

# **The Korean Retailing Sector since the 1970s: Government, Consumers and the Rise & Fall of the Department Store**

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A thesis submitted to the Department of Economic  
History of the London School of Economics and Political  
Science for the degree of Doctor of Philosophy, London,  
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## **Declaration**

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## **Abstract**

This thesis is a study of the Korean retailing sector since the 1970s. It focuses on analysis of the three elements in retailing development – government, retailer and consumer – which engaged in a process of mutual interaction. It is used to address two main questions, namely why was the leading role of the department store in the Korean consumer market delayed, and why was its golden age both quite explosive and extremely short.

The thesis argues that the emergence of modern retail formats in Korea was artificially delayed through consumption repression. It also argues that the explosive golden age of the department store industry was a result of the combination of two sets of behaviour: a strategic change by the department stores to focussing on necessities rather than luxuries; and the enthusiastic consumption attitude of consumers in response to previous consumption repression and consequent purchasing power. It shows that the short golden age of the department store industry was in addition closely related to the ownership structure of the big retail businesses which also owned other types of retail format. Companies made strategic decisions that led to the Korean department store sector moving back into the luxury market and giving the existing mass market up.

The research also examined the application of the conflict theory of retail evolution to Korea, and the thesis argues that this theory is of limited applicability. Under Korean conditions of ownership, the evolution of retailing, particularly the department store format, was likely to depend not on competition and conflict between different types of retail format, but on mutual cooperation for the profit maximisation of the big retail businesses. The thesis also considers consumption as a criterion of equality or

inequality, and argues that consumption should be regarded as a factor that had a huge effect on people's willingness to comply with the prevailing economic system.

## **Acknowledgement**

I realised as I was finishing my doctoral thesis that it could not have been completed without various help from others. Until now I was accustomed to think that it had just been the lonely work of me. However, looking back, I have in the end realised that there have been various deep rivers, across which I could not have come by myself and various high mountains up which I could not have climbed by myself. Furthermore, I have apprehended that there already existed historical factors and tools for analysis concerning the thesis as if they existed for the thesis. As a result, I cannot deny that I have merely come across the deep rivers and climbed up the high mountains, holding the hands of guides who have emerged unexpectedly as if they had been dispatched by God. Presumably the completion of the thesis would not have been possible without their help.

First of all, this thesis may not have been possible without the Korean historical context in which the contemporary people had lived and died. The considerable achievement and distinctiveness of Korean modern history are just the results that they have produced intentionally or unintentionally in the process of a fierce struggle for survival both in the national level and in the international level. This thesis tried to trace just a small part of them.

It was Maeil Business Newspaper that has given me various chances to experience such context for over 15 years. The lesson that I have learnt from the experience is that every social phenomenon is a necessary result with proper reason. There is no result without reason. This meant to me that every social problem emerges with resolution. However, without a suitable viewpoint and methodology to analyse such a phenomenon, the lesson would only be the potential for finding the resolution.

For this, it was Professor Chung, Unchan and Professor Kim, Soohaeng of Seoul National University that led me to more study. They still make me aware of how an intellectual should study and behave for contribution to a balanced development of the society even if their student is already middle age.

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I still do not know whether it is the dad's consideration for his son or the son's consideration for his dad that a young boy studies with his dad in a library. Even if only what his dad did for his son was to go to the library with him for his dad's own study, my son, Keonwoo, who has grown with sound body and mind, is also one of the co-authors of this thesis. Without help of my wife any small part of my thesis could not be complete. In fact, my wife, Miyoung is another main author of this thesis. This thesis would be a work which we three dedicate to our parents.

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## **List of Abbreviations and Acronyms**

APC: Average Propensity to Consume

BOK: Bank of Korea

CAEO: Citizen's Action for the Expulsion of Over-consumption

CFA: Credit Finance Association

CKER: Centre for Korean Economic Research

CPI: Consumer Price Index

DEI: Daewoo Economic Institute

DTI: Department of Trade and Industry

EPB: Economic Planning Board

FKI: Federation of Korean Industries

FSA: Financial Statement Analysis

FSS: Financial Supervisory Service

GMS: General Merchandise Store

GNI: Gross National Income

HCI: Heavy Chemical Industry

IKDI: Institute of Korean Distribution Industry

KAMA: Korea Automobile Manufacturers Association

KCA: Korea Consumer Agency

KCCI: Korea Chamber of Commerce and Industry

KDS: Korean style Discount Store

KDSA: Korea Department Store Association

KDI: Korea Development Institute

KFTC: Korea Fair Trade Commission

KIEP: Korea Institute for International Economic Policy

KIET: Korea Institute for Industrial Economics and Trade

KIF: Korea Institute of Finance

KIPF: Korea Institute of Public Finance

KISS: Korea Institute of Social Science

KOFOTI: Korea Federation of Textile Industries

KOSA: Korea Iron and Steel Association

KOSPI: Korea Composite Stock Price Index

KNSO: Korea National Statistical Office

KOSCA: Korea Super-Chain Association

KSE: Korean Stock Exchange

MOCT: Ministry of Construction and Transportation

MOF: Ministry of Finance

MOGAHA: Ministry of Government Administration and Home Affairs

MOL: Ministry of Labour

MOLEG: Ministry of Government Legislation

MRFTA: Monopoly Regulation and Fair Trade Act

NB: National Brand

OECD: Organisation for Economic Cooperation and Development

PB: Private Brand

PFCE: Private Final Consumption Expenditure

PLC: Product Life Cycle

POS: Point-of-Sale

SITC: Standard International Trade Classification

**SMSTR: Small and Medium Sized Traditional Retailer**

**SWEHs: Salary and Wage Earners Households**

**TFP: Total Factor Productivity**

**UR: Uruguay Round**

**VAT: Value Added Tax**

## **Economic Policies and Regulations of the Retail Industry**

1949: Sangpyo-beob [Trademark Law]

1951: Jung-angdo-mae-si-jangbeob [Law of the Central Wholesale Market]

1959: Jeongchal-je [Price Tag System]

1961: Si-jangbeob [Law of the Market]

Sangpumgwon-beob [Law of the Gift-Voucher]

Bu-jeong-oe-lae-pum dan-sog [Measure to sweep away fraudulent foreign goods]

Jeongchal-je [Price Tag System]

1962-1966: Je 1cha gyeongje-gae-bal 5gae-nyeon gye-hoeg [First Five-Year Plan for Economic Development]

1965: Jo-se-gammyeon-gyu-je-beob [Regulation Law on Tax Reduction and Exemption]

Jeongchal-je [Price Tag System]

1966: Yu-tonggu-jo gae-seon-e gwan-han jangdan-gi jonghab-dae-chaeg [Comprehensive Measures in the Long and Short Term for the Improvement of the Distribution System]

1967: Bu-dongsan-tu-gi eog-je-e gwan-han teug-byeol-jo-chi-beob [Special Measure concerning the Repression of Real Estate Speculation]

1968: So-bi-ja bo-ho yo-gang [Outline for Consumer Protection]

1967-1971: The Second 'Five-Year Plan for Economic Development'

1969: Yu-tong geun-dae-hwa 5gae-nyeon gye-hoeg [Five Year Plan for the Modernisation of the Distribution System]

Dae-lyang pan-mae-jo-jig wan-bi gye-hoeg [Plan for the Completeness of the Organisations for Large Sales] (DTI)

1972: Yu-sin-heon-beob [Ushin Constitution]

1972-1976: Je 3cha gyeongje-gae-bal 5gae-nyeon gye-hoeg [Third Five-Year Plan for Economic Development]

1974: Jonghab-mul-ga-an-jeongdae-chaeg [Comprehensive Measures for the Stability of Prices]

Gug-min-saenghwal-ui an-jeong-eul wi-han dae-tonglyeong gin-geub-jo-chi [President's Emergency Measures for Stability of People's Living]

Pyo-jun-yu-tongma-jin-je [System for the Standardisation of Retail Margins]

Teug-byeol-yeon-swae-hwa-sa-eob-gi-jun [Special Criteria for Chain Businesses]

1975: Yu-tonggeun-dae-hwa chog-jin-beob [Law for the Stimulation of the Modernisation of the Distribution Industry]

Jungso-sang-in jo-jig-ui teug-byeol yeon-swae-hwa sa-eob-e gwan-han gi-jun [Special Criteria for Chain Businesses Created through the Organisation of Small and Medium Sized Retailers]

1977-1981: Je 4cha gyeongje-gae-bal 5gae-nyeon gye-hoeg [Fourth Five-Year Plan for Economic Development]

1977: Bu-ga-ga-chi-se-geum [Value Added Tax]

Han-gug-jungso-sang-in-yeon-swae-hwa-hyeob-ui-hoe [Korean Council for the Chain Businesses of Small and Medium Sized Retailers]

1978: Han-gug-su-peo-ma-keshyeob-dongjo-hab [Korean Cooperative Association of Supermarkets]



- 1980: Dog-jeomgyu-je mich gongjeonggeo-lae-e gwan-han beob-lyul [Monopoly Regulation and Fair Trade Act]  
Yu-tongsan-eob geun-dae-hwa chog-jin-beob [Law for the Stimulation of the Modernisation of the Distribution Industry]
- 1981: Junghwa-hag-gong-eob-tu-ja-jo-jeongjo-chi [Measure of Rearrangement of Investment in HCI]  
Establishment of the Korea Fair Trade Commission  
Hal-in-pan-mae-un-yongjun-chig [Working Standard of Discount Sales]  
Si-jangbeob jeon-myeon gae-jeong-an [Whole Amendment of Law of the Market]
- 1982: Si-jangbeob si-haenglyeong (Dae-tonglyeonglyeong 10887) [Enforcement Decree of Market Law (the Presidential Decree No. 10887)] which made, for the first time, a legal definition of the department store
- 1982-1986: Je 5cha gyeongje-sa-hoe-bal-jeon 5gae-nyeon gye-hoeg [Fifth Five-Year Plan for Economic and Social Development]
- 1983: Yu-tong-eob-gye hal-in-teug-byeol-pan-mae-haeng-wi-e dae-han bul-gongjeong geo-lae-haeng-wi ji-jeong go-si [Specification on Behaviour of Unfair Trade concerning Discount Special Sales by Retail Companies]
- 1986: Do-so-mae-eob jin-heungbeob [Law for the Promotion of the Wholesale and Retail Industry]
- 1987: Je 6cha gyeongje-sa-hoe-bal-jeon 5gae-nyeon gye-hoeg [Sixth Five Year Plan for Economic and Social Development]
- 1987: Si-jangbeob si-haenglyeong (Dae-tonglyeonglyeong 12211) [Enforcement Decree of Market Law (Presidential Decree No. 12211)]

- 1991: Do-so-mae-eob-jin-heungbeob si-haenglyeong (Dae-tonglyeonglyeong 13411)  
[Enforcement of Decree of Law for Promotion of Wholesale and Retail Industry  
(Presidential Decree No. 13411)]
- 1995: Do-so-mae-eob jin-heungbeob jeon-myeon gae-jeong-an [whole Amendment of  
Law for the Promotion of the Wholesale and Retail Industry]
- 1997: Yu-tongsan-eob bal-jeon-beob [Law for the Development of the Distribution  
Industry]

## **Chapter I: Theories and Framework**

### **1. Introduction**

The process of the distribution of goods is a necessary in order to complete the circulation of goods following production, because continuous production can not exist without the distribution of goods. This applies to the operation of a firm. A firm can only survive in the market when the goods that it produces also circulate -- two factors which operate consecutively, whether they are integrated in its organisation or not. However, in the field of economics, there is generally a tendency for the study of the distribution sector to be dealt with as less important than that of the production sector. The process of distribution is interpreted as a factor that follows the process of production automatically, or as dependent on the process of production. This tendency is also found in studies of the Korean economy. Most studies of the Korean economy have paid attention to the structures of production, export, and investment and have made efforts to analyse the relationship between them and fast economic growth (Luedde-Neurath, 1988; Amsden, 1989; Wade, 1990; Park, 1992; Koo & Kim, 1992; Chang, 1996). This may reflect circumstances in the real world, because the Korean economy has achieved rapid economic growth through investment and export. Heavy and chemical industry has also been a driving-force since the 1970s. In particular, it is believed that the Korean government has played an important role in economic growth. Therefore, it is unsurprising that this understanding of Korean economic growth has been supported by a number of scholars.

However, the distribution sector in the Korean economy has received increasing attention as the domestic market has been expanding in line both with the drastic increase of income, and with consumption liberalisation since the 1980s. Some

*chaebols*<sup>1</sup>, which had concentrated on the manufacturing sector for a long time, took part in the distribution industry, in particular, the retailing sector, because they discovered a chance for more profit in the retailing sector. As the influence of domestic consumption on the Korean economy increased, its importance grew. This change in economic circumstances also influenced the relationship between manufacturer and consumer. Until then, it was a fact that manufacturing companies had not considered internal consumers' preferences as important as those of the export market. However, the growth of the domestic market, and the profits it has generated, has boosted the significance of internal consumers' behaviour. Manufacturing companies have needed to consider the preferences of internal consumers as strategically important to their businesses. Thus Korean economic growth cannot be explained comprehensively without considering the distribution sector. In particular, this thesis is premised on the belief that an economic history approach to studying the evolution and development of the distribution industry since the 1970s will yield key benefits. This approach will significantly assist in an examination of the Korean economy's various characteristics, and provide some predictions of its future. It is also felt that the study of the distribution industry has been lacking in the field of economic research, although it has received some attention in the discipline of marketing in management studies. However, even here, the process and rationale behind development in retail institutions, has been given very little focus. Instead, they have mainly concentrated on the marketing strategy of manufacturing or retailing companies. As a result, the management studies approach has not been wholly successful in analysing the characteristics of Korean retail institutions and the domestic market.

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<sup>1</sup> This means a type of Korean conglomerate like Samsung and Hyundai which has various subsidies in their big business.

In this thesis I will examine the evolution of Korean retail institutions, and their interaction with aspects of the macroeconomic environment, such as economic growth, and changes in government policy and consumer behaviour. It may be useful to characterise the distinction of the Korean retail institutions. It is believed that this kind of work would help us to understand the Korean economy comprehensively, particularly, its drastic changes since the middle of the 1980s. Research concerning the evolution of retailing is also understood to be quite an important field in the study of retailing whether it be theoretical or empirical because it is fundamental for other types of research into retailing, such as the modelling of its role in economic growth. In particular, as the internationalisation of retail institutions has been activated by globalisation since the 1990s, research concerning the evolution of retail institutions in developing countries has been noticed by scholars. In line with this trend, this thesis will contribute to the development of the study concerning the retail system in developing countries in that it provides a study of the evolution of retail institutions through the example of Korea. It also analyses the evolution of retail institutions in Korea from the viewpoint of environmental theory of retailing and in part the conflict theory of retailing. This approach could illustrate the strengths and weaknesses of theories in the study of the evolution of retail institutions in developing countries. In addition to this, it broadly tries to look at the relationship between the stratification of the consumption market and economic growth.

This thesis focuses on the department store [*baeg-hwa-jeom*], retail establishment that sells a wide variety of goods under the same roof. This is one of the representative institutions, even though other types of retail institutions are also examined in relation to the department store. Here, the department store in Korea is defined as a luxurious

retail format which primarily sells luxuries with necessities in accordance with the periods. It also means a format which develops into a type of the chain store from a single outlet. Accordingly, 'department store' in this thesis indicates a department store format or a department store as a single selling unit, while 'department store company' denotes its company as the owner of one or more units. In addition, this thesis often uses the term 'traditional market' as another retail format. It denotes a kind of permanent market where a great number of independent retailers are clustered. Most retailers in the market sell their goods by so-called traditional methods such as haggling without fixed pricing<sup>2</sup>. The reason why it concentrates on the department store is as follows:

First, the department store in Korea is the retail institution which has the longest history among various institutions, except for traditional markets [*jae-lae-si-jang*]. The first department store in Korea appeared as a branch of a Japanese department store in 1935 after Japanese imperialism colonised Korea. After the establishment of the Japanese store, Korean department stores were created and began to compete in the domestic market. Even though they did not take a dominant position in the domestic market, they were the only retail institutions that were modernised<sup>3</sup> even in the 1970s -- the period that this thesis focuses on. Therefore, they are the most appropriate institution to study in order to examine the evolution of retailing in Korea. Secondly, department

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<sup>2</sup> More concrete definition and shape will be described in various examples later on.

<sup>3</sup> In general, modernisation of retailing is understood to begin from around 1850 in western countries such as the UK, the US and France etc. and the department store is one of its representative formats. It is pointed out that the department store format as a modern one is different from existing traditional retailers in terms of its operation and management even if there are some differences in accordance with countries even in the format (Alexander & Akehurst 1999: 11 etc.). Particularly, they point out fixed pricing and clear labelling as difference between both modern and traditional ones. In this respect, some Korean department stores in the 1970s can be said to be a modern retailer which was different from traditional retailers at that time. Of course, the meaning of the modernised one has more implication in reality than its academic definition like that. It would be understood as a something advanced, good and clean, compared with traditional retailer.

stores have become one of the most important objects of government policy among retail institutions since the 1970s. This is related to their status as the first retail institution which adapted the framework of modernisation among Korean retailers. The government, on the one hand, applied measures to impose its policies, but on the other hand, it made department stores the focus of regulation. In this respect, they have become the most significant retail institutions for better or for worse. Thirdly, the department store is the institution which has experienced the most dramatic change in terms of the status of retail institutions since the mid-1980s. While it had experienced explosive growth since the mid-1980s, the period of boom had been quite short, lasting for about 15 years. The process of the rise and fall of the department stores may reflect changes in the socio-economic circumstances of the Korean economy, such as a transition from government to private leadership, from government to market liberalisation, and from production to consumption. The drastic change in department stores meant a fundamental change for all of Korea's retail institutions, and the beginning of a new era in retailing. Finally, in terms of practicability for research, as we have seen, the data concerning the department stores are easier to collect than the data concerning other retail institutions, because most of them are big businesses and are listed on the stock market. Therefore, they have to periodically make most of their financial data public, and submit data concerning their trade and financial operations to some government institutes such as the Korea Fair Trade Commission (KFTC) whenever any problems occur. Of course, even though all data is not made public at such a time, some will later become available in the public domain.

This thesis covers the period from the 1970s to the present and it is categorised into three distinct eras according to the developmental stage of the consumer market: the

period from the 1970s to the middle of the 1980s; the period of the middle of the 1980s to the middle of the 1990s, and the period since the middle of the 1990s.

## **2. Literature Review**

### **2.1. Existing studies of the Korean economy**

Most of the existing studies focus on the manufacturing sector. They primarily consider the manufacturing sector and its development of technology to be at the centre of Korean economic growth, even though there was a change in approach to research after the crisis. Most of the scholars mentioned earlier, whether neo-classical or developmental, who have led the controversy surrounding reasons for the rapid growth of the Korean economy, hold similar views in terms of their concentration on the manufacturing sector as the main factor of Korean economic development. This phenomenon may be related to conventional studies which purport to show that rapid economic growth in Korea could be achieved by the mass export of manufacturing goods. In fact, a number of scholars who have studied the Korean economy have connected the rapid economic growth with exports. The World Bank<sup>4</sup> has pointed out that the rapid growth of exports, as a result of the export-push policies of the high-performing Asian economies, combined with the superior performance of these economies in creating and allocating human capital, provided the means by which they attained high rates of productivity-based catching up and total factor productivity growth (The World Bank 1993: 316). A number of writings, which have been published by institutes sponsored by the government, also have concentrated on the manufacturing

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<sup>4</sup> The book of World Bank was unique as a work of an international economic institute in that it emphasised the role of the state. However, it was said that it was too late in that it was published when the retreat of the state was already under way in the Korean economy.



sector. Some books (Jo Dongseong 1990; Choe Jeongpyo 1993) written about *chaebol* or its subsidiary, discuss the contents of the distribution sector because they usually show the developmental and structural changes of *chaebol*. However, they also focus on the development and changeover of the manufacturing, rather than the distribution, sector in each *chaebol* group.

These trends in academic research reflect change in the real world. After the financial crisis in 1997, the focus of research concerning the Korean economy changed to finding the reasons for the failure from an analysis of the previous success. In this process, research concerning the firm, instead of government or policy, became prominent. This was because the problem of firm structure was identified as one of the causes of the crisis (Song Mingyeong 1998; Gim Seongsu 1998 etc.). However, most studies also focus mainly on the structure of the *chaebol* and the relationship among the subsidiaries in terms of corporate governance. There was little research that paid special attention to the retail company in relation to the crisis, even though the distribution sector was also connected with the crisis, directly or indirectly. In particular, after the crisis, research concerning the Korean economy concentrated on the financial sector, including corporate finance. A number of scholars (Gim Sangjo 1998; Jeong Unchan 1998, 1999) in Korea focused on the problem of the financial sector, including banks, non-bank financial companies, and the relationship between the corporate and financial sectors. In addition, some scholars (Chang & Park & Yoo 1998; Jeon Changhwan 1998; Park 1998) paid attention to the relationship between the crisis and liberalisation and globalisation in the financial sector. Even if it is clear that the topic of study varied with the crisis, the distribution sector is still outside the attention of scholars.

## **2.2. Existing studies of the retail sector**

The trends of research concerning retail institutions cannot avoid reflecting the real world in which the study of the manufacturing sector is dominant. As has been mentioned, there are not a lot of studies of the retail sector compared with the amount of studies of the manufacturing sector in Korea. In particular, there is little study of the retail sector from the standpoint of economics and economic history. For example, there are a number of studies of the car or electronic industries from the standpoint of economics. However, researchers have not paid attention to the retail sector even in the field of labour economics despite the retail industry labour force accounting for about 20 per cent of the whole labour force in Korea (KNSO Economically Active Population Survey, each year). This phenomenon has been almost the same in the field of management. Even though the retail industry is an important field of marketing, most researchers concentrate on other fields such as strategy or consumer satisfaction and so on. Under the influence of these circumstances, books as well as dissertations regarding retail institutions are very rare. Therefore, most writings concerning the retail sector in Korea have pointed out the shortage of experts as one of the most serious problems preventing the development of the retail industry (Okubo 1992: 127-130; Min Gyeonghwi et al. 2000: 101, 251-252)<sup>5</sup>

Regardless of the amount of research, existing studies concerning the retail sector can be classified as follows. First of all, most of research on the distribution sector in Korea adopts the viewpoint of manufacturing companies. The distribution sector, from this perspective, is not a crucial factor for the survival of the companies but is one of the

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<sup>5</sup> In particular, most of the policy-reports by the government have indicated the education of experts as a desperate task. As a result of this atmosphere, there is lively discussion around the establishment of an educational institute for a special retailing course.

tools enabling them to grow efficiently. Therefore, if the manufacturing company thinks that outsourcing the distribution sector is better for its profits than ownership then, unlike the production sector, the distribution sector could be separated from its internal organisation. This means that the studies of the distribution sector from the viewpoint of the manufacturing companies, mainly pay attention to the role of the distribution sector as an object of marketing strategy in terms of the company's efficiency. If a manufacturing company considers outsourcing the distribution sector as the next step, this is directly connected with its hegemony over the process of distribution. Most studies projecting this view, concentrate on how manufacturing companies, as the leaders in the process of distribution, can play a leading role in the relationship between manufacturing and retail companies. Jeong Byeonggwon (1996) and I Seoktae (1998) emphasised cooperation between manufacturers and its retailing agents in order to improve their competitiveness. Gim Beomsu (1997) found that the relationship between manufacturer and distributor depended more on mutual understanding and respect than just trust through the empirical study.

Secondly, there are a few studies from the standpoint of distribution companies. Most of these studies try to analyse the issues surrounding the performance of management in retail companies in accordance with the change of economic environment (Jo Changuk 1991; I Sanghyeon 1996; Gang Aeri 1996; Bak Jinyong 1998). Jo (1991) emphasised that the spread of the POS (Point-of-Sale) system was needed to improve productivity of the distribution sector as he indicated that the POS system was not popular in the Korean economy. Gang (1996) pointed out that the strategy of discount stores [*Hal-in-jeom*] was the systemisation of cost reduction and the establishment of new relationships between producer and distributor. Bak (1998) paid

attention to the role of trust and commitment as factors to achieve and maintain long-term relationship in distribution channels. In particular, some of them take notice of the influence of the openness of the Korean retail market. Jeong Ho (1996) indicated that it was necessary that distributors of small and medium size home appliance businesses should establish cooperative systems at the level of the region or even nationwide, to survive given the openness of the Korean retail market. I Inpyo (1999) emphasised the importance of Korean retailers strategically penetrating small and medium sized cities rather than big, already well-commercialised cities. He pointed out that foreign big retailers implemented strategic close relationships with local consumers. Even though most researchers in this field possess distinctive ideas and arguments, with the exception of Bak (1998) and I Inpyo(1999), their work would be classified as apprentice-level academic research rather than advanced academic work because these studies were dissertations written for Masters' degrees. Bak's writing is a kind of a modelling work which argues that trust is a major determinant of relationship commitment between retailer and supplier. Although this work implies managerial lessons for good performance of the retailer, it does not have implications for retail evolution and perspectives of socio-economic environments. In comparison, I Inpyo's work examines the strategy of retailers under conditions of the open market as an economic circumstance. Even if this work suggests some managerial ideas such as a global sourcing to the retailers, it seems to limit itself to describing differences between domestic and foreign retailers.

There are very few books which study the retail sector from an historical viewpoint. Those that exist are works written to suggest government policies rather than providing an academic treatment. Therefore, even though these studies contain historical data

concerning the Korean retail industry, they concentrate mainly on broad explanations and suggestions of policy rather than concrete analysis. For example, the Korea Chamber of Commerce and Industry (KCCI), which has been the most important institute concerning the retail industry, pointed out in the book *Han-gug-ui yu-tongsan-eob [The Korean Distribution Industry]* (1985), that the distribution sector in the Korean economy was far too weak in relation to the manufacturing sector. The book argued that problems would result from the strong regulation of the distribution sector, due to the manufacturing-driven economic policy of the Korean government. It insisted that the Korean economy could continue its successful growth when the distribution sector also became more efficient proportionate to the manufacturing sector. The book used different historical data for analytical purposes. However, the goal of this kind of writing is likely to reflect the interest of the retail industry in obtaining more support from government. Accordingly, it is hard to say that its view is academically acceptable.

*The Korean Distribution Industry- in terms of the response to the liberalisation of retail sector-* (1992) by Japanese Takashi Okubo, who had worked for a Korean retail company for a long time, also tried to analyse its characteristics and its response to the liberalisation of Korean retail companies. The author, who had also experienced the Japanese retail industry, suggested the support of middle sized manufacturers, the investment of human capital to improve experts of retail, etc. in order to develop the Korean retail industry. He also insisted that retail companies could develop when they were made to fit the unique culture and tradition of Korea. This kind of suggestion is quite different from most Korean writing in that it stressed a Korean idea of retail strategy instead of the Western standard. This also has various data concerning the Korean retail industry. However, even if it gives some interesting insights into the

Korean retail industry, these are mainly based on subjective views rather than on academic analysis. In this regard, it is unlikely to be considered a substantive piece of academic research. *Han-gug-ui yu-tongsan-eob [The Korean Distribution Industry]* (Nam Ilchong 1992) suggested ways in which the Korean retail industry could be improved, to face the openness of the domestic market. In pointing out that the productivity of the Korean retail industry was much lower than the manufacturing sector, it suggested that the Korean government should reduce many of the strong regulations within the retail sector in order to develop the industry. In particular, the study focused on the growth in competitiveness of the retail industry in response to increased market openness. However, this is restricted to research on regulation in the retail industry. Nam's work did not pay attention to the structural characteristics of the Korean retail industry, but instead stressed the positive effects of deregulation on increases in competitiveness. Recent research concerning openness of the domestic market, *Gug-nae yu-tongseo-bi-seu si-jang gae-bang-ui gyeongje-jeog hyo-gwa-wa jeog-eung ji-won-jeongchaeg [Economic Effects of the Liberalisation of Distribution Services in Korea and Adjustment Policies]* (Gim Jundong et al. 2003) and *Yu-tongsi-jang gae-bang 10nyeon, yu-tongsan-eob gu-jo-byeon-hwa-wa eob-tae-byeol haeg-sim i-syu [10 Years after Openness of the Domestic Market, The Structural Change of the Retail Industry and Essential Issues in Each Format]* (Baek Insu, et al. 2006) is also taken into account. These books used a number of historical data. However, even though this existing research contained some historical data, the bulk of it was not very concrete overall, and the greater part of its contents concentrated on policy lessons. This is probably an inevitable limitation of works written as policy reports. Therefore, it is

natural that such research should mainly pay attention to the analysis of just this phenomenon rather than the basic reason for changes in retail institutions.

There is also a tendency in such studies, particularly in the writings of Korean authors<sup>6</sup> (KCCI 1999: 23-26; Seo Yonggu 2006: 9-12; Baek Insu 2006: 204, 211, etc.), to introduce the dichotomy that large Western modelled retailers are better for economic growth, whereas traditional institutions are not so good, even though the traditional market has played an important role in the Korean economy. However, it would be undesirable for the role of traditional institutions to be disregarded given that it is one of the two forces responsible for rapid economic development in Korea. In fact, it is believed that the underdevelopment (backwardness) of large retailers was the result of the Korean government's industrial policy. That is to say it was another side of developmental policy. The government had constrained consumption to concentrate money within the industrial sector for the early period of development. It also intended to control the social atmosphere in order to increase production by strongly repressing consumption<sup>7</sup>. It is natural that the underdevelopment (backwardness) of the retail industry, and in particular, large retailers, resulted under such circumstances. Therefore, it is clear that there has been a close relationship between rapid economic growth and the underdevelopment (backwardness) of the retail industry for the 1970s at least. Furthermore, it is believed that the traditional market played an important role in two or three aspects. First of all, it provided an interim market place for the labour force which moved to the industrial sector from agricultural regions. Because there were hardly any

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<sup>6</sup> On the contrary, Japanese Okubo often emphasised in his book that the Korean retail industry had to develop with the life style of the Korean people not with example of advanced countries.

<sup>7</sup> At that time, there were a number of metaphorical expressions which compared production and export to war such as an industrial soldier (labourer), a soldier for export, and the battle front of export etc. and slogans urging frugality were often seen in even private companies as well as administrative institutions.

barriers to entry with respect to capital and technology in the traditional market, it could play a role in maintaining a reserve industrial labour force for various industries. In this respect, it is also understood that the traditional market performed the role of buffer to mitigate the problem regarding the imbalance of supply and demand in labour force proportionate to business fluctuations (Jeong Geonhwa 1987: 53-58). Additionally, as will be examined, the traditional market was able to provide a convenient shopping place for the public because most traditional markets were located in residential areas. Therefore, it was one of the key aspects of the economic and social life of the public. However, some existing studies have a propensity to disregard this role of the traditional market, and related policy reports at times fail to suggest appropriate ideas for the development of the Korean retail institution. As a result of this attitude, such studies have demonstrated an inability to grasp the characteristics of the Korean retail sector.

In addition, some Korean writings tend to attribute the underdevelopment of the retail industry to the immaturity of socio-economic circumstances even while stressing that the role of the government was crucial in the 1970s (Im Jongwon 1989; Hwang Myeongsu et al. 1992; KCCI 1999, etc.). In contrast, this thesis will emphasise the government's intended repression of the retail industry as the primary reason for its backwardness. This thesis will argue that the socio-economic conditions necessary for the emergence of mass retailers with their associated rapid economic growth, were likely to have been in place, at least since the middle of the 1970s.



### 2.3. Existing studies of department stores

In fact, there has been hardly any research exclusively concerned with the department store in Korea. There is also no published research that has focused on the department store except for a book on company history and some books about the retail industry which deal with the department store as one of many retail institutions. In spite of these limitations, one of the most significant pieces of research concerning department stores is the book on company history, mentioned earlier. The 1987 publication, *Sin-se-gye 25nyeon-ui bal-ja-chwi [The History of Shinsegae for 25 years]*<sup>8</sup> focuses on a single retail company. Some papers concerning department stores are mainly theses for master's or doctor's degrees, and even so the history of this research is very short (Gu Hyeongsuk 1995; U Eunyeong 1996; Choe Ilhyeong 1997; Gim Jeongeun 1998). In the case of the company history, it minutely describes various details regarding the process of development of a department store. It can be said that the book has historical value in terms of the development of department stores, in that it was written thoroughly with a good foundation of evidence. However, it is also an inevitable fact that it has limitations in looking at the process of development objectively. Although it was based on the evidence, it is impossible to expect that a book written by a company would also deal with unfavourable evidence about the process of its development. Most academic papers concerning department stores have been submitted since the middle of the 1990s. This is related to the period of openness of the domestic market in the 1990s because it became an important social issue at that time. Probably under the influence of the period, most of this research concentrates on

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<sup>8</sup> This is a book commissioned from an independent work and so it is inevitable that data quoted from the book have to be crosschecked even though this thesis will not quote the interpretation of the book, just the historical facts. The crosscheck of facts quoted is possible from newspapers and interviews with external individuals.

the response of internal department stores to the openness of the market. Some of them contained various suggestions to the Korean government on improving the competitiveness of domestic department stores. In sum then, these studies were designed to analyse the survival strategy of department stores. Gu Hyeongsuk (1995) carried out research into the matter of the store's image through a case study of a department store. She argued that intangible benefits such as various types of service and the attitude of officers was a more important factor in creating a store's image than those concerning goods, such as the quality and variety of goods in a Korean department store. U Eunyeong (1996) suggested four kinds of marketing strategy concerning the price and promotion of domestic department stores, introducing the management of department stores in advanced countries as good examples. Apart from these studies, there are some articles regarding the internationalisation of domestic department stores (Choe Ilhyeong 1997) and the prospects of private brands (PBs)<sup>9</sup> in the stores (Gim Jeongeun 1998). Choe (1997) dealt with example of entry into the Chinese domestic market of Shinsegae Department Store [*Sin-se-gye baeg-hwa-jeom*], and emphasised the long-term necessity of targeting the domestic market. It also suggested differing strategies across regions. Gim (1998) discovered that the goal of PB development in department stores lacked clarity and thus consistency of management. Gim pointed out that it was very important to both educate specialists of PBs and develop CEOs' (Chief-Executive-Officer) receptiveness to PBs.

As can be seen, most existing studies have not concentrated on the nature of the evolution of department stores. In particular, they have something in common with policy orientation. Therefore, even if it is a fact that some of them have dealt with

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<sup>9</sup> Private Brand (PB) means goods planned by retailers' own intention unlike National Brand (NB) provided by manufacturers.

factors affecting the evolution of department stores, it may not be enough for them to explain the process of their evolution comprehensively. Furthermore, it would be impossible for them to analyse the main reasons for the evolution and the relationship between several aspects of the environments and the change in department stores.

### **3. Theoretical framework**

Generally speaking, as it is said that one of the most significant characteristics of retailing is just to change, theories abound explaining the institutional change and evolution of retail companies. However, most theories are unable to truly explain all aspects of change in retail institutions, because such theories analyse processes of change in the limited terms outlined specifically. To overcome this problem, Brown (1987) tried to classify the existing theories into three categories: environment, cycles, and conflict theory. He constructed these categories in the belief that they provided robust axes of analysis for studying the change and evolution of retail institutions. Then Brown explained that researchers needed to combine each category with the other two categories in order to analyse the evolution of retail institutions comprehensively. For example, he suggested that there would be an environment-cycle, environment-conflict, and environment-cycle-conflict theory etc. This thesis will examine the evolution of the Korean retail institution by means of such a combined theory using the category of environment as the focal theory.

### **3.1. Environmental Theory: Convergence or divergence in the evolution of the retail institution**

The environmental theory is broadly grouped into two categories: convergence and divergence. In general, the environmental theory that decides the stages of development in the retail institution according to the level of industrialisation, was broadly accepted among researchers by the early 1970s (Brown 1987: 7). Bucklin (1972)<sup>10</sup> identified five stages of institutional evolution from the periodic markets of pre-industrial societies to the conglomerate retailing of the advanced economy. Wadinambiaratchi (1972)<sup>11</sup> also suggested a theory of six stages from a similar point of view. These theories could be classified into a kind of theory of convergence because it was understood that a similar type of retail institution appeared in other societies according to the level of economic development. Therefore, it was believed that marketers would be able to predict retail trends in one nation on the basis of developments in other, more advanced, economies with such a model<sup>12</sup> (Cundiff 1965: 59-60).

However, another group of scholars in environmental theory insisted on the divergence of the evolution of retail institutions through the study of comparative retailing. These scholars emphasised that the shape of a retail institution in an individual country was different from that of another country because it was influenced by

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<sup>10</sup> Bucklin identified five stages of institutional change in retailing in accordance with the level of economic development as follows: Periodic Markets-Prebusiness Era, Permanent Markets-Prebusiness Era, Fragmented Markets-Petty Capitalism, Vertically integrated Markets-Industrial Capitalism, Conglomerate Retailing-Financial Capitalism.

<sup>11</sup> Wadinambiaratchi's six stages are as follows: Itinerant Traders-Tribal Stage, Exchange Markets-Peasant Stage, Storekeepers-Early Commercial Stage, General Stores-Highly Commercial Stage, Specialised Stores-Early Industrial Stage, Mass Merchandising Stores-Highly Industrial Stage.

<sup>12</sup> Even though Cundiff says that the shape of retailing is affected by a number of factors, such as the political and legal framework as well as the culture, he emphasised that the basic trend of evolution of retailing in the line of economic development is very similar.

different environments, such as cultural, political, historical and legal forces. One of the representative theories to consider such things is political economy theory. Political economy theory, as a representative theory of divergence understands the social system as comprising interacting sets of major economic and socio-political forces which affect collective behaviour and performance (Stern and Reve 1980: 53). Proponents of political economy theory emphasise the inter-play of power, the goals of the power wielders and productive economic exchange systems (Buchanan 1964). From this point of view, political economy theory may be used in the study of distribution channels because the political economy worldview has proved reasonably flexible in conceptualising organisational behaviour. Its usefulness has been documented in the analysis of individual organisations as well as of interorganisational networks (Zald 1970; Benson 1975). Stern and Reve (1980) have extended the political economy framework by adapting it to the superorganisations of distribution channels. This political economy theory can provide a basic framework for analysing the evolution of retailing institutions as determined by factors such as internal polity and external economy. Therefore, this thesis can consider more factors affecting the development of retail institutions through the political economy theory while other theories, be they environmental or not, do not pay attention to various factors regarding their evolution. For example, whereas research which benefits from an understanding of the relationship between economic development and retailing change, cannot ignore the influence of political conditions; political economy theory therefore supplies a comprehensive basis for such research. This advantageous basis is believed to be useful for the analysis of divergence within the retail evolution. Therefore, even though political economy theory is problematic through its inability to identify standard patterns of retail evolution, it

may provide a useful theoretical framework for the analysis of retail institutions in the Korean economy, which is influenced by external as well as by internal factors. This differs from Western countries' economies in which the market system is well institutionalised. This theory has already taken advantage of the analysis of the Japanese retail sector, which is unique in terms of its structure and manner of development (Goldman 1991, 1992).

### **3.2. Cyclical theory**

Cyclical theory means that retail institutions change in line with regular patterns. Pattern analysis of this kind has taken pride of place in the investigation of institutional change (Brown 1987: 9). In this category, there are two classical theories concerning the evolution of the retail institution: the retail accordion; and the wheel of retailing.

#### ***The wheel of retailing***

The wheel of retailing is undoubtedly the most famous and frequently cited theory of institutional change (Brown 1987: 10). The theory, which was conceptualised by McNair (1931, 1958, 1976, 1978) explains the evolution of retailing through the change of price and service. It is explained that new types of retailers cut their prices by reducing or eliminating customer services, but once they are established they increase prices and customer services, and so themselves become vulnerable to new, low-price retailers. According to the wheel of retailing, retail institutions would experience three stages, i.e. entry, trading-up and vulnerability phases, from the birth to the death of the institutions. The retailer at the stage of entry provides goods for customers at a low price as an innovative retailer with a minimal service. It is poor in facilities and offers

only a limited product. Because of its low status, these conditions are not a problem and its administrative cost is also low. However, as it becomes an established retailer, in the trading-up phase, the retailer faces different environments from those of the entry stage. It has to provide a higher service for customers and to equip elaborate facilities in order to compete with new entrants. It cannot help raising the price in order to take these changes and extend product offerings. In general, retailers at this stage would move to higher-rent locations and show a propensity towards fashion orientation. Most of these changes are related to higher prices and services in accordance with the change in their status. Finally, the innovator in retailing becomes a mature retailer in no time. Its return of investment gets lower and lower and conservatism becomes stronger and stronger in the vulnerability phase. In the end, it disappears and another innovator replaces it as the dominant retailer. This theory tends to be well applied to the US and European cases and is empirically supported by work on department stores, supermarkets and discount stores (Rosenbloom and Dupuis 1994: 149-151). However, it has also induced a great deal of scholarly debate particularly surrounding the causes of trading up. Stressing the importance of demand factors instead of competition among retail formats, some scholars point out growing consumer affluence as a decisive demand factor for the cycle (Pioch and Schmidt 2000: 184). In addition, this can not be applied to the Korean department store format because its starting position was not low price and less service.

### ***The retail accordion theory***

This theory which was conceptualised by Hollander (1966) even though there were a few precedents for it, explains the changes of retail institutions in terms of the pattern of merchandise assortments. He argued that individual retail institutions widen and

narrow their inventories over time. Furthermore, he pictured retailing as an orchestra or band of accordion players, in which, as he says, at any one moment some of the players are compressing their music boxes while others are extending them. This is useful to analyse the process of change in American department stores which developed from specialist establishments to the diversification of merchandise, and then returned from the latter to the former again. This is also appropriate in explaining the development of shopping centres and supermarkets which developed in the process of oscillation from diversification to specialisation.

### ***Other theories***

With these theories, the retail life cycle theory (Davidson 1970; Davison & Bates & Bass 1976) which argues that retail institutions evolve through stages of birth, growth, maturity, and decline is also attracted in tension. It analyses the process of institutional evolution in terms of the change of retailer's volume in profitability and market share while the wheel of retailing pays attention to the change of price and service as crucial factors of evolution of retailing. Based on product life cycle conceptualisation (PLC), however, the retail life cycle is similar to the wheel of retailing in the process of evolution although its analytical points of evolution are different.

The polarisation principle explained by Dreesman (1968) is also one of the important theories which are useful for the analysis of the change in retail institutions. It argues that two different types of retail institutions, in terms of size, exist contemporarily. In fact, as large institutions become dominant in most advanced countries, small institutions also exhibit a tendency to increase conversely. When the supermarkets developed into bigger units, the small supermarket obtained a new lease



of life because supermarkets cannot be built in areas where the market is small. Therefore, the more the supermarkets grew in size, the greater the increase in potential for small and more versatile units (Dreesman 1968: 80). The polarisation principle can explain the phenomenon that small convenience stores may also prosper even if large retailers become dominant in the market.

### **3.3. Conflict theory**

It is said that vigorous competition between the old and the new is capitalism's driving force, and retail institutions are also permanently exposed to keen competition if they are in a lively capitalist system. Once new retail institutions appear on the market, it is natural that severe conflicts occur between new and old institutions, so as not to be excluded from consumers. In this process, the new entrant as an innovator would make use of new technology, while the older entrant acting as a defender would reform existent management or sale skills. As a consequence, innovation in retailing continues through the process of conflict. For example, institutions such as department stores, discount stores, supermarkets and hypermarkets obtained dominance in the market and either retained it continuously or else lost it in such processes of conflict.

The dialectical theory of Gist (1968) would be a representative theory which explains the change of institutions according to the conflict view. Derived from Marxist philosophy, dialectical theory argues that the existing retail institution is a type of synthesis resulting from the conflict between two types of retailers, i.e. the thesis and antithesis, in the past. According to Gist, the dialectical process continues because the synthesis becomes another thesis for a new round of negation by a new antithesis. Apart from the dialectical theory, Coughlan, Anderson, Stern and El-Ansary (2001) suggested

four types of stages<sup>13</sup> in the action-reaction sequence of the conflict which “actually strengthened and improved a channel” according to conflict theory (Coughlan & Anderson & Stern & El-Ansary 2001: 237). Izraeli (1970) also examined the change of retailers in terms of crisis-response by institutions. This theory may be open to various kinds of possible ways of retail evolution because it concentrates just on the action-reaction sequence as a process of its evolution. Unlike the cyclical theory which suggested the direction of retail evolution, it just suggests the pattern of conflict as a driving force for retail evolution. Thus, its direction can be changeable in accordance with the character of conflict. However, it may be unavoidable that this kind of theory lacks consideration of the socio-economic factors as environmental conditions (Pioch and Schmidt 2000: 185).

### **3.4. Combined theories**

Even though a number of the theories mentioned have analytical power concerning specific aspects, none of the three basic perspectives provides an entirely satisfactory explanation of institutional evolution. This is because the theories have a tendency to be overly conceptual while the nature of the retail industry would be dynamic. In addition to this, the fact that these theories concentrate mainly on experiences of the US can be pointed out as a limitation of application to other cases (Brown 1990: 51). In general, the environmental theory may make light of the role of the institution as an innovator even if it is not passive. On the other hand, it is possible that the cyclical theory falls into a danger of determinism, due to its preoccupation with pattern because it

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<sup>13</sup> These four authors classified a number of types of conflict between institutes into four kinds, i.e. latent, perceived, felt and manifest conflicts, in accordance with the level of perception and reaction against the competitor.

emphasises only the role of the innovator. Conflict theory is also incomplete in explaining the evolution of the institution. Concentrating only on the interaction between institutions, it may be unable to explain the origins of institutions, the form that they take and the reasons for their initial and continued success. Because of these problems, it is not surprising that combined theories, such as environment-cycle, environment-conflict and environment-cycle-conflict theories, have been undertaken (Brown 1987: 20-21).

### **3.5. Theoretical framework for this thesis**

This thesis will analyse the structure and the evolution of the retail institution in the Korean economy basically within the framework of the combined theory suggested by Brown. In the case of analysis of retailing in developing countries, there is a propensity to base the analysis on the environmental theory (Goldman 1974, 1991, 1992, 2001; Shimaguchi & Rosenberg 1979; Campbell 1985; Trappey & Lai 1996). First of all, this could be related to the fact that they are not innovators in retailing in the world market and they import a number of types of retailing from the advanced countries. For example, it is necessary that the department store, which was initiated in France, faces different environments from those in France, particularly in the countries that import it as a new type of retailing. It can be said that the import of a new retailing institution is similar to the graft of a plant to a different land. Therefore, the future of a department store is crucially dependent on the specific environments of the new land. The same case can be applied to the supermarket, which was initiated in the US. Being established in the US, the supermarket became one of the most popular types of retailing with department stores around the world. However, as a consequence, it became one of the

most varied retail institutions in terms of the shapes that supermarkets took because they adapted themselves to different environments in individual countries. A similar phenomenon could appear even in advanced countries if a retailer in those countries is not an innovator. However, because there are a lot of similarities between advanced countries, transplantation between them could cause much less trouble, compared with that between developing and advanced countries. Thus evolution of the retail format in developing country as an importer would be enormously influenced by its environments around the retail industry. Secondly, it would be related to the fact that most developing countries try to reform the structure of retailing artificially rather than naturally according to the trend of the market. In general, they may think that traditional markets in their countries are so inefficient that they can prohibit more economic growth<sup>14</sup>. Therefore, the countries make efforts to change the structure of retailing in order to avoid the problems which stem from the backwardness of the retailing system. In this process, it is inevitable that the policy of the government, rather than any existing retailer, plays a more important role in changing the retail institutions and so the policy environment becomes a very important factor affecting the evolution of retailing in developing countries.

According to these factors, this thesis will consider environmental theory as one of the most significant theories among the combined theories. In particular, political economy theory will be useful for the analysis of the evolution of the Korean retailing system because its process of evolution has been influenced by internal responses as well as by external environmental factors. This theoretical framework would help us to

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<sup>14</sup> Many developing countries, including Korea are likely to import retail institutions from western countries as an instrument for reform of the retailing system. In the case of Korea, a number of policy reports emphasised that the government had to take the lead in reform of a western type in the retailing sector (KCCI 1999: 23-26).

analyse the characteristics of the Korean retailing system, whether it is similar to the Western model or not, because there are a lot of cases where even their similarities stem from other reasons.

First of all, Korea's situation appears very unusual, in that there was hardly any modern retailer operating in the second half of the 1970s. This was at a time when Gross National Income (GNI) per capita was up to over 1,600 US dollars with rapid industrialisation, and there were six cities with populations over 0.5 million, and 28 cities with populations over one hundred thousand (KNSO Population & Housing Census: each year). Korea's situation cannot be explained by Bucklin's argument which is the convergence view among environment theories. This extreme delay in the emergence of modern retailing should be examined within its particular socio-economic and legal context. Here in particular, the political economy theory view seems useful in explaining the Korean evolution of the retail format. Cyclical theory does not explain the unusual evolution of the department store format from its position as a luxury retailer to its position within the cheaper end of the market. This transition which appeared in the mid-1980s in Korea, demonstrates a reverse trend to that proposed by cyclical theory. Therefore, this phenomenon should be examined through analysis of environmental characteristics present at that time.

In addition to these matters, the relationship between the department store and the discount store also has unusual characteristics. In the 1990s, with the appearance of the discount store, following the department store, the conditions of retailing in the Korean economy became similar to the evolutionary process of retailing in Western countries. Thus, it is possible for the evolution of the Korean retailing system to be interpreted in terms of conflict theory. In fact, it is said that the Korean retailing sector became an area

of conflict theory with the appearance of the discount store (O Sejo and Sekine Takasi 2002: 141). However, even though it was clear that conflict between institutions took place in the retail sector and that they were influenced by each other, it is doubtful whether the conflict was a driving-force of change in retail institutions. In the case of Korea, the large retailing companies, which owned department stores, entered the discount stores marketplace as part of their survival strategy. For instance, the domestic companies of discount stores, which are dominant in the market of discount stores, such as E-mart [*I-ma-teu*] and Lotte Mart [*Losde-ma-teu*] are owned by department stores' companies, which are dominant in their own market as well. This kind of ownership of the companies produces a different result from conflict between individual companies which own each department or discount store, because a retailing company as a conglomerate could choose one or both in accordance with its circumstances. An individual company owning the old type of retail institution would reform its management to compete with a new retail format as a contender. In this case, therefore, the driving-force of the change and evolution of the old retail institution can be said to be a competition and conflict with the new retail formats. This is a result from the situation that one company has one retail format. In contrast to this, the company which owned both types of retail institutions would manage them in terms of a portfolio for profit maximisation. Needless to say, here, the most significant reason for being of both types is to make profitability of the company higher. The old retail format is more likely to be cooperatively reformed for their common goal. Therefore, the driving-force of the change and evolution of the old one would be not conflict but cooperation with new one. This aspect will be explored in terms of the market segmentation strategy by big businesses with respect to the conflict between retailing formats. That is to say, this

thesis will try to establish environmental factors, in spite of forming the basis of the apparent structure of conflict between retailing formats, in order to examine its uniqueness. In fact, there has been a tendency for some large retailing businesses in Korea to more concentrate on the discount store, rather than the department store format. Future trends will depend on the expansion of the market, and the availability of funds within the company. On this point, even though it is true that the era of conflict between retail institutions began with the appearance of the discount store in Korea, the analysis of the Korean retail institution would be clearer if it were supplemented by the viewpoint of political economy as a part environmental theory.

In spite of these particular contexts, other theories cannot be said to be totally inappropriate for the exploration of the evolution of Korean retail formats. The emergence and rapid growth of modern retailing in Korea, despite its extreme delay, seems to correspond to some extent, to convergence theory in the environment theories. With the appearance of the discount store, the repositioning of the department store as an upmarket entity, in which higher prices are offered with quality customer services, is also consistent with the evolutionary logic of the wheel of retailing by McNair as a cyclical theory. Additionally, it cannot be said that aspects of competition and conflict do not exist even in the cooperative relationship between the Korean department store and the discount store. Therefore, this thesis will particularly pay attention to the usefulness of political economy theory to examine the Korean case as being based on the combined theory like the environment-cycle-conflict theory.

#### **4. Hypotheses**

This thesis focuses on a number of questions which will be addressed on the basis of this political economy approach.

##### **4.1. Why didn't the department stores take over the position of traditional retailers in the Korean domestic market by the mid-1980s in spite of their long history?**

###### **-The period of dominance by policy-**

-What was the role of government policies for the backwardness of the retail industry?

-What was the relationship between the department store and the government?

-What was the relationship between manufacturing companies and retailers?

It is said that the pre-requisites for the department store are the concentration in the city of a middle-class with purchasing power, because a large retail institution cannot be run without a huge amount of demand (Pasdermajian 1954: 2; Shaw 1992: 17-18). In terms of these pre-conditions, the groundwork may well have been laid within the Korean economy for the new retailing system to apply to mass-consumption since the middle of the 1970s, or at least by the end of the 1970s. For instance, the rate of urbanisation has been over 50% since the late 1970s and GNI per capita has been over 1000 dollars since the late 1970s. In particular there were already 17 cities<sup>15</sup> which had populations greater than 100,000, including 6 cities with populations over 0.5 million in

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<sup>15</sup> City is defined as administrative districts which are authorized by the government among administrative districts where their number of population are over 50,000 (KNSO Population & Housing Census). So, the ratio of urbanization, which will be used later on, denotes a proportion of the population living in such cities to the whole population.



1975 (KNSO Population & Housing Census; BOK National Accounts). The income of these urban residents was presumed higher than the average income level of the whole country, because most of them resided in highly industrialised cities such as Seoul and Busan. These indicators are at higher levels than those of the advanced countries when this type of mass-consumption developed rapidly. For example, in the UK, there were 28 cities with populations over 100,000 in 1879-80, and mass retailers, including the department store, emerged and developed around the middle of the nineteenth century (Fraser 1981: 128-131; Shaw 1992: 18). However, the prosperity of large retail institutions did not become a reality in Korea. Even though there were a few department stores in Seoul as retailers modernised, they covered just a small part of consumption in the market, while traditional small retailers were dominant. It was said that they were like just a few drops of oil on the water at that time.

Even though the department store was the first type of modernised retailer, and given that it had also encountered the proper conditions for development since the middle of the 1970s, why did it not function as a springboard for the development of modern retailing? First, it will be argued that this could be explained by the policy of the Korean government. The government had been carrying out its third 'five-year plan for economic development' since 1972<sup>16</sup>. It urged the following goals: the improvement of the international balance of payments, the advance of industrial structure through the development of heavy chemical industry, the development of human capital and technology, and an average of 8.6 per cent economic growth rate in the period etc. The

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<sup>16</sup> The Korean government had started a 'five-year plan for economic development' in 1962 and had up-graded it every five years. By the way, the government had changed the title of the project to 'the five-year plan for economic and social development' since the fifth project of 1982. It is believed that the change has comprehensive meanings, including the change of both the government's viewpoint on economic development and the relationship between the public and private sector etc. (Gang Gwangha 2000: 87)

goal most prioritised by government was the economic growth rate, and its main tool was the speeding-up of the development of industry, in particular, heavy chemical industry (HCI). To achieve this goal, the government selected the steel, nonferrous metal, mechanical, shipbuilding, electronics, and petrochemical industries as six strategic industries to be brought-up in the period (Gang Gwangha 2000: 58-72; Im Hwicheol 1998: 26). In this process, it will be shown that the distribution sector was disregarded, because the government tried to concentrate the internal capital on investment on the HCI. Furthermore, it produced an atmosphere which considered internal consumption a sin because a huge part of the money for the investment had to be provided from external consumption (exports)<sup>17</sup>.

*Si-jangbeob* [The Law of the Market], which was enacted in 1961, was the basic law for the distribution industry in Korea at that time. This law was indicated as there were a lot of problems such as the unclear definition of retail institutions and thus inappropriateness of regulations due to their unclearness of definition (KCCI 1999: 45). However, it continued until 1986 when *Do-so-mae-eob jin-heungbeob* [the Law for the Promotion of the Wholesale and Retail Industry] was enacted, even though a number of the policies concerning the distribution industry had been published for a while. This means that government perception of the distribution industry changed for the first time after the mid-1980s. Most policies in that period concentrated on the protection of consumers and stability of prices rather than on the development of the distribution industry (Shinsegae Department Store 1987: A Chronological Table of Retail Policies, 1971, EPB 1974; DTI 1974a). The government also paid attention to the reform of

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<sup>17</sup> At that time, the Korean government displayed a traditional art writing of the 'National Foundation through the Exports', which president Park, Jung Hee wrote, to exalt attention to exports.

traditional retailers even providing a little support for the distribution industry, rather than the development of new institutions such as department stores (Ibid, DTI 1970, 1972, 1974b). One of the government high officers, who took charge of the policy on the distribution industry, said that the distribution industry was disregarded by government policy and that even most of the policies concerning the distribution industry were mainly concerned with the protection of the consumer and the stability of prices (Jeon Sangu 1995: 22-23)<sup>18</sup>.

