

Korea's Globalization: Can Korea Become a Business Hub in Northeast Asia?

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Abstract

Since the announcement (April 2002) of the Korean government's new vision of transforming the nation into a Northeast Asian business hub, Korea's industrial development paradigm is undergoing a new shift in the economic and business spheres, particularly towards a new market-oriented paradigm of economic growth and corporate governance in place of the old model of the developmental state, which ran its course until two decades ago. Despite the growing concern on the new vision among government agencies, media, research centres and academia, the absence of a cohesive and realistic approach to the issue is a relative void in the literature. This paper, which is based on findings from a recently completed study carried out during May 2002, in which 37 face-to-face interviews were conducted with senior executives of foreign companies and various chambers of commerce in Korea, offers qualitative insights into the critical and often invisible issues to be considered for a successful transformation of Korea into a business hub in Northeast Asia. This paper also examines interpretations of the hub concept, barriers to becoming a hub, and competition from other locations.

Background

Korea had entered a new and critical phase in its industrial and technological development based on the liberalisation of the economy and an unprecedented inflow of foreign direct investment (FDI). Managing and exploiting the influx of FDI requires a new approach to incoming foreign investment and some adaptation to foreign multinational business practices within Korea. The highly successful export-driven policies and practices of the past may no longer be a guide to future economic success, at least as far as welcoming, integrating and upgrading foreign business activities within Korea.

Thomas Nieszner, the new Asia-Pacific Chief Executive Officer (CEO) of Danzas AEI Intercontinental, a Swiss-based freight forwarder, emphasized the importance of the Korean market in Danzas' business during his visit to Korea in February 2002. His main contention was that "Asia-Pacific and in particular

the Korean market is extremely important for the company. We have talented people who have been successful in the region and I want to build on this momentum, and "I'm convinced that the regional offices will grow further in the future and I am sure of their continued success" (Korea Herald, Feb 21, 2002). A month later (March 2002), the American Chamber of Commerce in Korea (AMCHAM) told the Korean press and the government that Korea could become Asia's regional business center for 20-50 multinational headquarters in the next three years because "geographically Korea is in an ideal location, and has excellent potentials for becoming Northeast Asia's regional hub for multinational firms if it (Korea) makes some changes in its laws," (Korea Herald, March 14, 2002).

Then in early April 2002, the Korean government unveiled its grand ambition to turn the nation into an international business hub of the Northeast Asian region. This master plan includes establishment of the so-called 'special economic zone' that consists of 132 sq. kilometers (40 million pyeong) of land encompassing Youngjong Island, Songdo New Town of Incheon and Gimpo to promote international business. This new vision of transforming the nation into a Northeast Asian business (eg. finance, logistics, information technology) center is now an official policy of the Korean government. However, despite the growing concern on the new vision among government agencies, media, research centers and academia, the absence of a cohesive and realistic approach to the issue is a relative void in the literature. The purpose of this paper is to present the results of research into the views and experiences of CEOs and other senior foreign executives in two specific areas: (a) the competitiveness of the Korean business environment; and (b) the potential for Korea to become an Asian business centre or 'hub'.

The research began by examining recent data on the overall position of foreign business within Korea and, in particular, the recent American Chamber of Commerce survey (AMCHAM, 2002). Then, in order to look 'beneath the surface' of the macro and sector level data, the views of actual MNC directors and CEOs were gathered during a series of in-depth interviews with a structured sample of 37 executives from 37 major MNCs and a number of foreign chambers of commerce during May 2002.ⁱ Interviewees were required to reflect on their experiences in the Korean market compared to their experience in other international markets. They were invited to reveal their perceptions and experiences on the following:

- Despite the popular assumption that Korea is one of the most difficult countries to do business, Korea is cited by most of CEOs from major MNCs in Korea as having great potential and a wealth of opportunity;
- Management issues that should concern those that are steering international businesses with aspirations to reflect Korea in their portfolios;
- The nature of the Korean opportunity including some insights into political, competitive and obstructive factors;
- Any difference of the Korean market between the pre and post-currency crisis and government attitudes and Korean companies' attitude;

