by the frequency of language studies and enrolment ratios in university education, and economic distance by the number of telephones, level of industrialisation, and per capita consumption of paper, steel and energy. As a concept, business distance can be traced back to the above-mentioned cost and time distances because overcoming the business distance, or any parts of it, requires time and money. Firstly, long physical distance between two countries results in increased costs of interaction, a lower frequency of contacts, and longer time needed than over shorter distance (cf. Laulajainen 1998b). Secondly, Luostarinen (1979) expresses cultural distance by cultural differences, which hinder the flow of information like the language, values and attitudes (cf. Hofstede 1991). Interpreting these differences calls for time and money as well. Thirdly, economic distance refers to differences in the level of economic development between home and host countries. The greater the difference in economic environment between the home and the host country in favour of the host country, the greater the positive economic distance. Consequently, the greater the difference in favour of the home country, the greater the negative economic distance (Luostarinen 1979, 137). This argument suggests that firms tend to engage in market-oriented investment in core economies before expanding to low cost peripheries. As most of the world investment takes place in the intra-core context, the argument can be supported by the statistics. However, the argument does not pay attention to those differences at the economic level between the home and the host country, which may create advantageous complementarities for both economies. The major contribution of Luostarinen's discussion on business distance is the argument that companies tend to invest first in the geographically, culturally and economically closest countries and expanding gradually to more distant markets. Thus, Luostarinen's argument is in line with those by Laulajainen (1998b).

Håkansson (1979) and the Nordic School of internationalisation²⁰ have emphasised the geographical perspective incorporated in the internationalisation of firm models, and FDI in particular. Thus, they explain that firms enter markets at an increasing distance²¹ from the home country starting from those they know best and continuing to more distant markets. In the case of Finland, large firms have usually followed this traditional internationalisation pattern, but there have also emerged new kinds of internationalisation patterns, such as the early internationalising firms, or born global firms. They are small, usually high technology firms, which have a managerial global vision from inception (Rialp et al. 2005, 148, 160). Born global firms may enter FDI over a long distance without any experience of other internationalisation modes. Larimo (1993) argues that also Finnish small- and medium-sized enterprises (SMEs) are likely to engage FDI with less previous experience of a particular host country than large Finnish firms, which usually have a broad experience in operating in a host country before engaging in FDI.

Finally, economic geographers have become interested in FDI studies because most investment studies conducted in other fields tend to treat the investment target a dot-like location without giving any attention to spatial differences within the country. However, decision to invest, is also a decision on location. At the global level, direct investment is related to the spatial organisation of TNCs, which tend to locate their functions hierarchically around the world so that major control functions are located in major cities or financial centres and secondary control and co-ordinating functions are dispersed in smaller cities. Production with day-to-day control is the most dispersed function. (Johnston 1994, 281)

As mentioned earlier, firms and location decisions have been studied in the field of industrial geography, a sub-discipline of economic geography, interested in the location of manufacturing activities. Basically, industrial geography has been divided into three traditional approaches of neoclassicism, behaviouralism and structuralism²². In the following, the three approaches are briefly overviewed in order to clarify the relationship between them and the present study. Table 2 summarises the three

²⁰ Nordic School refers to studies based on the Uppsala model (eg Johanson & Vahlne 1977, 1990; Johanson and Wiedersheim-Paul 1975) and Luostarinen's (1979) internationalisation model.

²¹ The Uppsala model distinguishes between geographical and cultural distances, while Luostarinen makes a difference between geographical, cultural and economic distances.

²² Neoclassical and behavioural approaches are also called mainstream theories and a structuralistic approach as radical theory.

approaches in terms of the five basic concepts of the present study. As the industrial geography approaches do not take any view of the political environment as such, this concept is discussed through the broader concept of the firm's environment in general.

Table 2 **Summary of industrial geography approaches**

	Neoclassical models	Behavioural models	Structuralistic models
Explanation of the firm	Black box reacting to the changes in costs in the market	Organism that becomes adjusted to the environment	Responder to external changes in the capitalist system
Explanation of the firm's environment	Combination of natural resources, labour, market, and competitors	Decision-maker's perceptual space	Labour market
Explanation of the location	Optimal solution	Satisfactory solution	Efficient solution
Explanation of the locational decision-making	Automatic through general principles (spatial costs and revenue surfaces)	Learning process (interplay between the availability of information and the ability to use information)	Socially useful decision
Explanation of the FDI	FDI is trade that takes place within the firm, and it is created due to distance from the raw material site to the production site and market	FDI is explicitly a locational choice based on perception of the environment	FDI implicates the different interest of capital and labour, and has an impact on the social structures of the area
Typical representative of the approach	Smith 1966	Pred 1967	Massey 1973
Typical research object	Transportation costs of inputs and transportation costs to the market	Locational decision-making processes	Structural foundations of production systems
Theoretical predecessors	Neoclassical economics and pure location theories	Psychologically - oriented organisational theories	Institutional and Marxist economics, and political economy

The neoclassical explanation of industrial location is based on pure location theories (eg Weber 1909; Lösch 1940) and derives from neoclassical economics. Based on Weber's (1909) least-cost location theory, neoclassical industrial geography understands location decisions as explicit decisions, which produce economically optimal solutions with respect to profit maximisation. Locations are explained by spatial costs and revenue surfaces, and firms locate where the costs of transporting raw materials to the plant and

products to the market are the least. Location decisions are made by *Homo Economicus*, the rational economic man. The explanation for FDI goes through the trade: the choice of location generates international trade from the raw material site to the factory and further to the market. Thus, FDI is trade that takes place within the firm²³. There is potential for FDI if the low-cost factor of production is located in a different country than other favourable factors of production²⁴.

The behavioural location theory was developed as a criticism to the neoclassical approach. It derives from psychologically-oriented organisational theories and it aims at a more real-world approach compared to the neoclassical theory. It is interested in the location of individual firms as a decision-making and learning process that makes the firm able to adjust itself to the changing environment. Decision-makers are, in contrast to economic man, satisficers²⁵ making choices based on limited and uncertain information. Empirical studies on location decisions (eg Jatila 2001) have shown that decision-makers do not have the capabilities of *Homo Economics* and thus, firms are not able to find optimal locations but they tend to choose the first sufficient location. The behavioural perspective in geographical studies was pioneered by Pred (1967), who created a behavioural matrix of locational choices. He saw a firm's decision-making ability as interplay between the availability of information and ability to use information. In addition, he emphasised also the uncertainty related to unexpected circumstances. (Hayter 1997, 140-143)

The third traditional approach to industrial geography, structuralism, was also developed as criticism of the neoclassical approach, but aims to adopt a holistic view by seeking explanations from the structure of the society in which firms operate. Structuralism has focused especially on conflicts between capital and labour. It has produced the spatial division of the labour thesis, which argues that capitalists replace labour with machines in order to increase productivity and thus, give rise to the deskilling and decreasing amount of labour, as well as in the standardisation of production. The expansion of TNCs is an implication of the spatial division of labour and the exploitation of spatial inequalities, which structuralists see even as a prerequisite for profitable production. In its extreme (eg

²³ According to Hanink (1994, 213-214) "*From a least-cost perspective, it seems that foreign trade and FDI are not just substitutes, they are the same thing. For many analytical purposes, the fact that trade is taking place within an MNC or between two different enterprises makes no difference.*"

²⁴ This is true if FDI takes place due to a foreign resource of raw materials.

²⁵ Originally, the concept of satisficer draws on Simon's (1957) idea.

Walker 1989), structuralism focuses so solely on economic environment that it views a firm even as an “*irrelevant analytical category*”.

Geography of enterprise approach

Along with the development of industrial geography, the concept of the firm received only little attention as the three approaches turned attention elsewhere: the neoclassical approach to the market, behaviouralism of the psychological processes of the decision-makers, and the structuralism of the production systems. This created a need for a specific geography of enterprise that is usually traced back to an article by McNee (1958). He introduced the firm as a research object in industrial geography and shifted attention from the SMEs to large conglomerations.

The geography of enterprise does not have its own, solid theoretical background, but draws ideas from other disciplines, especially from organisational studies. It views firms as the economic agents of spatial development, being able to organise the spatial system and alter their own corporate structure as desired. Firms form their own regional system including the internal nodal structure linked by administrative and material flows, and they maintain relations with other company regions as well as political regions. (McNee 1986) Thus, in the geography of enterprise, firms can be studied in different scales, including global, international, national, regional or local scales. The basic elements of the geography of enterprise approach are collected in Table 3 in comparison to the earlier Table 2.

Table 3 **Summary of the geography of enterprise approach**

	Geography of enterprise approach
Explanation of the firm	Network controlled from one centre of decision-making
Explanation of the firm's environment	Network of external institutions, such as the parent firms, subsidiaries, subcontractors, rivals, financial institutions and home and host governments
Explanation of the location	Relative optimal solution based on corporate strategy
Explanation of locational decision-making	Bargaining process explained by the strategy and power of the firm
Explanation of the FDI	Bargaining process between firms and states
Typical representative of the approach	McNee (1958)
Typical research object	TNCs powerful enough to modify the locations in which they operate
Theoretical predecessors	Organisational studies

Originally, McNee (1960) suggests that the geography of enterprise should study both SMEs and large enterprises. However, studies on SMEs have been almost neglected and thus, the geography of enterprise has also ignored such topics as labour problems, the class struggle and industrial restructuring, which then became the focus of structuralist studies. Instead, the first decade of the geography of enterprise was preoccupied with behaviourist studies (eg McNee 1958, 1960; Krumme 1969; Dicken 1971; Hamilton 1974; Toyne 1974) focusing on motivations, locational decisions, and the adjustments of individual firms. Behaviourist studies were evolved as reaction to the restrictive assumptions of neoclassical economic and pure location theories. Later, the behaviourist geography of enterprise has been criticised for its focus on single firms instead of regions consisting of a large number of firms. (Yeung 2000, 6)

In the 1970s and the 1980s, the enterprise and structuralistic approaches, which had common roots, met again, as there emerged structural interpretations of the firm aiming at placing the firm in its broader structural context. Structuralist studies most relevant to the geography of enterprise include Harvey (1969, 1975), Massey (1973, 1979, 1984), and Storper and Walker (1983, 1989). Similarly to earlier behaviourist studies, the structuralistic turn was evolved in reaction to the perceived inadequacy of the neoclassical theory, but based on Marxist theory. Its main contributions, such as the spatial division of labour thesis, have been criticised (eg Yeung 2000, 8-9) as they exaggerate the international operations of the TNCs in the periphery by characterising world trade and FDI simply on the basis of geographical specialisation around a core, semi-periphery and periphery. In the case of FDI, the great majority of investment flows in fact takes place within the core.

In his evaluation of the geography of enterprise, Hayter (1997) stresses the impact of institutional theory, which is based on theories in institutional economics by Coase (1937) and Williamson (1964). Institutional theory argues that firms are not abstract agents, as the neoclassical approach assumes, but rather autonomous agents²⁶ using their bargaining power in order to achieve their own goals, which may differ from local and

²⁶ The agents are often characterised as technostuctures (original concept by Galbraith 1967). Technostructure is the organisation of people who influence corporate decisions, including the management and all those persons who serve the management with data and information. Technostructure is related to the idea of the separation of management and ownership, as well as the professionalisation of management.

regional interests. They may even be able to influence their environment. (Hayter 1997, 79-81) According to this view, the investment location is not a given fact but subject to bargaining with the potential host governments. This power of the firm to negotiate is, however, constrained by other powers by rivals, labour, governments, or environmental and other pressure groups.

By the late 1980s, the geography of enterprise had developed from industrial geography to a research tradition of its own, although rather incoherent and disparate. The lack of tying up theories and methodologies has raised criticism even towards the existence of the research tradition (eg Walker 1989), which in its turn has stimulated new interest in the geography of enterprise (eg De Smidt & Wever 1990; Dicken 1992, 1998; Harrison 1994; Conti et al. 1995; Clark & Wrigley 1997; Hayter 1997; Schoenberger 1997; Laulajainen 1998a; Oinas 1998; Yeung 2000; Maskell 2001; Taylor & Asheim 2001). However, both empirical (eg de Smidt & Wever 1990) and theoretical (eg Conti et al. 1995) studies within the field of the geography of enterprise have concluded the lack of a common theoretical and methodological base. "*The geography of enterprise requires a theory of enterprise*", as Taylor (1980, 151) puts it. This recognition has recently resulted in attempts to develop an enterprise approach further. Especially, there have emerged attempts for the conceptualisation of the firm (eg Yeung 2000, Maskell 2001, Taylor & Asheim 2001).

In the present study, the firm, or the TNC, is one of the basic concepts, because FDI is engaged by the TNCs. In addition, the current study is conducted from the firm perspective and thus, positioned within the geography of enterprise approach. In the theoretical part of the study, the firm is discussed through strategic management literature, which has been developed at the same time with the geography of enterprise literature and which has influenced the evaluation of the geography of enterprise. In addition, strategic management literature has found common ground with FDI studies conducted in the field of international business. However, these conceptual discussions of the firm are not repeated in the present study in detail, because the basic statements of the geography of enterprise approach are adopted as such, and because the focus of the present study is on the reactions and activities of the firm.

The second concept of the present study, namely the FDI, is discussed mainly from the firm's perspective, but before that a brief overview of major FDI theories is presented. The various FDI theories have been developed in interaction between the literatures on economics, international business, strategic management, and others. In the field of the geography of enterprise, FDI is studied especially in the context of TNC – host government bargaining. This bargaining relation is implicitly present in the present research setting. However, the detailed discussion on the specific FDI negotiation processes remains out of the scope of the study. In addition, there already exists a vast number of studies on this issue (eg Gregersen & Contreras 1975, Bradley 1977, Doz & Prahalad 1980, Poynter 1982, Lecraw 1984, Goodman 1987, Kobrin 1987, Moon & Lado 2000). Among them, the early work of Gregersen & Contreras (1975) has been especially influential and it is frequently referred to in most later publications on the topic. Consequently, the study of Kobrin (1987) has received a lot of attention especially among geographers (eg Hayter 1997; Dicken 1998). The most interesting lessons for the present study are provided by Goodman (1987) that explicitly focuses on the fit of direct investment with the TNC's strategy.

Location, the third concept of the present study, is seen as an expression of the investment strategy of the firm, as the geography of enterprise literature suggests. Thus, a difference between the *location conditions* and *location factors* will be made according to Nishioka and Krumme (1973). This means that in the present study, the host country will be first evaluated through the location conditions that it provides for all TNCs, and secondly, through the location factors that are relevant to a single TNC and its strategies. Furthermore, there is no reason to underestimate the importance of the intra-national level of analysis, especially as many FDI studies still treat their host countries as dot-like destinations with no analysis of regional variations²⁷. Therefore, the present study aims to cover also the intra-national level of FDI.

Locational decision-making, the fourth concept of the current study, is central for the present study, as the relevant factors having an impact on investment decision are searched. However, the aim is not to study the actual decision-making process that has

²⁷ The empirical focus of the present study, namely Korea, does not include any major differences between the areas as the country is small and the local governments are strictly under central government control. This is different from such countries as China where the regions have completely different practices.

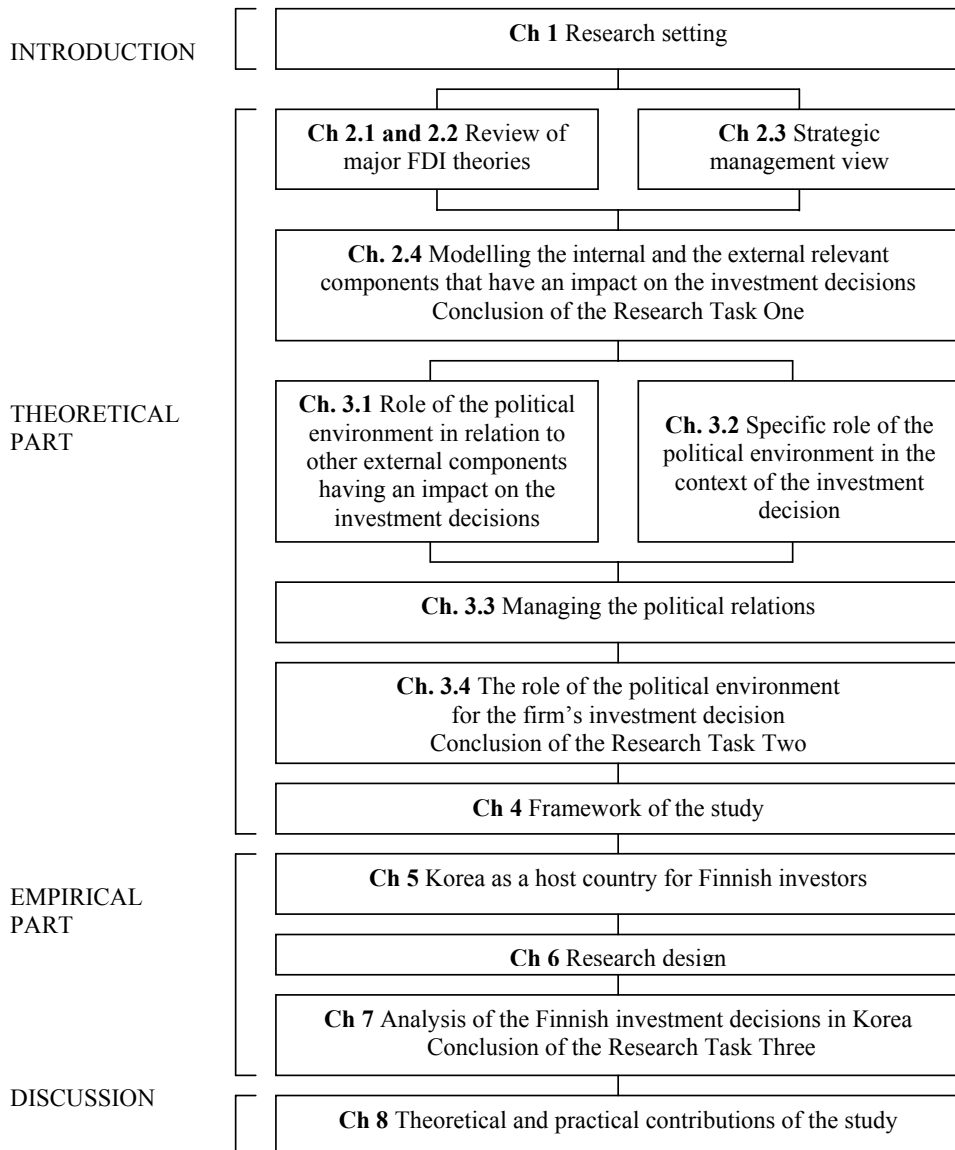
been studied earlier even in the case of Finnish investors (eg Larimo 1987, Björkman 1989). The present study highlights the importance of both internal (firm-specific) and external (country-specific) factors and seeks a model that takes account of both of them. This is different from many earlier studies whether in industrial geography that have alternately emphasised the external environment of the firm (neoclassicism and structuralism) or the internal factors of the firm (behaviouralism), or FDI studies in general that have tended to focus either on internal or external factors depending on the dominant research tradition (cf. Dunning 1998).

Finally, the fifth concept of the present study, namely the political environment of the firm will be discussed in relation to other parts of the firm's external environment, on the one hand, and in terms of its specific impact on FDI decisions, on the other hand. Among the various operational modes of TNCs, direct investment represents the deepest and the most committed way of economic interaction. In the present study, the empirical analysis is conducted among the Finnish investors that have decided to invest in Korea. Since 1984, they have invested in Korea despite the restrictive investment policy and some of the investment projects are even encouraged by the changes in government policies, such as the investment liberalisation in 1998. Thus, the present study highlights the positive impacts of political change that encourage TNC to invest in a particular host country rather than the negative impacts that hinder the investment or result in divestment.

1.4 Outline of the study

The study consists of four parts: introduction, theoretical part, empirical part, and discussion, as shown in Table 4. In addition, the study is divided into eight chapters, which are further divided into several subchapters. The aim of the introductory part is to discuss the backgrounds of the present study, state the exact research problem, and position the study in the particular research tradition of the geography of enterprise.

Table 4 **Outline of the study**



The aim of the theoretical part of the study is to discuss the theoretical backgrounds to the present study through the relevant literature. Within it, Chapter Two scrutinises the first research task that aims to find a suitable model for the purposes of the present study. The chapter starts by briefing the FDI theories in order to get a clear picture of the major studies on FDI. Then, an explicit firm perspective will be adopted and FDI

will be discussed as a strategic decision of the TNC with the help of the geography of enterprise but especially a strategic management framework. The discussion culminates in the adoption of a model that recognises the relevant factors having an impact on the firm's investment decision. Chapter Three discusses the second research task on the relevance of the political environment of the firm by focusing explicitly on the impact of the changing political environment for the investment decision of the firm. In the Chapter Four, the aim is to give a theoretical answer to the research problem of the study. Theories are drawn together and the framework capable to guide the empirical study is built.

In the empirical part of the study, discussion covers the particular methodologies selected and the results of the empirical analysis. Within it, Chapter Five introduces the background to the empirical analysis by discussing the development of Finno-Korean relations and the particular changes that have shaped Korea as a host country of FDI during the last decades. Chapter Six discusses why the study follows the principles of the case study design and is based primarily on qualitative evidence. Data includes investment statistics and enquiries of Finnish firms. A comparison of the available investment statistics is conducted in order to test the reliability of various sources and to identify the particular firms to be selected for further analysis. In Chapter Seven, the third research task on the experiences of the Finnish investors in Korea will be completed by an in-depth analysis of the investment decisions. After that, the particular location factors in Korea are generated with the help of perceptions of the Finnish investors in Korea. As a result, conclusions are drawn on the change in Finnish firms' investment operations in Korea due to the political changes.

Finally, the last part of the study, discussion, which consists of Chapter Eight, puts forward the theoretical implications with a critical evaluation of the study. It aims to answer the research problem on the basis of theoretical discussion and an empirical study conducted in Finno-Korean context. In addition, implications for host and home governments as well as Finnish TNCs are discussed. Recommendations for future research are also suggested.

PART II THEORETICAL PART

2 Foreign direct investment as a strategic decision of the firm

The first research task of the study aims to uncover a model that recognises both the relevant internal and external factors having an impact on the investment decisions of TNCs. The discussion will be started with a brief analysis of the FDI theories in order to get a clear picture of the concept of direct investment and the major studies on FDI. At this stage, the focus is on international business literature. Then, the firm's perspective will be adopted and FDI will be discussed as a strategic decision of the TNC. Thus, the discussion will be extended to the field of strategic management, which has explicitly studied the firm's strategies and performance. The fields of international business and strategic management have common ground, which is visible especially in the context of FDI. Similarly, field of the geography of enterprise and strategic management have a lot of common as they have been developed in close interaction. Along with the discussion, the key concepts of the present study are scrutinised, excluding the political environment of the firm that will be discussed later in Chapter Three. Finally, the literature review culminates in the adoption of a model that recognises the relevant general factors having an impact on the firm's investment decision.

2.1 Major foreign direct investment theories

FDI refers to the transfer of the capital, managerial and technical assets of a firm from the home country to the host country. It is a form of international finance, together with lending and portfolio investments, but different from lending because it entails ownership, and different from portfolio investment because it entails control of financed activities over management and profits. Often portfolio investment is made for the sake of investment income, while FDI is made in order to control the foreign enterprise in the host country. Portfolio investments are excluded from the present analysis.

There is no single theory on FDI, but various approaches from different disciplines, such as economics, international business, and organisation and management,

explaining different aspects of the phenomenon. Basically, three levels of analysis have been distinguished (eg Cantwell 1991, 17; see also Calvet 1981 for a summary of early FDI theories): macroeconomic, mesoeconomic and microeconomic levels. The macroeconomic theories based on traditional trade and location theories, consider the national and international trend of FDI. The mesoeconomic theories based largely on industrial organisation economics, study FDI on the industry level and emphasise the competitive economic environment. Finally, the microeconomic theories are based on the theory of the firm and focus on the competitive advantage of the firm. In addition to these three levels, Luostarinen (1979, 9) has identified a fourth level of analysis, the sub-micro level (later milli-micro level), which refers to investment decision-making processes in the investing companies.

In the following, the major avenues for the studies of FDI are overviewed. The theories are briefly studied starting from the macro-level and continuing towards the micro-level. This order reflects also the shift of focus of international business discipline, since the 1970s, from the international economy level to the firm level and even inside the firm, as in the case of milli-micro level of analysis. Actually, the shift of focus has not been straightforward, and it has aimed not only at progression into a more detailed level of analysis, but to more complete explanations (cf. Bartlett & Ghoshal 1991, 6).

Traditional international trade theories have been extended to FDI with regard to the international movement of factors of production. Examples include such extensions of the international trade theory, as factor endowment theory that contains factor mobility (eg Helpman 1984) and specific factor models (eg Markusen & Venables 1998), which both are representatives of the new trade theory. They are applicable in the context of FDI, as they allow imperfect competition and product differentiation. Also traditional location theory (eg Weber 1909) can be discussed in the context of FDI because it understands the least-cost location of production as the optimal location of the firm²⁸. According to Hanink (1994, 212), traditional location theory suggests that there is potential for FDI if the low-cost factor of production is located in a different country than the market. This refers to core-periphery investment, which has been historically

²⁸ Location theory defines cost minimisation as a reduction of transportation costs, that is the cost of transporting the raw materials to the production site, or the finished products to customers. Also the cost of labour is taken into account.

typical as the foreign resources of raw materials formed the major motivation of FDI. However, in the case of an imperfect market, where the market share is put before profit maximisation, FDI is likely to take place in an intra-core context. (Hanink 1994, 212)

Macro-economic investment theories include also Dunning's (1993) developmental model of international investment, which relates the determinants of outward and inward investments to the developmental phase of the country. According to the model, outward investment exceeds the inward investment as the economy develops. The gradual shift from negative net investment to positive, depends on a country's factor endowments, politico-economic system and its interdependencies with the world economy. Investments develop through five phases. In the first phase, inward and outward investments of the developing country are at a low level. In the second phase, market growth and enhanced human capital raise the inward investment while the outward investment still stays at a low level. In the third phase, both inward and outward investments have a significant role in the economy, which has reached an intermediate level of industrialisation. In the fourth phase, the outward investment exceeds the inward investment because the domestic firms both compensate the location disadvantages of the home country by engaging in outward investment, and complement the location advantages offered by the immobile factors of the host countries. Finally, in the fifth phase, outward and inward investments become balanced and are both at a high level. (Dunning 1993)

In FDI literature, the increasing role of TNCs has been rather difficult to fit into a national level frame. Thus, many theories have been developed from the base that FDI is not a result of the relative comparative advantage of a country but an implication of the competitive advantage of the firm. Industrial organisation economics²⁹ is an application of microeconomics, which has broken the classical assumption of perfectly competitive markets, and is interested in FDI as the TNC's way to utilise firm-specific advantages and survive in oligopolistic competition³⁰. A representative of industrial

²⁹ Industrial organisation economics is not interested in the industrial sector, as opposed to agriculture or services, but on firms and markets, such as in the banking industry or the forest industry, for example. Industrial organisation economics emphasises the industry structure as the main determinant of firm performance and it has focused especially on the success of oligopolies.

³⁰ Oligopolistic competition is a situation in which there are only a few firms sharing the large proportion of the industry. Firms are interdependent, as they cannot afford to ignore the actions of others.

organisation economics is Hymer's study (1976³¹), according to which TNC has to earn a higher profit abroad than on the home market because of the greater risk involved and the additional costs caused by operating at a distance. Thus, the competitive advantage of TNC is both transferable over borders and difficult to acquire by local firms. Although the industrial organisation economics emphasises the firm-specific advantages and the strategies a firm can adopt for increasing and maintaining its market power, it also reminds that industries utilise a certain proportion of factors and thus, fit best to a country that offers the particular factor. However, industrial organisation economics focuses on strategic matters and firm-specific advantages rather than country factors.

Similar kinds of views to Hymer (1976) are shared in many other theories, such as the transaction cost theory, product life cycle theory, and eclectic theory. Among them, the transaction cost theory developed by Williamson (1975), with its roots in Coase (1937), argues that trade is beneficial for firms as they can avoid costs arising from the unfamiliarity of the markets. However, if the transaction costs of exchange are lower within the hierarchies of the TNC, the market will be internalised. Thus, FDI is not just a capital inducement but an international extension of managerial control over a subsidiary abroad.

Vernon (1966, 1979) introduced the product life cycle theory already in the mid-1960s, but developed it later to an explicitly oligopolistic interpretation. The theory explains the geographical process of locating the manufacturing units in the four general stages of maturity. In the first stage of the life cycle, new products are introduced by a firm that holds technological leadership in a location where it can enjoy agglomeration economies. Overseas demand is served by export. In the second stage, the firm starts to establish production facilities abroad as soon as it finds an opportunity to reduce costs by doing so, or its market position is threatened. The first overseas production tends to be set up in the high-income market. In the third stage, the newly established plant serves the local market in the host country and displaces exports from the home country. Consequently, home country based firms export directly to third countries. Finally, in the fourth stage, the newly established plant in the host country expands its exports also to third-country markets. When the innovative lead is lost and the product becomes

³¹ Hymer's study was published in 1976, but the original study is his unpublished Ph.D. dissertation, which he completed already in 1959.

mature, the production facilities will be relocated to low-cost locations from where the products are exported to the home country as well. (Vernon 1979, 265-267)

Finally, the eclectic theory is Dunning's attempt to combine various theories on FDI (eg Dunning 1993). Eclectic theory is based on the idea that, compared to local competitors, foreign firm does not have as good information of the local business environment. Thus, TNC will engage in international production only if a set of particular advantages are present, namely ownership advantage, internalisation advantage and locational advantage. The ownership advantage determines which firms will supply a particular foreign market. The ownership advantages include all the specific, often intangible, assets, which a firm can either create (eg knowledge, organisational skills) or purchase (eg patents, brand names), and which its competitors do not possess. The internalisation advantage explains why firms will internalise transactions within their hierarchies rather than allow transactions to be made within the market. The more ownership-specific advantages a firm possesses relative to competitors, the greater the incentive to internalise their use. Finally, the location advantage explains whether a firm will supply foreign markets by exports or through local production. The location advantage (eg spatial distribution of inputs) makes it profitable for a firm to exploit its assets overseas. Otherwise, it would serve a foreign market through exports from a home country base.

Microeconomic theories of FDI include also the internationalisation theory of the firm. Luostarinen's (1979) model explains the internationalisation process of the firm through the starting, development, growth, and mature stages. During these stages, operational methods of the TNCs are manifested by the trade in goods taking place in the earlier phase of economic interaction compared to international investment. The explanation goes that exports prepare the way for investment by establishing business contacts and sources of information and creating a special knowledge of the market. Once established, direct investment allows firms to gain a much better understanding of foreign markets, thus also facilitating further exports of the parent firm. (Luostarinen and Welch 1997)

FDI can also be seen as a result of the growth of the firm. Luostarinen's study (1979) has many similarities with Håkanson's (1979) five-stage model of the geographical pattern of a corporate structure that explains how a firm expands from the home country to overseas and grows from a single operation plant to TNC. A firm grows gradually by

employing new international operations, starting from a sales office and ending in a subsidiary or acquisition abroad. According to the model, the mode of operation is influenced by changes in the company's environment and the company will choose the FDI mode only after it has achieved a certain level of trade.

In addition to traditional investment theories, economic geography has attracted special attention to intra-national patterns of FDI. The core-periphery framework that interprets the spatial organisation of the world economy through a powerful core, weak periphery, and transitional semi-periphery, is adaptable at any geographical scale. With reference to the intra-national context, an urbanised capital region usually forms the core of the state and is surrounded by rural areas, or periphery. Many countries have several regional cores.

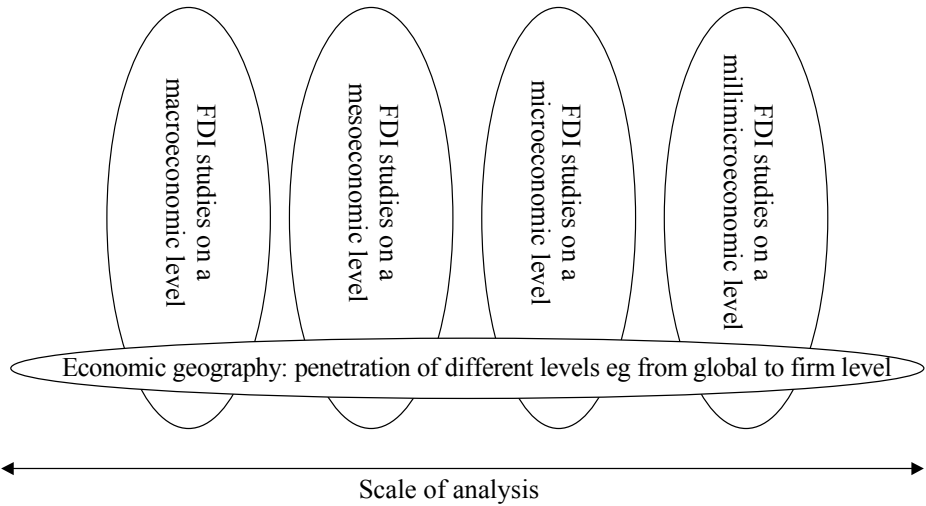
Traditional industrial location theories explain the regional distribution of FDI in terms of transport costs, wages and infrastructure, while more recent theories have emphasised such issues as the role of agglomeration with demand and supply linkages (eg Krugman 1991). The FDI can be seen as a catalyst for local development as TNCs may speed up growth rates in the host countries by applying their experience to build and operate factories. (Hayter 1997, 390) Thus, governments are eager to intervene in the locational decisions of the TNCs. Altogether, it is important to put an emphasis both on the role of locational conditions and the role of the host government that may aim to fill the gap between the real locational attractiveness of the country and the degree of expectations by the TNC for a desirable investment location. The role of the host government in attracting FDI is discussed more thoroughly in Chapter Three.

As the economic geography searches frameworks applicable on various spatial scales, it is characteristic of the studies to penetrate the above-mentioned levels of analysis. Thus, economic geography may study FDI through various spatial scales that may include global, international, regional, national, local, industry, firm, and even individual levels, as shown in Figure 5³². In the case of the geography of enterprise, the firm is the central focus and level of analysis but not isolated from the other levels that affect the firm. As

³² Figure 5 illustrates the four traditional levels of investment studies according to Cantwell (1991). Basically, the levels of business studies include at least individual, management, functional, firm, inter-organisational, industry, and economy levels.

mentioned earlier, the present study highlights the importance of both firm-specific and country-specific factors thus focusing mainly on the national and the firm levels of analysis. This is essential because it is impossible to understand the nature of macro-level FDI inflows from one country to another without analysing the micro-level FDI decisions by the investing firms. In addition, the present study will put emphasis on meso-economic level by recognising the location of the firms within the regional structure of the host economy.

Figure 5 Geographical studies in comparison to investment studies



2.2 Types of investment

Taking a more practical view of FDI, it is possible to distinguish various kinds of investment types based on such issues as the target market, strategic motives, internal structure, industry, way of growth, ownership, and others. The types are partly overlapping reflecting the multidimensional nature of the investment decision. In the following, the types will be overviewed. The basic division of direct investment into two is made according to the final market for the produced item or service. The local market-oriented investment refers to the case in which the output of the production site in the host country is directed to fulfil the demand in the host country. Consequently, the international market-oriented investment refers to the case in which the host country

is used as an export platform and the final product is directed at the international market. The latter is also called export-oriented investment.

It is obvious that a firm makes its investment decision to meet the general motives of corporate strategy, especially economic performance. Investment literature has studied TNC motivations to invest abroad widely from different viewpoints: different firms, different industries, different host countries, and different periods. As a result, great numbers of various motives has been listed. Nevertheless, investment literature (eg Behrman 1981; Buckley 1988; Dunning 1993, 1998) has been able to define the five main types of direct investment in terms of strategic motives, although investment is usually not engaged due to the one single specific motive, but a combination of various motives (Eiteman et al. 1992, 436).

1. Resource seeking investment is based on traditional locational advantages, such as costs of inputs, and transaction costs. This type of investment usually extracts raw materials for export or for further processing and sale in the host country. Typical representatives of this kind of investment are the extractive industries.
2. Market seeking investment is based on strategic locational advantages in order to increase a company's market power. The aim is to find better opportunities to enter and expand new markets either by satisfying local demand or by exporting to third markets. Investment is usually motivated by such reasons as market size, growth prospects of the market, market share, or competitive situation. This type of investment is nowadays the most common type of investment. In it, engagement with the host market is the greatest. A typical example is foodstuffs, which cannot be exported but have to be produced on the spot.
3. Production efficiency seeking investment aims to find production factors that are cheap relative to their productivity. Investment may be motivated by labour cost advantages, low raw-material costs, low transportation costs, low energy costs, or the availability of a skilled labour force. It refers often to off-shore production, which uses the special economic zones of the host countries. Typical representatives are thus the sourcing industries.
4. Knowledge seeking investment³³ (strategic asset seeking investment) aims to gain access to technology or managerial expertise in the host country. It has specific locational needs (eg technical knowledge, learning experiences, management expertise, organisational competence) and is mainly concentrated in advanced industrial economies. The increase of mergers and acquisitions (M&A) emphasise the increasing role of knowledge seeking investment. (Dunning 1998, 50)
5. Political safety seeking investment aims to minimise expropriation risks and is undertaken either in the form of investment in countries unlikely to interfere with TNC operations, or in the form of divestment from politically unsafe countries.

(Behrman 1981; Buckley 1988; Dunning 1993, 1998, Eiteman et al. 1992, 436)

³³ Knowledge seeking investment does not exist in the early studies of Dunning (eg 1993) but has been added later (eg in Dunning 1998) due to the development of international business.

Different types of investments can also be classified according to the investor's internal structure. This classification distinguishes between horizontal, vertical, conglomerate and concentric investment. In horizontal investment, which is the most common type of investment, a company duplicates the whole production process, except the headquarter activities, in its subsidiary locating in the host country. Through the local production, the investor is able to penetrate the local market and increase its reputation with customers as products can be modified for the special requirements of a particular market. Differently, the vertical type of investment refers to the establishment of a subsidiary in the host country to serve at different stages of the value-added chain of the investor, notably the next stage forward or backward in production and sales. (Larimo 1993, 47)

Concentric investment, in its turn, involves foreign units serving the same customers as the investing company through different production methods and research and development (R&D). It may also involve foreign units serving different customers through the same production methods and R&D. (Larimo 1993, 47-48) Concentric investments may also be called horizontal diversification. This is still different from the conglomerate investment, which occurs when a company manufactures an internationally diversified range of products so that the foreign unit differs from the investing firm in terms of all major characteristics, including production, technology, customers and distribution channels. (Larimo 1993, 48) Due to the differences, conglomerate investment usually takes place by acquisition.

In the case of mergers and acquisitions (M&A) the above-mentioned terms get a slightly different content³⁴. In addition, it is possible to divide investment simply into related and unrelated types of investments. Related types of investments include horizontal and vertical types, which are related to the investor's industry or customers, while unrelated types include conglomerate and concentric types of investments, which are driven by a firm's risk dispersion. Basically, unrelated types of investment cause more risk for the investor as the field of industry or target market are unfamiliar for it (Larimo 1993, 48). Therefore, firms engaged in related types of investment more often than unrelated types

³⁴ Horizontal M&A takes place among similar firms operating in the same industry, vertical M&A takes place among firms that represent different stages of production in the same industry, conglomerate M&A takes place among firms operating in completely different industries, and concentric M&A takes place among firms that operate in unfamiliar but related industry (Cartwright & Cooper 1992).

(ibid.). Moreover, they tend to engage in unrelated investment in a familiar market and remain in related investment in a more distant and unfamiliar market (Borsos-Torstila 1999, 57).

Investment can be seen either as an internal or external process depending on the firm's way of growth. Internal growth, or greenfield investment, means investment in a new plant and equipment, which builds up knowledge and capability inside the firm, while external investment means the acquisition of existing plant and equipment. (Luostarinen & Welch 1997, 164) The greenfield strategy is applicable if the product or the production process demands unique technology, which forms the company's competitive edge and thus, cannot be endangered by technology transfer to local firms in the host country. The greenfield strategy is also applicable if the host government's incentives are valid in a particular geographical area where suitable partners are not available. Consequently, a particular location may possess some important production factors, which results in a TNC to adapt the greenfield strategy if there are no suitable partners. (ibid., 166) Greenfield investment is a dominating way of FDI in developing countries (UNCTAD 2004, xvii).

Buying an existing company in the host economy, or cross-border M&A, is the most rapid way to enter a new market. It may solve the difficulties of hiring local personnel and penetrating local distribution channels, and it brings a readily-built market share and customer group with it. Based on these facts, the time needed to pay back the investment is relatively short. However, acquisitions usually face serious problems in integrating two previously separate organisations together. (Root 1994, 164-166; Luostarinen & Welch 1997, 164-165) M&A is the most common type of FDI in the developed countries (UNCTAD 2004, xvii).

With regard to ownership, a TNC may set a wholly-owned subsidiary or a joint venture. The advantages of a wholly-owned subsidiary include the total control of operations, decision-making, profits, management and production decisions, and the security over the technological assets and know-how. The constraints are mainly related to the capital requirements and the shortage of management personnel with international experience. Success in a distant market without a local partner may also be difficult due to the different cultural backgrounds, different corporate or industry cultures, and different

national or ethnic cultures, not to mention different legal, economic and political aspects. (El Kahal 2001, 237)

In the form of a joint venture, the investor has access to local partners' specialised skills, knowledge of a local market, and government contacts. Thus, a joint venture with a well-connected local partner is often considered as the best way of investment. In many cases, however, the contribution of partners have been disproportionate, as the local partner has provided only labour and local facilities while the investor has to provide capital, training, technology, equipment, and know-how. (ibid., 227-231) A joint venture can be set with one or more local partners. Sometimes, the partner or one of the partners is from the home country or a third country. If at least one of the partners is a government-owned firm, the joint venture is called a mixed venture. A TNC may set a majority joint/mixed venture, a 50-50 joint/mixed venture, or a minority joint/mixed venture³⁵ (Luostarinen & Welch 1997, 156-158). The entry mode is not always possible to decide according to the TNC's own will, but may be regulated by the host country.

Investment can be classified by its function as a direct investment production operation (DIPO), which includes assembling and manufacturing subsidiaries, or a direct investment marketing operation (DIMO), which includes sales promotion subsidiaries, warehousing units, service units, and sales subsidiaries (Luostarinen 1979, 105-112). Again, the functions are overlapping and can be utilised separately but also together.

In addition to the above-mentioned classifications, the size and industry of the investing firm, as well as its earlier experience in internationalisation are factors which can be used to make a difference between FDI situations. Among them, the size of the firm is usually measured by the turnover and number of employees. According to Harvard criteria, a multinational enterprise (MNE) is a firm that has a turnover of more than USD 200 million and at least six production units abroad (cf. Vaupel & Curhan 1969, 3), while the smaller firms can be classified as SMEs. These two groups differ in their

³⁵ Different ownership alternatives have an influence on possibilities to control the established company. Usually 51 % ownership is regarded as enough for effective control, if there are no specific minority protection clauses. 50-50 ownership requires the full confidence and ability to co-operate between partners. Finally, an investment of less than 10 % ownership is not usually even called FDI, but classified as a portfolio investment. Sometimes the control of voting stock *de jure* and the extent to which the control is exercised *de facto* may differ, as it is the decision-making power of the investor rather than the ownership percentages, which justifies the control. (Luostarinen & Welch 1997, 158, 162)

investment behaviour in a sense that MNEs have much larger resources than SMEs to fulfil their strategies in the host economy (Larimo 1993, 32). Similarly, firms having broad earlier international experience have better starting points to operate in the host economy than firms without such experience (ibid.). Finally, FDI experiences may be different between firms representing different industries. In the present study, industries are sorted according to standard industrial classification by Statistics Finland.

2.3 Strategic management view on the investor

The geography of enterprise and strategic management traditions have different approaches to the firm, but they are by no means contradictory to each other. The geography of enterprise approach asks where the firm should exist in order to perform better than the other firms, while the strategic management literature asks how and why some firms are able to perform better than other firms.

As mentioned earlier, the geography of enterprise literature has recently put much effort in conceptualisation of the firm³⁶. This has been seen necessary, because the concept of the firm has been understood as rather confusing, as shown by Machlup (1967) who has recognised 21 different definitions of the firm. The difference between the various concepts is how they understand the firm, the environment, and the relation between the firm and the environment. A rather established definition of the firm among geographers has been the one by Cowling and Sugden (1987, 62), who define the firm as a “means of co-ordinating production from one centre of strategic decision-making”. This definition has an implicit idea on the firm as a network and as a homogenous decision-making unit, characteristics widely discussed in economic geography³⁷. Moreover, Cowling and

³⁶ The conceptualisation of the firm from the geographical perspective has produced a special issue of *Economic Geography* (2001, Vol 77, Nr 4). In it, Taylor and Asheim (2001) discuss various theories of the firm, such as embedded networks and resource-based perspectives widely used in geographical studies, but conclude that it is impossible to identify one single concept, as the discussion within the field has just started. In his turn, Maskell (2001) sets the preconditions for the theory of the firm applicable to geographical studies: 1) a theory must fulfil the rationality assumptions of economic geography, which refers to the hypotheses in which actors are characterised by bounded rationality (recognition of the limitations to the abilities of the decision-making process in evaluating information), according to the prevailing attitude in the field; 2) a theory must be applicable on various spatial scales. Maskell (ibid.) ends up suggesting that a competence-based perspective of the firm might be a suitable starting point.

³⁷ A legally independent firm may be controlled from outside its legal boundaries, as in the case of a large conglomerate, which is more a network than a hierarchy. Consequently, decision-making is not

Sugden emphasise the firm's ability to co-ordinate the system by internalising transactions within the firm. Thus, they emphasise the role of strategic decision-making over the production system including not only the firms themselves, but also the relationship between the firms, their suppliers and customers, and the host governments.

In strategic management literature, in its turn, a firm is defined “as a *purposive organisation whose behaviour is directed toward identifiable end purposes or objectives*”, and which “*seeks its objectives through...conversion of its resources into goods and/or services and then obtaining a return on these by **selling** them to customers*”. (Ansoff 1987³⁸, 23, 48; emphasis by Ansoff)³⁹ Moreover, these purposes are economic in their nature⁴⁰. In brief, strategic management approach focuses on defining a firm's abilities to perform, while the geography of enterprise approach continues the definition by adding the spatial perspective that highlights the characteristics of the modern TNC. In the geography of enterprise approach, 1) a TNC is able to extend its control over legally independent firms, 2) a TNC is a network-type organisation consisting of collaborative relationships, 3) a TNC is able to move operations between various geographical scales, 4) a TNC is able to take advantage of geographical differences, 5) expansion of TNC is directed by strategic decisions based on the availability of resources for investment purposes, 6) strategic decision-making is a centralised action, which allocates resources, and 7) production may refer to service production as well as to manufacturing. (Cowling & Sugden 1987, 60; Hayter 1997; Dicken 1998, 177; Oinas 1998, 34-45; Yeung 2000)

The two definitions of the firm by strategic management and the geography of enterprise approaches complement each other. This compatibility allows turning the discussion to the concept of FDI. In the context of the FDI, the geography of enterprise literature recognises the corporate strategies behind locational decisions. In addition, this tradition understands FDI as a TNC – a host government bargaining process, which

necessarily centralised, as the firm may be able to control resources outside its direct ownership. See detailed discussion in Oinas (1998, 32-40).

³⁸ In this study, the updated edition of Ansoff's *Corporate Strategy*, which was published in 1987, is used instead of the original book published in 1965.

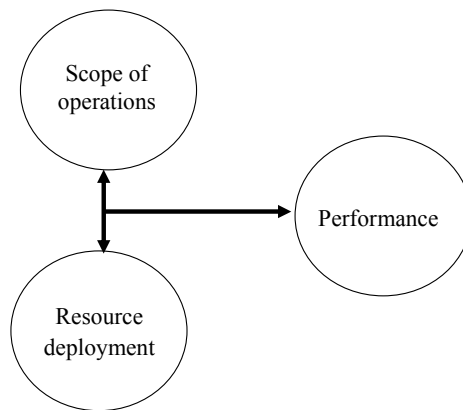
³⁹ Originally, Ansoff and the following studies emphasised the profitability as the supreme goal of business and rational planning methods as a means to achieve it. The success of the firm was measured by profit, which means that revenues exceed the costs incurred. (Ansoff 1987, 23) Later, the profitability as the ultimate goal of the firm has been questioned and pointed as the basic weakness of the Ansoff's approach.

⁴⁰ Firms may have additional non-economic goals, such as the social ones, but Ansoff (1987) has chosen the economic goals as the starting point for the concept of strategy.

is explained by strategy and the power of the firm. This means that the decision to go abroad is strategic. Thus, a further look at the strategic management approach is needed in order to understand the corporate behaviour behind the investment decisions.

Strategy is defined “*as the determination of the basic long-term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals*” (Chandler 1962, 15-16). Consequently, strategic management is “*the process through which strategies are chosen and implemented*” (Barney 1991, 27-28). Also Hofer and Schendel (1978, 4) put it similarly: strategy means matching between the organisation’s resources with its environment in order to accomplish its purposes. As a result, strategic management models, such as strategy-performance models, argue that the firm aims to gain economic performance through the set of scope⁴¹ and the resource deployment decisions⁴², as shown in Figure 6.

Figure 6 The basic strategy-performance model



The aim of the strategy is to combine the strengths of the firm with the opportunities of the environment. As a result, the firm gains economic performance. The aim is to avoid the situation where the weaknesses of the firm are met with the threats of the environment. If the firm succeeds to combine the strengths of the firm with the opportunities of the environment, only the simultaneous change in both the environment

⁴¹ Scope can be defined as the specific target market where the firm finds potential business opportunities and where the firm will focus in order to gain performance (Killström 2005, 43).

⁴² Resources of the firm are valuable only if they have been allocated in an effective way, which either maintains or increases the firm’s competitive advantage in the target market (Killström 2005, 44-45).

and the firm can move the firm towards the worst alternative. Accordingly, with the help of its strengths, the firm may hinder the threat of the environment. However, if there are weaknesses in the firm, it is not able to fully exploit its environment. (Lahti 198, 24-29)

By definition, risk means uncertainty in achieving the firm's goals (Atkinson 2004). Risk can arise from the strategy, the environment, or the operation. Strategic risk refers to the concern that major strategic alternatives may be ill-advised given the firm's internal and external circumstances. The risk arises if the firm's environment is misread or an inappropriate strategy has been developed to deal with that environment. Environment risk arises from the firm's external environment and the firm cannot directly have an influence on it. Firms can, however, manage the environmental risk by scanning continuously each of the changeable environment elements, identifying the risks, and acting on the risks in an appropriate and timely manner. Finally, operational risk is related to the firm's ability to achieve its objectives and the potential failure to operate according to objectives. (ibid.)

The basic strategy-performance model is easily adaptable to the case of direct investment decisions, which are the firm's decision on the geographical scope. As such, the investment decision is one of the major decisions of the firm, which is made once and not changed for several years. It is a part of corporate level strategy, which defines what set of businesses a firm should be in. Thus, it has to be made in a consistent way with the organisation's strategies. Based on Ansoff (1965), Hofer and Schendel (1978, 25) present the four elements of any organisation's strategy:

1. scope of operations, the organisation's present and planned interactions with its environment
2. resource deployment, the level and patterns of the organisation's resource and skill deployment, which helps it achieve its goals
3. synergy, the joint effects of resource deployment and scope decisions
4. competitive advantage, an organisation's unique position vis-à-vis competitors through its resource deployment and scope decisions

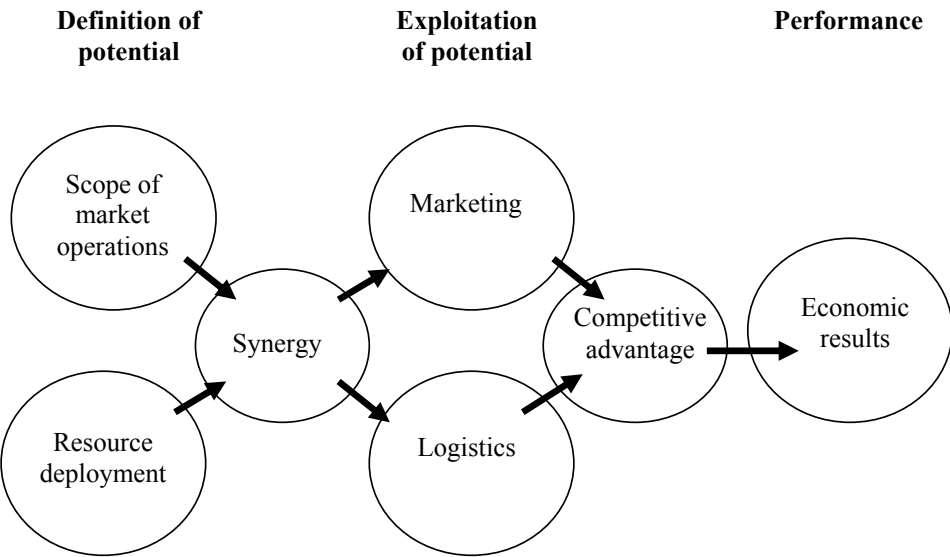
In Hofer and Schendel's definition, resource deployment used to be a new element, which had not been included in strategy elements by earlier authors (eg Ansoff 1965), and they emphasised it even more than the scope of operations (Hofer & Schendel 1978, 25). As their definition refers to managers' tools for coping with external and internal

changes, it has many similar characteristics to the decision on the internationalisation of the firm, including FDI.

2.4 Adapting the strategy-performance model for investment studies

The strategy-performance model is an attempt to recognise all the significant factors, which help the firm to achieve economic performance. It has been gradually developed from the basis of Hofer and Schendel (1978) by Lahti (1983, 1985, 1987). Theoretically, the model is part of the Ansoffian strategic management research tradition with a recognisable chain of evidence⁴³. Lahti has used the basic strategy-performance model shown earlier, which he has deepened through Hofer and Schendel’s strategy elements (scope of operations, resource deployment, synergy, and competitive advantage) and finally explained the relations between the elements explicitly. In addition, Lahti has linked the strategic view to the operative view (from the definition of the potential and the exploitation of the potential to the performance), as illustrated in Figure 7.

Figure 7 Lahti’s strategy-performance model



Source: Lahti 1987, 49.

⁴³ For further discussion, see Killström 2005.

The model explains the performance of the firm through three dynamic stages. The first stage refers to the firm's strategic decision on how to fit its resources to the scope of the operation. This stage is called performance potential, because the strategic decision creates future potential for the firm. Combining resources and scope in the best possible way, results in synergy. This means that the combination creates more potential than the sum of the elements. (Lahti 1983, 30-33)

The second stage of the model is called performance realisation and it refers to the firm's capacity to implement selected potential. Potential is utilised by interacting with the market through marketing and serving the market through logistics. The potential realisation stage results in a competitive advantage over competitors. Competitive advantage is thus based on those resources by which a firm can compete more effectively in the specific environment than its competitors. It may be based on the same resources as synergy, but added to the component of competition. Finally, the third stage, performance achieved, refers to performance, that is the result of the strategy process. Lahti (ibid.) highlights the economic perspective and as such, excludes other possible perspectives like the learning perspective, for example.

Lahti's strategy-performance model has proved its validity as it has been tested in various contexts. For example, it has been successfully applied to the Finnish knitwear industry (Lahti 1983), the Finnish banking sector (Killström 1989), Southern Finland municipalities (Helle et al. 1990), Finnish design industries (Salimäki 2003), and the Finnish telecommunications industry (Killström 2005). In the following, the content of each strategy-performance model element is briefly overviewed, and the adaptability of the model for the investment studies is discussed.

Scope of market operations

The first element of the strategy-performance model, the scope of operations, is defined broadly by Hofer and Schendel (1978, 26): for some companies, it means product or market segments, while the other companies may identify it in terms of geography, technology, or distribution channels. Lahti (1987) explains that the scope of operations means the firm's choice over the customers, the products and the markets. Through this decision the firm selects its external environment. For example, by choosing a target market, the firm also chooses its competitive environment.

Lahti (1987, 50) defines the firm's environment as composed of forces and institutions that can have an impact on the firm and the market, but which the firm cannot directly influence. Hofer and Schendel (1978, 47) and Lahti (1987, 50) divide the environment into the firm's general macro-environment⁴⁴ and the specific competitive environment. Lahti (ibid.) divides the general macro-environment further into natural, demographic, cultural, political, economic, and technological environments with reference to Kotler (1980, 96-128). All the above-mentioned definitions of the environment probably have their roots in traditional Andrews (1971) environmental model that has been widely recognised in the field of strategic management. Andrews' model defines the relevant environment to consist of economy, politics, society, industry, technology, and ecology.

The present study takes Kotler's (1980, 96-128) division of the environment into six parts as given because more or less the same division is used in other models that are built explicitly to analyse changes of the environment, such as the PEST analysis, the STEEP tool, or the environmental scanning. PEST analysis studies the changes in the firm's macro-environment in terms of political (P), economic (E), socio-cultural (S), and technological (T) forces. Later, the analysis has been added by legal (L), ecological (E) and competitive (C) forces and thus, may be called LE PEST C analysis. Accordingly, STEEP is a tool of strategic management that summarises the macro-environment factors that can affect the firm, namely social (S), technological (T), economic (E), environment (E), and political (P) trends. The five can be traced back to Kotler's (1980) six environments if ecological aspects are incorporated in the natural environment and social aspects divided into demographic and cultural environments. The same is true with the environmental scanning, which is a systematic futures methodology that focuses on five knowledge areas of economics, technology, politics, ecology, and socio-cultural factors (eg Lang 2003).

Strategic fit, which reflects the alignment between the firm's internal potential and its external opportunities, allows a firm to compare and choose among attractive investment destinations. However, the characteristics of the environment are not interesting for the firm as such, but it is interested in the best possible match for the firm's resources. This is what the geography of enterprise approach argues while

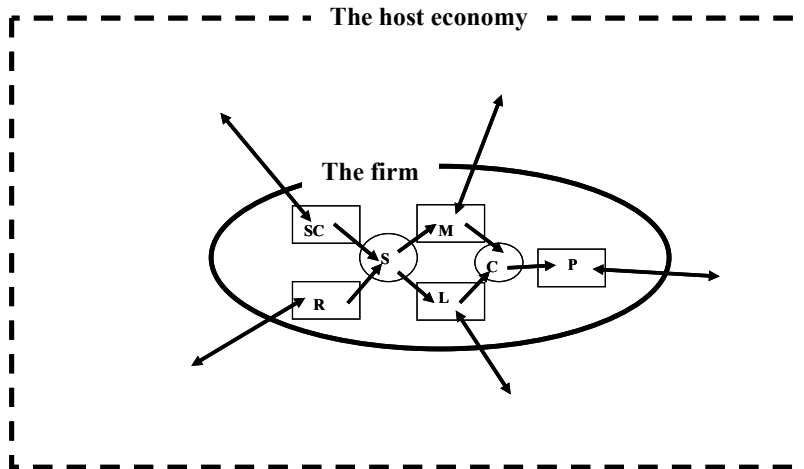
⁴⁴ Hofer and Schendel (1978) uses the term *general environment*. Differently, Kotler (1980) use the term *macro-environment*. In the present study, the term *general macro-environment* is used.

explaining location as the relative optimal location. Location is optimal in relation to the firm's strategies. In this context, geographers (Nishioka & Krumme 1973, 202-204) have developed the concepts of *location conditions* and *location factors*, which give an additional explanation. Location conditions refer to the differences between locations. These differences are the same for all companies. Differently, location factors refer to the interpretation of the location conditions from the perspective of a single firm and its purposes. Thus, the firm perceives the location conditions of the host country as a more specific set of location factors. Different strategies and resource deployments of different TNCs explain why the firms may value the same environment differently.

In practice, a single location condition can be interpreted in various ways depending on the firm's strategy. For example, such a location condition as access to market may refer to advantages resulting from transportation costs, or advantages resulting from close contact (eg customer services), or advantages in the selling price or quantity resulting from the size of the market. Furthermore, the same location condition may be a desirable, undesirable, or inconsequential location factor for a TNC. For example, the host country's environmental policy reform may be desirable for an investor transferring new environmental technologies to the host country, undesirable for an investor using contaminant technologies, and inconsequential for an investor operating in a not environmentally sensitive field.

The analysis, based only on location conditions of the host country, does not explain the effective location factors relevant to a TNC, and vice versa, the analysis of location factors only, probably gives an incomplete picture of the region (Nishioka & Krumme 1973, 202-204). As explained by Harvey (1997, 98-100), location conditions in a particular country may be listed by reasoning, but location factors have to be identified by numerous questionnaire surveys. However, the surveys conducted in international business, for example, have used various different scales and contexts. Therefore, conflicting results have emerged. In addition, location factors may be subjective and cannot be generalised. However, by adopting the strategy-performance model to investment studies, the firm's external environment can be included in the analysis in order to explain how the country-specific factors influence the firm's scope of market operations, resources, marketing and logistics, and finally the performance, as illustrated in Figure 8.

Figure 8 **The interplay between the internal and the external factors of the firm**



Resource deployment

In order to extend its scope of market operations, the firm has to invest. By investment, the firm actually changes some of its resources. In this point, the analysis has to be turned inside the firm, as the decision to invest has to be based on knowledge of the firm's patterns of resource deployments (Hofer & Schendel 1978, 23-25). However, the investment decision may also create a need for additional resources that has to be achieved in interaction with the firm's environment, as explained earlier. Thus, the achievement of additional resources calls for knowledge of the environment, as well.

Early authors (eg Ansoff 1987, 23) have classified the resources of the firm into three categories of physical, monetary and human resources. Hofer & Schendel (1978, 145) have developed more sophisticated classifications by adding organisational resources and technology. There is no clear consensus on the classification, and there are continuously new emphasises for the purposes of new types of organisations, such as new ventures. The present study has adapted the division into five categories, which is a rather established classification in the strategic management literature (see eg Barney 1991) and which has been used also in the Finnish strategic management literature (eg Lahti 1987, Killström 2005). Thus, the resources, which the firms possess and can use in order to achieve their objectives, are defined according to Hofer and Schendel (1978, 145) to consist of:

1. physical resources (eg raw materials, buildings, machines)
2. human resources (eg staff number, education level, language skills, professional skills)
3. technological capabilities (eg systems of production, information and telecommunications)
4. financial resources (eg cash flow, equity capital, short and long-term liabilities, return on capital, liquidity, solidity)
5. organisational resources (eg organisational structure and capacity, R&D degree, innovativeness, values)

The resources of the firm are not just given, but they are dynamic: the firm has to continuously upgrade and develop them, or as Ansoff (1987, 23) puts it: *“All three [physical, monetary and human resources] are used up in the conversion process: plant becomes obsolete, money gets spent, and executives get old. In this respect, survival of the firm depends on profit; unless profits are generated and used for generation of future profit and replacement of resources, the firm will eventually run down”*. Financial resources have a special position among the resources, as they are the only resource generated by the activities of the firm in the market place and, moreover, directly convertible into the other types of resources (Lahti 1985, 6). All resources have also spatial dimensions, as the operations of the firm are partly tied to resources available in the host country, in the case of FDI.

Synergy

The joint effects of the set of scope and the resource deployment decisions produce synergy. The level of synergy defines the potential of the firm. In the case of direct investment, however, an additional element of the host country has to be taken into consideration. With regard to scope decision, the host country may be the same as the chosen target market (local market oriented investment) but it may also be different (international market oriented investment). Accordingly, with regard to resource deployment, investment may be driven by the existing resources of the firm to be utilised in the host country, or the investment is attracted by such resources available in the host country, which the firm does not possess beforehand.

Marketing and logistics

The second stage of Lahti's strategy-performance model, performance realisation, consists of marketing and logistics elements, as discussed earlier. The aim of marketing is to utilise the firm's chosen potential efficiently (Killström 2005, 54). Through

marketing, the firm positions itself in the competitive environment. Firms use the set of various activity patterns to pursue their marketing objectives. This set is called the marketing mix and it has been popularised by McCarthy (1960) in a four-factor classification, which includes product, price, place and promotion decisions (4Ps)⁴⁵. Firms prepare products or services with certain prices for the target market, which is reached through the distributions channels (place) with the help of promotion (eg sales promotion, advertising, sales force, public relations).

In Lahti's strategy-performance model, place decisions are incorporated in the logistics element. Logistics refers to the arrangement of the availability of products and services and to the creation of contacts with the customers (Killström 2005, 53). It is a part of the supply chain process that *"plans, implements, and controls the efficient, effective forward and reverse flow and storage of goods, services, and related information between the point of origin and the point of consumption in order to meet customers' requirements"*, as defined by the Council of Logistics Management (2003). Thus, logistics does not deal only with delivering products from the supplier to the manufacturer and to the end-user, but is comparable with the broader concept of supply chain management (SCM)⁴⁶. In practice, logistics can be measured by such variables as delivery reliability and time, flexibility of order-delivery process, warehousing, transportation routes, and telecommunications links.

Competitive advantage

Competitive advantage refers to the organisation's unique position vis-à-vis competitors. Based on the firm's resource deployment and scope decisions, competitive advantage is

⁴⁵ The marketing mix framework was originally developed for the purposes of physical products marketing. Thus, it has received criticism as marketing nowadays is about an increasingly wider variety of products and markets. Despite its limitations, the simplicity of the framework makes it still commonly used. To put it briefly, product decisions, which nowadays refer not only to tangible products, but services as well, are decisions on the characteristics of product or service that meet the needs of customers (eg quality, brand name). Price decisions are about pricing strategy (eg penetration, skimming), price flexibility, discounts, and others. Place decisions refer to distribution including decisions on distribution channels, market coverage, warehousing and transportation. The development of information technology has changed many things regarding these decisions (eg the role of the Internet). Finally, the promotion decisions are about the weapons in the marketing armoury such as advertising, selling, sales promotions, and public relations. (Kotler 1980)

⁴⁶ SCM encompasses strategic decisions regarding the design and structure of the firm and the industry. Thus, SCM refers to the whole supply chain including material flows (eg transportation, storage), information flows (eg order transmission, delivery status), and financial flows (eg payment schedules, credit terms) of the firm (eg Metz 1998). It aims to cut costs, improve quality, speed work, improve service and finally, to increase the profit of the firm. Good logistics adds to the value of the firm activities and thus, makes the firm more competitive, as it prepares the firm for marketing competition.

created through marketing and logistics if the supply of the firm fits the market demand better than its competitors' supply. Competitive advantage results in the firm's performance.

Performance

The third and final stage of the Lahti's strategy-performance model, the performance achieved, or the result of the strategy, is composed of four kinds of results, namely profitability, external effectiveness, internal efficiency, and flexibility⁴⁷. Among them, profitability is the basic indicator of the firm's performance. External effectiveness indicates the firm's position in the market in relation to competitors, which can be measured by market share or corporate image, for example. Internal efficiency refers to the firm's ability to generate turnover and profit through its existing resources. In this context, the total sum of the balance sheet may be used to indicate the resources as a whole. Finally, flexibility explains how the firm has maintained its profitability in a changing environment. As such, it indicates the continuity of the business.

It is obvious that also in the case of direct investment, the foreign unit has to make contribution to the TNC. When the success of foreign units is evaluated, various perspectives of its contribution are possible. For example, the behavioural perspective emphasises the development of the separate culture and identity of the foreign unit, while the learning perspective focuses on the creation of knowledge in the foreign unit (cf. Büchel et al. 1998, 198). In the present study, however, an economic perspective is chosen, similar to Lahti's strategy-performance model. It means that the foreign unit increases the value of the parent company. It has been stated also in empirical studies (Kelly & Philippatos 1982) that FDI is motivated primarily by profit rather than behavioural considerations, for example.

In conclusion, Chapter Two has stated that the modified strategy-performance model is adaptable to the geography of enterprise research tradition and investment studies. This is because the modified model recognises the relevant factors that have an impact on the investment decisions of the TNC, and links them with the performance.

⁴⁷ There are further studies (eg Killström 2005) that have explained explicitly how external effectiveness and internal efficiency are created through the processes of the firm and how they finally produce the profitability and flexibility of the firm.

3 Political environment in the context of international investment

The conceptualisation of the firm, as done in strategic management and the geography of enterprise literatures, and discussed in the previous Chapter, leads to the question of the boundaries of the firm: where does the firm end and the environment begin? Answering the question is difficult. First of all, the definition of the firm's environment depends on the approach as explained earlier in the context of different approaches to industrial geography. Neoclassicism emphasises natural resources, labour, the market, and competitors as the major factors of the environment. Behaviourism focuses on the decision-maker's perceptual space, while structuralism points out the labour market as the main constitution of the environment. Furthermore, the geography of enterprise approach has adapted an institutionalist view of the firm's environment arguing that the firm is part of a power network consisting of external institutions, such as parent firms, subsidiaries, subcontractors, rivals, financial institutions, and the home and host governments (Hayter 1997, 79-81). In the context of FDI, especially the bargaining relation between the firm and the host government plays a role. This perspective includes also an implicit idea that the firm is able to influence its external environment at least to some extent.

Secondly, the internationalisation of economic activities makes the definition of the environment hard. There are no fixed boundaries between the firm and the environment because firms grow by internalising parts of their external environment. The scope of the firms is continuously enlarging, which makes it difficult to decide which parts of the total environment should be incorporated in the analysis. (cf. Wood 1981, 416). In the present study, the use of the modified strategy-performance model defines the scope of analysis, and determines the parts of the environment to be analysed, as well.

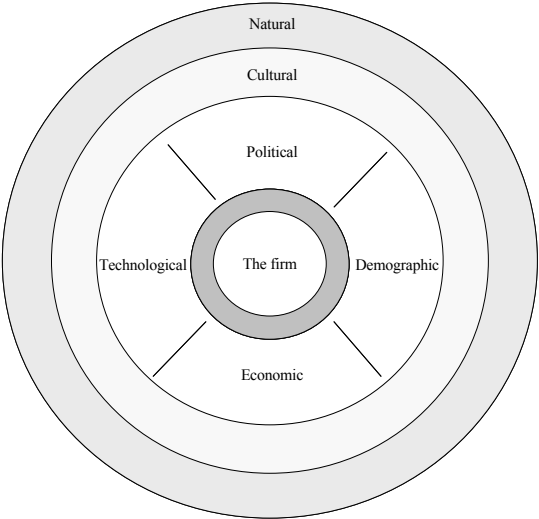
Thirdly, the borderline between the internal and the external is questionable as the same resource may appear as a firm-specific or country-specific factor. For example, financial capital may be achieved inside or outside the firm, and it may be achieved on the home market, the host market, or a third country. Financial capital may be an existing resource of the firm at the time of investment, but the availability of financial capital in the host country may also be an incentive to invest. Therefore, it is important to analyse both internal and external factors at the same time.

In the following, attention is turned to the environment of the firm with special reference to the political environment of the firm in the host country. First, political environment of the firm is compared with the other relevant parts of the firm's environment that are included in the modified strategy-performance model. Then, the particular role of the political environment of the firm in the context of FDI is scrutinised. Finally, the firm's abilities to influence or gain from its political environment are discussed.

3.1 Political environment as a part of the firm's general macro-environment

As explained earlier in Chapter Two, a particular target market can be analysed in terms of a general macro-environment and a specific competitive environment. The general macro-environment is further divided into natural, demographic, cultural, political, economic, and technological environments. Different parts of the firm's environment can be put in hierarchical order in which political, economic, demographic, and technological environments manifest the cultural environment and in which the natural environment forms the frame environment for all other environments, as illustrated in Figure 9. (cf. Koivisto 1998, 75; Jwa 2002, 168)

Figure 9 Hierarchical structure of the different macro-environments of the firm



Source: Modified from Koivisto 1998, 75.

The classification of the environment of the firm originates from marketing literature (eg Kotler 1980) and in the context of the FDI it has to be enlarged to cover not only the host market but various potential resources available in the host country for the TNC. The importance of the potential resources depends on the type of investment, whether FDI is directed to the local or international market. In the case that the host market is not the target market of the investor, as in the case of export-oriented investment, the potential resources available in the host country may play a more important role for the investment decision than the host market as such.

Starting from the natural environment of the firm, Kotler (1980, 110-112) has defined it as a subject of challenges and opportunities related to raw materials, energy, and environmental issues. In the context of the FDI, the natural environment is even a wider concept including the physical features of the host country, such as location of the country that determines the accessibility⁴⁸, climate that may dictate modifications in product or affect people as consumers or workers, the regional structure⁴⁹ that may divide the nation into distinct markets or hinder transportation, and natural hazards that may require a special building code, for example (Terpstra 1978, 68-70). It is important to include ecological aspects in the analysis, as also done by Kotler, similar to other environmental analyses, such as STEEP, LE PEST C, and environmental scanning.

The cultural environment of the firm in the host country cannot be understood without referring to the whole civilisation to which it belongs. Civilisation is created by religion, history, language, habits, institutions, and the people's identity. According to Huntington (2003, 48-49), religion can be recognised as the most important determinant of culture. The cultural environment of the firm forms the conceptual and normative basis for the political, economic, demographic, and technological environments of the firm, although the latter ones also influence the first one⁵⁰ (cf. Koivisto 1998, 72-76). According to

⁴⁸ Accessibility refers to the easiness or difficultness to allocate goods, services, and resources. The transportation system is the way to increase accessibility.

