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Business Environment In South Korea An International Perspective

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ABSTRACT

South Korea, officially the Republic of Korea (ROK) and often referred to as Korea, is a state in East Asia, located on the southern half of the Korean Peninsula. It is neighbored by China to the west, Japan to the east, and North Korea to the north. Its territory covers a total area of 100,032 square kilometers and has a population of over 50 million. South Korea is a semi-presidential republic consisting of 16 administrative divisions and is a developed country with a high standard of living. Its capital city is Seoul which has a population of approximately 10.3 million and is the world's second largest metropolitan city. With one of the most densely populated countries in the world, its annual population growth rate is 0.33%. However, the population is aging rapidly due to a declining birth rate and greater longevity. In terms of population, Korea is a significant world civilization. Korea has a temperate climate with partially forested mountain ranges separated by deep, narrow valleys. Along the western and southern coasts, the terrain is cultivated plains which supports 6.4% agricultural work force. The remaining work force is divided between services (67.2%) and mining and manufacturing (26.4%) (Dept of State, 2008).

Keywords : Chaebols, Free market economy, Vertical social structure, Competitive advantage

History

Korea has a 5,000 year history, with the first capital city named Joseon, meaning "Land of the Morning Calm", created in 2333 B.C.. For five millennia, Korea has withstood the influences and invasions of neighboring countries and preserved its heritage, language and ethnic homogeneity. Throughout its history, Korea has excelled in science and technology advances, developing the world's most scientific alphabet, the world's first ironclad warship, the first metal typeset book, and the first odometer. Due to Korea's location between the great imperial powers of the Orient, it has been subjected to invasions throughout its history by warring nations of China, Manchuria, and Japan. Despite conflicts and differences with their northern counterparts, South Korea has experienced one of the fastest rates of economic development in the world. In just 40 years, the nation has rebuilt itself from the devastation of war and has become one of the leading economies in Asia, behind Japan and China. South Korea's LG is one of the global leaders in electronics, digital displays, semi-conductor devices, mobile phones, and high-tech gadgets. South Korea is the world's third largest



steel producer, POSCO and is a global leader in automobile manufacturing, led by Hyundai-Kia Automotive Group.

Language

The Koreans are one ethnic family speaking one language. They share certain distinct physical characteristics which differentiate them from other Asian people including the Chinese and the Japanese and having a strong cultural identity as one ethnic family. The Korean language is spoken by more than 65 million people living on the peninsula and its outlying islands as well as 5.5 million Koreans living in other parts of the world. The fact that all Koreans speak and write the same language has been a crucial factor in their strong national identity. Modern Korea has several different dialects including the standard one used in Seoul and central areas, but they are similar enough that speakers or listeners do not have trouble understanding each other.

Culture

The Korean culture has continued many of the traditions and events that came into their culture generations ago. Korea was first inhabited by many primitive tribes. Many were ancestors of the Mongolian culture. These tribes moved east into new lands where they began their new era. Many of the people living in Korea today are related to these first settlers. Korean life has always centered on the family and lineage, a supremely important principle. Large families historically have been prized and families intermarried within the regions of Korea to form large clans. Customs forbid marrying within one's own clan, no matter how distant the cousin might be and because of this, detailed genealogical records dating back to hundreds of years are preserved.

The kinship system is divided into 4 (four) separate levels, starting with lower level which are household and reaching to the clan, which includes a large number of persons (Savada and Shaw, 1990). The second level is the "mourning group" and consists of all those descendants of a common patrilineal forbearer up to four generations back. The lineage comprise only a handful of households but could also include hundreds of households at the third level. The fourth group and most inclusive is the clan or the "tongjok". Members of the clan share a surname and origins in the past. The real purpose of the clan is to define groups of permissible marriage partners. However, amendments to the marriage laws in the 1990s have changed the age-old custom and allowed marriages with fourth generation members (PBSonline, 2008).



a) KOREAN Thanksgiving Day b) KOREAN Wedding Anniversary c) KOREAN Folk Medicine

a) Korean Thanksgiving Day Chuseok, one of the big holidays in Korea, is by far the biggest and most important. Family members from near and far come together to share food, stories and give thanks to their ancestors for the abundant harvest. Last year (2009), Korea's representative traditional holiday of Chuseok was celebrated from October 2nd to October 4th and marked a prime opportunity for foreign visitors to tour Korea's cities and experience Korea's culture.

b) Koreans celebrate their wedding anniversaries in a befitting manner too. These anniversaries provide guidance for appropriate or traditional gifts for the spouses to give each other or if there is a party these can be brought by the guests. Lists of wedding anniversary gifts vary from place to place.

c) Korean folk medicine is for the treatment of illness based on the traditional remedies practised by common people. In ancient times the sick could not get a doctor's help, and hence treated illnesses by using animal parts and medicinal plants which were readily available nearby. While some are merely old wives' tales, some have withstood the test of time and have been acknowledged as reliable remedies.

