ISAS Brief
No. 629 – 11 December 2018

Bumpy Road for Indian Conglomerates in South Korea's Automobile Industry

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Indian firms the Tata Group and the Mahindra Group have substantially invested in the South Korean automobile industry by acquiring Daewoo Motor Company in 2004 and SsangYong Motor Company in 2011, respectively. However, the two Indian firms have encountered some difficult challenges in this sector.

Indian FDI in South Korea's Automobile Industry

This brief highlights India's foreign direct investment (FDI) outflows to the South Korean automobile industry and the challenges faced by Indian investors. India's FDI outflows in 2017 were around US$11 billion (S$15 billion), representing a remarkable increase over the US$6 million (S$8.2 million) in 1990, just before India opened its domestic market through deregulation.

Bilateral FDI flows between the two countries have generally been low. However, the volume of FDI flows from India to South Korea increased dramatically in 2004 and 2011 (Table 1). In these two years, two of India's conglomerates, the Tata Group and the Mahindra Group, invested substantially in the South Korean automobile sector.

Table 1: India-South Korea Bilateral FDI Flows (2001-12), US$ Million

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Korea's FDI Outflows to India	5	45	14	41	86	94	255	181	225	170	505	657
(%)	-	-	-	-	1.2	0.5	1.0	0.4	0.6	0.6	1.4	2.7
India's FDI Outflows to Korea	1	1	1	53	3	1	8	11	11	49	410	30
(%)	-	-	-	-	-	-	-	-	-	0.5	4.2	0.3

Sources: OECD and UNCTAD, as of November 2018.

Road Block for the Tata Group

Tata Motors acquired Daewoo Motor Company in 2004, making Tata Daewoo Commercial Vehicle (TDCV) the world's fifth largest manufacturer of heavy commercial vehicles. TDCV, a wholly-owned subsidiary, located in the South Korean port city of Gunsan, has a product portfolio of over 75 types of trucks in the commercial vehicles segment. It has been a model case in reducing the number of subcontract workers since its establishment, as it has annually converted 10 per cent of subcontract workers to regular positions.

Despite the cooperative industrial relationship between the management and the workers, the TDCV factory operation rate fell below 50 per cent in recent years, due to severe competition from imported commercial vehicles. Raising the operation rate seems urgent for the TDCV since the American automaker General Motors (GM) recently closed its plant in Gunsan because of unprofitable operations. What makes the matter worse is that the TDCV was criticised by customers early this year for serious defects in its trucks. A considerable number of the TDCV's Euro Six model made in 2015 were found to lose or gain speed in an instant while in operation.

Mahindra Turning the Corner

In 2011, India's conglomerate, the Mahindra Group, merged with South Korea's SsangYong Motor Company, which was under legal management then and owned by Shanghai Automotive Industry Corporation (SAIC), Chinese state-owned carmaker, from 2004 to 2009. Unlike the TDCV's struggling operations, Mahindra SsangYong has gradually expanded investment in its production plant in South Korea. It has been a far cry from before as SsangYong Motor went through difficult times when the SAIC was running the company. The management hardly invested in product development after its takeover in 2004 and attempted to reduce the workforce several times. When SsangYong Motor went into a redundancy process in 2009, 976 South Korean workers lost their jobs. Its trade union filed the case of layoffs against the management and had fought for nearly seven years against the Court's decision that favoured the company's management. During this period, the trade union argued that the management was also involved in technology leakages to the SAIC's parent company.

The Mahindra Group came into the picture when the management and workers' relationship spiralled out of control in 2010 and it eventually acquired the company. It currently owns the 72.5 per cent of the total shares in SsangYong Motor Company. It recently decided to invest an additional US$44.3 million (S$60.7 million) in research and development on new models through capital increase by issuing new stocks. Furthermore, it recently decided to reinstate around 120 workers, which, is generally believed to have happened at the request of South Korea's President Moon Jae-in when he met with Anand Mahindra, Chairman of Mahindra Group, during his visit to India last July.

The Mahindra Group recently indicated that cars may have to be sold in the Indian market under the Mahindra brand name rather than SsangYong's, as its brand is already well received by Indian consumers. Also, it is considering expanding its global value chain to the United States by utilising its plant in South Korea for production and export.

Conclusion

Indian firms have come to the fore, especially in the automobile sector, in South Korea though they have encountered several challenges in a competitive market and industrial relations. However, both the Tata Group and the Mahindra Group seem to have shown good capacity, especially in improving management and workers' relations in their respective companies. Both Indian firms are expected to overcome a hard time of severe competition with other car manufacturers by producing more competitive models in the market.

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