

# KOREA AT THE CROSSROADS

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## Introduction

In each nation's march toward industrialization, crucial decision points appear periodically along the way. Korea has reached one such point. Wooed by neighboring Japan and, at the same time, courted by admirers in the United States, important decisions must be made which will shape the course of Korean development for the remainder of this century.

Both Japan and America no doubt will remain important partners with Korea in the years ahead. Neither, however, should be allowed to dominate totally the future growth and prosperity of Asia's most successful newly-industrialized country. A balance must be maintained, with Japan and the United States each playing a unique role reflecting past relationships and present status. It is very important that the Korean government and Korean people recognize and take the steps necessary to preserve this balance.

## Is Japan Really Number One?

Japan has mounted a powerful offensive to build its image and improve its position in Korea. Every effort is being made to reinforce the belief that Japan truly is Korea's strongest and most valuable ally. Recent translation and promotion of Ezra Vogel's book, *Japan As Number One*, is a notable example of this campaign. But at home the Japanese are becoming a bit weary and uneasy with this presumed honor.

Reflecting this uneasiness, Naohiro Amaya, a former vice minister in Japan's powerful Ministry of International Trade and Industry, admits that "The Japan I know is Number Two." Amaya argues that a country must satisfy several conditions in order to qualify

for world leadership. First, it must have power--particularly military and economic power--overshadowing that of any other nation in the world. Japan, however, has specifically rejected all aspirations to becoming a first-rate military power. While Japan allocates only about 1 percent of her GNP to defense, the United States devotes more than 7.5 percent of GNP to military expenditures.

Second, Mr. Amaya points out that a country to be Number One must have a viable, exportable economic system. Surely Japan's economic system and management practices have served her very well for the past several decades. On the other hand, one should remember that the United States leads the world in gross national product, gold reserves, and both imports and exports. America also leads in a vast range of industrial exports including nuclear reactors, airplanes, radar apparatus, telecommunications equipment, digital computers and central processors to mention just a few.

Furthermore, other countries that have tried to adopt Japanese practices have found the task exceedingly difficult. Japanese management is indeed a system, with highly interdependent parts. To transplant a desired policy or practice seems to require acceptance of the whole system. And few developed or developing nations are ready to go that far. Western economic and managerial systems, on the other hand, seem to be more readily adaptable to a broad range of environments and have been widely adopted throughout the industrialized world.

Finally, a third prerequisite for world leadership is what Amaya calls "a dis-

tinct, viable, and transferable culture." Most experts would agree that Japan's potential for transmitting its culture is severely limited. Japanese traditions, values, and aesthetics are all anchored in the country's rich past and are peculiarly inaccessible to people of other cultures. Western cultures, including America's, are more open, direct, and understandable. As a result, elements of Western culture have found their way into many Asian societies--including Japan.

With some reservations, Amaya concludes that "Only the United States fills the bill." Then he adds, "In the long run, the best Japan can aspire to is 'Assistant to Number One.'" Such an evaluation in no way detracts from the remarkable progress and achievements of Japan during the past several decades. While Japan may not offer a viable model which is easily transferred to other nations, she does nonetheless provide a source of inspiration and hope for many developing countries.

### **Is Korea A Second Japan?**

There is some temptation among politicians to consider Korea a "second Japan," and to attack both with the same protectionist fire. This is a serious mistake and, fortunately, leading strategists do recognize the significant differences between Korea and Japan. As James C. Abegglen, President of Asia Advisory Service, Inc., has wisely suggested, "Korea is not a second Japan. It is the first, unique Korea."

What are some of these differences? First, Korea is very much smaller than Japan. With a population three times greater than Korea, and an economy 20 times larger than Korea, Japan is an economic super power. Korea, in contrast, is still among the NICs of the world, though admittedly leading the pack.

