

## **MNCS' PERCEPTION ON THE FEASIBILITY OF SOUTH KOREA AS A BUSINESS HUB OF NORTHEAST ASIA**

*You-Il Lee*

School of Management, Faculty of Business and Public Management, Edith Cowan University, Pearson Street, Churchlands, Australia

### **ABSTRACT**

*Since the financial crisis of 1997, the South Korean government has moved towards a new market-driven paradigm of economic growth based on foreign direct investment (FDI) replacing the decades old state-driven economic growth model. One of the attempts made by the government is its ambition to transform the nation into a business and economic hub of Northeast Asia. However, despite the growing concern on the topic 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. This paper, which is based on findings from interviews with foreign companies operating in Korea during 2002, offers a cultural and institutional insight into the critical and often invisible issues to be considered for a successful realization of the vision.*

**Keywords:** Korea, Korean market, hub, multinational corporations

### **INTRODUCTION**

One of the most revolutionary aspects of the Korean company since the 1997 Asian financial crisis is that Korea has emerged as a major recipient of foreign capital for both strategic and non-strategic industrial areas, ranging from consumer products to telecommunications. By 2001, more than 11,500 foreign firms had invested in Korea (Economist Intelligence Unit 2002: 8) and by 2000 more than 1,100 business sectors of Korea had been fully opened up to foreign investors (Economist Intelligence Unit 2002: 29). In particular, during the four-year period after the crisis (1998–2001), Korea has attracted around US\$52 billion in FDI, which is almost more than double the entire amount of the previous four decades (Kim & Choo 2002: 30). Although Korea's attractiveness of FDI relative to its economy, which was 13% to Gross Domestic Product (GDP) in 2000, Korea's recent inward FDI trend implies that the Korean market is rapidly changing and open to outsiders offering opportunities to maximize market benefit in Korea.

On the other hand, the Korean government has shown its ambition in recent years to level up the country's economic status by setting up the new national agenda. In April 2002, the Korean government, then the Kim Dae-jung administration,

unveiled its grand ambition to turn the nation into an international business hub of Northeast Asia. This master plan included establishment of the so-called "special economic zones" that consist of 132 sq km (40 million pyeong) of land encompassing Youngjong Island, Songdo New Town of Incheon and Gimpo to promote international business. This new vision by radically improving market environment (covering foreign investment, finance, logistics, information technology, manufacturing and research and development) is now listed as one of the new government's (the Roh Moo-hyun administration, February 2003 – present) ten national agendas (Kim 2003: 17). In particular, Korea's new President Roh has established a special task force team to develop and implement the new vision, specializing in three main specific sectors including logistics, finance and industry. The logistics dimension is considered to be crucial given Korea's strategic and business location between Japan and China. The Roh administration has also promised to improve the business and operating environment for the multinational corporations (MNCs) through socioeconomic and institutional reforms such as labor market conditions, chaebol (mostly family-owned large industrial conglomerates), liberalization of immigration policy and tax benefits at the national level. In other words, the attraction of MNCs has become one of the top priorities for the current Korean economy and the major component of the Korea's new globalization strategy (Sachwald 2003).

However, despite the growing concern on the topic among government agencies, industry, media and academia, the absence of a cohesive and realistic approach to the issue is a relative void in the literature. This is the backdrop of this paper, which offers a cultural and institutional insight into the critical and often invisible issues to be considered for a successful transformation of the nation into a business hub of Northeast Asia. In particular, the paper, based on the interviews conducted in Korea, will offer analyses of their perceptions on the following issues:

- Definition of hub
- Brand image of Korea
- Feasibility of Korea's hub vision
- Institutional issues such as the role of Government and regulatory environment
- Cultural issues such as patriotism and other social infrastructure.

## **METHODOLOGY**

The paper is grounded in a study that is, in part, based on fieldwork performed in Seoul during 2002. Over 30 interviews were conducted face to face with senior executives, mostly chief executive officers (CEOs) of foreign companies

operating in Korea, as well as various chambers of commerce in Korea. Although sample of the firms was small and not fully representative, MNCs were selected based on a wide range of sectors, lengths of stay in Korea, nationalities of firms and individuals and firm sizes. Sectors include agro-industrial products architecture and design management, pharmaceutical production and distribution, insurance, construction and construction management, logistics consultancy etc.<sup>1</sup> Interviewees were required to reflect on their experiences in the Korean market compared to their experience in other international markets and on their perceptions on the Korea's new globalization strategy (economic and business hub of Northeast Asia) and its (hub vision) feasibility.

