Broken Strategic Alliane: A Case of Daewoo-GM Joint Venture

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HISTORICAL BACKGROUND

The history of Daewoo Motor Company Ltd can be characterised by a series of hand-overs. Its predecessor, Shinjin Motor Company Ltd was established in 1965 by the acquisition of Saenara Motor Company Ltd. By its technical collaboration with Toyota of Japan, Shinjin Motor, as a manufacturer of Korea's first sedans, expanded both its facilities and production. In the 1960s, the company had become the industry's front runner in Korea with over 50% of the domestic market.

General Motors (GM) of the United States bought into the South Korean automobile industry in January 1972, when it picked up Toyota's stake in Shinjin Motor. Toyota was looking to do business in China and was obliged by Peking to withdraw from its South Korean investment. Shinjin entered into a 50-50 joint venture with GM, and changed its name to General Motors Korea (GMK). However, in 1975, GMK's market position in the passenger car segment eroded due to the competitive move by Hyundai Motor which captured a substantial share of the market by its introduction of the fuel-efficient subcompact called "Pony". Unhappy with Shinjin's management, GM, in 1976, asked the US Embassy in Seoul to persuade the South Korean Government to find it another partner. In the same period, the Shinjin group experienced financial difficulties and its shares in GMK were sold to the government-owned Korea Development Bank. The name of the company was subsequently changed to Saehan Motor Company Ltd.

Daewoo's participation in the company's management began in 1978, following the government's request to Daewoo to acquire the Korean interests in the company. Daewoo had wanted to acquire the interests because of its strategic fit with the diesel engine manufacturing capability of Daewoo Heavy Industries Ltd. GM was told that its new partner would be Daewoo, then better known for its textile and trading operations than for its experience in the heavy industry. GM initially resisted the choice and asked for help from the US Embassy. But a trip to Detroit by Daewoo's Chairman Kim Woo-Choong ealmed GM's fears.

The worst recessionary periods hit the market during 1980 to 1982. Daewoo management, however, was constrained from actions because investment decisions were in the hands of GMC expatriates. In 1983, Daewoo negotiated with GMC for the latter to relinquish the right to mange the company. Since then, Daewoo took over complete operational management responsibility for the company, changing the name to Daewoo Motor Company Ltd. Under Daewoo's direction, the company launched a new small car that gained a 40% market share in 1983 in the small car segment (which in turn represented roughly one-half of the total passenger car market).

KOREAN AUTOMOBILE INDUSTRY

Government's Role

Like most other industries in Korea, the automobile industry is highly regulated by the government. The Korean government first attempted to foster the domestic industry in 1962, as part of the First Five Year Economic Development Plan, when it enacted the Automobile Industry Protection Law. The Act was designed to encourage local production, or at least assembly of automobiles.

In 1974, the government promulgated the Long-Term Automobile Production Plan, which stressed on a gradual increase in the domestic content of autos designed for local demand. Indeed, the incentives resulted in an increase of local content from 20% in the mid-1960s to over 90% by the end of the 1970s.

During the 1970s, the main bulk of sales of the Korean car makers were towards the local market. Change of events occurred in 1980 with the second oil shock and Korea's internal political uncertainty. Recommended by a study made by the Korean Institute of Economics and Technology (KIET), the Ministry of Trade and Industry set out to restructure and reorient the industry. It was concluded that the auto industry could only survive if it expanded production to the point where volume was large enough to capture economies of scale, which the domestic market was too small to accommodate, resulting in the export orientation of the industry.[1)]

The government went about restructuring the industry by mandating a reduction in the number of automobile assemblers to eliminate excessive competition and duplication.[2)] The Korean auto makers were then encouraged to invest heavily in new production facilities and to negotiate new alliances with major automobile makers. The government was instrumental in bringing some of the alliances and joint ventures together (Daewoo and GM), as foreign technology and expertise were needed to produce and market high quality reliable cars.

Besides nurturing the automobile industry from inception, the government has actively been involved in the growth o the industry as a whole. Favourable loan terms have been extended to the auto makers and tax exempt incentives are available for exports. The government has also restricted competition from international players by placing quotas on foreign cars, and has ensured that Korean auto makers hold the major equity in any joint ventures.[3)]

The Major Players

The Korean auto industry which produces mainly passenger and commercial vehicles is dominated by three main players (namely Hyundai, Kia and Daewoo). Together, they hold about 95% of the domestic market share. The three are also the main Korean auto exporters. The competition between the three is fairly intense, and each has their strength in the domestic and international markets.

