

**U. S. Opinion Leader Perceptions:**  
*Comparative Impressions Concerning  
Economic Trends and the Investment  
Potential of Korea*

May 2000

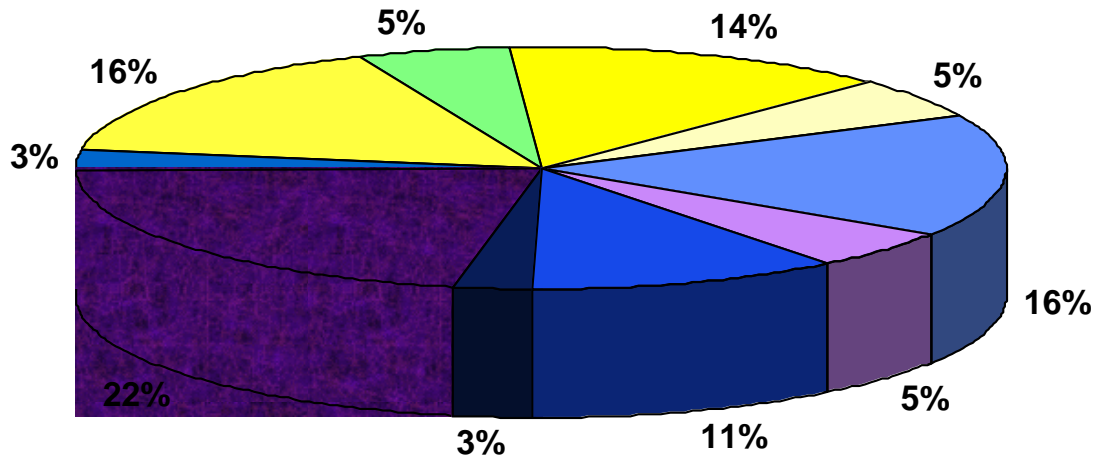
## *Economic Trends and the Investment Potential of Korea*

### **To Assess the Evolving Perceptions of U.S. Opinion Leaders on a Range of Issues Concerning Economic Trends and the Investment Potential of Korea, KOCHAM/FKI Retained KWR to Follow-up on Research that was Initially Conducted in 1996**

- A targeted list, representing business, government, academia and media was prepared;
- The list focused on prospects who had an existing familiarity with Korean issues;
- 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 1000+ prospects on March 6, 2000 who were asked to forward their response;
- 74 responses were received\* over a period of approximately two weeks; 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.

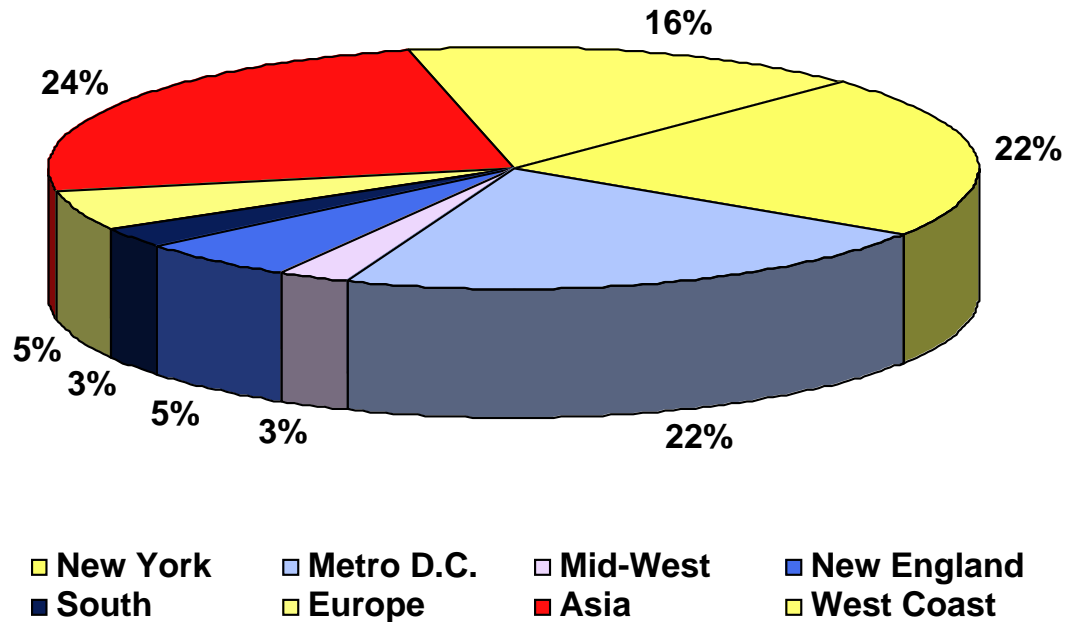
\* Additional responses were received too late to be incorporated into the quantitative analysis, and several individuals noted their interest in participating in the qualitative interview, though did not have time to complete the questionnaire. The editorial comments of both of these two groups are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

## Respondents Included a Wide-Range of Opinion Leaders



Academia    Financial    Consultant    Executive    Engineer  
Journalist    Non-Profit    Analyst    Government    Attorney

## Stationed Primarily in New York, Washington, California and Asia



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

- Included within the 74 responses were individuals including:

### **Business:**

- VP, Public Internet Co.
- President, Asia, Major U.S. Technology Firm
- Venture Capitalist
- Man. Dir., Major Inv. Banking Firm
- Sr. Corporate Attorney
- Portfolio Manager
- Sr. Comm. Banker, Asia

### **Govt. /Non-Profit:**

- Director, Asian Inv., Midwestern State
- Econ. Dev. Director, Major Metro Area
- Regulatory Attorney
- US Chamber of Commerce in Asia.
- Political Risk Analyst

### **Academia:**

- Economics Professor
- Bus./Govt. Professor
- Think Tank Analy.
- Scholar-in-Residence/Author
- Trade Policy Analy.
- Credit Rating Analy.

### **Media:**

- Washington Corresp.
- Tokyo-based Corresp.
- Ret. WSJ Bureau Chief
- Banking Editor
- Aviation Editor
- Sr. Editor, National Business Magazine
- Technology Journalist

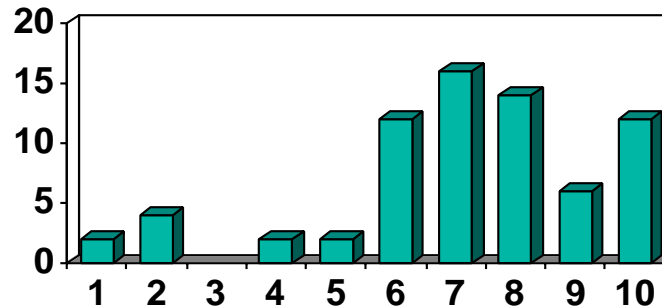
Though, given the specialized selection process, this should not be interpreted as an unbiased “snapshot” of U.S. public opinion

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

- In addition to the 74 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; and
- The bias toward informed respondents and sampling methodology means the data should not be interpreted as being representative of U.S. public opinion or U.S. 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 a preexisting relationship with 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 Knowledgeable....



**Responses**      **Median**      **Mean**      **St. Dev.**  
70                      7                      7.1                      2.3

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)

Overall, respondents rated themselves as having a good deal of knowledge, though there was a good deal of deviation. This should be expected given the targeted nature of the list, and that those who possessed a greater knowledge would be most apt to reply. In contrast, KOCHAM /FKI's 1996 survey, which sought to reach a wider audience, generated a 5.7 mean response.

## *Economic Trends and the Investment Potential of Korea*

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

“ I am not saying I know everything about Korea, but maybe more than many U.S.-based respondents.” *Seoul-based Financial Consultant*

“ I'm somewhat aware, with associates who are more so.” *VP, Strat Dev., Public Internet Co.*

“ Most of my information comes via newspapers and such....” *Tokyo-Based Fin. Corresp.*

“ Before becoming a publisher, I used to buy garments from Korea.” *Publisher, Trade Pub.*

“ I don't speak or read Korean and have never lived there. However, I have studied US policy toward Korea since my Ph.D., although it is mostly security related.” *Analyst*

“ I am more knowledgeable about China, Hong Kong, Thailand & Singapore...” *Inv. Banker*

“ I am not a real expert, but have knowledge from a shareholder perspective”. *Corp. Gov. Analy.*

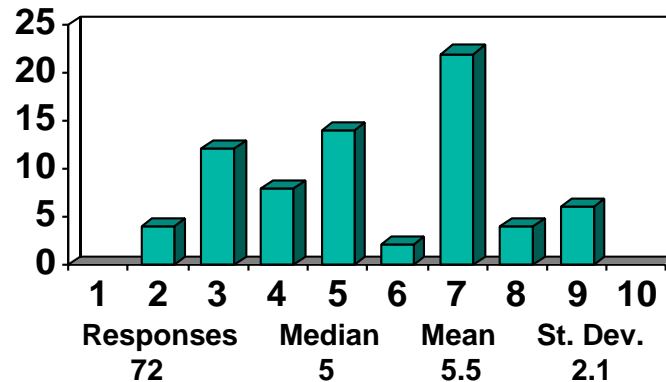
“ I first went to Korea in the late 1960s and have followed it ever since.” *Sr Editor, Nat. Mag.*

“ I have spent 30 years working with Korea as part of my practice.” *Sr. Corp. Attorney-N.Y.*



## *Economic Trends and the Investment Potential of Korea*

While a Significant Number of Respondents Believe that Reform is Well Underway, Respondents As a Group Were Undecided.....