### **HUB VISION: NEW PARADIGM?**

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 with the geographical and technological advantages that Korea possesses. However, on the question of "hub" there seems to be a variety of opinions. Some 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; Feller 2003). Others researchers (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 MNC's regional headquarters (RHQs), bringing foreign capital and technology as a consequence of Korea's becoming the logistical and financial center of Northeast Asia.

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<sup>1</sup> 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-New Zealand 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-New Zealand Chamber of Commerce in Korea, Taylor Lelson Sofres, Australian Trade Commission, AAB Korea, AIG General Insurance., The author would like to acknowledge the financial support for this study from School of Management, Edith Cowan University, Korea Foundation, Australia-Korea Foundation and Korea Trade-Investment Promotion Agency. The author would also like to thank the anonymous reviewers for their helpful comments.

TABLE 1  
THE KOREAN GOVERNMENTS STRATEGY FOR HUB

Logistics	Business	Industry
Special economic zones	Home of MNCs regional headquarters	Hub of information technology (IT)
Airports (Incheon)	Financial centre	Creation of local IT and digital media industry clusters
Mega-ports (Pusan/Kwangyang container ports)	Foreign-friendly business environment	

Despite the Korean government's and the media's effort in recent months, the majority of foreign companies in Korea do not seem to agree on what exactly is meant by "hub". There seems to be two critical reasons that support this observation. First, to foreign companies, Korea as a business hub, especially a regional financial center by any standards is unrealistic. Unlike Hong Kong and Singapore who have successfully built a "foreign-friendly business environment" such as English-speaking domestic workforce, effective urban-planning for foreign professionals, and the overall global mind-set among government bureaucrats, business leaders and employees, etc. Equally important, Korea still lags Hong Kong and Singapore in infrastructure and internationalization and has a smaller domestic market than Japan and China (Feller 2003). Second, the market (48 million people) size and its potential of the Korean economy coupled with Korea's growing importance as a market in the global economy and their (MNCs) global strategies to expand to new markets turned out to be three most persuasive factors in MNCs' initial decision to invest in the Korean market.

This has been revealed during the interviews. Almost none of the interviewees on the question of Korea as a potential regional RHQ site responded that their initial decision has got nothing to do with intent of establishing a RHQ in Korea. Korea is not regarded among the MNCs as a center of business activity, but rather difficult as well as rewarding place to do business. In other words, the judgement of foreign companies on the territory, as evidenced by this study, is that there is ample opportunity for foreign companies to develop business ventures in Korea. Table 2 reveals MNCs' perception on the "hub vision".

TABLE 2  
MNCs' GENERAL PERCEPTIONS ON KOREA'S HUB VISION

Hub vision	Perception
Ambiguous?	Yes
Attention seeking?	Yes
Realistic?	No
Korea: center of business?	No
Hub vision = long-termism?	No
Korean market = opportunity?	Yes
Potential to be a business hub?	Yes

*Note:* The table should be treated as indicative of general perceptions rather than conclusive.

### Brand Image of Korea

Until very recently Korea has been among the least receptive to foreign direct investors in the Asian region, with the inflow of FDI accounting for just 1.1% of gross fixed capital formation in 1995. This contrasts with a regional average of 9%, and ratios of 25.7% in China, 24.6% in Singapore and 17.9% in Malaysia (Morgan 1997). Although FDI in Korea in 1996 increased sharply, a rise of 65% in amount (US\$3.2 billion) over the previous year, Korea still compares poorly in terms of FDI (2.2% of GDP) with countries like China (18.2%), Malaysia (28.5%) and Taiwan (7.3%) (European Union Chamber of Commerce 1997: 60; Sakong 1998: 105–106). Korea was one of the few Asian countries that did not liberalize inflows of foreign capital until the mid-1990s. Until 1993, non-residents were given very limited access to the Korean stock market while the types of securities that local firms could issue abroad were expanded.