- Korea in comparison with other Asian business hubs such as Singapore, Hong Kong, or Japan;
- Fundamental factors that influence Korea's emergence as a regional business hub such as macro economy, taxation, communication, immigration, labor, quality of life, global perspective among the government, Korean business people, and mid-level Korean bureaucrats; and
- Attractiveness of the Korean market

In particular, the paper focuses on different interpretations of the meaning of the term 'hub' and Korea's current attractiveness and future potential for becoming one kind of hub or another. Key types of hub include FDI hub, regional headquarter hub, financial center, high technology manufacturing hub, and commercial, trading and logistics activities. In each of these areas, firms were asked to give their views on whether Korea could become a hub, how long it might take, and obstacles faced in realising its hub ambitions.

Ambiguity of 'Hub' definition

It seems obvious that Korea needs to establish a regional business center as its survival strategy in this rapidly changing and competitive age of globalization especially given the geographical and technological advantages that Korea possesses. However, on the question of 'hub' there seems to be a variety of opinions. The interviews revealed differing views over the potential for Korea to become a business hub of any kind. Most highlighted the lack of definition of what a business hub actually means to Korea in practice. As a result, they found it difficult to comment on whether the hub goal could be achieved and in what time scale. However, many provided useful comment on individual elements of 'becoming a hub', based on the experience of other successful hubs (e.g. Singapore and Hong Kong).

Overall, most MNC representatives were skeptical of Korea becoming a business hub in any meaningful sense of the term, at least in the short run. Some felt that, given the problems, a time horizon of ten years or so would be realistic for the beginnings of a regional business hub. Most felt that further major reforms and changes in business practices were needed before their companies would consider choosing Korea as a regional hub. In the shorter term, only those firms with large manufacturing facilities would be likely to locate any regional HQ functions in Korea.ⁱⁱ

Some experts refer to a logistical hub given Korea's geographical advantage (its close proximity to China and Japan) and its possession of a newly established airport and potential mega-hub ports (Lamers, 2002; Kim, 2002), while others (Seitz, 2002; Raubach, 2002; Rooney, 2002) focus on Korea as a regional financial center given that the nation is blessed with good infrastructure such as modern telecommunication facilities and high-speed internet network. Despite a sound and coherent strategic direction yet to emerge, Korea's new vision has seemingly been designed in an effort to create an image of Korea as a home for regional headquarters (RHQs) as a consequence of Korea's becoming logistical and financial center in the Northeast Asian region.

However, the idea of a 'hub' means very different things to different MNC directors. Few interviewees were clear about which precise objectives Korean policy makers had in mind when they spoke of a business hub or about the strategy required to meet these objectives. Some associated the idea with the opening of the new international airport, Incheon, in September 2001 and with the port at Pusan, suggesting a transportation/logistics focus for the hub. Others believed the hub was more about Korea becoming a financial hub for the region (a major conference on Korea as a financial hub was held in Seoul during May 2002).

The different definitions of the term 'hub' obviously has a strong bearing on Korea's current attractiveness and future potential for becoming a hub, and major implications for the strategy Korea should adopt. The various interpretations of hub identified during the interviews included:

- A hub for foreign direct investment;
- A hub for regional headquarters;
- A financial hub;
- A commercial, trading, transshipment and or logistics hub;
- A high technology manufacturing hub;
- A technical support/R&D hub for foreign MNCs;
- A combination of all or some of the above.

Each of these hub interpretations implies a different strategic focus on the foreign use of an offshore location for regional or headquarter activities, covering finance, technical support, transshipments and manufacturing. For Korea to become a hub in some or all of the above dimensions, a far greater number of foreign businesses would need to select Korea over other competing locations for new hubs, or relocate from existing hub locations. Also, many firms would need to further deepen their technological, manufacturing and financial activities within Korea and integrate their activities more fully within the industrial, technological and financial infrastructure of the economy.