Secondly, it will be argued that under the strong intervention of the government, retailers, whether modernised or traditional, were barely able to assert their interests. For example, the Korean government imposed the prohibition of gift-vouchers as part of the goal of imposing constraints on consumption, and thus triggered social tension in 1975 when the Korean economy experienced the recession after the oil-shock. It was understood as an extraordinary measure in that the gift-voucher not only had such a long history but also had accounted for around 35 per cent of department stores' total sales (Shinsegae Department Store 1987: 140). This meant that the government's policy could sometimes deal a serious blow to a company's survival. The department stores accepted the policy as a first-step because they could not directly protest against government policy. The department stores, which suffered a severe blow as a result of the prohibition, made a proposal to the government to lift it in 1976, which was about one year after the implementation of the policy. However, the Korean government firmly refused it (Ibid: 140). In particular, retailers were unable to try a strategy of expansion because the government imposed a number of regulations related to the establishment of stores.

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<sup>18</sup> Jeon Sangu was a director of industrial distribution in the Department of Trade and Industry when he wrote the article.

Thirdly, it will be shown that, related to the second point, it was difficult for the *chaebol* to have any aggressive intention to enter the retail industry given that the government encouraged it to invest in the manufacturing sector. The *chaebol* could not fail to be obedient to the government in the early period of development because it possessed insufficient capital. At that time, the fact that the *chaebol* could not enter the retail industry meant that there was no capital available to target the mass-consumption market in Korea. Thus we can see that the political environment in which Korean department stores operated during the 1970s, was not conducive to their development and expansion.

On the other hand, the government maintained support for traditional retailers though this was partly because it recognised an important role for the traditional market as a stopover for populations moving from rural to urban areas. The traditional market was also a familiar shopping place for most people in Korea. Therefore, in spite of its modern characteristics, the department store as a retail institution had not faced a boom period yet in the 1970s.

To sum up, it will be argued that the policy environment was the most crucial factor for the backwardness of large retailers such as the department store even if economic and social circumstances were appropriate for their development. This thesis will also examine how policy was implemented in two ways, through direct regulation of retailers, and constraints of consumption as a measure of indirect regulation. As a result, the underdevelopment of the retail sector proceeded apace with rapid economic growth through the manufacturing sector.

#### **4.2. After the mid-1980s, why did the department store grow rapidly?**

**-The period of explosive expansion of consumption and the ratification of the policy-**

-What was the change in the socio-economic environment after the middle of 1980s?

-Was there any change in consumer behaviour?

-What was the change in policies concerning consumption and the retailing sector?

-Was there any particular innovation in the management of department stores?

The Korean economy had experienced dramatic economic growth of about 10 per cent per annum since 1976. After an economic boom for 3 years, from 1979, it had faced the comparative recession economic growth rate averaging 6.8 per cent per annum since 1979. However, as GNI per capita increased to 1,431 dollars in 1978 (BOK, National Accounts, each year), some of the large companies, which were concentrated mainly in the manufacturing sector, began to pay attention to retailing. Lotte, which is the largest *chaebol* group, concentrated on retailing in Korea, and established its first department store shop in 1979. Subsequently, other *chaebols* began to consider taking part in the retail sector.

One of the most important changes in macroeconomic data related to retailing was the trend of annual income and expenditure per urban household. While the annual average growth rate of real income per urban labour household, which had been 7.2 per cent in the 1970s, had exceeded that of its expenditure of 5.1 per cent, it had been reversed for the 1980s as that of income was 5.7 per cent, and that of expenditure was 7.2 per cent (KNSO Monthly Income and Expenditure per Urban Household, each

year). The reversal of the relationship between income and expenditure meant that government measures to constrain consumption could no longer be effective. It will be shown that the change in consumption patterns, such as the rise in the consumption of durable goods, and the preference for quality goods became highly evident in the process (Jeong Geonhwa 1998: 193-194). There was a close relationship between such new phenomena and the development of department stores. Cities' populations formed an increasing part of the total Korean population, rising from 41.1 per cent in 1970, to 57.4 per cent in 1980 (KNSO Population & Housing Census, each year). This expansion of urban and commercial areas considerably influenced the structure of the retail industry. In this process, the number of members per family was also decreasing continuously, falling from 5.0 in 1975, to 4.5 in 1980, 4.18 in 1985, and 3.97 in 1990 (Ibid).

Under the influence of these phenomena, the Korean government could not help but reform the laws relating to the retail sector. It reformed *Si-jangbeob* [The Law of the Market] sharply at the end of 1981, a law which had played a basic role in the retail sector since 1961. The reformed law established the legal basis for a retailing chain. It also re-defined the market in terms of the function and size of the market. For example, while the large retail institutions such as the department store and shopping centres came under the label of general market in the old law, the new law classified them in terms of function and size. This change meant that the government tried to take a more concrete view on a policy concerning the retailing sector whether it was a matter of regulation or support (MOLEG *Si-jangbeob jeon-myeon gae-jeong-an* [The Whole Amendment of the Law of the Market], 1981). Before this, the government had enacted *Yu-tongsan-eob geun-dae-hwa chog-jin-beob* [the Law for the Stimulation of the

Modernisation of the Distribution Industry] in 1980 for the protection of producers as well as consumers (MOLEG 1980). The fact that the perception of the Korean government concerning retailing was developing was shown in the new law which replaced *Si-jangbeob* [the Law of the Market] as a basic law concerning retailing. The new law named *Do-so-mae-eob jin-heungbeob* [the Law for the Promotion of the Wholesale and Retail Industry], which was enacted at the end of 1986, had a supportive attitude to the distribution industry in general. However, the law also highlighted the fact that the government wished to regulate large retail institutions for the protection of small and medium sized retailers. Even though government perception of retailing had changed, and its stance was more supportive, a greater emphasis was placed on helping small and medium sized retailers rather than large retail companies.<sup>19</sup>

This thesis will argue that the big change in retailing was brought about primarily by the economic environments and not through government policy. Even though the perception of the government had changed rapidly during the 1980s, the economic environment was the prime catalyst for change. The economic environment which had dramatically changed from 1986 to 1988, pushed the government to adapt policy to changing economic realities. The annual average economic growth of Korea in the period was recorded as over 10 per cent, and GNI per capita rose to the level of over 5,000 dollars in 1989 from 2,643 in 1986. According to the rise of income, total retail and wholesale sales had shown a sharp increase in annual average of about 17.4 per cent for 5 years, from 1986 to 1990 (KNSO Wholesale and Retail Trade Census with the

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<sup>19</sup> The law was different from the old law in that it aimed at the modernization of the Korean distribution industry comparable to the market modernization of the old one. For this purpose, it is said that the definition of retailers was made clear and general regulation in the old one was changed to selective regulation and support in the new one.(MOLEG, *Do-so-mae-eob jin-heungbeob* [The Law for the Promotion of the Wholesale and Retail Industry], 1986)

Overall Establishment Statistics, 1986; Wholesale and Retail Trade Survey, 1990). Despite government regulations, a change of environment like this stimulated the department store companies, which had tried to expand their operations since the early 1980s. Existing department store companies tried to increase the number of branches and a number of new department store companies were established in the 1980s. As a result, the number of department store companies rose to 66 in 1991, and 91 in 1995 (KCCI *So-mae-eob gyeong-yeongdongtae jo-sa-bo-go* [Analysis of Current Retail Management] each year). The drastic growth of department stores was well demonstrated by the change in the ratio of department stores sales to total retail sales. In the case of 1986, the proportion of department stores was merely 4.3 per cent, but the figure increased to 4.7 per cent in 1988 and 11.7 per cent in 1996 (KNSO Wholesale and Retail Trade Census with the Overall Establishment Statistics, 1986; The Wholesale and Retail Trade Survey, 1988; The Wholesale, Retail Trade and Service Industry Census, 1996). Thus the change in status of department stores in the retail industry resulted partly from their response to environmental changes. For example, department stores, which had had an image as a luxury retailer since their establishment, tried to target the middle-classes using the chain store strategy. In particular, this phenomenon was shown clearly as they entered sub-centres of cities. Before the 1980s, department stores were placed mainly in the downtown area and their primary goods were luxury clothes. However, as will be discussed in chapter five, most department stores in Seoul, which were built since the mid-1980s, sold merchandise which was a mix of clothes and popular food; their location was also diversified to the sub-centre of the city. This phenomenon has spread to other cities since the 1990s. As we have seen, having experienced rapid economic growth since the mid-1980s, the Korean economy has



faced an explosive expansion of consumption. Under the influence of changes in the economic environment, the Korean government began to reform regulation impacting on retailing. Over the 15 years (since the mid-1980s) in which this change took place, department stores increased their market share drastically with this amendment of strategy, thereby heralding what could be called the golden age of department stores in Korea.

To sum up, I will examine the way in which the Korean economic environment became the crucial factor triggering the development of the retail industry, and in turn impacting on government policy. Thus, I explore how Korean department stores responded to changes in the environment, changes in government policy, and consumer behaviour.

#### **4.3. Why has the growth of department stores been moderate since the mid 1990s? (Why was the golden age of department stores so short in Korea?)**

**-The drastic change of environments around the retail industry and the strategic choice of retailing big business-**

- What was the change in the socio-economic environments?
- What was the impact of the arrival of foreign retail companies on the Korean retail industry from the middle of the 1990s?
- What was the change in consumer behaviour, particularly after the financial crisis in 1997?
- What was the strategy of the department store companies in response to changing conditions?

It was the opening of the distribution industry, which occurred by the end of the 1980s that was the lynchpin for dramatic changes in the industry in the middle of the 1990s. The international pressure to open up economically had been growing since the middle of the 1980s because of Korea's rapid economic growth. In 1989 the Korean government initiated the process of liberalising the domestic market. This process, comprising five steps, reached its peak in 1996 when the domestic market was completely opened, allowing foreign retailing companies to enter the market (KCCI 1999: 30). In 1997, the Korean government enacted the Law for the Development of the Distribution Industry. Unlike previous laws, this was a law which concentrated on the support and, particularly, the deregulation of the large retail institutions rather than those of a small size (MOLEG *Yu-tongsan-eob bal-jeon-beob* [The Law for the Development of the Distribution Industry], 1997). In the course of deregulation, foreign companies within the distribution industry entered the Korean domestic market by means of an alliance with domestic companies as a first step, but from 1996 they directly invested in discount stores. Discount stores achieved greater recognition since foreign companies entered the market, even though they had been in operation from 1993. Discount stores made an impact on the consumer as well as existing retailers such as department stores, and the traditional market. As modernised retailing institutions they bridged the gap between department stores as luxury shops, and traditional retailers as popular shops<sup>20</sup>. In particular, the economic crisis in 1997 was a crucial factor enabling discount stores to thrive dramatically in the Korean domestic market, because

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<sup>20</sup> E-Mart, which is the largest discount store company, has implemented a policy of double compensation for the lowest price, the first in the Korean market to do so, in order to guarantee its lowest price (Im Yeonggyun et al. 2002: 53).

consumers became much more sensitive to prices<sup>21</sup>. In fact, the crisis, which was one of the most serious crises since the period of economic development of the 1970s, was a severe shock to Korean people as they faced changes in their traditional institutions such as the industrial relationship and the industrial policies. In particular, the breakdown of employment stability after the crisis strengthened the tension in everyday life. Under the influence of the economic environmental change, the growth of discount stores has been fast, surpassing department stores in total sales in 2003, after operating in Korea for 10 years (KNSO Wholesale and Retail Trade Survey, 2003).

As discount stores enlarged their market share, the conflict between retail formats came out to some extent in the Korean domestic market. This phenomenon has appeared since the mid-1990s. The department stores, first of all, adapted the strategy of retreating upmarket with high quality services such as expansion of space for leisure. In the case of the main store of Shinsegae Department Store, facilities for the convenience of consumers were changed to luxurious services and they made the atmosphere like that of a luxury hotel. They also strengthened the services for the consumer through the hard training of employees, and they improved decorations in large halls for special events (Shinsegae Department Store 1996a: 18-22). There was also an example of change in a department store which specialised in clothes through the restructuring of the store. Youngdeungpo Store [*Yeongdeungpo-jeom*] of Shinsegae Department Store expanded the space for women's clothes and made a big hall focused on clothes for the young. A manager of the store said that he tried to change the image of Youngdeungpo

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<sup>21</sup>The Economist reported that the Korean people were more cautious about price and more interested in practical value as the consumers' tastes were changing in the economic crisis (1997: 65).

Store to a department store specialising in clothes (Shinsegae Department Store 1996b: 54-55). In other words, the department store was to return to being an upmarket retailer. In general, this situation was the result of severe conflict between both retail formats. However, the outcome in the Korean context was very natural, even if it was not without any quarrel between both formats. This thesis will argue that this distinctive phenomenon was deeply related to the structure of ownership of the Korean big business, *chaebol*, which owns both retail formats. It can be a kind of diversification of the big business under the same roof. Presumably this is linked to the short heyday of the department store industry.

#### **4.4. Is the conflict theory useful to explain the Korean evolution of the retail format?**

- What was the role of the competition between retail formats?
- What is the problem in application of the conflict theory to the Korean context of ownership structure?
- Reappraisal of the Conflict theory

As we have seen, the structure of the Korean retail industry in which two different types of modern retailers exist and compete might, seemingly, be consistent with the claims of the conflict theory. Once a new retail format appears on the market, it is natural that severe conflicts occur between new and old ones, in order to maintain market share. However, in the Korean situation, caution needs to be exerted over the character of ownership and thus the governance of the main retail companies. The oligopolistic character of the Korean economy due to the existence of the *chaebol*

should be considered in the case of the retail industry as well. Most of the main retailers, such as the department stores and the discount stores form part of *chaebol* ownership. For example, the Shinsegae Department Store Company owns E-mart as a division of the discount store and the Lotte Department Store Company [*Losde baeg-hwa-jeom*] also owns Lotte Mart as a division of the discount store. They are all the main competitors in each type of mass retailer. Due to the comprehensive structure of ownership, two different types of retailers in the same company might largely be in a cooperative relationship rather than in a survival game, although there is internal competition to some extent within the same company. In particular, given a differentiated consumer market resulting from increases in income differentials since the middle of the 1990s, the different types of retailers can be instruments which carry out the strategy of price differentiation in order to maximise the profits of big retail companies. In other words, they can be components of an asset portfolio for a comprehensive retail company. This could imply that the main driving force for their evolution may not be conflict but their cooperation with each other in accordance with the situation of the consumer market<sup>22</sup>.

## **5. Data and methodology**

This thesis broadly needs four kinds of data in each different category such as the policy of the government, the economic index, the individual company or industry of retail institutions and the consumer. Additionally, for the comparative study, it may

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<sup>22</sup> Despite being a single company, there would be strong conflict between the different stores in the same format as well as between department stores and discount stores. In fact, as mentioned earlier, most of the companies have separated department stores from discount stores in terms of business divisions, and may encourage competition between stores in the same group for profit maximisation. However, it is inevitable that group matters such as the choice of leading business, and the fund raising priorities are decided by headquarters.

need some foreign data concerning the policy of the government and the economic index.

### **5.1. The policy of the government**

The data concerning the policy of the government consists of the law and the minutes of proceedings in government or parliament. There are also some interviews and testimonies recorded by ex-high officers as supplementary data. The centre of this category of data would be the government's official action implemented through a number of regulations. First of all, there are three basic regulations applicable to the distribution industry: *Si-jangbeob* [the Law of the Market], *Do-so-mae-eob jin-heungbeob* [the Law for the Promotion of the Wholesale and Retail Industry], *Yu-tongsan-eob bal-jeon-beob* [the Law for the Development of the Distribution Industry]. The Law of the Market was enacted in 1961 and was the first basic law for the distribution industry in Korea. Despite problems of definition and applicability, this law continued until 1986, when the Law for the Promotion of the Wholesale and Retail Industry was enacted. Of course, the government imposed a number of reforms concerning the distribution industry before the establishment of the new law. These laws play a basic role in this thesis in showing the change of viewpoint towards the distribution industry in the government policies.

Apart from these laws, the government imposed a great number of enforcement ordinances, for example, regulations concerning the new establishment of institutions, gift-vouchers, and periods of sale by department stores. Most of them were legislated mainly by the Department of Trade and Industry (DTI), which was in charge of industries among the government organisations. Additionally, regulations concerning

price, fair trade, tax, and the protection of the consumer are also related to the policies of the retail industry in many cases. For example, whereas a price tag system [*Jeongchal-je*], which was first enacted in 1965, was a regulation for the protection of consumers, it had an influence on the reform of the price system in retailing. The Fair Trade Act, which was launched under the name of *Dog-jeomgyu-je mich gongjeonggeolae-e gwan-han beob-lyul* [Monopoly Regulation and Fair Trade Act] in 1980, also had a huge effect on retail institutions as well as on manufacturing companies. In particular, a Value-added Tax [*Bu-ga-ga-chi-se*], which was enacted in 1977, boosted department stores' turnover, and negatively impacted on the traditional market. Such regulations concerning the general economy were enacted mainly by the Economic Planning Board (EPB) which had played a leading role in Korean economic development during the period of rapid economic growth.

The characteristics of these regulations can be examined, first of all, through their original editions and then through handbooks, newspapers and journals etc. at that time. Apart from these sources, the minutes of the proceedings of government or parliament are also very useful for the understanding of the atmosphere at that time. In particular, stenographic records in parliament concerning the laws may help to provide a balanced perspective, because they contain the pros and cons of issue among rival parties more generally. Additionally, there are some writings which have been published with testimonies recorded by ex-high officers, and interviews with the persons concerned are also useful as supplementary data.

## **5.2. Industry and Individual Company**

This thesis needs a huge amount of the retail industry data. Most can be provided by the Korea National Statistical Office (KNSO) and the Bank of Korea (BOK), the Central Bank, and some specific data concerning retail institutions can be obtained from institutes concerned, such as KCCI.

KNSO produces data concerning the retail industry as follows:

**Wholesale, Retail Trade and Service Industry Census:** Name and Physical Location of Establishments, Type of Legal Organization, Head or Branch Office, Opening Year and Business Period, Industrial Classification, Floor Space, Annual Sales, etc. (The first reference year: 1968, Period: Quinquennial). The first title of this census in 1968 was Commerce Census, and this changed to Wholesale and Retail Trade Census in 1971. The present title has been named since 1996, reflecting the change of industrial structure. The first census was carried out in 1968 and was subsequently surveyed in 1971, 1976, 1979 and 1982. Two censuses since 1982 were replaced by the Wholesale and Retail Trade Census with the Overall Establishment Statistics in 1986, and the Wholesale and Retail Trade Census with the Establishment Census in 1991, which surveyed all companies in all industries. After this, Wholesale, Retail Trade and Service Industry Censuses were carried out in 1996, 2001 and 2005 with the change of the census title. This census provides the most basic and significant data of the wholesale and retail industry even if it is impossible to see change in the industry in the short term due to the survey roughly every five years. In particular, it is the only available data on the retail industry in the 1970s, one of the most important periods focused on in this thesis.



**Wholesale and Retail Trade Survey:** Name and Physical Location of Establishments, Type of Legal Organization, Kind of Business Activities, Business Period, Regular Holidays, Employment and Compensation, Floor Space, Expenses, Annual Sales, etc. (The first reference year: 1988, Period: Annual). This is a kind of annual sample survey in the wholesale and retail trade industry and was not carried out when the census concerning the same industry was held in 1991, 1996, 2001 and 2005. This statistical data shows us the structural and environmental changes of the retail industry in the short term. However, this data can be used just after 1988 when it was carried out for the first time. It is relatively less reliable than the census, because it is a sample survey. Nevertheless this plays a basic and important role in analysing trends in the industry. This thesis makes use of this data with the census in order to make up for weaknesses in both the census and the annual survey.

**Current Wholesale and Retail Trade Survey (Wholesale and Retail Sales Index):** Name of Establishment, Type of Legal Organization, Business Period, Number of Workers, Floor Space, Monthly Sales, Inventories, Major Commodities Dealt, etc. (The first reference year: 1970, Period: Monthly). This survey began as the title of the Wholesale and Retail Sales Index of Seoul in 1970 and expanded to the Wholesale and Retail Sales Index which covered the whole nation since 1980. This survey is carried out in order to investigate the consumption sector as a part of the Composite Index rather than in order to analyse the trends of the retail industry. Thus it can not be considered as data to examine the concrete state of the retail industry. However, it would be useful just to know rough trends of sales in the industry because it, at least, maintains consistency of samples in continuous surveys. This data is used as supplementary in this thesis.

BOK produces data concerning the retail industry as follows:

**Financial Statement Analysis (FSA):** the main items of the balance sheet, including assets and liability, and income statement (profit and loss statement), including revenues and expenses (The first reference year: 1962, period: Annual). The purpose of this sample survey is to know financial conditions and business performances of main industries. It can be considered as one of the most reliable forms of data on the financial statement of main industries because the central bank of Korea carries out this survey in accordance with legal regulation. This data is published at the level of the industry rather than the individual company and so this thesis makes use of this data to examine the performances of the department store industry.

Most analysis on the retail industry in this thesis can be achieved using the above data. However, it needs more micro data of the industry to examine the changes of structure and of strategy. The annual survey concerning the retail industry which is carried out by KCCI can make up for these kinds of problems. **Analysis of Current Retail Management** from KCCI would play an important role in understanding the specific aspects, for example, of the proportion of the sale of individual items in each institution, the number of employees engaged in each task, and even some management strategies of the institution, because they contain more details than those of KNSO. Aside from this data, this thesis is going to make use of figures produced by Korea Super-Chain Association (KOSCA).

The most important data source for individual department store companies would be reports to the Korean Stock Exchange (KSE) because most of the major department store companies are listed on the stock exchange. They have to submit financial data such as a balance sheet, and a profit and loss statement to KSE periodically and declare

alterations of business, which may influence the property-rights of shareholders, to the public through the internet or by the printing of KSE. Therefore, the information concerned, including new investments, and changes of strategy etc. can be obtained from KSE. The data, which can be obtained from KSE, however, is limited to the period of listing. In this respect, the time series data concerning individual companies is not sufficient because most department store companies are listed after the mid-1980s. This information could be complemented in two ways; in the case of financial data, through newspapers, journals, and data from KNSO and institutions concerned, such as KCCI, in the case of management strategy, through published firm history, internal documents, newspapers, and journals. Magazines, which have been published by individual companies, may also provide important data even though they may distort facts. To avoid using biased data, internal data, such as magazines and internal documents, have to be crosschecked through other data, including newspapers.

### **5.3. Consumers**

It is rare to encounter time series data concerning consumers' behaviour. Therefore, it is difficult to establish the process of change in consumers' behaviour accurately. The further back in time we go, the more difficult it is to track consumer behaviour patterns. The circumstances of the 1970s are worse than the 1980s and those of the 1980s are worse than the 1990s. Furthermore, it is impossible to get historical data through surveys at the present. Despite these restrictions, this thesis, first of all, will use data concerning income and expenditure as a result of the collective behaviour of consumers in order to analyse it. Time series data can show trends of consumers' behaviour even though it would be difficult to analyse their specific characteristics. For this, the present

thesis will use the concept of APC (Average Propensity to Consume) and examine its change on the basis of general characteristics of APC in accordance with Keynesian absolute income hypothesis. This thesis will employ three different levels of data to explore characteristics of the consumption attitude; Penn World Tables Version 6.2 (PWT 6.2) for comparison in the international level, National Accounts for the national level, and Monthly Income and Expenditure per Urban Household for the urban sector.

**Penn World Tables Version 6.2 (PWT 6.2):** This provides purchasing power parity and national income accounts transferred to international prices for 188 countries, including South Korea, for the years 1950-2004. Thus this is very useful for comparison of Korea's level and characteristics of consumption with other countries on the basis of the same income level. Through its comparison, this thesis will show Korea's APC is even lower than that of advanced countries and Latin American developing countries, and changes dramatically before and after the middle of the 1980s.

The National Account and the data of Monthly Income and Expenditure per Urban Household will be used for analysis in the national level.

**National Accounts** (Provider: BOK, the first reference year: 1953, Period: Quarterly): This contains the production, income and expenditure of the economic actors in a national economy.

**Monthly Income and Expenditure per Urban Household:** Household Type, Household Size, Number of Earners, Generation Type, Major Source of Income of Household with No Occupation, Yearly Current Income, Type of Living Quarters, Number of Automobiles, Incomes, Expenditures etc. (Provider: KNSO, the first reference year: 1963, Period: Monthly).

These two kinds of data at the national level can show a difference between the trends of the whole country and of urban areas as more commercialised areas. For this, the present thesis will chronologically trace the trend of APC in both sets of data. In addition to this, the difference between both sets of data can be a significant factor to suggest differences of consumption behaviour between the rich and the poor, because average income in the urban area is higher than that of the whole country including the rural area. For this, the thesis will also use income quintile data in urban areas even if there is a limitation of data within the period.

Secondly, a few surveys taken by the government or researchers are also vital to establish consumers' behaviour at that time, even though this is just one set of time data for a policy or for articles. The data concerning consumers' behaviour has been much better since the late 1980s. The Korea Consumer Agency (KCA), which was established in 1987 as a certified government organization under the Ministry of Finance and Economy, has been taking surveys concerning consumers' behaviour and consciousness annually. Institutes concerned, such as KCCI, have also developed their survey structure by adding items reflecting consumers' consciousness. As we have seen, even though it is a fact that the historical data relating to consumers is insufficient, it would not be a serious problem in this thesis because it traces the change in consumers' behaviour as only one factor in analysing the evolution of retail institutions. This thesis will analyse the relationship between the evolution of retail institutions and consumers' behaviour mainly through the change in their income and expenditure by using a number of surveys taken by the government or institutes or researchers complementarily.

#### **5.4. Socio-economic data**

This thesis needs some socio-economic data because they are leading indicators and provide results of the change in retail institutions.

**Population & Housing Census:** Place of Residence One Year and Fiver Years Ago, Employment Status, Industry, Occupation etc. (Provider: KNSO, the first reference year: 1925, Period: Quinquennial). This is also significant data in that the population is a consumer base. This provides the size of the population and households in big cities through which we can presume the degree of development of the big retailer. The change of family composition provided from this census is also quite important data to examine the environment surrounding the retail industry.

**The Survey of Land Prices:** the change of land prices in each region such as Big City, Small and Medium City and Rural Area in the whole country (Provider: MOCT, the first reference year: 1975, Period: Monthly). Land is one of the most important assets and so the change in land prices would influence consumption attitudes. Its price had very rapidly increased over the country during the period of the 1970s and 1980s but the increase in land prices left disproportionately large gaps between regions. Thus the change in land prices would be necessary data to explore changes in consumption.

Beside this data, Annual Number of Strikes surveyed by Ministry of Labour (MOL), Economically Active Population Survey by KNSO, etc. will be employed in this thesis.

#### **5.5. Quantitative or Qualitative**

As we have seen, this thesis will use qualitative as well as quantitative data. Most data provided by KNSO and BOK would be quantitative, while the bulk of the internal

data of companies would be qualitative. The data from the departments concerned in government will be both quantitative and qualitative.

In general, the quantitative data has to be consistent in terms of statistical criteria and methodology in order to be compared. In this respect, there would be no problem in using the data from governmental organisations such as KNSO, BOK because their data is credible. What should be noted in this thesis is the means used to modify the raw data in order to fit research goals. The thesis sometimes calculates indexes based on a specific criterion for comparison, and a rate of change to look at the trend. Of course, this method of modifying the data will be clearly stated wherever it is used. It might be thought that the data from institutes relating to companies differs from government organisations' data in terms of credibility, because it relates to its own members. However, such data has for a long time been accepted by government and researchers and analysts in the stock market. In the case of listed companies, most of the data can be crosschecked automatically because it has to be submitted to the Korea Stock Exchange (KSE) through audit reports. Therefore, this data is as credible as the data from government organisations. However, the qualitative data must be approached with caution. There is no problem in using data obtained from the government and its various organisations as a source for research in the same way as quantitative data. In contrast to this, qualitative data from companies and institutes, may sometimes be biased in accordance with their interests. To avoid this problem, data from companies will be crosschecked with other data from sources such as newspapers, journals and official literature.

Finally, this thesis is composed of eight chapters, including this chapter. The next chapter deals with the state of the retail industry in the 1970s which was unstratified and

underdeveloped despite rapid economic growth. The third chapter analyses the reason why the retail industry was backward in that period. For this, this chapter is going to trace action and reaction of three actors; the government as an oppressor, consumers and retailer as passive acceptors. The fourth chapter examines the state of the retail industry in the period between the mid-1980s and the mid-1990s but unlike the 1970s it was stratifying and modernising with rapid economic growth. It was the era of liberalisation. Linking to this, the fifth chapter will again pay attention to three actors as makers of the distinctive state of the retail industry. The retreat of government and liberalisation provided environments in which consumers and retailers could aggressively act in their interests. The result of this situation was the golden age of the department store industry in that period. The sixth chapter is going to explore the period since the mid-1990s when the retail industry was stratified with symptoms of relatively low economic growth. This chapter will look at interaction between consumers and retailers under the condition of the opening of the domestic market after the economic crisis. The seventh chapter adopts an approach slightly different from historical approach used until then. It examines the possibility of applying theory to the Korean context. It focuses mainly on the conflict theory among retail evolutionary theories. The eighth chapter will be the conclusion of this thesis.



## **Chapter II: Backward, Unstratified Retail Industry and Rapid Economic Growth in the 1970s**

### **1. Introduction**

The goal of this and the following chapters is to examine the structure of the retail industry and socio-economic parameters such as economic growth and policies on consumption in the 1970s. For efficiency of analysis, this chapter concentrates mainly on the description of socio-economic environments influencing the structure of the retail industry, together with an analysis of the existing structure of the retail industry. The following chapter will focus on the action of the three actors - government, retailers and consumers - which made the existing retail structure. This could be called a description of phenomenon and analysis of reason. In this process, this chapter exhibits an unusual incongruity between backwardness of the retail industry and economic development in the 1970s. This approach makes this thesis different from most existing research which attributes such backwardness to immaturity of economic conditions.

First, this chapter briefly looks at the state of the retail industry, and eco-political environments before 1970 as a preliminary basis for the industry's conditions in the 1970s. Even if the main focus of this thesis is the period from the 1970s, this preliminary work seems to be essential for understanding initial conditions within the retail industry in the 1970s. Following this preliminary legwork, this research will explore important topics of the 1970s. Most of these topics will provide evidence to justify the goal of this chapter, which is to show inconsistencies in rapid economic growth, and the backwardness of the retail industry. In general, industrialisation is accompanied by various kinds of socio-economic changes. As one of the main factors

relating to consumption, the retail industry is a key indicator of such socio-economic change. There are a lot of factors which induce changes in the retail industry during industrialisation. Increases in income proportionate to economic growth, may be one of the most important factors. Urbanisation which provides the retailer with various kinds of new markets can be a decisive factor. An increase in society's income gap can also be an influential factor to change the structure of the retail industry. Broadly speaking, the Korean economy in the 1970s differed little from other general cases of the period, which were accompanied by economic growth. In particular, Korea in the 1970s experienced a very successful period of economic growth when average growth per annum was over 8 per cent. Under this condition, rapid economic growth was linked to rapid increases in income as the most important factor concerning consumption and the retail industry. The Korean economy changed in industrial structure, and Korean society changed in urbanisation and family composition in the 1970s. This kind of development can be said to share strong similarities with advanced countries when modern retailers emerged in those regions. In fact, its change was as dramatic as advanced countries in terms of scope and speed.

However, as will be seen, the structure of Korea's retail industry hardly changed in the 1970s. While the expansion of quantity was fast in terms of the amount of sales and the number of retailers, structural change was seldom found in the period; it was still only found in the traditional market system. The present thesis is of the view that this is an unusual case which cannot occur without strong intervention in accordance with clear motivation. And it will trace how differences in initial conditions influenced the evolutionary path of the retail industry. Thus this chapter illustrates the relative backwardness of the retail industry, compared with other sectors developed in the

1970s. In this respect, the word 'backwardness' is key in characterising the Korean retail industry in the 1970s. Another significant word which explains the Korean retail industry in the 1970s is 'unstratified' in line with the central argument of this thesis. In general, development of the retail industry may be accompanied by stratification. It is because retailers try to engage in market segmentation according to different services and thus different prices and this trial, as result, results in the emergence of different formats of retailers (Coughlan et al. 2001: 63). However, this phenomenon did not happen to the Korean economy in the 1970s although the income gap increased rapidly with the general increase in income. This could be an important point relating to the relationship between the evolution of the retailer and consumer behaviour, which will be examined. Accordingly, this chapter also pays attention to the unstratified shape of the Korean retail market in the 1970s.

## **2. Brief History around the State of Distribution and the Retail Industry before the 1970s**

### **2.1. The Eco-Political Environments in the Korean Economy before the 1970s**

After gaining independence in 1945 from Japanese imperialism, Korea's modern history was confronted by continual crises, such as the Korean War and political disturbance, which was the result of both internal and external factors. Korea, which had experienced military administration by the US Army for three years after independence, was founded as a completely independent country in 1948. However, the Cold War divided Korean peninsular into South and North, and such an unstable foundation involved the Korean people in a severe war: the Korean War. The war, which continued for the three years from 1950 to 1953, expanded into a proxy conflict as part of the Cold



each year). While political instability continued throughout the 1950s, the military coup led by General Park in 1961 provided the momentum for political stability in spite of its negative effect on the development of democracy in the long term. Accordingly, it was also clear that economic development plans led by the government started to show results, for the first time, in the 1960s, although the way had been paved for it in the 1950s.<sup>23</sup>

**Table 2.2** **Economic Growth in the 1960s**

	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969
<b>Rate of increase of GDP (per cent, constant price of 1975)</b>	1.2	5.9	2.1	9.1	9.7	5.7	12.2	5.9	11.3	13.8

Source: BOK, National Accounts, each year

Park's regime began *Je 1cha gyeongje-gae-bal 5gae-nyeon gye-hoeg* [Five Year Plan for Economic Development] in 1962, one year after the coup, and with it established a strategy of export-driven development. The first 'Five Year Plan', which was continuing in 1966, was successful in recording an annual average economic growth rate of 7.8 per cent over its goal. The second economic plan, from 1967 to 1971, was also successful in that the annual average growth rate was 9.7 per cent.

<sup>23</sup> *Bu-heung 5gae-nyeon gye-hoeg* [Five Year Plan for Reconstruction] in the late 1950s was the original version of 'Five Year Plan for Economic Development'. This plan, implemented by the military power and the Economic Planning Board (EPB), as the main department for the economic plan in the 1970s and 1980s, originated in the Department of Reconstruction in the 1950s. (Bak Taegyun 2007: 298-300)

## **2.2. The State of Equality or Inequality: The Distribution of Income and Wealth**

The most important policy concerning the distribution of income and wealth was the land reform that was carried out in the late 1940s. After the land reform, which finished in the late 1950s, the distribution of landownership improved dramatically. The destruction that resulted from the Korean War was also regarded as a crucial factor that rearranged the situation of distribution (Haggard 1994: 225). An initial condition like this is often argued to be an example of the positive causal effect of equality on subsequent economic growth (Rodrik 1995: 76). While research on equality matters in the 1960s is quite scarce due to lack of data, most research argues for the improvement of income distribution. Ju Hakjung (1979: 34) calculated that the Gini Coefficient of income changed from 0.3439 in 1965 to 0.3322 in 1970. Also, Gim Daemo & An Guksin analysed that it changed from 0.37 in 1965 to 0.35 in 1970 (I Jeongu and Hwang Seonghyeon 1998: 159). On the basis of this research, generally researchers in this field accept that it improved slightly in the 1960s (I Jeongu and Hwang Seonghyeon 1998: 160; Choe Gwang and Hyeon Jingwon 1996: 22-23).

However, if landownership as wealth is considered, the distribution of wealth might be different from that of income. In general, the rise of land prices is regarded as having a redistributive effect due to differentiation of wealth. In particular, this phenomenon becomes more serious if landownership is uneven (I Jinsun 1993: 110-111). Accordingly, the rise of land prices during the process of industrialisation is likely to engender the same problem because it is concentrated in the urban and industrial areas. In this respect, it is doubtful whether the situation of distribution in Korea was relatively equal in the 1960s because land prices increased rapidly with industrialisation in the

period. The rate of increase of land prices in 12 big cities was over 35 per cent yearly between 1962 and 1968, and it rose to 80.7 per cent at its peak in 1969 (Ibid 1993: 116-118). A strong regulation, which was called '*Bu-dongsan-tu-gi eog-je-e gwan-han teug-byeol-jo-chi-beob* [Special Measure concerning the Repression of Real Estate Speculation]' which was published in 1967 by the government, showed the degree of seriousness of the situation (Yu Haeung and Gim Wonhui 1997: 86). Even though the precise level of the Gini cannot be calculated due to the limitations of the data, in this regard, it is difficult to claim that the distribution in the 1960s was good if it contained landownership as wealth. Furthermore, it is even very doubtful whether or not the effect of land reform on equality was maintained during the 1960s.

### **2.3. The State of the Retail Industry**

#### ***Policy Environments around the Retail Industry***

Extreme political changes in a society in which the market is not well organised may, first of all, give a destructive shock to the retail network because people wish to secure the necessities of life and do not trust the exchange and trade system. In this respect, the Korean economy from 1945, the date of national independence, to 1953, the end of the Korean War, had operated in an atmosphere of extreme unfriendliness towards the retail industry. The retreat of Japanese imperialism, which had dominated Korean territory for 36 years, had been accompanied by a breakdown of the retail network. In particular, the US military administration, which had served as an interim government following the Japanese retreat, had tried to change the socio-economic system, including the intrusion of capitalism. Therefore, it followed that the existing economic network scarcely operated during the period of military administration.

During the interim government the Korean economy could be described as going through a period of extreme shortfall in the supply of foodstuff, and high inflation. Total production of the manufacturing sector by value in 1948 was merely 26.0 per cent of that in 1940, and the price of staple crops such as barley and beans was extremely unstable, and the monthly average rate of inflation was above 10 per cent by 1946 (I Daegeun 2002: 135-141). Responding to these problems, the US military administration imposed a rationing system on the main necessities of life, together with strict price regulations.

With the foundation of an independent nation in 1948 following the US military administration, the new government tried a plan of economic reconstruction. The main points of the policies relating to the distribution sector were stability of prices and the stable provision of foodstuffs in particular grain. With the implementation of these policies, the government tried to build up the norm of the commercial sector through *Sangpyo-beob* [Trademark Law] in 1949 and *Jeongchal-je* [The Price Tag System]<sup>24</sup> in 1959 amongst others. It enacted *Jung-angdo-mae-si-jangbeob* [The Law of the Central Wholesale Market] in 1951 as the first law of the market (MOLEG 1949, 1951; Jo Byeongchan 1993: 201). However, the unstable situation which permeated the whole of society continued because of various eco-political problems such as the disposal of enemy properties, land reform and a reduction in the legitimacy of the government due to the division of Korean Peninsular into North and South. In addition, a shortage of goods had not yet been resolved. Accordingly, it was still difficult to say that conditions were ready for the development of the retail industry. Moreover, the wartime economy

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<sup>24</sup> The Price Tag System entails a situation in which the retailer is obliged to sell a commodity at the indicated price, rather than the sale being subject to bargaining and haggling, thus reducing the possibility of profiteering.



during the Korean War had further reduced any possibility of developing the retail industry. What was worse, the image of retailers deteriorated because many of them received exorbitant rates of interest in making use of the shortage of goods<sup>25</sup>. Even after the war, circumstances scarcely changed. Even though the Korean government pushed their economic development plan and the economy slowly returned to normal, the shortage of goods still continued and thus the retail industry could not be established as an important industry in the 1950s.

As we have seen, the military coup led by General Park served as a momentum for drastic change in the Korean economy in the sense that the political power, led by the government, appeared able to promote economic development. However, it had not provided the retail industry with particular momentum because, like past occasions, the industry had not been given priority for economic development. Of course, it was a fact that the environment around the retail sector improved continuously through the 1960s with rapid economic growth, and so the size of the sector gradually enlarged. Nevertheless, the fact that the retail industry was not placed in a priority position in the 1960s meant that it was impossible for it to develop normally because, in the circumstances of limited resources, most of these economic resources were concentrated on the priority sector. In particular, the fact that in its early period the military government suppressed the retail industry on the grounds of consumer protection showed its attitude towards the retail sector and, simultaneously, intimated the trend of its policies concerning the retail industry in the future. The protection of consumers was one of the important goals, together with price stability, of the policies towards the retail sector from the early 1960s; the fact that protection of consumers was considered

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<sup>25</sup> This time became known as the period of distribution without production (I Daegeun 2002: 148).

seriously as a policy goal was very unpredictable even at that time (Hwang Myeongsu et al. 1992: 305). This might illustrate that the government did not regard the retail industry as a sector deserving of support and, moreover, the government had a negative image of retailers. The military group's first policy concerning the retail sector was *Si-jangbeob* [The Law of the Market], which was enacted at the end of August 1961. The law classified the market into just two categories: the periodic market which means a market operated by a few or many independent merchants every five to seven or more days, and the permanent market, which means a market operated every day in an identical place. A characteristic of this law was that the market was defined by the criterion of place. For example, it defined a permanent market as a place where over 20 merchants traded in the same building, or a place which was equipped with the proper facilities such as facilities of sanitary and fire prevention in accordance with the regulation concerned (Article 2 of The Law of the Market, 1961). Although this law was a reflection of situation relating to the retail sector at that time, it eventually became out of date because it could not classify various types of retailers, such as supermarkets and department stores, due to its too simple criteria. It was also impossible to regulate the behaviour of the trade in line with the law because there were no provisions relating to behaviour, only provisions concerning the place and facilities (Hwang Myeongsu et al. 1992: 282-283). As a result, it could not cover the whole area of the retail industry and thus needed complementary regulations.

Therefore, apart from the basic law, the military government imposed two kinds of additional regulations at almost the same time. The first was the measure to sweep away fraudulent foreign goods, which was effective from 1<sup>st</sup> September 1961, and the second was the price tag system on 1<sup>st</sup> October, the same year in which it announced a fixed

price for goods. These regulations, which were intended to reform the existing retail system, however, greatly shocked retailers who did not break off traditional practices. Following the introduction of those policies, the government still tried various methods relating to the retail industry in the 1960s. For example, DTI established a plan for *Yu-tonggu-jo gae-seon-e gwan-han jangdan-gi jonghab-dae-chaeg* [The Comprehensive Measures in the Long and Short Term for the Improvement of the Distribution System] in 1966 and the authority of the City of Seoul, the Korean capital, devised a plan for the modernisation of the Dongdaemun and Namdaemun Markets, which were two of the largest traditional markets at that time. In particular, it seemed that the modernisation of the two markets was desperately needed because they also acted as wholesale markets for the national area as well as retail markets for the region of Seoul. As an extension of such policies, there were several further ones, such as *Dae-lyang pan-mae-jo-jig wan-bi gye-hoeg* [The Plan for the Completeness of the Organisations of the Large Sale] by DTI in 1969, *Yu-tong geun-dae-hwa 5gae-nyeon gye-hoeg* [Five Year Plan for the Modernisation of the Distribution System] by the government in 1969 (Shinsegae Department Store 1987: A Chronological Table of Retail Policies, DTI 1966, 1969). One of the characteristics of the retail policy in the 1960s was, as mentioned, an approach from the view of consumer protection. The EPB formulated *So-bi-ja bo-ho yo-gang* [An Outline for Consumer Protection] in 1968, which covered subjects such as price regulation of the main necessities of life, the expansion of the price tag system and the establishment of consultation offices in individual markets, etc. Emphasising commercial norms, it also expressed support for the consumer movement in the private sector and recommended the establishment of consumers' organisations (Hwang Myeongsu et al. 1992: 306).

In brief, it was clear that the government established the basic structure of a policy for the retail sector in the 1960s. However, it seemed that its view of the retail sector was not positive, especially concerning its prospects for economic development as an industry. There was a tendency to regard the retail sector as merely a supplementary tool to stabilise economic circulation, rather than an industry to be developed. Due to such an attitude, the main trends of the policies would be regulation for price stability and consumer protection rather than the encouragement of the retail industry (KCCI 1999: 44; Hwang Myeongsu et al. 1992: 303).

### ***The Backwardness of the Retail Industry***

Paradoxically, the 1950s was a period when the distribution industry rather than the manufacturing industry predominated, even if this was due to, not to the prosperity of the distribution sector, but the backwardness of the manufacturing sector. The ratio of the wholesale and retail industries in the gross national product (GNP) was greater than that of the manufacturing sector by the end of the 1950s. While the ratio of the wholesale and retail industries continued at their level of about 16 per cent in the 1950s, that of the manufacturing industry reached 9 per cent in 1953 and had increased to 14.1 per cent by 1959. The ratio of the tertiary industry, including the wholesale and retail industries, was around 45 per cent and the remainder was accounted for by primary industry (BOK, National Accounts, each year; I Daegeun 2002: 423, 445-446). In terms of the employed population, the ratio of the wholesale and retail industries in the whole industry sector was also greater than that of the manufacturing industry in the 1950s. While the former was approximately 5 per cent, the latter was about 2 per cent in the 1950s. However, it was estimated that many more of the population than the official

figures showed were employed in the distribution area of the informal urban sector, which did not require either much capital or particular skills, because a large number of people had moved from the agricultural sector to urban areas<sup>26</sup>. Therefore, most of them were shown as unemployed or latently unemployed in the informal urban sector (I Daegeun 2002: 449).

It was inevitable that in such circumstances the distribution sector, particularly the retail industry, would be both poor and small. The situation was further aggravated after the Korean War because a large number of refugees migrated to urban areas. In the case of Namdaemun Market, the number of shops increased from 252 before the war to 500 in 1953 and Dongdaemun Market expanded to 320, twice as many as before the war (KCCI 1954: 13). As the individual markets expanded in size, the number of markets in Seoul also increased to 44 in 1961 from 32 in 1946 (Hwang Myeongsu et al. 1992: 283-285).

One of the most important indexes which shows the degree of the development of the retail industry is the type of market that was dominant. According to Bucklin (1972), the developmental stages of the market were as follows: periodic markets - pre-business era; permanent markets - pre-business era; fragmented markets - petty capitalism; vertically integrated markets - industrial capitalism; and conglomerate retailing - financial capitalism. According to a survey in 1966, the number of permanent markets in Korea was only 248, compared with 1090 periodic markets, making a total of 1338 markets in Korea<sup>27</sup>. The degree of concentration of markets in Seoul was very high,

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<sup>26</sup> In terms of the employed population, the population engaged in agriculture and fishing in relation to all industries fell to about 70 per cent in 1960 from about 80 per cent in 1950 (I Daegeun 2002: 449).

<sup>27</sup> These numbers are a little different from the number of traditional markets shown in Chapter 3 due to the difference in survey methodologies, but the trend shown by the data was the same in terms of the relationship between permanent and periodic markets.

with 85 (34.3 per cent) permanent markets in the capital (FKI 1967: 422). Even though Bucklin's developmental stages could not be applied directly to the Korean case due to environmental differences, it is clear that the backwardness of the retail industry in Korea was severe in that the main part of the market sector comprised periodic markets rather than permanent ones, even in the 1960s after industrialisation had begun and was progressing rapidly.

The first census of the wholesale and retail industry was carried out in 1968. Even though accurate statistical data were the basic materials for formulating policy as well as carrying out research, there had been no comprehensive collection of data concerning the distribution industry in Korea until then. Therefore, the first census was accepted by the distribution sector as very good news. According to the census, the total number of companies in the wholesale and retail industry was 278,039, made up of 95 per cent retail companies (264,100) and 5 per cent wholesale companies (13,939). As one of the indexes to show the poverty and informality of the distribution industry, we find that in the retail industry merely 0.1 per cent (349) of the companies were incorporated, while the equivalent figure for the wholesale industry was comparatively higher at 6.6 per cent (920) (KNSO 1968 Commerce Census). This meant, however, that 99.9 per cent of the retail industry was private business which was much less regulated by the legal system, compared with incorporated enterprises. Nevertheless, the government carried forward a scheme to reform the distribution industry based on the census. This reformation included improving facilities in existing markets, recommending the formation of chains to poorer shops, and the construction of new buildings for the centre of the distribution industry (Hwang Myeongsu, et al. 1992: 307).

### *The Department Store as a Fictitious Department Store*

In 1955 there were merely six department store companies in Seoul, formed through the process of restructuring the department store industry after national independence in 1945. *Sin-sin-baeg-hwa-jeom* [The Shinshin Department Store] was founded in late 1955 and as a result the three major stores, which were *Mi-do-pa*, *Donghwa* and *Sin-sin* Department Stores, became competitors. Apart from these stores, according to the 1954 survey by KCCI, there were five department store companies in *Sun-cheon*, five in *Chun-cheon*, and ten in *Gun-san*<sup>28</sup>. However, most of them were regarded as just big shops rather than department stores (Hwang Myeongsu et al. 1992: 293-294). Most Korean department stores in the 1960s were merely collections of small shops under one roof where the owners of the building rented spaces to the individual proprietors, rather than one business coming under direct management. This was little different from the other markets except that there was an overall manager for the facility. Therefore, it was no exaggeration to say that most of the owners of department stores were actually letting businessmen, rather than retailing specialists. Furthermore, it could hardly be said that these were department stores as per the true meaning of the term, because their operating systems were different from those of a typical department store. In general, the characteristics of a department store as a modern retailer are as follows: fixed pricing and clear labelling within the store (Alexander & Akehurst 1999: 11). However, the department stores in Korea at that time did not enforce such institutions and in some cases, the same goods were traded at different prices even in the same department store (Shinsegae Department Store 1987: 72). Nevertheless, most consumers usually regarded

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<sup>28</sup> These cities were much smaller than Seoul in terms of population and the size of their economies, etc., even though they played important roles as the economic centres of their regions.

the department stores as shops which usually sold luxury goods. Their luxurious image in the period of Japanese Occupation remained in people's memory and they sold mainly up-market goods<sup>29</sup>, even after national independence.

After national independence in 1945, the retrogression of the department store industry was, first, due to the strictly controlled economy and rationing system resulting from the socio-political chaos and extreme political instability following the Korean War in the early 1950s. Department stores were suffering from a lack of goods and, to make matters worse, they could not help becoming smaller because of the expansion of the black market in the unstable economy. In these circumstances, it seemed that the owners of the department stores chose to let their shops to individual owners because they would have to take an enormous risk in the direct management of a big shop (Hwang Myeongsu et al. 1992: 294). Even the 1960s was not a good period for department stores. They received a formidable shock from the retail industry policies enforced by the military government. As we have seen above, measures to sweep away fraudulent foreign goods and the introduction of a price tag system in 1961 were a crucial blow to them. A newspaper published in Seoul around the time of the introduction of the policies sketched the horrible situation of the effect of the policies on department stores under the title of '*Bi-eo-ga-neun baeg-hwa-jeom* [Department Store Becoming Vacant Due to Closing up Stores]' as follows:

*"Over half of the shops in the first and second floors, which had been evaluated as the better places for sales in the Whashin and Jongro Department Stores became*

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<sup>29</sup> Most of the shops in a department store sold contraband goods or fraudulent foreign goods as a luxurious retailing institution strategy. Thus, they got a great shock when the military government imposed a policy prohibiting the sale of fraudulent foreign goods in 1961 (*Seo-ul-gyeongje-sin-mun* 11 September 1961).



*vacant and, in addition, the Shinshin Department Store encountered a fatal situation where two-thirds of its first and second floors became vacant" (Seo-ul-gyeongje-sinmun 11 September 1961).*

After that, the department stores narrowly maintained their positions in the retail sector during the 1960s. One event during that period was that the Shinsegae Department Store, which was previously the Dongwha Department Store, introduced the system of direct management in 1969, whereby the department store company directly owned and managed departments for sales in the outlet. The Dongwha Department Store, which used to be a Mitsukoshi store as the first department store in Korea established in 1930, was merged into Samsung Group in 1963. Samsung changed the name to Shinsegae Department Store and made efforts to change it to a modern retailer of the western type. This kind of change influenced other stores which followed the same management strategy. In the case of the Shinsegae Department Store, the ratio of direct management started at 12 per cent in 1963, increased to 50.3 per cent in 1966 and reached 85 per cent in 1969. It also implemented institutions such as a price tag system, a free return and refund system, and free window shopping, which all had an effect on its competitors (Shinsegae Department Store 1987: 78-82). As a result, it can be said that department stores in Korea, in a strict sense, began in the late 1960s even if they still did not get a particular position as a retail format in accordance with legal definition.

### **3. Overview of Rapid Economic Growth in the 1970s**

#### **3.1. General Government Policy and Rapid Economic Growth**

The Korean economy started the early 1970s in a dismal situation following the depression in the world economy at the end of the 1960s. Moreover, political circumstances, which were one of the most important factors in economic growth, were very unstable because President Park, Cheong-hee wanted to remain president for a third continuous period by revising the constitution. Even though President Park, who had succeeded in amending the constitution in 1969, won the presidency in 1971, he faced severe resistance from the Korean people who did not want his long-term seizure of power. However, by managing the social atmosphere through tools such as the creation of social fear concerning North Korea, he brought strong pressure to bear on the resistance and, furthermore, enacted a new constitution [*Yu-sin-heon-beob*] for his long-term seizure of power in 1972. The new constitution, which it was suggested should be called a constitution for Korean unification, removed the limitation on presidential reappointments with the establishment of an indirect election, and greatly strengthened the authority of the president. It also contained a number of the limitations relating to human rights and democracy (MOLEG 1972; Gim Yeongmyeong 1992: 288-309). Later, due to political uncertainty from such circumstances, Korean society was put in a situation where severe political conflict was connected with economic depression because of the assassination of President Park in October 1979.

It is believed that President Park had linked his presidential fate with economic growth and national security against North Korea (Koo 1994: 174; I Byeongcheon 1998: 48). In fact, the possibility of the withdrawal of the US forces stationed in Korea, which was discussed in the early 1970s, might have partly contributed to the establishment of the new constitution by aggravating the uneasiness felt by the Korean

people regarding security.<sup>30</sup> It was also understood that the tenacity of the heavy and chemical industry (HCI), which was a pillar of the defence industry, was also related to such a situation in that the President stressed the independent national defence capability at that time.<sup>31</sup> His intentions for the defence industry appeared in his emphasis on the HCI as a strategic industry in *Je 3cha gyeongje-gae-bal 5gae-nyeon gye-hoeg* [the Third Five-Year Plan for Economic Development], which began in 1972. The Korean government urged the following goals in the plan: improvement of the international balance of payments; advancement of the industrial structure through the development of the HCI; development of human capital and technology; and 8.6 per cent average economic growth rate in the period etc. The most prominent goal was the economic growth rate, and the main tool in achieving its improvement was the speeding-up of the development of industry, in particular the HCI. To achieve this goal the government selected the steel, nonferrous metal, mechanical, shipbuilding, electronics and petrochemical industries as six strategic industries to be developed during this period. There were several events in which the basic infrastructure of the Korean HCI was developed during the third plan as follows: the completion of the POSCO, which developed into the second largest integrated steel mill in the world, the Changwon machine industrial complex, the Kumi electronics industrial complex, and the Yuichun petrochemical industrial complex etc. (KISS 1998: 15).

However, the Korean economy was not immune to various problems from which the world economy suffered, such as a worldwide depression and a suspension of specie

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<sup>30</sup> *Yu-sin-heon-beob* [The Yushin Constitution], which was voted for in a referendum on 17<sup>th</sup> December 1972, was passed with an approval rate of 91.5 per cent.

