

CORPORATE AFFAIRS

The Korea Society fosters dialogue and cooperation between American and Korean business leaders by arranging opportunities for frank and interactive discussions of current issues affecting the economic and political partnership between the United States and Korea.





Jang Hasung



Competitiveness and Corporate Governance in Korean Companies

February 7

Jang Hasung, dean of Korea University's business school and a longtime crusader for improved corporate governance in Korea, often encounters resistance from diverse sectors of Korean society as he pushes for greater business transparency. He keeps pushing for reforms because he believes that the country's future prosperity depends on its adoption of better business practices.

The road to reform began for Jang in 1997, when the IMF crisis revealed the destabilizing effects of the close, unsupervised relationships between Korea's banks, *chaebol* and regulators. The country has come a long way during the past decade. Gone are the days when *chaebol* officials would place \$10 million in cash in the

back of a car and surreptitiously hand the keys to a government official. Partly as a result of Jang's activism, major Korean corporations have tightened their previously lax shareholder representation procedures and reform has rippled through the economy.

In fact, Jang continued, many of Korea's intellectuals, media figures and average citizens think the problem of corruption has been solved, and perceive continuing criticism of the Korean economy to be unpatriotic. International studies of governance standards, however, paint a very different picture. As Jang pointed out, one such study found that Korea was still the fourth worst governance environment in Asia, just barely ahead of Pakistan and Indonesia.

Still other critics reject Jang's model of transparent shareholder capitalism as foreign to Korea's Confucian culture and believe that it would only serve to put Korea's flagship companies in the hands of foreign speculators if it were put into practice.

Jang made it clear that none of these objections sway him. Confucian norms condemn dishonesty and theft as strongly as any other ethical system, he contended. As for the protectionist arguments, Jang argued that Korea's corporate champions are not as Korean as Koreans like to think: most of their sales come from overseas markets and Koreans barely hold a majority of their stock.

Ultimately, in Jang's view, good governance



provides a competitive advantage. Every country in East Asia is competing against every other country for the same foreign direct investment and the money will flow towards those with governance standards that inspire confidence among potential foreign investors. Except for Japan, all of Korea's competitors realize this: China is already working hard to open up its huge banking sector and clear non-performing loans before it faces the same type of financial crisis that devastated the Korean economy in 1997. Even countries as poor as Bangladesh are making concerted effort to clean up their business practices. Without a continued commitment to corporate reform, Jang said, Korea risks falling behind the pack.

The Growth of SK: Past, Present and Future Challenges

February 28

SK is one of South Korea's most successful conglomerates, and an emblem of the country's rapid economic development. Just a few decades ago it was a small textile concern in rural South Korea. Today it generates \$70 billion in annual revenues worldwide from ventures as diverse as energy and telecom, and is 112 on the Fortune 500 list. Still, when SK's chairman Chey Tae Won assumed leadership in 1998, the company was in trouble and major reforms were needed.

Speaking at a CEO Luncheon program at The Four Seasons Hotel in New York, Chey described SK's organizational challenges and the plan he implemented to overcome them. In 1998, all of South Korea's economy was still reeling from the IMF crisis. Underlying such immediate problems as liquidity and debt, however, Chey realized there was a deeper crisis at SK. For a generation, Korean business culture had imbued managers with a strict sense of hierarchy and

vested all corporate power and initiative with the chairman. Amidst the crisis, corporate officials were paralyzed, unable to respond to emerging problems.

Chey saw that to overcome this paralysis

he would have to start at the top. He began by reforming SK's board of directors. In the process, he appointed a majority of new board members from outside the company to bring in new ideas. As the next step, he mandated perfect attendance at board meetings. Even most importantly, he made it clear to all board members that they would be responsible for thinking creatively from that point on, as opposed to merely waiting for direction from above.

Resistance to Chey's reforms was initially high. Eventually, however, the resistance

abated as the reforms gained traction and the company became more nimble. Now Chey is in the process of implementing similar reforms in the corporate governance structure of SK's dozens of affiliate companies.



