

Does Korea Still Matter in the Chinese Century?

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The U.S. science fiction author Philip K. Dick famously said, “Reality is that which, when you stop believing in it, doesn't go away.” The reality today is that China is the most important country in Asia, and this reality is unlikely to change anytime soon. The United States knows this. Korea knows this. The Chinese certainly know this.

In 1999, the former Hong Kong Telecom was renamed Pacific Century CyberWorks. If the 19th century belonged to the British (remember the 1829 adage, “The sun never sets on the British empire”), and the 20th century belonged to the United States with an industrial and military might never before seen, the 21st century seems to be shaping up to be the Pacific century. Whether *Pacific century* proves to be a just a euphemism for *Chinese century*, only the next 100 years will tell.

What we do know now, however, is that the 21st century will not be the Korean century. There are five provinces in China that have a larger population than Korea. Even a peacefully unified North and South Korea will not overtake China or Japan in economic terms. So the question is not how Korea can defeat China—it can't. The question is how Korea can stay relevant in the Chinese century.





				
<u>2005 estimates</u>	(figures from the World Factbook)			
Population	1,306,000,000	127,400,000	48,400,000	295,700,000
% of the world	20.26%	1.98%	0.75%	4.59%
Literacy	91%	99%	98%	97%
Median Age	32	43	35	36
GDP (PPP in billions)	\$8,150	\$3,867	\$983	\$12,370
GDP/capita (PPP)	\$6,200	\$30,400	\$20,300	\$41,800
Exports (billions)	\$752	\$550	\$278	\$928
Imports (billions)	\$631	\$451	\$248	\$1,727
Δ (billions)	\$121	\$99	\$30	-\$799
Exports to USA	21%	23%	17%	-
Imports from USA	8%	14%	13%	-

Figure 1 – Economic Comparison of China, Japan, Korea and the United States

One answer—or rather 10 answers—to the question of, “Does Korea still matter,” comes from the Korean Trade-Investment Promotion Agency (KOTRA), a well-run government entity under the control of Korean Ministry of Commerce, Industry and Energy.

1. Talented human resources: According to the 2004 *Competitiveness Yearbook*, published by the International Institute for Management Development (IMD) in Switzerland, Korea ranked fifth in terms of education level with 40% of the population completing higher education.
2. Substantial domestic economy: Korea’s GDP is smaller than that of only China and Japan in East Asia.
3. Excellent profitability: Profitability and productivity are key factors for foreign investors in making decisions. In this regard, Korea is more competitive than other Asian countries including China and Japan.
4. Advanced IT environment: Korea ranked first in high-speed Internet penetration for four consecutive years, commercialized CDMA technology, and launched Digital Multimedia Broadcasting service for the first time in the world, fast emerging as a global IT powerhouse.
5. Strategic regional location: More than 40 international cities with a population of over 1 million are located within a three-and-a-half-hour flight radius of Incheon International Airport.
6. Creativity and innovation: According to the 2004 *Competitiveness Yearbook* published by IMD in Switzerland, Korea ranked sixth in terms of R&D investment, behind the United States, Japan, Germany, France and the United Kingdom
7. State-of-the-art infrastructure: Korea has a more than ample stock of infrastructure (power, energy, irrigation systems, roads, waterways, airports, seaports, communication systems, transportation, water supply and sewage treatment) to play a leading role in Northeast Asia.
8. World-class multinational companies: A total of 11 Korean companies were included among the Global 500 World’s Largest Corporations in 2004, as selected by *Fortune* and based on sales.
9. Strong government support: The Korean government has passed a variety of pro-investment measures including the “Foreign Investment Promotion Act,” and the “Restriction of Preferential Taxation Act, and created an Ombudsman Office and several Free Economic Zones.”

10. Stimulating lifestyle: Korea has four distinct seasons, offering a fascinating range of weather conditions ... Korea has hosted two major global sporting events: the Olympic Games in 1998 and the World Cup in 2002.

The challenge for Korea is that as many as six of KOTRA's reasons to invest in Korea—talented human resources, substantial domestic economy, advanced IT environment, state-of-the-art infrastructure, strong governmental support, and a stimulating lifestyle—are true or soon will be true in China. The other four—excellent profitability, strategic location, creativity/innovation, and world-class multinational corporations—will surely follow.

What China cannot offer today—and shows few signs of offering any time soon—is intellectual property rights (IPR) protection. Huawei, one of China's largest domestic companies and quickly becoming a global brand, has faced accusations of reverse engineering and corporate espionage since the company was started in 1988. According to court documents, Huawei copied Cisco's model numbers to make it easier for customers to switch. Cisco eventually dropped the suit—but only after Huawei pulled the contested products from the market and agreed to alter their design codes. Even after settling with Cisco, Huawei came under fire in 2004, when an employee was caught taking photographs of a rival's circuit boards after hours at a trade show in Chicago. A Huawei official called the incidents "misunderstandings" and added that they are "all about how Westerners and Americans view China."

According to Transparency International's 2005 corruption index, China ranks just 78th in the world, tied with Senegal, Sri Lanka, and Suriname. China scored a 3.2 on a scale of 1–10, with 10 being no corruption. In contrast, Korea scored a 5.0, tying it with Italy and Hungary. The United States had a 7.6 and Japan had a 7.3 score. Singapore was tops in Asia and fifth in the world with a 9.4 score.

The stories of IPR infringement are as legendary as they are out in the open. They range from the not-so-subtle elderly bearded man (who looks very much like Colonel Sanders) promoting chicken, to Beijing's Silk Street and Shanghai's South Xiangyang Road where knockoffs of virtually everything are for sale for pennies on the dollar. Korea certainly isn't perfect in this regard either, but most of the knockoffs are now gone from Itaewon and the other shopping districts.

Whether China's transgressions are perception or reality, Korea is far ahead of China in terms of IPR protection. Even the largest foreign firms in China enter the market with their fingers crossed. Korea can differentiate itself by continued promotion and enforcement of proactive public and private initiatives to strengthen Korea's laws in these areas.

Something else China cannot yet offer is the investor confidence that comes from the predictability of a stable and mature democratic country governed by the rule of law. According to a March 2006 article in the *Economist* ("Coming Out"),

“There is no other important country whose likely trajectory over the next 20 years is more uncertain than China's. Possibilities include:

- An economy that continues to boom as the political system gradually becomes more liberal, and China becomes an increasingly positive force in the world;
- A fast-growing economy, a surge of vengeful nationalism, and an attempt by China to displace American power in Asia, regain Taiwan and challenge Japan;
- A country in disarray, engulfed by social and political crises as its economy slumps.

All are plausible. Much will depend on choices made by China itself and by other powers, especially America.”

Conclusion

Anything you can do I can do better; I can do anything better than you. ...
Anything you can be I can be greater; sooner or later, I'm greater than you.

Irving Berlin, *Annie Get Your Gun*

I believe the 21st century may in fact be remembered as the Chinese century, just as the British dominated the 1800s and the United States dominated the 1900s. Britain and the United States aren't going away anytime soon, and neither are India, Japan, Vietnam, or eastern Europe. So, what's a country to do?

Korea must become the safest place on Earth for companies to use those well-educated and hard-working talented human resources for research and development and innovative new designs with broad consumer appeal. China will move up the food chain from low-cost manufacturer to technology innovator only by earning the trust of joint-venture partners and foreign investors. Trust comes from a track record of protecting intellectual property. Korea has a huge head start and can win this race, but only with a strategic vision by Korean companies and rigorous government enforcement of IPR protection.

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