The Korean auto makers compete mainly on price competitiveness and quality of their cars. Being rather new to the international market, most Korean made cars are at the low end of the market which places price as a highly important factor in purchase decisions. Recently, the Korean car mak-

1) The U.S. market which was the biggest and most open, was marked for the export drive of the Korean car makers. In 1987, total car exports to the U.S. numbered 346,852, more than double the previous year's total.

2) Kia was targeted and excluded from the passenger car market. It, however, re-entered the market in 1987. Merger plans for Hyundai Motors and Daewoo Motor fell through, with resulted in 2 major automobile companies in the early '80s. In 1989, when Samsung and Chrysler sought to establish a new automaking joint venture the goevernment over-ruled Samsung.

3) Car imports from Japan have virtually been bnned and foreign car imports are at a minimum, about 0.1%. (Green 1992)

ers have begun to introduce newer and more upscale versions of their cars to tap the high end market.

Most of the Korean car makers have alliances and joint ventures with foreign auto makers because they are relatively new in this industry. Joint ventures enable them to tap and use foreign technology and expertise, obtain spare parts and also use the distribution networks of these foreign players. In return, the foreign car makers are given certain access to the Korean market and at the same time take advantage of the relatively lower cost of production in the Korean automobile industry.

Hyundai has an alliance with Mitsubishi while Kia has a partnership with Mazda and Ford. Daewoo has a joint venture with GM while the smaller player Ssangyong has certain agreements with Mercedez Benz of Germany. Hyundai has been very successful in producing and exporting its cars to the U.S., especially the Excel models.[4] Its partnership with Mitsubishi has enabled hyundai to produce highly efficient engines. Hyundai has also set up its own dealer network in the States and Canada. Kia re-entered the automobile industry in 1987 after having been given the go-ahead by the government. Its agreement with Ford and Mazda has allowed Kia to the use of their designs and engines for the subcompact Festiva. At the same time, Kia also uses the dealer network of Ford.

Daewoo Motor's Position

Daewoo Motor is now ranked 3rd in the automobile industry with a 19% share of the market in 1991. Daewoo was second in the early 80s, but has since slipped to 3rd place, being replaced by Kia (Hyundai is first). Daewoo Motor's position in the industry is defined by its strength and strategic orientation, coupled with its joint venture with General Motors.[5] The Daewoo Group which is in a wide range of businesses, is able to apply its resources and management expertise to automobile manufacturing, one of its top priorities. Daewoo Motors book the approach to produce a subcompact (Le Mans) with GM which sold very well in the local market as well as in the U.S. Cheap labour costs and the high quality of Korean workers together with the technology from GM enabled Daewoo to produce a world class vehicle. Increasingly, Daewoo has embarked on producing cars being targeted at the higher end market, especially with the introduction of the Espero and Prince models.

DAEWOO MOTOR'S POLICY

The company's policy has been to provide consumers with quality vehicles by harmonizing highly skilled manpower, advanced technology and modern production facilities. To this end, in July 1984, Daewoo Motor reached an agreement with GM to develop a world class subcompact car.

To execute this project, Daewoo Motor intensified development efforts constructed high-tech production facilities, and enhanced the development of local vendors. The result of these dedicated efforts is the "LeMans" of which Daewoo Motor feels justifiably proud concerning quality,. modern aerodynamic styling, and outstanding performance. While the introduction of the LeMans marks an important milestone for Daewoo Motor, the company continued to expand its range of other vehicles including the "Royal" series of sedans, buses, trucks and special purpose vehicles to meet specific customer demand.

Through the export of sedans, buses, trucks, special purpose vehicles and automotive components to some 30 odd nations since 1975, Daewoo Motor gradually became a prominent name in the interna-

4) In 1992, Hyundai's exports and domestic sales were at 290,000 and 574,000 units respectively. (*Business Korea*, January 1993) In 1987, Hyundai's car exports to the U.S. hit 263, 010.

5) Joint venture with GM in manufacturing ended in April 1992, but ajoint venture with GM in the successful Automotive Component Co. Ltd remains.

tional automobile industry.

Daewoo Motor strive to maintain a highly efficient network of sales and after sales service offices throughout Korea. This network has been largely responsible for Daewoo Motor's reputation as a quality manufacturer and a reliable dealer and servicer in the local market. Its computerized on-line system linking service centres, maintenance centre, highway service centre and component centre, guarantee prompt response to customer's needs around the nation.

