

Foreign Opinion Leader Perceptions:
*Comparative Impressions Concerning
Korea and Related Economic, Political
and Security Issues*

Completed for:

Korea Legislative Research Institute

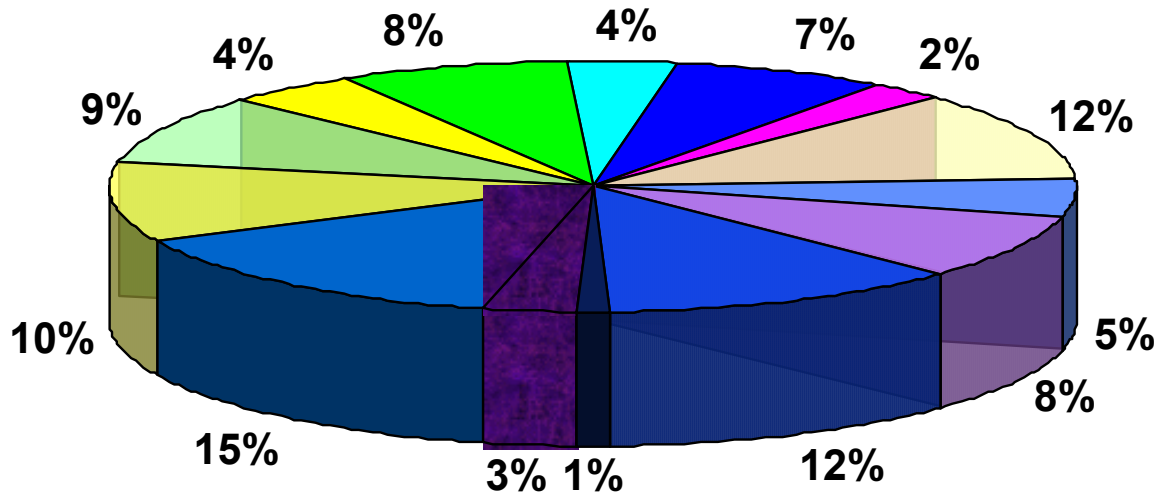
May 2004

To Assess the Evolving Perceptions of Foreign Opinion Leaders on a Range of Issues Concerning Korea and Related Economic, Political and Security Issues, the Korea Legislative Research Institute (KLRI) Retained KWR International, Inc. (KWR) to Conduct the Following Survey

- After preliminary research, a questionnaire was prepared and approved for distribution;
- A targeted list representing business, government, academia and media was prepared;
- The list was biased toward prospects who had an existing familiarity with Asian and Korean issues so that they could answer more substantive questions;
- This allow a more in-depth exploration and rapid response time than would have been possible with a random audience who would not have possessed sufficient knowledge;
- A questionnaire was sent to approximately 8,000 prospects on April 3, 2004 who were asked to forward their response by the evening of April 14, 2004;
- 166 responses were received* over this time period; and
- Selected respondents were contacted over several weeks for more in-depth interviews by telephone and e-mail, giving rise to the following data and analysis.

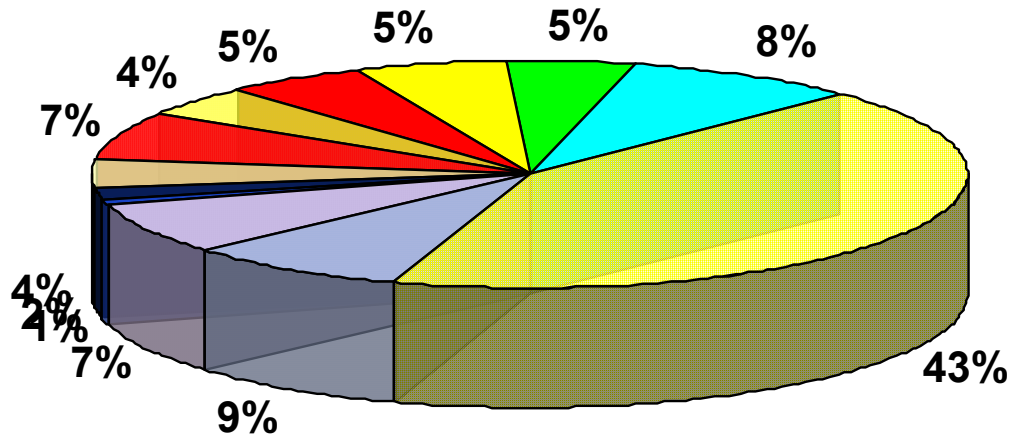
* Additional responses were received too late to be incorporated into the quantitative analysis, and several individuals noted their interest in participating in the qualitative interview, though did not have time to complete the questionnaire. The editorial comments of both of these two groups are reflected in the interviews, though their views are not reflected in the quantitative data.

Respondents Included a Wide-Range of Opinion Leaders



- | | | |
|------------------------|------------|--------------------------|
| □ Academia | □ Analyst | □ Attorney |
| ■ Consultant | ■ Engineer | ■ Economist |
| ■ Executive | ■ Finance | ■ Fund Manager/Investor |
| ■ Government | ■ Media | ■ Non-Profit/Association |
| ■ Technology Executive | ■ Other | |

Stationed Primarily Across the United States, with Additional Input from Asia and Europe



- | | |
|-----------------------------|------------------------|
| ■ US-Northeast/Mid-Atlantic | ■ US-Southeast |
| ■ US-Midwest | ■ US-South Central |
| ■ US-Mountain States | ■ US-Northwest |
| ■ US-Pacific or Southwest | ■ Korea |
| ■ North Asia (x-Korea) | ■ South/Southeast Asia |
| ■ Europe | ■ Other |

Respondents Included a Cross-Section of Constituencies Reflecting a Range of Perceptions

- Included in the 166 responses were individuals including:

Business:

- Ret. CEO, Asia, Major U.S. Auto Manufacturer
- Chief Economist, Fortune 50 Corporation
- Venture Capitalist
- CEO, Technology Firm
- Hedge Fund Principal
- Sr. Corporate Attorney
- Portfolio Manager

Govt. /Non-Profit:

- Intl Trade Specialist
- Former Foreign Minister
- Regulatory Attorney
- Washington Rep., Fortune 50 Corp.
- Dir., Foreign Trade Assoc.
- Lobbyist
- Senior U.S. Diplomat
- City Govt., Econ. Dev.

Academia:

- Economics Professor
- Bus./Govt. Professor
- Pol. Science Professor
- Dir., Asia Studies Prog.
- Training Director
- Think Tank Analyst
- Guest Scholar
- Rating Analyst
- Research Fellow

Media:

- Tokyo-based Corresp.
- Corresp., Major Business Magazine
- Business Corresp., National Newspaper
- Sr. Editor, National Business Magazine
- Technology Journalist
- Editor, Online News

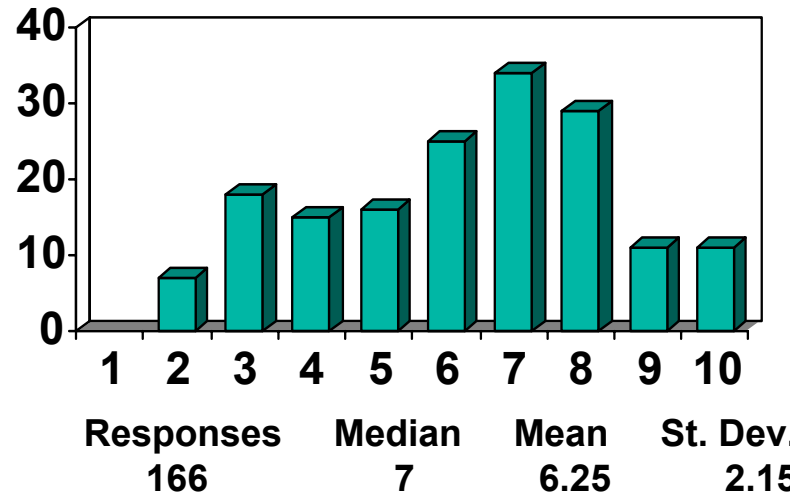
Though, given the specialized selection process, this should not be interpreted as an unbiased “snapshot” of U.S. public opinion

Respondents with More Knowledge of Korea Tend to Be More Aware, and Hence, More Critical

- In addition to the 166 questionnaires received, other participants responded, noting they did not possess sufficient qualifications to render an informed opinion;
- Others noted they were not very knowledgeable, and were unable to answer every question;
- Individuals who were the most knowledgeable tended to be the most extreme in their ratings and harsh in their comments though most respondents do try to be positive; and
- The bias toward informed respondents and sampling methodology means the data should not be interpreted as being representative of U.S. or Foreign opinion leaders as a whole, but rather as a telling indicator of the views of a cross-section of individuals, most of whom are informed, and who have some knowledge of Korea and the Asia/Pacific region.

Therefore, in Addition to a Calculation of the Mean, Median and Standard Deviation, the Number of Responses Measure is a Telling Indicator

Most Respondents Rated Themselves as Fairly Knowledgeable....



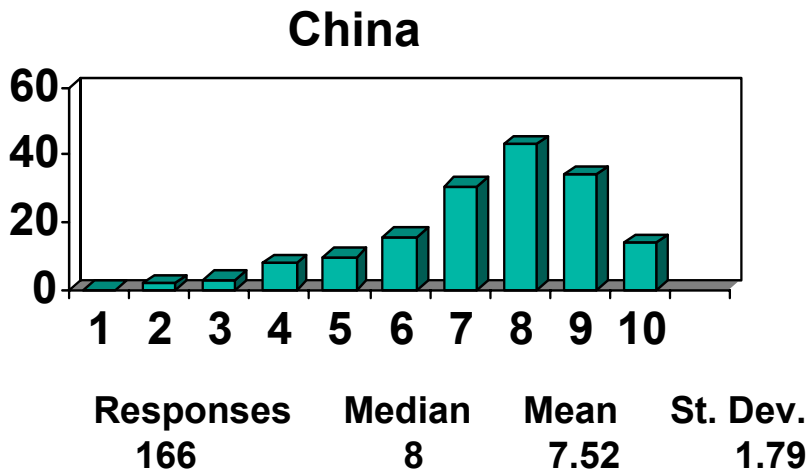
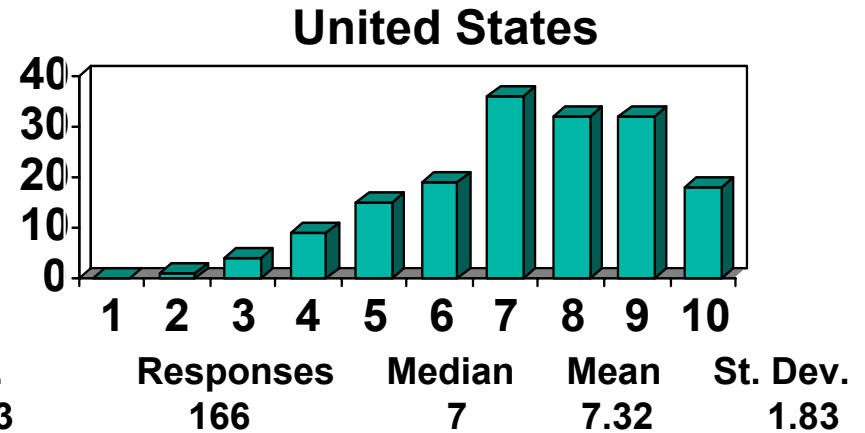
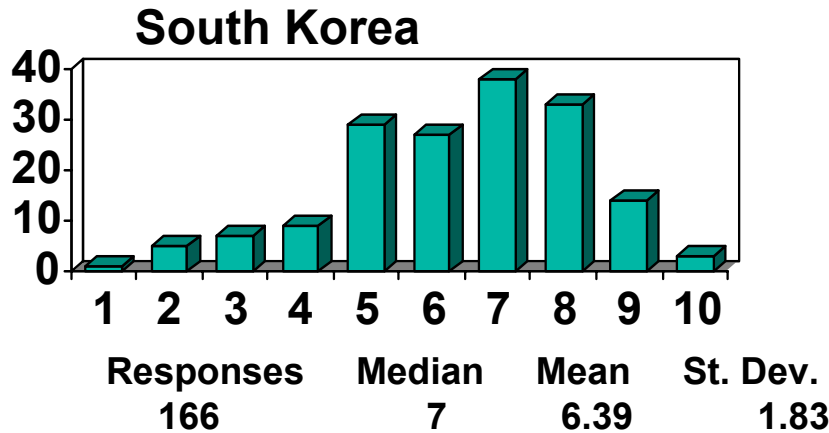
1) Please rate your general knowledge of Korea? (Please answer on a scale of 1-10, 1 indicating no knowledge and 10 indicating a great deal of knowledge)

Respondents rated themselves as having a good deal of knowledge, though there was a fair amount of deviation and one should not characterize this sampling as a group of experts on Korea-related issues. In contrast, a similar survey conducted by KWR in 1996 that sought to reach a wider audience, generated a 5.7 mean response and a more targeted initiative in 2000, registered 7.1.

