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# Wielding a Double-Edged Sword

From 1962 to 1988 Korea's GNP has exploded from a meager $2.3 billion to over $156 billion and the nation's per capita GNP has ballooned from a mere $87 to $3,728. This growth was fueled by a two-hundred-fold expansion in trade volume that soared to over $112 billion.

It is growth that has been a two-edged sword, cutting a path to prospects as well as problems.

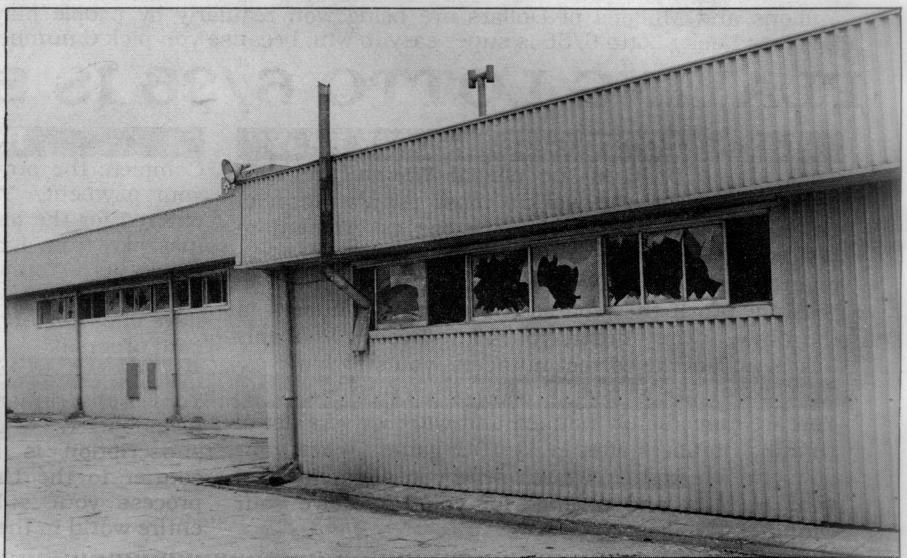
Lucrative commercial opportunities abound, but only the astute businessman who is able to forecast and plan for future changes in Korea is going to succeed in this fast-changing environment.

Over the last twenty-five years the government has, through successive five-year plans, taken an overpopulated and resource-poor country and made it boom. Because this growth was so single-minded in nature—industrialize or else—certain areas of society did not receive the priority emphasis that they needed or deserved.

The five-year plans that the government formulated to stimulate growth provided a unique kind of capitalism in which a free market was heavily integrated with state intervention. The government was able to make its intervention stick by keeping majority holdings in the commercial banks and maintaining a tight control over foreign capital.

With control of financial markets assured, the government was able to concentrate investment and growth in selected industries. In the sixties these were labor-intensive light industries that in the seventies gave way to heavy industry. Through the eighties and on into the nineties the government will continue to stress high-tech industries for the information age.

This policy has been a mixed blessing. While it is true that Korea seems to have become an industrialized nation almost overnight, there have been serious repercussions. One is that state-supported projects have gotten too large to be controlled by the bureaucracy. And since the policy was to achieve economies of scale, it bolstered investment at the expense of competition, both domestic and foreign. This has essentially led to the country being subdivided by huge conglomerates, an effect that makes life hard for businessmen not affiliated with one large outfit or another.



**Farmers protesting U.S. imports destroyed government buildings on Yoido. The protesters demanded that the government abolish the irrigation tax and purchase excess red peppers produced this year.**

This phenomenon is not limited to domestic companies. As a foreign businessman stated, "I have a competitor that is in a joint venture with Samsung and they have been finding it difficult to do business with companies associated with other chaebols. This competitor is trying to land a big contract that we are pursuing as well. I think it would be fantastic if someone from, say, GoldStar were on this company's board of directors and shot down the competitor's bid because of their affiliation with Samsung."

This system was based on the idea that consumption, primarily of foreign luxury goods, was viewed as a vice and austerity as a necessary evil.