⁴⁹ The regional structure refers to the use of land and natural resources within the area in terms of geographical units such as cores and peripheries, provinces, capital and metropolitan cities, other cities and rural centres, and remote areas. It is closely connected with the accessibility of the country from abroad and transportation connections within the country.

⁵⁰ The impact of the cultural environment on the political and economic environments may be visible in the role of the host government in intervening in FDI, as it may reflect the cultural environment in terms of individualism versus collectivism, for example (eg Hofstede 1991, Redding 1996). In individualist societies, the government is likely to be liberal with minimal intervention, while in the collectivist society, the government tends to be more centralised and eager to intervene, whether the society is democratic or

Kotler (1980, 122), the cultural environment of the firm primarily shapes the values and attitudes, which in turn have an impact on the firm's marketing. Widening this marketing oriented view to cover also FDI, different business cultures, the level of internationalisation, tolerance of foreigners, and equality whether a question of race, gender, ethnic or social origin, age, language, or others, has to be considered.

The political environment of the firm is defined by Kotler (1980, 115-121) as the determinant of the rights and responsibilities of the firm by laws and social order. This definition refers basically to such issues as the regulation against unfair competition and unfair consumer practises, the social costs of the production, and the pressure groups lobbying for better consumer protection. Thus, Kotler observes exclusively the domestic market and discusses more administrative than political aspects of the society (cf. Boddewyn & Brewer 1994). Extending this view to the FDI, the political environment of the firm has to include the various political factors that can affect the TNC's operation or its decision-making in the target country (Terpstra 1978, 119), starting from the political system of the host country to its foreign relations. In addition, it has to be extended to cover legal systems⁵¹ and economic policies, including trade and investment policies in particular. Thus, in the present study, the political environment of the firm includes the host country's overall policy⁵² in general and economic policy⁵³ in particular. These policies are shaped not only by the domestic conditions in the host country, but by the world politico-economic conditions.

The economic environment of the firm, as defined by Kotler (1980, 108-110), refers to the purchasing power of the market. Especially, the market-seeking TNCs are interested in the purchasing power as an indicator of the economic environment. It is a function of income, prices, savings and credit availability. At the market level, it is normally measured by GDP. In addition, FDI as a form of international finance makes TNCs interested in exchange and interest rates in the host country in comparison to other

authoritarian. Consequently, the cultural environment shapes the demographic environment through the cultural or societal values, attitudes, norms and beliefs. Cultural environment affects also the technological environment through the general attitude towards education and innovations.

⁵¹ Two legal systems exist worldwide, namely common law and civil law, among which civil law is based on a comprehensive set of written statutes, including specific rules for business transactions, while common law is based on tradition, precedent and custom. In addition, there exists theocratic law based on religious precepts. It is usually more interested in moral than commercial issues.

⁵² Policy refers to government activity that aims at directing the social system in particular direction.

⁵³ Economic policy refers to government activity at promoting economic development.

countries. Altogether, in the context of the FDI, the concept of the economic environment has to be extended to cover the economic system⁵⁴ that shapes the level of economic development and production structure.

The demographic environment of the firm refers to the population, which equals the market (Kotler 1980, 103-108). Further segmentation of the market requires information on the geographical distribution of the population; density; mobility; age distribution; birth, marriage and death rates; racial, ethnic and religious structures. All these various indicators reflect the demographic transition of the particular country. Another universal demographic process is urbanisation⁵⁵. For an investor, the extent of urbanisation in the host country tells that there are consumer behavioural differences between people in cities and rural areas. Moreover, in the context of FDI, the demographic environment refers also to the manpower available for the TNC as a resource. Thus, there are many aspects related to the quality of labour, which are interesting for the firm, such as the number of labour, wage level, educational level, and the rate of unemployment.

The technological environment of the firm is created and adopted by individuals and organisations, and thus, it is dependent on social processes. Technology enables creating new products and processes, new organisational and geographical arrangements of economic activities and new structures. (Dicken 1992, 97-98) The technological

⁵⁴ There are various kinds of economic systems between the polar cases of *laissez-faire* capitalism and centralised socialism. *Laissez-faire* (literally “allow to do”) capitalism is the economic system characterised by private ownership of the means of production and the government’s non-interventionist policy. In this kind of market economy, scarce resources are allocated by the interplay of supply and demand in free markets, largely unhampered by government rationing, price-fixing or other coercive interference. (Johnson 2000) Differently, in centralised socialism, government intervention covers most aspects of society. The means of production are owned and controlled by the state. Economic development is aspired to through economic plans. Typically, the emphasis is placed on national defence and industrial development at the expense of private consumption. (Hess & Ross 1997, 160-162) Since the late 1980s, interest in this system has decreased along with the collapse of centralised socialism in most of the countries that had used the system. In reality, most countries pursue some form of managed capitalism. Therefore, interventionist policies are used if the markets fail to achieve social efficiency and the development objectives of society. (Social efficiency refers to Pareto improvement, that is changes in production or consumption which make at least one person better off without making anyone worse off.) This may happen due to the lack of perfect competition, the existence of externalities, and the fact that adjusting any disequilibrium takes a long time. Social efficiency is not the only goal of society but there are other, and often conflicting, goals (eg faster growth, greater equality). Existing failures have encouraged governments to use several policy instruments in order to change the way the market operates. It means an attempt to seek the best compromises in which the benefits of intervention exceed the costs of intervention. (Sloman 1991, 363, 373-396)

⁵⁵ Urbanisation refers to the process of population concentration in cities and the sprawl of urban land uses into the countryside. Urbanisation indicates a change of the employment structure from agriculture to mass production and service industries, and can be seen also as a cultural change affecting a change in life style. In the developed countries the trend towards large cities has already been reversed, but in developing countries it still continues or even intensifies. (Carr 1987, 28)

environment of the firm can be measured through such indicators as productivity, infrastructure, innovativeness, and the R&D level in the host country. According to Kotler (1980, 112-115), it is subject to rapid and sometimes unpredictable changes, which may create but also destroy industries. Basically, technological change, which has occurred worldwide along with the industrialisation, can be divided into long waves⁵⁶ based on a few major new technologies. Each wave is associated with a particularly significant technological change and a specific geographical pattern⁵⁷.

In addition to the general macro-environment, the Lahti's strategy-performance model has placed attention to the specific competitive environment. The model states that contrary to the general macro-environment, a firm may have an impact on its competitive environment to some extent being part of it by itself. According to Kotler (1980, 48-49), the firm meets its rivals in three types of competition: generic competition, product-form competition, and enterprise competition⁵⁸. Lahti (1987), in his turn, emphasises the competition over the markets or the resources, and recognises various types of competition in terms of product, price, marketing communication, and logistics.

Finally, the prevailing market forms in the host country may have an impact on FDI. The market form may be a monopoly, monopolistic competition (a duopoly, an oligopoly, a heterogeneous polyopoly), or perfect competition (a homogeneous polyopoly). In the case of a monopoly, imports are restricted, which favours direct investment. Also a duopolistic and an oligopolistic market may favour direct investment because production within the concentrated market offers a better basis to compete than production outside of the market. According to Luostarinen (1982, 30-31), the more monopolistic the market in the target country, the more it favours direct investment operations⁵⁹. However, the entry depends also on the reactions of the rivals. There are also other agents, which may have an impact

⁵⁶ The best-known concept is the Kondratiev long waves, which argue that global economic growth occurs in series of long waves of approximately a 50-year duration.

⁵⁷ Nowadays, technological leaders include Japan and the United States, but also most EU countries as well as the most prosperous East Asian countries, including Korea.

⁵⁸ A generic competitor offers different products, which may satisfy the same basic needs of the customer. A product-form competitor sells slightly different variants of the same basic product. An enterprise competitor is a similar firm vying for the same customers with a different brand. (Kotler 1980, 48-49)

⁵⁹ According to Luostarinen (1982, 30), in the monopoly situation in the host market, the product is not imported but produced in the host country under the advantage and the shelter of high protective tariffs or import restrictions. In the case of a duopolistic and oligopolistic host market, Luostarinen (*ibid.*, 31) refers to the various empirical studies that associate the largest flows of FDI with a concentrated industrial structure.

on the firm's competitive environment, such as the subcontractors, suppliers, labour, governments, and pressure groups. They may all have an impact on the firm and the market, but usually also the firm may have an impact on them to some extent.

3.2 The specific role of the political environment

Kobrin (1979, 69), has explained that the political environment is different from other elements of the firm's environment because it incorporates aims to gain, maintain or increase power at the state level. Thus, the political environment largely determines the framework of economic activity. Consequently, Boddewyn and Brewer (1994) have argued that the political environment is in contrast to other elements of the firm's environment. They explain that TNCs are used to handle differences in nature, cultures, economies, demographics, and technologies in the home country. There, they manage these differences through market segmentation. In the host country, however, TNCs enter a political space of foreign sovereignty. Entering this political space is different from entering just an economic space because the host government can intervene in the TNC entry, operation, and exit, as long as the host country's territory is concerned. For example, national laws of the host country affect many cross-border activities, such as the investment of capital, payment of dividends to a foreign investor, and customs and duties to import. Thus, the political environment creates a significant border for international business of a TNC. (Boddewyn & Brewer 1994, 123-126) These arguments make it meaningful to study the political environment separately from other relevant factors having an impact on the investment decision of the firm.

In international business (eg Terpstra 1978, 119), the political environment of the firm is defined widely to consist of any national or international political factors that can affect the operations and decision-making of TNC. FDI studies define political environment through the political risk, as the political events in a particular country influence the operation of the TNC in that country. Political risk has been studied only since the late 1960s when the first TNCs started to seek low-cost production locations abroad. The political risk assessment was not considered a top priority in most TNCs before such drastic events as the first oil crisis in 1973 and the upheaval in Iran in 1979 (Simon 1982, 66). Kobrin (1979) has conducted a literature review of the various

definitions of the political risk, and ends up defining the firm's political risk in terms of host government intervention in TNC operations. Another approach to political risk focuses on political events, such as instability, violence, or constraints on TNC operations (ibid.). The previous definition highlights the actor, notably the host government⁶⁰ but also other governmental and societal actors⁶¹, while the latter puts emphasis on attitudes and actions.

From the TNC perspective, political risk is part of the firm's environmental risk. Political risk can arise with regard to ownership, operations and transfers. The ownership risk arises due to uncertainty about the host government's decision to change foreign investors' ownership. If realised, the risk may take the form of domestication, or even expropriation, confiscation, or nationalisation⁶². Consequently, operation risk refers to uncertainty about host government policies constraining the operations of the TNC in the host country. Policies can be changed in terms of prices, terms of competition, taxation, or product specifications. Finally, transfer risk is related to uncertainty about the host government's policies that may restrict TNCs ability to transfer profits or capital out of the host country. TNCs can reduce the political risk by negotiating with the host government.

Similar to studies on political risk, the present study discusses the political environment of the firm through the actors and the actions that may have an impact on TNC. From the TNC perspective, the host government is the most important actor, as it is able to intervene directly in FDI. The role of the host government intervention in FDI is shaped by two major forces. First, it is dependent on the domestic conditions including the political structure and the economic imperatives. Second, it is subject to change according to the fluctuation in the international politico-economic conditions. Not only the host government and its intervention that creates the political environment of the

⁶⁰ The government is the agency of the country that guides the course of the country. Its major aim is to create welfare in the country and it fulfils this goal by different policies.

⁶¹ Besides the host government, also local governments, home governments and some other organisations may have a role in the context of FDI. For example, the central government in the host country may direct part of its capacities to intervene in FDI to the local governments, or the international bodies may have supranational power to regulate the international investments.

⁶² In the case of domestication, the equity of the foreign investor is reduced. Expropriation means the purchase of the property of the foreign investor, and confiscation means taking away the property of the foreign investor without compensation. Nationalisation refers to the purchase of private business by the host government.

firm in the host country, but the external conditions outside the host country may give an impetus to the emergence of political change. Thus, the political environment of the firm has to be considered both in terms of internally and externally-based events (Simon 1982, 66). This kind of setting is typical of studies focusing on the role of the host government intervening in FDI (eg Goodman 1987, Korhonen 2001). A further distinction can be made between actions and policies directed at all foreign firms in a particular country or selected fields of foreign business (Robock 1971), or between governmental and societal actions and policies (Simon 1982, 66). All of these aspects have been put together by Simon (1982, 67) who has generated a general framework for political risk assessment (viz. Table 5).

Table 5 A general framework for political risk assessment

		Macro		Micro	
		Societal	Governmental	Societal	Governmental
Internal		<ul style="list-style-type: none"> - revolution - coup d'etats - civil war - factional conflict - ethnic or religious turmoil - widespread riots or terrorism - nationwide strikes, protests or boycotts - shifts in public opinion - union activism 	<ul style="list-style-type: none"> - nationalisation, expropriation - creeping nationalisation - repatriation restrictions - leadership struggle - radical regime change - high inflation - high interest rates - bureaucratic policies 	<ul style="list-style-type: none"> - selective terrorism - selective strikes - selective protest - national boycott of the firm 	<ul style="list-style-type: none"> - selective nationalisation or expropriation - selective indigenisation - joint venture pressure - discriminatory taxes - local content or hiring laws - industry-specific regulations - breach of contract - subsidisation of local competition - price controls
		<ul style="list-style-type: none"> - cross-national guerilla warfare - international terrorism - world public opinion - disinvestment pressure 	<ul style="list-style-type: none"> - nuclear war - conventional war - border conflicts - alliance shifts - embargoes or international boycotts - high external debt service ration - international economic instability 	<ul style="list-style-type: none"> - international activist groups - foreign TNC competition - selective international terrorism - international boycott of the firm 	<ul style="list-style-type: none"> - diplomatic stress between host and home country - bilateral trade agreements - multilateral trade agreements - import or export restrictions - foreign government interference

Source: Simon 1982, 67.

Since the 1980s, when Simon built his framework, the political and economic developments have become increasingly interdependent. In addition, in the case of FDI, the investment policies together with the more general economic policies have a central role when assessing the political environment of the host economy. Certainly, the investment policies are not the only actions that may have an influence on the TNC's decision making, but many changes in the host country's overall political system may be as influential. Thus, the present study has divided the political environment of the firm into national and international conditions similar to Simon (1982), but also into overall policies that influence all firms in the host country whether local or foreign, and economic policies that may be directed to certain industries or firms (eg foreign firms only). This distinction is similar to Robock (1971). However, the societal issues have not been separated from the governmental issues in order to reduce the complexity of the framework. As a result, the components of the political environment to be used in the present study are illustrated in Table 6 and will be discussed thoroughly below.

Table 6 **Components of the political environment**

	Overall policies	Economic policies
National conditions	Political system of the host country	Economic system of the host country
International conditions	The host government's international relations	The host government's economic relations

Source: Modified from Korhonen (2001, 48).

TNCs are interested in the impact of the political changes rather the direction of the change. The direction of the change means, for example, that the host government may turn to be more interventionist or less interventionist. For TNC, the direction of the change may, however, be a positive, negative, or inconsequential factor. This is because TNC may perceive the change as inconsequential if the intervention is not directed to FDI policy at all. In the case that the FDI policy is intervened, this may lead to a more restricted or a more liberal FDI policy. Therefore, the changes in the political environment as such are not important, but the way how the TNC interpret them through its strategies. Thus, the impact on TNC depends upon both the characteristics of the firm (internal

factors) and the characteristics of the environment (external factors). In addition, TNCs are interested in the speed of the change. Certainly, it is easier for TNCs to be adjusted to gradual rather than rapid changes. However, changes are drastic only for those who have not made scenarios for the future, or interpreted the scenarios correctly. This is because most changes are preceded by a recognisable development path and could have been basically predicted⁶³.

Political system of the host country

The political system of a country can be defined as a persistent pattern of human relationship, which involves control, influence, power, or authority (Dahl 1976, 4). The political system includes the polar cases of authoritarianism⁶⁴ and democracy⁶⁵, and all the various conditions between them⁶⁶. However, the political system as such does not have an impact on the firm's investment decision as long as the system is stable and predictable. Instead, political instability blocks the possibilities of TNCs and thus, they tend to avoid countries with an unstable political climate (Luostarinen 1982, 35).

Instability refers usually to drastic changes in the host country's political system, such as a coup d'état, separatist movements, or a new reform-minded regime. However, the impacts of change for TNCs is not straight-forward. For example, a coup d'état can be made by a radical government expropriating all TNCs, but also by a conservative government returning expropriated properties of TNCs (Kobrin 1979, 70). An example of significant change in the political system is the handing over of the sovereignty of Hong Kong from Britain to China, which took place over night on July 1, 1997. The political change did not, however, influence business because Hong Kong's economic

⁶³ Even such relatively stable conditions as the host country's relation with other countries or its position in the world community in general may change rapidly as happened in the case of the unification of Germany, which gained momentum on September 9, 1990 when the Berlin Wall was opened. Within one month East Germany did not exist anymore but was unified with West Germany. The change itself took place almost over night, but there were many signs of coming unification although only few specialists were able or willing to interpret the signs correctly.

⁶⁴ The extreme case of authoritarianism, namely dictatorship, refers to the system of government by a single person (or group), whose discretion in using the power and resources of the state is not restrained by any legal or constitutional rules, and who is not responsible to the general population or their elected representatives. (Johnson 2000)

⁶⁵ Democracy refers to the system of government in which effective political power is vested in the people. The power is exercised indirectly through freely elected representatives, who are supposed to make government decisions according to the popular will, or according to the supposed values and interests of the population. (Johnson 2000)

⁶⁶ Democracy may be conservative, liberal, or radical, like authoritarianism may be totalitarian or soft authoritarianism, among others.

and social systems were guaranteed to remain unchanged for at least 50 years although it came under the communist government of China⁶⁷.

The political system of the host country basically creates the prevalent attitudes toward business enterprises whether domestic or foreign. TNC needs to take into account the overall legal system of the country⁶⁸. In order to manage the various legal issues⁶⁹ a lawyer who understands local laws and practices is essential. In many cases, TNCs utilise multinational law firms, which have expanded abroad, usually through mergers or other arrangements with local firms, in order to serve their clients in foreign markets.

The host government's international relations

TNCs are not independent to choose the investment location, as they operate under a global political system composed of nation states. TNC investing in a particular host country is always a foreign actor and thus, involved with the host country's international relations (Terpstra 1978, 124). The host country is a part of the international political system and its role there may vary from isolated to integrated. TNCs have to be aware of the host country's commitment to international organisations and agreements, regional arrangement, and bilateral relations.

Basically, the host country's integration with the world community increases its attractiveness as an investment target, because supranational organisations⁷⁰ have an impact on global policy and thus, they may prevent the emergence of political risks in a certain region or country. Entering a supranational organisation may also give additional boost to the FDI, because the organisation may have particular uniforming requirements for its members. Fulfilling these requirements makes the developments in the host country more predictable and similar to other countries that belong to the same group. For example, the Association of Southeast Asian Nations (ASEAN), which was originally, in 1967, formed to secure political and military stability in the region, has resulted in the member countries gradually increasing their role in the world

⁶⁷ The political risk of Hong Kong did not change significantly around the year 1997 either (Euromoney, Institutional Investor, various issues).

⁶⁸ Some studies distinguish the legal environment as an independent part of the firm's environment (eg Koivisto 1998), but in the present study it is understood as a part of the political environment.

⁶⁹ For example, contractual relationships, employment practices, patents and trademarks, health and safety standards, environmental practices, and antitrust prohibitions.

⁷⁰ The power of a supranational organisation is derived from the members of the organisation, which are usually the nation states themselves.

community⁷¹. Later, political co-operation has turned to focus more on economic co-operation in the form of the ASEAN Free Trade Area (Afta), and the ASEAN as a region has become an increasingly interesting investment target for TNCs. Although the membership in general may increase the attractiveness of all member countries, the risks may, however, increase in a single member country due to some internal tensions (eg the case of Indonesia).

Isolation from the world community usually makes the country less attractive in terms of the FDI, such as in the case of North Korea. However, isolation may also be an inconsequential factor for TNCs if the situation is understandable as in the case of Taiwan, which has been isolated against its own will from most of the international organisations due to the pressure of mainland China, and maintains only quasi-diplomatic functions. Despite, this Taiwan's economic position has remained strong and it is an important target of international investments.

From the TNC perspective, a special feature of a host country's international relations is its relationship with the home country of the TNC. If the host government dislikes the policy of the home country, it may hinder the TNC's entry, operation, or exit in the host country. TNC may even be attacked or boycotted along with the anti home country feelings in the host country. Also the historical reasons may affect the relations, as between a former colonial power and its colonies. (Terpstra 1978, 124)

The host government's economic relations

The host government's relation to the international market may vary from independent to dependent. If the country is dependent on trade, it is also vulnerable to market fluctuations regardless of sound macroeconomic fundamentals or any stabilisation policy. These constraints in the world economy are mostly beyond the host government's intervention. In addition, it has been argued that due to the globalisation process, national governments are going to lose part of their traditional functions and power to intervene in the traditional ways. This is because globalisation is making the world's economic system and society increasingly uniform, integrated, and interdependent.

⁷¹ For example, the EU has accepted ASEAN as the cornerstone of its dialogue with Asian countries.

Joining an economic integration or organisation is likely to increase FDI in the host country because of the increasing stability and the uniforming requirements of the organisations. In addition, the international agreements and established practises play a role. For example, membership of the World Trade Organisation (WTO) prevents the home country from imposing new tariffs or non-tariff barriers, while membership of the International Monetary Fund (IMF), the World Bank, or a development bank aids a home country's international financial situation (Terpstra 1978, 125). The FDI is positively correlated with the host country's integration in the world economy, because most of the world FDI takes place among the core countries. Among peripheries, TNCs view the developing economies as risky because of the possible politico-economic changes are likely to be more rapid and have more surprising consequences for the TNCs than in the core countries, which are similar among themselves.

Economic system of the host country

Economic policies can be defined as government activities to promote economic development. In creating the welfare of the country, the government aims to achieve a number of other economic objectives, such as a high and sustained level of economic growth, full employment, low inflation, and a sound balance of payments and a strong currency value in foreign exchange markets (Nellis & Parker 1996, 12) The role of the government in this context varies between the interventionist and non-interventionist. The free market approach demonstrates that the market mechanism guarantees economic efficiency and thus, the less the state intervenes, the better the market works. The governed market approach claims that the economy is inherently unstable and requires active government intervention to achieve stability. In a governed market, TNC needs special skills in order to convince the host government of the benefits of the FDI for the host country.

Trade policies are closely linked with the investment policies. From the host government's perspective, there are at least two ways how countries can combine trade and investment. Some countries have combined liberal trade with restricted FDI and become net investors abroad, while other countries have had an open FDI policy but restricted imports, and they have become net importers of foreign capital. From the TNC perspective, high tariffs and non-tariff barriers create an incentive to invest in the country.

Consequently, when the trade barriers are not significant, TNCs would rather export goods than invest in the host country.

From the TNC perspective, the host country's investment policy is the most direct implication of the host country's political environment. The investment policy is a sub-policy of the national economic policy given it has the same ends. The host government may treat FDI as a form of international finance: industrialisation or faster growth creates an increased need for capital. If the domestic investment is not adequate, demand has to be satisfied by outside capital, notably foreign loans, foreign aid, or FDI. Recently, the worldwide share of FDI has increased in comparison to foreign aid and loans. (UNCTAD 1999) At the same time, the competition of FDI has intensified and national governments have to ensure policies that sustain and advance national competitiveness⁷² against their foreign competitors, namely the other potential host countries. In order to attract FDI, many host governments have reduced regulations and administrative burdens they earlier imposed on TNCs.

The government's control of FDI flows can be justified by various economic arguments, such as the negative impacts of FDI, but also by the need to protect new domestic technologies, the need for protective measures under the restructuring process of an economy, or the need to control foreign capital flows across national boundaries. There

⁷² If FDI is accepted in the economy, the host government has to decide whether and how much FDI to allow or attract. This question is determined by the costs and benefits of FDI compared to alternative forms of finance. The second question, if FDI is permitted, is whether to intervene in the operations of the TNCs. (Lall 1997) The host government may aim to attract such FDI, which is useful for national economic objectives, or it may aim to concentrate FDI spatially in a way that corresponds with its regional policy. With reference to the benefits of FDI, it has to be recognised that there is no satisfactory general answer to the question of FDI's impact on the host country, whether FDI is a good or a bad thing for the economy. Thus, the host government has to consider both the benefits and the costs of FDI. The most obvious impact of FDI on the host country is the capital injection. Other benefits include the transfer of technology and management skills, an increase in internal competition enhancing efficiency, and increased employment. Moreover, there are indirect impacts through the domestic enterprises with which the MNEs have backward and forward linkages. These local linkages may contribute to regional developments. Empirical studies (eg Driffield & Hughes 2003) have also shown that FDI stimulates domestic investment. This is true especially in the case of host regions with high levels of physical and human capital intensity making them able to assimilate technology externalities that occur as a result of FDI. FDI may also have negative impacts such as technological dependence on MNE, disturbance of national economic plans, industrial dominance in certain sectors, or undesirable cultural change. (Czinkota et al. 1994, 364) Negative impacts include also the expatriation of profits and the exploitation of legislative loopholes (eg the transfer of contaminating industries to a country with undeveloped environmental legislation). The host government has to minimise the costs of the policy and ensure that incentives do not exceed the minimum necessary to attract foreign firms. Unexpected costs may arise because there is a considerable range of possible outcomes and uncertain factors influencing the outcomes. Moreover, government intervention involves administrative costs in the form of bureaucracy and inefficiency. (Sloman 1991, 406-407) Consequently, incentives may be too small to attract MNEs and thus, a waste of money and efforts.

are also general political arguments for intervention in FDI, such as national security (protection of critical industries, such as industries related to defence, telecommunications, transportation, or those having a large effect on the balance of payments), and political objectives (harmonising the investment policy to correspond to the agreements with international institutions).

After weighing the costs and benefits of FDI, the host government can use various investment policies in intervening in them. Dicken (1998, 97-98) has divided investment policies roughly into four categories including government intervention on 1) entry, 2) operations and 3) transfer of capital of foreign firms, as well as 4) government incentives stimulating FDI. According to this categorisation, government intervention on entry, operations, and transfer of capital are solely restrictive, and the incentives are added to the list more as a curiosity. As government intervention may, however, be supporting as well as restrictive, a categorisation by Lim (2001, 5-7), who discusses interventions in terms of support, restriction, and communicative media, may be more useful. Under these categories, restrictions can be further divided into prior and post-entry restrictions, similar to Dicken (1998, 97-98), as shown in Table 7.

Table 7 **Types of government intervention in foreign direct investment**

Investment support	Investment restriction	Investment communication media
Incentives (eg grants, tax reductions, protection of the market)	Prior to entry restrictions of ownership levels, market entry, ratio of foreign investment equity, entry into certain business sectors, and requirements on a local content level, minimum level of export, technology transfer	Overseas delegations
One-stop service (acting in a proxy position on behalf of a foreign investor)		Investment seminars and exhibitions
Consulting (advising activities by related institutions such as research institutions, chambers of commerce and industry, legal and accounting firms)	Post-entry restrictions on certain authorisations, notifications, registrations, approvals, conditions of establishment related to factory establishment, environmental protection export and import procedures, marketing and procurement, remittance of profits, remittance of capital	Honouring foreign-invested firms
Follow-up service (monitoring of grievances, ombudsman system)		

Source: Lim 2001, 5-7; Dicken 1998, 97-98.

Encarnation and Wells (1985) have noticed that host governments may compete for investment not only by increasing incentives, but also by creating images of an attractive host country. In many cases, the host government has to improve the conditions of the country in order to attract greater volumes of FDI. This can be done by supporting expansion of the domestic market, an increase in productivity, enhancement of the technological infrastructure, natural resource development, activities to promote investment, and the quality of business facilitation. However, Lim (2001, 17) points out that many economic determinants are difficult to improve by the government in the short-run and thus, the role of investment incentives remains significant. Thus, the host government may offer incentives in order to fill the gap between the real locational attractiveness of the country and the degree of expectations by the TNC for a desirable investment location. Investment incentives are the most direct way to impact investment costs and returns of the TNC (Lim 2001, 4).

Despite the common trust in the incentives, many empirical studies have shown contradictorily that incentives probably play only a marginal role. For example, Yeung (1996, 1998) has shown that the investment incentives do not necessarily increase the inflow of FDI, but they are symbolic commodities, which make an impact only in their absence. In addition, the aim of the host government should not be to attract FDI as such, but to attract FDI that is beneficial to the economy. In the worst case, the costs of the incentives exceed the benefits of the FDI. Therefore, the intangible attitudes of the host government became emphasised over the investment incentives. (Yeung 1996, 256; 1998, 703) Accordingly, Kobrin (1982) has argued that managers rank political and administrative concerns as more important than government incentives. Also Lim (2001) has found that the host government policy objectives can be reached better by providing investment incentives only by negotiations on a case-by-case basis, rather than offering overall incentives for all TNCs. However, there are differences between the host countries, because well-developed consumer markets or the low-cost production sites may be attractive as such without any special investment incentives, while more unattractive economies may need to enhance their locational attractiveness by incentives.

A host country associated with instability is not the strongest candidate in the competition for international investment flows and the same is true with an unpredictable investment policy. Despite this, governments do change their investment

policies. According to Globerman (1988, 42), the reasons are twofold. Firstly, deteriorating economic conditions may force a government to modify its investment policy in order to encourage short-term inflows of foreign capital both for balance of payments reasons and for a short-term employment consideration. This view suggests that liberalising trends are cyclical in nature and may be reversed when economic conditions improve. Secondly, the perceived net benefits of FDI may have increased, either because of the evidence that FDI has more substantial economic benefits than previously thought or because of a growing belief that restrictions impose net costs on the host country. This view suggests that liberalising trends are long lasting. (ibid.)

Investment policies as regional policies

In addition to national economic objectives, the host government may aim to attract FDI in order to promote regional development. Consequently, FDI has an impact on the regional development concerns and economic effects of local scope (Lim 2001, 18). The regional aspect of FDI calls for government intervention, which combines the aims of investment policy with regional policy⁷³. According to Haggett (1983, 535) there are four approaches to explain how the central government may intervene in order to adjust regional differences within a country. First, the government can pursue a laissez-faire policy with no revenue sharing to poor areas. The second approach is called a special-area strategy, which directs special help to the problem areas. This approach draws near to the growth pole theory, which concentrates investment on selected nodes in order to bring about secondary growth in the hinterlands. In the third strategy, rich areas subsidise poor areas. Finally, the fourth approach, a complete-equalisation strategy, aims at bringing all areas up to the same income level.

The major tools of regional policy are 1) investment in the public sector (eg improvement of basic infrastructure), 2) inducements to business in the private sector to invest in a

⁷³ Regional policy means designating specific geographical areas for special assistance. It seeks to raise the overall level of economic growth and social welfare, and to attain balanced regional development. In general, it solves problems of economic development (eg unemployment) by providing incentives for firms to locate in specially designated areas. (Dicken 1998, 118) Often the regional policy concentrates only on minimising the effects, which cause unbalanced regional patterns because the total elimination of regional inequality tends to be impossible or even unnecessary. (Kim 1992, 72) However, all differences among areas do not necessarily refer to inequality but may be natural. There occurs a spatial specialisation among areas because it is an efficient way to use immobile resources. Moreover, the basis of specialisation is continually changing. This makes the spatial economy both specialised and dynamic by its nature. (Haggett 1983, 536)

region (eg tax concessions), and 3) inducements to individuals and households to locate in or leave a region (Haggett 1983, 537-538). The distribution of TNCs within a host country is important from the viewpoint of their economic and social impact. In developing countries, the FDI is usually concentrated on the economically most active regions, which usually means either the major urban centres or the Special Economic Zones (SEZs). In developed countries, TNC activities follow industrial activity in general. There, the host governments have often attempted to direct TNCs in high unemployment areas, where TNCs can utilise the labour pool and diminish the unemployment rate. Often this kind of regional policy, however, reinforces prevailing locational advantages rather than directs the location of a TNC. (Dicken 1998, 219)

By definition, SEZs are industrial complexes, which are selected within a country for a special policy purpose and designed to induce domestic or foreign companies to engage in business activities by providing them with a series of preferred treatment measures. Thus, SEZs are enclaves enjoying a status that does not extend to the whole territory of the country. Usually, they provide some special treatment in terms of production, trade or tax. SEZs have been established for 1) free trade, 2) free export trade, 3) export processing or 4) international investment. The early SEZs were free zones focusing on trade only, while the latter Export Processing Zones (EPZs) were established particularly for production. SEZs have been especially an Asian phenomenon: originally SEZs referred to coastal regions of China, which were established in 1978 along with the open door policy of the Chinese government. Later, EPZs have been established in Korea, Taiwan, Singapore, Malaysia, Indonesia, and the Philippines⁷⁴.

To sum up, some investment studies (eg Kobrin 1979, Boddewyn & Brewer 1994) understand the political environment as superior to the economic environment in the hierarchical structure of the environments of the firm (cf. Figure 9) These studies support the idea that it is relevant to study the political environment of the firm separate

⁷⁴ Typically, EPZs attract labour-intensive industries by offering wages far below Western standards. The host country's objective is to create a free trade environment, which enables the production of export goods in order to earn hard currency. To be eligible to operate in an EPZ, a firm has to fulfil various requirements such as manufacturing, processing or assembling export goods, having foreign participation, or engaging in business that is both highly technological and labour-intensive. When operating in an EPZ, a firm can import duty free materials if they are used in exported products. Moreover, additional tax holidays or other fiscal incentives are offered if the minimum levels of inputs are purchased locally. However, in EPZs, technology often does not actually spill over into the domestic economy, although the local linkage formation varies highly depending on the host country characteristics.

from the other parts of the firm's external environment. The political environment of the firm can be analysed through the actors and the actions. The host government forms the most important single actor of the political environment of the firm, because it is able to use its power and intervene in FDI. Its role depends not only on the domestic politico-economic conditions but also on the world politico-economic conditions. Its actions towards TNC may be channelled directly through economic policies that may be focused on foreign firms only, or indirectly through overall policies that influence all firms in the host country whether local or foreign. The impact is however not only from the host government to TNC but the TNCs are able to influence the political environment in the host country by negotiating.

3.3 Political relations having an impact on international investment

Traditionally, the political environment has been understood as a part of the firm's environment, which the firm itself cannot influence. However, in the present study it is supposed that firms do not take locations as given in the form of cost and revenues surfaces (as suggested by the neoclassical approach), or information spaces (as suggested by the behaviourist approach), or in relation to labour (as suggested by the structuralistic approach), but as subject to negotiation, persuasion and bargaining (as suggested by the geography of enterprise approach) (Hayter 1997, 161). In addition, it is argued that firms are able to bargain over the location conditions available in the host country. Firms do not only adapt themselves to the environment but can at least partially influence their environment.

Stopford et al. (1991) calls the relationships between TNCs and the state as a triangular nexus of interactions comprising power play among state-state, firm-firm, and firm-state relationships. These interactions take place as bargaining among states for power and influence, as competition among firms in the world market, and as specific bargaining between states and firms for the use or creation of wealth-producing resources. (ibid., 32) Starting from state-state relations, diplomatic relations between the home and the host country set the ground for the development of economic relations. For example, after setting diplomatic relations in 1992, trade and investment flows between China and

Korea increased within only a few years making them now one of the most important trade and investment partners for each other.

Conflicting relations between the host and the home country do not necessarily prevent FDI. For example, Taiwanese firms have invested continuously in mainland China through third countries, especially Hong Kong, in the absence of diplomatic relations. Sometimes, the volume of FDI may be high but affected by political disputes as in the case of Korea and Japan that dispute over the islet of Dokdo. Countries disagree over the fishing rights in their territorial waters, but in Korea the issue often brings up the nationalist sentiments based on memories of Japanese colonialism and on Korea's large trade deficit with Japan. As a result, Korean consumers sometimes simply refuse to consume Japanese products when the Dokdo dispute or other sensitive issues come up.

In political economy literature, another form of political interaction in addition to diplomacies has been distinguished, namely transnational relations, which refer to those networks, associations or interactions that cut across countries and link individuals, groups, organisations and communities. These relations do not respect national territorial boundaries but operate beyond direct state control. (McGrew 1992, 5-7) These relations include also the relations between the host government and the TNC. The web of global political interdependencies emphasises the permeability of the nation state to external influences and thus, challenges the traditional distinction between the domestic and the international. Developments abroad may be inserted into the domestic political process and accordingly, local actions may lead to repercussions abroad. (McGrew 1992, 14)

With regards to firm-state relations, the geography of enterprise approach has incorporated an institutionalist view of investment location, according to which, it understands the location as a subject for bargaining between the firm and the host government. Also in the present study, the investor and the host government are in a bargaining relation, but this relation as such is beyond the actual scope of the study. However, the bargaining theme cannot be totally ignored as the empirical case will be made in a Finno-Korean context, in which Korea represents a soft authoritarian country where the bargaining is not limited to firm-state relations, but requires also good state-state relations.

A TNC - host government relation includes bargaining because the parties have different interests⁷⁵. These interests may be conflicting, negotiable, or complementary (Gregersen & Contreras 1975, 48-51). The TNC's economic diplomacy aims at getting access to attractive factors of production, financial incentives, and acceptable levels of political risks. At the same time, the host government negotiates for investment, the transfer of technology, exports, and employment, among others. With regard to conflicting issues, there are a large number of studies on TNC – host government bargains⁷⁶ over FDI (eg Gregersen & Contreras 1975, Bradley 1977, Doz & Prahalad 1980, Poynter 1982, Lecraw 1984, Goodman 1987, Kobrin 1987, Moon & Lado 2000). These studies have emphasised the firm-specific⁷⁷ and industry-specific⁷⁸ sources of bargaining power, but the discussion on country-specific sources has remained scarce. The country-specific sources of bargaining power refer to a TNCs ability to manage the political imperative, as Moon and Lado (2000) have called it. The topic has been studied explicitly in the context of international investment by Poynter (1982), who has argued that investors seeking out influential politicians or senior civil servants in the host country enjoy less intervention than the other investors.

The role of firm-state relations is subject to change during the investment project. Lieberthal and Lieberthal (2003) divide a single direct investment project into three: entry, country development, and global interaction phases. In the entry phase, the manager of the host country unit has to develop influential contacts in the host country, but not only at the firm level with local partners, but also at the national level with the host government officials and politicians. With the help of these contacts, TNC may negotiate incentives and other beneficial conditions for the investment. In the country development phase, frequent contacts of top corporate officials with the host

⁷⁵ TNCs have profitability requirements and other guidelines for the investment project. A subsidiary in a certain host country has to fit to a TNC's global strategy and make a contribution to the TNC. Thus, the host country has to possess certain characteristics such as a well growing market, availability of suitable inputs, a stable host government, and a supportive attitude towards a TNC. (Goodman 1987) The host government, in its turn, aims to create the welfare of the country. It may complement the possible weaknesses of the available inputs by incentives if it evaluates FDI as beneficial for the economy, or it may restrict the entry and operations of a TNC if it evaluates FDI as harmful for the economy.

⁷⁶ Bargaining theory is a tool, which has been adapted to various disciplines both in social sciences and sciences. It is used in economics, policy, psychology, mathematics, and others. What is common for all studies is the exchange situation between actors having conflicting interests.

⁷⁷ Firm-specific sources of TNC bargaining power include the size of the subsidiary, parent size, technology intensity, advertising intensity, intra-TNC sourcing, export intensity, product diversity, staffing policy, and ownership (eg Kobrin 1987, 619-622; Hayter 1997, 288; Moon & Lado 2000, 90-99).

⁷⁸ Industry-specific sources of TNC bargaining power include industry competition and the strategic importance of industry (Moon & Lado 2000, 90-99).

government are crucial in order to initiate new operations. They are also needed to continue the privileged treatment, because once the investment is made, the firm's power to protect the investment erodes. Large fixed costs become sunk and technology installed. By the time, as the subsidiary is operating successfully, the host government may see the original terms as overgenerous⁷⁹. (Goodman 1987, 120). Finally, in the global interaction phase, the main emphasis of TNC turns from the host country efforts to full integration of operations into the TNC's regional and global efforts. However, good relations with host government should be still maintained in order to avoid any discriminating requirements or the end of the relationship. If the TNC has integrated to the host country and provides benefits in the form of exports or employment, for example, conflicts are unlikely.

If the studies on country-specific sources of bargaining power in terms of the host country have remained scarce, they are even rarer in terms of the home country. Hayter (1997, 288) has pointed out that a TNC may increase its bargaining power by lobbying help from its home government. Usually the demand for help comes from the TNC, but it is also possible that the initiation comes from the home government, which encourages the TNC to invest in a certain project or a particular host country (Goodman 1987, 23). In the present study, this kind of help is called *authority services*, and it refers to the public means to promote internationalisation of the home country industries. Authority services include the services of the Ministry of Foreign Affairs, high-level business delegations preferably led by the President or the Minister, meetings and seminars chaired by the Ambassador or Commercial attaché, and various kinds of supportive measures by trade centres and other public institutions.

The home government, which believes that international operations of the TNCs have economic benefits for the home country, tends to adopt a liberal outward investment policy and promote internationalisation of the TNCs by providing a range of authority services. It is likely to offer authority services especially for the investment projects taking place in the host countries with which the home government has good and stable relations. Probably, the need for authority services is highest in the case of authoritarian

⁷⁹ This phenomenon is called obsolescing bargaining. It refers to the situation in which the host government offers attractive terms to TNC, but once the investment becomes profitable, imposes new and stricter terms. However, it is also possible that TNC request new terms for the investment project due to the cost overruns, changes in international industry, or alterations in the host country. (Goodman 1987, 120; Krumme 1981)

host countries where the personal relations in the most high level settings may be crucial even for a rather modest single investment project.

In addition to TNC's negotiations with the home and host governments, the bargaining may also be extended to the intra-national level, if the local government is allowed to take it upon themselves to encourage foreign investment (Korhonen 2001, 118). Beyond the national level, Dent (1999, 11) has also pointed out that the TNC may even lobby help from a regional block. For example, a European company that has invested in an East Asian country may request the EU to remove some tariffs that are carried against the products that the TNC produces in East Asia and exports to the EU market.

To sum up, the above-mentioned state-state relations have been studied widely in the field of political economy and the firm-firm relations in the field of international business. The firm-state relations that are emphasised by the geography of enterprise approach have been studied to a lesser degree. The studies have shown that the TNCs are able to manage the political imperative related to politico-economic institutions and systems in the host country, but they may need to build a special policy towards the host government that is able to intervene in entry, operations, and exit of the TNC. However, the negotiations with the host government are not the only way to increase the TNC's bargaining power but it may also lobby help from its home government, a fact that has gained relatively little attention in earlier literature.

Finally, the earlier studies on TNC – host government relations give an additional support for using Lahti's strategy-performance model in the context of FDI. There are namely studies on the bargaining power of the TNCs that utilise a very similar setting to the present study⁸⁰, such as Moon and Lado (2002). However, as their study belongs to the resource-based research tradition, they emphasise firm-specific resources and capabilities over the host country characteristics. In the present study, the fit between the firm-specific and country-specific factors is pursued and thus, the holistic strategy-performance model is found more suitable.

⁸⁰ Moon and Lado (2000) have suggested a model in which the firm-specific resources together with the country or the industry context create the bargaining power of the firm. Moreover, they link the bargaining power with the performance of the TNC. Moon and Lado (ibid.) have also criticised the bargaining power literature of being non-cumulative and suggested to extend the issue to a broader context of the TNC's strategy.

3.4 Summary: The role of the political environment for the firm's investment decision

This chapter has discussed the second research task that aims to identify what is the relative importance of the political environment of the firm among the other relevant factors having an impact on the firm's investment decision. In the introductory part of the present study, it was noticed that industrial geography does not take any specific view of the political environment and thus, the political environment was discussed only through the broader concept of the firm's environment (cf. Table 2). The geography of enterprise approach understands the environment of the firm as a network among the TNC and the external institutions, such as the foreign units of the TNC, subcontractors, rivals, host governments, and others (cf. Table 3). However, it does not state any specific view of the role of the political environment of the firm in relation to other parts of the firm's environment.

In Lahti's (1987) strategy-performance model, the political environment of the firm is part of the firm's general macro-environment. The comparison of different parts of the firm's environment produces a note that when applying the model to FDI studies, the contents of the environments that have originally been defined in terms of marketing, has to be enlarged to cover conditions relevant to FDI. However, the model as such gives no reason to highlight the role of the political environment in relation to other elements of the general macro-environment. Some investment studies (eg Kobrin 1979, Boddewyn & Brewer 1994) argue that the political environment is superior at least to the economic environment within the hierarchical structure of the environments of the firm (cf. Figure 9). Also some studies in the field of economics understand political systems constraining all other actors in the economy by building the legal institution (eg Jwa 2002, 168). Therefore, it is justified to study the political environment separate from the other environments of the firm.

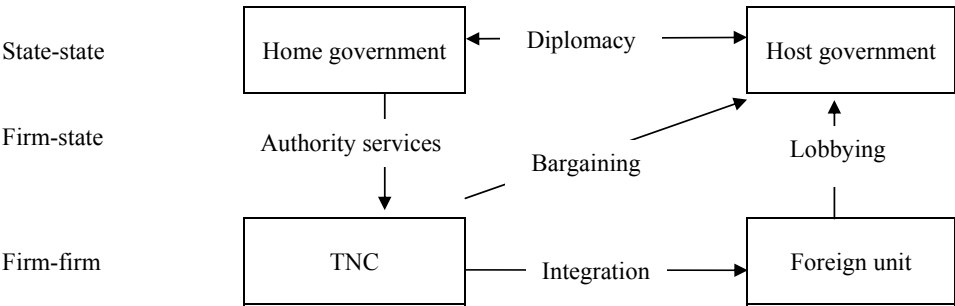
TNCs may interpret the changes in the host country's political environment as a positive, negative, or inconsequential factor, depending on their strategies. These perceptions can be studied by using the modified strategy-performance model. In the original strategy-performance model, the firm cannot have a direct impact on its general macro-environment, including the political environment, although it is able to affect the

competitive environment to some extent. Differently, according to the geography of enterprise research tradition, firms take locations as subject to negotiation, persuasion and bargaining (Hayter 1997, 161). Firms do not only adapt themselves to the environment but can at least partially influence it. Also some investment studies in the fields of the geography of enterprise and international business have placed attention on the TNC – host government bargaining (eg Gregersen & Contreras 1975, Bradley 1977, Doz & Prahalad 1980, Poynter 1982, Lecraw 1984, Goodman 1987, Kobrin 1987, Moon & Lado 2000). Most of these studies have highlighted the firm-specific and industry-specific sources of the bargaining power of the TNC, while the discussion on country-specific sources has remained scarce⁸¹.

In the present study, the relation of the firm and its home government is incorporated into the triangular relationships of the firm-firm, the state-state, and the firm-state, which have been introduced by Stopford et al. (1991). As shown in Figure 10, the relation between the TNC and its home government is manifested by the authority services provided by the home government to TNC in its efforts to internationalise through outward investment. Altogether, the firm has many, at least indirect ways to influence its political environment in the host country.

Figure 10 Relations of a political nature in the context of international investment

Level of interaction



Note: TNC has to integrate the foreign unit with itself in the case of M&A. In the case of a greenfield investment, a foreign unit is built from scratch.

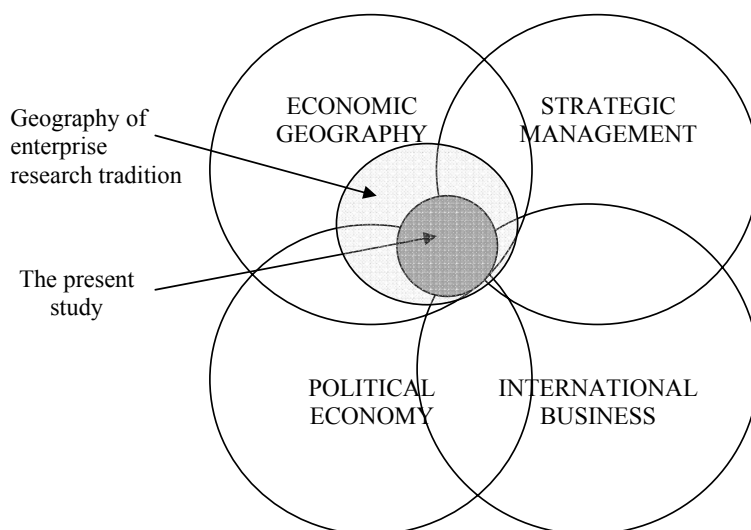
⁸¹ For example, investment studies do not specify the nature and characteristics of bilateral economic relations, which are embedded in historically and geographically specific forms of economic governance (Yeung 1998, 703).

In conclusion, the discussion on the second research task of the study leads first to the argument that as there is some disagreement in the literature on the role of the firm's political environment in relation to other parts of the firm's environment, a further analysis of this issue is needed. The present study argues that it is justified to study the political environment of the firm separately. The importance of the political environment of the firm is rooted in the use of political power of the host government to intervene in FDI. Secondly, the present study argues that TNCs are able to influence at least their political environment. They can affect their host government not only by bargaining but also by lobbying help from their home government in the form of authority services.

4 Theoretical framework of the study

This study aims to make a contribution to the FDI theory. The study is positioned to the field of economic geography, and the geography of enterprise research tradition in particular, as shown in Figure 11. Therefore, the starting point for theorising about FDI lies in the basic statements of the geography of enterprise literature on FDI and related concepts. In order to build a theoretical framework, the key ideas of the geography of enterprise approach have been discussed in previous chapters in a dialogue with strategic management, international business, and political economy literatures. The major arguments of the present study are collected to Figure 12 in the next page.

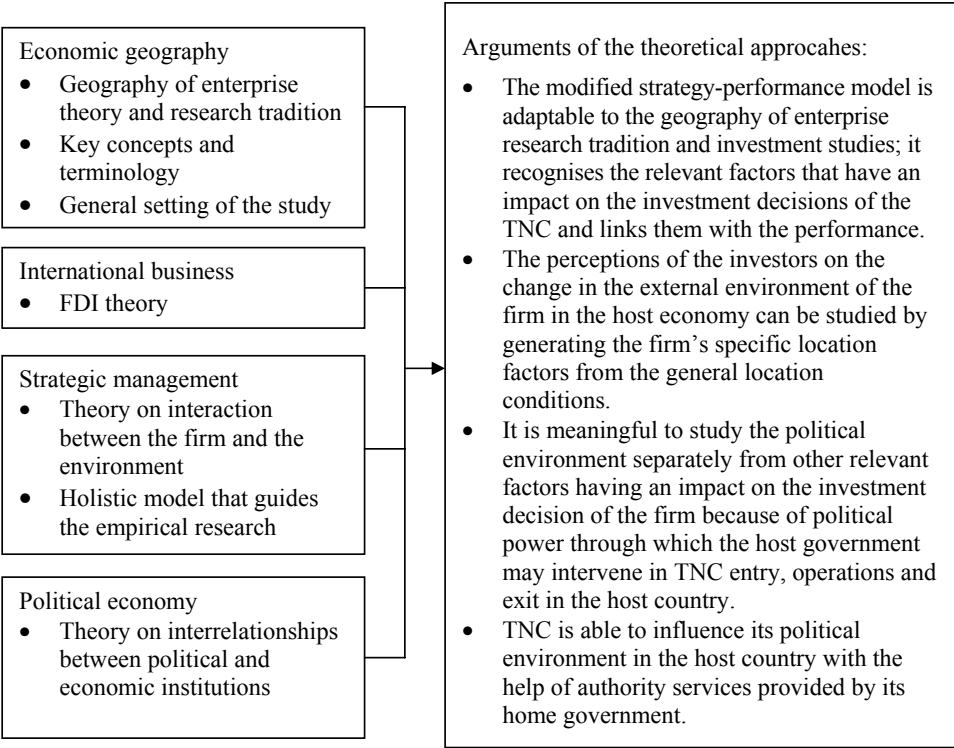
Figure 11 **Positioning of the present study**



The first research task, which aims to uncover a model that recognises the relevant factors that have an impact on the investment decisions of TNCs, was answered in Chapter Two with the help of a strategy-performance model developed gradually by Lahti (1983, 1985, 1987) from the basis of Ansoffian strategic management. The model was modified by incorporating the general macro-environment of the firm explicitly to the model. In the current study, it is argued, similar to the strategic management literature, that the firm makes its investment decision by combining the information on its internal factors with its information on the external environment. In other words, TNC is motivated to invest by a stimulus both from its external environment and from its organisation. In addition, the

country-specific factors have an impact on the firm's internal factors (resources, target market, logistics, marketing) and finally on the performance of the firm. Thus, the firm interprets the location conditions of the host country into a special set of location factors, which are crucial from its strategy perspective. With the help of the modified strategy-performance model, the firm's relative optimal location can be explained by linking the location of the firm to the purposes of the firm: the firm invests where it can operate successfully.

Figure 12 Theoretical building blocks of the present study

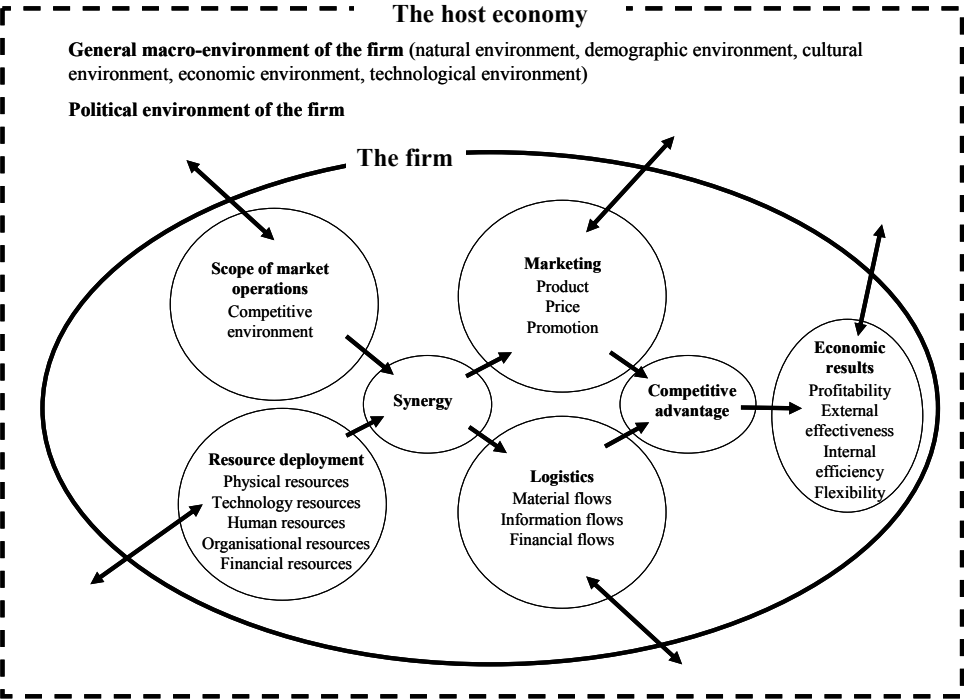


The second research task was discussed in Chapter Three. The aim was to identify what is the importance of the political environment of the firm among the relevant factors that were defined with the help of the strategy-performance model. As a result, it is argued that there is theoretical evidence of the specific role of the political environment of the firm among the other elements of the firm's environment (eg Kobrin 1979, Boddewyn & Brewer 1994, Jwa 2002). The importance of the political environment of the firm is based on the ability of the host government to use its political power in order to intervene in FDI.

However, TNCs may influence the host government by using their bargaining power. The present study argues also that the TNCs may increase their bargaining power by lobbying help from their home governments, which may provide authority services for them.

The research problem of the present study asks how the TNCs perceive and react to the change in their political environment in the host country when making the investment decisions. Therefore, the political environment of the firm has to be studied separately from the rest of the firm’s general macro-environment (viz. Figure 13). Operationalisation of the elements will be discussed in Chapter Six on methodology.

Figure 13 Relevant elements having an impact on the firm’s investment decision



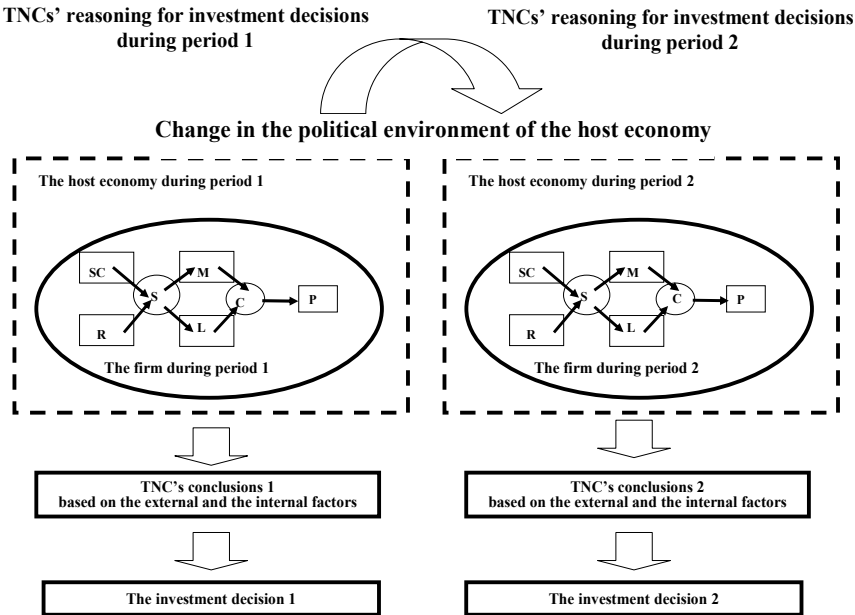
Source: Modified from Lahti 1987, 49.

The modified strategy-performance model takes account of various aspects of the risk in achieving the firm’s goals. The strategic risk arises from the accuracy of the investment decision: is it a correct decision to invest in particular host country in order to enhance the firm’s objectives? The risk is high if the firm’s strategy has high reliance on some internal resource that is not currently in place or will be difficult to acquire. Accordingly,

the operational risk is high if, for example, the logistics is not functioning or if the firm fails to use marketing communication that fits in with the local culture. Finally, the environmental risk is high if the firm is reliant on some factor or future event in the host country that is highly uncertain or beyond the firm's direct influence. (Atkinson 2004)

As the study focuses on realised investment cases, it is obvious that the investors have already found the selected host country as a place where location conditions fulfil the basic requirements of the firm that are critical in order to implement the firm strategy. In addition, the investors have found the host country as a place where all the necessary interactions with the market can be maintained on a competitive basis. Investors have also selected a site within the area. (cf. Nishioka & Krumme 1973, 204-205). Using the terminology of the strategy-performance model, the firms focus on the match of the firm's resources with its external environment. In order to explain the specific importance of the host country for the individual firms, location factors have to be analysed. This analysis can be done only firm by firm. Thus, the general setting of the study is built to compare investment decisions of the TNCs in a particular host country before and after a certain change in the political environment of the firm, as illustrated in Figure 14.

Figure 14 The framework of the study



The present study penetrates all the levels typical of FDI studies: macroeconomic, mesoeconomic, microeconomic, and milli-microeconomic levels. Starting from the macro-level, the setting of the study in the home country versus host country position represents the macroeconomic perspective interested in national trends of FDI. The importance of location conditions to the group of firms, or the intra-national distribution of FDI, is typical of the mesoeconomic perspective. The emphasis on the TNC's resource deployment and location factors represents the microeconomic perspective interested in the competitive advantage of the firm. Finally, studying a firm's single investment project is a subject typical of the milli-microeconomic perspective.

Methodologically, the focus on the changing political environment calls for a longitudinal analysis. However, an analysis of the FDI flows as a whole in a particular host country, where the political environment of the firm has been under change, is not possible if also the internal factors of every single investor are to be included. Thus, the scope of the study has to be more focused and in the present study, Korea is chosen as the host country. In the empirical part of the study, the location conditions of Korea are first discussed on the basis of traditional regional geography, which puts an emphasis on description. This part explains the conditions in the host country in which TNCs in general are interested in: a distinctive combination of location conditions that a country can offer to potential investors, and a national policy framework by which the host government can compensate for possible deficiencies in location conditions. Then, attention is turned to Finnish investors in Korea and their perceptions on these location conditions, that is location factors.

PART III EMPIRICAL PART

5 Korea as a host country for Finnish investors

According to the theoretical discussion of the present study, the modified strategy-performance model can be used when analysing how the TNCs perceive and react to the change in the host country's political environment in their investment decisions. In order to test the suggestions, a critical case, in which the propositions set in the theoretical part are present, has to be selected. Korea is a country where the political environment in general and the investment policy in particular has undergone a rapid and profound change (eg Korhonen 2001). These political changes together with Korea's rapid economic growth have made Korea an attractive target for FDI and also an interesting target for a detailed study. In the present Chapter, Korea will be discussed as a host country for Finnish investment.

Finland and Korea can be seen as representatives of intra-core investment. Korea represents a typical destination of FDI, because it is a high-income country with sound macroeconomic fundamentals and continuously increasing market potential. In its turn, Finland is also a typical home country, as it is a high-income country with good resources of capital and advanced technologies. At first sight, Finland and Korea may appear distant and different from each other, but actually, many similarities can be found.

One of the most well known links in Korea is the hypothesis on a language relation between Finnish and Korean⁸². History and economic development in Finland and Korea have also some similarities. Both countries are geopolitically in a problematic positions, as they are overshadowed, even threatened by stronger neighbouring countries⁸³. Before gaining independence, both were autonomous parts of the neighbouring superpower, as

⁸² Finnish Professor Ramstedt (1873-1950) was the first to write a scientific Korean grammar in a Western language (English) in 1939. He believed in an Altaic hypothesis, according to which the Korean language belongs to the Altaic language group, which was supposed to be a part of the Ural-Altaic languages. Similarly, the Finno-Ugrian language group, including Finnish, was supposed to be a part of Ural-Altaic languages. Later, linguists have defined Korean as an isolated language with no relatives, and rejected the whole Altaic hypothesis, although there are some structural similarities among Ural-Altaic languages.

⁸³ Korean proverb (고래 싸움에 새우 등 터진다) describes Korea as a shrimp sandwiched between the fighting whales. It refers to Korea's geopolitical location between three superpowers of the world: China, Russia and Japan. In addition, the United States has had a keen interest in the Korean peninsula.

Finland was a part of the Russian empire (1809-1917) and Korea a colony of Japan (1910-1945). They gained independence in the first half of the 20th century (Finland in 1917, Korea in 1948) after creating an independence movement, and have later suffered from a civil war (1918 in Finland, 1950-53 in Korea) and been forced to fight for their independence in the Second World War. Both have also experienced rapid economic development, Korea in the footsteps of Japan, and Finland as “the Japan of Europe”, as Finland achieved the world’s highest rate of annual per capita income growth (2.6%) during 1900-1987, second only to Japan (3.1 %) (Maddison 1989, 15). Ethnically and culturally, both countries are homogenous.

Certainly, Finland and Korea have remarkable differences. Finland’s population of five million is not comparable to over 48 million in Korea. The size of the Korean landmass is only one-third of Finland resulting in high population density. The basic cultural difference between Finland and Korea is probably the cultural focus, which in Korea is on human relations, a characteristic typical of Confucian civilisations⁸⁴, compared to priority on law in Finland, a characteristic typical of all Lutheran Christian countries.

Finland has been ahead of Korea in economic development. This is because in Korea, industrialisation was hindered in comparison to European countries as Korea was not independent but a colony of Japan (1910-1945). The northern part of the peninsula served as a raw-material base for Japanese industries, while the southern part provided agricultural products, and thus, Korea had no opportunities to develop its own industries. After the colonial period, Korea was politically underdeveloped and thus, the economic development started only after the Korean War (1950-53). Finland’s industrial development has relied heavily on natural resources, especially forests and metals, while Korea has practically no other resources than labour. Due to their differences in the resource endowments, Finland and Korea are actually complementary economies, which create a good starting point for economic interaction. Next, attention will be first turned to the development of Finno-Korean relations, which have paved the way for the Finnish investment in Korea, and then, to the location conditions in Korea.

⁸⁴ Confucian civilisation covers China, Hong Kong, Singapore and Taiwan, as well as other Asian countries having large overseas Chinese communities, but also Korea in the neighbourhood of China as Koreans have been living in close contact with Chinese culture throughout the times.

5.1 Finno-Korean relations

The politico-economic relations between Finland and Korea have passed through several phases, each of which created different potential for Finnish companies to operate in Korea (Korhonen 2004). In the following, the five distinguishing phases are separated from the basis of the earlier study (ibid.).

I Phase of occasional contacts (prior to 1973)

Traditional contacts, which had emerged as Finland was part of the Russian Empire reaching the Pacific, were cut in the aftermaths of the First and the Second World Wars and during the following Cold War. However, since the beginning of the 1960s, a search for new trading partners was started in the outward-oriented, industrialising Korea. Initiatives for systematic development of bilateral relations came from the Korean side at the beginning of 1970s, as a part of their trade delegations to Scandinavian countries.

II Phase of formal relations (1973-1976)

The basis for Finno-Korean relations was set in the mid-1970s when diplomatic relations were established, the Korean Embassy and Korea Trade-Investment Promotion Agency (KOTRA) offices in Helsinki opened, the first official delegations between the countries sent, and the Finnish Ambassador residing in Tokyo accredited to Korea. Finno-Korean trade was almost non-existent including only few single trade flows.

III Take-off phase for bilateral trade (1977-1990)

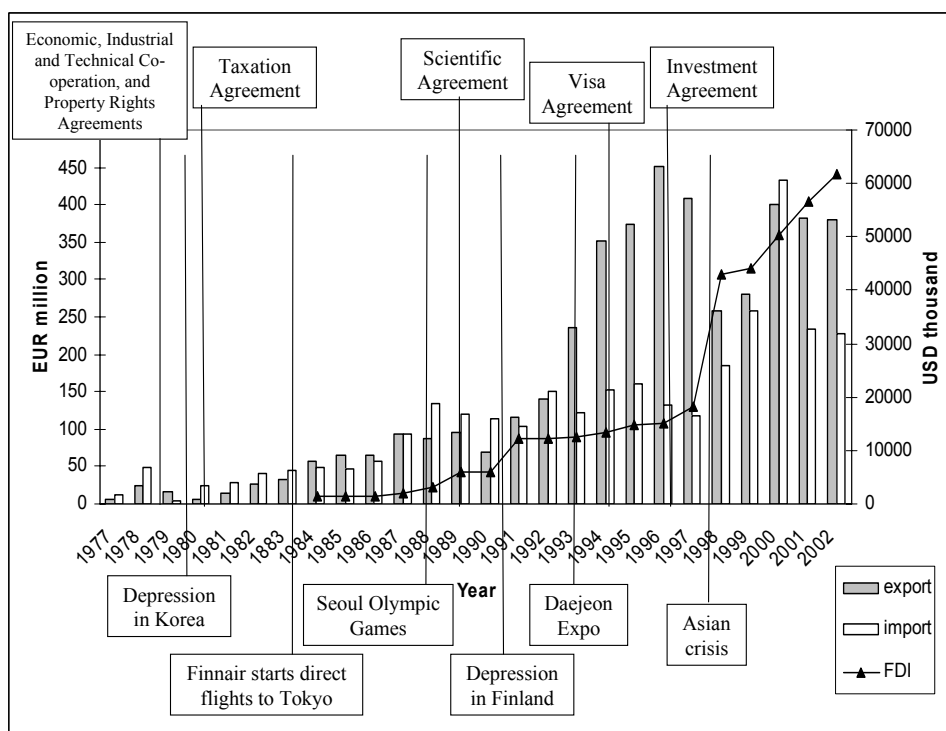
Trade between the two countries started practically from scratch in 1977. Since the beginning, Finnish exports included mostly value-added products needed in industrialising Korea, while imports included reasonably priced consumer goods. Trade developed steadily and up to the mid-1980s, Korea became the second largest Asian trading partner for Finnish firms after Japan. At the same time, Finnish firms entered the international stage of internationalisation. Large international events were held in Seoul, and direct flights by Finnair from Helsinki to Tokyo started to enable faster business trips. The first direct investment by a Finnish company in Korea took place in 1984. The first Finnish Ambassador to Seoul was appointed in 1986 in recognition of Korea's economic potential and importance to Finland.

IV Asia boom phase (1991-1998)

Finnish firms entered the global stage of internationalisation at the beginning of the 1990s. At the same time, the collapse of the Soviet Union in 1991 together with the following recession in Finland forced Finnish firms to discover even the most distant markets, such as Korea. During most of the 1990s, Finno-Korean trade was characterised by rapidly increasing Finnish exports compared with stagnant imports from Korea, as shown Figure 15 in the next page. The Asian crisis at the end of 1990s cut Finnish exports to Korea temporarily. Instead, Finnish firms started to invest in Korea. This was encouraged by the Finno-Korean agreement on the promotion and protection of investment that came into force in 1996. The negotiations had, however, been conducted already in

October 1993. From the Finnish perspective, the aim of the agreement was to ensure that Finnish firms were treated fairly and equally in Korea. By an investment agreement, Finnish TNCs are guaranteed to be able to transfer profits and capital freely to and from Korea. In addition, the agreement protects Finnish firms from the ownership risk because it forces the Korean government to pay compensation in the case that a risk is realised. The record year of investment was 1998, when the Korean government got deeply involved in the Asian crisis, which resulted in liberalisation of its investment policy. In addition, the deterioration of the Korean won made the prices of investment targets buyer-friendly and created an ideal time for Finnish firms to enter the Korean market.

Figure 15 Development of Finnish economic interaction with Korea (1977-2002)



Note: FDI refers to cumulative Finnish direct investment stock in Korea (USD thousand). Finno-Korean trade is expressed in EUR million. The Finno-Korean agreements are listed above the figures and other significant events having an impact on the development of Finno-Korean relations below the figures.
Sources: Finnish Board of Customs; Ministry of Finance and Economy (of Korea) (cf. Korhonen 2004)

V Phase of technological co-operation (1999-)

At the end of the study period of the present study, in 2002, it seems that Finno-Korean economic relations are, after the Asian crisis, developing towards a new phase characterised by balanced trade and an increasing level of Finnish direct investment. Exports have gradually caught up with the pre-Asian crisis level. However, as local manufacturing in Korea has strengthened considerably, it is unlikely that exports will be directed to Korea to the same extent as earlier.

However, Finnish firms can join the local business by transferring their operations there. Especially, information and knowledge-related issues have risen to the forefront in Finno-Korean relations.

5.2 Location conditions in Korea

The aim of the present subchapter is to recognise how Korea as a host country for FDI has changed over the past decades. The current study is primarily interested in the change in the political environment of the firm, which, however, cannot be isolated from the other parts of the firm's environment, but has to be studied in relation to them. TNCs are interested in a distinctive combination of location conditions that the host country can offer to potential investors. As explained earlier, location conditions are the pool from where the TNC can satisfy its need for resources and create, for example, a new market for itself. Location conditions are similar for all firms, but firms do transform them to location factors to be utilised internally in the firm.

In the following, the location conditions of Korea are discussed according to the basic division of the firm's environment into a general macro-environment and a competitive environment. As the political environment is the major focus of the present study, it has been separated from the general macro-environment and will be discussed on its own in Chapter 5.3 with special reference to Korean investment policy, which was previously known as strictly restrictive but changed drastically in the aftermath of the Asian crisis⁸⁵ in 1998. In the present sub-chapter, the hierarchical structure of the different environments of the firm (cf. Figure 9) is chosen as a starting point. In its original form, the general macro-environment of the firm referred to the target market (Kotler 1980), but in the current study, the general macro-environment is discussed not only as a market but as a production site.

Natural environment of the firm in Korea⁸⁶

The Korean peninsula extends southward from the Northeastern part of the Asian continent spanning 1,000 km from north to south. The peninsula is politically divided into two parts: the Republic of Korea (South Korea) and People's Republic of Korea

⁸⁵ In Korea, the Asian crisis resulted in a decrease of GDP growth to -6.7 % in 1998, the collapse of the Korean Won by 54 % against the US dollar, the loss of one million jobs, and bankruptcies.

⁸⁶ Major indicators of the natural environment of the firm in Korea are shown in Appendix 2.

(North Korea). The neighbouring countries of South Korea are China across the Yellow Sea and Japan across the Sea of Japan⁸⁷. The east coast has a smooth coastline because mountains run parallel to it and form excellent natural harbours. The west and south coast are irregular with numerous islands. Korea is located in the East Asian monsoon belt, which means that it has hot, humid summers and dry, cold winters. Possible natural hazards are related to occasional typhoons and earthquakes⁸⁸.

South Korea has a small physical size (99,235 square kilometres) with rugged and mountainous landscape⁸⁹ and no particular natural resources. There are only few mineral resources, such as limestone⁹⁰, tungsten and lead, and Korea has to rely on the import of most of its minerals. Korea has no domestic oil reserves⁹¹, being the fourth largest crude oil importer in the world. Korea relies also on imported liquefied natural gas⁹². Coal supplies about 20 % of Korea's energy requirements. Most of it is imported, because domestic resources are of low quality. For electric power, Korea uses a combination of thermal (74 % electricity), nuclear⁹³ (22 %), and hydroelectric (4 %) capacity. (Statistical handbook of Korea 2002) Korea has several large rivers, but due to the significant seasonal variations in rainfall, the use of hydroelectric sites has

⁸⁷ It is a constant position of the Korean government that this sea should be identified as the East Sea meaning the sea area located east of the Eurasian continent, a name used in historical documents and maps for the region since the beginning of the first century.