2) Do you believe that economic growth in South Korea is being driven by cyclical factors or by reform /structural change? (Please answer on a scale of 1-10, 1 indicating primarily cyclical factors and 10 indicating primarily reform /structural change)

The largest single number of respondents indicated a 7, indicating a belief that Korea's economic progress was a result of its movement toward reform and structural change. However many respondents were undecided or believed that cyclical factors were the primary driver of economic growth, leading to an overall neutral response, with an above average deviation in sentiment.

### ...Unsure Whether to Favor Cyclical or Structural Factors

“I am optimistic and have been for some time. The fundamentals are sound. Still lots of work to be done but they have come a long way, farther than other countries in the region.” *Retired VP, Public Affairs-Asia, Major U.S. Technology Firm*

“Another engine of growth has been the burgeoning foreign investment that has meshed with, and even prompted, the cyclical upturn.” *Ret. Bureau Chief, National Business Newspaper*

“While I think cyclical factors have made a tremendous impact, I believe that Korea, more than any other country in Asia, is facing up to its problems and embarking on serious reform. However, there is a long road ahead.” *Security Analyst*

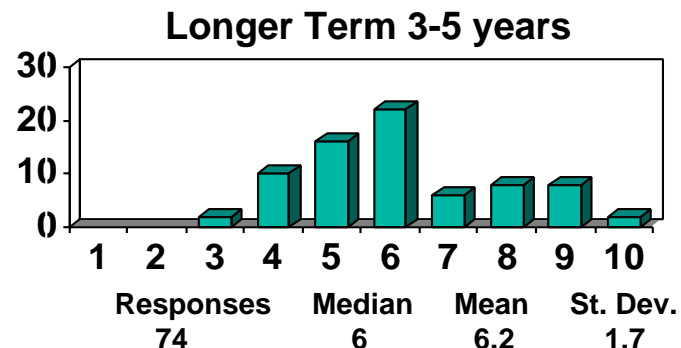
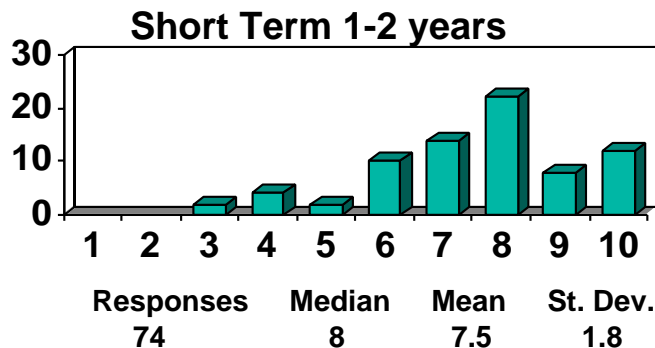
“Exports are perceived as the growth driver.” *Aviation Editor*

“I think you're dealing with a combination of both.... If people believe the economy is getting better, markets often start to rebound.” *Tokyo-based Technology Correspondent*

“Reforms have been halting at best..... The surge in the stock market reflects undue optimism, and doesn't reflect the underlying competitiveness of Korea's economy.” *Govt. Professor*

## Economic Trends and the Investment Potential of Korea

### Respondents Were More Confident About Korea's Prospects Over the Next Two Years Than the Longer Term....



3) Do you think that economic growth in South Korea is sustainable or will we see a return to weak or negative growth over the following time frames? (Please answer on a scale of 1-10, 1 indicating extremely weak or negative growth, 10 indicating extremely strong/sustainable economic growth)

Respondents were decidedly positive over Korea's prospects over the next two years, though slightly less enthusiastic over the longer term. There was an average deviation in responses although qualitative interviews revealed a complexity of opinion.

## *Economic Trends and the Investment Potential of Korea*

### ..... Unsure Whether Korea Will Maintain its Commitment to Comprehensive Economic and Corporate Reform

“ Korea must acknowledge the higher benchmark it has set for itself. It is no longer appropriate to measure its achievements and capabilities against developing countries -- but rather against the world’s most advanced nations. Whether it will continue to initiate the reforms and corporate practices needed to achieve this standard will be critical moving forward.” *Corp. Executive*

“ It depends on the speed of structural change. But Korea always surprises on the upside.”  
*Editor in Chief, Asian Financial Magazine*

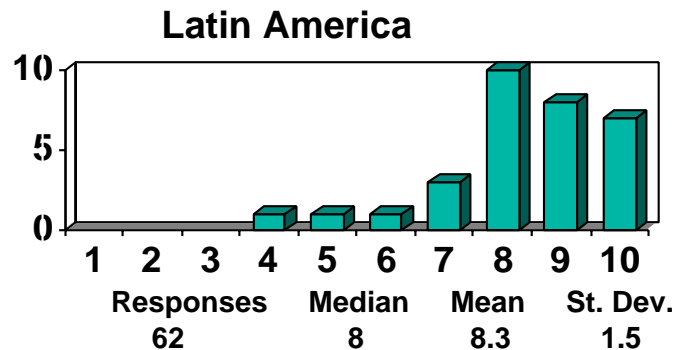
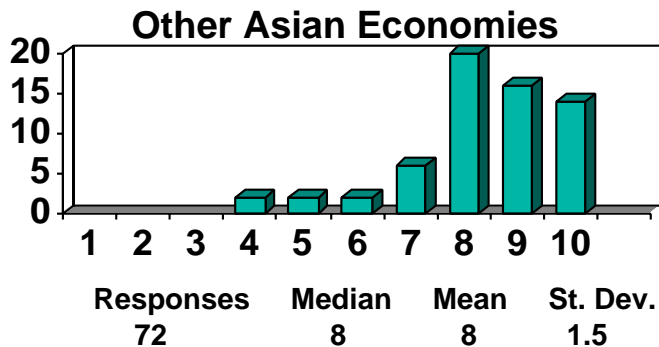
“ The economic numbers in Korea are fine, but ..... restructuring is going to take more than 3 years.”  
*Tokyo-based Financial Correspondent*

“ It depends, of course, on completing reforms. Sustainable, long-term growth heavily depends on continuing reforms.” *Senior Editor, Nat. Business Magazine*

“ President KDJ has not been getting credit in Korea for the high growth and progress that has been achieved. It is almost as if Koreans expect 8-9% growth to occur naturally.” *Sov. Credit Analyst*

## Economic Trends and the Investment Potential of Korea

### Respondents Expressed Strong Confidence in Korea's Recovery When Compared to Other Countries and Regions....



4) How would you rate the progress of South Korea's economic recovery efforts in comparison to the following regions? (Please answer on a scale of 1-10, 1 indicating much less progress and 10 indicating much more progress)

Respondents believed that Korea had achieved substantially greater progress in their economic recovery efforts than other regions. There was a lower than average deviation in responses. Respondent interviews, however, tempered this comparative optimism due to both a lack of confidence in the efforts of other countries and regions and in their higher expectations of Korea.

## *Economic Trends and the Investment Potential of Korea*

### .... Though This Confidence Was Tempered by Higher Expectations For Korea and Lower Confidence in Other Regions

“ At the urging of the government, the chaebol's have undertaken strong restructuring measures while the rest of Asia has refused to recognize reality.” *Corporate Attorney, Los Angeles*

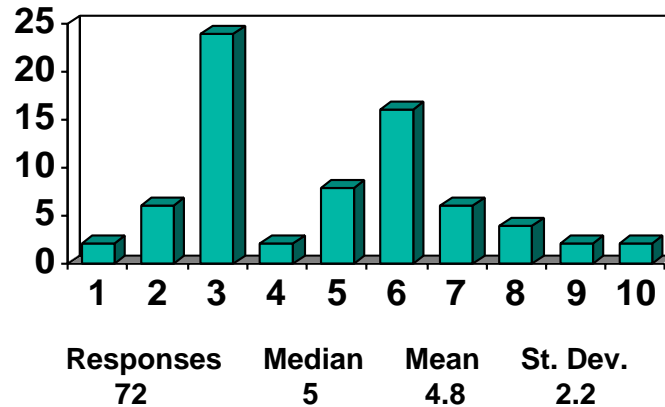
“ Korea is an OECD country and needs to be compared to other OECD economies. In respect to Asia, governance practices have been improving, but they are not the best. Malaysia is ahead in some measures such as company law reform, shareholder rights, and best practices. I think this is partly because their institutional investor community is larger, but Korea is making a good effort.” *International Corporate Governance Analyst*