There was also some confusion of the 'region' involved. Was Korea to become an Asia wide business hub, a Northeast Asia business hub, or an Asian-Pacific business hub? Most felt that the Northeast Asian region was most relevant, with Japan, China and Korea all in the 'heavyweight' league for hub positioning in the future. Southeast Asia tended to be regarded as highly competitive for hub location, but very small in terms of market size and future potential and somewhat disconnected from the Chinese market.

How hubs develop

Hubs rarely occur overnight. MNC regional headquarter hubs, for example, tend to develop after many years of conducting successful 'hassle free' business in a particular location, gradually upgrading from an office to a distribution center, to an assembly location. to a fully integrated manufacturing operation with engineering and

R&D activities (as has occurred frequently in Singapore). Only after a great deal of trust has been established, alongside a strong business case, will MNCs decide to establish a new hub or transfer hub activities to a new location.

Many of the MNCs interviewed already had well-established regional hubs in other countries, having made investments over long periods of time. These firms would be reluctant to face the disruption and costs of changing their hub to a new location without an exceptionally strong business case. In addition, many MNCs are still in the early stage of doing business in Korea and could not yet justify the business case necessary.

Furthermore, at least two CEOs with long experience in Korea, thought that the business hub idea should be seen as a concept to bring about change, rather than a practical suggestion or short-term policy objective: “The Korean hub represents a desire to achieve something. But before traveling this route we need to know exactly what is meant by the term hub.” The other commented: “The hub is a dream, but in Korea dreams can be made to happen. The Government is using the idea to say people have to change.”

Brand Image of Korea

Although general skepticism on the Korea’s hub vision prevails among foreign community in Korea, interviewees were overwhelmingly positive about the prospects for their businesses in Korea. The sheer scale of the market opportunity coupled with the ongoing and progressive process of de-regulation combine to create a major upside. Over 70 percent of the interviewees had clearly developed visions for their businesses in Korea. Over 80 percent of those held positive views about the Korean market and were bullish about the position they aimed to develop. The vast majority is seeking aspirational positions. Despite these positive aspects of the market image, there are many fundamental challenges for Korea to overcome in transforming the nation into a home for RHQs.

In March 2002, the American Chamber of Commerce in Korea (AMCHAM) conducted a market environment survey with CEOs (approximately 1,700 individuals) of Fortune 500 in the Asia-Pacific region on eight categories including Korea’s macroeconomic and global business environment and perception of the Korean market in comparison with Hong Kong, Singapore, Shanghai, and Tokyo (AMCHAM, 2002). The survey echoes this study that while the CEOs believe the market potential is perceived to be bright, Korea’s brand image and global business environment are far less competitive than other major cities of Asia.

A fundamental and obvious implication of this irony is that Korea is a tough market to invest in but the market and its potential overwhelm the obstacles and other issues that hinder their operation in Korea. More than 80 percent of interviewees emphasized the fast growing importance of the Korean market in the global economy.

Korea's Potential as a Business Center: opportunities and advantages

Some interviewed firms elaborated the benefits of becoming a hub, arguing that Korea boasted comparative advantages over other countries. The disadvantages of other countries included the following:

- Japan - stagnation over the past ten years – continuing economic uncertainty;
- Taiwan - continuing difficulties in political relations with China;
- Indonesia - not yet fully recovered from the crisis – also a small market;
- Thailand - recovering from the crisis, but a relatively small market;
- Malaysia - political uncertainty in the medium term;
- Singapore - too far away from the major growth markets of N.E. Asia;
- China - poor infrastructure; no single government authority for MNCs to deal with.

In some respects Korea performed well against these other locations. A vice president of an American discount retailer said: “Overall this is a very dynamic economy which is one of the most attractive in Asia – especially now that I have an increased knowledge of the Korean market. The size of the Korean market in terms of gross domestic product (GDP) is seven times the Association of Southeast Asian Nations (ASEAN) economies combined. Also the infrastructure for high technology manufacturing is very good in Korea – both for the Korea market and potentially for other Asian markets.”