The company will continue with rapid development of new models in all areas to meet increasing international demands. Because of projected overseas market potential, Daewoo Motor planned to divert additional resources to automobile manufacturing, hoping to achieve more than 1 million car sales by the end of the decade.

DAEWOO-GM ALLIANCE

Since 1972, during GM's 50-50 joint venture with Shinjin Motor, GM's operation was mainly oriented on the relatively small Korean market. Thus, the interest of GM in the Korean market had been low and the operation itself had not been profitable. However, in the early 1980s, when the government's merger policy failed, GM decided to consolidate its relation with Saehan (then Daewoo) and to use the Korean operation as a strategic partner for the global market. GM also began to consider the Korean operation as a supplier of small finished vehicles to the U.S. market.

Encouraged by the GM's new commitment to the Korean operation, the Daewoo Group decided to develop the automobile industry as an export industry. Daewoo and GM then agreed on a new type of division of the export market which previously had been controlled by GM.

Terms of Agreement

On March 7, 1984, the Wall Street Journal reported that GM and Daewoo had signed a "memorandum of understanding" to produce cars in Korea for export to the United States. During this period, the partners began developing strategies to enter the international market with a world-class subcompact car. The partners combined advanced technology and production experience for the development of the LeMans and the Racer, and built massive new production facilities for the vehicles.

The two companies signed an agreement for a US$500 million plant to build the front-wheel drive subcompact car. The investment project was financed by US$125 million investment by each partner and US$250 million in loans. The resulting facilities were capable in 1986 of producing 167,000 small, front-wheel drive passenger cars that GM would design. GM would sell about 80,000 of these vehicles in the United States along with its line-up of small Japanese cars from Suzuki, Isuzu and Toyota. Continuous cooperation on the part of GM has contributed greatly to Daewoo Motor's technological advancement and market success.[6)]

In exchange for being designated GM's partner, Daewoo Motor had to accept certain limitations that were imposed under the original joint venture contract between GM and Shinjin Motor. The contract imposed restrictions on Daewoo in developing its own models. Originally, GM had effective management control in the 50-50 joint venture with Shinjin. However, this term was re-negotiated between both parties in 1983, and Daewoo has obtained operational control since then. Nevertheless, as far as strategic decisions are concerned, neither parties can make decisions without the consent of the other. Under the initial contract, Daewoo had to guarantee a minimum profit for GM regardless of the actual profitability of the ven-

6) As of August 1991, GM had invested a total of US$200 million in the joint venture.

ture. This condition was eventually removed. GM's corporate policy was that only its wholly owned subsidiaries, Adam Opel of Germany and GM of Holland, can participate in technology development. Daewoo was relegated to doing simple OEM (Original Equipment Manufacturing) assembly of designs provided by GM. Under the terms of the partnership, GM will serve as Daewoo's sole OEM customer for the North American market.[7)]

In addition to the 50-50 joint venture for the manufacturing of the front-wheel drive subcompact, the partners also invested US$100 million in a plant to make automobile parts. The company named Daewoo Automotive Components Ltd is a profitable Daewoo affiliate that makes suspension components, steering gear, pumps, breaks and radiators.

Benefits Derived from the Joint Venture

The relationships between Korean auto companies and their foreign counterparts have been characterized by a series of strategic alliances in the previous section. This section examines what kinds of benefits could be derived from the joint venture between Daewoo and GM.

Benefits for Daewoo: As earlier mentioned, Daewoo had interest in acquiring the Korean stake from the government owing to its strategic fit with the diesel engine manufacturing capability of Daewoo Heavy Industries Ltd. More importantly, Daewoo believed that it would greatly benefit from the partnership with the established US giant. To be competitive both in the domestic and international arenas, Daewoo needed to exploit the strengths possessed by GM.

The alliance with GM was crucial to maintain market share in a situation of intensified competition in the local market and to enter the export market. Daewoo had a low degree of technology autonomy and a low content ratio of components compared with its local rival Hyundai and Kia. Hence, the alliance allowed Daewoo to obtain advanced technologies and key components that it lacked. For example, the U.S. auto maker provided the engines and many of the key components for which Korea lacked the requisite manufacturing technology. It was through the dedicated and intensified efforts of both partners plus the import of GM's advanced technology that led to the successful development of the world class car, the LeMans. This subcompact was introduced into the world market in 1987 and it rapidly became a popular, highly competitive vehicle meeting consumer demand for economy, efficiency and safety.