“ Macro has played the biggest role in recovery so far, but confidence in reform efforts has been important. Macro can carry the economy forward a couple of years further. Longer term the structural reforms will become more and more important. Important things need to be done. These things aren't done overnight. The effort needs to be sustained, without relaxing because of a cyclical recovery or because of setbacks.” *Managing Director, Investment Banking*

## *Economic Trends and the Investment Potential of Korea*

- “ Very hard to generalize about regions in which economies greatly vary. In Asia, Korea has recovered faster--so far--than countries hit hardest by the crisis, i.e. Thailand, Indonesia and Malaysia.” *Senior Editor, Nat. Business Magazine*
- “ Other Asian economies are doing same thing, but even more hesitantly and reluctantly than the Koreans.” *Retired VP, Public Affairs-Asia, Major U.S. Technology Firm*
- “ Korea has done a remarkable job and realize they can’t go along with old ways. They are in much better shape than Indonesia and the Philippines. Thailand and Malaysia have also made progress but not as much as Korea.” *Sovereign Credit Analyst*
- “ What is so great about other Asian economies? Indonesia will be a basket case for a long time. Malaysia is only moderately interesting, Singapore is too small even if it does everything right, Taiwan is under a much more serious military threat than Korea, and China has many huge, inefficient and bankrupt state-owned enterprises. Looked at in that light, slower long-term growth hardly looks very bad! Korea can still look better than most of Asia even if it does slip into a slow growth phase over the next few years.....” *Seoul-based Financial Consultant*

### Respondents Were Unsure If Large Korean Companies Were Seriously Moving to Restructure Their Business Operations....



5) Do you believe that large South Korean conglomerates (chaebol) have seriously begun to restructure and rationalize their business operations? (Please rate on a scale of 1-10, 1 indicating no real progress & 10 indicating significant progress)

While the group as a whole was unsure whether South Korean conglomerates have begun to restructure and rationalize their operations, there was a wide divergence of opinion with an above average deviation in responses.



### ... With Many Believing the Results Were Mixed and Often Dependant on the Company in Question

“ Don't have any great insights other than what I read in the papers, but the chaebols .... realize they need to restructure..... As they get healthier, will they slack off? I don't think so. They need to get their financial house in order to compete in the international market. A generational transition will also promote change” *Retired VP, Public Affairs-Asia, Major U.S. Technology Firm*

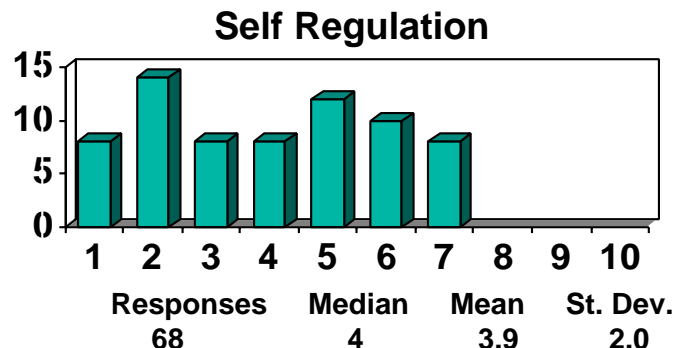
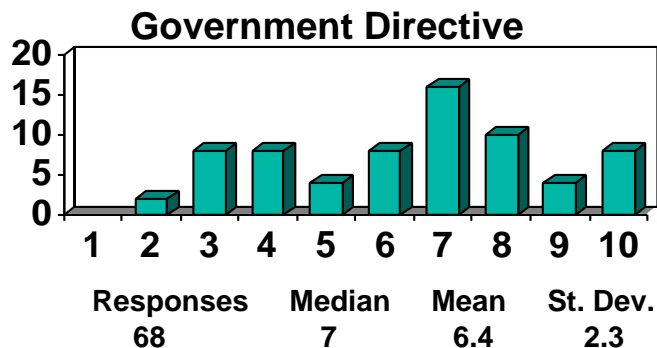
“ It changes from company to company....” *Editor in Chief, Asian Financial Magazine*

“ The follow-through on promises is a weakness in most Asian countries....” *Aviation Editor*

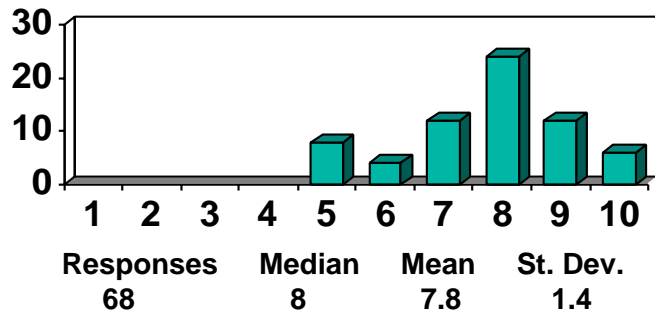
“ Some progress has been made -- just like Japan -- and some is cosmetic. Those are the cracks that let new businesses grow and force existing ones to change to keep up.” *Tokyo-based Tech. Corresp.*

“ Some chaebol appear more serious about restructuring than others. All have a long way to travel in accomplishing the goals the government (with IMF advice) have set, i.e. transparent consolidated accounting that meets international standard, focus on core activities, making management more accountable to all shareholders.” *Senior Editor, Nat. Business Magazine*

## Respondents Preferred Market-Based Approaches to Reform Followed by Government Directives....



### Market Reform, i.e., Bankruptcy, etc.



6) Please rate the following policy prescriptions as the best way in which to initiate corporate-level reform among Korea's business conglomerates (chaebol).

Respondents preferred market-based approaches to economic reform by a significant margin, with considerably less than average deviation. Many also endorsed the need for government involvement, although here the deviation was very high. Most believed self-regulation was not a viable solution.

## *Economic Trends and the Investment Potential of Korea*

### ...With Few Endorsing an Approach Based Exclusively on Self Regulation

“ Market reform will not occur unless there are institutional structures in place that will facilitate the working of market forces. ... The Korean government's role should be to put into place a framework that will facilitate the proper working of market forces.” *Corp. Attorney, Los Ang.*

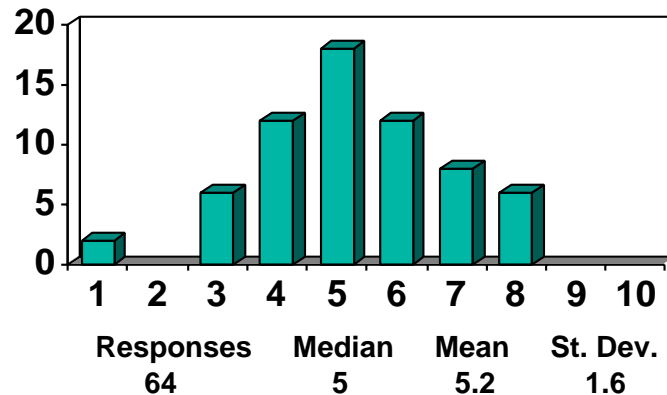
“ The best motivation for reform probably has been the willingness of the government to allow certain groups to fail. However, this has been marred by the propensity for the resolution of bankruptcy to fester for excessively long.” *Think Tank Analyst*

“ The government first needs to develop a level playing field.” *Intl. Corp. Governance Analyst*

“ Liberalization will slowly promote change, but allowing the market to work and sending companies to bankruptcy and forcing those reforms is a slow and painful process. On the other hand, self regulation and government directives will be halting and partial at best.” *Government Professor*

“ Government needs to create an environment that provides incentives for reform-empowering investors, hardening budget constraints and making lenders face the consequences of their credit decisions.”  
*Managing Director, Investment Banking*

### Most Respondents Believed that South Korean Assets are Fairly Valued.....



7) Do you think South Korean assets are currently overvalued, undervalued or fairly valued? (Please answer on a scale of 1-10, 1 indicating overvalued, 10 undervalued, 5 fairly valued)

With slightly less than average deviation, most respondents believed that South Korean assets are fairly valued. In their qualitative comments, however, many distinguished between KOSDAQ-listed and highly-valued technology companies and other financial assets.