<sup>31</sup> The independent national defence capability promoted by President Park Cheong-hee was a policy linked with Nixon's Doctrine (1970) which stated that the matter of Asia had to be solved by the Asian people (I Samseong 1993: 84).

payment in the early 1970s. Economic growth in 1970 fell to 8.8 per cent from 13.8 per cent in 1969, and was recorded as 4.5 per cent in 1972. The Korean economy showed a short recovery to 12 per cent in 1973 but fell again to 7.2 per cent, with a 42.1 per cent increase in the consumer price index in 1974, falling yet further to 5.9 per cent in 1975 having suffered badly from the effects of the first oil shock (BOK, National Accounts, each year). In this time of difficulty, the impetus given by the government to the HCI did not weaken. Such an attitude was reflected in the fourth 'Five-Year Plan for Economic Development' which began in 1977. At that time, the world economy was showing signs of recovery on the rebound from the severe depression of the first oil shock and the Korean economy was taking advantage of the global trends. The government planned for an annual average growth rate of 17.3 per cent in the HCI, while the goal for the general annual economic growth was 9.2 per cent during the fourth development plan and so, as a result, the ratio of the HCI to the manufacturing sector would become 52.1 per cent by 1981, the final year of the fourth plan (Im Hwicheol 1998: 27). The growth strategy led by HCI was successful. GNI per capita in 1977 reached the level of US\$1,000 and exports were recorded as being over US\$10 billion at that time. Such a boom continued into 1978 when the economic growth rate was recorded as being 9.3 per cent. However, there was no exception to the rule that a boom is reason for a depression. The Korean economy settled into a depression from 1979, when its growth rate was 6.8 per cent, and following this the annual economic growth rate recorded, for the first time, minus 1.5 per cent in 1980 after the establishment of the developmental plan. This miserable result was closely related to an

excessive boom<sup>32</sup> and the second oil shock in 1979 dealt it a fatal blow (KISS 1998: 17).

In general, an economic crisis is accompanied by political uncertainty and the situation gets worse and worse if the political leadership, particularly, authoritarianism becomes unstable (Przeworski et al. 2006: 193). The Korean economic-political situation at the end of the 1970s followed a worst case scenario. There had been keen political tension between the government and social movement groups advocating the development of democracy and the enlargement of the right to labour in Korea since the early 1970s. Park's regime suppressed the movements of activists, and, what was worse, some of them were killed. As the political situation deteriorated, the social movement also became more active. The economic crisis at the end of the 1970s occurred in such a situation. The combination of economic depression and severe political tension exploded in a social crash and induced a split in political powers. The conflict between the hawks and the doves in power, at last, involved people in quite unexpected quarters, and the shock of the assassination of President Park in October 1979 made the Korean economy worse (Gim Ilyeong 1995: 208).

In sum, even though the Korean economy faced difficult circumstances, the economy could have developed continuously in the 1970s. Its momentum for rapid economic growth was an economic plan concentrated on the HCI in the early 1970s which was driven by the government. The HCI had been the centre of a driving force for economic growth during the period of the 1970s. Its successful way of development, however, was remarkably shaken by the second oil shock in 1979 with excessive

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<sup>32</sup> In particular, it was understood that excessive investment in the HCI resulted in its overcapacity beyond the amount of exports and, consequently, made the Korean economy fall into a severe recession (Bak Jingeun 2000: 102-105).

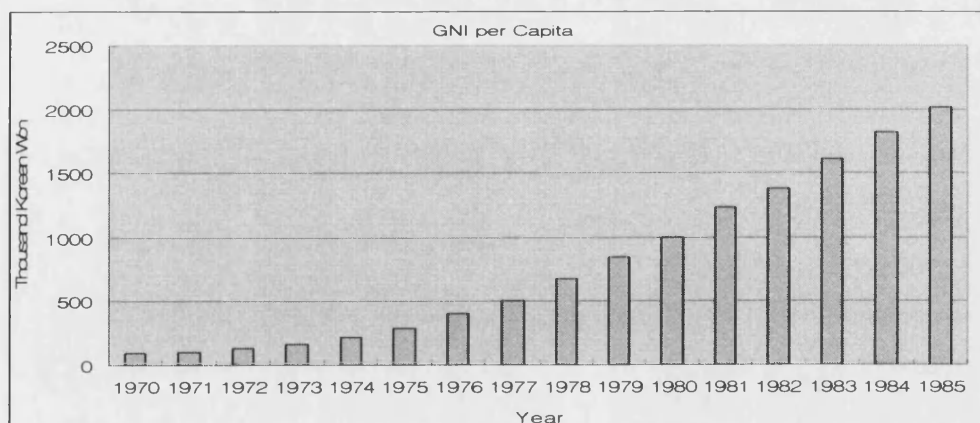
investment and economic instability aggravating political uncertainty. In contrast to this, the retail industry found it difficult to grasp the momentum to develop because of the government's concentration on the HCI. In particular, although the environment for the development of the retail industry was improving rapidly with the increase of income, the government's negative attitude towards it which we will see in the future constrained its development. Because of this, a distinct phenomenon where the backwardness of retailing coexisted with the prosperity of the manufacturing sector appeared in the Korean economy in the 1970s.

### 3.2. The Change of Socio-economic Environments

#### *The Increase in Income and Expenditure*

Rapid economic growth is usually accompanied by the other changes in the socio-economic sector. First, economic growth results in an increase in income, to which we have to pay attention when considering the development of the retail industry.

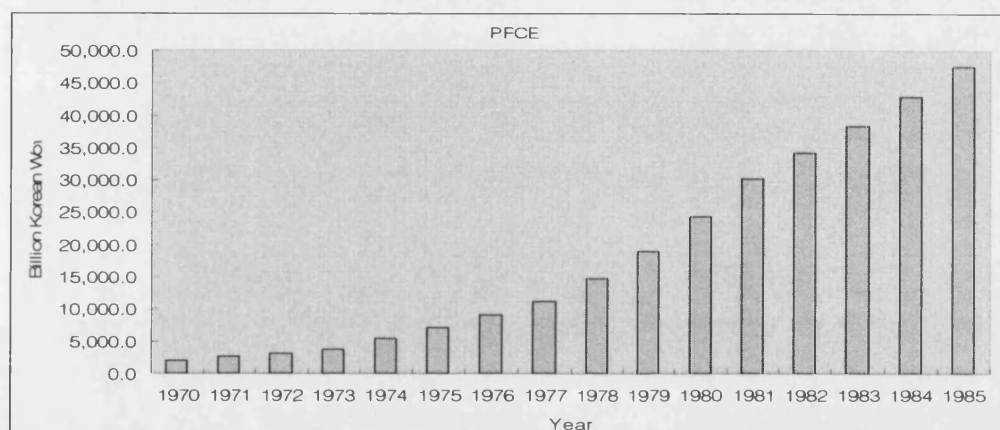
**Figure 2.1**                      **Trend of GNI per Capita\***



\*Nominal Term of GNI per Capita: Thousand Korean won  
Source: BOK, National Accounts, each year

According to <Figure 2.1>, the GNI per capita was only 90,000 Korean *won* (254 US dollars) in 1970 but had increased to 220,000 *won* by 1974, having taken only four years to more than double. Furthermore, as the income level increased ever more rapidly, GNI per capita reached 500,000 *won* in 1977 and 840,000 *won* by 1979, that is to say it took just five years to achieve around four times the level of GNI per capita in 1974<sup>33</sup> (BOK, National Accounts, each year).

**Figure 2.2 Trend of the Private Final Consumption Expenditure\***

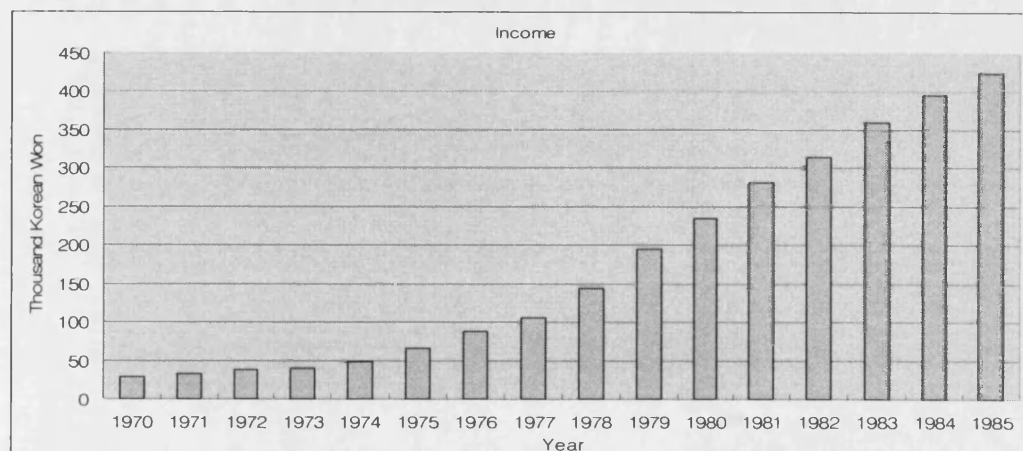


\*Nominal Term of the Private Final Consumption Expenditure (PFCE): Billion Korean *won*  
Source: BOK, National Accounts, each year

The Private Final Consumption Expenditure (PFCE) shows a similar trend to GNI. The PFCE which was just 2058.5 billion Korean *won* (6.03 billion US dollars) in 1970, increased to 7164.2 billion *won* in 1975. Increasing continuously, it rose to 24,250.6 billion *won* in 1980.

<sup>33</sup> The reason why the Korean *won* is used as the unit of money is to avoid distortion to be caused by the exchange rate. In particular, this is needed to keep consistency of statistics used in this thesis because of the dramatic change in the exchange rate at the time of the financial crisis around 1997. The value of the US dollar calculated in Korean won changed from 804.71 Korean won per US dollar in 1996 to 1399.08 won per US dollar in 1998 (BOK, each year). Accordingly, the valuation of Korean GNI based on the US dollar may well be distorted. Further, the situation of the income in a national economy which may be related to consumption, not by comparison with another country, should be valued in terms of its own currency. However, this thesis uses US dollars which are valued by annual standard exchange rate as a supplementary currency to estimate the amount roughly.

**Figure 2.3 Trend of Income\* of Urban Labour Household**

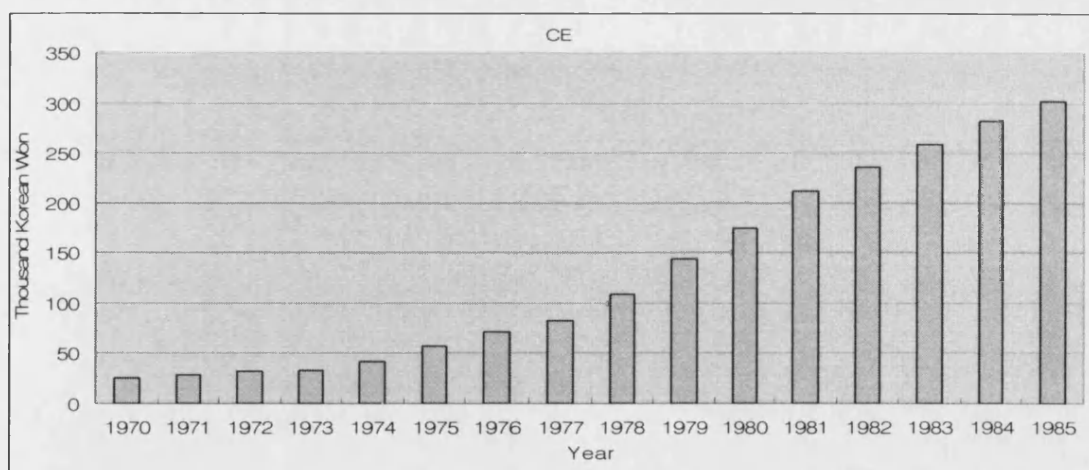


\* Nominal Term: Thousand Korean *won*

Source: KNSO, Monthly Income and Expenditure per Urban Household, each year

According to <Figure 2.3>, the monthly income of Salary and Wage Earners' Households in urban areas (SWEHs) had continuously increased since 1970. It was 28,200 *won* (82.5 US dollars) in 1970 and increased to 65,500 *won* in 1975. This monthly income which was 144,500 *won* in 1978, rose to 281,000 *won* in 1981.

**Figure 2.4 Trend of Consumption Expenditure\* of Urban Labour Household**



\* Nominal Term: Thousand Korean *won*

Source: KNSO, Monthly Income and Expenditure per Urban Household, each year

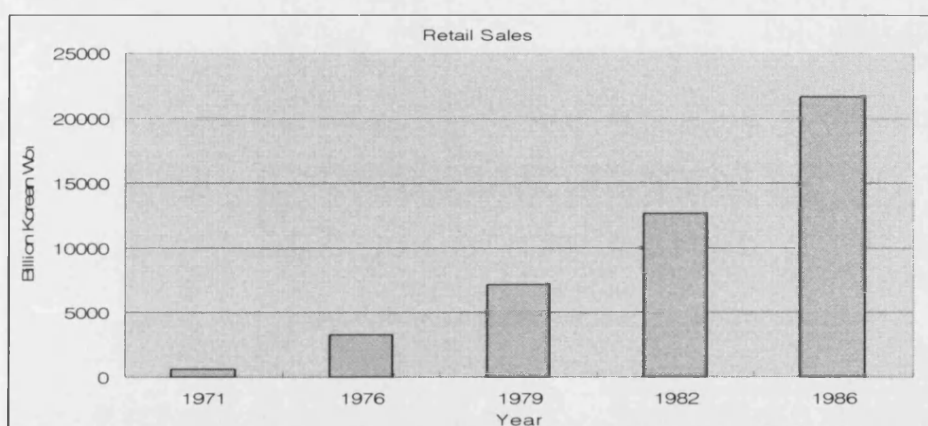
According to <Figure 2.4>, monthly consumption expenditure of the SWEHs was not hugely different from the monthly income. It was 24,700 *won* (72.3 US dollars) in



1970 and increased to 56,900 *won* in 1975. The monthly consumption expenditure which was 108,900 *won* in 1978 rose to 211,800 *won* in 1981.

We can see in the <Figure 2.5> that the expansion of consumption expenditure on the basis of increase in income was necessarily linked to the rise of sales of retail industry.

**Figure 2.5 Trends of Retail Sales\***



\*Nominal Term: Billion Korean *Won*

Source: KNSO, Wholesale and Retail Trade Census (1971, 1976, 1979, 1982), Wholesale and Retail Trade Census with the Overall Establishment Statistics (1986)

According to the Wholesale and Retail Trade Census, total retail sales were 608 billion Korean *won* (1,681.4 million US dollars) in 1971 and sharply increased to 3,310.3 billion *won* in 1976. As this trend continued, it was 7187.1 billion *won* in 1979.

### ***The Increase in Population and Families***

In general, industrialisation is accompanied by the change of family composition and a concentration of population in urban areas, which are the pre-conditions for development of the retail industry. Korea was no exception to such an industrialisation process. The rapid industrialisation which accompanied economic growth went side by side with both phenomena. The average rate of increase of population was 2.8 per cent

per annum from 1970 to 1975 and 1.6 per cent between 1975 and 1980. Under this condition, the average number of household members declined from 5.2 persons in 1970 to 5.0 persons in 1975 and to 4.5 persons in 1980. Accordingly, the total number of households rose from 5.6 million in 1970 to 6.6 million in 1975, and to 8 million in 1980 (KNSO, Population & Housing Census, each year). This is closely related to the change in family composition. <Table 2.3> shows the decline of three and over four generations' households.

**Table 2.3**                      **Trend of Generations in Household (per cent)**

	<b>1970</b>	<b>1975</b>	<b>1980</b>	<b>1985</b>
<b>One person households**</b>		4.2	4.8	6.9
<b>One Generation***</b>	6.8	6.7	8.3	9.6
<b>Two Generations</b>	70	68.9	68.5	67
<b>Three Generations</b>	22.1	19.2	16.5	14.4
<b>Over four Generations</b>	1.1	0.9	0.5	0.4

\*The sum of figures in each year has been a bit under 100 since 1980 because non-relative households, which consist of members of non-blood relationship, have been classified as a separate item.

\*\*One person households: household with just one member.

\*\*\*One Generation: household which consists of members of the same generation, like a married couple without children.

Source: KNSO, Population & Housing Census, each year

In particular, the decline of three generation households was quite considerable in the 1970s. In contrast, both one person and one generation households increased gradually from 1970 to 1985. With this, what should be noted is the level of urbanisation because concentrated population is a significant factor for development of the retail industry. The percentage of the urban population in the total population increased by about 10 per centage points from 39.7 per cent in 1970 to 47.9 per cent in 1975. Following this, it rose continuously to 57 per cent in 1980. On the other hand, this means an increase in the number of households in urban areas as purchasing units.

According to <Figure 2.6>, the number of households was smaller in urban areas than in non-urban areas. This was slightly reversed in 1975 when the number of households was 3,331,000 in urban areas but 3,316,000 in non-urban areas.

**Figure 2.6**                      **Number of Households**



\*Urban area: administrative districts authorised by the government to call themselves by the name of city as administrative districts where their number of population are over 50,000. 'Administrative district' means that population density is not a significant criterion.  
Source: KNSO, Population & Housing Census, each year

In 1980, the former was 4.7 million but the latter was 3.3 million. This may be a solid evidence that urbanisation as a significant condition for development of the retail industry, was rapidly progressing in the 1970s. In accordance with this, while there were just 18 cities of over 100,000 population in 1970, their number increased to 28, including 6 cities of over 500,000 in population in 1975. In 1980, the number of such cities rose to 34, including 4 cities with a population of over one million. In particular, the population of Seoul was around 5.5 million people, which was 17.6 per cent of the total population of the country in 1970. In 1980, the population of Seoul was 8.4 million (22.3 per cent of the national total) and generally the concentration of the population in big cities strengthened (KNSO, Population & Housing Census, each year).

### 3.3. The Aggravation of Distribution Inequality

#### *Inequality of Income*

Due to the official survey's lack of data on income distribution, research on income distribution was scarce during the 1970s. Most of the existing studies concerning income distribution used the survey of urban households and the survey of agricultural households for its calculations before 1980. However, the surveys were not enough to show the precise situation of income distribution due to limitations of the samples. To cope with this kind of problem, researchers tried to calculate it using separate surveys or other economic data. According to <Table 2.4>, Ju Hakjung (1979) as one such representative researcher calculated Gini Coefficients in 1965, 1970 and 1976 through estimation of income of non labour forces which was not contained in existing data. EPB produced Gini Coefficients in 1980 and 1985 on the basis of the social statistics survey in each year.

**Table 2.4 Trends of the Gini Coefficient in the Whole Country**

	1965	1970	1976	1980	1985
<b>Gini*</b>	0.344	0.332	0.391	0.389	0.345

\* Gini is the results from Ju Hakjung (1979) and Economic Planning Board (EPB, 1987, 1990).  
Source: as cited in Choe Gwang and Hyeon Jingwon (1996: 23)

According to these results in <Table 2.4>, the income distribution was aggravated in the 1970s, whether this was serious or not. This is understood to be closely related to rapid industrialisation in the period. In fact, most of the research in this field has underscored rapid industrialisation with heavy chemical industry as an important reason. The various kinds of policy for the support of this industry, such as taxation supports and credit rationing, led to imbalance between economic sectors and between regions and consequently resulted in income inequality. The high inflation of around 20

per cent annually also contributed to the aggravation of income distribution (Hyeon Jingwon 1996: 24; I Jeongu and Hwang Seonghyeon 1998: 161).

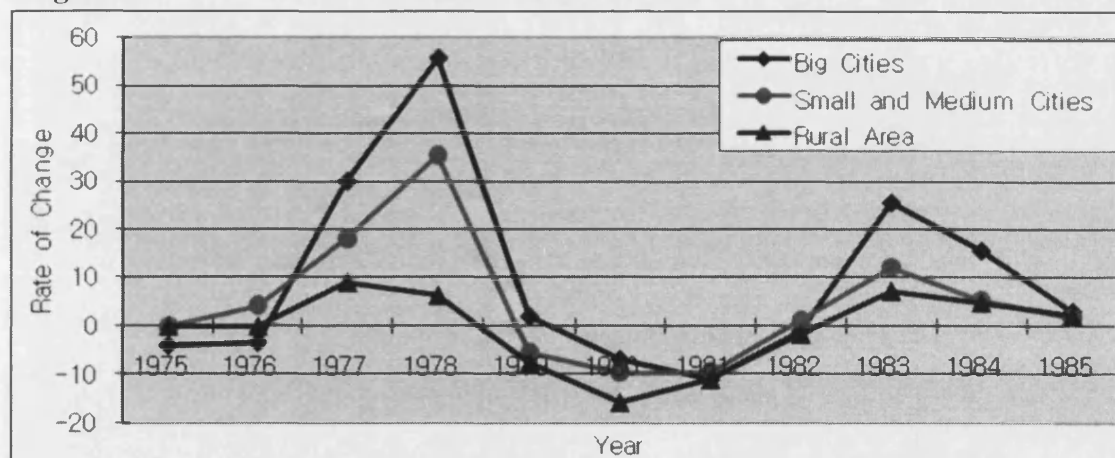
### ***Inequality of Wealth***

In general, it can be said that the main types of assets are financial assets and land. However, land is more likely to be important rather than financial assets in less developed countries because their financial markets are also less developed. The financial market in the 1970s was undeveloped due to the backwardness in the Korean economy. All the commercial banks were owned by the government as a tool to support industry, and financial goods were hardly developed except for traditional deposits. The stock market was merely a titular institution in which a few gamblers played. Due to these circumstances, the representative type of asset in Korea was land in the 1970s (Son Jaeyeong 1991: 61). The problem in the research concerning wealth, however, is that there is little data relating to the distribution of the ownership of land. An official survey was carried out, for the first time, in 1986, before the enforcement of the public concept of land ownership. This enforcement consisted of strong regulation on the ownership of the land. Therefore, its distribution before 1986 cannot be shown precisely. Nevertheless, this thesis will try to combine the scattered data concerning land to calculate inequality of wealth in the 1970s. For this purpose, particularly, it focuses on the trends in increase in the price of land because the value of land as a form of wealth depends on its prices. It is inevitable that the rise of land prices is concentrated mainly in urban and industrial areas with industrialisation, because of the difference of demand between agricultural and urban areas. Therefore, broadly it can be said that the higher the increase in land prices, the worse the situation of wealth

equality. It is also highly possible that the greater the speed of industrialisation, the greater the speed of exacerbation in wealth inequality of land. This implies a discrepancy between urban and agricultural areas. If a large number of people in an agricultural area move into an urban area within a short time frame, then wealth inequality is likely to be aggravated rapidly.

In fact, those conditions that will exacerbate wealth inequality can be seen to apply to the Korean case in the 1970s. The Korean government began its official survey of land prices from 1974 because the rise of land prices became one of the most serious social problems with rapid industrialisation<sup>34</sup>.

**Figure 2.7 Trends of Land Prices**



\*Real Term calculated by the author through the GDP deflator based on 100 at 2000.

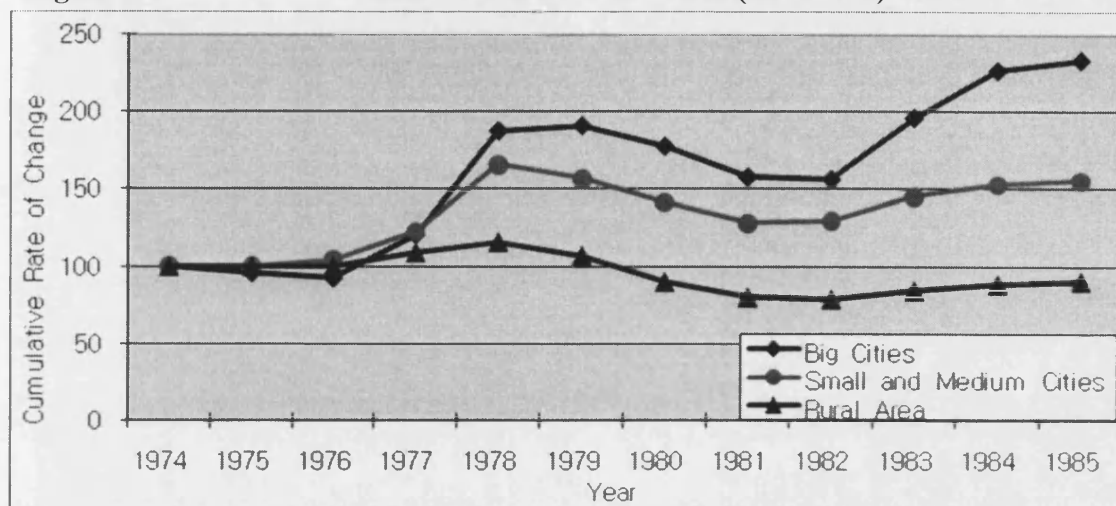
Source: Ministry of Construction-Transportation (MOCT), Survey of Land Prices, each year

<Figure 2.7> shows the trend of the rate of increase of land prices by region between 1975 and 1985. As it shows, land prices were led by the big cities during the period. It especially shows that there was a huge gap in the rate of increase by region, in the period when prices increased rapidly. In 1978, the rate of increase in land prices in big cities was nearly 60 per cent while that in the counties was only 6.3 per cent. The

<sup>34</sup> The government published the annual rate of change of land prices by 1986 and, after that, carried out a quarterly survey.

gap in land prices between regions can be more clearly shown in terms of the cumulative rate of increase.

**Figure 2.8** **Index of Real Land Prices (1974=100)**



\*Real Term calculated by the author through the GDP deflator based on 100 at 2000  
Source: MOCT, Survey of Land Prices, each year

When the starting points of all the regions are fixed as 100 in 1974 in <Figure 2.8>, the cumulative rate of increase of land prices in the big cities was over two times (233.28 per cent) between 1974 and 1985. In contrast to this, that of the counties was at a minus level (90.3 per cent). As we have seen earlier, if the huge gap in land prices before 1974 is considered in relation to this discrepancy, it can be seen that the gap in land value between these regions was constantly increasing throughout the 1970s. These trends may be deeply related to rapid industrialization and urbanisation which make the value of land different by means of demand. Because of this, it can be pointed out that city land is the main factor that influences the change of land prices (Bak Heonju et al. 2000: 32). It is worth emphasising that urbanisation is likely to expand the gap in land wealth between original residents and migrants from outside the city because most of the migrants are jobseekers. In this respect, the speed of urbanisation from the 1960s in Korea is important. The rate of urbanisation in Korea was 28 per cent in 1960 and it

increased to 39.6 per cent in 1970. Its expansion in the 1970s was the fastest in decades since the 1960s with a rise of 17.3 percentage points to 57 per cent in 1980. It rose to 65.4 per cent in 1985 (KNSO, Population & Housing Census, each year). This implies that the difference of land wealth among people probably increased at a greater speed in the 1970s. Even if it is impossible to know the precise situation of land wealth within the period due to a lack of data, we can presume that the distribution of land was not good at that time because the Gini Coefficient of land was calculated as 0.86, and among corporations alone it was recorded as 0.96 in the early 1990s (Hyeon Jingwon 1996: 266-267). In this respect, the situation of inequality in the Korean economy was already unlikely to have been sound in terms of the distribution of land as wealth in the 1970s.

#### **4. Backwardness of the Retail Industry in the 1970s**

##### **4.1. An Overview of the Distribution Industry**

The state of the distribution industry had improved in the amount of sales through the 1970s even though there had been barriers in the path of improvement in terms of both the number of employees per company, and the legal status of companies. Due to such limitations, as will be shown, it can be said that there was hardly any structural change in the distribution industry in the 1970s while at the same time there was huge development in terms of an increase in quantity accompanied by rapid economic growth<sup>35</sup>.

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<sup>35</sup> The survey of wholesale and retail trade in the 1960s and 1970s was a type of census and so is regarded as less consistent according to administrative ability and technology of surveys at that time. In particular, the items concerning sales were estimated to be less accurate due to the limitations of interviews. Therefore, the comparison between censuses has to be used in limited way, focusing on rough trends, for example.



**Table 2.5 Annual Sales in the Distribution Industry**

	<b>Annual Sales by the Industry</b>			
	<b>1968</b>	<b>1971</b>	<b>1976</b>	<b>1979</b>
<b>Wholesale<sup>36</sup> (Million won)</b>	297,659	454,937	2,448,662	3,851,343
<b>Retail<sup>37</sup> (Million won)</b>	243,404	607,958	3,310,255	7,187,050
<b>Total (Million won)</b>	541,063	1,062,895	5,758,918	11,038,393

Source: KNSO, Commerce Census (1968), Wholesale and Retail Trade Census (1971, 1976, 1979)

According to <Table 2.5>, the value of total sales in the distribution industry increased by about 10 times during the 1970s. In particular, the rate of increase in the retail industry was much greater than that of the wholesale industry in general, being about 11 times over the same period. Another interesting thing was an increase in the importance of the retail sector in the distribution industry. This can be shown through the percentage of sales in both industries to total sales of the distribution industry. What should be considered here is that the phenomenon of a reversal in the amount of sales between both sectors in the early 1970s was deeply related to a change in statistical methodology. Foreign trade, which accounted for about 25 per cent of sales in the wholesale trade, was excluded in the survey in 1971. Nevertheless, the decreasing trend in sales of the wholesale sector during the 1970s was clear. The percentage of sales of the wholesale sector in the total sales of the distribution industry decreased to just 34.9 per cent in 1979 from over 40 per cent in previous surveys. This meant that the Korean economy attached too much importance to the production sector, even in the distribution industry, because a large part of the sales in the wholesale sector of the

<sup>36</sup> Wholesale means a business in which goods are sold in large quantities to retailers or other wholesalers for resale (*Jo-sa-gae-yo* [Outline of the Survey], each year).

<sup>37</sup> Retail means a business which sells goods to an end consumer (*Jo-sa-gae-yo* [Outline of the Survey], each year).

distribution industry was composed of raw materials, such as metallic minerals, building materials, etc. Accordingly, the fact that the percentage of the wholesale sector in total sales had decreased since the late 1970s could be a result of the fact that the concept of consumption was taken, for the first time, as being useful in the Korean economy in the late 1970s.

**Table 2.6**                      **Number of Companies in the Distribution Industry**

	Number of Companies				Ratio of Composition (per cent)			
	1968	1971	1976	1979	1968	1971	1976	1979
<b>Wholesale</b>	13,939	17,471	20,260	23,835	5.0	5.2	4.9	5.3
<b>Retail</b>	264,100	320,471	393,651	422,012	95.0	94.8	95.1	94.7
<b>Total</b>	278,039	337,942	413,911	445,847	100.0	100.0	100.0	100.0

Source: KNSO, Commerce Census (1968), Wholesale and Retail Trade Census (1971, 1976, 1979)

<Table 2.6> shows that the distribution industry had also developed in terms of the number of companies<sup>38</sup> in the 1970s. The number of companies increased to about 446,000 in 1979 from 278,000 in 1968, and in particular the number of retail companies was 422,000 in 1979 with an increase of 59.8 per cent over the period. However, the trend of increase slowed down towards the late 1970s.

According to <Table 2.7>, the sales per company and per employee had risen dramatically as the increasing trend in the number of companies and employees had slowed down in the 1970s, while the amount of sales in the distribution industry had increased rapidly over the same period. In the case of the retail industry, the annual sales per company rose about 18 times between 1968 and 1979 and a rate of increase of annual sales per employee also recorded a similar figure for the same period.

<sup>38</sup> The companies surveyed are retailers which had actually operated for more than 3 months at the same place before the indicated date for the survey (*Jo-sa-gae-yo* [Outline of the Survey], each year). This means that the census covers actual retailers beyond legal registration.

**Table 2.7 Annual Sales Per Company and Per Employee in the Industry**

	Per Company				Per Employee			
	1968	1971	1976	1979	1968	1971	1976	1979
<b>Wholesale (Million won)</b>	21.3	26.0	120.9	161.6	4.5	7.0	26.1	33.0
<b>Retail (Million won)</b>	0.9	1.9	8.4	17.0	0.5	1.1	4.8	9.4

Source: KNSO, Commerce Census (1968), Wholesale and Retail Trade Census (1971, 1976, 1979)

This might mean that the internal economic environment for development around the retail industry had improved in the 1970s, even though the important conditions for its modernisation were insufficient in terms of its internal structure, such as the composition of the labour force and the legal type of business, which we will examine in the next part.

First, it should be pointed out that the percentage of corporate bodies in the distribution industry was quite low. According to <Table 2.8>, in the case of the wholesale industry, even though the percentage was over 10 per cent in the survey in 1976, it fell back to less than 10 per cent in the survey in 1979.

**Table 2.8 Legal Status of the Business**

	Wholesale (Ratio in Total Wholesale Number, per cent)		Retail (Ratio in Total Retailing Number, per cent)	
	Corporate Bodies	Personal Businesses	Corporate Bodies	Personal Businesses
<b>1968</b>	920 (6.6 per cent)	13,019 (93.4 per cent)	349 (0.1 per cent)	263,751 (99.9 per cent)
<b>1971</b>	337 (1.9 per cent)	17,134 (98.1 per cent)	359 (0.1 per cent)	320,112 (99.9 per cent)
<b>1976</b>	2,556 (12.6 per cent)	17,704 (87.4 per cent)	1772 (0.5 per cent)	391,879 (99.5 per cent)
<b>1979</b>	1,862 (7.8 per cent)	21,973 (92.2 per cent)	2,961 (0.7 per cent)	419,051 (99.3 per cent)

Source: KNSO, Commerce Census (1968), Wholesale and Retail Trade Census (1971, 1976, 1979)

The retail industry was even worse than the wholesale one. While its sales grew rapidly, the percentage of corporate bodies never exceeded 1 per cent in the 1970s. This might mean that the retail industry was severely limited in its ability to grow into a large scale modernised retailing institution in terms of, especially, finance, even though it was not impossible to have large scale retail institutions of the personal business type.

**Table 2.9                      Percentage of Companies by Number of Employees**

	Wholesale				Retail			
	1968	1971	1976	1979	1968	1971	1976	1979
<b>1~2</b>	42.2	44.7	48.2	38.1	87.7	87.3	89.3	89.9
<b>3~4</b>	36.1	37.0	29.4	32.7	11.0	10.9	8.9	8.2
<b>5~9</b>	15.4	14.3	14.3	21.1	1.2	1.6	1.4	1.5
<b>Over 10</b>	6.3	4.0	8.1	8.1	0.1	0.2	0.4	0.4
<b>Total</b>	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: KNSO, Commerce Census (1968), Wholesale and Retail Trade Census (1971, 1976, 1979)

Such a tendency can be confirmed through the percentage of companies according to the number of their employees. As we can see in <Table 2.9>, in the case of the retail industry, the percentage of companies with two or fewer employees was nearly 90 per cent for the whole of the 1970s, while the percentage of those with ten or more employees was never over 0.5 per cent for the same period. Even though the number of employees per company in the wholesale industry was more than that in the retail industry, the ratio of companies with ten or more employees was never over 10 per cent for the whole of the 1970s. This was a reason why small businesses were pointed out as one of the most important characteristics of the Korean retail industry.

Another characteristic of the Korean retail industry was the business just for a means of living, rather than for profit as a usual business. This could explain the high ratio of family workers to the total number of workers in the retail industry.

**Table 2.10            Composition of Employees and Type of Employment**

	Wholesale			Retail		
	Family*	Regular employees	Temporary and daily workers	Family*	Regular employees	Temporary and daily workers
<b>1968</b>	19,725 (27.0 per cent)	46,745 (64.1 per cent)	6,548 (8.9 per cent)	393,972 (81.7 per cent)	62,890 (13.0 per cent)	25,410 (5.3 per cent)
<b>1971</b>	28,098 (43.1 per cent)	32,485 (49.8 per cent)	4,656 (7.1 per cent)	494,679 (85.1 per cent)	61,013 (10.5 per cent)	25,482 (4.4 per cent)
<b>1979</b>	33,387 (28.6 per cent)	76,132 (65.3 per cent)	7,090 (6.1 per cent)	645,086 (84.3 per cent)	112,352 (14.7 per cent)	7,742 (1.0 per cent)

\*Family means self-employed and unpaid family workers.

Source: KNSO, Commerce Census (1968), Wholesale and Retail Trade Census (1971, 1979)

According to <Table 2.10>, the percentage of family workers to the total in retail was over 80 per cent throughout the 1970s, while the number of regular employees was around 12 per cent in the same period. In particular, the fact that the percentage of family workers scarcely changed even though sales per company, as well as throughout the whole retail industry, increased rapidly, needs to be considered. This could be because retail companies' gains did not reach a high enough level to enable companies to pay employees normal wages. This was another reason why small and poor businesses were identified as one of the most important characteristics of the Korean retail industry. Unlike the retail industry the wholesale industry came much closer to running businesses as enterprises when the percentage of regular employees reached 65 per cent in the 1970s. Additionally, despite the slump of the early 1970s, the increase in regular employees in the retail industry could be considered a sign of partial progress made by large-scale businesses as indicated by the rise in the percentage of companies having more than 10 employees in the retail industry.

## 4.2. The State of the Traditional Markets

As we have seen, the percentage of big businesses in the retail industry was very small in the 1970s. This meant that the heart of the retail industry was the traditional market, where most of the SMSTRs were located, regardless of size. In general, the traditional market was classified into two types: the permanent market and the periodic market (Bucklin, 1972).

**Table 2.11 Change of the Relationship between Periodic and Permanent Markets**

Year	The Number of Periodic Markets	The Number of Permanent Markets
1970	994	260*
1975	1,018	492
1977	961	686
1979	925	766
1981	884	785
1983	866	1,118
1987	755	1,083
1988	752	1,099
1991	686	1,176
2000	491	696

\*This figure is the number of permanent markets in 1968.

Source: KCCI, A Comprehensive Bibliography of the Retailing and Wholesale Industry (1992, 1995) as cited in Baek Insu (2003: 167); Institute of Korean Distribution Industry (2000: 5)

According to <Table 2.11>, the number of periodic markets increased until the middle of the 1970s and decreased after peaking at that time, while the number of permanent markets increased continuously. The increase in periodic markets meant that there were a lot of non-commercial areas until the middle of the 1970s in Korea. The increase in permanent markets meant the continuous progress of urbanisation in local areas, as, in many cases, the permanent markets were developed through the conversion of periodic markets (Jo Byeongchan 1993: 336). This phenomenon could be considered a uniquely Korean retail industry phenomenon, in that the number of periodic markets increased until the middle of the 1970s, when GNI per capita was over US\$1,000 due to

rapid industrialisation. Moreover, periodic markets outnumbered permanent markets until the early 1980s, when GNI per capita reached nearly US\$2,000. Additionally, according to Bucklin (1972), the fact that permanent markets, as a retail institution, increased in number until 1991, when GNI per capita was about US\$7,000, might be considered unusual. It seems that these phenomena were related to rapid industrialisation and unequal economic development strategy through some bases in terms of both industry and region since the middle of the 1960s. With such a strategy, it was inevitable that there would be huge discrimination between regions, as well as industries, in all aspects. In spite of rapid industrialisation, the wider existence of periodic markets was an important factor in explaining such a phenomenon. The increase in periodic markets which were located mainly in agricultural areas (FKI 1967: 422) implied that the degree of commercialisation was much lower when compared with the degree of economic development in the whole nation. Furthermore, it might be difficult to classify even the regions around periodic markets as areas to be commercialised, because one of the characteristics of markets is as a place for exchange between consumers (Hwang Myeongsu et al. 1992: 289-290) and people were actually exposed to the market only once every five days.

With this delay in commercialisation, another characteristic of the Korean retail industry was the prosperity of the permanent market as a traditional retail institution. The permanent market, where a great number of independent retailers run their businesses with traditional methods such as haggling, is a place where the retail institutions are permanently clustered.

**Figure 2.9 Anyang Central Market 1**



**Figure 2.10 Anyang Central Market 2**



As a typical example of permanent markets, <Figure 2.9> and <Figure 2.10> show one of the traditional markets in Anyang City, which is located in the south of Seoul. The market, called *An-yang jung-angsi-jang* [Anyang Central Market], was established with 283 shops run by independent retailers in 1961. However, developing rapidly, it has 1,151 shops in an area of 59,177 square metres, including some buildings in 2008. The shops in the market mostly deal with edible items, clothes and groceries (<http://www.anyang.go.kr>). <Figure 2.9> is a photo of one of the main entrances, and <figure 2.10> shows the inside of the market just beyond the entrance. As <Figure 2.9> shows, there are a number of independent retailers even outside of the market. When we enter the market, we can see the main retailers of the market which deal with various kinds of items at both sides of the wide corridor. Their shops are just partitioned by



adjustable transparent sheeting even if they have a right to use their spaces permanently. Another group of independent retailers run *no-jeom* [shops just like stalls] in the middle of the corridor. Even if they are smaller and weaker than the main retailers in terms of stability and property rights, they also run their shops on a permanent basis. Most goods here are purchased through haggling without price tags. Of course, this is a traditional market which has been continuously developed since establishment. Its shape would have been much smaller and less organised in the 1970s than it is today.

Even though the permanent market was also a typical retail institution in the pre-business era, according to Bucklin, it was the dominant retail institution in urban areas (Hwang Myeongsu et al. 1992: 311) until the period of industrial capitalism in Korea, and their number increased continuously until the early 1990s. This might imply that permanent markets absorbed a huge part of the mass-consumption which appeared in the industrialisation stage. This is potentially related both to their competitive structure and to the various kinds of environments around them. Furthermore, as a result, their prosperity has a close relationship with the inactivity or development of the department store as a retail institution to meet mass-consumption. This is an important factor which will be examined later in this thesis.

#### **4.3. The Dominance of Manufacturing Companies in the Distribution Sector of the Domestic Market**

In the period of the 1970s when government policy was remarkably influential on the economy, the intention of the government to drive the manufacturing sector influenced the relationship between industries in the domestic market. In the distribution industry, this influence appeared as the dominance of manufacturing

companies in terms of bargaining power. Even though the period of manufacturing dominance over the distribution industry appeared generally during the period of industrialisation, it is regarded as an obstacle to the development of the distribution industry, because the innovation of distribution can be delayed (O Sejo and Bak Jinyong 2004: 106). However, in the absence of a proper network for the distribution industry in the 1970s in Korea, it could not be said that the manufacturing companies were the only barrier to development of the industry. On the one hand, even if the companies constructed a distribution network solely for their sales they would have contributed to the establishment of a basic infrastructure for the industry; on the other hand, they would have oppressed the autonomous development of the distribution industry in the 1970s. Due to the data limitations, however, the state of the distribution industry in the 1970s needs to be estimated by using the 1991 survey. Generally, it was estimated that the conditions of the distribution industry in the 1970s were worse than in 1991. The policy report by the government, which was published in 1991, illustrated the relationship between the manufacturing and the distribution sectors.

According to <Table 2.12>, in 1990 in the case of the foods 70 per cent of the goods produced by large companies were marketed in the supply channel controlled directly by manufacturing companies, while merely 25 per cent were managed by independent retailers. In this case, the manufacturing companies managed such a system through two types of outlets: one was the type of outlet owned by the companies (35 per cent) and another was the type of franchise completely controlled by the companies (35 per cent). Of course, the 25 per cent of independent retailers could not occupy an equal position in negotiations with manufacturing companies. In the case of clothes, two types of different phenomena were shown.

**Table 2.12**                      **Pattern of Distribution by Items**

Items	Classification	Type Controlled By Manufacturer		Independent Retailer	Others	Total
		Owned by Manufacturer	Franchise			
Foods	Big Businesses	35.0	35.0	25.0	5.0	100
	SMSCs*	5.9	41.2	41.1	11.8	100
Cars	Big Businesses	100.0	0	0	0	100
Clothes	Luxurious Apparel	50.0	30.0	10.0	10.0	100
	Cotton Goods	7.5	0	84.7	7.8	100
Wooden Goods	Big Businesses	0	69.2	23.1	7.7	100
	SMSCs	16.7	16.7	50.0	16.6	100
Electric and Electronic Appliances	Home appliances	40.0	50.0	10.0	0	100
	Others	4.0	57.0	4.0	35.0	100

\*SMSCs: Small and Medium Size Companies

Unit: The Ratio of Sales Volume

Source: DTI, *the State and Policy Direction of the Distribution Industry*, 1991, as cited in Cha Sinheung (1995: 78)

While sales of the luxurious and expensive apparel were mainly controlled by the producers (80 per cent), about 85 per cent of cotton goods, which fell into the category of cheap necessities of life, were sold by independent retailers. This related both to the small scale of the independent retailers and the producers' aim to maintain the luxurious image of their brand. A much stronger tendency for producers to lead in the sale of expensive goods appeared in industrial products. In the case of electric and electronic appliances, such as refrigerators and washing machines, 90 per cent of the sales were marketed directly by the manufacturing companies, and the sales of cars were completely managed by producers (100 per cent) (DTI, 1991).

The existence of an extensive network for sales by manufacturing companies was one of the most important characteristics of Korea's retail sector (An Gwangho and Jo

Jaeun 2003: 75). According to Chandler (1999: 285-288), the merging of manufacturing companies with retail companies was a natural phenomenon in the development of mass-consumption because the manufacturing companies needed to establish a comprehensive plan which included distribution as well as production in response to mass-consumption. However, Korea's situation as a developing country was quite different from this analysis. The dominance of the manufacturing sector had appeared before the stage of mass-consumption. Nevertheless, as the appearance of Chandler's merger had been natural in the development of mass-consumption in Western countries, (where various types of distribution capital had existed in the process of the development of capitalism for a long time), it was natural for manufacturing companies to establish their own sales outlets or distribution networks in the context of 1970s Korea.<sup>39</sup> These outlets or networks were completely dependent on manufacturing companies as commercial agents because of distribution shortages, due to the extremely unequal development between the manufacturing and distribution sectors. In particular, in the case of high-priced durable goods, it might have been impossible for them to have been distributed only through small-scale retailers without the manufacturers' sales network. In this respect, it was also clear that the manufacturers' sales networks contributed to the development of the Korean distribution industry by playing an important part in the early period of its economic development. However, due to the limitations placed on their origins, it could not be expected that they would develop autonomously as distribution capital which, sometimes, could not but conflict with

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<sup>39</sup> 'Own sales organizations' means a manufacturing company's branches for sales thus most of the employees in the branches work for the manufacturing company, while the 'completely dependent distribution network' are legally independent organizations whose employees work for the distribution company although most of them were established through various kinds of support by the manufacturing company and only sell goods produced by a single company.

manufacturing capital. For example, it was not possible that manufacturing companies would give distribution organisations -- which in effect functioned as branches for their sales -- a chance to make huge profits. Furthermore, the manufacturers controlled independent retailers through their own or completely dependent organisations, thus avoiding direct trade with them. This meant that the organisations could not be developed autonomously even if they were in a more profitable position than that of independent retailers. According to a survey measuring sales by type of shop in the wholesale industry in 1979, the proportion of manufacturers' own sales organisations, or completely dependent distribution networks, was 52.3 per cent, while that of independent wholesalers was merely 40.9 per cent. This meant that over half of the wholesale sector was completely managed by the manufacturers and the manner and amount of trade in the rest of the sector could also be controlled because of the small scale of the wholesalers (KCCI 1985: 87).

In the case of the retail industry, the unfriendly circumstances affecting their relationship with the manufacturing sector were the same as those affecting their relationship with the wholesale industry, but were on the whole more severe. In general, retailers purchased goods in three ways: from a wholesaler, from the manufacturers' own organisations, or from networks closely affiliated with the manufacturers and which functioned as both wholesaler and retailer with price discrimination. Aside from wholesalers, retailers usually preferred to purchase goods directly from manufacturers at wholesale prices, because in this way the goods cost less than if purchased from a network affiliated with the manufacturer. However, most manufacturers did not permit direct sales to usual retailers, but made them purchase goods through the affiliated networks. In reacting against this practice, the Korea Super-chain Association

(KOSCA)<sup>40</sup>, which was established in 1975 under the support of the government for the expansion of the supermarket chain, suggested its amendment to the government in 1977. The suggestion included: the institutional establishment of direct trade with manufacturers, the cost of transport to be paid by the manufacturer, the correction of unilateral contracts decided by manufacturers, the prohibition of the ability of manufacturers to refuse to trade with supermarkets, etc. However, the traditions scarcely changed because of the reluctance of manufacturers to comply with the suggestions without continuous attention from the government (KOSCA 1995: 44, 51, 70). Additionally, the Association required a discount of 5 per cent in the purchase price from the Haitai Confectionary & Foods Company and Tong Yang Confectionary (now the Orion Group) as oligopolistic companies in the confectionary industry in 1976, but this demand was not accepted (Ibid: 41). On the contrary, in the case of manufacturers' commercial agents, they could use credits from the manufacturer as a measure of settlement, instead of taking as their goal the amount of sales from the manufacturer. If even supermarkets which had been established due to government policy did not occupy an equal trading position with manufacturers in the 1970s, there was little hope for the status of other independent retailers.

In sum, the relationship between manufacturers and retailers was unfair and it was a very serious factor in obstructing the development of the retail industry because it was difficult for retailers to make a profit under such conditions. In this respect it could be said that the dominance of manufacturers in the distribution industry had a lot of negative effects for the development of the retail industry even though its distribution network played an important role in the distribution industry in the 1970s.

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<sup>40</sup> The Korea Super-chain Association changed its name to the Korea Chainstores Association (KOCA) in 1999.

## **5. Concluding Remarks**

This chapter has looked at the environmental factors as well as the situation of the retail industry in the 1970s. As was expected, it is clear that there was a lag of development between the retail industry and other economic factors. For example, the rapid economic growth in the 1970s provided a good condition for the development of the retail industry. The first condition of a good environment for the retail industry was a rapid increase in GNI per capita in accordance with economic growth. The changes of social indexes such as population and family were remarkable with the rapid urbanisation in the 1970s. Nevertheless, there was hardly any change in the structure of the retail industry even if the industry grew in terms of quantity such as the amount of sales. In particular, it seems very unusual that there were seldom any big retailers even in big cities such as Seoul and Busan with a population of over 1 million. The only Shops for end-users were traditional retailers of permanent markets even in big cities which made progress in commercialisation with successful industrialisation. Accordingly, this unbalanced backwardness of the retail industry may imply that there was a particular reason for the backwardness of the retail industry in the 1970s.

Another meaning of this market structure is that the Korean consumer market was not stratified in the 1970s. As will be seen, while there were just two department store companies serving as a luxurious retail format in Seoul, their amount of sales were extremely trivial and unstable in the 1970s. In contrast, the permanent market as an area of small traditional retailers grew quite rapidly. Thus, the period of the 1970s can be called the era of the traditional market. This implies that most people purchased goods from similar traditional retailers in everyday life whether purchasing amounts differed or not. This uniformity of consumption also looks unnatural, appearing like unbalanced

backwardness within the retail industry, if it is considered that fast increases in income rapidly expanded the income gap in the 1970s. In particular, it appears unusual that similar patterns of consumption continued even in big cities such as Seoul and Busan in the 1970s. Accordingly, this phenomenon can be presumed to be the result of some other factor. However, most existing studies on the Korean retail industry argue that economic conditions were not mature enough for a new type of retailer to emerge in the 1970s, and thus its eventual materialization and rapid growth were the result of more economic development in the 1980s. In this respect, this thesis is different from existing studies in terms of its perception of the economic situation in the 1970s. The reason why the present thesis examined the various developments of economic conditions in this chapter is to question existing studies. Furthermore, this thesis, will argue that the emergence of the new retail format and its rapid growth since the 1980s stems to a huge extent from the backward and unstratified situation of the retail industry in the 1970s. This is regarded as an inherently historical approach. This kind of study is needed to discover the causes of these unique phenomena. An unusual situation cannot emerge without a corresponding particular historical context. In this respect, if the unusual situation of the 1970s is well examined, it would look normal under the conditions present within that particular context. Thus, in the next chapter, this thesis will trace the behaviour of three actors which significantly influenced the formation of the retail industry, namely: the government, the consumer, and the retailer.



### **Chapter III: Consumption Repression, Frugal Consumers and Passive Retail Industry in Rapid Economic Growth in the 1970s**

#### **1. Introduction**

The Korean economy, which had begun to recover in the 1960s, experienced high economic growth continuously during the 1970s, even if there were a few serious recessions. The average annual growth rate in the 1970s was over 8 per cent and in the case of 1976, it was over 10 per cent (BOK, National Accounts, each year). It is said that Korea's economic growth was led by industrial policy and investment for exports, or the good combination of the market system and the state (Amsden 1989; Wade 1990; World Bank 1993; Rodrik 1995 etc.). At any rate, the Korean government did play an important role in economic growth in terms of both allocations of resources, and provision of a market. The government had been able to act as the provider of capital because for a long time it had been the main borrower of foreign capital. At that time the Korean government preferred loans from abroad as a source of capital rather than direct foreign investment. Even when companies tried to borrow from abroad, they did in fact need the government's permission because it was impossible to borrow without a guarantee from the bank, which the government owned (Cole and Bak Yeongcheol 1984: 72-76). Of course, the government also held full power over internal capital through its hold over the banking system. Moreover, it frequently encouraged savings at the national level. One such example was when the Korean government presented a national prize for savings with the establishment of 'the Day of Savings' in 1963 and thereafter annually; the winner became a hero or heroine as his/her indomitable story

concerning savings became known to the Korean people. In particular, such a social phenomenon greatly influenced the saving habits of younger Korean and had a significant role in the continuous high rate of savings (*Jo-seon-il-bo* 26 September 1970, 23 January 1972a, 26 October 1973b). In fact, the government had almost complete control over the collection and use of capital. Under such conditions, the Korean government had made a drive towards economic growth through, mainly, industrial policy. As some scholars (White and Wade 1988; Rodrik 1995 etc.) pointed out, it consistently placed an emphasis on production and exports through investment in the manufacturing sector, even though there was a transition from light industry in the early period of development, to heavy and chemical industries. The government made use of its immense power to direct capital towards these industries. The 'Five-Year Plan for Economic Development', which began in 1962, was implemented for 20 years by the government mainly in accordance with such a policy.

Such a tendency in the policies followed by the Korean government, on the other hand, meant that the consumption and retailing sectors were neglected in terms of supporting policy. Rather, they were even repressed aggressively as an obstacle to economic growth even in the 1970s. The government, sometimes, displayed the attitude that consumption was harmful for economic growth and encouraged people to view frugality as a virtue. Furthermore, it often criticised the consumption of imported goods, and periodically even punished people for importing and consuming foreign goods regardless of whether it was legal or not (*Jo-seon-il-bo* 6 June 1974a, 12 June 1974b, 30 May 1975a, etc.). In this social situation, prosperity in the retail industry was difficult to attain because most people showed temperate behaviour towards consumption. Moreover, as we have seen above, the government had an unfriendly attitude towards

the retail industry, as a means both of bolstering consumption and getting excessive profit. It also regarded the industry not as an important sector contributing to economic growth but as merely a tool to make the economy circulate. Accordingly, the government did not place a great deal of weight on the development of the retail industry, even if it sometimes tried to improve and stabilise the distribution network. In particular, even in the case of its rare support, it is clear that the government was giving preferential treatment to the protection and improvement of traditional retailers, and ignoring the development of a modern retail industry for the 1970s.

As a result, during the period of rapid economic growth in the 1970s the prosperity of the manufacturing sector coexisted alongside the relative backwardness of the retail sector; there was an even tendency that the former was necessarily accompanied by the latter, particularly in terms of raising capital<sup>41</sup>. Therefore, the retail industry could hardly be expected to develop in an environment where government intervention was disadvantageous to its development, irrespective of whether the economic environment was receptive or not. Furthermore, the role of government was not just one among various factors to influence the development of an industry at that time. As has been pointed out, the Korean government exercised its power by controlling matters of life and death for industry in general in the 1970s, and so that period in the Korean economy could be called the period of policy dominance. In this respect, the underdevelopment and backwardness of the retail industry in the 1970s was crucially influenced by the political environment.

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<sup>41</sup> Some scholars pointed out that the repression of the industries concerning the consumption sector by the Korean government was one of the key factors to boost the Korean economy (Jones and SaKong 1980; White and Wade 1988).

