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A dragon multinational in the car industry*

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Abstract

Multinational enterprises (MNEs) from emerging countries have shown their ability to compete as latecomers against established enterprises in various industries. Such latecomers are known as "dragon multinationals" and much research has been conducted to analyze their behavior and competitive advantages. This paper focuses on the strategy implemented by the Korean automobile company Daewoo Motors to expand into the global market. Based on the international business literature on the emergence of multinational enterprises in emerging countries, this paper examines why Daewoo Motors invested first in developing economies such as Uzbekistan and Eastern Europe upon expanding into the global market. It discusses both the growth of foreign sales and the organization of overseas assembly plants. In addition, this paper explores the impact of investing in other emerging countries on the competitiveness of the firm and evaluates the potential risks of this approach.

Keywords: Daewoo Motors, globalization, dragon multinationals, automobile industry

JEL classification: D22, F23, L62, N85

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1. Introduction

The automobile industry is one of the most globalized industries. Automobiles are sold all over the world and this industry is dominated by a small number of global companies. Moreover, the automobile industry is one of the biggest employers in the world economy. Direct auto jobs comprise approximately 5% of worldwide manufacturing employment, and each direct job in the automobile industry creates five indirect jobs. Based on this, the automobile industry employs, directly and indirectly, over 50 million people worldwide, making it one of the most internationalized and globalized industries (Covarrubias & Ramírez Perez, 2020).

Another characteristic of this industry is its domination by multinational enterprises (MNEs) based in America, Europe, and Japan (i.e., the Triad) A small number of companies from Triad countries account for the vast majority of production and sales in automobile industry globally. These firms have maintained a 70%–80% market share globally from the 1990s to the 2010s (Humphrey & Memedovic, 2003; Marklines.com, 2020). The Fortune Global 500 list (2018) includes 15 automobile MNEs from Triad countries, including Toyota (ranked 6th), Volkswagen (7th), Daimler (16th), General Motors (GM) (21st), Ford (22nd), Honda (30th), BMW Group (51st), Nissan Motor (54th), Peugeot (108th), Mitsubishi (129th), Renault (134th), Volvo (286th), Suzuki Motor (348th), Mazda Motor (378th), Subaru (384th). These firms are organized globally and own production subsidiaries throughout the world. For instance, Toyota has 606 subsidiaries and 199 affiliates in 26 countries, including 67 manufacturing companies worldwide, and sells its vehicles in over 170 countries (Toyota, 2020). Volkswagen Group operates 125 production plants in 31 countries and sells its vehicles in 153 countries (Volkswagen, 2020). Large domestic markets, low wages, and local policies to attract inward foreign direct investment (FDI) have made emerging countries a major target of investment by MNEs. Global automobile production rose by

almost 7 million units between 1990 and 1997, with developing countries making the biggest contribution to this growth. Taken together, these fast-growing emerging markets increased vehicle sales by 80% and production by 93% (around 9% annually) between 1990 and 1997, whereas sales in the Triad economies increased by less than 0.1% annually. In the same period, Triad countries have faced overcapacity, cost pressures, and low profitability.

However, despite the domination of the global automobile industry by MNEs from the Triad, newcomers have appeared in emerging countries, due mainly to changes in trade and investment policies, global value chains, and new globalization strategies implemented by leading companies (Sturgeon & Van Biesebroeck, 2011). During the 1970s and 1990s, new entrants to the automobile industry included Hyundai, Kia, and Daewoo from South Korea; Mahindra from India; Proton from Malaysia; and FAW, Dongfeng Motors, Geely, and SAIC from China. However, not all of these new entrants were able to become global car makers; indeed, some such as Proton did not even pursue a globalization strategy and instead focused on serving only the domestic market (Ahmed & Humphrey, 2007). For these new entrants, it is challenging to expand across borders and compete against global leaders. Korean car companies are among the few exceptional cases that were able to establish a stable foothold in world markets. The total output of car production in South Korea increased from only 29,000 units in 1970 to 1.3 million units in 1990 and 3.2 million units in 2000, making Korea the fifth largest car manufacturing country in the world (Hyun, 2020). Hyundai and Kia have maintained their competitiveness even today, whereas Daewoo disappeared in the late 1990s. As of 2019, Hyundai and Kia, being affiliated companies, held a 7.9% global market share, which has been increasing year-over-year (Marklines.com, 2020). In light of these changes to the global automobile market, this paper tackles the case of Daewoo Motors and examines its strategy for expanding into foreign markets. Although this firm failed after the Asian financial crisis, the case of Daewoo Motors features many of the elements that enabled other

dragon multinationals in the automobile industry to build competitive advantages and establish themselves as competitors in the global market.