Strategic alliance with the US counterpart not only enhances Daewoo's competitiveness in the domestic market, but it also enables the Korean-made cars to enter the lucrative US market. Given the various entry barriers in the world auto industry, Daewoo could gain access to foreign markets with GM's established marketing and distribution network. Hence, this strengthened Daewoo's export potential. The Korean auto maker targeted the low end of the US market in an effort to establish a reputation for reliability prior to introducing more expensive models.

Benefits for General Motor: Given the extent of government control and restrictions in the Korean automobile industry, GM as well its US and Japanese rivals understand that the means to entering this market is through forming strategic alliances with local automakers. Compared with the other alliances between the Korean and foreign automakers, GM's 50% stake in Daewoo Motor, which granted GM management participation, was more of an exception than a common form of alliance in the industry.[8)]

GM's strategic choice can also be understood under the changing global market situation and through its global strategy. Originally, GM had

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7) The North American market accounted for 39,000 units or 81% of Daewoo Motor's total export sales of estimated 48,981 units in 1991 (*Korea Economic Reoprt*, February 1992).

relied on the alliances with Japanese counterparts to supply small cars for the US market. However, as imports from the Japanese firms confronted obstacles due to voluntary export restraints (VER), GM considered Daewoo as a new source for the supply of small cars.[9] This alliance not only allowed GM to gain a foothold in the Korean market, it also helped GM to set its target at the rapidly growing Asian markets.

At that point in time, most Korean firms had a relatively developed infrastructure, a reasonable level of production capacity, and a docile and disciplined labour force. These benefited GM in achieving cost effectiveness in the manufacturing and supply of small sized cars.

DISSOLUTION OF THE JOINT VENTURE

Despite the fact that the joint venture benefited both partners in many ways, partnership disputes are inevitable typically when both partners have equal footing in the management of the company. The joint venture relationship showed many signs of distress between 1991-92 and the dissolution of the 15 years partnership became official in April 1992. GM asked the Korean government to find GM another partner. Chairman Kim Woo-Choong of the Daewoo group insisted, "This is a friendly divorce". This section explores the reasons, from the perspectives of both partners, that led to their subsequent divorce.

The flash point in the relationship came in mid-1991, after the two sides quarreled over how to respond to weak sales and the venture's deteriorating financial performance. Kia Motors, which had been forced under the rationalization plan in the early 1980s to stop making cars, re-emerged as a vigorous competitor in 1987. It has since surged past Daewoo to become the second-largest automobile producer in South Korea. Though Daewoo Motor responded to Kia's challenge by investing 368 billion won in 1988-90 and launching two models, the Espero and Prince models, neither has met expectations.[10] Both parties blamed each other for the deterioration of market share of the Korean passenger car market which tumbled from 31% in 1987 to 19% 1991.

Difference in Industrial Strategy

The disharmony between Daewoo and GM was the result of a fundamental difference in industrial strategy. Daewoo insisted that domestic market share should take precedence over bottom line results or profits was an anathema to GM, dogged by its own financial problem. While GM wanted to participate in the growing Korean domestic market and fill a niche in its US product line with a Korean built subcompact, the management of Daewoo Motor strongly came under the influence of Chairman Kim's global ambitions. Ultimately, Kim's zeal for growth by export and market expansion clashed with GM's concern for profits. The dissolution of the joint venture signified a classic example of an East-West business conflict.

Difference in Marketing Priorities

The issue that ultimately doomed the partnership was GM's exclusive marketing rights in North America and Western Europe. In return for those

8) Mitsubishi took a 10% ownership that it increased to 14.7% in 1985 through a joint venture with Hyundai Motor. In 1983, Kia allowed Mazda to have 10% ownership. Subsequently, Ford also acquired a 10% equity share in 1986. The three firms, Ford, Mazda and Kia built a tripartite alliance.

9) Originally, GM planned to import 280,000 units from the Japanese partners, yet because or the VER continued, GM imported only 67,000 units. In this situation, GM chose Daewoo as an alternative supplier of small passenger cars.