## 2. The Repression of Consumption Itself

### 2.1. Consumption Repression in Economic Policy

There were a number of policies to repress consumption in the 1970s. First of all, one of the most important institutions which influenced the behaviour of consumption was the taxation system. The consumption tax was one of the most significant influences on consumption because it was highly possible that the tax rate was directly connected with the rise in prices. The consumption tax in Korea was composed mainly of items such as value added tax, special excise tax and liquor tax. Of these, the *Bu-ga-ga-chi-se* [The value added tax]<sup>42</sup> and *Teug-byeol-so-bi-se* [the special excise tax]<sup>43</sup>, which were introduced at the end of 1976 accounted for over 80 per cent of total internal indirect tax revenues. For example, in the case of 1978, the revenue from value added tax was 838.9 billion *won*, amounting to 60.7 per cent of total internal indirect tax revenues. Special excise tax revenues were 327 billion *won*, making up 23.6 per cent of its total revenue. In 1979, the revenue from value added tax was 1087.8 billion *won*, amounting to 58.1 per cent of total internal indirect tax revenues. Special excise tax revenues were 484.5 billion *won*, providing 25.9 per cent of its total revenues (MOF 1982: 44-45). The ratio of indirect tax has been over 60 per cent of total internal tax since the introduction of value added tax in Korea. Consequently, the portion of the

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<sup>42</sup> The value added tax was introduced for the simplification of the taxation system and acceleration of exports and investment etc. (Gug-hoe jae-mu-wi-won-hoe [Committee of Finance in National Assembly] 1976: 5). In fact, it was estimated that tax exemption for manufacturing companies under the system of the value added tax was easier than before thanks to the simplification of taxation without duplication of tax. However, details concerning its effect are not be analysed furthermore here and lies beyond the scope of this thesis.

<sup>43</sup> The value added tax in Korea has been imposed on all items as a single tax rate of 10 per cent and the special excise tax on some more luxurious goods was simultaneously introduced in order to both weaken its regressive character and repress consumption of luxuries. Accordingly, the rate of the special excise tax was quite high between 10 per cent and 160 per cent even though it decreased gradually through several revisions (Gim Chang 1994:30-33).

value added and the special excise taxes have been remarkably huge within the taxation system, as the former's portion in total internal tax has been around 40 per cent and the latter's has generated around 14 per cent. Such a change in the taxation system would have influenced the atmosphere of consumption through inflation. The consumer price index (CPI) rose gradually after the imposition of the value added tax. While the increasing rate of the CPI was moderate in the third quarter of 1977 when the tax was introduced due to close regulation of the government, it became stiffer after that (BOK, each year). Psychological pressure or uncertainty from the new consumption tax also greatly influenced the consumption environment. This can be seen from the following examples. First, the institution of value added tax was to be enforced from the beginning of the 1977 but its enforcement was delayed for six months. The rate of taxation was also changed to 10 per cent from the plan of 13 per cent. Another aspect of conflict was the collective closing down of about seven hundred shops, as form of tax resistance in *Pyeonghwa-si-jang* [Pyeonghwa Market] in October 1977, which was one of the biggest traditional markets in Korea (*Jo-seon-il-bo* 14 October 1977a, 16 October 1977b). Such a situation reflects the degree to which the social atmosphere worsened around the period of the enforcement of the value added tax. It also had a huge effect on the amount of consumption. As we have seen earlier in the surveys (KNSO, each year), the rate of increase of annual sales within the retail industry dropped to half its previous level, at 39 per cent between 1976 and 1979, compared with that of 88.9 per cent between 1971 and 1976, even though the period between 1976 and 1978 constituted the biggest boom of the 1970s. In particular, in the case of electronic goods subject to the special excise tax, there was also a report that consumers in Korea paid two or three times more tax than that levied in Taiwan, and ten or fifteen times more tax than the

level paid in Japan<sup>44</sup> (Gim Chang 1994: 51-52). Banks also exercised consumption repression by limiting the number of loans to households. The government hardly permitted loans to households and strongly induced long term savings with the incentive of higher interest rates. In fact, most households just had savings but had no right to loans at all in the 1970s. Thus most households never expected loans from banks and used the private money market where much higher interest rates were levied if they needed money. Therefore, finance for consumption was unthinkable in the 1970s (Cole and Bak Yeongcheol 1984: 166-167)

Second, the strong control on imports was one of the most important devices to repress consumption. The Korean government carried out the liberalisation of imports in 1978 under conditions of rapid growth in the 1970s. A number of items including consumption as well as capital goods, which were illegal to import until then, were liberalised, and the rate of import liberalisation increased to 60.7 per cent in 1978 from 52.7 per cent<sup>45</sup> in 1977. With this, the government introduced a *Su-ib gamsi-je* [Watch System of Imports] to prohibit excessive increase of imports and so could regulate the amount of imports. It also enforced the *Su-ib ye-si-je* [System of Adumbration on Import Items] to mitigate damage to the domestic industry resulting from imports. Despite such supplements, after the policy, the rate and the amount of import liberalisation increased rapidly. The rate of import liberalization rose to 68.6 per cent in 1979, and reached 74.7 per cent in 1982 (Sim Otaek 1986: 26-27). Accordingly, with consumers preferring foreign goods, department stores had experienced a small boom in

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<sup>44</sup> Even though it was highly possible that this analysis was exaggerated because it was produced by the electronic industry in August 1992, it meant that the special excise tax was seen as a burden to even manufacturers in Korea, and not just consumers.

<sup>45</sup> This refers to the ratio of items which can be automatically imported without any permission in items of Standard International Trade Classification (SITC).

sales as they established a separate counter for imported goods (Shinsegae 1987: 156). However, it could not be said that the process of import liberalisation was smooth. Due to foreign exchange aggravations, the schedule would be delayed occasionally and consumption goods in particular, often became the object of government regulation. For example, the government controlled its imports through huge increases in the rate of emergency tariffs, and limitations of both the amount and the number of cases imported (Gim Deokjung 1984: 36). As a consequence of the measures, the liberalisation rate of consumption goods was much lower than for other goods. For instance, the rate for processed foods was only 29.1 per cent and those for durable goods and non durables were just 49.8 per cent, and 53.9 per cent respectively, even in 1982. In contrast, those of building materials and machinery were each 96.2 per cent and 59.9 per cent at the same time<sup>46</sup> (Ibid: 23).

Finally, the Korean government imposed, sometimes, even specific measure to repress consumption. One of the representative ones was the prohibition of *sangpumgwon* [the gift-voucher] which was enforced in December 1975. It had an especially severe impact on the department store because about 35 per cent of its sales were generated by it (Shinsegae Department Store 1987: 140). As we have seen earlier, the period around 1975 was when the Korean economy was driven by a huge amount of investment in HCI under government initiatives, but the economy was in recession due to the aftermath of the oil shock in 1973. In this situation, it was likely that the

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<sup>46</sup> In particular, mass media such as newspapers and broadcasters criticised the phenomenon of increasing imports of consumption goods as social laxity whenever the problem of balance of payments deficit was highlighted in the 1970s and 1980s. In response to such criticism, the government often published regulations on imports of consumption goods. As the government also blamed wealthy people for such a phenomenon, it seemed that it focused on tightening the reins in terms of the social atmosphere.

government wanted to tighten its control over the social environment in order to convert economic recession into recovery. It seems that the reason why the gift-voucher was targeted for this goal was deeply related to its character as a kind of unregistered security. In general, the gift-voucher was bought for a third party as a present. In this process, a retailer who issued the gift-voucher was financed by the gift voucher's value after a time-lag, namely, only when the voucher was exchanged for goods. Thus, it was a kind of private finance which was not operated by any financial institute (Gim Seongcheon 2000: 16). This was contrary to the government's measures at that time which were intended to limit loans concerning consumption and the retail industry. The government believed that excessive consumption was actualised through the use of a gift-voucher because it was like an unexpected bonus and could only be used to purchase goods. Thus the government prohibited the gift-voucher, as it promoted excessive consumption and was believed to hinder economic recovery for Korean society (Ibid: 17). In addition, it seemed that the government intended to warn the rich by banning the gift-voucher because it was believed to be largely circulated by the wealthy, sometimes as a bribe. Therefore, as a key measure for suppressing its circulation and usage, the government also branded it as a device for bribery (Ibid: 17). This clampdown on gift vouchers sent shockwaves through the department store industry. After one year it pleaded with the government for the gift voucher's reinstatement, but its plea was rejected point-blank and it was not until the end of 1993 that the gift voucher was allowed to be reintroduced into the marketplace. That is to say, a kind of security which was invented to stimulate consumption in the capitalist system had been banned for twenty years in Korea. In fact, the gift-voucher had a fairly significant history in Korea. *Sangpumgwon-beob* [the Law of the Gift-Voucher] was



enacted in 1961 and through amendment in 1971 and 1973, its use expanded rapidly. In the case of Shinsegae Department Store, the proportion of gift-vouchers in total sales was over 50 per cent in the period of *chu-seog* [the traditional harvest festival like thanksgiving in the US] and near year-end when it was the high season (Shinsegae 1987: 140).

## 2.2. Consumption Repression in Social Policy

“Why can’t I consume my money at my own discretion in Korea? Korea is not a normal country at all in the capitalist system.”<sup>47</sup>

In fact, it seemed that Korean society was not an ordinary country, in terms of economic circulation, where production and consumption were naturally interdependent. The Korean government, as a strong state, urged that capital, whether domestic or foreign, should be wholly concentrated on production. In this regard, Krugman’s argument (1994) that the rapid economic growth of East Asia resulted from a huge sacrifice of consumption and leisure by the people, was meaningful, even though there appears to be another serious problem with his argument<sup>48</sup>.

However, it was not easy to control consumption in a private area under the system of a market economy. The repression of consumption would have been impossible

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<sup>47</sup> This is a comment frequently heard by the writer from news sources as a journalist in the late 1980s. In particular, wealthy people, such as people over the level of director of a company or owner of a medium sized company, strongly expressed such a perception.

<sup>48</sup> This argument was related to the controversy initiated by Young (1994, 1995), by Kim and Lau (1994) and by Krugman (1994) when they said that the economic growth of East Asia, including Korea, depended very little on Total Factor Productivity (TFP). One of their points of view was that this growth resulted not from an increase in productivity, but from the amount of investment. However, what this thesis wants to emphasise is not whether or not their analysis of the lack of productivity in economic growth should be admitted, but that it was clear that there was concentration on investment through constraints on consumption. For reference, Sarel (1997) emphasised the increasing rate of productivity in Asian countries.

without a convergence between social regulation and the people's spontaneity. *Sae-ma-eul-un-dong* [The Saemaul Movement],<sup>49</sup> which stemmed from President Park's idea at a provincial governors' meeting in 1970, was one of the most representative campaigns to regulate the social atmosphere in the 1970s. While in the very beginning it was a campaign to develop rural districts, gradually it changed into a campaign for spiritual reform as it expanded to various types of organisations in Korean society, such as company organisations for the Saemaul Movement as well as urban organisations for the Saemaul Movement. In the process of its development, headquarters which covered the whole country were established and it became one of the biggest organisations composed of both government and people in Korea (Moore 1984-1985: 586-590). The three main tenets of the Saemaul Movement were diligence, self-help and cooperation based on "Let's be rich," which was one of the most popular slogans in Korea in the 1970s. Accordingly, the actual practice of the successful movement was mainly focused on increased production and income brought about through consistent frugality and cooperation. In fact, the regional headquarters leading the movement in their regions often held conferences to announce successful examples and the best examples were published at conferences held by the organisations of larger regions. Finally, the best examples in the whole country were announced at conferences at nationwide level. Moreover, the Korean government enacted a law<sup>50</sup> to award merit to an outstanding man or woman from the Saemaul movement in order to encourage the activist movement and raise them to the level of national hero or heroine. In the movement it

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<sup>49</sup> *Sae-ma-eul* means new village.

<sup>50</sup> The prize awarded by the Saemaul Movement is composed of two levels of award; *sae-ma-eul-hun-jang* [Order of Saemaul Service Merit] and *sae-ma-eul-po-jang* [Saemaul Service Medal] and the upper one, which has five types of prize, is one of the twelve most important prizes given by the nation to a man/woman of merit (MOLEG, 2008, *sanghun-beob* [The Law of Citation of Merit]).

was understood that the role of government was so selective that it could stimulate a competitive spirit between members and thus successfully induce the people's spontaneity even though the movement was actually led by the government. Supporting only villages which showed a desire to improve their circumstances, the government stimulated others and helped them to participate in the movement (Davis 2004: 131). In terms of such a strategy, a famous example is that the government gave an additional five hundred sacks of cement and one ton of iron frames only to self-help villages after it had given 335 sacks of cement each to 33,267 villages throughout the whole country in 1971 when the movement began (Naver Encyclopaedia, <http://naver.com>). In this process, the Saemaul Movement rapidly spread throughout the whole country as the government developed five distinct branches of the urban Saemaul Movement; the Factory Movement, the Movement of Office Workers, the School Movement, the Movement of Service Groups and the Movement in Residential Areas (Davis 2004: 142). In this atmosphere, there was even a period in the 1970s when its signature tune written by President Park was one of the most popular songs in the country<sup>51</sup> .

The establishment of the 'Day of Savings' was also deeply related to the social policy which encouraged frugality and savings. The Day of Savings was established in 1964 by presidential decree with the goal of inculcating the importance of saving upon the Korean people and then was re-established as an anniversary day by the government in 1973. By backing this policy, senior government officers often stressed the importance of savings. President Park stressed that people had to consider savings before consumption (*Jo-seon-il-bo* 26 September 1970) and Prime Minister Kim also

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<sup>51</sup> Apart from their achievements, it was a fact that the Saemaul Movement was criticised because of the political implication that it was highly possible that President Park established the movement to avoid a serious political crisis in the early 1970s. Actually, it was clear that the organization of the movement showed its political inclinations strongly later on.

stated that domestic money commensurate with the amount people could save should be invested through their frugality (*Jo-seon-il-bo* 26 October 1973b). The Day of the Savings was also the day when the national hero or heroine was announced and became 'King/Queen of Savings of the Year'. Whenever it was announced, newspapers usually carried a special interview with the national hero/heroine. Most of the narratives were preter-human. For example, a female worker who lived at absolute poverty level saved over half her income, or a shoemaker who travelled to a bank to deposit his savings without ever missing a day even though he sometimes had to skip a meal. In response to this, as President Park gave an unplanned gift of money to him, his contribution to savings was awarded high merit (*Jo-seon-il-bo* 23 January 1972a). Accordingly, these stories were the focal point of attention for people in the days following such announcements, and, naturally, the winners became paragons of ordinary people's lives.<sup>52</sup>

The Korean government, in particular, paid attention to the importance of educating children in school about frugality because this could then be expanded to social education through their family. With such a goal, education supervisory institutes informed each school of the educational goals of diligence and frugality, and most primary and secondary schools had no alternative but to follow the direction of these institutes, which had the power to appoint and dismiss. A document concerning the savings award revealed how much direction there was. The document, which recorded communications between the supervisory institute and an individual school, contained

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<sup>52</sup> Such an atmosphere has weakened remarkably since the 1990s. However, a press release by the Bank of Korea (BOK) in 2002 showed that strong encouragement for frugality has been carried on even in the 21<sup>st</sup> century. The document suggested sensible consumption, life savings and a contribution to the spread of savings as the criteria of the award. The press release stated that 412 people received prizes in 2002, including ordinary people, students and teachers (BOK 2002).

the following meritorious deeds of the school. First, the school which emphasised education about diligence and frugality took the campaign for saving energy and tap water to the classroom, and enforced the movement for the recycling of used school supplies, such as uniforms, sports clothes and reference books, to the lower class students. Secondly, it also implemented the movement to spare and repair the school facilities, including desks and chairs, as a part of the frugality. Thirdly, the school collected and sold 5,000 kilograms of recyclable goods, such as cans, bottles, used paper and scrap iron, to the recycling institute. Fourthly, the school taught the importance of diligence and frugality in all subjects and stressed the conservation of school supplies, self-restraint regarding unnecessary eatables such as sweets and the importance of saving continuously. Finally, it strongly encouraged a movement where each student had a bankbook and established a school bank which would take deposits at any time. Additionally, it established a clerk in charge of checking the savings of each class and so the monthly savings in the school doubled, compared with those of the previous year (JOE<sup>53</sup> 1997). In such an atmosphere, it was natural that parents as well as students came to think of frugality and savings as one of the most important virtues in their lives.

The social atmosphere of parsimony was strengthened in multiple aspects. One among the various activities was the movement for the banishment of foreign goods as a form of over-consumption. Examples of the banishment of foreign goods are too manifold to enumerate. In the middle of the 1970s, the government declared penalties against officials if his/her family members were caught using foreign goods (*Jo-seon-il-*

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<sup>53</sup> A document from the 1970s could not be discovered, but the 1990s document suggests how serious the situation was in the 1970s with respect to diligence and frugality, because it was clear that by the 1990s such an atmosphere had conspicuously weakened.

bo 6 June 1974a). Furthermore, the government directly initiated a campaign against foreign goods. The Ministry of Health and Social Affairs announced a boycott of foreign goods in the middle of the June, 1974 (*Jo-seon-il-bo* 12 June 1974b). While it was a fact that the movement for the banishment of over-consumption was led by the government, the establishment of *gwa-so-bi-chu-bang beomgug-min-un-dongbon-bu* [the Citizen's Action for the Expulsion of Over-consumption (CAEO)] as a non-governmental organisation in 1996 showed how strong people's loyalty to the movement has been. Soon after its establishment, the CAEO had become an influential NGO and top leaders in the main religious circles took part in the organisation<sup>54</sup>. The CAEO, which decided on a thrifty life style and reform of luxurious consumption etc. as a general principle, tried to conduct a campaign, hold symposia and produce an educational programme to disseminate its principles (<http://cceo.or.kr>). Even though a number of the policies enforced by the previous authoritarian government were denied after liberalisation in the 1980s, the establishment and activity of the CAEO as a pure non-governmental organisation could be considered an example of such dissemination because of the degree to which people assimilated the government's ethos of clamping down on consumption.

With such varied policies for the inducement of repression on consumption, another important sign of success was the imposition of serious penalties against over-consumption and the consumption of luxury goods, as a means of strengthening its policy (*Jo-seon-il-bo* 30 July 1972b, 30 May 1975a etc.). The Korean government often

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<sup>54</sup> Koreans had established a comprehensive civil government through a presidential election in 1992 as part of meaningful progress towards liberalisation which began in the mid-1980s. As a cause and result of this, the retreat of the state occurred rapidly in the 1990s, and the number of NGOs related to public rights and interests increased from about 1,000 in the 1980s to over 3,500 in the 1990s (Si-min-ui sin-mun 2003).

carried out tax investigations on companies or people, and the result was carried in newspapers and broadcast during the 1970s and 1980s<sup>55</sup>. Most investigations were carried out due to tax problems such as tax evasion. However, usually most companies being investigated initially thought they were being scrutinised because of other non-tax related problems because most companies experienced tax problems due to the lack of structure in the taxation system (*Jo-seon-il-bo* 24 May 1973a). In any case, when companies discovered they were being investigated, it was common for companies to simply pay the penalty demanded. Politics was believed to be another important reason for an investigation to take place. Companies or individuals who took part in activities supporting an opposition group or party against Park's regime were inevitably the subject of greater scrutiny. Most opposition politicians, including the former president, Kim, Dae Jung, winner of a Nobel Peace Prize in 2000, usually said that no person or company was able to support them officially, and those that did barely survived. Another reason was related to people's attitude towards their lives, particularly, their consumption. For instance, it was said that consuming foreign luxury goods openly was tantamount to giving up a business. In other words, the consumption of foreign luxury goods catalyzed government investigations (*Jo-seon-il-bo* 6 July 1975b, 3 June 1979a etc.). Thus, there was an atmosphere which encouraged men of property as well as businessmen to abstain from consuming luxury goods.

This kind of atmosphere has hardly changed even now. Whenever a feature article concerning notable people from different social spheres is published in a newspaper, their frugal private life, if it is a fact, is one of the most important topics that have to be mentioned in the article. For example, one of the previous presidents of the BOK was

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<sup>55</sup> Companies considered a tax investigation as a step towards bankruptcy.

famous for the fact that his private car was one of the smallest cars ever produced in Korea even though he had achieved a lot by being in office after the financial crisis of 1997 (*Han-gyeo-le* 21 14 March 2002). An anecdote of Jeong Juyeong , who was a founder and chairman of Hyundai group, one of the largest *chaebol* in Korea, was that he wore shoes which he had mended throughout his whole life. He was very famous as a paragon for ordinary people as well as successful businessmen (*Jo-seon-il-bo* 14 April 2005a).

In this social atmosphere, it seemed that Korean consumption behaviour was limited by social pressure to conform whether it was on a conscious or unconscious level. Curbing consumption, and the ethos of consumption equality, affected communal relations to a greater and greater extent. Of course, this effect was an unintended consequence, because the goal of government policy was probably initially to prohibit the waste of foreign exchange rather than to affect communal sensibilities with respect to consumption. The government's focus on limiting foreign exchange waste was because earning the US dollar was regarded as the goal of exports, and so the only way to import advanced machinery for economic growth. However, as time went by, it would also be natural that wealthy people complained, "I do not know the reason why I cannot consume my own money at my own discretion".

### **3. Consumption Repression on the Retail Industry**

#### **3.1. General Government Policy on the Retail Industry in the 1970s**

As mentioned, one of the most important factors leading to industrialisation was government policy in the 1970s. Assessing government policy is thus one key way of



establishing the reason for the backwardness of the Korean retail industry despite progress in the socio-economic environment.

### ***Characteristics of Government Policy***

#### **- Regulation rather than Support-**

One of the most important policy aspirations concerning the retail industry in the 1970s had been the stability of prices, even if the policy was changed a little in the middle of the decade<sup>56</sup>. This aspiration demonstrates that, in fact, most policies regarding the retail industry related to the prohibition of unfair profits, for example the limitation of margins and the enforcement of the price tag system. The tendency to prioritise stability of prices was inevitable for a government which thought that lower wages were necessary for capital accumulation in view of the low level of technology, and so the majority of the capital available had to be concentrated on investment for economic growth. This was because the system of lower wages was impossible without stability of prices particularly for the necessities of life, including food<sup>57</sup>.

Even in positive policies for support of the retail industry, the government would mainly focus on lukewarm goals to mitigate the gap between the industrial and retail sectors, otherwise, it could become an obstacle to economic growth. This meant that to the Korean government at that period, the retail industry was just a supplementary factor, rather than one of the leading factors for economic growth. Such a characteristic of the policy had continued since the 1960s. In fact, *Si-jangbeob* [The Law of the

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<sup>56</sup> It is said that the period between 1962 and 1973 was the dawn of the retail industry and the period between 1974 and 1979 was the stage of understanding in the sector (Im Jongwon 1989: 217).

<sup>57</sup> Relating to the price of food, some scholars (Gim Cheolho 1992: 162-163 etc.) insist that economic growth in Korea was a process of exploitation of the agricultural areas by the urban areas in that the government strictly suppressed the price of grain.

Market] was also established to stabilise prices because the government of the time believed that price instability resulted mostly from the disorder of the retail and distribution systems. The government intended to weaken the disorder of the retail system through a law which defined the market and contained regulations covering it (KCCI 1999: 44). The government aim had been reflected in *Yu-tong geun-dae-hwa 5gae-nyeon gye-hoeg* [Five Year Plan for the Modernisation of the Distribution System] with which its policy concerning the retail industry in the 1970s began. This plan, which was established in February 1969, was enacted between 1970 and 1974. First of all, the plan for the improvement of the wholesale and retail sector network focused on making the retailers, particularly small and medium size shops, form chains under the justification of the protection of small and petty retailers. Even though it was meaningful in polity, it also seemed that the policy was related to a plan to control the retailers, who by then were unregulated, because it was understood that they were the centre of the chaos and unfair trading practices in the retail system. Secondly, it emphasised that a merchants' association was needed (Hwang Myeongsu, et al. 1992: 307). This meant that the government felt the necessity for a window to facilitate order within, and consultation with the retail industry. In fact, industry associations are sometimes used as conduits for orders or consultations in the relationship between the government and industry in the Korean economy. From the point of view of the government, associations seem to be a very efficient method of passing their intentions to the industry and are seen as inferiors as they play a role at the centre in an individual industry. For instance, The Federation of Korean Industries (FKI), which is the biggest and the most representative institute of associations concerning industries, was also established in 1961 by suggestion, in fact, order, of the government (FKI 2001: 207).

Therefore, the government's intention was understood to be to manage the processes of the retail industry, whether the type of intervention was direct or indirect. It could also be used as a control tower of self-regulation as shown in other industries. The Korean government had established many industrial associations in individual industries since the 1960s, such as the Korea Federation of Textile Industries (KOFOTI), the Korea Iron and Steel Association (KOSA) etc. In particular, the Korean government designated former high government officials as chiefs in those organizations. Most of the organizations functioned as both interest institutions for their respective industries and a window for government control. For example, in the case of KOFOTI, the representative institute for the textile industries, which was established in 1967, the first chairman was a former high government official. This format has been changed as the chairman has been appointed from the ranks of CEOs of main companies since 1980. However, having a former high government official as the vice chairman has had a considerable effect on management of the institute even now (<http://www.kofoti.or.kr>; *Fashion Insight* 25 February 2002). Other associations such as the KOSA and the Korea Automobile Manufacturers Association (KAMA) are in a similar situation to the KOFOTI (<http://www.kosa.or.kr>; <http://www.kama.or.kr>; *Gyo-tong-il-bo* 8 May 2008).

Thirdly, the government indicated its support for improving the existing markets and building new buildings such as retailing centres (Hwang Myeongsu, et al. 1992: 307). Under the basic plan, the government continuously announced concrete policies. The government decided to invest 3 billion *won* on the modernisation of markets, in particular, on the expansion of wholesale markets, in 1970. Under the influence of such policies, the Dongdaemoon Shopping Street, which worked in the wholesale as well as the retail market sectors, was built in 1970. Subsequently direct sale stores belonging to

small and medium size manufacturers opened in the Dongdaemoon Shopping Street in 1971 and the government announced a plan for the modernisation of about 1,500 markets in 1972. The opening of small and medium size manufacturers' direct sale stores was understood as a policy with dual goals as follows: first, the manufacturers were provided with markets; and secondly, consumers were provided with cheap goods (Shinsegae Department Store 1987: A Chronological Table of Retail Policies, DTI 1970, DTI 1972). In this way, the government played the role of coordinator between providers and consumers to enable the circulation of domestic goods. The government had confirmed three principles for their policies covering the retail sector in a plan, which had been established in 1973, as follows: the enlargement of individual retail institutions; to establish chains of retailers; and the modernisation of traditional markets (Hwang Myeongsu, et al. 1992: A Chronological Table of the Retail Industry, DTI 1973). The government's efforts for the modernisation of the retail sector were developed in *Yu-tongsan-eob geun-dae-hwa chog-jin-beob* [the Law for the Stimulation of the Modernisation of the Distribution Industry] in 1980. However, despite the title of the law, its first goal was the protection of consumers and achieving price stability, instead of development of the retail industry (MOLEG 1980).

As we have seen, one of the most important characteristics of the retail policies of the 1970s was the fact that they focused mainly on price stability<sup>58</sup>. The government implemented consecutive measures for price stability in the retail industry at the time of the first oil shock in 1973. The price tag system was enforced in Seoul and Busan, the

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<sup>58</sup> What was more, such a tendency continued through the 1980s. Enacting *Do-so-mae-eob jin-heungbeob* [The Law for the Promotion of the Wholesale and Retail Industry] instead of *Si-jangbeob* [The Law of the Market] in 1986, the DTI stressed its establishment and price stability, rather than the development of the industry, as a remarkable achievement in the previous year in *Sanggongbaeg-seo* [The White Paper of Trade and Industry] of 1987 (DTI 1987: 408).

second largest city in South Korea, in 1973, and the improvement of the distribution industry was emphasised in *Jonghab-mul-ga-an-jeongdae-chaeg* [The Comprehensive Measures for the Stability of Prices] in 1974. In particular, the attitude of the government towards the retail industry was well illustrated in *Gug-min-saenghwal-ui an-jeong-eul wi-han dae-tonglyeong gin-geub-jo-chi* [The President's Emergency Measures for Stability of People's Living], which was proclaimed to aid economic stabilisation on 14 January 1974. The government basically denied the role of the retail industry by legally banning an increase in the price of main goods such as necessities. It decided their prices and announced that selling at a rate higher than the prices decided was regarded as illegal trade, and thus unfair profits would be strictly punished (MOLEG Article 5 of The President's Emergency Measures, 1974). It seemed that the government thought the rise in prices was caused, to a certain extent, by the retail sector together with the price jump in raw materials such as oil. Accordingly, the government enforced the *Pyo-jun-yu-tongma-jin-je* [The System for the Standardisation of Retail Margins] in the same year, and among these policies various kinds of measures for the improvement of the retail structure was published. These included measures such as the increase in the number of small and medium size manufacturers' direct sale stores, and the expansion of the number of chain stores in the big business sector. What is interesting here, as will be examined next, is that changes appeared in policy relating to stores formed into chains before and after the first oil shock. While before the oil shock policy focused on voluntary chains of existing small and medium stores, it began to emphasise the establishment of big direct management chain companies in order to stabilise prices after the shock. The government recommended to existing big retailers such as the Shinsegae Department Store, Midopa Department Store that they should

take part in the chain store business of the supermarket type. The recommendation by the government, was more accurately like that of an order, given the quality of the relationship between government and private companies during the period of policy dominance. Even though the government's strong desire for price stability made them participate in the super-chain business, most of them were not confident of success because they thought that consumers' perception of chains store was very low (Shinsegae 1987: 120). In fact, the chain stores were not successful and most of them withdrew from the chain store business.

Even in the late 1970s most policies concerning the retail industry were implemented as part of the measure for price stability, including the strengthening of the regulation against unfair trade (June 1976) and the expansion of the compulsory price tag system (February 1979). This tendency became stronger with the enforcement of value added tax in 1977. The Korean government, which had been confronted with a shortage in tax revenue, especially since the development of the HCI in the early 1970s, introduced value added tax (VAT) at the end of 1976, in defiance of severe resistance, following an aggregate income tax in 1974. The government strengthened regulations concerning price stability at the same time as the introduction of VAT, including the imposition of price ceilings on monopoly and oligopoly items, and a system of compulsory assignment of consumer prices. Even though these measures meant regulating the manufacturers as well, the main target was, as a result, retailers who were already inferior to the manufacturer in their trade relationship. After the introduction of VAT, most retailers, particularly traditional retailers, received a double shock: on the one hand a relatively larger burden diverted from the manufacturer with the strict regulation of prices; on the other hand, a decrease in sales which stemmed from the

increase in prices between retailer and consumer. Even if the Korean economy had experienced an unprecedented boom between 1976 and 1978, the extreme slowdown of the annual rate of increase in retail sales between 1976 and 1979 was closely related to the introduction of VAT. While the annual average increase rate of GDP between 1976 and 1979 was around 3 percentage points higher than that of the first half of the 1970s, that of retail sales was much more moderate at about half that level. The establishment of the 'Law for the Stimulation of the Modernisation of the Distribution Industry' in 1978 occurred in response to an earnest request by the KCCI under such desperate circumstances. In it the government proposed various measures to support the retail industry, including measures for the development of the distribution industry (February 1979) and the expansion of financial support (May 1979). Additionally, for the first time, the government established the position of director in charge of the distribution industry in the Economic Planning Board (EPB), which initiated a plan of economic development in April 1979, and at last decided to establish the *Yu-tongsan-eob geun-dae-hwa chog-jin-beob* [The Law for the Stimulation of the Modernisation of the Distribution Industry] in September 1979 (Shinsegae Department Store 1987: A Chronological Table of Retail Policies, 1979).

### ***The Introduction of the Supermarket as a Retail Institution***

#### **-Just means for price stability-**

One of the most important projects on which the Korean government had laid emphasis concerning the retail industry in the 1970s was the establishment of supermarket chains. It seemed that the government, which regarded the chaos in the retail system as one of the most important reasons for price instability, thought that if

the retail network was well constructed, price stabilisation could be realised. To achieve this goal, it urged the introduction of the supermarket chain as a component of the retail institution. Such a plan appeared clearly in *Yu-tong geun-dae-hwa 5gae-nyeon gye-hoeg* [Five Year Plan for the Modernisation of the Distribution System] with which government policy relating to the retail industry in the 1970s began. The plan for the improvement of the network of the wholesale and retail sectors, in particular, focused on forming the retailers into chains like the supermarkets.

What should be noted, first, was that in this process the Korean government was unwilling to make use of existing big retail institutions, such as department store companies, to develop chains in the early period of the plan, even though it professed to support the development and modernisation of the retail system. This attitude was very different from their policies towards the manufacturing sector, which focused on the development of big business, *chaebol*. It seemed to be closely related to the protection of small and medium sized traditional retailers (SMSTRs), which made up over 90 per cent of the whole retail industry, rather than modernisation of the retail industry. Through such a policy tendency, it could be presumed that the government treated the retail industry as being different from the main economic policy, which acted as a driving-force for economic growth. From the government viewpoint, the voluntary chain was emphasised more than branches of big business which enabled direct management. As a part of such a policy, the government established the *Sae-ma-eul su-peo-che-in* as a model for such an organisation in June 1971. This was an incorporated body supported financially by the DTI and began with ten member shops with strong



support from the government<sup>59</sup>. Even though it was launched under relatively good conditions due to government support, it was difficult to make a profit due to shortages of both goods and management expertise. In particular, as prices soared owing to the oil shock of 1973, the environment around the supermarket became worse and worse with serious shortages of goods and hoarding by consumers. As a result, the first trial of chains of SMSTRs by the government failed as the *Sae-ma-eul su-peo-che-in* became insolvent in 1974 (KCCI and CKER 1977: 70).

After the failure, as mentioned earlier, an aspect of the policy affecting the retail industry was changed from just SMSTRs to include big business. The government withdrew its direct intervention and instead appointed private companies which could manage a superchain. For the first time, seven companies, including Shinsegae Store, Je-il Superchain, Lucky Chain, Midopa Chain, Hannam Chain, were appointed as superchains in April 1974. The method of forming the chains was also changed. While the 'Saemaeul Superchain' was composed of voluntary members' shops and operated with a membership fee, new chain companies organised chains mainly as branches under direct management with some voluntary member chains. Moreover, the President's Special Order, which contained regulations covering the appointment of the private superchains, said that every appointed company should establish 50 stores to provide the necessities of life under stable conditions (Baek Insu 2003: 37). Instead, the Special Order emphasised that "the Superchain companies would be permitted to be established as independent corporations"; it clearly expressed that their managerial autonomy would be guaranteed as much as possible, including permission for

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<sup>59</sup> The government's particular support for the superchain could be seen in the fact that the First Lady cut the tape on the opening of 'The Sukyo Supermarket', the first member shop (<http://firstplus.co.kr>).

exceptions to the 'Law of the Fair Trade' concerning the price and amount of trade. Such a measure would show how the government was desperate to maintain supply of essential goods, even though permission for managerial autonomy was one of the incentives for constructing a distribution network through private companies. Moreover, the government published criteria covering the minimum size of shops and stressed the importance of the ability of the organisation to expand. This could be considered as a change in retail policy to centres composed of big shops modernised from SMSTRs. In particular, the change of policy became clearer when the government opened the way for financial support to the companies appointed as superchains, as it excluded them from the existing financial limitations in which they had been categorised (Baek Insu 2003: 38).

However, strictly speaking, it would be more accurate to argue that government policy concerning the retail industry began to show two contradictory directions after the Special Order in that protection and support to SMSTRs had been strengthened simultaneously, rather than just being a change in the tendency of retail policy. In fact, the government published the *Teug-byeol-yeon-swae-hwa-sa-eob-gi-jun* [Special Criteria for Chain Businesses] in November 1974 following their goal of preventing the occurrence of huge unemployment which would result from the bankruptcy of many of the SMSTRs. Moreover, the government published its intention concretely, because the policy goal was the expansion of the organisation of the SMSTRs in the *Jungso-sang-in jo-jig-ui teug-byeol yeon-swae-hwa sa-eob-e gwan-han gi-jun* [Special Criteria for Chain Businesses Created through the Organisation of Small and Medium Sized Retailers] in February 1975 (EPB 1976: 158-159). In such an atmosphere, various kinds of organisations of SMSTRs were established, such as *Han-gug-jungso-sang-in-yeon-*

*swae-hwa-hyeob-ui-hoe* [The Korean Council for the Chain Businesses of Small and Medium Sized Retailers] in 1977 and *Han-gug-su-peo-ma-keshyeob-dongjo-hab* [Korean Cooperative Association of Supermarkets] in 1978. As the number of regional cooperative associations increased, organisations for SMSTRs expanded across the country and the number of chain members increased to 28,819 in 1979 from 18,482 in 1975 (KCCI 1985: 138)

As has been seen, it was clear that the Korean government intended to improve the structure of the retail industry and made an effort to do so. In particular, it is worth noting that the government tried to introduce supermarket chains directly as a specific retail institution, on top of their general support for the industry. However, this was different from their other supportive policies, particularly when compared to their support for the manufacturing sector, in that the government's concern was in socio-economic stabilisation rather than just the development of the retail industry. As a result of such a basic attitude, policies concerning the retail industry could not but wander around both the goal of price stability and protection of the SMSTRs. Additionally, it also seemed that the actual circumstances around the retail industry concerning industrial structure and consumer behaviour were not very friendly to the transplantation of supermarkets, as imported institutions, in the early period of their introduction<sup>60</sup>. Accordingly, a unique type of supermarket known as the 'Korean' type, which was not self-service, became diffused<sup>61</sup> nationwide, and thus in Korea for a

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<sup>60</sup> In fact, in the case of the Shinsegae Store which was built by the Shinsegae Department Store, all the shops were closed for periods of between eight and nineteen months (Shinsegae 1987: 126).

<sup>61</sup> The supermarket, as an innovative retail institution, was first established by Michel Kullen in the US in the 1930s when the US economy was suffering greatly due to the Great Depression. Kullen achieved a great success with discount prices through the adaptation to self-service and mass purchasing. After that, self-service was one of the most important distinctions of the supermarket (Yu Gijun 2004: 154).

while the supermarket was understood to be just a replacement of the signboard of the existing 'mom and pop' store. Such a modification might also be related to both the traditional practice of trade being accompanied by negotiation and communication between buyer and seller, and the small size of most supermarkets resulted from the participation of existing poor retailers rather than newly established modernised retailers.

### **3.2. Disincentive to management of the distribution company**

The government had various tools to support industry including finance and taxation. In particular, because the Korean government had owned banks in the 1970s with strong leadership, it took control of finance. Thus its actions were one of the most important factors affecting the fate of industry. In this respect, retail industry was placed in a disadvantageous position. First of all, the retail industry was placed in a different position from the manufacturing industry in terms of taxation support. In the case of *Jo-se-gammyeon-gyu-je-beob* [Regulation Law on Tax Reduction and Exemption] in 1965, there was no clause of tax reduction or exemption for the distribution industry while there were a lot of exemption clauses for the manufacturing industry. Relating to a transfer income tax, a small and medium size company could benefit from tax reductions and exemptions but retailers and wholesalers were not included in the category of small and medium sized companies. The distribution industry suffered from almost the same disadvantage for corporation tax, acquisition tax and property tax. In particular, facilities of the distribution industry also came under a special excise tax which was imposed on luxuries (MOLEG 1965; Jeon Huijae 1980: 76-79). For example, even when retailers purchased a refrigerator, a freezer and gasoline as

facilities or utilities of the company, unlike a manufacturer, they had to pay a special excise tax in the same way that consumers did. A special excise tax was a high rate between 40 per cent in the case of a refrigerator and 160 per cent in the case of gasoline even though the rate decreased over time. This meant that companies in the distribution industry had to assume much higher running costs, compared with manufacturing companies. Such a condition made it difficult for retailers to develop their companies and furthermore, for investors to be attracted to the retail industry. With the taxation system, differences in direct financial support between the manufacturing and the distribution industry could be illustrated through the money loaned by the banks to industries. The difference between industries concerning bank loans is a very important factor with which to examine government motivations, because the government's key instrument of control over the Korean economy has been its control over banks (Koo 1994: 173).

According to <Table 3.1>, the amount of loans given to the retail and wholesale industry proportionate to the total amount of loans by banks, was hardly over 10 per cent in the 1970s. Such a tendency had become stronger and stronger from 1972 when the government pushed HCI as a key factor for economic growth. Its proportion, which at its height, recorded 10.9 per cent in 1971 decreased to 6.5 per cent in 1974. After that, even if the proportion increased a little, it did not reach two digit percentage figures in the 1970s. The bias was more severe in terms of the facility fund loans for capital investment. The ratio of facility fund of the retail and wholesale industry to total loans by banks was only 0.3 per cent in 1971 and at most was 3.1 per cent in 1978.

**Table 3.1 Money Loaned by the Banks to Industries**

Items		Wholesale, Retail, Food and Lodging Industry (Ratio of the Industry in All Industries, %)	Manufacturing Industry (Ratio of the Industry in All Industries, %)	Agricultural and Fishery Industry (Ratio of the Industry in All Industries, %)	All Industries
1971	Total Amount	94,605 (10.9%)	428,497 (49.5%)	125,986 (14.6%)	865,034 (100%)
	Loan for Facility*	321 (0.3%)	31,461 (29.2%)	40,549 (37.7%)	107,563 (100%)
1972	Total Amount	91,747 (8.15%)	590,052 (52.4%)	160,264 (14.2%)	1,125,582 (100%)
	Loan for Facility	1,193 (0.6%)	53,339 (28.4%)	76,760 (40.8%)	188,117 (100%)
1973	Total Amount	108,232 (7.3%)	849,501 (56.9%)	201,715 (13.5%)	1,492,794 (100%)
	Loan for Facility	4,070 (1.4%)	102,027 (35.8%)	91,754 (32.2%)	284,908 (100%)
1974	Total Amount	150,273 (6.5%)	1,402,458 (60.9%)	262,241 (11.4%)	2,303,869 (100%)
	Loan for Facility	6,864 (1.8%)	148,369 (38.3%)	117,872 (30.4%)	387,587 (100%)
1975	Total Amount	190,734 (6.9%)	1,660,355 (60.3%)	303,283 (11.0%)	2,751,616 (100%)
	Loan for Facility	7,967 (1.6%)	191,947 (37.6%)	154,881 (30.3%)	510,399 (100%)
1976	Total Amount	259,369 (7.4%)	2,133,606 (60.6%)	383,811 (10.9%)	3,522,072 (100%)
	Loan for Facility	13,533 (2.0%)	270,498 (40.7%)	193,201 (28.1%)	686,908 (100%)
1977	Total Amount	343,233 (7.7%)	2,663,063 (59.8%)	508,352 (11.4%)	4,451,279 (100%)
	Loan for Facility	26,625 (2.9%)	364,398 (39.7%)	253,003 (27.5%)	918,572 (100%)
1978	Total Amount	550,461 (8.7%)	3,597,685 (57.1%)	658,419 (10.4%)	6,302,483 (100%)
	Loan for Facility	41,273 (3.1%)	499,069 (37.7%)	336,540 (25.4%)	1,323,559 (100%)
1979	Total Amount	554,286 (7.9%)	3,993,580 (56.6%)	824,890 (11.7%)	7,058,097 (100%)
	Loan for Facility	44,660 (3.0%)	547,589 (36.9%)	393,683 (26.5%)	1,483,727 (100%)

Unit: Million Korean won

\*The loan for facility can be used for investment only in capital goods such as machinery. This kind of loan has usually been a bigger amount than the traditional loans towards company operations, but its requirements and regulations have also been stricter than loans for company operations.

Source: BOK, Monthly Bulletin, Feb. and July 1979 as cited in Jeon Huijae (1980: 23)

With discrimination of the support through the taxation system above, this meant that the Korean government had no intention of developing the retail and wholesale sectors as an industry. On the contrary, manufacturing industry's total loans increased dramatically in the 1970s. While manufacturing loans amounted to 49.5 per cent of total loans in 1971, their number rose to 60 per cent in the mid-1970s and maintained almost the same level even after the 1970s. The interesting thing about this was the changeover of facility fund ratios between the manufacturing, agricultural, and fishery industries. The largest ratio of facility funds was the agricultural and fishery industries until 1972 which amounted to 40.8 per cent, compared with 28.4 per cent for the manufacturing industry. However, their ratios were reversed afterwards, and the ratio of the manufacturing industry rose to 40 per cent. This was understood as a result of both the stagnation of the primary industry, rapid movements in population within the agricultural area in the 1970s, and intensive investment in the HCI as well. To summarise, it seemed that the ratio of the retail and wholesale industries in total loans and facility funds was far too low, while their value in total industries had constituted around 20 per cent of GDP in the 1970s. This meant that most of the distribution industry used their own money in conjunction with family money or the private money market. Such an unbalanced phenomenon could only appear under artificial conditions created by government policy.

With the imbalance in the amount of loans, the more serious problem to the distribution industry, as I Byeonggi's work shows in <Table 3.2>, was the big difference in loan conditions such as interest rates, according to the type of loan provided. Export finance and facility funds by KDB were representative forms of policy finance which, in

fact, were loaned with the permission of the government, and thus at the prime rate of interest.

**Table 3.2 Difference of Annual Interest Rate between Policy and General Finance**

		1970	1975	1980	1985	1990
<b>Return of Corporate Bond (A)</b>		24.6	20.1	30.1	14.2	16.5
<b>Interest Rate of the Private Money Market (B)</b>		50.8	41.3	45.0	24.0	18.8
<b>Interest Rate of Export Financing (C)</b>		6.0	9.0	15.0	10.0	10.0
<b>Interest Rate of Facility Fund by KDB* (D)</b>		12.0	12.0	20.0	12.0	12.0
<b>Difference of Interest Rate between Policy and General Finance</b>	<b>A – C</b>	18.6	11.1	15.1	4.2	6.5
	<b>A – D</b>	12.6	8.1	15.0	2.0	4.5
	<b>B – C</b>	44.8	32.3	30.0	14.0	8.8
	<b>B – D</b>	38.8	29.3	25.0	12.0	6.8

\* KDB: The Korea Development Bank

\* Source: I Byonggi 1998: 46

The returns of corporate bonds were almost the same as normal interest rates applied to general finance by financial companies. Even in the case of the manufacturing sector, it was estimated that many companies used the private money market because the Korean economy suffered from a chronic demand for money in this period of development. Nevertheless, as we have seen above, the manufacturing sector's demand for money was covered to some extent by banks. However, the retail and wholesale industry were driven to use the private money market because they were not the recipients of preferential rate loans, either for policy or general finance. As a result, most retail and wholesale companies were said to use the private money market. As we can see from the table, the interest rate of the private money market was nearly ten times higher in the maximum case than that of policy finance. Retail and wholesale



companies could not expect export finance because their business was unrelated to the export industry. In the case of money for facilities which manufacturing companies mainly used, its interest rate (by KDB) was only about one-fourth of the private money market's interest rate. While the gap in interest rate between both narrowed over the 1970s, the interest rate of the private money market was over two times that of the KDB even in 1980. It seemed that this condition aggravated the management of existing distribution companies and simultaneously had a remarkably bad effect on investment incentives in the distribution industry.

#### **4. Collective Behaviour of Frugal Consumers in the 1970s**

The remaining research required to prove consumption repression is an examination of how people have responded collectively to government policies. Of course, it is believed that its policy was implemented very well during the period characterised by backwardness in the retail industry, as we have seen in the previous chapter. Nevertheless it is not less important to examine how the policy influenced people's consumption behaviour in everyday life, because their collective behaviour could present another factor influencing the backwardness of the retail industry. Furthermore, the analysis of collective consumption behaviour is meaningful research because collective habits crucially influence subsequent collective behaviour. This then leads to changes in institutional structure. It could also be argued that this is both a consequence of the policy and simultaneously a reason for the backwardness of the retail industry.

For this reason, this thesis will use income, expenditure and the average propensity to consume (APC) as a variable of consumption collective behaviour. In general, the change in income could be considered a basic indicator of the change in consumption,

which is a main component of expenditure. APC, which is denoted as a ratio of consumption expenditure in income, means the average propensity to consume in a society where data is being collected. Therefore, the general characteristics concerning the consumption behaviour of society can be understood through the trends and shape of APC.

Basically this thesis will examine APC on the basis of its general characteristics in accordance with the Keynesian absolute income hypothesis as follows:

<1> The APC shows a tendency to decrease gradually according to the rise in income, because the increment in consumption is usually smaller than that of income: ( $APC > MPC$ ).

<2> The APC usually rises in recessions but it diminishes in boom periods, because consumption is a very stable economic factor, and thus the decrease in consumption is smaller than that of income in recessions, while the incremental increase in consumption is usually smaller than that of income in boom periods (Jeong Unchan 1985: 240-243).

APC, however, cannot show any individual characteristics because it is an aggregate concept. It also cannot divide consumption into quantity and quality because it is calculated simply as the total price value of consumption. In spite of these problems, it may be useful to examine comprehensive attitudes towards consumption in a society. In particular, if we are to undertake an international country comparison, the comprehensive attitude towards consumption in a given society could be explored, and its characteristics interpreted. For instance, if the level of APC in a country is even lower than other countries with the same level of income, it could be understood that the consumption attitude of that society is more passive than others, for whatever reason.

Periodic analysis of trends in a society is also helpful for an examination of its consumption changes and characteristics over time. For example, as we shall see in the following sections, if the rate of increase of consumption is continuously lower than that of income regardless of the business cycle, then there may be a tangible or intangible institutional apparatus present which is intended to repress consumption. In particular, if such trends are continued for a considerable time, it should become clearer that the apparatus plays a role. Additionally, if the trends are not seen in another period, we can conclude that it no longer plays a role in the society, whether the government represses consumption or not. In this respect, periodic analysis of APC could serve as a tool that can be used to explore the relationship between a policy and consumption behaviour.

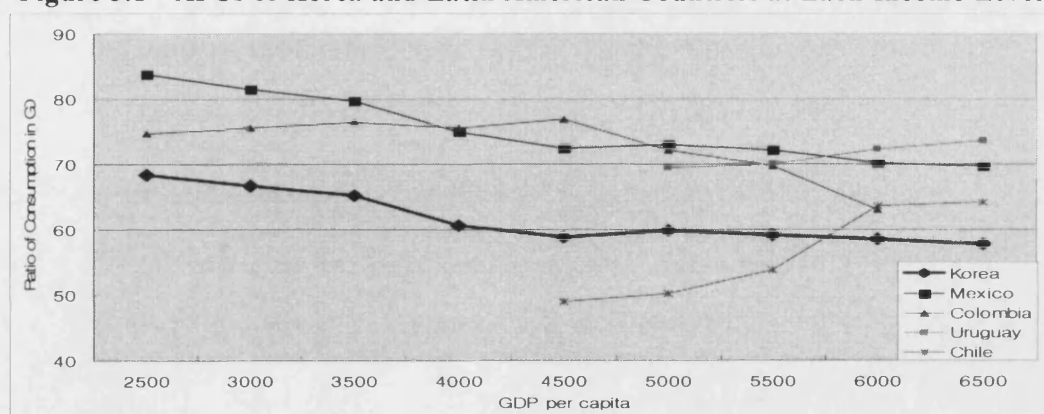
Analysis of the Korean case will be carried out by comparing other countries' APCs with that of Korea. Korea will be compared to various categories of countries such as developing and developed groups of countries. This will be performed at the level of national accounts for the same criterion of comparison. Following this work, this research will contain two different categories of data of both income and expenditure in internal analysis of Korea: The National Accounts and the Salary and Wage Earners' Households in urban areas (SWEHs). National Accounts can show whole consumption trends in the national economy and the SWEHs can demonstrate that the characteristics of urban areas are more sensitive to consumption. This is, on the other hand, an attempt to see the difference in accordance with income classes. Even though the urban households are contained in the National Accounts, generally the level of income of the former is higher than that of the latter. In particular, the Korean case is a good example of this, in that the uneven industrial strategy based on heavy chemical industry was implemented mainly in urban areas after the 1970s. Therefore, although there is no data

on this type of subset of income and expenditure, such as quintile data, broadly the difference between higher and lower classes in terms of income and expenditure could be analysed through these two types of data.

#### 4.1. Collective Behaviour of Frugal Consumers in Internal Comparison

First of all, we need to know the extent of passive consumption attitudes in the Korean economy during the 1970s, through a comparison with other countries. For comparison, this section uses 'Penn World Tables Version 6.2 (PWT 6.2)'. The comparison of APC is carried out in accordance with level of income, which is the factor most influencing consumption. Here, APC is defined as the consumption share of real GDP<sup>62</sup> in each year in a national economy. According to PWT 6.2 of these definitions, Korea's GDP per capita was 2,621.31 US dollars in 1970, 3,458.24 US dollar in 1975, 4,556.59 in 1980 and 6,193.52 in 1985. Accordingly, comparison work is carried out at the level of GDP per capita between around 2,500 and 6,000 US dollars.

**Figure 3.1 APCs of Korea and Latin American Countries at Each Income Level**

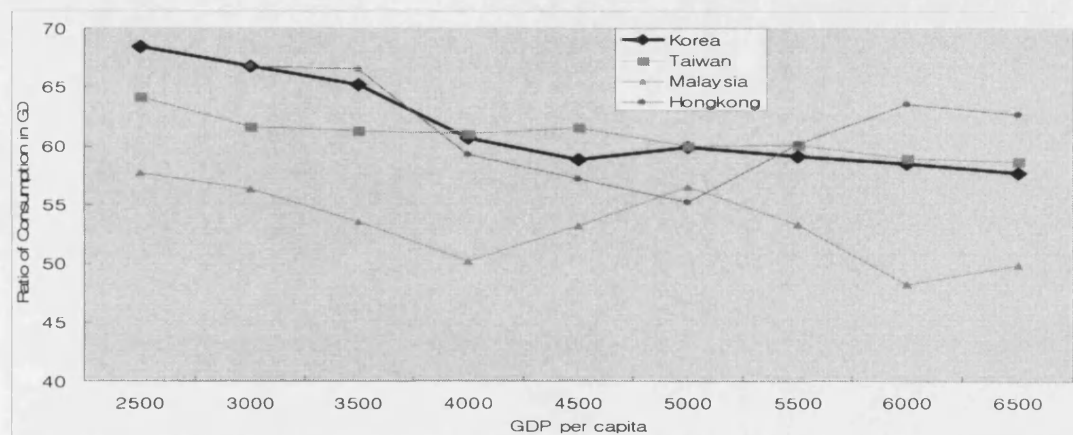


Source: PWT 6.2

<sup>62</sup> In PWT, 'real' means 'Purchasing Power Parity (PPP) converted' instead of 'in constant price' (Alan Heston, Robert Summers and Bettina Aten, Penn World Table Version 6.2, Center for International Comparisons of Production, Income and Prices at the University of Pennsylvania, September 2006).

<Figure 3.1> shows that during the 1970s-early 1980s Korea's APC was much lower than that of Latin American countries at equivalent income levels. There is a continuous gap in APC of over 10 percentage points between Korea and Mexico while their trends were similar in income level between 2,500 and 6,500 US dollars. The APC of Colombia was also even higher than Korea's for the whole period of income. What is interesting for both countries is the widening gap of the APC at lower levels of income. Furthermore, the fact that the economic growth rate has been considerably moderated, with the decline of APC since the late 1970s, when GDP per capita was around 4,500 US dollars, may imply that the role of consumption was quite important in Colombian economic growth. According to <Figure 3.1>, it can be considered that the importance of consumption in the early period of economic growth was fairly similar to Uruguay and Chile as well. The Chilean APC which recorded 48.96 at a level of 4,500 US dollars, rose to 63.59 at an income of 6,000 US dollars. The Uruguayan APC also shows a similar trend to Chile's despite its more moderate increase. In contrast, the Korean case is completely different because rapid economic growth was achieved even while the APC was decreasing in the early period of development. In other words, consumption had less of an impact on economic growth in Korea than in Latin American countries. This, we can assume, is related to various factors, including development strategy such as export-led or import substitution. However, this is not the main concern here. What is important is that the APCs of most Latin American countries are substantially higher than Korea's APC at the same level of income. This implies that Korean consumers were much more frugal in terms of consumption for the same level of income than Latin American developing countries.