...Though the Range of Experience and Knowledge was Considerable

- “ Serve on the Board of a Korean-US biotech co., but know little of Korea per se.” *Technology Executive*
- “ Lived in Seoul for two years and followed Korean developments for nearly 30 years.” *Foundation Exec.*
- “ Worked on Korea project financing when at the Export Import Bank of the US and have read about Korea regularly since then.” *Washington Consultant*
- “ I am employed by a US-based trade association and have 25+ years business experience with companies that have a presence in South Korea.” *Director, National Trade Association*
- “ I’ve visited Korea and studied its history, but consider myself a “4,” since I’m not an expert. But I probably know much more than a typical American.” *Historian, Ivy League University*
- “ I recently attend the IETF (Internet Standards Body) meeting in Seoul for about 7 days. I had not been in Korea before that, but I was very impressed with all that I saw.” *Board Member*
- “ Following economic and trade policy in South Korea for over a decade.” *Chief Econ., Fortune 50 Corp.*
- “ My company has had good business relations with Korea since 1987 and have enjoyed learning about how to do business with Korean people and firms.” *Health Care Executive*
- “ My ex-firm invested approx. \$500M of private capital in Korean companies from 1998-2003. I know the chaebols and smaller Korean companies in a variety of sectors well.” *Private Investor*
- “ Visited Korea 4 to 5 times a year from 1963 to 1996. Since 1996, have visited once a year and continue to follow Korean events.” *Editor, Major Business Newspaper*
- “ I really can't overemphasize my ignorance about most issues relating to this part of Asia.” *News Editor*

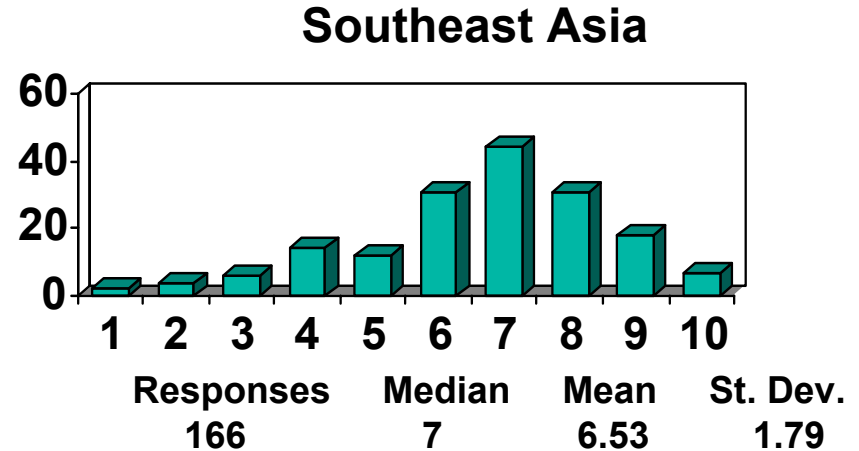
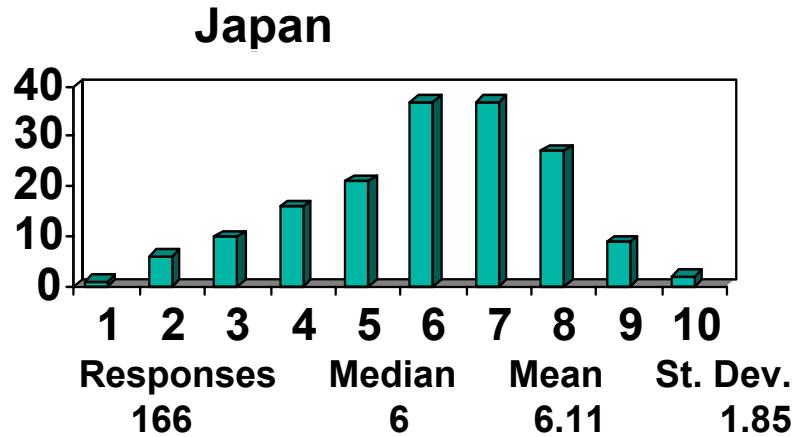
While Positive, Respondents do not Believe that Korea Offers the Same Investment Potential as China or the U.S.....



2) How would you rate the investment potential of the following countries and/or regions over the medium to long term? (Please answer on a scale of 1-10, 1 indicating extremely low and 10 indicating extremely high.)

With moderate deviation, respondents viewed Korea positively, but did not believe it offered the same attractiveness as the U.S., China or Southeast Asia, placing it marginally over Japan.

.... Placing it Marginally below Southeast Asia and Above Japan



Many respondents also expressed positive sentiment toward India and others a positive view on Latin America, Russia, Central and Eastern Europe and Australia.

“ The next several months will be a most critical time period to determine how South Korea will be reorganized and characterized for the future. Accordingly, it will be prudent to wait those several months before determining any action.” *Patent Attorney*

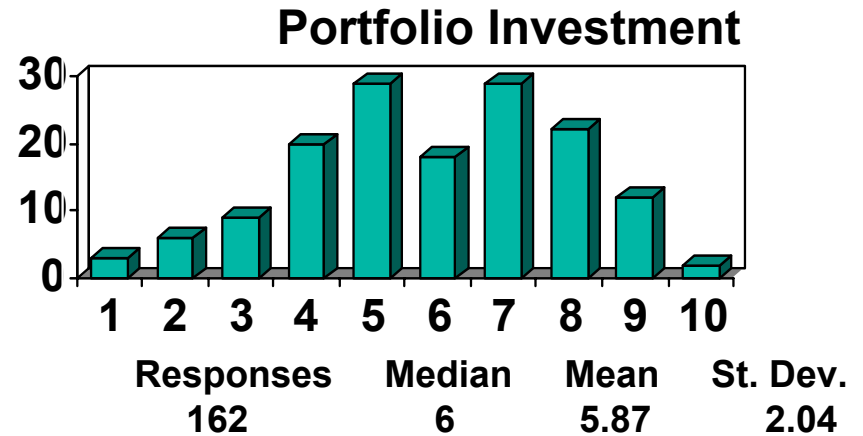
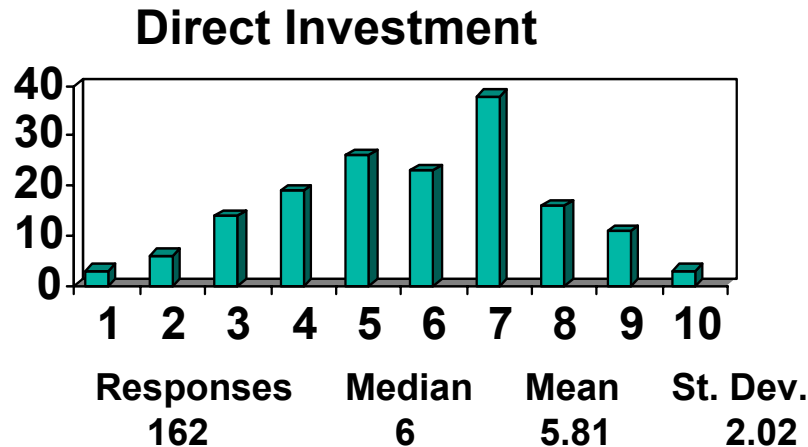
“ My view is that South Korea has been/will be an attractive investment destination-only reservations relate to issues with North Korea and the potential for military instability or the potentially huge economic costs of reunification or ongoing major financial aid to the North.” *Director, U.S. Business Association*

- “ There is a pecking order of economies in Asia. The bottom line is Korea has stumbled. Japan is picking up and looks better in comparison. Because of that there are questions and Japan and China are being viewed as more attractive to investors than Korea. For Korea to be more attractive it has to project an image of political stability and the move toward impeachment undermined that perception and made investors pause. China less developed but is seen to have more upside and Japan is a larger, more liquid market, with more potential upside.” *Hedge Fund Analyst*
- “ In the technology space, Korea is seen as a market unto itself and does not seem so attractive to most of the companies we work with because it is relatively small compared to Japan or the potential of China. And the Southeast Asian countries are even worse off. There is also the notion there are really only two companies in Korea, LG and Samsung and if you do not need to deal with them you bypass Korea, Japan has a longer history of dealing with foreign companies and understands the language and relationships. Samsung and LG -- you come to them on their own terms and they know how to deal with international companies but only as a big conglomerate. *Technology Consultant*
- “ Currency movements will favor the East over developed Western markets over the next few years.” *Chief Investment Officer*
- “ China will continue to drive Asian growth, trade flows, technology transfers and consumer income growth, with concomitant effects on the region - barring geopolitical disturbances, and this is a major uncertainty- Taiwan-China, N Korea, FSU, Muslim fundamentalists..” *Global Strat., Major Inv. Bank*

Survey on Korea and Related Economic, Political and Security Issues

- “ You get the impression Korea does not make it as easy to invest there as in some other countries. And China and others are lower cost markets.” *Correspondent, National Business Newspaper*
- “ Korea causes foreign investor considerable difficulties because it is unclear if Korea really is receptive unless a necessity arises.” *Consultant – Advisory Services*
- “ Have concern about Korea's brand of stupid populism, which makes it swing toward appeasement with North and then wonder why it gets betrayed ... Dislike its anti-Americanism, and think it better do more about its rigid populist unions and corrupt chaebols. That said, Made in Korea tends to mean quality to me, and I love Korean food and respect Korean people.” *National Business Correspondent*
- “ My Japan rank is dependent on acceleration of structural reforms ...and compliance with educational and training initiatives being promoted by JETRO, METI and other key organizations. Korean ranking dependent on political stability of the Korean Peninsula and consistency of economic/political leadership in South Korea.” *Exec. Dir., Training Co.*
- “ China is by far world’s most promising market and should be for decade or more.” *Asian Trade Rep.*
- “ Korean labor laws and general hostility to foreign influence makes it less attractive than it could be. Still, it is better than Japan.” *Marketing Executive*
- “ I rate Korea as second only to Taiwan in terms of investment potential and only slightly second. In both cases, the greatest risks are political rather than economic.” *Economist – Midwest U.S.*
- “ It is not a bad market. We have seen worse but it is China and Japan’s shadow.” *Fund Manager*

Respondents are Slightly Positive About Investing in Korea With a Distinct Preference for Portfolio over Direct Investment



3) How do you view the current attractiveness of South Korea as an investment destination? (Please answer on a scale of 1-10, 1 indicating not at all attractive and 10 indicating extremely attractive.)

Respondents can be seen to be slightly to moderately positive about investments in Korea. The aggregate data reveals a slight preference for portfolio over direct investment and a moderate deviation in both questions. If one, however, compares the 1-3 responses (strongly negative) there is a 27% bias against direct and the 8-10 (strongly positive) a 20% preference for portfolio.