The remainder of this paper is organized as follows: Section 2 presents a literature review on globalization theories, dragon multinationals, global expansion strategies, and international competitiveness factors. Section 3 looks at the South Korean automobile industry and Daewoo Motors' development path. Section 4 examines the globalization process of Daewoo Motors. In the last section, the paper discusses the key findings of the paper and adds concluding remarks.

2. Literature Review

To discuss the ability of MNEs from emerging countries—so-called "dragon multinationals"—to compete as latecomers against established enterprises in the automobile industry, this paper considers three main areas in the literature on international business and business history.

First, there is general research on the reason why companies internationalize and the means by which they do so. Many researchers (Banalieva & Dhanaraj, 2013; Daniels et al., 1985; Vermeulen & Barkema, 2002; Rugman & Verbeke 2004) have contributed to this area of analysis and have identified various reasons that companies choose to go global, including the search for new markets, cost optimization, and tax privileges, among others. Existing theories on international business focus mostly on the host market and the economic conditions that influence firms' strategic decisions to internationalize from asset-seeking and opportunity-seeking perspectives (Luo & Tung, 2007). Buckley and Casson (1985) and Buckley (1988) emphasized the importance of two factors. First, firms look for the least-cost location (L) for their activities, where they may benefit from low taxes, wages, and resource

costs. Second, firms seek advantages from economies of scale and scope through internalizing (I) activities spread across firms and countries. Dunning (1977; 1980; 1993) added a third factor, namely, ownership advantages (O) to location (L) and internalization (I) advantages, leading to his eclectic theory being known as the 'OLI paradigm'. The OLI paradigm suggests that firms develop competitive ownership advantages at home and then transfer them to the countries abroad based on location advantages via FDI, which eventually allows them to internalize those advantages.

Overall, the literature distinguishes four kinds of FDI according to their goals (Franco et al., 2008; Brainard, 1997). First is resource seeking, in which the firms look to acquire certain resources at a lower cost than is readily available in their home market. These are mainly natural resources, raw materials, or cheap labor. Second, is market seeking, in which companies invest abroad to earn additional profit by following suppliers into a market or to pursue customers that have moved their facilities abroad. This strategy allows a firm to avoid the costs of serving a market from distance (Brainard, 1997; Markusen & Venables, 1998; 2000). Third is efficiency seeking, in which firms seek to take advantage of economies of scale, differences in consumer tastes, and various supply capabilities (Dunning 1993). Fourth is strategic asset seeking, in which firms seek to acquire a new technological base, rather than exploiting an existing asset; this purpose was proposed by Dunning (1993).

There is a newer area of research on "born-global firms," that is, companies that were globally organized when they were founded. This strain of research has emerged relatively recently in the international business literature (Knight & Cavusgil, 1996; Luostarinen & Gabrielsson, 2004; Oviatt & McDougall, 1994). These works argue that these born-global companies behave differently from conventional firms, which typically have a relatively long history of domestic business activity before proceeding to the internationalization process (Madsen & Servais, 1997; Johanson & Vahlne, 1977). In contrast, born-global firms

start international operations before or along with home-country operations and build their product, market, operations, marketing strategy differently from conventional companies, thereby realizing extraordinarily fast growth in global markets (Luostarinen & Gabrielsson, 2004).