**Figure 3.2 APCs of Korea and Asian Developing Countries at Each Income Level**

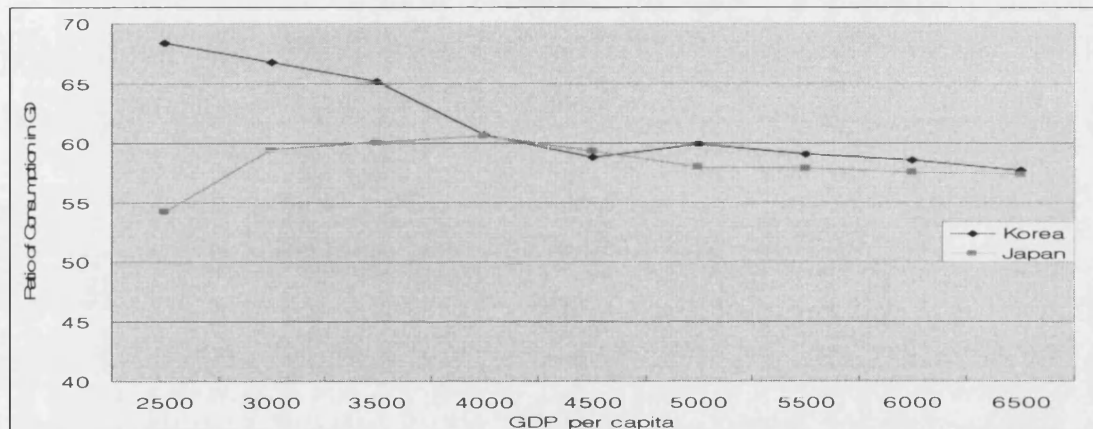


Source: PWT 6.2

According to <Figure 3.2>, the overall level of APCs of Asian developing countries was much lower than that of Latin American countries. This shows that people in Asian developing countries consumed more frugally than Latin Americans, and broadly illustrates that the contribution of consumption to economic growth was smaller in the former than in the latter. Here, what should be noted is the trend of the Korean APC. Its level was the highest at the income level of 2,500 US dollars among Asian countries shown in the Figure, but its rate of decline was the fastest as the income level rose. In particular, comparison between Korea and Taiwan as Asian Tigers leads us to believe that the consumption environment was quite harsh in the 1970s in Korea. At the income level of 2,500 US dollars in circa 1970 in Korea, the Korean APC was higher at 68.43, than the Taiwanese one at 64.18. However, due to the rapid decline of the Korean APC, this situation was reversed from the 1977 Korea income level of 4,000 US dollars. It can be said that the change of situation was more dramatic because the Taiwanese one had diminished as well from its level at 2,500 US dollars of income. This may imply that there had been unusual repression on consumption for the period in Korea.

It is also worth comparing Korea and Japan. Even if it is generally known that Korean development strategy is similar to the Japanese strategy, their attitudes in terms of consumption were quite different in terms of income level of between 2,500 and 4,500 US dollars. This income level was the period between 1970 and 1980 in Korea and was the period between 1950 and 1960 in Japan. These periods were commonly very important stages in both countries in that they were a starting point and springboard for successful economic growth.

**Figure 3.3** APCs of Korea and Japan at Each Income Level



Source: PWT 6.2

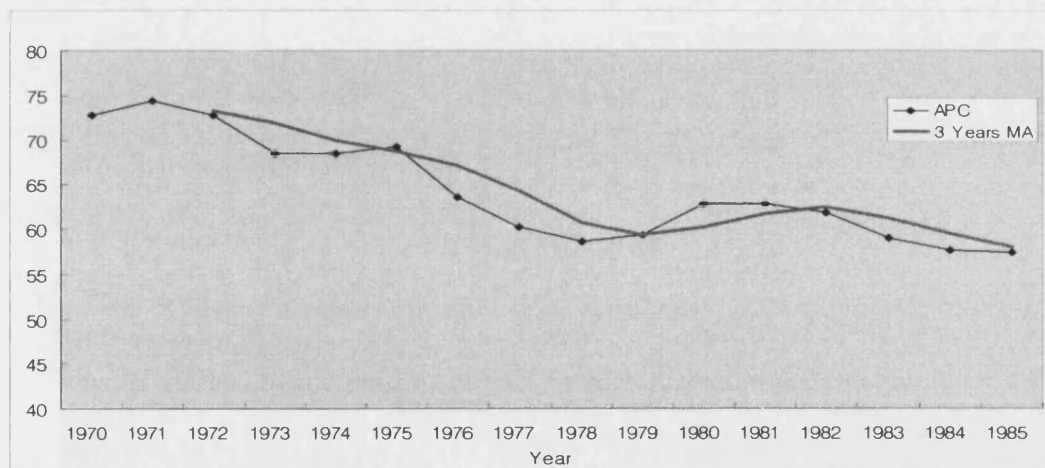
According to <Figure 3.3>, the shape of Japanese APC, which increased during the period, is consistent with some research on Japanese economic growth which argues that Japanese rapid economic growth after the Second World War was based on the expansion of domestic consumption (Partner 1999; Synodinos 2001: 238; Yoshikawa 2003). In contrast to this, the shape of the Korean APC which decreased rapidly during the period implies that the driving force of economic growth was not domestic demand in the period. On the other hand, consumers had a passive approach to consumption whether on a relative or absolute basis despite rapid increases in income.

#### 4.2. Collective Behaviour of Frugal Consumers in the National Accounts

The peculiar frugality of Koreans for the earlier period of development can be shown through international comparison. With this, periodic comparisons are needed in order to know periodic differences in Korea. Therefore, given that a scrupulous comparison will be carried out in the next few chapters, this section will look at the APC and its basic characteristics in the 1970s.

First, the collective behaviour of frugal consumers is shown through APC trends in the National Accounts produced by the Bank of Korea. As an original definition, the APC is, here, defined as the ratio of Private Final Consumption Expenditure (PFCE) in Gross National Disposable Income (GNDI).

**Figure 3.4** Trends of APC



APC: PFCE/GNDI

GNDI: Gross National Disposable Income

PFCE: Private Final Consumption Expenditure

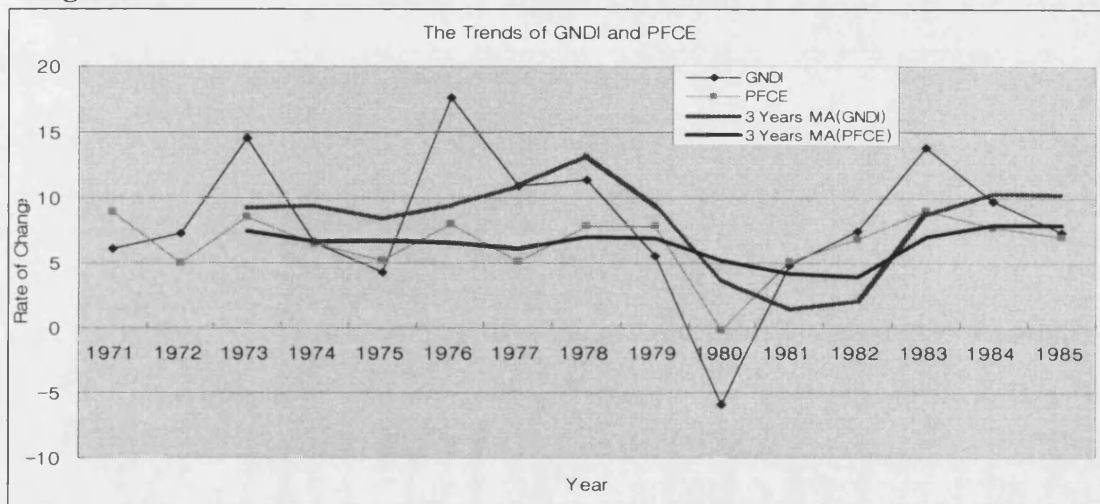
Source: Bank of Korea, National Accounts, each year

Broadly the trend of the APC in <Figure 3.4> is similar to that of the APC as the ratio of consumption in GDP which we saw in the previous section even if its absolute level is not the same because of a difference in parameters. According to <Figure 3.4>, the Korean APC decreased rapidly in line with increases in income in the 1970s. The



APC which recorded 74.4 in 1971 declined to 58.6 in 1978 but increased to 62.8 in 1981 due to a serious recession. After that, it again diminished to 57.4 in 1985. This curve, however, does not give information about changes in consumption proportionate to business cycles. It is necessary to disaggregate the APC into the rates of change of GNDI ( $\dot{I}_n$ ) and PFCE ( $\dot{C}_n$ ) to more clearly perceive the relationship between income and consumption under business cycle conditions.

**Figure 3.5** Trends of GNDI and PFCE\*



GNDI: Rate of Change of Gross National Disposable Income ( $\dot{I}_n$ )  
 PFCE: Rate of Change of Private Final Consumption Expenditure ( $\dot{C}_n$ )

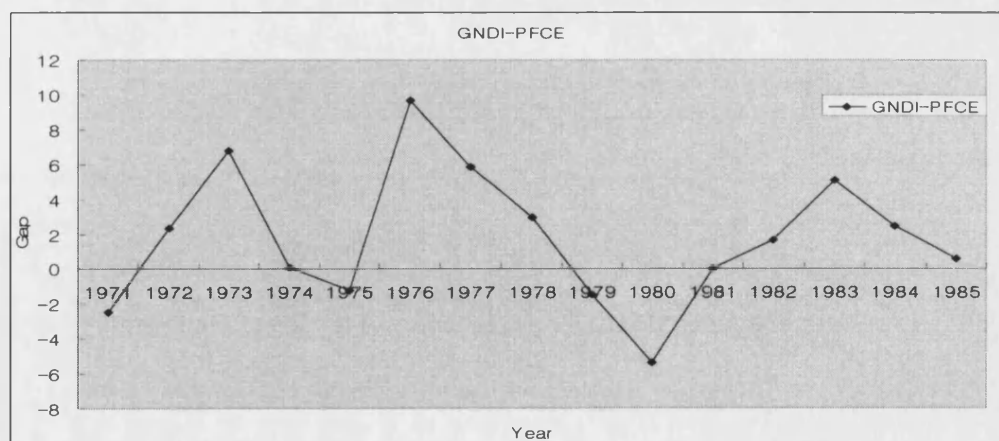
\*Real Term based on 100 at 2000

Source: Bank of Korea, National Accounts, each year

In <Figure 3.5>,  $\dot{I}_n$  can be considered as a proxy of the business cycle because it is a figure based on GDP. It is clear from the 3 year moving average of real  $\dot{C}_n$  and  $\dot{I}_n$  that  $\dot{I}_n$  was higher than  $\dot{C}_n$  over almost the entire period of the 1970s, regardless of the business cycle. Not to mention the fact that  $\dot{I}_n$  was over  $\dot{C}_n$  in the boom period,  $\dot{I}_n$  was also mostly over  $\dot{C}_n$ , even in recession. This implies that the trend of the Korean APC was completely different from general characteristics of the APC which usually rises in recessions as mentioned earlier. First of all, this suggests a possibility that there was an institutional apparatus which was intended to repress consumption in the Korean

economy, because it was different from a general characteristic of consumption where the change of consumption is relatively slower than income proportionate to business cycles. On the other hand, this implies that consumption hardly played a role as a stabilising factor for the business cycle. This analysis is consistent with the general interpretation that the business cycle in the Korean economy depended mainly on the export and investment situation and not on domestic consumption in the 1970s (Rodrik 1995; Yu Cheolgyu 1992). This pattern of the curve was similar to that of the 1980s, but the gap between them was smaller. As we shall see, this kind of change shows characteristics of the 1980s as a transition period for economic liberalisation, from the state to the market. In contrast, an exception appears at the end of the 1970s, when the political system was shattered by the assassination of President Park and a serious economic crisis took place. It was the first time that the changing rate of GDP recorded a minus figure since the establishment of the economic development plan in the early 1960s.

**Figure 3.6 Trends of the gap between GNDI and PFCE**



GNDI: Rate of Change of Gross National Disposable Income ( $\dot{I}_n$ )  
 PFCE: Rate of Change of Private Final Consumption Expenditure ( $\dot{C}_n$ )  
 Source: Bank of Korea, National Accounts, each year

In this respect, if it is considered that it was a very unusual incident, the trends of the APC in the 1970s and at least by the mid-1980s show that the policy of consumption repression penetrated throughout the actual life of people in the Korean economy. <Figure 3.6> which shows the trends of the gap of both curves ( $\dot{I}_n - \dot{C}_n$ ) from 1971 to 1985 may be useful for comparison of frugality between periods and between regions. Years over zero mean  $\dot{I}_n > \dot{C}_n$  but those below zero mean  $\dot{I}_n < \dot{C}_n$ . Likewise, APC rises in the period of  $\dot{I}_n < \dot{C}_n$  but APC declines in the period of  $\dot{I}_n > \dot{C}_n$ . In other words, the higher the figure is, the bigger their gap is and so the more frugal the consumer is. It can be presumed from the graph that the gap between  $\dot{I}_n$  and  $\dot{C}_n$  was bigger in the 1970s than in the 1980s. This means that consumers were more frugal in the 1970s than in the 1980s. However, this comparative work between periods will be more concretely carried out in the next chapter, which deals with the next period.

#### **4.3. Collective Behaviour of Frugal Consumers in Urban Labour Households**

Data relating to Salary and Wage Earners' Households in urban area (SWEHs), which has been surveyed monthly since 1963, is the most important data in order to discover the change in the ability to consume. It surveys over 4,000 households that have family members of more than 2 people in the whole country. This includes most items concerning income and expenditure. As mentioned earlier, this data, compared with the data from the National Accounts, has an advantage in that the characteristics of the higher income group can be explored because the average level of income of urban labour households is much higher than that of the whole country. Moreover, a more sensitive response to the environment concerning consumption should be shown because urban areas are more commercialised than non-urban areas.

As has been seen in the National Accounts, signs of consumption repression will also be shown through the APC of SWEHs, which is denoted as a share of consumption expenditure in disposable income of the household<sup>63</sup>. According to <Figure 3.7>, like the APC of the National Accounts, the Korean APC of urban labour households decreased rapidly in line with increases in income in the 1970s. The APC which recorded 94.38 in 1970 declined to 77.09 in 1979 but increased to 79.27 in 1982 due to the serious recession.

**Figure 3.7 Trends of APC in SWEHs**



APC: CE/DI

DI: Disposable Income

CE: Consumption Expenditure

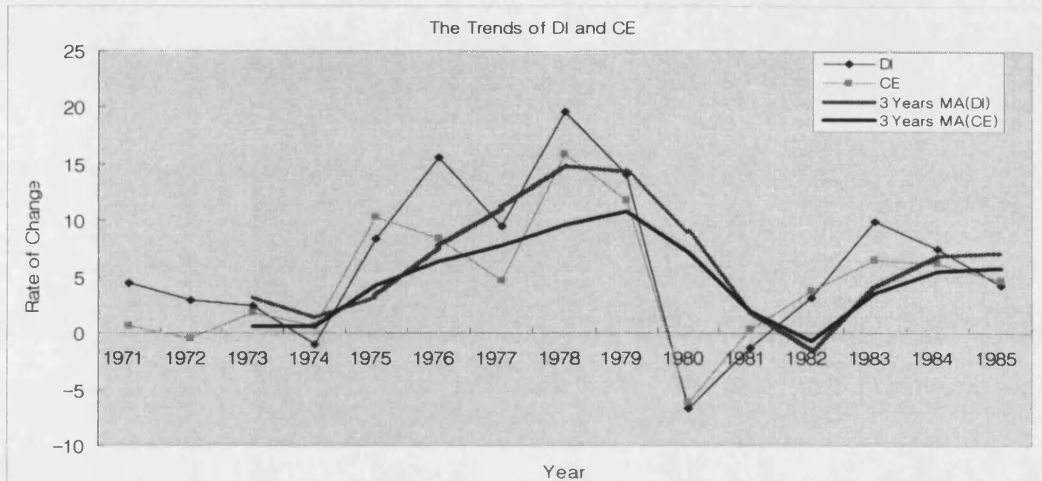
Source: KNSO, Monthly Income and Expenditure per Urban Household, each year

After that, it again diminished to 75.81 in 1984. Like the APC of the National Accounts, this curve, however, does not give information about changes in consumption related to business cycles. It is necessary to disaggregate this APC into the rates of

<sup>63</sup> The level of APC of SWEHs is higher than that calculated from the National Account. This is stemmed mainly from difference of statistical criteria between both. In particular, one of the most significant differences is that the disposable income of SWEHs is after tax whereas GNDI of the National Account is before tax. Due to this, the level of APC of SWEHs is necessarily higher as proportional as denominator is smaller. However, here, this is not problematic at all because what we need to notice is not gap of their levels but periodic difference of consumption attitude in their own curves.

change of DI ( $\dot{I}_u$ ) and CE ( $\dot{C}_u$ ) to more clearly view the relationship between income and consumption under business cycle conditions.

**Figure 3.8 Trends of DI and CE in Urban Households**



DI: Rate of Change of Disposable Income ( $\dot{I}_u$ )

CE: Rate of Change of Consumption Expenditure ( $\dot{C}_u$ )

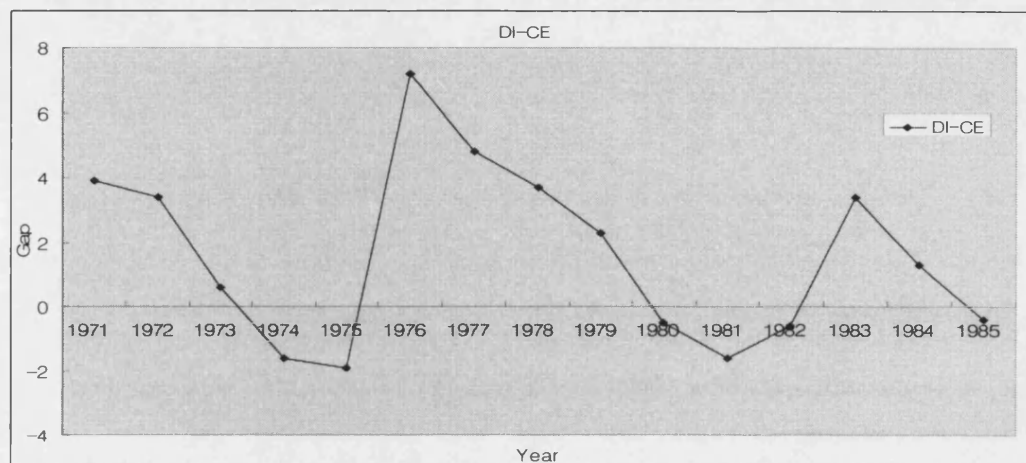
\*Real Term calculated by the consumer price index (CPI) based on 100 at 2005

Source: KNSO, Monthly Income and Expenditure per Urban Household, each year

In <Figure 3.8>,  $\dot{I}_u$  can be considered a proxy of business cycles because it is a figure based on GDP. It is clear from the 3 year moving average of real  $\dot{I}_u$  and  $\dot{C}_u$  that  $\dot{I}_u$  was higher than  $\dot{C}_u$ , regardless of the business cycle, except in 1974 and 1975. Not to mention that  $\dot{I}_u$  was over  $\dot{C}_u$  in the boom period,  $\dot{I}_u$  was also mostly over  $\dot{C}_u$ , even in the period of recession. This implies that the trend of the Korean APC was completely different from the general characteristics of the APC which usually rises in recessions as mentioned earlier. From this pattern of the curve, it can be seen that these were the environments shaping strong consumption repression even in urban areas in the 1970s. The pattern demonstrates a sign of change since the 1980s, even though this was not clear. As we shall see, this shows the characteristics of the 1980s as a transition period for economic liberalisation, from the state to the market.

Like the APC of the National Accounts, <Figure 3.9>, which shows the trends in the gap of both curves ( $\dot{i}_u - \dot{c}_u$ ) from 1971 to 1985 provides a useful comparison of frugality between periods.

**Figure 3.9 Trends of the gap between DI and CE in Urban Households**



DI: Rate of Change of Disposable Income ( $\dot{i}_u$ )

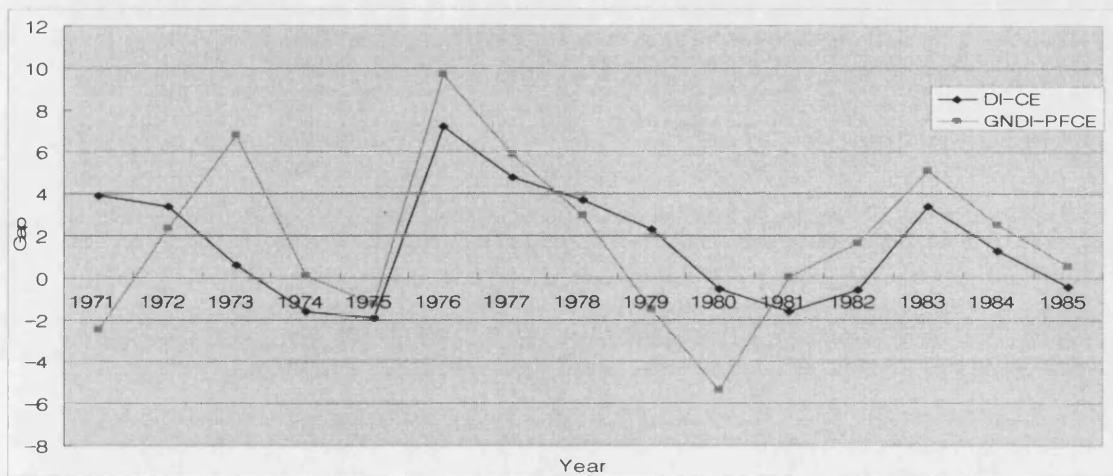
CE: Rate of Change of Consumption Expenditure ( $\dot{c}_u$ )

Source: KNSO, Monthly Income and Expenditure per Urban Household, each year

Years over zero mean  $\dot{i}_u > \dot{c}_u$  but those below zero mean  $\dot{i}_u < \dot{c}_u$ . Likewise, the APC rises in the period of  $\dot{i}_u < \dot{c}_u$  but the APC declines in the period of  $\dot{i}_u > \dot{c}_u$ . In other words, the higher the figure is, the bigger their gap is and so the more frugal the consumer is. <Figure 3.9>, accordingly, shows more clearly that consumers were more frugal in the 1970s than in the 1980s. However, this comparative work between periods is more concretely carried out in the next chapter which deals with the next period.

As we have seen, two kinds of curves in <Figure 3.10> denote gaps of  $(\dot{i} - \dot{c})$  in urban areas and the whole country. <Figure 3.10> may be useful to compare differences in consumption attitude between urban and non urban areas in the same period as a means of knowing the evolutionary pattern of the retail format. According to the figure, there was a tendency for the gap in the figure to have been higher in the whole country than in urban areas since the early 1970s.

**Figure 3.10 Differences in consumption between urban and non urban areas**



DI: Rate of Change of Disposable Income in urban labour households ( $i_u$ )

CE: Rate of Change of Consumption Expenditure in urban labour households ( $\dot{C}_u$ )

GNDI: Rate of Change of Gross National Disposable Income ( $i_n$ )

PFCE: Rate of Change of Private Final Consumption Expenditure ( $\dot{C}_n$ )

Source: KNSO, Monthly Income and Expenditure per Urban Household, each year, Bank of Korea, National Accounts, each year

Thus we can understand that consumers in non urban areas adopted a more frugal consumption attitude than those in urban areas in the same period. This may be because of urban characteristics which promoted a receptiveness towards consumption. Thus, on a relative basis, urban areas led consumption in Korea in the 1970s even though the prevailing attitude towards consumption in both urban and non urban areas was one of frugality. Such urban characteristics also affected the speed with which people responded to changes in the consumption environment. In the case of the boom period from 1976, consumption increased relatively earlier in urban areas and expanded more moderately afterwards. However consumption began to increase later in non urban areas but expanded more sharply later on.

### 5. The Limitation of Department Stores

Even by the mid-1970s, the department store industry as an example of a modern retail phenomenon was scarcely different from that of the 1960s. At the end of the



1960s the Shinsegae Department Store followed a typical form with direct management. The Midopa Department Store, which was established in 1964, established a new management structure in 1973, introducing direct management like the Shinsegae Department Store. Apart from these two examples, even though some department store companies such as *Si-dae-baeg-hwa-jeom* and *Ga-go-pa-baeg-hwa-jeom*, which were managed under the letting system, were built, they became bankrupt and were merged (<http://stock.koscom.co.kr>). As we have seen, there was no clear definition of a department store in the 1970s because 'The Law of the Market', which was enacted in 1961 did not state specific definitions of the various types of retail institutions. These problems continued until 1981, when an amended 'Law for the Market' was enacted. Therefore, in an extreme case, it was not impossible for a 'mom and pop' store to be launched with the designation of department store<sup>64</sup>. In this respect, it could be said that there were just two department store companies, Shinsegae and Midopa, in Korea during most of the 1970s. Such a situation changed in 1979 when the Lotte Group<sup>65</sup>, which was based in Japan, built the Lotte Department Store in Seoul and the situation in the department store industry developed into a fierce contest between the three (*Jo-seon-il-bo* 6 July 1979b, 18 December 1979c). Even if there was acute competition between the three stores, it was impossible to expect that the department store industry as a whole had an important role in the retail industry in such a situation. Because there is no precise data concerning the sales of the department stores in the 1970s, we can

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<sup>64</sup> Of course, as mentioned, because the image of the department store as a luxurious shop remained in people's memory, such an extreme case was not in fact meaningful. However, in the case of a big shopping place, discrimination between a typical department store and an imitation one was not easy.

<sup>65</sup> Even though the Lotte Group was a Japanese conglomerate, Lotte Department Store could be built despite the prohibition of foreign investment in the retail industry because Sin Gyeokho, its founder and chairman, was a Korean resident in Japan.



obtain rough estimates through survey data on big retailers in the Census on the Wholesale and Retail Trade by KNSO. There were only ten retail companies with more than 50 employees out of 320,471 retail companies in 1971, and their proportion of the total sales of the retail industry was 0.6 per cent. Even though the sales per company were much higher than those of the smaller companies in the numbers of employees, the percentage of sales in the whole retail industry was virtually unnoticeable. In data of 1979, because the statistical methodology changed in 1976, the retail companies were classified into two types of stores: general retailers, and general merchandise stores (GMSs), which meant department stores and supermarkets etc. According to this classification, there were only 24 GMSs with more than 20 employees out of the total of 422,012 retail companies and their percentage of sales was 0.2 per cent (KNSO, Wholesale and Retail Trade Census 1979). What this rough data tells us is that the proportion of department stores in the whole retail industry had been small throughout the 1970s.

Despite the rapid increases in the retail industry in the late 1970s, the strategy of only taking the luxury end of accounts was one reason why the industry did not develop. The Shinsegae Department Store usually utilised a strategy of concentrating on higher priced luxury goods, rather than the mass sale of medium priced reliable goods. For example, through technical cooperation with a foreign company it introduced new technology to mature various kinds of meat, and emphasised the difference between its meat and others. In the case of fruit, it selected farms which would produce fruits under a special contract only for its own store and used such a process as a selling point (Shinsegae Department Store 1987: 152-153). It was inevitable that the price of goods in the Shinsegae Department Store was higher than those of other retailers, particularly,

the traditional markets. Such practices showed up more clearly in the field of apparel. In 1973, the Shinsegae Department Store concluded a contract for technology with McGregor, a famous clothing company in the US, to be the first to introduce the technology and brand to Korea. It then sold the various kinds of brand clothing at about twice the price as the same kinds of clothes of other brands. For example, in the case of jackets, the price for a McGregor jacket was 8,000 *won*, while other brands were 3,000-4,000 *won* (Ibid: 133-136). It also concluded an alliance covering technology with the French company of Pierre Cardin in 1978 and strengthened its reputation for stocking luxury goods. Because of these strategies, people were likely to perceive it as a retail institution with extremely high prices although its goods were reliable. From this, it seemed that the department store was used mainly by a small number of wealthy people in Seoul<sup>66</sup>, and its strategy strengthened such a tendency in the 1970s. This trend was worthy of notice as a phenomenon that differed from those phenomena which followed in the 1980s, which will be examined in later chapters.

With respect to the inactivity of department stores, it was possible that investment in the retail industry was a low priority for the manufacturing conglomerates, *chaebol*, which were only able to invest large amounts of capital in large retailers to meet mass-consumption, irrespective of whether it was a department store. First, this was related to the fact that the government focused its support on the manufacturing sector. The interest rate offered for financial support to the manufacturing sector was preferential to that of the retail industry. There is no reason why any company would give up their investments in a profitable field to invest in a relatively unprofitable one. Moreover, the

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<sup>66</sup> In fact, this kind of situation was very similar to what happened in Japan around 1910 as the early period of the department store format. At the start, Japanese department stores targeted the upper and upper-middle classes (Hirano 1999: 380). As mentioned earlier, this seems to be a similarity among countries which imports the retail format despite difference of the time.

fact that investment in the retail sector could have been understood as resistance to government policy would have been a serious burden to *chaebol*. This was dangerous behaviour in the period of policy dominance because it made it possible for the government to exclude the disobedient *chaebol* from favourable support. Additionally, the fact that *chaebol* could be blamed for depriving the poor of the means of making a living was not negligible, because this public atmosphere was able to stimulate a response from the government<sup>67</sup>. In addition, the existence of the manufacturers' distribution network played an important role in the decline of motivation for investment in the retail industry. Because manufacturers were in a dominant position and controlled the distribution sector, and therefore the manufacturers' profits were not affected by retailers' behaviour, manufacturers did not feel any real necessity to establish large general retailers themselves. In sum, while there were many barriers for manufacturers to surmount in order to enter the retail industry, they possessed a safety device to protect them from the effects of unsatisfactory sales.

There was a third point regarding the inactivity of department stores; the competitiveness of traditional markets in the mass market was an important factor when examined in conjunction with the stores' strategy of stocking luxury goods. According to Okubo, first of all, it is possible to find in a Korean traditional market everything any consumer might want to buy, and thus one stop shopping might be possible. With this, one of the most important reasons why the traditional market attracted people was related to the competitiveness of its price, compared with department stores. Generally, the price of goods in the traditional market was much lower than the normal price, while

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<sup>67</sup> This factor was not important in the 1970s because the proportion of department stores was so small. However, since the middle of the 1980s, this has become a big social issue around the department store industry and thus the government regulated it strongly through fair trade policies and a license system for the establishment of new outlets.

the quality was more or less the same. He pointed out the uniqueness of the purchasing process in the traditional market as key, stating the prices there were at least 20 per cent lower than normal prices. First, the traditional retailers usually purchased slightly flawed goods, which the manufacturer could not sell through the normal marketing process, below cost. Second, they purchased goods which manufacturers sold cheaply for cash payment when they faced cash flow difficulties. Third, they purchased goods which department stores had failed to sell at cut prices. Thus, the traditional market was a terminal for goods deviating from the normal distribution process (Okubo 1991: 52).

In conclusion, under such circumstances, the role of department stores in the 1970s could not help being limited and their prosperity was dependent on a change in the internal and external conditions around the department store structure.

## **6. Concluding Remarks**

As we have seen, the department store industry in the 1970s experienced an economic and social environment that was conducive to its development. The increase of income and fast urbanisation following rapid economic growth, was a key factor, and the change in the family structure was an advantageous condition for the industry. However, it only accounted for a small portion of the growth in the Korean retail industry within the period. The policy environment was the most important factor. The Korean government as an authoritarian state in the 1970s, had concentrated on the investment of all of its resources in the manufacturing sector, particularly, HCI and had ignored the role of the retail industry for promoting economic growth. The government regarded the industry as a supplementary factor for mere economic circulation, rather than a basic factor for economic growth. Consequently, while it gave various kinds of

incentives to the manufacturing sector, it created disadvantageous conditions for the retail industry in terms of finance and taxes. As a consequence, *chaebol*, which were the only entities to possess sufficient capital necessary for investing in modernising the retail industry, were not incentivised to do so. This is because, on the one hand, *chaebol* had various kinds of opportunities to make profits from the manufacturing sector with affluent support from the government. On the other hand, they did not wish to be discriminated against by the government and were constrained by the government's preferential support for the manufacturing sector.

Apart from this kind of industrial policy, the government's policy focus on the manufacturing sector, was a type of general repression of consumption. It suppressed the increase of consumption through the taxation system with measures such as value added tax, and special excise taxes. It used various kinds of restrictions such as import prohibition, and a very high rate of emergency tariff in order to control consumption of luxury goods from abroad. It also imposed extraordinary measures for the repression of consumption such as a ban on gift-vouchers, which had existed for a long time. Such high-handed policies had a particular motive: to repress consumption of luxury goods. Alongside these measures, the government regulated the social atmosphere with the intention of repressing consumption through several kinds of social policies. There were two particular policies: strong encouragement of frugality, and severe punishment against overconsumption. These policies had several attendant effects unlike the selective industrial policy described above, in that it had an effect on the pattern of the behaviour of a great number of unspecified people, and moreover it was highly possible that it contributed to the formation of a particular kind of social ethos. Of course, it was clear that the policy goal was to concentrate capital within the manufacturing sector, by

lowering the general level of consumption in the 1970s. In this respect, the policy was remarkably successful. However, from a socio-economic perspective, its effect was deeper and more long-term. The social psychology of low inequality in Korea as an environmental factor friendly to economic growth was maintained as a mechanism of consumption repression.

As we have seen, the level of income inequality in Korea had been worse in the 1970s. Nevertheless, the reason why social conflict around distribution was relatively unnoticeable can be ascertained through the pattern of consumption<sup>68</sup>. In general, people might feel discrimination from income inequality at the stage of consumption rather than that of income, because consumption manifests material inequalities more clearly. Thus even in the case of a society characterised by high inequality of income, the social psychology of equality could be influential if consumption were controlled uniformly. Such a condition in the 1970s, particularly, was the opposite of the retail format exhibited by the department store which created its own image through marketing luxury goods.

However, it is incorrect to say that no positive policies were directed at the retail industry in the 1970s. Such government policy was, however, unsuccessful in its bid to develop the retail sector as an industry. At that time, the government focused mainly on the stability of prices and consumer protection. It tried to construct a retail network for

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<sup>68</sup> Most existing studies (Haggard, Rodrik, Wade, etc.) concerning this have emphasized mainly both the extreme control of the labour market by government and the initial condition of equality relating to relatively successful land reform. However, it could not be expected that social conflict around distribution had been managed through only suppression for at least twenty years of rapid economic growth without minimum social agreement. It was also unrealistic that such an initial condition should remain unchanged for the period. Nevertheless, it was a fact that the social conflict around distribution weakened comparatively and it was also clear that Korea has shown a strong tendency of egalitarianism even thereafter. If so, another factor through which such a tendency can be explained has to be examined.

price stability through the introduction of the supermarket chain in the early 1970s. Despite its efforts, the introduction was not successful because of lukewarm government support compared with the support extended to the manufacturing sector, and a hostile retail environment such as the shortage of goods in the early 1970s. In particular, the fact that the SMSTRs were the main object of retail policy at that time shows that government policy was social rather than economic in nature. The premature emphasis on consumer protection also reflected the government's view of the retail industry. Of course, even though consumer protection was not premature, it could be said that the building blocks necessary for supporting such a policy within the retail industry were lacking. This is because there was little focus on the role of the manufacturer for providing consumer protection, and this situation prevailed even in the 1990s.

Given this environment, it seemed impossible for the retail industry, and in particular, the department store, to develop. And yet, even with such conditions, the retail industry achieved an increase in sales to a certain extent, without a change in quality, proportionate to an increase in income following rapid economic growth in the 1970s. Even though sales of the retail industry grew in such conditions along with an increase in the number of companies for the same period, structural changes such as the appearance of large retailers and the change in relationship between manufacturer and retailer scarcely took place in the retail market. Of course, such a result was related to both the marketing strategy of department stores as an existing large retailer, which concentrated on the luxury goods, and the competitiveness of the traditional market as a cluster of SMSTRs in which one-stop shopping was possible for popular goods.

## **Chapter IV: Modernising, Stratifying Retail Industry and Rapid Economic Growth since the 1980s -The Golden Age of the Department Store Industry I-**

### **1. Introduction**

The period of the 1980s in Korea began with a disastrous situation in both economic and political terms. The Korean economy had already shown signs of serious recession since early 1979 due to overinvestment in HCI (Heavy Chemical Industry) and to make matters worse, it had received a severe shock as a result of the second oil crisis. As a consequence of the extreme instability which occurred after the assassination of President Park in October 1979, the military led by General Chun -- who would become the future President of Korea and who was taken to prison after his resignation -- killed a number of citizens while he was staging a bid for power in 1980. Due to these events, the Korean economic growth rate dropped to 6.8 per cent in 1979 from 9.3 per cent in 1978 and it even recorded minus 1.5 per cent in 1980, for the first time since the establishment of the economic development plan. Such a dark start, resulting from past economic policies, led to expectations that policies in the future would be different in terms of content and method. First of all, Chun's regime had to concentrate on economic matters in order to recover from the severe recession and furthermore it desperately needed to resolve these problems because the process of grasping power lacked legitimacy. For the same reason, it was also inevitable that the regime would take, on one hand, resolute measures against the causes of the problem, but, on the other hand, it would make a gesture towards a policy of appeasement in order to change the government's image. The representative measures to achieve this goal were *Junghwa-*



*hag-gong-eob-tu-ja-jo-jeongjo-chi* [the Measure of Rearrangement of Investment in HCI] as a gesture of toughness towards *chaebol* and *Dog-jeomgyu-je mich gongjeonggeo-lae-e gwan-han beob-lyul* [the Monopoly Regulation and Fair Trade Act]. The establishment of a separate Korea Fair Trade Commission in 1981 was a soft measure which worked for the benefit of the consumer and strengthened market function. Such a tendency influenced the economic plan as a basic framework. The name of the fifth 'Five-Year Plan for Economic Development' in 1982 was changed to *Je 5cha gyeongje-sa-hoe-bal-jeon 5gae-nyeon gye-hoeg* [the fifth Five-Year Plan for Economic and Social Development] and the stability of prices was referred to as an important goal of the plan for the first time<sup>69</sup> (Gang Gwangha 2000: 87-89). In this atmosphere, liberal measures such as the privatisation of banks and the expansion of economic openness were enforced.

Apart from the internal situation, it was in the 1980s, as neo-liberal governments such as those of Ronald Reagan in the US and Margaret Thatcher in the UK appeared, that the retreat of the state gradually became one of the most important international trends. This tendency became stronger and stronger with the end of the cold war at the end of the 1980s. In the process of liberalisation at the international level, Korea was also affected to a remarkable extent. In particular, the social movement against the authoritarianism of the state was hugely influenced by this international situation, due to the similar goal of weakening of the state, despite considerable differences between the ideological positions of both movements. Accordingly, the Korean government was in a

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<sup>69</sup> In fact, the change of the meaning in the name of the plan is more dramatic in Korean than in English. In Korean, the word for Development in its name has been called *bal-jeon* since the fifth plan of 1982 whereas it had been called *gae-bal* before then. While *gae-bal* is a word focused just on economic growth, *bal-jeon* is a more comprehensive word meaning advance and improvement of the whole society. Thus this change of the name implied that the contents of the plan altered dramatically as well and they were actually carried out (Gang Gwangha 2000: 87).

very difficult situation in which, on one hand, the social movement was pushing it to retreat in the name of democracy and social liberalisation, and, on the other hand, the capitalists were pushing it to obtain liberalisation of the market from the government in the late 1980s. The circumstance of the international economy also required the changing of the Korean economy. First of all, US trade policy was changed to one of aggressive intervention to open even the markets of developing countries, because of the so-called twin deficits of the US such as the fiscal and trade deficits. Especially after September 1985, when the 'Plaza Accord' was held, Korea was heavily coerced by the US to open its market due to the dramatic increase of exports thanks to the strong Japanese Yen.

With these changes, the size of the domestic consumption market had expanded rapidly since the 1980s. This resulted from a dramatic increase in income, while the Korean economy grew rapidly, recording an annual average growth rate of over 10.5 per cent between 1986 and 1988. Meanwhile, the size of population had also increased from 36 million in 1980 to 42 million in 1990 (KNSO, Population & Housing Census, each year). Such different environments from the previous ones, in several respects, changed the pillars of Korean society from those of the state, production and protection into those of the market, consumption and economic liberalisation. In this process, consumption and the retail industry, which had been repressed, met a period of explosive development in both qualitative and quantitative respects from the 1980s. In social-political respects, as the first civilian government since President Park, Chung-hee, the establishment of the Kim administration<sup>70</sup> in 1993 would hugely affect the current trend of social-economic liberalisation and deregulation. In fact, liberalisation of

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<sup>70</sup> The administration of President Kim, Young-sam is called *mun-min-jeongbu* which means *mun* [the pen] against the sword and *min* [civil] against soldiers.

various policies which was in progress from the previous Roh administration was spurred on by the Kim administration. In particular, the decision to join the Organisation for Economic Cooperation and Development (OECD) in 1996 was considered a representative symbol of liberalisation. This change evoked a much friendlier consumption atmosphere in contrast to social oppression occasioned by the government's support for production in the 1970s. With this change of policy, people could consider the expansion of consumption as a form of victory against the authoritarianism of the regime. This was particularly the case regardless of its economic effects, because the repression of consumption was understood as a form of the repression of human rights, rather than as a strategy of economic development by an authoritarian regime. With the increase in income, the social conditions for consumption had begun to develop perception along such lines. Consequently, the change of policy and the needs of the time are linked to the beginning of an era of explosive consumption. Under these circumstances, this chapter will show the characteristics of the Korean retail industry, particularly, in terms of its structure; the Korean retail industry has modernised and stratified since the 1980s. It pays especial attention to rapid growth of the department store industry as a model of the only modern retailer, compared with traditional retailers. In addition, it examines how its rapid growth is quite a distinct phenomenon in the history of the retail industry.

## **2. Overview of Rapid Economic Growth since the 1980s**

### **2.1. General Economic Policy and Rapid Economic Growth**

As we have mentioned, the situation of the Korean economy was very dismal at the beginning of the 1980s. Due to economic and political problems the annual growth rate

of the Korean economy recorded minus 1.5 per cent in 1980. President Chun, who achieved political power through recourse to violence, had to concentrate on economic recovery through reform of the economic structure so as to justify his grasp of power. Economic policy in Chun's period was characterised by retrenchment and stabilisation policy. This was adopted because the reason for the severe recession in the early 1980s was regarded as duplication and overinvestment in HCI. The first policy was the 'Measure of Rearrangement of Investment in HCI' in 1981. The government forced *chaebol* to rearrange their speciality and investment in HCI in order to avoid further duplication of investment. For example, in the case of the motor industry, the government ordered that only KIA Motors could produce commercial vehicles but other companies, such as the Hyundai Motor Company and the Daewoo Motor Company (the present GM DAEWOO) were not allowed to produce them. The regulation on *chaebol* also corresponded to the public sentiment which was opposed to the overwhelming position of *chaebol*. Thus the government could obtain two good results through its adoption of this policy, namely both the effect of stabilisation, in terms of the economic aspect, and the effect of offsetting<sup>71</sup> doubt over imbalanced socio-political support for *chaebol*. Even though the *chaebol* resisted this policy as much as they could, they consequently had to accept it because of both the dominant power of government and a sense of responsibility for the economic recession amongst the public<sup>72</sup>. Of course, their

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<sup>71</sup> As mentioned, President Chun had no legitimacy of power and moreover his time was reputed to be a period of labour oppression under the pretext of economic recovery.

<sup>72</sup> According to an order of the government, the FKI, which was an association of *chaebol*, established 'The Committee for the Rearrangement of Subsidiaries' in its organization and suggested ways of rearrangement, including merging and abolition, sale, and liquidation (FKI 2001: 431). The fact that *chaebol* suggested measures to deny their own property rights might reflect the oppressive atmosphere of that time.

resistance could be understood as one of their strategies to induce benefits, in that they got various kinds of support from the government in the process of this measure.

The 'Monopoly Regulation and Fair Trade Act' could be considered as a symbolic action in which the government demonstrated the orientation of its economic policy. This meant that a discretionary regulation of government was changed into a general one through the legal process, and the market function was emphasised. It could also be said that it was the first law to enact the original meaning of the Fair Trade Act, in that players in the market opposed to competition were regulated comprehensively in terms of fairness of trade. On the other hand, the previous 'Law of Price Stabilisation and Fair Trade' focused mainly on price stability. In this respect, even though it was a policy which announced the beginning of economic liberalisation, it was also understood as one of the ways to regulate *chaebol* and thus they desperately resisted the introduction of the law<sup>73</sup> (FKI 2001: 427). In fact, the economic stabilisation policy was different from the growth policy through government intervention and thus it was natural that *chaebol*, which had depended on support from the government as an object of the growth policy, felt uneasy. On the contrary, it seemed that this policy appeared to the public like a progressive move towards autonomy in the market, instead of the previous system which was understood as a corrupt relationship between government and business.<sup>74</sup> The balance between growth and welfare or between manufacturer and consumer, instead of concentration on growth and manufacturing was suggested.

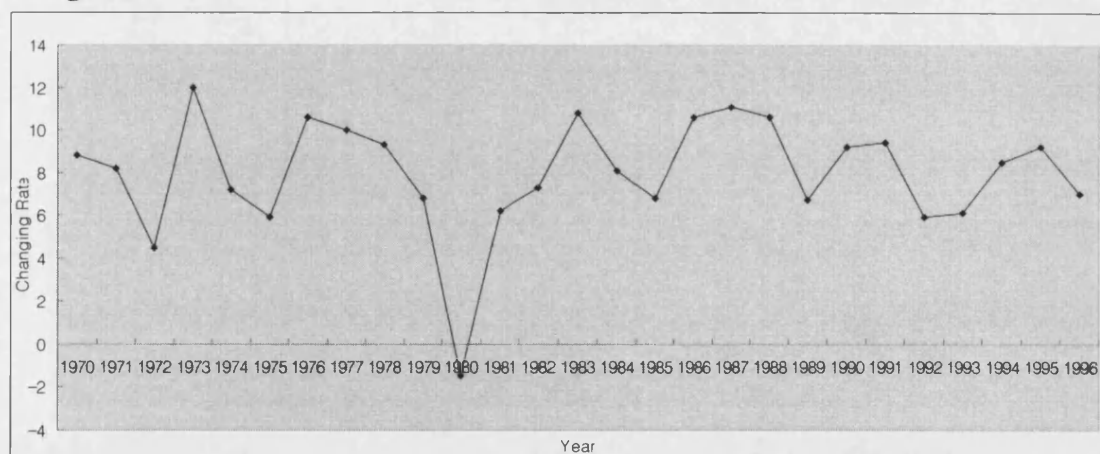
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<sup>73</sup> It could be understood as a similar situation to that of the Japanese case in which the US military government led by General McArthur tried to dismantle Zaibatsu by strengthening the rule of fair trade after the end of the World War Two.

<sup>74</sup> Of course, it is too much to say that a few policies adopted in the early 1980s meant a complete changeover in the tendency of the government policy because the government did not abandon the attitude of intervention even after that time. However, it was clear that there was a signal of change in the direction of policies as a reaction to the economic failure at the end of the 1970s. Furthermore, this tendency could not help becoming stronger and stronger gradually

As part of the same trend the government tried to introduce the privatisation of commercial banks in 1982. Even though the power of governance of the banks was not turned over to the private sector right away, at that time, the policy seemed to contribute hugely to the change in economic policy towards liberalisation. In the course of these policies, the Korean economy began to recover. The annual economic growth rate was 7.3 per cent in 1982, 10.8 per cent in 1983 and 8.1 per cent in 1984. In particular, the rate of increase of consumer prices, which had recorded annual increases of over 15 per cent during the 1970s, and 21.4 per cent in 1981, diminished dramatically to 7.2 per cent in 1982. It subsequently recorded 2.3 per cent in 1984, and 3.4 per cent in 1983 (BOK, the National Accounts, each year).

**Figure 4.1** **Trend of GDP Growth**



\*Real Term

Source: BOK, National Accounts, each year

The Korean economy, which showed a rapid recovery in the first half of the 1980s, had experienced an extreme boom<sup>75</sup> since 1986. This resulted from the phenomenon of

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over the 1980s with the change in the relationship of power between government and business, because *chaebol* wanted their autonomy in the market rather than government intervention according to the development of the market system.

<sup>75</sup> The boom of the late 1980s was called the best period of prosperity since *dan-gun*, the progenitor of Korean history. Thereafter, a few scholars, who from a progressive perspective

the so-called 'Three Lows' which meant depreciation of the US dollar, low interest rates and the low price of oil. The Korean economy took advantage of the booming atmosphere worldwide through the low interest rate and price of oil and, particularly, the appreciation of the Japanese Yen (and depreciation of the US dollar) for an increase of exports to the US. The annual rate of economic growth increased to 10.6 per cent in 1986 and consecutively recorded 11.1 per cent in 1987, and 10.6 per cent in 1988. The balance on the current account had been in the black since 1986, for the first time since the development plan, and the amount by which it was in the black reached 14.2 billion US dollars in 1988. Nevertheless, the stabilisation of prices had also not been disrupted during the same period.

However, the rule of the business cycle from boom to depression did not make an exception of the Korean economy. The fantastic boom had finished in three years and, due to the appreciation of the Korean *Won* and severe industrial strife, the rate of increase of exports decreased drastically to 2.8 per cent in 1989 from 28.4 per cent in 1988 and the growth rate of the Korean economy also abruptly diminished to 6.7 per cent in 1989. After that, the economic growth rate again recovered to 9.2 per cent in 1990 and 9.4 per cent in 1991. Suffering under the burden of the sharp rise in house prices since the end of the 1980s the Korean economy somehow maintained its economic growth. As Korean exports increased, stronger protectionism on the part of the advanced countries, including the US, was indicated as one of the important factors in its depression. The balance on the current account was reversed into a deficit of 2.2 billion US dollars in 1990, after another four years. This figure of balance of payments

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criticized the developmental plan through exports as dependency development, even changed their view to agreement with the economic policy.

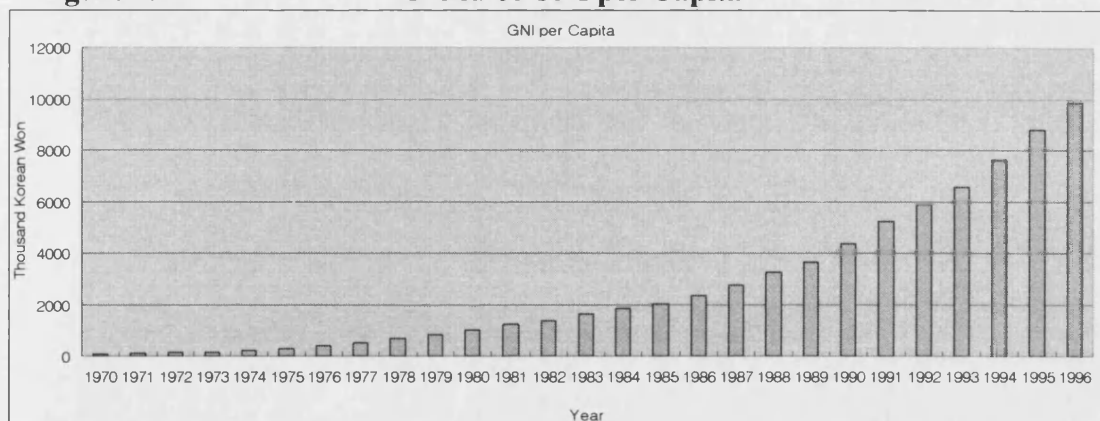
was greatly affected by a rapid increase of imports in consumer goods due to the opening of the domestic market.

## 2.2. The Change of Socio-economic Environments

### *The Increase in Income and Expenditure*

It was natural that income increased rapidly because economic growth was sharp and in the same manner it was also inevitable that the amount of expenditure followed the speed of increase in income in the 1980s. Furthermore, the increase in expenditure was higher than that of income in the 1980s, unlike that of the 1970s. This meant that the size of the domestic market grew more rapidly, compared with the 1970s, and to that extent its importance became greater and greater in the Korea economy. According to <Figure 4.2>, GNI per capita was 1 million Korean *won* (1,645 US dollars) in 1980.

**Figure 4.2** Trend of GNI per Capita\*



\*Nominal Term of GNI per Capita: Thousand Korean *won*

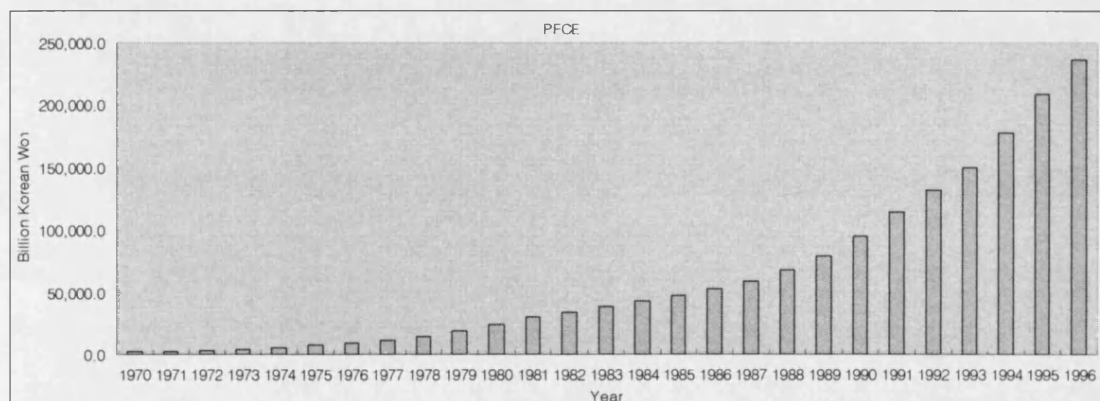
Source: BOK, National Accounts, each year

It took just five years for this to grow to more than 2 million *won* in 1985. It took just another five years for it to roughly double that amount at 4.4 million *won* in 1990, and again after five years, it had approximately doubled again at 8.8 million *won* in



1995. As a result, GNI per capita had increased to over eight times its 1980 value over the 15 year period.

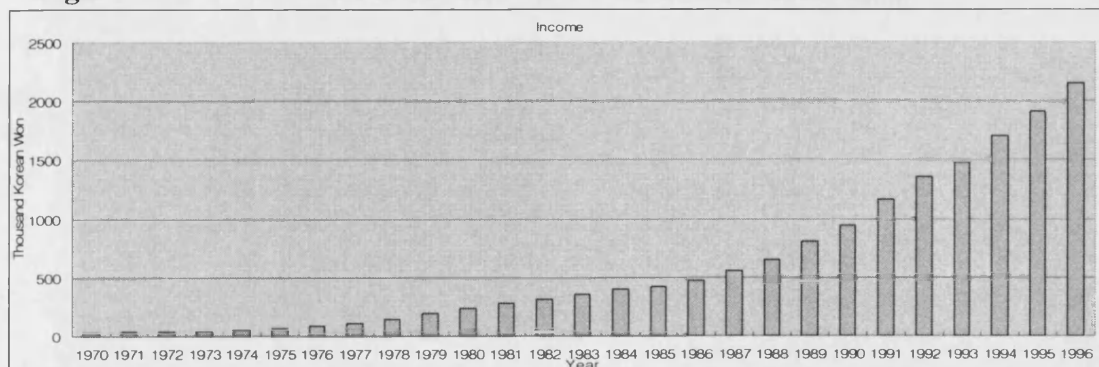
**Figure 4.3** **Trend of Consumption\***



\*Nominal Term of the Private Final Consumption Expenditure (PFCE): Billion Korean *won*  
Source: BOK, National Accounts, each year

In line with the increase in GNI, private final consumption expenditure (PFCE) also rose rapidly. The PFCE, which was 24,250 billion *won* (39.89 Billion US dollars) in 1980, became 47,600 billion *won* in 1985. An increase of twice the amount in PFCE took just 5 years. An additional expansion of twice the amount also took just 5 years to reach 94,968 billion *won* in 1990, and again 5 years for two times that amount at 208,461.6 billion *won* in 1995. Like increments of GNI per capita, the amount of PFCE had expanded by about 8 times over 15 years.