⁸⁸ The most common period for typhoons is during the monsoon in July, which brings about 70 % of the annual rainfall with heavy showers. Usually, there are one or two mild typhoons in a year and one strong typhoon every two or three years. In 1998, for example, torrential rain caused mudslides that killed 250 people, destroyed crops, and flooded the Seoul subway. Other natural hazards occasionally hitting Korea are earthquakes. Korea is located near to the Circum-Pacific Earthquake Belt, which has strong seismicity. Since 1905, there have been over 200 earthquakes, of which about 50 were destructive. The seismicity is strongest at the southern part of the Korean peninsula. (Handbook of Korea 1990, 22, 44)

⁸⁹ Mountains and hills occupy almost 70 % of Korea's territory. The Japanese occupation (1910-1945) with heavy exploitation and the Korean War (1950-53) caused deforestation, which has led to serious soil erosion. Thanks to reforestation, large areas are now covered with planted trees.

⁹⁰ Korea's limestone resources have actually played a significant role in Korea's economic development as limestone is needed for cement, and the large resources of limestone enabled the expansion of Korea's construction industry (Song 1990, 10).

⁹¹ Since the 1980s, there have been explorations of offshore oil possibilities both in the Yellow Sea and on the continental shelf between Korea and Japan, but nothing has been discovered.

⁹² There is a project, which is planned to make Korea a minor natural gas producer. The natural gas deposit offshore from Uljin in Southeastern Korea is projected to satisfy about 2 % of Korea's gas demand. Gas pipelines from Eastern Siberia are under exploration, but the realisation depends on North Korea, whose territory the pipeline is planned to cross.

⁹³ Nuclear energy is a national strategic priority driven by considerations of energy security and the need to decrease the dependence on energy imports. Nowadays, Korea has six nuclear power plants, of which two are under construction to be completed in 2004-2005. The Korean government has decided to increase the role of nuclear power in energy supply and there are plans for a dozen new nuclear plants before 2015. However, the government has difficulties in improving the image of nuclear power in public opinion and allocating more resources to the nuclear waste-management programme.

remained marginal. The natural environment has largely shaped Korea's transportation system.

Arable land accounts for about 20 % of the total land area enabling Korea to be almost self-sufficient in rice, but otherwise Korea is very much dependent on imported food. Settlements are concentrated in the river valleys and coast lines. There is also a shortage in urban areas resulting in a high price for land and housing, and difficulties to obtain land for industrial use. Large cities suffer from pollution⁹⁴ and temporary water shortages both for drinking and industrial water.

Administratively, the regional structure of Korea consists of a two-tier local government system. Sixteen upper-level local governments exist under the central government, and 232 lower-level local governments forms the basic level of local authorities. The upper-level local governments consist of the Seoul metropolitan government, six metropolitan governments (those of Incheon, Daejeon, Daegu, Busan, Gwangju and Ulsan) and nine provincial governments, as illustrated in Figure 16 in the next page.

The regional structure of Korea is bipolarised into the axis connecting the two largest cities of Seoul and Busan. Seoul, the capital, is the superior center of Korea in all aspects of life. This is due to the population of almost 12 million, which makes it one of the most populated cities in the world, but also due to the central location at the junction of major transportation routes in the Korean peninsula and its long history since 1392. The bipolar structure of the country originates from the Japanese colonial period when an X-model railway network was built to connect Manchuria to Seoul and Busan in order to transport raw materials further to Japan. Busan is now the second largest city in Korea and the most important harbour⁹⁵. The regional structure of Korea is also characterised by the early establishment of special economic zones (SEZ). In Korea, the

⁹⁴ In addition to industrial emissions, there are seasonal pollutants in spring when wind brings yellow sand and dust originating from China. Waters are polluted due to the discharge of sewage and industrial effluents. The shallow coastal waters of the Yellow Sea and the South Sea are vulnerable to pollution from land-based sources.

⁹⁵ The southeastern coast became the most important harbour because it had favourable physical geography for deep seaports and was located next to Japan. Japanese occupiers established the basic infrastructure of Busan, which became a center for light industries. Later, during the Korean War, Busan remained the only area, which was not destroyed. In the initial phase of economic development, in the 1960s, the existing infrastructure and industries were concentrated almost solely in Seoul and Busan. Thus, it was economical to locate also new economic activities in these areas.

SEZs were established in the form of export processing zones (EPZs). Zones were established in Masan (in South Gyeongsang) in 1970 and Iksan (in North Jeolla) in 1973 to contribute to the national and local economy by attracting more FDI. The cores and peripheries of Korea will be discussed in more detail in Chapter 5.4.

Figure 16 **Map of Korean provinces and metropolitan cities**



To sum up, the natural environment of Korea provides only few natural resources to be exploited. Furthermore, TNCs interested in Korea, have to take into account on the natural hazards, which may damage their operations. Foreign firms may find attractive industrial estates from industrial clusters built outside the urban areas at reasonable land prices, low electricity costs even by Asian standards, and effective locations both in terms of national and international routes. Among the natural environment, environmental

issues are subject to change in the near future, as serious discussion on the ecology is still in its infancy in Korea.

Cultural environment of the firm in Korea⁹⁶

Koreans are eager to promote their 5000-year old culture probably because they are a rather new state. However, there are studies (eg Kim 1976), which claim that there is no clearly identifiable culture of Korea. Instead, the cultural heritage of Confucianism⁹⁷ forms the main source from which social values are acquired, including filial piety and family-centrism, verticality in social and societal relationships, and loyalty and reciprocity in social manners (see more in Confucianism eg in Koivisto 1998, 217).

Korea is often regarded as the most purely Confucian society in East Asia. Koreans have been living in close contact with Chinese culture through the ages and thus, Chinese influence is visible in Korea's political institutions, religion, philosophy, and language although there is no Chinese minority in Korea⁹⁸. It is also explained that Confucianism has remained influential because the Korean closed and immobile culture has required good human relations, which can be nurtured with the help of Confucian etiquette. Today, a typical modern Korean may express disinterest in Confucianism as such, but probably remains bound by the Confucian approach to disciplinary habits of work and life. Consequently, Korean business culture and management, which has westernised a lot, still includes unique characteristics based on Confucianism.

Redding (1996), who has studied management in the East Asian economies, has pointed out universal East Asian characteristics of paternalism, personalism, and collectivism. By paternalism, he refers to authoritarianism in the social structure including an inbuilt sense of vertical social order, or hierarchy (ibid., 2984). In Korea, this is visible in the form of a patrilinear bloodline in families, paternalistic leadership in companies, and central-led government in society. For more egalitarian Westerners, these hierarchies,

⁹⁶ The major indicators of the cultural environment of the firm in Korea are shown in Appendix 3.

⁹⁷ Confucianism is a philosophical tradition that is considered to have been founded by Confucius (551-479 BC). Neo-Confucianism, which was a new system of Confucian thought based on a mixture of Buddhist and Taoist elements, emerged during the Chinese Song Dynasty (960-1279) and became the prevailing ideology in Korea during the Chosun Dynasty (1392-1910). (Lee 1984)

⁹⁸ The Korean peninsula is cut off by water on three sides from other potential countervailing cultural influences than the Chinese (Kim 1975, 11).

which do not allow, for example, cold calls but require the use of intermediaries, may seem time-consuming and frustrating.

Personalism, in its turn, refers to the reliance on specific networks of connections, which ensure trust in social co-operation. The most well-known example is the Chinese *guanxi*⁹⁹. This kind of relationship-oriented perspective is usually difficult to learn for more information-oriented Westerners who tend to stress the outcome of the process, while Asians focus on the process towards outcome. Lasserre and Probert (1994), who have studied business cultures in East Asia, have shown that Westerners regard the Korean business environment as more difficult than that in other East Asian countries. This is especially because the network building in Korea is more important than in any other East Asian country¹⁰⁰, and relationships based on trust are more difficult and time-consuming to build. The Korean business culture is thus different from that of Hong Kong or Singapore that have a long history of foreign involvement and influence. Also the ethnic barriers are a difficult issue for foreigners in Korea, as it is very difficult to break into informal networks. Moreover, foreign investors have reported rather a strong discriminatory attitude on the part of the government in favour of local firms. (ibid., 16) Altogether, Western managers are likely to experience enormous difficulties in understanding and dealing with the Korean business culture (ibid., 31-32).

Finally, collectivism refers to a society where individuals are driven to take account of obligations to a collectivity of people. This is argued (eg Hofstede 1991, Redding 1996, 2984-2986) to be different from more individualist-oriented Western societies. In Korea, collectivism has traditionally included such characteristics as hierarchy in groups, dependence on interpersonal relationships, courtesy, sense of interpersonal attachment, bloodline, and tradition. The typical behaviour linked to these characteristics is, respectively, loyalty to authorities, intrusiveness, willingness to help even strangers,

⁹⁹ *Guanxi* means connections between members of the same family, village, clan or another connecting factor. *Guanxi* networks are global and they provide links by which the Chinese can operate efficiently over distances. These networks place people in webs of obligation. A person's ability to manage is a result of the size and strength of the network. Thus, *guanxi* is a form of personal capital, which has to be carefully extended and maintained.

¹⁰⁰ Koreans themselves have been successful in using their global networks. For example, Koreans have a strong economic presence in Central Asian countries like Uzbekistan where ethnic Koreans act as intermediaries for Korean investment in the region. Koreans living in Central Asia are descendants of inhabitants of the Russian Far East who were transferred to Central Asia by Stalin in 1937.

group-work, ancestor rites, and the sacrifice required of the women for the family. (Cha 1994)

During the past few decades, the traditional forms of collectivism have waned, although not disappeared. Studies on behavioural change in Korea (eg Cha 1994) have shown phenomena such as a decrease in kindness and hospitality towards strangers, greater equalisation of power between husbands and wives, the emergence of the nuclear family, the weakening of hierarchies, the weakening of traditionalism (including xenophobic ideas¹⁰¹), a decrease in localism, and an increase in patriotism. Due to the modernisation of the society, traditional collectivism has declined and individualism increased. In business, it means that traditional human management based on “organisation first”, “collective equality” and “community-oriented” has changed to “individual respect”, “individual equity”, and “market principle adopted”, as Bae and Rowley (2003, 84) puts it. Consequently, loyalty has shifted away from the community to the nuclear family on the one hand, and to the country, on the other hand. (Cha 1994, 170-173)

In addition to the three characteristics typical of all East Asian countries, an extraordinary homogeneity is often mentioned as a typical character of Korean culture (eg Segal 1990, Song 1990). Korea is ethnically and linguistically homogenous with practically no minorities¹⁰². All Koreans speak the Korean language basically in the same way and write it by using an indigenously developed alphabet, *hangul*¹⁰³. In South Korea, people receive a practically identical primary education in an atmosphere, which highly emphasises its importance. They take the same national entrance qualification examination for entry to colleges or universities. In addition, males are strongly influenced by the military, in which they serve for 2-3 years.

Koreans have maintained close relationships with their origins. As the country is small in size, Koreans can easily contact their relatives around the country, which makes the Korean family system very cohesive. (Song 1990, 46) In a small country, the natural environment and climate is similar for all, and even the most remote parts of the nation

¹⁰¹ Korean people's wariness of foreigners has been learned from the country's violent history of attacks, notably Japanese annexation in 1910-1945. Later, the presence of MNEs has sometimes been understood as a new kind of colonialism.

¹⁰² The largest ethnic group is some 20,000 Chinese living in Korea.

¹⁰³ The *hangul* alphabet was invented in 1443. All Korean texts can be written in *hangul* but the use of Chinese characters or *hanja* is common, especially in scientific texts.

can be reached within a one-day round trip. As a result, the spread of information and innovation is fast among the population. Segal (1990, 89-90) has argued that Koreans have been able to adapt parts of the Western culture relatively easily due to strong nationalism and homogeneity, which makes it easier to handle cultural changes as a society. Similarly, Kim (1976, 10) has highlighted the specific time period when Koreans were highly receptive to Western ideas that were part of the culture of a welcome liberator after the Second World War and later a powerfully ally during the Korean War. Altogether, the early Sinification and later Westernisation of Korean cultural patterns has been extensive but resulted in a high degree of indigenisation of the cultural borrowings. Thus, Koreans have been able to create a new cultural pattern with a distinctly Korean identity through further development and refinement, modification or assimilation of the foreign patterns. (Kim 1976, 13)

Finally, Korea's culture and rapid modernisation cannot be understood without paying attention to religion. Koreans have been, different from other East Asians, eager to adopt new religions. Earlier, they learned Buddhism and Confucianism from continental Asia and today, Korea is the only East and Southeast Asian country, with the exception of the Catholic Philippines, where the Christianity has established a firm foothold. Recently, Christianity has become the largest religion in Korea, over the Buddhism, and is practised by about one-fourth of the population. Christianity has played an important role in the modernisation of Korean society by spreading out Western literature translated in *hangul*. Koreans are pragmatic in practicing their religions and religions may be visible even in business life¹⁰⁴. Pragmatics has also allowed melting Confucian and even shamanistic ideas with Korean Christianity (Kena 1993).

To sum up, cultural environment of the firm in Korea is difficult to enter for foreign businessmen due to the cultural heritage of Confucianism with its hierarchies and networks of connection, the significant homogeneity of Korean society, and the lack of experience with cultural or ethnic diversity. Recently, the society has westernised a lot, it has become more individualist and more patriotic, and the business culture has become more open and transparent. In a homogenic society, the spread of information

¹⁰⁴ There are company names, such as the trading and engineering company Cana (가나), which refers to the marriage in Cana, John 2:1-11, and indicates a Christian founder and president of the company. It is not unusual that Christian business people openly credit their success to the Lord.

and innovation is rapid, and it has made Korea an attractive test market for many TNCs launching new products. Despite the modernisation and internationalisation, foreigners probably find it difficult to understand and deal with the Korean business culture. Korean culture is one of the most important reasons why Korea is generally regarded as a difficult place to invest in.

Economic environment of the firm in Korea¹⁰⁵

Korea is one of the East Asian tiger economies, or the Newly Industrialised Economies (NIEs)¹⁰⁶. Korea's remarkable economic success has often been called a *miracle*, which refers to attaining high growth with equity, when most developing countries struggle with mere growth alone. The Korean economy grew at an average annual rate of 8 % since the 1960s to the mid-1990s. This enabled Korea to develop from one of the poorest countries in the 1950s to the level of the rich developed countries¹⁰⁷. Korea has also become the 12th largest economy in the world¹⁰⁸. In addition, Korea is one of the rare cases where income distribution has long been very similar to that of the industrial market economies although the level of incomes has been much lower. There are no middle and upper class privileges typical of many developing countries.

GDP per capita rose especially quickly in the 1990s until the Asian crisis. The crisis resulted in a sharp decrease in Korea's GDP per capita, but actually it was not the first economic slowdown in Korea. For example, in 1980 there was a -4% decline. The Figure 17 shows that the economic crises have remained temporary and almost invisible hiccups in Korea's long-run economic growth¹⁰⁹. Similar to other NIEs, Korea recovered quickly and has reached the pre-crisis level.

¹⁰⁵ The major indicators of the economic environment of the firm in Korea are shown in Appendix 4.

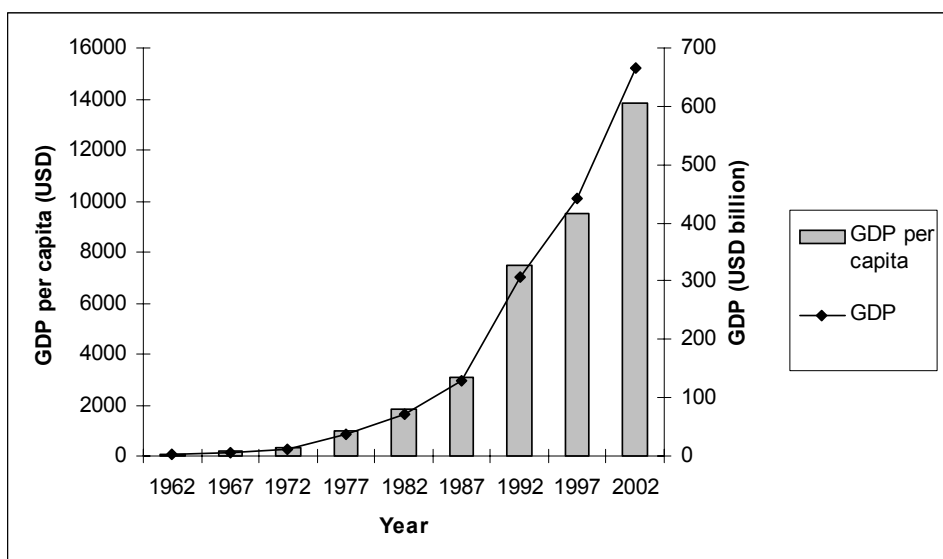
¹⁰⁶ Originally, NIEs referred to the group of four East Asian economies of South Korea, Taiwan, Hong Kong and Singapore, which are known from their remarkable economic success since the 1960s. Later, also second and even third-tier NIEs have emerged, countries such as Malaysia and Thailand belonging to the former, and China belonging to the latter group. Earlier, also the term NIC, Newly Industrialised Country, was used, but it has some political connotations as it is questionable to talk about countries at least in the cases of Hong Kong (the Special Autonomous Region, SAR, of China since 1997) and probably also Taiwan (without diplomatic recognition as an independent nation).

¹⁰⁷ Often, Korea is regarded as a developing country prior to 1996 and a developed country since 1996 due to the OECD membership that took place in 1996. OECD itself lists Korea among *developing countries and territories in transition*. (OECD 2003)

¹⁰⁸ South and North Korea, if united, could develop into the world's 7-8th largest economic power, claims a British-based consulting firm, the Korea Associates Business Consultancy (Korea Now, 2001).

¹⁰⁹ The Asian crisis got lot of attention because it was the first time in three decades that the NIE as a group were growing at a slower pace than the rich industrial economies. Thus, it cast doubt on the continuity of their longstanding economic success.

Figure 17 **Growth of gross domestic product and gross domestic product per capita in Korea**



Source: Ministry of Finance and Economy: Statistical Yearbook, various issues.

Korea's industrial structure is approaching that of advanced nations as the share of the agricultural, forestry and fisheries sector (5 % of production) as well as manufacturing activities (44 %) show a decreasing trend, while the services sector (51 %) is increasing. The manufacturing sector increased gradually since the 1970s but started to decrease in the 1990s. The role of the service sector has increased steadily all the time. Recently, the information and communication technology (ICT) sector has become crucial for Korean economy, as the share of the ICT industry accounts for 28 % of total exports and 13 % of GDP. Altogether, the high-tech and advanced manufacturing sectors are nowadays leading Korea's economic growth. Earlier, Korea was known especially for its semiconductor production and exports, which accounted for 62 % of total exports in the period 1993-1997, but recently, ICT exports have diversified as the share of semiconductors has decreased and the share of new products like mobile phone handsets has increased.

Korean exports are based on industrial production, notably ships, consumer electronics, semiconductors, petrochemicals, automobiles, and iron and steel. In terms of imports, fuel and crude oil are large categories. Altogether, Korea's trading volume is the 13th highest in the world and reflects Korea's vigorous engagement in the global economy. With regard to trade partners, the main destinations of exports have traditionally been

the United States and Japan, but since 1992 when Korea and China established diplomatic relations, trade with China has increased rapidly¹¹⁰. In 1998, China (excluding Hong Kong) forged ahead of Japan for the first time in 28 years, and ranks nowadays as Korea's second largest export destination after the United States. Korea's imports come still mainly from the United States and Japan. However, during the 1990s, trade has diversified and Korea's dependence on the United States and Japan has gradually diminished.

Historical reasons have caused Koreans to worry about their economic sovereignty and thus, to prefer to finance their economic growth by foreign loans instead of FDI. As a result, in the 1970s and the 1980s, Korea became one of the most indebted economies in the world¹¹¹. Dependency on foreign loans has started to ease up since 1986, when Korea began to generate a current account surplus for the first time. A decrease in debt level was needed because excessive debt had started to hinder development as too much wealth was tied up in debt service. As a result, the relative share of FDI rose for the first time to constitute even half of the total foreign capital in 1990, although FDI did not increase in absolute terms, but the foreign debt of Korea decreased rapidly since the late 1980s. Since 1991, portfolio investment has replaced foreign loans as the major source of foreign capital¹¹². (Kim Jong-Kil 2002, 105-107).

At the beginning of the 1990s, Korea's foreign debt was sustainable by World Bank standards, but in 1997, Korea became the fourth most-indebted country in the world due to the Asian crisis. Korea was forced to ask for a record-high loan from the IMF, which had various requirements regarding Korea's macroeconomic policies and economic reforms¹¹³. Along with the reforms, the available foreign currency reserves which had dropped significantly at the end of 1997, started to increase rapidly and also the foreign debt started to decrease steadily. In 2001, the foreign debt to GDP ratio was 28 % and

¹¹⁰ Traditionally, Korea's international trade was dominated by China until the Japanese annexation in 1910. In the first half of the 20th century, traditional trade networks in East Asia were destroyed, and parts of them are still not normalised, such as relations with North Korea.

¹¹¹ In 1985, the foreign debt/GDP ratio reached its peak as it hit 52 % (Sakong 1993, 258-259).

¹¹² The liberalisation of Korea's stock market was started in 1981 and it became possible for foreigners to invest indirectly in the Korean stock market. Wider liberalisation measurements were realised gradually in 1985, 1987, and 1992. Liberalisation resulted in a significant rise of both inflows and outflows of portfolio investment in Korea in the 1990s. (Kim Jong-Kil 2002, 110)

¹¹³ Reforms included the liberalisation of capital markets and FDI, labour market reform allowing lay-offs, the resolution of unsound financial institutions, and corporate sector reform that focuses on eliminating cross-debt guarantee, promoting transparency, and strengthening the rights of shareholders.

the World Bank considered Korea a country without a foreign debt problem. Korea was able to complete its repayment of IMF loans in 2001, three years ahead of schedule (KTI 2001, 48).

In Korea, high savings rates have been normal. The absence of a social safety net and the expensive education system have resulted in a high household savings rate. In the central-led politico-economic system, the government has directed these savings to domestic investment, especially to chaebols¹¹⁴. However, after the Asian crisis, financial conservatism has eroded, as interest rates are low and banks eager to enter new markets. Recently, the nation's savings rate has sunk to its lowest level in two decades (Jung 2002). Nowadays, large parts of bank loans are directed to consumers encouraging consumption. Some negative side-effects, such as credit card delinquencies, have already emerged. As a result, the Korean government has needed to bail out the banks with similar practices as during the Asian crisis (Asia Money 2004).

In comparison to other East Asian countries, the corporate and value added tax rates are low, while the personal tax rates are high, especially in the high income segments. The tax level is expected to rise because the Korean government needs to prepare for building a better social security system for the needs of an ageing population. With regard to inflation, Korea had the highest inflation rate among NIEs during the 1960s and the 1970s reflecting the volatility of the economy. Price stability was, however, achieved in 1982 when inflation was reduced from over 20 % per year in the late 1970s to 7 % in 1982. At the end of 1980s, inflation started to rise sharply and the Bank of Korea needed to reduce the money supply. In 2002, inflation was 2.7 %.

To sum up, Korean economy with its strong economic fundamentals and double-digit growth rates has been recognised as highly attractive for foreign investors. It is expected to grow faster than the rich industrial economies, and will stay as a part of the growth centre of the world economy in the near future, too. Korea's production structure has transformed within a few decades, as the country that was primarily agrarian still in the 1960s has become a diversified industrial economy with an improvement in the standard of living. Korea has become a consumer-oriented society and due to the low income

¹¹⁴ Chaebols are unique Korean corporate organisations.

inequalities all Koreans have a high propensity to consume. In addition, Koreans have a preference for brand products¹¹⁵. After recovering from the Asian crisis, the Korean economy has continued its high level of economic performance. However, problems related to foreign debt and lowering savings rates are not totally out of sight.

Demographic environment of the firm in Korea¹¹⁶

The population of Korea is 48.3 million making Korea one of the most densely populated countries in the world. Moreover, there are 22.2 million Koreans living in North Korea, around 2 million in Manchuria, 640,000 in Japan and 2.1 million in the United States (Statistical handbook of Korea 2002). The urbanisation rate (85 %) is rather high and reflects the centralisation of activities to Seoul, with a population of more than 11 million. In addition, there are seven cities with more than a million inhabitants and 70 cities with more than 100,000 inhabitants.

Demographic development in Korea has followed the pattern of the standard demographic transition model, but it went through the late expanding phase much faster than the European countries where it took 150 years, as it went from high to low rates of mortality and fertility in a few decades. In her lifetime, a Korean woman gives birth to 1.5 infants, which is under the replacement fertility of 2.1 infants per woman. Thus, it is expected that Korean population will grow about 20 years from now on and turn down then. Continuously increased life expectancy, 71 years for a male and 79 for a female, reflects a risen standard of living associated with good health care systems, widely available primary education, and a productive economy.

In the case of Korea, education has many times been cited as one of the major factors resulting in economic growth. Education has a long history in Korea¹¹⁷ where the level of human capital formation was high already at the beginning of the 1960s. (Hess & Ross 1997, 534-538) The early emphasis on education was crucial to economic development

¹¹⁵ Brand products are preferred because of their high price and good quality is expected to differentiate the owner from the other customers. It is possible that buying prestigious products also reflects the highly competitive nature of Korean society.

¹¹⁶ Major indicators of the demographic environment of the firm in Korea are shown in Appendix 5.

¹¹⁷ The first educational institutions were established already in the first century AD on the basis of Chinese institutions. The early institutions operated continuously until 1894 when a new educational system of government-led schools was introduced. The system introduced private schools to the public at large, not just for literati. Furthermore, Koreans were able to continue their educational traditions over the colonial period and the Korean War.

as it resulted in reduced fertility rates contributing to human capital deepening, and the emergence of a literate, skilled labour force, which was needed for the export expansion strategies (ibid.). Today, the adult literacy rate in Korea is over 98 %, and the combined primary, secondary, and tertiary gross enrolment ratio is over 92 %, both figures being among the highest rates in the world. Korea's public expenditure on education and the indicators of education quality are higher than in other East Asian countries, but also higher than in other OECD countries. Korea has the highest ratio of Ph.D. candidates to population of any country. In terms of Human Development Index (HDI)¹¹⁸, Korea ranks 30th among world countries.

In addition to the high level of education, Korean labour is characterised by high work morale and discipline (El Kahal 2001, 87). Koreans are also known for their diligence as the average working hours per week is 47 hours (in 2001)¹¹⁹. Koreans are still working predominantly six days in a week¹²⁰. Holidays are short, totalling just 78 days in a year, a number, which includes Sundays. Hierarchical and centralised organisations and even militaristic corporate cultures have turned out effective. The lack of English speaking skills in the Korean workforce forms a barrier, but top management, which usually has degrees in higher education, has good skills in English when working with international tasks. The business culture includes long working hours and intimate involvement in all company affairs as well as in civic activities. The employment of foreigners may turn out problematic in some cases, as there are restrictions in favour of Korean staff.

The number of employed is well over 21 million and the labour force participation rate is almost 60 % of the total population over the age of 15¹²¹. Following the shift of focus

¹¹⁸ HDI is a summary measure of human development, which shows how impressive human development gains the country has achieved. It is compiled through three dimensions of 1) life expectancy at birth, 2) the adult literacy rate (with two-thirds weight) and the combined primary, secondary and tertiary gross enrolment ratio (with one-third weight), and 3) GDP per capita (purchasing power parity, or PPP, USD).

¹¹⁹ The average working hours per week have decreased gradually. In 1985, it was still 51.9 hours per week (Bae & Rowley 2003, 81).

¹²⁰ The Korean government has legislated a five-day workweek system starting in 2003 and aiming at covering all businesses that employ more than 30 people by 2006.

¹²¹ The female labour force has been important for Korea since the 1960s, when labour was needed especially for the textile and electronics industries. Women's labour force participation has risen steadily from below 40 % in 1970 to about 50 %. (Korea Labour Institute 2002) The participation of women in the labour force has become possible because of demographic (later marriage, declining childbearing), economic (rising wages, changes in employment structures) and political (policies on gender discrimination) changes. (Mason & Westley 2002) In the future, the share of Korean women in labour participation is expected to continue to increase as Korea's increased competitiveness as a knowledge and information-based society needs and opens new opportunities for a female workforce.

from labour-intensive to knowledge-intensive industries, the wage level has increased considerably. Especially during the second half of the 1970s and the 1980s, the average annual real wage growth was 10.3 % and 8.3 %, respectively. Still, during the first half of the 1990s, real wages increased much faster than in Korea's closest competitors, such as Taiwan and China. (Torres 2001, 24) However, the wages of Korean workers are still just one-third of those in Japan. In foreign companies, the wage level is usually higher than in local companies.

In the 1990s, before the Asian crisis, Korea suffered from a shortage of manufacturing labour force. Along with the recovery from the crisis, the problem is going to re-emerge. As a result, the shift of Korea towards a knowledge-intensive economy, the labour supply is also failing to meet the demand for qualified professionals in such sectors as ICT and biotechnology. The most acute shortage, however, is related to the job preference of Koreans away from dirty, difficult and dangerous jobs, and the phenomenon has become rather chronic. The shortage of labour has resulted in illegal migration to Korea; before the Asian crisis, it was estimated that there were about 100,000 illegal workers. As the migrant workers have provided a source of cheap and flexible labour force for jobs avoided by Koreans, the government has allowed their presence in the labour market. Migrant workers are reported to experience discrimination in terms of wages, benefits and human rights. (Park 2002) Most illegal workers are Chinese and Philipinos, but especially the share of Chinese workers is expected to rise in such industrial sites as Gunsan National Industrial Estate, which is expected to provide jobs for almost 50,000 workers from outside, including workers from China across the Yellow Sea (Lee 2.10.1996). It has been estimated that there are 40,000 illegal Chinese workers in Korea. Most of them are ethnic Koreans.

Unemployment in Korea decreased steadily from 8.1 % in 1963 to 2.0 % in 1996 with the exception of the recession in 1979-1980 and the Asian crisis. Actually, the unemployment rate was close to a full employment rate¹²² for most of the time. In 2002, unemployment reached the pre-Asian crisis level of about 3 %¹²³. However, the structure of unemployment has changed: a totally new phenomenon is the white-collar unemployment

¹²² Full employment refers to the natural rate of unemployment when the existing unemployment is frictional unemployment.

¹²³ One of the most serious influences of the Asian crisis for Koreans was unemployment, which hit almost 8 % in the crisis year 1998.

caused by the bankruptcies and firm restructurings. Also the number of part-time workers has increased. Altogether, the lifetime employment practise is eroding and labour market flexibility enhancing.

To sum up, the demographic environment of the firm in Korea has received special interest because Korea's economic development has been largely based on the utilisation of human resources. The human development in Korea is visible in terms of an impressive improvement in the quality of life, life expectancy, and the education level. As a result, Korea that had been known for its low cost and qualified manpower in manufacturing already since the 1960s has become increasingly famous for its professionals that are able to adapt rapidly to new technologies and business opportunities in the era of knowledge-intensive high-tech industries. Human resources are still an important part of Korea's competitiveness. Meanwhile, the wage level has increased faster than in most Asian countries, but remained at the level of one-third of those in Japan.

Technological environment of the firm in Korea¹²⁴

Korea has achieved an advanced level of technologies mainly for three reasons: first, education has always been valued in Korea according to the ideals based on Confucianism, as explained earlier; second, Koreans have a long history of science¹²⁵; and third, science has been strongly sponsored by the state.

In 1962, after the coup d'état by General Park Chung-Hee, the Korean government launched the First Five-Year Economic Development Plan, which clearly took note of the importance of science and technology for economic development. As a result, technology plans became closely tied to economic plans, according to which technology was developed in stages. In the first stage, in the 1960s, technical education was

¹²⁴ Major indicators of Korea's technological environment are shown in Appendix 6.

¹²⁵ Sciences developed under the influence of China until the 19th century but Koreans applied Chinese technology to better suit their own needs and conditions. It was typical of technological skills of Koreans that they were developed and passed down through the empirical research and applications, rather than theoretical methods.. Since the 17th century, Korea became touched with the Western ideas but the Western influence was dried up in the period of the *Hermit Kingdom* at the end of the 19th century when Korea decided to prevent the opening of the country to the challenge of foreign influence. Korea's reaction was opposite to that of Japan, which adopted the Western culture enthusiastically. The break-through of Western culture took place in 1894, along other reforms, but as Koreans soon came under Japanese colonialism, they were not able to progress in science and technology for the following 50 years.

strengthened and the technological infrastructure built. Institutions, such as the Ministry of Science and Technology (MOST) and the Korea Institute of Science and Technology¹²⁶ (KIST) were established. In the second stage, in the 1970s, technical education was further strengthened, specialised research institutes established, and technology imported extensively. Technology was bought by taking foreign loans and applied by Koreans themselves because FDI was restricted. FDI, when allowed, was directed to those industries that supplied critical inputs of high technology, or industries, which generated foreign currency and jobs. Moreover, there was a strong preference for joint ventures¹²⁷. (Sakong 1993, 138)

In the third stage, in the 1980s, when the industrial structure was already rather developed, the emphasis was on structural change towards technology-intensive industries, such as electronics. National R&D projects were established, top-level scientists educated and key industrial technologies localised. For the first time, Korean industry was able to produce internally developed products with Korean brands instead of the Original Equipment Manufacturing¹²⁸ (OEM) system that had been typical of Korean industries. Quality was not yet high, but products were manufactured cost-efficiently. In the fourth stage, in the 1990s, the Five-year Plan for Science and Technology Innovation was launched to promote the national R&D capacity to the level of the G-7¹²⁹ countries. Gradually, Korea has developed from a technology importer to creator of a technology of its own. (Mäkitalo 1997) Nowadays, in the fifth stage, technology policy emphasises social needs instead of the former industrialisation-centred focus. New policy aims to link industries, academia and research organisations together in order to promote innovativeness.

Korea's R&D expenditure has increased from 0.8 % of GDP in 1981 to 2.96 % in 2001. Companies spend 76 % of total R&D investment, research institutes 13 % and universities 10 %. The number of researchers increased to 180,000 in 2001, which

¹²⁶ Since 1981, KIST has been a part of the Korea Advanced Institute of Science and Technology (KAIST), the most prestigious research institute in Korea.

¹²⁷ Joint ventures are effective ways to transfer technology especially because they allow time for training learning-by-doing due to the long-term relationship (Al-Obaidi 1999, 79).

¹²⁸ Original Equipment Manufacturing is a production system in which a company orders components from other firms in order to build a product that it sells under its own company name and brand.

¹²⁹ G-7 refers to the Group of Seven, an international organisation that aims to facilitate economic co-operation among the world's largest industrial nations, namely the United States, Japan, Great Britain, France, Germany, Italy, and Canada.

makes 37.8 researchers per 10,000 of the population, ranking Korea at 17th internationally. By region, R&D activities are concentrated on Seoul and Daejeon, which hosts the Daedeok Science Town, the first technopolis¹³⁰ in Korea. The Korean government has also started to attract TNCs to its R&D centres and in 1999, FDI in R&D accounted already for USD 2.5 trillion, which is almost one-fourth of total FDI. Most R&D centres are in the electrical and electronics field, machinery, and chemicals indicating the recent focus of Korean industries. (Hong 2002)

Technologies are closely linked with transportation and communication facilities. Korea's location is comparable to the island, as Korea's connections to the Eurasian mainland have been blocked by North Korea. Korea's small peninsular territory together with trade dependency has highlighted the importance of maritime transportation compared to land transportation. The major exporting ports are located in the east coast due to the suitable geographies. The largest harbour, Busan, located at the southeastern tip of the peninsula, ranks as the world's fifth largest port. Altogether, Korea has 27 ports fulfilling international standards, and many smaller harbours.

Airport facilities have been improved recently as the new Incheon International Airport, 50 km west of Seoul, has been completed. Altogether, there are five international airports in Korea. Beside the new airport, another major infrastructure project has been the high-speed railway connecting Seoul to Busan in about half of the earlier travel time. As a whole, the Korean railway system is about 6,700 km and it will be enlarged by 3,000 km in the near future. Since the Korean War, railway connections between South and North Korea have been cut, but the countries have now decided to jointly restore the Seoul-Uiju railway crossing the Demilitarised Zone (DMZ). The connections through the Korean Peninsula to the Trans-Siberian railway via Russia, China and Mongolia, if realised, could open up economically beneficial alternatives for transportation between Northeast Asia and Europe. It would have a significant influence on the whole transportation system of Northeast Asia and create new opportunities over the Eurasian

¹³⁰ Technopolis, or Science Park, means property-based high technology development project. The concept originated in the 1950s when the first technopolis, Stanford Research Park, today known as Silicon Valley, in California was established. Before the 1980s, technopolises existed only in OECD countries with the exception of Korea and Taiwan. In the 1980s, technopolises expanded everywhere in the world.

landmass. However, the continuity of the project is hindered by the political uncertainty and the lack of capital in North Korea.

The total length of Korea's highway network reached 2,536 km in 2001. The backbone of the Korean highway system is the Gyeongbu¹³¹ Expressway built in 1970 to connect Seoul to Busan (428 km). There are also three other expressway lanes radiating from Seoul. The second longest highway, Seohaean¹³² Highway from Incheon to Mokpo (353 km), was opened in 2001 on the western coastline in order to achieve an east-west regional balance. Moreover, its objective is to support increasing trade relations between China and Korea. In addition to the above-mentioned transportation routes, there are many other channels such as parallel pipelines for petroleum, oils, and lubricants.

Korea has built one of the best telecommunications infrastructures in the world and it has the world's highest penetration rates in broadband Internet and mobile terminal equipment. Korea also has a leading position in digital convergence technology. The Korean government has been proactive to establish a knowledge-based society, as it has deregulated the telecommunications industry in order to help the country's internet and wireless market¹³³. In addition, the use of such services as telephone and broadband network services and high-speed cable modems, are relatively cheap even by Asian standards.

To sum up, technological environment of the firm has become increasingly important for TNCs in general. Previously, they sought to build marketing networks all over the world and their focus was on manufacturing and marketing. Nowadays, an increasingly larger share of FDI is directed to R&D centres, almost one-fourth of FDI in the case of Korea, a fact that highlights the strength of Korea's technological capability. Indeed, Korea has been able to experience a gradual shift from a technology importer to a creator of technology of its own. Korean R&D expenditure has increased continuously giving good future prospects.

¹³¹ Gyeong (京) means metropolitan area; Bu (釜) refers to Busan.

¹³² Seohaean (서해안) means West Coast.

¹³³ Korea Telecom retained a monopoly over call services until 1992 when the Korean government started gradually to open up competition. In 1998, the Korean government continued deregulation in order to attract FDI and to speed up the privatisation of Korea Telecom. (Kim Jong-II 2002).

Competitive environment of the firm in Korea¹³⁴

The competitive environment of the firm covers a much larger area than the host economy itself, including especially the target markets, which may be found from the home, host or third country. In the following, however, the competitive environment of the firm will be discussed only in the context of Korea, which is the focus country of the present study.

In Korea, competitive environment is dominated by large Korean conglomerates called chaebols, and thus, it has characteristics of an oligopolistic market. Chaebols have been recognised as one of the typical forms of Asian business, like Japanese corporations called *keiretsu*¹³⁵ and Chinese family businesses¹³⁶ (eg Redding 1996, El Kahal 2001). Chaebols are unique Korean business groups consisting of large companies, which are owned and managed by family members or relatives of the founder. They operate in many diversified business areas, and they have been the pioneering force behind Korea's economic growth. The origins of most chaebols lie in the 1950s because only few Koreans had owned or managed larger corporations during the Japanese colonial period. After the departure of the Japanese in 1945, Korean businessmen obtained the assets of some of the Japanese firms, which grew into the present chaebol. Chaebols have been able to grow because of foreign loans guaranteed by the government and special favours from the government.

Nowadays, there are over 50 chaebols and each chaebol group has many subsidiaries, individually in charge of different operations. Some chaebols are ranked among the world's best companies¹³⁷. By industry, chaebols have established strong clusters in textiles, transportation equipment, consumer electronics, iron and steel, semiconductors, food, cement and international construction services. Korea is the largest shipbuilder in the world, and it ranks among the largest also in the fields of consumer electronics, semiconductors, petrochemicals, automobiles, and the iron and steel production.

¹³⁴ Major indicators of the competitive environment of the firm in Korea are shown in Appendix 7.

¹³⁵ *Keiretsu* is a Japanese conglomeration of companies organised around a single bank for their mutual benefit. Chaebols are more similar to *zaibatsus*, which were the large Japanese family-owned conglomerates that controlled the Japanese economy prior to Second World War.

¹³⁶ Chinese family business refers to overseas Chinese family business networks that extend from Taiwan, Hong Kong, through Southeast Asia to Australia and the whole Pacific, where they have had a major impact upon their host country. (El Kahal 2001)

¹³⁷ The US business magazine *Forbes* has listed the best companies in the world including seven chaebols, namely Samsung Electronics, Hyundai Motor, POSCO, Kookmin Bank, Hanwha Corp., SK Corp. and SK Telecom (KH 15.4.2003).

Steers et al. (1989, 37-43) lists the distinctive features of chaebols, as follows:

- 1) Family control and management, which means that most chaebols are led by the direct descendants of the founders, by the second or third generation, referring to the Confucian tradition of family responsibility. This is different for example from Japan, where *keiretsu* are controlled by professional corporate management.
- 2) Paternalistic leadership, which refers to the chaebol management by one central, paternalistic, and highly charismatic figure.
- 3) Centralised planning and co-ordination system, which collects, analyses and presents useful information to the chairman for further decision-making.
- 4) Entrepreneurial orientation as the chairman has a clear vision of what he wants his business to be. Companies have understood success as a patriotic duty, and the competitive spirit against old rivals, North Korea and Japan, has been an important driving force.
- 5) Power-seeking rather than profit-seeking operations as the growth and size of the company are a goal in itself in Korea. It is a source of recognition and the driving force for entrepreneurs. It has also been typical of Korean industries to compete on cost.
- 6) Close business-government relationship as government regulations have made it difficult for a chaebol to develop an exclusive banking relationship. This is different from Japanese *keiretsu*, which usually works with an affiliated bank and may have almost unlimited access to credit. Chaebol leaders have possessed able political skills and maintained close and a mutually beneficial relationship with the Korean government in order to enjoy preferential loans and interest rates.
- 7) School ties in hiring as the educational linkage has been a strong factor in the success of chaebols. Graduates from the best universities used to be guaranteed a job with one of the best companies.

Since the Asian crisis, the number of chaebols, which earlier had peaked at more than 60, has decreased. Estimations on top-four chaebols' impact on Korea's GDP have varied from 50 % even to 80 %, but recently, it has been claimed (eg Kim 2003) that these figures greatly overestimate the role of chaebols, as the inter-chaebol transactions for intermediary products are included to the figures. A more realistic estimate would be 15 % of Korea's GDP. In addition, it is obvious that the role of chaebols has decreased during the recent decades and after the Asian crisis in particular. At the same time, the seniority-based lifetime employment system has eroded. Performance and ability of the individuals are becoming increasingly important, and labour mobility has increased. Mass recruitment of the best graduates has changed to recruitment on demand. (Bae & Rowley 2003) Even the symbiotic state-business relations have undergone a major change since the Asian crisis¹³⁸.

¹³⁸ Recently, the Korean government has paid attention to the risk, which occurs as Korea's economic activity is dominated by a small number of large chaebols making the economy vulnerable to external shocks. Recent analysis (Kim 2003) distinguishes the problems related to chaebols in two: institutional and managerial problems. Institutional problems refer to the operation of chaebols in the emerging markets

Due to the domination of the chaebols, the role of SMEs in exports or GDP generation has remained low. Since the 1960s, the Korean government has heavily distributed benefits to chaebols while the SMEs have remained without any major support. Especially in the 1970s, the government's policy left the SMEs without adequate resources (Sakong 1993, 171) and it was not until the 1990s when the government started to encourage the SMEs (Gregory et al. 2002). Korean SMEs still lack sufficient bank lending because, according to the banks, there is too high a credit risk and limited financial requirements associated with SMEs. (Jung 2002) However, SMEs have a strong role in employment. Most Korean SMEs manufacture specialised parts or equipment for the chaebols, which market the final products under their own brand names. Thus, chaebols rely on SMEs to manufacture most of the individual parts. In SMEs, wages are lower and often also the working conditions are worse than in the chaebols.

To summarise, the competitive environment of the firm in Korea is an oligopolistic market. According to Luostarinen (1982, 30-31), TNCs tend to prefer direct investment as the most attractive operation mode when entering an oligopolistic market. This is because production within the concentrated market offers a better basis to compete than being outside of the market. However, access to the Korean market has long been restricted. The Korean market is highly competitive and barriers to entry may be high. Key barriers for FDI in Korea include a lack of transparency, asset valuations based on unmeasurable factors, artificial revaluations of balance sheets, and a trust deficit between Koreans and foreigners.

Altogether, the Korean market is often described as one of the most difficult places to do business. Foreign investors have to compete with the chaebols, which dominate the market and control the distribution. In competition with chaebols, only a few foreign firms have the power to fight directly and achieve the number one or two positions in the

where the risks are high due to the relatively incomplete form of institutional arrangement. This has forced chaebols to diversify heavily in order to achieve economies of scale through vertical integration. In addition, the underdeveloped capital market has forced chaebols to finance their large investments needed in diversification and internationalisation by bank credit. These institutional problems, overborrowing, overdiversification and overinvestment of the chaebols, are suggested to disappear along with the market development (Kim 2003, 1-8). Managerial problems refer to poor management, inadequate governance and deficient accountability. These problems are difficult to solve as long as the ownership and management of the chaebols is not separated. Family management does not take account of the interests of minority shareholders requiring transparency in corporate governance. (ibid., 10-11)

market. Therefore, the transnationality index¹³⁹ of Korea remains low in comparison to the most internationalised countries of East and Southeast Asia, such as Hong Kong, Singapore, or Malaysia. Those investors who have managed to enter Korea have needed to adopt a niche strategy using a leading product. However, even these products can be rapidly localised and the business taken over by local market leaders. Since 1998, there has been rapid growth in M&A due to the M&A liberalisation and the good availability of acquisition targets.

5.3 Political environment of the firm in Korea¹⁴⁰

In order to operate in Korea, TNC has to be aware of potential sources of political tension and instability, and political risk. According to several surveys conducted among the foreign investors in Korea, the greatest investment barriers are political by their nature (eg KEW 20.6.1998, Ahn 1999, KH 27.11.2003). Usually, political instability and North-South tension are mentioned as the greatest investment barriers¹⁴¹. In a survey made by Korea Economic Weekly, 29 % of the respondents named political unrest as the most important reason not to invest in Korea. In addition, 24 % of the respondents pointed out the north-south tensions of the Korean peninsula. (KEW 20.6.1998) In a survey conducted by KOTRA and reported by Ahn (1999), North Korea's unstabilising impact on South Korea received even higher attention. In the following, the political environment of the firm in Korea is discussed. Attention is paid to the changes in Korea's overall policies and economic policies with special reference to national and international conditions shaping the policies (cf. Table 6 in Chapter Three).

¹³⁹ The transnationality index has been calculated by UNCTAD and it is an average of four shares: FDI inflow ratio to gross fixed capital formation, FDI ratio to GDP, value added of foreign affiliates ratio to GDP, and employment of foreign affiliates ratio to total employment. (UNCTAD 2003, 6)

¹⁴⁰ Major indicators of the political environment of the firm in Korea are shown in Appendix 8.

¹⁴¹ Also the labour sector problems have been pointed out as one of the biggest obstacles to invest in Korea, because it was not before 1998 when the Korean government legalised layoffs, the use of temporary replacement workers from placement agencies, and flexible working hours to accommodate fluctuations in demand. Korea has been known for labour disputes and trade union activities. Trade unions have roughly 1.5 million members, about 10 % of the total labour force, but trade unions are very loud and use strong pressures against the government. However, along with the general democratisation of Korean society, also the labour-management relationship has improved and difficulties are basically solved by negotiation. At the end of the 1990s, the Asian crisis with corporate restructuring and the concomitant layoffs temporarily raised the number of labour disputes. (Hong 2001)

Political system in Korea

Since its foundation in 1948, the Constitution of Korea has defined the Republic of Korea as a democratic country with sovereignty vested in the people. Legislative power is used by the National Assembly, a unicameral body with 299 members elected by popular vote for a four-year term. The legal system is based on European civil law adopted during the Japanese colonial period¹⁴². In addition, Koreans have incorporated some elements of Anglo-American law as well as classical Chinese thought into their legal system.

With its two-party system, Korea represents presidential rather than parliamentary democracy. Political literature characterises the Korean political system as a soft authoritarianism¹⁴³ in 1962-1987 and a democracy since 1987 (Pei 1998, 42). The end of military rule in 1987 and the election of the first civil president in 1992 are certainly the most important landmarks in Korean democracy. Since those days, democracy has developed smoothly and there have not been any severe political upheavals¹⁴⁴. However, the democratisation is still under the process and the political culture is weak after the decades of military regimes. One of the reflections is the political turbulence resulting in the parties merging and breaking up and new parties being established during the legislative periods. The rivalries between the governing party and the opposite party are

¹⁴² Japanese legal modernisation at the beginning of the Meiji era (1868 - 1912) was based on the German legal system. Modernisation was needed because the Western powers had subjugated Japan and refused any re-negotiation of the unequal treaties until Japan had westernised its legal system. In the selection of suitable model, Chinese law was found to be backward and cruel in penal matters, while most Western legal systems were bound up with particular historical conditions. Finally, Meiji leaders became impressed on German achievements and opted for German models. The German model produced a Constitutional Law with parliaments, independent courts, and limited monarchical powers, but centralised the decision-making to a narrow circle of soldiers, businessmen, and bureaucrats. According to Schenck (1997), Japan would not have overcome its backwardness and become a model for East Asian tiger economies without this heritage.

¹⁴³ In an East Asian context, the concept of soft authoritarian government is commonly used. It refers to economically successful East Asian countries (especially Japan, Korea, Taiwan and Singapore) with an interventionist government, rather equal distribution of incomes, and "Asian values" (Asian values are often discussed in contradiction to Western values, emphasising such ideas as individualism vs. collectivism. From the Asian perspective, their values and national identities are sometimes seen as threatened by the Western demands for democratisation and liberalisation, for example). In these countries democratisation has not been completed yet, although there has been a significant shift away from harder authoritarian governments. A typical feature of these soft authoritarian governments has been the use of pilot agencies, such as The Ministry of the International Trade and Industry (MITI) in Japan, the Economic Planning Board (EPB) in Korea, the Council of Economic Co-operation and Development in Taiwan, and the Economic Development Board in Singapore, to exercise foresight and strategic planning to accelerate the growth patterns. These agencies have been an essential part of national politico-economic systems, which have characteristics typical of socialist planning mechanisms: multi-year plans in which specific sectors are targeted, and significant state equity participation (Henderson 1993, 106).

¹⁴⁴ The most recent upheavals have been the coup d'état by General Park Chung-Hee in 1961, his assassination in 1979, and the Gwangju uprising in 1980 when civilian demonstrators were put down by government troops resulting in hundreds if not thousands of casualties.

partly based on regional disputes, which, however, have diminished during recent years. Despite the seeming instability, the homogenous population and centralised, interventionist government has guaranteed a rather stable political situation in Korea. The weak political culture has resulted in the lack of distinctive party policies and thus, whatever party leads Korea, significant changes in policy are not expected. From the investor perspective, this decreases the risk created from the political system.

As the Korean economy has been enlarged and become fragmented in the 1990s, strong government intervention¹⁴⁵ has become questionable. The development of democracy has challenged the earlier political practices that included, for example, the concentration of economic planning in a single agency, or the Economic Planning Board (EPB). Policies have been liberalised and government intervention has been partly replaced by market competition and private initiative. The role of the state has decreased due to the external pressures as Korea has become increasingly dependent on the world economy. The attitude toward FDI has been changed as the government is forced, by the failure or limits of its policies or pressures from international agencies, to open its doors to foreign investors. (Case 1998, 252-253) The government's strong role has certainly weakened, but it has not disappeared.

International relations of Korea

For almost half a century, Korea was prevented from playing any role in the international community due to the Japanese occupation. Since the Korean War, it has actively aimed to change its position from a passive aid receiver to an active member of the international community. Korea has diplomatic relations with more than 170 countries and it has applied for membership and pursued an active policy in international organisations including the United Nations (UN), World Bank, IMF, OECD, and WTO. The lack of regional instruments in Northeast Asia has driven Korea to be active in institutions such as Asia-Pacific Economic Co-operation (APEC), Asia-Europe Meeting (ASEM), ASEAN+3¹⁴⁶, and ASEAN Regional Forum (ARF).

¹⁴⁵ The strong state direction in Korea is explained firstly by Korean history, notably the strong central government throughout the 500-year history of the Chosun Dynasty and the Japanese colonial period. Secondly, in the early phase of development, rapid economic growth and rising living standards but also the threat of communism justified the rule of the authoritarian regimes. (Henderson 1993, 104-106)

¹⁴⁶ ASEAN+3 refers to annual meetings of leaders and ministers of ASEAN, Japan, Korea, and China to discuss key political, economic and security issues.

The role of the 24th Olympic Games held in 1988 in Seoul has often been mentioned as a turning point in Korea's attempt to join the world community (eg Amsden 1989, 104, 327; Lee 2000, 171-172). The two former games in Moscow and in Los Angeles had been associated with political boycotts and Korea was proud to arrange the largest-ever international sports event with participants from 161 nations, including the Soviet Union and China with whom Korea had no diplomatic relations. Only a few countries, such as North Korea, Cuba, and Albania, remained out of the games. (Lee 2000, 171-172) Through the games, Koreans had an opportunity to show the modern, prosperous country they had built. The Olympic Games enhanced Korea's global standing and created an opportunity to improve bilateral relations with many countries. The glare of international publicity resulted also in more rapid political development towards democratisation. (Amsden 1989, 104, 327)

The Korean government has been convinced that international publicity helps the country to uplift its national image and, in terms of FDI, makes Korea a more attractive investment target. Therefore, the *Segyehwa*¹⁴⁷ policy was introduced in 1993 to prepare the nation for membership of OECD. For Koreans, OECD membership in 1996 was an important symbol of Korea's success in both democracy and economic welfare. The *segryehwa* policy and OECD membership allowed the President of Korea to attend multilateral meetings, such as APEC and ASEM, and host a stream of high-level visitors to Seoul, making Korea a "*first-rate advanced nation*" (Lee 2000, 176).

Although Korea has managed to organise its international relations, the North-South tensions in the Korean peninsula have not been solved. Peace in the Korean peninsula is very much dependent on the North Korean development. Foster-Carter (1999) has recognised four alternative scenarios for North Korea: war, collapse, gradual development, and the status quo among which the last one is the most likely¹⁴⁸. North

¹⁴⁷ Segyehwa (세계화) means literally globalisation. It refers to the Korean policy in the 1990s aiming at increasing interaction with foreign countries.

¹⁴⁸ The first scenario, a new war in the Korean peninsula, is still possible, as the two Koreas have not ratified a peace agreement after the Korean War. The demilitarised zone between them is, despite its name, one of the most heavily armed borders in the world and there have been continuous frontier infringements. However, North Korea's aggressive action against the South seems also quite unlikely because it would probably not receive support from its old allies, Russia and China. The second scenario, the collapse of North Korea is possible as the developments in North Korea over the 1990s, such as negative economic growth, the end of Russian aid, and the several natural disasters, indicate a crisis. Actually, the collapse of the North Korean government seemed very likely after the death of the country's

Korea's threat, as felt in South Korea, has resulted in the presence of 37,000 American soldiers in South Korea. Recently, stability in the Korean Peninsula has been enhanced by the South Korean *sunshine policy*, which separates the economic and the political issues¹⁴⁹. The implications of improved relations between the two Koreas include the start-up of inter-Korean trade since 1990¹⁵⁰, the establishment of inter-Korean container routes since 1995, and South Korean direct investment in North Korea by all major chaebols. Politically, the South Korean President's summit with the North Korean leader in 2000 has not resulted in any concrete improvement in inter-Korean relations neither have the six-nation talks¹⁵¹.

Economic relations of Korea

Japan and NIEs became active participants in the world economy after they had adopted the Export Oriented Industrialisation (EOI) policy¹⁵² since the 1950s and the 1960s. Later, increasing international competition and increasing security after the end of the Cold War resulted in a gradual change from a developmental¹⁵³ to a liberal free market system in

long-term leader in 1994 when it was not clear whether his son would be able to take power or not. Collapse might cause severe troubles, such as a massive refugee problem, which is not desirable on South Korea's side of the border. The third scenario, the gradual development of North Korea, was felt likely at the beginning of the 1990s, when expectations for the improvement of North Korea's economic situation were high. North Korea was hoped to develop according to the Chinese and Vietnamese models. It was also expected that the development of special trade zones in Rajin and Sunbong would accelerate, and foreign enterprises would rush into Pyongyang. Inter-Korean trade, which was initiated in 1990, was a positive sign although trade has been strongly characterised by South Korean imports. Later, North Korea opened some industrial complexes for investors from South Korea. The Daewoo Group was the first South Korean company to establish a factory in North Korea. Moreover, the South Korean government removed limits on investment in North Korea, and nowadays, only defence-related industries are banned. However, North Korean development was hindered by the negative economic growth, which ultimately turned to positive in 1999, for the first time during the 1990s. Threats related to the scenario of gradual development are the political requirements and disturbances expected in North Korea due to the increased contacts and information on other countries, and South Korea in particular. Finally, the fourth scenario, the status quo, is likely because North Korea has postponed change for decades and probably continues alike. Neighbouring countries give aid to North Korea enough to prevent a collapse of the society, but not enough to strengthen its economy, not to mention the military. As North Korean economic growth has turned positive, future prospects are brighter than earlier. For North Korean leaders, the present policy is more convenient than any unpredictable change and thus, the status quo is the most probable scenario for North Korean development in the foreseeable future (see more eg in Foster-Carter 1999; Lankov 2003).

¹⁴⁹ The sunshine policy is based on the West German *Ostpolitik* of the 1970s, and the name itself derives from Aesop's famous fable.

¹⁵⁰ In 2003, the trade volume was USD 269 million.

¹⁵¹ Six-nation talks on the North's nuclear programs have been conducted by both Koreas, Japan, China, Russia and the United States.

¹⁵² EOI strategy is an outward-looking economic strategy that emphasises the role of foreign trade, technology transfer and FDI.

¹⁵³ Political economy literature (eg Johnson 1982, Henderson & Appelbaum 1992) calls Japan and NIEs as developmental states. In these economies, industrialisation took place later than in Western countries, the state led the industrialisation drive, and the state took on a developmental function in order to achieve its social and economic goals. (Johnson 1982, 18-19)

NIEs. Since 1964, when Korea chose an EOI strategy, it has been highly dependent on the world economy. Although the macroeconomic fundamentals of Korea have remained sound, it has been claimed that the vulnerability to external shocks has resulted in excessive external borrowing, over-investment¹⁵⁴ and the side effects of centralised governance¹⁵⁵ (Kim 2003).

According to Dent (2002) Korea's regional and inter-regional economic cooperation is basically directed through APEC and ASEM, while at the multilateral level, Korea is active in such forums as OECD, WTO, and IMF, as already discussed. In addition, Dent (ibid.) has emphasised the four overlapping phases in Korea's bilateral economic relations, namely 1) unipolar clientism (1950s-1960s) based on dependency on the United States, 2) bipolar economic dependency (1970s-1980s) whereby Japan joined the United States as a strategic economic partner of Korea, 3) tripolarity (1990s) in which economic exchange with the EU and developing East Asia increased, counterbalancing the relations with Japan and the United States within the global triad, and 4) multipolarity (since the late 1990s) based on new seeking of bilateral economic relations in relatively unfamiliar countries for Korean firms such as Central and Eastern European, Latin America, and Southern African countries. (Dent 2002, 172-178)

Korea's outward-oriented growth performance has been based on access to foreign borrowing and overseas markets, which has facilitated rapid trade expansion, the diversification of the export base, and the increased integration in the international economy. Thus, Korea has benefited from the liberal multilateral trading system. According to WTO's trade policy review (2000, xviii, xxii), Korea's recent bilateral and regional agreements¹⁵⁶ are not just complementary to Korea's participation in the multilateral trading system, but appropriate response to the world-wide expansion of regional arrangements. Thus, according to WTO (ibid.), Korea's involvement in APEC and ASEAN+3 may even erode Korea's long-standing attachment to the multilateral trading system.

¹⁵⁴ Since the 1960s to the mid-1990s, the level of investment averages around 30 % per year (Kim 2003).

¹⁵⁵ Overcentralisation of decision-making may stultify local initiative and the ability of grassroots economic decision-makers to respond to changing circumstances (Johnston et al. 1994).

¹⁵⁶ For example, Korea has recently signed a Free Trade Agreement (FTA) with Chile and has confirmed that FTAs with Singapore and Japan will be signed in 2004 and 2005, respectively (KH 15.6.2004; Korea.net)

Economic policies of the Korean government

The hermit kingdom legacy¹⁵⁷ has resulted in the Korean government using various kinds of tariffs and non-tariff barriers. This fact has not, however, prevented the Korean government from sloganing trade liberalisation as an important part of Korea's industrialisation strategy since the 1960s (GATT 1992, 1). Actually, in the 1970s, the EOI strategy was utilised together with selective import substitution as the emphasis of the industrialisation strategy moved from consumer goods to intermediate goods and, in the 1980s, to capital goods (Dege 1986). Especially, the change of industrialisation strategy in the 1970s from light to heavy manufacturing created balance of payments difficulties and created a need for import substitution and export incentives. During the economic crisis in 1980, market opening was the first step taken in correcting the situation and it included a reduction of tariffs and non-tariff barriers, such as import licensing, as well as the elimination of export subsidies (GATT 1992, 2).

Trade liberalisation proceeded in the 1980s: average tariffs were reduced from 24 % in 1982 to 10 % in 1990 (GATT 1992, 6). Later, in the 1990s, trade liberalisation and a commitment to WTO principles continued to be integral to Korea's economic policies and as such, tariffs were reduced to less than 10 % and quantitative restrictions abolished across virtually all sectors (WTO 1996, xxi). Remaining restrictions concentrated mostly on agriculture, where reforms were realised only by international pressures (GATT 1992, 3; WTO 1996, xxiii). This was true in all sensitive areas before 1998 when the Korean government committed itself to continue liberalisation. Later, implementation has been rather consistent without significant slippages. (WTO 1996, xxiv) The customs tariff is Korea's main trade policy instrument and it is adjusted to accord with WTO binding commitments. The average tariff for industrial products is 7.5 % (in 2000), but 50 % for agricultural products, indicating significant tariff peaks (WTO 2000, xix).

Non-tariff barriers have been more problematic than the gradually falling tariffs. There have been complicated licensing requirements, inspections of industrial goods, and many kinds of special laws that allow ministries to control imports (Pecotich & Schultz II 1998, 383). In the aftermath of the Asian crisis, the Korean government succeeded in resisting protectionist pressures and maintaining outward-oriented trade and investment strategy

¹⁵⁷ There was a period called the *Hermit Kingdom* at the end of the 19th century when Korea decided to prevent the opening of the country to the challenge of foreign influence.

(WTO 2000, xvii). Besides external pressures created by the Asian crisis, Korea's trade and related policies have been developed since the mid-1990s in the context of the WTO, IMF and OECD as well as bilateral agreements. For example, OECD membership has forced Korean government to undertake commitments (eg export credits, financial services, shipbuilding) that reinforce its multilateral undertakings (WTO 2000, 27).

Turning to investment policies, the earlier study (Korhonen 2002) has shown that Korea has adopted a rather unique investment policy compared to other NIEs¹⁵⁸. The investment policy change in Korea in 1998 had a significant impact on the inward FDI flows as Korea was the only NIE that increased its inward FDI during the Asian crisis (viz. Appendix 4). There have emerged many attempts to periodise Korean investment policy (eg Korhonen 2001, Dent 2002, Stoever 2002). A comparison of different periodisations is made in Appendix 10, which shows that periodisations are similar although approaches have differed. Among them, Korhonen's (2001) periodisation has remarkable similarities with some later studies that have periodised Korean economic policies as a whole (eg Shin 2003). Korhonen (2001) has suggested a division of Korea's investment policy into five periods, which can be added to by the sixth phase, namely the Recovery phase since 2000. The phases are as follows:

I Export-Oriented Industrialisation (EOI) phase (1962-1972)

The Korean investment policy was established under President Park Chung-Hee's regime. Attracting foreign capital was important because the Korean government chose an outward-looking EOI strategy, which emphasised the role of foreign trade, technology transfer, and FDI. To finance this development strategy, the Korean government created an active international financial strategy based on foreign loans but also on incentives to FDI. The first FDI inducement was directed in Korea in 1962 by an American company, Chemtax.

II Oil crisis phase (1973-1978)

The attitude to FDI became restrictive in 1973 as a result of the first oil crisis. EOI strategy had made the economy highly dependent on overseas markets and the oil crisis showed its vulnerability to external disturbances for the first time. FDI began to play only a minor role compared to foreign borrowing. Technology transfer was set as the primary objective of the Korean government's investment policy, and FDI applications were pushed through a tight screening process. The Korean government was able to direct FDI strategically to enhance technological development: to those industries,

¹⁵⁸ Usually, NIEs are examined as a group due to their significant homogeneity, but investment policy is a field, in which the NIEs represent a whole range of various investment policies: Hong Kong has the most liberal and Korea the most restricted attitude towards FDI, while Singapore has the highest reliance on FDI (see more eg in Korhonen 2002). As such, Singapore is similar to other Southeast Asian countries, which have relied more on FDI and economic integration in their development than their northern neighbours (eg Kettunen & Korhonen 1996).

which supplied high technology, or industries, which generated foreign exchange and jobs. Foreign firms were not allowed to own land and needed a local partner to secure land rights. A local partner was also needed to offer a link to an industrial association and banking system. The Korean authorities preferred joint ventures with minority foreign ownership, but since the mid-1970s, licensing agreements became more important than FDI as a technology source.

III Reform phase (1979-1992)

The long reform phase was characterised by the gradual shift from developmental towards a market economy and from military dictatorship towards democracy. The turning point was the announcement of the Comprehensive Measures for Economic Stabilisation (CMES) in 1979, which aimed to liberalise financial institutions and included measures to promote FDI. (Whang 1991, 90) A 100 % equity share became allowed in many industries for foreign investors and a negative list system of investment approval was adopted¹⁵⁹. The reasons for the reform of the investment policy were twofold as explained by Sakong (1993, 115): the first driving force was the foreign debt, which had grown remarkably during the 1970s and the 1980s making Korea one of the most indebted economies in the world. Secondly, the Korean economy needed upgrading and restructuring as it was characterised by over-investment in heavy industries, market domination by monopolies and oligopolies, and the neglect of SMEs.

IV Segyehwa phase (1993-1996)

Korea's first civilian president announced the Globalisation Era, or *Segyehwa*, in 1994, targeting financial reforms and liberalisation of the economy. The announcement of the *Segyehwa* policy was one of the implementations of the OECD accession plan. OECD-entry, which was going to take place in 1996, was seen as a final shift from a developmental to an open economy. At the beginning of the *Segyehwa* phase, there still existed significant administrative and legal barriers to FDI, but the financial system underwent a deregulation process during this period. In 1993, when OECD membership was not yet definite, the Korean government announced its first-ever Five-Year Foreign Direct Investment Liberalisation Plan. The plan was revised already in the following year in order to increase the extent of the market opening so as to prepare for OECD entry, which was finally confirmed. Despite the loud sloganeering for investment liberalisation, most FDI remained strictly under the Korean government's permission until 1995 (Baang 12.4.1995). The Korean investment policy toward FDI included, for example, restrictions on the permitted level of foreign ownership, and a minimum export performance and local content level. This means that FDI was accepted only on Korean terms, which focused on large capitalisation and technology-based businesses.

V Asian crisis phase (1997-1999)

The Asian economic crisis spread to Korea in November 1997, and already before the end of the year, Korea was forced to ask help from the IMF as the financial crisis transmuted into the real sector and the economy plummeted into a recession. The crisis created a new incentive to encourage FDI due to difficulties in getting foreign loans. Also the IMF strongly suggested FDI as a way to increase foreign reserves and accelerate corporate sector restructuring. As a result of the weakening Korean currency, falling real estate prices, and liberalised investment policy, Korea became suddenly an attractive target for foreign investors who were eager to make profits due to the sharp devaluation of the Korean currency. However, Korean companies, which had been known for their heavy external debt and improper payments to obtain loans, were still rather reluctant to reduce their debt and raise capital by selling shares in their companies to foreigners.

¹⁵⁹ The negative list included the prohibited industries and thus, an industry not on the list was open to FDI. In the old system, FDI was allowed only for industries specified on the list. (Sakong 1993, 115)

Instead, they seemed to want to increase their capital through additional loans until economic conditions improved.

The investment liberalisation policy can be seen as a continuation of the *Segyehwa* policy as it includes many of the same elements. Liberalisation was started by institutionalising internationally accepted rules and practices and guaranteeing the continuity of the investment liberalisation process (Ro 6.10.1999). The new Foreign Investment Promotion Act (FIPA), the most important legislative base for FDI, came into force in November 1998. It changed the focus of FDI legislation on support and promotion of FDI instead of the old laws, which were regulating and administering FDI. In addition, FDI procedure was simplified, as the government's acceptance of a FDI notification, was no longer required. Investment incentives, such as exemption from corporate taxation for the first years in operation and the exemption of acquisition, registration, property and aggregate land tax, were introduced. Licensing and joint ventures that had been the first step of an entry strategy for foreign investors in Korea, were no longer a requisite as the ceiling on foreign equity ownership of local companies was eliminated. (Choi 31.5.1999) Consequently, many conditions, which had prevented M&A transactions that allow a 100 % takeover of most companies, were eliminated.

VI Recovery phase (since 2000)

Since the Asian crisis, Korea has been the third largest Asian recipient of FDI, but it has also faced hardening competition for international investment. In the post-crisis phase, the Korean government has aimed to maximise the economic externalities generated by FDI, such as advancing the industrial structure, economic growth, creating employment, enhancement of exports and regional regeneration (Lim 2001, 2). The objectives have been similar to the *Segyehwa* phase, although the means and volumes are different.

Incentives offered by the Korean government are mainly fiscal in nature, notably tax reductions and exemptions, which are basically the same for all TNCs. However, incentives are restricted only to TNCs, which are expected to create large economic spin-offs on associated industries and create high value added, or have sophisticated technology. Thus, incentives do not play a significant role in attracting FDI. Instead, other economic reform measures, especially the allowance of M&A, have contributed more to the high level of annual FDI flows. However, as the Korean government's main objective in terms of FDI is to advance the industrial structure and create employment, investment policy measures are supposed to focus on greenfield rather than M&A type investment. (ibid., 44-45, 55-57) There are about 10,000 foreign companies doing business in Korea, among which about 2,900 have invested there, but Koreans may still be embarrassed to see foreign investors taking over domestic companies. Thus, events, such as the Foreign Company Day, are introduced and needed in order to build confidence among Koreans and foreigners.

Periodisation indicates that the Korean government's investment policy has been reactive to external shocks, rather than the result of a careful analysis of the country's best interests in general. External pressures created the momentum to reconsider the investment policy. Depending on the internal situation, the direction of change was either restrictive or supportive. Thus, at different times, the Korean government made very different decisions in similar conditions (eg the oil crisis was responded to by a restrictive investment policy while the Asian crisis was responded to by liberalisation). Whatever the

role of the Korean government at a particular time, it has been successful in keeping in mind continuous economic growth. (Korhonen 2001)

Political risk in Korea

The characteristics of the political environment in Korea can be concluded from the perspective of political risk by using the general framework for political risk assessment by Simon (1982, 67), as shown in Table 8. Major risks are governmental by their nature, and there exist only a few societal sources of internal political risks in Korea. Furthermore, the governmental sources of internal political risks have decreased considerably in the aftermath of the Asian crisis, which resulted in change in economic policies, including investment policy. Korea's engagement in the multilateral level agreements, especially since the mid-1990s, has also decreased the micro-level risk caused by external governmental sources. The most significant political risk is related to the tensions in the Korean peninsula, which have not disappeared along with the end of the Cold War.

Table 8 Political risk assessment of Korea

		Macro		Micro	
		Societal	Governmental	Societal	Governmental
Internal		<ul style="list-style-type: none"> - labour disputes - xenophobia 	<ul style="list-style-type: none"> - political instability - bureaucratic policies - restrictive investment policy (until 1998) 	<ul style="list-style-type: none"> - occasionally selective protests and national boycotts towards Japanese and American firms and products 	<ul style="list-style-type: none"> - restrictive investment policy - discriminatory taxes - local content and hiring laws - industry-specific regulations - subsidisation of local competition (all basically until 1998)
	External		<ul style="list-style-type: none"> - end of the Cold War - border conflicts with North Korea - unification question - high foreign debt (until the end of 1980s) - vulnerability to economic fluctuations 		<ul style="list-style-type: none"> - occasional diplomatic stresses - engagement in the multilateral level agreements (since the mid-1990s)

Source: adapted from Simon (1982, 67) to the case of Korea.

