Maritime Opportunities: South Korea
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<tr>
<th>Indicator</th>
<th>Value</th>
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</thead>
<tbody>
<tr>
<td>Population (millions)</td>
<td>49.8</td>
</tr>
<tr>
<td>GDP (US$ billions)</td>
<td>$1,155.9</td>
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<tr>
<td>GDP per capita (US$)</td>
<td>$23,113</td>
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<tr>
<td>GDP (PPP) as share of world total</td>
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</tr>
<tr>
<td>Military expenditure as share (%) of GDP</td>
<td>2.7%</td>
</tr>
<tr>
<td>Military expenditures, country comparison to the world</td>
<td>47</td>
</tr>
<tr>
<td>Human Development Index 2012 (UN)</td>
<td>Score: 0.909 Rank: 12/187</td>
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</table>

The Republic of Korea (ROK) occupies the southern portion of the Korean peninsula. Its neighbors are the hostile Democratic People’s Republic of Korea (DPRK) to the north, China to the west and Japan to the east. South Korea’s busiest port is Busan, located along the narrow strait that separates Korea from Japan’s southern islands. With a population of 3.4 million, Busan is South Korea’s second-largest city after Seoul (pop. 9.8 million), the inland political and business capital.

South Korea has undergone tremendous economic and political changes since the conclusion of the Korean War, “transforming itself from a recipient of foreign assistance to a high technology manufacturing powerhouse and middle-income donor country.”¹ Today, South Korea is ranked 12th among all countries in the U.N.’s Human Development Report, a broad measure of a population’s health, education and overall well-being. Its population is among the most ethnically homogenous in the world.

South Korea’s economic rise was propelled by a high degree of government activism, most notably under the authoritarian presidency of Park Chung-hee (1961-1979). Through subsidies, tax benefits and protection from foreign competitors, the South Korean government encouraged the growth of a select group of large, family-controlled businesses known as chaebol. Several of those companies, Samsung and Hyundai foremost among them, have since grown into globally recognized conglomerates that are leading exporters of “goods as diverse as computer chips, cellphones, cars and ships.”²

A multiparty political system was restored in 1987, and the intervening decades have witnessed ever greater political and economic liberalization. Public calls to combat corruption and to rein in the outsized influence of the chaebol have grown more pronounced. Newly elected president Park Geun-hye, who is the daughter of Park Chung-hee, has championed these and other economic reforms. The U.S. Department of State reports that 37 wholly state-owned enterprises remain in South Korea today, exercising the greatest influence in the energy, real estate and transportation infrastructure sectors.

South Korea became a member of the Asia-Pacific Economic Cooperation group (APEC) in 1989, and the OECD in 1996. It maintains free trade agreements with Chile, Singapore, the EU, EFTA and ASEAN, as well as the United States. The U.S.-Korea Free Trade Agreement (KORUS-FTA) formally took effect on March 15, 2012. Since then, “almost 80 percent of U.S. industrial goods exports to Korea are duty-free.”³ Ninety-five percent of all tariffs on U.S. goods will be eliminated by 2017. The U.S. Commercial

³ http://export.gov/%5C%5C/FTA/korea/index.asp
Service’s *Country Commercial Guide* estimates that the agreement “has the potential to increase U.S. exports to Korea by approximately USD 10-12 billion.”

This year marks the 60th anniversary of the U.S.-Korea Mutual Defense Treaty, which remains the foundation of the countries’ alliance today. South Korea possesses the world’s sixth-largest military, and its disputed border with North Korea is the most heavily fortified in the world. The United States returned peacetime control of South Korea’s military forces to Seoul in 1994, but is still obliged to command these forces in the event of war. The U.S. is slated to return this wartime command responsibility in 2015, although South Korea has recently requested that the Pentagon review these plans, given uncertain relations with North Korea and the ongoing expansion of the North Korean nuclear program.

**DOING BUSINESS IN SOUTH KOREA**

**GENERAL CONSIDERATIONS**

| Global Competitiveness Index (World Economic Forum) | Score: 5.0 | Rank: 25/148 |
| Doing Business 2014 (World Bank) | DTF: 78.60 | Rank: 27/189 |
| Trading Across Borders (World Bank) | DTF: 83.74 | Rank: 7/189 |
| Economic Freedom (Heritage Foundation) | Score: 70.3 | Rank: 34/177 |
| Trade Freedom (Heritage Foundation) | Score: 72.6 | Rank: 111/177 |

The *Global Competitiveness Report 2013-2014* contains an apt summary of South Korean economic strengths and weaknesses: “Korea possesses a remarkably sound macroeconomic environment (ninth, second only to Norway among OECD countries). The country also boasts excellent infrastructure (eleventh) and educational systems. However, Korea’s assessment is considerably weakened by the average quality of its public and private institutions (74th, down 12 positions), the extreme rigidity and the inefficiencies of its labor market (78th), and its poorly functioning financial market (81st). Korea falls sharply in those three areas, and without tackling these issues decisively, the country will not be able to close the competitiveness gap with the three other Asian Tigers.” (Hong Kong, Singapore and Taiwan)

South Korea’s investment in its business infrastructure is readily apparent to international visitors. The *Country Commercial Guide* states that “all over Korea, you’ll find first-class telecommunications, the requisite five-star hotels, Western restaurants, modern transport (including very efficient subway networks in Seoul and Busan), innovative architecture, and so forth… Every year Korea becomes more and more modern, but it is important to recognize that modern does not equal Western.”