Chey Tae Won





Investment and Business Opportunities in Gwangju
March 20

As one of the most important commercial hubs in southern Korea, Gwangju has long been known to international investors as a center of excellence in the country's auto and home appliance industries. But the city, like the rest of Korea, is moving up the economic ladder, developing knowledge-intensive, high-tech industries. In particular, the city is aiming to become a center of the photonics industry. In a distinguished visitor's luncheon program, Gwangju mayor Park Kwang-tae described the opportunities afforded by this high-tech development drive in an address delivered to an audience of global investors.

At the center of it all this development, Mayor Park said, is Gwangju's Korea Photonics Technology Institute (KOPTI). With its focus on generat-

ing, controlling and detecting photons—elementary particles that carry all wavelengths of electromagnetic radiation, including visible light—the science of photonics is a major element in communications, imaging and lighting technologies. Over 250 photonics technology companies are currently doing business in Gwangju, the mayor noted. Photonics technology companies that locate in Gwangju are well-positioned to conduct joint R&D projects with KOPTI, license KOPTI's intellectual property and draw staff from the Institute's faculty. Mayor Park also noted that Photonics companies doing business in Gwangju are eligible for assistance from local government through his city's program to provide tax support for high-tech investors.



Chairman's Luncheon
March 21

Ambassador Donald P. Gregg invited board members and a select group of supporters for a special, off-the-record working lunch on March 20, in order to formally introduce The Korea Society's new president, Evans Revere. The luncheon was also an opportunity for Ambassador Gregg and President Revere to brief the group on the recent Track II meeting, held at The Korea Society between a North Korean delegation led by Vice Foreign Minister Kim Gye Gwan and a group of American guests, including former secretaries of state Madeleine Albright and Henry Kissinger.



Young Professionals Forum: Investing in Korea

March 28

Smaller and less well-covered than neighboring Chinese and Japanese markets, Korea presents a certain challenge for American investors looking for opportunities. Four of New York's top investment professionals helped to fill in the gaps, presenting a detailed map of Korea's economy to an overflow crowd of young professionals. The forum was co-presented by Columbia Business School's Asian Alumni Club of New York and sponsored by Merrill Lynch, the Korean Business Association of Columbia Business School and Tiger Asia Management, L.L.C.

"Korea is growing at cruising speed," said **Donald Hanna**, global head of emerging markets at Citigroup, while offering an assurance

that Korea's macroeconomic situation is solid. While Korea is widely known to be an export powerhouse, Hanna pointed out that domestic consumption also has been expanding rapidly in recent years. On the downside, he noted, the central bank has begun to get jittery about a potential asset bubble due to the dramatic increase in housing prices in Seoul during 2006 and 2007. This boom is a side-effect of success rather than a genuine trouble spot, Hanna suggested. There isn't as much housing in Seoul as consumers want, he argued, and potential buyers are bidding up prices as the city becomes wealthier.

John Lee, director of Lazard Asset Management, pointed out that the securities market in

Korea also has become more complicated. But he quickly added that the complexity offers greater opportunity. "When asked about Korean securities in the past, 'I used to just say 'buy Samsung,'" Lee said. Now there are numerous, smaller companies which provide great value. And, unlike in many other East Asian countries where excellence is highly concentrated by sector, Korea has great companies across the economic spectrum.

Eric Yoon, a partner at White & Case law firm, noted a point of concern that others shared: the possibility of a nationalist backlash against foreign investment in Korea. Korea has been a leader in globalization, and benefited tremendously, especially after opening its markets to foreign capital in the wake of the IMF crisis. Calls for government action against foreign capital have increased in recent years, however, after a series of high profile cases in which foreign investors were seen to take huge profits from Korea—beginning with the KEB-Lone Star investigation—stirred up nationalist resentment. In response, the government has begun tightening restrictions on tax shelters frequently used by foreign businesses and many foreign investors fear further action might be in the offing.