One director of a major consultancy company argued that Korea could be the natural center of the Northeast Asian regional market, with 19% of Northeast Asian GDP, forecast to rise to 26% by 2020: “Yes Korea can become a regional hub – it can also be a ‘test market’ for the region and a global innovation centre. However, a new ‘brand image’ is needed to present Korea in a more positive light. Korea is a beautiful country with many exciting extremes. Korea could be making high technology products here and exporting to China. However, business attitudes, although improving, are still bad. Local businesses do not want competition and the bureaucrats in Government want to control foreign enterprise. It is hard to work with them.”

On the surface, there is no doubt among interviewees that Korea has an enormous potential to be a business hub in the Northeast Asian region since the nation has already achieved internal and external requirements. Internally, Korea, Michael Porter (1990) asserts, possesses a strong competitive advantage in factor conditions both in basic and advanced factors. Over the last four decades, Korea's lack of natural endowments has caused the nation to invest in the creation of advanced factors such as education, infrastructure, and advanced communications systems to make its industries globally competitive. Korea's telecommunication infrastructure (utilization of internet) is already second in Northeast Asia. Korea is also investing very aggressively in the essential infrastructure for a business center such as construction of a high-speed railway between Seoul (capital city) and Busan (second largest city in Korea), upgrading of deep-sea ports in Busan and Gwangyang and the establishment of the new international airport in Incheon. Further, China's entry to the

World Trade Organization (WTO) and the gradual shift of business activity from Southeast to Northeast Asia in accordance with the rapid but strong economic development of the region will accelerate Korea's role in the region. But Korea is still considered among CEOs in general, to be an unattractive place for doing business. Thus, Korea's new vision for becoming Northeast Asia's business hub is nothing but a desk theory. The following discusses some barriers to becoming a business hub, which is followed by an assessment of fundamental but critical prerequisites for Korea to achieve its goal.

Barriers to becoming a business hub

For hubs of any kind to develop they generally need to be supported by two types of infrastructure, hard and soft:

- a) hard infrastructure – including information technology (IT), telecommunications and transportation/logistics infrastructure (in Korea the IT infrastructure is seen as top level by foreign businesses);
- b) soft infrastructure – including widely spoken English, role of government, social infrastructure, international culture, competitive financing, a strong supply of skilled people, and educational facilities for foreigners' children.

Many barriers to Korea becoming a business hub were identified, mostly in the soft areas. However, there were also significant hard infrastructure problems. These problems mirrored the difficulties faced in doing business in Korea.

Hard infrastructure problems

- Inefficient logistics;
- Traffic congestion and associated air pollution;
- Insufficient educational facilities for children of foreign nationals;
- Lack of leisure facilities for foreign families and insufficient green space within Seoul.

Because of the lack of soft infrastructure, it is easier for MNCs to persuade their employees to locate to Singapore and Hong Kong rather than Korea. As one CEO put it: "People like what is familiar – language, life style, legal rules, regulatory factors – these are all very different here and this presents the biggest hurdle to becoming a hub."

An expert on logistics had mixed feelings: "Yes, Korea can become a logistics hub – this is a good vision and the location is good – lots of transshipment is already going on – much is already taking place. Competencies, resources and IT infrastructure are in place. On the negative side though, a high percentage of

GDP is absorbed by logistics (16% in Korea vs Japan 10-11% and much less in the United States). The logistics supply market is currently fragmented and there is little focus on logistics. Korean traffic is congested, especially in the Seoul area. Although IT is taking off there are too many small-and-medium-sized enterprises (SMEs) involved and logistics are currently fragmented (e.g. there a huge numbers of warehouses) and this would all need to be rationalized for Korea to become a hub.”

According to three or four executives, another barrier to becoming a hub, was the ‘mindset’ or interpretation of globalization in Korea: “All the top people in Korea think two way globalization – imports and exports, inbound FDI and outward bound FDI. This is their mindset. However, administrators and many others do not think like this. They believe Korea is for Koreans and the rest of the world is an export market – this ‘one way globalization’ is a barrier to future hub activities.”

