

Korea's Investment in ASEAN: An Analysis Linking Foreign Sub- sidiary Activities and Parent Data

Jinyoung Moon Research Fellow, Head of Global Strategy Team (jymoon@kiep.go.kr)

Hyoungmin HAN Associate Research Fellow, India and South Asia Team (hmhan@kiep.go.kr)

Hanbyul RYU Associate Research Fellow, India and South Asia Team (hbryu@kiep.go.kr)

Nayoun PARK Senior Researcher, Southeast Asia Team (nypark@kiep.go.kr)

Chihyun YUN Senior Researcher, India and South Asia Team (chyun@kiep.go.kr)

Mi Lim KIM Researcher, Southeast Asia and Oceania Team (mlkim@kiep.go.kr)

Yoon Ah OH Assistant Professor, Graduate School of International Studies (GSIS), Seoul National University (yoonah.oh@snu.ac.kr)

I. Introduction

China's economic growth, wages on the rise, and continuance of trade friction with the United States have weakened its advantages as a production base and increased the need for post-China production bases. Against this backdrop, Southeast Asia, adjacent to China and with its supply of low-cost labor, has emerged as a major investment destination for global companies. Under this trend, Korean companies are also actively investing in ASEAN. The cumulative investment of Korea in ASEAN from 1980 to 2018 is on par with the cumulative investment in China.

As ASEAN has grown as a major investment region of Korea, there is a need for research on Korea's investment in ASEAN. However, due to a lack of micro data, it is difficult to conduct empirical studies on achievements realized by Korea's investment in ASEAN. Therefore, we tried to overcome these limitations by establishing inte-

grated data linking the data of overseas subsidiaries and domestic parent companies. For our analysis, we have employed the Overseas Enterprise Data released by the Korea Trade-Investment Promotion Agency (KOTRA) and Korea Enterprise Data (KED).

II. Methodology and Basic Statistics of Database

The purpose of this study is to establish micro-data linking foreign subsidiaries with their parent companies. Information on overseas subsidiaries and their parent companies by country can be obtained through the KOTRA Overseas Enterprise Data. However, the KOTRA Overseas Enterprise Data lacks detailed financial information on the parent company. Hence, we have combined the KOTRA Overseas Enterprise Data and KED by using parent companies' corporate registration number as a parameter.

Basic statistics of the established data shows that Korean firms mostly advance into foreign markets in the form of independent investment for production, concentrating on manufacturing and business services. In addition, the data on average capital of parent companies with overseas subsidiaries by industry exhibit that utilities companies which provide water supply, sewage, waste management, and materials recovery service show the highest average capital and sales.

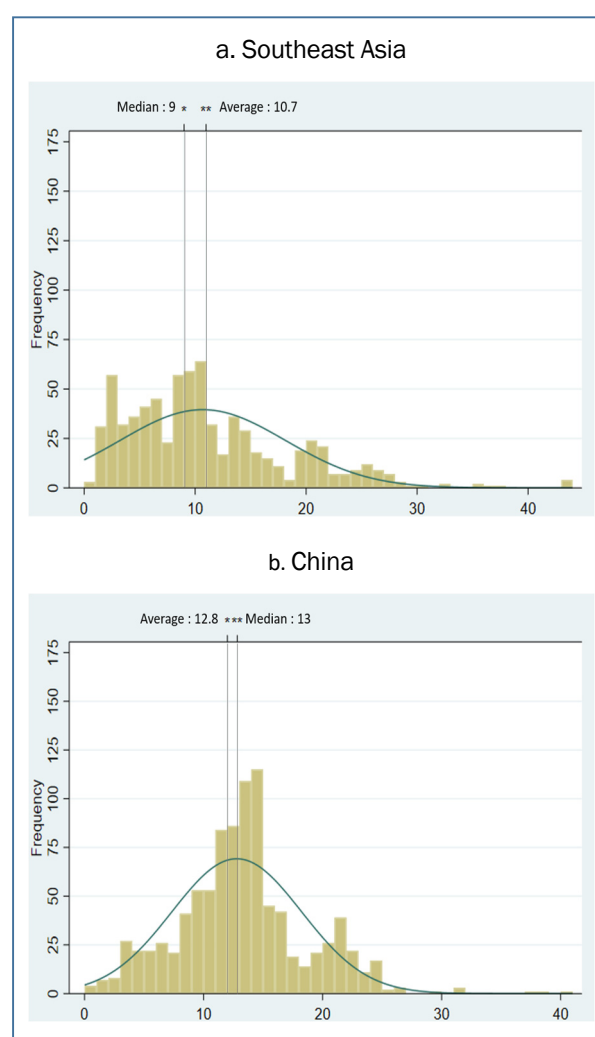
III. Analysis on Korean Firms' Investment in ASEAN: Focus on Manufacturing Industry