The main reason for not having a larger business presence in Korea is due to its long history of economic nationalism stimulated by negative experiences as a result of earlier interactions with foreign regimes. A strong belief in self-sufficiency has inevitably resulted in a tough business climate, seemingly especially hostile to foreign companies. Korea has always been for foreign companies a difficult market to set up and invest in. It has also been difficult to form joint ventures so it has not been an easy market.

According to analysis by the Economist Intelligence Unit (EIU 2002) on FDI environment, Korea was ranked as the least favourable destination among 60 countries in which to invest, although Korea was ranked ahead of Japan and Thailand.

TABLE 3  
OVERALL RANKING OF INVESTMENT CLIMATE OF KOREA  
IN THE ASIAN REGION, 2001

Environment	Rank 1997–2001	Rank 2002–2006
Overall position	8	6
Political environment	8	8
Political stability	10	10
Political effectiveness	7	7
Macroeconomic environment	12	1
Market opportunities	4	3
Policy towards private enterprise and competition	7	7
Policy towards FDI	9	4
Foreign trade and exchange controls	8	8
Taxes	8	10
Financing	9	7
The labor market	12	12
Infrastructure	7	7

Asian region includes Australia, China, Hong Kong, India, Indonesia, Japan, Malaysia, New Zealand, Pakistan, the Philippines, Singapore, Korea, Sri Lanka, Taiwan and Vietnam.

Source: Modified from Economist Intelligence Unit (2002): 18.

One of the major indications from the above study is that although there is a general skepticism among foreign business community on the variable quality of the tax regime and rigidities in the Korean labor market, the sheer scale of the market opportunity coupled with the ongoing and progressive process of deregulation and economic stability combine to create a major upside. In March 2002, the American Chamber of Commerce in Korea (AMCHAM) conducted a market environment survey with CEOs (approximately 1,700 individuals) of the Fortune 500 companies 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 the EIU analysis (2002) in 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.

TABLE 4  
MNCs' GENERAL PERCEPTIONS ON THE BRAND IMAGE OF KOREA:  
BEFORE AND AFTER COMING TO KOREA

Before	After
Two Koreas (which one?)	A high value of strategic location
Militant unions	Risky but a huge potential
Small country	A wealth of opportunity
IMF crisis (financial crisis of 1997)	An attractive market
Difficult market to crack	Yet barriers are too many
No idea	RHQ; no intent

It has been taken for granted that Korea's economic policy over the last three decades has been strongly nationalistic. Prevailing perceptions are that there is chronic inefficiency and opaqueness in the Korean government and across society, difficulty in market access, unequal treatment in the domestic market, and relatively higher political and social instability than in other major Asian markets. Many of the interviewed CEOs indicate that although Korea's economic development over the last few decades and deregulation since the financial crisis of 1997 have been impressive, elements in the environment such as corruption, labor-management conflict, taxation and red tape are no better, and perhaps worse, than other Asian countries. 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.

Interviewees were overwhelmingly positive about the prospects for their businesses in Korea. Over 70% of the interviewees had clearly developed visions for their businesses in Korea. More than 80% 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.

These observations clearly indicate that the cost of foreignness such as unfamiliarity with local economic, cultural and political rules, regulations and business norms does not in fact influence the behavior of MNCs but the market and economy size and its potential are much more persuasive in their decision to invest into the Korean market. Thus, the most critical step that Korea must take in keeping the MNCs in the market and attracting more volumes of FDI, and eventually making Korea a world-class business center is an effort to create a general perception among existing investors and MNCs in Korea that "Korea now has well-developed business environment including high-quality manpower, foreign business-friendly and pleasant physical environment" and "we are

fortunate to invest in Korea" Korea should also be able to offer comparative advantages for why the MNCs should choose Korea as an investment destination rather than its neighboring countries. Does Korea have comparative and competitive advantages against them? There are of course a number of advantages and disadvantages.

### **HUB FEASIBILITY**

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, according to Porter (1990) 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 still considered among CEOs of MNCs, 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 fundamental but critical prerequisites for Korea to achieve its goal, which are heavily based on the interviews with the CEOs of MNCs in Korea during May 2002.