Second, the literature on MNEs from emerging countries has flourished since the late 1990s. Increased global competition has led many born-global firms to expand internationally even though they are still in an early stage of development, contrary to the generally established path of globalization in which a firm pursues international markets only after gaining competitiveness at home (Frink, 2009; Moncada-Paterno-Castello et al., 2011; Yeung et al., 2011). Even when they are latecomers, MNEs from emerging countries can successfully pursue globalization by combining existing resources from different business entities, acquiring foreign resources and choosing a niche market where it can compete effectively against deep-rooted competitors (Oh et al., 1998; Oh & Rugman, 2007; Oh & Contractor, 2013). Mathews (2006) developed the concept of "dragon multinationals" and argued that firms from peripheral countries in the Asia-Pacific region started their internationalization by aggressively entering global value chains to acquire technology and know-how. Moreover, Li (2007) and Zheng (2013) have shown that mergers and acquisitions (M&As) were an important strategy adopted by Chinese firms to internationalize. For instance, home appliance manufacturer companies like Hisense and Haier were able to aggressively enter global markets by cutting costs in their value chains and taking over other companies (Sawada & Wang, 2012; Kim, 2011). Similarly, the automobile company Geely took over Volvo to leverage Volvo's design and R&D capabilities (Gao, 2015).

Third, works on the globalization of South Korean companies is one important field of research on dragon multinationals (Hyun, 2003; Kwon et al., 2004; Jeong, 2004; Yang et al., 2009; Hyun, 2018). Kwon et al. (2004) investigated Korean chaebol firms (i.e., family-run

conglomerates), such as Hyundai, Samsung, Lucky-Goldstar (LG), and Daewoo, which have successfully competed with Triad MNEs. These firms started their growth trajectory in a protected domestic market, developed competitive advantages, advanced technologically, and expanded globally with unlimited financial government support. Most Korean companies did not have substantial ownership advantages when they entered the international market in the early 1980s. Despite this, some of them became market leaders because they quickly adapted to the international business environment, strengthened the competitive advantages they had, and achieved economies of scale for low-cost production (Kwon et al., 2004). However, by the late 1980s, they faced significant challenges in the global business environment. They were forced to confront new protective barriers in their main export markets, rapid appreciation of the South Korean won, growth in domestic wages, and expansion of Japanese companies to low-wage Southeast Asian countries and Mexico (Soon, 1994). Consequently, South Korean companies had no choice but to move up in the value chain by fostering in-house R&D and integrating vertically through M&As. They invested massively abroad (Kwon et al., 2004). The case of the electronics industry is a particular success story, with Samsung Electronics adopting a new strategy to establish itself as a producer of high-quality home electronics (Ernst, 1998; Suárez-Villa & Han, 1990). In the case of the car company Hyundai-Kia, Hyun (2020) demonstrated that government support, corporate strategy, demand, entrepreneurship, leverage from operating as part of a large conglomerate, knowledge base, and infrastructure for parts production allowed the late-entrant firm to become a market leader. Atilla (2000) showed that several car companies, including Daewoo Motors, started their global expansion in Eastern Europe in the early 1990s. Acquiring existing car plants and pursing joint ventures allowed them quick entry to the Eastern European market and opened doors to Central and Western European markets as well. It allowed Daewoo Motors to access not only low-cost labor, but also the European

Union market, which it used as a base for further expansion (Oh et al., 1998; Atilla, 2000). However, the investments did not pay off as quickly as Daewoo Motors had forecasted, resulting in the downfall of this globalized Korean company in 1999.

Daewoo Motors is therefore a good example for a discussion of how a Korean dragon multinational was able to internationalize as a latecomer in the automobile industry. The main research questions addressed by this paper are: Why did Daewoo Motors invest in other emerging countries? How did these investments impact its global competitiveness? How effective was Daewoo's latecomer strategy? I approach these questions from the perspective of business history, focusing on the development of the company over time. Given that there are no company records available on this firm, the sources used for the present research consist of published statistics and articles from business media.