We analyzed the current status and characteristics of Korean investment in the Southeast Asian manufacturing sector, based on the combined data of the KOTRA Overseas Enterprise Data and KED. We narrowed down the objects of our analysis to companies for which we could confirm the financial information of parent enterprises. The analysis shows that most of the Korean firms are expanding into China and Southeast Asia. While the number of Korean enterprises entering China fluctuates considerably by year, the number entering into ASEAN shows steady growth. Most Korean firms entering China are producing electronic components, computers, and telecommunications equipment. On the other hand, most of the Korean enterprises which choose to advance into ASEAN are in the garment manufacturing industry. The

fact indicates a difference in the level of capacity as a production base hub between China and Southeast Asia. In addition, the enterprises operating in China are older and more mature than those in Southeast Asian countries.

Figure 1. Comparing Firm Age of Korean Subsidiaries in Southeast Asia and China (2016)

(Unit: number of companies, year)



Note: The above figures include the companies that we can confirm financial information of parent enterprises.

Source: Authors' calculations based on database of this study.

Parent companies expanding into China have the highest operating profit to sales ratio. On the other hand, in particular, the enterprises entering Viet Nam in the electronics and chemical industries recorded lower figures. In addition, companies expanding into both China and Viet Nam have higher average sales than other companies. However, the average sales and profit of parent companies that did not enter both China and Viet Nam are lower than those of companies which only expanded into Viet Nam.

Table 1. Operating Profit to Sales Ratio of Enterprises Expanding into Southeast Asia by Manufacturing Industry (2016)

(Unit: %)

	Classification	WLD	CHN	SEA	VN
C10	Food products	5.3	4.4	5.4	3.9
C11	Beverages	8.7	8.7	6.8	-
C12	Tobacco products	44.0	44.0	44.0	-
C13	Textiles, except apparel	4.2	5.2	4.3	4.1
C14	Wearing apparel, clothing	2.3	1.6	3.1	4.4
C15	Leather, luggage and footwear	2.8	0.7	2.1	5.3
C16	Wood products; except furniture	4.5	6.3	6.0	9.2
C17	Pulp, paper and paper products	4.0	2.5	1.3	1.3
C18	Printing and recorded media	7.4	23.7	6.1	7.0
C19	Coke and briquettes	9.3	8.7	9.0	7.3
C20	Chemicals	4.1	7.6	-1.4	-5.8
C21	Pharmaceuticals	5.0	3.7	6.4	5.6
C22	Rubber and plastics products	1.9	-2.7	7.9	8.4
C23	Other mineral products	6.3	7.8	5.3	4.7
C24	Basic metals	4.1	4.6	3.8	3.3
C25	Fabricated metal products	5.6	7.6	3.9	6.5
C26	Electronic components	-3.4	-0.1	-4.5	-7.8

	Classification	WLD	CHN	SEA	VN
C27	Medical, precision	3.4	3.3	2.8	5.7
C28	Electrical equipment	1.3	0.6	1.4	1.7
C29	Other machinery and equipment	1.3	2.0	-2.4	4.6
C30	Motor vehicles, trailers	2.8	2.1	5.0	4.2
C31	Other transport equipment	0.2	-0.4	3.7	4.5
C32	Furniture	4.3	5.0	5.3	5.3
C33	Other manufacturing	-3.8	4.0	5.4	5.6
	Total	2.1	2.6	2.0	2.4

Note: WLD, CHN, SEA, and VN are abbreviated words of world, China, Southeast Asia, and Viet Nam.