Soft infrastructure problems

- Unfair government support for local companies, depending on the sector;
- Labor unions, labor laws and perceptions of union power in Korea;
- Lack of transparency (e.g. in obtaining licenses and dealing with authorities);
- High costs of labor;
- Taxation issues;
- Senior management preferences for other locations;
- Red tape, bureaucracy and regulations;
- Hierarchical organization and relationship selling;
- Market protection (unofficial, e.g. in the case of cars around 1.2 million cars are exported every year against only 1,300 imports).

Government Red Tape: Still a real barrier?

More than 90% of interviewees put a heavy weight on the importance of networking in doing business in Korea. But the importance of relationships exists in all countries although it differs to some degrees. It is a generally accepted view that in every country one finds bureaucrats are strict, conservative and uncooperative. The Korean regulatory environment, difficult even for Korean firms, poses a particular challenge to the foreign investors (OIO, 2001). And it is one of the most urgently needed areas to be corrected for Korea to become a regional business hub.

Laws and regulations are often generally framed. In particular, government’s current policy of frequent working-level post rotation (1 to 2 years) decreases the degree of expertise. The meaning of the law in practice thus depends on discretionary interpretations by working-level officials, thus increasing the opportunities for

inconsistent application, discrimination and corruption. Working-level officials, particularly in divisions like Immigration and Taxation departments, often rely on unpublished internal ministerial guidelines and unwritten administrative guidance in interpreting and administering the law. But one thing that differentiates Korea from the rest of the world is that the personal relationships are a little bit more effective in Korea. This is because relationships are much more formal in Korea. Over 60 percent of interviewees cited the exceptional nature and importance of networks that distinguish Korean business culture from other Asian countries. Those with experience of other major markets thought that the importance and intensity of networking exceeds both that of Japan, Hong Kong and other Asian countries. These networks incorporate school friends (secondary and tertiary) going back 40 to 50 years, the region from which people originate, particular universities and of course army friends.

Xenophobic attitude as a hurdle?

Korea successfully hosted the 1988 Seoul Olympic and 2002 FIFA World Cup and currently ranks as the world's 12th largest trading nation. Since the 1989 law which allowed people over age of 30 to get passports (and now even younger people are eligible), an increasing number of Korean tourists can be found travelling around the world. All these recent phenomena might lead one to presume that Koreans have a strongly international outlook. However, it is a sheer illusion as one considers the following questions. How many foreign residents does Seoul have among its population of 12 million? Have you ever considered why there is no foreign community not even a Chinatown in Seoul or to the entire Korean peninsular?

In broader terms, in Korea, even though a predominantly agricultural society transformed very rapidly into an industrial one and even shifting its industrial paradigm from quantitative to qualitative growth, a corresponding change in people's consciousness and perception among bureaucrats and businesspeople failed to materialise according to interviewees. This gap exists partly because the same changes that took place among the advanced European countries over nearly a century occurred in Korea in just one generation. In addition, although Koreans are living in a very modern society, the people's generally negative mind-set towards foreigners is still prevalent. This un-globalized mindset of Koreans creates a negative brand image of the Korean market. Koreans still tend to value human relationship based on kinship, affinity and geographic proximity more than rationality, and patriotism more than negotiation. While Korea depends on world markets for 60% of its economic activity, people behave as if they were living in a closed society. Koreans' xenophobic attitude also stems from the people's unwillingness to communicate with the so-called 'outsiders' due to their weak English-language skill. This communication barrier arguably is one of the major attributes that make Korea as an unattractive place to set up a RHQ. Almost every interviewee responded negatively to the question of communication barrier. Other major cities like Shanghai and Tokyo are also probably weak in English but when one considers these markets they offer better conditions such as

the size of market, potential, and living conditions. There are of course many ways to enhance the English–language abilities of Koreans such as education and English-language infrastructure (e.g., international schools, foreign media, more foreign teachers at primary to tertiary institutions). But most importantly, consensus among every part of Korean society should be drawn that English-language proficiency is an essential international business tool and a must-learn intangible skill in this globalization era. Prompt but detailed measures and strategies (regular workshops, professional training (onshore and offshore), etc), in enhancing the people’s global perspective and strategic mind that will play as a key success factor in creating global corporate culture and a better business environment, should be prioritized in places like government, government agencies, tertiary institutions, and small-and-medium sized firms as well as *chaebol*. This would certainly enhance the brand image of Korea and its market among potential and existing.