3. The formation and growth of the Korean automobile industry

The South Korean automobile industry has undergone four stages of development: assembly (1962–1974), internalized production (1975–1990), generation (1991–1999), and leading (2010–present) (Hyun, 2020). The development of Daewoo Motors is closely related to the formation and growth of the car industry in South Korea overall (Lansbury et al., 2007). The roots of the company go back to 1937, when National Motors was created by a private entrepreneur in Bupyeong-gu, Incheon. Initially, the South Korean automotive industry focused on repairing used cars. With the introduction of the first Five-Year Economic Development Plan in 1962, the South Korean government adopted the Automobile Industry Protection Law, which designated the automotive industry as a main driver of economic development. South Korea pursued an imitative learning strategy in this initial stage of

industrialization in the 1960s and 1970s (assembly stage), in which private firms learned by adopting foreign technology, with the goal of catching up with global leaders (Hyun 2020). In this context, National Motors, later renamed Saenara Motors, entered into a technical alliance with Nissan Motors in 1963. Saenara Motors went bankrupt in 1965 and the company was taken over by Shinjin Motors, another private company that established a cooperative arrangement with Toyota in 1966. Toyota withdrew in 1971 and Shinjin Motors established a new joint venture with General Motors under the name GM Korea in 1972 (Autoevolution.com, 2020), which was subsequently renamed Saehan Motors in 1976. Then, in 1982, the Daewoo Group purchased Saehan Motors shares and changed the company name to Daewoo Motors (Blockhan 2018).

In 1980, Korean automobile production was only 123,000 units, whereas Spain and Brazil each produced over one million vehicles that year. However, by 1995, Korea had become the fifth largest automobile-producing country in the world, and by 2000, Korea's automobile production had reached 3.2 million units, outperforming both Spain (3.0 million) and Brazil (1.6 million) (Hyun, 2020). The Korean share of global car production has increased from a mere 0.1% in 1975 to 5.3% in 2000 (Table 1).

Table 1. Change in the Korean share of global car production (1975–2000)

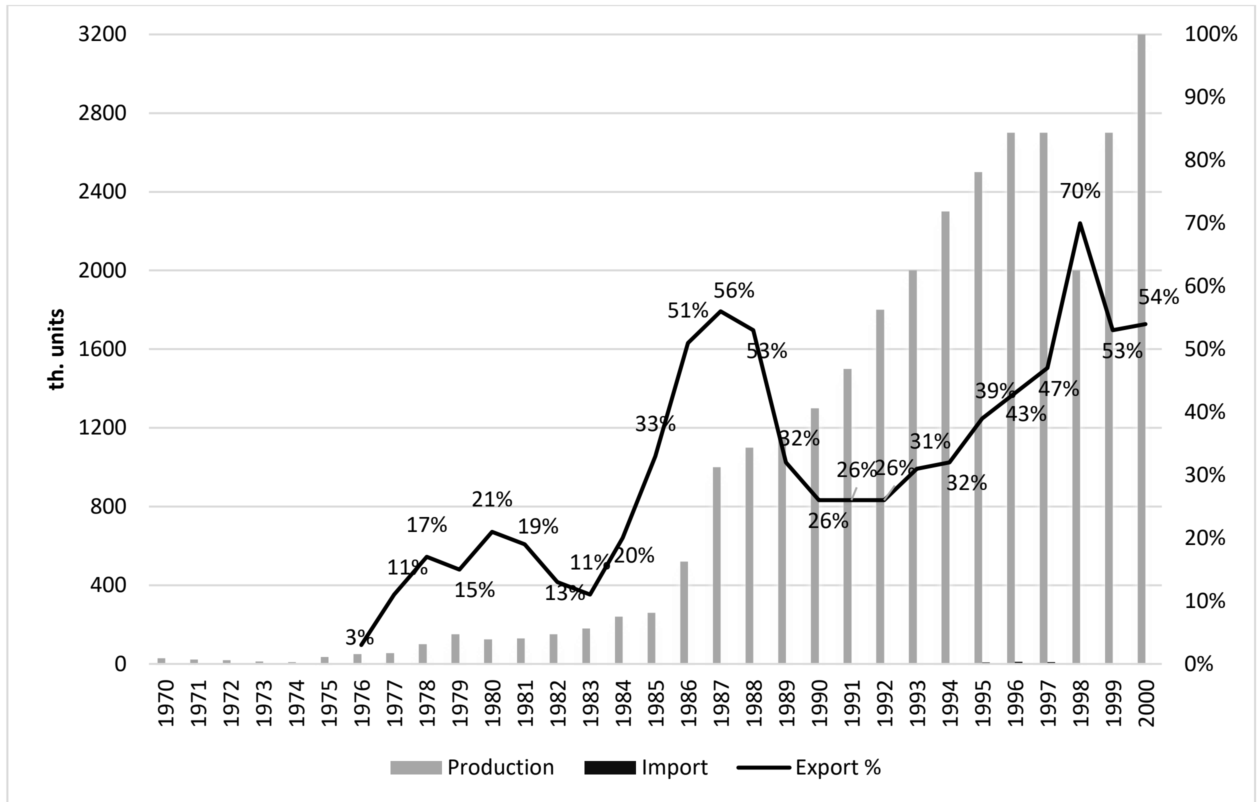
Production source / years	**1975**	**1980**	**1985**	**1990**	**1995**	**2000**
Global car production (in thousand units)	32,998	38,514	44,812	48,346	50,077	58,942
Korean car production (in thousand units)	37	123	378	1,322	2,526	3,115
Korean share of global production (%)	0.1	0.3	0.8	2.7	5.0	5.3