TABLE 5  
FEASIBILITY OF KOREA'S EMERGENCE AS A BUSINESS HUB  
OF NORTHEAST ASIA

Strengths	Weaknesses	Threats
Rich market potential Strong industrial base Abundance of highly educated manpower High savings rate Strategic business location Excellence in IT China's entry to WTO Geographical proximity	Transparency across society? Open, flexible and fair? Language? Accountability? Cultural diversity? Appreciation of foreign companies? Global mind-set across society? Strong role of government	Emergence of Shanghai as a business center South-North confrontation More aggressive reform undertaken by Singapore, Hong Kong and China Instability of domestic politics Korea's vulnerability to international business Weak social infrastructure (English proficiency, globalize mind-set)

### THE ROLE OF GOVERNMENT

A crux of the International Monetary Fund (IMF) requests in 1997 was to uproot crony capitalism; non-transparent financial practices involving government, the chaebol and major banks; and the prolonged but rapid wage increase that outstripped the gains in labor productivity, which all contributed to the erosion of Korea's international competitiveness.

A critical point is that until the advent of President Kim Dae-jung administration (1998 – 2002), the government-chaebol alliance has been very active, using the control of finance (Bank of Korea) as a key policy tool. This enabled the government to have control over politics and led to the practice of favoring people and companies (chaebol) in regard to economic policies. A number of chaebol groups benefited from this tight alliance, especially when they needed financial help in expanding their industries overseas, including European countries. It is no wonder that most of the top 30 chaebol groups were found to have piled up debts averaging about 4.5 times more than their assets in 1997. The debt-to-equity ratio averaged 449.4% in 1997. The top 30 chaebol groups accumulated a total debt of 249.67 trillion won (US\$177 billion). This shows a sharp contrast with other countries like the US (160%), Japan (206%) and Taiwan (86%) (Gong 1999). Among the heaviest borrowers were the big five chaebol: Hyundai, LG, Daewoo, Sunkyung and Samsung.

The Korean government is still regarded as a "god father", presiding over most aspects of economic affairs (Kim 1999). Korea's political and economic

structures are still under government influence. Korean financial sectors, over the last four decades, have been under the government umbrella. Key figures in the major banks used to be appointed by the president himself and all financial matters were dealt with by the Ministry of Finance (now the Ministry of Finance and Economy). Although there has been some change in terms of the government and president's perception towards the role of banks since the IMF involvement in the Korean economy, the above tradition is still prevalent. This is why the role of the Korean government and bureaucrats still does not make sense to many foreign investors in Korea.

### **Korea's Regulatory Environment: 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 (Office of the Investment Ombudsman (OIO) 2001). 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% 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. The following remarks made by a CEO of an MNC in Korea depicts the difficulty of doing business in Korea.

When we go the relevant government agency and deal with pharmaceutical affairs, you find most of the bureaucrats are from one of the top universities in

Korea. Meanwhile, in filing for registration, it usually takes 2 or 3 years because it requires experiments and heaps of documents. But if an employee of a certain company and the bureaucrats are from the same university, they let the company know about the required materials before the review process is complete. So the company can prepare all required materials ahead of other companies and they can save a considerable amount of time. That is not possible for foreign companies. Now that we know this sort of practice, so we select a special person who does that kind of lobbying.

### **Korean Consumers as a Hurdle?**

Until very recently Korea has been among the least receptive to foreign direct investors in the Asian region, with the inflow of FDI accounting for just 1.1% of gross fixed capital formation in 1995. This contrasts with a regional average of 9%, and ratios of 25.7% in China, 24.6% in Singapore and 17.9% in Malaysia (Morgan 1997). Although FDI in Korea in 1996 increased sharply (a rise of 65% in amount [US\$3.2 billion]) over the previous year, Korea still compares poorly in terms of FDI (2.2% of GDP) with countries like China (18.2%), Malaysia (28.5%) and Taiwan (7.3%) (European Union Chamber of Commerce 1997: 60; Sakong 1998: 105–106). Korea was one of the few Asian countries that did not liberalise inflows of foreign capital until the mid-1990s. Until 1993, non-residents were given very limited access to the Korean stock market while the types of securities that local firms could issue abroad were expanded.