10) The Espero car attracted only 43,619 buyers in 1991, against a traget 58,000. A rechristened Prince model had been a bigger disappointment. Only 21,492 units were sold in 1991 compared with the company's estimate of 38,000. (*Far Eastern Economic Review*, 23 January, 1992).

rights, GM promised to sell a minimum of 60,000 LeMans in the US market each year. However, actual sales turned out to be much less.[11)]

Daewoo accused GM of breaking the promise when the latter rejected Daewoo's suggestion that it lower the sticker price to spur sales. Daewoo executives also argued, since 1991, that the export terms of the joint venture contract be revised. Daewoo wanted to sell its own version of the LeMans directly to overseas markets, at whatever price Daewoo managers deemed appropriate. This request was however rejected by GM. Kim, who constantly roams export markets making deals, annoyed GM by selling cars to Czechoslovakia. GM insisted that its Germany subsidiary, Opel, should be the company's sole supplier to Eastern Europe.

Daewoo was unhappy with GM's tight control of overseas sales of the LeMans, and its hesitation to aggressively expand production and marketing activities. Daewoo executives complained that GM was not doing enough to promote the LeMans in the US. The car was marked through GM's Pontiac Division, but dealers often used it as a low-priced promotion to entice customers into the showroom.

To try to move the mounting backlog of unsold cars, Daewoo introduced a concessionary finance programme in early 1991, allegedly without informing its US partner. Loans were offered to would-be buyers at extremely attractive rates. GM, however, believed that such concessions were foolhardy when Daewoo and other South Korean companies were being pinched by the tightest liquidity squeeze in almost a decade. "We were paying 24% for money and lending it out at zero interest", according to a GM source.

Prohibition on New Model Development

One of Daewoo's biggest complaints was the prohibition on developing new models independently of GM. That had made it virtually impossible for Daewoo Motor to compete effectively on international markets and against Korea's other four automakers at home. Daewoo desperately needed to supplement their GM licensed subcompact and sell under the Daewoo name in Korea. Failure to do so had hampered efforts to compete with new, sporty compact sedans of Hyundai and Kia.

Daewoo executives alleged GM was unwilling to provide them with new technologies and products that Daewoo Motor needed to remain competitive.

Refusal of Additional Investment

Daewoo had long wanted to shore up the operation's capital base by injecting more equity. In 1991, Daewoo proposed that the partners each invest an additional US$100 million into the venture. Kim wanted to boost sales by pumping more capital into consumer financing, but GM's interest was waning and hence it vetoed the proposal.

GM was reluctant to expand its Korean operations in part because the US automaker was battling financial troubles of its own and stiff competition from Japanese auto companies at home. The sluggish US economy put pressure on GM to trim costs in its North American operations. The company reported a record loss of US$4.45 billion in 1991. GM also announced that it would close 21 plants and lay off 74,000 workers in a bid to cut its losses.

Conflict in Management Styles

The split also underscored the difficulties of doing business with the South Korean companies, where autocratic management style are increasingly ill-suited to running sprawling enterprises. GM's move to end the 50-50 joint venture was also due to

11) In 1991, US sales of the Daewoo LeMans fell to 27,853 units, mustering a mere 0.3% of the U.S. auto market. Daewoo wanted GM to make more LeMans purchases and allow Daewoo to enter other markets, especially the European market. Both requests wer refused by GM.

its long-standing discomfort with Daewoo's management style and in handing labour disputes.

Daewoo's management, reportedly led by forceful Chairman Kim, ordered executives to reverse the company's slipping share of the domestic passenger car market. Although stocks of unsold cars were mounting, Daewoo stepped up overtime at its Pupyong plant in Seoul. Workers clocked 58 hours a week, a third more than the standard working week of 44 hours. The GM official complained that under the Daewoo corporate ethos,

> An operation has to meet its target, or it has to face the wrath from the top.
>
> There is less penalty for not selling the target than for not building it.
>
> The primary problem is their penchant for operating full out without considering the market. That drives operating costs up and increased inventory.
>
> GM Source (*Far Eastern Economic Review*, Jan. 23, 1992)

GM insisted that Daewoo should focus on improving the quality of its automobiles and its core business. GM was concerned with the quality of the LeMans produced for sale in the US. Labour strife had disrupted production, lowered quality and raised costs. The labour problems also disrupted shipping of enough cars.[12] The joint venture continued to lose money by American accounting standards.

Financial and Cash Flow Problems

GM was frustrated that Daewoo Motor lost the number two position in the domestic market to Kia Motors of which its US rival, Ford has 10% equity stake. The US automaker was also dissatisfied with Daewoo Motor's continued recorded deficits since 1987.