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- “ Although Korea has projected itself into the global economy and its companies are well known, FDI remains a tough process given that Koreans have a prickly national character absent in Europe and other locations. It is easier to set up operations in China and India which also have more attractive fundamentals.” *Hedge Fund Analyst*
- “ The Investment Potential of China and Korea are obviously higher than the US with much greater returns possible -- but in terms of stability of assets (risk/reward) the US is at parity.” *Real Estate Dev.*
- “ China will continue to drive Asian growth, trade flows, technology transfers and consumer income growth, with concomitant effects on the region - barring geopolitical disturbances, and this is a major uncertainty- Taiwan-China, No. Korea, FSU, Muslim fundamentalists..” *Global Strat., Major Inv. Bank*
- “ Japan Rank dependent on acceleration of structural reforms ...and compliance with educational and training initiatives being promoted by JETRO, METI and other key organizations. Korean ranking dependent on political stability of the Korean Peninsula and consistency of economic/political leadership in South Korea.” *Exec. Dir., Training Co.*
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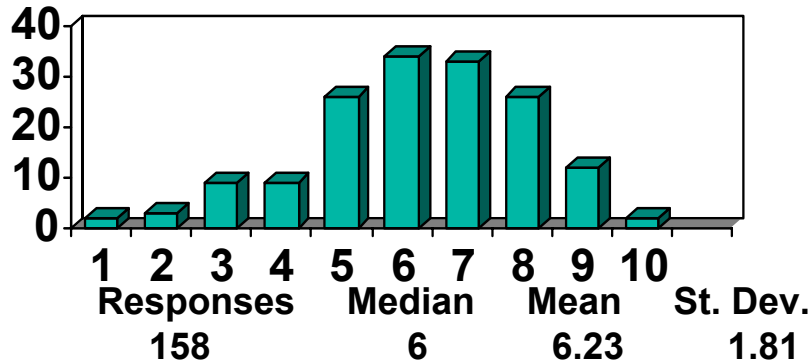
- “ The attractiveness of FDI in Korea is evident in the strong inflows and increased activity by foreign funds and corporations -- especially in the auto and banking sector.” ***Investment Analyst***
- “ The current political situation in South Korea is a worry -- however, the government/ business community did a very credible job during the last 5-7 years to overcome the last major regional economic downturn.” ***Director, National Trade Association***
- “ I consider ethical investment a priority, and like to be able to manage investments in companies that make such choices a priority - closer to home seems easier to monitor.” ***Professor, Canadian Univ.***
- “ Too much protectionism by Government of Korea. Uncertain about equality of treatment for foreign investors by both the public and private sectors.” ***Washington Financial Consultant***
- “ For direct investment Korea is relatively expensive, has strong unions, and growing anti-american sentiment -- but it has a sizeable market, good infrastructure, and skilled workforce.” ***Site Consultant***
- “ Corporate governance concerns among listed companies cloud the prospects for more robust portfolio investment growth.” ***Sr. Corporate Attorney, Former Gen. Counsel, Multilateral Agency***
- “ South Korea will remain a low priority investment destination ...due to fears of North Korean problems.” ***Trade Broker***
- “ Cultural, political, and institutional challenges for both direct and portfolio investment remain high and in dynamic evolution. Transparency and governance realities are much improved but have a great distance further to go.” ***Corporate Governance Consultant / Risk Analyst***

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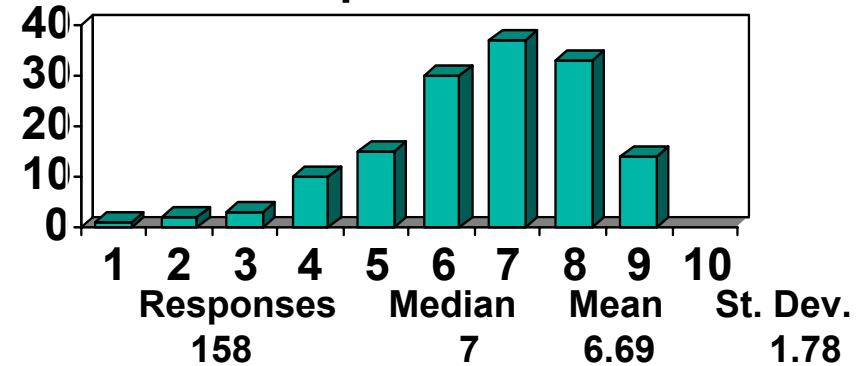
- “ Korea is still a growing country in need of capital, but banking and labor unions still a problem in getting sufficient returns and trusting financial information.” *Washington Economist*
- “ Direct investment now is pricey and valuations quite high, hence I put it a notch below portfolio investment, plus the exit discount.” *Private Investor*
- “ The political and economic situation in South Korea leaves a lot to be improved on and it does not rate high on our radar screen, or that of our clients.” *International Collections Consultant*
- “ Lack of outlook to solve the threat of North Korean nuclear weapons makes a short-term investment in Korea risky. If Bush is reelected, tensions are likely to escalate next year. The undue influence of the chaebol, persistent lack of transparency in some corporate governance and a lack of adequate legal protection for minority stockholders coupled with a certain mercantilist spirit in the Korean judiciary still mitigate against portfolio investment by individuals.” *Economist - Midwest U.S.*
- “ Recent political unrest is worrying. On the other hand, major technology companies are enjoying an export boom based on tech leadership...” *Asia-based Magazine Publisher*
- “ Foreigners are able to sell portfolio investment to express their dissatisfaction. That is not so easy with a direct investment.” *Accountant*
- “ Korea has made huge progress in welcoming FDI, however, SK and other incidents, makes one wonder whether this willingness to utilize foreign capital will translate into a willingness to allow foreign shareholders a real voice in determining the fate of assets under their control.” *Investment Analyst*

Korea's Strengths Received Higher Ratings In Several Specific Sub-Categories Compared to its Overall Rating....

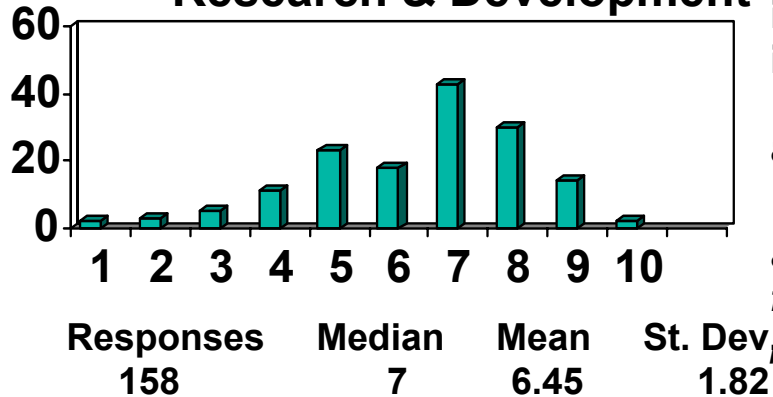
Domestic Market



Export Platform



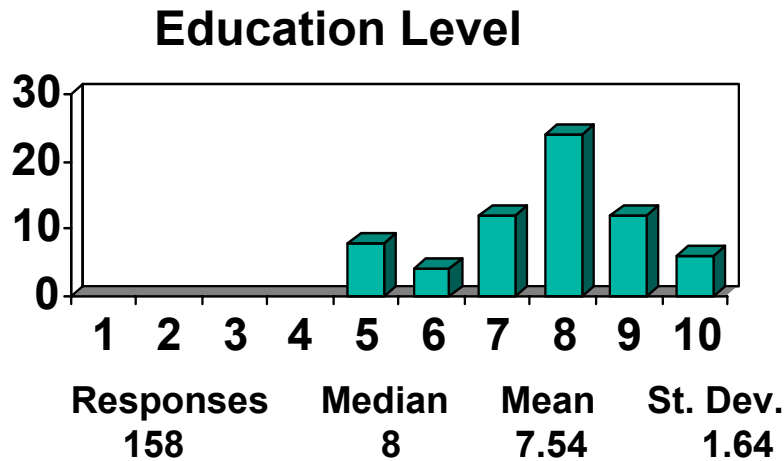
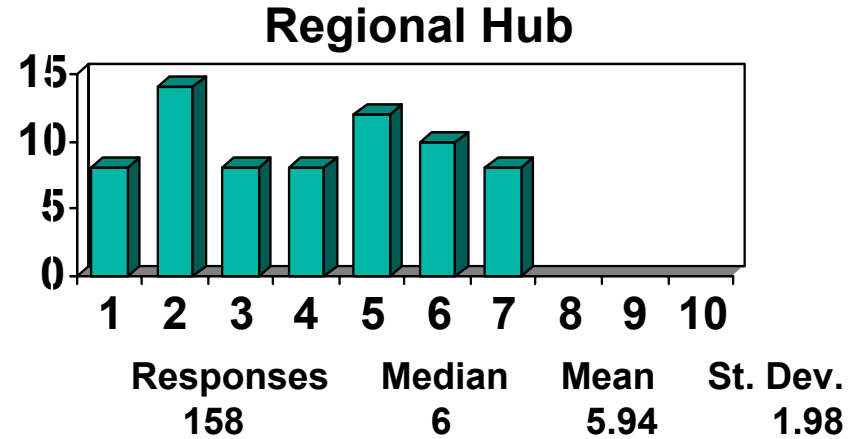
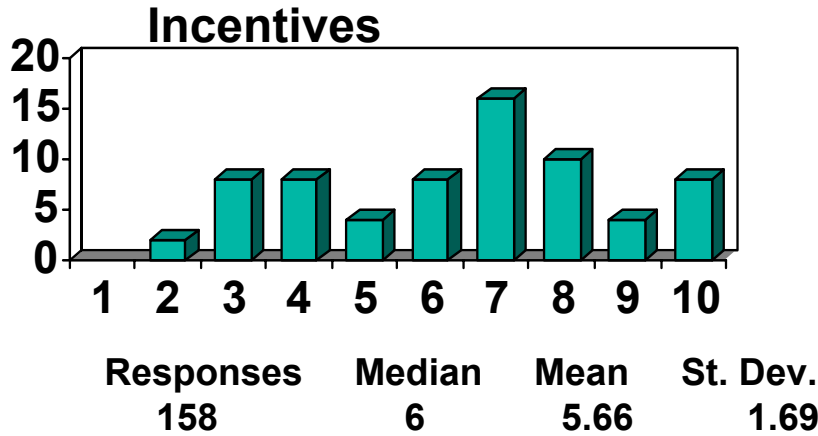
Research & Development



4) Please rate South Korea's strength in the following areas in regard to their importance in attracting or deterring direct investment. (Please answer on a scale of 1-10, 1 indicating a strong negative impact and 10 indicating a strong positive impact.)

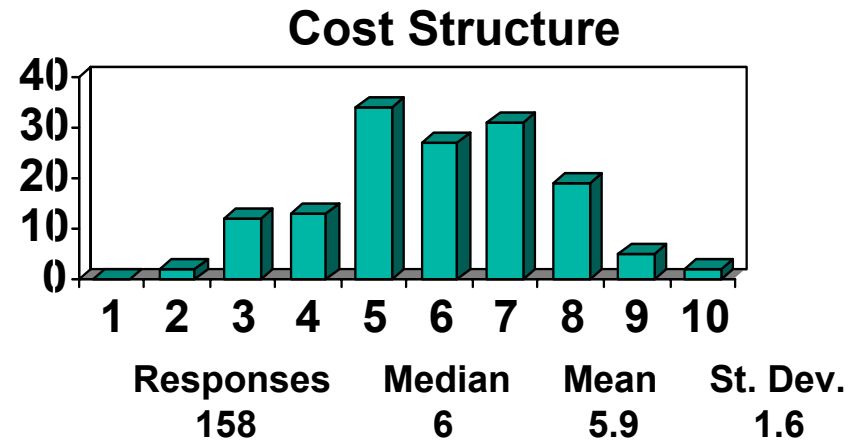
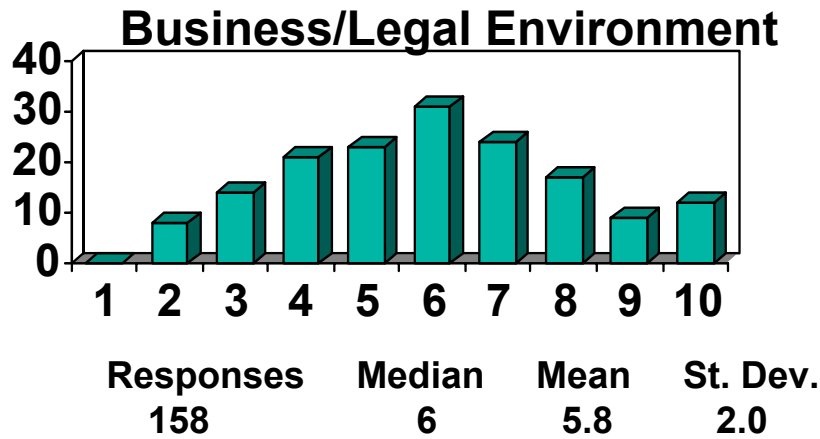
The attractiveness of Korea's domestic market and its ability to serve as an export platform & R&D center was far higher with significantly lower deviation than the previous question which measured Korea as a whole.