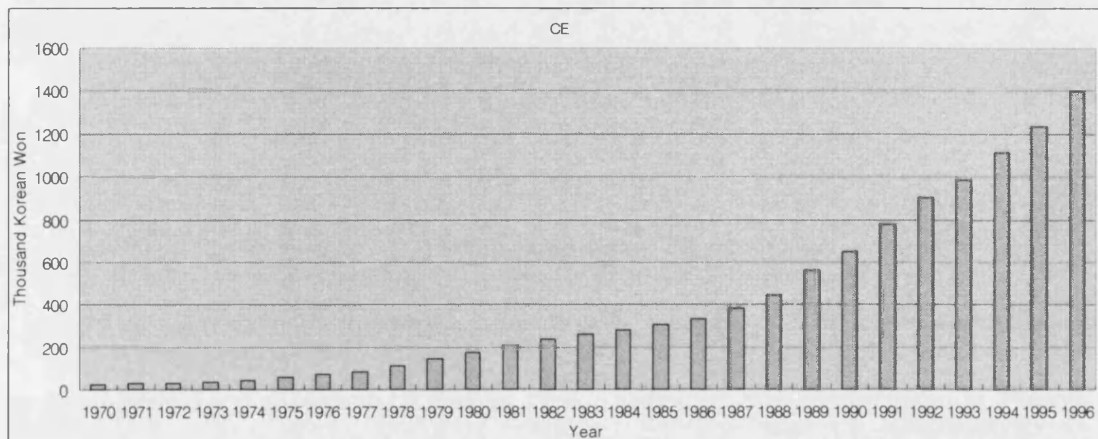
**Figure 4.4** **Trend of Income\* of Urban Labour Household**



\* Nominal Term: Thousand Korean *won*  
Source: KNSO, Monthly Income and Expenditure per Urban Household, each year

According to <Figure 4.4>, monthly income of salary and wage earners households in urban areas (SWEHs) increased continuously as well. It was 234.1 thousand *won* (385 US dollars) in 1980 and increased to 473.6 thousand *won* in 1986. Monthly income which was 943.3 thousand *won* in 1990 rose to 1.9 million *won* in 1995.

**Figure 4.5 Trend of Consumption Expenditure\* of Urban Labour Household**

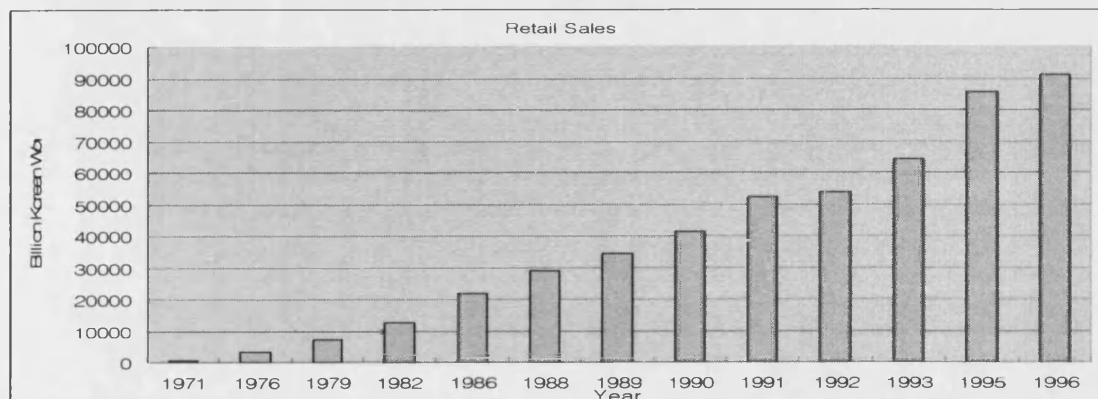


\* Nominal Term: Thousand Korean *won*

Source: KNSO, Monthly Income and Expenditure per Urban Household, each year

Monthly consumption expenditure of the SWEHs also shows a similar shape to its monthly income in <Figure 4.5>. It was 174 thousand *won* (286.2 US dollars) in 1980 and increased to 331.5 thousand *won* in 1986. The monthly consumption expenditure which was 650 thousand *won* in 1990 rose to 1.4 million *won* in 1996.

**Figure 4.6 Trends of Retail Sales\***



\*Nominal Term: Billion Korean *won*

Source: KNSO, Wholesale and Retail Trade Census (1971, 1976, 1979, 1982), Wholesale and Retail Trade Census with the Overall Establishment Statistics (1986, 1991), Wholesale and Retail Trade Survey (1988, 1989, 1990, 1992, 1993, 1995), Wholesale, Retail Trade and Service Industry Census (1996)

The expansion of consumption expenditure on the basis of increase in income was linked to the rise in sales within the retail industry. The total retail sales in <Figure 4.6> were 12,655.5 billion *won* (17,292.5 million US dollars) in 1982 and increased to 29,036.5 billion *won* in 1988. Its growth trend was sluggish from 1991 and 1992 but rose to 64,093.2 billion *won* in 1993. After that, increasing continuously, it recorded 90,906.9 billion *won* in 1996.

### ***Changes in Social Environments: Movements in Population and Urbanisation***

One of the most important things in the composition of the population for the retail industry was the change in the structure of the household; that is, a conspicuous decrease in the number of household members with an increase in the number of households, which meant the expansion of purchasing units. The average rate of increase in the population was around 1.5 per cent per annum from 1980 to 1990, when the whole population numbered 42.1 million. This rate of increase decreased sharply to 0.6 per cent per annum between 1990 and 1995 when the size of the whole population was 43.3 million. Under this condition, the average number of household members declined from 4.5 persons in 1980 to 3.7 persons in 1990 and to 3.3 persons in 1995. Accordingly, the total number of households rose from 8 million in 1980 to 11.4 million in 1990 and to 13 million in 1995 (KNSO, Population & Housing Census, each year). Such a change could be confirmed through the relative households classified by the number of generations.

**Table 4.1**                      **Trend of Generations in Household (%)**

	1970	1975	1980	1985	1990	1995
<b>One person households**</b>		4.2	4.8	6.9	9	12.7
<b>One Generation***</b>	6.8	6.7	8.3	9.6	10.7	12.7
<b>Two Generations</b>	70	68.9	68.5	67	66.3	63.3
<b>Three Generations</b>	22.1	19.2	16.5	14.4	12.2	9.8
<b>Over four Generations</b>	1.1	0.9	0.5	0.4	0.3	0.2

\*The sum of figures in each year has been a bit under 100 since 1980 because non-relative households, which consist of members of non-blood relationship, have been classified as a separate item.

\*\*One person households: household with just one member.

\*\*\*One Generation: household which consists of members of the same generation, like a married couple without children.

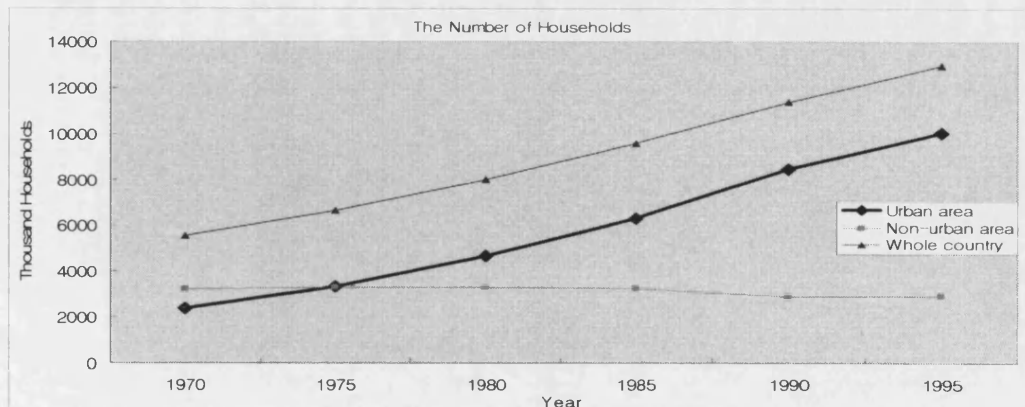
Source: KNSO, Population & Housing Census, each year

According to <Table 4.1>, the proportion of one generation households in the total number of households was increasing continuously and so recorded 10.7 per cent in 1990, 12.7 per cent in 1995. What is interesting is the rapid increase in one person households since the 1980s. Its ratio in total households had risen by around 2.5 times for 15 years. In contrast to this, the ratio of three generation households diminished sharply to 9.8 per cent in 1995 from 16.5 per cent in 1980 and the ratio of over four generations was actually insignificant.

Big retail industries, additionally, need a population concentrated in urban areas as a pre-condition for development, as mentioned. With industrialisation, this phenomenon progressed in the 1980s, just as it did in the 1970s. The percentage of the urban population in the total population rose from 57 per cent in 1980 to 74.7 per cent in 1990. Accordingly, the ratio of urbanisation in Korea was almost the same as the advanced countries, for example, 74 per cent in France, 75.2 per cent in the US, and 77.4 per cent in Japan in 1990 (KNSO 1995).

The regional distribution of households in <Figure 4.7> shows the degree of urban concentration of households as a unit of purchase more clearly.

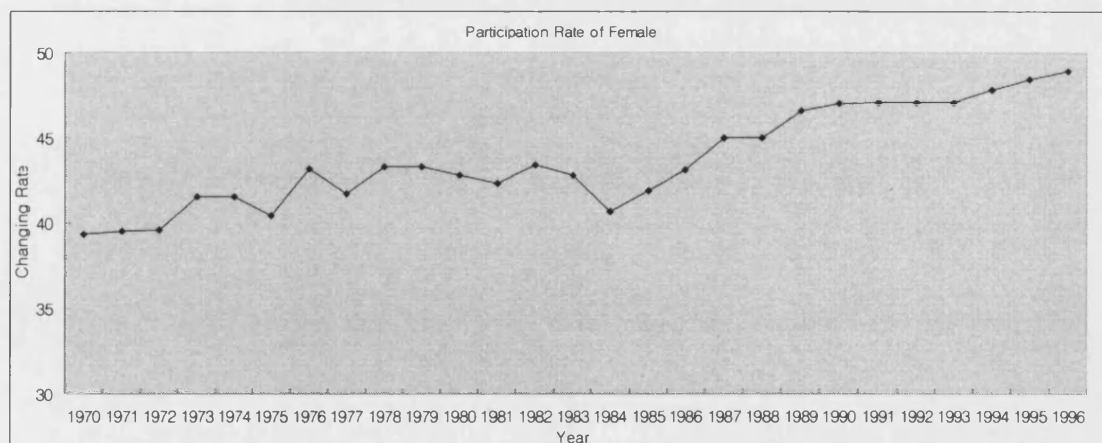
**Figure 4.7** **Number of Households**



Source: KNSO, Population & Housing Census, each year

While the number of households in urban areas increased by over 80 per cent for ten years to 8.5 million in 1990, from 4.7 million in 1980, those in non-urban areas declined to 2.9 million in 1990, from 3.3 million in 1980. This was regarded as a phenomenon that accompanied the process of the movement of the population to urban areas from agricultural areas. This meant that most of the new households were concentrated in urban areas, and, to that extent, they were a basis for the development of the retail industry, and particularly of big retail companies.

**Figure 4.8** **Proportion of Economically Active Females\***



\*The proportion=Economically Active Female/all 15 Years old and over Females  
Source: KNSO, The Economically Active Population Survey, each year.

The proportion of economically active females is also a remarkably influential factor on consumption patterns and so on the development of the retail industry. Its influence may be realised through, on the one hand, a decrease in household labour, and, on the other hand, an increase in income. The former inevitably causes people to use retailers, particularly food shops, increasingly, and the latter provides the resources enabling the rise in consumption. According to <Figure 4.8>, the female labour force participation rate was 42.8 per cent in 1980, but it rose to 47.0 per cent in 1990. In fact, a double income family due to female employment was considered to spend more money on eating out, and buying furniture and goods for household affairs than a non-double income family (Jeong Geonhwa 1998: 206). Therefore, even if the change in the figures was not large, the overall rise, particularly since the mid-1980s, was estimated to have a positive effect on the retail industry.

### **3. The State of Inequality since the 1980s**

#### **3.1. The Improvement of Income Inequality**

In general, it is understood that there was an improvement in income inequality in the 1980s even if there is some controversy around the matter. In particular, most researchers agree that there was an improvement in income inequality in the 1990s.

**Table 4.2 Trends of the Gini Coefficient in the Whole Country**

	<b>1970</b>	<b>1976</b>	<b>1980</b>	<b>1985</b>	<b>1988</b>	<b>1993</b>
<b>Gini</b>	0.332	0.391	0.389	0.345	0.336	0.310

\*Gini is the result from Ju, Hakjung (1979) and Economic Planning Board (EPB, 1987, 1990).  
Source: as cited in I Jeongu and Hwang Seonghyeon (1998: 159, 165)

According to <Table 4.2>, the result of Ju Hakjung and EPB which are regarded as official data, the Gini Coefficient which was aggravated by the end of the 1970s can be presumed to improve from the early 1980s. While the level of the Gini was around 0.39

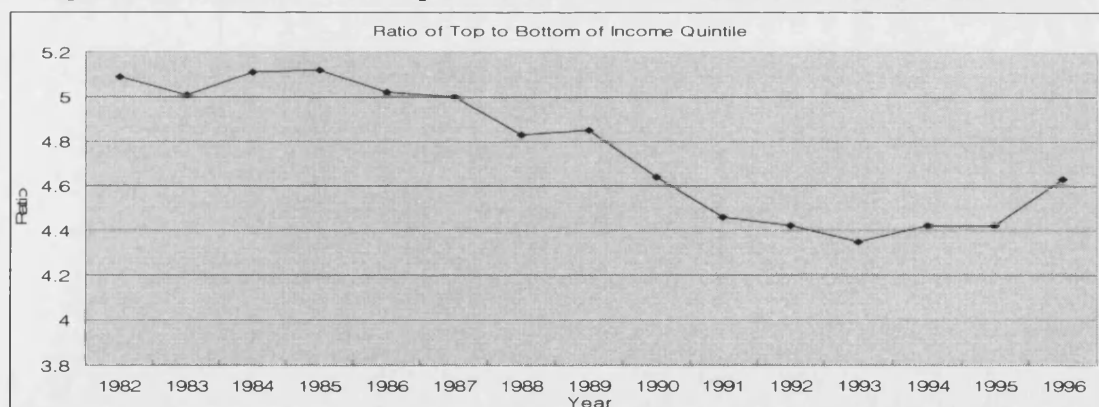
in the late 1970s, it had improved to the level of 0.34 in the second half of the 1980s and to the level of 0.31 in the early 1990s.

**Table 4.3 Trends of the Gini Coefficient in the Urban Sector**

Year	Gini Coefficient
1982	0.309
1983	0.309
1984	0.311
1985	0.311
1986	0.307
1987	0.306
1988	0.302
1989	0.304
1990	0.295
1991	0.287
1992	0.284
1993	0.281
1994	0.284
1995	0.284
1996	0.291

Source: KNSO, Monthly Income and Expenditure per Urban Household, each year

**Figure 4.9 Ratio of the Top and Bottom levels of the Income Quintile**



Source: KNSO, Monthly Income and Expenditure per Urban Household, each year

The urban sector means both the urban labour households and the urban non-labour households and the latter is composed of businessmen and the self-employed. Due to limitations in the statistical data, here, the state of inequality in the urban sector is shown through data of labour households in the urban sector. According to <Table 4.3>,

the Gini Coefficient in the urban sector improved from the figure of 0.311 in 1984 and 1985. In particular, its curve after 1989 says that the degree of improvement became clearer and clearer and it recorded 0.281 in 1993. Even if it rose after that year, it was not over 0.3 even in 1996 when it was 0.291. The ratio of the top (fifth) and bottom (first) levels of the income quintile show very similar trends to the Gini coefficient during the same period. The ratio which was 5.12 in 1985 declined to 4.35 in 1993. Its improvement was also particularly remarkable from 1989. It was 4.42 in 1995, but in common with the Gini it increased in 1996. Therefore, it can be said that income inequality in the urban sector has improved in the period between the mid-1980s and the mid-1990s.

In sum, the situation of inequality in terms of income became remarkably different from the middle of the 1980s, compared with the period of the 1970s. This may be a result, on the one hand, of rapid economic growth and, on the other hand, of an improvement in the rights of the labour class with the development of democracy since the middle of the 1980s.

### **3.2. Inequality of Wealth**

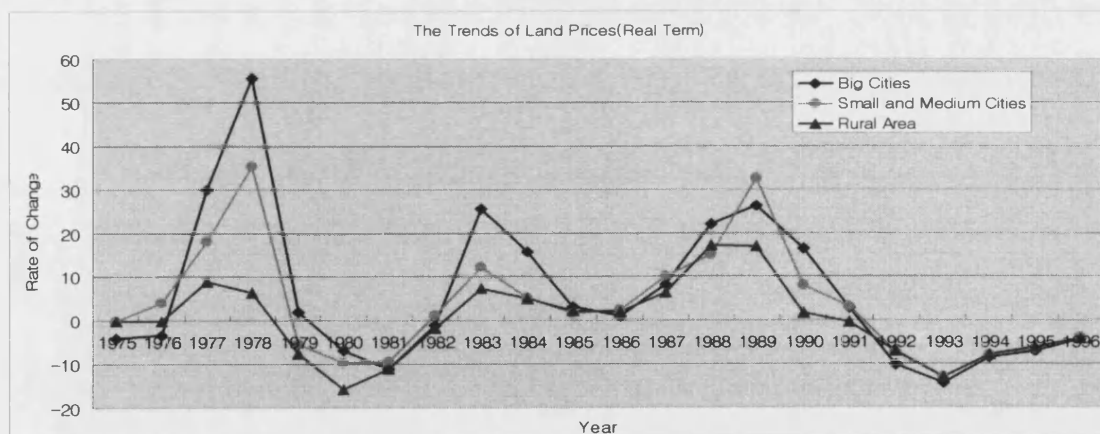
As was mentioned in Chapter 2, the situation of land inequality as a form of wealth had deteriorated rapidly since the earlier period of economic development. As we shall see, it is likely that this situation had hardly improved since the middle of the 1980s. However, the change in the financial market has to be considered in order to analyse the inequality of wealth in this period. Here, what should be noted is the difference in the financial market between the periods before and after the mid-1980s. The financial market, and particularly the stock market, developed very rapidly from the mid-1980s.



The Korea Composite Stock Price Index (KOSPI) increased to 1007 on April 1, 1989 from 163 at the end of 1985. The size of the population which invested in stock rose to 19 million in 1989 from 0.8 million in 1985. It had increased twenty four fold over four years (Securities Supervisory Board 1997: 622-623, 632). Its importance can also be seen by the fact that most newspapers have informed their readers of the stock market's whole price board every day since that time. This kind of change was deeply related both to the economic boom since 1986 and the privatisation of state-run companies which sold most of their shares to ordinary people and so led them to become involved in the stock market. Due to this change, in contrast to the 1970s, when land was only taken into account as a kind of wealth, financial assets should be considered as one of the main kinds of wealth since the mid-1980s.

First, what should be noted is the change in environment influencing trends in land prices between the periods before and after the mid-1980s.

**Figure 4.10 Trends of Land Prices**



\*Real Term calculated by the author through the GDP deflator since 1970, based on 100 at 2000.

Source: MOCT, Survey of Land Prices, each year

According to <Figure 4.10>, even if the increasing rate of land prices in urban areas was broadly higher than in the countryside, the convergence of these trends became

clearer and clearer with its relative stability since the mid-1980s. This kind of phenomenon is closely associated with the expansion of urbanisation to previously non-urban areas. The rate of urbanisation, which means the proportion of the population living in urban areas compared with the total population, was 65.4 per cent in 1985 and rose to 78.8 per cent in 1995 as the speed of urbanisation was decreasing (KNSO, Population & Housing Census, each year). This implies that people were concentrated in both small and medium sized cities and counties in the period characterised by a relatively high degree of urbanisation. In contrast, people were mainly concentrated in big cities in the period typifying a low degree of urbanisation. The relative moderation of the rate of increase in land prices might also be regarded as a result of such phenomena since the mid-1980s. Thus, the distribution of landownership in terms of size became an important factor as a criterion of land inequality from that time, unlike the 1970s, when the rate of increase in land prices was more important due to the regional gap in its rate of increase. According to the survey of the distribution of landownership which was carried out, for the first time, in 1986, its inequality was already considered to be seriously uneven as is shown in <Table 4.4>. The top 5 per cent of the total population owned 65.2 per cent of all privately owned lands and the top 10 per cent owned 76.9 per cent in 1986. The ratio of lands owned by the highest 20 per cent of the population was 87.7 per cent at the same time. In contrast, only 2 per cent of all the privately owned lands belonged to the lowest half of the population (I Jinsun 1993: 113)

This serious level of inequality in land is unlikely to have improved even after this period. Due to limitations in the data, it can only be estimated through the second

survey on the distribution of landownership which was carried out by the Ministry of Government Administration and Home Affairs (MOGAHA) in 2005.

**Table 4.4**                      **Distribution of Privately Owned Lands**

The Ratio in Population	Cumulative Owned Size of Lands (Year, per cent)	
	1986	2005
Top (1%)		51.5
Top (~2%)		65.3
Top (~5%)	65.2	82.7
Top ~10%	76.9	91.4
Top ~20%	87.7	93.4
Top ~30%	93.1	

Source: I Jinsun 1993: 113; MOGAHA Gae-in-byeol-to-ji-so-yu-bun-po-hyeon-hwang-myeon-jeog-gi-jun [The State of Distribution of Individual Landownership-In Owned Size], 2005

According to the survey of <Table 4.4>, the highest 2 per cent of the total population owned 65.3 per cent of privately owned lands in 2005, which was equivalent to the size of the lands owned by the highest 5 per cent of the population in 1986. The highest 5 per cent of the population owned over 80 per cent of privately owned lands in 2005. The figure of 93.4 per cent which indicated the ratio of the size of the lands owned by the highest 20 per cent in 2005 was almost the same as the figure of 93.1 per cent, the ratio owned by the highest 30 per cent in 1986. Due to the limitations in the data (mentioned previously), the precise picture of land distribution may be difficult to draw in the period between 1980 and 1996, which will be focused on in this chapter. Moreover, given that a serious economic crisis took place in 1997, it is more difficult to estimate the situation in the period between 1980 and 1996 by using the results of 2005. Nevertheless, if the trends of the period before and after 1986 are considered, at least it cannot be said that the inequality of landownership improved during that period. In particular, Hyun's analysis that the Gini Coefficient of land was 0.86 in 1993 implies

that the situation of inequality in landownership was never sound during the period of the 1990s in the Korean economy (Hyeon Jingwon 1996: 266).

Research on the distribution of financial assets has also not been a popular topic in the Korean economy. Especially, because the taxation system on financial assets was not well facilitated during the 1990s, it was not even easy to calculate the size of the financial assets owned. Due to this problem, most research which tried to estimate its distribution did so through a special survey using its own methods. This is the reason why there were differences in the results produced by different pieces of research. Nevertheless, there were usually affinities in the various research results when measuring the degree of inequality in financial assets relative to income; almost all such results measured the degree of inequality in financial assets as being much higher than that of income.

**Table 4.5**                                      **Gini Coefficient of Financial Assets**

	<b>Year</b>	<b>Gini of Financial Assets</b>
<b>Kwon</b>	<b>1988</b>	0.770
<b>Daewoo Economic Institute (DEI)</b>	<b>1993</b>	0.767
	<b>1994</b>	0.724
	<b>1995</b>	0.656

Source: Kwon 1992; DEI 1993-1995, as cited in I Jeongu and Hwang Seonghyeon (1998: 182-187)

<Table 4.5> shows that the inequality of financial assets as wealth was quite high, with a Gini coefficient of around 0.7, even if it was lower than the Gini coefficient of landownership. Here, what should be noted is the trend during the period of the 1990s. The survey by DEI shows that its inequality decreased gradually during the period, even though its absolute level was still high. This can be understood as a combination of a decline in income inequality, as will be seen, with the rapid development of the financial market since the end of the 1980s. In other words, as people increased their

ownership of financial assets with the development of the stock market, the Gini coefficient of financial assets was able to decrease gradually.

In sum, it cannot be said that the situation of wealth inequality had been sound in the Korean economy since the mid-1980s. Broadly its degree hardly improved at all during this period. In particular, it is certainly possible that inequality of landownership was exacerbated after the mid-1980s. In contrast, income inequality was improved to a large extent during the same period and this is related to a slight improvement in financial assets during this period. As will be seen, the relative abundance resulting from this change will provide the financial resources for consumption expansion while socio-economic liberalisation will provide its institutional background.

#### 4. Stratifying Retail Industry in expansion of the retail industry: Modern Department Store vs. Traditional Market

##### 4.1. The State of the Retail Industry and the Traditional Market

**Table 4.6** Annual Sales by the Retail Industry

	1979	1982	1986	1988	1990	1992	1995	1996
<b>Annual Sales (Billion Korean won)</b>	7,187.1	12,655.5	21,673.8	29,036.5	41,108.1	53,624.6	85,760.7	90,906.8

Source: KNSO, Wholesale and Retail Trade Census (1979, 1982), Wholesale and Retail Trade Census with the Overall Establishment Statistics (1986), Wholesale and Retail Trade Survey (1988, 1990, 1992, 1995), Wholesale, Retail Trade and Service Industry Census (1996)

According to <Table 4.6>, the total sales of the retail industry have continuously increased since the early 1980s. They were 12,655 billion Korean *won* (17,292.5 million US dollars) in 1982 but rose to 21,673 billion *won* in 1986. As it was 90,906.84 billion *won* in 1996, it was approximately 4.2 times the level of 1986.

<Table 4.7> illustrates that the number of retail shops had continuously increased during the 1980s. The figure of 542 thousand in 1982 rose to 710 thousand in 1990. Annual sales per shop had also continuously increased during the same period in accordance with a rapid increase in total retail sales.

**Table 4.7**                      **Number of the Retail Shops and Sales per Shop**

	1982	1986	1988	1990	1992	1995	1996
<b>The Number of Retail Shops</b>	542,458	637,762	673,552	709,888	737,667	771,019	738,063
<b>Annual Sales per Shop (Million Korean Won)</b>	23.3	34	43.1	57.9	72.7	111.2	123.2

Source: KNSO, Wholesale and Retail Trade Census (1982), Wholesale and Retail Trade Census with the Overall Establishment Statistics (1986), Wholesale and Retail Trade Survey (1988, 1990, 1992, 1995), Wholesale, Retail Trade and Service Industry Census (1996)

The sales of 23.3 million Korean *won* per shop in 1982, rose to 57.9 million Korean *won* in 1990. This tendency did not change in the 1990s. However, the fact that the number of retail shops increased continuously intimates a possibility that the structure of a small business as a general characteristic of the Korean retail industry continued. In this respect, the fact that the number of retail shops first decreased in 1996 to 738 thousand, from 771 thousand in 1995, is quite meaningful. Even if its decrease was not huge, this suggests that structural change was taking place in the retail industry around that period.

According to <Table 4.8>, the number of employees per retail shop had hardly changed from a number of two people since the early 1980s. Basically this shows that the size of the retail shop had not grown from the 1970s. This also explains that most retail shops were managed as family businesses in the period. Apart from this, annual sales per employee had grown in accordance with an increase in total sales. Therefore,

the overall Korean retail industry was still made up of small businesses even from the 1980s although the volume of sales grew rapidly with fast economic growth.

**Table 4.8 Number of Employees and their Performance per Retail Shop**

	1982	1986	1988	1990	1992	1995	1996
<b>Number of Employees per Shop</b>	1.7	1.9	1.9	1.9	1.9	2.1	2.1
<b>Annual Sales per Employee (Million Korean Won)</b>	13.4	17.7	22.6	30.2	37.7	53.6	58.6

Source: KNSO, Wholesale and Retail Trade Census (1982), Wholesale and Retail Trade Census with the Overall Establishment Statistics (1986), Wholesale and Retail Trade Survey (1988, 1990, 1992, 1995), Wholesale, Retail Trade and Service Industry Census (1996)

This situation can be directly linked to the state of the traditional market because a large portion of the retail industry in terms of sales was still covered by the traditional market. The following <Table 4.9> which was already shown in the Chapter II explains such a situation although precise analysis is difficult due to limitations in the data.

**Table 4.9 Number of Traditional Markets since the 1980s**

<b>Year</b>	<b>Number of Periodic Markets</b>	<b>Number of Permanent Markets</b>
<b>1979</b>	925	766
<b>1981</b>	884	785
<b>1983</b>	866	1,118
<b>1987</b>	755	1,083
<b>1988</b>	752	1,099
<b>1991</b>	686	1,176
<b>2000</b>	491	696

Source: KCCI, A Comprehensive Bibliography of the Retailing and Wholesale Industry (1992, 1995) as cited in Baek Insu (2003: 167); Institute of Korean Distribution Industry (2000: 5)

According to <Table 4.9>, the number of permanent markets, which forms the centre of the traditional market, increased even from the 1980s. Its number increased to 1,176 in 1991 from 785 in 1981. It was not until the 1990s that the number of traditional

markets decreased, even if their number for the year 2000 cannot accurately explain this trend. The traditional market seems to be related to the decrease in the number of the retail shops as we have seen in <Table 4.7>. In general, traditional markets in Korea were located along streets in the city centre, or villages, and varied in length from a few metres to kilometres. Okubo sketched the simple structure of the traditional market present around the late 1980s as follows: In the case of the Namdaemun Market, which was one of the largest traditional markets in Korea, there were a lot of buildings along both sides of the main street in the market, and many big street stalls were located consecutively on the ground floors of buildings. These stalls displayed various kinds of goods. Apart from this, there were various lunchrooms densely clustered along the middle of the main street and they also sold the ingredients of the food which they were selling. The total length of Namdaemun Market amounted to some kilometres and its huge size was remarkable. It was always too crowded to walk between the stalls (Okubo 1991: 51-52). Even though other traditional markets were smaller in terms of their length and scale, the structure and shape of the market was similar to Namdaemun Market. According to a survey by KCCI in 1981, the average number of shops per permanent market was 154 (Jo Gwansu 1981: 257). These investigations and surveys show that each traditional retailer in the Korean traditional market might be a small business and a traditional type of business to that extent. In addition to this, the situation of the traditional market has become worse and worse since then. The survey of the Institute of Korean Distribution Industry (IKDI) illustrates plainly such stagnation of the traditional market. According to its survey in 2000, the ratio of the traditional markets which were composed of less than 100 shops was 67.8 per cent of the entire traditional market and the ratio of those with 101-200 shops was 19 per cent. In contrast, the



traditional market of more than 400 shops was just 5.2 per cent (IKDI 2000: 31). It pointed out that 77 per cent of the whole traditional market was sluggish but that only 26.2 per cent had a plan to be refurbished (Ibid 2000: 24, 27). It also explained that 825 traditional markets (69.5 per cent) had no parking places on offer, and, furthermore, a large number of them did not draw customers due to the uneven ground of the market (Ibid: 71-72).

#### **4.2. The Change of the Status of the Department Store Industry**

##### ***Obtaining of Legal Status of the Department Store Industry***

In contrast to the traditional market, the department store industry began to distinguish itself from the general retail industry from the 1980s in terms of management and thus its position in the retail industry. Eventually its legal status also changed, although it was not until the early 1980s that the department store was legally defined as a retail institution even though in practice it had long existed as a purveyor of luxury goods. The significance of this was that the new legal definition reflected socio-political acknowledgement. According to *Si-jangbeob si-haenglyeong byeol-pyo1* [the Appended Chart No. 1 of the Enforcement Decree of the Market Law] in 1982, when the department store was defined for the first time in Korea, it was a large retail store which was organized into departments offering a variety of merchandise for comprehensive buying by consumers, and operated mainly through direct management (over 50 per cent in the ratio of direct management in total departments) (Ibid). It also laid down the minimum size of the building which a department store occupied; this was listed as follows: over 5,000 square metres in Seoul, 3,500 square metres in regions outside Seoul. Additionally, the size of store had to be over 60 per cent of the whole

building, and some facilities relating to sanitary and consumer protection etc. also had to be provided (*Si-jangbeob si-haenglyeong byeol-pyo*2 [the Appended Chart No. 2 of the Enforcement Decree of the Market Law] 1982). Eventually, the regulation concerning the size of the building, in which the department store operated, was eliminated, and instead, the regulation of the size of the store was defined as over 3,000 square metres in Seoul and over 2,000 square metres in regions outside Seoul in *Si-jangbeob si-haenglyeong* [the Enforcement Decree of the Market Law] in 1987. The clause stipulating over 50 per cent of direct management in total departments was retained in the law. However, a clause that over 5 per cent of total employees had to possess certificates of expertise in sales, was newly added, and the facilities regulation grew more stringent, stipulating 4 to 10 items. For example, parking lots, a facility for cultural events, and a broadcasting system for consumers in the building etc. was added in the Enforcement Decree of the Market Law of 1987 (*Si-jangbeob si-haenglyeong byeol-pyo*2 [the Appended Chart No. 2 of the Enforcement Decree of the Market Law] 1987). The regulation concerning the size of the store was amended to 3,000 square metres for the whole region including Seoul, and the clauses relating to the ratio of direct management and facilities remained the same (*Do-so-mae-eob-jin-heungbeob si-haenglyeong byeol-pyo* 2 [the Appended Chart No. 2 of the Enforcement of Decree of the Law for Promotion of Whole and Retail Industry] 1991).

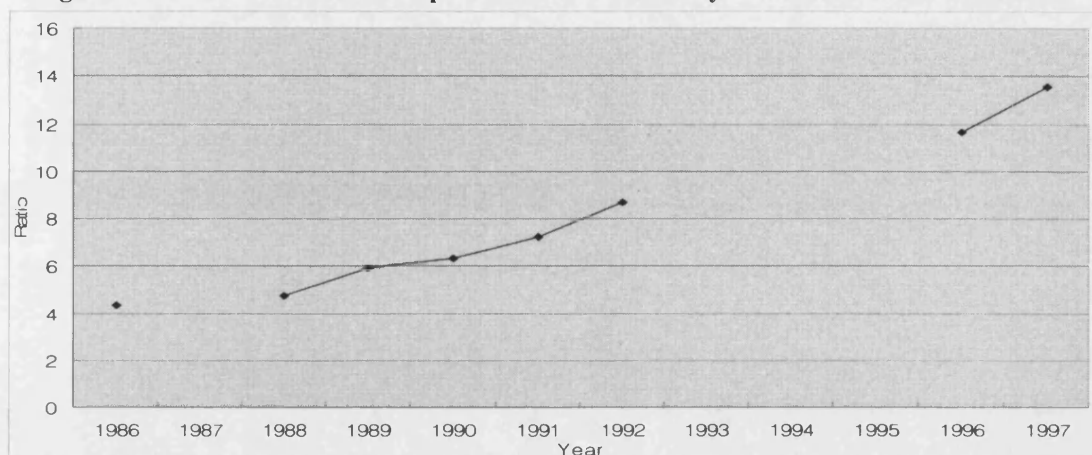
As we have seen, the definition of the department store in Korea was not organic, but was instead dictated by various aspects of regulation. In fact, generally its definition was focused on the characteristic of the department store in terms of both the industrial classification and marketing in a way similar to the US and Japan. On the other hand, it was defined with the goal of promoting the department store industry in Korea (Okubo

1993: 15-17). For instance, such goals were shown through the regulation of the minimum size of the shop and the building in which the department store was stationed. It could also be shown through the fact that there was a strong regulation concerning facilities even though the shop needed to be mindful of the need for such facilities before regulation, in order to raise turnover. In particular, the strict regulation relating to the proportion of direct management in total departments was inherently unique. While direct management or the letting system is one of the strategies which could be chosen by its own management, the department store had provide at least 50 per cent of the direct management in total departments in Korea. This guidance reflected the government's goal of shaping the retail industry, including management economies of scale. The Korean government chose the department store in the period of structural change within the retail industry as a representative institution to modernise the retail industry in terms of management and marketing. Even though the number of department stores rose and keen competition emerged between them in the late 1980s, size regulation became stronger. The Korean government raised the minimum criteria of shop size to 4,000 square metres for the whole region with the Enforcement of Decree of the Law for Promotion of Wholesale and Retail Industry 1995. It did not change the rule of requiring over 50 per cent of direct management at that time (*Do-so-mae-eob-jin-heungbeob si-haenglyeong byeol-pyo 2* [the Appended Chart No. 2 of the Enforcement of Decree of the Law for Promotion of Wholesale and Retail Industry] 1995).

### ***Rapid Growth of the department store***

As mentioned, the ratio of the department store industry in total retail sales was trivial in the 1970s. However, the status of the department store industry in the retail market changed from around the mid-1980s. This situation can be shown through the ratio of the department store industry in total retail sales since the mid-1980s.

**Figure 4.11 The Ratio of the Department Store Industry in Value of Total Retail Sales**



\*Absence of data is due to the fact that there was no survey or no inclusion of the department store in the survey that year.

Source: KNSO, Wholesale and Retail Trade Census with the Overall Establishment Statistics (1986, 1991), Wholesale and Retail Trade Survey (1988, 1989, 1990, 1992, 1997), Wholesale, Retail Trade and Service Industry Census (1996)

It was not until 1986 that the department store industry first obtained separate status among various retail formats in the retail industry in the official statistics, even if its legal name was defined in 1982. Thus, it took a few years for the department store industry to be a statistically meaningful body after obtaining legal status. This is evidence of the change in the status of the department store industry. According to <Figure 4.11>, the ratio of the department store industry in total retail sales was just 4.3 per cent in 1986. This was not a trivial performance, given that its ratio in total retail sales was presumed even under 0.2 per cent in 1979. However, after that, its performance was more remarkable as the ratio increased to 8.7 per cent in 1992. Again

after 5 years, it expanded to 13.6 per cent in 1997. In particular, the legal definition concerning the size of the store was strengthened in 1987 and 1991 respectively. This demonstrated that its ratio increased even more rapidly than official statistics observe. The number of department store shops had also increased rapidly during the period. As mentioned, whereas there were just two or three department stores in Korea in 1970, the number of department store shops rose to 97 in 1986. Even though the number decreased to 60 due to the higher legal criteria in size in 1988 and 1991, it increased again to 91 in 1992, and to 120 in 1996 (Wholesale and Retail Trade Census with the Overall Establishment Statistics, 1986; Wholesale and Retail Trade Survey, 1992; Wholesale, Retail Trade and Service Industry Census, 1996).

The remarkable growth of the department store can be better assessed through comparison of department store shops with shops belonging to other parts of the retail industry.

**Table 4.10 Comparison of per Shop Sales between the Department Store and the Rest**

	1986	1991	1996	Average Rate of Increase per Annum** (%)	
				1986-1991	1991-1996
<b>Sales* per Department Store (Million Korean Won)</b>	9,699.9	41,903.8	88,502.6	25.5	10.2
<b>Sales* per Retailer excluding the Department Store Industry (Million Korean Won)</b>	32.5	67.5	108.8	8.4	4.4

\*Sales are a nominal term by Sources.

\*\* Average Rate of Increase per Annum is a real term produced by the author through CPI based on 100 at 2005.

Source: KNSO, Wholesale and Retail Trade Census with the Overall Establishment Statistics (1986, 1991), Wholesale, Retail Trade and Service Industry Census (1996)

According to <Table 4.10>, sales per department store shop were 9,699.9 million Korean *won* (11 million US dollars) but sales per retail shop excluding the department store industry amounted to just 32.5 million Korean *won* (36.9 thousand US dollars). The gap in sales size between both was already quite big as the former was about 300 times as large as the latter. What should be noted here is the gap in growth after that. Sales per department store shop grew an average 25.5 per cent per annum in real terms during the period between 1986 and 1991, while sales per retail shop grew just 8.4 per cent per annum in the same period. This propensity hardly changed even in the first half of the 1990s as 10.2 per cent of the former was much higher than 4.4 per cent of the latter. As a result of this, the gap in sales size per shop expanded to over 800 times in 1996. The number of employees per department store shop also increased to 744 people in 1996 from 217 in 1986 while that of most traditional retailers remained at around 2 people during the time.

This rapid development of the department store industry and its distinction can briefly be shown by comparison with the British department store industry. As one of the modern retailing formats such as co-operatives and multiples, the department store format which was known to emerge around the middle of the nineteenth century in Britain, competed with other modern retail formats in achieving market share in the mass market (Fraser 1981: 130). In this process, it adopted the strategy of low prices through volume purchasing which could be competitive against other types of modern retailers, in this way they were called 'price cutters' and 'under cutters' (Jefferys 1954: 20). However, they gradually focused on the middle-class as their main customers. This tendency entailed the change of their selling points towards better services, amenities, including restaurants, luxurious decor, etc. even if they did not give up the strategy of

low prices. They offered rest-rooms and writing-rooms for the exhausted lady. Goods were delivered, carefully wrapped. Goods could be exchanged if they were later considered unsatisfactory (Fraser 1981: 130-131). Thus, according to estimation by Jefferys, even if the British department store industry continued to develop, its share in the total retail sales in the UK was at most as much as 5-6 per cent in the 1950s. The rest was composed of sales by Multiples (18-20 per cent), Co-operatives (10-12 per cent) and other retailers (around 65 per cent) including traditional retailers (Jefferys 1954: 61). In contrast to this, the Korean department store industry developed much more rapidly from under 1 per cent of the total retail sales at the end of the 1970s, and its share in the retail market eventually increased to over 13 per cent for about 15 years. Department stores in Korea thus absorbed a large number of consumers who were likely to be Multiples' and the Co-operative's customers in the UK. In other words, this suggests that the category of customers shopping at department stores is wider in Korea than in the UK.

### ***Coming to the Surface of Conflict with the Traditional Retailers***

As we examined, the main role in the retail market had been undertaken by the traditional market in the 1970s but the portion of the department store industry was remarkably trivial in the market even in the early 1980s. Due to this, there was little conflict between the department store and traditional retailers in the 1970s. The department store dealt just with a few wealthy people with limited goods and the traditional retailers provided most people with essential goods. Thus it could be called a peaceful period in terms of the horizontal competition between the retail formats. However, the development of the department store industry broke such a stable

situation. Under conditions of asymmetric development among retail formats as competitors, conflict to assume market share was bound to crystallise between them. The phase of the conflict between them was not interactive but one-sided because of the difference in managerial development and financial ability. The department store swept everything before it, but traditional retailers found such change nearly impossible to deal with. This situation made it inevitable for the government to aggressively intervene to slow the pace of change in the retail market, even though it had the goal of modernising the retail industry through the development of big business. Various regulations affecting the retail industry were closely related to the change in status of the department store within the retail industry. In fact, the clear regulation of the department store was directly connected to the protection of small and medium size traditional retailers (SMSTRs). One of the representative policies for the protection on SMSTRs was articles which contained stringent restrictions against the establishment of new retail institution. This restrictions were contained in the Law for the Promotion of the Wholesale and Retail Industry, which was a basic law concerning the retail industry (*Do-so-mae-eob-jin-heungbeob 6jo, 15jo* [Article 6 and 15 of the Law for the Promotion of the Wholesale and Retail Industry] 1986). Another regulation affected the big retailers and restricted their operations with respect to operation times and holidays etc. (*Do-so-mae-eob-jin-heungbeob 16jo* [Article 16 of the Law for the Promotion of the Wholesale and Retail Industry] 1986). Of course, these laws arose as a result of the increased conflict between big and small retailers, thus complaints from the latter (KCCI 1999: 46).

The Fair Trade Act protected SMSTRs. The Korea Fair Trade Commission (KFTC) restricted the period within which bargain sales were offered by department stores to



just 10 days each and 4 times a year in *Hal-in-pan-mae-un-yongjun-chig* [The Working Standard of Discount Sales] in 1981 and subsequently, regulated sales with gifts by department stores in 1982. It also strengthened the regulation of discount sales by department stores by establishing *Yu-tong-eob-gye hal-in-teug-byeol-pan-mae-haeng-wi-e dae-han bul-gongjeong geo-lae-haeng-wi ji-jeong go-si* [The Specification on Behaviour of Unfair Trade concerning Discount Special Sales by Retail Companies] in 1983, which prohibited excessive periods of discount sales and the improper expression of prices etc. (Shinsegae Department Store 1987: A Chronological Table of Retail Policies, KFTC 1983). Furthermore, the KFTC began a regular investigation on the unfair trade of department stores every year from 1986 (KCA 1990). Even if the investigation was basically a policy for the protection of consumers, it was somewhat in line with the regulations applied to the department store industry. As we can see, most of the regulations were closely related to the popularisation strategy of the department store, not the differentiation strategy in luxuries. In other words, these regulations came about because the market share of the department store industry in the retail market expanded rapidly from the 1980s.

In sum, the development of retail formats has been different even if the whole retail industry has grown rapidly since the 1980s. While most traditional retailers retained their existing management structure, such as their small size and family run operation despite an increase in sales, the department store industry developed into the modern type of retail format with the rapid growth in sales. In this situation, this gap was directly linked to an increase in sales portion of department stores within the retail industry, and this produced conflicts between retail formats. Consequently, various

kinds of regulations were brought to bear on the big retailers from the 1980s, reflecting the huge gap between the department store and the traditional retailer.

## **5. Concluding Remarks**

This chapter has examined the circumstances of, and the situation of the retail industry during the period between the 1980s and the mid-1990s. While the retail industry in the 1970s was unusually backward, its state since the 1980s might be considered a process of normalisation because the modern retail format has developed rapidly. As the modern retail format grew in the process of industrialisation in advanced countries, the department store as a modern retail format was rapidly developed in the Korean economy from the 1980s. Total retail sales grew as much as 8.8 per cent per annum in real terms between 1986 and 1996. Sales of the department store industry increased as much as 20.2 per cent per annum while that of the traditional market was about 8 per cent per annum in the same period. Thus the gap in growth between the department store and the traditional retailer became ever bigger even if the latter still took a much larger share of the consumption market. Thus the market share of the department store industry in total retail sales increased to about 12 per cent in 1996 from 4.3 per cent in 1986 (KNSO, Wholesale and Retail Trade Census with the Overall Establishment Statistics 1986; Wholesale, Retail Trade and Service Industry Census 1996).

This type of development made the position of the Korean department store industry distinct from that of other countries. For instance, in terms of market share in total retail sales, the department store in the UK was at most as much as 5-6 per cent in the 1950s even if it had developed from the middle of the nineteenth century. Its speed of growth

was very different as well. The market share of the department store industry increased by about 3 times in just 10 years in Korea, while a similar performance of the department store industry in the UK took 40-50 years from about 2 per cent in the 1910s to about 6 per cent in the 1950s (Jefferys 1954: 61). In this respect, it is clear that the department store was the only leading hitter of the Korean retail industry since the 1980s, and thus the period can be called the golden age of the department store industry.

Rapid development of the department store industry resulted in a different situation from the 1970s in the Korean consumer market. That was the beginning of the stratification in consumption. As we have seen earlier, the Korean consumer market was uniform in the traditional market in the 1970s even if it grew quantitatively. There were some department stores at that time but their role in the consumer market was very trivial under the condition of consumption repression in various aspects. This situation branded the 1970s as the age of backwardness in the retail industry, or of the traditional retailer. However, the equivalent situation in terms of consumer market repression was broken by the rise of the department store industry. This kind of change is unlikely to have had an effect on the consumer market alone. It is highly possible that the stratification of consumption impacts on the social psychology of equality and makes society unstable. However, it seems that economic environments such as the increase in income resulting from high economic growth, were very useful for mitigating possible social tension. What is more, income inequality which had been exacerbated since the 1970s was considerably improved and this meant the purchasing power generally increased at each income level. Thus consumption of most people expanded explosively regardless of income level, apart from the stratification of the consumption market in

the period between the mid-1980s and the 1990s. The strategy of the department store, which will be examined in the next chapter, also played an important role in this result.

## **Chapter V: Consumption Liberalisation, Aggressive Consumers and Active Retail Industry in Rapid Economic Growth since the 1980s**

### **1. Introduction**

Consistent with the existing structure of this thesis, this chapter deals with the period between the early 1980s and the mid-1990s and concentrates on an analysis of the causes of the effects that were explained in the previous chapter. Like Chapter III, this analysis will be carried out in terms of three subjects, i.e. government, consumers and retailers, by which the retail industry is crucially influenced. This chapter shows that the changes in their behaviour resulted in the remarkable changes seen in the retail industry since the 1980s.

What is dealt with first is the policy of the government. The change in policy can be represented in terms of consumption liberalisation. It includes socio-economic policies as well as actual policies directed at the retail industry. Even if the period since the 1980s is called the period of the change from the state to the market in Korea, policy was still influential. In particular, the government's industrial policy was an important factor for the development of industry because it was related to legal support in terms of taxation and protection. In this respect, an analysis of laws and regulations over time is useful for uncovering the political situation relating to consumption and the retail industry. Another subjective factor needed to actualise the development of the retail industry was consumers. Their attitude to consumption was one of the most influential factors for the retail industry. As we have seen in Chapter IV, conditions such as socio-economic environment, the level of income and the composition of the population

surrounding consumption were rapidly creating favourable circumstances for consumption in the 1980s. These encouraging factors, in fact, seemed to contribute to the change in consumption in terms of both the quantitative and the qualitative aspects. However, the actual change in the retail industry is unlikely to be explained only by the change in environment. In other words, its concrete structure can be different in countries with similar conditions. This is the reason why we should examine subjective factors. In this respect, an analysis of consumer behaviour is likely to be very significant for the era of mass consumption which occurred from the 1980s. Thus this chapter will examine how consumers responded to these changes with altered consumption attitudes. There is no need to dwell upon the importance of the retail industry itself for the development of consumption and the retail industry. Here, we will focus on the department store as one of the representative modern retail institutions, and on what strategic changes the department store underwent in responding to changes in the policy and modified consumer attitudes. This will also be linked to the analysis of the absence of the appearance of the other retail formats for mass consumption such as supermarkets and general merchandise stores as a distinct phenomenon in the Korean economy. In general, outside Korea the department store was initially one of the representative retail institutions for mass consumption, but it changed its position to retail luxury goods after competition with, and the defeat of other institutions for mass consumption, such as supermarkets and discount stores. On the contrary, the department store in Korea was a retail institution for luxuries from the time of its original appearance as an imported institution in the earlier period of industrialisation, and it became a dominant institute for mass consumption with the expansion of the consumer market in the 1980s. In other words, the development process of the department store format in Korea was different

from that of its general type, particularly in the advanced Western countries. A similar phenomenon appeared from the early period of the 1900s in Japan, as a late developing country which imported the department store (Larke 1994: 175-177; Ikeo 1997: 150-151; Young 1999: 57-59). In this respect, the popularisation of department stores seems to be regarded as a common phenomenon occurring in countries which import it, such as late developing countries. However, there is also a considerable difference in the process of retail evolution between such countries. While, in Japan, the retail institution of the general merchandise store (GMS) emerged and fiercely competed with the department stores in the era of mass consumption since the 1950s, in Korea, there was no competitor which struggled with the department store to share the mass consumption market even in the era of mass consumption since the mid-1980s. This phenomenon can be understood as a result of a unique synthesis of both the strategy of the department stores, which tried to raise their market share, and the attitude of consumers, who responded to the existing socio-economic environment at that time. Moreover, as we will examine in the next chapter, the difference might be presumed to influence the behaviour of consumers in the future and so the strategy of a newly established retail institution in Korea, such as the discount store for mass consumption in the 1990s.

## **2. The Change of the Political Environment**

### **-The Retreat of the State and Liberalisation-**

Even though the beginning of the 1980s in Korea was characterised by a much more dismal atmosphere, because of the military state, than the period at the time of the coup in the early 1960s, it is ironic that this was the period when the retreat of the state and the process of liberalisation progressed more rapidly than at any period in the past. This

phenomenon, particularly, became clearer in the second half of the 1980s, with the dramatic boom of the Korean economy. In this regard, the Korean government as a hard state was regarded as being on a different trajectory in the late 1980s to that of the 1970s. The state as an authoritarian entity, on the one hand, transferred its authority to impose its political power to people, and the state as a regulatory entity, on the other hand, gave the initiative of economic growth to the market and the private sector gradually. The retreat of the tides of authoritarianism and the weakening of regulation became increasingly clearer in all fields of Korean society, and proportionate to the speed with which this occurred, consumption repression was also liberalised.

### **2.1. The Sprouting of Change in Economic Policy**

As mentioned, the 'Monopoly Regulation and Fair Trade Act (MRFTA)' which was enacted at the end of 1980 was a sign of the change of economic policy towards the market. This tendency was expressed clearly in the aim of the establishment by law:

*"As the pillar of economic leadership was transferred to the private sector from the government gradually, through fair competition of private companies ..."* (The Reason of Establishment of MRFTA, 1980)

Even though the meaning of the announcement did not often coincide completely with reality, it was clear that such an announcement by the government had significance concerning the direction of policy in the future. In particular, it was worthy of notice because the announcement of the government was connected with other policies such as the expansion of import liberalisation and the privatisation of commercial banks. 'The



Korea Fair Trade Commission (KFTC)' on the basis of MRFTA was newly created as an internal organisation of EPB in 1981 with a chairman at the level of deputy secretary<sup>76</sup>. After that, the KFTC as a department to create a competitive market environment concentrated on promoting fair competition in the market by banning the abuse of market dominant positions, cartels, and various other unfair trade activities. Especially, focusing on the regulation of market dominant firms, the KFTC was raised as a representative supervisor of *chaebols* in the market.

The privatisation of commercial banks could also be considered an extraordinary policy. It was hardly possible, in its previous trajectory, that the government would release the banks because the bank owned by the state was one of the major tools used by the government to manage private companies and maintain leadership of economic policy. However, the government privatised 4 major commercial banks -Hanil, Korea First, Seoul Trust, and Cho Hung Bank - between 1981 and 1983<sup>77</sup>. In this process, the government put a strong limitation on shares owned, stipulating that they were not to exceed 5 per cent per corporate body or person, and limiting each person's ownership to 5,000 shares in order to retain the public character of the banking system. The government also imposed rigid public responsibilities concerning overall management, including the development of financial goods and loans by banks. Therefore, the privatisation of the banks in the early 1980s did not mean the actual privatisation of the financial sector. Despite this, such an action of the government was considered

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<sup>76</sup> Before KFTC, fair trade policy was operated at the level of a division under the Price Policy Bureau in EPB. Therefore, fair trade policy was operated mainly from the viewpoint of price policy and the authority of the policy was also very limited. In this regard, the establishment of KFTC in 1981 could be considered an extraordinary measure. After that, KFTC was separated from EPB as an independent organization from 1994 and the level of chairman rose to a secretary from 1996.

<sup>77</sup> This was understood as a beginning of the rush to privatization which took place in the 1980s.

sufficient to express a different attitude from earlier government positions. Even though economic liberalisation was not achieved right away with such policies, it could be said that the basic framework for it had been arranged (Song Daehui 1994: 46-47). However, it did not take long for the rush of privatisation to occur. The government published the grand plan of privatisation in 1987. The plan pointed out 11 companies including POSCO, Korea Electric Power Corporation (KEPCO), Korea Bank (KB)<sup>78</sup>. Even though not all companies among those listed were privatised in the late 1980s, privatisation subsequently became the dominant discourse in Korea with little controversy<sup>79</sup>.

The expansion of import liberalisation came into effect in this atmosphere. The government, which emphasised price stabilisation, tried to expand imports to resolve the problem in market mechanisms. By doing so, the rate of import liberalisation rose to 93.6 per cent in 1987 from 69.87 per cent in 1980 and 97.2 per cent in 1991 (Gim Uyeong et al. 2005: 37). The system of indication for imports was introduced both to ease the impact from imports, and to confirm the will of the government for imports. As mentioned, in this process, a number of foreign consumer goods were also imported, even if the rate of liberalisation was lower than that of industrial goods. In particular, diffusion of foreign goods stimulated consumers and thus was closely related to the rapid development of the department store industry with an increase in income in the 1980s.

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<sup>78</sup> These have been the largest companies within their industries in Korea.

<sup>79</sup> The rush to privatise was influenced largely by international trends, including privatization in Eastern European countries which were in the process of transition, and in Latin American countries which were recovering from 'the lost ten years in the 1980s' after the financial crisis. Due to such trends worldwide, there was a strong social atmosphere in Korea which made it impossible for developing countries to enter into the advanced economy without privatisation.