Political Structure

Korea currently operates under a Presidential Republic government with powers shared between the President, the legislature and the court, with the president dominating. The President is the head of state and is elected by direct popular vote for a single five-year term. However, the President is not the commander in chief. The president appoints the Prime Minister with approval of the National Assembly. He also appoints and presides over the State Council of Chief Ministers as the head of government (Basic Data, 2008). The current president is Lee Myung-bak of the Grand National Party.

Economy

The South Korean market economy underwent a profound transformation in the last half of the twentieth century. It emerged from the Korean War devastated and remained a poor nation till 1960s, when unprecedented period of growth, modernization, and industrialization transformed the economic and physical landscape of South Korea. However, during the late 1990s, Korea experienced a trade deficit, high wages, and an increase in the inflation rate which slowed the maturing economy. Economic growth was attributed to Korea adopting an outward-looking strategy which promoted growth through labour-intensive manufactured exports a

competitive advantage for Korea (Basic Data, 2008). But with a new government in place in 1998, Korea forged back into an economic growth period and restored foreign investors' confidence. The free-market economy, increased flexibility in the labour market and restructuring of the chaebol-based business conglomerates has helped to maintain Korea's status as an economic global leader. In its desire to turn the country into a business and transport hub for northeast Asia, Korea is investing heavily in infrastructure.

Table No- 1 : Economic Performance

Main Economic Indicators	2003	2004	2005	2006	2007
Real GDP Growth (%)	3.1	4.7	4.2	5.1	5.0
Consumer price inflation (av; %)	3.5	3.6	2.7	2.2	2.5
Current-account balance (US \$ m)	11,950	28,173	14,981	5,385	5,954
Exchange rate (av; W:US\$)	1,191.6	1,145.3	1,024.1	954.8	929.3
External debt (year-end; US\$ m)	123,028	133,713	148,341	187,990	220,059

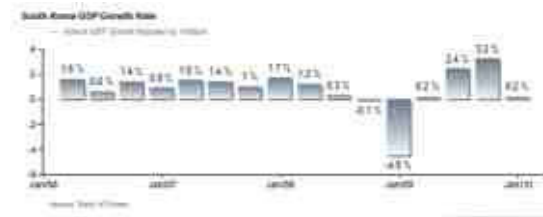
Source: Economist Intelligence Unit, Country Data

Country	Interest Rate	Growth Rate	Inflation Rate
South Korea	2.00%	0.20%	2.70%
	Jobless Rate	Current Account	Exchange Rate
	4.40%	-443	1138.8000

Today, Korea is one of the wealthiest countries in Asia and the 11th largest trading nation in the world. It has established itself as the world's leading shipbuilder (beating out China) and manufacturer of electronics, semiconductors and automobiles. Its main driver of economic growth is the manufacturing industry with export-oriented automotive and consumer electronics sectors at the top of the list. Foreign trade represents over 70% of the country's GDP with China being one of the most important trade partners (Basic Data, 2008), both export and import.

Table No-2 : Quarterly GDP Growth Rate

Year	Mar	Jun	Sep	Dec	Average
2009	0.20	2.40	3.20	0.20	1.50
2008	1.20	0.30	-0.10	-4.50	-0.78
2007	1.50	1.40	1.00	1.70	1.40
2006	1.60	0.60	1.40	0.90	1.12



From the aforesaid Table, it can be analyzed that the Gross Domestic Product (GDP) in South Korea expanded at an annual rate of 0.20 percent in the last quarter. South Korea's Gross Domestic Product is worth 929 billion dollars or 1.50% of the world economy, according to the World Bank. An extremely competitive education system and a highly skilled and motivated workforce are two key factors driving this knowledge economy. In recent years, Korea's economy moved away from the centrally planned, government-directed investment model towards a more market-oriented one.

Of late, South Korea's economic growth potential has fallen because of a rapidly aging population and structural problems that are becoming increasingly apparent.

Table No. 3 : Real Gross Domestic Product :sector Wise (% share of GDP)

	2003	2004	2005	2006	2007
Agriculture	3.8	3.8	3.4	3.3	3.0
Industry	39.0	40.7	40.3	39.6	39.4
Services	57.2	55.6	56.3	57.1	57.6

Chaebols

A chaebol can be defined as a business group consisting of large companies which are owned and managed by family members or relatives, in many diversified business areas. A single family usually referred to as the founding family, controls the entire web of companies woven around the core company. It has been recorded that the founding family and the owner controls as much as 60 percent of the entire stake of these companies. The Korean word Chaebol means "business group" or "trust" and is synonymous with "Big Business" in English.