Over the last two years this policy has shown increasing signs of strain as the population of Korea began to demand some of the same goods that they have been manufacturing for export. The people's growing affluence coupled with a western tide of protectionism against countries with closed markets has led the government to reassess its position on many trade issues. An official source revealed that the government has come to the conclusion that "foreign competition is as important as domestic competition" in fostering continued growth and market expansion.

Part of this new direction will be to

begin privatizing sectors that have been under de facto control by the government. Examples include the Korea Telecommunications Authority, and the Bank of Korea. The government, according to this source, feels that to encourage creativity in the private sector it must tone down the interventionist policies of the past so that the market mechanism can be revitalized.

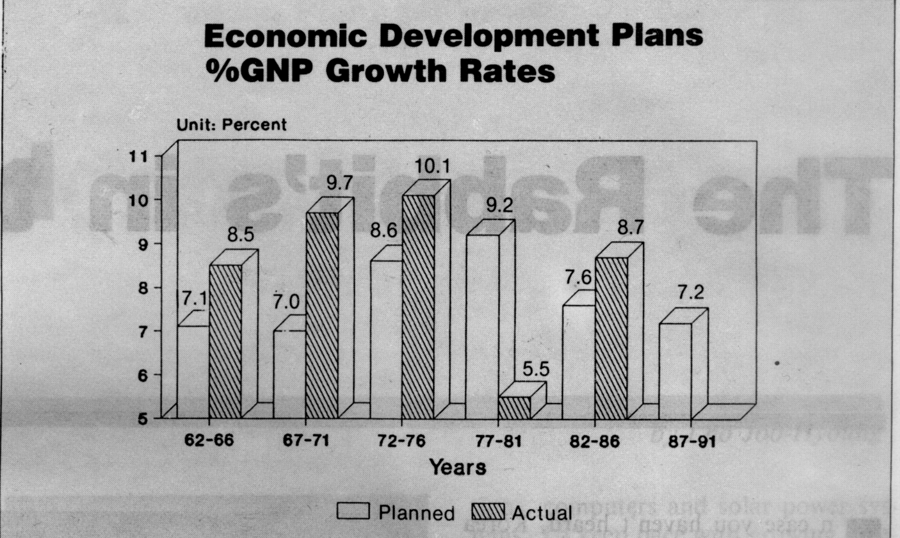
An area of concern for Korea's trading partners, primarily the U.S., has been the growing current-account surpluses and the burgeoning trade balance. Korea's response to this has been first to liberalize import restrictions and second to foster domestic demand and consumption. To achieve this, the government is slowly building a consensus to shift the country's emphasis from export-led industries to a more balanced system that will enable the country to meet the growing needs of its own consumers. This shift could have the added benefit of protecting Korean industry in the event of an international trade war sometime in the future.

While western businessmen decry barriers to the Korean market, Koreans feel that they have done much to dismantle them. According to government figures, a total of 1,161 items have been moved from import-prohibited to automatic-approval status. The government also claims that restrictions on manufactured goods are almost non-existent. Korea points out that while most countries raise tariffs on items when they are first allowed in, Korea lowered its own tariffs at the same time that it liberalized its import restrictions. In 1983 tariff rates averaged 23.7 percent and by 1988 they had fallen to little more than 18 percent.

The Korean government's approach to market liberalization must tread a delicate and difficult road. On the one hand you have an export-or-die mentality that is so ingrained in the minds of the population that the appearance of the government caving in to foreign concerns could lead to a tremendous backlash by special-interest groups against both the Korean government and foreign groups applying the pressure.

On the other hand, if the government does not increase its efforts in regard to market openings, then its trading partners could begin to tighten restrictions. It is between these two forces that it is attempting to navigate.