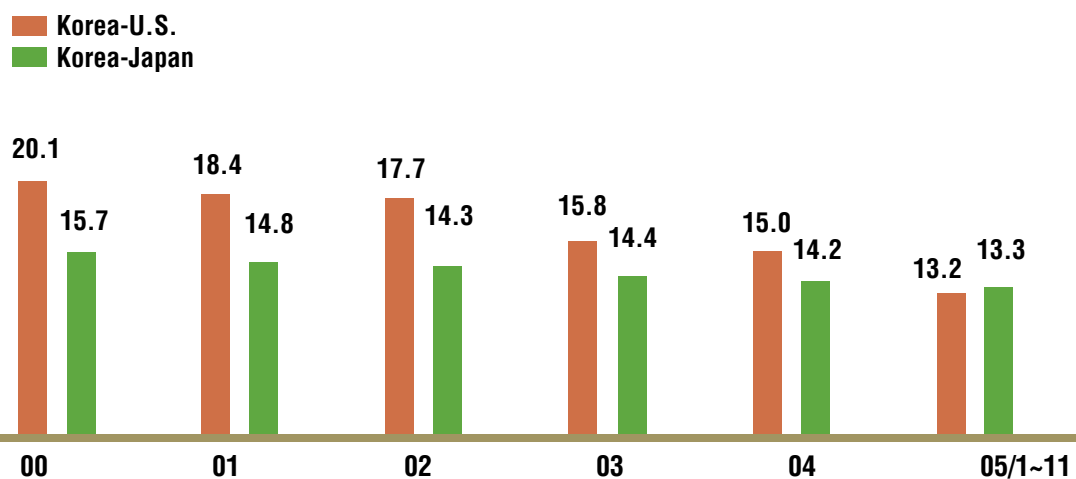
The program was brought to a close with a detailed discussion of Korea's tax regime by **Kaz Parsch**, senior manager of international tax services at Ernst & Young.





Wendy Cutler

Korea's Largest Trading Partners (Unit: %)



Implications of the Korea-U.S. FTA for Japan

April 25

The recently concluded U.S.-Korea Free Trade Agreement (KORUS FTA) is the largest free trade agreement the U.S. has negotiated since NAFTA, and the largest ever negotiated by Korea. As high as the stakes are for the two parties, the deal will also have a major, if less direct, impact on Japanese business and politics.

Wendy Cutler, assistant U.S. trade representative for Japan, Korea and APEC offered an assessment of the impact of the KORUS FTA on Japan and Korea during a business forum luncheon program co-hosted by The Korea Society at the Japan Society.

Cutler, who led the U.S. negotiating team during the ten-month long free trade agreement talks with Korea, expressed her conviction that the KORUS FTA is “truly a groundbreaking and historic agreement.” Though its full details won’t be made public until the deal

is submitted to Congress, Cutler said it will cut 95% of bilateral duties. As for its scope, she said the agreement calls for the elimination of all tariffs on 94% of trade in manufactured goods, opens each country’s service sector and reduces a range of non-tariff trade barriers. Neither side got all of the concessions they wanted from the other, Cutler added, but on balance it’s a strong deal both for South Korea—which expects to reap a 12% increase in exports to the U.S. from the deal—and for the U.S., which will gain a solid foothold in East Asia’s booming economy.

Reaction to the deal in Japan has been mixed. Tokyo’s own negotiations for an FTA with Korea collapsed in 2004, so many were surprised that the U.S. and Korea were able to reach a deal at all. Some in Japan worry that if ratified, the deal would put the country at

a competitive disadvantage vis-à-vis Korea. Cheaper U.S. and Korean goods may displace Japanese exports in both markets, and as Korea becomes more attractive to U.S. foreign direct investment, it may attract investment at Japan’s expense. On the other hand, Japanese free-trade advocates may well be heartened by the deal, which could spur their own government to pursue trade liberalization more seriously.

Asked about prospects for a U.S.-Japan FTA, Cutler said such an agreement isn’t realistic in the near term. The KORUS FTA talks succeeded, she said, because Korea’s leaders were united in their assessment that the country needed to conclude the deal, they were willing to put sensitive economic sectors up for negotiation and maintained a top-level political commitment to the process throughout. Such conditions, she believes, aren’t yet in place in Japan.



Distinguished Visitor's Luncheon

May 17

Oh Se Hoon, the youngest mayor of Seoul ever elected by popular vote, shared his vision for Korea's capital city with an audience of distinguished investors, executives and journalists in a distinguished visitor's luncheon program held at the Waldorf-Astoria Hotel in New York.