Daewoo Motor's cash flow slowed to a trickle, and its balance sheet reportedly took on an even more anemic pallor as debt and receivables ballooned. By the end of 1990, the venture's debt-to-equity ratio was a staggering 8.8:1. Interest payment rose to 104.1 billion won (US$137 million) in 1990 from 51.4 billion won (US$67.63 million) in 1987.

Ironically, the divergence of the partners came despite of the fact that many aspects of the joint venture appeared to be strengthening. However, the blame for the venture's failure, as can be seen from the above, actually lies with both partners.

IMPLICATIONS OF THE DIVORCE

For General Motors

The divorce of Daewoo and GM in April 1992 has left the American giant without a low cost production partner in the Asian region. GM went into the venture with Daewoo in the first place so that she could produce a subcompact to market to the American and world-wide markets. When the Korean government first brokered the partnership in the 70s, GM objected to Daewoo as a partner and preferred some other corporations. Eventually, however, GM decided to give the go ahead when Daewoo's chairman persuaded them into the joint venture. The marriage was a happy one until it turned sour for both parties in the 90s. After the split, GM is still trying to engage another Korean partner through the government but has not been successful yet. Ssangyong and Samsung are considered potential partners and GM will continue to look for a partner as a manufacturing base if needed in Korea.[13]

For Daewoo Motors

On the face of it, Daewoo seems to be unaffected by the split with GM. However, a string of problems might be facing the chaebol as now she has to

12) The partners originally envisioned selling over 100,000 Pontiac LeMans in the US, but wound up shipping only 34,700 in 1991. (*Fortune*, May 4, 1992).

13) The Korean government will only allow foreign automobile corporations to set up facilities in joint venture with local firms.

go on her own. Daewoo had to come up with $200 million to take over GM's 50% stake in the joint venture. This further compounded the cash flow problems Daewoo faces. The ease with which Daewoo was able to obtain technology and manufacturing know-how will be adversely affected by GM's pullout.

In the future, Daewoo will have to license technological know how from other car makers or engage in another joint venture. Daewoo will be embarking on building overseas vehicle plants to cater to the growing markets, especially in the Middle East, China and Russia. The formation of Daewoo Automotive Sales Co. Ltd. will see to the domestic marketing of vehicles produced by Daewoo Group companies, while Daewoo Corporation will handle the exports. In any case, for a few years after the split, Daewoo might face certain design and manufacturing operational problems. In the areas of marketing, Daewoo will soon stop using GM's network and source for her own overseas distributors.

For the Industry

The Daewoo-GM split is the first of its kind in the Korea automobile industry. It raises the question whether other joint ventures will end in this manner and why is it that the split occurred, could it be management and cultural differences? These are important questions as the future of Korean-American joint ventures (even with other nations) are at stake. From a macro view, cultural differences could lead to difficulties in joint ventures which will evidently put the Koreans in a bad light. Before we make any rash conclusions. This is not definitely the case. Any Korean-American joint ventures in the future should draw some lessons from this case.

The Korean automobile industry may see even more intense competition after the Daewoo-GM split as GM might look for a new partner and attack the domestic market. This would further segment the local market and sales of individual makers will shrink.

CONCLUSION

The dissolution of the joint venture between GM and Daewoo highlighted potential areas of East-West business conflict in strategic alliances. The situation seemed to be worst in the case when both parties acquired equal say in the management of the venture. The GM-Daewoo saga should be a lesson to other Korean companies. Generally, Korean partners aim to develop an export industry, the foreign partner, however, maybe aiming at nothing more than the Korean market. Such conflicts of interest can subsequently doom a partnership.

Opinions regarding how the break up would affect both partners are divided along two lines. Some industry analysts said that the split is good for Daewoo because it frees the company from a joint venture contract that restricted its business in the US; others viewed Daewoo losing an invaluable technology partner. In the case of GM, the break up would effectively put GM out of the Korean market.

The fact as to whether Daewoo can develop its own models and market them in the US without the help of GM has yet to be seen. Some industry analysts cite that Korean automakers are generally still "incapable" of independent auto production. They still need the guidance and support of the foreign counterparts.

In our opinion, with the increasing concentration of efforts by the Korean automakers on research and development, and their global zeal in building the export industry, their reliance on foreign automakers for new technology and established distribution networks would gradually diminish. In the long run, they should be capable of independent auto production without the support and guidance of their foreign counterparts.

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