To successfully maneuver both the Korean population and foreign concerns to a mutually agreeable position, the government is seeking to implement pre-




announced long-term plans, such as the plan to gradually open the capital markets to foreigners by 1992. The government thinks that by cushioning the impact of market liberalization, domestic companies will have time to react to the changing market conditions. It also believes that by setting gradual market-opening goals it can show its trading partners that Korea is indeed committed and moving towards increased market access for foreign producers.

Foreign businessman cannot rely on their governments to force markets open for them but instead must be willing to deal with the problems of market opening themselves.

It was recently reported in the Asian Wall Street Journal that many Korean firms have been actively pursuing U.S. products as alternatives to purchasing from Japan. The reason for this is two-fold: first it decreases Korea's trade deficit with Japan, and second it lessens the surpluses Korea has built up with the U.S. In line with this goal, the Korean government has outlined more than three hundred products that it wants to see purchased from countries other than Japan. However, in pursuing this goal the Koreans have become increasingly disenchanted with the policy of "buying American." This dissatisfaction with American goods does not stem from poor quality or a lack of technological sophistication but rather from inadequate service. The problem tends to arise out of cultural differences. In an example recently cited in the Asian Wall Street Journal, an American company sent over an engineer to install a piece of machinery. Rather than adapt to his hosts' schedule, the man insisted on quitting at five p.m. and getting Saturdays off. This clashes dramatically with the service the Koreans have come to expect from the Japanese, since their work habits are similar to what they are used to.

Americans have also had problems following up on advances that they have achieved. In both the insurance and cigarette industries the Americans were instrumental in opening the market to foreign brands and companies, but because they got bogged down in fierce fighting to open a beachhead they failed to forge ahead with a landing. Hence the Americans were not able to increase their market shares substantially.

In coming years the export-driven Korean economy will begin to slow down. This will be accompanied by a rise in consumer demand as the average wage paid to Korean workers continues to increase. In 1988 alone the average wage increased by 18 percent. This enhanced spending power will likely be used for previously hard-to-get foreign items since, as the Korean won gets stronger, foreign goods will become progressively cheaper.

Korea's rapid growth and its slowly expanding trade liberalization policies will result in its becoming an increasingly attractive market for both U.S. and other foreign businesses. What is needed to take advantage of this shift in Korean economic views will be a positive, forward-looking marketing strategy. This strategy will need to be both thoroughly thought out and loaded with tact so as not to incite and mobilize Korean special interest groups against both the Korean government for what could be viewed as giving in to foreign pressure, and against the foreign company wishing to do business in Korea. W

# A Question of Quality

by David Riddle

DACOM has offered a public data network since 1984.

When talking to executives involved in the telecommunications industry in Korea, one seems to hear the same refrain over and over again—the country has made remarkable progress in the past twenty-five years but has got to come to grips with the fact that it is facing growing competition from other nations. If Korea is to continue to achieve growth that even comes close to rivaling that of the past, it must shift its telecommunications systems out of the current development mode that stresses only dial tone for the general public.

In the next phase of its telecommunications evolution Korea needs to emphasize more value-added services that are a must for any country that hopes to compete in the global marketplace of the future.

Daniel T. Hellman, vice president and joint representative director at Hyosung-NAS (a joint venture between the Hyosung Group and National Semiconductor), said that one of the areas of concern that has to be addressed by the government is computer networking between unaffiliated companies. According to Hellman, the government has only recently allowed networking among affiliated companies and between purchasers and suppliers.

Jorge Cadena, assistant vice president and operations manager at First Interstate Bank of California, said that his bank has some problems with the telecommunications network in Seoul when attempting to communicate with their home office in Los Angeles. The main problem, according to Cadena, has been network size. Cadena stated that since most businesses tend to transmit and receive information in the early morning and late afternoon they compete for space on the network. When this happens, customers get continual busy signals from the network since there are not enough lines to go around.

Cadena mentioned that another problem is in the quality of the network itself. His bank often hits snags when transmitting data from Korea to its home office, ranging from garbled communications to having transmissions cut off prematurely. When this happens, the bank has to assume the cost of retransmission.