Oh explained to the audience that his goal since taking office in 2006 has been to turn Seoul into a truly world-class city by enhancing its fundamental economic, political and environmental features. On the economic front, he said, Seoul is looking ahead to the passage of the U.S.-Korea Free Trade Agreement (KORUS FTA) by nurturing industries—such as tourism, convention business, design and fashion, digital content, and research and development—that will flourish with the anticipated uptick in trade and travel between the two countries. Oh also said that he will aggressively pursue

plans, in tandem with the national government, to transform Seoul into a regional financial services hub.

Oh's priorities on political reform and the environment are equally ambitious. Known as “Mr. Clean” for his efforts to combat illicit political contributions during his tenure in the National Assembly, combating corruption is another major focus of his administration. If anything, Oh is even more tenacious about environmental conservation. Also nicknamed “Mr. Green,” Oh has been known to lead by example on environmental issues. While many Seoul residents prefer bottled mineral water, Oh has urged them to switch to the city's tap water, drinking it regularly to showcase its safety. Oh closed his remarks to the audience by emphasizing the importance of environmental conservation, both in his city and throughout the world.



Oh Se Hoon



South Korea's Incongruous Engagements: The U.S. KOREA FTA and the Kaesong Industrial Zone

May 31

South Korea's economic policy is reaching out in two directions: cementing a free trade agreement with the United States, on the one hand, and jointly developing the Kaesong Industrial Zone with North Korea on the other. Ostensibly, both initiatives aim to boost national GDP. According to **Thomas Byrne**, vice president and senior credit officer of Moody's Sovereign Risk Group, only the first of these two engagements is truly practical.

South Korea's drive to reach an FTA with the United States (KORUS FTA) is a straightforward measure likely to yield great benefits

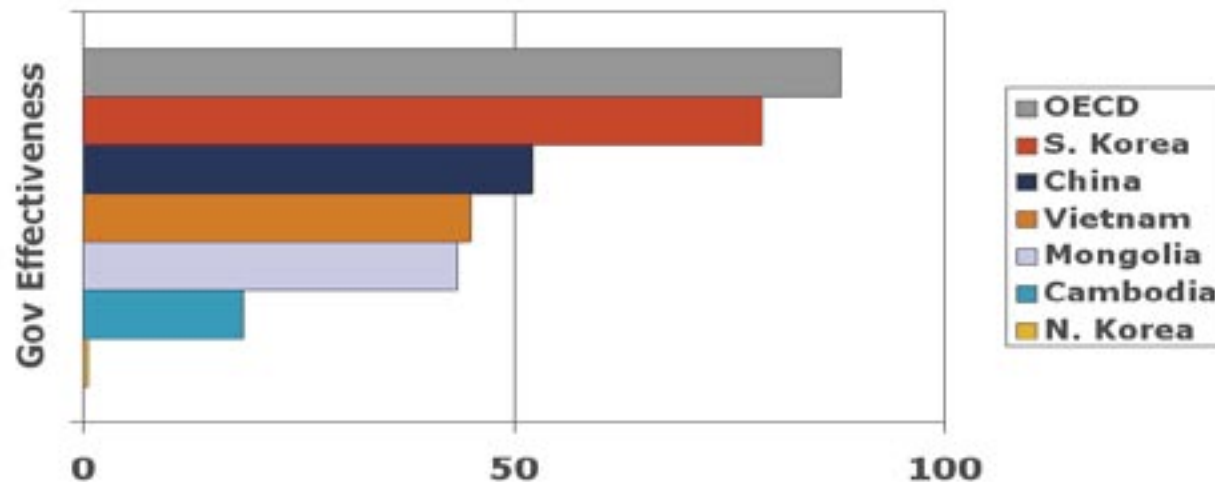
for both countries, Byrne said. Numerous studies have predicted that once ratified, the agreement will be an important shot in the arm for Korea's exporters and overall economy. A successful implementation of the KORUS FTA also will pave the way for an equally beneficial free trade agreement with the European Union.

The economic rationale for developing the Kaesong Industrial Zone—which allows small- to medium-sized South Korean manufacturing companies (SMEs) to utilize low-priced North Korean labor—is to increase competitiveness in the SME sector. Currently, he noted, 10,000 to

12,000 North Korean workers are employed by South Korean companies at Kaesong. The zone would have to reach its projection of employing 350,000 North Korean workers, however, for it to have an appreciable impact on the South Korean economy. An expansion of that magnitude, said Byrne, is unlikely to happen as long as North Korea and its neighbors remain at an impasse over its nuclear program.