Social infrastructure: a major barrier?

If one takes a close look at AMCHAM’s recommendation on five areas in regards to prerequisites for Korea to become a Northeast Asian business hub, he/she can easily see the recommendations to the Korean government were intentionally made in order of priority. These are 1) tax rates 2) foreign exchange controls 3) labor flexibility 4) English language and 5) country image (<http://www.amchamkorea.org/main/main.htm>). This is because the Chamber’s primary function is to “protect the interests of member companies (2,200 individuals and 1000 member companies) operating in Korea”. The first priority, which regards corporate and income tax rate imposed on foreign companies in Korea, was also one of the hot issues during the our fieldtrip (May, 2002) to interview a number of foreign companies in Korea. Surprisingly enough, a majority of the interviewees responded not unfavorably, meaning that while they are not satisfied with the current tax rates, these are not major business deterrents in Korea. Instead they (interviewees) cited that Korea should put more efforts on offering an image that Korean business and society is fair and transparent. They had many experiences of being discriminated and treated unfairly. Korean tax rates in comparison with other major Asian countries are not higher in real terms (AMCHAM, 2002) but the process and often-arbitrary interpretation of laws and regulations on taxation created a wrong image of Korea (OIO, 2001). More importantly, their experiences go mouth-to-mouth among expatriates in Seoul and their head offices in various regions. This is why the Korean government should establish a control tower that checks and encourages a fair and open competition among local and foreign businesses rather than reacting too sensitively to recommendations offered by foreign chambers of commerce in Korea, especially AMCHAM in Korea.

An equally important issue that emerged from the fieldtrip is the question of whether Korea is a place that foreign people want to visit and stay and come back or whether Seoul is truly an international city. Contrary to AMCHAM’s finding that expatriates living in Seoul view Korea favorably, the answer was NO to both

issues. In particular, foreign CEOs who have been living in Korea less than three years responded negatively. A crucial implication of this is that those responding unfavorably will bring a negative image of Korea to their home companies. And this has been repeated for a long period of time. This is because perception and image made by their predecessors last relatively long. Given that normal tenure for a foreign assignment among MNCs is 3 to 4 years, which is the normal period for expatriates to get accustomed to a very homogeneous culture like Korea, many expatriates leave the market with their previous perception or even bias. Why has Korea been regarded among foreign expatriates as an unpleasant place to visit or live, especially when it is compared with cities like Singapore, Hong Kong, Shanghai and Tokyo?

Favorable FDI policies and laws (tax and labor) coupled with appropriate infrastructure for various hubs such as finance, logistics and other businesses may attract and eventually their RHQs. But issues of socio-political and business cultures should not be underestimated. In other words, human issues are as important as business matters. Paradoxically, international businesses are all about humans and their families. Many of the interviewed CEOs' families in Korea are apart from each other. Many immediate family members of foreign CEOs returned home earlier because of the cultural and domestic environmental barriers that are prevalent in Korea. According to some interviewees, for a Korea post, some companies prefer candidates who have no family obligations. Since Korea is heavily Seoul-oriented, every thing must be resolved within the capital, including children's education, visas, accommodation, cultural activities and etc. Despite much publicized propaganda (establishing a residential complex for foreigners in the special economic zone) on on-going improvements in relation to the quality of life in Seoul, the reality is that none of the above meets global standards. Importantly, most interviewees put a high priority on their children's education, weekends, food, convenience, double-standard renting system, and cost of living in Seoul as much as business concerns. If Korea has less to offer to potential foreign residents, it is hard to attract foreign companies as well. Although there has been a special economic zone designated where foreigners can find more favorable business and living environments such as taxation, schools, hospitals, accommodations etc, the government should also need to offer a credible reason that there will be no disadvantage in terms of convenience for existing foreign companies to shift their business operations to outskirts of Seoul. Further, in order for Korea remain as a Northeast Asian business hub candidate, more transparent measures should be taken to improve the regulatory framework and supervisory process in implementing plans and initiatives. In other words, even the 'special economic zone' concept is not persuasive yet, rather it only serves as a symbolic gesture.