With regard to quantitative risk classifications, Korea is a low risk country with only slight temporal fluctuation due to the Asian crisis at the end of the 1990s. The low risk position is visible in various credit ratings that refer to an assessment of how willing and able a company, bank, or government is to repay its debts. For example, Finnvera¹⁶⁰ has classified Korea in the same class since 1980 with the exception of 1998-1999. In Asia, there are only three countries in class 1 (very low risks), namely Japan, Singapore and Taiwan. Korea cannot reach the first class due to the unsolved North Korean question. Instead, Korea has been in class B, equivalent to present day class 2 (low risks)¹⁶¹. From the firm's perspective, there is practically no difference whether the target country is in class 1 or 2. Only during the Asian crisis, conditions were set.

In March 1998, the creditworthiness of five Asian countries, namely Korea, Thailand, Malaysia, Indonesia and the Philippines decreased. In the case of Korea, the decrease from the class 2 to class 3 (relatively low risks) was temporary as it was lifted back in February 2000. This is different from Thailand, Indonesia and the Philippines, which have remained permanently in lower classes since the crisis and therefore, Korea is not comparable with them in terms of country risk. (Pakkala 8.12.2003) The international sources, such as Euromoney and Institutional Investor have treated Korea as similar to Finnvera (see Appendix 9).

Altogether, the Korean government has shifted the economy from a developmental market system towards a liberal free market system. According to Shin (2003, 193-205) Korea can be characterised as a developmental state in 1961-1979, until the announcement of the CMES; developmental state in transition in 1980-1992; and competitive state since the launch of the *Segyehwa* policy in 1993-1997. As the Asian crisis required strong government intervention, Korea can be recognised as a regulated competitive state since 1998. The Korean government has gradually given up its earlier strong control of the economy as long as economic growth is continuing, but seems also to be able to catch up again if needed. The major political risk is due to the unsolved North Korean question.

¹⁶⁰ Finnvera, a financing company of the Finnish state promoting internationalisation of Finnish firms since 1963, assesses the creditworthiness of countries involving political risk.

¹⁶¹ Finnvera's country classification has developed through the years. The present 1-7 classification was established in 1998 according to new OECD rules.

5.4 Patterns of foreign direct investment in Korea

In both the inward and outward investment patterns, Korea has followed the Japanese example¹⁶². The level of inward investment (eg FDI as a percentage of GDP) in both countries has remained low by international standards, and both countries are categorised by UNCTAD (2003, 12-14) as below potential countries with a high FDI potential but low actual FDI performance. In Japan, foreign capital restriction policies have been carried on since the 1950s. In addition, relatively high operating costs and a difficult market have hindered FDI.

Both Japan and Korea started to invest abroad on a large scale as soon as their EOI policy had resulted in current account surpluses. In Japan, this happened in 1972¹⁶³ and in Korea in 1986. Under tight restrictions of the home government, Japanese and Korean companies utilised an opportunity to gain more freedom by implementing international activities, such as outward investment. (Sakong 1993)

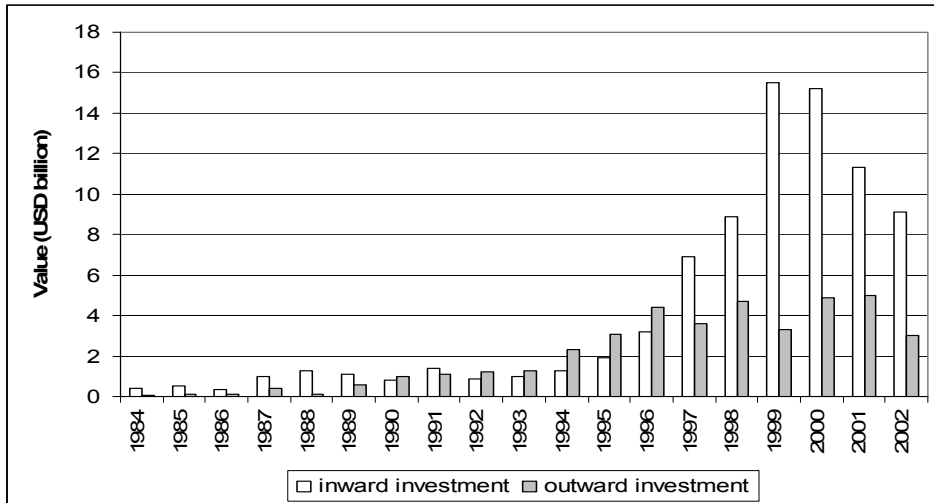
Applying Dunning's (1993) developmental cycle model that was discussed in Chapter Two, it can be noticed that Korea follows the model rather well. The first phase of the model, namely low levels of inward and outward investments, might refer to the period of 1962-1979. Inward investment was engaged for the first time in 1962 and outward investment in 1968. The second phase of the model is characterised by market growth and enhanced human capital that raise the inward investment while outward investment stays at a low level, and it might refer to the period 1980-1993. This is because FDI in Korea started to accelerate in 1980 and in 1987, exceeded USD 1 billion. This growth was, however, followed by a stagnant period. With regard to outward activities, Korean companies started their investment abroad on a large scale in 1986. The development

¹⁶² A comparison of Korea to Japan is justified because the economic development of Korea and other NIEs is often explained by the flying geese development theory, which shows how Japan has led the economic growth in East Asia. According to theory, Japan has been the leader in economic development and it is well out in front with NIEs following Japan's model. The flying geese development theory has its roots 1930s, but it was popularised in the present context by Okita (1989).

¹⁶³ Later, Japan has become the largest international investor in the world economy. In the initial phase of Japanese outward investment, in the first half of the 20th century, Japanese investment was directed almost solely to its Asian colonies. Later, there has been a change in the geography of Japanese investments as the share of East and Southeast Asia has declined since the 1980s, and North America and Europe have increased their importance as an investment destination of Japanese firms. Since the 1980s, when NIEs started their large-scale outward investment, their investment patterns have followed the Japanese model. Among the NIEs, Korea and Taiwan have invested mainly in the United States (about one third of their investment) and East and Southeast Asia (about 40 %). Hong Kong and Singapore are more strongly oriented in East and Southeast Asian region.

paths of both inward and outward investments since the mid-1980s are illustrated in Figure 18.

Figure 18 Inward and outward direct investment flows in Korea (1984-2002)



Source: Ministry of Finance and Economy of Korea.

The third phase of Dunning's model refers to the role of both inward and outward investments in an economy, which has reached an intermediate level of industrialisation. Korea entered this phase in 1994, when FDI started to increase exponentially. Saturation was reached in 2000 after which annual flows have declined due to the slowdown in the world economy and the overall decrease in cross-border mergers and acquisitions (M&A). In 2001, Korea was the third largest FDI destination in Asia after Hong Kong and China. Despite the fast growth pace of FDI in the 1990s, the ratio of FDI to GDP remains low after increasing from 2.6 % in 1996 to 6.1 % in 1998¹⁶⁴.

Outward investment increased rapidly since 1994 until the Asian crisis, but the investment ratio remained somewhat low due to the divestment patterns of Korean TNCs. The Asian crisis forced Korean companies to sell off non-core activities abroad

¹⁶⁴ The Asian crisis in 1998-99 had a significant influence in FDI in East Asia in general. In 1998, world FDI inflows grew exceptionally by 37 %, despite a slow-down in world economic growth. Actually, the growth rate was the highest since 1987. However, the Asian crisis resulted in a 32 % decrease in FDI inflows into the group of NIEs. Within the group, FDI flows into Singapore, Hong Kong and Taiwan decreased 50 %, while Korea's inflows increased by 55 %. Thus, Korea was the only country to increase inward investment following the outbreak of the crisis. The explanation lies in liberalisation of Korean investment policy in 1998. (See more in Korhonen 2002)

and led thus to a reduction in foreign assets. Altogether, Korea has not entered the fourth phase of Dunning's development model in which outward investment exceeds the inward investment. It is probable that the intensifying Sino-Korean relations will eventually lead Korean firms to compensate for the location disadvantages of Korea and utilise the location advantages of China by engaging more outward investment. Thus, Korea would develop towards the fourth phase and finally enter also the fifth and final phase during which both outward and inward investments are on a high level.

At the end of 2002, the cumulative FDI in Korea exceeded USD 77 billion. In 2004, it exceeded USD 100 billion and the number of investment cases reached 29,999 of which over 82 % were engaged since the end of 1997. (MOCIE 2004) The dominant investors are firms from Korea's major trading partners, the United States and Japan. However, since the 1990s, their relative share has been decreasing and the regional pattern of FDI has become more diversified. In 2001, annual FDI flow in Korea from the EU exceeded Japan for the first time and FDI in Korea became rather evenly distributed between the United States, EU countries and Japan¹⁶⁵. This reflects the global pattern of FDI, as the EU has become the largest source of FDI stock in the world (UNCTAD 2003, 23).

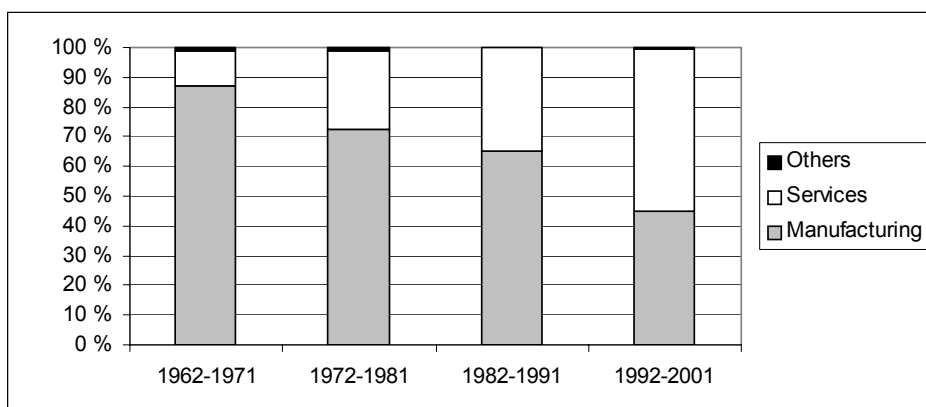
In the early phase of development, FDI in Korea was mostly international market oriented FDI using Korean sites as export platforms. This kind of export-oriented FDI was accepted by the Korean government as it reflected the principles of the EOI policy. In the 1980s, Korea started to lose its comparative advantage in labour-intensive industries and built new, more knowledge-intensive industries. In FDI, the loss of low labour cost advantage resulted in a shift away from international market oriented FDI. At the end of the 1990s, following the liberalisation of Korean investment policy, most FDI in Korea belongs to the group of local market oriented investment attracted by the increased purchasing power of Korean consumers.

¹⁶⁵ In the early phase of the investment, 1962-1978, almost 60 % of FDI in Korea was engaged by Japanese firms and only 19 % by American firms. This is because Japanese invested in Korea in order to export the products back to Japan or a third market and the investments were small and could be moved easily to different locations. Thus, they were less sensitive to the requirements of the Korean government that favoured joint ventures over the wholly-owned subsidiaries and required a substantial part of production to be directed to export. This is different from American companies that predominantly aimed to sell the products on the host country market and preferred majority ownership. (Park 1985, 121)

By industry, most FDI in Korea has been directed to industries preferred by the Korean government, as it used to approving only FDI, which contributed positively to national economic objectives. Electricity and chemicals industries, which have stayed among the most important sectors already since the 1960s, are good examples. FDI in the electronics industry was allowed because it created additional exports. Investments in chemicals, machinery and metals were allowed because they supported import substitution strategies, which were used selectively with EOI strategy. In addition, chaebols had weaknesses in these industries.

FDI in services started to accelerate in the 1970s, as can be seen in Figure 19, and it exceeded the manufacturing sector at the end of the 1990s. As such, FDI in Korea reflects the global pattern of FDI, which has shifted towards services, accounting for about 60 % of world FDI stock and two-thirds of total FDI inflows in 2001-2002 (UNCTAD 2004, xx). In Korea, hotel and financing became important sectors for FDI already in the 1970s, and they have had a significant role since then. Especially the 1986 Asian Games and the 1988 Olympic Games necessitated the construction of hotel accommodation in Korea (Sakong 1993, 118). Transport equipment became a significant sector in the 1980s, while trading, wholesale and food did so in the mid-1990s.

Figure 19 Foreign direct investment in Korea by industry (1962-2001)



Source: Ministry of Finance and Economy of Korea.

With regard to entry modes, joint ventures used to be the first step of an entry strategy for foreign investors in Korea. However, since 1998, there has not been any ceiling on the foreign equity ownership of local companies and thus the share of M&A type investment has increased significantly (Choi 31.5.1999). In 1998, M&A type investments accounted already for 53 % of the total annual FDI inflow, compared to only 10 % before. (Lim 2001, 14) Another example of rapid change is the fact that M&A type FDI increased from USD 1 billion in 1997 to USD 13 billion in 1999 (Mody & Negishi 2001). During the Asian crisis, many foreign joint venture partners in Korea bought their domestic partners' shares in order to assume independent management. Korean firms in their turn were short of funds and were willing to turn over their shares to their foreign partners. (Korea News World 1998) Furthermore, investment liberalisation did not only attract new-comers to Korea but enhanced sequential and repeat investment from those foreign firms that already operated in Korea¹⁶⁶. After the Asian crisis, repeat investment accounted for almost half of the total FDI in Korea and showed a steady increase (Ahn 1999, 20).

Until 2002, over 2,900 foreign firms had invested in Korea. For example, all the ten largest companies in the world are present in Korea: Exxon Mobile, Wal-Mart, General Motors, Ford Motor, Daimler Chrysler, Royal Dutch/Shell Group, BP, General Electric, Mitsubishi and Toyota. Many foreign TNCs belong to the group of largest exporters in Korea, such as Nokia TMC with exports of over USD 2 billion annually (Chosun Ilbo 21.4.2002). However, the foreign companies still occupy less than 10 % of the country's entire export revenue.

To summarise the FDI pattern in Korea, it can be noticed that Dunning's (1993) developmental cycle model can be applied to the Korean case by distinguishing the first phase in 1962-1979, the second phase in 1980-1993, and the third phase since 1994. Along with these phases, resource-seeking and production efficiency seeking FDI has been largely replaced by market-seeking and knowledge-seeking FDI, which indicates the development of Korea from a developing country to an advanced, rich country. However, in this process, the role of FDI has been small.

¹⁶⁶ Sequential investment refers to an additional investment by a foreign firm in the same host country where it had invested earlier. The aim is to establish multiple units there. Repeat investment means an additional investment by a foreign firm in the same host country and the same unit where it had invested earlier. The aim is to maintain or improve the competitiveness of the unit.

Regional distribution of foreign direct investment in Korea

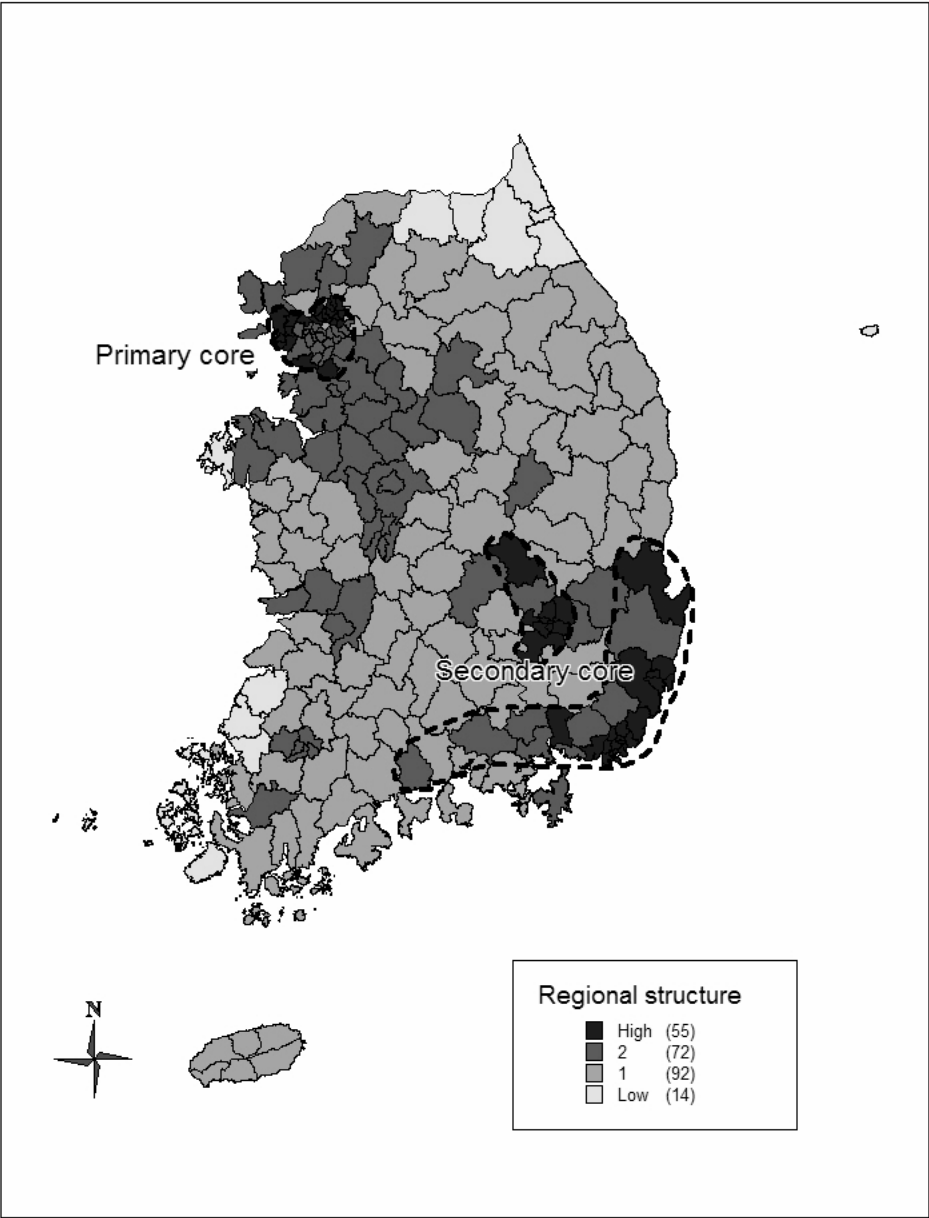
In order to analyse the regional distribution of FDI in Korea, the FDI inflows have to be compared with regional characteristics. Regional studies have often used economic growth, agglomeration externalities, and investment incentives as determinants to explain the regional distribution of FDI. However, as FDI is directed to regions at different times, the above-mentioned regional characteristics easily lose their power in explaining realised FDI. In the following, the starting point has been the general argument that in developed countries, FDI patterns tend to follow industrial activity in general. Thus, industrial activity has been used as a regional variable to be compared with FDI inflows, and it has been measured by the region's share of GDP. The regional variables used in the earlier study (Korhonen 2001) have been updated and the discussion is supported by other relevant studies (eg Chon 1992, Douglass 2000).

The economic structure of Korea is strongly bipolarised into an axis connecting the metropolitan region and the Southeastern industrial belt, as shown in Figure 20 in the next page. This is because after the Korean War (1950-53), the existing infrastructure and industry were concentrated almost solely in Seoul and Busan, which naturally attracted new economic activities. In the 1960s, light industry, and the textile industry in particular, began to play a major role in Korea's economic development. These industries were concentrated especially in Seoul and the surrounding region including Incheon, which further strengthened the role of the metropolitan region.

Since 1973, the Korean government started aggressively to promote the machinery, metals, and electronics industries and they were heavily located around Busan. Access to the sea became increasingly important for export-dependent Korea and the political power structure of the Korean government further enhanced this development¹⁶⁷. As a result, most of the large industrial parks for the heavy and chemical industries were established in the southeastern coastal areas, such as Ulsan for automobile, shipbuilding and petrochemical industries and Pohang for iron and steel-related industries. The concentration of the chemical industry in Yeosu, in the South Jeolla province, was an exception from the bipolar industrial map of Korea. (Chon 1992, 156, 165-166)

¹⁶⁷ From 1961 to 1998, all Korean presidents originated from the southeastern part of Korea and they were blamed for allocating benefits to that area at the cost of other parts of the country. During that period, unusually large numbers of people from the Gyeongsang provinces entered high positions in government, business and politics. (Chon 1992, 165-166)

Figure 20 Korea’s regional structure



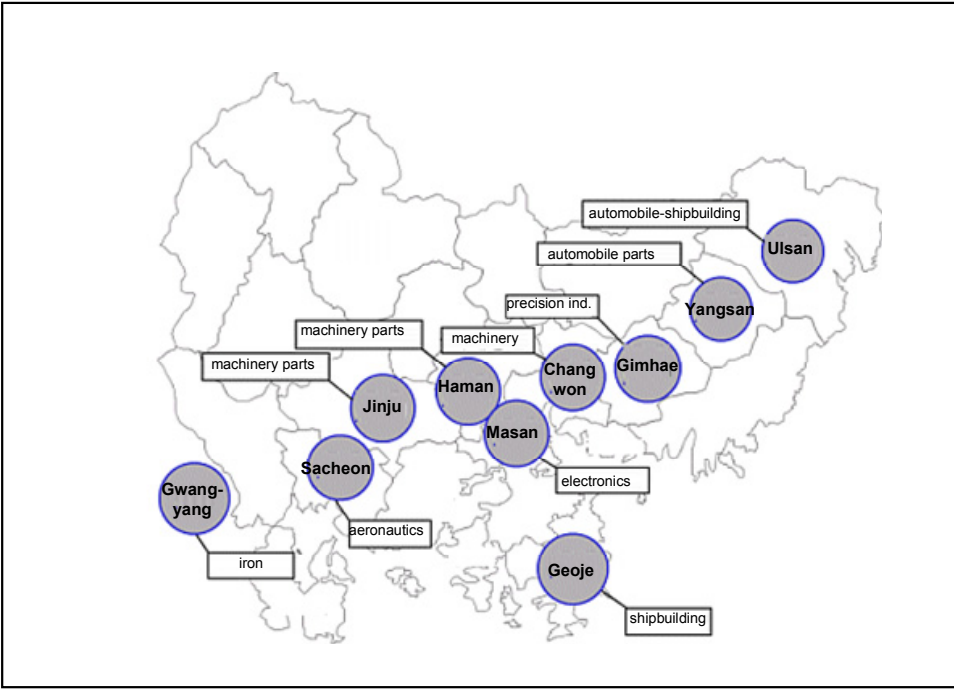
Source: Kim et al 2001, 17.

Note. The regional structure is based on the value of mineral and industrial output in Korea in 1999. “High” refers to the regional output of over KRW 10 trillion, while “low” refers to an output of less than KRW 100 billion. The number of cities and counties is shown in parentheses.

Thanks to the Korean government’s growth pole strategy, part of the first national development plan (1972-1981), industries dispersed from the southeast coast to the

nearby provinces. For example, South Gyeongsang province hosts Korea's largest industrial complex in Gumi, specialised for the textile and electronics industries, and the machinery and military industry complex in Changwon. Another reason for the emergence of the secondary core in the southeastern region (viz. Figure 21) was the need of the Korean government to guarantee the security of the most important industries by locating most of them south of the 36th parallel, as far from North Korea as possible. (Park 1991, 82; Chon 1992, 158-159; Markusen & Park 1993)

Figure 21 Industrial clusters in South Gyeongsang – Ulsan region



Source: Brain Korea 2001.

When preparing the second national development plan (1982-1991), the Korean government confessed that the growth pole strategy would require such large socio-economic costs that it was not possible to realise it as a whole and thus, the strategy was replaced by an equalisation strategy, through which it was hoped to fix the imbalances caused by the growth pole strategy. As a result, most high-technology activities and R&D centers reconcentrated on the Seoul region (Park 1991, 82). At that time, many activities of Seoul had already started to expand into the surrounding Gyeonggi province.

In the early 1990s, the government made a conclusion that the earlier regional plans had worsened the regional imbalance further. The southeastern part of the country had experienced deindustrialisation and the development was repolarised in the capital region (Douglass 2000, 16). The aim of the third national development plan (1992-2001) was thus to revise the trend by decentralising activities away from Seoul, directing development to the west coast, and improving transportation. The west coast became an increasingly important region due to the growing links across the Yellow Sea to China. Taking note of Korea's political culture, it is also possible that the roots of the then President Kim Dae-Jung in the coastal city of Mokpo in South Jeolla province gave an additional boost to the development of the southwestern region of Korea.

According to Douglass (2000, 18), the Asian crisis was a turning point in Korea's space-economy influencing repolarisation of the capital region at the cost of the other areas. The gross regional domestic product (GRDP) figures from the period 1998-2003 show that this tendency has continued: among the 16 regions, only Seoul, Incheon, Gyeonggi province and South Chungcheon province have increased their GRDP, while the other regions have declined (Korea Statistical Information System 2004) (See Appendix 11).

The Asian crisis that resulted in the change of the investment policy has had a profound impact also on regional settings in Korea. First of all, investment liberalisation together with the restoration of local autonomy that took place in 1995 enabled provincial administrations to actively encourage foreign investments¹⁶⁸ (Korhonen 2001, 116-121). Since 1995, the local officials are no longer appointed by the central government but elected and thus, they have become more dynamic and responsive to influence their local concerns. Earlier, FDI decisions were made between foreign businessmen and central government officials in Seoul as provincial administrations were not allowed to grant tax incentives or concessions to foreign investors. (Korea Bi-weekly 15.12.1998) The excessive competition on international investment has, however, led to rivalries

¹⁶⁸ Korea has a long history of local autonomy, but during the Japanese Colonial period the power was concentrated on the central government. In the reconstruction era (1953-1960) there were attempts to restore the local autonomy and the Local Autonomy Law was enacted in 1949. In 1961, however, General Park Chung-Hee's government dismantled local autonomy. Despite the promises of Presidents Chun Doo-Hwan and Roh Tae-Woo, local autonomy was not restored before 1995 when the Kim Young-Sam administration held the first local elections. Today, central government still has strong control over the local governments as the long break from the 1940s to the 1990s had resulted in the weak status of local government. Central government has decentralised only a few administrative functions.

between cities and provinces and thus, there have emerged concerns that the current system of investment policy waste resources (Douglass 2000, 21; Lim 2001, 55).

Secondly, several locations have been opened to host international investment in order to make Korea a hub in Northeast Asia (Douglass 2000, 19). In addition to the old EPZs in Masan and Iksan, Gunsan Free Trade Zone was opened on the west coast in 2001. It is in close proximity to Chinese cities across the Yellow Sea and has been planned to correspond with the China's coastal development strategy (Joh 1994). There are also customs free zones at the ports, industrial parks exclusively for foreign firms, and other pre-designed and established industrial parks in special areas for TNCs. The Korean government has started to support large-scale FDI projects in areas, which TNCs choose by themselves in co-operation with local governments. The central government is going to support local governments to attract FDI by providing funds for the development of Foreign Investment Zones (FIZs), capital for land purchasing (to be further rented to TNCs), and subsidies for job training and other related purposes. This system is aimed at making local governments more competitive and capable of inducing FDI and offering various better incentives to foreign investors. (MOCIE 1999, 36) As the FIZ is a new concept in Korean investment policy, the success of the FIZs remains to be seen.

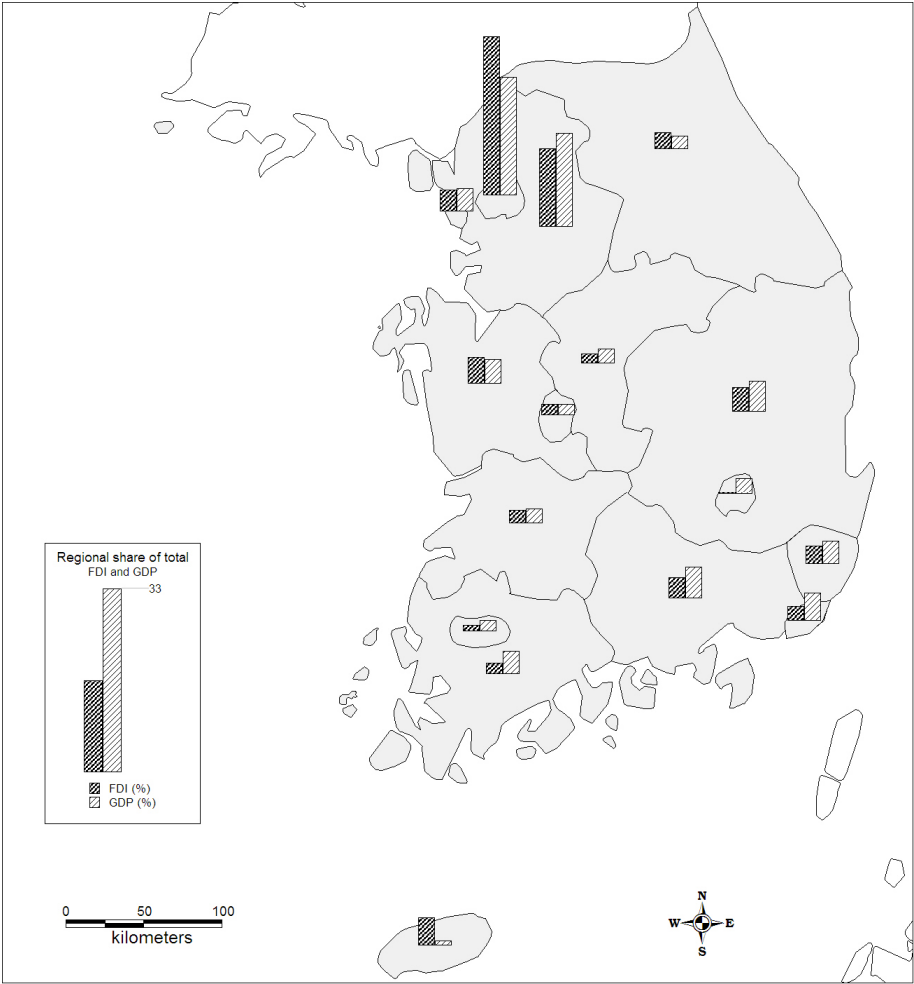
Thirdly, the Asian crisis resulted in the relaxation of the regional-based disputes among the governing and opposition parties. As Korea's political power structure had earlier been based on the strong position of the political elite from the southeastern provinces, there was a fear in 1998 that President Kim's government would seek advantages for the southwestern region that formed its constituency area. The last presidential election in 2002, however, showed that the regional disputes had lost most of their role in Korea's political life.

In Korea, where the national development plans have not been able to adjust the persistent regional imbalance, efforts have been made to solve regional problems by investment policy. However, FDI flows have further strengthened the existing regional structures, not reduced imbalances (Korhonen 2001, 121). This is visible in Figure 22, which shows that the majority of FDI is located in and around the capital¹⁶⁹. The capital region accounts 49

¹⁶⁹ The capital region consists of the cities of Seoul and Incheon, and the surrounding Gyeonggi Province.

% of GDP, and 53 % of cumulative FDI. Especially the attraction of Seoul is superior as it hosts 33 % of all FDI in Korea. The investment inducements are smaller in Seoul than the average FDI inducement in Korea (USD 5,229,000), but the number of investment cases is higher than in the other regions (about 7000 cases from totally 12,000 cases).

Figure 22 Regional gross domestic product and the share of cumulative foreign direct investment in Korea (2002)



Source: Korea Statistical Information System, Ministry of Commerce, Industry and Energy.

The high shares of FDI in capital regions are reflections of the rational decision-making process in any TNC as they prefer to locate their production in the area having the highest intensity of economic activity and the most developed infrastructure. However, this kind of strong concentration in the capital city is usually identifiable in developing countries,

rather than developed countries (Dicken 1998, 219). Besides Seoul, the role of surrounding Gyeonggi province has increased from 9 % of FDI in 1999 to 16 % in 2002. Also Incheon has experienced an increasing trend in FDI.

The spatial pattern of FDI reflects also the bipolar economic structure of Korea. The Southeastern region¹⁷⁰, the second largest industrial agglomeration in Korea, accounts for 22 % of GDP and 15 % of FDI. In comparison to other areas, except the capital region, The FDI share is high reflecting the tendency of FDI to be concentrated on the core areas. As the FDI statistics are not available for smaller statistical units than provinces, the actual distribution of FDI within the provinces remains unsure. However, a comparison of Figure 20 and Figure 21 with Figure 22 suggests that the attractiveness of the Southeastern region is due to the specialised industrial districts, accessibility to a major national highway and railway, and deep harbours located in the region, such as Pohang New Port. Thus, there is no reason to doubt that the industrial clusters in the Southeastern part of Korea have received the largest single investment inducements in Korea, while the other parts of the Southeastern provinces have not attracted significant FDI flows.

The share of Busan (3 % of total FDI) remains low compared to its status as the largest harbour in Korea. This may reflect the absence of large industrial sites in the cities, but especially the high real estate prices. Most of the industrial land in cities is already fully utilised and provides no space for expansion. In addition, in Busan, the development efforts are focused on port facilities in order to create a hub for Northeast Asia, not attract FDI as such (Korea IT Times 3/2004).

Besides the capital region, South Chungcheon has experienced increasing FDI flows and its share of total FDI was 5 % in 2002. The reasons for improvement may lie in the proximity of the capital region as well as the trans-peninsula transportation lines, which pass through the region. Furthermore, numerous industrial sites have been constructed especially on Asanman Bay on the Yellow Sea coast, including the Asan Industrial Complex. Asan Port is the second largest port on the west coast after Incheon.

¹⁷⁰ Southeastern region, or Yeongnam (영남), consist of the cities of Busan, Daegu and Ulsan as well as the surrounding North and South Gyeongsang Provinces.

The relative increase of FDI has been fastest in the periferial regions of Gangwon and Jeju. Gangwon province with its rugged mountains has been left isolated from other parts of the country mostly due to the DMZ, which divides the province and is seen as a possible area for military action. However, it has lured more FDI (4 %) than its relative position in terms of GRDP (3 %). Similarly, Jeju province, an island located well from the Korean peninsula, which is isolated due to its distance, has rapidly become an attractive investment destination luring even 6 % of FDI although it forms only 1 % of GRDP. The success of Jeju and Gangwon is basically based on FDI in tourism.

As the capital region together with nearby South Chungcheon province, the core of Korea, has attracted the largest and increasing proportion of FDI, other regions are lagging behind. Also their GRDP figures have been declining since the Asian crisis. According to Douglass (2000, 18), Seoul recovered faster from the crisis than the other regions because the chaebols survived the crisis by cutting orders from their subcontractors, many of whom were located in other provinces. He argues also that the bailouts and M&A favoured corporate operations and sectors located in Seoul.

The long distance to core areas and international waters decreases the attractiveness of the other regions. For example, North Chungcheon is the only landlocked province in the Korean peninsula and this fact may harm at least its exports. Also its share of FDI remains low. Despite its maritime location, the Southwestern region¹⁷¹ has suffered for a long time from poor transportation and communication contacts with the urban and industrial regions. However, it has enjoyed the fertile conditions for wet-paddy rice cultivation, and thus, served Koreans as a rice belt. The importance of the region started to increase rapidly in the 1990s, thanks to the accelerating links across the Yellow Sea to China after Korea and China had established diplomatic relations in 1992. New industrial sites have been constructed especially in Gunsan and Mokpo along the coast. The need to utilise land effectively has led to the construction of these industrial sites on the shores, swampy lands, wastelands and the sea itself and thus, the sites expand the land of the Korea by millions of square meters. (Lee 22.10.1996) This kind of land development is easier in the rugged west coast than the deep east coast. The development of existing ports and the establishment of new ones on the west coast has

¹⁷¹ The southwestern region, or Honam (호남), consists of the city of Gwangju, and the surrounding North and South Jeolla Provinces.

resulted in a lively port-to-port relationship with China. Although South Jeolla has long lagged behind the rest of the country in terms of accessibility and economic development, it has been considered as the most important development corridor in Korea's future national development scenarios (Lee 19.5.1994). The region accounts for 10 % of GDP, and 6 % of FDI.

With regard to special economic zones (SEZ), Korea is similar to developed countries as the Korean export processing zones (EPZ) do not attract FDI anymore. The establishment of EPZs at the beginning of the 1970s reflected the investment-friendly atmosphere of the EOI-phase of investment policy. Masan EPZ reached its zenith in the mid-1980s, but since the end of the 1980s, both employment and exports fell drastically. The Korean experience of the EPZs taught that the transfer of technology did not occur to a significant extent. Nevertheless, Basile and Germidis (1985) once regarded Masan Free Export Zone as the most successful in Asia. By the late 1970s, the Korean government was no longer interested in attracting new foreign firms through EPZs, as Korea had experienced a gradual shift away from labour-intensive light manufacturing activities that the zones used to attract. Moreover, Korea's investment-friendly atmosphere had become restrictive.

Recently, the Korean government has made plans to expand the two zones in Masan and Iksan to house a wider range of businesses, including distribution companies and financial institutions¹⁷². Efforts are being made for the zones to develop to combine the network of production, trade and distribution. Foreign-invested manufacturers will get first priority in setting up operations inside the zones. It remains for the future to see whether the Korean government and the local governments will be able to reactivate the EPZs. A positive signal in that sense is the establishment of the new Gunsan Free Trade Zone, which was opened in 2001. This zone is planned to serve as a base for supplying Chinese and Southeast Asian markets with materials and parts for machinery and automobiles. In addition, there are four industrial parks established for foreign firms, to which the foreign firms have already moved in Cheonan.

¹⁷² In 2002, Masan EPZ, which is the larger of the two EPZs, had 30 foreign companies, 14 joint ventures and 33 domestic companies, most of which export 98 % of their total production. Among them are TNCs such as Sony, Sanyo, Nokia, Casio, and Citizen. Of 44 foreign and joint-venture enterprises, 36 are Japanese. Others originate from the United States, Germany, the Netherlands, Finland, Singapore and Taiwan. The Iksan Free Export Zone, which links up Gunsan Harbour in the Yellow Sea Rim, is much smaller than Masan, as there are only 26 companies. There are only 6 foreign-invested or joint-venture enterprises.

Foreign companies started to buy real estate in Korea as soon as the market was opened to foreigners in 1998. The biggest portion of land was sold to foreigners in 1998-2000, right after the Asian crisis at buyer-friendly prices. Altogether, foreigners own 143 million square meters of land and its located basically in Gyeonggi (20 %), South Jeolla (20 %), Gangwon (10 %), North Gyeongsang (8 %) and South Chungcheon (8 %). (Korea Herald 14.2.2003) Only 1.8 % of the total is located in Seoul. This is probably due to high prices in the Korean capital compared to more peripheral industrial districts. In fact, in the survey of 80 foreign companies by the Korea Research Institute for Human Settlements (KHRIS), land price or rent was considered the prime factor in choosing where to locate the site. Other considerations were market accessibility and traffic conditions. (KISC 2003) By number of the firms, 88 % of foreign firms are located in Seoul, where the most popular district is Gangnam¹⁷³. Also the areas of Ansan and Pocheon in the surrounding Gyeonggi province, as well as the district of Namdong in Incheon are favoured by foreign investors. In the other parts of Korea, EPZ in Masan and the industrial cluster in Gumi¹⁷⁴ have attracted a relatively large number of foreign companies. (KISC 2003)

To sum up, the spatial pattern of FDI in Korea follows the industrial activity, which has agglomerated bipolarly to the primary core in the capital region and secondary core in the Southeastern region. Korea still has the typical structure of developing countries: the attraction of the capital city is superior and a great majority of FDI has been directed there. This is because the regions having the highest accessibility are the most attractive in terms of economic activities, including FDI. Good connections to other regions provide convenient access to various resources and the labour force as well as markets for the commodities produced in the regions. Investment liberalisation, together with the restoration of the local autonomy, is likely to result in more democratic and self-autonomous regional politics in the near future, but also more fierce competition for FDI. However, local decision-making is likely to remain marginal due to the strong tradition of centralised government.

¹⁷³ Gangnam district, located in the southern part of Seoul, has nickname of “Silicon Valley of Korea”, which has led to the use of names such as “Teheran Valley” according to the main street Teheran-no. (It was proposed by the leaders of Iran in 1977 to name streets according to each other’s capitals. Thus, there may be Seoul Street in Teheran as well.) Gangnam has become a cluster of ITC firms, finance and insurance companies, and the headquarters of various kinds of firms. These firms have also attracted supporting services from lawyers, consultants and business incubators. Gangnam is recognised as the best Korean district in terms of infrastructure.

¹⁷⁴ The Gumi industrial complex, launched in 1972, has 42 foreign firms operating with a combined investment of USD 2.9 billion (in 2003).

5.5 Summary: Korea as a host country for foreign direct investment

The aim of the present chapter has been to introduce Korea as a host country for FDI. Discussion is based mostly on description, reasoning and earlier studies (eg Korhonen 2001, Stoever 2002; see more in Appendix 10). The main emphasis is put on the location conditions that are the same for all TNCs aiming to invest in Korea. There have been some major changes in all parts of the firm's external environment in Korea. In the present chapter, special attention was drawn to changes in the political environment of the firm in Korea. The major changes in location conditions that took place during the 1990s have been collected in Table 9.

Table 9 Change in location conditions in Korea

	Major location conditions in Korea prior to 1990s	Major changes of location conditions in Korea in the 1990s
Natural environment of the firm	Hub location, mild climate, no natural resources, low risk of natural hazards, importance of maritime transportation in the absence of mainland connections, shortage of land	Increase in environmental awareness
Cultural environment of the firm	Non-transparent business culture, collectivism, low level of internationalisation, xenophobia, inequality	Change towards transparent, open and international business culture, and more individualist and equal society
Economic environment of the firm	Strong growth, balance of payments problems, dominating manufacturing sector, incomplete internationalisation (eg in financial sector), high savings rate, one of the most heavily indebted countries in the world	Change away from balance of payments or debt problems, matured economy in which the service sector has exceeded manufacturing and the market is consumer-oriented high income market, savings rate has deteriorated
Demographic environment of the firm	Large and increasing population, low income level, availability of trained low-cost labour, shortage of amanufacturing labour force	Population growth has slowed down, wage level has increased significantly, labour has become even better educated
Technological environment of the firm	Imported and applied technologies, sufficient infrastructure, low level of R&D	Change towards locally invented technologies and suitable infrastructure, as well as high R&D expenditure
Political environment of the firm	Authoritarian military dictatorship, political unrest, North Korean threat, growth first policy, protectionist trade policy, restricted investment policy	Along with the democratisation, the political field has stabilised, trade and investment policies have been liberalised
Competitive environment of the firm	Oligopolistic, domination of chaebols, international competition on a cheap labour basis	Change towards a more free, transparent market economy, chaebols have entered sophisticated industries based on a high level of education and R&D

Significant changes have taken place especially in terms of the economic, demographic, and technological environment of the firm in Korea. These changes have furthermore created attractive investment targets in Korea. Usually, production and distribution systems change rapidly due to new technologies, while human skills and capabilities change more slowly. In Korea, also the development of manpower has been rapid due to the emphasised role of education. The change in the political environment has furthermore supported the positive development in Korea. These changes include democratisation, the weakening state intervention, and liberalised economic policies. However, some constraints for FDI have not disappeared, like political instability, North-South tensions, labour disputes, and xenophobia, in this order of importance (KEW 20.6.1998). As such, there exists a certain deterrence to FDI that is political in nature, although based partly on Korean culture.

The Korean government has constantly stated that the above-mentioned problems, namely political instability, North-South tensions, labour disputes, and xenophobia, are not relevant in contemporary Korea. It is true that most political unrest has settled down due to democratisation. In addition, political turbulence does not really affect the creditworthiness of Korea because the prospects of the Korean economy are very good and the tensions among political parties are not expected to harm the economic development of the country. Similarly, labour disputes still exist but to a lesser degree than earlier, a fact that also reflects the democratisation of Korean society. However, the North Korean question remains unsolved although there have been efforts to ease up the relations between the two Koreas. Furthermore, xenophobia has long roots in Korea's history and it cannot be cured by government intervention, but only by time and intense contacts with foreigners and the international community. Altogether, the Korean government has not been able to remove all investment deterrence, although many of them have been eased. The most serious problem, however, is that the above-mentioned problems have harmed Korea's image as an investment target for a long time and it will take time before this image can be improved.

There are some minor obstacles related to natural and economic environments in Korea. The lack of natural resources has resulted in the absence of raw materials seeking investment, but this is probably not a serious problem as there is an increasing number of market-seeking and especially knowledge-seeking investment. However, competition

between countries for FDI has intensified and thsome of the prominent investors are probably lured to other countries. Korea's debt problem is not totally irrelevant, because foreign credit is still the major form of foreign capital, despite the liberalisation of investment policy, and Korea is vulnerable to world economic fluctuations as it is the 12th largest trading nation in the world.

With special reference to the political environment in Korea, Table 10 summarises the developments of Korea's overall policies and economic policies. Starting from the political system, the democratisation of Korean society as such does not increase the attractiveness of the country but the TNCs are interested in the stability of the political system. With regard to international conditions shaping Korea's overall policies, Korea's commitment to the international community increases the attractiveness of the country as an investment target because integration is likely to decrease risks. However, the unsolved North Korean question makes South Korea subject to unpredictable changes, although the continuation of the present status quo in inter-Korean relations is likely to last for the unforeseeable future (cf. Foster-Carter 1999).

Table 10 Development of Korea's overall policies and economic policies in terms of national and international conditions

	Overall policies	Economic policies
National conditions	Korea's political system has changed from authoritarianism to democracy	Korea's economic system has changed from developmental towards a liberal free market system
International conditions	Korea's role in the world community has changed from a passive aid receiver to an active participant in the international community	Korea's role in the world economy has changed from a developing country to a rich trading country

As Korea has become one of the world's largest trading nations, it has also become vulnerable to world economic fluctuations, as demonstrated by the economic crises in 1980 and 1998. Korea has been able to sustain rapid economic growth as the government

has borrowed its way out of balance-of-payments difficulties. In country risk classifications, Korea has been regarded as a low risk country already since the beginning of the 1980s. From the TNC perspective, Korea's integration in the world economy in general and in international economic organisations in particular (especially OECD membership) is likely to increase the attractiveness of the country due to the increasing stability and uniforming requirements. Finally, Korea has transformed from a developmental towards free market. Investment policy has included various regulations that restricted the locations, sectors, and types of participation open to foreigners. Later, regulations were gradually relaxed, but before the Asian crisis, most investment liberalisation measures were based on the government's pronouncements rather than real actions. The actual change took place in 1998.

Countries, having sound macroeconomic fundamentals and high market potential, may receive increasing inward investment simply by the revision of their investment regimes if they earlier have been restrictive in that matter. This fact also emphasises the role of the host government, as the revision of investment policy remains a national task, which can be completed only by the host government. The Korean case has also shown that Korean investment policy has been the result of the government's reactions to external shocks. (cf. Korhonen 2001)

Two major risks can be recognised in terms of the political environment of the firm in Korea. First, unsolved inter-Korean relations make it impossible for South Korea to be regarded as very low risk country. Second, changes in Korean investment policy have been cyclical in nature and this raises questions of how long-standing the liberalisation policy may be. Especially, in the 1990s, most of the liberalising measures were just loud sloganeering as a result of the OECD membership and FDI remained strictly under the Korean government's permission. The Korean government evidently wanted potential investors to think that Korea had liberalised more than it actually had and thus, Stoeber (2002, 61) suggests that the Korean government by stimulating the desire of TNCs to invest in Korea, actually did it in order to increase its own bargaining power. However, as Globerman (1988, 42) has noticed, if there is evidence that FDI brings substantial economic benefits to the economy, the liberalising trends may be long lasting. It is a fact that Koreans are still suspicious of the real motives of foreign control despite the government's various attempts to build confidence among Koreans and foreigners.

6 Research design

In this chapter, the research design of the present study will be defined. First, the case of Finnish investment in Korea will be introduced with special reference to different data collection techniques used in different sub-units of the case. Second, the investment statistics are discussed in order to justify the choice of sources that are suitable to guide the selection of companies to be incorporated in the analysis. Third, the questionnaire development is explained and the variables of the modified strategy-performance model specified. Finally, the validity and reliability of the study are discussed.

6.1 Research method and data collection

The present study aims at a generalised explanation of an observed reality and thus, it was started by following inductive logic, although the research process as a whole has been iterative. The entry point was the empirical observations on Finnish business operations in Korea. The process of inductive logic culminated in a research proposition relating the topic to a broader context of theory and earlier research, as explained earlier in Chapter One. In generating a specific research problem, deductive reasoning was used by moving from the larger context of the theory to the precisely stated form of the intent. After that, it became possible to discover and collect the data, which helps to solve the research tasks. Finally, generalisations are attempted on the basis of the particular data tied to a conceptual framework. (cf. Rudestam & Newton 1992, 5-8)

Case study research is selected as an empirical research strategy for the present study. This is because case study allows research to retain the holistic and meaningful characteristics of real-life events (Yin 1994, 3). Case study is an empirical inquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries between the phenomenon and the context are not clearly evident. In the case study, data collection and analysis is guided by the prior development of the theoretical propositions. (ibid., 13-15) The case study's strength is its ability to deal with multiple sources of evidence including documents, reports, financial reports, budget and operating statements, artefacts, interviews and observations, and it can be based on any mix of

quantitative and qualitative evidence (ibid.; Ghauri 2004, 109-110), characteristics increasingly common in all kind of studies (Tashakkori & Teddlie 1998, 3-4).

In the current study, Finnish investment in Korea will be studied through embedded, single case design (cf Yin 1994). Embeddedness means that the case of Finnish investment in Korea involves several subunits of analysis, as shown in Table 11. At each level of the analysis, different data collection techniques are used.

Table 11 Different data collection techniques at different levels of analysis

Subunits of the case	Level of analysis		
	Macro	Meso	Micro
Korea as a host country for Finnish investment: location conditions in Korea (Chapter 5)	Previous studies Statistics	Previous studies Statistics	-
Finnish investors in Korea (Chapter 7.1) - Firms involved - Patterns of Finnish investment	Statistics	Statistics Questionnaire	Questionnaire
Perceptions of the Finnish firms: location factors (Chapters 7.2 and 7.3)	-	Interviews	Questionnaire Interviews
Managing the Finnish TNC - Korean government relation (Chapter 7.4)	Archive Interviews	-	-

Among the subunits of the case, the data on the context of Finnish investment in Korea is collected first. As already done in Chapter Five, the location conditions of Korea were introduced on the basis of existing studies, and the information was further supported by statistics. Special emphasis was put on the change in Korea's investment policy and the basic division of that into two: the restrictive period prior to 1998 and the liberal period since 1998 (Korhonen 2001). The second subunit of the case refers to the patterns of Finnish investment in Korea, and the major data collection technique at this stage is the use of investment statistics. Through the statistics, it is possible to find out the particular Finnish firms that have invested in Korea. The results concerning the investment patterns of Finnish firms in Korea are furthermore cross-checked with the help of inquiries in the firms. The third subunit of the case is about perceptions of the Finnish firms. For this

purpose, a questionnaire was developed. The results are supplemented by interviews. Finally the fourth subunit of the case gathers data about the Finnish investors' use of political power in order to negotiate with the Korean government. The data are basically collected through interviews and archives.

The data collection was conducted according to sequential multilevel research. Multilevel research helps to reach more comprehensive inferences regarding events (Tashakkori & Teddlie 1998). This kind of structure is typical of studies in economic geography with its focus on the relationship between various spatial scales of analysis. As such, analysis at the macrolevel refers basically to the use of national statistical sources. The mesolevel means studying the location of the investors within the regional structure of the host country. This is done partly through intra-national statistics and partly through inquiries in the firms. Finally, microlevel analysis is conducted in the firms. In addition, multilevel research is related to the cross-checking of the data. For example, in the present study, statistical inquiries can be cross-checked by the data collected through the questionnaire at the firm level. The data collection process is also sequential, because the data collection was conducted in stages. For example, statistics were studied distinctly and before the data gathering, because the use of investment statistics helped to identify the particular firms to be selected for further analysis, and the time period to be studied.

The danger of embedded design is that the case study focuses only on the subunit level and fails to return to the larger unit of analysis (Yin 1994, 44). As the change in the political environment of the firm and its impact on the investment decisions of the TNCs is the focus of the case, efforts are made in order to conclude the results studied in the subunits and finally return to the original phenomenon of interest.

In terms of Korean place names and others, efforts are made to follow the revised romanisation system. However, some terms that are already widely used and known in Western literature, such as *chaebol*, are used instead of the revised form of *jaebeol*. Names are written in their native form starting with the family name (eg Park Chung-Hee) and in the form, which the persons have used themselves (eg Syngman Rhee) even if it conflicts with the rules of the revised romanisation system. Names are given in full where authors share a surname and have published in the same year.

6.2 Specification of statistical data

Most studies of FDI suffer from incomplete and inaccurate statistical data (eg Alvstam 1993, Borsos-Torstila 1999, Wilska 2002). Studies at the firm level are limited due to the lack of smaller statistical units than nations, and the lack of particular methodologies. Many countries follow the recommendations given by the OECD and the IMF for the collection, definition and reporting of FDI data, but there are also many incomparable national statistics, as countries may organise the collection of data in different ways and at different time periods. Countries may also differ in the way in which they depreciate assets and value investment. Some countries do not even collect data regularly but estimate them simply by aggregating past investment flows. (Dunning 1993, 10)

According to Alvstam's suggestion (1993, 65-70), a comparison of FDI statistics on an *ex ante* and *ex poste* basis is useful. The *ex ante* method is based on the TNC's intent to invest in the near future. This method of compiling statistics from the approval basis, however, exaggerates the volume of the FDI as many approved applications are never realised due to the changes in the economic situation or firm-specific reasons. The long time period that may pass between the approval and the actual transfer is also a problem. The same investment may be registered in one year in the home country and the next year in the host country. Moreover, *ex ante* measures may underestimate FDI in the case that investment projects go through other channels than the official ones. The investment may not be considered FDI if it is not approved or authorised by the relevant authorities. (Alvstam 1993, 65-70; Morsink 1998, 204-206)

Due to the obvious problems related to the *ex ante* measures, the *ex poste* measures are often preferred. They are based on the arrival of the FDI and thus, tend to be more credible and accurate. *Ex poste* data can be obtained through the balance of payments statistics. However, only the transfer of home-currency sources is registered directly in the balance of payments, while the investment may be financed by funds borrowed from the host country or international capital markets, or by reinvested profits and depreciations. In *ex poste* data, only the aggregate flow data is obtainable, and there is no data on the geographical or sectoral distributions of these flows. In addition, there are variations in classifying FDI geographically as it can be done according to the origin of the funds or the nationality or location of the TNC. In many cases, it is not clear whether a

TNC can be identified with a particular nation just according to the location of its headquarters. (Alvstam 1993, 65-70; Morsink 1998, 204-206)

In the home country, FDI may be measured through applications to invest overseas, government approvals to export capital, and the balance of payments statistics. In the host country, the main source of data is the government agency, which usually measures FDI through the foreign firm's investment applications, investment approvals, investment certificates granted, starts of operations, and the balance of payments statistics. (Alvstam 1993, 65-70)

Alvstam (1993) points out that all the various measurements and comparisons are useful and should be used together as reference points in order to estimate the value of investment flows. This is also what has been done in global comparisons of FDI, such as the world investment reports by UNCTAD. In the present study, the comparison of statistical analysis refers to the evaluation of four kinds of investment data, including statistics of the Bank of Finland, the Korean Ministry of Finance and Economy, and the Korea Trade-Investment Promotion Agency (KOTRA), as well as the firm-level data gathered directly from the Finnish companies.

Statistics of the Bank of Finland

Home country data of the present study includes statistical bulletins and country-level statistics by the Bank of Finland. This data is problematic due to three different reasons. First, the statistics are gathered for balance of payments purposes. It means that the internal money flows between the parent company and its foreign affiliates are compiled including all kinds of loans and repayments between them. Thus, the statistics measure actually the financial operations of TNCs rather than the FDI flows, which are the object of the present study. The statistics of the Bank of Finland can be used to estimate the trend in developments, but not the exact values of the investment inducements.

Second, the statistics of the Bank of Finland provide information only on those FDI flows, which are financed by Finnish sources and thus, probably underestimate the real FDI. Thirdly, the confidentiality rules restrict access to national level information in the case of only one or few annual cases, because the numbers could be directly linked to the company names. Annual statistics lack data in the case of less than three transactions per

country per year. In the case of Finnish investment in Korea, there have been only some 20 firms during 20 years, which means that annually there has been just one or two, if any, investment inducements.

Statistics of the Korean Ministry of Finance and Economy

Statistical yearbooks published by the Korean Ministry of Finance and Economy are used as the primary source of the information on Finnish investment in Korea due to the unsuitability of the Finnish statistics for this purpose. Korean statistics gives a rather detailed picture of the development of Finnish investment in Korea. Korean statistics have compiled the data on the capital inducements of foreign companies for the purposes of the Foreign Investment Division of the Ministry of Finance and Economy¹⁷⁵, through which all investment notifications and approvals were circulated during the restricted investment policy period (before 1998). As such, statistics has served the central-led government and its planning agency.

Despite its seeming accuracy, Korean statistics has drawbacks: it has been compiled on the approval basis. Inquiries at KOTRA's head office in Seoul resulted in no statistics on the arrival basis. A few examples on deviations from official statistics are offered by Lim (2001, 1-2), who has compared the FDI's influence on foreign exchange reserves. His comparisons are visible in Table 12, which shows that FDI on an arrival basis accounts for 40-90 % of the figures in the official statistics. Kim Jong-Il (2002) has claimed that there may be a three-fold overrepresentation in the public statistics over the arrival-based figures.

Table 12 **Comparison of total foreign direct investment in Korea on an approval and arrival basis in 1993-1999 (USD billion)**

	1993	1994	1995	1996	1997	1998	1999
Approval	1.0	1.3	1.9	3.2	7.0	8.9	15.5
Arrival	0.6	0.8	1.8	2.3	3.1	5.2	10.4

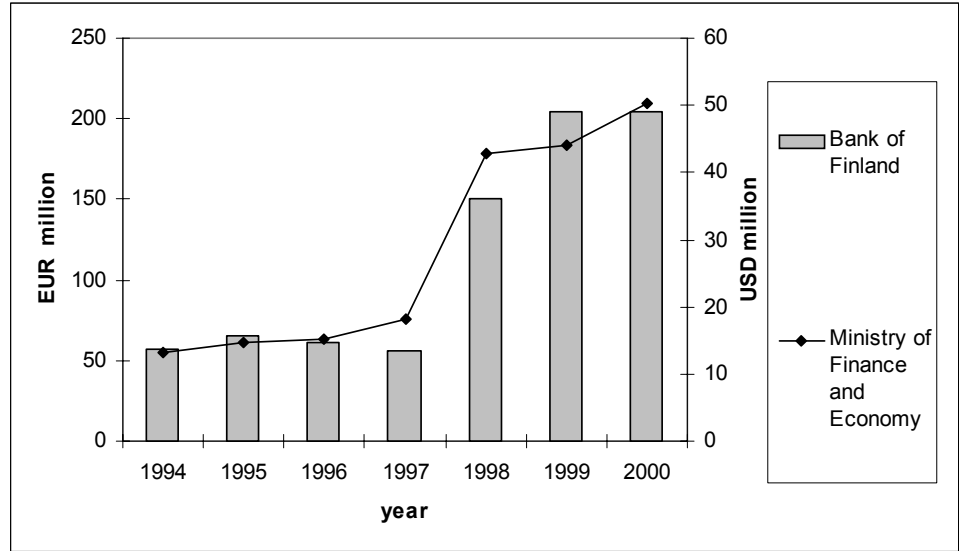
Sources: UNCTAD 1998, Lim 2001.

¹⁷⁵ Ministry of Finance and Economy was established in 1994 by merging the Economic Planning Board with the Ministry of Finance. Before 1994, the Ministry of Finance handled all single notifications and approvals to invest in Korea or from Korea.

Additional problems are related to the classification of FDI: geographical classification is made according to the origin of funds, not the nationality or location of the investor. Also the classification between M&A and greenfield investments is incongruent with international statistical methods. Korean statistics consider the M&A of factories and business units through reinvestment from existing firms as greenfield investments and thus, result in under-representation of M&A (Kim Jong-Il 2002).

Despite the various problems in both Finnish and Korean investment statistics, they show the trend of Finnish investment in Korea rather identically. Figure 23 illustrates the development of the stock of the Finnish direct investment in Korea according to the Bank of Finland and the Korean Ministry of Finance and Economy. Methods and figures are different, but the trend is the same, which indicates that both statistics can be used as reference points. Comparison with third sources, such as the UNCTAD world investment report, gives a similar investment trend to that of the Bank of Finland. This is because the national authorities, such as the Bank of Finland, are the primary source of data for UNCTAD. In the present study, Korean statistics is chosen as a primary reference because it offers more detailed information and aims to measure the same object than the present study.

Figure 23 **Comparison of Finnish and Korean investment statistics in the case of the development of Finnish direct investment stock in Korea (1994-2000)**



Sources: Bank of Finland, Ministry of Finance and Economy (of Korea)

Firm-level statistics in Korea Trade-Investment Promotion Agency

Expert knowledge of KOTRA gives a more detailed picture of Finnish investment in Korea than that provided in the Korean public statistics. KOTRA's internal sources include such information as company name, nationality, amount of investment, share of ownership, invested project registration date, notification date, and starting date. However, there is no information on the firm's location in Korea. In the present study, data from KOTRA is compared with the Finnish and Korean public statistics, and cross-checked in the Finnish firms. Due to the strategic confidential nature of FDI, numerical data is not linked with the company name in the present study. However, in the following an example of the comparisons of different data sources is given by using the figures of the company Ahlstrom, as data is publicly available in Lasserre & Schütte (1999, 78-96). These figures are compared with the other available data in Table 13.

Table 13 Comparison of data on the company Ahlstrom Korea's capital inducement in Korea

Data source Date	Ahlstrom company (Lasserre & Schütte 1999, 78-96)	KOTRA	Ministry of Finance and Economy
March 1987	Letter of intent signed		
8.7.1987		Notification of USD 500,000	
May 1987	Shareholder's agreement in which Ahlstrom held 41 % of the shares in Ahlstrom Korea's total capital of USD 10 million		
October 1987	Joint venture established		
May 1988	Promised completion of the paper mill		
June 1988		Starting date for invested project with inducement of USD 4,052,000	
19.7.1988		Registration date for invested project with inducement of USD 4,052,000	
24.8.1988		Notification of USD 567,000	
October 1988	Realised completion of the paper mill		
1987-88			Amount of Finnish FDI: USD 1,067,000 Cases: 1
1989			Amount of Finnish FDI: USD 2,985,000 Cases: 0
19.7.1989		Notification of USD 2,985,000	
Total	4,100,000	4,052,000	4,052,000

Sources: Hahn 9.4.2002, Ministry of Finance and Economy (of Korea), Lasserre & Schütte (1999, 78-96)

According to Lasserre and Schütte (1999, 81-82), the total capital of Ahlstrom Korea was USD 10 million and Ahlstrom held 41 % of the shares of Ahlstrom Korea, totalling USD 4,100,000. According to the investment statistics by the Korean Ministry of Finance and Economy, there was one Finnish investment case in Korea in 1987-88 and no cases in 1999. In addition, there were two investment inducements with a value of USD 1,067,000 in 1987-1988 and USD 2,985,000 in 1989. As there were no investment cases in 1989, the investment inducement in 1989 is likely to be related to the same investment project than the one in 1987-1988. Summing the inducements together totals USD 4,052,000, which is close to the Ahlstrom data given in Lasserre & Schütte (1999). This indicates that all the Finnish capital inducements in Korea during 1987-1989 were directed by Ahlstrom. This assumption was finally confirmed by KOTRA statistics (Hahn 9.4.2002) that had listed three capital inducements by Ahlstrom in Korea: 1) USD 500,000 in 1987, 2) USD 567,000 in 1988, and 3) USD 2,985,000 in 1989, totalling USD 4,052,000 during 1987-1989. Altogether, the comparison shows the complexity of FDI statistics and confirms Alvstam's (1993) argument that all various kinds of measurements and comparisons are needed in order to estimate the FDI values.

Firm-level data by Finnish companies

Basically, the firm-level data of the outward investment by Finnish companies is compiled by various Finnish research institutes, such as the Research Institute of the Finnish Economy (ETLA), Finpro¹⁷⁶, and the Helsinki School of Economics. They have compiled their own databases by firm-level surveys due to the above-mentioned problems in public statistics, but in most cases the data is not publicly available.

Companies are reluctant to reveal their investment figures due to their strategic nature. TNCs may underestimate their current market value, and under or overestimate their arm's length values. In addition, the data can vary greatly due to the collecting process whether it has been provided voluntarily or compulsory. (Dunning 1993, 10) In the present study, the firm-level data were collected directly from the Finnish firms that had invested in Korea, and the data are used as a reference point for statistical data.

¹⁷⁶ Finpro is a public organisation aiming to speed up the internationalisation of Finnish businesses.

Among the 18 companies that had invested in Korea, data on the financial value of investment was received from 12 firms (two-thirds of the total). The respondents were asked to confirm whether the real financial value of investment is consistent with the value available in Korean statistics. Among 12 respondents, nine agreed and three disagreed. Among the three who disagreed, one investment was reported to have been engaged without any financial inducement. Indeed, the value of capital inducement does not always match the real value of the investment. For example, one of the smallest Finnish investment cases includes technology transfer, with a value, which has been said to be impossible to be evaluated, some estimations varying from ten to a hundredfold in comparison to the capital inducement shown in statistics. (Heinonen 9.4.2002) Another firm referred to ownership arrangements with the Korean partner, which made the total investment lower than in the statistics. The third firm reported the real investment as significantly higher than that announced in the statistics without explaining the reason. Altogether, most firms reported that the investment volume is consistent with the Korean public statistics.

Selection of companies

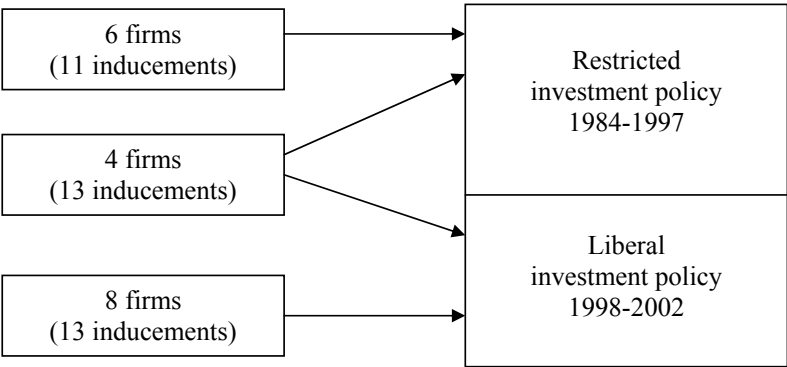
Korean public statistics were chosen as a starting point in order to find all Finnish firms that have invested in Korea. Additional information was provided by Finpro, KOTRA, and the Korean Ministry of Foreign Affairs and Trade. The most detailed information was available in KOTRA (Hahn 9.4.2002; 26.2.2003), according to which there are totally 39 direct investment inducements from Finland to Korea in 1984-2002. These 39 inducements are engaged by 18 Finnish firms.

The number of companies varies between different sources because of the changes in company names, owners, and locations. TNCs are often owned by several owners with different nationalities. In many companies, foreign ownership is high but so diversified that no single foreign shareholder has over 50 % of the voting rights. Some firms have been bought by a foreign company and the headquarters have moved abroad. Some firms may have more than one subsidiary operating in the target country and some firms have decided to invest in Korea, but the establishment of the subsidiary has been postponed. In the present study, a simple principle is adopted: an investment is recognised as Finnish by nationality if the original risk taker is a Finnish company. However, in many cases, the complex nature of the direct investment and the difficulties

to mark off the boundaries of an investment project results in extra work in finding the original investors, as explained in Appendix 12.

To sum up, comparisons of Finnish and Korean statistics confirm the earlier suggestions (eg Alvstam 1993) that all available comparisons are needed in order to estimate the FDI values, and there is no complete method to find out the value of Finnish investment in Korea. Investment does not always even include financial inducements, but may consist of technology transfer. Thus, the comparison of investment projects according to financial value may be even irrelevant. In Finland, there is no detailed public investment data available at the firm-level due to the confidentiality rules. In Korea, due to the strict restrictions of FDI, the Korean government has required detailed information on all international investments and thus, the firm-level investment statistics are available. However, as they are collected on the approval basis, they probably overvalue the investment flows. A comparison of investment statistics resulted in the final number of Finnish companies included in the current study: there are 18 firms that have engaged totally 37 investment inducements in Korea in 1984-2002. Six of them have invested in Korea during the restricted investment policy in 1984-1997, eight during the liberal investment policy in 1998-2002, and four during both periods (viz. Figure 24). The firms differ significantly in their strategies, resource endowments and organisational structures.

Figure 24 **Number of Finnish firms that have invested in Korea during the two investment policy phases**



6.3 Questionnaire development

The firm level data was gathered through a questionnaire and interviews. In order to find out information on the impact of the changes in the political environment of the firm in Korea, and whether it hinders or encourages firms to invest in Korea, it was necessary to find out the relevant informants. Among the 18 firms, which were all contacted, seven firms had either undergone so many mergers and acquisitions that it was impossible to find out the relevant informants, or the company representatives were reluctant to do so, or access was denied for some other reason. In addition, one firm announced that their investment in Korea had been only a technical manoeuvre due to the acquisition of another Asian firm, which had a subsidiary in Korea. The Korean firm did not have any strategic importance for the Finnish firm and was sold out very soon.

Eleven of 18 firms returned the questionnaire. There was no systematic lack of answers in terms of firm size, industry, or others. The eleven firms had totally engaged in 25 investment inducements in Korea. Three of the firms reported two different investment projects with which they had engaged in different time periods (cf. Figure 24). Therefore, the present study includes detailed information on eleven firms and their 14 investment inducements.

The questionnaire was built according to the modified strategy–performance model (viz. Chapter Four). In the questionnaire development, the most relevant elements included the general macro-environment and political environment in Korea, competitive environment of the firm, the human, organisational, physical, technology, and financial resources of the firm, logistics, marketing, expected results, and realised results. The resources of the firm were studied one by one as they are a crucial part of the firm's potential definition stage. Thus, they are analysed more thoroughly than marketing and logistics elements, which are related more to the final target market. The elements are operationalised in variables as shown in Table 14 in the next page. All 95 variables can be traced back to the modified strategy-performance model. Among the variables, the political environment variables are emphasised.

Table 14 **Variables used in the questionnaire**

Elements of the modified strategy-performance model	List of variables
General macro-environment in the host country	<i>Natural environment</i> : Geographical location, Climate, Raw material endowments, Energy supply, Regional structure <i>Cultural environment</i> : Business culture, Values and attitudes, Internationalisation, Tolerance, Equality <i>Economic environment</i> : Economy, Production structure, Exchange rate, Interest rate, Inflation rate, Savings rate, External debt rate <i>Demographic environment</i> : Population, Income level, Consumer behaviour, Labour, Education level, Wage level, Unemployment rate <i>Technological environment</i> : Infrastructure, Transportation system, Productivity, Innovativeness, Research and development level
Political environment in the host country	Administration, Political stability, Local autonomy, Foreign relations, North Korean threat, Economic policy, Trade policy, Tariffs, Non-tariff barriers, Legal system, Labour movement, Investment regulations, Investment climate, Investment policy credibility, Investment procedure, Special Economic Zones, Investment incentives, Taxation, Ownership regulations, Transfer of profits and capital
Competitive environment of the firm	Competitors, Price competition, Product competition, Marketing communication, Competition, Competition for resources
Human resources of the firm	Staff number, Education level, Knowledge of languages, Professional skills, Knowledge of the Korean market
Organisational resources of the firm	Organisational structure, Organisational capacity, Research and development degree, Innovativeness, Process effectiveness, Values
Physical resources of the firm	Raw materials, Buildings, Machinery
Technological resources of the firm	Production systems, Information systems, Telecommunication systems
Financial resources of the firm	Cash flow, Equity capital, Short-term liabilities, Long-term liabilities, Return on capital, Liquidity, Solidity
Marketing of the firm	Products, Product development, Prices, Marketing communication
Logistics of the firm	Delivery reliability, Delivery time, Flexibility of order-delivery process, Warehousing, Transportation routes, Telecommunication links
Expected performance of the firm	Turnover, Profitability, Total sum of balance sheet, Market share, Corporate image
Realised performance of the firm	Turnover, Profitability, Total sum of balance sheet, Market share, Corporate image

The questionnaire was built by using a technique that presents a set of attitude statements. Respondents were asked to rate a series of statements on a four-point Likert type scale. The numbered categories are on continuums from “not important at all” (=1) to “very important” (=4). The four-point scale was chosen instead of the more common five-point scale in order to eliminate the most neutral answer between the definite opinions, like the number 3 in a five-point scale, and thus, respondents were forced to make a stand. In the case that the respondent really does feel neutral or has no opinion about the particular issue, a “no opinion” (=0) statement was added. The questions deal with the importance of the elements of the modified strategy-performance model prior to the investment and after the investment in order to separate the existing resources and demands of the firm from the new resources planned to be achieved through the investment. The questionnaire was written in Finnish as the respondents were all Finns. (see questionnaire in Appendix 13 and 14)

As the number of investors is small, the analysis does not yield statistically significant results and the qualitative methods remain dominant. However, the variables and the groups of variables can be measured on a variety of scales, which allow the use of nominal and ordinal scales. A nominal scale is a qualitative scale, which is used to differentiate the variables into groups (Niemi 1994, 17). When the levels of a nominal scale can be put in order according to their magnitude and some qualitative attribute (eg importance), the ordinal scale can be used (ibid., 18). The ordinal scale thus leads to the ranked categorisation of variables. Elements of the strategy-performance model are chosen as data points, which are ranked by ordinal scales in terms of their importance. Consequently, the variables within the elements are ranked. Special attention is given to political environment variables, which are separated from the other general macro-environment variables. However, the respondents were not aware of the study's focus on the political environment. The results do not show the direct connections between the change of Korea's political environment and the firm's investment, but show the main reasons that led to the investment-decision.