Second, Korea has entered the tough world of industrialization and interna-

tional trade much more recently than Japan. While Japan's industrialization began in the late 19th century, Korea's rapid growth has been achieved largely during the past 25 years. Fortunately, most Americans realize that policies formulated for dealing with a Japanese trade surplus of \$15 billion are not likely to be effective in dealing with the recent, modest surplus with Korea. We Americans want to find ways to combine forces with Korea to manufacture products and provide services both for the world market and for the fast-growing Korean domestic market, and not create artificial barriers to such healthy growth.

A final, and extremely important, reason for thinking of Korea in quite different terms than Japan is Korea's much greater vulnerability to outside pressures. For example, Korea's rapid growth has been far more "export driven" than Japan's. At the present time, less than a third of Japan's GNP is made up of foreign trade. But almost 85 percent of Korea's GNP is dependent upon trade. While Japan is busy restructuring her economy to boost domestic demand and further lessen dependence on trade, Korea is still primarily an export based economy. Ill-advised protectionist legislation in the United States would be a far more serious concern for Koreans than for their Japanese neighbors.

Robert Baskerville, in a recent issue of *The Asian Wall Street Journal Weekly*, points out that "Korea is new on the international scene and has achieved some measure of economic success." But he warns that "Korea isn't a new Japan, and policies for dealing with the Japanese are frequently not appropriate for dealing with the Koreans."

### **Korea and America: Forging a Vital Partnership**

The most important message that I want to stress is my conviction that the Korean-American partnership is a

vital and precious one that must be nurtured and preserved for the good of both countries. What is done in Seoul or Ulsan affects every American, and what is done in Washington is felt by every Korean. This partnership may be discussed at three levels: national; corporate; and individual. Let us look at each.

*The National Partnership.* First, there is little doubt that the American government is properly impressed by the outstanding record of success achieved by Korea during the past several decades. A spokesman for the American Embassy in Seoul recently summed up his country's recognition and respect in his statement that "Korea has become a major player on the international scene."

The evidence surely is impressive! There is no question that Korea is the leading "fast tracker" among newly industrializing countries. Knowledgeable officials in Washington are well aware that in little more than twenty years, per capita GNP soared from a mere \$87 to \$2,271 in 1986. They also know that during the same period, exports grew from \$55 million to a healthy \$35 billion. And they realize that last year Korea posted its first trade surplus--an important turning point in its economic development. America expects big things from Korea in the years ahead--and is not likely to be disappointed.

In contrast, Japanese government officials tend to be a bit skeptical about Korea's chances for future economic leadership. For example, the managing director and chief economist for the Long-Term Credit Bank of Japan, pointed out recently that "the winds of fortune are blowing kindly on South Korea." But then he goes on to say that Korean companies have only about three decades of industrial experience, and that Korean organizations "have been quickly slapped together." He concludes that because of their lack

of training, Korean employees "with no experience in supervising small sections cannot be counted upon to run entire plants efficiently."

It is clear from this and other similar observations that the Japanese will not admit to a bright future for Korea. Yet the evidence all tends to support a high degree of optimism for the years ahead. External debt has shown a decline for the first time in recent history. Gross national product grew a robust 12.2 percent in 1986, and revision of the Foreign Capital Inducement Law has encouraged investors from all over the world to want a share of the action. Also encouraging is the fact that Korean companies have been shifting from labor-intensive industries to machinery, electronics, and the booming tourist industry.

The United States and Japan must both continue to be important trading partners with Korea. After all, the two countries together account for the bulk of Korean foreign trade. However, the executive director of the Korean Traders Association has expressed concern about the country's excessive imports of Japanese raw materials and parts. The problem is particularly serious because Japan continues to raise prices to offset the damage caused by appreciation of the yen. For example, prices have been hiked on parts by as much as 80 percent of the yen's revaluation rate and on materials by about 40 percent. He concludes that "To correct such a trade imbalance, our nation must shift the import of materials and parts from Japan to the United States from now on."

*The Corporate Partnership.* Shifting to the company level, signs of a thriving Korean-American partnership are everywhere. Korean products are appearing throughout the United States, and names such as Hyundai, Lucky-Goldstar, Samsung, and Jindo are becoming familiar household words to American consumers. In turn, IBM,

General Motors, Westinghouse, and Coca Cola are by no means newcomers on the Korean scene. The level and intensity of cooperation among American and Korean companies is growing almost daily.