Source: KAMA (2014).

This fast growth accompanied an expansion of exports (see Figure 1). The share of exports in overall production increased from 20.5% (25,000 units) in 1980 to 72% (347,000 units) in 1990 and 53.6% (1.7 million units) in 2000. Exports have increased rapidly following South Korean companies' entry into the American market in 1986 and the global expansion of Korean car makers via FDI in the late 1980s and early 1990s, primarily to Asian, Eastern European, and South American countries. The first export of cars from Korea was made in 1979, when Hyundai shipped six units of the Pony to Ecuador. A quarter of a century later, in 1995, South Korea exported one million vehicles (including knock-down car sets) for the first time, making the country the eighth largest car exporter country in the world. Unlike some companies in other large car exporter countries (e.g., Canada, Belgium, and Spain), Hyundai exported under its own brand via a dedicated sales network (KAMA, 2014).

The growth of the Korean automobile industry relied mostly on three major companies: Shinjin Motors, Hyundai (founded in 1947 by Chung Ju-Yung), and Kia (founded in 1944 as Kyungsung Precision Industry and renamed Kia in 1951) (Autoinfluence.com, 2020; CompaniesHistory.com, 2020). A joint venture with GM allowed Shinjin Motors to access technology and learn from a much more advanced partner. GM Korea was able to increase production volumes during the two decades of this partnership (1971–1992) and more effectively compete against other local automobile companies. However, Daewoo Motors's share of Korean production share remained low (10%–20%) compared with Hyundai (40%–60%) and Kia (15-25%). For instance, GM Korea increased production volumes from 8,405 units in 1975 to 201,035 units in 1990, whereas Hyundai increased its production volumes from 7,092 units to 676,067 units in the same years (Hyun, 2020).

Figure 1: Korean automobile production, imports, and exports (1970–2000)



Source: KAMA (2014).

To gain independence in decision making in terms of expansion to global markets and developing own proprietary models, GM's shares in the joint venture were purchased by Daewoo Corporation in 1992 and the firm was renamed Daewoo Motors. Daewoo Corporation was the fourth largest Korean conglomerate (*chaebol*) and operated in a range of industries, including trading, commercial vehicle sales, shipbuilding, heavy industry, aerospace, consumer electronics, telecommunications, and financial services. Starting in 1992, Daewoo Motors began operating as an independent auto producer, but still relied on the technical assistance and models of foreign auto manufacturers, including General Motors, Nissan, and Honda. Nonetheless, from its first days as an independent auto manufacturer, the company decided to develop its own car. The Lanos project began in the autumn of 1993 and a short 30 months later the company was able to start mass production. The Daewoo

Lanos was introduced at the end of 1996 and became the first car that Daewoo Motors had developed in-house, with the help of Italian automobile designer Giorgetto Giugiaro.

