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A Study of the Reasons of Decline in Automobile Exports of South Korea

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ABSTRACT

This research aims to find the present issues going on with the automobile industry in South Korea and why there has been a decline in the exports of automobiles from South Korea. This research mainly focuses about the labour crisis in South Korea, lower demand of hatchbacks globally and how South Korea can overcome the issues.

Keywords: Non-Tariff Barriers, Bounded Trust, Automobile Industry, Keiretsu, Chaebol, USP, and Automotive Sector.

1. RESEARCH PROBLEM

A few of the research problems that led to taking of this topic are as follows

- 1) How a small nation like Republic of Korea (South Korea) became a leading exporter in automobile industry, which has big players from decades before South Korea got into this industry.
- 2) What is the main reason for the downfall of the automobile business not just in the export market but also in the domestic market in South Korea?
- 3) What are the possible solutions that South Korea can adopt for a complete recovery and betterment of the automobile industry in its nation?

2. LITERATURE REVIEW

(Ritter, 2010) The author in this dissertation writes about how The republic of Korea (in the following referred to as South Korea) has been able to become one of the most developed economies in less than 50 years by adapting the Japanese methods of development. The government has helped the *chaebols* like Samsung, Hyundai and KIA become a very established and reputed firm in the international markets. As of 2009 South Korea had a strong hold in the automobile sector with manufacturing companies like Hyundai, KIA, SsangYong and GM Daewoo. The document discusses that the USP of South Korean automobile firms is that they have been successful in offering affordable entry level cars to the customers. The author also discusses that how South Korea has managed to not only enter but also make profits in an industry which is very competitive in nature and has players which are established centuries ago. One of the reasons for South Korea to get successful is due to late industrialisation of South Korea – The government placed itself in the centre of the industrialisation cycle by controlling the banking sector and intervening in micro and macro levels. The government also invested heavily on infrastructure especially education and hence having a very educated working force lastly by having a heavy spending on R&D. In conclusion the author says that the factors for rise of automobile industry in South Korea was because of government support, intensive learning and linking of South Korean manufacturers with advanced competitors for better technology which led them from OEM to OBM manufacturers. The South Korean manufacturers use 'lean enterprises' which is a combination of low material and labour costs at home country for having a grip in the market.

(Edward Hanawalt, 2017) The authors in this journal discuss about the most ideal places for investment in terms of automobile manufacturing. The authors say that India, China and Mexico are the hottest destinations for investment for firms who are looking to invest on manufacturing automobiles. The authors have studied various fields in manufacturing like Labour Rate, Material Cost and Logistics being 3 major factors out of the 11 factors. The study conducted shows that the baseline ranking on South Korea has come down to 11th position out of 23 when it comes to model ranking of which country is the most suitable one. The labour rate utility of South Korea is 11 which is a considerable number but because the other costs are also high South Korea is falling back in the race of automobile manufacturing. South Korea comes last but 6th when it comes to Forecasted compound annual growth rate utilities which means that the growth potential in South Korea though now worst but is very bad.

The authors clearly say that *Labour issues in South Korea are a big concern for the future*. The authors also say that Germany is to sustain because of its tech methods being distributed to all manufactures.

((ed.), 2017) In this book named **The Automotive Sector in Emerging Economies: Industrial Policies, Market Dynamics and Trade Unions. Trends & Perspectives in Brazil, China, India, Mexico and Russia** the author discusses about the upcoming nations, which are trying to become developed nations by the help of automotive manufacturing industries. The countries like Brazil, China, Mexico and Russia are trying to bring themselves in the game of automobile industries by collaborating themselves with nations which are technologically advanced like South Korea, Japan, Germany and the US. The book discusses about how till the early 2000s the automobile industry was only domestic in nature and countries like US/Canada, Japan/South Korea and Germany were the only ones who were able to enjoy the benefits of high tech automotive. The further discusses how the countries with markets have also become the countries for production by 2014 India had climbed up to 6th position as automotive producer this has led to changes in the developed countries which had the hold in automotive production industry for decades. South Korea though was able to sustain because of OECD status. Though South Korea came in a decade later after its neighbour Japan (1975) it has successfully established itself in the export market of automobiles as the domestic markets in South Korea weren't well established and hence South Korea had no other choice but to keep exports in its mind from the time of commencement. By 2014 twenty countries were manufacturing cars for exports but the top three nations were Japan, Germany and South Korea with a combined production of about 2.5 Million units.