Cultural distinctions between South Korea and the United States are magnified in a business environment. Koreans tend to emphasize communal values over American-style individualism, and they avoid open conflict. They are highly attentive to social hierarchy: “Koreans still have a great respect for anyone senior in age, and intuitively establish their hierarchical position relative to others based on age. Indeed, one of the fundamental principles of the Korean language is based on the plethora of verb endings, which indicate the level of respect accorded to another person.” Thus, business is conducted with a high degree of formality and with strict attention to rules of protocol. Gift giving and the exchange of business cards are key rituals in any new business relationship. Written contacts are often seen as the beginning, rather than the end, of negotiations.

U.S. executives visiting South Korea are advised to retain a professional interpreter, not merely because their Korean contacts may not speak English fluently or prefer to speak Korean, but also because a skilled interpreter can help to negotiate the numerous social intricacies involved in forging a successful business relationship. Some Korean business practices will seem familiar to executives that have con-
ducted business elsewhere in East Asia or Japan. However, the *Country Commercial Guide* warns Americans to be sensitive to South Korea's historically fraught relationship with Japan: "Any comparative mention of Japan versus Korea, where Japan has the upper edge, may harm a business deal."

The U.S.-Korea Free Trade Agreement has opened up an array of new opportunities for U.S. exporters, particularly in the high-tech and defense industries. The *Country Commercial Guide* identifies Defense Industry Equipment as one of 12 leading sectors that are particularly attractive for U.S. export, noting that because of the two countries' longstanding military alliance, most South Korean defense systems are already based on American standards. In anticipation of the transfer of wartime operational command, South Korea has considerable incentive to expand and update its defense capabilities, particularly with respect to its navy. 4

**TECHNOLOGY AND INNOVATION**

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<th>Score</th>
<th>Rank</th>
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<tr>
<td>Technological Readiness (GCI – WEF)</td>
<td>5.6</td>
<td>22/148</td>
</tr>
<tr>
<td>Innovation (GCI – WEF)</td>
<td>4.8</td>
<td>17/148</td>
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South Korea earns high marks for its technological readiness and capacity for innovation. It is a leader in fixed and mobile broadband subscriptions, and is frequently identified among the world’s most “wired” societies. South Korea possesses one of the world’s highest, and fastest-growing, rates of patent filings with respect to the size of its population. The World Academic Summit’s Innovation Index shows that South Korean universities are the best in the world at attracting funding from business. On average, each South Korean scholar receives $97,900 per year in business funding, a sum far exceeding that of the United States or any other country considered in this report. 5

**SECURITY CONCERNS AND CORRUPTION**

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<th>Score</th>
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<tr>
<td>Institutions (CGI – WEF)</td>
<td>3.8</td>
<td>74/148</td>
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<tr>
<td>Corruption Perceptions Index 2012 (TI)</td>
<td>56</td>
<td>45/176</td>
</tr>
<tr>
<td>Freedom from Corruption</td>
<td>54</td>
<td>42/185</td>
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Security and corruption are significant concerns in South Korea. North and South Korea technically remain in a state of war, as no formal peace treaty concluded armed hostilities between the two countries in 1953. Both entities claim full sovereignty over the Korean peninsula and regard the other as illegitimate. Relations between the Koreas have fluctuated over time. South Korea’s decade-long experiment with the “sunshine policy” of non-coercion and greater cooperation with the North ended in 2008, and North Korean leader Kim Jong-un’s rise to power in 2011 has ushered in a new area of uncertainty. In past months, North Korea has halted production at South Korean-owned factories in the jointly run Kaesong industrial park, postponed family reunion visits between citizens of the two Koreas and appears to be pursuing its nuclear program with renewed vigor.

Corruption is a less dramatic, but nonetheless corrosive, issue within South Korea today. Although the Republic of Korea is a signatory of the OECD Anti-Bribery Convention, the Heritage Foundation writes that corruption and other forms of economic favoritism continue “to undermine the foundations of eco-

nomic freedom, eroding equity and trust in government… Since 1990, seven chairmen of the 10 largest chaebol (large business groups) have received jail sentences averaging 22 years, but all of the sentences were later suspended.” Since that writing, under Park Geun-hye’s administration in 2013 another prominent chaebol chairman (Lee Jay-hyun, of the CJ Group) has been arrested for embezzlement and tax evasion, and a new series of laws has been passed to check the conglomerates’ power.

PROCUREMENT STRUCTURE

Defense procurement is centralized in the Republic of Korea. The Defense Acquisition Program Administration (DAPA) in the Ministry of National Defense is responsible for procuring defense products and services from local and foreign companies for the South Korean armed forces.

The ROK has a coast guard, the Korean Coast Guard in the Ministry of Maritime Affairs and Fisheries. The Korean Coast Guard has been upgrading its vessels and aircraft to extend its offshore reach to enforce the Exclusive Economic Zone in the Yellow Sea. The Public Procurement Service (PPS) supports all other ROK government agencies outside the Ministry of National Defense, including the Korean Coast Guard.

The Republic of Korea has a policy of promoting its defense industrial base through procurement preferences, but nonetheless engages in significant direct commercial sales.

CONTACT INFORMATION

Defense Acquisition Program Administration
54-99 Duteopbawi-ro
Yongsan-gu
Seoul 140-833, Korea
Telephone 82-2-1577-1118
Fax 82-2-773-7587

RESOURCES

» Defense Acquisition Program Administration website www.dapa.go.kr/eng/index.jsp
» DAPA Offset Program www.dapa.go.kr/eng/program/offset.jsp
» Public Procurement Service website www.pps.go.kr/eng/index.do.