Chaebols have played a major role in the Korean economy since the 1960s. Currently, there are several dozen large Korean family-controlled, government-assisted corporate groups or Chaebols. These groups are powerful independent entities influencing the economy and politics and have cooperated with the government in order to further the economic development of the country (Kim, 2008).

Chaebols were the result of a need for rapid industrialization through large businesses in the 1960s and they played a key role in developing new industries, markets and export production with the help of foreign loans and special favours, such as access to foreign technology. With the government's assistance and guarantee of repayment, chaebols exploded in the export markets and became financially independent and secure.

During the economic crisis of 1997, 11 of the largest chaebols collapsed exposing their vulnerability. After investigations exposed widespread corruption, the government reformed the chaebol system by requiring chaebols to diversify, decentralize management, and enforce antitrust laws and inheritance taxes. The chaebol system continues to dominate Korea's economy and the allegations of corruption and tax evasion also continue.

Some Chaebols have become internationally known such as Samsung, Hyundai, LG, Daewoo, and SK. They operate similar to large corporations. Chaebols are usually owned and managed by the same family group with a centralized ownership. Chaebols are prohibited from owning private banks and the government regulates the relationship a chaebol has with a banking institution so that an exclusive banking agreement is avoided.

Business Culture

Koreans have transitioned greatly into Western society but the traditional ways of thinking are still practised and business etiquette is very important to them.

Working Practices

Appointments when required should generally be made a few weeks in advance and punctuality is essential as a sign of respect. However, the top Korean business executives may arrive a few minutes late. This is a reflection of their extremely busy and pressured schedule and should not be taken as an offence. It is also recommended that you send any proposals, company brochures, and marketing material, written in both Korean and English, as a preview for Korean contacts before visiting the country.

Structure and hierarchy

Korea is known for its vertical social structure based on age and social status. The organizational arrangement of Korean companies is highly centralized with authority concentrated in senior levels. Influenced by Confucianism, Koreans' respect for authority is paramount in their business culture and practices. High-ranking individuals tend to have more power over their subordinates than in the West. Consequently, decision making in Korea will follow a formal

procedure in which senior approval is necessary.

Working relationships

Generally speaking, responsibility is delegated to trusted, dependable subordinates by their superiors. Therefore, it is imperative not to offend or ignore the lower ranks and to show the various managers the same respect as other senior levels. Age is the most essential component within a relationship. Personal ties in Korea, such as kinship, schools, birthplaces etc, often take precedence over job seniority, rank or other factors, and have significant influence over the structure and management of Korean companies.

Business practices

The exchange of business cards is vital for initiating introductions. Koreans prefer to know the person they are dealing with. Therefore, it is important to emphasize your title so that the correct authority, status, and rank is established. It is advised to have the reverse side of your card translated into Korean. Cards should be presented and accepted with both hands and must be read and studied with respect and consideration before placing them on the table. At the first business meeting, gifts are often used to acquire favours and build relationships. Like most Asian countries, Koreans believe that contracts are a starting point, rather than the final stage of a business agreement and prefer them to be left flexible enough so that adjustments can be made. Today, it is quite common for Koreans to shake hands with foreign colleagues after a bow.

Global Market Place

In recent years, a number of South Korean businesses have made tremendous progress in entering and securing a position within the global marketplace. The Korean market is unlike any other in the world. In South Korea, the term "seeing is believing" could be a motto. It is recommended that foreign businesses visit South Korea to conduct market research as well as conduct face-to-face meetings.

Obtaining information on different importers is always valuable. South Korean businesses appreciate when foreign companies send materials, such as price lists, product samples, and company information to office contacts so that they can understand business better and put relationship into perspective. The materials should necessarily be both in English and Korean.

Table No. 4 : Main Trading Partners Of South Korea

EXPORTS FOB TO:					
Country	2003	2004	2005	2006	
China	18.1	19.6	21.8	21.8	22.1
US	17.7	16.9	14.5	13.3	12.3
Japan	8.9	8.5	8.5	8.2	7.1
Hong Kong	7.6	7.1	5.5	5.8	5.0
IMPORTS CIF FROM:					
China	12.3	13.2	14.8	15.7	17.7
Japan	20.3	20.6	18.5	16.8	15.8
US	13.9	12.8	11.7	10.9	10.4
Germany	3.8	3.8	3.7	3.7	3.8

(Basic Data, 2008)

The relationship with the U.S. is important and its military alliance helps guarantee close economic ties. Relation with North Korea continues to remain strained.