... With Education the Highest and Less Credence Given to its Ability to Provide Incentives, Act as a Regional Hub



Education ranked highest of all attributes with strongest ranking in entire survey. Incentives and ability to act as a regional hub -- while positive -- ranked significantly lower with notably higher deviation -- about on par with Korea's overall rating in the previous question. This is important and is something that needs to be noted and factored into Korean efforts to position itself and to attract foreign investment.

This Indicates a Gap Between Their Overall Perceptions Toward Korea and its Underlying Fundamentals



“ Korea has good fundamentals that somehow get lost in the translation. Very well educated and good work ethic and national infrastructure. Unlike China and India, there are no extended power outages. Their track record is much better and is more developed but something gets lost between what it has to offer and how to get people involved in the economy. One gets the impression they do not want foreigners as involved and they do not need it as much. Koreans are much less open to FDI than Americans. It is mostly a question of attitude more than anything else.” *Hedge Fund Analyst*

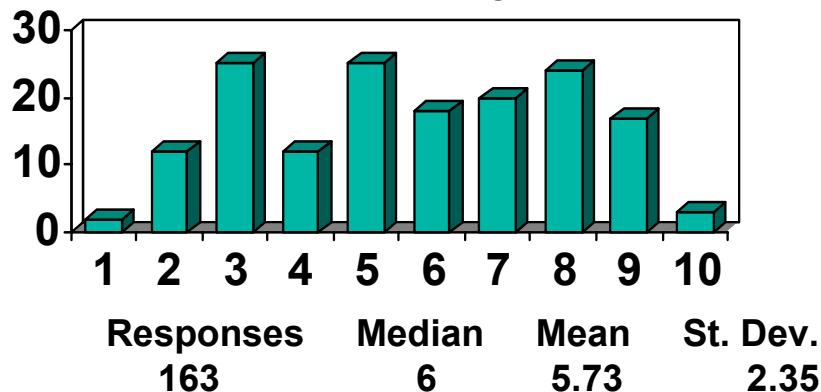
.... Reflecting a View that the Parts May be Equal to More the Whole - - In Other Words, For Many Respondents -- in Korea's Case 2+2=3.

- “ We have received tremendous help and cooperation in our development project with great willingness by the Korean Government to adapt to needed changes. There are a number of bureaucratic changes that must happen for the true potential of Korea to be realized.” *Real Estate Developer*
- “ Korean ranking is dependent on the political stability of the Korean Peninsula in general and consistency of economic and political leadership in South Korea.” *Exec. Dir., Training Firm*
- “ Government regulation and involvement have always made Korea a tough place to do business. Restrictions on cash flow leaving and coming into the country are very big negatives.” *Trade Broker*
- “ The legal system in Korea imposes jail time for infractions of administrative law. Beyond the problems of unclear regulations and a less than transparent system for creating administrative law, this factor is a major disincentive to companies seeking to send expat managers to Korea.” *Marketing Executive*
- “ The environment is heavily influenced by large conglomerates that dominate the Korea economy. Those groups still resist reforms in corporate governance that would make companies more transparent and give outside shareholders a larger voice in management. In addition, a strain of economic nationalism makes Korea less welcoming to international companies and investors than many other key Asian countries.” *Correspondent, National Business Magazine*

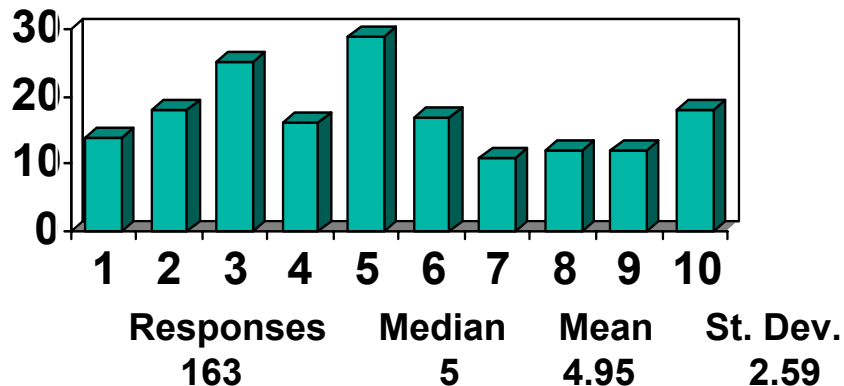
- “ The problem is that incentives reflect the same "solve by regulation and government intervention attitude" that causes so many problems. Deregulation is typically surface only in most industries.”
Manufacturing Executive
- “ Have you seen a recent chart about how many days are lost to strikes? Better fix that, the rest of the world is ending those destructive practices. Don't like the chaebol system either, think the presence of oligarchs tend to damp the business environment in general, despite the fact that some of them put out excellent innovative products that I like to buy.” *Correspondent, National Business Newspaper*
- “ Corruption is apparently becoming less, but is still endemic.” *Military Analyst*
- “ Immediate geographic proximity to both established and developing regions in Asia provides strength.” *Investment Bank Research Analyst*
- “ Korea needs to address issues with respect to large conglomerates consolidating everything, leaving little opportunity for independent companies.” *Private Equity Investor*
- “ The fundamentals are strong and success can be achieved – but the cultural thing it is difficult for outsiders and the government often gives them a hard time.” *Corresp., National Business Magazine*
- “ It all depends on reunification. If they do not reunify, Korea will have a hard time standing alone. They will continue to be an export dependant economy.” *Accountant*

Respondents were Quite Divided on How Various Risk Factors Might Impact the Korean Economy

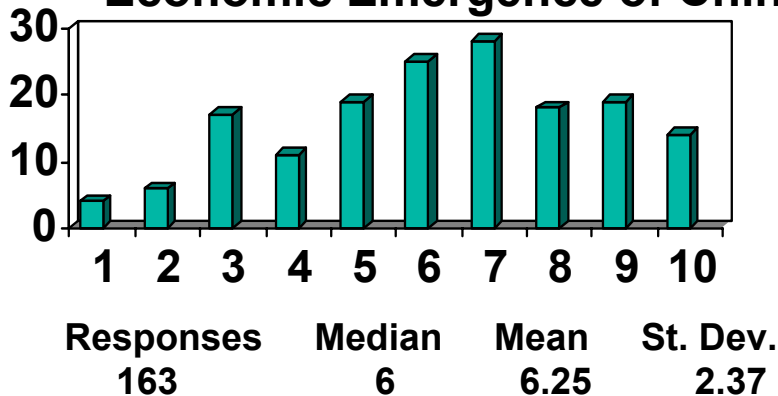
Political Stability



Tensions with North Korea



Economic Emergence of China

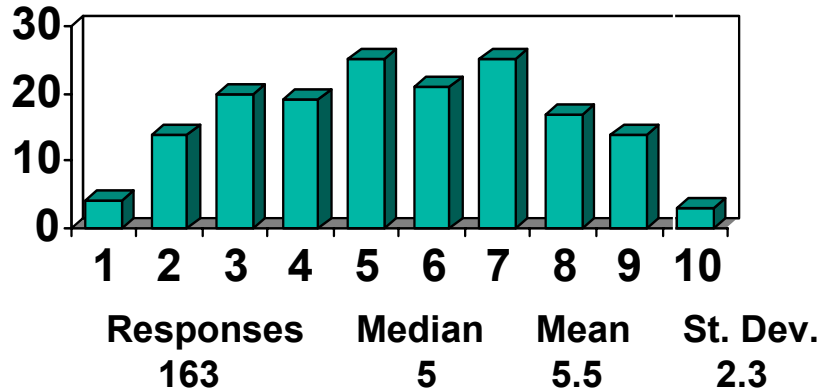


5) Please rate the following factors in regard to their potential effect on the South Korean economy over the short to medium term. (Please answer on a scale of 1-10, 1 indicating very negative and 10 indicating very positive.)

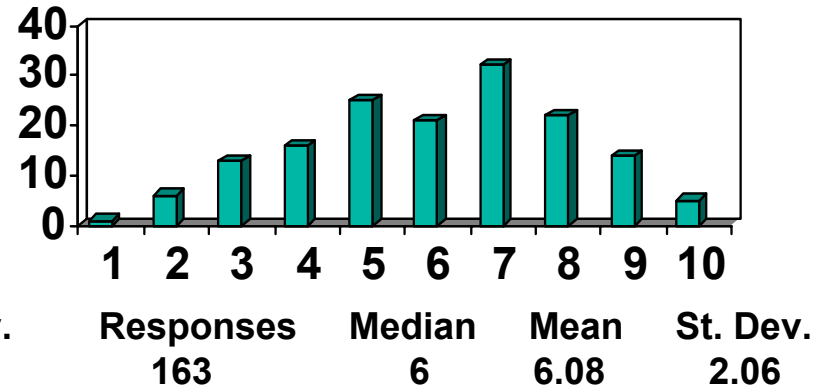
Respondents believed the emergence of China to be strongly positive and tensions with North Korea to be negative -- however, the deviations in this question were the highest of all throughout the survey.

... Differentiating Positive as Well as Negative Factors -- Though with Wide Deviations of Opinion and Concern Across All Areas ...

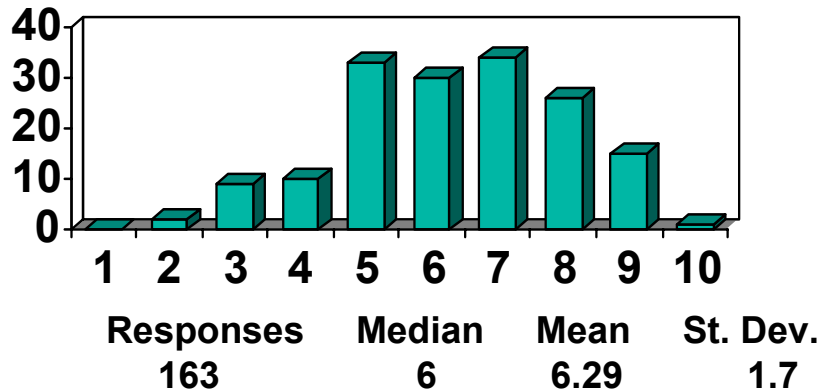
Government Leadership



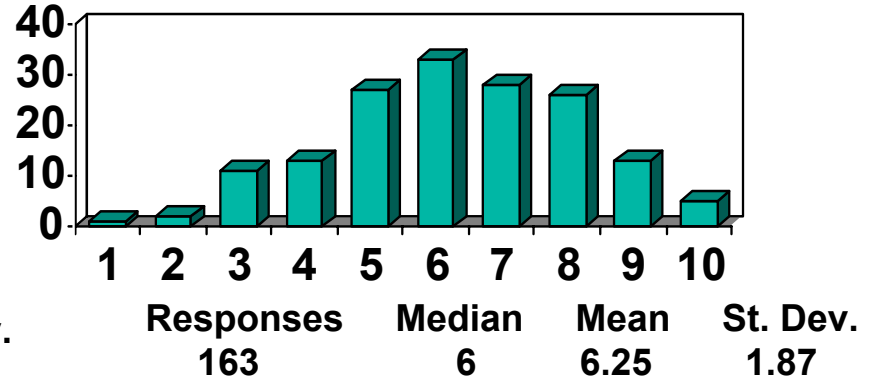
Economic/Regulatory Reform



Current State of U.S. Economy

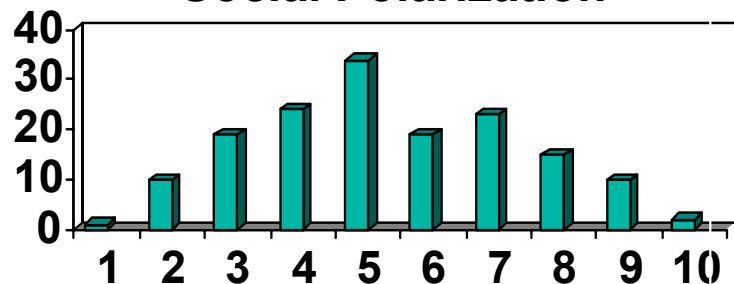


Business Environment in Korea



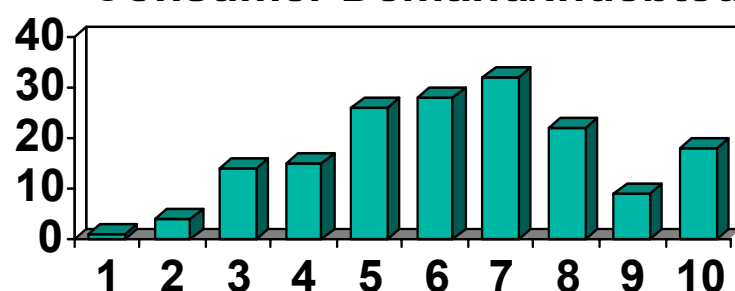
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Social Polarization