## *Economic Trends and the Investment Potential of Korea*

### ... Though the Need to Differentiate Between Different Asset Classes and Sectors was Emphasized

“ Some have definitely been undervalued, but I can't say overall.” *Ret. Bur. Chief, Nat. Newspaper*

“ We are finding many good values, with the exception of internet & telephony.” *Portfolio Mgr.*

“ In an efficient market assets are always fairly valued...” *Editor in Chief, Asian Financial Magazine*

“ Some are undervalued, but I also know many businesses that refuse to sell even at the market value for sentimental reasons.” *Corporate Attorney, Los Angeles*

“ The KOSPI surge is merely psychological, reflecting expectations. On the other hand, the KOSDAQ is showing that new firms can emerge.....” *Government Professor*

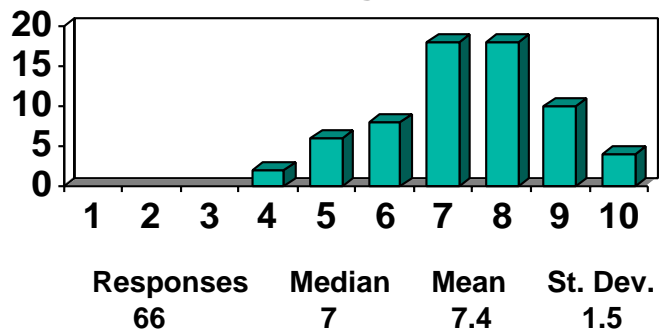
“ There are good investments in Korea right now, but they are still at a stage where the risks are high because of corporate governance problems.... Not as much as in Thailand, Indonesia and the Philippines, but higher than other OECD economies.” *Intl. Corp. Governance Analyst*

“ Slightly undervalued, but tech shares around the world are overvalued, as is so much of what's listed on the KOSDAQ.” *Tokyo-based Financial Correspondent*

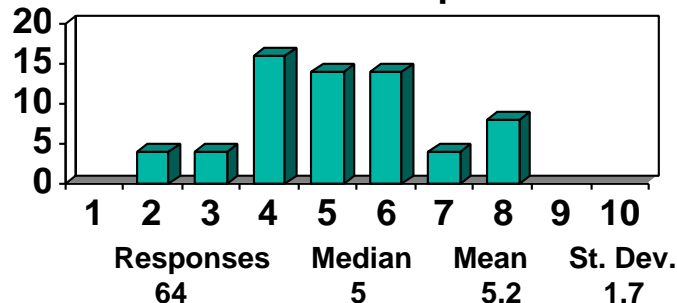
“ If I want higher risk exposure in Asia, I would look at Korea ahead of Japan. But there is a greater potential for volatility there than in the U.S.....” *Sovereign Credit Analyst*

## Respondents Believed That Korean Firms Were Most Competitive in Cost and Manufacturing...

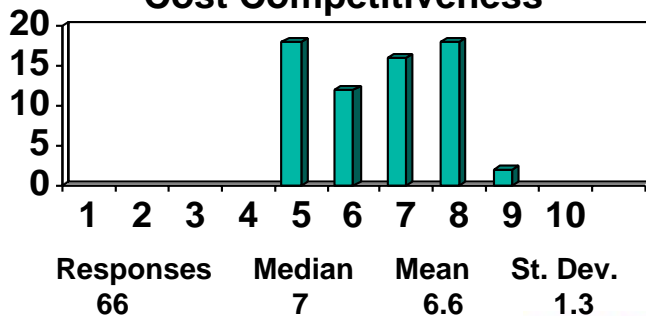
### Manufacturing



### Research & Development



### Cost Competitiveness

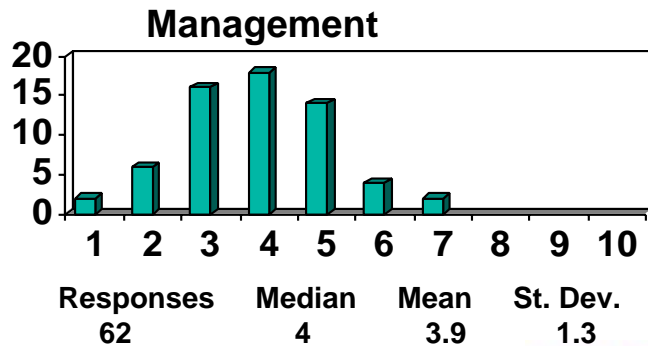
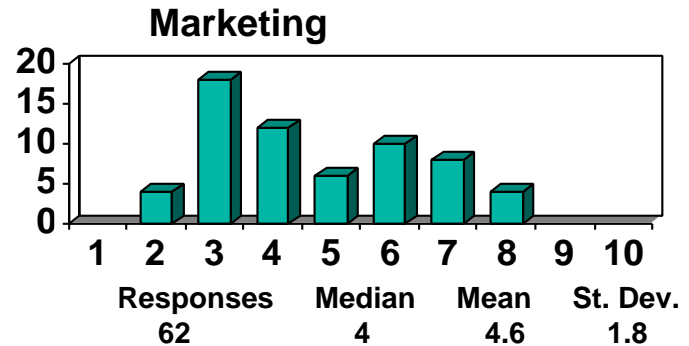
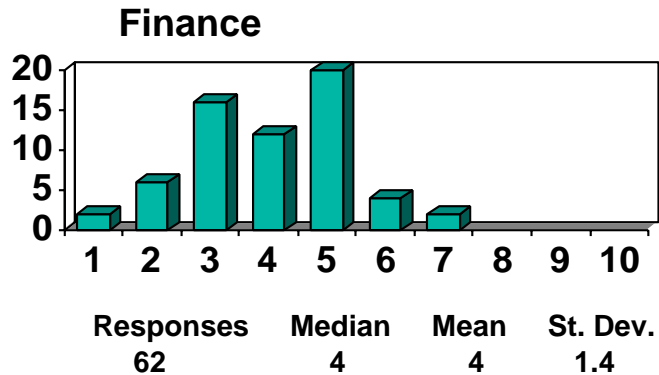


8) Please rate the competitiveness of South Korean corporations in the following areas? (Please rate on scale of 1-10, 1 being noncompetitive & 10 being highly competitive)

With lower than average deviation, respondents believed Korean companies were strongest in manufacturing and cost competitiveness and neutral in R&D.

# Economic Trends and the Investment Potential of Korea

## ... And Weaker in Finance, Marketing and Management



8) Please rate the competitiveness of South Korean corporations in the following areas? (Please rate on scale of 1-10, 1 being noncompetitive & 10 being highly competitive)

Respondents were considerably less optimistic about the financial and management capabilities of Korean firms, while slightly more optimistic — though divided in their opinion — as to Korea's marketing capabilities.

## *Economic Trends and the Investment Potential of Korea*

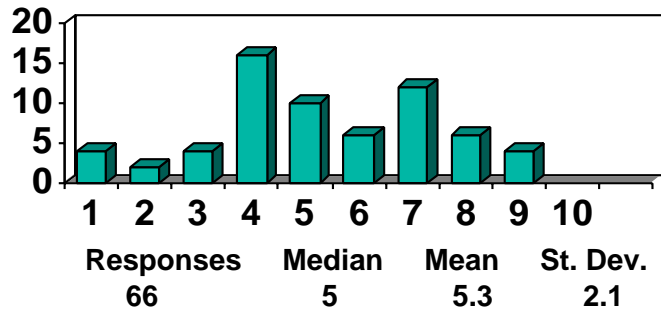
- “ The cost competitiveness of Korean firms has been enhanced by the strong yen and the fairly weak won, and so Korean management cannot take credit for this. Problems of low labor productivity (caused by overstaffing) apparently persist. There is still overcapacity in key sectors (automobiles) that has yet to be resolved.” *Think Tank Analyst*
- “ Korea's real strength lay in manufacturing and a unique government-business relationship. But now other countries can compete on cost, and Korea's business model is outdated.” *Government Professor*
- “ Korean firms are highly competitive manufacturers, but management still has weaknesses. .... But Koreans have met many challenges, emerging stronger each time. Their production is very efficient. Look at their experience in d-rams, etc. They had a near death experience, but were able to recover and prosper once again.” *Washington-based Trade Attorney*
- “ As Korea and Asia has been struggling over the past few years to emerge from their financial crisis, there has been a wave of global consolidation. The chaebols must decide how to advance beyond a strategy that seeks to do business globally from a Korean base to make the concerted global acquisitions of financial, human and other resources needed to become competitive multinational corporations.” *Senior Corporate Attorney, New York*



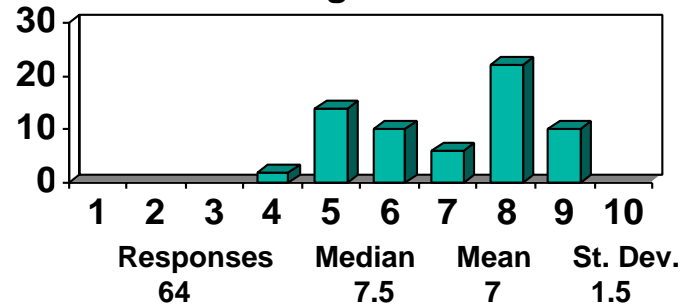
# Economic Trends and the Investment Potential of Korea

With the Notable Exception of Manufacturing Source, Respondents Did Not Rate Korean Firms Highly as Potential Partners....