Two pilot tests of the questionnaires were conducted. The first pilot test was conducted in a firm, which had not invested in Korea. The respondent was qualified in strategic management both in terms of research and practice. The latter test was conducted in a firm, which had invested in Korea, the respondent being a member of the Board during

the time of investment. Pilot tests were used to develop relevant lines of questions, and provide a conceptual clarification for the research design (cf. Yin 1994, 74). The first pilot test resulted in various modifications¹⁷⁷, while the latter only confirmed the function of the modified questionnaire. As any further modifications were not conducted due to the second pilot test, the results of the second pilot study were included in the present study.

The data gathered with the help of the questionnaire was partly supported by interviews. Relevant persons were interviewed on the behaviour and policies of the Finnish firms investing in Korea, including both decision-makers in companies as well as governmental agencies. Interviews were not conducted systematically in all firms, but the interviews completed the questionnaires in some specific topics. The interviewees were selected on the basis of their experience and the interviewer's accessibility to the persons interviewed. The names of the companies or company representatives answering the questionnaire or interview are not listed. However, the number of interviews, the date, and the title of the interviewees are listed in the references. Anonymity was required because investment issues are a sensitive issue for the firms. Especially firms engaged in investment very recently are usually reluctant to tell about their investment strategies. The data collected through the questionnaire and interviews is stored by the author in order to ensure confidentiality.

The questionnaires were sent and returned and interviews conducted basically in April-May 2003. Interviews were conducted by person, telephone or e-mail, depending on the location of the respondents. Some of them lived abroad, for example, and thus, cannot be met in person. Secondary data, such as other studies on Finnish business in Korea¹⁷⁸, companies' annual reviews, bulletins of Finland – Republic of Korea Association, and articles in newspapers and magazines, were used as supplementary information.

¹⁷⁷ According to results of the first pilot test, the importance of the model elements prior to the investment was differentiated from the importance of the model elements after the investment; the order of the resource elements was changed; the definitions of each element were added; and the outline was improved.

¹⁷⁸ For example, a detailed case study on Ahlstrom Korea is available in Lasserre & Schütte (1999), and the Korean operations of Kemira Chemicals and JOT automation are partly touched on in Pieskä (2001).

6.3 Validity and reliability of the study

The quality of research design can be evaluated through four criteria, namely internal validity, construct validity, external validity and reliability (Yin 1994, 18). The validity of the study refers to the extent the used measurements are true indicators of the observed phenomenon. Validity can be supported by building the data collection according to the conceptual framework of the study. The internal validity refers to the trustability of the author's conclusions. Internal validity is an important criterion for all case studies aiming to build any causal relationship, in which certain conditions are shown to lead to other conditions. (Tashakkori and Teddlie 1998, 67-68)

In the present study, efforts to increase the internal validity are made by using the modified strategy-performance model. As discussed earlier, the model's validity in its original context has been justified in earlier studies, while the usefulness of the model in investment studies has been justified in the theoretical part of the present study. The empirical analysis is going to show whether the modified version is able to recognise the relevant elements having an impact on the firm's investment decision, and how it is linked to the performance of the firm. The model is also able to guide empirical research and it provides a systematic basis for the questionnaire development.

Construct validity refers to establishing the correct operational measures for the concepts being studied. In many case studies, construct validity is a somewhat problematic criterion. Especially when studying a change it may be questionable whether the observed changes are signs of critical events or whether they are based solely on the investigator's impressions. (Yin 1994, 34) In the present study, the question is whether the change in the firms' investment behaviour from earlier to latter period really reflects the political change in Korea. To meet the construct validity, the political environment is studied separately from the other environments, but also in relation to other parts of the environment of the firm, and furthermore in relation to all external and internal elements having an impact for the firm's investment decision. In addition, specific variables describing Korea's locational conditions are selected to the questionnaire. With the help of the questionnaire, firms are able to report how they have transformed these locational conditions into specific location factors.

Construct validity is furthermore increased by the use of multiple sources of evidence. Interviews of the original investment decision makers have been conducted to clarify some specific topics. Additional sources of evidence include statistics, archives and a variety of articles in practitioner's journals. In analysing the data achieved through questionnaires and interviews, the author had a challenge in interpreting the decision-makers' *ex-poste* rationalisation of earlier decisions, and in consideration of the stages at which certain factors became important in the decision-making (cf. Nishioka & Krumme 1973, 195-196). The respondents have personal attitudes and opinions about the topic but these are not always consistent and objective. Thus, strict objectivity is not expected from them but the aim is to obtain as true a record as possible of what people think about particular topics or do in particular contexts. (Lindsay 1997, 33-41).

External validity deals with the generalisation of the results. According to the case study critics, single cases are not generalisable in contrast to surveys, for example. However, if the surveys aim to build a statistical generalisation, a case study aims to build an analytical generalisation, in which the particular set of results is generalised into theory. In order to generalise a case study, replications of the findings have to be tested in other cases. (Yin 1994, 35-36) One of the aims of the current study is to test the strategy-performance model in the context of the investment studies. As such, the model is also generalisable to other studies on FDI in any country. This will be discussed in more detail in Chapter Eight.

With regard to the results of the study, generalisation is attempted by concluding the results of subunits and returning to the original phenomenon of interest, namely the case of Finnish investment in Korea. Information on all Finnish investment is available in the statistics. In addition, as eleven firms out of totally 18 answered the questionnaire, the generalisability of the results is rather high within the case of Finnish investment in Korea. However, the data does not allow the analysis of single variables or respondents by statistical analysis. Thus, the results have to be interpreted with the help of a qualitative approach.

Finally, reliability refers to demonstrating that the same results could be found out if the data collection procedure is repeated by doing the same case over again (Yin 1994, 36). If the measurement is reliable, it provides the same results consistently over time, across

a range of items, and across different observers (Tashakkori & Teddlie 1998, 80). The accuracy of statistical data is managed by the authorities, and the existing differences between the statistics are explained thoroughly earlier in the present chapter. With regard to the results achieved through the questionnaire, the responses are probable to remain consistent, as the respondents' opinions are unlikely to change. As the respondents are experienced professionals in international operations, there is no reason to expect that they had not understood the variables in a constant manner.

The data collection is not dependent on the investigator but the data is obtainable by an identical procedure. A prerequisite for reliability criteria is that the research procedure is well documented. That is the very objective of the present chapter. Observing the same phenomena in the same setting should also provide similar inferences, as efforts have been made in order to make inferences according to explanatory theory on the impacts of the political environment change.

7 Results: Finnish investment in Korea

In this chapter, the empirical results of the current study are presented. Firstly, patterns of Finnish direct investment in Korea are shown on the basis of statistics. Secondly, firm-level data achieved through the questionnaire and interviews is analysed. The reactions of the Finnish firms related to the changes in Korea's political environment are discussed in relation to other relevant factors having an impact on the firm's investment decision. This is done in order to position the role of the political environment among the other elements of the modified strategy-performance model.

As discussed earlier, the Korean government changed its investment policy drastically in 1998 and this change is suggested to have an impact on Finnish investment decisions in Korea. Thus, the starting point for analysing the case of Finnish investment in Korea is a division of the Finnish investment in Korea into two, namely investment during the restricted (1984-1997) and liberal regimes (1998-2002). The earlier periodisation of Korean investment policy in six periods (Korhonen 2001) is not applicable in the present study, because the number of the Finnish investors is too small. At the end of the present Chapter, the location factors of Korea are generated based on the interpretations of the Finnish firms.

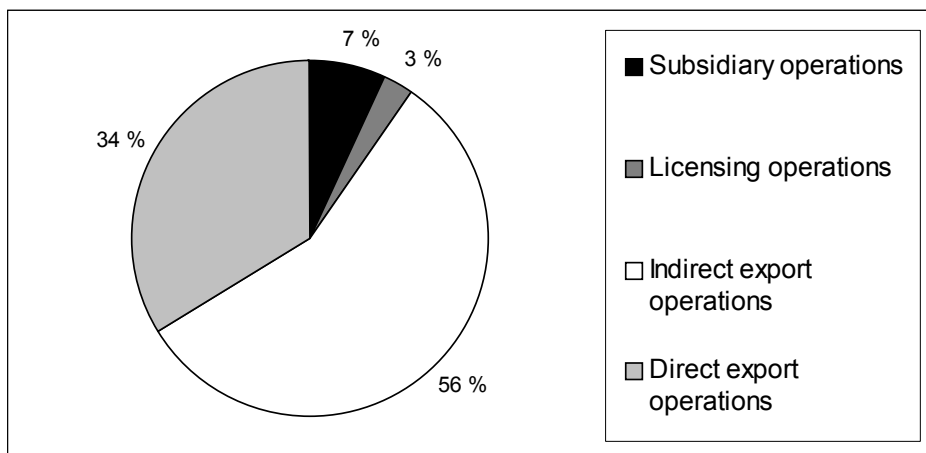
7.1 Patterns of Finnish investment in Korea

In 2001, there were about 300 Finnish firms doing business in Korea, according to Finpro (2001). Among them, 163 firms were utilising an indirect exporting operations (through a middleman) and 98 firms a direct exporting operations. As such, the use of middleman can be noticed as a common way to start exporting in Korea (viz. Figure 25 in the next page). The major reason for using middleman instead of direct exporting is probably the lack of sufficient knowledge of Korean market. Finnish companies exporting to Korea represent especially the fields of pulp, paper and fiber products, ICT and electronics, chemicals, energy technology, mining technology, lifting and cargo handling, and industrial components.

Licensing has not been common among Finnish firms doing business in Korea, as only eight firms used that operational mode in 2001 (ibid.). This is probably because the owner

may lose the control of the brand and sales tend often to remain low. Furthermore, Korean companies are generally known for their skills to take the business over by localising the products rapidly. Similar to the licensing mode, also the number of Finnish firms having a subsidiary or a joint venture in Korea is small. According to Finpro (ibid.), there are about twenty Finnish firms that have invested in Korea. As explained earlier, totally 18 Finnish firms that engaged in 37 investment inducements in Korea in 1984-2002 are included to the present study (cf. Appendix 12).

Figure 25 **Operation modes of Finnish companies doing business in Korea in 2001**

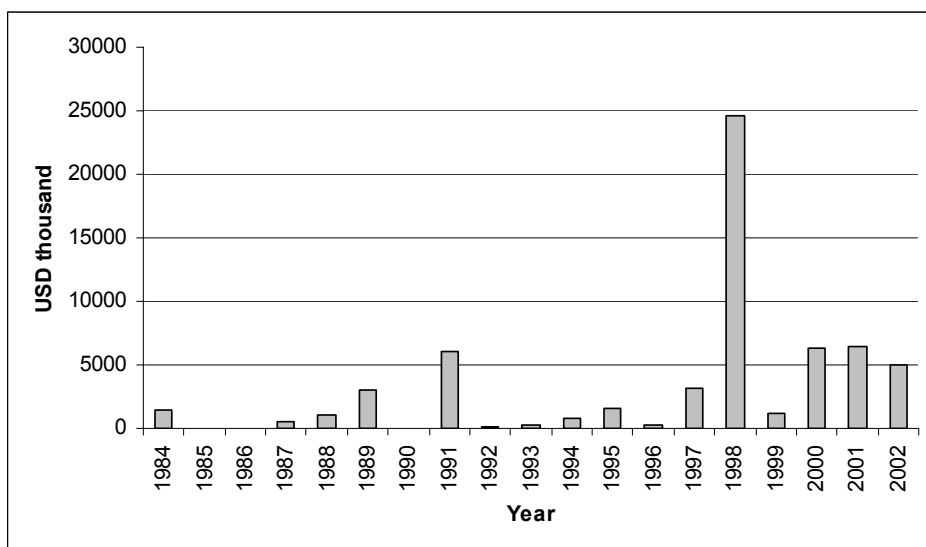


Source: Finpro (2001)

Note: The statistics are based on the information delivered voluntarily by the Finnish firms themselves and thus, it is only an estimation. N = 289.

Finnish investment in Korea started in 1984, intensified at the beginning of the 1990s, and has become more frequent since 1998 (viz. Figure 1 in Chapter One). Until the end of 2002, the stock of Finnish investment in Korea was USD 57.1 million, which means that Finnish investment in Korea has been very modest. Figure 26 in the next page illustrates Finnish investment flows to Korea in 1984-2002 showing considerable annual variations and a significant peak in 1998. During the restrictive period of 1984-1997, Finnish investment flows to Korea totalled USD 18.1 million, and during the liberal period of 1998-2002, USD 39.0 million.

Figure 26 **Development of Finnish direct investment annual flows to Korea (1984-2002)**



Source: Ministry of Finance and Economy (of Korea).

By size, nine Finnish investors in Korea are among the 100 largest firms in Finland, as shown in Table 15. Three of them are partly owned by the Finnish government, namely the Kemira Group (government's share in 2002: 56.2 %), the Metso Group (11.5 %) and the Stora Enso Group (11.2 %). All of these nine firms can be defined as multinational enterprises (MNEs) by using the Harvard criteria. Those large firms that do not fulfil the characteristics of the MNEs but are still larger than SMEs can be called mini-MNEs.

Table 15 **Parent conglomerates definable as a multinational enterprise**

Conglomerate	Industry	Headquarter	Turnover (EUR million) in 2002	Ranking
Nokia Group	Electronics	Espoo	30,016	1
Stora Enso Group	Forest	Helsinki	12,783	2
UPM Kymmene	Forest	Helsinki	10,475	5
Metso Group	Metal	Helsinki	4,691	9
Kemira Group	Chemicals and plastic	Helsinki	2,612	17
Wärtsilä Group	Metal	Helsinki	2,519	18
Ahlstrom Group	Multi branch	Helsinki	1,778	23
Raisio Group	Multi branch	Raisio	843	59
Jaakko Pöyry Group	Service	Vantaa	407	94

Source: Talouselämä 20/2003.

SMEs are companies that, according to Finnish law, have less than 250 employees and a maximum turnover of EUR 40 million and a balance sheet of EUR 27 million. In addition, born global firms can be distinguished; they are small, usually high technology firms that are international at inception (Rialp et al. 2005, 148). To put it simply, Finnish firms invested in Korea can be roughly divided in two groups consisting of nine MNEs and nine smaller firms.

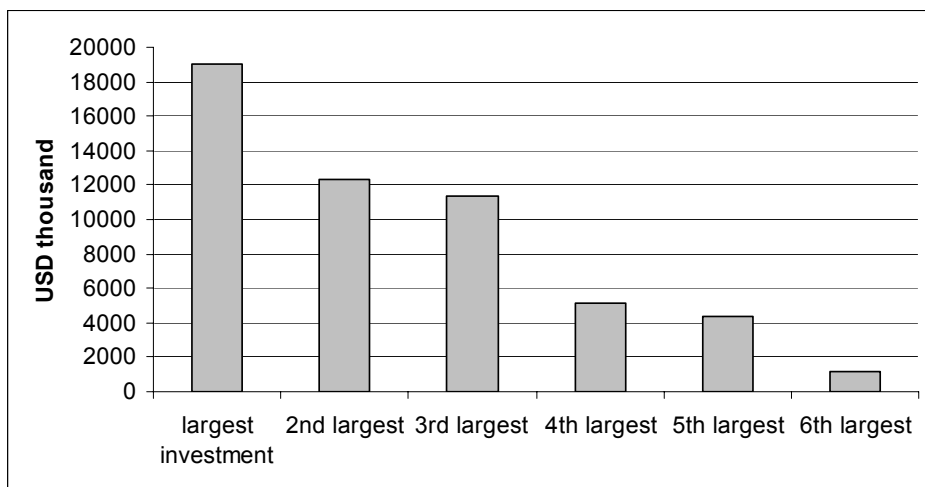
The size of the investor is related to the timing of the investment. Finnish investment in Korea in the 1980s was started by large and traditionally strong exporters. The large firms have been followed by smaller firms since the mid-1990s. The latest phenomenon is the Finnish born global firms, which have entered Korea almost immediately after their establishment. Also the ownership strategies are related to the timing. All Finnish investment cases prior to 1998 were joint ventures with majority or 50-50 ownerships and established through greenfield strategy. In 1998-2002, half of the Finnish investments in Korea were acquisitions, another half being joint ventures. All ownership strategies including minority, majority and 50-50 joint ventures, as well as wholly-owned subsidiaries, were present.

As to industries, four of the Finnish investors operated in the chemical industry, four in the forest industry, especially in the manufacture of paper and paper products, four in the metal industry, and four in other industries. From the Korean perspective, Finnish investment was engaged basically in industries, where the chaebols have traditionally played a minor role, such as chemicals and forest products. With reference to the function of the investment operations in Korea, eleven Finnish firms engaged in direct investment production operations (DIPOs; cf. Luostarinen 1979), the seven other firms engaging in direct investment marketing operations (DIMOs; *ibid.*). Many of those firms having production operations in Korea owned also different units for DIMOs, such as sales promotion subsidiaries, warehousing units, service units, and sales subsidiaries.

An average value of a single Finnish investment inducement in Korea in 1984-2002 was USD 1,504,000. This is significantly smaller than the average FDI inducement in Korea in 2002, namely USD 5,382,000 (Ministry of Finance and Economy). In most cases, Finnish investments in Korea were also rather small in relation to the size of the investor.

The three largest investment inducements together made over 75 % of the Finnish investment stock in Korea. Their relatively large share is illustrated in Figure 27. Added by the fourth and the fifth largest inducements, they accounted for over 90 % of the total. The rest of the investment inducements were small as their value was less than USD 1 million each.

Figure 27 Comparison of the largest Finnish investment inducements in Korea



Source: Ministry of Finance and Economy (of Korea); KOTRA by Hahn 9.4.2002.

Before 1998, the average Finnish investment inducement in Korea was USD 953,000, while it was twice as large in the period 1998-2002¹⁷⁹, namely USD 2,054,000. The average value is linked with the size of the investor, as an average investment inducement of the nine smallest investors was USD 259,000, while the average inducement of the nine largest firms was almost ten-fold, USD 2,230,000. The larger number of mini-MNEs and SMEs with relatively small investment projects in the latter period in comparison to the earlier period has not decreased the average value. This is because the large firms have invested increasingly larger inducements than earlier (eg more than USD 1 million each). However, it has to be noticed that the largest single investment inducement alone accounts USD 19 million and as such, has a considerable impact on the average value of the latter period.

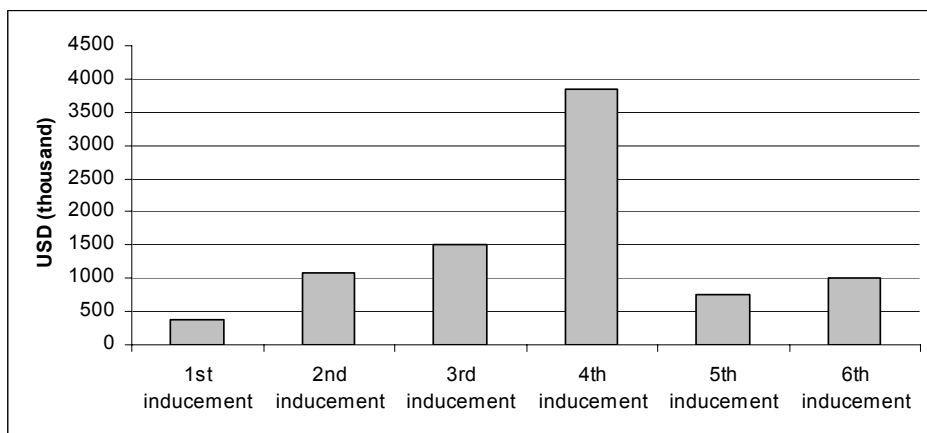
¹⁷⁹ All investment figures are at their original values, which probably makes the real difference smaller.

All investors in 1984-1997 and some of the investors in 1998-2002 have directed several investment inducements to Korea. Some of them form a single investment project financed by various inducements within a few years, rather than a repeat investment. In these cases, the inducements are, for example, from different financial sources and thus, induced at a different time. This fact may have a slight impact on the average values. If the repeat investments of large Finnish firms in the same unit are calculated together, the average value of the investment project is USD 5,946,000. This makes the investment inducements of the large Finnish firms comparable with the average FDI inducement in Korea, which amounts to USD 5,382,000. In reality, most of the inducements are, however, repeat investments, and this kind of comparison is not possible.

The performance of Finnish firms in Korea is not visible in the statistics, but some indirect indicators, such as the continuity of operations, can be used. For example, divestments have been almost non-existent. Among the 18 investors, only one firm has withdrawn from Korea. There is also a case in which a Finnish firm had acquired an Asian firm having a Korean subsidiary. Therefore, the Finnish investor had become a minority owner of the Korean firm. As the Korean unit did not have any strategic importance for the Finnish investor, it was sold. As such, this particular divestment case does not indicate any failure of the Finnish firm in Korea.

Another indirect indicator of performance is the number of repeat investments. Among the 18 investors, eleven firms have directed an investment inducement to Korea more than once. As such, among the 37 investment inducements, there were 19 repeat inducements. Complete information on the nature of all 37 investment inducements is not available, but there is enough data to suggest that most inducements following each other within only a few years are repeat investments in the same unit rather than sequential investments in a new project. Those firms, which have directed only a single investment inducement to Korea, have all taken place after 1998. Thus, they are potential repeat investors in the near future, as they have operated in Korea for only a short period. A comparison of the value of investment inducements shows that the latter inducements tend to be larger than the earlier ones until the 5th inducement, as illustrated in Figure 28 in the next page. The increasing investment inducements may indicate good performance resulting in further input.

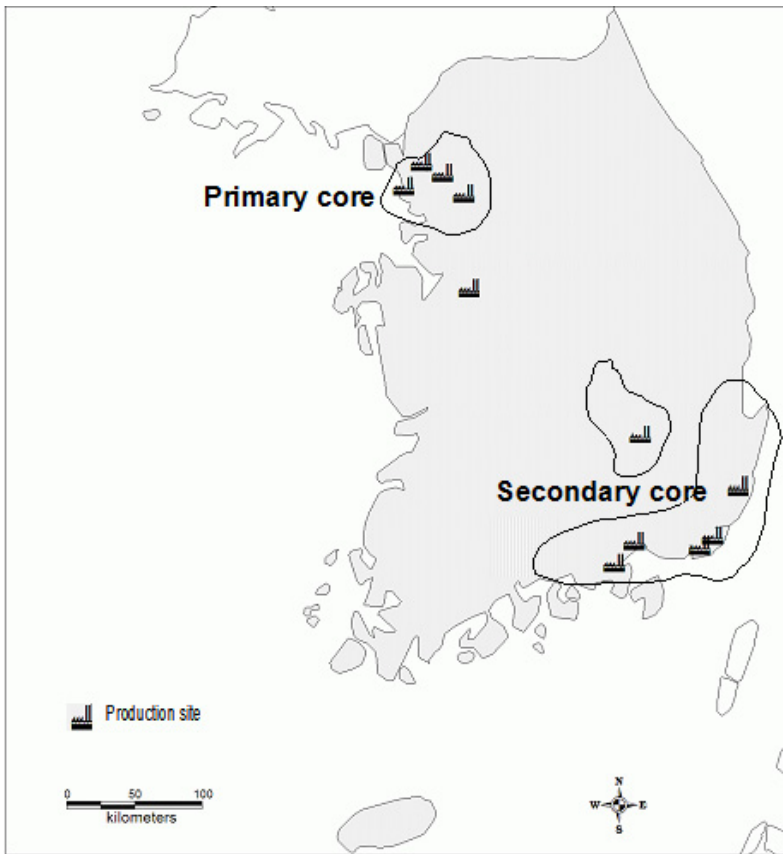
Figure 28 **Average investment inducements of repeat investors (11 firms with totally 30 inducements)**



Source: Ministry of Finance and Economy (of Korea); KOTRA by Hahn 9.4.2002.

As mentioned, eleven Finnish investors in Korea engaged in direct investment production operations (DIPOs), which means that they had assembling or manufacturing subsidiaries in Korea. Figure 29 in the next page shows the location of these production sites. The sites are divided evenly between the capital region, which hosts the primary core of Korea's regional structure, and the southeastern coastline with the secondary core (cf. Figure 20). In the capital region, Finnish production sites are located in Seoul, Seongnam, Goyang, Incheon, and Cheonan, which all belong to the primary core with the exception of Cheonan. However, also Cheonan is located in the immediate vicinity of the capital region along the major route connecting Korea's two core areas. In the southeastern industrial belt, Finnish production sites are located in Busan, Ulsan, Masan, Dalseong, and Goseong, which are part of the secondary core. In addition to eleven production sites, Finnish firms in Korea have a large number of offices for sales and services, but as they are highly concentrated in Seoul, they are not illustrated separately in Figure 29.

Figure 29 **Location of Finnish production sites in Korea**



To sum up, the Finnish investment pattern in Korea in the earlier (1984-1997) period differed from the latter (1998-2002). In the earlier period, 10 Finnish firms invested totally USD 18.1 million in Korea, an average inducement being USD 953,000. The investors were mostly large Finnish metal and forest companies. All Finnish investment cases prior to 1998 were joint ventures with majority or 50-50 ownerships and established through the greenfield strategy. Differently, in the latter period, twelve Finnish firms representing various company sizes invested in Korea to the value of USD 2,054,000, an average inducement being USD 39.0 million. Four of the firms had invested in Korea also during the earlier period. During the latter period, the chemical industry was the dominant industry. Half of the investment were acquisitions, another half being joint ventures. All ownership strategies including minority, majority and 50-50 joint ventures, as well as wholly-owned subsidiaries, were present.

7.2 Firm-specific results

The present subchapter reports the answers, which the eleven Finnish investors gave through the questionnaire and interviews on their fourteen investment cases in Korea. The primary data was achieved through the questionnaire and the exact number of answers in each variable is listed in Appendix 15. The answers are interpreted with the help of comments, which the respondents wrote in the questionnaires, and comments which they gave in the interviews. The quotations are written in italics in quotation marks. Again, the starting point for discussion is a division of the Finnish investment in Korea into two, namely investment during the restricted (1984-1997) and liberal regimes (1998-2002). Among the fourteen investment inducements, there are seven cases in both groups, namely prior to 1998 and after 1998. Efforts will be made to construct profiles of the earlier and the latter investors.

Eleven investors with their fourteen investment cases form a rather heterogenous group. By size, nine of the inducements were engaged by MNEs, two by mini-MNEs, and three by SMEs among which one can be categorised as a born global firm. Eight of them engaged in greenfield investment, three in acquisition, and three invested in their existing unit in Korea (ie repeat investment). Four of the fourteen cases were wholly-owned subsidiaries, while ten were joint ventures. Among the joint ventures, Finnish investor had a majority in five units, 50-50 ownership in three units, and minority in two units. Seven of the Finnish investors had production operations in Korea, three had marketing operations (eg sales, service), and four had both types of functions.

Finnish investment in Korea in 1984-1997

The seven Finnish investors who engaged in investment in Korea during the earlier period were all rather large firms. The five earliest investors were MNEs, the rest being mini-MNEs that started to invest in Korea in the mid-1990s. The seven investors represented various industries. Their Korean unit operated in the same industry as the parent company. All investments were greenfield type joint ventures. In four cases, the investor owned a majority share of the Korean unit and in three cases the ownership share was 50 %. The four majority owners established their Korean unit to act as a manufacturing base, while the three other firms were interested either in business

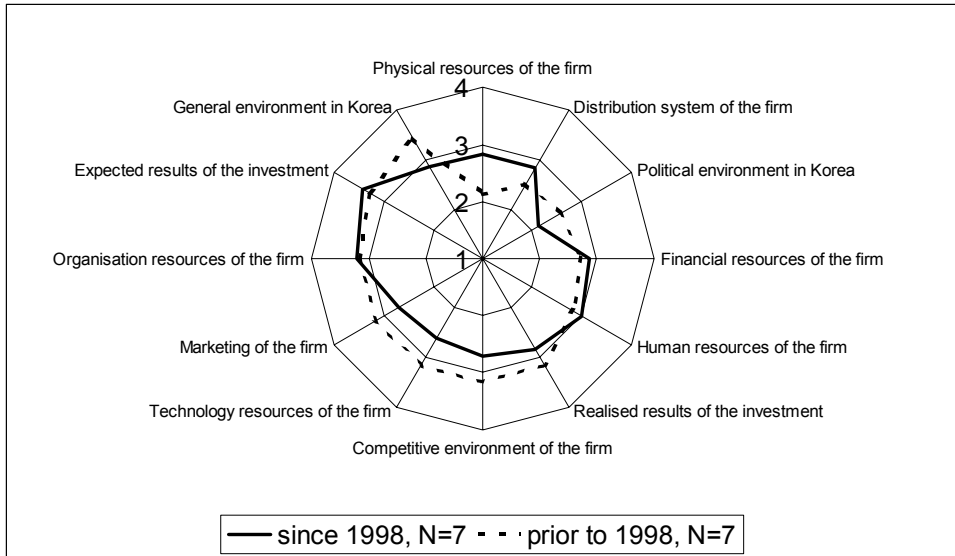
services or sales and established their unit in Korea mainly to support their customers in the Asia-Pacific region.

Respondents were asked to rank the relevant elements of the modified strategy-performance model by positioning them against each other and to mention the three most important elements in order of importance (question number 13.1 in Appendix 14). There is no single answer by all firms which means that among the relevant elements, there is no particular element that has higher importance over the others. In the period 1984-1997, the most often mentioned elements were the competitive environment of the firm, the marketing of the firm, and the general macro-environment in Korea.

The Finnish investors were also asked to mention the three most risky elements that affected their investment decision (question number 13.2 in Appendix 14). In this context, the risk refers both to the internal risk, which may occur if some internal resource is not currently in place or will be difficult to acquire, and to the external risk, which refers to the firm's reliance on some factor or future event in the host country that is highly uncertain or beyond the firm's direct influence. Again, the answers were very heterogeneous. Among the early investors, organisational resources of the firm was the most often mentioned risk element followed by the general macro-environment in Korea, the political environment in Korea, and the human resources of the firm.

Due to the heterogeneity of the answers, a deeper analysis of each of the elements has to be done. The respondents were asked to evaluate the importance of each element of the modified strategy-performance model one by one (like question 1.2 in Appendix 14). The results from both periods are illustrated in Figure 30. According to early investors, the general macro-environment, expected results of the investment, organisational resources of the firm, marketing of the firm, technology resources of the firm, competitive environment of the firm, and the realised results of the investment were important for the decision to invest in Korea (average grade is higher than grade 3 which refers to "important"). In order to find out what made these elements important, the contents of the elements have to be explained in more detail. In the following, they will be discussed in order of importance for the early investors.

Figure 30 **The importance of the relevant elements of the modified strategy-performance model according to Finnish investors in Korea, average grades, 1 = not important, 4 = very important**



The firm's general macro-environment in 1984-1997 can be regarded as the most important element having an impact on the decision to invest in Korea. The early investors highlighted such variables as the Korean economy, population, level of education, and infrastructure, which, altogether, made Korea attractive. An early investor illustrated that *"it was possible to see, visually indeed, how rapid the development [in Korea] was, and would be in the future. For example, the number of cars and the production of cars were booming"*.

The early investors invested in Korea due to the optimistic expectations on the investment project in terms of profitability and market share. In addition, they were also able to realise these expectations well. They succeeded also to improve their corporate image and turnover. An MNE representative who looked back on the investment project was almost surprised due to the success they had had *"optimistic expectations, which were also realised"*.

The organisational resources of the firm, especially values and process effectiveness, played an important role in the investment decisions of the early investors. When an MNE representative was asked how these strong existing organisational resources were

visible in practice, he answered that “[due to the existing organisational resources] *we were able to start the [investment] project especially fast, immediately as we have found out the opportunities [in Korea]*”. In addition, organisational capacity and process effectiveness were expected to be improved through the investment in Korea and these expectations were also realised: “*the planning organisation of our joint venture partner allowed a fast and profitable start-up of operations*”. Altogether, strong organisational resources both in the parent company and in the Korean unit translated into uniquely fast starting times ahead of schedule, which were typical of Finnish investment projects in Korea.

Marketing was one the most important elements guiding the investment decisions of the Finnish investors in the period 1984-1997. Typically the investors had succeeded in creating a good product range and set good established prices even before investment. However, they saw investment in Korea as an opportunity to improve the product range and pricing further, and also to develop new products. For example, an early investor told that “*the Korean unit was established in order to achieve price competitiveness in the US market*”.

With regard to the technology resources of the firm, early investors relied heavily on their existing production systems: “*we had the best know-how on the product and on the production of it, and we decided to transfer this know-how to be used in Korea*”. Another investor put it even more briefly: “*Finnish production systems were transferred successfully to Korea*”. Still in another case “*it was crucial for the success of the investment project that we transferred our technical know-how and process effectiveness to the joint venture*”. However, the technological resources to be acquired in Korea were not meaningless because “*combining Finnish and Korean technological know-how was the central part of the investment*”. The Ahlstrom representative concluded precisely the nature of Finnish investment in the earlier period: “*The Korean partner had the market knowledge and relations, while we had the know-how and technology*” (Fakta 1991). Also another investor highlighted the technology transfer aspect of the FDI: “*R&D [was done] in Finland, qualified Koreans realised [the project]*”.

Most investors, who invested in Korea before 1998, emphasised the role of the competitive environment, as they were interested in penetrating new markets either in

Korea or elsewhere. They expected to improve their position in terms of product and price competition, and thus, expected to improve their position vis-à-vis competitors. The Korean market was perceived as attractive due to the large population with increasing incomes. For example, *“all competitors were rushing to Korea”* and *“there was no space for two international players. Only the fastest won [the competition]”*. Another early investor said that *“there was not really competition in Korea in terms of the know-how that we possessed. However, we were afraid that if we do not utilise our [existing] market position [in Korea], a competitor from a third country might enter Korea.”* Therefore, for early investors *“Korea was the place where the market position has to be conquered quickly”*. Elsewhere in Asia or in the United States, new markets were explored thanks to production in the Korean unit that enabled good quality at reasonable costs. An early investor explained that *“Korean production was mainly directed to the United States market, which is the most price competitive market in the world”*.

With regard to the human resources of the firm, the early investors relied on their existing professional skills. As the operations in the Korean market are notoriously difficult, investment required special knowledge of the Korean market as well as language skills. For example, Ekono had almost ten years' experience in operating in Korea before it invested there: *“In order to bid for a successful contract, a firm has to know the local conditions. Thus, Ekono excluded such countries as Malaysia, and focused strongly on such countries as Korea.”* (Talouselämä 1985) The existing knowledge of Korea within the parent company was also crucial in the investment case where *“[the existing] contacts with Koreans made it possible to find a partner [for the joint venture]”*. However, it was even more important that the firms improved their human resources by hiring Korean personnel that was usually regarded as highly qualified: *“because the joint venture was staffed by our [Korean] partner's existing personnel, it was possible to start operations in a fast and profitable way”*. Another investor reminded that *“it was important to co-operate with a trustable local partner who can manage [the local way of doing business]”*

The financial resources of the firm were not among the most important elements. This is probably because the large firms tend to have a strong financial position. Among financial variables, the early investors gave the highest emphasis to liquidity and

solidity as preconditions for the investment decision. Investment in Korea however opened new financial opportunities, although it was important to find a “*partner [who] was able to organise financing from the regulated financial market [of Korea]*”.

Although the political environment of the firm as a whole was not among the most important elements having an impact on the investment decisions, all early investors agreed over the importance of such single variables as political stability and the impact of import restrictions for their investment decision. The import restrictions were a significant reason that pushed Finnish firms to prefer investment in Korea over the exports. A Finnish investor explained that “*Koreans are really masters in creating non-tariff barriers*”. Another investor summarised the importance of the firm’s external environment in Korea: “*political stability, future prospects of the [Korean] economy, the level of education, and the reliability of the business operations formed the preconditions for our investment*”.

The distribution system of the firm was one of the least important elements for the investment decision. One reason is that there are firms, such as the one in the service sector, to whom the question of the delivery system was rather irrelevant. Also an MNE representative explained that: “[our] *product does not have any particular distribution system*”. At least two firms had a product with which “*it is expensive to transport ‘air’ from Finland to Asia*”. As a result, they decided to make their products in Korea instead of exporting them from Finland.

The physical resources of the firm were not regarded as important by the Finnish firms that invested in Korea during the earlier period. This is natural in the case of the service industries, but the other firms needed to acquire the production facilities in one way or another. Before 1998, foreigners were not allowed to buy land and thus, Finnish investors needed to rent their production sites “*there were only short-term leases which may expire within three months – a considerably short time to move production facilities to another place*”. In addition, “*there was a shortage of land*”. Another investor had easier conditions: “*it was known [beforehand] that physical resources are available [as] our [joint venture] partner had a completed factory [in Korea]*”. A third investor told that “*an old factory was modified for our purposes, [but] all the other stuff had to be bought*”.

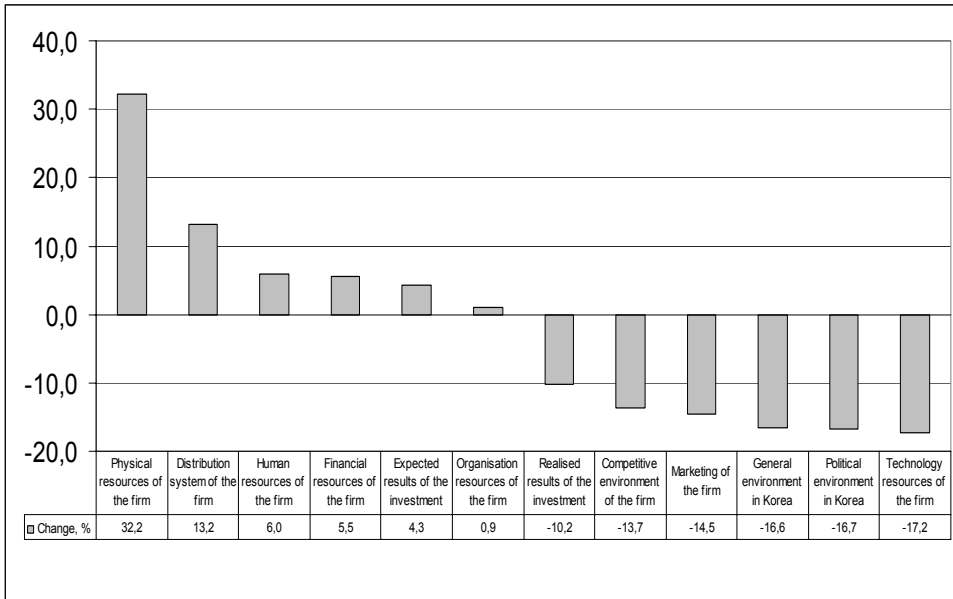
Finnish investment in Korea in 1998-2002

Finnish investors that invested in Korea during the latter period in 1998-2002 represented various categories of firm size. The seven investment inducements were directed by four MNEs, two SMEs, and one born global firm. Four investors operated in the chemical industry, while the three other investors represented three different industries. All Korean units operated in the same industry as the Finnish parent company. In many cases, the Korean units were expected to become somewhat identical with the other production units of the investor: *“our factories do not differ from each other. It is our aim to have similar technology resources in all [factories]”*. With regard to the way of establishment, greenfield investments, acquisitions, and repeat investments were all present. Furthermore, the ownership share differed from minority share to majority share and 100 % ownership. All investors had production in Korea, but four of them conducted also marketing, R&D, or sales operations beside their production.

Again, there was no single element that was more important than the others. The human resources of the firm, the technological resources of the firm, the competitive environment of the firm, and the marketing of the firm were mentioned most often by the respondents. The same is true with the three most risky elements, among which the general macro-environment in Korea and the competitive environment of the firm were mentioned most often. Therefore, the respondents were asked to evaluate the importance of each element of the modified strategy-performance model one by one. The results from the both periods were shown earlier in Figure 30.

In Figure 31 in the next page, the change in importance of different elements from earlier to latter period is illustrated. The changes are very small taking into account the small number of the firms. The most significant change is the increased importance of the physical resources of the firm. The other changes are too small to have any significance.

Figure 31 **Relative importance of modified strategy-performance model elements among Finnish investors, change from 1984-1998 to 1998-2002, average grade, N=14**



The human resources of the firm were regarded one of the most important elements during the latter period, even more important than in the earlier period. The investors relied strongly on their existing human resources in the parent company, especially in terms of professional and language skills: *“in the initial phase, a person with good language skills and experience of Asia was given responsibility for the Korean business in terms of control and routines, such as deliveries”*. Sometimes, the knowledge of Korea was based on somewhat surprising qualifications as in a small firm, where there was no staff with a special knowledge of Korea, but *“a person who had worked in Thailand”*. *“[He] eased the investment decision, because there was somebody who was familiar with Asian countries, in the parent company”*. In other firm, the professional skills of the existing personnel were praised as the *“existing staff made it possible to transfer know-how [to Korea]”*.

For repeat investors, the existing Korea personnel was even crucial for the investment decision: *“the further utilisation of our existing human resources [in the Korean unit] was one of the most important factors having an impact on the [investment] decision”*. For an SME, *“establishing a subsidiary [in Korea] was greatly eased as our Korean*

agent promised to act as managing director of the subsidiary". Trust in the capabilities of the Koreans was high also in the case where *"we had decided to strengthen our international organisation by a [Korean] country manager because our vision was to increase the share of international business from 30 % to over 50 %"*.

The technological resources of the firm were among the most important elements of the investment decision in the latter period, although their relative importance had slightly decreased from the earlier period. The existing production systems still form the core of the investment, but in 1998-2002 the improvement of production systems with the help of Korean know-how became increasingly important. This probably reflects the development of Korea's technological environment. Therefore, in the latter period, the acquisition of Korean technology instead of technology transfer from Finland became a new motive for the Finnish FDI in Korea.

In the case of repeat investors, the existing technological resources were already in Korea: *"maximising production in an existing factory is always preferred over the establishment of a new plant"*. No wonder, the repeat investors were committed to continue their investment in Korea: *"throughout the years, there [in the Korean unit] has been built up systems, knowledge, and other resources, which are much easier to maintain than build comparable capacity in another place. Therefore, the [Korean] factory is competitive."* In many cases, Korean units were expected to become somewhat identical with the other production units of the investor: *"our factories do not differ from each other. It is our aim to have similar technology resources in all [factories]"*.

It is possible that in 1984-1997 the existing technological resources were particularly important for investors due to the Korean investment policy that preferred high-tech FDI. In addition, Finnish companies were only learning to internationalise and could not have been managed without strong existing technological resources. Technological cooperation is much easier if the home and host country are similar to each other, and due to the rapid development of Korea's technological capabilities, both Finland and Korea can be nowadays recognised advanced countries in terms of technologies. It is thus possible that technological cooperation has eased over the years, which might

partly explain why there is a relative decline in the importance of technological resources.

Similar to early investors, Finnish investors during 1998-2002 regarded the competitive environment of the firm as rather important. The aim of the investors was to improve the firm's position by price and product competition. According to repeat investment, *"in order to maintain our position on the competitive market, we had to engage in repeat investment in Korea"* Closely related to the competitive environment of the firm, the investors also aimed to improve their marketing, which was regarded as one of the central elements of the investment decision. For example, an MNE representative explains that *"we needed to invest [in Korea] in order to start the manufacturing of new products; the life cycle of our products is short and thus, we have to launch new products frequently"*.

Investors in the latter period had rather optimistic expectations of their investment in Korea especially in terms of profitability, market share, and turnover. However, the investors who engaged in investment in 1984-1997 managed to realise their expectations better than the firms that invested in Korea in 1998-2002. Despite, this most investors during the latter period were satisfied because they had experienced good results in terms of an improved corporate image, profitability and turnover. An investor explains that *"the investment [project] has progressed according to the original plans. Also integration with other units of the firm in the region has succeeded."*

With regard to the organisational resources of the firm, the investors in the latter period relied on their existing process effectiveness, innovativeness and level of R&D, but they also hoped to improve the same characteristics together with the organisational capacity through investment in Korea. The results are almost identical with the earlier period.

The importance of the general macro-environment in Korea has slightly decreased from the earlier to latter period. The strong economy of Korea has remained as important as ever, together with the educational level and productivity of Koreans. An investor from the latter period put it briefly: *"the general macro-environment [in Korea] is O.K. for profitable production"*. Accordingly, a repeat investor explained that *"there were no*

negative reasons that could hinder us from enlarging our operation [in terms of the general macro-environment]”.

The importance of the political environment declined even more than the general macro-environment from the earlier period to the latter. This is especially because the investment liberalisation in 1998 made the political environment temporarily very interesting for a few firms, which perceived the Asian crisis as an opportunity and entered a market or strengthened their position by a low price. Therefore, the political environment did not form any particular restriction for the investment decisions any more. According to a firm representative, *“Korea favoured foreign direct investment during the time of acquisition”*. Another firm representative put it even more strongly: *“reform of investment legislation in the aftermath of the Asian crisis enabled our investment in Korea. This was very important [for the investment decision].”*

In the case of repeat investments, the respondents explained that the political environment was not important in decision making because it had already been evaluated when the investment decision was made for the first time. Repeat investors had a rather pragmatic attitude: *the [political] environment is obviously O.K. as the factory operates well there. No particular influence [of political environment to investment decision]*. Similarly, *“only a very significant change in Korea’s general or political environment would make us consider not continuing operations in Korea, once started”*. Furthermore, *“as it is question of a repeat investment, it was important that there were no significant changes in [Korea’s] political atmosphere”*.

The importance of the Asian crisis and investment liberalisation can also be put the other way round and ask whether it would have been possible for Finnish firms to invest to Korea in such an extent as they did, without the Asian crisis and the following liberalisation of Korean investment policy. A respondent explains that the Asian crisis created a momentum for investment: *“The Asian crisis forced Korean companies to sell out or search for a foreign partner”*. Another respondent adds that the investment decision was encouraged by the investment policy liberalisation: *“Korea promoted FDI at the moment of acquisition”*. In addition, a repeat investor explains that *“only if Korea had been especially difficult business environment, we have chosen another place and set up a new plant instead of a repeat investment”*. Also another repeat investor points

out that “*for a repeat investment that aims to maintain the existing position of the plant, it is crucial that there are no significant breaks in the continuity of the political environment.*” These answers suggest that repeat investments would have been engaged regardless of the Asian crisis or the investment policy liberalisation, but the acquisitions would have not taken place without the crisis and the promotion of FDI.

The importance of the financial resources of the firm was relatively low probably because “*the financial resources create the enabling motive for the other motives*”. The existence of financial resources was rather self-evident as it is not possible to invest without adequate financial resources. In the latter period, there were two groups of firms with opposite arguments when the expected financial resources were concerned. Firstly, the large firms did not need to worry about their future financial resources because “*there is a wealthy parent company and a wealthy bank behind the investment*”. Differently, there were small companies that greatly emphasised the importance of expected cash flow generated through the investment. They highlighted the retained earnings as the best form to finance their future. In some cases, the performance of the parent company was even dependent on the success of the investment project in Korea. Thus, the requirement of money return within a specific period of time was highly important. The expectations were also set high: “*we believed that the establishment of a subsidiary [in Korea] would increase our annual turnover 3-4-fold in comparison to the earlier phase when the [Korean] business was done through an agent. As the earlier phase had been profitable, the expectations in terms of economic performance were set according to that.*”

The role of the physical resources of the firm increased significantly from the earlier period to the latter. All investors in the latter period highlighted their need to acquire new machines and equipment. According to a repeat investor, “*investment was directed to new machines and equipment, which are used to produce new products or to replace old machines*”. Achievement of buildings was also important when the investment decision was made and different from the earlier period where the firms suffered from the lack of suitable industrial sites, “*during the Asian crisis buildings were put up for sale after the bankruptcies*”. The increased importance of physical resources among the relevant elements having influence on the investment decision was partly due to the repeat investors who were willing to improve the existing machines and equipment in

their Korean unit. A repeat investor explained that *“this [investment] is not to enlarge [production] but maintain the relative position of the [Korean] factory within our production network”*.

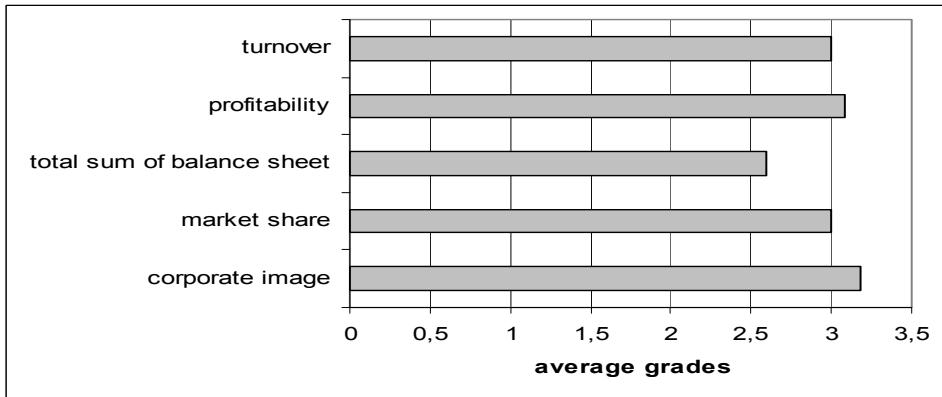
The distribution system of the firm was not among the most important elements. However, most investors in the latter period agreed that the improvement of the distribution system can be made with the help of investment in Korea. Improvements were expected to take place in terms of the order-delivery process, delivery reliability and time, and warehousing. Again, the local partner was important in arranging the logistics: according to a JOT Automation press release (18.4.2001), *“a joint venture with well known local partner allowed JOT and its products to enter the Korean market rapidly, although it has been known traditionally as a difficult target for European firms to enter”*.

Common features of the Finnish investors in Korea

Due to the large heterogeneity of the answers, it is difficult to distinguish any common features of the Finnish investors in Korea. In the level of the elements of the modified strategy-performance model, the importance of performance is the only element over which all investors agree. As mentioned earlier, Finnish divestments in Korea have been almost non-existent which may indicate that the investments in Korea have been successful. Furthermore, the number of repeat investments is high reflecting good performance and positive future expectations. Also the answers gathered through the questionnaire indicated that the Finnish firms were successful in their Korean investment projects. Respondents regarded the importance of the investment results high as the given average grade of expected results was 3.4. This was the highest grade given for any element (in the scale 1 = not important at all, 4 = very important).

Basically, the Finnish investors were also satisfied with the realised results, as they gave the average grade of 3.0 for them (in the scale in which performance had been realised between 1= very poor and 4 = very good). Among the fourteen investment projects, ten investment projects succeeded well or very well, while only two did not succeed that well. Two firms did not answer the question because they had just started their investment project in Korea. The best performance was gained in terms of corporate image and performance, as can be seen from Figure 32.

Figure 32 **The realised results of the investment projects**



Note. Success in terms of 1 = poo, 4 = very good, N=12.

In addition to economic results, firms mentioned many other kinds of realised expectations. For example, a representative of an early investor stated that in practice, investment in Korea has also resulted in *“entry to the US market [due to the increased price competitiveness], qualified products, low costs, and new know-how for the whole group”*. Furthermore, *“after the initial difficulties, the Korean unit became one the most profitable units in our group, and one of the figureheads of our internationalisation”*. Internationalisation of the firm was important also for another MNE, whose representative told that *“we saw an opportunity to do profitable business [in Korea]. At the same time, we were purposefully internationalising our operations”*.

According to an MNE representative, thanks to the investment in Korea, the parent company had become *“important or even the leading supplier in the domestic market and an active exporter both in the Asian and the American market”*. A former manager of an early investor emphasised that *“investment enabled us to have a strong presence in the Korean market in terms of our know-how, and, as far as I know, the business still remains profitable”*. A repeat investor, who praised the economic performance of the Korean unit, listed also other results such as *“good dividend paid for the capital, spin-off in terms of new businesses in Korea, an increase in the firm’s public relations value in Korea and in the whole of Asia”*. A small firm representative added that *“before the investment, we were already selling our products [in Korea] and after that, our reputation and corporate image in Korea has strengthened significantly due to the*

establishment of a [Korean] subsidiary, and due to the building of our global brand at the same time.”

The only difference that can be found among the investors in terms of performance is that MNEs succeeded to realise their expectations well, while the smaller firms were not as victorious. Small firms worried about their internal resources, especially financial resources, as a potential source of risk, while the MNEs trusted their internal capabilities and found a potential risk only in terms of the external environment. For example, a small firm expected that the establishment of a subsidiary in Korea would increase the annual turnover manifold, but *“the poor market situation cut the sales [in the aftermath of the Asian crisis]. Probably, we also chose the wrong person as a country manager.”*

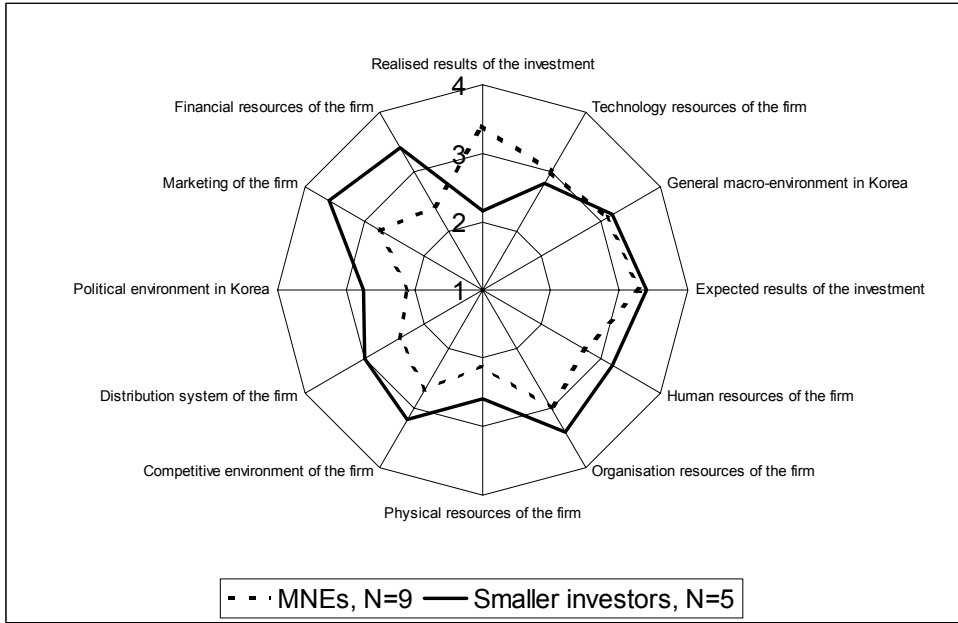
Some of the investments that took place during the end of the latter period were not yet mature enough to produce any results and thus, it was too early to evaluate their performance. For example, an investor compared the Korean unit’s realised results to the results of the whole group as follows: *“[realised results of the Korean unit are] like our results in general. In 2001, [our] market share increased in the difficult market and the profitability is good in comparison to any other [unit]. It is not possible to evaluate the impacts of production or investment in Korea [on the realised results of the group]”*.

At the level of the single variables, there was not such a variable that had been regarded as “important” or “very important” in all 14 investment cases. On the basis of single variables, it is however possible to identify some typical characteristics of the Finnish investors in Korea. It is obvious that investment has to be profitable (in 13 cases out of 14). In most cases (at least 11 out of 14), the investors relied on the strong existing organisational resources, which they possessed, especially common shared values and process effectiveness. They also trusted the existing technology resources in form of production systems, and the existing human resources in terms of professional skills. It was important for most investors that they had a strong financial position in terms of liquidity and solidity. Through investment, most investors aimed to improve their competitive position in the target market by product competition. Investment in Korea was engaged in order to make new or improved products, which are successful even in the most price competitive markets of the world. By expectations, profitability,

improved market share, and turnover were obvious answers. Investment was also expected to improve the organisational capacity of the firm.

Some common features can be recognised among small firms in comparison to MNEs. As there were only a few small investors, it was not possible to compare large and small firms as such. However, it was possible to make comparisons on the total level in order to find out the systematic differences in results between the large and the small firms, as shown in Figure 33 in the next page. In comparison to nine MNEs, the five smaller investors, including mini-MNEs and SMEs, gave frequently higher grades for all elements of the modified strategy-performance model. Due to the number of small firms, any further conclusions cannot be drawn, but the higher grades may indicate the more important role of a particular investment project in comparison to firm's size and resources.

Figure 33 Importance of the elements of the modified strategy-performance model by MNEs and smaller firms, average grades, 1 = not important, 4 = very important



According to literature on internationalisation of the SMEs (eg Buckley 1989, 98), the risk of investment is considerably higher for small than large firms, as the proportion of

resources committed to an investment project is larger¹⁸⁰. For example, in the present study, there was an SME, which had invested abroad only once before investing in Korea. It is obvious that in that kind of SME, every single variable receives relatively high importance, as the investment is huge in comparison to firm's capacities to internationalise. This is very different from the Finnish MNEs that have experience in doing business in dozens of countries before their investment in Korea.

The most significant difference between the MNEs and smaller investors can be found in terms of financial resources and realised results. Small firms evaluated the financial resources much higher than MNEs. Often, small firms have to rely on many sources of finance as financing is one of the central problems in the internationalising of SMEs and often they tend to avoid taking debt due to the risk. An SME representative gave an example: *"the country manager was employed - with a monthly salary - by the parent company. However, he needed to finance the establishment of physical resources by himself [from the Korean sources]. This was in order to decrease the risk, increase the commitment of the country manager, and to avoid debt financing."* According to the SME representative *"the general rule in the field is that if everything is lost in the host country, the parent company has to remain untouched. This is possible for the large companies, but not for the small ones."*

Large firms did not emphasise the importance of cash flow and solidity as much as the small firms, but relied on their existing solidity and liquidity. An MNE representative mentioned that *"finance did not set limits, but even if the times had been bad, there had not been any risks, either"*. Another MNE representative added that *"certainly, if there had been a lack of financial resources globally, it had influenced global total investments"*. Still another MNE said laconically that *"investment was small in relation to the parent company"* although the investment project as a whole was one of the largest Finnish investments ever in Korea. Still another MNE said that *"investment was small, as such, in relation to [the size of] the parent company. In the investment decision-making process, attention was paid to the joint venture's abilities to survive after the parent had invested in capital, with the help of its own cash flow, and even to its abilities to pay a dividend to the owners"*.

¹⁸⁰ Buckley (1989, 98) claims that the SMEs do not have as strong a knowledge of the host country as the large firms who have more experience of the political and other aspects of operating abroad.

Another difference between large and small firms was visible with regard to the realised results. The performance of the large firms was comparable with their expectations of the investment project, but small firms did not achieve their expectations. This may indicate that in large firms, investment projects had been planned and implemented in a more systematic way. The results may also be related to the fact that the most relevant, potential risk of the small firms was created through the internal factors, especially financial resources (cf. Kailaranta 1998, 45). This is different from MNEs, which relied on their financial resources and suggested that the general or political environment of the firm in Korea created the most significant risk for their investment. Furthermore, it is possible that small firms had too positive expectations, as a study on typical mistakes of the Finnish SMEs in internationalisation, claims that SMEs often expect too positive results because they do not have accurate information and they fail in the implementation of the internationalisation due to the cultural differences that had not been taken into account (LTT 1988, 65).

7.3 Location factors of Korea

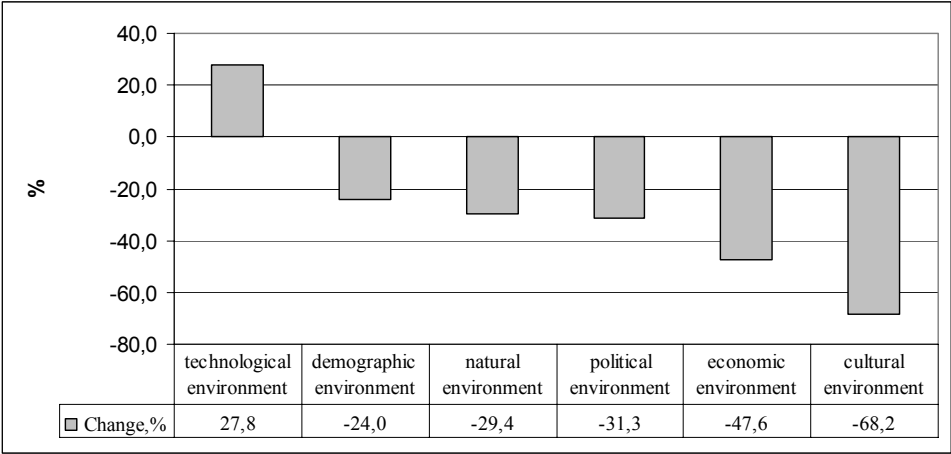
The firms evaluate the location conditions in their host country according to their strategies and produce a set of location factors that are specific to them. Next, these location factors of Korea will be constructed on the basis of the location conditions in Korea, as discussed in Chapter Five, and the results of the present study. The results are derived from the multiple source of evidence including investment statistics, firm-level data acquired through the questionnaire and interviews, other interviews and presentations, and articles in practitioner's journals. Typical factors, which were emphasised by Finnish investors in terms of the general macro-environment and political environment in Korea, will be discussed at the level of single variables. The general macro-environment will be discussed in terms of the natural, cultural, economic, demographic, and technological environment. Discussion of the competitive environment of the firm in Korea will remain short as most Finnish investors used Korea only as a bridgehead to Asia and thus, their competitive environment included a much larger area than Korea.

In the previous subchapter, it was noticed that in the earlier period (1984-1997) the general macro-environment in Korea was one of the most important elements of the

modified strategy-performance model for the investment decisions of Finnish firms, while the political environment was not among the most important elements. In the latter period (1998-2002), the general macro-environment in Korea had lost part of its importance and the significance of the political environment had decreased even more (cf. Figure 31). If the general macro-environment is divided into parts, the decreasing importance can be further evaluated by comparing the average grades given for variables representing each part of the firm's external environment (viz. Figure 34 in the next page).

Among the variables representing the firm's external environment in Korea, the answers were scattered. There were only six single variables that most investors (over two-thirds of the respondents) assessed as "important" or "very important" for their decision to invest in Korea. The largest attention was paid to the stage and growth prospects of the Korean economy, the level of education, the availability of labour, productivity, infrastructure, political stability, and investment policy credibility. However, different firms that had invested in Korea at different times, interpreted these variables in a different way.

Figure 34 **Relative importance of variables on Korea's environments, change from 1984-1998 to 1998-2002, "important" and "very important" categories, N=14**



With regards to the earlier (1984-1997) and the latter (1998-2002) periods, the importance of all other parts of the firm's external environment in Korea except the technological environment had decreased from the earlier period to the latter, as shown

in Figure 34. In the following, the different environments in Korea will be discussed by comparing the interpretations in the Finnish firms in the earlier (1984-1997) and the latter (1998-2002) period.

Interpretation of the natural environment in Korea

Among the natural environment-related variables, the geographical location of Korea was reported as the most important variable having an influence on the investment decision. For most respondents, the location of Korea referred to the *“central location of Korea in relation to other Asia-Pacific countries”*. For example, *“products can be shipped from Incheon to Dalian or Qingdao in China over night”*. In most cases, Finnish investors had founded their Korean units to produce goods for the whole Asia-Pacific region, not only (or at all) for the Korean market. Many respondents stressed the difference of Korea in relation to Japan: *“Japan would have been more attractive [location], but it was much more expensive and furthermore protectionist”*. Thus, investment was directed to Korea, which provided at least as good an infrastructure and quality of human resources than Japan. In another case, an investor *“needed to locate in the Asia-Pacific region, not necessarily in Korea, but as Chinese infrastructure was not yet developed enough, Korea was chosen”*.

In the latter period, the importance of the geographical location for investment decisions was still valid. In many cases, the Korean unit was established to be a remarkable part of the investor's global network. An Ahlstrom representative explained its repeat investment: *"We have invested considerably in the USA and Europe over the last two years and this further expansion of production in Korea reflects our desire to support our customers globally,"* (Nonwovens report international 2002).

The regional structure was crucial for the firm that had invested in Special Economic Zones (SEZs) where various kinds of investment incentives had been offered since the 1970s: *“our joint venture partner had a factory in Korea and their experiences were promising: low production costs together with good quality. The free trade area and tax privileges together with the opportunities to transfer profits encouraged us to establish an export-oriented unit”*. Beside the SEZs, there were also other attractive regions in Korea. An investor emphasised that *“we are located in the largest SME area in the world and it*

creates economies of agglomeration. To put it briefly, the infrastructure is complete there.”

One of the natural environment variables was the energy supply. Korea is highly dependent on imported oil and after the oil crises in the 1970s, attention was turned to sustainable use of energy reserves and effective power production. These developments created opportunities for Finnish firms providing know-how on environmentally friendly energy management, including the district heating system. In this context, also Korea's climate with relatively cold winters¹⁸¹ created a need for an extensive heating system, which could secure the convenient housing for rapidly urbanising areas. These reasons explain the importance of such variables as energy supply and climate in 1984-1997. In the latter period, energy issues were mentioned only in terms of sufficient supply at reasonable costs. Instead, the related environmental issues were mentioned. As environmental issues are just rising up in Korea, more detailed regulations are expected to appear in the near future. From the Finnish perspective, this may create new opportunities to transfer environmentally friendly technologies there. Before, there is a danger that firms may still locate environmentally sensitive industries in Korea from more conscious countries¹⁸².

Resource-seeking investments that might emphasise the importance of the natural environment in Korea have not been a common form of Finnish investment in Korea, although, prior to 1998, existing raw materials were utilised in the metal industry in some degree. The entry of the chemical industry into Korea since 1998 has, however, highlighted the importance of the raw materials available in Korea.

¹⁸¹ In January, the coldest month of the year, the average temperature falls below freezing (A Handbook of Korea 1990).

¹⁸² The following anecdote has nothing to do with the Finnish investment in Korea, but it shows that there are probably differences between the Korean provinces in terms of environmental regulations or practices, and potential loopholes for those firms interested in utilising them. In 1998, the author visited a subcontractor of a Finnish textile company. The company that produced fabrics had recently moved from Seoul to Gyeonggi Province, where, according to company representatives, the local authorities were more willing to turn a blind eye to illegal labour force as well as environmental violations, compared to Seoul. In that company, the labour force consisted of Filipinos, who worked in rather primitive conditions: the out-of-the-way location, overcrowded and hot factory hall (workers were undressed due to the high inside temperature), poor knowledge of the Korean language, hurried working tempo and long working days. The poor working conditions gave an impression of the use of an illegal labour force. Later, in discussions with the Gyeonggi Province authorities (eg Bark 31.5.1999) the existence of this kind of problem was denied. This indicates either unawareness or ignorance of the problem by the local decision-makers.

Interpretation of the cultural environment in Korea

The importance of Korea's cultural environment for the Finnish investment decision showed decreasing trend from the earlier period to the latter. Firms that invested in Korea prior to 1998 tended to emphasise the mutual trust that created a strong basis for long-term co-operation: "*since the very beginning, we trusted our [Korean] partner*". Early investors told also many anecdotes on the special relationship between Finns and Koreans. For example, a reason that has enhanced a positive attitude towards Finns in the eyes of Koreans is that Koreans generally believe in a language relation between the Finnish and Korean languages (cf. Yang 2001). At least, Ekono has reported that this kind of positive belief can be utilised in doing business with Koreans (SK 8.6.1984).

Koreans are often blamed for their xenophobia, or discriminatory attitude towards foreigners. However, early Finnish investors reported that Finns enjoyed a special position among foreigners in Korea. For example, according to the Nokia representative, American companies located in Masan SEZ had occasionally been disturbed by an investment-hostile atmosphere, but never Nokia that had a Finnish flag in front of its plant (Wilska 14.5.1996). The early investors highlighted also the positive characteristics of Korean culture and the mutual trust between Koreans and Finns. Similarly, Finnish media (eg SK 8.6.1984; HS 26.2.1985), from the basis of company interviews, described Finno-Korean human relations as straightforward: Koreans have a positive attitude towards Finns, who speak a "similar" language. In addition, Finns can manage in Korea if they are correct, patient, and have a good capacity of alcohol consumption (ibid.).

Differently, during the latter period, in 1998-2002, the opinions of the Finns included a somewhat negative attitude towards Koreans. Especially, Korean business culture was mentioned as difficult and different from that of the Finland: "*differences in culture and attitudes are large*". According to another respondent, "*the slump [ie Asian crisis] depressed [the atmosphere of Korean] business life and made it even more difficult to deal with Koreans*". However, still another firm respondent stated that "*Korean business culture is actually closer to Western culture than the Japanese culture, for example*". Thus, he recognised "*Korea as a comfortable place to do business for Finns*", but admitted that "*Finnish business culture may be very difficult for Koreans to digest*".

The level of internationalisation of Korean companies was also complained: “*Koreans have little experience in other cultures*”. During the earlier period, there were no similar complaints, which may reflect the fact that also Finns were new-comers in international business in the 1980s. Coming to the new Millennium, they have already been used to doing business in the most global settings and may see Koreans as lagging behind Finns in that sense. As the importance of Korea’s cultural environment for Finnish investors, however, decreased from the earlier to the latter period, it may indicate that Finns have become more able to handle cultural differences, and cross-cultural settings result in no insuperable obstacles. In some Korean units, Finnish business culture was applied. Those plants, which were clearly a part of the investor’s global network, operated under the same business culture as the other plants in other countries and other continents. A company representative told that “*with regard to values, tolerance and equality, we [in the Korean unit] try to follow the values of our group*”.

In terms of equality, Finns did not complain of any race or ethnic discrimination, or xenophobia, but in the earlier period they mentioned gender inequality. In Korea, where the women’s role is still primarily defined within the household, it is not common to have women in leading positions in the firms. Despite this, at least two large and one smaller Finnish investor named Korean women to a leading position in their Korean subsidiary. A representative of a Finnish SME reported that “*Korean staff [ie males] never approved of the idea of a Korean woman as a director. In practice, within the organisation, there was a Korean style pecking order, usually based on seniority and gender.*”

Altogether, it became evident that Korean culture has certainly remained unique, despite its transfer to a more individualist society and increasingly transparent, open, internationalised, and equal business culture. However, the change in the Finnish attitude towards Korean culture is obviously somewhat negative and can probably be cured only by increased information on Korea and the Koreans.

Interpretation of the economic environment in Korea

Among the economic environment of the firm in Korea, Finnish firms agreed on the importance of a variable called the Korean economy. It was the most often mentioned variable among all variables describing the conditions in Korea. This may indicate that Finnish firms trusted the strong Korean economy without any further concerns: “*the*

exceptionally rapid growth of the Korean economy that had continued for a long time, together with the strength of the Korean economy, with the addition of increasing purchasing power, created a strong pull factor for the investment and 'guaranteed' a 'safety-feeling' demand". Even the Asian crisis was not an obstacle to Finnish investors but an incentive to invest in Korea due to the deterioration of the Korean won that made the prices of investment targets buyer-friendly.

Interpretation of the demographic environment in Korea

With regard to the demographic environment, the educational level of Koreans has been praised as long as Finnish firms have operated in Korea. Basically, Korean units have been run by Korean personnel. An MNE representative in charge of establishing a manufacturing unit in Korea reported that *"the factory has been operated by Korean [human] resources since the beginning. Originally, there were no Finns at all in the factory. Later, there has been one or a maximum of two Finns [in the Korean unit]"*. Consequently, another MNE representative added that *"personnel [of the Korean unit] were recruited with the help of the [Korean] partner. Basically, it [the staff] was good.*

The high educational level indicates the quality of the labour force, which, in the case of investment, translates into uniquely fast building times and deliveries ahead of schedule. For example, Ahlstrom's Hyun Poong paper mill was constructed within 10 months, in 1988, which can be recognised as a great achievement from a greenfield site (Lasserre & Schütte 1999). Similarly, Nokia's staff that did not have earlier experience in operating in East Asia when starting in Korea in 1984 was impressed by the effectiveness of the Korean staff. The training of the Korean staff was gone through within a few months, which was considerably shorter time than in other countries. (Wilska 14.5.1996) Another MNE representative put it briefly: *"the competitive Koreans realised [the investment project]"*.

In addition to the educational level, the population number indicating the market, as well as labour and wage levels defining the costs of labour, were mentioned as important variables. However, the number of population and labour resources was not as important for investment decisions as it used to be prior to 1998, not to mention the wage level. During the earlier period, low labour costs were still available. However, *"monthly salaries as such may be low, but it is normal to pay 16-20 months in a year. Furthermore,*

giving a notice is extremely expensive, comparable with salary of 24 months". The decreasing importance of labour costs reflects the transformation of Korea from low-cost labour-intensive industries to high-tech industries with well-paid professional staffs. Still, Korea can offer much lower labour costs than Japan, for example¹⁸³.

During the latter period, some Finnish firms mentioned the income levels and consumer behaviour as an important aspect of the investment decision. These firms manufactured final products for the Korean market and for them the income level of Koreans meant a high propensity to consume and a preference for brand products. Sometimes, changes in customer attitudes appeared in a way that some products, which earlier were necessities for poor people, suddenly became status symbols for the nouveaux riches: *"there was an obvious change in customer attitude in favour of our product and the only competing products were very robust products offered by an American competitor"*. In this case, Finnish firms and products had a better image than the Americans and *"the availability of Finnish high-quality raw material created a competitive edge"*.