Government protection and restrictions on foreign goods and companies such as cars, consumer durables, construction and international travel are prevalent, especially in the wake of trade deficits. In the airline industry for example, the Korean government sees the deficit coming from Korean's excessive spending in traveling overseas.

Another complication for MNCs to be aware of is the general patriotic attitude of Koreans. According to the 1998 survey conducted by Frank Small and Associates (Marketing and Research Consultants) over the Korean consumers, 69% of the respondents thought that buying a foreign product would hurt Korea (Richardson 1998). Although foreign products range from ice-cream, noodles, children toys, cosmetics, clothing and whiskies to electrical appliances such as vacuum cleaners; consumer acceptance is often slow, albeit progressive. There still remains pride in national products among the people, although the younger generation, especially, is more willing to try foreign things.

"Korean consumers" barriers to consideration stem from a variety of sources, including a basic lack of understanding as to the benefits of globalization, fears of appearing unpatriotic, ongoing fears of possible tax audits, criticism from friends

and family for excessive consumption and possible criticism from employers. Due to the strong influence of traditional Confucian hierarchical social norms, imported vehicles are not even allowed on many Korean companies' premises. Even some MNCs operating in Korea have non-import car policies in deference to Korea's strong anti-import sentiments. Many, if not all, of these barriers to consideration have been created and reinforced by previous Korean government administrations (AMCHAM 2002).

Koreans' patriotic 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 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 chaebols. This would certainly enhance the brand image of Korea and its market among potential and existing MNCs.

### **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. This is because the Chamber's primary function is to "protect the interests of member companies (2,200 individuals and 1,000 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 author's 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.

One key aspect of Korean working environment that foreign countries must come to grips with is that of the confrontational relations between labor unions and management (Sakong 2003). In fact, apart from more general deterrents to FDI, the Korean labor market is the single most consistent worry by foreign MNCs. Many interviewees and foreign chambers of commerce like AMCHAM believe that the Korean labor law gives significant benefits to the Korean union members with weak protection for management (AMCHAM 2002). For example,

Korean labor laws still discourage firms from dismissing staff by requiring companies recruiting new staff in two years following dismissals to try to rehire laid-off workers and, in cases involving large numbers of workers, to notify the Ministry of Labor in advance, providing the reasons for the dismissal and proof that they have consulted sufficiently with staff (Economist Intelligence Unit 2002: 18).

The Korean labor unions are militant and tend to pursue their aims in a merciless way. A failure to understand the nature and style of the process will be, at the very least, demoralizing for an expatriate manager. Interviewees voiced unanimously that when they try to initiate, what they considered from the management's point of view, sensible negotiations, showing them the books, trying to tell the negotiators what shape the company is in – there was disinterest on the negotiators' behalf. As Sakong claims that "Korea can become Northeast Asia's business hub – if only it can provide a business-friendly environment" (Sakong 2003).

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 MNCs and eventually their RHQ2. But issues 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, everything must be resolved within the capital, including children's education, visas, accommodation, cultural activities, etc. Despite much publicized propaganda (establishing a residential complex for foreigners in the special economic zones) on ongoing 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 systems 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 have been a few special economic zones designated (one in near Incheon international airport for business hub and two in the areas of ports of Pusan and Kwangyang for logistics hubs) where foreigners can find more favorable business and living environments (e.g. income-tax exemptions, simplified visa requirements, financial support, international schools, hospitals, accommodations, etc.) (Feller 2003), 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.

## **CONCLUSION**

This paper has delivered an analysis of Korea's new globalization strategy initiated by the Korean government in early 2000s. In doing so, it has offered cultural and institutional insights into some of the most critical issues to be considered for a successful transformation of Korea into a business hub of Northeast Asia. Insights and critical evaluation have been produced especially on various different interpretations of the hub concept and socio-cultural and institutional barriers to becoming a hub. In relation to Korea becoming a business center of Northeast Asia, and 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.

This study has also shown 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, many of MNCs operating in Korea perceive the new vision as "too ambitious" and "unrealistic" unless there is a stark change in the current form of Korea's internal and external market environment.

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