Accordingly, in Byrne's view, Kaesong's political goals are more important than its economic rationale. South Korea's leaders initiated the project with the hope that it might eventu-

World Bank: Government Effectiveness 2005



ally spur the DPRK to adopt economic reforms, just as China and Vietnam relied on special economic zones (SEZs) to spur wider liberalization in the 1980s. If the DPRK did reform, and enjoyed healthy economic growth as a result, South Koreans wouldn't be stuck with as great a financial burden of raising North Korean living standards during an eventual reunification process.

So far, however, Kaesong's policy architects haven't articulated a plan to ensure that the project will spur economic reforms in the DPRK, nor have they created benchmarks for assessing its political success. There also are

important differences between Kaesong and its Chinese and Vietnamese precedents. In those cases, the SEZs were meant to foster the development of local companies which had backward linkages to the larger national economy. Kaesong operates as a special preserve for South Korean companies, and it is walled off from the rest of the North Korean economy. Furthermore, it is unlikely that Kaesong will create a new class of capitalist-oriented North Korean managers, accountants and professionals who could serve as agents of reform. This is because of Kaesong's proximity to their home offices,

which eliminates any need for South Korean companies operating there to provide their North Korean workers with training to prepare them for higher positions.

Byrne ended his remarks with the caveat that Kaesong could indeed achieve its political goals if North Korea's leadership made the decision to reform. At this point, however, he believes North Korea has not taken this decision. In comparison to its economic engagement with the U.S., therefore, South Korea's goals at Kaesong in Byrne's view remain elusive and quixotic.



Chang Dae Ryun

The We/Me Culture: Marketing to Korea June 7

Koreans take great pride in their country's ethnic homogeneity and are deeply influenced by Confucian values that stress group identity and social harmony. While this observation may seem relevant only to social scientists, actually it is just as relevant to branding and marketing executives. Or, at least, so argues **Chang Dae Ryun**, a professor of marketing at Yonsei University in Seoul. And it explains why Korean consumers make purchases based on their attitudes towards individual and group identities. To succeed in Korea, Chang continued, marketers need to understand this unique Korean "We/Me" consumer paradigm.

In the United States, Chang said, mass-market consumer products tend to gain and decline in popularity along a broad, gentle curve. American consumers buy products they feel fit their individual identity. Thus, they

are more cautious about adopting a product or brand, but when they do, their loyalty is persistent.

In Korea, by contrast, product lifecycles are much quicker. A new product or brand's sales will explode but often decline just as precipitously. Individual Korean consumers pick their goods, at least partly, in order to conform to group patterns. When Koreans buy Mercedes, they all buy Mercedes. When they switch to Lexus, they all switch. As a result, Korea has fewer niche markets than the United States, and it can be harder to forecast which products consumers will adopt next.

To Americans, conformity feels suffocating. American consumers seek out products and brands that will differentiate them. But to Korean consumers, Chang explained, following dominant trends can be a satisfying affir-

mation of collective identity. That is why the majority of luxury cars sold in Korea are black, why so many Korean apartment blocks are made from the same blueprints and why less than a half-dozen movies make up more than 90% of the Korean box-office take.

At the same time, Chang warned against treating Korean consumers as automatons. Some purchase decisions are more influenced by group dynamics than others. For example, Koreans tend to buy housing, cars, entertainment and *soju* in order to confirm their identity as Koreans. Alternately, Koreans tend to buy goods like beer, coffee and hair coloring in order to express their individual identities. If foreign marketers can create a message that balances Koreans' impulses towards "we" and "me" they just may reap huge rewards.

• Match Marketing Components to each Segment

	We Markets	Me Markets	We-Me Markets
Product	Standardized Products	Wider Product Choice	Standardized Products
Price	Uniform Pricing	Wider Price Points	Customized Pricing
Place	Intensive Distribution	Quick Service	Customized Distribution
Promotion	ATL Media	BTL Media	Standardized Media



Distinguished Visitor's Luncheon *October 12*

As the Republic of Korea's minister of unification from 2002 to 2004, **Jeong Se Hyun** has seen many ups and downs, both in inter-Korean relations and in the U.S.-ROK alliance. In the wake of the 2007 inter-Korean summit, which he attended as a special member of President Roh Moo-hyun's delegation, Jeong said he feels that both relationships may be on the upswing.