(Ravenhill, 2001) John Ravenhill. States in the article, which was published in MIT JAPAN program: Working paper 01.04 that though South Korea was the most effected country in the region at the time of Financial Crisis in the year 1997-98 it showed a very quick and stable progress. Later on, the author says that the issues in the automotive sector of South Korea were seen even before the crisis, which was as follows: The South Korean Companies had achieved success in export sector primarily competing through price as these companies specialised in manufacturing small and inexpensive cars where the profit margins were really low. Protectionist barriers played a huge role especially in Western Europe. The greatest negative of the automobile produced in South Korea was the bad brand name that it had received during the time of exports in the 1980s- The consumers felt that Korean cars were cheap, lacked the latest technology and nasty as few models performed horrible in crash tests. The rapid growth of production capacity in 1990s made huge structural problems for the Korean manufacturers. The advantage given to the Korean automobile manufacturers was very easy to obtain and hence the debt of the firms went for a toss. Ssangyong and KIA were reported to have made losses and would not be able to sustain in future. The mergers and takeovers somehow helped the companies stabilize. In conclusion, by the late 1990s, South Korea was left with just one company in automobile sector (Hyundai) which was performing well and South Korea now had to focus towards OEM for other companies for revival.

(Marc Sardy, 2009) In the article published the author compares the competitiveness of India and China to Japan and USA whereas the authors also compare how India and China are trying to adopt the methods and policies that South Korea has adopted to become the latest Asian country to be successful in automobile export industry. The authors use Double Diamond model to the comparisons by transforming the domestic and international diamond into a competitiveness index. The competitiveness index showed that China had better advantages in domestic and international factor conditions, the demand conditions, the industries that are supporting to the current industry and the business context compound. Whereas weaker compared to South Korea except for domestic context because of lower cost of labour. High rate of inbound FDI and outbound FDI in China is also a context, which works as a threat to South Korea in terms global exporter. As of now the Chinese automobile exporters are focused towards the supply of local customers but once their local demand is satisfied China is much capable than South Korea in becoming an automobile Giant. Though is behind South Korea in terms of capabilities but the low labour cost gives India a chance to overtake South Korea.

(The Korea Herald Auto Team-Cho Chung-un, 2017) According to an article on Korea herald Park Han-woo who is the president of KIA motors which is a sister company of Hyundai Motor (The largest automobile manufacturer of automotive technology in South Korea) said in a forum held by the Korea Automobile Manufacturers Association on 21.8.2017 that the present scenario is South Korea for the company is worse than what they had faced in 1990s (The Financial Crisis) due to continuous drop in sales in and out of South Korea and the prolonged labour crisis which is the labours are demanding that the bonuses should be recognized as part of their regular wage. The president also spoke rising labour being an issue to other automobile manufactures too as it would not only make production more expensive but also the fact that the automobile companies in South Korea will not be able to spend as much as they used to before in research and development . This revolt in the company might lead to a cycle of labour protests in the entire South Korea automobile labour industry. The article also indicates about how GM might back out of South Korea (GM has discarded the claims though). Since South Korea is a leading manufacturer in small cars segment (Hatchbacks) and the global demands for small cars are, declining it is a matter of concern to South Korea. Beijing's spoiling of relations with South Korea due to the US is also a matter of concern.

(Siem Pichnorak, 2013) This report talks about the export policies of South Korea 1960s onwards which led to the rise of South Korea as a leading nation in terms of exporting automobiles. The researchers say that there were initially three South Korean brands which took the name of South Korea at international level with the help of the government support the brands are Hyundai, Kia and Daewoo. The authors say that it was General Park Chung Hee who brought drastic measures in 1962 which made South Korea what it is today the acts that were brought in by him for automobile were "Automobile Industry Promotion Policy" and "Automobile Industry Protection Act". In 1966 measures to increase R&D were introduced. In 1982 "Automobile Industry Rationalization Policy" was introduced to overcome the energy crisis of 1979. The market for Korean cars was established because there was demand for cheap cars in Japan. Later on the authors talk about the tax incentives in the early 1960s where there were huge incentives such as about 50% in 1964 for exporters and 80% to those who supported R&D. There were duty drawback schemes too to reduce the cost of production. By the 1970s the availability of financial incentives gave a huge boost to automobile exporting. Lastly the government also came up with trade free zones and other help organizations for the exporters and hence the exports boosted well.