Responses 166 Median 5 Mean 5.4 St. Dev. 2.0

Consumer Demand/Indebtedness



Responses 163 Median 6 Mean 6 St. Dev. 1.9

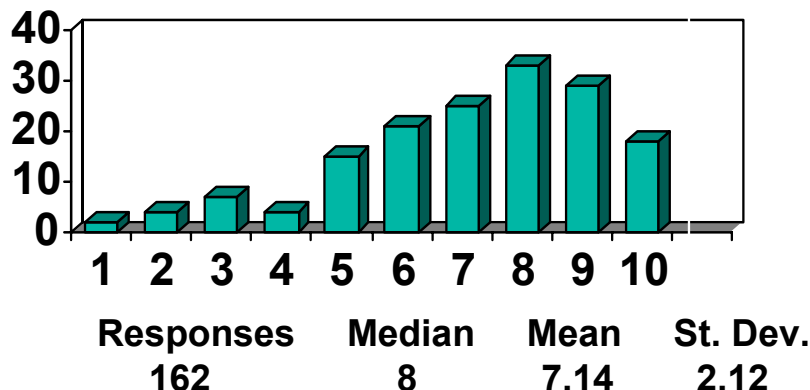
Interestingly, Consumer Demand/Indebtedness -- which has generally been viewed as problematic and a source of weakness -- received a relatively strong rating

- “ Korea so far is receiving a net gain from China. It has plenty to offer but on the other hand it will increasingly have to take into account what China wants rather than the U.S., while balancing the interests of Japan.” *Hedge Fund Analyst*
- “ MOFE is very protectionist and gives a lot of guidance. This is also true with MITI and MOF in Japan but true in spades in Korea – I know this having dealt with all these parties as a former U.S. government official with responsibilities in that area.” *Former U.S. Govt. Official*
- I visited last June to attend a conference and was impressed by the very direct and connected way of doing business. However, its not just a different alphabet, it's a very different alphabet. Korea is very well wired but it is self-contained, partly due to the language. Japanese strikes me as even more encrusted.” *Internet Infrastructure Consultant*

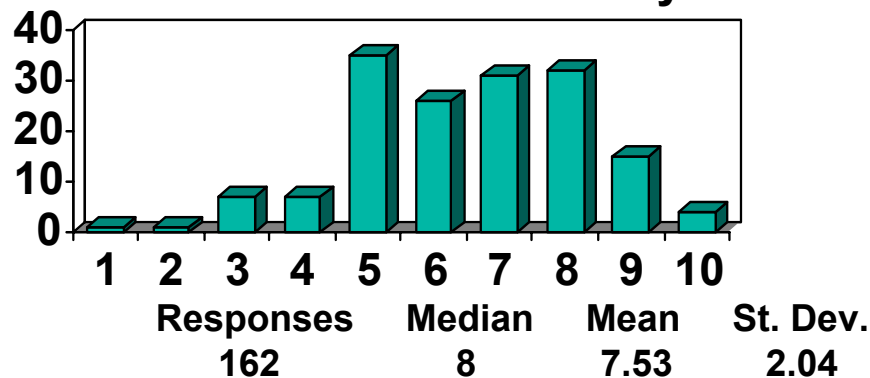
- “ I am not too worried about the size of the Korean market and do not think that will limit them moving forward. If France can stand by itself, then surely Korea can.” *Former U.S. Govt. Official*
- “ Koreans should stop fooling themselves that the United States is the cause of their difficulties with North Korea, that relations would be better if the United States were less involved, or that North Korea harbors no aggressive plans towards the Republic of Korea. Business and political leaders should speak out forcefully about this.” *Think Tank Analyst*
- “ I don't know enough about the regulatory/legal environment to comment on impact on investment. As a hub into China rest of region South Korea has done a terrific job in terms of infrastructure development(ports, railroads, telecommunications). As a still emerging democracy in US terms political upheaval is a concern.” *Director, National Trade Assoc.*
- “ Unionization which can be strident.” *Site Location Consultant*
- “ Corporate governance is weakest link.” *Investment Fund Manager*
- “ Lack of recognition among youngsters, the future of Korea, the benefit of US and the menace of North Korean communism. Do not confuse with the Chinese Market Socialism.” *Foundation Exec.*
- “ I understand that Korea is more wired more than any other country but it is still immature while Japan's relatively low-tech environment has been leveraged for business-to-business low-bandwidth, high-value solutions. It takes a while -- it is one thing being wired it is another thing making money off of it.” *Technology Consultant*

Respondents Registered Strong Views Concerning Policy Priorities for the Korean Government....

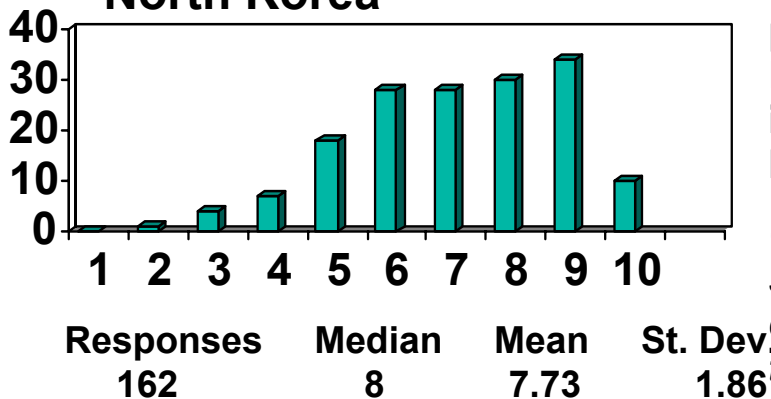
Corporate Reform



Political Stability



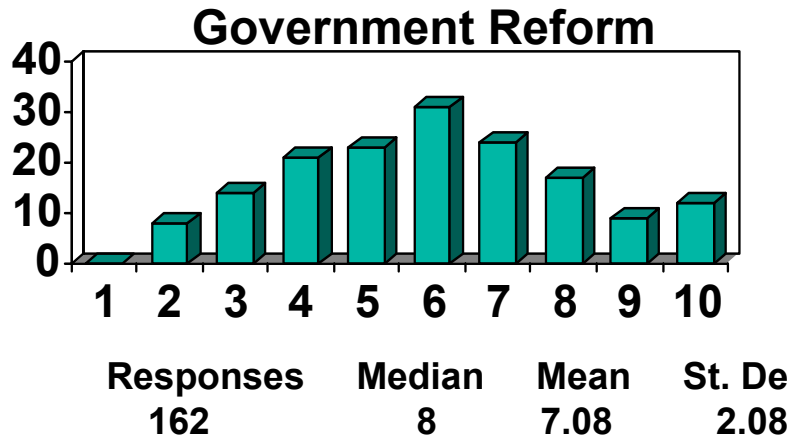
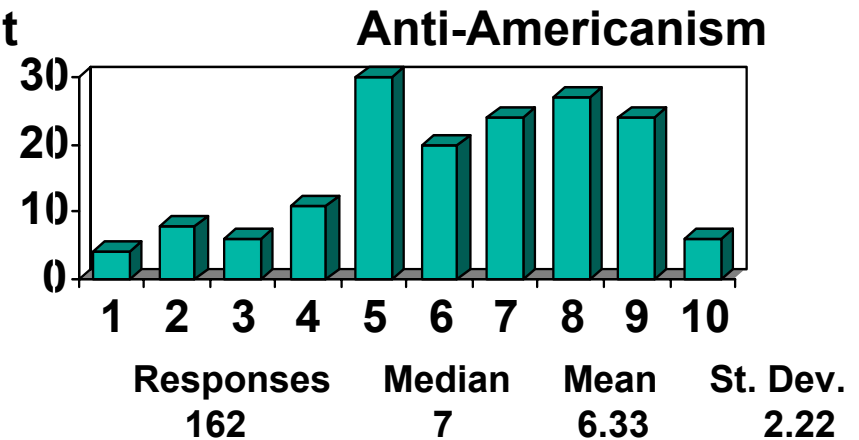
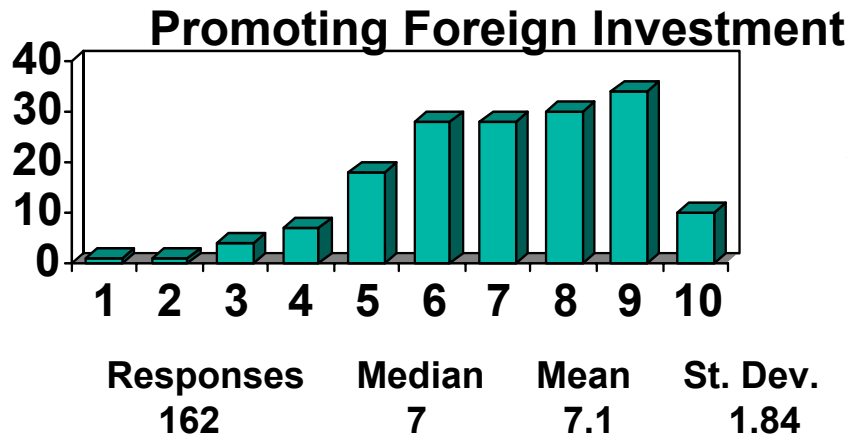
North Korea



6) How do you view the following issues as priorities for the Government of South Korea? (Please answer on a scale of 1-10, 1 indicating lowest priority, 10 indicating highest priority).

Compared to other questions, respondents expressed strong views with relatively low deviation -- The need to deal with North Korea and to achieve Political Stability topped the list.

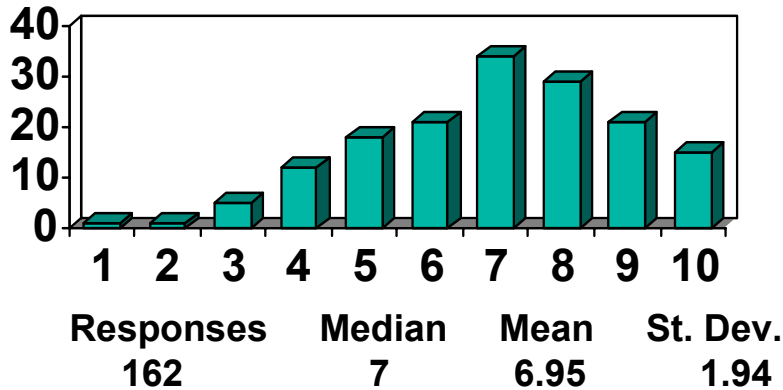
.... With Some Diversity of Opinions as to Whether Anti-Americanism Should be a Concern....



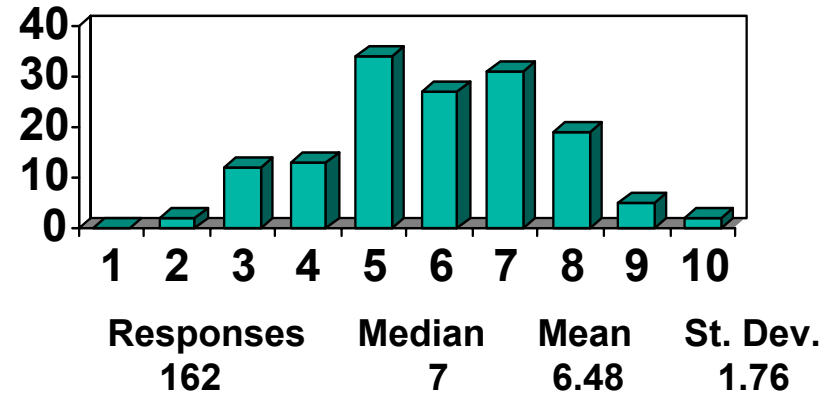
.... While respondents expressed a relatively uniform opinion as to the need to deal with social issues as well as North Korea and to promote foreign direct investment, there was far more diversity of opinion as to the need to address Anti-Americanism or to promote additional government and corporate reform.