Japan continues to be a competitor and relations remain strained due to a lingering bitterness after Japan's harsh rule from 1910-1945 (Basic Data, 2008). The territorial dispute over a group of islets between the two countries renewed tensions between the countries but recent efforts on the part of President Lee Myung-bak seem to have improved cultural exchanges.

Economic links between China and Russia continue to grow. With a growing economy, both Russia and China could see the benefits of cultivating economic links with Korea. With diplomatic relations established in the early 1990s, the Soviet Union withdrew their long-standing veto on South Korea, and South Korea finally joined the UNO. South Korea's trade with ASEAN members is also becoming more and more visible.

International corporations

Electronic sub-sector
Samsung Electronics



Samsung has been the world's most popular consumer electronics brand since 2005 and is the best known South Korean brand in the world. Samsung Group contributed 20% from the South Korea's total exports and is the leader in many domestic industries such as chemical, financial, entertainment and retail. The company's strong influence in South Korea is visible throughout the nation, which has been referred to as the "Republic of Samsung".

The 1990s saw Samsung's rise as an international corporation. Samsung Electronics Co. Ltd., is the part of the Samsung Group and is one of the leading consumer electronics brands in the world today. The Samsung Group is composed of numerous international affiliated businesses including Samsung Electronics, the world's largest electronics company, Samsung Heavy Industries, the world's second largest shipbuilders and Samsung C&T, a major global construction company.

Samsung survived the Asian financial crisis of 1997-98 relatively unharmed. However, Samsung Motor, a \$5 billion venture was sold to Renault at a loss. Additionally, Samsung manufactured a range of aircraft from 1980 to 1990s. The company was founded in 1999 as Korea Aerospace Industries (KAI), the result of merger between Aerospace, Daewoo Heavy Industries and Hyundai Space and Aircraft Company (HYSA). Most importantly, Samsung Electronics (SEC) has since come to dominate the group and the worldwide semiconductor business, even surpassing worldwide leader Intel in investments for the 2005 fiscal year.

Samsung Electronics, which saw record profits and revenue in 2004 and 2005, overtook Sony as one of the world's most popular consumer electronics brands, and is now ranked No.19 in the world overall. Behind Nokia, Samsung is the world's second largest producer of cell phones with a leading market share in the North America and Western Europe. Total electronics exports of Korea's leading firms have been depicted in the Table given below.

Table No. 5 : Value Of Exports By Major Electronics Companies

Companies	1987	1991	1993	1995
Samsung		\$5 billion	\$7 billion	\$10 billion
LG	\$1.8 billion	\$2.1 billion	\$2.9 billion	\$5.0 billion
Hyundai	\$390 million	\$730 million	\$1.1 billion	\$4.1 billion
Daewoo	\$800 million	\$1.2 billion	\$1.5 billion	\$1.9 billion

(U.S. Department of Commerce), 1999.

Samsung and LG have become world leaders as the makers of mobile, telecommunication equipment, consumers electronics, overtaking rivals such as Motorola (US) and Sony (Japan) Basic Data, 2008.

LG Electronics Inc.



LG Electronics is the world's second-largest manufacturer of televisions and the third-largest devices. LG Electronics owns Zenith Electronics and controls 38% of LG Display. Headquartered in the LG Twin Towers in Yeouido, Seoul, the company operates its business through its four divisions. LG Electronics is the flagship company of LG Group, one of the

world's largest electronic conglomerates in South Korea. The company has 75 subsidiaries worldwide that design and manufacture televisions, home appliances, and telecommunication appliance, digital display and digital media. During the year ended December 31, 2007, the mobile communication division accounted for approximately 41% of total sales.

Automobile Sub-sector



Although the Korean automobile industry has not been able to compete with Japan automobile technology industry, it certainly has achieved glaring improvement in the automobile industry. Korean automobiles have a reputation as being able to provide good value for money. The automobile industry is a leader among the country's manufacturing sector with Hyundai Motor at the front, closely followed by Kia Motors.

Kia Motor corporations

Kia Motors is South Korea's second largest automobile manufacturer, having sold over 1.6 million cars in 2009. The company is partially owned by the Hyundai Kia Automotive Group. Since August 21, 2009, Hyoung-Keun (Hank) Lee leads the company's global operations from the headquarters in Seoul; North American and European arms are operated by Kia Motors America and Kia Motors Europe respectively.