Hub competition from China

Several MNCs raised the issue of competition from China as a hub, given China's very large future market potential. One noted the imperative that: "you have to be in China to do business in China." Some stressed the relative ease of doing business in China, while other pointed to the development of impressive special purpose facilities for foreign nationals and their families in cities such as Beijing and Shanghai: "In Beijing you now have big houses for foreign nationals – rather like American suburbia." Some big name US companies are now pulling out of Korea to go to China – especially the ones which are hitting brick walls. Senior people move out and the junior ones move in – all this erodes Korean prospects of becoming any sort of hub."

While Shanghai was seen as especially enlightened with respect to MNC activities, others disputed the 'rosy' view of China, pointing to difficulties and irritations, including the lack of transparency over business dealings and the need for visas to enter the country. One leading design engineering firm, said: "China is less developed and even more difficult to do businesses in – except for Shanghai, Shenzhen and Guangzhou. In general, Korea is much more open for business. Although China is Korea's biggest threat in every sense, China's political regimes are dispersed and diverse. There is no one national Government system – Korea is very efficient from this point of view."

One global retailer said that in his business: "China is too convoluted a marketplace for our company – the challenges of dealing with Government are many time worse than dealing with Korea. We would consider having a regional HQ here [in Korea] if things improved, but it's not ready yet. To be a regional HQ hub, business activities must be transparent, auditable and consistent with international standards. There also has to be minimum interference from Government. Here, for example, we are obliged to accept all credit cards, but there are no controls over fees, so the companies supplying credit cards can charge what ever they like (one charges us 2.5 times as much as our previous card provider). These things would not happen in the UK, Singapore or the US and it makes our business much more difficult and unpredictable."

Hub competition from Hong Kong and other countries

According to Kim, 50 MNCs have major operations in the Asia-Pacific region. However, almost all of the regional headquarters of these MNCs are based in Hong Kong and Singapore (with 24 and 20 regional centers respectively) (Kim, 2001). One firm with a regional HQ in Hong Kong said that it was easier to travel to and from Hong Kong from most other parts of the world. However, in the past his firm needed to be in Hong Kong to sell to China: 'Now you can live comfortably in Shanghai or Beijing – ex-pats find it difficult here [in Korea] – traveling here is pretty difficult.'

Some interviewees, however, saw the Hong Kong location in decline. One commented: “In the past, finance, FDI security, access to China were all to be found in Hong Kong – but now all these factors are shifting to Shanghai. The future is really in China. Hong Kong is becoming isolated as production has shifted out. Most major MNCs now have a ‘greater China’ philosophy. Hong Kong is not getting worse its just that China is getting better.”

By contrast, some saw no reason to move out of Hong Kong without a much stronger business case. One firms said: “Our regional HQ is in Hong Kong. It is central and from it you can easily manage all the other countries. It has the facilities to attract talent and provide a good quality of life - and its not too expensive. By contrast Korea is expensive. Most companies won’t come to Korea due to tax, labor and currency laws.”

Regarding other countries, most interviewees viewed Singapore as the leading S.E. Asian hub with Kuala Lumpur gradually improving in terms of facilities, tax incentives, clearer financial regulations and spoken English.

Conclusion

The most dynamic feature of the Korean economy since the late 20th century is the emergence of the country as a major destination for foreign investors. Since the early 1990s, more than 1,000 foreign companies have established operations in fields ranging from consumer products to high-tech industries.

As such, the Korean government’s recently initiated vision to transform the country into a world-class business and financial center in the Northeast Asian region sounds somewhat timely and achievable. However, this study shows that while the foreign business community in Korea unanimously is in favor of Korea’s great potential to be a business hub of Northeast Asia, they see the new vision as unrealistic unless there is a stark change in the current form of Korea’s internal and external business environment.