Survey on Korea and Related Economic, Political and Security Issues

Labor Issues



Social Issues



“ The country seems to have issues establishing a full spectrum platform addressing social, economic and foreign policy. Also, nobody lasts long enough in office to effect sustainable change.”

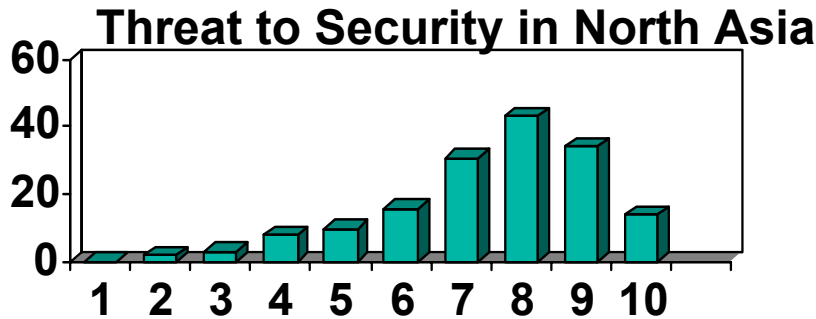
Investment Bank Analyst

“ Until government changes its strangle-hold on things none of the others can happen. The relationship between government and the "Big Five" corporations is criminal!!” *Asia Trade Representative*

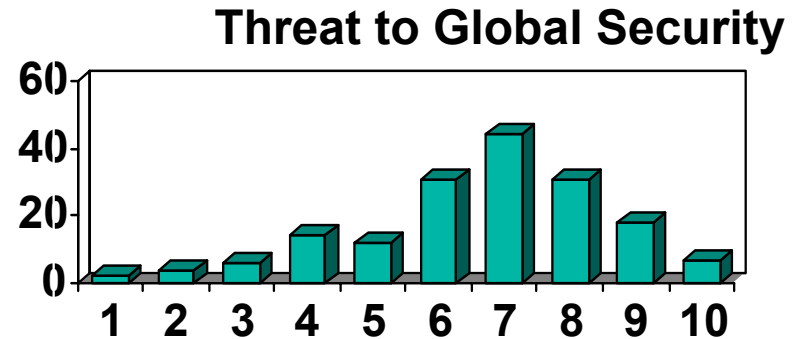
“ Korea could be a great political and economic catalyst between China and Japan.” *Professor*

“ The government still colors operating in the domestic market. Everyone is being investigated. I know one international company that was scrupulous about paying their taxes and suddenly was faced with another unexpected bill. On the other hand the fact that two of the auto companies are owned by foreigners and banks have also been a focus of foreign activity.” *Correspondent, National Business Magazine*

Respondents Expressed Strong Concern Over North Korea -- Though there was a Relatively High Deviation of Opinion



Responses 162
Median 7
Mean 6.83
St. Dev. 2.18



Responses 162
Median 6
Mean 6.01
St. Dev. 2.41

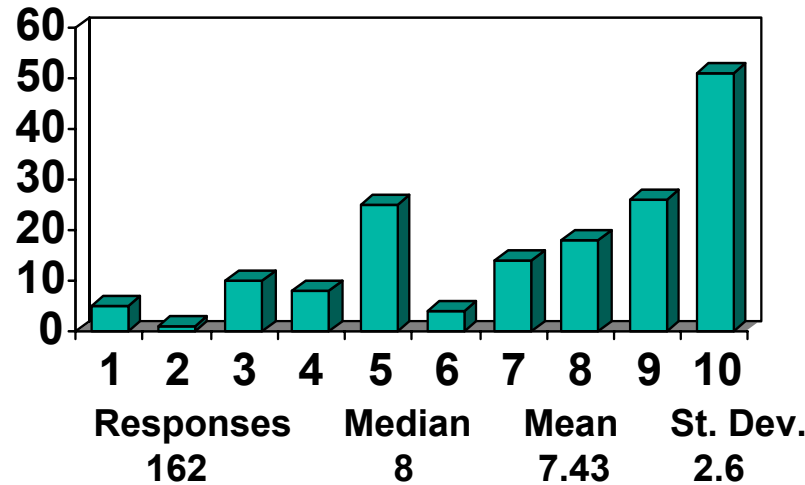
7) How seriously do you view current tensions with North Korea as a security threat? (Please rate on a scale of 1-10, 1 indicating not at all serious and 10 indicating extremely serious.)

Respondents expressed significant concern over the security threat represented by North Korea -- both in a regional and global context. This option, however, was by no means uniform, as there was a relatively high deviation in responses. That said, there were significantly more responses above 5 than below in both categories -- meaning that the concern seems to exist among most respondents -- but some view it more seriously than others.

- “ North Korea is more in the news so it is perceived as being more of a problem. Is it a deal killer? Maybe, maybe not, but it is definitely an issue.” *Technology Investor*
- “ Proximity makes North Korea seem a bigger problem. But that threat has been there a long time so it is a bit surprising that people would be more worried about it now.” *Correspondent, Nat. Business Magazine*
- “ Our clients are fairly comfortable with Korea other than the problem with the North.” *Tech. Consultant*
- “ North Korea posture is purely defensive and not aligned to islamic or world terrorist movement.” *Asia-Based Corporate Advisor*
- “ Do not think that the North Korea problem should be overstated. However, it certainly impacts the way that investors think about Korea.” *Hedge Fund Analyst*
- “ Generally, I don't think that North Korea will attack South Korea as long as the current world situation is maintained.” *Patent Advisor*

- “ The US needs to be more flexible in its dialogue and demands on North Korea. However, North Korea will also need change its behavior.” *Political Science Professor*
- “ North Korea can be contained by engagement. If not, it can be defeated in relatively short order provided that China is cooperative.” *Marketing Executive*
- “ To be soft with "stalinist" type of Communist is a way to national suicide.” *Professor*
- “ With North Korea's development of enriched uranium -- that can be done underground -- there is no way to conduct reliable inspections of nuclear facilities in North Korea. The threat to South Korea could come more from the U.S. insistence to get rid of North Korean nuclear development than from North Korea threatening South Korea directly.”
Asia-based Journalist
- “ They are a threat to Japan, S. Korea, Taiwan and China.” *Technology Executive*
- “ Get it together, Korea. Frankly, based on your occasional behavior, I'd sometimes just like to leave you to deal with the north all by yourselves.”
Correspondent, National Business Newspaper

While the Deviation was High, Most Respondents Expressed a Preference for Engagement over Containment



8) Do you think that current tensions with North Korea are better resolved by confrontation/containment or diplomacy/engagement? (Please answer on a scale of 1-10, 1 indicating strong preference for confrontation/containment, 10 indicating strong preference for diplomacy/engagement.)

While opinion was clearly divided, there was a distinct bias toward the need for a diplomatic solution. The deviation was very high, however, and while a significant minority looked for a balance between the two extremes -- those on both extremes are quite vocal and steadfast -- making it difficult to achieve compromise and a balanced perspective.

Survey on Korea and Related Economic, Political and Security Issues

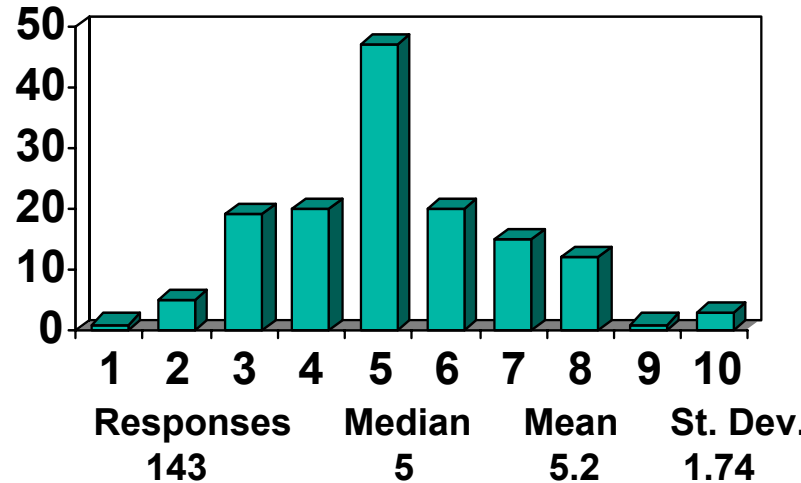
- “ It's not all or none on these two options. It will probably take a subtle mix of both.” *Research Analyst*
- “ But in fact both methods should be applied. Resolution and effort to increase contacts and so to undermine the information blackout in the North.” *Former Eastern European Foreign Minister*
- “ This dichotomy is unrealistic. To be effective you need a degree of confrontation within the engagement approach.” *Washington Financial Consultant*
- “ Multilateralism, diplomacy, economic and political pressure will produce better effects than the use of force - witness Iraq...” *Global Strategist, Major Investment Bank*
- “ For the past year and one half, roughly, diplomacy and engagement have not led to a curtailment of the nuclear program in N Korea, nor to its adopting a responsible stature in its relationships with other countries. Its secret weapons deal with Iraq, its offer to supply sanctuary to Saddam Hussein, and its continual flouting of its international obligations are just several examples. To preserve peace on the Korean Peninsula, diplomacy and engagement are obviously preferred, but on the other hand, the longer that such initiatives are unfruitful, the more potent becomes North Korea's nuclear capacity, and the greater a threat it becomes to its neighbors, as well as to global stability.” *Training Exec.*
- “ N Koreans can not "eat" their weapons...nor can they continue to starve their people by spending so much money on arms build-up they will have to use their military might to "TAKE" what they need or will have to do the smart thing and negotiate for their future.” *Asian Trade Representative*
- “ I am very positive on the potential of Korea, but it is difficult to ignore the North, especially with the transportation system blowing up. The saber rattling does not help.” *Healthcare Consultant*

Survey on Korea and Related Economic, Political and Security Issues

- “ Contain but don't let Kim Jong Il blackmail the US into subsidizing his insanity.” ***Tech Executive***
- “ Communists as Mao said, understand only the barrel of the gun!!!” ***History Professor***
- “ There's really little choice to a degree of diplomacy/engagement other than going to war with North Korea. Containment, of course, is part of effective diplomacy rather than an alternate policy.” ***Executive***
- “ There should be a balance of diplomacy/engagement and confrontation/containment. Multi-lateral talks are essential. Encourage market-based economic reforms, while discouraging arms exports. Tie security assurances to North Korea to cooperation with arms inspectors. Stand firm and do not give in to threats and rhetoric.” ***Correspondent, National Business Magazine***
- “ Diplomacy is unlikely to enable inspections of North Korea's underground development of enriched uranium fuel. North Korea reportedly has more than 10,000 underground sites and unknown miles of tunnels. My trust in any agreement that depend on North Korean verbal assurances is absolute zero.”
Asia-based Journalist
- “ Wish I had a clue!! I'd feel a WHOLE LOT BETTER with a different foreign policy cast in place in Washington.” ***Communications Executive***
- “ Diplomacy/engagement has its limits when dealing with a regime like this. Engagement with China and a coherent position agreed between the U.S., Japan, China and even Russia with regard to North Korea are important.” ***Think Tank Analyst***

- “ North Korea's actions will encourage Japan to go nuclear (they could in less than 45 days), followed shortly thereafter by Taiwan. Japan has a sophisticated space-lift capability which could easily be converted into ICBMs. We should let the North Koreans eat their nuclear program, no food, no aid. I would urge China to deal with their recalcitrant client unless they want a nuclear Japan on their doorstep. The Bush Administration's refusal to talk bilaterally with DPRK is the most serious obstacle to the resolution of the nuclear crisis.” *Marketing Executive*
- “ Memo to Korea: Decide who your friends are and who your enemies are. And remember that as far as the US goes, you are either for us or against us.”
Correspondent, National Business Newspaper
- “ This one is very hard. One would like to believe that Kim Jong-Il will react in rational ways, but I'm not at all sure.” *Economics Professor*
- “ Reunification is a large obstacle but it is one that Korea will have to surpass over time to sustain its ongoing competitiveness. In the interim, I am pleased to see China playing a more active role in resolving these tensions.” *Fund Manager*

Respondents Did Not Seem to be Seriously Effected by The Judicial Process Within Korea's Constitutional Court Even Before Election



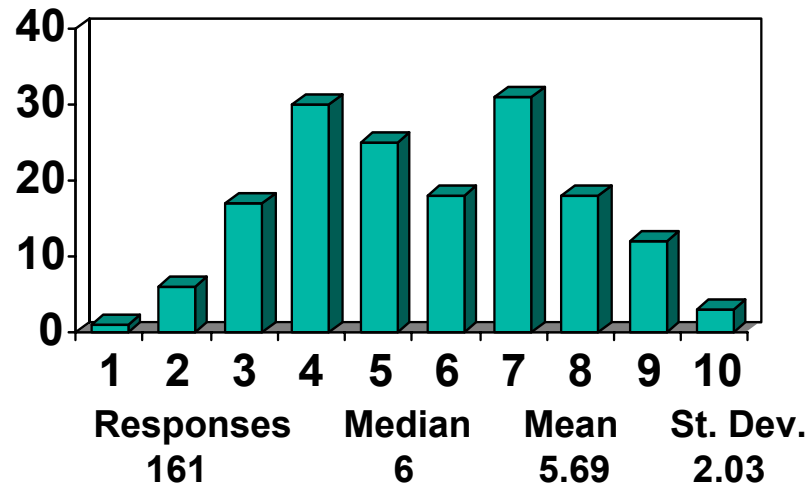
9) How do recent political developments and the current judicial process within Korea's Constitutional Court affect your confidence in Korea's economic prospects? (Please answer on a scale of 1-10, 1 indicating greatly diminished confidence and 10 indicating greatly enhanced confidence.)