In the highly competitive car market, Hyundai's Excel has gotten a standing ovation in the United States. Named to *Fortune* magazine's list of the top ten products in 1986, the Excel is leaving dealers' showrooms at the rate of 20,000 per month. Hyundai confidently expects to sell over 200,000 Excels to U.S. buyers in the coming year.

While automobiles may be the most visible product to consumers, many others from Korea are getting a good bit of attention in American markets. For example, ten years ago few American women knew of Jindo furs. Today, Jindo has become a major player in the U.S. market including--of all places--Hawaii.

In the telecommunications field, there are a half dozen Korean companies gaining recognition and market share in the United States. Samsung Semiconductor and Telecommunications Company, Ltd. (SST) is one such contender in the growing competition. As a recent article in the *Korean Business World* points out, "Like a caterpillar who turns into a colorful butterfly, Samsung has successfully weathered the storm of tough competition and now sees only clear, blue skies ahead."

Samsung is becoming well known in the United States for a wide variety of products in the telecom field. These include electronic switching systems, fiber optic cables, PBX systems, telephones, facsimile systems, car phones and modems. The company has cooperative arrangements with a variety of such U.S. companies as IBM, ROLM, and ITT. Sung Jae-Sam, senior manager of Samsung's public relations team admits that Korea may not yet be the

world's leader in telecommunications. But he reflects the general optimism most executives share by adding, "Our nation has the competence to catch up quickly."

Many Korean-American corporate partnerships are in the form of joint ventures. For example, Daewoo Motor Company is a 50-50 joint venture with General Motors Corporation. Daewoo made its first shipment early this year of 250 subcompact cars to the United States as a step in launching a full-scale marketing effort. The company expects to ship about 100,000 Lemans to the American market this year.

Ford Motor Company has a joint venture with Mando Machinery Corporation to produce aluminum radiators for automobiles. The firm will be known as Halla Climate Control Corporation and will go into operation next year. America's Union Carbide Corporation plans to invest \$1.3 million in the metal processing field. And last year the Korean government cleared the way for McDonald's Corporation to invest \$1 million in a joint venture with an equity ratio of 63 percent for the America fast-food chain. Many more examples could be given of the tremendous optimism and enthusiasm of American investors and managers regarding the future of Korea.

Turning to Korean business activity in the United States, thus far this has been largely in the sales area, with branches and subsidiaries serving as sales outlets for major Korean manufacturers. But there is little doubt that in the next few years we shall see an increasing number of Korean manufacturing plants in the United States. If such plants create employment and encourage American producers to become more cost effective, then I am convinced they will be given a warm and friendly welcome.

With a population twice that of Japan and a GNP per capita one-third again

as large, the U.S. market is a tempting target for Korean companies. Korean executives, and especially those who direct the web of corporate entities built around the major chaebol, are well aware of this fact. Furthermore, they appreciate that American policy still is founded upon the principle of liberalized, if not completely free, trade.

In turn, most American corporate leaders are well aware of the fact that Korea is rapidly becoming a full-fledged technological society. Few other countries in the world have been able to launch a major auto industry from scratch in just a few years. And it is increasingly difficult these days to think of a high-tech product made in the United States or Japan that is not made as well--and in some cases better--in Korea. Leading Korean companies already have surprised outsiders by successfully entering the 256K memory chip market, a field that some observers felt would be cornered by Japan. There is a better-than-even chance, according to experts in the field, that Korea will be the world's leading supplier of peripheral computer equipment by the early 1990s.

*The Person-to-Person Partnership.* Above the rhetoric of governments and the policy statements of corporations lies the most important partnership of all--the relationship based upon face-to-face communication between individuals. National guidelines and corporate policies are, after all, only as effective as the individuals who implement them. Meaningful communication, in the sense of sharing understanding, is perhaps the most critical need in international relations.