Speaking at a distinguished visitor's luncheon program, Jeong described the summit from an insider's perspective. He said that contrary to what one might expect from the tone of coverage in the South Korean media, the meetings held in conjunction with the summit produced a number of substantial and practical agreements that will facilitate greater economic integration and less military tension on the Korean Peninsula. This progress was aided by the Bush administration's recent, more accommodating stance towards North Korea in the Six-Party Talks. With both of these bilateral relationships developing in tandem, Jeong added, the Korean Peninsula is primed for significant economic and political developments.



Hwang Kun Ho

A "Big Bang" in the Financial Sector *October 19*

The last several years have seen South Korea's planners touting the country's potential to become Asia's next regional financial services hub. Yet so far, Korea's financial services companies haven't grown large enough to turn themselves into world-class players.

According to **Hwang Kun Ho**, chairman of the Korea Securities Dealers Association (KSDA) and former CEO of Meritz Securities, Korea needs to trigger a process of rapid growth and expansion—a "big bang"—to propel its financial services sector forward. Hwang noted that this is precisely what the Capital Market Consolidation Act (CMCA), passed in July 2007 by the ROK National Assembly, aims to do.

In a breakfast forum program co-sponsored by the Columbia Business School's Asian Alumni Club, Hwang discussed this new legislation and explained its intended effects. Under the current regulations, he noted, there are severe restrictions on the types of services Korean financial firms are

permitted to provide to their customers. That is, there are brokerage houses, asset management companies, futures companies, investment trust companies, real estate investment trust companies and ship investment companies, but it is impossible for an entity of one type, such as a brokerage house, to perform another type of financial service, such as asset management.

When the provisions of the CMCA go into force in February of 2009, all these categories will disappear, and there will only be multi-service institutions, called financial investment companies. The CMCA will deregulate the financial sector—replacing six separate laws and 100 regulations with one code—making it possible for financial investment companies to expand the services they offer. The law will also allow companies to offer products with new asset allocation mixes. And, Hwang noted, Korean financial investment companies finally will be able to realize their long-held goal of becoming world-class players.



Lee Tae-sik

The ROK-U.S. Relationship and the KORUS FTA in the 21st Century

November 29

The Republic of Korea's ambassador to the United States, Lee Tae-sik, addressed the topic of the recently negotiated Korea-U.S. Free Trade Agreement (KORUS FTA) during a business roundtable luncheon program. In his presentation, Lee made a strong case for ratification of the agreement and urged the audience to speak out on its behalf as well.

Noting that the deal faces challenges to its ratification in the legislative bodies of both countries, Lee advocated American approval by enumerating the agreement's benefits for the U.S. economy. Korea is the second largest services market in Asia, he said, and a particularly lucrative country for financial services, insurance and telecom companies. Once ratified, the KORUS FTA would give U.S. service firms unfettered access to all these sectors.

The deal would also confer duty-free status on two-thirds of American agricultural commodities and 95% of American industrial products imported to Korea, he noted. Moreover, quotas and regulations on film and TV that have long hindered American companies' access to the Korean entertainment market would be scaled back.

Opposition to the agreement in the U.S. has come most forcefully from two industries that feel the deal will leave them at a competitive disadvantage: beef and automobiles. He acknowledged that the restrictions on the importation of American beef into Korea currently in effect, due to concerns about mad cow disease, would not be immediately resolved. But Lee pointed out that efforts were underway to lift the market restrictions and

there is potential for achieving a satisfactory settlement. In the automotive sector, Lee noted that both nations had agreed to reciprocal reductions in imported vehicle tariffs, and Korea, which currently has a higher tariff than the U.S., would be making greater reductions. On this point, he said, Korea has given as much as it realistically can.

With the 2006 midterm elections bringing Democrats to power in the U.S. Congress, Lee expressed his government's concern that ratification of the KORUS FTA would become even more difficult than otherwise would have been the case. In closing, however, Lee expressed a conviction that the agreement ultimately would be ratified "especially if the U.S. business community makes their support for the deal clear to their elected representatives."