In the late 1990s, the Asian financial crisis hit Korean companies hard. Like many other big Korean corporations, Daewoo Motors was supplied with nearly unlimited bank lending. The company used this large amount of borrowed funds to develop new models and expand capacity in its local market as well as abroad. However, the money was borrowed without regard to actual sales of vehicles or a very optimistic assessment of future sales prospects (Thomas, 2001). Furthermore, among the country's three major auto companies—Daewoo, Hyundai, and Kia–Daewoo Motors was the most overextended. It had not only invested in four large plants in Korea, but also a dozen abroad. As a result, the company was overleveraged and in 1999 declared bankruptcy—the largest in Korean automotive history, involving $19 billion in assets (Thomas, 2001). This collapse led to a consolidation of the Korean car industry, which included the takeover of Kia by Hyundai in 1998 (Companies History, 2020). Today, Hyundai-Kia has an 82% share of Korean car production and has become the fifth largest producer in the world, selling 8 million vehicles annually. Consequently its world market share has increased from 5.9% in 2007 to 7.9% as of 2019 (Hyun, 2020; Marklines.com, 2020).

4. The global expansion of Daewoo Motors

Export was the first step towards Daewoo Motors' internationalization. In 1984, Daewoo Motors received approval from GM to start exporting the Le Mans to the US and to sell the units via GM's dealership network. Sales in the US peaked at 64,037 units in 1988, before falling sharply to 37,000 vehicles in 1991 (Eisenstein, 1992). The Daewoo Group complained about GM's lack of marketing efforts and was not fully satisfied with the strict limitations of the joint venture agreement. For instance, GM prohibited export to Eastern

Europe, a territory allocated to Opel but which Korean considered as one of its main export targets. Moreover, it was not allowed to expand independently to overseas markets and to sell in the United States using its own brand name. The joint venture was unprofitable due to slow sales and continuous losses in South Korea, and so the company aimed to achieve more profitable growth overseas. Because of its small share in the domestic market, combined with its efforts to expand to new export markets, large licensing fee payments, and inadequate management, Daewoo Motors lost about $200 million in 1992 (Oh et al., 1998; Peng, 2010). Consequently, in 1992, the Daewoo Group and GM dissolved its joint venture and the Daewoo Group bought out GM's shares for $170 million (Deyo, 1996). After 1992, Daewoo Motors adopted an aggressive strategy to expand internationally. The company's new independence from GM in terms of sales strategies and its utilization of the global presence of Daewoo Corporation's trading offices allowed Daewoo Motors to increase its export volume from 34,169 units in 1990 to 263,051 units in 1995, and then to 390,571 in 1996 (Table 2). In 1990, Daewoo Motors was third in terms of exports, after Hyundai and Kia; however, by 1996, Daewoo Motors outperformed Kia and became the second largest car exporter in South Korea.

The overall exports of Korean carmakers similarly increased from 1990 to 1996. Korean car exports were increasingly targeting price-sensitive consumers and continued to compete mainly in low-income markets in Eastern Europe and Asia. All Korean car companies fully realized that their long-term success would depend on their ability to develop their own technology, reduce their dependence on foreign components suppliers and distributors, and improve productivity, quality, and production flexibility (Deyo, 1996).

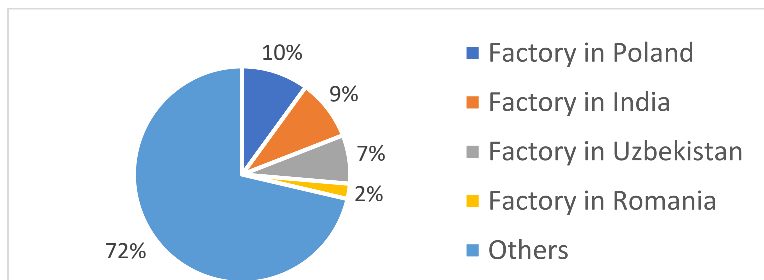
Table 2. Exports of South Korean Automakers in 1977–1996 (number of vehicles)

	Hyundai	Daewoo	Kia	Others	Total
1977	7 427	68	1 540	1	9 036
1980	16 244	4 164	4 735	109	25 252
1985	120 041	879	1 322	865	123 107
1990	225 393	34 169	85 823	1 599	346 984
1995	490 454	263 051	270 920	68 614	1 093 039
1996	567 254	390 571	322 426	132 023	1 412 274

Source: KAMA (2014).