The flow of such communication and understanding between Koreans and Americans has increased dramatically during the past several decades. From being wartime allies, people from both countries and in all walks of life have come to know and to admire each

other. Organizations such as the Korean-American Business Institute have brought businessmen, students, writers and many others into close and meaningful relationships. These new friends anticipate many more opportunities to work together, to relax together, and to share experiences in the months and years ahead.

To reap the best advantage from such increased cross-cultural communication, people from each country must make a conscious effort to understand the others' values and behavior. As Dr. Paul Dredge, senior associate with Korea Strategy Associates has pointed out, "Understanding both the host and expatriate cultures can make doing business much more effective, efficient, profitable and enjoyable."

In spite of almost a half century of forced, close association with the Japanese, many Koreans state that they fell more at ease in their dealings with Americans. There is a degree of openness and frankness when dealing with Americans which at times is missing in negotiations with Japanese counterparts. This tends to reassure both Koreans and Americans who tend to be uncomfortable with ambiguity and like to know where they stand.

Furthermore, a degree of individualism rather than slavish groupism is a characteristic of both Korean and American people. Americans cherish their individual freedom and mobility. Both workers and managers put a high value on their right to take advantage of opportunities when they arise and not to be bound to a single organization for their entire career.

A Korean financial executive feels that this same desire for individual mobility is widespread among employees in Korea. He believes that Koreans are even more family-oriented than the Japanese. One result, he feels, is that Koreans are less likely to transfer their loyalty from their family to their com-

pany. Therefore, he concludes that Korean workers are more willing to change to a new company where pay and other conditions are better.

American expatriates in Korea report that they find Korean managers "up front" in their dealings and straightforward in their language. Not hampered by an excessive and superficial politeness characterizing some Asian cultures, Koreans typically "say what they mean and mean what they say." To Americans, this is an admirable and welcome quality.

U.S. executives increasingly are doing their homework before entering the Korean market. They know that having a basic understanding of the national culture of Korean associates will help them to be more effective in negotiations. For example, the Korean determination to preserve good feelings and a positive mood in negotiations (kibun) is accepted and understood by sensitive American managers. Also, the Korean desire to protect the dignity of both parties--to save face--is now accepted by Americans as part of the basic ground rules for doing business.

Similarly, Korean business leaders are eager to keep up with recent trends in American values and behavior. To meet this need, The Korean Economic Daily recently published a small book entitled *Yankee-Doodle Business: An Inside Look at U.S. Management*. In this pocket-sized volume, General Chang Woo Joo, President of the Korean-American Business Institute, and I have tried to describe the values and beliefs that motivate present-day American managers. With more information of this sort flowing in both directions, we can assume that the already-strong foundation of shared understanding will continue to build in the years ahead.

It is a well-known fact that many important changes have taken place in American management during recent years. While the world continues to be

fascinated by Japan's unique and highly successful way of doing business, American technology and creative leadership have regained a good bit of their former glamour. The new American executive is more open-minded, more willing to learn, and perhaps a bit more humble than he was before the Japanese economic invasion. Furthermore, the internationalization of American corporations is moving ahead at an awesome pace.

### Looking Ahead

There is an expression in America that a wise person "knows on which side his bread is buttered." Extending this from the individual to a nation, we might say that a wise people will know who are their true friends--where are their loyal supporters--and which are the countries that can contribute most to their own nation's future growth and prosperity.

A much-quoted prediction by a leading Japanese business executive is that in the 21st century, "Japan will use Australia as her mine, America as a grain storehouse, and Europe as a boutique." One wonders what role this same person would assign to Korea. No country should be "used" by another nation. The real need seems to be for all industrial nations to work together with their neighbors in the shrinking global community as true partners--each recognizing the others' strengths and weaknesses--in a way that will improve the quality of life for all people.

Korea will need Japan--and Japan will need Korea--in the years ahead. It is equally true that Korea will want to work closely with the United States--and the United States clearly looks forward to a maturing relationship with Korea--as we face the future. The difficult, but attainable, goal for Korea is to maintain balance in its dealings with its two most important trading

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