Source: Authors' calculations based on database of this study.

Table 2. Average Sales by Manufacturing Industry and Expansion into China or Viet Nam (2016)

(Unit: billion KRW)

	Classification	-CHN -VN	-CHN VN	CHN -VN	CHN VN
C10	Food products	411	455	606	1886
C11	Beverages	-	-	665	-
C12	Tobacco products	-	-	2968	-
C13	Textiles, except apparel	61	72	314	456
C14	Wearing apparel, clothing	93	244	160	253
C15	Leather, luggage and footwear	119	147	74	-
C16	Wood products; except furniture	213	422	6	-
C17	Pulp, paper and paper products	329	31	269	-
C18	Printing and recorded media	22	3	8	-
C19	Coke and briquettes	12877	465	5525	17432
C20	Chemicals	361	47	518	3534
C21	Pharmaceuticals	150	328	205	-
C22	Rubber and plastics products	131	165	205	153
C23	Other mineral products	82	293	242	-
C24	Basic metals	405	253	1536	8197

Classification		-CHN -VN	-CHN VN	CHN -VN	CHN VN
C25	Fabricated metal products	163	46	47	238
C26	Electronic components	402	71	778	6558
C27	Medical, precision	40	31	49	197
C28	Electrical equipment	98	257	205	5135
C29	Other machinery and equipment	125	56	133	66
C30	Motor vehicles, trailers	795	69	721	6474
C31	Other transport equipment	3014	743	71	19541
C32	Furniture	48	255	76	-
C33	Other manufacturing	11	11	37	6
Total		410	148	430	4158

Note: CHN and VN are abbreviations of China and Viet Nam.
Source: Authors' calculations based on database of this study.

The above analysis has limits, but it provides the following policy implications: the information of the parent companies that have overseas subsidiaries shows that expansion by Korean companies into Southeast Asia is steadily increasing within labor-intensive industries. This result can lead to a conclusion that easing trade and investment-related barriers would lower production costs and further increase investment in Southeast Asia. In addition, parent enterprises entering the Southeast Asian countries have shown a low average sales or profit ratio, suggesting that many small and medium-sized companies are expanding into these markets. Therefore, there appears to be a need for government support for small and medium-sized enterprises in ASEAN. At the government level, support for law and accounting service, and market research, which can be classi-

fied as fixed costs in the early stages of investment, or support for information sharing with large companies can be effective policy tools.

IV. Conclusion

This study is significant in that it has created a database which enables us to analyze diverse movement of Korean direct investment toward overseas markets. However, the compiled database has limitations to a certain extent, including the lack of precise information to distinguish the parent company. For following policy research, it will be important to gather accurate parent discernment information, augment extra subsidiaries' information in foreign nations, and expand its time series.

By means of this research, we analyzed characteristics of Korean enterprises operating in Southeast Asia and studied the financial performance of their parent firms. A variety of analyses are possible for research in the future based on the database established through this research, such as the effect of foreign direct investment on domestic employment and industrial competitiveness, relation between an increase in overseas production costs and the financial performance of the parent firm, and effectiveness of government policy on overseas firms. **KIEP**

References

Moon, J., H. Han, H. Ryu, N. Park, C. Yun, M. Kim, and Y. Oh. 2019. *Characteristics and Implications of Korea's Investment in ASEAN: an Analysis Linking Foreign Subsidiary Activities and Parent Data*. KIEP Studies in Comprehensive Regional Strategies 19-09 (in Korean).