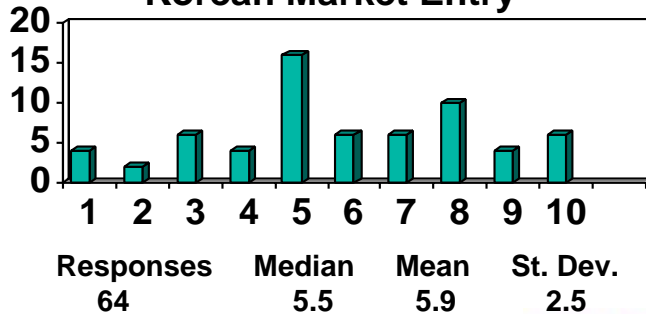
**Joint Venture Partners**



**Manufacturing Source**



**Korean Market Entry**



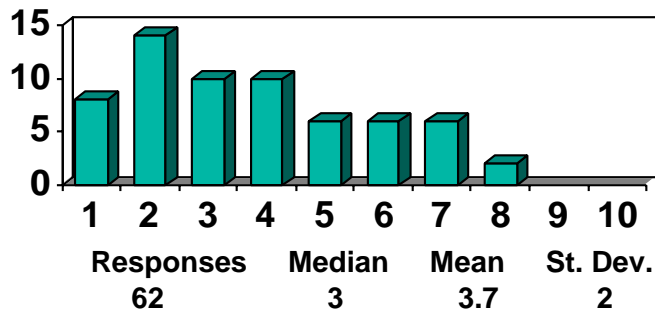
9) Please rate the relative attraction of South Korean corporations as potential partners in the following areas? (Please rate on scale of 1-10, 1 being highly unattractive & 10 being highly attractive)

Respondents were relatively unified in their positive assessment of Korean firms as a potential partner in manufacturing, with lower than average deviation.

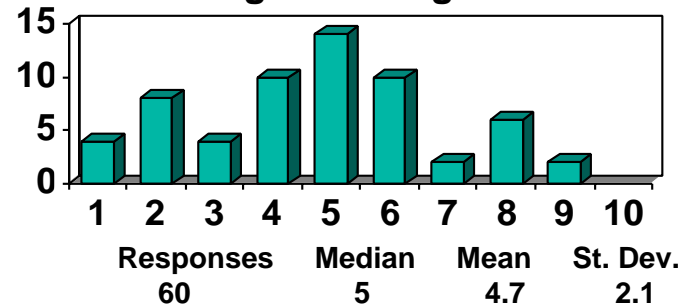
# Economic Trends and the Investment Potential of Korea

## ... Believing it is Often Difficult to Work with Korean Firms

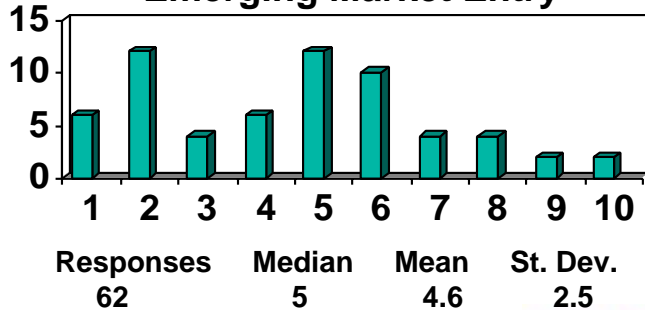
**Financial Partner**



**Marketing/Licensing**



**Emerging Market Entry**



9) Please rate the relative attraction of South Korean corporations as potential partners in the following areas? (Please rate on scale of 1-10, 1 being highly unattractive & 10 being highly attractive)

Respondents were less optimistic and positive in all other areas, with far less uniformity in opinion and considerably higher deviation in responses.

## *Economic Trends and the Investment Potential of Korea*

“ Given the Korean market, you still can't succeed without having a Korean company with connections, etc. But outside of Korea they lose the home-court advantage.” *Govt. Professor*

“ A local partner can really help you to succeed in the Korean market.... In regard to emerging markets, you have enough problems working with Koreans firms in Korea or the U.S. In China you want a Chinese partner.” *Retired VP, Public Affairs-Asia, Major U.S. Technology Firm*

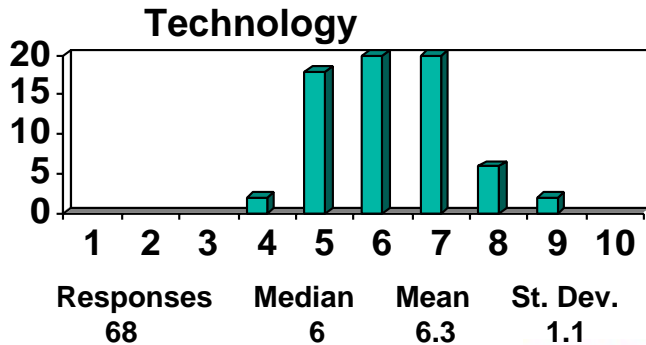
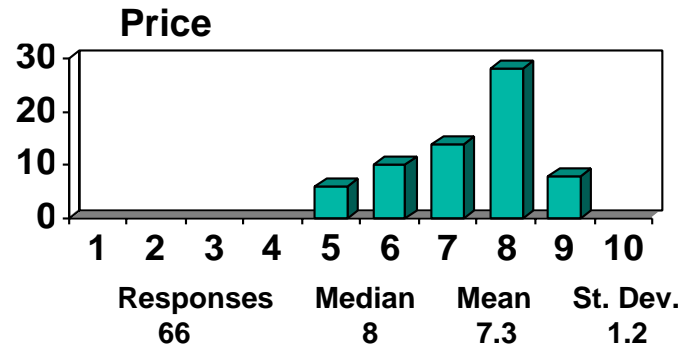
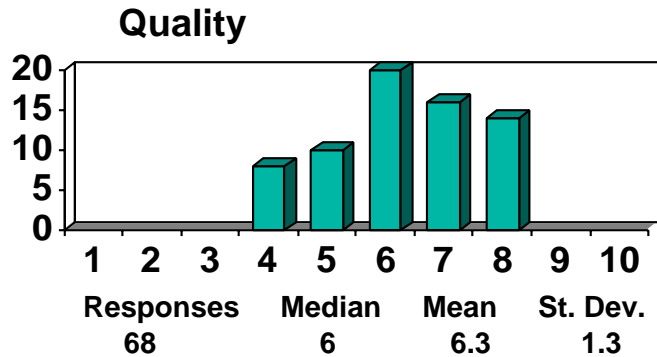
“ If you are an American company looking to penetrate Asian markets, either in Korea or as an export platform, Korea would be a place to look ahead of other Asian countries. For an Asian entry strategy they would be high on my list.” *Sovereign Credit Analyst*

“ Foreign companies tend to view the quality of Korean firms as having been tarnished by the financial crisis. Many offer good value if you want to acquire them, but .... have suffered in the past from the perception that they were hard to partner with. That has only increased over the past few years. None of our clients or attorneys has talked in the last year or so about partnering with a Korean firm outside of Korea except in the semiconductor sector.” *Senior Corp. Attorney, N.Y.*

“ It is not easy here. To be fair there have been a number of successful ventures. While we do point to some of the difficulties when potential clients inquire, we encourage them to come in on an informed basis and work with us to find solid partners so that the prospect of failure is much reduced and a good outcome much more likely.” *Seoul-based Financial Consultant*

# Economic Trends and the Investment Potential of Korea

## Respondents Primarily Value Korean Products For Their Competitive Price, as Well as their Quality and Technology ....

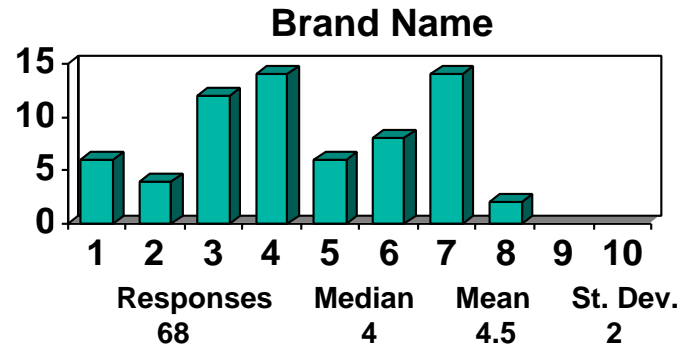
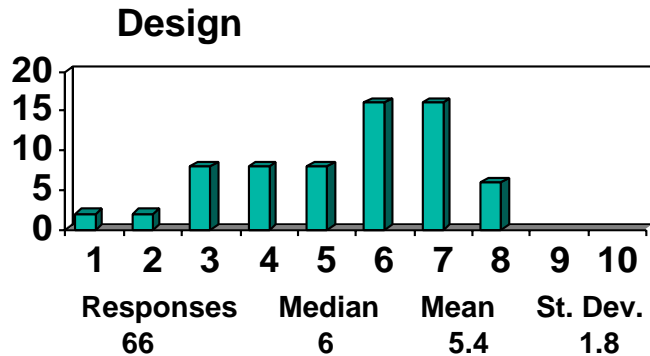


10) As a consumer, how would you rate South Korean products in the following categories? (Please rate on a scale of 1-10, 1 being highly negative & 10 being highly positive)

Korean products were seen to be most competitive in Price and marginally positive in Quality, Technology and Design. Respondents assigned a negative rating when asked to rate the strength of Korean brand names.