The authors conclude by stating that Korean cars are still seen as cheap cars and the industry is heavily relied on government support and therefore the day the support is taken off and the industry is left to sustain itself market forces there will be issues.

(Lee, 2011) In this article the author talks about the different kinds of non-monetary issues in South Korea that an automobile industry faces. The issues relating to government, they society other business and the consumer behaviour culture. The author discusses that TB-trade barrier have been reduced due to GATT and WTO but NTBs- Non Trade barriers have a lot that needs to be worked on and the main effect of this in country like South Korea is on the partners from outside South Korea of automobile firms. The author talks about how trust is a very big factor in South Korea and social trust which is the bond between the company and the citizens is a factor that cannot be ignored. The author talks about how dependence on non-market relationship is important in South Korea and they trust only people related to them and show distrust to people outside their family and therefore a new comer will have to spend more time in building informal and formal relationships before he can have any business from the South Koreans and later on the author talks about how there is only 4% imports in automobile sector in Korea which implies that though South Korea can be a factory for a company but being a market is a very difficult job.

(Industry, 2014) This report which was published by Korea Automobile Industry clearly states that the exports of the country decreased in spite of increase in demand because of labour strikes. The reports also talk about decrease in the European region due to the economic crisis present there. The report also talks about the decline in domestic sales due to economic slowdown in the country. Despite stating the reason that there was an economic slowdown and hence the sales decreased we found that according to the report there was an increase in imports to around 20.3% which means there was something wrong with the Korean cars and hence they did not have sales which means Korea has to look into its own manufacturing and set the errors right before it's too late.

3. METHODS

The method used for data collection in this research is secondary data. Secondary data is data, which is pre available for research and study purposes as is published in journals, magazines, news, books etc. The internet has been a huge hub of knowledge and data as the internet is very quick and accessible for data there are various sources like e-books, e-journals, e-periodicals and e-magazines, which can be accessed from the internet. Since the user base of internet is vast and data uploading is quite fast the latest information is available which might not be possible while using physical journal or any other physical source of data.

4. RESULTS

From the above literature review and studying the secondary sources of data from the internet, it can be understood that South Korea has emerged as one of the chief exporting countries in automobile sector because of its government support in terms of tax cuts and other infrastructure development. Also the fact that South Korean brands are less expensive in terms of price and after sales service costs has led to South Korea capture markets which were developed and also the markets which were or are in the developing state i.e. the markets which did not have a disposable income to buy costly cars would now buy Korean cars. Late industrialisation was also a factor for South Korea's growth as they could observe and rectify or not do the errors, which other countries had done at the time of their industrialisation. The quality of automobile which South Korean automobile brands were substandard is nature and hence faced a downfall in the late 1990s Hyundai the biggest automobile firm in South Korea too faced a downfall at that time because of this but later on recovered. The current situation as of now is that at the 1990s when South Korea faced a downfall they failed to realise that the demand for hatchbacks would be out of fashion as and how the disposable income of the people will increase. The times are changing now which is leading to the decline in the demand for hatchbacks and South Korea is specialising in hatchback manufacturing. The current issue right now which is the lead cause for the decline of automobile industry in South Korea which in turn leads to decrease in exports is the labour crisis- the labour in South Korea though skilled is very expensive. Another factor which is a great reason for South Korea to not perform well in the automobile industry is the over development of infrastructure in South Korea.

5. CONCLUSION

“Too much is too bad” and that is what has happened to South Korea in terms of infrastructure the country has developed too much in terms of infrastructure, which has led to a problem to the manufacturers, especially those who are new to this and are unable to utilise the infrastructure. Since the demand for hatchback is decreasing because of the overall increase in the purchasing power of the people in various countries South Korea needs to focus on finding new markets such as developing nations in Africa, South Asia etc. South Korea can also focus their R&D on making premium hatchbacks to retain their lost customers who think hatchbacks are for lower income level people and hence their standard will fall if they use hatchbacks. Hyundai who is the biggest automobile brand from South Korea has come up with “Genesis” which is a luxury sedan to retain its rich customers, I think will do well because they have understood the need of the markets. Getting into premium class of automobile for South Korea is also beneficial because premium cars have greater margins, which means the automobile manufacturers can pay their labourers well. South Korea is well known for innovation and these innovations can be better utilised in premium cars instead of budget cars as the automobile manufacturers can ask for the facilities in premium cars. The most effective way for South Korea to come out of the issue is to rectify the mistakes done in past, focus towards premium cars, develop more new markets for their products and pay more to their labourers.

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