In the second half of the 1980s as the Korean economy faced a boom period with an optimistic outlook, liberalisation policy gathered strength. The sixth 'Five-Year Plan for Economic and Social Development', which began in 1987, suggested advances in the economic system and institutions, and an improvement in the quality of life as its goal, and stressed the promotion of the market economic system and the rearrangement of the role of government as a policy task (Gang Gwangha 2000: 99-114). In particular, before the Olympic Games held in Seoul in 1988, the government needed to make the atmosphere of Seoul more affluent and lively. From the fact that President Rho Tae-woo, who took office in 1988, stressed justice of distribution concerning economic matters in an inaugural address, the change of situation could be conjectured (No Taeu dae-tonglyeong, 1988a). Furthermore, President Rho announced *Gyeongje-min-ju-hwa seon-eon* [the Declaration of Democracy for the Economy] which gave priority to distribution for the development of democracy as an anniversary after one year of 6.29 *seon-eon* [the 6.29 Declaration]<sup>80</sup> (I Janggyu et al. 1995: 41). The atmosphere at that time was illustrated through a quotation from a civil servant as follows:

*"The conversation even among departments of economics was hardly possible without contents of equality and welfare. Economic policy was just treatment to resolve social conflict which had accumulated in the authoritarianism period."* (Ibid: 41).

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<sup>80</sup> The civil movement in June 1987 which resulted in 6.29 *seon-eon* [the 6.29 Declaration] was called *6wol hyeog-myeong* [the June revolution]. Rho accepted through the declaration, a direct vote system for the presidential election, which was a process proposed by the people. Just after 6.29 *seon-eon*, around 3,000 cases of industrial conflicts occurred in July and August 1987. This figure was over ten times that of the previous year (Yu, Jongil 1998: 123-124). This was interpreted as a reaction to coercive oppression of the labour sector, which was committed under the justification of economic recovery in the first half of the 1980s.

Controversy centering on the independence of the central bank was also suggested by the process of economic democracy as the authoritarian state retreated in the second half of 1987. In fact, because the Bank of Korea was completely subordinated to the government, being called 'a branch of the Ministry of Finance', it was accepted as a necessary requirement for the development of democracy regardless of the aim and efficiency of financial policy in the country. While the independence of the central bank was not realised despite acute conflict for a few years afterwards, its status with the government rose, and this conflict was interpreted as typical of the phenomena which occur in the process of the state retreating (*Jo-seon-il-bo* 26 March 1992; I Janggyu et al. 1995: 174-176). The chairman of the National Agricultural Cooperative Federation (NACF), was no different from a subsidiary agency of the government, and had advocated independent management of the NACF away from government control (I Janggyu et al. 1995: 64-67). Of course, this target was not realised immediately, but later the NACF did gain considerable autonomy.

## **2.2. The Change of Social Policy**

One symbolic event which showed that the state was retreating from intervention in everyday life, was when in 1982, the curfew which had been maintained for 35 years, was finally lifted. The curfew, which prohibited people from leaving their homes after midnight, began during the US military government's administration immediately following Korea's independence from Japanese occupation. This measure was criticised as one of a number of measures which were used to control people during that period. Thus, the military government led by President Chun chose to remove this curfew as a gesture towards relaxing the social atmosphere, and in so doing softened the public's

perception of a draconian government. Before and after the lifting of the curfew there were a number of other such events. The government removed the crackdown on long hair in men and the wearing of miniskirts by women, and allowed the uniforms and hairstyles of secondary students to change from their rigid army-style. The government additionally, tried to establish professional baseball teams, and weakened regulations against eroticism in various types of journal and film. Therefore such policies were criticised and branded the 3 Ss (Sports, Screen and Sex) to divert people's attention away from political matters at that time, and in doing so, they created a social atmosphere quite unlike that of the past (*Yonhap News Agency* 18 May 2005a). The beginning of TV broadcasting in colour in 1980 also greatly influenced changes in the social atmosphere<sup>81</sup>. It was inevitable that a sense of colour became more pronounced in society than it had been in the era of the black and white TV. In fact, some people in the field of advertising felt that Korean tastes for fashion and design were rapidly developed and diversified after television broadcasting in colour began. Furthermore, we can presume that the change in the colour environment in society had an effect on social psychology by gradually changing consumer attitudes. In this respect, the change in the APC was closely related to the change in the environment around consumption. Permission to travel abroad, which took place in the early 1980s, was also one of the important catalysts for social liberalisation. Foreign travel had been prohibited in the name of thrift for foreign exchange purposes, and the strengthening of social discipline during the regime of President Park. Only a few senior civil servants and businessmen could get permission to travel from the government. In these circumstances, as part of

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<sup>81</sup> It was a widely accepted opinion that this event attempted both to soften the social atmosphere and to compete with the regime in North Korea which broadcast colour TV from the middle of the 1970s, regardless of its degree of diffusion.

the liberalisation of foreign travel the government first issued a passport for foreign travel in 1983. This was an extraordinary measure, even though there were rigid limitations and the liberalisation applied only to people over 50 years old. Liberalisation was an irreversible movement. Limitations on foreign travel continuously weakened for people aged over 45 years old in 1987, over 40 years old in January 1988, and over 30 years old in July 1988. Finally, in 1989, the government lifted all regulations applicable to the age of people travelling, and the frequency of foreign travel (Gim Jeongman 1990: 29-31).

As we have seen, the events concerning liberalisation in the 1980s were closely related to the mode of everyday life. In particular, they were connected with the change in the consumption environment and thus they inevitably caused changes in attitudes towards consumption.

### **3. Government Policy on the Retail Industry, Following or Resisting**

As we have seen, the Korean government was not supportive of developing the retail industry in the 1970s. Thus, the most crucial factor in the backwardness of the retail industry was, as we pointed out, the policy environment at that time. It was not easy for policy change because the environment in which policy was made hardly changed, and thus the opinions of policy makers remained fixed. In this respect, policy making suffered from great inertia. Fresh policies applicable to the retail industry were only created in the early 1980s. For example, a basic law of the distribution sector, the Law of the Market, which was established in the early 1960s, was maintained at the beginning of the 1980s. The government continued to perceive the retail industry as merely a tool with which to make goods circulate. However, such perceptions and

associated policies could not prevail in the long run, given the changes that were occurring in the world. Little by little, policy impacting on the retail industry began to change in the 1980s, influenced by real world events. This phenomenon was demonstrated through the change in the basic law concerning the retail industry. Signs of change were shown by the Law of the Market being entirely amended at the end of 1981. A reform bill of the Law of the Market stated that the former version of the law was replaced because it was inconsistent with reality, and could not regulate mass distribution in the 1980s. For this reason, it classified the permanent market in the previous law into various categories, and regulated each in accordance with categories of distribution institutions, such as a wholesale market, a general retail market, department store, shopping centre and big shop. It also announced that the authority concerned would supervise them according to these distribution categories (Article 5 of the Law of the Market, 1981). This meant that various markets defined by law were already sufficiently established to influence the retail industry, or the government considered that they had the potential to do so at that time. Another characteristic of the amended law made it clear, for the first time, that the government could support the retail industry through the basic law, even if it was limited to chain businesses and the model market among permanent markets (Article 14 and 16 of the Law of the Market, 1981). This was considered a change of government policy which had previously only concentrated on supporting the manufacturing sector.

**Table 5.1 Change and Characteristics of the Basic Laws concerning the Retail Industry**

	<b>Si-jangbeob [The Law of the Market] (1961)</b>	<b>Si-jangbeob jeon-myeon gae-jeong-an [The Whole Amendment of the Law of the Market] (1981)</b>	<b>Do-so-mae-eob jin-heungbeob [The Law for the Promotion of the Wholesale and Retail Industry] (1986)</b>	<b>Do-so-mae-eob jin-heungbeob jeon-myeon gae- jeong-an [The whole Amendment of the Law for the Promotion of the Wholesale and Retail Industry] (1995)</b>
<b>The goal of the law or reason of amendment</b>	The sound development of the national economy	The modernisation of the traditional market and the improvement of status of SMSTRs through a chain strategy under the sound development of the national economy	The sound development of the national economy and the protection of the consumer	The strengthening of the competitiveness of the distribution industry before its openness and the retrenchment of distribution cost
<b>The definition of market</b>	Places for trading without a specific name	-The permanent market, which was classified into various types of market, such as a wholesale market, a general retail market, department store, shopping centre and big shop. -The periodic market.	-The permanent market -The periodic market -The big retailer: Department store Shopping centre Big shop -Wholesale centre -Chain business -Shopping street	-Same as the left column as previous law -but the big retailer was classified into the big retailer and the large shop (Supermarket, etc.) (Partial amendment in 1991)
<b>The articles of support for the retailer</b>	None	-Chain business -Model market of permanent market	-The general article for the financial and taxation support -The specific article for support for each market defined, except for the big retailer	-The general article for the financial and taxation support for the retailers
<b>The regulation of establishments</b>	Permission from the relevant authority	Permission from the relevant authority	-The permission of authority concerned in requirement.	-The permission of authority concerned in requirement.



			-Disallowance for the establishment of, or recommendation for a change of operation and size to the permanent market and big retailer in the event of a detrimental impact on nearby retailers.	-Disallowance for establishment of, or recommendation for a change of size to all markets defined in the case of a detrimental impact on nearby retailers.
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\*Extract and analysis by the author from the source  
Source: Each Basic Law

Therefore, although the range of support was very limited, it should be seen as a significant change. It was effectively an early indicator of gradual change. There was no concrete provision for support, except for the general direction, and also no provision for protection of SMSTRs in the amended law. This meant that the policy of support was not structured enough to be practically applied, even if the amended law stressed the development of SMSTRs and their business chains rather than big businesses in the retail industry (Si-jangbeob gae-jeong i-yu [The Reason for the Amendment of the Law of the Market] 1981).

The speed of change meant that even reformed law became outdated quickly, and as a consequence the old law was soon abrogated and a new law established in its place. This new law, *Do-so-mae-eob jin-heungbeob* [The Law for the Promotion of the Wholesale and Retail Industry] was enacted in 1986, replacing the Law of the Market. First, provisions were made to better support the distribution industry both in terms of measures and objectives in the new law. The new law expressed the goal of promoting the distribution industry and offered financial and taxation support for the industry. It also placed responsibility for the establishment of *Do-so-mae-eob jin-heung-wi-won-hoe* [the Committee for the Promotion of the Wholesale and Retail Industry] with each

local authority as well as central government in the statutory form (*Do-so-mae-eob jin-heungbeob-ui je-jeong-i-yu* [The Reason for the Establishment of the Law for the Promotion of the Wholesale and Retail Industry] 1986). What was interesting was that there were specific articles providing support to each market defined, except for the big retailer. The fact that measures and objectives in support of the retail industry became clearer and more proactive, meant that the government policy towards the manufacturing sector was beginning to weaken. Secondly, it broke down the definition of the market into more classifications. It introduced a new category of market called the big retailer which contained department stores, shopping centres and big shops in order to differentiate them from the permanent market composed mainly of SMSTRs. With this, it also set up definitions of wholesale centres, chain businesses and shopping streets (*Do-so-mae-eob jin-heungbeob 2jo* [Article 2 of the Law for the Promotion of the Wholesale and Retail Industry] 1986). This was considered a necessary measure for more accurate support and regulation because it was not easy to regulate the behaviour of trade in line with the previous law. Thirdly, the protection of the SMSTRs was clearly strengthened. The new law made it clear that the government could not allow the big retailer and the permanent market to be newly established in cases where they had an injurious effect on a nearby retailer (*Do-so-mae-eob jin-heungbeob 6jo, 15jo* [Article 6 and 15 of the Law for the Promotion of the Wholesale and Retail Industry] 1986). Furthermore, as mentioned, big retailers could operate with restricted operation times and holidays etc. in the case of an injurious effect on a nearby retailer (*Do-so-mae-eob jin-heungbeob 16jo* [Article 16 of the Law for the Promotion of the Wholesale and Retail Industry] 1986). Characteristics such as these show that the new law differed quite considerably from the old Law of the Market which was established in order to

stabilise prices. If the goal of the old law was the construction of a retail network under the condition of consumption repression, that of the new one was mediation between the existing retail institutions and selective support for some of them under the condition of expansive consumption. In particular, the conspicuous strengthening of the protection of SMSTRs meant that the big retailer had already emerged as a competitive retail institution. Therefore, while the previous law put the emphasis on the support for, rather than protection of SMSTRs, the new one established clear protection of them as well as support. Moreover it can be understood that the dominant power of the government over the retail industry in the 1970s gradually became weaker and weaker in the 1980s, even if the government tried to modernise the distribution industry comprehensively. This transitional stage in the basic law was reflected in other regulations and measures. Like the basic law, they were mainly related to the protection of SMSTRs, particularly as a number of department stores were established from the early 1980s. As mentioned earlier, various regulations by the KFTC such as *Hal-in-pan-mae-un-yongjun-chig* [The Working Standard of Discount Sales] and *Yu-tong-eob-gye hal-in-teug-byeol-pan-mae-haeng-wi-e dae-han bul-gongjeong geo-lae-haeng-wi ji-jeong go-si* [The Specification on Behaviour of Unfair Trade concerning Discount Special Sales by Retail Companies] emerged.

However, it could not be said that the working of the regulations always followed their provisions to the letter. The secretary of the DTI at that time stated that the modernisation of the retail industry was impossible without big retailers even if regulation was needed in cases where the SMSTRs were damaged by them (*Gug-hoe sanggong-wi-won-hoe* [Committee of Trade and Industry in National Assembly] 1986: 22). While most members of the Committee were concerned about the negative impact

on SMSTRs resulting from the increase in big retailers, the secretary of the DTI stressed the utility of big retailers for the development of the retail industry, even though he agreed that the Committee's concern was practical. Due to his attitude regulation of the establishment of big retailers was not as rigidly imposed. In fact, the number of department store companies increased rapidly in the 1980s, and particularly, even after 1986, when strong regulation of such establishments was introduced, the increase in the number of department store companies hardly changed. What is interesting is the fact that the number increased dramatically to 42 in 1989, from 23 in 1986, in the first year that the regulation was enforced. From the fact that the speed of increase in the number of department store companies became more rapid, with 66 in 1991 and 92 in 1993 (KCCI *So-mae-eob gyeong-yeongdongtae jo-sa-bo-go* [Analysis of Current Retail Management] each year), it can be seen how titular the regulation of big retailers was.

As we have seen, the policies affecting the retail industry in the 1980s had various aspects. First, the appearance of legal support for the retail industry in the 1980s meant the beginning of change in the general direction of economic policy, unlike the one-sided policy towards the manufacturing sector in the 1970s. Although the basic attitude of economic policy centring on both the manufacturing sector and on investment did not change completely, it was clear that the attitude toward the consumption and retail industry was more positive. In particular, the basic law of the distribution industry, established in 1986, contained concrete and specific provisions for support for the retail industry. This could be considered a reflection of the change in the market rather than of the government's leadership, in that the policy followed the expansive consumption market. Second, government policy towards the retail industry was a confused mix of support and regulation because it was pursuing the goal of modernising the retail

industry. While the department store industry developed rapidly in the 1980s, the government did not have a consistent position for the development of the industry, even if it stressed the modernisation of the retail industry through big retailers. This tendency was related mainly to the protection of SMSTRs as a social requirement. For this reason, the government strengthened regulations applying to big retailers but did not aggressively apply these regulations. On the contrary, it regulated strictly unfair trade of department stores in terms of the settlement of the fair trade system. In this regard, the government policy towards the retail industry could be characterised as hesitation between following and resisting market trends of expansion of big retailers in the 1980s, even if it was consequently in the process of liberalisation.

#### **4. The Beginning and the Expansion of Consumer Finance**

As we have seen in Chapter III, the repression of bank loans to households was one of the most important tools used to suppress consumption in the 1970s. In particular, bank loans for consumption were nearly unthinkable forms of behaviour for households and consumers. In fact, as we have seen, households were unable to apply for bank loans for consumption, since they had a duty to save their money for production. In this respect, the liberalisation of consumer finance in the 1980s may have been one of the most decisive changes to influence the expansion of consumption.

The liberalisation of consumer finance began with the use of the credit card. The history of the credit card in Korea goes back to the 1960s. The first credit card was introduced in 1969 by the Shinsegae Department Store. The Shinsegae issued it only to employees of Samsung which was its mother company (Shinsegae Department Store 1987: 108-109). After that, the Midopa Department Store (1974) and the Lotte

Department Store (1979) followed suit. Around the end of the 1970s, some credit card companies were established but this was far from leading to the popularisation of the credit card as a financial institution (Seo Geunu 1997: 71). A basis for the popularisation of the credit card took place in 1982 when five of the main commercial banks, i.e. the Choheung Bank, the Commercial Bank of Korea, the Korea First Bank, the Hanil Bank and the Seoul Trust Bank established a credit card company cooperatively. This company was called BC Card and it expanded the number of banks affiliated to 13 by 1985 (Ibid: 72). This trend in the financial market, of course, was linked to financial liberalisation, such as the privatisation of commercial banks in the early period of the 1980s. This change in the financial situation led to a drastic increase in credit card lending.

**Table 5.2 Trends of Credit Card Lending**

<b>Year</b>	<b>1983</b>	<b>1985</b>	<b>1987</b>	<b>1989</b>	<b>1991</b>	<b>1993</b>	<b>1995</b>
<b>For purchases* (Ratio in total credit lending, %)</b>	87.5 (50.17)	212.5 (45.77)	846.9 (41.79)	3,421.6 (42.07)	6,397.4 (50.04)	12,379.3 (45.92)	25,151.7 (48.76)
<b>For cash* (Ratio in total credit lending, %)</b>	86.9 (49.83)	251.8 (54.23)	1,179.8 (58.21)	4,711.8 (57.93)	6,387.8 (49.96)	14,580.4 (54.08)	26,430 (51.24)
<b>Total*</b>	174.4	464.3	2,026.7	8,133.4	12,785.2	26,959.7	51,581.7
<b>Indexes** (Based on 100 at 1983)</b>	100	266.2	1,162.1	4,663.7	7,331.0	15,458.5	29,576.7

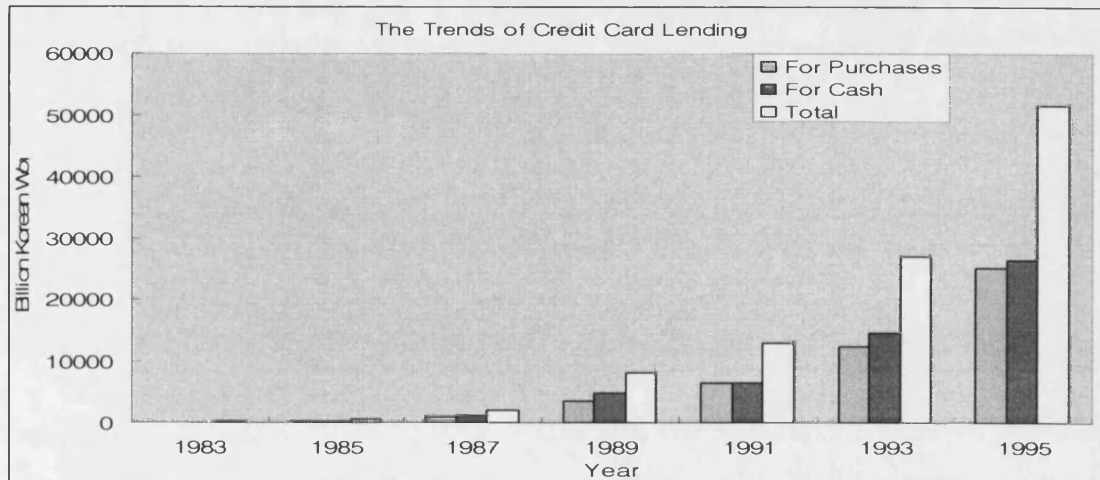
\*Unit: Billion Korean won

\*\*Indexes calculated by the author, based on 100 at 1983

Source: Credit Finance Association (CFA), Current Situation of Credit Card Lending, each year

**Figure 5.1**

**Trends of Credit Card Lending**



\*Unit: Billion Korean *won*

Source: CFA, Current Situation of Credit Card Lending, each year

According to <Figure 5.1>, the total amount of credit card lending was only some 170 billion *won* (224.6 million US dollars) in 1983. In particular, the amount of credit card purchases was merely 87 billion *won* at that time. However, as the amount of credit card lending increased dramatically after that, it was over 2 trillion *won* in 1987. In other words, it rose over 11 times in 4 years. The rate of its increase considerably accelerated and the amount exceeded over 25 trillion *won* in 1993, which meant it had increased 154 times in 11 years. It was over 51 trillion *won* in 1995. Meanwhile, the amount of credit card purchases also increased sharply. It was over 12 trillion *won* in 1993 and rose to over 25 trillion *won* in 1995. The increase of credit card lending is conspicuous when it is compared with the amount of retail sales.

The two kinds of indexes in <Figure 5.2> based on 100 in 1986 are produced to compare the growth of credit card purchases with that of total retail sales. According to <table 5.3>, the amount of total retail sales increased rapidly from 1986 to 1996. It rose over 4 times during the period.

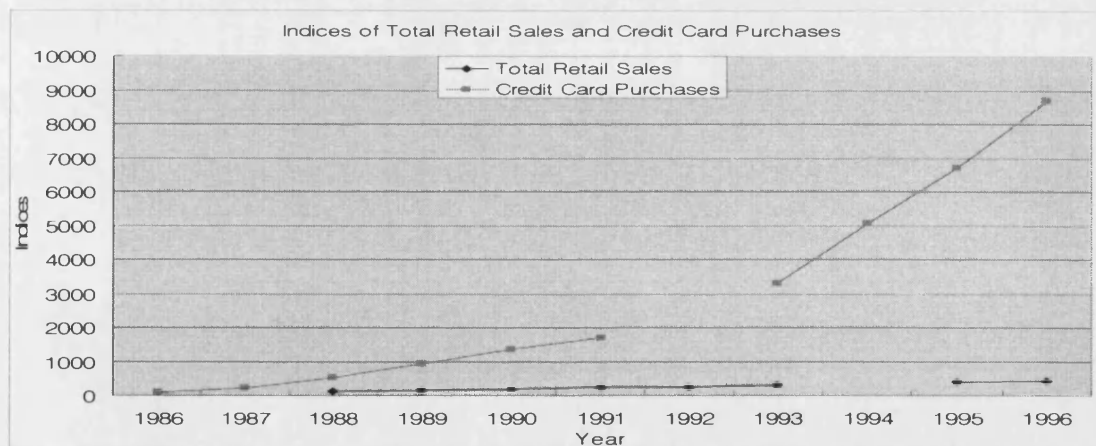
**Table 5.3 Trends of Total Retail Sales and Credit Card Purchases**

	1986	1988	1989	1990	1991	1993	1995	1996
<b>Total Retail Sales*</b> <b>(Indexes)*</b> <b>*</b>	21,673.8 (100)	29,036.4 (134.0)	34,207.3 (157.8)	41,108 (189.7)	52,177.6 (240.7)	64,093.1 (295.7)	85,760.6 (395.7)	90,906.8 (419.4)
<b>Credit Card Purchases</b> <b>*(Indexes)</b> <b>**</b>	375.7 (100)	1,996.7 (531.5)	3,421.6 (910.7)	5,045 (1,342.8)	6,397.4 (1,702.8)	12,379.3 (3,295.0)	25,151.7 (6,694.6)	32,624.3 (8,683.6)
<b>The Ratio of Credit Card Purchases in Total Retail Sales (%)</b>	1.73	6.88	10.00	12.27	12.26	19.31	29.33	35.89

\*Unit: Billion Korean won

\*\*Indexes calculated by the author, based on 100 at 1986

Source: KNSO, CFA

**Figure 5.2 Indexes\* of Total Retail Sales and Credit Card Purchases**

\* Indexes calculated by author, based on 100 in 1986

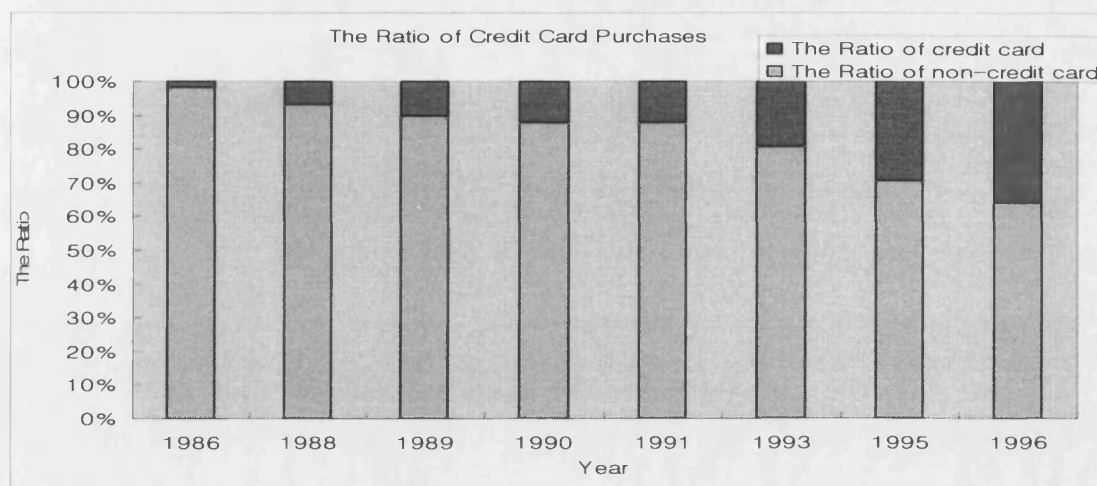
Source: KNSO, CFA

This may imply that the expansion of consumption was vigorous in this period. Compared to this situation of consumption, it is no exaggeration to say that the increase of credit card purchases was explosive given that it increased about 90 times during the



period between 1986 and 1996. In particular, the shape of its rise after 1991 amounted to an explosion. This implies that the increase in consumption can, to a large extent, be attributed to credit card lending since the mid-1980s. Additionally, this could be crucial evidence that big modern retailers like department stores grew much more rapidly, compared with traditional retailers, because the machines for credit cards were mainly installed in such big retailers.

**Figure 5.3**      **Ratio of Credit Card Purchases in Total Retail Sales**



\* Ratio calculated by the author  
Source: KNSO, CFA

Reflecting this situation, <Figure 5.3> illustrates that the ratio of credit card purchases in total retail sales sharply rose to 35.89 per cent in 1996 from only 1.73 per cent in 1986. Like the trend of credit card purchases, the curve of its ratio became remarkably steep from the early 1990s.

With credit card lending, bank loans to households were also an important factor influencing consumption because the household is the unit of consumption in a national economy. As mentioned earlier, households had almost no right to use bank loans in the 1970s. However, the situation changed with the progress in financial liberalisation after the mid-1980s. <Table 5.4> shows the trends of bank loans to all households since the

early 1990s. The ratio of loans to households among total loans of commercial banks was just 7-8 per cent in the early 1990s, but it increased sharply to around 20 per cent in the middle of the 1990s.

**Table 5.4 Trends of Bank Loans by Commercial Banks to Households**

	Loans of All Commercial Banks		
	Total*	Loans to Firms (per cent)	Loans to Households (per cent)
1990	42,308	36,769 (86.9)	3,502 (8.3)
1991	50,440	44,668 (88.6)	3,888 (7.7)
1992	57,591	51,527 (89.5)	4,012 (7.0)
1993	62,513	55,060 (88.1)	5,454 (8.7)
1994	75,064	61,832 (82.4)	11,040 (14.7)
1995	97,242	74,871 (77.0)	17,011 (17.5)
1996	113,501	85,141 (75.0)	22,179 (19.5)

Unit: Billion Korean won

\*Total loans of commercial banks are greater than the sum of loans to firms and to households because other types of loans are included.

Source: Financial Supervisory Service (FSS), Monthly Financial Statistics, 1999 (January), 2000 (January)

Due to this, the ratio of loans to firms among total loans of commercial banks decreased by over 10 per cent, to 75 per cent from 87 per cent during the same period.

This trend can be shown more clearly by the table of these indexes.

**Table 5.5 Indexes\* of Commercial Banks Loans to Households**

	Total Commercial Bank Loans	Commercial Bank Loans to Households
1990	100	100
1991	119.2	111.0
1992	136.1	114.6
1993	147.8	155.7
1994	177.4	315.3
1995	229.8	485.8
1996	268.3	633.3

\*Indexes calculated by the author, based on 100 in 1990

Source: FSS, Monthly Financial Statistics, 1999 (January), 2000 (January)

According to <Table 5.5>, the total amount of commercial bank loans increased gradually between 1990 and 1996 and reached over twice the level in 1995, compared

to the amount in 1990. However, the amount of commercial bank loans to households rose rapidly during the same period and had increased six-fold in 1996. Additionally, this situation also shows that the expansion of consumption has been led by credit card lending since the late 1980s. The amount of credit lending for purchases was already over 3.4 trillion *won* in 1989, while the amount of bank loans to households was about 3.5 trillion *won* in 1990. Furthermore, if we consider that the amount of total credit card lending accounting for various kinds of consumption was over 8 trillion *won* in 1989, we can understand how important the role of credit cards in consumption had become.

## **5. Emergence of Mass Consumption**

Generally speaking, mass consumption is defined as a phenomenon in which not a few individuals, nor a small upper class, but the majority of people enjoy the benefits of increased productivity and constantly expand their range of consumer goods. Even if there are a number of different opinions about the precise period in advanced countries, broadly it is understood that most industrialised countries have gone through such a transformation since World War II (Matsuyama 2002: 1035-1036). Thus it is necessary to examine both the production and the consumption sectors in order to define a situation as being the stage of mass consumption. However, here, only the change in the consumption sector will be dealt with in this section<sup>82</sup> because the term mass consumption is used in the sense of the rapid expansion of consumption in accordance with economic growth.

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<sup>82</sup> Of course, a number of scholars who study Korean economic growth in terms of both production and consumption may consider the period since the middle of the 1980s as the stage of mass consumption, even if they do not use the same term of mass consumption (Yu Cheolgyu 1992)

As preparatory work for this, the rapid change in the political environment for mass consumption was examined in the previous section. However, the political changes surrounding consumption need the cooperation of other subjects in order to achieve a system of mass consumption. One such subject is the consumer. Only when people consume actively in the liberalised economy (unlike in the previous period) can the liberalisation of consumption become a reality in an economy. In this respect, the political situation can be regarded as just one environmental factor relating to consumption. So, how can the change of consumer behaviour be measured? In fact, in the previous section, we have already seen considerable evidence of such change through credit card purchases, and bank loans by commercial banks to households. We can presume that there has been a remarkable increase in consumption since the mid-1980s through the evidence. However, this evidence, while constituting significant sources of consumption, does not cover consumption as a whole. Thus, as with Chapter 3, this chapter uses the change in the average propensity to consume (APC) not only to see changes in whole consumption resulting from all sources, but also to see the impact of collective behaviour on consumption. Tracing its trends since the 1970s reveals the changes in consumer behaviour.

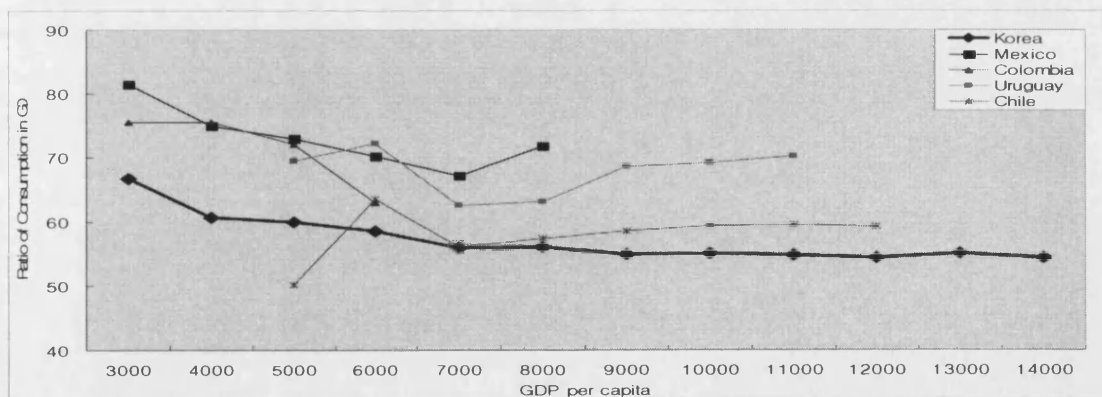
### **5.1. International Comparison of the APC**

So far in this chapter we have seen a dramatic change in consumption attitudes before and after the mid-1980s in the Korean economy. We can gauge the characteristics of such attitudes through comparison with other countries, using a similar methodology to that used in Chapter 3 in order to measure consumption repression in the 1970s. As with Chapter 3, this chapter also uses 'Penn World Tables

Version 6.2 (PWT 6.2)'. The comparison of APC is carried out in accordance with the level of income which is the most influential factor on consumption. Here, APC is defined as the consumption share of real GDP in each year in a national economy. The level of income for the period between the mid-1980s and the mid-1990s, namely, between 6,000 and 14,000 US dollars is mainly taken into account in this section.

Even if there was a dramatic expansion of consumption from the mid-1980s in the Korean economy, the relative level of Korea's APC has not been high in comparison with the rest of the world even in this period. According to <Figure 5.4>, the Korean APC has been much lower than that of most Latin American countries regardless of income level. In particular, even in the period after 7,000 US dollars, where Korea's consumption attitude was estimated to change, the Korean APC was still lower than those of most Latin American countries. Mexico's APC at the income level of 7,000 US dollars is over 65 and rises to over 70 at the level of 8,000 US dollars.

**Figure 5.4 APCs of Korea and Latin American Countries at Each Income Level**

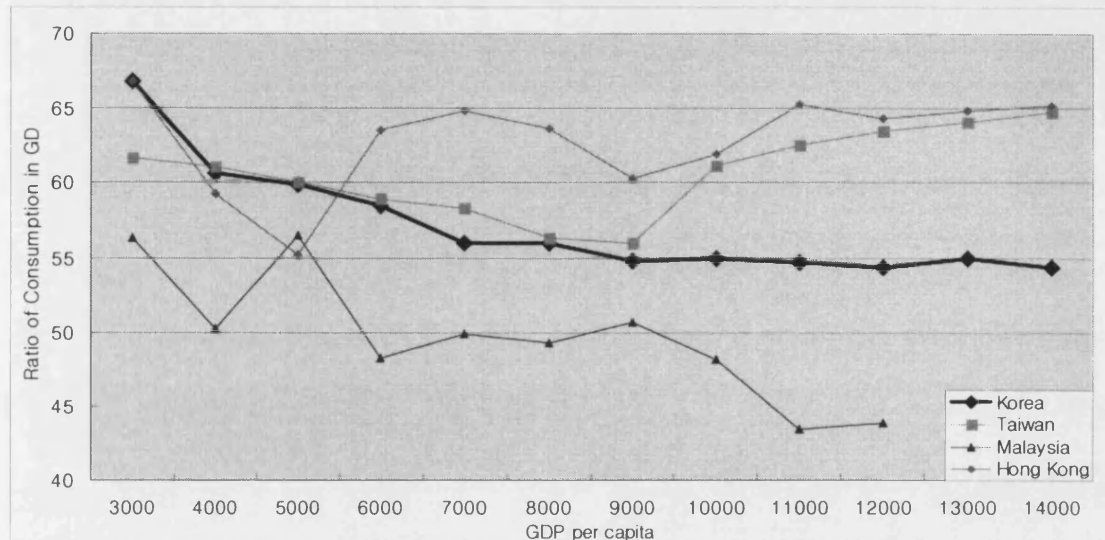


\*APCs calculated by the author from PWT 6.2  
Source: PWT 6.2

Even Chile, one of the countries at a lower level of APC among the Latin American countries, shows a much higher level of APC than that of Korea.

<Figure 5.5> shows that the overall level of APCs of Asian developing countries is much lower than those of Latin American countries regardless of income level.

**Figure 5.5 APCs of Korea and Asian Developing Countries at Each Income Level**



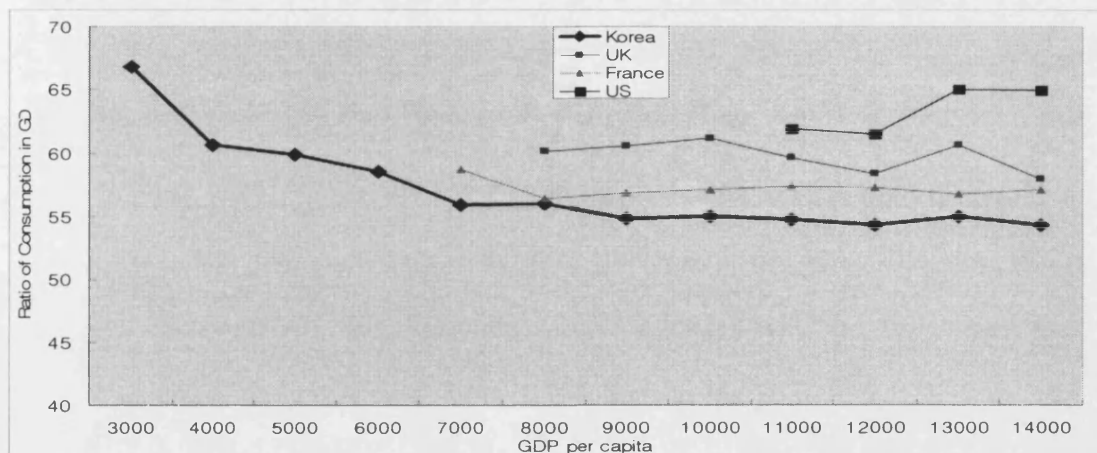
\*APCs calculated by the author from PWT 6.2

Source: PWT 6.2

However, as income increases, a change in consumption attitude occurs in the countries. Taiwanese change is more dramatic than Korea's even when its income level is similar at around 8,000 US dollars. Presumably, this is closely related to rapid progress in socio-political democracy. First, the Taiwan government encouraged economic liberalisation from the mid-1980s. Following this change, its authoritarian character has been much weaker since the late 1980s, with some democratic policies, including the foundation of an opposition party, the abolition of martial law and the direct election of the country's leader (Sin Sangjin 2002: 161-163; Dent 2003: 469). This period exactly coincided with the income level of 9,000 (1987) and 10,000 (1989) US dollars when APC began to rise rapidly. These changes, which were very similar to the period since the 1980s in Korea, might imply the dismantling of the *Ancien Regime* in Taiwan and, as a result of this, they might also imply that the consumption attitude

which was repressed by the *Regime* also altered. Hong Kong may be in different trajectory from other Asian countries in that the APC increased conspicuously from its income level of 5,000 US dollars in the mid-1960s, and rose again rapidly after 9,000 US dollars in the mid- 1970s. In contrast, the Malaysian APC curve declined sharply from its income point of around 9,000 US dollars in the late 1990s. This was deeply related to the Asian financial crisis.

**Figure 5.6 APCs of Korea and the Advanced Countries at Each Income Level**

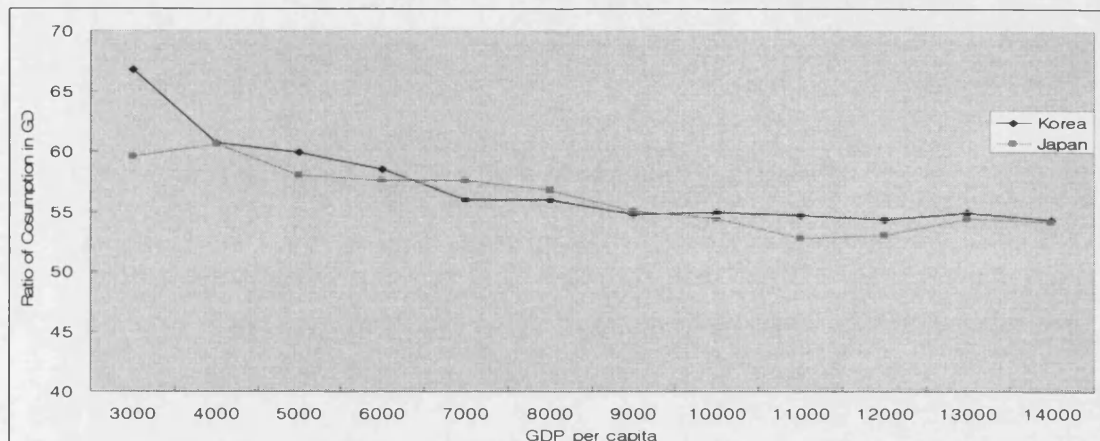


\*APCs calculated by the author from PWT 6.2  
Source: PWT 6.2

According to <Figure 5.6>, the general level of the Korean APC is lower than those of most advanced countries, particularly Western countries, at each equivalent level of income. This implies that the relationship between domestic consumption and economic growth is relatively weaker in Korea than it is in Western countries. However, what is interesting is that the trend in Korea's APC is similar to those of countries at an income level between 7,000 and 14,000 US dollars, despite their lower level. If it is considered that its curve decreased sharply before the income level of 7,000 US dollars, it is highly possible that the change in consumption attitude took place between these two levels of

income, and that the content of the change was one of relatively more enthusiastic consumption.

**Figure 5.7**                      **APCs of Korea and Japan at Each Income Level**



\*APCs calculated by the author from PWT 6.2  
Source: PWT 6.2

<Figure 5.7> shows that the shape of the Korean APC is quite similar to the Japanese one in terms of both its level and trajectory from income level 7,000 US dollars. This implies that both nations' attitudes towards consumption and their consumption roles in the economy are similar. However, strictly speaking, the APCs of both countries are slightly reversed before and after 9,000 US dollars. While the Korean APC is lower than the Japanese APC before 9,000 US dollars, it is higher than the Japanese level after that level. What is interesting is this happened at similar business cycle stages in both countries. The period in which GDP per capita was 7,000 to 9,000 US dollars was the late 1980s in Korea, and the late 1960s in Japan when an extraordinary boom occurred in both countries. This period in which 9,000 to 13,000 US dollars was generated was characterised by similar conditions in both countries in terms of relatively lower growth following the economic boom in the first half of the 1990s in Korea, and the 1970s in Japan. In this respect, there were considerable changes

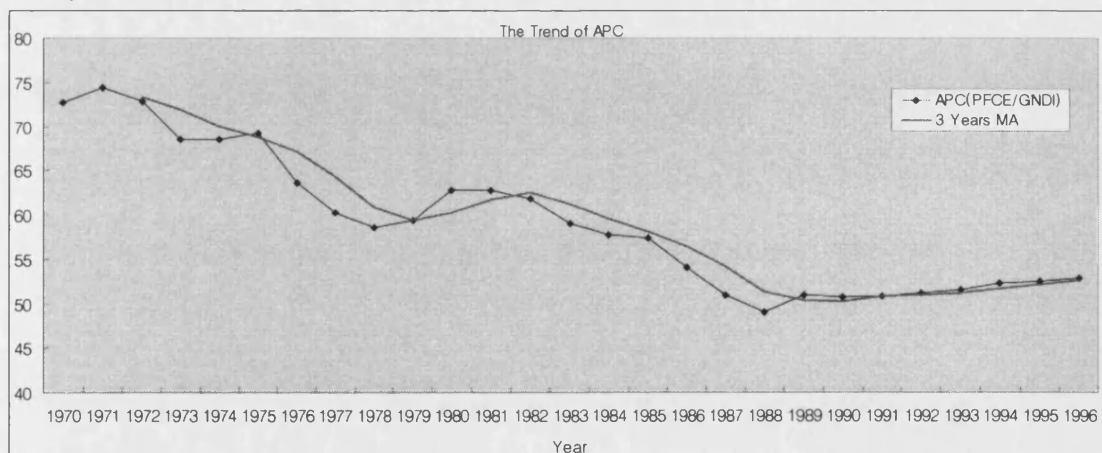


in consumption attitude in the Korean economy before and after the income level of 9,000 US dollars in the early 1990s.

## 5.2. The Result of the National Accounts

This change in Korea's consumption attitude in the early 1990s has been shown through international comparison in the previous section. It is more clearly shown through internal comparison of periodic APCs in Korean economy. This chapter will try to confirm the expansion of consumption since the late 1980s, following consumption repression in the 1970s, through the trends of APC in the National Accounts. Like Chapter III, APC is, here, defined as the ratio of Private Final Consumption Expenditure (PFCE) in Gross National Disposable Income (GNDI).

**Figure 5.8 Trends of APC**



APC: PFCE/GNDI, calculated by the author from National Accounts

GNDI: Gross National Disposable Income

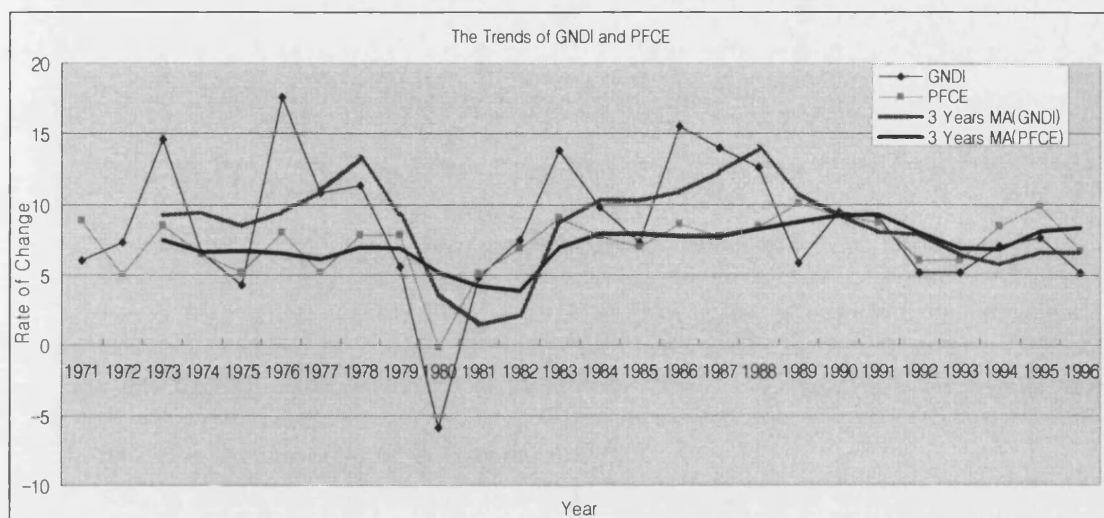
PFCE: Private Final Consumption Expenditure

Source: Bank of Korea, National Accounts, each year

From <Figure 5.8>, we can see that Korea's APC trend changed dramatically before and after the year of 1989 when GDP per capita was 8,700 US dollars in PWT 6.2. At this point, the trend of the APC in <Figure 5.8> is quite similar to that of the APC as a ratio of consumption in GDP, which we saw in the previous section. This trend in the

APC means that Koreans' consumption attitudes had become much more avid since 1989 for whatever reason. <Figure 5.8>, however, does not give information about changes in consumption with reference to business cycles. It is therefore necessary to disaggregate the APC into the rates of change of GNDI ( $\dot{I}_n$ ) and PFCE ( $\dot{C}_n$ ) to more clearly perceive the relationship between them.

**Figure 5.9** Trends of GNDI and PFCE

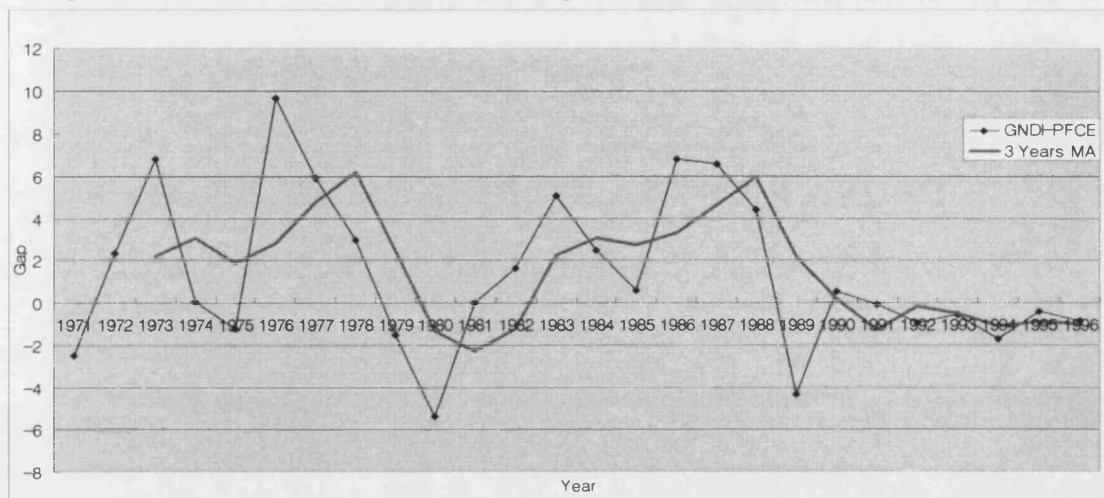


GNDI: Rate of Change of Gross National Disposable Income ( $\dot{I}_n$ )  
 PFCE: Rate of Change of Private Final Consumption Expenditure ( $\dot{C}_n$ )  
 \* Real Term calculated by the author, based on 100 at 2000  
 Source: Bank of Korea, National Accounts, each year

In <Figure 5.9>,  $\dot{I}_n$  can be considered as a proxy of the business cycle because it is a figure based on GDP. It is conspicuous from the 3 year moving average of real  $\dot{C}_n$  and  $\dot{I}_n$  that  $\dot{I}_n$  was higher than  $\dot{C}_n$  by the late 1980s, regardless of the business cycle. Not to mention the fact that  $\dot{C}_n$  was below  $\dot{I}_n$  in the boom period, the former was also below the latter continuously, even in recession. However, the position of both curves of the 3 year moving average reversed since the late 1980s. Regardless of the business cycle,  $\dot{C}_n$  was higher than  $\dot{I}_n$ . This can be interpreted as excessive consumption in accordance with the Keynesian absolute income hypothesis in Chapter III that  $\dot{I}_n$  is higher than  $\dot{C}_n$  in a

boom period, but in general, their relationship is reversed during a recession. What is more, if it is considered that  $\dot{I}_n$  was higher than  $\dot{C}_n$  by the late 1980s, regardless of the business cycle, the change in their relationship since the late 1980s can be understood to be the result of radical changes in society's consumption attitudes. Therefore, <Figure 5.9> supports the argument that there were key changes in consumer attitudes.

**Figure 5.10 Trends of the gap between GNDI and PFCE**



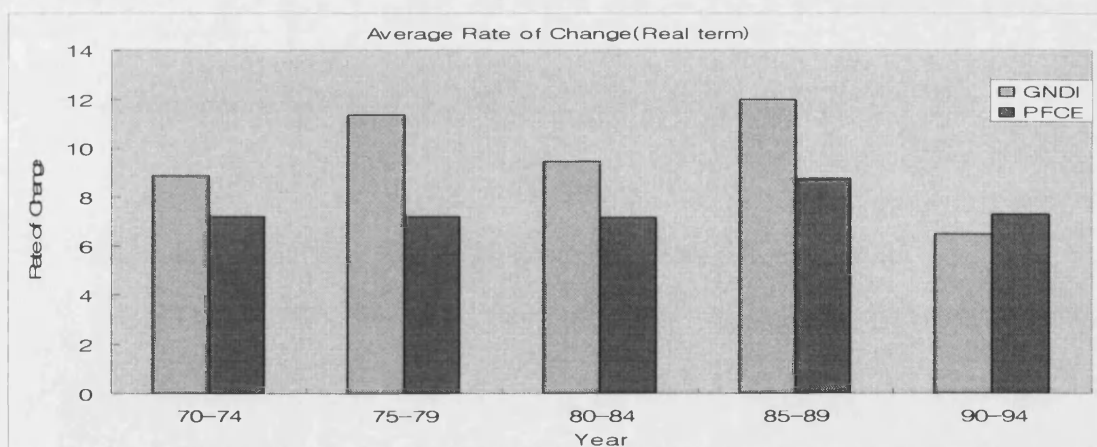
GNDI: Rate of Change of Gross National Disposable Income ( $\dot{I}_n$ )  
 PFCE: Rate of Change of Private Final Consumption Expenditure ( $\dot{C}_n$ )  
 \* Real Term calculated by the author, based on 100 at 2000  
 Source: Bank of Korea, National Accounts, each year

<Figure 5.10> which shows trends in the gap between both curves ( $\dot{I}_n - \dot{C}_n$ ) from 1971 to 1996 may be useful for comparing levels of frugality between periods and between regions. Years over zero mean  $\dot{I}_n > \dot{C}_n$  but those below zero mean  $\dot{I}_n < \dot{C}_n$ . Likewise, APC rises in the period of  $\dot{I}_n < \dot{C}_n$  but APC declines in the period of  $\dot{I}_n > \dot{C}_n$ . In other words, the lower the figure is, the smaller their gap is and so the more avid consumption is. It can be seen through the graph that the gap between  $\dot{I}_n$  and  $\dot{C}_n$  was smaller in the 1980s than in the 1970s. This means that overall consumption attitudes were more enthusiastic in the 1980s than in the 1970s. However, significant changes in consumption attitudes had taken place since 1989 when the real rate of increase of GDP

per annum was 6.7 per cent. After that, the period of  $i_n < \dot{C}$  continued as consumption grew more aggressively.

How did this dramatic changeover happen abruptly? We need to draw additional comparisons to resolve this question. This can be carried out through understanding the chronological change in both GNDI and PFCE by looking at 5 yearly intervals. In particular, the boom period of the second half of the 1980s can be compared to the second half of the 1970s -- that decade's equivalent boom period. In fact, when consumption attitudes are periodically compared in a society, business cycles between compared periods should correspond because there is a tendency for the ratio of consumption to income to be higher in a recession than a boom period. This is because the change in consumption is relatively slower than income with respect to business cycles. In this regard, both periods being compared show very similar curves in terms of the increase in GNDI, and the length of the boom period.

**Figure 5.11 Difference in Consumption Attitude between the 1970s and 1980s**



GNDI: Average Rate of Change per annum of Gross National Disposable Income ( $i_n$ )

PFCE: Average Rate of Change per annum of Private Final Consumption Expenditure ( $\dot{C}_n$ )

\* Real Term calculated by the author, based on 100 at 2000

Source: Bank of Korea, National Accounts, each year

According to <Figure 5.11>, the real average rate of increase per annum of GNDI ( $i_n$ ) was 11.4 per cent in the second half of the 1970s and was 12.0 per cent in the same

period in the 1980s. This can be said to be a boom period in terms of relative as well as absolute aspects. In contrast to  $\dot{I}_n$ , there is a difference in the real average rate of increase per annum of PFCE (  $\dot{C}_n$  ) between both periods. The  $\dot{C}_n$  was 7.2 per cent in the second half of the 1970s but was 8.7 per cent in the same period of the 1980s. Thus, the gap between  $\dot{I}_n$  and  $\dot{C}_n$  was 4.2 per-centage points in the former period but was 3.3 per-centage points in the latter one. This intimates that consumption attitudes were keener in the second half of the 1980s than they were in the second half of the 1970s. In other words, this implies that the difference in consumption attitudes between these two periods already taken place since the mid-1980s. In particular, if we consider that the rate of increase of income in the 1980s was higher than that of the 1970s, we can presume that the change in consumption attitude between these two periods was more significant than that indicated by its number. Thus, we can see that seeds of dramatic change in consumption attitudes in the first half of the 1990s, were, to an extent, already sown from the mid-1980s.

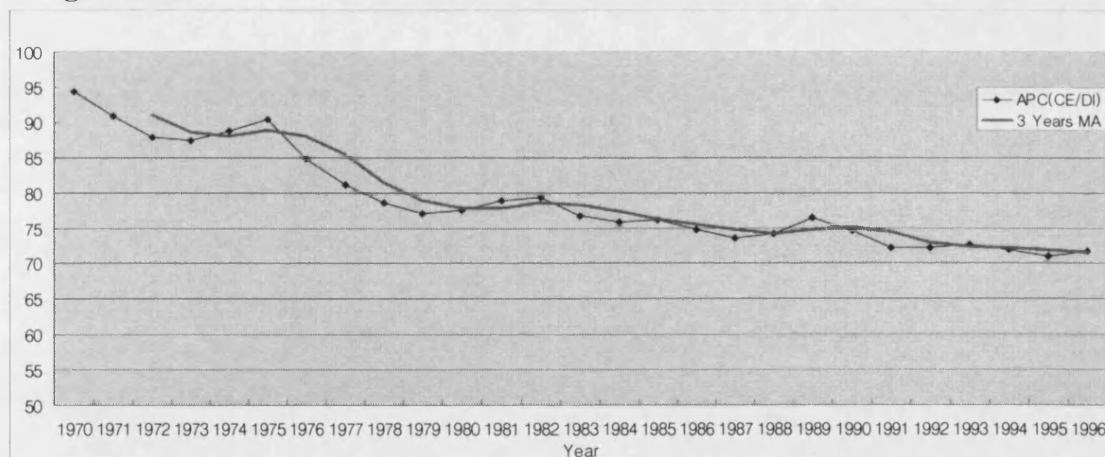
### **5.3. The Result of Urban Labour Households**

As was mentioned in Chapter III, this data is more useful than the data from the National Accounts in terms of analysis of higher income groups. Characteristics of the higher income group can be explored because the average level of income of urban labour households is much higher than that of the whole country. Moreover, a more sensitive response to the environment concerning consumption can be shown because of greater commercialisation in urban rather than non-urban areas. As a result, the present section will analyse how the consumption attitudes of urban areas have already changed since the early 1980s ahead of that in the rest of the country. As the National Accounts

reveal, signs of consumption repression and recovery are also shown through the APC of SWEHs which is denoted as share of consumption expenditure in the disposable income of the household.