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### With Less Confidence in Their Design and Ability to Develop Brand Names



“ Can Korean companies build brands and product loyalty through better design and marketing? There are some hopeful signs. Samsung and LG are ahead of the pack and both seem to be verging on the ability to brand LCD display products and perhaps a few other categories as well. Hyundai Motor is obviously trying but it is not easy. It is a real struggle to get even the best companies to understand they need professional global marketing/advertising programs and that their products must achieve a better level of design and engineering to sell into developed markets successfully.” *Seoul-based Financial Consultant*

## *Economic Trends and the Investment Potential of Korea*

“ Koreans have enjoyed great success as manufacturers, but now they need to compete against the world’s best marketers. They have a tough road to hoe. Building brands is a long hard process, but the fact they came back from a near death experience in autos is very encouraging. Look at Hyundai. They failed, and unlike Volkswagon, who took a long time, they did not give up and learned from their mistakes. Their extended warranty program is a great marketing tool, and they have kept prices low. The cars are not on a par with most U.S. or Japanese cars, but they are not bad and very competitive on price.” *Washington-based Trade Attorney*

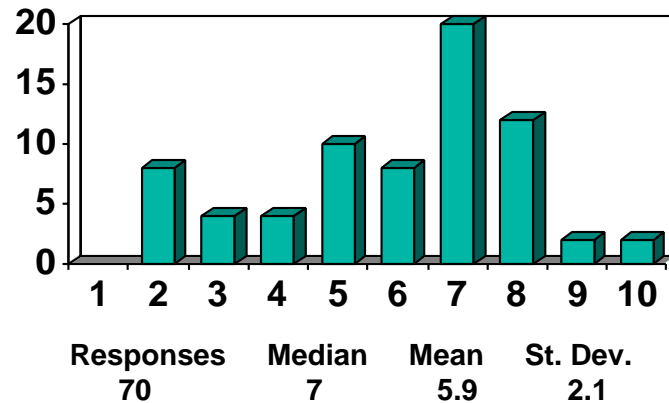
“ They have the ability to learn from their mistakes. Quality, branding and technology are all improving.” *Editor in Chief, Asian Financial Magazine*

“ I am personally aware of one chaebol that has allowed other companies to market its products because of the brand name issue and that now will market under its own name.” *Corporate Attorney, Los Angeles*

“ Most products in the U.S. that are identifiably Korean are made by Samsung, which probably does better on all of these measures than other Korean groups. ” *Think Tank Analyst*

“ Depends on the product. Steel, phones, chips, etc. are superb. But others not so.” *Government Professor*

# While Opinion is Divided, Respondents Were Generally Optimistic About Korea's Entrepreneurial Potential



11) Can Korea successfully generate the intellectual capital, entrepreneurial mindset and flexible business structures that have driven technological growth and innovation in the U.S. over the past decade? (Please rate on a scale of 1-10, 1 being incapable & 10 being highly capable)

Respondents were generally optimistic about the ability of Koreans to promote an entrepreneurial business structure, however there was a substantial deviation of response and a wide diversity of opinion reflected in their comments.

## *Economic Trends and the Investment Potential of Korea*

### ... Generally Believing in the Ability of Koreans Though Noting the Importance of Creativity and Flexible Business Structures

“ Korea is truly a leader in preparing for e-commerce and the age of the internet. Koreans are exceedingly open to trying and adopting new technology. However the technological level of some e-commerce web-sites is still mediocre. One gets the feeling that somebody has said, ‘that's good enough (Kwen-chan-a-yo)’ rather than insisting on a high quality level.”

*Ret. Bureau Chief, National Business Newspaper*

“ Can any other Asian country, and not just South Korea, emulate the U.S.? Do they want to? Probably not. Asia will only try and take the good points of capitalism and remold it so their own society and people can accept it. I don't think Asia will ever accept U.S. style capitalism and it shouldn't. There will be more stock market millionaires and 26 year olds with their own company in Korea but not as much as in the U.S.” *Tokyo-based Financial Correspondent*

“ I just visited Japan, where I was invited to a meeting of ‘Bit Valley’ firms. About 40% of the participants were Japanese-born Koreans. This tells you something about the entrepreneurial spirit of Koreans and their potential to thrive in this sector.” *Sr. Corporate Attorney, New York*

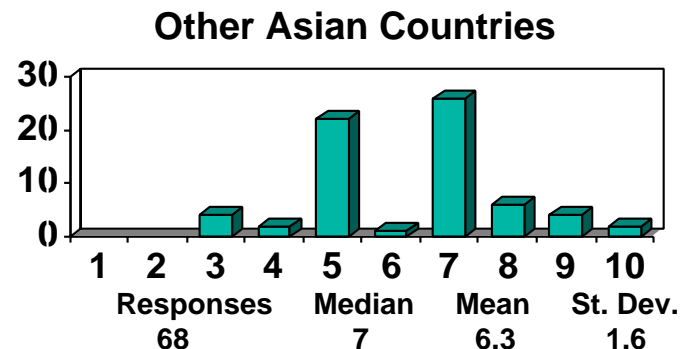
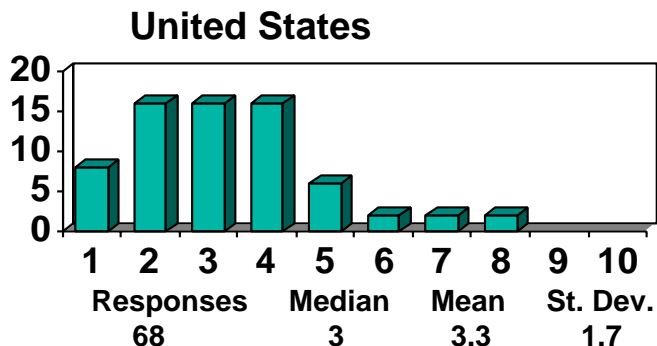


## *Economic Trends and the Investment Potential of Korea*

- “ We're seeing startups in internet and technology. So there's potential. But isolated success stories are different than an environment that fosters these things....” ***Government Professor***
- “ As a result of their financial troubles, Asians have begun to decide they can do things on their own, rather than remain in troubled companies or become unemployed. This is also happening in Japan. First these companies will become a power domestically and then regionally. This is similar to SME's in the U.S. They first became successful in the U.S. and then began to reach out internationally.” ***Retired V.P., Public Affairs-Asia, Major U.S. Technology Firm***
- “ Clearly the U.S. is dominant in venture capital and high-tech start-ups, though it is also clear that Koreans are doing a lot of groundbreaking things in that area and these firms are unencumbered by the anachronistic management structure of the chaebol. Younger people are very entrepreneurial. Korea's economy is more sophisticated than other places in Asia. They have a very good chance.” ***Washington-based Trade Attorney***
- “ Just because you have a local market listing these companies does not mean you have a new economy. You must come up with something unique that adds value in a global context. Not just the Korean version of this or that. Is the present trend much more than just jumping on the bandwagon?.....” ***Senior Editor, National Business Magazine***

## *Economic Trends and the Investment Potential of Korea*

### Korean Start-Ups Were Perceived as Less Attractive than U.S. Firms, Though More Competitive Than Those in Asia ....

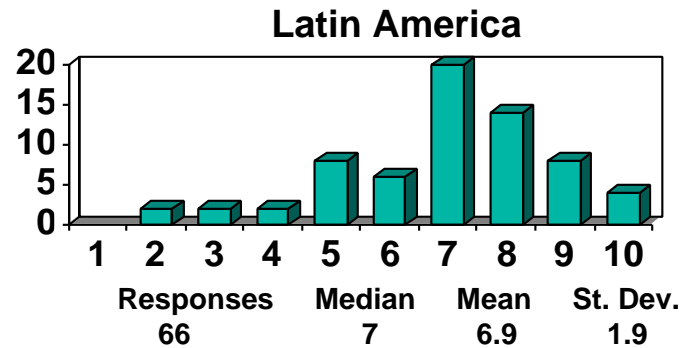
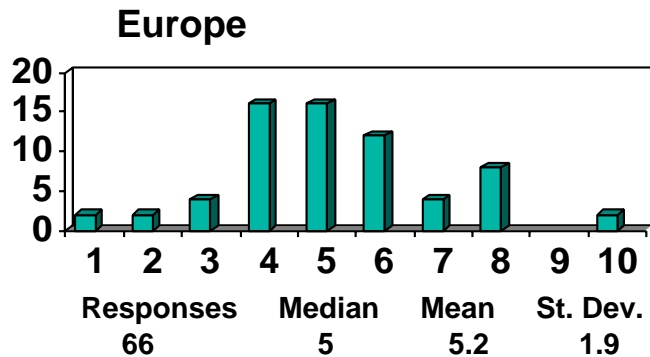


12) How would rate the investment potential of Korean start-up and high-tech firms compared to similar entities in the following markets? (Please rate on a scale of 1-10, 1 being inferior investments & 10 being superior investments)

Respondents were much more confident of the investment potential of U.S. start-ups and technology firms, though more confident about Korean firms than those elsewhere in Asia. There was a relatively average deviation in responses to both questions.