To sum up, the demographic environment of Korea as such did not have any special meaning for the Finnish investors as a group, although the high level of education was appreciated by almost all Finnish firms. However, the content of the level of education variable seems to have been changed in the interpretations of the Finnish investors. In the earlier period, it referred to qualified manpower in manufacturing, but in the latter period, it referred increasingly to Korean professionals that are able to adapt to rapidly new technologies and business opportunities.

Interpretation of the technological environment in Korea

Productivity and infrastructure were the most often mentioned technological environment indicators. Korea's high productivity has been praised since the very first investment of Finnish firms in Korea in 1984. One of the first investors reported, that *"high productivity enabled price competition in a highly competitive market without any quality losses"*. In this context, also innovativeness was mentioned as it enabled the adoption of new technologies rapidly and effectively: *"the company was able to produce new high-technology products at significantly lower costs than earlier [elsewhere]"*.

¹⁸³ According to an international wage comparison, the gross hourly wage in Tokyo is more than double that in Seoul (UBS 2003, 22).

Infrastructure on a larger scale was still under construction at the end of the 1980s, although the Korean government had heavily focused on infrastructure building since the 1960s. A representative of an early Finnish investor reported that *“telecommunication links were underdeveloped but still sufficient in relation to the extent of our operations”*. Also R&D was still at a low level, but that was the very reason, which made it possible to transfer Finnish technologies to Korea during the restricted investment policy: “[a particular] *industry was developing and required high-level Western machineries*”.

The transportation system has always been important for Finnish investors. Respondents highlighted especially the easy access from Korean harbours to international waters. Most goods are transported through the Busan harbour because the Incheon harbour, the nearest to Seoul, is a tidal port. The small size of Korea enables fast transportation to Busan or airports, but at least one SME representative claimed that *“the route transportation from the Capital region to Busan has been cartellised”*. The opening of the Incheon-Dalian route and other Sino-Korean routes since 1992 has opened new logistical opportunities also for Finnish investors.

Korea’s productivity in the latter period was as important as ever for Finnish investors and it still enabled production of sophisticated products at reasonable costs. The infrastructure had developed significantly and especially Korea’s telecommunications were mentioned among the best in the world. In the latter period, also innovativeness and the R&D level became increasingly important. These two variables were emphasised especially by the representatives of the chemical industry, which has recently started R&D co-operation with innovative Korean partners that are able to use and create new technologies. To sum up, the technological environment in Korea that earlier was regarded to being just sufficient to support Finnish operations in Korea, increased the attractiveness of Korea in the latter period, especially thanks to the sophisticated infrastructure, high innovativeness, and high level of R&D.

Interpretation of the political environment in Korea

Political stability and investment policy credibility were mentioned as the most important political environment variables that had an impact on the Finnish firm’s investment decisions. Prior to 1998, Finnish firms had a keen interest in Korea’s political development, which was followed with care. An early investor remembered

that “*in the mid-1980s, South Korea was obviously on its way to democracy*”, but he added: “*...there was military dictatorship with curfews as late as at the beginning of the decade [of the 1980s]*”. Another investor described the same: “*Korea’s gradual development towards a Western style democracy created additional trust on the stability of the country and this, together with the positive economic environment, created a clear attraction to start business operations [in Korea]*”.

Together, the economic and political development made Korea a potential investment target, especially because trade policy with high tariffs and other non-tariff barriers restricted exports. An early investor remembered that “*import restrictions forced our Korean customers to justify [to the Korean government] that the comparable technologies were not available in Korea [in order to import from Finland]. This made the buying and selling processes very slow and unsure*”. After the investment, “*it was easier to get an import license when the import came from Finland through a [Finno-Korean] joint venture*”. Along with the multilateral trade negotiations, the level of tariffs started to decrease, but the use of non-tariff barriers may have even increased. In the case of Finnish investment in Korea, however, the importance of import restrictions decreased from the earlier to the latter period.

Investment in Korea was not an easy way to avoid trade protection, because the investment policy was restrictive until 1998 and Finnish firms were “*required to justify that the technology transfer was really needed and comparable technology was lacking in Korea*”. When hiring Finnish staff in Korea, the company “*needed to justify to the Korean government that no Korean is capable of working in that position. Often, the only way was to claim that Finnish language skills were needed in that job.*” Investment policy determined also the type of ownership as M&A were not allowed. Altogether, “*various regulations made investment procedure difficult and time-consuming*”. Thus, Finnish firms used local accountants and lawyers, who knew the complex accounting, taxation, and other procedures. A firm representative told that “*we had an excellent lawyer, a Korean who had studied in the United States; he was very important for us*”.

In the latter period, most investors emphasised the importance of a liberalised investment policy. Firms trusted in rather stable policies in Korea in which sudden changes were not expected to occur. Along with the investment policy liberalisation, many earlier concerns,

such as ownership regulations and the transfer of profits and capital, had vanished. Korea's economic policy in general and trade policy in particular were still important issues for many investors, although their importance had decreased in the latter period. Multilateral trade negotiations within the GATT and WTO frameworks decreased the importance of tariffs in general for investment decisions.

The credibility of Korea's investment policy was questioned during the 1990s, when Korea started loud sloganeering on investment liberalisation in order to get OECD membership, but actually kept FDI restricted. During the restricted period, the investment policy was credible in a sense that the restricted policy seemed to continue in the same way for the foreseeable future. Since the gradual liberalisation, Finnish firms have had their doubts about the continuation of the liberal investment policy. This is due to the gap between rhetoric and reality in the 1990s. Even after investment liberalisation in 1998, Koreans have been blamed for attracting FDI only on their own terms.

In the future, it seems that the development of the political environment in Korea but also in the East and Southeast Asian region as a whole may increase the attractiveness of Korea. According to Seppälä (27.8.2003), it is important to follow the macro-level developments in the region, because the intensification of regionalism in East Asia may result in an Asian free trade area creating additional potential for new businesses. Another potential source for new businesses is the possible opening of the railway connection between South and North Korea (ibid.). It is worth noticing that the North Korean threat, which has often been mentioned as the most important deterrence of FDI in Korea (eg KEW 20.6.1998) was not mentioned by Finnish investors at all.

To sum up, the political environment in Korea, which already during the earlier period was regarded as stable due to the continuous democratisation, later lost a part of its importance for Finnish investment decisions, because the protectionist trade policy and the ownership regulations of FDI were liberalised. In the latter period, the respondents highlighted the increasingly supportive investment policy. However, there were doubts on the continuity of the liberal tendency as the changes in Korean investment policy have appeared to be cyclical in nature.

Interpretation of the competitive environment in Korea

The competitive environment of the firm forms a part of the scope of the market operations element in the modified strategy-performance model. As most Finnish investors used Korea only as a bridgehead to Asia, their competitive environment included a much larger area than Korea and they did not give many comments on the specific competitive environment in Korea.

There is at least one Finnish MNE whose absence in Korea attracted attention of other Finnish firms, because it did not invest in Korea at the same time as the other early investors in the 1980s. The absence was explained by a fear of the competitive environment of the firm in Korea that is dominated by a chaebol. Instead, most of those firms that have engaged in investment in Korea trusted their existing strengths in the local competition in Korea and also in global competition. An early investor explained that *“the competitive environment [in Korea] did not have any special importance [for our investment decision] because we had the know-how which did not exist locally”*.

The Korean way to organise business became familiar to Finnish investors: *“the investment in Korea does not always reflect the expansion of production, because the network economy is well developed in Korea. Thus, the expansion of production capacity is organised through local subcontractors and contract manufacturers. The flexibility created from the network is one of the most important sources of Korea’s competitive advantage”*. Also another Finnish investor argued that *“flexibility is based on the speed of subcontractors”* and thus, *“in Korea, production time is exceptionally short”*.

To sum up, Finnish firms evaluated the importance of single variables representing the external environment of the firm in Korea very heterogeneously. In addition, firms that invested in Korea during different periods, interpreted the important variables in different ways. This supports the idea that firms generate a specific set of location factors from the general location conditions that are the same for all firms.

7.4 Managing the relations of a political nature

As discussed earlier, the political environment in Korea has not been among the most important elements having an impact on the Finnish investment decisions in Korea. In addition, the role of the political environment has even decreased over time. This might indicate that also the need to use bargaining power against the Korean government had decreased. The management of the political relations was not included in the questionnaire as such, but the topic was raised in many contexts and thus, it finally became a separate topic of its own. It was found that the experiences of the Finnish investors actually support also a more detailed periodisation of Korea's investment policy, which was introduced in Chapter Six. As the number of Finnish investors in Korea is small, only some general remarks can be made, but it seems that the Finnish investors really perceived the investment atmosphere as different during the Reformation phase (1979-1992), *Segyehwa* phase (1993-1996), Asian crisis phase (1997-1999), and Recovery phase (since 2000)¹⁸⁴.

During the Reformation phase (1979-1992), five Finnish firms invested in Korea. They faced the restricted investment policy of the Korean government, with the exception of an investor that utilised a Special Economic Zone (SEZ) established by the Korean government in order to facilitate export activities in the 1970s. This investor was able to utilise the few benefits offered by the Korean government during the restricted Reformation phase. The other Finnish investors became interested in Korea as an investment target as there was a demand for special Finnish products and know-how in Korea. This demand encouraged some Finnish firms to engage in investment despite the regulations and bureaucracies.

With regard to the Korean authorities, an early investor highlighted the importance of the initial contacts created by the liaison office that was opened in Korea much earlier than the actual investment took place: *“our local office built up the contacts with local industries and authorities”*. Beside local partners, also the authority services provided by the Finnish government were needed. The Finnish media paid special attention to this need already at the beginning of the 1980s (eg SK 8.6.1984), when the Korean

¹⁸⁴ During the two first phases, namely the EOI-phase (1962-1972) and the Oil crisis phase (1973-1978), there was no Finnish investment in Korea.

President's Special Presidential Advisor visited Finland with his colleagues in order to discuss the district heating projects¹⁸⁵. In the same context, one of the first Finnish firms in Korea, an engineering company Ekono, which had managed to sell large-scale projects to Korea, stated that the authority services were crucial to the realisation of these projects (SK 8.6.1984). The Finnish Minister of Foreign Trade visited Korea in 1984 and promoted Ekono's project plans with his personal authority.

The initiation for the authority services did not always come from the Finnish firms, but it was also the aim of the Finnish government to promote Finnish operations in distant markets. As there was no Finnish resident Ambassador in Seoul before 1986, the Finnish Ambassador in Tokyo kept up contacts with the Korean authorities and thus, acted as a spokesman of the Finnish firms. (ibid.) Since its foundation, the Finnish Embassy in Seoul adopted an active role in introducing Finnish firms and products to Koreans in the 1980s (Latvanen 17.4.2002).

The Korean government started to launch the image of a relaxed political environment and investment atmosphere in the mid-1990s. During the *Segyehwa* phase of Korean investment policy (1993-1996), eight Finnish firms invested in Korea, three of them being repeat investors. Firms still needed local partners and authority services, but the development of the political environment in Korea was perceived as rather positive. Especially, Korea's OECD entry in 1996 forced the Korean government to harmonise its regulations with international requirements. According to a Finnish investor, "*the transparency of administration and legislation together with predictability* [of the political environment] *created the basic preconditions for a positive investment decision*".

Despite the sloganeering for investment liberalisation, Finnish firms noticed soon that the changes in Korea's investment policy would probably take more time than expected. M&A were not allowed, and greenfield investments were negotiated between foreign businessmen and central government officials concerning the various requirements of a

¹⁸⁵ The Finnish journal *Suomen Kuvalehti* lists very detailed information on the curriculum vitae of the visitors. It also compares the visit to the hypothetical case that the Finnish President flies to the other side of the globe to promote a Finnish construction project. Such an action by the Finnish President was unprecedented at that time. By this comparison, *Suomen Kuvalehti* implicitly praises the authority services provided by the Korean government. Later, it continues by building up the comparable role of the Finnish government in promoting the company Ekono's projects in Korea.

minimum level of exports, the level of local content in the firm's activities and technology transfer. An MNE representative stated that "[the predictability of the political environment] *has fluctuated, but not really hindered the preconditions for operations*".

Finnish SMEs started to operate increasingly in Korea since the mid-1990s. For them, authority services were even more critical than for larger firms. In planning their Korean operations, SME representatives joined Minister-led trade delegations, such as the one led by the Finnish Prime Minister in 1994. Finnish SMEs arranged receptions for their Korean customers, suppliers, retailers and other partners, and on these occasions, the Prime Minister was the guest of honour, who promoted SME's business with his personal authority in the most high-level setting. According to an SME representative, this kind of promotion was "*not only highly appreciated, but even crucial for opening up new business opportunities*".

At the end of 1997, the Asian crisis forced the Korean government to liberalise its investment policy in order to improve its financial reserves, and Korean companies started to seek foreign partners because they had difficulties in getting loans. During this phase (1997-1999), five Finnish firms invested in Korea, one of them being a repeat investor. Two Finnish firms utilised the upcoming situation and acquired parts of Korean firms, which had not been possible before the change in the legislative base. For them, investment liberalisation was clearly an enabling factor.

The Finnish government saw the Asian crisis as an opportunity as well. At the end of 1997, the Finnish Minister of Trade and Industry visited Korea and based on what he saw, he urged Finnish firms to take advantage of the relatively advantageous prices in Korea. The attractiveness of the Korean economy during the crisis was easy to recognise by Finns, who had their own experiences of a severe recession and its consequences from the beginning of the 1990s in Finland. Despite this, there was no rush of Finnish investors in Korea, but only two firms decided to explore new opportunities in Korea.

Ten Finnish firms invested in Korea during the Recovery phase (since 2000), five of them being repeat investors. Most investors considered Korea's investment policy as favourable for investment, but the need for authority services did not decrease. In 2002, the President of Finland promised to plead for Finnish business in authoritarian countries

during her state visit to Korea. Finnish firms appreciated the state visit highly. A company representative admitted that “*the President [of Finland] opened doors to such Korean organisations, which otherwise would not have been easy to approach*”. Thus, in the delegation of the President, Finnish businessmen were able to meet top-leaders in Korea. “[These] *meetings opened up new business opportunities with values of tens of millions of euros to be realised within the coming years*”. This indicates that the authority services were needed in Korea as much as earlier despite the liberalised investment policy and relaxed attitude towards foreign investors. The reasons are probably related to the firm’s political and cultural environment in Korea.

To sum up, the experiences of Finnish investors in Korea support the earlier periodisation of the Korean government’s investment policy (Korhonen 2001). The immediate conclusion is that Finnish firms have needed to use a special policy towards Korean authorities in order to do business in Korea successfully. In addition, this need has not decreased along with the general democratisation of Korean society and the liberalisation of the investment policy. This may indicate that the role of Korea’s cultural environment, which appreciates hierarchies, networks, and collectivism, including the most high-level settings also in the context of FDI, still has an impact on economic interaction between Koreans and foreigners. As a result, Finnish firms have appreciated the good bilateral relations between Finland and Korea and have actively used the authority services provided by the Finnish government.

7.5 Synthesis of the results

This chapter has discussed the third research task and thus, forms the empirical evidence on the Finnish firms’ direct investment in Korea in 1984-2002. The aim has been to explain how the Finnish firms have interpreted Korea as a host country in terms of their direct investment, and how these interpretations have altered along with the change in Korea’s political environment.

As discussed earlier, the major changes in Korea’s political environment included the development from authoritarianism to democracy, the shift of Korea’s role from a passive aid receiver to an active participant in the international community, the

development of Korea's economic system from a developmental towards a liberal free market system, and the shift of Korea's role in the world economy from that of a developing country to a rich trading country (cf. Table 10 in Chapter Five). Investment policy was divided into a restricted (prior to 1998) and a liberal (since 1998) period.

According to the Korean statistical data, the Finnish investment pattern in Korea has been different during the earlier (1984-1997) period in comparison to the latter (1998-2002) period. The firm level results furthermore support this distinction. With the help of multiple sources of data, it is possible to construct the profiles of the Finnish investors during the periods 1984-1997 and 1998-2002, as shown in Table 16 in the next page. The investors differ in terms of the size of the investor, the dominant industry, the expansion strategy, the way of growth, ownership type, and function. Moreover, the average investment inducement has been higher in the latter period. The firms also name somewhat different elements of the modified strategy-performance model as important or risky for their investment decision. The most important single variables for the investment decision are different between the earlier and the latter periods. Only good performance is common to all Finnish investors in Korea.

Finnish firms that invested in Korea during different periods often regarded the same variables as important but, however, interpreted them in different ways. Interpretations of the "important" and the "very important" variables are listed in Table 17. These interpretations form the specific location factors, which refer to the perceptions of the location conditions from the perspective of a single firm and its purposes. Each investor perceived its external environment differently, but it is possible to group the investors in order to find out the general changes between the two periods. However, it should be kept in mind that due to the small number of firms, the results are of an indicative nature only.

If the major changes in location conditions in Korea (viz. Table 10 in Chapter Five) are compared with the location factors as interpreted by the Finnish investors (viz. Table 17), the impact of changes in location conditions on Finnish investment decision-making can be evaluated. This comparison is illustrated in Table 18.

Table 16 Profiles of the Finnish investors in Korea prior and since 1998

	1984-1997	1998-2002
Size of the investor	MNEs and mini-MNEs	MNEs, mini-MNEs, SMEs, and born globals
Dominant industries	Forest and metal industries	Chemical industry
Dominant expansion strategy	Horizontal investment	Horizontal investment
Dominant way of growth	Greenfield investment	Greenfield investment, acquisition, repeat investment
Dominant ownership type	Majority and 50-50 ownership	Minority, majority and 100 %
Dominant function of the Korean unit	DIPO or DIMO	DIPO and DIMO
Average investment inducement	USD 953,000	USD: 1,891,000
The most important elements for the investment decision	The competitive environment of the firm, the marketing of the firm, and the general macro-environment in Korea	The human resources of the firm, the technological resources of the firm, the competitive environment of the firm, and the marketing of the firm
The most risky elements for the investment decision	The organisational resources of the firm, the general macro-environment in Korea, the political environment in Korea, and the human resources of the firm	The general macro-environment in Korea and the competitive environment of the firm
The most important single variables for the investment decision	The product itself and its pricing (marketing variables), values, process effectiveness and organisation capacity (variables on organisational resources of the firm), cash flow, solidity and liquidity (variables on financial resources of the firm), and professional skills (variable on human resources of the firm)	The production systems (variable on technological resources of the firm), process effectiveness, innovativeness and R&D (variables on organisational resources of the firm), professional skills (variable on human resources), cash flow and solidity (variables on financial resources of the firm), and machines and equipment (variable on physical resources of the firm)
Performance	Good	Good

Note. The most important elements and variables are listed in order of importance as mentioned by the respondents.

Table 17 **Location factors of Korea as interpreted by the Finnish investors**

	Prior to 1998	Since 1998
Natural environment	<ol style="list-style-type: none"> 1. Geographical location good in relation to the Asia-Pacific market 2. Regional structure generates economies of agglomeration 3. Energy supply in terms of restrictions that after the oil crisis created a need for new energy saving technologies 4. Raw material endowments suitable for the metal industry 5. Climate created a need for a district heating system 6. Environmental requirements with increasing consciousness created a need for new environmentally safe technologies 	<ol style="list-style-type: none"> 1. Geographical location good in relation to the Asia-Pacific market 2. Regional structure generates economies of agglomeration 3. Raw material endowments suitable for the chemical industry 4. Energy supply sufficient for production
Cultural environment	<ol style="list-style-type: none"> 1. Business culture based on trust 2. Values and attitudes emphasising mutual trust 3. Tolerance of Finns differently from Americans 4. Internationalisation at a low level 5. Equality does not come true among genders 	<ol style="list-style-type: none"> 1. Business culture differs greatly from Finland 2. Values and attitudes differ greatly from Finland, but enable operation according to the Finnish way 3. Internationalisation at a low level as Koreans have little experience of foreigners
Economic environment	<ol style="list-style-type: none"> 1. Economy in terms of strong economic fundamentals creating good growth prospects of the market 2. Industrial structure 3. Exchange rate 4. Interest rate 5. Rapid growth creating new market opportunities 	<ol style="list-style-type: none"> 1. Economy harmed by the Asian crisis but there was a trust in continuous growth due to the strong economic fundamentals 2. Industrial structure 3. Exchange rate as Korean currency weakened due to the Asian crisis resulting in investor-friendly prices
Demographic environment	<ol style="list-style-type: none"> 1. Education level high resulting in supply of good quality of labour 2. Population number large enough to make a market 3. Wage level in terms of cheap labour 4. Labour number large enough to supply qualified manpower 5. Consumer behaviour 	<ol style="list-style-type: none"> 1. Education level high resulting in qualified staff with diverse skills 2. Population number large enough to make a market 3. Labour number large enough to supply qualified manpower 4. Income level high enough to make a market 5. Wage level still lower than in Japan 6. Consumer behaviour developing to prefer brand products 7. Unemployment rate

Technological environment	<ol style="list-style-type: none"> 1. Infrastructure sufficient to support effective operations and export 2. Productivity enabled price competition without quality losses 3. Transportation system enabled access to international waters 4. Innovativeness enabled use of new technologies 5. R&D level low which created a need for technology transfer 	<ol style="list-style-type: none"> 1. Productivity that enabled the production of sophisticated products at reasonable costs 2. Infrastructure well-developed, technological infrastructure one of the best in the world 3. Transportation system enabling access to international waters 4. Innovativeness enabled the creation of new technologies 5. R&D level high attracting co-operation
Political environment	<ol style="list-style-type: none"> 1. Political stability in terms of continuous democratisation 2. Non-tariff barriers forced to invest instead of export 3. Economic policy fluctuations did not create any breaks in the continuity of economic development 4. Tariffs forced to invest instead of export 5. Investment policy credibility questioned due to the gap between rhetoric and reality 6. Ownership regulations determined the type of investment as a joint venture 7. Investment climate restrictive and allowed FDI only on the terms of the Korean government 8. Investment regulations insisted to export much of the production 9. Transfer of profits and capital free at SEZ 10. Legal system transparent but a good Korean lawyer needed 11. Trade policy shielded domestic producers from international competition 12. Investment procedure complex and in the Korean language 13. Taxation exceptions at SEZ 14. SEZs to provide export platform for world markets 15. Investment incentives at SEZ 16. Foreign relations 17. Administration transparent 18. Local autonomy in terms of SEZs 	<ol style="list-style-type: none"> 1. Investment climate promoting FDI 2. Investment policy credibility still questionable 3. Investment regulations liberalised 4. Investment procedure easement 5. Economic policy guarantees the continuity of economic development 6. Trade policy with gradual liberalisation 7. Tariffs still create an incentive to invest rather than export 8. Political stability in terms of continuous democratisation resulted in additional credibility 9. Legal system transparent 10. Transfer of profits and capital liberalised 11. Ownership regulations liberalised to cover M&A 12. Non-tariff barriers still create an incentive to invest rather than export 13. Taxation 14. Administration 15. Foreign relations

Note. Within each part of the environment of the firm, the variables are listed in their order of frequency as mentioned by respondents. The variables that were mentioned by more than half of the respondents are in bold letters.

Table 18 **Impact of change in location conditions in Korea on the Finnish investment decision-making**

Part of the firm's external environment in Korea	Major changes in location conditions in Korea (cf. Table 10)	Major changes in the most important location factors as interpreted by the Finnish investors (cf. Table 17)	Impact on the Finnish investment decision-making
Natural environment of the firm	Increase in environmental awareness	<u>Exited variables:</u> climate, environmental regulations <u>Changed content:</u> raw materials	No particular impact
Cultural environment of the firm	Change towards a transparent, open and international business culture, and more individualist and equal society	<u>Exited variables:</u> tolerance, equality <u>Changed content:</u> business culture, values and attitudes	Unclear impact
Economic environment of the firm	Change away from balance of payments or debt problems, matured economy in which the service sector has exceeded manufacturing and market is consumer-oriented high income market, savings rate has deteriorated	<u>Exited variables:</u> interest rates, rapid growth <u>Changed content:</u> economy, exchange rate	Minor impact
Demographic environment of the firm	Population growth has slowed down, the wage level has increased significantly, labour has become even better educated	<u>Changed content:</u> education level <u>New variables:</u> income level, unemployment rate	Minor impact
Technological environment of the firm	Change towards locally invented technologies and suitable infrastructure, as well as high R&D expenditure	<u>Changed content:</u> productivity, infrastructure, innovativeness, R&D level	Strong impact
Political environment of the firm	Along with the democratisation, the political field has stabilised, trade and investment policies have been liberalised	<u>Exited variables:</u> Special Economic Zones, investment incentives, local autonomy <u>Changed content:</u> investment climate, investment regulations, investment procedure, trade policy, transfer of profits and capital, ownership regulations	Strong impact

Note. Exited variables are variables that were mentioned as "important" or "very important" in 1984-1997, but not anymore in 1998-2002. New variables were mentioned as "important" or "very important" in 1998-2002, but not in 1984-1997. Changed content refers to the situation when the variables were regarded as "important" or "very important" during both periods, but for different reasons.

With regard to Table 18, the natural environment of the firm in Korea produced no particular impacts on the investment decisions of Finnish firms. This is visible through the change in location factors from 1984-1997 to 1998-2002. Among them, climate and environmental regulations were important only for the investors providing environmentally sustainable technologies in the earlier period. Similarly, Korean raw materials were important for the metal and forest industries, which dominated Finnish investment in the earlier period. In the latter period, they were important for the then dominant industry, the chemical industry. Thus, the change in location factors is derived from the Finnish investors, not the natural environment of the firm in Korea.

It is obvious that the cultural environment of the firm in Korea is facing a gradual transformation towards a more transparent, open and international business culture at the same time as the whole Korean society is becoming a more individualistic and equal society. Basically, this kind of development should encourage and ease FDI. However, the perceptions of the Finnish investors on the cultural environment in Korea changed to become more negative from the earlier to the latter period. Finnish investors complained about the differences among Finnish and Korean business cultures during the latter period, while they used to highlight the mutual trust and cultural similarities in the earlier period.

The economic environment of the firm in Korea changed rapidly during a period of twenty years, when Finnish firms have invested there. The Korean government has basically managed to solve its debt and balance of payments problems, the Korean economy has matured, and it has become a consumer-oriented high income market. At the same time, however, the traditionally high savings rates have declined. These changes had only a minor impact on Finnish investors that perceived the economic environment in Korea as rather stable. However, for some of them, the Asian crisis created a momentum to utilise the drastic investment policy liberalisation together with lower prices caused by the deterioration of the Won.

Demographic changes are related to better living standards, which in Korea have resulted in slowing population growth and increased levels of wages and education. In 1998-2002, those Finnish firms that produced final products for the Korean market emphasised the importance of the slowing population growth and increasing income

level. These factors are behind the fact that Koreans are known for the high propensity to consume and a preference for brand products. Those Finnish firms, which reported that the unemployment rate was an important aspect of the Korean economy, highlighted also the abundant supply of Korean personnel. As there was an increasing demand for qualified professionals, Finnish firms were interested in increased mobility in the Korean labour market. This mobility was caused by the Asian crisis, which resulted in white-collar unemployment, legalised layoffs, and chaebol restructuring with eroding seniority-base lifetime employment and recruitment on the basis of need. The changes helped Finnish companies to find Korean personnel in the situation in which especially the ICT industry was going to face a labour shortage.

The education level of Koreans was an important aspect of Finnish investment in Korea during both periods. However, in the earlier period, Finnish investors were basically interested in the excellent manufacturing workforce, while they later became more interested in well educated and qualified knowledge and a professional workforce such as engineers. The level of education was regarded as a very important aspect especially by the chemical industry firms that became the dominant investors in the latter period.

The change in the technological environment in Korea has been rapid as the country has experienced a transformation towards locally invented technologies, modern infrastructure, and high R&D expenditure. The technological environment of the firm in Korea was an important aspect of Finnish investment in both periods, but its importance increased further in the latter period. This is because the earlier technological environment was considered just sufficient to enable production in Korea, but in 1998-2002 it became the very attraction of Korea. Also the change of dominant Finnish investors in Korea from the metal and forest to the chemical industries probably played a role in explaining the change.

The political system in Korea has undergone a profound change from authoritarianism, which was still prevailing when the first Finnish firm invested in Korea, to democracy. Moreover, Korea's commitment to the international community and its integration with the international economy had created a pressure to pursue more open trade and investment policies and compete for international investment. Korea's economic system has shifted from developmental towards a liberal free market system. These

developments have certainly made Korea a more attractive investment destination. Furthermore, they have enabled a liberalisation of investment policy. These changes certainly have had an impact on Finnish investment decisions in Korea.

In 1984-1998, Finnish investors complained about the various difficulties related to the Korean restrictive investment policy. In 1998-2002, firms were basically satisfied with the liberal policy. For some of them, investment liberalisation created a very momentum to enter Korea. In addition to the liberalised investment policy, firms in the latter period were also satisfied with the liberalised trade policy. The increased bargaining power of local authorities since the restoration of local autonomy in 1995, the existence of the SEZs, or the various investment incentives offered for foreign investors since 1998, did not play any role, as the Finnish firms directed their investment only to the core areas of Korea.

In the changing political environment, it was important for Finnish firms to maintain or increase their bargaining power. The democratisation of Korea's political system and the liberalisation of its economic system did not decrease the need to use a special policy toward Korean authorities. Instead, the help of authority services provided by the Finnish government was needed, because the cultural environment of the firm in Korea appreciates negotiations in the most high-level settings.

PART IV DISCUSSION

8 Perceptions of the firms on the change in their political environment

In the final part of the study, efforts are made to return to the original theoretical interest. On the basis of the empirical results discussed in Chapter Seven, the theoretical conclusions, which were presented in Chapter Four, will be revisited in order to put forward the theoretical implications of the present study with a critical evaluation. In addition, the implications both for the host and home governments on the one hand, and Finnish investors on the other hand will be discussed. Finally, some recommendations for future research will be suggested.

8.1 Theoretical implications

The aim of the current study has been to explain how the transnational corporations perceive and react to the change in the host country's political environment in their investment decisions. In order to answer the research problem, 1) a modified strategy-performance model that recognises both the general internal and external factors that have an impact on the investment decisions of TNCs has been constructed, 2) the role of the political environment of the firm in the host economy for the investing firms has been evaluated, and 3) the empirical case of Finnish investors perceiving the political change in Korea has been analysed.

The use of a modified strategy-performance model

The first research task of the study was to propose a model that recognises the relevant elements having an impact on the firm's investment decision. As the study was positioned to the geography of enterprise research tradition, a model that shares similar theoretical starting points was sought. In the geography of enterprise approach, international investment is understood as a firm's strategic decision, which aims to improve the firm's performance in the long run (cf. Cowling & Sudgen 1987, 60; Hayter 1997; Dicken 1998, 177; Oinas 1998, 34-45; Yeung 2000). As earlier FDI studies had focused either on the internal factors, which push a firm to engage in

international investment, or the external factors having an impact on FDI, as Dunning (1998) points out, the aim of the present study was to adopt a more holistic perspective. Therefore, similar to Luostarinen and Welch (1997), the aim was to put the firm's internal and external factors in the same framework. As a result, Lahti's strategy-performance model (1983, 1985, 1987), which fulfilled the above-mentioned requirements set by the geography of enterprise approach, was chosen.

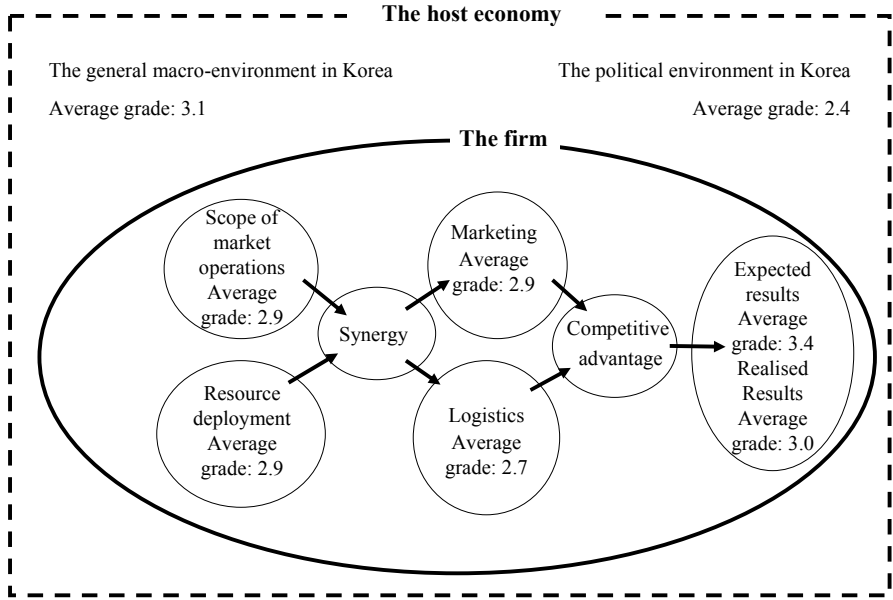
In its original form, Lahti's model was an attempt to recognise all the significant factors, which help the firm to achieve economic performance. In the current study, Lahti's model was modified by incorporating the firm's external environment explicitly to the model. With the help of a modified strategy-performance model, the relative optimal location of the firm can be explained by linking it with the performance of the firm: the firm invests where it can operate successfully. The modified model can be used to analyse the impact of change in any part of the firm's external environment. In the present study, however, special attention was placed on the political environment of the firm.

The empirical study suggested that all the elements incorporated in the modified strategy-performance model are relevant to the firm's investment decision. When the respondents evaluated the total importance of each element on a scale 1-4 (1 = not important, 4 = very important), the average grade was 2.9, which is near to point 3 that refers to "important". The average grades of all single elements also exceeded the most neutral answer between the definite opinions (2.5 on a four-point scale), with the exception of the political environment, as shown in Figure 35 in the next page. The highest average grade was received by the expected results, which emphasises the strategic nature of international investment. As such, it also gives additional justification for the use of a strategy-performance model in the case of an investment study. Also the selected variables (cf. Table 14) were relevant as each of them was mentioned important at least once.

The modified strategy-performance model emphasises simultaneously the firm's external environment and the firm's organisation, because the international investment is motivated by a stimulus from both country-specific and firm-specific factors. On the basis of the empirical study, there is no reason to doubt that Finnish firms have given

equal emphasis on the importance of the external and the internal elements. In addition, as the firms have been successful in their investment in Korea, they have probably also succeeded to create synergy by combining their resources with the Korean location conditions in a satisfactory way. These arguments support the idea that earlier FDI studies have probably underestimated the role of the firm’s external environment, which should be studied more extensively in the context of international investments (cf. Dunning 1998).

Figure 35 Importance of the modified strategy–performance model elements in average grades



Note. 1=not important, 4=very important.

The empirical results showed that each investor emphasised rather different variables as important when making investment decision. The dispersion was highest among the general and the political environment variables, which reflects the fact that firms perceive the same host country differently according to their strategies. This justifies the use of concepts of *location conditions* and *location factors* by Nishioka and Krumme (1973). With the help of the concepts, it is possible to separate the location conditions, a pool from which the firm can satisfy its need for resources in the host country, from the specific location factors, which differ from firm to firm and are generated according to the firm’s strategy.

The role of the political environment in the investment decision-making

The second research task aimed to identify the relative importance of the political environment among the other elements of the strategy-performance model. Political environment was suggested to have a special role among the other environments because the host government can intervene in the TNC entry, operation, and exit, as far as the host country's territory is concerned (eg Kobrin 1979, Boddewyn & Brewer 1994). Therefore, in the empirical study, the political environment was separated from the other parts of the firm's environment in the host country and analysed separately. However, it received the lowest average grade in terms of importance (viz. Figure 35). This indicates that it is not a relevant element to be separated from the other general macro-environment elements, but should be included with them.

In the case of Finnish investment in Korea, the political environment of the firm was not regarded as important for investment decision. This is different from the earlier surveys conducted among the foreign investors in Korea (eg KEW 20.6.1998, Ahn 1999, KH 27.11.2003), which have named the political instability and North-South tensions as the greatest investment barriers. Similarly, analysis of the political risk with the help of Simon's (1982) framework (cf. Table 8), suggests that in Korea, major risks are governmental by their nature, but they have decreased considerably in the aftermath of the Asian crisis. However, the most severe political risk, namely the tensions in the Korean peninsula, has not disappeared along with the end of the Cold War. In the empirical part of the present study, the political environment of the firm was recognised as a potential source of risk, but the North Korean threat, for example, was not mentioned by Finnish investors at all. During the latter period (1998-2002), potential risk was related only to some doubts on the continuity of the liberal tendency as the changes in Korean investment policy have appeared to be cyclical in nature.

Investment studies both in the fields of the geography of enterprise and international business have emphasised the TNCs ability to bargain over the international investment (eg Gregersen & Contreras 1975, Poynter 1982, Lecraw 1984, Goodman 1987, Kobrin 1987, Moon & Lado 2000). In the present study, it became evident that the political environment is the very part of the host country that the firms may try to influence. The earlier literature (ibid.) has emphasised the TNCs abilities to lower the political risk by bargaining with the host government, while the present study states, similar to

Goodman (1987) and Hayter (1997), that TNC may not need to do that alone but it may lobby help from its home government. Thus, the present study adds a concept of *authority services* to the list of TNC's techniques to bargain over the host government. The authority services have played a role also in the Finnish firms' investment in Korea. Furthermore, the need for authority services has not decreased along with the general democratisation of Korean society and the liberalisation of the investment policy.

Finnish investment decisions in Korea

The third research task was clearly empirical as it aimed to explain how the Finnish investors have perceived the political change in Korea. The empirical results gave evidence of the validity of the periodisation of Korea's investment policy into six phases by Korhonen (2001), but as the number of Finnish investment cases in Korea is only 18, a more simple division into a restricted (prior to 1998) and liberal (since 1998) period was used.

The empirical results suggest that the Finnish investment pattern in Korea was different during the earlier (1984-1997) period in comparison to the latter (1998-2002) period. In the earlier period, 10 Finnish firms invested totally USD 18.1 million in Korea, an average inducement being USD 953,000. Investors were mostly large Finnish metal and forest companies, whose aim was to improve their international competitive position. All Finnish investment cases prior to 1998 were joint ventures with majority or 50-50 ownerships and established through a greenfield strategy. The investors relied on their existing organisational and financial resources and emphasised the acquirement of new market opportunities. The target market was not necessarily Korea, but production in Korea enabled the firms to enter the United States or the Asia-Pacific market thanks to qualified products made in Korea at reasonable costs. Finnish firms bringing know-how that was not available in Korea and which, due to its intangible nature could not be localised, were strong players in the Korean market.

In 1998, there appeared a significant peak in Finnish investment in Korea due to the Korean investment policy liberalisation that allowed mergers and acquisitions. During the liberal period of 1998-2002, twelve Finnish firms representing various company sizes from born global firms to MNEs invested in Korea to a value of USD 39.0 million, the average inducement being USD 2,054,000. Four of the firms had invested in Korea

also during the earlier period. During the latter period, the chemical industry was the dominant industry. Half of the investment consisted of acquisitions, another half being joint ventures. All ownership strategies including minority, majority and 50-50 joint ventures, as well as wholly-owned subsidiaries, were present. The profit making with increasing efficiency became increasingly highlighted by the investors. Besides improving the position of the firm in international competition, also the acquisition of Korean technology instead of technology transfer from Finland became a new motive for the Finnish FDI in Korea. Finnish investors emphasised strong existing organisational, technology, and human resources, which eventually create business skills that are hard to copy. The realised investments showed how the new features of Korea's technological environment, especially research and development (R&D) skills, were utilised successfully.

As mentioned earlier, the political environment of the firm as a whole received the lowest average grade in terms of importance. There were, however, a few single variables of the political environment, which were regarded as important by the Finnish investors, including the drastically liberalised investment policy and gradually liberalised trade policy that had an impact on the investment decisions. However, the change in the political environment of the firm cannot be separated from the other simultaneous changes in other parts of the firm's external environment in Korea. Especially, the changes in the technological environment of the firm in Korea were regarded as an important aspect of the Finnish investment. The case of technology sourcing FDI in R&D may also partly explain the increase in acquisitions, which is probably the only way to access to Korean technologies.

The impact of the changed cultural environment of the firm in Korea remained unsure. This is because Korean society is becoming more individualistic and equal, a fact that might encourage and ease FDI, but it has not resulted in a more positive attitude of Finnish investors, rather the opposite. The economic environment of the firm in Korea has changed rapidly during the past decades but the changes seem to have only a minor impact on Finnish investors that perceived the economic environment in Korea as stable. Similarly, demographic changes had only a minor impact on Finnish investors who during the earlier period were interested in getting an excellent manufacturing workforce, while they later became more interested in well-educated and qualified

knowledge and a professional workforce such as engineers. Finally, there were no major changes in the natural environment of the firm in Korea and thus, it did not produce any particular impacts on the investment decisions of the Finnish firms, either.

The present study did not analyse the strategic motives (cf. Dunning 1993, 82) of the Finnish investors explicitly. However, based on the empirical results, it seems that in 1984-1997, there were efficiency seeking investment due to the low production costs and presence of Export Processing Zones in Korea, and market seeking investment due to the adjacent regional (or global) market, relatively low real wage and transport costs. In 1998-2002, the investment seems to be knowledge-seeking due to the low prices and availability of synergistic assets in Korea, the opportunities offered for the exchange of localised tacit knowledge, ideas and interactive learning, and the resource-seeking investment due to the availability of local partners to jointly promote knowledge intensive resource exploitation.

During both periods, Finnish firms were satisfied with the performance of their investment operations in Korea. In the case of repeat investments, the latter inducements tend to be larger than the earlier ones, which may indicate the earlier successful performance resulting in further input. Consequently, there was only one divestment in the case of Finnish investment in Korea. From the base of the empirical study, there is no reason to doubt that Finnish firms succeeded to create synergy by combining their resources with the Korean location conditions in a satisfactory way. However, each firm emphasised different variables of the external environment, which reflects the fact that firms perceive the same host country differently according to their strategies. This justifies the use of concepts of location conditions and location factors (cf. Nishioka & Krumme 1973).

Final remarks

Generalisability of the empirical results is high within the case of Finnish investment in Korea, because eleven firms out of totally 18 answered the questionnaire. However, in generalising of the results beyond the case, considerable caution is needed. In order to give an empirical answer to the research problem, which asks how the TNCs perceive the change in the host country's political environment and react to them in their investment decisions, some generalisations have to be attempted.

Finnish investment in Korea followed the general internationalisation pattern of Finnish firms (cf. Luostarinen 1979, Larimo 1993, Pihkala 2001), as well as the overall pattern of Finnish outward investment (cf. Kinnunen 1990, Ali-Yrkkö and Ylä-Anttila 1997, Pihkala 2001). This is because Finnish investments in Korea started in 1984 by large and traditionally strong exporters, which were familiar with the Korean market through earlier export operations. Since the beginning of the 1990s, the collapse of Soviet Union¹⁸⁶ and the following severe depression in Finland pushed also smaller firms to invest in Korea. Finnish investment was directed mostly in the forest, metal, and chemical industries, where the chaebols traditionally played only a minor role. This may indicate that these sectors did not belong to the most advanced sectors of Korean industries and thus, there was a need for FDI. In addition, the very recent focus of chaebols is on electronics, machinery, and chemicals and they have built competence in these sectors with the help of FDI.

Finnish investments in Korea were a horizontal investment, as the Korean units were established to produce the same products or services as their parent company in Finland. This is the typical investment type in a distant and unfamiliar market (cf. Borsos-Torstila 1999, 57). The ownership alternatives of the Finnish investors were clearly defined by Korean investment policy, as M&As were not allowed before 1998. Therefore, most Finnish investments were joint ventures, similar to general pattern of Nordic investment in Asia (cf. Larimo & Tahir 2002). Most Finnish investors used Korea as a manufacturing base and as a regional hub to serve the whole Asia-Pacific region. By location in Korea, Finnish investors relied on the attractiveness of the Korea's core areas, as the direct investment production operations were evenly

¹⁸⁶ Before the collapse of Soviet Union at the end of 1991, it was the second largest export destination of Finland accounting for almost 13 % of Finnish exports.

distributed in the metropolitan area and to the southeastern coastline. The sales offices were concentrated in to the capital. These facts give support to the earlier studies, which state that FDI flows in Korea have strengthened the existing regional structures, not reduced imbalances (eg Douglass 2000, Korhonen 2001).

The results are consistent with the other recent studies on Korean economic policies in general and investment policies in particular, such as Korhonen (2001), Dent (2002), Stoever (2002) and Shin (2003). These studies emphasise the impact of the Asian crisis as a turning point in Korea's economic policies. During the crisis, the Korean government wished to save the Korean economy by liberalising its investment policy, but other attempts, such as the IMF loan, certainly played a more significant role. However, the liberalisation of investment policy would have probably taken much longer time without the external pressure created by the Asian crisis.

The case of Finnish investment in Korea indicates that firms scan their political environment continuously in order to anticipate and respond to possible changes. Therefore, Finnish firms did not regard the political environment of the firm as important part of their investment decision, although it certainly had an impact on their investments. It seems that if an economy with sound macroeconomic fundamentals and market potential revises its investment regimes, it becomes immediately a potential investment target. Indeed, some Finnish firms interested in investing Korea utilised the situation that emerged in Korea due to the Asian crisis and the following investment policy liberalisation in 1998. The case of Finnish investment in Korea also suggests that repeat investments had been engaged regardless of the investment policy liberalisation, but the acquisitions would not have taken place without the change in Korea's investment policy.

The above suggests that the impact of the political environment change on the firm's investment decision-making can be successfully studied with the help of the modified strategy-performance model. However, there is no need to separate the political environment from the other parts of the firm's external environment, different from the statements by Kobrin (1979) and Boddewyn & Brewer (1994). Accordingly, it is useful to study the location conditions of particular country together with the internal factors of the firm, as Luostarinen and Welch (1997) have suggested. Thus, the location

conditions have to be transferred to the specific location factors that take into account the firm and its purposes, a fact that calls for further emphasis on the early conclusions by Nishioka and Krumme (1973). Finally, the firm is able to influence its political environment by negotiating with the host government, but also with the help of the authority services provided by its home government. This supports the idea of a firm's ability to influence its environment, as stated in the geography of enterprise approach (eg Hayter 1997, 79-81)

8.2 Policy implications for home and host governments

The present study has raised several policy implications. First, the home governments are able to help the internationalisation of the TNCs by providing authority services. It seems that authority services are especially needed when SMEs, but also the large firms, invest in countries where the business culture appreciates negotiations and courtesy in the most high-level settings. Authority services, such as Minister-led delegations may open new doors for the TNCs and thus, create new business opportunities, which the firms would not been able to conquer by themselves. The benefits are measurable even in financial terms.

Firms are not only asking for support and help from their home government, but also the home government can take an active role in promoting the internationalisation of the firms. In addition to traditional international relations, such as diplomatic relations, which by no means have become less important, the bilateral relations may also be enhanced by joint efforts on a regional level, such as ASEM.

Second, the present study suggests that the host government can increase the FDI by revision of its investment policy if it otherwise has a strong economy. However, the revision of the investment policy alone is not enough, but the host government has to ensure policies that sustain and advance competitiveness against other nations, also the potential hosts of FDI. In investment policy, it means that the host government may attract FDI by providing supporting factors to compensate for deficiencies in other factors. The most direct way is to offer investment incentives. However, the present study suggests that investment incentives are probably not as interesting for the TNCs

as other more general political issues, such as political stability and the continuity of the investment policy. This fact is in line with other studies, which argue that incentives are symbolic commodities, which make an impact only in their absence (eg Yeung 1996, 1998). In addition, investment incentives provided on a case-by-case basis by local governments may increase the attractiveness of the host country in the eyes of foreign investors, and be more cost-efficient than general incentives that are the same for all TNCs.

8.3 Managerial implications

In the globalised world, business environment is in continuous change. World trade has been liberalised and competition has become keener. Exports are no longer the only way for firms to internationalise. Establishing joint ventures with foreign partners and subcontractors, as well as mergers and acquisitions are common ways to internationalise. The present study shows that the firms should simultaneously evaluate their internal firm-specific factors and the external, country-specific factors when making the investment decision. This is because the synergy between the internal and external factors seems to result in the successful internationalisation of the firm. The relevant factors to be evaluated are incorporated in the modified strategy-performance model.

The management needs in Korea can be discussed through the three broad phases suggested by Lieberthal & Lieberthal (2003). They divide a single direct investment project in the host country into the entry, country development and the global interaction phases, as shown in Table 19. In the case of Finnish investment in Korea, only the very first investors have already moved themselves into the third phase. For example, an investor, which has operated a long time in Korea engaging in continuous repeat investments, reports that the Korean unit is integrated with the global network of the firm. In this network, all units despite their location have the same cumulative knowledge, which is shared with other units. The parent company has also shared its values with the Korean staff making no difference between the home country and host countries.

Table 19 Management needs in Korea in three phases of investment

	Entry	Country development	Global interaction
Key goals	<ul style="list-style-type: none"> • Determine the right business model: Korea as a manufacturing base or a market • Establish a presence: choose locality, select a partner or establish wholly-owned subsidiary, and learn the operating environment 	<ul style="list-style-type: none"> • Expand operations • Seek positive profit and loss results 	<ul style="list-style-type: none"> • Establish full integration of Korean operations into regional and global efforts
Role of the Korean unit	<ul style="list-style-type: none"> • Seek out influential politicians or senior civil servants in Korea • Provide services to business units as they enter the Korean market 	<ul style="list-style-type: none"> • Build brand awareness with customers • Manage lobbying and negotiating with the Korean government • Manage awareness of Korea operation at corporate headquarters 	<ul style="list-style-type: none"> • Further integrate Korean operations into regional and global strategy without any specialised country effort
Ideal Korea manager profile	<ul style="list-style-type: none"> • Entrepreneurial manager who is creative and flexible • Experienced in starting operations in other countries with a similar culture 	<ul style="list-style-type: none"> • Senior manager with strong ties to corporate headquarters • Experienced in communicating across a complex corporate matrix 	<ul style="list-style-type: none"> • Senior manager able to work with several business divisions

Source: modified from Lieberthal & Lieberthal (2003).

For the Finnish firms in the first phase, namely the entry phase, the situation is very different. The match of internal resources of the firm with external conditions of the host country has to be planned carefully. In addition, influential contacts in Korea have to be created not only with the partners and other firms forming the backward and forward linkages of the Korean unit, but also with government officials and politicians, as Korea's cultural environment appreciates high-level contacts. The authority services provided by the Finnish government offer help in establishing these contacts.

It was an implicit note also in the present study, that successful managers in Korea have typically done earlier start-up work in another Asian country. However, failure in this sense is probably more educative: one of the case companies chose the most cross-cultural person to lead the Korean unit, namely a Korean person who had lived many years in Scandinavia. It was believed that he would be able to act as a “buffer” between the Finnish parent and its Korean unit. However, it appeared that the long years spent abroad had made this person a “foreigner” in Korea and he was not able to enter the Korean networks of trust. This incident further highlights the importance of the right decisions when choosing a manager to be sent to Korea or to be found in Korea.

Most Finnish firms that have invested in Korea are now in the second phase, that is the country development phase, and try to find out what are the strategic and managerial challenges of a company’s operations in Korea. In this phase, frequent contacts of top corporate officials with the host government are crucial for initiating new operations. It is important to focus on brand awareness with customers and the continuous advancement of their own product or service in order to secure that it cannot be localised. In this sense, Finnish firms with strong technical know-how that cannot be localised, have good future prospects to maintain and increase their position in the Korean market.

8.4 Recommendations for future research

So far, little academic work and research pertaining to East and Southeast Asia in general and Korea in particular, has been done in Finland. This is especially true in the field of economics and business administration. The building of competence in this field is long overdue, however, considering the importance of East and Southeast Asia as a market for Finnish exporters and a host for FDI. The knowledge of Korea in Finland is still mostly restricted to the fields of traditional Korean culture and arts. In addition, the empirical results of the present study indicate that the Finnish investors’ attitude towards Korean culture has become somewhat negative during the late 1990s and early 2000s. The situation can be improved only by more accurate information and education on Korea and the Koreans, as a mutual understanding is a necessity for economic interaction. The

current study has aimed to build the competence in this field by delivering information on modern Korea and by facilitating the Asia-related research and teaching in Finland.

As the present study suggests, the modified strategy-performance model fits in well with the investment studies at the firm-level. Especially, the model is applicable in economic geography because it can help in the choice of the locations of the firm as part of corporate strategy. As the original model was built to recognise the relevant factors, which help a firm to improve economic objectives, it can also be used to study the connection between the direct investment and the performance of the firm. In further research, an explicit model recognising the links between the firm's direct investment and the performance from the managerial perspective is suggested. According to the Lahti's model, performance can be observed through four goals, namely profitability, external effectiveness (eg market share), internal efficiency (eg low unit costs), and flexibility (adaptability, that is the continuity of the business even in uncertain circumstances).

The present study that has concentrated on the case of Finnish investment in Korea, which provided compact material for the analysis, is expandable to Scandinavian investment in the East Asian NIEs. A slight modification of the questionnaire and the complementary use of interviews would provide a more complete picture of the initial phase of Nordic investment in East Asia. An extension of the scope would increase the number of companies to be analysed and enable the use of quantitative methods. Documenting the events reflecting the development of direct investment in a Nordic-East Asian context during the 20th century needs to be done as long as the early Nordic investors, which started to do business in East Asia already in 1950s, much earlier than the Finnish firms, are reachable. Documentation would also form a data bank for further studies to be conducted in the following years on the expansion of Nordic business operations in East Asia.

REFERENCES

- Ahn, Seo-Hwan (1999) *Evaluation of Korea's investment environment after the Asian economic crisis*, Modern Asia Research Center, Briefing Note No. 5, Graduate Institute of International Studies, IUHEI, The University of Geneva, Switzerland.
- Ali-Yrkkö, Jyrki & Pekka Ylä-Anttila (1997) *Yritykset kansainvälistyvät – katoavatko työpaikat?* (Does the internationalisation of the firms cause employment losses?), The Research Institute of the Finnish Economy, ETLA, B-130 (In Finnish).
- Al-Obaidi, Zuhair (1999) *International technology transfer control: a case study of joint ventures in developing countries*, Publications of the Helsinki School of Economics and Business Administration, A-151, HeSePrint.
- Alvstam, Claes G. (1993) The impact of foreign direct investment on the geographical pattern of foreign trade flows in Pacific Asia with special reference to Taiwan. In Dixon, Chris & David Drakakis-Smith (eds.) *Economic and social development in Pacific Asia*, Routledge, London, pp. 62-84.
- Amsden, Alice H. (1989) *Asia's Next Giant. South Korea and Late Industrialization*, Oxford University Press.
- Andrews, K. R. (1971) *The concept of corporate strategy*, Dow Jones-Irwin, Homewood.
- Ansoff, Igor (1987) *Corporate Strategy*, Revised edition, Penguin books, McGraw-Hill, Suffolk.
- Asia Money* (2004) Korea attracts the heavyweights. Volume XV, Issue 4, pp. 38-40.
- Atkinson, Anthony A. & Alan Webb (2004) Responsible hands: a director's guide to risk and its management, *CMA Magazine*, November 2004, <http://www.managementmag.com>.
- Bae, Johnseok & Chris Rowley (2003) Changes and continuities in South Korean HRM, *Asia Pacific Business Review*, Vol 9, No 4, pp. 76-105.
- Barney, Jay B. (1991) Firm resources and sustained competitive advantage, *Journal of Management*, Vol 17, No 1, pp. 99-120.
- Bartlett, Christopher A. & Sumantra Ghoshal (1991) Global strategic management: impact on the new frontiers of strategy research, *Strategic management journal*, Vol. 12, special issue summer 1991, pp. 5-16.
- Behrman, Jack N. (1981) *Discourses on Ethics and Business*. Oelgeschlager. Cambridge, Massachusetts.
- Björkman, Ingmar (1989) *Foreign direct investments: an empirical analysis of decision making in seven Finnish firms*. Publications of the Swedish School of Economics and Business Administration, No 42.
- Boddewyn, Jean J. & Thomas L. Brewer (1994) International business political behaviour: new theoretical directions, *Academy of Management Review*, Vol. 19, No. 1, 119-143.
- BOF (2001) *Direct investment in Finland's balance of payments 2000*. Statistical Bulletin, Bank of Finland 26.10.2001.

BOF (2002) *Direct investment in Finland's balance of payments 2001*. Statistical Bulletin, Bank of Finland 25.10.2002.

BOF (2003) *Direct investment in Finland's balance of payments 2002*. Statistical Bulletin, Bank of Finland 3.11.2003.

Borsos-Torstila, Julianna (1999) *The Determinants of foreign Direct Investment Operations of Finnish MNCs in Transition Economies 1990-1995*. ETLA The Research Institute of the Finnish Economy, A 28, Taloustieto Oy, Helsinki.

Bradley, D. G. (1977) Managing against expropriation, *Harvard Business Review*, July-August, pp.75-83.

Brain Korea 21 (s.a.), 특성화부문, 남해안 기계 테크노벨트 (South Sea Machinery Technology Belt), School of Mechanical and Aerospace Engineering, <http://engine.gsnu.ac.kr> [ref. 3.3.2005]

Büchel, B. & C. Prange & G. Probst & C.-G. Rüling (1998) *International Joint Venture Management : Learning to cooperate and Cooperating to Learn*, John Wiley & Sons.

Buckley, Peter J. (1988) Motives. In Brooke, Michael Z. & Peter J. Buckley (eds.) *Handbook of International Trade*. Macmillan Press, Basingstoke.

Buckley, Peter J. (1989) Foreign Direct Investment by Small- and Medium-sized Enterprises: The Theoretical Background, *Small Business Economics* 1, pp. 89-100.

Calvet, A. L. (1981) A synthesis of foreign direct investment theories and theories of the multinational firm, *Journal of international business studies*, Spring/Summer, pp. 43-59.

Cantwell, John (1991) A survey of theories of international production. In Pitelis, Christos N. & Roger Sugden (eds.) *The nature of the transnational firm*, Routledge, London.

Carr, Michael (1987) *Patterns, process and change in human geography*, Macmillan, Hong Kong.

Cartwright, S. & C. Cooper (1992) *Mergers and Acquisitions: The Human Factor*, Butterworth-Heinemann, Oxford.

Case, William (1998) *Sayonara to the Strong state: from Government to Governance in the Asia-Pacific*. In Maidment, Richard, David Goldblatt & Jeremy Mitchell (eds.) *Governance in the Asia-Pacific*. Routledge, UK, pp. 250-274.

Cha, Jae-Ho (1994) Aspects of Individualism and Collectivism in Korea, in Kim, Ui-Chol & Harry C. Triandis & Çiigdem Kâğıtçıbası & Sang-Chin Choi & Gene Yoon (eds.) *Individualism and Collectivism, Theory, Method, Application*, Sage Publication, pp. 157-174..

Chandler, Alfred D., Jr. (1962) *Strategy and structure: chapters in the history of the American industrial enterprise*, MIT Press, Cambridge.

Chon, Soohyun (1992) Political Economy of Regional Development in Korea, in Appelbaum, Richard P. & Jeffrey Hendersson (eds) *States and Development in the Asian Pacific Rim*, Sage Publications, USA, pp. 150-175.

Chosun Ilbo (21.4.2002) Foreign Firms Figure Prominently in Korea's Exports, reported by Choi Woo-Suk in the business section.

CIA (2004) The World Factbook, Central Intelligence Agency, <http://www.odci.gov/cia/publications/factbook/index.html> [ref. 13.7.2004]

Clark, G.L. & N. Wrigley (1997) The spatial configuration of the firm and the management of sunk costs, *Economic Geography*, Vol 73, Nr 3, pp. 285-304.

Coase, R. (1937) The nature of the firm, *Economica* 4, pp. 386-405.

Confederation of Finnish industry and employers (2001) *Suomalaisyrittysten ulkomaantoiminta ja sen kehitysnäkymät* (Foreign operations and growth prospects of Finnish firms, In Finnish).

Conti, Sergio & Edward J. Malecki & Päivi Oinas (1995) *The industrial enterprise and its environment: spatial perspectives*, Avebury, England.

Council of Logistics Management (2003), Logistics Definition, http://www.clm1.org/aboutus/aboutus_policy.asp, [ref. 5.5.2003]

Cowling, K. & R. Sudgen (1987) Market exchange and the concept of a transnational corporation, *British Review of Economic Issues*, Vol. 9, pp. 57-68.

Dahl, Robert A. (1976) *Modern political analysis*, Prentice-Hall.

Dege, Eckart (1986) Die Industrialisierung Südkoreas, Ein Beispiel nachholender Entwicklung, *Geographische Rundschau* 10, pp. 522-530 (In German).

Dent, Christopher M. (1999) *The European Union and East Asia: An Economic Relationship*, Routledge, London.

Dent, Christopher M. (2002) *The Foreign Economic Policies of Singapore, South Korea and Taiwan*, Edward Elgar Publishing, Great Britain.

De Smidt, Marc & Egbert Wever (1990) (eds.) *The corporate firm in a changing world economy: case studies in the geography of enterprise*, Routledge, London

Dicken, Peter (1971) Some Aspects of the Decision-Making Behavior of Business Organizations, *Economic Geography*, Vol.47, pp. 426-437.

Dicken, Peter (1992) *Global Shift: The internationalisation of economic activity*, Second Edition, The Guilford Press.

Dicken, Peter (1998) *Global Shift: Transforming the world economy*, Third Edition, Paul Chapman Publishing Ltd.

Douglass, Mike (2000) Turning points in the Korean space-economy: from the developmental state to intercity competition, *Stanford IIS Working papers*, pp.1-42.

Driffield, Nigel & Dylan Hughes (2003) Foreign and domestic investment: regional development or crowding out? *Regional Studies*, Vol 37, No 3.

Dunning, John H. (1993) *Multinational enterprises and the global economy*. Addison-Wesley Publishing Company, Suffolk.

Dunning, John H. (1998) Location and the Multinational Enterprise: A Neglected Factor? *Journal of International Business Studies*, Vol. 29:1, p. 45-66.

Eiteman, David K. & Arthur I. Stonehill & Michael H. Moffet (1992) *Multinational Business Finance*, Sixth Edition, Addison-Wesley Publishing Company, USA.

El Kahal, Sonia (2001) *Business in Asia Pacific. Text and Cases*. Oxford University Press, Great Britain.

Euromoney, various issues.

Fakta (1991) Aasian kakkosella kova kasvunälkä (Asian number two is eager to grow), Interview of Timo Harju, Ahlstrom representative in Korea, No. 1, pp. 60-64. (In Finnish)

Finpro (2001) Export file (VIESTO),
<http://www.finpro.fi/markkinatieto/countryfiles.asp?Section=54&Country=134&Special=1208>
[ref. 8.2.2002]

Finnish Board of Customs, Foreign Trade, Official Statistics in Finland, Government Printing Centre. Various issues.

Foster-Carter, Aidan (1999) *North Korea: prospects, scenarios, and implications*. UNHCR's (United Nations High Commissioner for Refugees) writtenet: www.unhcr.ch. March 1999. [ref. 12.4.2002]

Friedmann, John (1966) *Regional development policy: a case study of Venezuela*, Massachusetts Institute of Technology Press, Cambridge.

GATT (1992) Trade policy review: Republic of Korea, Volume 1, General Agreement on Tariffs and Trade, Geneva.

Ghauri, Pervez (2004) Designing and conducting case studies in international business research, Marschan-Piekkari, Rebecca & Catherine Welch (eds.) *Handbook of qualitative research methods for international business*, Edward Elgar, Great Britain.

The Global Competitiveness Report 2003-2004 (2004) World Economic Forum, Oxford University Press.

Goodman, Louis W. (1987) *Small nations, giant firms*, Holmes & Meier, New York.

Gregersen, Hans M. & Arnoldo Contreras (1975) *U.S. investment in the forest-based sector in Latin America: problems and potentials*, Johns Hopkins University Press, Baltimore.

Gregory, Gary & Charles Harvie & Lee Hyun-Hoon (2002) Korean SMEs in the 21st century: strategies, constraints and performance in a global economy, *Economic Papers*, Vol 21, No 3, pp. 64-79.

Grotewold, Andreas (1979) *The regional theory of world trade*, Ptolemy Press, Pennsylvania.

Grotewold, Andreas (1991) Searching for core area growth, *Geojournal*, Vol 22, No 4, pp. 399-407.

Håkanson, Lars (1979) Towards a theory of location and corporate growth. In Hamilton, F. E. Ian & G. J. R. Linge (eds.) *Spatial Analysis, Industry and the Industrial Environment, Volume I*, John Wiley & Sons, pp 115-138.

- Hamilton, F.E.I. (1974) *Spatial Perspectives on Industrial Organization and Decision-Making*, London.
- A handbook of Korea* (1990) 8th Edition, 2nd printing, Hollym Corporation, Korea.
- Hanink, Dean M. (1994) *The International Economy: A Geographical Perspective*, John Wiley & Sons Inc, New York.
- Hanink, Dean M. (1997) *Principles and applications of economic geography. Economy, policy, environment*, John Wiley & Sons, Inc. New York.
- Harrison, Bennet (1994) *Lean and mean: the changing landscape of corporate power in the age of flexibility*, BasicBooks.
- Hayter, Roger (1997) *Dynamics of Industrial Location. The Factory, the Firm and the Production System*. John Wiley & Sons.
- Helpman, Elhanan (1984) A simple theory of international trade with multinational corporations, *Journal of Political Economy*, June, Vol: 92:3, pp. 451-471.
- Helle, Reijo & Arto Lahti & Jorma Pietala (1990) *Uudenmaan kuntien elinkeinotoiminnan kehitysmahdollisuudet*. (Business potential in South-Finland municipalities) Publications of the Helsinki School of Economics, D-132. In Finnish.
- Henderson, Jeffrey & Richard P. Appelbaum (1992) Situating the State in the East Asian Development Process. In Appelbaum, Richard P. & Jeffrey Henderson (eds) *States and Development in the Asian Pacific Rim*. Sage Publications, USA.
- Henderson, Jeffrey (1993) The Role of the State in the Economic Transformation of East Asia. In Dixon, Chris & David Drakakis-Smith (eds.) *Economic and Social Development in Pacific Asia*. Routledge, London, pp. 85-114.
- Hess, Peter & Clark Ross (1997) *Economic Development: Theories, evidence, and policies*. The Dryden Press, USA.
- Hirvensalo, Inkeri (1996) *Strategic adaptation of enterprises to turbulent transitional markets: operative strategies of Finnish firms in Russia and the Baltic states during 1991-95*, Publications of the Helsinki School of Economics, A-120, HeSe Print.
- Hofer, Charles W. & Dan Schendel (1978) *Strategy formulation: analytical concepts*, St. Paul, MN:West.
- Hofstede, Geert (1991) *Cultures and organisations: software of the mind*, McGraw-Hill, London.
- Hong, Seong-Woo (2001) Looking Good, *Korea Trade & Investment*, Vol 19, No. 5.
- Hong, Jung-Ah (2002) Asia's New Center for R&D, *Korea Trade & Investment*, Vol 20, No. 5, pp. 18-22.
- HS (26.2.1985) Kärsivällisyyttä ja viinapäättä (Patience and a capacity for alcohol consumption; article Finnish newspaper *Helsingin Sanomat*) (In Finnish)
- Huntington, Samuel P. (2003) *Kulttuurien kamppailu ja uusi maailmanjärjestys* (translated from the Clash of Civilizations: Remaking of World Order, 1996), Terra Cognita Oy (In Finnish).

Hymer, Stephen (1976) *The international operations of national firms: a study of foreign direct investment*, MIT Press, New York.

IMF, International Monetary Fund, World Economic Outlook Database, <http://www.imf.org/external/pubs/ft/weo/2003/02/data/index.htm> [ref. 5.12.2003]

Institutional Investor, various issues.

Jatila, Ulla (2001) *Yritysten sijaintipaikan valinta päätöksenteko-ongelmana: päätöksenteko-ongelman määrittely ja alueellinen liikkumavara sijaintineuvontapalvelun asiakasyrityksissä*. Unpublished licentiate thesis at the Helsinki School of Economics. (In Finnish)

Jessop, Bob (1992) *Changing Forms and Functions of the State in an Era of Globalization and Regionalization*. Paper presented to the EAPE conference, Paris, 4-7 November, 1992.

Joh, Jung-Jay (1994) 環黃-渤海經濟圈 形成과 우리나라 西海岸의 開發. 한국해양수산개발원. (Formation of the Yellow Sea Economic Zone and the Development of the West Coast Region in Korea, Korea Maritime Institute; In Korean)

Johanson, Jan & Finn Paul-Wiedersheim (1975) The internationalisation of the firm – four Swedish cases, *Journal of Management Studies*, Vol 12, pp. 305-322.

Johanson, Jan & Jan-Erik Vahlne (1977) The internationalisation process of the firm – a model of knowledge development and increasing foreign market commitments. *Journal of international business studies*, Vol 8, No 1, pp. 23-32.

Johnson, Chalmers (1982) *MITI and the Japanese Miracle. The Growth of Industrial Policy, 1925-1975*. Charles E. Tuttle Co. Publishers, Tokyo.

Johnson, Paul M. (2000) *A Glossary of Political Economy Terms*. <http://www.duc.auburn.edu/~johnspm/gloss/> [ref. 26.3.2002]

Johnston, R. J. (1989) Extending the Research Agenda. In *Economic Geography*, Vol. 65, No. 4, pp. 338-347.

Johnston, R. J. & Derek Gregory & David M. Smith (1994) (eds.) *The Dictionary of Human Geography*. Third Edition. Blackwell, Great Britain.

JOT Automation, JOT Automation Korea Ltd yhteisyrityksestä konsernin 100 % omistamaksi tytäryhtiöksi, *press release 18.4.2001* (In Finnish)

Jung, Hong-Joo (2002) Why is Korea's Savings Rate at a 20-year Low? *Korea Focus*, Vol. 10, No. 6. <http://www.kofo.or.kr/koreafocus/> [ref. 25.3.2003]

Jwa, Sung-Hee (2001) *A New Paradigm for Korea's Economic Development: From Government Control to Market Economy*, Palgrave, Great Britain.

Jwa, Sung-Hee (2002) *The Evolution of Large Corporations in Korea: A New Institutional Economics Perspective of the Chaebol*, Edward Elgar, Great Britain.

Kailaranta, Johanna (1998) Kansainvälistyvän pk-yrityksen vahvuudet ja kehittämistarpeet, Edita, Helsinki. (In Finnish)

Karppinen-Takada, Merja (1994) *Internationalisation and foreign market penetration patterns: Finnish companies operating in Japan*, Publications of the Helsinki School of Economics, B-144, HeSe Print.

Kelly, Marie E. Wicks & George C. Philippatos (1982) Comparative analysis of the foreign investment evaluation practices by U.S.-based manufacturing multinational companies, *Journal of International Business Studies*, Vol. 13, No. 3, pp. 19-42.

Kena, Kirsti (1993) *Kaukoidän teologian näkökulmia. Korea, Japani ja Filippiinit*, Suomalaisen teologisen kirjallisuusseuran julkaisu 181, Helsinki. (On Far Eastern theologies: Korea, Japan and the Philippines; In Finnish)

Kettunen, Erja (1998) *ASEAN, AFTA and the Sijori growth triangle: regional and sub-regional economic integration*, unpublished Licentiate Thesis at the Helsinki School of Economics.

Kettunen, Erja (2004) *Regionalism and the geography of trade policies in EU-ASEAN trade*, Helsinki School of Economics, A-245, HeSe Print.

Kettunen, Erja & Kristiina Korhonen (1996) Itä ja Kaakkois-Aasian kasvavat taloudet: johtavatko kansainvälinen kauppa ja investoinnit regionalismiin? (East and Southeast Asia's Growing Economies: Will International Trade and Investments Lead Towards Regionalism?) *Terra* 108:4, pp. 233-243. (In Finnish, Abstract in English)

KEW (20.6.1998) Political Instability the Biggest Deterrent of Foreign Investment in Korea; article in Korean newspaper, *Korea Economic Weekly*.

KH (15.4.2003) "Korea to expand incentives for foreigners"; article in Korean newspaper, *Korea Herald*.

KH (27.11.2003) "Some CEOs say Korea not good for investment, article in Korean newspaper", *Korea Herald*.

KH (15.6.2004) "Korea-Singapore FTA Due by Year-end: SE Asian nation has lessons concerning stable labor-management relations", *Korea Herald*.

Killström, Pekka (1989) *Strategiset ryhmät, resurssien allokaatio ja menestyksellisyys*. (Strategic groups, resource allocation, and performance) Publications of the Helsinki School of Economics, B-92. (In Finnish)

Killström, Pekka (2005) *Strategic Groups and Performance of the Firm: Towards a New Competitive Environment in the Finnish telecommunications industry*, Helsinki School of Economics, A-248, HeSe Print.

Kim, In June & Cha Baekin & Song Chi-Young (2004) Reform and the risk of recurrence of crisis, in Chung Duck-Koo & Barry Eichengreen (eds.) *The Korean Economy Beyond the Crisis*, Edward Elgar, pp. 317-337.