While other questions indicated that political stability was one of the more prominent concerns expressed in this survey, when asked about efforts to impeach President Roh, respondents seemed relatively ambivalent with fairly low deviation in opinion.

- “ I believe that the Court will deliver a very smart decision because the Court is run by a bunch of smart and prudent members. I trust more of the members' opinion than the public's.” *Patent Advisor*
- “ Democracy seems to be working well in S. Korea.” *Historian*
- “ The end result will paradoxically be an opening and reforming.” *Real Estate Developer*
- “ Foolish grounds for impeachment. Need for greater legal and governmental reform. *Policy Analyst*
- “ Recent political developments, including impeachment effort, inevitably create an impression of a drifting government preoccupied with partisan politics.” *Correspondent, National Business Magazine*
- “ Korea somehow always has overcome instability in the past -- and while there is no assurance it will be able to do so again this time, I have a feeling it will succeed. Lack of evidence to back up that feeling is the reason for my "5" rating.” *Asia-based Journalist*
- “ Ongoing events do not inspire great confidence in the maturity of ROK politicians or political parties, but they clearly do not undermine the fundamental nature of democracy in Korea nor are they of sufficient magnitude to threaten economic performance over the long run.” *Economist*
- “ I thought impeachment was probably just local politics that reflects most badly on the impeachers, and was impressed when I read a poll saying Korean voters raised their support of the President and intend to vote in President Roh's loyalists in the election this weekend. Good to see the voters see through such things and will punish impeachers via the ballot box.” *Correspondent, National Business Newspaper*

- “ The move toward impeachment seems more like a partisan exercise like the Clinton Whitewater episode, whereas the underlying instability is something more basic and troubling. They can't seem to settle who will run things. It is more of a battle than an argument. There are constant scandals, and that does not give one a sense of stability.” *Correspondent, National Business Magazine*
- “ This was not entirely expected. While perhaps a long term positive it showed the political class did not care what the rest of the world thought. It was not responsible and backfired on the older political class. It also showed a preoccupation with, and placement of, domestic concerns over Korea's need to reach out and appeal to foreign investors and corporations -- something the nation can ill afford as it struggles to reach out and enhance its international competitiveness.” *Hedge Fund Analyst*
- “ I don't make too much of the impeachment episode as I think that if anything it shows the strength of Korean democracy at work.” *Former U.S. Government Official*

There Was a Slight Bias Toward a Belief that Korea Will Form a Stronger Relationship with the U.S., Yet Opinion Was Divided



10) How do you view the future bilateral relationship between the U.S. and South Korea? (Please rate on scale of 1-10, 1 becoming much weaker and 10 becoming much stronger)

The most common responses were 4 and 7, indicating respondents were divided whether Korea will form a stronger or weaker relationship with the U.S. One can see a relatively low number of extreme responses, which lowered the deviation more than the diversity of opinion suggests. Written and oral comments, however, reveal that the case for strengthening is largely being made on the grounds that Respondents could not imagine a dramatic break from the past.

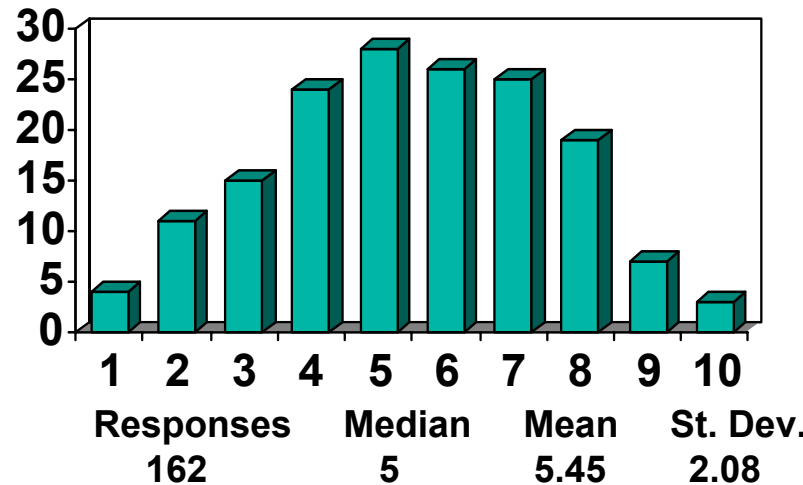
Survey on Korea and Related Economic, Political and Security Issues

- “ Depends on the conduct of both countries.” *Former Eastern European Foreign Minister*
- “ Could become much stronger if Korea takes more responsible view of No. Korea.” *Washington Analyst*
- “ This decision also depends on the political process of next several months.” *Patent Advisor*
- “ The US government's self interest is peace in all of Korea and the region-we don't want North Korea to be a flashpoint for possibly nuclear war in the country/region or with China.” *Dir., Nat. Trade Assoc.*
- “ US policy will continue to see this as a key relationship...” *Global Strategist, Major Inv. Bank*
- “ Korea is becoming increasingly more unfriendly to the US.” *Site Location Specialist*
- “ After cleaning out the communists, the relationship will be better. However, it should be done by the cleaning with US assistance by the South Korean Government.” *Professor*
- “ If current media reports about So. Korea were correct, I would choose "1". On the basis of "gut feeling," I can't bring myself to believe Korea will throw away the security alliance with the US. Again, lack of evidence prevent me from choosing a rating of stronger than "4.”” *Asia-based Journalist*
- “ A less bellicose and unilateral president would permit renewed closer relations between U.S. and many traditional U.S. friends and allies. The problem is on the U.S. side, not on the Korean side, although Bush administration stupidity plays into the hand of anti-U.S. demagoguery in Korea.” *Economist*
- “ Relationship is definitely weaker -- due to a different vision that does not acknowledge the U.S. as a guardian of Korea's security. China is the big player and U.S. provides Korea with leverage, however, when Korea unifies, interests will diverge considerably. Both sides lose.” *Hedge Fund Analyst*

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- “ If the U.S. military leaves that will hurt Korea a lot, not militarily, but in terms of U.S. business as they will not feel protected. In the end though I think the U.S. loses as the Koreans would rather do business with the Chinese anyway and have had a hard time with the troops stationed in Seoul” *Accountant*
- “ I think the relationship will be weaker, because our time is over. We’ve done our bit and we have troops there because it is cheaper to train them there than in the U.S. So it is more an economic than a military factor. We both win and Americans have to get over the idea that they owe us for what we did during the Korean War.” *Former U.S. Government Official*
- “ They want US troops moved out and then when we threaten to do that, they get all pro-American on us. Either they like us or they don't, they can't be changing their minds 24/7. They need to decide. I'd just as soon pull out in such a schizo atmosphere and teach Korea a lesson. Also, on another level, I was extremely annoyed at the behavior of Korean soccer fans at the last World Cup toward the US team. They acted like the world's worst peanut gallery and made it hard for the teams to concentrate. I admire all the great soccer teams out there but based on the behavior of the fans, Korea's was the only team I hoped would lose. On the other hand, there is one other deal Korea could benefit from - its girls are the prettiest in the world and could easily take the Miss Universe Crown. None of them ever place in that pageant, which is dumb. With some Lee Kun Hee-style sponsorship muscle Korean girls can and should get their due. The girl last year was robbed, didn't even make it into the top ten while doggishly ugly girls like Miss Czech Republic and Miss South Africa did.” *Corresp., National Business Newspaper*
- “ It's quite strong now, despite tensions, so I don't see it becoming much stronger.” *Economics Professor*

Respondents Were Largely Undecided as to Whether Korea Will Be Able To Establish Itself as a “Dynamic Hub” of Asia



11) How do you evaluate the prospects for South Korea’s efforts to establish itself as a “dynamic hub” of Asia? (Please rate on scale of 1-10, 1 being not at all viable and 10 being extremely viable)

There was a relatively wide range of opinion as to whether Korea will be able to establish itself as a “dynamic hub” of Asia. Most responses were concentrated in the 4-7 range with moderate deviation, indicating that most respondents were undecided with some prepared to give Korea the benefit of the doubt while others are skeptical.

Survey on Korea and Related Economic, Political and Security Issues

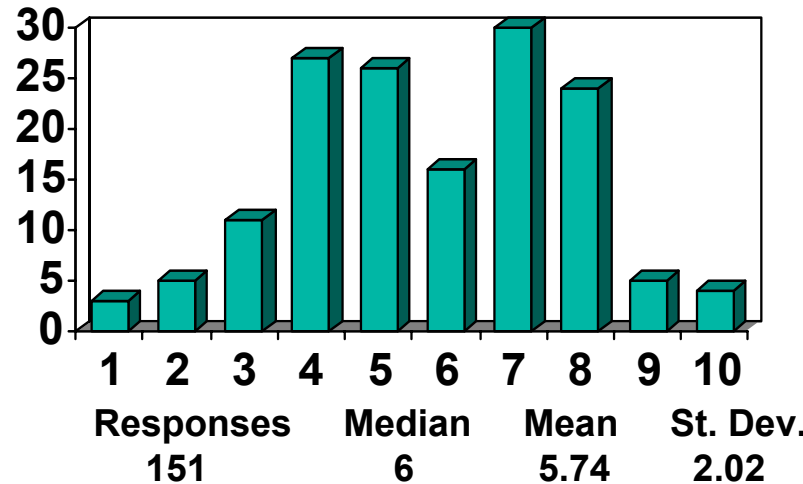
- “ Not only Korea's geographic position in Northeast Asia but also the presence of ethnic Koreans in both Siberia and Northeast China lends support to moves to make South Korea a hub. Reunification would multiply the prospects for success by hundreds of times.” *Asia-based Journalist*
- “ The dynamic hub concept is misguided. Singapore and HK have been able to do it. It is not a pipe dream for them. It is not going to happen in Korea. The activity is not there. Traveler's do not want to travel through Korea or Japan to get to China. They want to go direct. Do not think that anyone would set up a HQ in Korea any more than they would do it in Japan. There is not a strong tradition of doing international business there that would fuel that strategy.” *Technology Consultant*
- “ No longer competitive, cost of living too high, in the diminishing returns part of the economic growth curve.” *Business Consultant*
- “ Korea provides a good footprint into North Asia and a lot of North American companies want access into these markets.” *Technology Investor*
- “ Hubs tend to be in safe places and South Korea has that nasty North Korea on their border. There is also a language problem to deal with.” *Corporate Executive*
- “ Koreans are interested in capitalism and are good business partners. They are located in a good spot and I think the hub concept will work. Korea has the ability to pull it off.” *Healthcare Consultant*
- “ Korea must become more flexible and adaptable to become a dynamic hub. More like Hong Kong, less like North Korea. Now, there are too many political forces that retard flexibility: can't close companies, lay off workers, regional balance problems.” *Washington Economist*
-