## *Economic Trends and the Investment Potential of Korea*

.... Korean Start-ups Were Also Seen as Competitive with European Firms and More Competitive than Latin America



- “ To the extent that you can go in and invest and realize the immediate opportunity is within Korea, you will be successful.” *Retired VP, Public Affairs-Asia, Major U.S. Tech. Firm*
- “ The internet mania is exciting, but there is not enough information to make informed decisions. Would like to know much more about their ownership structures and how they are run. But in that sense there is little difference with start-up companies in the U.S. Minority shareholder need protection and disclosure. Doubt it is much worse in Korea.” *Intl. Corp. Gov. Analyst*

### With Special Emphasis Placed on the Need to Distinguish Between Firms with Domestic and Global Potential

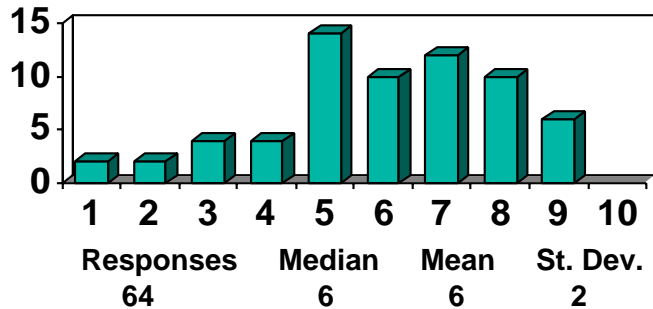
“ Any economy growing at 10% or more has to be attractive to investors. The growth of the KOSDAQ has been amazing. Korea is a leading market in terms of internet penetration and e-commerce. Whether Korean net companies will succeed as global players, I am not sure. However, too many people focus on the .com and .kr sites. I see far more potential in internet infrastructure and engineering applications. I do not know how many there are of these companies in Korea, but judging from their success in semiconductors and technology manufacturing, the potential should not be underestimated. *Sr. Corporate Attorney, New York*

“ If you are a venture capitalist, you have to make a play for the local market that will get you the return you are looking for. There are partnering opportunities, but I don't know if there are Korean firms out there with the potential to become a Nokia or AOL.” *Sovereign Credit Analyst*

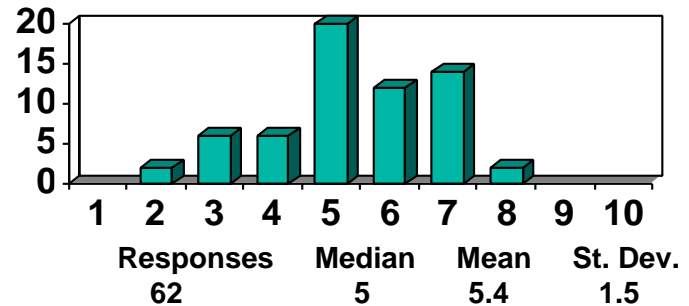
“ Small nimble companies are good, but simply avoiding the worse problems of large companies is not enough. This is just neutralizing a negative. The problem is my expectations are very high when it comes to Korea. Probably if the country hadn't traditionally been such a great performer, I would not expect such great things.” *Senior Editor, National Business Magazine*

## Respondents Were Marginally Positive About Current Investment Opportunities in Korea....

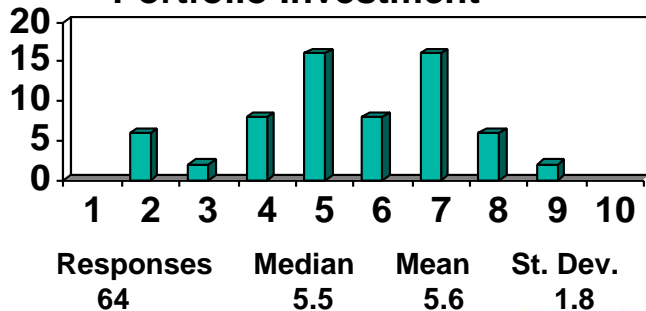
### Corporate/M&A



### Other Fixed Investment



### Portfolio Investment



13) How would you rate the relative attractiveness of the following investment opportunities in Korea? (Please rate on a scale of 1-10, 1 being highly unattractive & 10 being highly attractive)

Respondents were marginally positive about investment opportunities in Korea. Corporate M&A rated slightly higher than Portfolio & Fixed Investment, though also demonstrated the highest deviation.

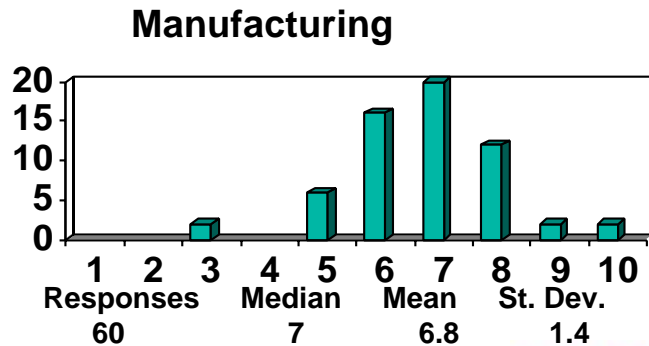
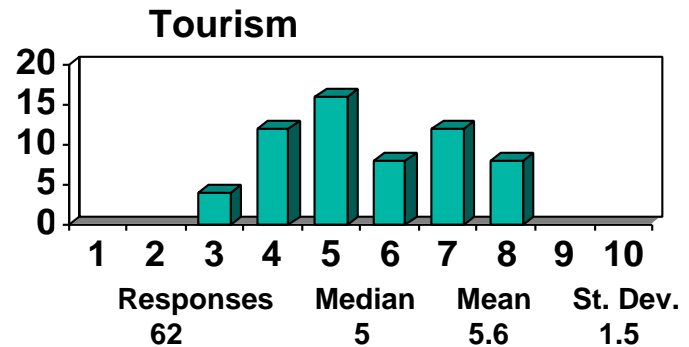
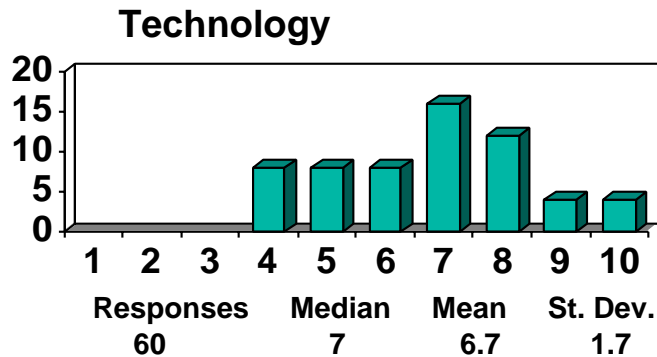
### ....Unsure Whether the Gains of the Last Two Years Will Translate into Superior Returns Moving Forward

“ I am very bullish on the Korean market overall, as reforms, especially in the financial sector, have been significant, even though many companies still seem to be dragging their feet into this new deregulated environment. My fund can buy assets anywhere in the world. As recently as last summer, we were 60% weighted toward Korea. Had a huge run and some stocks appeared fully valued so we cut back to 40%. Many old economy stocks appear cheap. I think the KOSPI will rise to 1200+ over the next couple of years, possibly this year.” *Portfolio Manager*

“ Korea is definitely a buy over the long term, but I am not so sure in the near future. When the KOSPI was 300, the decision to invest was a lot easier. Korea was not going to disappear off the map. Now, however, we have a globally inflated technology sector and we will have to see whether the reform process really takes hold. Meanwhile the KOSPI dances between 8-900. Ultimately, it will rise substantially, but will we first revisit some lower numbers? Fixed Investment and M&A are also attractive but very complicated. You’ve got to really want to do it and be prepared to spend a lot of time.” *Financial Industry Professional*