Dacom responded that they had consulted with Cadena and that the bank is partly to blame. According to Dacom, the bank's transmission programs did not contain a routine controlling the rate of information flow. Dacom said that when the system begins to overload it sends out signals to users informing them of a possible blockage. If the transmitting computer has a flow control routine in its transmission program, it can respond to Dacom's signal and slow down the rate of information flow.

Dacom did, however, acknowledge that they need to increase the size of their network. To achieve this Dacom will upgrade their Hye Hwa office to packet switchers, such as those used in the Yongsan office. In the future, according to Dacom, they would like to consolidate operations at Yongsan. In order to achieve this step, the Korea Telecommunications Authority will need to improve transmission line quality.

Some executives have also expressed a dissatisfaction with Dacom itself. Cadena for one said that his bank has had a hard time getting Dacom out to provide service support for the network when problems arise in the system in Korea.

Another area of contention with the telecommunications system as it now stands is in the type of restrictions placed on the system by Dacom. These extend from networking controls to the type of equipment that can be connected to the system. In much the same vein as Hellman, Cadena said, "As far as I have been told, we will be allowed to network with other banks to transmit letters of credit."

Many times the problem that foreign businesses have with the Korean telecommunications system is that they are not allowed to use equipment and technology here that they utilize in most of their operations in other countries, including most of those in Asia.

One example of this was provided by Cadena. He noted that his bank uses a 'Recall Milgo" brand modem, allowing it to transmit asset files from an IBM System 36 in Korea to the home office in California. These asset files are considerably different from ASCII files transmitted by a normal modem hooked up to a personal computer. Dacom told First Interstate where they could buy this kind of modem in Korea. But after they bought it, the bank could not get it to work once it was hooked up. This made it necessary to test the modem to find out what the problem was. Unfortunately, Dacom could not accomplish this so the modem was sent to Hong Kong. After testing showed that the device was working and it was brought back to Korea, Dacom would not allow the modem to be connected to their system since it was not an approved type.

*Many times the problem that foreign businesses have with the Korean telecommunications system is that they are not allowed to use equipment and technology here that they utilize in most of their operations in other countries, including most of those in Asia.*

Stephen F. Estes, vice president of the Korea branch office communications sector for Motorola International, said, "The government needs to foster competition" in the telecommunications field. Maybe through competition the technical type of service and support needed in today's increasingly complex business environment will eventually become available.

The United States government has been applying pressure on Korea along much these same lines. The U.S. has been asking the Ministry of Communications of clarify which of the telecommunications sectors are monopolies and which are competitive enterprises. Once the competitive industries are identified, the U.S. will ask the Korean government to open them for competition with foreign firms.

Probably the sector the U.S. would most like to see opened is value-added services. This was pioneered by the U.S. and, as pointed out above, is an area of great growth potential in Korea. While the sector is vitally important to Korea as far as continued growth is concerned, the government has been reluctant to allow liberalization of the market, even among domestic firms.

Outside of the value-added telecommunications sector, the industry in Korea still confronts many other challenges. One of the biggest is quality control. An industry insider who wishes both his and his company's identity to remain unknown has said that telecommunications equipment that they buy here in Korea has to be repaired once it reaches his home country due to quality-control problems that become evident after delivery.

Another industry source informed Korea BusinessWorld that a telecommunications company he does business with has failure rates as high as 30 percent in products coming off their assembly line. Instead of testing the failed equipment to find out where the design is at fault, the company opens the product up, then removes and replaces components until they pass testing procedures.

Some aspects of the telecommunications sector that Korea still needs to address and make available to the public involve technologies that already exist in laboratories here. These include services such as video conferencing and telemarketing.

The Korean approach to telecommunications in the future cannot be one of resting on past laurels, but rather needs to be one of continually striving to reach higher planes of achievement. If the industry and the government work together to achieve the goals of better quality and increased service and support, then the telecommunications sector in Korea will be able to achieve a truly world-class stature that will not have to worry about charges of closed markets. W