Since 2005, Kia has focused on the European market and is currently one of the UK's fastest growing car companies. In 2005, Kia Motors identified design as its core future growth engine and in 2006, designer Peter Schreyer became Kia's Chief Design Officer. Schreyer, shortly thereafter, created a new corporate grill abstracting the nose of a tiger's and its mouth.

In October 2006, Kia Motors America broke ground for its first United States assembly plant in West Point, Georgia, representing a \$1 billion USD investment for the company. Kia Motors Manufacturing Georgia opened in February, 2010. For 2009, KMA recorded its 15th consecutive year of increased U.S. market share.

Kia Motors Corporation (KMC) [www.kia.com] was founded in 1944 and is Korea's oldest manufacturer of motor vehicles and is now a division of the Hyundai-Kia Automotive Group. Over 1.5 million vehicles a year are produced in 13 manufacturing and assembly operations in eight countries which are then sold and serviced through a network of distributors and dealers covering 172 countries. Kia today has over 42,000 employees worldwide and annual revenues of over US\$14.6 billion.

Hyundai Motor Company

Hyundai Motor Company, s a division of the Hyundai Kia Automotive Group, is the world's largest automaker by profit, the world's 4th largest automaker by units sold and the world's fastest growing automaker. Headquartered in Seoul, South Korea, Hyundai's manufacturing facility in Ulsan, produces 1.6 million units annually. It employs about 75,000 persons around the world, Hyundai vehicles are sold in 193 countries through 6,000 dealerships and showrooms worldwide. The Hyundai logo, a slanted, stylized 'H', symbolizes the company shaking hands with its customer. Hyundai translates from the word "modernity" in Korean.

In 2004, Hyundai Motor Company had \$57.2 billion sales in South Korea making it the country's second largest corporation. Worldwide sales in 2005 reached 2,533,695 units, an 11% increase over the previous year. Hyundai has set its 2006 worldwide sales target 2.7 million units (excluding exports of CKD kits). In 2007 it reached 3,961,629 vehicle sales worldwide surpassing Fiat, Chrysler, PSA/Peugeot, Nissan, and Honda. Hyundai was the fifth largest automaker in the world as of 2008.

Hyundai Motor Company's brand power continues to rise as it was ranked 72nd Best Global Brands by Interbrand and BusinessWeek survey in the year 2007 and its brand value was estimated at \$4.5 billion. Public perception of the Hyundai brand has been transformed as a result of dramatic improvements in the quality of Hyundai vehicles. In 2006, Hyundai was conferred with 'Top-rated 2006 Ideal Vehicle award by Autopacific Marketing Research and Consultancy Firm for automobile industry. In the 2007 Strategic Vision Total Quality Awards, Hyundai Motors leads the most vehicle segments in Strategic Vision's Total Quality Index, measuring ownership experience. No wonder, Hyundai tops in Strategic Vision Total Quality Awards.

Daewoo International Company



Daewoo (Korean for "Great Universe") or the Daewoo Group was a major South Korean chaebol (conglomerate). It was founded on 22 March 1967 as Daewoo Industrial and was dismantled by the Korean government in 1999. Prior to the Asian Financial Crisis of 1998, Daewoo was the second largest conglomerate in Korea after Hyundai Group, followed by LG Group and Samsung Group.

During fiscal year 2006, Daewoo experienced an increase in revenues of 24.1% over 2005 and an increase of 26.4% in operating profit over 2005, but a decrease of 34.5% in net profit over 2005 (Daewoo International Corporation SWOT Analysis, 2007). However, 2007 financial reports indicate a downhill trend for net profit, indicative of the problems facing the company with increased costs and a slowdown in the economy (Daewoo International Website, 2008)

Epilogue

South Korea went through a very difficult economic phase in the late 1990s and its gradual recovery success has been the strength of its export industries, the engine of growth since the 1960s. The diversification of this sector, which also includes high-tech industries, will ensure a position for South Korea as a major economic power and a major global exporter.

The high domestic labour costs have led to the relocation of some labor-intensive industries to other Asian countries like China and Vietnam. This process will likely to be accelerated, especially because it can speed up recovery of the South Korean economy and help it grow faster by making its products more competitive in world markets.

If the current process of reconciliation between the two Koreas continues, better ties will likely lead to extensive production of South Korean goods-for-export in North Korea, where labour costs are much lower. Better ties will also provide a big opportunity for South Korean industries as their government has agreed to expand and modernize North Korea's crumbling infrastructure, pending the settlement of major security concerns. The unification of the two Koreas could also turn a united Korea into a stronger economic and military power. The combined economic and military capabilities of the two Koreas will likely help a united Korea to establish itself as a regional power in the Pacific.

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