

THE DEVELOPMENT OF MACHINERY AND AUTOMOBILE INDUSTRY IN KOREA

EE482 Industrialization: Role of Public and Private Sectors
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Faculty of Economics, Thammasat University

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- Convinced that parts production was the foundation for the promotion of an auto industry, the MTI set up a **comprehensive auto industry promotion plan in 1964**, encouraging domestic automakers to **use more domestic parts**.
- Korean-made parts in the vehicles they produced. But the ministry's plan was not entirely effective.
- Worse still, its one-automaker policy crumbled as Shinjin Automobile, Asia Motors and Hyundai Motors were established with the backing of political big shots in the next several years.
- Parts imports soared as they ignored the government's policy of raising the level of local components.
- For the carmakers, it was the localization of auto parts in October 1968, and the MTI prepared **a Five-Year Automobile and Major Parts Localization Plan**, which was officially announced in November 1969.

The development of Machinery and automobile industry in Korea (cont'd)

- It started with the setting up of **yearly local content ratio targets** for major automobile parts aiming for **complete localization of parts** of passenger cars by 1972, and of buses and trucks by 1974.
- Second, it separated **assembling companies from parts manufacturers** and concentrated on parts localization.
- Third, each part would be produced by an individual factory so that **parts manufacturers could steadily develop their expertise** in specific specializations.
- Fourth, it **simplified the number of car models** from **26** to fewer than **19**.
- These policies are **revolutionary**.
- This policy decision enormously **shocked major car and parts manufacturers**. In the case of Hyundai, it aimed not just at the local production of parts and components but also at developing Korean passenger car models.

The development of Machinery and automobile industry in Korea (cont'd)

- The decision had a **great impact on Hyundai**, which was **assembling a Ford model** under an agreement with the US automaker. Ford insisted that, if a car contained any Korean-made parts, the use of Ford's Cortina brand would not be allowed.
- The MTI announced the “**Automobile Engine Construction Plan**” in February 1970, initiated by **O Won-chol**, then serving as deputy minister in charge of the mining and manufacturing industry.
- It was designed to ensure that only **one manufacturer of engine foundry is chosen among three carmakers**.
- Naturally, this placed the **three companies** under **immense pressure** because if they were not selected, they would **become subordinate to the engine producing company**.

The development of Machinery and automobile industry in Korea (cont'd)

- Among the three of Shinjin, Hyundai and Asia, the former two submitted proposals: the **Shinjin-Toyota** and **Hyundai-Ford** consortiums submitted their plans to build engine plants.
- But it did not take long before the **Shinjin-Toyota** consortium **collapsed** when the Japanese company pulled itself out of its consortium agreement with the Korean automaker.
- With the looming threat of being blacklisted under the so-called Four Tzu principles – which was that foreign companies having business with either South Korea or Taiwan would not be allowed business in China – Toyota **withdrew its investment** plan with **Hyundai over a disagreement** on their partnership scheme.

The development of Machinery and automobile industry in Korea (cont'd)

- While the two companies were squabbling with collaborators in engine production, **Kia Motors broke ground** in November 1970.
- Kia began to **produce 2,000 cc engines** in 1973 and assembled **“Brisa” passenger cars** in October 1974.
- Shinjin, after been hit by the unexpected setback, could forge a **new partnership with GM**, and built a **large-scale plant** with an annual capacity of **50,000 vehicles** through a 50–50 venture.
- In the process, there was a **rise and fall** among the **three carmakers**.
- **Shinjin-GM failed** due to a **collision of interests** between the two partners and it was **taken over by Daewoo**.
- To facilitate the machinery industry and auto parts manufacturing, the **Changwon Integrated Machinery Industry Complex** was constructed in 1973 at a site of 33 million square meters, which became home **for 88 machinery plants in 1977**.

The development of Machinery and automobile industry in Korea (cont'd)

- The **complex allowed Korea's automobile industry** to grow to become the **fifth largest** in **the global ranking** in the automobile industry.
- **Many developing countries unsuccessfully attempted** to build self-sustaining auto industries at around the time Korea did.
- For instance, **Taiwan** wanted to pursue a policy like that of Korea, but in the face of **opposition from the National Assembly and the press**, it opted for many companies assembling autos with parts imported in complete-knock-down kits.
- When the **Philippines** started to develop an auto industry, it permitted as many as **nine companies** to build their assembly plants under pressure from public opinion. Its efforts **ended in failure**.