Apart from some well-known issues regarding doing business in Korea among the foreign community such as tax rates, labor flexibility, and lifestyle, Korea still is seen as, and remains, one of the most difficult markets across Asia to invest in and export to. Therefore, unless the image of Korea as a difficult market to crack is improved, the new concept of ‘business and financial hub of Asia’ is unrealistic. Some foreign investment related policies still remain structured primarily to encourage technology transfer and optimize the use of imports for export industries while discouraging unnecessary imports. This paper confirms that there is no firm ground to define Korean business practice. This is because what is normally considered universal business common sense is construed differently in the Korean context, specific examples being the concept of a contract or the absence of the notion of win-win situations. Other difficulties stem from:

- The government’s pragmatic but still nationalistic attitude towards foreign investment;

- A strong Confucian influence, especially linked to the relationships across government, business and financial institutions;
- A long history of homogeneous culture;
- Union attitudes;
- The complexity of Korean company structure involving seniority and the *ho bong* system;
- Internal conflict rooted in language communication difficulties, unsuitable partner relationships and lack of understanding of the demands of joint venture business;
- Short-term orientation and frequent changes in policies and laws without prior notice;
- Lack of transparency in the financial market, its infrastructure and across society;
- Frequent rotation of posts within the government and its related branches;
- A wide gulf between the top and working-level people from English-language proficiency to expertise;
- Lack of expertise and professionalism among bureaucrats and government officials; and
- Lack of global perspective and pro-business mindset among bureaucrats and government officials

The implication of the above is clear: we must admit that Korea's challenges are not within tax/labor laws, FDI policies, or financial infrastructure, but within Korea's deep rooted un-globalized culture in almost every part of Korean society. Thus, we must be open to criticisms and establish a realistic and comprehensive strategy, which should aim at transforming the country into a more open, transparent, competitive, globalized and culturally dynamic society. This is a formidable challenge to a country like Korea but it is also true that achieving the ambition to be a regional business and financial hub is not an impossible task. Once Korean government and businesses and Koreans themselves, start moving towards the society, the realization of the vision will occur naturally.

In relation to Korea becoming a business hub, in addition to the general problems in the business environment for MNCs (which would need to be overcome for most MNCs to choose Korea as a hub), there is also a lack of clarity over the concept of hub, the parameters of the region targeted, and the timetable for achieving hub status. In discussions with MNC directors we identified at least six different kinds of hub: a hub for foreign direct investment; a hub for regional headquarters; a financial hub; a commercial, trading/transshipment/logistics hub; a manufacturing hub; and a technical support/R&D hub for foreign MNCs. Each of these dimensions requires a different kind of policy focus and it may well be that Korea could benefit from aiming for multiple hub objectives.

Further research would be very useful to illustrate what each of the hub dimensions require in terms of host country infrastructure. More clarity on the policy toward Korea as a business hub could be gained from policy makers and communicated widely to MNCs and others concerned with achieving hub status. In addition, continually updated strategic data on how the Korean business environment compares with other potential hub competitors (e.g. within China), both in terms of current status and future developments would be useful for

proposing a hub strategy to prospective MNCs.

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End Notes

ⁱ Macquaire Corporate Finance Advisory Group, Alcan Daehan Aluminum, Deloitte Consulting, Shisheido, Phamacia Korea, Costco, Pfizer Pharmaceuticals Group, Siberhegner, Meat & Livestock Australia, BHP Billiton, Allianz Insurance, Ford Motor, Syngenta Korea, Partekcagoteh, Australian Embassy, Australia-Newzealand Bank, Industrial and Commercial Bank of China, Maersk Logistics, European Union Chamber of Commerce, JETRO, American Chamber of Commerce in Korea, Hanmi Parsons, IRC Limited, IT Management Services, Moody International, Master Foods Korea, German Chamber of Commerce, Grand Hyatt, Bank One, Motorola, Mitsui & Co., Ltd., Kim & Chang Law firm, Australia-Newzealnd Chamber of Commerce in Korea, Taylor Lelson Sofres, Australian Trade Commission, AAB Korea, AIG General Insurance.

ⁱⁱ Apparently Volvo is one such example (note that Volvo was not interviewed for this study).