- “ Korea is not well-located as a hub. It could become a very important supplier for China and even a base for supplying China.” *West Coast Economist*
- “ The key is a monumental change from xenophobia and cronyism to an open society.” *Corp. Attorney*
- “ South Korea needs to adopt a much less nationalistic posture if it wants to become a regional hub. Also, more emphasis should be placed on foreign language skills.” *Chief Economist, Fortune 50 Corp.*
- “ China is the economic north pole of Asia around which all the other iron filings will have to align themselves. It is difficult for me to see how South Korea wins the battle to "be the hub" in a preeminent way.” *Global Strategist, Major Investment Bank*
- “ Does not have the access, multilingualism, or huge market to compete as an Asian business capital.” *Site Location Specialist*
- “ Depends on a swift and peaceful resolution of the North Korean problem” *Trading Co. Executive*
- “ It has a long way to go to compete with Hong Kong, Shanghai, Singapore or Taipei.” *Marketing Exec.*
- “ To become a regional hub, Korea would need to be more open in its business practices and more welcoming to outside players.” *Correspondent, National Business Magazine*

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- “ Competition from HK, Taiwan, Tokyo add to domestic political problems. Seems that PRC could do considerable harm here if it chooses to.” *Communications Consultant*
- “ Lack of full structural economic reform, i.e. chaebol and outmoded labor structures and attitudes offset conscious ROK government attempts in this area. *Mid-west-based Economist*
- “ South Korea will remain an important economic power but not equal to either China or Japan in overall capabilities, as producers or as consumers.” *Professor*
- “ Geography is not on its side, Korea is isolated from other Asian tigers and no-one speaks their language in the region. That doesn't help. On the other hand, Korea's people are innovative and efficient and make desirable products at competitive prices, not just Samsung but clothing, paper products and other things, so can't say they will fail. Why do they want to be the hub? Why not just the best they can be? It seems silly to ship Indonesian or Guangdong goods to Seoul for shipment, it's easier to take other hubs instead. If Siberia and northern China's hinterlands were more developed, then I think the world would be ready for the idea of Korea as a hub.”
Correspondent, National Business Newspaper
- “ Korea's industry base is excellent and it has good prospects for being a feeder to China, but it will also experience competition from China, which surely has a long-run aspiration of being THE hub of Asia.” *Economics Professor*
- “ Developing the hub will be a problem. The cultural issues is very important. Koreans are more open than they used to be – but not as much as Singapore.” *Magazine Editor*

Respondents Expressed Similar Indecisiveness As to the Attractiveness of Korean Companies as Potential Business Partners....



12) Please rate the attractiveness of South Korean corporations as business partners. (Please rate on scale of 1-10, 1 indicating highly unattractive and 10 indicating highly attractive)

In a similar “M” style distribution as to the question asking about the Korea-U.S. bilateral relationship, one can see here some moderate positives and some moderate negatives with a fair amount of deviation, few extremes and a lowered response rate in the “5” neutral ranking.

- “ It depends on the particular corporation; some are very good, and others make poor partners.” *Analyst*
- “ The rumor is they are more take than give, especially when it comes to foreign partners.” *Economist*
- “ Compared to political field, I think Korean corp.’s are very well run by smart people.” *Patent Advisor*
- “ I have not had direct experience here-my surface impression is that they make good business partners-question remains about interlocking directories and behind the scenes deals. *Dir., Nat. Trade Assoc.*
- “ With Japanese firms you have the sense once you establish a relationship you may have problems but they will stick with you. You have a partner and will not be skinned alive. I don’t know much about Korea but do not hear stories like that. This might be just ignorance on my part.” *Wash. Consultant.*
- “ Current structure and culture would likely have difficulty collaborating with most non-pacific rim cultures.” *Investment Bank Analyst*
- “ Difficult to consense on mutually beneficial objectives.” *Chief Economist, Fortune 50 Corp.*
- “ Partnering is necessary and local companies are willing if not eager. There are social, cultural and perceptual barriers that must be overcome to make the relationships flourish.” *Real Estate Developer*
- “ Corporate governance issues are a problem, particularly the lack of transparency of decision-making in many groups.” *Sr. Corporate Attorney, Former Gen. Counsel, Multilateral Institution*
- “ Have had excellent experience with Korea businesses and partners.” *Healthcare Consultant*
- “ Known to be extremely unloyal and cut-throat only "Big Four or Five" can really make things happen ie ... Goldstar, Hyundai, etc.” *Asian Trade Representative*

“ Every experience I've had included numerous attempts to renegotiate deals I considered sealed.” ***Marketing Executive***

“ All of Korea's economic development since the 1960s has occurred within a very xenophobic framework. From Gulf Oil first investment in the 1960s to General Motors' trouble with Daewoo, troubles dominate the history of foreign investment in South Korea.” ***Asia-based Journalist***

“ Unethical and untrustworthy. The only reliable partners are individuals (not corporations) with whom you've built a relationship. When the individuals ran the corporations you could deal, now it isn't as simple.” ***Corporate Executive***

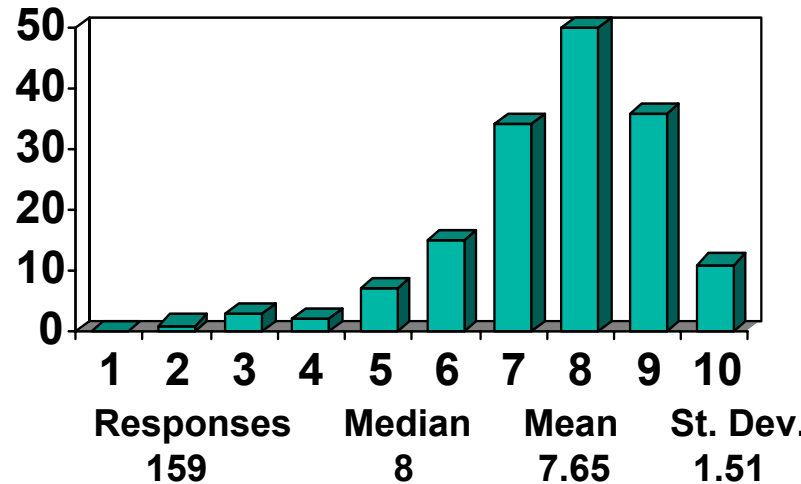
“ Certainly not the worst in Asia, but when I read about guys like Lee Kun Hee shutting up his opposition shareholders at meetings, I get a little turned off. He needs to be more of a politician and work to pacify these people, not just cut them off and clam up. Don't like his defensive secretiveness. Turns me off.” ***Correspondent, National Business Newspaper***

“ Some like Samsung would be excellent partners, but they don't have a strong tradition of partnership.” ***Economics Professor***

“ Larger corporations have a reputation for not following through on deals.” ***Magazine Publisher***

- “ It depends on the player. Such groups as Samsung have been effective business partners, while other Korean groups (i.e. LG/Hyundai) have mixed records.” *Correspondent, National Business Magazine.*
- “ Financial non-transparency an issue.” *Washington Economist*
- “ Business ethics and transparency need to improve.” *Corporate Attorney*
- “ While it is understandable given their history, the cultural issue is a real problem. Is it a question of time? I am not sure. The conflicts between being a good Korean and adopting the psyche needed to manage an inclusive international business operation are by no means insignificant.” *Corporate Exec.*
- “ I used to work in Korea and all of the people in my department came from the same region in Korea as the boss. I asked whether he would ever hire someone from a different part of the country. He replied negatively. So if Korea cannot reconcile its own regional problems it is hard to see how they will be able to include foreigners in an effective manner. That said, it may be easier for Koreans to include foreigners than someone from a different part of the country.” *Accountant*
- “ Since the Asian Financial Crisis Korean have become a bit less rigid. They are more flexible and that is good for innovation. There is still, however, a ways to go.” *Technology Consultant*
- “ Relationships are based on a build up of trust and the Chaebol reputation as an old boy network of cozy relationships gives people a bit of concern. It will take time for the Korean businessman to get over that.” *Former U.S. Govt. Official*

... Though There Was No Indecisiveness When Rating The Improving Quality of Korean Products



13) As a consumer, how would you rate South Korean products compared to five years ago? (Please rate on a scale of 1-10, 1 indicating products offering much less value and 10 indicating products offering much more value.)

Perhaps more than any other question in this survey, respondents gave a strong uniform response expressing their belief that Korean products provide far more value today than five years ago. Almost all the responses ranked 5 or above with a significant amount 8 or above. In addition, this question provided the lowest deviation in the entire survey.

- “ Branding has become much stronger and associated with higher quality.” *Investment Bank Analyst*
- “ Some improvement especially in automotive industry.” *Asian Trade Representative*
- “ Especially in electronics Korean products are very much improved.” *Professor*
- “ Korea has effectively moved from being just a mass-producer of standard products to a more innovative creator of quality, higher-tech goods and services.” *Correspondent, National Business Magazine*
- “ Significant improvements in reputation of Korean autos, mobile phones and electronics.” *Corp. Attorney*
- “ Better quality but lower value due to higher base cost.” *Marketing Consultant*
- “ I have a very good opinion of South Korean products, and buy them regularly. I view Made In Korea as a mark of quality and impressed by the wide range of things that Korea is shipping out to the USA - not just electronics, but clothing, paper goods, furniture, other stuff. It's all good, better than most exports.” *Correspondent, National Business Newspaper*
- “ Already five years ago they provided substantial value, so I don't see a lot of room for improvement, especially as wages rise relative to those on the mainland.” *Economics Professor*
- “ With the exception of some Samsung products, never use Korean products consciously -- indicating lack of profile in the market.” *Magazine Publisher*
- “ Korean products are very well made, but they shouldn't just put a tech face on things, but also include a cultural element as well. Even here in L.A., however, which is Korea Central, the culture has not moved at all into the mainstream.” *Investment Consultant*

- “ You have to build on your strengths. Certainly the Korean auto industry is very strong and they need to leverage that. The electronics industry is also important. Samsung has taken the lead. Their technological leadership wins but not labor cost. A problem is that they try to do it all alone. Japan went through that phase about 15 years ago where U.S. companies would come and say we are small and have the best component. And these companies tried to be vertically integrated and self-contained saying maybe you do but we will continue to source from our own family. But they ultimately realized they could not be entrepreneurial in every technological area and to build the best they needed the best and had to go outside. It takes awhile for that to happen. That is mostly relevant to larger companies. One of the issues here for Korea is that it is not transparent in the mid-tier as to who the players are? Are they willing to work with outsiders? It is not clear and as a result we do not pay much a lot of attention to Korea. International business means more cooperation and alliances. It is a necessary precursor to real vibrant international trade.” *Technology Consultant*
- “ Japanese consumer products are slick and beautiful and Japanese anime and the culture of the teenage girl is heavily promoted here so our impression is of a vibrant culture going on there. There is not a large cultural component of Korean exports. They make good cars and electronics but you get the impression it is all done by engineers for engineers and it lacks the spark of magic that leads to real value and profitability. For example, Apple might have Korean companies produce the next I-pod-like application but would not look to them to design it.” *Internet Consultant*

14) What would you view as the underlying strengths of the Korean economy?

- Ninety respondents provided answers to this question (see appendix for specific responses) with most emphasizing Korea's high educational capabilities. Many also referred to its ambition and strong work ethic, manufacturing strength, speed to market and national unity.

15) What would you view as the underlying weaknesses of the Korean economy?

- Ninety-four respondents provided answers to this question (see appendix for specific responses) with political instability, corruption, cronyism, labor issues, North Korea, xenophobia, high cost structure, dominance of large businesses appearing as frequent responses.

16) What are the primary issues and obstacles that need to be overcome as Korean companies seek to enhance their global competitiveness?

- Eighty-six respondents provided answers to this question (see appendix for specific responses). In addition to the need to initiate further economic and corporate reforms, many spoke of the need to move beyond cost-based manufacturing and to open the Korean economy to more involvement by outsiders -- both in the sense of welcoming their participation but perhaps even more importantly to developing the alliances, relationships and cooperative structures that are essential in a globalizing world economy -- especially from a nation seeking to position itself as a “dynamic hub”.