Kim, Jong-Il (2002) *Information Technology and Firm Performance in Korea*. Paper presented in 13th Annual East Asian Seminar on Economics, June 20 -22, 2002, Melbourne, Australia

Kim, Jong-Kil (2002) Foreign Capital and Economic Growth in Eastern Asia: The Case of Korea, in Lindblad, J. Thomas (ed.) *Asian Growth and Foreign Capital: Case Studies from Eastern Asia*, Aksant Academic Publishers, The Netherlands, pp. 99-118.

Kim, Jong-Wook & Kyeong-Sik Joo & Min-cheol Suh & Jeong-Hoon Eom & Chang-Yeol Kim & Yeong-Gon Kim (2001) *고등학교 지리부도, 교학사* (Supplemental Atlas for High School Geography, Kyohak Sa, Seoul, in Korean)

Kim, Song W. (2003) Should business groups be blamed for the Asian financial crisis? Evidence from South Korea, *Asia Pacific Business Review*, Vol. 9, No 3, pp. 1-20.

Kim, Yersu (1976) *Cultural policy in the Republic of Korea*, Studies and documents on cultural policies, United Nations Educational, Scientific and Cultural Organisation, UNESCO, France.

Kinnunen, Helvi (1990) *Suomen suorat sijoitukset ulkomaille ja tuotantotoiminnan kansainvälistyminen 1980-luvulla* (Finnish foreign direct investment and internationalisation of production in 1980s) SITRA, pp. 65-80. (In Finnish)

Kobrin, Stephen J. (1979) Political risk: a review and reconsideration, *Journal of International Business*, Vol. 10, No. 1, pp. 67-80.

Kobrin, Stephen J. (1982) *Managing political risk assessment, strategic responses to environmental change*, University of California Press, Berkeley.

Kobrin, Stephen J. (1987) Testing the bargaining hypothesis in the manufacturing sector in developing countries. *International Organization*, Vol 41: 4, pp. 609-638.

Koivisto, Jussi V. (1998) *Cultural heritages and cross-cultural management: cross-cultural synergy and friction in Finno-Japanese management*, Helsinki School of Economics and Business Administration, A-144, HeSePrint.

Korea Labour Institute (2002) *The Profile of Korean Human Assets*, Labour Statistics 2001: Women's Work. Republic of Korea.

Korea National Statistical Office, Korea Statistical Yearbook, various issues.

Korea.net (9.6.2004) "Road Show in Japan Draws \$480 mil. Investment Source". [ref.9.6.2004]

Korea Now (2001) Economic Forecast: Room for Growth. Unified Korea expected to become seventh largest economy. November 17, 2001.

Korea Statistical Information System (2004) 통계정보시스템국민계정, 지역내총생산 지역내총생산(당해년가격), <http://kosis.nso.go.kr> [ref. 11.1.2005, in Korean]

Korea IT Times (3/2004) Striving to Become the Mega Hub-Port of Northeast Asia, interview of Hur Nam-Sik, Mayor of Busan Metropolitan City, September 2004, Vol. 3.

Korhonen, Kristiina (2001) *Role of government intervention in foreign direct investment: case of South Korea*, Publications of the Helsinki School of Economics, B-32. HeSe Print.

Korhonen, Kristiina (2002) Investment policies in the East Asian Newly Industrialised Economies: What makes South Korea different? In Korhonen, Kristiina (ed.) *Current reflections on the Pacific Rim*, Publications of the Helsinki School of Economics, B-38, HeSePrint, pp. 79-97.

- Korhonen, Kristiina (2004) *Paradigm Shift in Finno-Korean Relations*, paper presented at the 18th International Association of Historians of Asia (IAHA) Conference, December 6-10, 2004, Academia Sinica, Taiwan.
- Kotler, P. (1980) *Marketing management – analysis, planning and control*, Fourth edition, Prentice-Hall, New Jersey.
- Krumme, Günter (1969) Toward a Geography of Enterprise, *Economic Geography*, Vol. 45, No. 1, pp. 30-40.
- Krumme, Günter (1981) Making it abroad: The Evolution of Volkswagen's North American Production Plans. In Hamilton, F. E. Ian & G. J. R. Linge (eds.) *Spatial Analysis, Industry and the Industrial Environment, Volume II*, John Wiley & Sons, pp 329-356.
- KTI (2001) South Korea fully repays IMF loans. Short takes in *Korea Trade & Investment*, September-October 2001, p. 48.
- Lahti, Arto (1983) *Strategy and performance of a firm, an empirical investigation in the knitwear industry in Finland in 1969-1981*. Publications of the Helsinki School of Economics, A-41.
- Lahti, Arto (1985) Pankkien kilpailustrategia (Strategic competition of the banks), Publications of the Helsinki School of Economics, D-71 (In Finnish).
- Lahti, Arto (1987) *Strateginen yritysanalyysi*, (Strategic analysis of the firm) Weilin+Göös. (In Finnish)
- Lall, Sanjaya (1997) *Selective Policies for Export Promotion. Lessons from the Asian Tigers*. Wider, Helsinki.
- Lang, Trudi (2003) *An Overview of Four Futures Methodologies*, Hawaii Research Center for Future Studies, <http://www.futures.hawaii.edu/j7/LANG.html> [ref. 9.6.2003]
- Lankov, Andrei (2003) Pyongyang: rules of engagement, *The Pacific Review*, Vol. 16, No. 4, pp. 613-622).
- Larimo, Jorma (1987) *The foreign direct investment decision process: An empirical study of the foreign direct investment decision behaviour of Finnish firms*. Publications of Vaasa University No 124, Business Administration 38, Marketing.
- Larimo, Jorma (1993) *Foreign direct investment behaviour and performance: an analysis of Finnish direct manufacturing investments in OECD countries*, Acta Wasaensia no 32, University of Vaasa.
- Larimo, Jorma (1999) *Foreign direct investment behavior of Nordic firms in Central and Eastern Europe*, Proceedings of the University of Vaasa, Discussion papers 268.
- Larimo, Jorma (2000). Divestment of foreign production operations in Nordic firms. Paper presented at the Annual Conference of the AIB in Phoenix, USA, November 2000. (in ref. UNCTAD 2003, 18)
- Larimo, Jorma & Rizwan Tahir (2002) Ownership strategies of Nordic firms in Asian markets, in Larimo, Jorma (ed.) *Current European Research in International Business*, Proceedings of the University of Vaasa, Reports 86, pp. 163-191.

Larimo, Jorma (2003) International joint venture strategies and performance in Asian countries, in C. Jayachandran and Paul Himangshu (eds), *Strategies for Sustainable Globalization: Business Responses to Regional Demands & Global Opportunities*, Proceedings for the 7th International Conference on Global Business & Economic Development (Bangkok, 2003).

Lasserre, P. & J. Probert (1994) Competing on the Pacific Rim: High Risks and High Returns. In *Long Range Planning*, Vol 27:2, pp. 12-35.

Lasserre, Philippe & Helmut Schütte (1999) *Strategy and Management in Asia Pacific*, McGraw-Hill, Cambridge.

Laulajainen, Risto (1998a) What about Managerial Geography? *Geojournal* 44.1: 1-7.

Laulajainen, Risto (1998b) *Financial Geography. A Banker's view*. Gothenburg School of Economics and Commercial Law. Series B, no 93, Sweden.

Lecraw, Donald J. (1984) Bargaining power, ownership, and profitability of transnational corporations in developing countries, *Journal of international business studies*, spring/summer 1984.

Lee, Chae-Jin (2000) South Korean Foreign Relations Face the Globalisation Challenges, in Kim, Samuel S. (ed.) *Korea's Globalisation*, Cambridge University Press, New York, pp. 170-195.

Lee, Ki-Baik (1984) *A New History of Korea*, Harvard University Press.

Lieberthal, Kenneth & Geoffrey Lieberthal (2003) The great transition, *Harvard Business Review*, Vol. 81, pp. 70-81)

Lim Hyun-Chin & Han Joon (2004) Social realignment, coalition change and political transformation, in Chung Duck-Koo & Barry Eichengreen (eds.) *The Korean Economy Beyond the Crisis*, Edward Elgar, pp. 267-285.

Lim, Sung-Hoon (2001) *Foreign direct investment policy and incentives*, Korea investment service center, Korea trade-investment promotion agency, Seoul.

Lindsay, James M. (1997) *Techniques in Human Geography*, Routledge.

LTT, Liiketaloustieteellinen tutkimuslaitos (1998) *Yritysten kansainvälistymisessään tekemät virheet*, Liiketaloustieteellisen tutkimuslaitoksen julkaisuja B:49, Helsinki (Mistakes made in internationalisation of firms, in Finnish)

Luostarinen, Reijo (1968) *Ulkomaisen tytäryrityksen perustaminen* (Establishing a Foreign Subsidiary), Publications of the Helsinki School of Economics, C-2 (In Finnish).

Luostarinen, Reijo (1970) *Foreign Operations of the Firm*, Publications of the Helsinki School of Economics.

Luostarinen, Reijo (1979) *Internationalisation of the Firm*. Acta Academiae Oeconomicae Helsingiensis, Series A:30. Helsinki School of Economics.

Luostarinen, Reijo (1982) *Foreign Operations*, Fourth printing, Helsingin kauppakorkeakoulun kuvalaitos.

Luostarinen, Reijo (1990) Internationalisation and Globalisation of the Firm, Lecture Notes, Helsingin kauppakorkeakoulun opetusmonisteita (In Finnish).

Luostarinen, Reijo & Lawrence Welch (1997) *International Business Operations*, 3rd print, Kyriiri Oy, Finland.

Lösch, August (1940) Die räumliche Ordnung der Wirtschaft, translation of the 2nd edition (1943) by Woglom & Stolper (1952) *The Economics of Location*. Yale University Press.

Machlup, Fritz (1967) Theories of the Firm: Marginalist, behavioral and managerial, *American Economic Review*, Vol 57, No 1, pp. 1-33.

Maddison, A. (1989) *The world economy in the 20th century*, OECD Development Studies Centre, Paris.

Mäkitalo, Jukka (1997) *Katsaus Etelä-Korean teknologiaan ja teollisuuteen 1997*, Teollisuussihteeriraportti, Teknologian kehittämiskeskus. (Industrial report on South Korea, in Finnish)

Markusen, Ann & Sam-Ock Park (1993) The State as Industrial Locator and District Builder: The Case of Changwon, South Korea, in *Economic Geography*. Vol 69, No 2, pp. 157-181.

Markusen, James R. & Anthony J. Venables (1998) Multinational firms and the new trade theory, *Journal of International Economics*, December, Vol: 26:2, pp.183-204.

Maskell, Peter (2001) The firm in economic geography, *Economic Geography*, Vol 77, Nr 4, pp. 329-344.

Mason, Andrew & Sidney B. Westley (2002) Population change and economic development: success stories from Asia, *The future of population in Asia*, East-West Center, Hawai'i, pp. 97-109.

Maxwell, Réa (2003) Poliittinen riski ja ulkomaiset suorat tuotannolliset investoinnit. Case: Indonesian poliittinen riski ja ulkomaiset suorat tuotannolliset investoinnit ennen ja jälkeen 1997-98 Aasian kriisin, (Political risk and foreign direct investment. Case of Indonesian political risk and foreign direct investment prior to and after the Asian crisis in 1997-98), *Master's Thesis* at the University of Vaasa. (In Finnish)

Mayhew, Susan & Anne Penny (1992) (eds.) *The Concise Oxford Dictionary of Geography*. Oxford University Press, England.

McCarthy, E. Jerome (1960) *Basic marketing: a managerial approach*, Homewood, Irwin.

McConnel, James E. (1986) Geography of international trade. *Progress in Human Geography*, Vol 10, No 4, pp.471-483.

McGrew, Anthony G. (1992) Conceptualizing Global Politics. In McGrew, Anthony G. & Paul G. Lewis (eds.) *Global Politics. Globalization and the Nation-State*. Polity Press, UK, pp.1-28.

McNee, R. B. (1958) Functional geography of the firm, with an illustrative case study from the petroleum industry, *Economic geography*, Vol. 34, No. 4, pp. 321-337.

McNee, R.B. (1960) Towards a More Humanistic Geography: The Geography of Enterprise, *Tijdschrift voor Economische en Sociale Geografie*, No 51.

McNee, R. B. (1986) One perspective on the enterprise perspective, in Taylor, M. & N. Thrift (1986) *Multinationals and the restructuring of the world economy*, Croom Helm, London, pp. 344-359.

Metz, Peter J. (1998) Demystifying supply chain management, *Supply Chain Management Review*, Winter, pp. 46-55.

MOCIE, Ministry of Commerce, Industry and Energy, *The present condition of foreign direct investment in Korea*, various years.

Ministry of Finance and Economy (1999) Korea Economic Update 21.9.1999. www.korea.net [ref. 13.5.2002]

Ministry of Finance and Economy, Economic Cooperation Bureau. Trends in international investment and technology inducement. Republic of Korea. Various issues.

Ministry of Finance and Economy, Statistical Yearbook, Republic of Korea. Various issues.

Ministry of Foreign Affairs and Trade (2001) 외교통상부, 주 핀란드 대사관 인터넷 웹사이트: 양자관계. www.mofat.go.kr/missions/Finland.nsf [ref. 2.11.2001] (Internet pages of the Korean Embassy in Finland, bilateral relations, In Korean)

Mody, Ashoka & Shoko Negishi (2001) Cross-border mergers and acquisitions in East Asia: trends and implication, *Finance & Development*, Vol 38, No 1

Moon, Chul W. & Augustine A. Lado (2000) MNC-host government bargaining power relationship: a critique and extension within the resource-based view, *Journal of Management* Vol. 26, No.1, pp. 85-117.

Morsink, Robert L. A. (1998) *Foreign direct investment and corporate networking. A framework for spatial analysis of investment conditions*. Edward Elgar Publishing Limited, Great Britain.

Nellis, Joseph G. & David Parker (1996) *The Essence of the Economy*. Second Edition. Prentice Hall, Great Britain.

Niemi, Eero (1994) Tilastotieteen perusteet, aktiivimoniste, Helsingin kauppakorkeakoulun kuvalaitos (Introduction to Statistics, in Finnish)

Nishioka, H & G. Krumme (1973) Location condition, factors and decisions: an evaluation of selected location surveys. *Land Economics* May: 195-205.

Nonwovens report international (2002) Ahlstrom expands South Korean division.

OECD (2003) Development Assistance Committee List of Aid Recipient, <http://www.oecd.org/dataoecd/35/9/2488552.pdf> [ref. 28.12.2004]

Oinas, Päivi (1998) *The embedded firm? Prelude for a revived geography of enterprise*, Publications of Helsinki School of Economics and Business Administration, A-143.

Okita, Saburo (1989) *Japan in the world economy of the 1980s*, University of Tokio Press, Japan.

Pajarinen, Mika (1999) *Foreign firms and their R & D in Finland*. ETLA discussion papers no 689. The Research Institute of the Finnish Economy.

Park, Eul Young (1985) Foreign Economic Policies and Economic Development, in in Koo, Youngnok & Sung-Joo Han (eds.) *The Foreign Policy of the Republic of Korea*, Studies of the East Asian Institute, Columbia University, New York, pp. 106-136.

Park, Sam-Ock (1991) Government Management of Industrial Change in the Republic of Korea, in Rich, D. C. & G. J. R. Linge (eds.) *The State and the Spatial Management of Industrial Change*. Routledge, London, pp. 74-87.

Park, Won-Woo (2002) The unwilling hosts: state, society and the control of guest workers in South Korea, In *Asia Pacific business review*, Special issue on migrant workers in Pacific Asia, Vol 8, No 4, pp. 67-94.

Pecotich, Anthony & Clifford J. Schultz II (1998) *Marketing and consumer behaviour in East and South-East Asia*, McGraw-Hill Australia.

Pei, Minixin (1998) Constructing the Political Foundations of an Economic Miracle. In Rowen, Henry S. (ed.) *Behind East Asian Growth. The Political and Social Foundations of Prosperity*. Routledge, London, pp. 39-59.

Pieskä, Toni (2001) *The impact-mechanisms of an economic crisis on the operation behaviour of the firms: Case of East Asia*. Master's Thesis at the Helsinki School of Economics.

Pihkala, Erkki (2001) *Suomalaiset maailmantaloudessa keskiajalta EU-Suomeen* (Finland in the world economy: from the Middle Ages to the Era of the European Union), Suomalaisen kirjallisuuden seura, verkkojulkaisu (Digital book in Finnish)
<http://helecon3.hkkk.fi/ecollection/pihkala/> [ref. 11.10.2002]

Poynter, T. A. (1982) *Multinational enterprises and government intervention*, Martins Press, New York.

Pred, A. R. (1967) *Behaviour and location: foundation for a geographic and dynamic location theory: part I*. University of Lund, Lund's Studies in Geography B, No. 27. (In ref. Hayter 1997)

Rialp, Alex & Josep Rialp & Gary A. Knight (2005) The phenomenon of early internationalizing firms: what do we know after a decade (1993-2003) of scientific inquiry? *International Business Review*, Vol. 14, No. 2, pp. 147-166.

Redding, Gordon (1996) Management in Pacific Asia. In *International Encyclopedia of Business and Management*. Thompson Business Press, London, pp. 2981-2991.

Robock, Stefan H. (1971) Political Risk: Identification and Assessment, *Columbia Journal of World Business*, Vol. 6, No. 4, pp. 6-20.

Root, Franklin R. (1994) *Entry Strategies for International Markets*, Revised and Expanded Edition, Lexington Books, New York.

Rudestam, Kjell Erik & Rae R. Newton (1992) *Surviving your dissertation: a comprehensive guide to content and process*. Sage Publications, United States.

Sakong, Il (1993) *Korea in the World Economy*. Institute for International Economics, Washington DC.

Salimäki, Markku (2003) *Suomalaisen design-teollisuuden kansainvälinen kilpailukyky ja kansainvälistyminen: strateginen ryhmä-tutkimus design-aloilta*, (International competitiveness and internationalisation of the Finnish design industry: study on strategic groups) Publications of the Helsinki School of Economics, A-220, HeSePrint. (In Finnish)

Schenck, Paul-Christian (1997) *Der deutsche Anteil an der Gestaltung des modernen japanischen Rechts- und Verfassungswesens*, Franz Steiner Verlag, Stuttgart. (In German)

Schoenberger, Erica (1997) *The cultural crisis of the firm*, Blackwell.

Segal, Gerald (1990) *Rethinking the Pacific*. Clarendon Press, Oxford.

Shin Dong-Myeon (2003) *Social and Economic Policies in Korea: Ideas, networks and linkages*, RoutledgeCurzon, USA and Canada.

Simon, Jeffrey D. (1982) Political risk assessment: past trends and future prospects, *Columbia Journal of World Business*, No 3, pp. 62-71.

SK (Suomen Kuvalehti) 8.6.1984. Kaukolämpöä (On central district heating), Kuvalehti Nr. 23, p.35. (In Finnish)

Sloman, John (1991) *Economics*, Harvester Wheatsheaf, New York.

Song, Byung-Nak (1990) *The Rise of the Korean Economy*, Third Impression, Oxford University Press, Hong Kong.

Statistical handbook of Korea (2002) <http://www.nso.go.kr/eng/handbook/> [ref. 12.12.2003]

Steers, Richard M. & Yoo Keun Shin & Gerardo Ungson (1989) *The Chaebol: Korea's new industrial might*, Harper & Row, New York.

Stoeber, William A. (2002) Attempting to resolve the attraction-aversion dilemma: a study of FDI policy in the Republic of Korea, In *Transnational Corporations*, Vol. 11, No. 1.

Stopford, John & Susan Strange with John S. Henley (1991) *Rival States, Rival Firms. Competition for World Market Shares*. Cambridge Studies in International Relations: 18. Cambridge University Press.

Stutz, Frederick P. & Anthony R. de Souza (1994) *The World Economy. Resource, Location, Trade, and Development*. Third Edition. Prentice Hall, New Jersey.

Swedish Embassy (2002) Main Swedish Companies in Korea, updated to November 1, 2001, www.swedemb.or.kr/companies.htm [ref. 8.6.2002]

Tahir, Rizwan (2003) *Foreign direct investment behavior – an analysis of the determinants and motivations of Finnish direct manufacturing investment in Asian countries*, Acta Wasaensia, Doctoral Dissertation of the Vaasa University.

Tahir, Rizwan & Jorma Larimo (2004a) Understanding the ownership structure choices of Finnish firms in Asian countries, *European Business Review*, Vol 16, No. 5, pp. 494-510.

Tahir, Rizwan & Jorma Larimo (2004b) Understanding the location strategies of the European firms in Asian countries, *Journal of American Academy of Business*, Cambridge, Vol 5, No. 1-2, pp. 102-109.

Tahir, Rizwan & Jorma Larimo (2005) Understanding the strategic motivations of Finnish manufacturing FDI in emerging Asian economies, *Asian Business & Management*, Vol. 4, No. 3, pp. 293-313.

Talouselämä 20/1985. Ekono valitsi Etelä-Korean (Ekono chose South Korea) Interview of Ekono Engineering representative Klaus Arni, 31.5.1985 (In Finnish)

Talouselämä 20/2003. Talouselämä 500. (The 500 largest Finnish firms in 2002) (In Finnish)

Tashakkori, Abbas & Charles Teddlie (1998) *Mixed Methodology, Combining Qualitative and Quantitative Approaches*, Applied Social Research Methods Series, Vol. 46, Sage Publications.

Taylor, Michael (1980) Space and time in industrial linkage, *Area* 12, pp. 150-152. Ref. in Dicken (1990, 235)

Taylor, Michael & Björn Asheim (2001) The concept of the firm in economic geography, *Economic Geography*, Vol 77, Nr 4, pp. 315-328.

Terpstra, Vern (1978) *International Marketing*, Second Edition, Holt-Saunders international Editions.

Torres, Raymond (2001) *Republic of Korea*, studies on the social dimensions of globalisation, International labour office (ILO), Geneva.

Toyne, P. (1974) *Organisation, Location and Behaviour: Decision-making in Economic Geography*, Wiley, New York.

UBS (2003) *Prices and Earnings, A comparison of purchasing power around the globe*, Union Bank of Switzerland, Wealth Management Research, 2003 Edition, Zürich.

UNCTAD (1998) *The Financial Crisis in Asia and Foreign Direct Investment*, United Nations Conference on Trade and Development together with the International Chamber of Commerce (ICC), United Nations publication, Geneva.

UNCTAD (1999) *World Investment Report 1999: Foreign direct investment and the challenge of development*, United Nations Conference on Trade and Development, United Nations publication, Geneva.

UNCTAD (2003) *World Investment report 2003*, FDI Policies for Development: National and International Perspectives, United Nations Conference on Trade and Development, United Nations publications, Geneva.

UNCTAD (2004) *World Investment report 2004*, The Shift Towards Services, United Nations Conference on Trade and Development, United Nations publications, Geneva.

Vaupel, J. & J. Curhan (1969) *The Making of Multinational Enterprise*, Harvard Business School, Boston. (In ref. Luostarinen 1979, 5)

Vernon, Raymond (1966) International investment and international trade in the product cycle, *Quarterly Journal of Economics*, Vol 80, May 1966.

Vernon, Raymond (1979) The product cycle hypothesis in a new international environment, *Oxford bulletin of economics and statistics*, Vol 41, No 4, pp. 255-267.

Watts, H. D. (1989) *Industrial Geography*, John Wiley & Sons, New York.

Weber, A. (1909) *Über den Standort der Industrien* (I), J.C.B. Mohr, Tübingen (In German).

Whang, In Joung (1991) Government Direction of the Korean Economy. In Ciden, Gerald E. & Kim, Bun Woong (eds.) *A Dragon's Progress: Development Administration in Korea*. Kumarian Press, USA.

Williamson, Oliver E. (1964) *The economic of discretionary behaviour*, Prentice-Hall.

Williamson, Oliver E. (1975) *Markets and hierarchies: analysis and antitrust implications: a study in the economics of internal organization*, Free Press, New York.

Wilska, Kent (2002) *Host country determinants of foreign direct investment in Latin America: Finnish company cases in Brazil, Chile and Mexico*, Publications of the Turku School of Economics and Business Administration, Series A-6:2002.

Wood, P. A. (1981) Industrial geography, *Progress in human geography*, Vol. 5, No. 3, pp. 414-418.

WTO (1996) Trade policy review: Republic of Korea, World Trade Organisation, Geneva.

WTO (2000) Trade policy review: Republic of Korea, World Trade Organisation, Geneva.

Yang, Dong-Chil (2001) 우랄알타이圈 주목하자, 중앙일보 (Let's form an Ural-Altaic group, in Joong-Ang Ilbo 21.6.2001) (In Korean)

Yeung, Henry Wai-Chung (1996) Attracting foreign investment? The role of investment incentives in the ASEAN operations of transnational corporations, *The Pacific Review*, Vol. 9, No. 4, pp. 505-529.

Yeung, Henry Wai-Chung (1998) Transnational economic synergy and business networks. The case of two-way investment between Malaysia and Singapore, *Regional studies*, Vol 32, No. 8, pp. 687-706.

Yeung, Henry Wai-Chung (2000) *Reconceptualising the "firm" in new economic geographies: an organisational perspective*. Paper presented at the Workshop on "The firm in Economic Geography, March 9-11, 2000, University of Portsmouth, United Kingdom. <http://courses.nus.edu.sg/course/geoywc/henry.htm> [ref. 2.1.2002]

Yin, Robert K. (1994) *Case study research. Design and methods*. 2nd ed. Applied social research methods series, Vol. 5, Sage publications.

Interviews

Baang, Young-Min, Director, Ministry of Finance and Economy, Foreign Investment Division. April 4, 1995, Kwacheon, Korea.

Bark, Kyu-Baek, Manager, Gyeonggi Province Investment Center, May 31, 1999, Seoul, Korea.

Choi, Yoon-Kyu, Manager, Korea Investment Service Center, Investment Promotion Department, European Region Team, May 31, 1999, Seoul, Korea.

Hahn, Young-Soo, Director, Korea Trade Center, April 9, 2002; May 15, 2002; July 15, 2002; August 28, 2002; February 26, 2003, Helsinki, Finland.

Heinonen, Jukka, Marketing Manager, Korea Trade Center, April 9, 2002, Helsinki, Finland.

Koh, Peter, Journalist, Euromoney Magazine, London, England. December 15, 2003 by e-mail.

Kwon, Chul-Hyun, Spokesman of Grand National Party, November 26, 2001, Helsinki, Finland.

Latvanen, Heikki, Ambassador, April 17, 2002, Helsinki, Finland.

Lee, Jun-Hee, Assistant Manager, Gunsan Project Office, Korea Land Corporation. October, 2, 1996, Kunjang National Industrial Area, Gunsan, Korea.

Pakkala, Anja, Country Adviser, Finnvera, December 8, 2003, Helsinki, Finland.

Presentations

Lee, Gun-Young, President, Korean Research Institute for Human Settlements (KRIHS), Congratulatory Address at an international conference on West Coast Development Strategy for the 21st Century Pacific Rim at the Lotte Hotel in May 19, 1994, Seoul.

Ro, Sung-Tae, Editor-in-Chief, Korea Economic Daily, Presentation at the seminar on Korea's Economic Reform and Opening Policy arranged by the University of Helsinki and the Embassy of the Republic of Korea in October 6, 1999, Helsinki.

Seppälä, Jukka, Chairman, Finland – Republic of Korea Trade Association. Presentation at the Helsinki School of Economics on August 27, 2003, Helsinki.

Wilska, Kari-Pekka, President of the Nokia Inc. in USA. Presentation at the Finland – Republic of Korea Association on May 14, 1996, Helsinki.

Confidential interviews conducted in Finnish firms

Company A, Former President (30.4.2003; 12.6.2003); Vice President (9.5.2003)

Company B, President (12.5.2003)

Company C, Export Manager (5.5.2003)

Company D, Former Manager (22.4.2003)

Company E, Chairman of the Board (8.5.2003; 21.5.2003)

Company F, Former Manager (22.4.2003); Division President (11.3.2003)

Company G, President, (6.5.2003)

Company H, Manager (28.4.2003; 30.4.2003); Manager (20.5.2003)

Company I, President (28.4.2003)

Company J, Former Member of the Board (16.4.2003); Former Marketing Director (28.11.2004; 16.12.2004)

Company K, Manager (6.5.2003)

APPENDICES

APPENDIX 1: Development of Finnish exports to its major Asian destinations, FIM 1000

	1965	1970	1975	1980
China	25,681	54,923	58,333	295,700
Japan	6,560	24,930	99,846	353,400
Hong Kong	2,081	52,799	13,710	48,100
South Korea	314	13	3,350	34,000
Taiwan	..	..	1,195	18,900
Singapore	*..	3,776	10,233	29,700
Philippines	439	3,545	3,957	151,000
Israel	25,181	52,709	102,223	160,500
India	9,751	10,433	6,203	138,500
Saudi-Arabia	1,372	3,322	18,238	294,800
Malaysia	**1,402	1,729	3,130	54,200
Thailand	1,340	8,710	6,323	108,300
Indonesia	1,900	2,300	8,676	98,400
Iran	11,083	43,868	209,949	465,200
Irak	1,367	6,116	85,609	582,500
Total Asia	113,346	304,558	740,979	3,292,500
Total Export	4,565,958	9,686,696	20,247,441	52,794,600

* part of Malaysia in 1964-65

** includes Singapore

	1985	1990	1995	1999
China	633,900	589,200	2,605,300	5,823,500
Japan	1,223,500	1,445,200	4,508,800	3,928,500
Hong Kong	216,500	463,900	2,438,000	2,828,600
South Korea	396,400	442,300	2,727,100	1,700,200
Taiwan	120,100	493,900	904,100	1,562,000
Singapore	220,300	382,200	1,440,000	1,360,100
Philippines	46,700	132,900	450,000	1,018,500
Israel	241,400	297,600	792,700	945,200
India	340,100	422,100	863,700	936,500
Saudi-Arabia	485,700	322,200	673,000	747,500
Malaysia	133,500	233,400	996,600	581,900
Thailand	64,800	405,500	1,640,300	503,600
Indonesia	128,000	183,600	1,578,100	347,900
Iran	221,000	463,500	313,600	320,100
Irak	264,800	120,000	600	38,400
Total Asia	5,281,800	7,110,500	23,884,400	24,972,700
Total Export	84,027,900	101,327,000	176,021,400	233,343,300

Source: Finnish Board of Customs, Foreign trade, various issues.

APPENDIX 2: Major indicators of the natural environment of the firm in Korea

A. Distance of Seoul from major cities (km)

City	Distance from Seoul (km)	Time (GMT)
Pyongyang, North Korea	205	+9
Busan, South Korea	330	+9
Tsingtao, China	618	+8
Vladivostok, Russia	759	+2
Osaka, Japan	832	+9
Shanghai, China	867	+8
Beijing, China	954	+8
Tokyo, Japan	1155	+9
Taipei, Taiwan	1473	+8
Hong Kong	2093	+8
Singapore	4668	+8
Los Angeles, United States	5954	-8
Helsinki, Finland	7059	+2
Brussels, Belgium	8709	+1
New York, United States	11080	-5

B. Ratio of arable land to total land (%)

Year	1960	1965	1970	1975	1980	1985	1990	1995	2000
Ratio of arable land to total land (%)	20.6	22.9	23.3	22.7	22.2	21.5	..	..	17.4

Sources: Song 1990, 12; Korea National Statistical Office.

C. Supply and demand of energy (thousand TOE, %)

Year	Production	Import	Consumption	Export	Import dependency ratio
1985	17,502	44,807	56,296	3,754	76.2
1990	23,356	76,072	93,192	3,997	87.9
1995	21,751	157,094	150,437	17,744	96.8
2000	32,641	213,810	192,887	43,577	97.2
2002	35,521	214,883	208,636	33,770	97.3

Source: Korea National Statistical Office.

D. Improvement in the environment by sector (% , ppm)

Year	Treatment of municipal waste			Sewage supply ratio	Piped water supply ratio	Sulfurous acid gas level in the atmosphere of Seoul
	Recycling	Incineration	Landfill			
1990	4.7	1.8	93.5	32.9	77.3	0.051
1995	23.7	4.0	72.3	45.4	82.9	0.017
2000	41.3	11.7	47.0	70.5	87.1	0.006
2002	..	..	..	75.7	88.7	0.005

Source: Korea National Statistical Office.

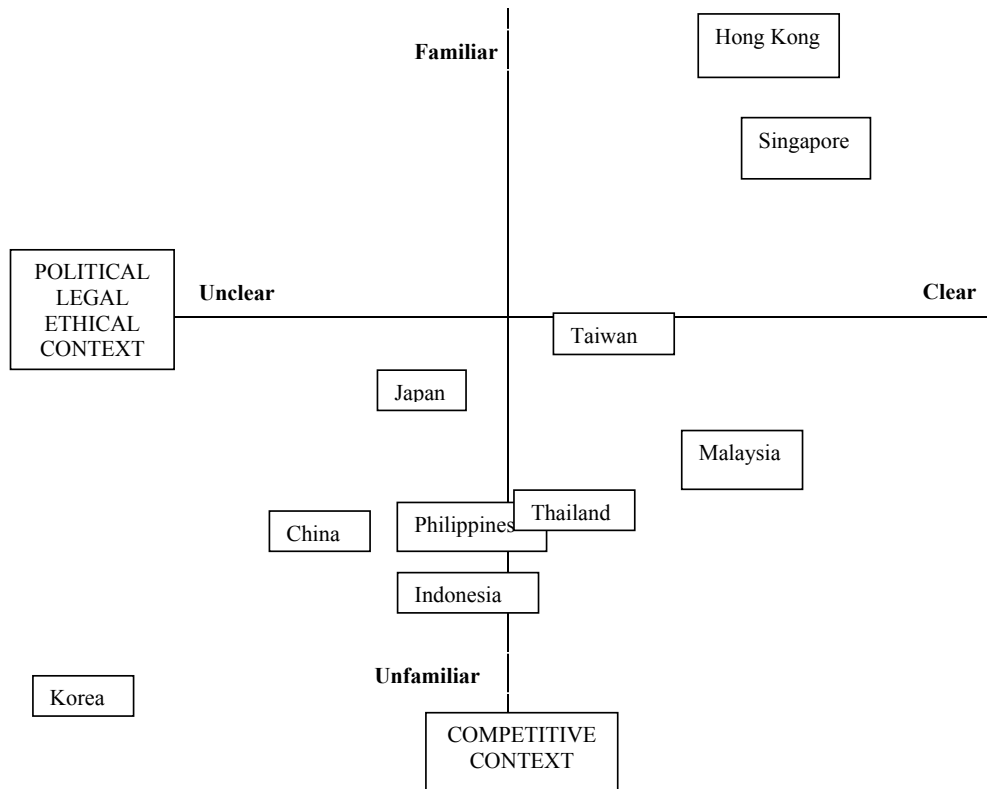
APPENDIX 3: Major indicators of the cultural environment of the firm in Korea

A. Status of religion (1991)

Status of religion	Number	Share of religions	Share of religious population
Buddhism	11,962,000	51.2	
Protestantism	8,038,000	34.4	
Catholicism	2,523,000	10.6	
Confucianism	421,000	1.8	
Other religions	420,000	2.0	
Total religious population	23,364,000	100.0	54.0
Non-religious population	19,904,000		46.0
Total population	43,268,000		100.0

Source: Korean overseas information service 1993

B. The business context of Korea in comparison to selected Asian countries



Note. According to Lasserre and Probert (1994, 31-32) “*The position of Korea, to which is attributed the worst scores on both dimensions [the competitive context referring to the need to enter into a complex network of relationships and the need to decode particular business rules, and the Political, ethnical and legal context referring to the degree of government intervention, the integrity of business practices and the legal framework of business actions] indicates that Western managers operating in this country experience enormous difficulties in understanding and dealing with the business environment.*”

Source: Lasserre & Probert (1994, 32)

APPENDIX 4: Major indicators of the economic environment of the firm in Korea

A. Key indicators of the Korean economy (1961-2002)

Year	GDP per capita (USD)	Exports (USD million)	Imports (USD million)	Current balance (USD million)	Import liberalisation rate (%)	Average tariff rate (%)	Inflation (%)
1961	82	41	316	33	4.7	30.3	..
1962	87	55	422	-56	5.6	39.9	15.4
1963	92	87	560	-143	0.4	..	..
1964	98	119	404	-26	2.0	..	..
1965	105	175	463	9	6.0	38.9	..
1966	125	250	716	-103	9.3	..	..
1967	142	320	996	-192	60.4	..	13.5
1968	169	455	1462	-440	57.6	39.1	..
1968	210	722	1823	-549	55.1	..	..
1970	253	835	1983	-623	54.3	..	..
1971	289	1068	2394	-848	55.0	..	..
1972	319	1624	2522	-371	50.9	..	16.1
1973	396	3225	4240	-309	52.1	31.5	..
1974	542	4460	6582	-2023	50.7	..	..
1975	594	5081	7274	-1887	49.1	..	..
1976	803	7715	8774	-314	51.0	..	..
1977	1012	10047	10811	12	49.9	29.7	15.7
1978	1396	12711	14972	-1085	61.3	..	..
1979	1644	15056	20339	-4151	67.6	24.8	..
1980	1592	17505	22292	-5321	69.1	..	..
1981	1734	21254	26131	-4606	74.4	23.7	..
1982	1824	21853	24251	-2551	76.6	..	6.7
1983	2002	24445	26192	-1524	80.4	..	..
1984	2158	29245	30631	-1293	84.8	21.9	..
1985	2194	30283	31136	-751	87.7	..	..
1986	2505	34715	31584	4709	91.5	..	..
1987	3110	47281	41020	10058	93.6	..	3.7
1988	4127	60696	51811	14505	94.7	18.1	..
1989	4994	62377	61465	5360	94.7	12.7	..
1990	5659	65016	69844	-2003	96.3	11.4	..
1991	6745	71870	81525	-8317	97.2	..	..
1992	6988	76632	81775	-3943	97.7	10.1	8.6
1993	7484	82236	83800	990	98.1	8.9	..
1994	8467	9603	102348	-3867	98.6	7.9	..
1995	10037	125058	135119	-8508	99.0	..	4.5
1996	10543	129715	150339	-23005	99.3	..	4.9
1997	10550	136164	144616	-8618	99.9	..	4.4
1998	7088	132313	93282	40365	99.9	7.5	7.5
1999	8680	144745	119750	24476	99.9	..	0.8
2000	9628	172621	160492	11044	99.9	..	2.3
2001	10162	150439	141098	8239	99.9	..	4.3
2002	11493	162471	152126	6092	99.9	..	2.7

Year	Exchange rate (KRW/USD)	Foreign exchange reserves (USD million)	FDI in Korea (USD 1000)	Foreign debt to GDP (%)	Share of foreign loans of foreign capital (%)	Share of FDI of foreign capital (%)	Share of portfolio investment of foreign capital (%)
1961	127.4	207.0	0	..		0	
1962	130.0	168.6	..	3.8		0.3	
1963	130.0	131.5	..	..		1.9	
1964	214.2	136.4	..	..		0.4	
1965	266.3	146.3	..	..		3.0	
1966	371.3	245.2	..	..		4.1	
1967	270.5	356.6	..	15.1		2.0	
1968	276.6	391.0	..	..		4.0	
1968	288.3	552.9	..	..		2.2	
1970	331.6	609.7	..	..		9.0	
1971	347.2	568.1	..	..		5.7	
1972	392.9	739.7	..	33.9			
1973	398.3	1094.4	..	..	
1974	404.5	1055.7	..	..	
1975	484.0	1550.2	..	..	
1976	484.0	2960.6	..	..	
1977	484.0	4306.4	..	33.8			
1978	484.0	4937.1	..	..	
1979	484.0	5708.1	..	..	
1980	607.4	6517.4	143	..			
1981	681.0	6891.0	153	..			
1982	731.1	6983.7	189	52.0			
1983	755.8	6909.7	269	..			
1984	806.0	7649.6	422	..			
1985	870.0	7748.6	532	..	78.3	20.9	0.8
1986	881.4	7955.2	355	..	85.8	12.2	2.0
1987	822.6	9192.9	1060	27.6	70.9	28.3	0.8
1988	730.6	12378.3	1283	..	58.8	40.2	0.9
1989	671.5	15245.2	1090	..	53.8	44.1	2.0
1990	707.8	14822.4	802	..	30.8	54.2	15.0
1991	733.4	13733.0	1396	13.9	10.9	29.9	59.2
1992	780.7	17153.9	894	..	10.1	11.5	78.4
1993	807.6	20262.4	1044	..	5.5	5.0	89.6
1994	803.8	25672.4	1316	..	7.6	8.3	84.0
1995	771.1	29351.2	1941	..	2.6	11.1	86.4
1996	804.8	29414.0	3202	..			
1997	1696.3	8873.6	6971	33.4			
1998	1208.1	48510.3	8852	..			
1999	1138.0	74105.3	15540	..			
2000	1265.4	96198.2	15690	..			
2001	1326.1	102500.0	11870	28.0			
2002	1200.4	121412.5	9101	..			

Sources: Ministry of Finance and Economy of Korea; Korea National Statistical Office; Song (1990, 60-61); Sakong (1993, 258-259); Dent 2002, 138; Kim Jong-Kil 2002, 106; Shin 2003, 59; Kim et al. 2004, 330.

B. Average growth rates of real GDP (%) in Korea and selected countries.

	1960-1969	1970-1979	1980-1989	1990-1999
Korea	7.7	9.5	8.2	6.2
Total NIEs	6.8	8.3	6.5	6.1
Japan	10.9	5.2	4.2	1.7
United States	4.1	2.7	2.8	3.0
European community*	4.8	3.3	2.1	2.1

* European Community in 1960-1989, European Union in 1990-1999.

Sources: Sakong 1993; IMF.

C. Development of Korea's exports with its major trade partners (1965-2000), USD million

	1965	1970	1975	1980	1985	1990	1995	2000
United States	61	395	1,536	4,607	10,754	19,360	24,131	37,611
Japan	45	234	1,293	3,039	4,543	14,638	17,049	20,466
China	..	..	..	..	..	585	9,144	18,455
EU*	21	76	937	3,116	4,297	8,876	16,302	23,424
Others	48	130	1,315	6,743	10,689	21,557	58,432	72,312
Total	175	835	5,081	17,505	30,283	65,016	125,058	172,268

* EU refers to European Union countries in 1990-2000, in 1965-1985 it refers to all European countries.

Source: Korea National Statistical Office.

D. Development of Korea's imports with its major trade partners (1965-2000), USD million

	1965	1970	1975	1980	1985	1990	1995	2000
United States	182	585	1,881	4,890	6,489	16,942	30,404	29,242
Japan	175	809	2,434	5,858	7,560	18,574	32,606	31,828
China	..	..	..	..	..	2,268	7,401	12,799
EU*	41	218	606	1,905	4,027	8,421	18,191	15,788
Others	65	372	2,353	9,639	13,060	23,639	46,517	70,824
Total	463	1,984	7,274	22,292	31,136	69,844	135,119	160,481

* EU refers to European Union countries in 1990-2000, in 1965-1985 it refers to all European countries.

Source: Korea National Statistical Office.

E. FDI inflow (USD millions) in Korea and other NIEs until the Asian crisis (1987-1998)

	1987-1992	1993	1994	1995	1996	1997	1998
Singapore	3674	4686	8550	7206	7884	9710	7218
Hong Kong	1886	3657	4131	3279	5521	6000	1600
Taiwan	1127	917	1375	1559	1864	2248	222
Korea	907	588	809	1776	2325	2844	5143

Note. 1987-1992 shows annual average.

F. Trend in Korea's foreign currency reserves during the Asian crisis years 1997-1999, USD 100 millions

	97/12	98/3	98/6	98/9	98/12	99/3
Foreign currency reserves (A)	204.1	297.5	409.0	469.8	520.4	557.8
Deposits at overseas branches (B)	113.3	54.0	54.0	34.0	33.3	33.6
Others (C)	2.0	2.0	2.0	2.0	2.0	2.0
Available foreign currency reserves {A-(B+C)}	88.8	241.5	241.5	433.7	485.1	522.2

Source: Ministry of Finance and Economy (of Korea)

APPENDIX 5: Major indicators of the demographic environment of the firm in Korea

A. Key demographic indicators in Korea in 1960-2000.

Year	1960	1965	1970	1975	1980	1985	1990	1995	2000	2002
Population (millions)	25.0	29.2	31.4	34.7	37.4	40.4	42.9	45.1	47.3	47.9
Life expectancy (years)	52.4	55.2	57.6	60.6	66.0	69.0	69.0	72.0	75.0	..
Urban population (%)	28.3	35.6	43.1	50.9	57.3	64.0	74.4	78.5	81.9	..
Economically active population (millions)	7.7	8.8	10.1	12.2	14.4	15.6	18.5	20.9	21.9	22.9
Unemployment (%)	7.9	7.4	4.5	4.1	5.2	4.0	3.1	2.0	4.1	3.1
Enrollment ratio of high schools	..	..	..	..	..	79.5	88.0	91.8	94.7	94.0
Human development index (HDI)	..	..	..	0.701	0.736	0.774	0.814	0.848	0.882	..

Sources: Ministry of Finance and Economy: Statistical Yearbook; Song (1990, 27, 182-184), Jwa 2001, 2-4, Korea National Statistical Office.

B. Unionisation and labour disputes

Year	Labour unions			Labour disputes		
	Wage-earners (1000 men)	Union members (1000 men)	Unionised rate (%)	Number of cases	Number of participants (1000 men)	Work-days lost (1000 days)
1970	3746	473	12.6	4	1	9
1975	4751	750	15.8	52	10	14
1980	6464	948	14.7	206	49	61
1985	8104	1004	12.4	265	29	64
1986	8433	1036	12.3	276	47	72
1987	9191	1267	13.8	3749	1262	6947
1988	9610	1707	17.8	1873	293	5407
1989	10389	1932	18.6	1616	409	6351
1990	10950	1887	17.2	322	134	4487
1991	11349	1803	15.9	234	175	3271
1992	11568	1735	15.0	235	105	1528
1993	11751	1667	14.2	144	109	1308
1994	12297	1659	13.5	121	104	1484
1995	12736	1615	12.7	88	50	393
1996	13043	1599	12.2	85	79	893
1997	13228	1484	11.2	78	44	445
1998	12191	1402	11.5	129	146	1452
1999	12522	1481	12.6	198	92	1366
2000	13142	1527	11.6	250	178	1894

Source: Lim & Han 2004, 277.

APPENDIX 6: Major indicators of the technological environment of the firm in Korea

A. Telecommunications service subscribers and number of motor vehicles, 1963-2001

Year	1970	1980	1986	1992	1995	2001	2002
Telephones per 100 population	..	..	16.0	31.0	41.5	48.0	49.3
Mobile phones per 100 population	0	0	0	0.2	3.6	61.4	67.9
Wireless internet	0	0	0	0	0	23,874	29,874
Automobiles (thousands)	126	527	1,113	5231	8,469	12,914	..

Sources: Korea National Statistical Office, Ministry of Finance and Economy: Statistical Yearbook; A handbook of Korea (1990, 435); Mäkitalo (1997, 38).

B. R&D activities

Year	1963	1970	1980	1985	1990	1995	2000	2001
R&D expenditure to GDP (%)	0.24	0.48	0.86	1.52	1.87	2.50	2.65	2.96
R&D investment by research institutions (billion won)	285	731	1,767	2,032	2,160
R&D investment by colleges and universities (billion won)	119	244	771	1,562	1,677
R&D investment by companies (billion won)	751	2,375	6,903	10,255	12,274
Researchers in R&D activities (per 10,000 people)	10.2	16.4	28.5	34.0	37.8

Source: Korea National Statistical Office

C. Overall infrastructure quality in comparison to selected countries

	Score	World ranking
Singapore	6.8	1
Finland	6.6	5
United States	6.3	8
Hong Kong	6.3	10
Malaysia	6.1	12
Japan	5.6	18
Korea	5.2	21

Note: 1 = poorly developed and inefficient, 7 = among the best in the world

Source: The global competitiveness report 2003-2004.

APPENDIX 7: Major indicators of the competitive environment of the firm in Korea

A. Economic concentration of the chaebols (%)

		1985-1989 (average)	1992	1997
Assets	The five largest chaebols	30.7	24.5	2.7
	The 30 largest chaebols	48.0	44.4	44.8
Sales	The five largest chaebols	24.4	28.6	32.4
	The 30 largest chaebols	44.3	43.8	45.5
Employment	The five largest chaebols	2.6	2.4	2.7
	The 30 largest chaebols	4.4	4.2	4.1

Source; Jwa 2001, 30.

APPENDIX 8: Major indicators of the political environment of the firm in Korea

A. Korea's diplomatic establishments, 1990 and 1997

	Embassies		Consulates-General		Missions	
	1990	1997	1990	1997	1990	1997
Europe	21	28	6	5	3	4
America	22	20	16	16	1	1
Asia	18	21	13	16	0	2
Middle East	17	14	2	1	0	0
Africa	17	17	0	0	0	0
Total	95	100	37	38	4	7

Source: Lee 2000, 176.

B. Korea's participation in international organisations:

African Development Bank, Asia-Pacific Economic Cooperation, Asian Development Bank, ASEAN Regional Forum, Association of Southeast Asian Nations (dialogue partner), Australia Group, Bank for International Settlements, Colombo Plan, European Bank for Reconstruction and Development, Economic and Social Commission for Asia and the Pacific, Food and Agriculture Organisation, Group of 77, International Atomic Energy Agency, International Bank for Reconstruction and Development, International Civil Aviation Organization, International Criminal Court, International Chamber of Commerce, International Confederation of Free Trade Unions, International Red Cross and Red Crescent Movement, International Development Association, International Energy Agency, International Fund for Agricultural Development, International Finance Corporation, International Federation of the Red Cross and Red Crescent Societies, International Hydrographic Organization, International Labor Organization, International Monetary Fund, International Maritime Organization, Inmarsat, Intelsat, International Criminal Police Organization – Interpol, International Olympic Committee, International Organisation for Migration, International Organization for Standardization, International Telecommunications Union, Mission des nations unies pour le referendum dans le Sahara Occidental - MINURSO, Non-Aligned Movement (guest), Nuclear Suppliers Group, Organisation for Economic Co-Operation and Development, Organisation for the Prohibition of Chemical Weapons, Organization for Security and Co-operation in Europe (partner), United Nations, United Nations Conference on Trade and Development, United Nations Educational, Scientific and Cultural Organization, United Nations Peacekeeping Force in Cyprus, United Nations Industrial Development Organization, United Nations Observer Mission in Georgia, United Nations Mission in Liberia, United Nations Mission of support in East Timor, United Nations Military Observer Group in India, United Nations University, Universal Postal Union, World Confederation of Labour, World Customs Organization, World Health Organization, World Intellectual Property Organization, World Meteorological Organization, World Tourism Organization, World Trade Organization, Zangger Committee.

Source: CIA World Factbook 2004.

C. Administrations of the Republic of Korea since 1961

President Park Chung-Hee administration 1961-1979

President Choi Kyu-Ha administration 1979-1980

President Chun Doo-Hwan administration 1980-1988

President Roh Tae-Woo administration 1988-1993

President Kim Young-Sam administration 1993-1998

President Kim Dae-Jung administration 1998-2003

President Roh Moo-Hyun administration 2003-

APPENDIX 9: Development of Korea's country risk

The most important international credit rating firms include Moody's Investor Services, Fitch, and Standard & Poor's rating group, which, however, do not offer publicly available rankings. In their classifications, investment grade refers to Finnvera classes of 1-2 (3) and speculative grade to (3) 4-6. Usually, the classifications of export credit agencies correlate with the credit rating firm classifications, but they do not have an impact on each other's ratings. The credit rating rankings are more suitable for portfolio investments than FDI, but the overall trend may still be useful to know. In the present study, country ranking data of Euromoney and Institutional Investor¹⁸⁷ is used in addition to Finnvera's classification due to the public availability. The development of Korea's country risk according to them is shown below. Similar to the above-mentioned credit rating firms, Euromoney and Institutional Investor are more sensitive to change the classification than export credit agencies, such as Finnvera. In addition, a comparison of Euromoney and Institutional Investor shows that Euromoney reacts more sensitively to changes than Institutional Investor.

According to Institutional Investor (9/1998, 125), the global creditworthiness has remained at the highest level (on a scale of zero to 100 in which 100 is the best rating) in 15 years despite the Asian crisis, which arrested the upward trend temporarily. In global rank, even Korea's lowest rating in the crisis years (52.7) was well over the global average (41.2). In regional ranking, Korea ranked as the fourth until the crisis, but lags now behind Japan and other NIEs as well as Australia and New Zealand, which are included in the Asia-Pacific region.

According to Institutional Investor, there was a continuing confidence in the fundamental economic performance of Korea, up to 1996. Korea's good ranking was explained also by the relaxed attitudes between North and South Korea at the beginning of the 1990s. In the second half of 1997, just before the crisis broke out in Korea, economic overheating and currency problems in Korea resulted in a decline in its ranking. In 1998, despite the decline (-5.3 points), Korea's troubles were put in perspective and considered serious but only temporary (Institutional Investor, 3/1998, 137). In 1999, Korea's efforts to lift its collapsed economy slowed down but later in the same year, Korea was already recognised as the most likely country to rise, among the crisis countries.

In 2000, Japan lost its no 1 ranking in the Asia-Pacific region for the first time since the survey's inception in 1979, and Korea bounced back to the pre-crisis level. The slight decrease of Korea in 2001 was explained by the disappointment over the likelihood of the two Koreas being unified soon. In 2002, Asia-Pacific was recognised as the most rapidly growing region globally. Especially, Korea's performance was called "fantastic" (Institutional Investor, 9/2002, 171).

Similar to Institutional Investor, also Euromoney's statistics confirm that Korea's political risk decreased gradually until 1997, when it started to increase, reached its peak in 2001, and finally decreased back to the pre-crisis level. Since the beginning of the 1990s, East Asian economies had yielded sustained growth, although Japan dropped temporarily from the top 10 of country risk rankings in 1994. NIEs and Malaysia retained their good positions in the rankings. According to Euromoney (9/1996, 200), Asia became economically mature and politically more unstable in 1996 when the Asian countries slipped in the ranking by 2.5 places on average. However, Korea remained well-ranked even in March 1997 when the first chaebol bankruptcy took place, but started to slip at the end of the year due to the politico-economic scandals. Totally, Asia fell by an average of four places during 1997. In the crisis-year 1998, Korea slipped only by four places in comparison to other crisis countries such as Thailand (-7 places), Malaysia (-21 places), and Indonesia (-42 places). In 1999-2000, Korea's growth prospects were adjusted upwards due to the structural reforms and its country risk started to fall.

¹⁸⁷ The data of the country ranking data of Euromoney and Institutional Investor was gathered by M. Sc. (Econ.) Réa Maxwell and is partly available in Maxwell 2003.

A. Development of Korea's country risk as rated by Institutional Investor and Finnvera (1992-2002)

Year	1992	1992	1993	1993	1994	1994	1995	1995	1996	1996	1997
Month	3	9	3	9	3	9	3	9	3	9	3
IIRRAP	..	4	4	4	4	4	4	4	4	4	6
IIGR	21	21	21	21	21	20	20	20	21	21	23
IICCR	..	67.6	68.6	68.9	69.5	70.0	71.4	72.2	72.0	72.1	71.4
Finnvera	2	2	2	2	2	2	2	2	2	2	2

Year	1997	1998	1998	1999	1999	2000	2000	2001	2001	2002	2002
Month	9	3	9	3	9	3	9	3	9	3	9
IIRRAP	6	7	9	8	7	7	7	7	7	7	7
IIGR	24	25	39	42	36	35	35	33	33	34	32
IICCR	69.7	64.4	53.6	52.7	56.8	58.8	63.3	62.4	61.7	62.7	65.6
Finnvera	2	3	3	3	3	2	2	2	2	2	2

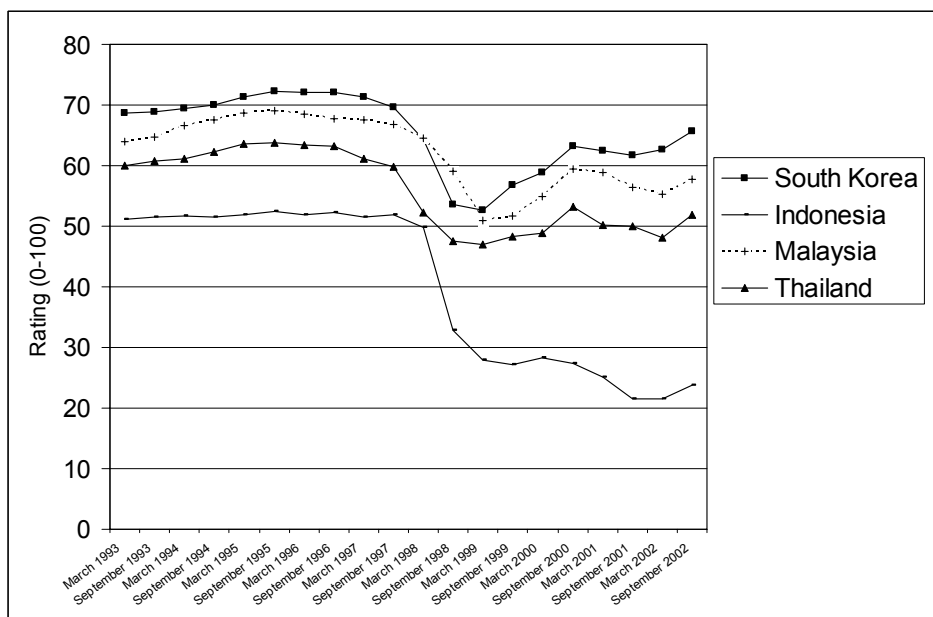
Note. IIRRAP = Institutional Investor's Regional Rank Asia-Pacific (in which 1 is the best ranking of 21 countries)

IIGR = Institutional Investor's Global Rank (in which 1 is the best ranking of about 120-150 countries)

IICCR = Institutional Investor's Country Credit Rating (on a scale of zero to 100 in which 100 is the best rating)

Sources: Maxwell 2003; Pakkala 8.12.2003.

B. Comparison of the development of country credit rating in Asian crisis countries of South Korea, Indonesia, Malaysia, and Thailand in March 1993-September 2002 by Institutional Investor.



Source: Institutional Investor.

C. Development of Korea's country risk by Euromoney (1992188–2002)

				Analytical indicators		Debt indicators	
Year weighting	Political Rank	Global rank ¹⁸⁹	Total Score 100 %	Political Risk ¹⁹⁰ 25 %	Economic Performance 25 %	Debt indicators 10 %	Debt in default or rescheduled 10 %
92/9	29	12	75.45	16.60	8.6	9.4	10.00
93/3 ¹⁹¹	32	15	73.96	17.23	8.57	9.74	10.00
93/9	26	12	81.65	21.28	22.18	9.74	10.00
94/3	27		78.57	21.74	19.99	9.66	10.00
94/9	25	13	82.90	22.35	21.57	9.66	10.00
95/3	26	18	82.44	21.21	21.81	9.66	10.00
95/9	23	6	86.12	20.53	22.71	9.66	10.00
96/3	24	18	85.04	21.02	21.22	9.81	10.00
96/9	22	12	84.33	19.95	22.03	9.81	10.00
97/3	22	18	87.04	20.00	21.16	10.00	10.00
97/9	27	..	80.25	18.31	17.13	10.00	10.00
97/12 ¹⁹²	30	41	..	..	..	..	..
98/9	34	60	64.47	15.11	14.06	10.00	10.00
99/3	44	36	61.63	15.91	12.03	9.60	10.00
99/9	40	27	64.13	16.81	12.59	9.50	10.00
00/3	40	28	63.48	17.43	12.30	8.89	10.00
00/9	37	29	66.28	17.50	12.43	9.05	10.00
01/3	47	31	62.53	17.23	12.71	9.75	10.00
01/9	42	37	62.36	16.90	11.07	9.75	10.00
02/3	38	38	67.39	17.28	11.56	10.00	10.00
02/9	27	34	69.46	18.34	12.60	9.41	10.00

¹⁸⁸ Euromoney's political risk data only goes back to September 1992 (Koh 15.12.2003).

¹⁸⁹ The number of the countries varies from 167 upwards. Since September 2000, the number of countries is 185.

¹⁹⁰ Political Risk (25 % weighting) refers to the risk of non-payment or servicing of payment for goods or services, loans, trade-related finance and dividends, and the non-repatriation of capital. Risk analysts give each country a score between 10 and zero – the higher, the better. This does not reflect the creditworthiness of individual counterparties.

¹⁹¹ Euromoney's ranking before 9/1993 gave lesser weight to economic performance and political risk and greater weight to categories rating access to international borrowing. Thus, before 9/1993, the political risk weight is 20 % and other categories 10 %.

¹⁹² Instead of 3/1998, statistics by 12/1997 was published. When contacted in 2003, Euromoney could not explain why this had happened.

		Access to international finance			
Year	Credit ratings	Access to bank finance	Access to short-term finance	Access to capital markets	Discount on forfeiting
weighting	10 %	5 %	5 %	5 %	5 %
92/3	..	..	..	..	..
92/9	6.9	0.6	7.5	8.0	7.7
93/3	6.92	1.76	5.00	7.00	7.73
93/9	6.92	0.88	2.50	3.50	4.65
94/3	6.92	0.14	2.50	3.50	4.11
94/9	6.92	0.14	2.75	4.50	5.00
95/3	6.92	1.32	2.67	4.50	4.35
95/9	7.31	1.32	5.00	5.00	4.58
96/3	7.81	1.24	5.00	4.50	4.45
96/9	7.92	1.24	5.00	4.50	3.89
97/3	7.92	5.00	5.00	3.80	4.16
97/9	7.78	5.00	5.00	3.00	4.03
97/12	..	..	..	..	..
98/9	3.62	5.00	3.87	2.28	0.55
99/3	4.17	0.84	4.05	2.75	2.30
99/9	4.58	0.84	4.11	2.75	2.85
00/3	5.00	0.03	4.37	2.75	2.71
00/9	5.83	1.19	4.11	3.00	3.17
01/3	5.83	0.15	2.32	1.50	3.05
01/9	5.21	0.30	4.00	1.50	3.64
02/3	5.42	5.00	2.5	1.50	4.14
02/9	6.46	0.98	4.17	3.50	4.01

Note. For methodologies, refer to Euromoney.

Source: Maxwell, 2003.

APPENDIX 10: Comparison of Korean investment policy periodisations

KOTRA's periodisation, according to Choi (31.5.1999), analyses a significantly shorter time frame than the other attempts, such as Korhonen (2001), Dent (2002) and Stoever (2002) that analyse the whole life cycle of the Korean investment policy, as shown in Table I below. KOTRA's periodisation starts from the year 1984 reflecting the start of the increasing importance of FDI compared to foreign debt, which had been the major form of finance in previous decades.

The four phases¹⁹³ by KOTRA are as follows:

1. Basis foundation phase in 1984-1989 based on the Revised Foreign Capital Inducement Law set in 1984.
2. Gradual opening phase in 1990-1995 based on new regulations in 1991 and 1992.
3. Internationalisation phase in 1996-1997 based on OECD requirements.
4. Investment promotion phase since 1998 based on the FIPA.

Table I. Comparison of different periodisations of Korean investment policy.

KOTRA (Choi 31.5.1999)	Korhonen (2001)	Stoever (2002)	Dent (2002)
	EOI phase (1962-1972)	Very underdeveloped phase (1960s)	Institutionalisation phase (1960-1983)
	Oil crisis phase (1973-1978)	Market-seeking FDI phase (1970s)	
	Reform phase (1979-1992)	Competitive pressures and reform efforts phase (late 1970s-1980s)	
Basis foundation phase (1984-1989)	Segyehwa phase (1993-1996)	Emergence as an economic power phase (mid-1980s-mid-1990s)	Early liberalisation phase (1984-1997)
Gradual opening phase (1990-1995)			
Internationalisation phase (1996-1997)			
Investment promotion phase (1998-)	Asian crisis phase (1997-1999)	Financial crisis and recovery phase (1997-)	Active investment promotion (1998-)
	Recovery phase (2000-)		

The phases of Korhonen's study (2001) are comparable with those by KOTRA as far as the same time period is concerned. KOTRA's basis foundation phase and the beginning of the gradual opening phase

¹⁹³ ¹⁹³ Names of the phases are translated by the author. Original forms are as follows:

기반조성단계 (1984~1989)

단계적 개방 단계 (1990~1995)

투자규범의 국제화 단계 (1996~1997)

투자촉진-지원단계(1998~현재)

are both included in the reform phase by Korhonen. Consequently, the end of the gradual opening phase and the internationalisation phase are built into the Segyehwa phase by Korhonen. The investment promotion phase is wholly comparable with the Asian crisis phase by Korhonen. The major difference is that KOTRA distinguishes the phases according to legislative measures, while Korhonen stresses the starting points of the new political eras. Thus, Korhonen's study understands the emergence of new regulations at the beginning of 1990s as a continuum of the reform phase characterised by a gradual liberalisation during the 1980s. The new phase of segyehwa is recognised to start from the establishment of the first-ever Foreign Investment Liberalisation Plan in 1993, which is seen as an implication of the new segyehwa policy and OECD entry.

A more recent study by Dent (2002, 161-163) whose major contribution is the analysis of Korea's foreign economic policy, has introduced a periodisation of Korean FDI policy in three based on legislative measures, similar to KOTRA:

1. Institutionalisation phase (1960-1983)
2. Early liberalisation phase (1984-1997)
3. Active liberalisation phase (1998 to the present)

Dent's first phase starts from the adoption of the Foreign Capital Inducement Promotion Law of 1960. Consequently, the second phase starts from the Revised Foreign Capital Inducement Law of 1983, and the third phase from the Foreign Investment Promotion Act (FIPA) of 1998.

Stoever (2002), in his turn, emphasises the attraction-aversion dilemma of the Korea government's investment policy. Based on the chronology of development in FDI policy, Stoever develops a rough periodisation as follows:

1. Very underdeveloped; beginning of the export drive (1960s)
2. Market-seeking FDI; Japanese cottage-industry investment (1970s)
3. Competitive pressures and reform efforts (late 1970s-1980s)
4. Emergence as an economic power (mid 1980s-mid 1990s)
5. Financial crisis and recovery (1997-2000)

Similar to Korhonen (2001), Stoever (2002) emphasises the internal and external pressures driving FDI. In the case of 1960s, Stoever (2002, 63) describes Korea's less developed and non-industrialised economy in general as a driving force to attract FDI, while Korhonen (2001, 87) gives more attention to political decision to adopt EOI strategy, which emphasised the FDI, technology transfer and the foreign trade. In the case of the 1970s, Stoever (2002, 63-63) argues that the restrictive investment policy was a result of internal pressures, such as a reaction against FDI by the United States and Japanese companies, as Koreans were afraid of foreign control due to history. Korhonen (2001, 89-90), in her turn, highlights the external pressures caused by the first oil crisis that for the first time showed the vulnerability of the Korean economy that had become highly dependent on overseas markets and fluctuations. Actually, these external pressures focused by Korhonen and internal reactions by Stoever, are the two sides of the same coin.

In analysing the late 1970s and 1980s, Stoever (2002, 64-66) and Korhonen (2001, 94-95) agree that the external pressures to allow more FDI began to emerge along with the opening and internationalisation of the Korean economy, and the internal pressures gradually broke the strictly government-led system. However, Stoever gives more emphasis to structural changes in industries, while Korhonen stresses the political development, which progressed from military dictatorship to democracy along with the gradual shift from a planned economy to a market economy giving more freedom for companies. With regard to the 1990s, until the economic crisis in 1998, Stoever (2002, 66) and Korhonen (2001, 95-97) agree that especially OECD membership forced the Korean government to reduce its barriers against FDI. Consequently, they agree that the economic crisis resulted in considerable pressure to liberalise the investment policy as a whole in order to overcome the nation's economic crisis and to maintain long-term financial stabilisation (Stoever 2002, 66; Korhonen 2001, 97-98).

Finally, Korhonen's (2001) periodisation reflects Korean overall economic policies and as such, has remarkable similarities to recent studies periodising Korean economic policies like Shin (2003) who has summarised his findings as shown in Table II below.

Table II. Periodisation of Korean economic policies

	1961-1972	1973-1979	1980-1992	1993-1997	1998-present
Policy network	State-dominated alliance with business	Symbiotic state-business alliance	Weakened state-business alliance	Partial relation between the state and specific business	Tripartite corporatism
Policy idea	Economic development, trickle-down	Economic development, welfare dependency	Stabilisation, liberalisation	Globalisation, competitiveness	Participation, social cohesion
Macro-economic policy	Expansionary policy	Expansionary policy	Expansionary -austerity -expansionary	Expansionary -stabilisation	Austerity -expansionary
Industrial policy	Export-oriented industrialisation	Heavy and chemical industrialisation	Structural adjustment in the heavy and chemical industries	Liberalisation, Deregulation	Liberalisation, structural adjustment
State's role in the economy	Developmental state	Developmental state	Developmental state in transition	Competitive state	Regulated competitive state
Welfare system	Minimal and preferential welfare system	Residual welfare system	Transition from the residual system to a regulator welfare system	Enterprise-centered regulator welfare system	Transition to an institutional welfare system

Source: Shin 2003.

APPENDIX 11: Gross regional domestic product in Korea

A. Gross regional domestic product in Korea, KRW billion

	Total Korea	Seoul	Busan	Daegu	Incheon	Gwangju	Daejeon	Ulsan
1996	459379,0	111402,5	29024,7	17526,3	23805,8	10685,7	10671,2	0,0
1997	496993,7	120000,5	30429,8	18992,8	25409,7	11461,6	11683,9	0,0
1998	479823,7	114622,4	29575,4	17621,6	22930,0	10532,6	11423,2	23765,6
1999	527603,2	125055,7	31994,7	19228,6	24151,4	11327,6	12087,6	26482,9
2000	577970,9	138492,3	33839,8	20776,3	26230,7	12628,8	13559,0	28355,3
2001	620905,2	149887,0	37658,4	21720,6	29255,2	13761,1	14416,1	29875,9
2002	685946,4	168143,4	40193,4	23438,4	33392,1	14930,5	16045,6	33173,7
2003	727604,5	175229,8	42615,7	24336,5	34918,5	15722,9	17133,9	34672,5

	Gyeonggi	Gangwon	North Chungcheong	South Chungcheong	North Jeolla	South Jeolla	North Gyeongsang	South Gyeongsang	Jeju
1996	81268,7	13962,2	16035,6	20461,6	16267,7	23408,3	28958,1	51368,8	4531,8
1997	85723,5	15050,8	16643,6	23286,3	17536,5	26152,2	33570,0	56211,6	4840,9
1998	84181,7	14453,4	16073,7	22790,1	16360,9	25487,7	31890,6	33507,2	4607,6
1999	98771,4	15386,1	18071,6	25915,1	17435,4	26254,7	34623,2	35922,4	4895,1
2000	111793,5	16462,2	19521,4	28962,8	18977,8	26907,6	38445,7	37728,4	5289,5
2001	120231,3	17112,8	20044,4	30531,6	19996,6	28298,7	40678,0	41846,3	5591,2
2002	132712,6	18609,3	21499,6	34394,7	21279,2	32171,5	44021,5	45639,3	6301,7
2003	139934,2	20440,1	22845,2	37959,8	22286,0	34838,6	49291,2	48641,4	6738,4

B. Share of gross regional domestic product in Korea, %

	Seoul	Busan	Daegu	Incheon	Gwangju	Daejeon	Ulsan
1996	24,3	6,3	3,8	5,2	2,3	2,3	0,0
1997	24,1	6,1	3,8	5,1	2,3	2,4	0,0
1998	23,9	6,2	3,7	4,8	2,2	2,4	5,0
1999	23,7	6,1	3,6	4,6	2,1	2,3	5,0
2000	24,0	5,9	3,6	4,5	2,2	2,3	4,9
2001	24,1	6,1	3,5	4,7	2,2	2,3	4,8
2002	24,5	5,9	3,4	4,9	2,2	2,3	4,8
2003	24,1	5,9	3,3	4,8	2,2	2,4	4,8

	Gyeonggi	Gangwon	North Chungcheong	South Chungcheong	North Jeolla	South Jeolla	North Gyeongsang	South Gyeongsang	Jeju
1996	17,7	3,0	3,5	4,5	3,5	5,1	6,3	11,2	1,0
1997	17,2	3,0	3,3	4,7	3,5	5,3	6,8	11,3	1,0
1998	17,5	3,0	3,3	4,7	3,4	5,3	6,6	7,0	1,0
1999	18,7	2,9	3,4	4,9	3,3	5,0	6,6	6,8	0,9
2000	19,3	2,8	3,4	5,0	3,3	4,7	6,7	6,5	0,9
2001	19,4	2,8	3,2	4,9	3,2	4,6	6,6	6,7	0,9
2002	19,3	2,7	3,1	5,0	3,1	4,7	6,4	6,7	0,9
2003	19,2	2,8	3,1	5,2	3,1	4,8	6,8	6,7	0,9

C. Cumulative FDI in the Korean regions (USD 1000) and the regional share of total FDI (%)

	Total Korea	Seoul	Busan	Daegu	Incheon	Gwangju	Daejeon	Ulsan
cumulative FDI in 2002	63631832	20875223	1997881	352425	2822553	759728	1470499	2421689
share of total FDI in 2002	100	32,8	3,1	0,6	4,4	1,2	2,3	3,8

	Gyeonggi	Gangwon	North Chungcheong	South Chungcheong	North Jeolla	South Jeolla	North Gyeongsang	South Gyeongsang	Jeju	Undecided
cumulative FDI in 2002	10203685	2294208	1309771	3456918	1803453	1400732	3247311	2700673	3609066	2906017
share of total FDI in 2002	16,0	3,6	2,1	5,4	2,8	2,2	5,1	4,2	5,7	4,6

Note: The group of metropolitan cities and provinces has been added to by the city of Ulsan in 1997. Earlier, it was part of South Gyeongsang province.