Second, Daewoo Motors undertook a risky strategy of FDI, seeking out opportunities in marketing and manufacturing with the expectation that the company would prosper in tandem with the development and economic growth of these countries. As shown in Figure 2, Daewoo Motors committed more than $11 billion to numerous joint ventures and start-ups around the world from 1992 to 1996 (Sohn, 1996).

Figure 2. Allocation of $11 billion in foreign direct investment by Daewoo Motors (1992-1996)



Source: *Sohn (1996).*

In 1992, Daewoo Motors entered into a joint venture with an automaker in Uzbekistan, which led to the opening in late 1996 of an $800 million plant capable of producing 200,000 vehicles annually (Tadjiev & Donzé, 2020). Another $250 million was spent in 1994 to buy a state-owned automaker in Romania that was capable of producing 200,000 vehicles annually after retooling (Oh et al., 1998). Furthermore, Daewoo Motors managed to obtain tax concessions and duty-free privileges to import components from Korea for assembly in Romania. Also, in 1994, Daewoo Motors invested another $1 billion in a joint venture in India. Daewoo Motors secured a presence in other emerging countries including the Czech Republic and Poland. It also pursued smaller operations in the Philippines, Vietnam, Indonesia, and Iran. Before its collapse, Daewoo Motors had plans for further investments in Libya, Pakistan, Russia, Latin America, and China (Oh et al., 1998). With 370,000 passenger cars sold in 1994 alone, Poland was the largest economy with the largest auto market in Central Europe. Of these sales, 200,000 vehicles were manufactured locally and the rest were imported. The largest car maker in the country, Fiat, had a 51% market share. In turn, Daewoo Motors became the second largest vehicle producer in Poland overnight by acquiring a 70% ownership stake in FS Osobowych (FSO). In turn, by placing manufacturing in such countries as Poland and India, Daewoo would also be well-positioned to sell vehicles locally in countries that were experiencing much higher growth in demand for new vehicles compared with Western Europe or the United States (Oh et al., 1998). As detailed in Table 3, the result of this strategy was the achievement of a global sales expansion through production centers in emerging countries with a capacity of more than 650,000 units in 11 factories reaching from Poland to Uzbekistan (Oh et al., 1998). For instance, establishing production of four models (Cielo-Nexia, Tico, Damas, Matiz) in Uzbekistan, allowed Daewoo Motors duty-free entry to most Commonwealth of Independent States (CIS) countries, including Russia, based on a free-trade agreement among member states. The

exports from the joint venture in Uzbekistan started in 1996 with 900 vehicles and reached 14,600 units in 1997 (Tadjiev & Donzé, 2020). Similarly, as a result of its investments in Poland and Romania, by 1998 Daewoo Motors was selling 218,700 vehicles in Central and Eastern Europe and had gained a 17.7% market share (Atilla, 2000).

Table 3. Overseas operations of Daewoo Motors in 1996

#	Name	Location	Products	Capacity/Year In units
1	Uz-Daewoo Auto Company	Uzbekistan	Cielo, Tico, Damas	200,000
2	Daewoo-FSO Motor Corp.	Poland	Espero, Tico	125,000
3	Rodae Automobile S.A.	Romania	Cielo	100,000
4	DCM-Daewoo Motors Ltd.	India	Cielo	60,000
5	PT. Starsauto Dinamika	Indonesia	Espero, Cielo	50,000
6	Kerman Motor Co.	Iran	Cielo	50,000
7	AVIA a.s.	Czech Rep.	Truck	25,000
8	Daewoo Motors Poland Corp.	Poland	Truck	20,000
9	Trans Daewoo Automotive Mfg. Co.	Philippines	Espero, Cielo	10,000
10	Vietnam-Daewoo Motors Co.	Vietnam	Espero, Cielo	5,000
11	Guilin-Daewoo Bus Co., Ltd.	China	Bus	5,000
Total				**650,000**

Source: Oh et al. (1998).