# Economic Trends and the Investment Potential of Korea

## Manufacturing and Technology were Seen as the Most Attractive Sectors for Investment ....

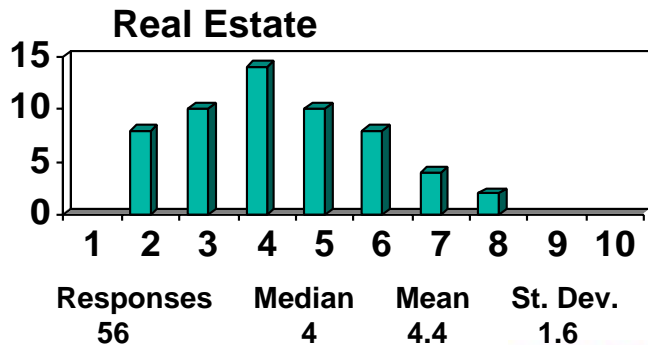
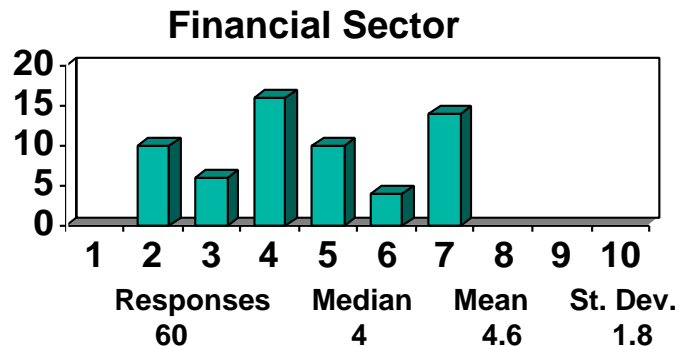
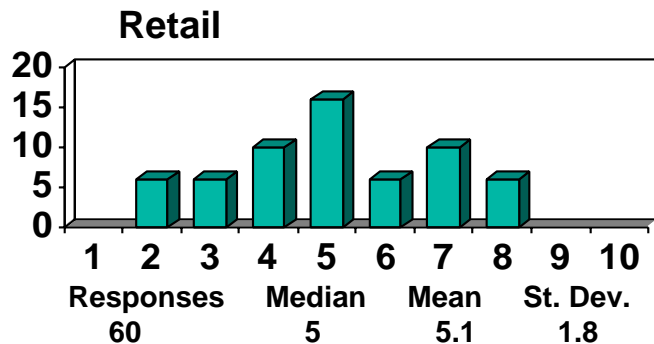


14) How would you rate the relative attractiveness of the following sectors as investment opportunities in Korea? (Please rate on a scale of 1-10, 1 being highly unattractive & 10 being highly attractive)

Respondents viewed Manufacturing as the most attractive sector for investment, followed closely by Technology. Tourism ranked third, though with considerably less enthusiasm.

## Economic Trends and the Investment Potential of Korea

.... While Tourism, Retail, Finance and Real Estate Were Perceived in a More Neutral Manner



14) How would you rate the relative attractiveness of the following sectors as investment opportunities in Korea? (Please rate on a scale of 1-10, 1 being highly unattractive & 10 being highly attractive)

Respondents were relatively neutral about Retail and marginally negative about the Financial and Real Estate sectors.



## *Economic Trends and the Investment Potential of Korea*

- “ While manufacturing has been a traditional strength of Korea, services and IT will be a growth area. This has taken off worldwide, and Asia has been behind the curve. The potential growth is dramatic.” *Retired VP, Public Affairs-Asia, Major U.S. Technology Firm*
- “ Manufacturing has traditionally been the most attractive and important sector for Korea, but moving forward I am not sure if this will continue to be the case. With the market opening for real estate activity there should be a lot more activity in this sector as well. There is a lot of deregulation going on in the financial area and many opportunities are emerging in banking, consumer finance and non-bank commercial lending. Technology is also another area in which Korea’s reputation is quite strong.” *Sr. Corporate Attorney, New York*
- “ Manufacturing and the financial sector offer the highest potential....” *Think Tank Analyst*
- “ Korea is an interesting place and its tourism potential is highly underrated. I always take some time to do something interesting when I visit, there is also great shopping. Culturally, you need to scratch the surface, but there is something very interesting there. It is also the gateway to North Korea, a highly interesting destination. There will be heavy curiosity factor, though the industry needs to be developed and promoted more effectively to foreign audiences.” *Washington-based Trade Attorney*

## *Economic Trends and the Investment Potential of Korea*

15) What would you view as the underlying strengths of South Korean companies?

- Ability to concentrate immense human and financial resources on specific projects
- Energy and commitment
- Low cost manufacturing skills
- Captive domestic market
- Manufacturing capabilities
- Strong work ethic
- National pride
- Technology and low-cost approaches
- Established leadership in several industrial markets
- Generally compliant labor pool
- Highly educated work force - strong manufacturing skills
- Efficient organizational management
- Cost competitiveness of involvement in high value add industries. Strong reverse engineering capabilities for leading edge technology. Very strong originality in civil infrastructure technology such as roads, dams etc. size, costs and ability to adapt quickly to new realities
- Growing technological base
- Intelligent young people - technological aptitude
- Never say die attitude, long range planning, willingness to forego short term profits
- Government involvement a la MITI in Japan.
- Disciplined workforce that is skilled at mass-producing standard products
- Educated workforce, improving technology levels and marketing

## *Economic Trends and the Investment Potential of Korea*

16) What would you view as the underlying weaknesses of South Korean companies?

- Poor capitalization, high debt
- National pride, bad marketing
- Lack of business savvy & flexibility, difficult govt. environment, corruption
- Lack of innovative products with recognized global brand names.
- Lack of strategic discipline
- Corporate governance, labor unions.
- Financial strength and international management/marketing
- Concentration of power among the chaebol - still fragile banking system
- Mindset of top mgt. to rely on corrupt business practices as a crutch
- Narrow mindedness, inability to think for themselves
- Lack of young entrepreneurial internet savvy workforce. Limits on free speech and press
- Too rigid mgt. with no concept of franchise value
- Mgt./owners unable to accept that investments haven't worked. They cover up and run at loss rather than admit mistake. Face gets in way of shareholder value
- Former focus on large, low cost mfg mentality
- Bureaucratic mgt. and govt. interference
- No institutional framework for allowing market forces to operate freely. Being too insular
- Reliance on government support, kickbacks and graft.
- Too unwilling to adapt. Too afraid of competition.
- Strength and recalcitrance of chaebols, strength and aggressiveness of the unionized work force, cultural attitude towards intellectual piracy
- Govt. control over finance & market prices / lack of tech / poor R&D / bad marketing

## *Economic Trends and the Investment Potential of Korea*

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

- Political stability enhancement and development of brand names
- Overhaul of employment system, increasing use of portable skills and systems.
- Flexibility to change business models, practices, even products....
- Full, voluntary compliance with accepted ways of doing business by most other industrialized nations (western and eastern) regarding contract compliance, protection and compensation for intellectual property, and ethical business conduct
- Corp. governance; transparency in financial reporting, openness to foreign investment
- Learn to move new products faster from development stage to consumers
- Allow greater individual creativity
- Branding, more global awareness, less insularity, better financial structures and willingness to move quickly into and out of investments
- You can't just appeal to fellow Koreans. Want to sell a Samsung TV in Idaho? You have to have commercials and marketing strategies that work there, not in Seoul.
- Chaebol system, govt. inaction on reform, lack of knowledge on what entrepreneurship means
- With some notable exceptions, Korean companies have not developed the management skills and global strategies necessary to be successful worldwide
- Need to better understand risk mgt. need for profitability rather than single minded pursuit of mkt. share
- View market as global rather than foreign & domestic
- Management selected on basis of merit
- Stress original products & high quality, not just price
- Improved design / quality / marketing / financing
- Greater access to capital, education, and technology, specifically internet opportunities

### Conclusions

- U.S. opinion leaders favorably credit Korea for an extremely rapid recovery from the 1997 financial crisis, especially in comparison with other countries & regions;
- Korea's ascension into the OECD and its extraordinary economic performance over the past four decades has created very high expectations and ever higher benchmarks to surpass;
- In the minds of U.S. opinion leaders, Korea can be roughly equated to a highly-promising "growth stock" in which even a small disappointment in performance can have dramatic repercussions over the short term;
- This explains the tendency of U.S. opinion leaders to discount Korea's rapid recovery and successful reform efforts as being reflected in current valuations as they look toward the future for continuing evidence of strong growth and achievements; and
- Whether these expectations and perceptions are fair or realistic is beside the point. They clearly exist in the mind of U.S. opinion leaders and therefore effect Korea's cost of capital and its ability to maintain its global competitiveness.

### Conclusions and Recommendations

- KOCHAM/FKI's 1996 opinion leader survey identified a growing "deficit" between Korea's economic achievements and the perceptions of U.S. audiences. This phenomenon was reaffirmed within the current study;
- The 1997 IMF crisis diverted Korea's attention away from this very real issue toward more immediate and pressing financial concerns;
- Korea's subsequent recovery has, however, redoubled the need to acknowledge and address these potential constraints on its future growth and development;
- Korean firms/institutions must therefore strengthen their efforts to engage in the "corporate diplomacy" needed to manage the expectations of foreign audiences in a realistic manner;
- This will serve to minimize market and "perception" volatility and to maintain an equilibrium between these expectations and Korea's future economic performance; and
- It will also enhance the ability of Korean firms to further build the brands, intellectual property, service-orientation and flexible business structures demanded in a more mature, information-intensive economy.

The “Perception Gap” Identified in KOCHAM/FKI’s 1996 Research Study Was Reaffirmed Within the Current Data