APPENDIX 12: List of Finnish investors in Korea

There are 18 Finnish firms, which have invested in Korea through 37 investment inducements. The names of the firms are subject to change over time, see below.

Ahlstrom Group	Aquamaster-Rauma Ltd	Ani Biotech Oy
Fibox Oy	GSH International Oy	Halton Group
Jaakko Pöyry Group	JOT Automation Group	Kemira Group
Lapponia House Oy	Metso Group	Nokia Group
Optatech Oy	Proha Group	Raisio Group
Stora Enso Group	UPM Kymmene	Wärtsilä Group

Source: Ministry of Finance and Economy (of Korea)

Different from KOTRA's statistics, the Ministry of Foreign Affairs and Trade (2001) of Korea, mentions a Finno-Korean joint venture Hiab Hana, which is a subsidiary of the Finnish company Partek Cargotec. In KOTRA's statistics, however, this investment is compiled as Swedish, and the investor is mentioned to be Hiab Sverige AB, which is a Swedish part of the Partek Group, a Finnish firm having its headquarters in Parainen, Finland. Also the Swedish Embassy in Korea treats Hiab Hana as a Swedish company (Swedish Embassy 2002). Finally, it became obvious that the financial investment flow had been directed to Korea from Sweden because the Korean statistics make geographical classification according to the origin of funds, not the location of the investor headquarters, for example. The Swedish origin of funds was later confirmed by a Hiab Hana representative. Thus, the case is excluded from the present study.

Further, Mäkitalo (1997, 98) has listed the additional three Finno-Korean companies of Tamrock, Neles-Jamesbury and MacGregor, which cannot be found in the lists of KOTRA or Finpro. It was found that Tamrock, a Finnish company, had opened an office in Korea in 1988 for sales and services. However, nowadays Tamrock is owned by the Swedish company Sandvik, having its headquarters in Sandviken, Sweden. Tamrock is not included in the study as none of the statistics show an investment flow from Finland for this purpose. Consequently, Neles-Jamesbury became a part of the Finnish company Rauma in 1991, and along with the merger of Rauma and Valmet to form Metso, it became ultimately a part of Metso Automation in 1999. Investment in Korea is probably compiled already before Neles-Jamesbury became a part of the Finnish company because the case is not included in any investment statistics used in the present study. Thus, the case is not included in the present study, either. Finally, MacGregor is excluded because it is a Swedish-owned company having its headquarters in Stockholm.

The above-mentioned three companies are recognised as Finnish also by the Korean Ministry of Foreign Affairs and Trade (2001). In the same list, also Cultor Food Science and Cimcorp can be found. The Finnish sugar company Cultor merged with Danisco from Denmark in 1999 and has its headquarters in Copenhagen. Consequently, Cimcorp, a robotics specialist, which was originally a subsidiary of Wärtsilä, is owned by Swisslog, a Swiss company located in Buchs. These companies are excluded from the present study because there is no evidence in the statistics that any investment flow from Finland to Korea is induced by these firms. Finally, an investment case, which is present in KOTRA's list, namely Tam-Osung Rock Drilling Equipment & Engineering Co. Ltd, is excluded from the study, because it refers to a joint venture set up by a Finnish expatriate living in Korea. Thus, the case does not fit with the general setting of the present study, which is interested in the parent company reactions.

Taking into account the rapid changes in company names and owners, the following details should be also considered. The Ekono Group was acquired by the Jaakko Pöyry Group in 1993. Valmet was merged with Rauma and became Metso in 1999. Aquamaster-Rauma has been called Kamewa since 1999. Kamewa, in its turn, is nowadays part of Vickers Ulstein Marine Systems, which was acquired by Rolls Royce in 1999. Finally, JOT automation merged with Elektrobitt in 2002 and has been called Elektrobitt since then.

APPENDIX 13: Original Questionnaire in Finnish

KTL Kristiina Korhonen
Helsingin kauppakorkeakoulu
PL 1210
00101 Helsinki

SAATE

15.5.2003

Name
Company
Address

Vilite: sähköpostiviestini 9.5.2003

TUTKIMUS SUOMALAISYRITYSTEN SUORISTA SUORITUKSISTA ETELÄ-KOREAA

Tuikin Helsingin kauppakorkeakoulussa suomalaisyritysten vuosina 1984-2002 tekemiä suoria sijoituksia Etelä-Koreaan. Tutkimus on osa väitöskirjahankettani.

Esittelen tutkimustuloksia suomalais-korealaisessa talous-seminaarissa, josta lähetän myöhemmin tarkempaa tietoa. Tutkimusraportti lähetetään kaikille tutkimukseen osallistuville sen valmistuttua.

Tutkimuslomakkeen täyttämiseen menee noin 15 - 25 minuuttia. Pyydän Teitä vastaamaan tutkimuslomakkeen kaikkiin kysymyksiin huolellisesti ja palauttamaan sen viimeistään 30.5.2003 osoitteella Kristiina Korhonen, Helsingin kauppakorkeakoulu, PL 1210, 00101 Helsinki.

Tutkimuksessa yrityksiä tarkastellaan ryhminä. Vastaukset käsitellään luottamuksellisesti eivätkä yksittäisen yrityksen vastaukset ole tunnistettavissa. Tutkimusraportissa yrityksestä ja sen Etelä-Korean toimintoista käytetään vain yleisesti saatavilla olevaa julkista aineistoa.

Vastaan mielelläni tutkimusta koskeviin kysymyksiin sähköpostitse (kristina.korhonen@hkk.fi) tai puhelimitse (050 - 377 73 88).

Yhteistyötterveisin

Kristiina Korhonen

Tutkimuslomake

TUTKIMUSLOMAKE

SUOMALAISYRITYSTEN SUORAT SIOITUKSET
ETELÄ-KOREAAN 1984-2003

Palautus ____/____ 2003 mennessä:

KTL Kristiina Korhonen
Helsingin kauppakorkeakoulu
00101 Helsinki

267

INVESTOINNIN TEHNEEN YRITYKSEN TAUSTATIEDOT (Tarkistakaa ja korjatkaa tiedot)

1. Yrityksen nimi:

2. Vastaajan nimi:

3. Vastaajan puhelinnumero:

4. Vastaajan sähköpostiosoite:

5. Vastaajan osoite:

6. Vastauspäivämäärä: / 2003

7. Yrityksen päätoimiala (ympyröikää yksi vaihtoehto):

Maa-, metsä ja riistatalous	D10	Metallien jalostus, metallituotteiden valmistus
Kalatalous	D11	Koneiden ja laitteiden valmistus
Energiamineraalien kaivu	D12	Elektronikka- ja sähkötuotteiden valmistus
Malmien ja mineraalien kaivu	D13	Kulkuneuvojen valmistus
Elintarvikkeiden, juomien ja tupakan valmistus	D14	Muu valmistus
Tekstiilien ja tekstiilituotteiden valmistus	E	Sähkö-, kaasui- ja vesihuolto
Nahan ja nahkatuotteiden valmistus	F	Rakentaminen
Sahatavaran ja puutuotteiden valmistus	G	Tukku- ja vähittäiskauppa
Massan, paperin ja paperituotteiden valmistus	H	Majoitus- ja ravitsemistoiminta
Koksin, öljytuotteiden ja ydinpolttoaineen valmistus	I	Kuljetus, varastointi ja tietoliikenne
Kemikaalien, kemian tuotteiden ja tekokuitujen valmistus	J	Rahoitustoiminta
Kumi- ja muovituotteiden valmistus	K	Liike-elämän palvelut
Ei-metallisten mineraalituotteiden valmistus	L	Muu, mikä?

3. Korean ulkoministeriön mukaan yrityksenne on investoinut Etelä-Koreaan vuonna USD. Pitääkö tieto paikkansa? (ympyröikää)

a. kyllä

b. ei

c. ei osaa sanoa

Mikäli vastasitte a (kyllä) tai c (ei osaa sanoa), siirtykää seuraavalle sivulle.

Mikäli vastasitte b (ei), kirjoittakaa tähän oikea sijoitusvuosi ja sijoituksen arvo. Muistakaa merkitä myös valuutassa ilmoitatte sijoituksen arvon.

ETELÄ-KOREAN YKSIKÖN TAUSTATIEDOT (Tarkistakaa ja korjatkaa tiedot)

1. Etelä-Korean yksikön nimi:

2. Etelä-Korean yksikön osoite:

3. Etelä-Korean yksikön perustamistapa (ympyröikää yksi vaihtoehto):

a. uusperustanta (greenfield)

b. yritysosto (acquisition)

c. fuusio (merger)

d. muu perustamistapa, mikä?

4. Etelä-Korean yksikön päätoimiala (ympyröikää yksi vaihtoehto):

Maa-, metsä ja riistatalous	D10	Metallien jalostus, metallituotteiden valmistus
Kalatalous	D11	Koneiden ja laitteiden valmistus
Energiamineraalien kaivu	D12	Elektronikka- ja sähkötuotteiden valmistus
Malmien ja mineraalien kaivu	D13	Kulkuneuvojen valmistus
Elintarvikkeiden, juomien ja tupakan valmistus	D14	Muu valmistus
Tekstiilien ja tekstiilituotteiden valmistus	E	Sähkö-, kaasui- ja vesihuolto
Nahan ja nahkatuotteiden valmistus	F	Rakentaminen
Sahatavaran ja puutuotteiden valmistus	G	Tukku- ja vähittäiskauppa
Massan, paperin ja paperituotteiden valmistus	H	Majoitus- ja ravitsemistoiminta
Koksin, öljytuotteiden ja ydinpolttoaineen valmistus	I	Kuljetus, varastointi ja tietoliikenne
Kemikaalien, kemian tuotteiden ja tekokuitujen valmistus	J	Rahoitustoiminta
Kumi- ja muovituotteiden valmistus	K	Liike-elämän palvelut
Ei-metallisten mineraalituotteiden valmistus	L	Muu, mikä?

5. Millaista toimintaa Etelä-Korean yksikkö harjoittaa? (ympyröikää yksi vaihtoehto)

a. valmistus

b. rakentaminen

c. korjaus ja kunnossapito

d. energian tuotanto ja jakelu

e. varastointi ja kuljetus

f. tukkimus- ja kehittämistoiminta

g. tietojenkäsittely

h. hallinto

i. myynti

j. muu, mikä?

6. Kuinka suuri oli yrityksenne omistussuus Etelä-Korean yksiköstä välittömästi investointin toteututtua? (ympyröikää yksi vaihtoehto)

a. 100 %

b. enemmistöosuus (>50 %)

c. 50 %

d. vähemmistöosuus (<50 %)

e. muu, mikä?

268

22 POLIITTINEN YMPÄRISTÖ ETELÄ-KOREASSA

Politiisella ympäristöllä tarkoitetaan yhteiskuntajärjestystä ja lainsaadantoa, jotka rajaavat yrityksen oikeuksia ja velvollisuuksia.

2.2.1 Miten tärkeä Etelä-Koreassa investointihetkeä vällin neela poliittisella ympäristöllä oli investointipäätöksen? (ym pyrölkää kultakin riviltä yksi vaihtoehto)

Yksi vaihtoehto	Eläntien tärkeä	Eläntien arvo
1. Hallintojärjestelmä	2	3
2. Poliittinen vakaus	1	3
3. Pakkila-autonomia	1	3
4. Uppolittiset suhteet	1	3
5. Pohjois-Korean uhka	1	3
6. Talouspolitiikka	1	3
7. Kauppapolitiikka	1	3
8. Tuulit	1	3
9. Tuontirajaukset	1	3
10. Yleinen laisäädäntö	1	3
11. Investointilaisäädäntö	1	3
12. Investointilimapiiri	1	3
13. Investointipoliittikan uskottavuus	1	3
14. Investointien viranomaiskäsitely	1	3
15. Erikoistaloussuhteet	1	3
16. Investointikannustimet	1	3
17. Verotus	1	3
18. Omistussuhteisiin liittyvät saadokset	1	3
19. Pääomien ja voittojen kottoutumissaadokset	1	3
20. Muu poliittiseen ympäristöön liittyvä tekijä, mikä?	1	3

2.2.2 Miten tärkeä Etelä-Korean poliittinen ympäristö kokonaisuudessaan oli investointipäätökselle? (ym pyröikää)

21	Ei lainkaan tarkea	1	2	3	4	Erittäin tarkea	Ei osaa sanoa
----	--------------------	---	---	---	---	-----------------	---------------

2.2.3 Kuvatkaa, miten Etelä-Korean poliittisen ympäristön merkitys käytännössä ilmeni investointipäätöstä tehtäessä:

3 KILPAILUYMPÄRISTÖ

Kilpailuympäristöllä tarkoitetaan niitä kilpailuolosuhteita ja kilpailijoita, jotka vaikuttavat yrityksen kilpailuun asiakkaista ja resursseista (= henkilöresurssit, organisaatioreсурssit, fyysiset resurssit, teknologiresurssit, rahoitusresurssit).

3.1 Miten tärkeää merkitys ennen investointia vallinneella kilpailuympäristöllä oli investointipäätökseseen? (ympyröikää kultakin riviltä yksi vaihtoehto)

	Eililainkaan larkka	Entin sanoa	Eloas
1 Kilpailijat yleensä	1	3	4
2 Kilpailu hinnoilla	1	2	0
3 Kilpailu tuotilla	1	3	0
4 Kilpailu markkinoilla	1	3	0
5 Kilpailu markkinoilla	1	3	0
6 Muu kilpailuympäristön liittyvä tekijä. mikä?	1	3	0

3.2 Miten tärkeä merkitys investoinnin jälkeisellä, odotettavissa olevalla kilpailuympäristöllä oli investointipäätökseen? (ympyröikää kultakin riviltä yksi vaihtoehto)

	(vähintään)	Eililankaa latakea	Entin sanoa	Elosa sanoa
7	Kilpailijat yleensä	1	3	4
8	Kilpailu hinoilla	1	2	3
9	Kilpailu tuotilla	1	3	4
10	Kilpailu markkinointivestimillä	1	3	4
11	Kilpailu markkinointivestimillä	1	2	3
12	Muu kilpailuympäristön liittyvä tekijä. mikä?	1	2	3

3.3 Miten tärkeä merkitys kilpailuympäristöllä kokonaisuudessaan oli investointipäätökseen? (ympyröikää)

13	Ei lainkaan tarkea	1	2	3	4	5	Erittäin tarkea	Elo saa sanoa
								0

3.4 Kuvatkaa, miten kilpailuympäristön merkitys käytännössä ilmeni investointipäätöstä tehtäessä:

[illegible]

4.4 Kuvataa, miten henkilöresurssien investointipäätöstä tehtäessä:

5.4 Kuvatkaa, miten organisaatioressurssien merkitys käytännössä ilmeni investointipäätöstä tehtäessä:

Fyysisillä resursseilla tarkoitetaan niitä aineellisia tekijöitä, joiden avulla yritykset tuottavat tuotteita tai palveluita.

- | | tarve | tarve | tarve |
|--|-------|-------|-------|
| 1 Raaka-aineet..... | 1 | 2 | 3 |
| 2 Toimitilat..... | 1 | 3 | 4 |
| 3 Koneet ja laitteet..... | 1 | 2 | 3 |
| 4 Muu fyysisiin resursseihin liittyvä tekijä,
mikä? | 1 | 2 | 3 |

- | | | | | | |
|---|--|---|---|---|---|
| 5 | Raaka-aineet..... | 2 | 3 | 4 | 0 |
| 6 | Toimitilat..... | 1 | 3 | 4 | 0 |
| 7 | Koneet ja laitteet..... | 1 | 3 | 4 | 0 |
| 8 | Muu fyysisiin resursseihin liittyvä tekijä,
mikä? | 2 | 3 | 4 | 0 |

- | | | | | | | | | |
|---|------------------------|---|---|---|---|---------------------|------------------|---|
| 9 | Ei lainkaan
tarkeää | 1 | 2 | 3 | 4 | Erittäin
tarkeää | Ei osaa
sanoa | 0 |
|---|------------------------|---|---|---|---|---------------------|------------------|---|

- [illegible]

Teknologiaresursseilla tarkoitetaan teknisiä menettelytapoja tuottaa tuotteita ja palveluita.

- | | 1 | 2 | 3 | 4 | 0 |
|---|---|---|---|---|---|
| 1 | Tuotantojärjestelmät..... | 1 | 2 | 3 | 4 |
| 2 | Tietojärjestelmät..... | 1 | 2 | 3 | 4 |
| 3 | Tietoliikennejärjestelmät..... | 1 | 2 | 3 | 4 |
| 4 | Muu teknologiaressurssihin liittyvä tekijä, mikä? | 1 | 2 | 3 | 4 |

- | | tuotantoa | tuotantoa |
|---|-----------|-----------|
| 5 Tuotantojärjestelmät..... | 2 | 3 |
| 6 Tietojärjestelmät..... | 1 | 2 |
| 7 Tietoliikennejärjestelmät..... | 1 | 3 |
| 8 Muu teknologiaressurssihin liittyvä tekijä, mikä? | 1 | 2 |
| | 3 | 4 |
| | 0 | 0 |

- | | | | | | | | | |
|---|-----------------------|---|---|---|---|--------------------|------------------|---|
| 9 | Ei lainkaan
tarkea | 1 | 2 | 3 | 4 | Erittäin
tarkea | Ei osaa
sanoa | 0 |
|---|-----------------------|---|---|---|---|--------------------|------------------|---|

- _____

Rahoitusresursseilla tarkoitetaan rahamäärää, jonka yritys voi panostaa kilpailuun.

	Eläintarha	Eläintarha	Eläintarha
	lähde	lähde	lähde
1		2	3
2	Tuoraholus.....	1	4
3	Oma pääoma.....	1	0
4	Lyhytaikainen vieras pääoma.....	1	0
5	Pitkäaikainen vieras pääoma.....	2	0
6	Pääoman tuottoaste.....	1	0
7	Maksuvuimius.....	1	0
8	Vakavaraisuus.....	1	0
	Muu rahoitusresurssihin liittyvä tekijä, mikä?	2	0
		Eläintarha	Eläintarha
		lähde	lähde

	Eläimien tarkea	Erittäin sanoa
9 Tulorahoitus.....	2	3
10 Oma pääoma.....	1	4
11 Lyhytaikainen vieras pääoma.....	1	0
12 Pitkäaikainen vieras pääoma.....	2	0
13 Pääomien muutokset.....	3	4
14 Maksuväimius.....	2	0
15 Vakuutus.....	3	4
16 Muu rahoitusresurssien liittyvä tekijä, mikä?	1	0

17	Ei lainkaan tarkea	1	2	3	4	Erittäin tarkea	Ei osaa sanoa	0
----	-----------------------	---	---	---	---	--------------------	------------------	---

Downloaded from <http://ajph.org/> on November 10, 2014

11

INVESTOINNIN TULOKSET

11.1

Miten tärkeä merkitys investoinnin jälkeen odotettavissa olevilla liiketoiminnan tuloksilla oli investointipäätökseen? (ympyröikää kullakin rivillä yksi vaihtoehto)

	Eläinlääkäri	Erittäin tärkeä	Elosoa sanoa
1	Liikevaihto.....	2	3
2	Kannattavuus.....	1	4
3	Taseen loppusumma.....	1	2
4	Markkinaosuus.....	1	3
5	Yrityskuva.....	1	2
6	Muu tulos, mikä?	1	2

11.2

Miten tärkeää odotetut liiketoiminnan tulokset kokonaisuudessaan olivat investointipäätökselle? (ympyröikää)

	Eläinlääkäri	Erittäin tärkeä	Elosoa sanoa
7		1	2

11.3

Kuvatkaa, miten odotettavissa olevien liiketoiminnan tulosten merkitys käytännössä ilmeni investointipäätöstä tehtäessä:

12

INVESTOINNIN TOTEUTUNEET TULOKSET

12.1

Miten investoinnilla odotetut tulokset ovat mielestänne toteutuneet? (ympyröikää kullakin rivillä yksi vaihtoehto)

	Erittäin huonosti	Erittäin hyvin	Elosoa sanoa
1	Liikevaihto.....	1	2
2	Kannattavuus.....	1	3
3	Taseen loppusumma.....	1	2
4	Markkinaosuus.....	1	3
5	Yrityskuva.....	1	2
6	Muu tulos, mikä?	1	2

12.2

Kuvatkaa, millaisia tuloksia investointi on käytännössä tuottanut?

13

INVESTOINTIMOTIIVIT

13.1

Numerolkaa kolme tärkeintä investointipäätöksen tekemiseen vaikuttanutta asiakokonaisuutta eli motiivia tärkeysjärestyksessä (1 = tärkein, 2 = toiseksi tärkein, 3 = kolmanneksi tärkein):

	Tärkeysjärjestys
1	Yleinen toimintaympäristö Etelä-Koreassa
2	Politiittinen ympäristö Etelä-Koreassa
3	Kilpailuympäristö
4	Henkilöresurssit
5	Organisaatioresurssit
6	Fyysiset resurssit
7	Teknologiaressurssit
8	Rahoitusresurssit
9	Jakelujaarjestelmä
10	Markkinointi
11	Muu motiivi, mikä?

13.2

Numerolkaa tärkeysjärestyksessä kolme suurinta investointipäätöksen tekemiseen vaikuttanutta riskiä (1 = suurin riskitekijä, 2 = toiseksi suurin riskitekijä, 3 = kolmanneksi suurin riskitekijä):

	Tärkeysjärjestys
12	Yleinen toimintaympäristö Etelä-Koreassa
13	Politiittinen ympäristö Etelä-Koreassa
14	Kilpailuympäristö
15	Henkilöresurssit
16	Organisaatioresurssit
17	Fyysiset resurssit
18	Teknologiaressurssit
19	Rahoitusresurssit
20	Jakelujaarjestelmä
21	Markkinointi
22	Muu riski, mikä?

Kiitos vastauksistanne ja ajankäytöstänne!

APPENDIX 14: Translation of the questionnaire

Finnish direct investment in South Korea 1984-2002

Background information on the parent firm

1. Name of the company
2. Contact person
3. Telephone number
4. E-mail address
5. Post address
6. Date of the answer
7. Main industry of the firm
8. Value of the investment

Background information on the Korean unit

1. Name of the company
2. Address
3. Way of establishment
4. Main industry of the firm
5. Main operations of the firm
6. Ownership share

1. General environment in Korea

General environment refers to those external social factors that influence the firm and the market, but which the firm cannot have a direct impact by itself.

- 1.1 How important were the following factors of the general environment for the investment decision
(1=not important, 4= very important, 0= no opinion)

- | | |
|----|--------------------------------|
| 1 | Geographical location |
| 2 | Climate |
| 3 | Raw material endowments |
| 4 | Energy supply |
| 5 | Transportation system |
| 6 | Regional structure |
| 7 | Economy |
| 8 | Production structure |
| 9 | Exchange rate |
| 10 | Interest rate |
| 11 | Inflation rate |
| 12 | Savings rate |
| 13 | External debt rate |
| 14 | Population number |
| 15 | Income level |
| 16 | Consumer behaviour |
| 17 | Labour number |
| 18 | Education level |
| 19 | Wage level |
| 20 | Unemployment rate |
| 21 | Labour movement |
| 22 | Business culture |
| 23 | Values and attitudes |
| 24 | Internationalisation |
| 25 | Tolerance |
| 26 | Equality |
| 27 | Infrastructure |
| 28 | Productivity |
| 29 | Innovativeness |
| 30 | Research and development level |
| 31 | Another factor, what? |

- 1.2 How important was the general environment for the investment decision?

1.3 Describe how the importance of the general environment was expressed in practice?

2. Political environment in Korea

The political environment refers to the law and order that defines the firm's rights and obligations.

2.1 How important were the following factors of the political environment for the investment decision
(1=not important, 4= very important, 0= no opinion)

- 1 Administration
- 2 Political stability
- 3 Local autonomy
- 4 Foreign relations
- 5 North Korean threat
- 6 Economic policy
- 7 Trade policy
- 8 Tariffs
- 9 Non-tariff barriers
- 10 Legal system
- 11 Investment regulations
- 12 Investment climate
- 13 Investment policy credibility
- 14 Investment procedure
- 15 Special Economic Zones
- 16 Investment incentives
- 17 Taxation
- 18 Ownership regulations
- 19 Transfer of profits and capital
- 20 Another factor, what?

2.2 How important was the political environment for the investment decision?

2.3 Describe how the importance of the political environment was expressed in practice?

3. Competitive environment

The competitive environment refers to those conditions and competitors that influence the parent company in its competition for customers and resources (= human, organisational, physical, technological and financial resources)

How important were the following, existing factors of competitive environment for the investment decision (1=not important, 4= very important, 0= no opinion)

- 1 Competitors
- 2 Price competition
- 3 Product competition
- 4 Marketing communication competition
- 5 Competition for resources
- 6 Another factor, what?

How important were the following, expected factors of the competitive environment for the investment decision (1=not important, 4= very important, 0= no opinion)

- 7 Competitors
- 8 Price competition
- 9 Product competition
- 10 Marketing communication competition
- 11 Competition for resources
- 12 Another factor, what?

How important was the competitive environment for the investment decision?

Describe how the importance of the competitive environment was expressed in practice?

4. Human resources

Human resources refer to the personnel of the company, and the education and professional skills of the personnel.

4.1 How important were the following, existing human resources for the investment decision (1=not important, 4= very important, 0= no opinion)

- 1 Staff number
- 2 Educational level
- 3 Knowledge of languages
- 4 Professional skills
- 5 Knowledge of the Korean market
- 6 Another human resource, what?

4.2 How important were the following, expected human resources for the investment decision (1=not important, 4= very important, 0= no opinion)

- 7 Staff number
- 8 Educational level
- 9 Knowledge of languages
- 10 Professional skills
- 11 Knowledge of the Korean market
- 12 Another human resource, what?

4.3 How important were the human resources for the investment decision?

4.4 Describe how the importance of human resources was expressed in practice?

5. Organisational resources

Organisational resources refer to the organisation's cumulative knowledge and processes, as well as values and methods.

5.1 How important were the following, existing organisational resources for the investment decision (1=not important, 4= very important, 0= no opinion)

- 1 Organisational structure
- 2 Organisational capacity
- 3 Research and development degree
- 4 Innovativeness
- 5 Process effectiveness
- 6 Values
- 7 Another organisational resource, what?

5.2 How important were the following, expected organisational resources for the investment decision (1=not important, 4= very important, 0= no opinion)

- 8 Organisational structure
- 9 Organisational capacity
- 10 Research and development degree
- 11 Innovativeness
- 12 Process effectiveness
- 13 Values
- 14 Another organisational resource, what?

5.3 How important were the organisational resources for the investment decision?

5.4 Describe how the importance of organisational resources was expressed in practice?

6. Physical resources

Physical resources refer to those material factors that firms use in producing products or services.

6.1 How important were the following, existing physical resources for the investment decision (1=not important, 4= very important, 0= no opinion)

- 1 Raw materials
- 2 Buildings
- 3 Machinery
- 4 Another physical resource, what?

6.2 How important were the following, expected physical resources for the investment decision (1=not important, 4= very important, 0= no opinion)

- 5 Raw materials
- 6 Buildings
- 7 Machinery
- 8 Another physical resource, what?

6.3 How important were the physical resources for the investment decision?

6.4 Describe how the importance of physical resources was expressed in practice?

7 Technology resources

Technology resources refer to technical methods that the firm uses in producing products or services.

7.1 How important were the following, existing technology resources for the investment decision (1=not important, 4= very important, 0= no opinion)

- 1 Production systems
- 2 Information systems
- 3 Telecommunications systems
- 4 Another technological resource, what?

7.2 How important were the following, expected technology resources for the investment decision (1=not important, 4= very important, 0= no opinion)

- 5 Production systems
- 6 Information systems
- 7 Telecommunications systems
- 8 Another technological resource, what?

7.3 How important were the technology resources for the investment decision?

7.4 Describe how the importance of technology resources was expressed in practice?

8 Financial resources

Financial resources refer to the amount of money that the firm can use for the competition.

8.1 How important were the following, existing financial resources for the investment decision (1=not important, 4= very important, 0= no opinion)

- 1 Cash flow
- 2 Equity capital
- 3 Short-term liabilities
- 4 Long-term liabilities
- 5 Return on capital
- 6 Liquidity
- 7 Solidity
- 8 Another financial resource, what?

8.2 How important were the following, expected financial resources for the investment decision (1=not important, 4= very important, 0= no opinion)

- 9 Cash flow
- 10 Equity capital
- 11 Short-term liabilities
- 12 Long-term liabilities
- 13 Return on capital
- 14 Liquidity
- 15 Solidity
- 16 Another financial resource, what?

8.3 How important were the financial resources for the investment decision?

8.4 Describe how the importance of financial resources was expressed in practice?

9. Distribution

Distribution refers to the chain of firms through which the product or services is sold and the ownership is given to the end-user.

9.1 How important were the following factors of existing distribution system for the investment decision (1=not important, 4= very important, 0= no opinion)

- Delivery reliability
- Delivery time
- Flexibility of the order-delivery process
- Warehousing
- Transportation routes
- Telecommunications links
- Another factor, what?

9.2 How important were the following factors of expected distribution system for the investment decision (1=not important, 4= very important, 0= no opinion)

- Delivery reliability
- Delivery time
- Flexibility of the order-delivery process
- Warehousing
- Transportation routes
- Telecommunications links
- Another factor, what?

9.3 How important was the distribution system for the investment decision?

9.4 Describe how the importance of the distribution system was expressed in practice?

10. Marketing

Marketing refers to the planning, implementation and control of factors (product, price, marketing communication) that have an impact on the customer.

10.1 How important were the following factors of existing marketing patterns for the investment decision (1=not important, 4= very important, 0= no opinion)

- 1 Products
- 2 Product development
- 3 Pricing
- 4 Marketing communication
- 5 Another factor, what?

10.2 How important were the following factors of expected marketing patterns for the investment decision (1=not important, 4= very important, 0= no opinion)

- 6 Products
- 7 Product development
- 8 Pricing
- 9 Marketing communication
- 10 Another factor, what?

10.3 How important was marketing for the investment decision?

10.4 Describe how the importance of marketing was expressed in practice?

11. Expected results of the investment

11.1 How important were the following, expected results for the investment decision (1=not important, 4= very important, 0= no opinion)

- 1 Turnover
- 2 Profitability
- 3 Total sum of balance sheet
- 4 Market share
- 5 Corporate image
- 6 Another result, what?

11.2 How important was the marketing for the investment decision?

11.3 Describe how the importance of marketing was expressed in practice?

12. Realised results of the investment

12.1 How the expected results of the investment have been realised (1=very badly, 4= very well, 0=no opinion)

- 1 Turnover
- 2 Profitability
- 3 Total sum of balance sheet
- 4 Market share
- 5 Corporate image
- 6 Another result, what?

12.2 Describe what kind of results the investment has resulted in practice?

13. Investment motives

13.1 What were, in order, the three most important elements that affected the investment decision?

- 1 General environment in Korea
- 2 Political environment in Korea
- 3 Competitive environment
- 4 Physical resources
- 5 Human resources
- 6 Organisational resources
- 7 Technology resources
- 8 Financial resources
- 9 Distribution system
- 10 Marketing
- 11 Another motive, what?

13.2 What were, in order, the three most risky elements that affected the investment decision?

- 12 General environment in Korea
- 13 Political environment in Korea
- 14 Competitive environment
- 15 Physical resources
- 16 Human resources
- 17 Organisational resources
- 18 Technology resources
- 19 Financial resources
- 20 Distribution system
- 21 Marketing
- 22 Another risk, what?

APPENDIX 15: Number of answers according to the variables, N = 14

Competitive environment variables (1= not important, 4 = very important)

The existing factors

Variable	Grade 1	Grade 2	Grade 3	Grade 4
Competitors in general	2	5	4	3
Price competition	3	4	4	2
Product competition	3	3	6	2
Marketing communication competition	7	4	3	0
Competition for resources	9	3	2	0
Other	0	0	0	3

The expected factors

Variable	Grade 1	Grade 2	Grade 3	Grade 4
Competitors in general	1	4	6	3
Price competition	2	3	4	5
Product competition	3	1	6	4
Marketing communication competition	6	4	3	1
Competition for resources	6	4	4	0
Other	0	0	0	1

General environment variables (1= not important, 4 = very important)

Variable	Grade 1	Grade 2	Grade 3	Grade 4
Geographical location	1	3	2	7
Climate	11	1	1	1
Raw material endowments	8	1	4	1
Energy supply	6	2	5	0
Transportation system	2	4	5	3
Regional structure	2	3	4	2
Economy	0	2	7	5
Production structure	2	4	6	2
Exchange rate	5	4	4	1
Interest rate	9	2	2	0
Inflation rate	8	4	1	0
Savings rate	9	3	1	0
External debt rate	8	4	1	0
Population number	3	2	6	3
Income level	5	6	2	1
Consumer behaviour	5	5	3	1
Labour number	2	5	6	1
Education level	0	2	7	5
Wage level	1	6	4	3
Unemployment rate	9	3	1	1
Labour movement	8	5	1	0
Business culture	1	5	7	1
Values and attitudes	1	5	6	2
Internationalisation	1	8	3	2
Tolerance	3	6	5	0
Equality	5	6	3	0
Infrastructure	1	2	10	1
Productivity	1	2	6	5
Innovativeness	1	7	6	0
Research and development level	3	7	2	2
Other	0	0	0	3

Political environment variables (1= not important, 4 = very important)

Variable	Grade 1	Grade 2	Grade 3	Grade 4
Administration	6	6	2	0
Political stability	0	3	9	1
Local autonomy	10	3	1	0
Foreign relations	5	7	2	0
North Korean threat	9	5	0	0
Economic policy	2	3	5	3
Trade policy	2	5	3	4
Tariffs	3	2	7	2
Non-tariff barriers	3	3	7	1
Legal system	3	5	6	0
Investment regulation	2	3	5	3
Investment climate	1	4	6	3
Investment policy credibility	2	2	8	2
Investment procedure	2	5	5	1
Special Economic Zones	10	2	0	2
Investment incentives	9	3	1	1
Taxation	5	6	2	1
Ownership regulations	3	4	7	0
Transfer of profits and capital	4	3	3	4
Other	0	0	0	0

Human resource variables (1= not important, 4 = very important)

The existing factors

Variable	Grade 1	Grade 2	Grade 3	Grade 4
Staff number	4	3	2	2
Level of education	1	3	5	2
Knowledge of languages	1	2	6	2
Professional skills	1	0	7	4
Knowledge of the Korean market	3	1	3	5
Other human resource	0	0	0	1

The expected factors

Variable	Grade 1	Grade 2	Grade 3	Grade 4
Staff number	4	3	5	1
Level of education	2	3	7	0
Knowledge of languages	2	3	5	3
Professional skills	2	2	7	2
Knowledge of the Korean market	4	1	3	5
Other	0	0	0	1

Technology resource variables (1= not important, 4 = very important)

The existing factors

Variable	Grade 1	Grade 2	Grade 3	Grade 4
Production systems	2	1	5	6
Information systems	4	3	6	1
Telecommunications system	5	5	3	1
Other	0	0	0	2

The expected factors

Variable	Grade 1	Grade 2	Grade 3	Grade 4
Production systems	4	1	3	6
Information systems	4	3	6	1
Telecommunications system	5	5	3	1
Other	0	0	0	1

Marketing variables (1= not important, 4 = very important)

The existing factors

Variable	Grade 1	Grade 2	Grade 3	Grade 4
Products	3	2	4	5
Product development	3	4	4	3
Pricing	4	3	4	3
Marketing communication	6	3	5	0
Other	0	0	1	1

The expected factors

Variable	Grade 1	Grade 2	Grade 3	Grade 4
Products	2	1	5	6
Product development	1	3	6	4
Pricing	1	2	4	7
Marketing communication	3	3	5	3
Other	0	0	1	2

Organisational resource variables (1= not important, 4 = very important)

The existing factors

Variable	Grade 1	Grade 2	Grade 3	Grade 4
Organisational structure	3	6	1	4
Organisational capacity	1	4	5	4
R & D degree	0	4	6	4
Innovativeness	0	4	5	5
Process effectiveness	0	2	8	4
Values	0	2	8	4
Other	0	0	0	1

The expected factors

Variable	Grade 1	Grade 2	Grade 3	Grade 4
Organisational structure	2	4	5	3
Organisational capacity	1	2	6	5
R & D degree	2	5	3	4
Innovativeness	3	3	6	2
Process effectiveness	1	3	3	6
Values	1	4	7	2
Other	0	0	0	2

Physical resource variables (1= not important, 4 = very important)

The existing factors

Variable	Grade 1	Grade 2	Grade 3	Grade 4
Raw materials	8	2	2	2
Buildings	6	4	2	2
Machinery	7	3	3	1
Other	0	1	0	0

The expected factors

Variable	Grade 1	Grade 2	Grade 3	Grade 4
Raw materials	7	2	3	2
Buildings	3	3	3	5
Machinery	2	2	5	5
Other	0	0	1	0

Distribution variables (1= not important, 4 = very important)

The existing factors

Variable	Grade 1	Grade 2	Grade 3	Grade 4
Delivery reliability	7	2	3	2
Delivery time	7	2	2	3
Flexibility of the order-delivery process	5	3	4	2
Warehousing	8	3	2	1
Transportation routes	6	2	5	1
Telecommunications links	8	2	3	1
Other	0	0	0	1

The expected factors

Variable	Grade 1	Grade 2	Grade 3	Grade 4
Delivery reliability	4	2	4	4
Delivery time	4	2	3	5
Flexibility of the order-delivery process	3	2	4	5
Warehousing	5	2	4	3
Transportation routes	5	2	5	2
Telecommunications links	5	2	4	3
Other	0	0	0	1

Financial resource variables (1= not important, 4 = very important)

The existing factors

Variable	Grade 1	Grade 2	Grade 3	Grade 4
Cash flow	3	1	7	3
Equity capital	4	2	6	2
Short term liabilities	5	4	5	0
Long term liabilities	6	3	4	1
Return on capital	2	2	7	2
Liquidity	2	0	9	3
Solidity	2	1	6	5
Other	0	0	1	0

The expected factors

Variable	Grade 1	Grade 2	Grade 3	Grade 4
Cash flow	3	1	3	7
Equity capital	3	4	3	3
Short term liabilities	7	2	5	0
Long term liabilities	6	3	2	3
Return on capital	1	3	5	4
Liquidity	2	6	2	4
Solidity	2	3	4	5
Other	0	0	0	0

Expected results (1= not important, 4 = very important)

Variable	Grade 1	Grade 2	Grade 3	Grade 4
Turnover	2	1	3	8
Profitability	0	1	4	9
Total sum of balance sheet	4	7	3	0
Market share	0	3	4	7
Corporate image	1	5	5	3
Other	0	0	0	0

Realised results (1= very badly, 4 = very well)

Variable	Grade 1	Grade 2	Grade 3	Grade 4
Turnover	2	0	5	4
Profitability	2	0	4	5
Total sum of balance sheet	2	3	2	3
Market share	2	1	5	4
Corporate image	0	1	9	2
Other	0	0	1	1

Total importance of elements (1= not important, 4 = very important)

Element	Grade 1	Grade 2	Grade 3	Grade 4
General environment in Korea	0	2	8	4
Political environment in Korea	2	7	3	2
Competitive environment	1	3	7	3
Human resources	1	1	9	2
Organisational resources	0	3	2	5
Physical resources	2	5	5	0
Technology resources	0	2	7	3
Financial resources	1	4	6	2
Distribution	3	3	4	3
Marketing	1	2	7	3
Expected results	0	2	5	7

A-SARJA: VÄITÖSKIRJOJA - DOCTORAL DISSERTATIONS. ISSN 1237-556X.

- A:211. TOMMI KASURINEN: Exploring Management Accounting Change in the Balanced Scorecard Context. Three Perspectives. 2003. ISBN 951-791-736-8.
- A:212. LASSE NIEMI: Essays on Audit Pricing. 2003. ISBN 951-791-751-1.
- A:213. MARKKU KAUSTIA: Essays on Investor Behavior and Psychological Reference Prices. 2003. ISBN 951-791-754-6.
- A:214. TEEMU YLIKOSKI: Access Denied: Patterns of Consumer Internet Information Search and the Effects of Internet Search Expertise. 2003. ISBN 951-791-755-4.
- A:215. PETRI HALLIKAINEN: Evaluation of Information System Investments. 2003. ISBN 951-791-758-9.
- A:216. PETRI BÖCKERMAN: Empirical Studies on Working Hours and Labour Market Flows. 2003. ISBN 951-791-760-0.
- A:217. JORMA PIETALA: Päivittäistavara-kaupan dynamiikka ja ostoskäyttäytyminen Pääkaupunkiseudulla. 2003. ISBN 951-791-761-9.
- A:218. TUOMAS VÄLIMÄKI: Central Bank Tenders: Three Essays on Money Market Liquidity Auctions. 2003. ISBN 951-791-762-7.
- A:219. JUHANI LINNAINMAA: Essays on the Interface of Market Microstructure and Behavioral Finance. 2003. ISBN 951-791-783-X.
- A:220. MARKKU SALIMÄKI: Suomalaisen design-teollisuuden kansainvälinen kilpailukyky ja kansainvälistyminen. Strateginen ryhmä –tutkimus design-aloilta. 2003 ISBN 951-791-786-4.
- A:221. HANNU KAHRA: Consumption, Liquidity and Strategic Asset Allocation. 2003. ISBN 951-791-791-0.
- A:222. TONI RIIPINEN: The Interaction of Environmental and Trade Policies. 2003. ISBN 951-791-797-X.
- A:223. MIKKO SYRJÄNEN: Data Envelopment Analysis in Planning and Heterogeneous Environments. 2003. ISBN 951-791-806-2.
- A:224. ERKKI HÄMÄLÄINEN: Evolving Logistic Roles of Steel Distributors. 2003. ISBN 951-791-807-0.
- A:225. SILJA SIITONEN: Impact of Globalisation and Regionalisation Strategies on the Performance of the World's Pulp and Paper Companies. 2003. ISBN 951-791-808-9.
- A:226. EIREN TUUSJÄRVI: Multifaceted Norms in SMC Export Cooperation: A Discourse Analysis of Normative Expectations. 2003. ISBN 951-791-812-7.

- A:227. MIKA MALIRANTA: Micro Level Dynamics of Productivity Growth. An Empirical Analysis of the Great Leap in Finnish Manufacturing Productivity in 1975-2000. 2003. ISBN 951-791-815-1.
- A:228. NINA KOISO-KANTTILA: Essays on Consumers and Digital Content. 2003. ISBN 951-791-816-X.
- A:229. PETER GABRIELSSON: Globalising Internationals: Product Strategies of ICT Companies. 2004. ISBN 951-791-825-9, ISBN 951-791-826-7 (Electronic dissertation).
- A:230. SATU NURMI: Essays on Plant Size, Employment Dynamics and Survival. 2004. ISBN 951-791-829-1, ISBN 951-791-830-5 (Electronic dissertation).
- A:231. MARJA-LIISA KURONEN: Vakuutusehtotekstin uudistamisprosessi, matkalla alamaisestä asiakkaaksi. 2004. ISBN 951-791-833-X, ISBN 951-791-834-8 (Electronic dissertation).
- A:232. MIKA KUISMA: Erilaistuminen vai samanlaistuminen? Vertaileva tutkimus paperiteollisuusyhtiöiden ympäristöjohtamisesta. 2004. ISBN 951-791-835-6, ISBN 951-791-836-4 (Electronic dissertation).
- A:233. ANTON HELANDER: Customer Care in System Business. 2004. ISBN 951-791-838-0.
- A:234. MATTI KOIVU: A Stochastic Optimization Approach to Financial Decision Making. 2004. ISBN 951-791-841-0, ISBN 951-791-842-9 (Electronic dissertation).
- A:235. RISTO VAITTINEN: Trade Policies and Integration – Evaluations with CGE -models. 2004. ISBN 951-791-843-7, ISBN 951-791-844-5 (Electronic dissertation).
- A:236. ANU VALTONEN: Rethinking Free Time: A Study on Boundaries, Disorders, and Symbolic Goods. 2004. ISBN 951-791-848-8, ISBN 951-791-849-6 (Electronic dissertation).
- A:237. PEKKA LAURI: Human Capital, Dynamic Inefficiency and Economic Growth. 2004. ISBN 951-791-854-2, ISBN 951-791-855-0 (Electronic dissertation).
- A:238. SAMI JÄRVINEN: Essays on Pricing Commodity Derivatives. 2004. ISBN 951-791-861-5, ISBN 951-791-862-3 (Electronic dissertation).
- A:239. PETRI I. SALONEN: Evaluation of a Product Platform Strategy for Analytical Application Software. 2004. ISBN 951-791-867-4, ISBN 951-791-868-2 (Electronic dissertation).
- A:240. JUHA VIRRANKOSKI: Essays in Search Activity. 2004. ISBN 951-791-870-4, ISBN 951-791-871-2 (Electronic dissertation).
- A:241. RAUNI SEPPOLA: Social Capital in International Business Networks. Confirming a Unique Type of Governance Structure. 2004. ISBN 951-791-876-3, ISBN 951-791-877-1 (Electronic dissertation).
- A:242. TEEMU SANTONEN: Four Essays Studying the Effects of Customization and Market Environment on the Business Success of Online Newspapers in Finland. 2004. ISBN 951-791-878-X, ISBN 951-791-879-8 (Electronic dissertation).
- A:243. SENJA SVAHN: Managing in Different Types of Business Nets: Capability Perspective. 2004. ISBN 951-791-887-9.

- A:244. JUKKA MÄKINEN: John Rawlsin oikeudenmukaisuuskäsityksen merkitys normatiiviselle taloustieteelle. 2004. ISBN 951-791-889-5, ISBN 951-791-890-9 (Electronic dissertation).
- A:245. ERJA KETTUNEN: Regionalism and the Geography of Trade Policies in EU-ASEAN Trade. 2004. ISBN 951-791-891-7, ISBN 951-791-892-5 (Electronic dissertation).
- A:246. OLLI-PEKKA RUUSKANEN: An Econometric Analysis of Time Use in Finnish Households. 2004. ISBN 951-791-893-3, ISBN 951-791-894-1 (Electronic dissertation).
- A:247. HILPPA SORJONEN: Taideorganisaation markkinaorientaatio. Markkinaorientaation edellytykset ja ilmeneminen esitystaideorganisaation ohjelmistosuunnittelussa. 2004. ISBN 951-791-898-4, ISBN 951-791-899-2 (Electronic dissertation).
- A:248. PEKKA KILLSTRÖM: Strategic Groups and Performance of the Firm - Towards a New Competitive Environment in the Finnish Telecommunications Industry. 2005. ISBN 951-791-904-2, ISBN 951-791-905-0 (Electronic dissertation).
- A:249. JUHANI YLIKERÄLÄ: Yrityshautomokokemuksen vaikutukset tradenomiopiskelijan yrittäjäuran syntyyn ja kehittymiseen. Yrityshautomotoiminta liiketalouden alan ammattikorkeakoulun yrittäjäkoulutuksessa. 2005. ISBN 951-791-910-7.
- A:250. TUURE TUUNANEN: Requirements Elicitation for Wide Audience End-Users. 2005. ISBN 951-791-911-5, ISBN 951-791-912-3 (Electronic dissertation).
- A:251. SAMULI SKURNIK: Suomalaisen talousmallin murros. Suljetusta sääntelytaloudesta kaksinaapaiseen globaalitalouteen. 2005. ISBN 951-791-915-8, ISBN 951-791-916-6 (Electronic dissertation).
- A:252. ATSO ANDERSÉN: Essays on Stock Exchange Competition and Pricing. 2005. ISBN 951-791-917-4, ISBN 951-791-918-2 (Electronic dissertation).
- A:253. PÄIVI J. TOSSAVAINEN: Transformation of Organizational Structures in a Multinational Enterprise. The case of an enterprise resource planning system utilization. 2005. ISBN 951-791-940-9, ISBN 951-791-941-7 (Electronic dissertation).
- A:254. JOUNI LAINE: Redesign of Transfer Capabilities. Studies in Container Shipping Services. 2005. ISBN 951-791-947-6, ISBN 951-791-948-4 (Electronic dissertation).
- A:255. GILAD SPERLING: Product, Operation and Market Strategies of Technology-Intensive Born Globals. The case of Israeli Telecommunication Born Globals. 2005. ISBN 951-791-954-9, ISBN 951-791-954-9 (Electronic dissertation).
- A:256. ARLA JUNTUNEN: The Emergence of a New Business Through Collaborative Networks – A Longitudinal Study In The ICT Sector. 2005. ISBN 951-791-957-3.
- A:257. MIRJAMI LEHIKONEN: Kuluttajan suhdemotivaatio päivittäistavaroihin. Miksi äiti liittyy Piltti-piiriin? 2005. ISBN 951-791-925-5, ISBN 951-791-926-3 (Electronic dissertation).
- A:258. JOUKO KINNUNEN: Migration, Imperfect Competition and Structural Adjustment. Essays on the Economy of the Åland Islands. 2005. ISBN 951-791-931-X, ISBN 951-791-932-8 (Electronic dissertation).
- A:259. KIRSTI KUISMA: Essays in Foreign Aid, Conflicts, and Development. 2005. ISBN 951-791-933-6, ISBN 951-791-960-3 (Electronic dissertation).

- A:260. SAMI KORTELAJAINEN: Innovating at the Interface. A Comparative Case Study of Innovation Process Dynamics and Outcomes in the Public-private Context. 2005. ISBN 951-791-938-7, ISBN 951-791-939-5 (e-version).
- A:261. TAINA VUORELA: Approaches to a Business Negotiation Case Study: Teamwork, Humour and Teaching. 2005. ISBN 951-791-962-X, ISBN 951-791-963-8 (e-version).
- A:262. HARRI TOIVONEN: Modeling, Valuation and Risk Management of Commodity Derivatives. 2005. ISBN 951-791-964-6, ISBN 951-791-965-4 (e-version).
- A:263. PEKKA SÄÄSKILAHITI: Essays on the Economics of Networks and Social Relations. 2005. ISBN 951-791-966-2, ISBN 951-791-967-0 (e-version).
- A:264. KATARIINA KEMPPAINEN: Priority Scheduling Revisited – Dominant Rules, Open Protocols, and Integrated Order Management. 2005. ISBN 951-791-968-9, ISBN 951-791-969-7 (e-version).
- A:265. KRISTIINA KORHONEN: Foreign Direct Investment in a Changing Political Environment. Finnish Investment Decisions in South Korea. 2005. ISBN 951-791-973-5, ISBN 951-791-974-3 (e-version).

B-SARJA: TUTKIMUKSIA - RESEARCH REPORTS. ISSN 0356-889X.

- B:44. ELINA HENTTONEN – PÄIVI ERIKSSON – SUSAN MERILÄINEN: Teknologia-yrityksen sukupuoli. Naiset miesten maailmassa. 2003. ISBN 951-791-737-6.
- B:45. KIRSI KORPIAHO: "Kyllä siinä pitää elää mukana!" Kirjanpitäjien tarinoita työstä, osaamisesta ja oppimisesta työyhteisönäkökulmasta analysoituna. 2003. ISBN 951-791-742-2.
- B:46. NIILLO HOME (toim.): Puheenvuoroja ECR-toiminnasta. Discussions on ECR – Summaries. 2003. ISBN 951-791-749-X.
- B:47. PÄIVI KARHUNEN – RIITTA KOSONEN – MALLA PAAJANEN: Gateway-käsitteen elinkaari Venäjän-matkailussa. Etelä-Suomi Pietarin-matkailun väylänä. 2003. ISBN 951-791-756-2.
- B:48. ANNELI KAUPPINEN – ANNE ARANTO – SATU RÄMÖ (toim.): Myyttiset markkinat. 2003. ISBN 951-791-771-6.
- B:49. MIKKO SAARIKIVI – SIMO RIIHONEN: Suomen puuteollisuuden kilpailukykyyn parantaminen ja kansainvälistyminen piha- ja ympäristörakentamisessa. 2003. ISBN 951-791-779-1.
- B:50. KATARIINA KEMPPAINEN – ARI P.J. VEPSÄLÄINEN – JUKKA KALLIO – TIMO SAARINEN – MARKKU TINNILÄ: From Supply Chain to Networks: A Study of SCM Practices in Finnish Industrial Companies. 2003. ISBN 951-791-780-5.
- B:51. SAMI SARPOLA: Enterprise Resource Planning (ERP) Software Selection and Success of Acquisition Process in Wholesale Companies. 2003. ISBN 951-791-802-X.
- B:52. MATTI TUOMINEN (ed.): Essays on Capabilities Based Marketing and Competitive Superiority. Fimac II - Research: Mai Anttila, Saara Hyvönen, Kristian Möller, Arto Rajala, Matti Tuominen. 2003. ISBN 951-791-814-3.

- B:53. PÄIVI KARHUNEN – RIITTA KOSONEN – ANTTI LEIVONEN: Osaamisen siirtyminen Suomalais-venäläisissä tuotantoalliansseissa. Tapaustutkimuksia pietarista ja leningradin alueelta. 2003. ISBN 951-791-820-8.
- B:54. JARMO ERONEN: Kielten välinen kilpailu: Taloustieteellis-sosiolingvistinen tarkastelu. 2004. ISBN 951-791-828-3.
- B:47. PÄIVI KARHUNEN – RIITTA KOSONEN – MALLA PAAJANEN: Gateway-käsitteen elinkaari Venäjän-matkailussa. Etelä-Suomi Pietarin-matkailun väylänä. 2004. ISBN 951-791-846-1, korjattu painos.
- B:55. TAISTO MIETTINEN: Veron minimointi yritysjärjestelyissä. 2004. ISBN 951-791-856-9.
- B:56. SOILE TUORINSUO-BYMAN: Part-Time Work, Participation and Commitment. ISBN 951-791-866-6.
- B:57. PIIA HELISTE – RIITTA KOSONEN – KAROLIINA LOIKKANEN: Kaksoiskaupunkoja vai kaupunkipareja? Tapaustutkimukset: Helsinki–Tallinna, Tornio–Haaparanta, Imatra–Svetogorsk. 2004. ISBN 951-791-886-0.
- B:58. JARMO ERONEN: Central Asia – Development Paths and Geopolitical Imperatives. 2005 ISBN 951-791-906-9.
- B:59. RIITTA KOSONEN – MALLA PAAJANEN – NOORA REITTU: Etelä-Suomi venäläisten turistien länsimatkailussa. 2005. ISBN 951-791-942-5.
- B:60. KARI LILJA (ed.): The National Business System in Finland: Structure, Actors and Change. 2005. ISBN 951-791-952-2.
- B:61. HANNU KAIPIO – SIMO LEPPÄNEN: Distribution Systems of the Food Sector in Russia: The Perspective of Finnish Food Industry. 2005. ISBN 951-791-923-9, ISBN 951-791-924-7 (Electronic research reports).
- B:62. OLLI KOTILA: Strateginen henkilöstöjohtaminen ja yrityksen tuloksellisuus. Cranet-projekti. 2005. ISBN 951-791-934-4, ISBN 951-791-935-2 (Electronic research reports).
- B:63. KATARIINA JUVONEN – HELENA KANGASHARJU – PEKKA PÄLLI (toim.): Tulevaisuuspuhetta. 2005. ISBN 951-791-936-0, ISBN 951-791-937-9 (Electronic research reports).

E-SARJA: SELVITYKSIÄ - REPORTS AND CATALOGUES. ISSN 1237-5330.

- E:102. DAN STEINBOCK: The U.S. CIBER Experience: The Centers for International Business Education and Research (CIBERs). 2003. ISBN 951-791-781-3.
- E:103. Research Catalogue 2002 – 2004. Projects and Publications. 2005. ISBN 951-791-837-2.
- E:104. JUSSI KANERVA – KAIJA-STIINA PALOHEIMO (ed.): New Business Opportunities for Finnish Real Estate and ICT Clusters. 2005. ISBN 951-791-955-7.

- N:15. ELINA HAVERINEN: Etelä-Savon pk-yritysten Viron kauppa. Ulkomaankaupan erityisraportti 2003. ISBN 951-791-732-5.
- N:16. REETA RÖNKKÖ: Latinalainen Amerikka markkina-alueena Argentiina ja Brasilia. Ulkomaankaupan erityisraportti 2003. ISBN 951-791-733-3.
- N:17. JAAKKO VARVIKKO – JUHA SIIKAVUO: Koulutus, oppiminen ja akateeminen yrittäjyys. 2003. ISBN 951-791-745-7.
- N:18. ANNE GUSTAFSSON-PESONEN – SATU SIKANEN: Yrittäjäkoulutuksesta yrittäjäksi. 2003 ISBN 951-791-763-5.
- N:19. TOIVO KOSKI: Impact of a venture capitalists' value added on value of a venture. 2003. ISBN 951-791-764-3.
- N:20. LAURA HIRVONEN: Itävalta suomalaisyritysten markkina-alueena. 2003. ISBN 951-791-765-1.
- N:21. LAURA MALIN: Etelä-Savon pk-yritysten vienti Belgiaan. 2003. ISBN 951-791-766-X.
- N:22. JUKKA PREPULA: Ranska suomalaisten pk-yritysten vientikohteena. 2003. ISBN: 951-791-767-8.
- N:23. HENNA HUCZKOWSKI: Pk-yritysten perustaminen Puolaan. 2003. ISBN 951-791-768-6.
- N:24. HENNA KATAJA – LEENA MÄÄTTÄ: Kiina suomalaisen pk-yrityksen vientikohteena. 2003. ISBN: 951-791-769-4.
- N:25. KAROLIINA IJÄS: Etelä-Savon pk-yritysten vienti Puolaan. 2003. ISBN: 951-791-770-8.
- N:26. MARJO VAHLSTEN: Matkailupalvelujen markkinoinnin kehittäminen verkkoyhteistyön avulla. 2003. ISBN: 951-791-792-9.
- N:27. TUULI SAVOLAINEN: Slovakia suomalaisten pk-yritysten markkina-alueena. 2003. ISBN: 951-791-793-7.
- N:28. HARRY MAASTOVAARA: Etelä-Savon yritysten ulkomaankauppa 2001. 2003. ISBN: 951-791-794-5.
- N:29. RIIKKA PIISPA: Yhteistoiminnallisuus alueen taloudellisen kehityksen edellytyksenä. 2003. ISBN 951-791-795-3.
- N:31. HANNA PERÄLÄ: Etelä-Savon pk-yritysten vienti Ruotsiin. 2003. ISBN: 951-791-799-6.
- N:32. SATU SIKANEN – MAARIT UKKONEN: Etelä-Savon Venäjän-kauppa 2003. 2003. ISBN 951-791-800-3.
- N:34. TOIVO KOSKI – ANTTI EKLÖF: Uudenmaan yrityshautomoista irtaantuneiden yritysten menestyminen, Yrittäjien näkemyksiä yrityshautomotoiminnasta sekä selvitys ”yrittämisestä Työtä 2000” –projektin asiakkaiden yritystoiminnasta. 2003. ISBN 951-791-805-4.

- N:36. MAARIT UKKONEN: Yrittäjyysmotivaatio ja yrittäjyysasenteet Helsingin kauppakorkeakoulun BScBa -tutkinto-opiskelijoiden ja Mikkelin ammattikorkeakouluopiskelijoiden keskuudessa. 2004. ISBN 951-791-874-7.
- N:37. MIKKO SAARIKIVI: Helsingin kauppakorkeakoulun henkilöstön yrittäjyysmotivaatio ja yrittäjyysasenteet vuonna 2004. 2004. ISBN 951-791-882-8.
- N:38. MIKKO SAARIKIVI: Helsinki-Tallinn: The Twin City of Science Interreg III A Project. 2004. ISBN 951-791-883-6.
- N:39. MIKKO SAARIKIVI: Tieteen kaksoiskaupunki Helsinki-Tallinna Interreg III A -projekti. 2004. ISB 951-791-884-4.
- N:40. TOM LAHTI: The Role of Venture Capital in Filling the Equity Gap. An Analysis of Policy Issues. 2004. ISBN 951-791-885-2.
- N:41. VESA KOKKONEN: Etelä-Savon yritysten ulkomaankauppa 2003. 2004. ISBN 951-791-897-6.
- N:42. MAARIT UKKONEN – MIKKO SAARIKIVI – ERKKI HÄMÄLÄINEN: Selvitys Uudenmaan yrityshautomoyritysten mentorointitarpeista. 2005. ISBN 951-791-900-X.
- N:43. JOHANNA LOGRÉN: Suomalaiset ja venäläiset naisyrittäjät. Naisyrittäjien yhteistyöohjelmien (vv. 2000-2004) vaikuttavuus. 2005. ISBN 951-791-945-X.
- N:44. VESA KOKKONEN: Yrittäjyyskoulutuksen vaikuttavuus. 2005. ISBN 951-791-971-9.
- N:45. VESA KOKKONEN: mikkelin ammattikorkeakoulun opetushenkilökunnan yrittäjyysasenteet. 2005. ISBN 951-791-972-7.

W-SARJA: TYÖPAPEREITA - WORKING PAPERS . ISSN 1235-5674.
ELECTRONIC WORKING PAPERS, ISSN 1795-1828.

- W:335. SATU NURMI: Sectoral Differences In Plant Start-up Size. 2003. ISBN 951-791-738-4.
- W:336. SATU NURMI: Plant Size, Age And Growth In Finnish Manufacturing. 2003. ISBN 951-791-739-2.
- W:337. PETRI HALLIKAINEN – HANNU KIVIJÄRVI: Appraisal of Strategic it Investments: Payoffs And Tradeoffs. 2003. ISBN 951-791-740-6.
- W:338. SENJA SVAHN: Knowledge Creation in Business Networks – A Dynamic-capability Perspective. 2003. ISBN 951-791-743-0.
- W:339. KRISTIAN MÖLLER – SENJA SVAHN: Role of Knowledge in the Value Creation in Business Nets. 2003. ISBN 951-791-744-9.
- W:340. ELI MOEN – KARI LILJA: European Works Councils in M-Real and Norske Skog: The Impact of National Traditions in Industrial Relations. 2003. ISBN 951-791-750-3.

- W:341. KJELD MÖLLER: Salatulla "arvopaperistamisella" tuhottiin yrittäjyyttä. 2003. ISBN 951-791-752-X
- W:342. ATSO ANDERSEN: Competition Between European Stock Exchanges. 2003. ISBN 951-791-753-8.
- W:343. MARKO MERISAVO: The Effects of Digital Marketing on Customer Relationships. 2003. ISBN 951-791-757-0.
- W:344. KLAUS KULTTI – JUHA VIRRANKOSKI: Price Distribution in a Random Matching Model. 2003. ISBN 951-791-759-7.
- W:345. PANU KALMI: The Rise and Fall of Employee Ownership in Estonia, 1987-2001. 2003. ISBN 951-791-772-4.
- W:346. SENJA SVAHN: Managing in Networks: Case Study of Different Types of Strategic Nets. 2003. ISBN 951-791-774-0.
- W:347. KRISTIAN MÖLLER – SENJA SVAHN: Crossing East-West Boundaries: Knowledge Sharing in Intercultural Business Networks. 2003. ISBN 951-791-775-9.
- W:348. KRISTIAN MÖLLER – SENJA SVAHN: Managing in Emergence: Capabilities for Influencing the Birth of New Business Fields. 2003. ISBN 951-791-776-7.
- W:349. TOM RAILIO: The Taxation Consequences of Scandinavian Mutual Fund Investments and After-Tax Performance Evaluation. 2003. ISBN 951-791-777-5.
- W:350. KIRSI LAPOINTE: Subjektiiivinen ura työurien tutkimuksessa ja teorioissa. 2003. ISBN 951-791-778-3.
- W:351. PANU KALMI: The Study of Co-operatives in Modern Economics: A Methodological Essay. 2003. ISBN 951-791-783-X.
- W:352. MARJA TAHVANAINEN: Short-term International Assignments: Popular Yet Largely Unknown Way Of Working Abroad. 2003. ISBN 951-791-784-8.
- W:353. MARKKU KUULA – ANTOINE STAM: An Interior Point Method for Multi-party Negotiation Support. 2003. ISBN 951-791-787-2.
- W:354. JOUKO KINNUNEN: Quantification of Ordered-level Business Sentiment Survey Forecasts by Means of External Validation Data. 2003. ISBN 951-791-790-2.
- W:355. TOM RAILIO: The Nature of Disagreements and Comparability Between Finnish Accumulating Mutual Funds and Voluntary Pension Insurances. 2003. ISBN 951-791-798-8.
- W:356. JUKKA JALAVA: 'Has Our Country the Patience Needed to Become Wealthy?' Productivity in the Finnish Manufacturing Industry, 1960-2000. 2003. ISBN 951-791-803-8.
- W:357. JARI VESANEN: Breaking Down Barriers for Personalization – A Process View. 2003. ISBN 951-791-804-6.
- W:358. JUHA VIRRANKOSKI: Search Intensities, Returns to Scale, and Uniqueness of Unemployment Equilibrium. 2003. ISBN 951-791-809-7.

- W:359. JUHA VIRRANKOSKI: Search, Entry, and Unique Equilibrium. 2003. ISBN 951-791-810-0.
- W:360. HANNA KALLA: Exploration of the Relationship Between Knowledge Creation, Organisational Learning, and Social Capital: Role of Communication. 2003. ISBN 951-791-813-5.
- W:361. PEKKA SÄÄSKILAHTI: Strategic R&D and Network Compatibility. 2003. ISBN 951-791-817-8.
- W:362. MAIJU PERÄLÄ: Allyn Young and the Early Development Theory. 2003. ISBN 951-791-818-6.
- W:363. OSSI LINDSTRÖM – ALMAS HESHMATI: Interaction of Real and Financial Flexibility: An Empirical Analysis. 2004. ISBN 951-791-827-5 (Electronic working paper).
- W:364. RAIMO VOUTILAINEN: Comparing alternative structures of financial alliances. 2004. ISBN 951-791-832-1 (Electronic working paper).
- W:365. MATTI KELOHARJU – SAMULI KNÜPFER – SAMI TORSTILA: Retail Incentives in Privatizations: Anti-Flipping Devices or Money Left on the Table? 2004. ISBN 951-791-839-9 (Electronic working paper).
- W:366. JARI VESANEN – MIKA RAULAS: Building Bridges for Personalization – A Process View. 2004. ISBN 951-791-840-2 (Electronic working paper).
- W:367. MAIJU PERÄLÄ: Resource Flow Concentration and Social Fractionalization: A Recipe for A Curse? 2004. ISBN 951-791-845-3 (Electronic working paper).
- W:368. PEKKA KORHONEN – RAIMO VOUTILAINEN: Finding the Most Preferred Alliance Structure between Banks and Insurance Companies. 2004. ISBN 951-791-847-X (Electronic working paper).
- W:369. ANDRIY ANDREEV – ANTTI KANTO: A Note on Calculation of CVaR for Student's Distribution. 2004. ISBN 951-791-850-X (Electronic working paper).
- W:370. ILKKA HAAPALINNA – TOMI SEPPÄLÄ – SARI STENFORS – MIKKO SYRJÄNEN – LEENA TANNER : Use of Decision Support Methods in the Strategy Process – Executive View. 2004. ISBN 951-791-853-4 (Electronic working paper).
- W:371. BERTTA SOKURA: Osaamispääoman ulottuvuudet. Arvoa luova näkökulma. 2004. ISBN 951-791-857-7 (Electronic working paper).
- W:372. ANTTI RUOTOISTENMÄKI – TOMI SEPPÄLÄ – ANTTI KANTO: Accuracy of the Condition Data for a Road Network. 2004. ISBN 951-791-859-3 (Electronic working paper).
- W:373. ESKO PENTTINEN: Bundling of Information Goods - Past, Present and Future. ISBN 951-791-864-X. (Electronic working paper).
- W:374. KASIMIR KALIVA – LASSE KOSKINEN: Modelling Bubbles and Crashes on the Stock Market. ISBN 951-791-865-8 (Electronic working paper).
- W:375. TEEMU SANTONEN: Evaluating the Effect of the Market Environment on the Business Success of Online Newspapers. 2004. ISBN 951-791-873-9 (Electronic working paper).
- W:376. MIKKO LEPPÄMÄKI – MIKKO MUSTONEN: Signaling with Externality. 2004. ISBN 951-791-880-1 (Elektronic working paper).

- W:377. MIKKO LEPPÄMÄKI – MIKKO MUSTONEN: Signaling and Screening with Open Source Programming. 2004. ISBN 951-791-881-X (Electronic working paper).
- W:378. TUURE TUUNANEN – KEN PEFFERS – CHARLES E. GENGLER: Wide Audience Requirements Engineering (Ware): A Practical Method And Case Study. 2004. ISBN 951-791-889-5. (Electronic working paper).
- W:379. LARS MATHIASSEN – TIMO SAARINEN – TUURE TUUNANEN – MATTI ROSSI: Managing Requirements Engineering Risks: An Analysis and Synthesis of the Literature. 2004. ISBN 951-791-895-X (Electronic working paper).
- W:380. PEKKA KORHONEN – LASSE KOSKINEN – RAIMO VOUTILAINEN: Finding the Most Preferred Alliance Structure between Banks and Insurance Companies from a Supervisory Point of View. 2004. ISBN-951-791-901-8 (Electronic working paper).
- W:381. PEKKA J. KORHONEN – PYY-ANTTI SIITARI: Using Lexicographic Parametric Programming for Identifying Efficient Units in Dea. 2004. ISBN 951-791-902-6. (Electronic working paper).
- W:382. PEKKA MALO – ANTTI KANTO: Evaluating Multivariate GARCH models in the Nordic Electricity Markets. 2005. ISBN 951-791-903-4 (Electronic working paper).
- W:383. OSSI LINDSTRÖM – ALMAS HESHMATI: Interacting Demand and Supply Conditions in European Bank Lending. 2005. ISBN 951-791-903-4 (Electronic working paper).
- W:384. ANTTI PIRJETÄ – ANTTI RAUTIAINEN: ESO valuation under IFRS 2 – considerations of agency theory, risk aversion and the binomial model. 2005. ISBN 951-791-920-4 (Electronic working paper).
- W:385. MIKA HYÖTYLÄINEN – HANNA ASIKAINEN: Knowledge Management in Designing and Developing ICT Consulting Services. 2005. ISBN 951-791-921-2 (Electronic working paper).
- W:386. PEKKA KORHONEN – LASSE KOSKINEN – RAIMO VOUTILAINEN: A Customer View on the Most Preferred Alliance Structure between Banks and Insurance Companies. 2005. ISBN 951-791-922-0 (Electronic working paper).
- W:387. MIIA ÄKKINEN: Conceptual Foundations of Online Communities. 2005. ISBN 951-791-959-X (Electronic working paper).
- W:388. ANDRIY ANDREEV – ANTTI KANTO – PEKKA MALO: Simple Approach for Distribution Selection in the Pearson System. 2005. ISBN 951-791-927-1 (Electronic working paper).
- W:389. ANDRIY ANDREEV – ANTTI KANTO – PEKKA MALO: On Closed-form Calculation of CVaR. 2005. ISBN 951-791-928-X (Electronic working paper).
- W:390. TUIJA VIRTANEN: Konsernijohtaminen parenting-teorian näkökulmasta. 2005. ISBN 951-791-929-8 (Electronic working paper).
- W:391. JARI VESANEN: What is Personalization? A Literature Review and Framework. 2005. ISBN 951-791-970-0 (Electronic working paper).

Y-SARJA: HELSINKI SCHOOL OF ECONOMICS.
CENTRE FOR INTERNATIONAL BUSINESS RESEARCH. CIBR RESEARCH PAPERS.
ISBN 1237-394X.

Y:8. REIJO LUOSTARINEN – MIKA GABRIELSSON: Globalization and Marketing Strategies of Born Globals in SMOPECs. 2004. ISBN 951-701-851-8.

Z-SARJA: HELSINKI SCHOOL OF ECONOMICS.
CENTRE FOR INTERNATIONAL BUSINESS RESEARCH. CIBR WORKING PAPERS. ISSN 1235-3931.

Z:10. V.H. MANEK KIRPALANI – MIKA GABRIELSSON: Need for International Intellectual Entrepreneurs and How Business Schools Can Help. 2004. ISBN 951-791-852-6.

Kaikkia Helsingin kauppakorkeakoulun julkaisusarjassa ilmestyneitä julkaisuja voi tilata osoitteella:

KY-Palvelu Oy
Kirjakauppa
Runeberginkatu 14-16
00100 Helsinki
Puh. (09) 4313 8310, fax (09) 495 617
Sähköposti: kykirja@ky.hse.fi

Helsingin kauppakorkeakoulu
Julkaisutoimittaja
PL 1210
00101 Helsinki
Puh. (09) 4313 8579, fax (09) 4313 8305
Sähköposti: julkaisu@hse.fi

All the publications can be ordered from

Helsinki School of Economics
Publications officer
P.O.Box 1210
FIN-00101 Helsinki
Phone +358-9-4313 8579, fax +358-9-4313 8305
E-mail: julkaisu@hse.fi