Daewoo Motors' FDI strategy was characterized by a strong involvement in emerging countries. Daewoo Motors' strategy was highly dependent on the growth perspectives of these countries, which Daewoo expected to be high given these countries' low density of car ownership per 1000 inhabitants and attractive domestic market in those countries (India, Iran, Indonesia). Furthermore, Daewoo counted on these developing countries to provide access to the larger markets they were connected to (i.e., from Eastern European countries to

Western and Central Europe, and from Uzbekistan to former Soviet countries including Russia). In addition, the major Triad global car makers were not well-established in those countries, which Daewoo Motors viewed as providing a first-mover advantage. In most of these cases, Daewoo Motors pursued a quick market entry by making joint venture agreements or acquiring existing companies in those countries.

5. Discussion and conclusion

Companies from Triad countries hold a 70%–80% share of the world automobile market. These companies transfer mainly production technology, rather than product technology, to the countries that they enter. Product technology is one of the key features necessary for dragon multinationals to catch-up with the market leaders. In addition, in the automobile industry, it is extremely difficult to achieve the scale of the market leaders and to get out from the vicious circle: small market → small production → high price → small market. New entrants to the automobile industry must achieve economies of scale in production and gain access to advanced technologies (Hyun, 2020).

The Korean automobile industry has relatively few car makers due to the government policy of nurturing oligopolistic competition. This policy also aimed to increase the localization of domestically produced vehicles. Meanwhile, the cases of Taiwan, Brazil, and Mexico, which entered the automobile industry at the same time and from a comparable level of national income, clearly show the differences in the level of development in the automobile industry. Taiwan allowed domestic competition among five automobile makers in the 1960s, which hindered all of them from achieving efficient levels of production. Furthermore, after continuous entry of foreign manufacturers to Taiwan, by 1996 the country was flooded with 12 automobile makers, none of which joined the ranks of global leaders. Similarly, Brazil

and Mexico each had more than ten car makers, none of which were able to become a global MNE (Hyun, 2020). This clearly shows the importance of industry structure, government policy, and an appropriate number of firms in the automobile industry for nurturing dragon MNEs.

This paper has examined how in the 1990s Daewoo Motors adopted a particular internationalization strategy, characterized by FDI in emerging markets. The research results revealed that in the same period, Daewoo Motors had a limited market share (10%–20%) in its domestic market due to intense competition with Hyundai and Kia. Furthermore, growth in domestic wages and rapid appreciation of the Korean won highly impacted the cost competitiveness of Korean-made products. Therefore, Daewoo Motors pursued an internationalization strategy to achieve higher production volumes and economies of scale, which were necessary to justify investments made to develop its own new models and build domestic production capacities. In the 1990s, Daewoo Motors pursued entry to emerging markets through FDI, while firms in the Triad were occupied by intense competition among the major automobile MNEs or shielded with protective barriers. Most Japanese companies had already established production footprints in low-wage Southeast Asian countries.

The globalization strategy of Daewoo Motors to enter emerging markets was hence motivated by a growth perspective in those countries and access to other larger markets using regional free trade agreements. Notably, Daewoo sought to enter Russia (through a subsidiary in Uzbekistan) and the European Union (through subsidiaries in Eastern Europe) and expanded its global presence and increased its global competitiveness by accessing local resources and opening doors to the new markets. However, Daewoo Motors relied on overly optimistic sales forecasts, which were not realized and ultimately led the company to financial insolvency.

As a result, the dragon multinational strategy adopted by Daewoo Motors can be characterized as pursing backdoor access to large markets. This feature is not unique and can be seen in other dragon multinationals, for example, in the Korean and Chinese automobile industries as well as other high-tech industries. A prime example is the Chinese electric appliance producer Hisense, which has established multiple production facilities in Mexico, mainly due to its free trade agreements with the United states, the biggest consumer market in the world. Moreover, Mexico has additional advantages, including growing domestic consumption and cheap labor (Kaczmarski, 2017; Spoon, n.d.). Similarly, Korean firms such as LG, Samsung, Hyundai, and Kia have established factories in Mexico for the same reasons (Jung & Dong 2009; Ahmed 2019). Although ultimately unsuccessful, this aggressive strategy allowed Daewoo to shift from a latecomer Korean firm to a global player within a decade.

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