From <Figure 5.12>, we can see that Korea's APC trend of urban labour household is similar overall to the APC of National Accounts because the curve was more moderate in the 1980s than in the 1970s. While the former curve declined from 94.38 in 1970 to 77.09 in 1979 representing the gap between the peak and trough in the 1970s, the latter curve changed from 79.27 in 1982 to 73.56 in 1987 as the same gap and APC decreased to 71.03 in 1995 as the lowest level before the financial crisis in 1997. This trend of APC means that Korean people's consumption attitude had become much more enthusiastic since the 1980s.

**Figure 5.12 Trends of APC in SWEHs**



APC: CE/DI, calculated by the author from each Monthly Income and Expenditure per Urban Household

DI: Disposable Income

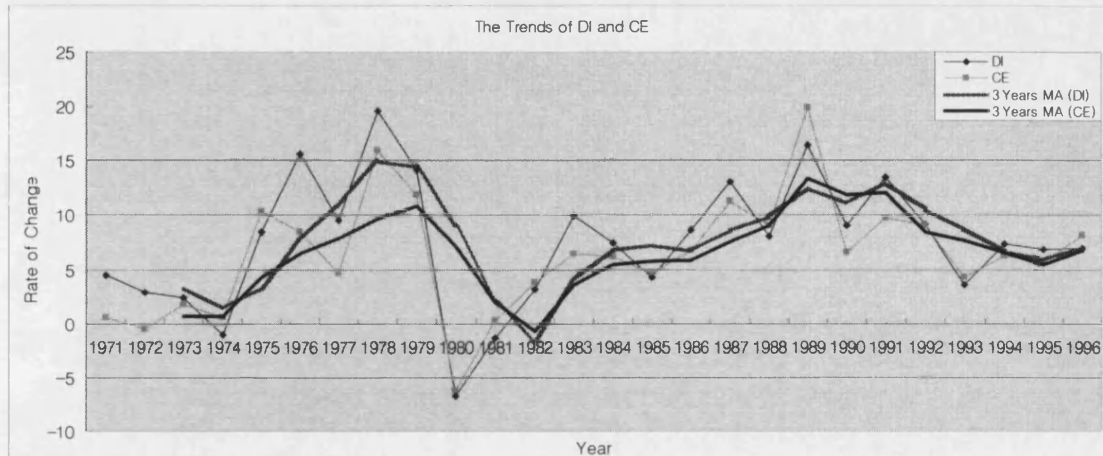
CE: Consumption Expenditure

Source: KNSO, Monthly Income and Expenditure per Urban Household, each year

Like the APC of the National Accounts, this curve, however, does not give information about changes in consumption relative to business cycles. It may be necessary to disaggregate this APC into the rates of change of DI ( $\dot{I}_u$ ) and CE ( $\dot{C}_u$ ) to

more clearly see the relationship between income and consumption under given business cycle condition.

**Figure 5.13** Trends of DI and CE\*



DI: Rate of Change of Disposable Income ( $\dot{I}_u$ )

CE: Rate of Change of Consumption Expenditure ( $\dot{C}_u$ )

\* Real Term calculated by the author through the consumer price index (CPI) based on 100 at 2005

Source: KNSO, Monthly Income and Expenditure per Urban Household, each year

In <Figure 5.13>,  $\dot{I}_u$  can be considered as a proxy of business cycles because it is a figure based on GDP. Like the APC of National Accounts, it is clear from the 3 year moving average of real  $\dot{C}_u$  and  $\dot{I}_u$ , that  $\dot{I}_u$  was roughly higher than  $\dot{C}_u$  by the late 1980s, regardless of the business cycle. However, the gap between both curves is even smaller in the 1980s, compared with that of the 1970s. In particular, what should be noted are the shapes of 1988 and 1989 when  $\dot{C}_u$  was over  $\dot{I}_u$  in spite of the period of economic boom. Accordingly, we can regard consumption in the 1980s as relatively more enthusiastic than that of the 1970s. Furthermore, we can argue that there was remarkable boom in consumption in urban areas in the late 1980s. Additionally, this graph illustrates that consumption attitudes in urban areas changed more rapidly than those of non urban areas because the decrease in gap between  $\dot{I}_u$  and  $\dot{C}_u$  in both the 1970s and the 1980s was more remarkable than that of non urban area in the same



periods. As mentioned earlier, this trend reflects the more commercialised character of urban areas and their sensitivity towards consumption, compared with whole country.

**Figure 5.14 Trends of the gap between DI and CE**



DI: Rate of Change of Disposable Income ( $\dot{I}_u$ )

CE: Rate of Change of Consumption Expenditure ( $\dot{C}_u$ )

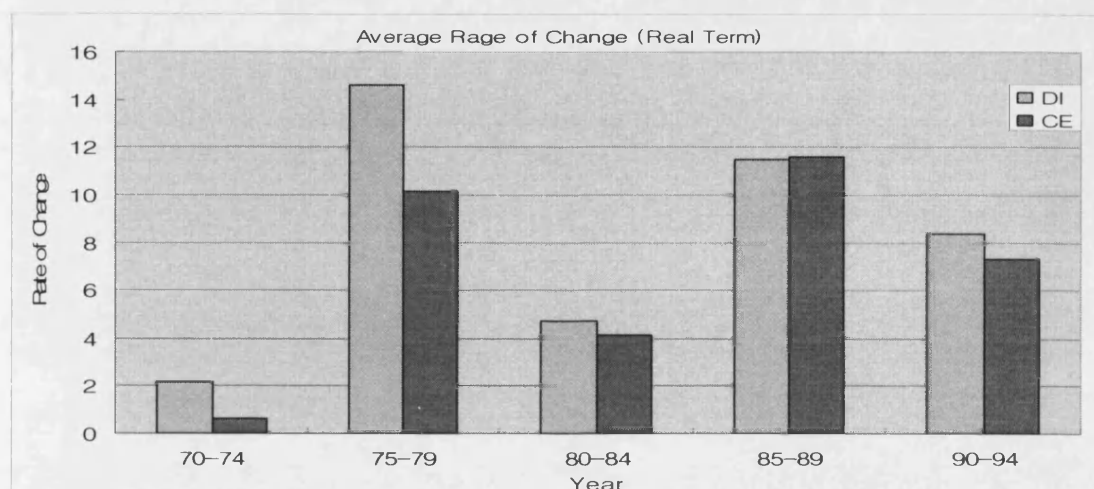
\* Real Term calculated by the author through the consumer price index (CPI) based on 100 at 2005

Source: KNSO, Monthly Income and Expenditure per Urban Household, each year

<Figure 5.14> which shows the trends in the gap of both curves ( $\dot{I}_u - \dot{C}_u$ ) from 1971 to 1996, may be useful for comparison of the frugality between periods and between regions. Years over zero mean  $\dot{I}_u > \dot{C}_u$  but those below zero mean  $\dot{I}_u < \dot{C}_u$ . Likewise, APC rises in the period of  $\dot{I}_u < \dot{C}_u$  but APC declines in the period of  $\dot{I}_u > \dot{C}_u$ . In other words, the lower the figure is, the smaller their gap is and so the more avid the consumer is. <Figure 5.14>, accordingly, shows more clearly that consumption in the 1980s was relatively keener than that in the 1970s. In a manner similar to <Figure 5.13>, this shows that there was excessive consumption, and that  $\dot{C}_u$  was over  $\dot{I}_u$  in 1988 and 1989. In particular, unlike the graph of  $\dot{I}_n - \dot{C}_n$  in <Figure 5.10>, consumption attitudes in urban areas entered a stable phase after dramatic change around the beginning of the 1980s.



**Figure 5.15 Difference in Consumption Attitude between the 1970s and the 1980s in Urban Households**



DI: Average Rate of Change per annum of Disposable Income ( $\dot{I}_u$ )

CE: Average Rate of Change per annum of Consumption Expenditure ( $\dot{C}_u$ )

\* Real Term calculated by the author through the consumer price index (CPI) based on 100 at 2005

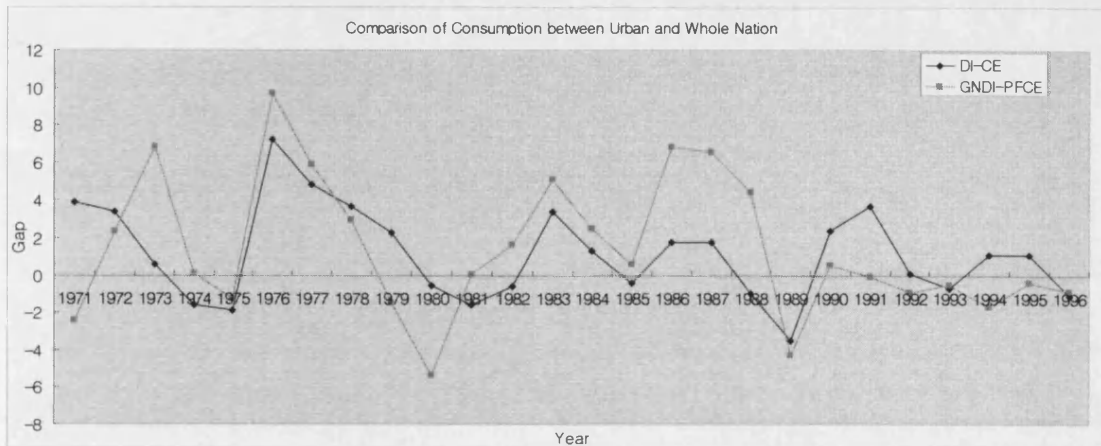
Source: KNSO, Monthly Income and Expenditure per Urban Household, each year

Basically, <Figure 5.15> illustrates that the change in consumption attitude took place from the early 1980s in urban areas, whereas such change took place from the mid-1980s in the whole country. To understand this difference, the first half of the 1970s should be compared with the first half of the 1980s, as the period of relatively lower economic growth in each decade. The gap between  $\dot{I}_u$  and  $\dot{C}_u$  was 1.55 percentage points in the first half of the 1970s but was just 0.58 percentage points in the first half of the 1980s. Following this tendency,  $\dot{C}_u$  was, in the end, over  $\dot{I}_u$  in the second half of the 1980s and the focus on consumption was also maintained in the first half of the 1990s. This shows that consumption attitudes in urban areas had already changed since the early 1980s. Thus, it can be said that the change in consumption attitudes in urban areas preceded any such changes in other areas.

As we have seen in Chapter III, two kinds of curves denote gaps of  $(\dot{I} - \dot{C})$  in urban areas and the whole country. Thus, the higher the figure is, the larger their gap is, and so

the more frugal the consumer is in the same period. In other words, the lower the figure is, the more enthusiastic the consumption attitude is.

**Figure 5.16 Comparison of Consumption Attitude between Urban and Whole Nation**



DI: Rate of Change of Disposable Income in urban labour households ( $\dot{I}_u$ )

CE: Rate of Change of Consumption Expenditure in urban labour households ( $\dot{C}_u$ )

GNDI: Rate of Change of Gross National Disposable Income ( $\dot{I}_n$ )

PFCE: Rate of Change of Private Final Consumption Expenditure ( $\dot{C}_n$ )

Source: KNSO, Monthly Income and Expenditure per Urban Household, each year, Bank of Korea, National Accounts, each year

As mentioned earlier, the advantage of <Figure 5.16> is to be able to compare differences in consumption attitude between urban areas and non urban areas within the same period, while previous graphs compared differences in consumption attitudes between periods in the same area. <Figure 5.16> shows a dramatic reversal in the region which led consumption trends between the 1980s and the 1990s. The urban area took the initiative of consumption in the 1980s regardless of the business cycle but its role in consumption had been completely replaced by the country as a whole since 1989. This is evidence that the urban area responded to the atmosphere of consumption liberalisation prior to non urban areas. In particular, the difference between the first and the second half of the 1980s in both areas is pretty impressive. Although  $\dot{I}_u$  was much higher in the second half of the 1980s than its first half, the gap between  $\dot{I}_u$  and  $\dot{C}_u$  in the second half of the 1980s decreased remarkably in urban areas. As we have seen earlier,

this implies that consumption increased at an unusual rate during the period, in terms of the general relationship between  $\dot{I}_u$  and  $\dot{C}_u$  in the change of economic growth. In contrast to this, the curve for the whole country illustrates that the gap between  $\dot{I}_n$  and  $\dot{C}_n$  increased in the second half of the 1980s, compared with the first half of the decade. This looks more natural than the change in the urban areas. However, an unusual shape of the curve emerged in non urban areas from the end of the 1980s. What is more, as the figure of  $(\dot{I}_n - \dot{C}_n)$  continued at a level below zero,  $\dot{C}_n$  was just over  $\dot{I}_n$  during a considerable part of the 1990s. Thus, the change in consumption attitudes in non urban areas in the 1990s was even more remarkable than that of urban areas in the second half of the 1980s.

Thus, following consumption repression in the 1970s, Korean consumption grew massively from the early 1980s with various kinds of policies geared towards consumption liberalisation. However, changes were region-specific initially. The winds of change first blew in urban areas, and by the second half of the 1980s consumption was in full stride. This kind of change had a knock on effect on other areas, and, in fact, change was more pronounced in non-urban areas. In such locations changes in consumption attitudes first appeared from the mid-1980s but by the first half of the 1990s, the whole country had undergone radical changes in consumption attitude.

## **6. The Change of Strategy by the Department Store Industry**

The last of the three subjects which is crucial for development of the retail industry, and which thus needs to be dealt with in this chapter, is the retail industry itself. Here, as mentioned earlier, the strategy of the department stores as a modern retail institution will be discussed. The main aspect of department stores' management strategy was to

make the stores increasingly popular. To this end, the department store lowered its position as a luxury retail institution as the period of mass consumption kicked in. This is different from general retail development where mass retailers such as the multiples, the supermarkets and the general merchandise stores become dominant in the period of mass consumption. For a considerable time, during the period of mass consumption, a remarkable growth of the department store co-existed with the slow progress of traditional markets while other modern retailers remained absent from the market. This trend helps to explain the distinctiveness of development trends in the Korean retail industry.

### **6.1. Multiple Outlets Strategy of Department Stores**

As we have seen earlier, with economic growth and the beginning of liberalisation, some new department stores had been established in the old and new city centres and some sub-centre areas of Seoul, the capital city of Korea, since the early 1980s. Existing big department store companies responded to the appearance of new companies by having multiple branches towards the sub-centre areas. Here, this strategy is examined by analysing the three biggest department store companies in Korea. According to <Table 5.6>, the Shinsegae *Yeongdeungpo* Department Store, owned by Samsung, established its first branch in *Yeongdeungpo*, where it was representative of sub-centres and residential areas in Seoul. It subsequently added the Dongbang Plaza in Seoul's city centre in 1984. Thus, all the branches which have been established in Seoul since the mid-1980s have been located both in sub-centres and in residential areas, except for Dongbang Plaza.

**Table 5.6 Trend of the Multi-branches Strategy in the Main Department Store Companies**

<b>Company Name</b>	<b>Name of the Shop</b>	<b>Year of Foundation</b>	<b>City</b>	<b>Location</b>
<b>Shinsegae Department Store</b>	<b>Shinsegae Department Store (Headquarters)</b>	1963	Seoul	City Centre
	<b>Shinsegae Yeoungdeungpo Store</b>	1984	Seoul	Sub-Centre
	<b>Dongbang Plaza*</b>	1984	Seoul	City Centre
	<b>Shinsegae Mia Store</b>	1988	Seoul	Sub-Centre
	<b>Shinsegae Chunho Store*</b>	1992	Seoul	Sub-Centre
	<b>Shinsegae Youngdong Store*</b>	1993	Seoul	Sub-Centre
	<b>Shinsegae GwangJu Store</b>	1995	Gwangju Metropolitan City	City Centre
	<b>Shinsegae Incheon Store</b>	1997	Incheon Metropolitan City	City Centre
<b>Lotte Department Store</b>	<b>Lotte Department Store (Headquarters)</b>	1979	Seoul	City Centre
	<b>Lotte Chamsil Store</b>	1988	Seoul	Sub-Centre
	<b>Lotte Yeoungdeungpo Store</b>	1991	Seoul	Sub-Centre
	<b>Lotte Cheongnyangri Store</b>	1994	Seoul	Sub-Centre
	<b>Lotte Busan Main Store</b>	1995	Busan Metropolitan City	City Centre
	<b>Lotte Gwanak Store</b>	1997	Seoul	Sub-Centre
<b>Hyundai Department Store</b>	<b>Hyundai Department Store (Headquarters)</b>	1985	Seoul	Sub-Centre (New City Centre)
	<b>Hyundai Trade Centre Store</b>	1988	Seoul	Sub-Centre
	<b>Hyundai Banpo Leisure Town</b>	1988	Seoul	Sub-Centre
	<b>Hyundai Bupyong Store*</b>	1991	Incheon Metropolitan City	Sub-Centre
	<b>Hyundai Busan Store</b>	1995	Busan Metropolitan City	City Centre
	<b>Hyundai Chunho Store</b>	1997	Seoul	Sub-Centre

\*: shops which were closed within several years after their establishment.

Source: <http://about.shinsegae.com/company/COHistoryV.asp>,  
<http://dpt.lotteshopping.com/shopping/company/history.jsp>,  
[http://www.ehyundai.com/home/ir/ir\\_history.jsp](http://www.ehyundai.com/home/ir/ir_history.jsp)

The *Mi-a* and *Cheon-ho* districts, which were big traditional residential areas serving as suburbs of Seoul, were revamped at that time as the population was growing in conjunction with the rapid expansion of Seoul. The *Yeongdong* was newly developed as a residential district in the south of Seoul from the late 1970s. Thus, Shinsegae Department Store Company's new strategy of establishing multiple branches was a means of creating a popular store for necessities rather than that of luxury fashion goods. In contrast, we shall see in the next chapter, the branches which were established in the city centres of some provincial cities from the mid-1990s were the result of a further strategy to dominate local markets. Lotte's strategy was not different from Shinsegae's. Lotte, which established its own headquarters in the city centre of Seoul in 1979, began to carry out its strategy of expansion both to sub-centres and to residential areas from the late 1980s. *Jamsil* (1988), *Cheonglyangli* (1994) and *Gwan-ag* (1997) are also big residential areas around the suburbs of Seoul. What is interesting is that the first provincial branch of Lotte (*Bu-san* Main Store) was built in the same year as the first of the Shinsegae stores (*Gwangju* Store), even if their locations were different. This suggests that big department store companies were expanding their branches into the provincial cities even in the mid-1990s.

The Hyundai Department Store, which was the last of the big three to enter the market, adopted a rather different strategy. It built its own headquarters in 1985, when other existing competitors already pushed the strategy of creating multiple branches. Accordingly, it decided to establish its headquarters in a new city centre in the south of

Seoul<sup>83</sup>. After that, the Hyundai Department Store expanded its branches mainly around the south. It made inroads into provincial cities at the same time as both its competitors in the mid-1990s. Before that, it established the Hyundai *Bu-pyeong* Store at *In-cheon* as its first provincial branch in 1991 but, in fact, it was different from the other provincial branches because *Bu-pyeong* district plays the role of a dormitory town for Seoul. As a result, it was clear that the strategy of the main department stores, which had been to serve as purveyors of luxury fashion goods, changed to becoming popular purveyors of staples from the mid-1980s. It is also evident that this strategy was carried out through the management of multiple branches, unlike the previous example of a single outlet. In this respect, it is no exaggeration to say that most department stores in Korea since the mid-1980s have been general merchandise stores, albeit they were labelled department stores. In particular, this is evident through comparison of market share of the department store industry with other countries. As mentioned in the previous chapter, its share in the total retail sales in the UK was at most as much as 5-6 per cent in the 1950s. As with other modern retail formats carrying staple goods, the market share of Multiples was 18-20 per cent and Co-operatives was 10-12 per cent at the same time (Jefferys 1954: 61). The market share of department stores in the UK, rather, showed a decreasing tendency after that time. It was 5.1 per cent in 1961 and declined to 4.9 per cent in 1970 (Hill 1974: 28).

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<sup>83</sup> Seoul, the capital city of South Korea, is broadly divided into the north and the south along *Han-gang* [Han River]. The north of the city where *Jo-seon wangjo* [Joseon Dynasty] set up the capital in 1393 is the original centre of Seoul as a traditional city. In contrast, the south of the city has been developed since the end of the 1970s as the capital city has been enlarging with rapid economic growth. The south, at first, was developed as a dormitory town for the north, however, it has become another centre of Seoul as the Seoul area has been expanding into south direction continuously. As a result of rapid development, the area has become a much more splendid and richer place than the northern area since the middle of the 1980s. *Ab-gu-jeongdong*, where the headquarters of the Hyundai Department Store is located, is the centre of the southern area.

In contrast to this, the market share of American department stores, which carried price lines primarily in the medium range around the year 1920, was estimated to be one sixth in 1948 (Robert 1963: 40-41). This indicates that the department store industry in the US still covered the medium range of the consumer market to a large extent since its establishment. This also corresponded with the view that the success of the discount store format from around 1950 was to a substantial degree at the expense of the department store industry in the US (Kibarian 1960-1961: 203). What we can presume through this comparison is, on the one hand, that the consumer market was likely to be less diversified in the US than in the UK, and on the other hand, that the department store in the US had played a role in popular retail formats for mass consumption at least until the innovation of discount store formats. In this respect, it appears normal that, since the 1980s, the department store industry in Korea played a similar role to that of the general merchandise store for mass consumption, rather than the luxurious retail format for the rich given that Korea was characterised by less diversified consumer market.

## **6.2. The Change in the Assortment of Goods**

The change in the department store format due to its strategy of popularisation is linked to the change in the assortment of goods available. In general, the change of the department store towards luxuries can be explained, on the one hand, through the expansion of fashion goods such as apparel, and on the other hand, through the reduction of necessities in its turnover. In this regard, the ratio of foodstuffs in the turnover of the department store was a crucial criterion for the change towards popularisation in Korea because foodstuffs are among the most important necessities.



What is more, the use of the criterion of foodstuffs explains the strategic change in department stores, in that there was no modern retailer for foodstuffs in Korea at that time. This demonstrates a considerable difference between the department stores of the UK and Korea. In general, department stores hardly deal with groceries in the UK because modern multiple shops and co-operatives specialising in foodstuffs developed in tandem with the beginning of the department stores in the 1850s (Jefferys 1954; Fraser 1981; Alexander and Akehurst 1999; Purvis 1999). In contrast, groceries have been carried mainly by traditional retailers in Korea because there had been no big retailers specialising in foodstuffs. Due to this historical condition, unlike the UK case, Korea's department stores dealt with some foodstuffs of high quality for high income people even before the 1980s. This is related to the historical characteristics of retailers. Thus, what this chapter takes into account is the extent to which the ratio of foodstuffs changed from the mid-1980s relative to the conditions characterising Korean department store goods.

According to existing research, the ratio of foodstuffs in total turnover rose in most newly established department stores in the sub-centres after the mid-1980s, compared with those in the city centre. This research used as its basic criteria that 45 per cent of sales were accounted for by apparel, and 10 per cent by foodstuffs. In other words, in those outlets in which foodstuff sales were strengthened, the proportion of apparel in total sales was under 45 per cent, and simultaneously the ratio of foodstuffs was over 10 per cent (B type). In contrast to this, the pre-existing type of retailers before sales of foodstuffs were increased had a ratio of apparel in their total sales of over 45 per cent (A type). These criteria are to some extent arbitrary, but it is clear that, according to this research, the ratio of foodstuffs amongst goods in department stores rose before and

after the mid-1980s. For example, in the case of the Shinsegae Department Store, unlike the existing headquarters in the centre which carried apparel (type A), all six branches established in Seoul since the foundation of the Yeongdeungpo Store in 1984, were classified into outlets in which kinds of foodstuff were strengthened, constituting (type B) goods. In particular, the Dongbang Plaza concentrated further on purveying foodstuffs despite its location in the city centre. The Lotte Department Store had a slightly different strategy from the Shinsegae in that it managed the Lotte Chamsil Store and the Lotte Yeongdeungpo Store as type A entities. However, it also adopted the altered strategy (type B) in the Lotte Cheongnyangri Store in 1994. The Hyundai Department Store established its headquarters as type B in format because its location was at the centre of a new residential area. Instead it managed the Hyundai Trade Centre Store in 1988 as a type A outlet because it was located at an important traffic junction in a big newly developed area of southern Seoul. However, it adopted the strategy of type B again in the Hyundai Bupyeong Store in 1991. Apart from these companies, the New Core Department Store, which was established in a new residential area of Seoul in 1985, managed most branches as type B and the Hanshin Core, which was established in 1988, adopted the strategy of the type B in most of its branches as well (Baek Insu 2004: 174-176).

This change of strategy was inevitably reflected in the purchasing behaviour of consumers. According to a survey by the Shinsegae Department Store in 1984 after the establishment of the Shinsegae *Yeongdeungpo* Store<sup>84</sup>, the outlet in the sub-centre took sales of foodstuffs as well as of apparel to a large extent away from other retailers.

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<sup>84</sup> This survey was carried out in November 1984, six months after the establishment of the Shinsegae *Yeongdeungpo* Store as the first branch in which the strategy of type B was adopted in the sub-centre. 252 people were interviewed for this survey but only the answers from 230

**Table 5.7 Shopping before the Establishment of the Department Store in the Sub-centre**

	City centre		Small and medium size retailer in the sub-centre	Mom and pop store in the neighbourhood	Others	Total
	Big retailer	Small and medium size retailer				
Food stuff (per cent)	6.5	9.6	23.9	60.0	0.0	100
Household goods (per cent)	14.8	13.0	24.8	47.4	0.0	100
Apparel (per cent)	48.3	31.7	15.7	3.9	0.4	100

**Table 5.8 Shopping after the Establishment of the Department Store in the Sub-centre**

	City centre		Sub-centre		Mom and pop store in neighbourhood	Other	Total
	Big retailer	Small and medium size retailer	Big retailer *	Small and medium size retailer			
Food stuff (per cent)	0.0	8.3	43.0	12.6	36.1	0.0	100
Household goods (per cent)	0.9	10.9	33.9	17.8	36.5	0.0	100
Apparel (per cent)	5.7	14.3	73.0	6.1	0.9	0.0	100

\*A big retailer in the sub-centre actually means a department store which has been newly established.

Source: Jo Jinsang (1985: 95)

What we need to take into account in the two tables, <Table 5.7> and <Table 5.8>, are the changes in the pattern of purchases of foodstuffs and apparel in accordance with the existence of big retailers in the sub-centre. The shop which most people (60 per cent) frequented to buy foodstuffs was a kind of mom and pop store in the neighbourhood before the establishment of the department store in the sub-centre. As the second most popular shop, 23.9 per cent of respondents used a kind of small and medium size retailer in the sub-centre which belonged to the traditional permanent

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people were analysed because 22 respondents had never used the department store or did not give proper answers. (Jo Jinsang 1985: 95)

markets. The big retailer in the city centre, in other words, the department store, was used by only 6.5 per cent of respondents for purchasing foodstuffs. In contrast, 48.3 per cent of respondents said that they bought some kind of apparel in the big retailer in the city centre and 31.7 per cent of them used a small and medium size retailer in the city centre in order to buy apparel. This implies that 80 per cent of respondents used retailers in the city centre to purchase some kind of apparel. In sum, over half the respondents bought apparel at retailers in the city centre, but chose to buy foodstuffs from within their neighbourhoods. The establishment of big retailers in the sub-centre sharply altered the purchasing behaviour of consumers. First, big retailers in the sub-centre assumed the dominant market share of apparel, drawing demand away from retailers in the city centre. In fact, 73 per cent of respondents said that they bought apparel at big retailers in the sub-centre. The case of foodstuffs also shows a great change. Newly established big retailers in the sub-centre were the most popular places even for foodstuffs as 43 per cent of respondents used them to buy some kind of foodstuff. As a result of this, the market share of mom and pop stores in foodstuffs dramatically decreased to 36.1 per cent from 60 per cent before the establishment of big retailers in the sub-centre. In summary, the big retailer, in this case the department store, became a purchasing centre both of apparel and of foodstuffs after it was built in the sub-centre, unlike a department store in the city centre. Consequently, this shows, in terms of the purchasing behaviour of consumers, that the department store in the sub-centre strengthened sales of foodstuffs, compared to its counterparts in the city centre. It also implies that the assortment of goods carried changed from luxury goods to popular staples, and such stores also pursued the strategy of establishing multiple outlets.

## **7. Concluding Remarks**

This chapter has examined the reasons for the rapid expansion of consumption and the growth of the department store industry since the 1980s in terms of three actors, i.e. government, consumers and the retail industry. The economic policies of the government had been liberalised and deregulated, particularly with respect to consumption, during the process of democratisation from the 1980s. General economic policy showed a tendency to transfer gradually from state driven to market driven and from production to balance between production and consumption. Social policy which was in a strongly restricted atmosphere also changed as shown by the liberalisation of foreign travel, and the lifting of curfews. In this way, policy in the retail industry changed gradually from a repressive position to an attitude of support. One determining policy which resulted in the expansion of consumption was the start of consumer finance. With the increase in income in the 1980s, this provided Korean consumers with plenty of resources for consumption. On the other hand, social psychology relating to democratisation should be considered as well, although it is not the focus of this thesis. At that time, the expansion of consumption rights seemed to be understood as part of democratic rights. This is because concentration on the production sector, which is the other side of the coin of consumption repression, overlapped with unfair support for entrepreneurs by the authoritarian regime. In other words, the authoritarian regime appeared, on the one hand, to unfairly drive the economy by concentrating on production rather than consumption. On the other hand, it seemed like a dictator by absolutely preferring the rich to the poor. Because of this, consumption can be linked to the fruits of democratisation. In this situation, people became much more progressive in relation to consumption, unlike the previous period. Along with this historical

environment, the retail industry, particularly the department store, grew rapidly as the only modern retail institution to exist at that time.

Here, what needs to be taken into account in terms of evolution of the retail institution is that the expansion of the consumption market was gradually linked to stratification of the market according to the level of income. This is a general phenomenon to be shown in the development of the consumption market and the retail industry. For example, in most advanced countries, such as the UK, the US and Japan, the emergence of mass consumption was linked to a new type of retailer which was consistent with the newly emerging situation. The rapid growth of the department store industry and the increase in conflict between the department store and the traditional market since the 1980s, shows that such a phenomenon took place even in Korea. However, the Korean case shows its uniqueness in terms of the evolutionary process of the department store industry. In general, the department store format emerged with the emergence of mass consumption, and targeted mass consumers first, but eventually positioned itself in the luxury goods market with the emergence of competitors such as multiples (the UK), the discount store format (the US) and the general merchandise store (Japan). Even if such changes took place at different times in each country, the trajectory of development of the department store industry was very similar. In this respect, most of the theories of retail evolution suggest that a retailer transferring itself from the lower market to the upper one constitutes the general path of retail evolution.

In contrast to the general path, the Korean department store format which had already existed as a luxury retailer for a long time, repositioned its status in the retail market through its popularisation strategy from the 1980s. In other words, this can be explained by the absence of other modern retailers, such as the supermarket and the

general merchandise store, which are generally considered as more appropriate types of store for mass consumption. This characteristic seems to be a result of strategic choices made by the department store. This, however, cannot be understood as resulting only from the strategy of the department store. Rather, the strategy of the department store is likely to be closely related to the preferences of consumers, because a retailer usually adopts a strategy that is consistent with consumers' preferences in order to maximise its own profits. Otherwise, some new department store companies would have established other types of retail institutions in order to raise their own market share. However, there was hardly any such differentiation at that time. From this, it can be presumed that Korean consumers have a strong preference for upmarket retailers regardless of levels of income. It is also highly possible that the consumption repression, despite increases in income in the 1970s, increased the gap between income and consumption, and consequently a number of consumers had high purchasing power within department stores when consumption was liberalised. As was analysed in the previous section, the drastic decrease in the gap or reversal between DI and CE since the 1980s would appear to support this argument. With the presence of such consumers the strategy of popularisation by the department store was very useful for creating an explosive expansion of its market. In summary, the so-called department store, like the discount store, was a uniquely Korean entity in the period of mass consumption. As will be examined, this kind of characteristic will also be seen in the much more stratified process of the retail market since the mid-1990s.

## **Chapter VI: The Stratified Retail Industry and the Sign of Relatively Low Economic Growth since the Middle of the 1990s - The Golden Age of the Department Store Industry II -**

### **1. Introduction**

The department store industry which had enjoyed its heyday with an explosive increase in turnover could not avoid the fate of a short sunny day which lasted as long as its rapid growth. The tendency of the consumer market towards stratification since the 1990s has been strengthened by the rise of discount stores as a new kind of retail institution targeting the mass consumption market. On the one hand, the heyday of the department stores, which had led mass consumption as representative modern retailers, had already passed after 15 years, and on the other hand, the department store as a luxurious retail format returned to its original status in the hierarchy of retail institutions.

It was the financial crisis of 1997 that was at the centre of this structural change. Even if the Korean economy had already changed since the mid-1990s, the financial crisis which the Korean economy had not experienced before, had created the momentum necessary for changing the whole structure of the Korean economy. Broadly speaking, the marketisation of the Korean economy has been driven forward much more speedily than before and simultaneously the retreat of the state and the process of deregulation have become clearer and clearer since that time, according to the requirements of the International Monetary Fund (IMF) which was the fire fighter that had to deal with the crisis. Despite the structural reforms of the IMF however, the



Korean economy has fluctuated considerably and has even shown signs of lower economic growth than it showed before the crisis. In this process, one of the most dramatically restructured fields was that of industrial relations, as the structural reform were believed to exacerbate the instability of employment and thus to be linked to rising income inequality (Choe Jinseok and Gim Yeongdeok 2007; Jeon Byeongyu 2007; I Jeongu and I Seongrim 2001, etc.). In fact, the amount of non-regular employment has risen remarkably and the Gini Coefficient has been exacerbated as well since the crisis. As a result of this, the problem of polarisation in income has become the biggest social issue in Korea. Thus, a number of social conflicts have happened around this issue. What is worse, the relatively lower economic growth since the crisis has not contributed to resolving this kind of social problem. Rather, this situation triggered a severe controversy around what should be prioritised in both economic growth and redistribution.

On the other hand, this was directly connected with the stratification of consumption which the Korean economy had hardly experienced before. Due to strong consumption repression, Korean consumers were in an unstratified condition of consumption until around the mid-1980s, in spite of the huge income gap. Even after the liberalisation of consumption was rapidly carried out since the 1980s, liberalisation did not seem to be directly linked to the differentiation of consumption until the mid-1990s. This was a result of a combination of various factors; the decrease in income differentiation as part of the economic environment, avid consumption as a form of consumer behaviour, and both the popularisation strategy of the department store and the absence of another retailer for mass consumption as characterising the structure of the retail industry. In contrast, the expansion of the income gap after the crisis has

caused consumption differentiation under the condition of consumption liberalisation. Unlike the 1970s, without conditions of consumption repression, it was natural for the income gap to be linked to consumption differentiation. In this situation, change in the retail industry was inevitable. The retail industry, which already faced a crucial momentum of change with the complete opening of the domestic market in 1996, has been drawn into a much fiercer whirlpool since the crisis. The dramatic changes, such as the moderation of the department store, the rise of the discount store and the collapse of traditional retailers resulted from this situation. The fastest of these changes in terms of sales growth among them was the change in the retail format of the discount store and its amount of sales which, in the end, exceeded that of the department store industry in 2003. The type of discount store which has emerged since the mid-1990s seemed to provide an alternative for consumers who felt some burden in shopping at department stores, and who were unsatisfied with the price and service of the traditional retailer. The department store, on the other hand, had to accept a rearrangement of its position in the retail industry with a decrease (or a much more moderate increase) in its market share. Apart from the short heyday of the department store format as one of the characteristics of the Korean retail industry, the situation needs to be examined through the theory of retail evolution. The competition and interaction between the department store and the discount store implies that conflict theory is one of the theories of retail evolution that can be applied to the Korean retail industry<sup>85</sup> (O Sejo and Sekine Takasi 2002: 141). Conflict theory claims that conflict and competition among retailers are the

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<sup>85</sup> Of course, the conflict theory can be applied to the situation in which the department stores compete with the traditional retailers. However, generally their relationship does not seem to be an example of the conflict theory because the department store as a modern retailer tends to take over the market one-sidedly from the traditional retailers. This tendency also seems to be related to the huge differences between both in terms of the scale and scope of their operations.

driving forces in retail evolution. The struggle to be better fitted for survival in the market decides both the direction of and the extent of retail evolution (Brown 1987). In this respect, the structure of the Korean retail industry in which two different types of modern retailers exist and compete might be consistent with the claims of the conflict theory.

However, what requires caution in the Korean situation is the character of ownership and thus the governance of the main retail companies. The oligopolistic character of the Korean economy due to the existence of the *chaebol* should be considered in the case of the retail industry as well. Most of the main retailers, such as the department stores and the discount stores are owned by *chaebols*. For example, the Shinsegae Department Store Company owns E-mart as a discount store division and the Lotte Department Store Company also owns Lotte Mart as its discount store division; they are all the main competitors in each type of mass retailer. Due to the comprehensive structure of ownership, two different types of retailers in the same company might mainly be in a cooperative relationship rather than in a survival game, although there is internal competition to some extent within the same company. In this regard, they can be instruments which carry out the strategy of price differentiation in order to maximise the profits of the big retail companies under the condition of a differentiated consumer market. In other words, they can be components of an asset portfolio at the level of the comprehensive retail company. This implies that the main driving force for their evolution may not be conflict but their cooperation with each other in accordance with the situation of the consumer market.

This chapter examines the concrete situation of the economic environment since the mid-1990s in light of these factors and explores the change of factors relating to

consumption such as income distribution. It looks at the response of retailers to these circumstances and thus the emerging situation in the retail industry. The strategic change of the department store and explosive growth of the discount store format is documented. This chapter will not examine the issue of theoretical adaptation because this would require a different kind of analysis. Instead, the next chapter will tackle further theoretical issues.

## **2. The Financial Crisis and Lower Economic Growth since the Mid-1990s**

### **2.1. The Financial Crisis and its Socio-economic Impacts**

It is not an exaggeration to say that the financial crisis of 1997 was one of the most important turning points in Korean economic history. The shock from the crisis resulted in the lowest record of economic growth in its history. From the beginning of the crisis in 1997 until 2000, 9 *chaebols* out of the biggest 30 *chaebols*, including the Daewoo Group - which was the third largest in terms of asset size among the *chaebols* – faced the crisis of bankruptcy (*Jo-seon-il-bo* 2 June 2000). The myth that the *chaebols* were too big to fail was destroyed. As we have seen earlier, some of the *chaebols* already faced a serious crisis in the early 1980s. The Korean government resolved this problem, on the one hand, through the rationalisation of their industries, in which the *chaebols* had to pay part of the cost and, on the other hand, through financial support which provided them with an opportunity for survival. However, the financial crisis in the late 1990s was completely different. The government had no omnipotent power which could resolve the crisis of the firms. This was related both to the size of the bankruptcy and to the decreasing power of the government since liberalisation. It was impossible for the government to prevent avalanches of bankruptcies and instead the government changed

its own role to the disposal of the bankrupted. In the meantime, some of the main commercial banks, which had won public confidence at the level of the state, also faced a similar crisis to the *chaebol*. Some of them were bankrupted and others underwent enforced mergers. In the course of this process, investment in the financial market, including the ownership of banks, was completely opened to foreigners. In other words, financial liberalisation and the opening of the market, which was gradually carried out in planned stages, were enforced as a solution during the crisis (Chang et al. 1998: 735-746). As a result of this, the Korean people were seriously wounded in their self-confidence at the national level, which had originally stemmed from the highly successful history of their late industrialisation. Instead of avoiding the dishonour of a moratorium, the debt relief imposed by the IMF was unavoidable. December 3, 1997, when both the Korean government and the IMF signed the debt relief with an agreement on its various conditions, was generally called 'The Day of National Disgrace' (*Jo-seon-il-bo* 4 December 1997a, etc.). Some of the media used expressions like the loss of economic sovereignty on this day and the IMF trusteeship was one of the more common expressions used to denote the period of the crisis (*Jo-seon-il-bo* 19 December 1997b). The fact that some of the senior bureaucrats who were involved in the crisis, were convicted later on, was also deeply related to public sentiment, even if there was fierce controversy over the fairness of bringing these bureaucrats to trial. These examples permit us to see how Korean people understood the crisis.

Apart from such matters, what concerned people after the crisis was the change in everyday life. While matters of expectation and trust in the existing economic system affected people's opinions, the changes in everyday life directly influenced their physical and concrete existence. One of the most important changes was in the

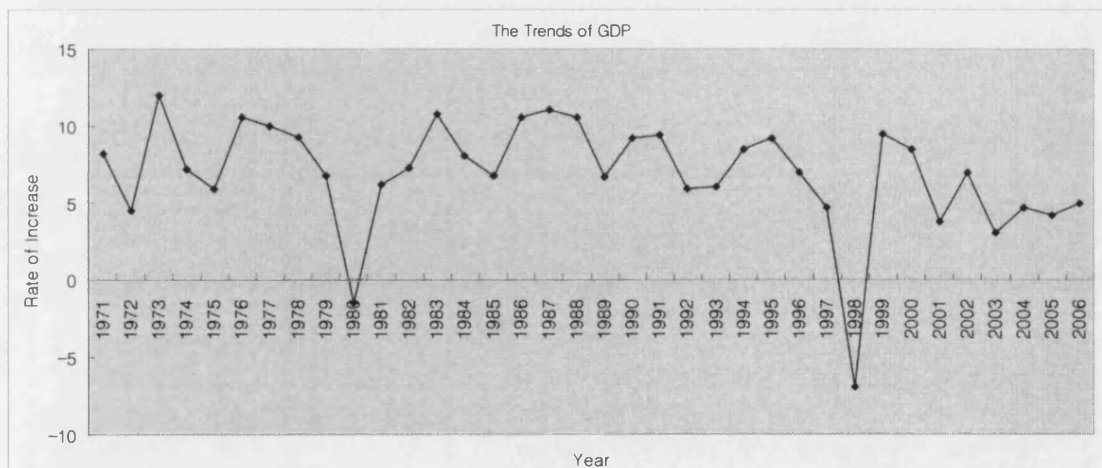
employment structure, which became remarkably vulnerable due to the crisis. This is because the employment structure as a source of income was one of the most basic factors in people's lives. The more considerable the crisis became, the more unstable the employment structure became. The industrial relationship since the crisis can be characterised as an expansion of labour flexibility. It was composed of the deregulation of dismissal practices, and replacement labour in the event of strikes was now permitted through the requirements of the IMF (I Jongseon 2001: 179). Of course, it was unthinkable that the introduction of this kind of rapid change into Korean society would not incur some resistance from the labour force, because the strong organisation of trade unions had been established since the late 1980s. To avoid this problem, the Korean government built an organisation which created a social pact among the labour force, the capitalists and the government in the beginning of 1998. Although a compromise between the classes was quite difficult, the organisation produced some successful outcomes. The representatives of the trade unions obtained strong labour rights, including 'the right to organise' the public sector labour force, instead of an acceptance of the expansion of labour flexibility. This was the first social pact among the three parties in Korean history (Ibid: 180). However, the restructuring of the employment system was prior to the social pact. The government, on the one hand, had a passive attitude to the enforcement of some of the clauses of the social pact, which was not very consistent with the goal of restructuring. And the labour force, on the other hand, resisted the restructuring of the employment system in its concrete process (Ibid: 182). In this situation, it was inevitable that the number of strikes increased rapidly. The figure was just 78 in 1997, but it increased sharply to 129 in 1998, 198 in 1999 and 462 in 2004, according to the Ministry of Labour (MOL, Annual Number of Strikes, each

year). Nevertheless, the policy of labour ignorance became the main stream in labour policy and, as a result of this, the instability of employment grew higher and higher.

## 2.2. Moderate Economic and Domestic Market Growth

The vulnerable situation which resulted from the financial crisis was exacerbated due to relatively lower economic growth compared with the previous period. In turn, this might also be linked to lower economic growth at the next stage because of the increase in social conflict and the shrinking of consumption.

**Figure 6.1** Trends of Economic Growth Rate



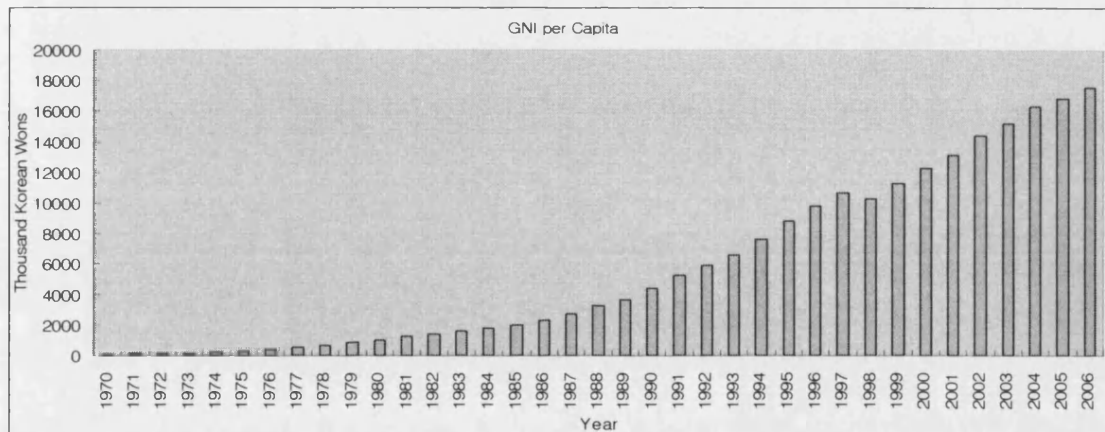
\*Real Term

Source: BOK, National Accounts, each year.

The annual GDP growth rate sharply declined to 4.7 per cent in 1997 from 7 per cent in 1996. This was because the impact of the crisis had not yet spread towards the whole economy, although it took place in that year. However, the spread of the impact was fast. In 1998, the Korean economy recorded its worst annual rate of economic growth at minus 6.9 per cent since the establishment of the development plan in the early 1960s. The growth rate in 1999 looked strong at 9.5 per cent because it was based on the much lower rate of the previous year. The recovering trend of the economy

continued in 2000, as the economic growth rate recorded 8.5 per cent in that year. However, the aftershock of the crisis lasted much longer. The economic growth rate was sharply moderated in 2001 at 3.8 per cent. The rate of increase of GDP increased to 7 per cent in 2002, thanks to the policy of stimulating the economy, but it declined again to 3.1 per cent in 2003. Consecutively, recording 4.7 per cent in 2004, 4.2 per cent in 2005 and 5 per cent in 2006, the rate of increase of GDP did not show robust trends, unlike the previous period.

**Figure 6.2** Trends of Income\*



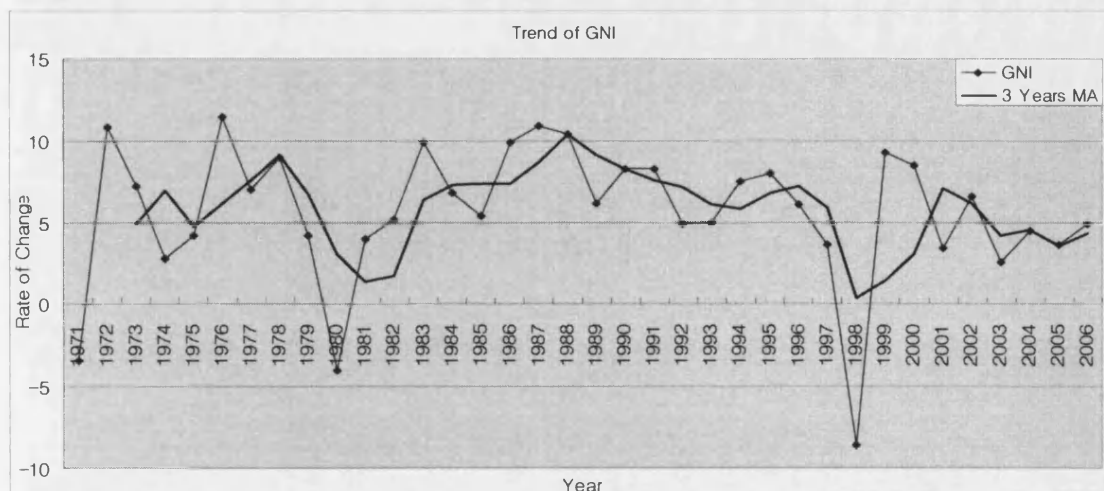
\*Nominal Term of GNI per Capita: Thousand Korean *won*  
Source: BOK, National Accounts, each year

According to <Figure 6.2>, GNI per capita, which rose continuously to 10.63 million *won* (11,176 US dollars) in 1997, declined to 10.29 million *won* in 1998, with the impact of the financial crisis. After that, it showed a rising curve again. However, its real rate of increase was much more moderate than in the previous period.

<Figure 6.3> shows the conspicuous difference in the rate of increase of real GNI per Capita before, during, and after 1997. While most of the annual rates were in between 5 per cent and 10 per cent before 1997, most rates after 1997 have been between 0 per cent and 5 per cent.



**Figure 6.3** Rate of Increase of GNI per Capita

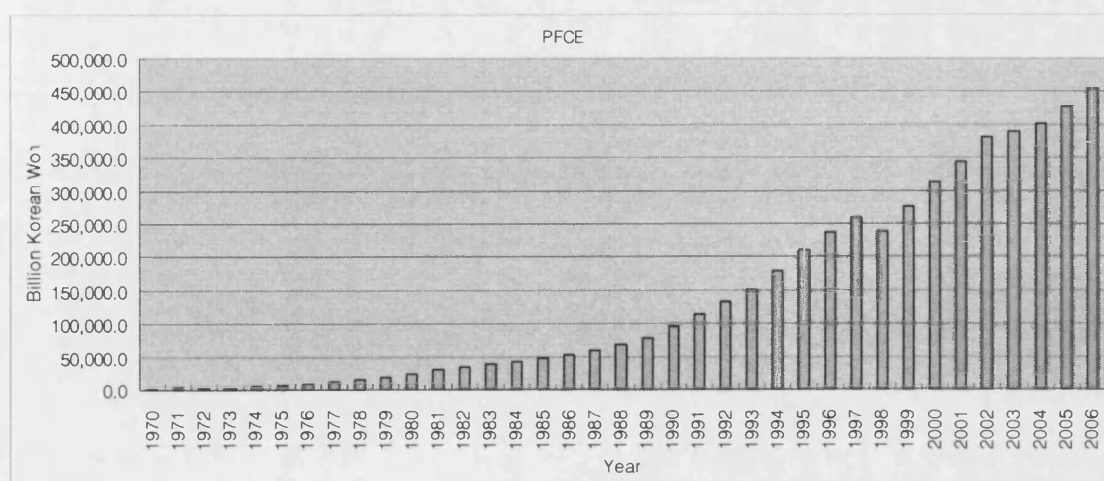


\*Real Term

Source: BOK, National Accounts, each year

The average rate of increase of GNI per capita was 7.5 per cent per annum between 1986 and 1996, while it was just 3.7 per cent per annum between 1996 and 2006, which is under half that of the previous period. This moderation of the rate of increase in GNI per capita may imply that basic conditions for domestic consumption have exacerbated since the financial crisis.

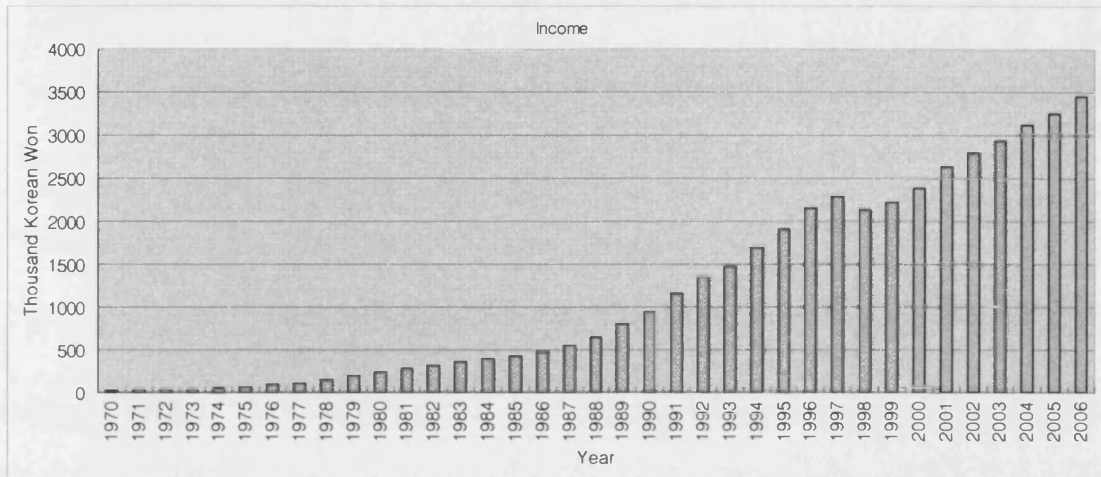
**Figure 6.4** Trend in Private Final Consumption Expenditure\*



\*Nominal Term of the Private Final Consumption Expenditure (PFCE): Billion Korean Won  
Source: BOK, National Accounts, each year

According to <Figure 6.4>, the PFCE declined sharply in 1998 but increased rapidly again until 2002. However, its trend of increase has been more of a slowdown since 2002.

**Figure 6.5**      **Trend of Income\* of Urban Labour Households**



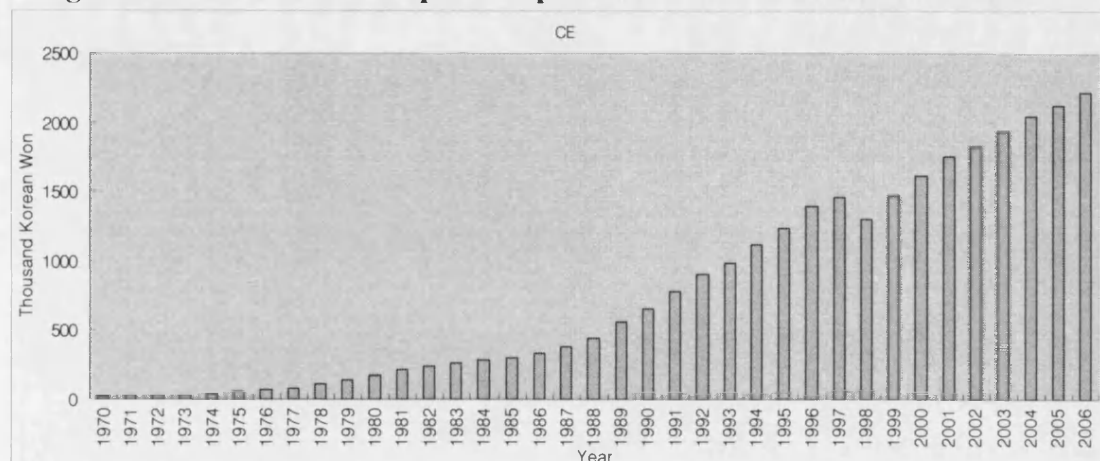
\* Nominal Term: Thousand Korean *won*

Source: KNSO, Monthly Income and Expenditure per Urban Household, each year

We can see in <Figure 6.5> that the monthly income of Salary and Wage Earners' Households in urban area (SWEHs) declined to 2.1 million *won* (1,524.7 US dollars) in 1998 due to the impact of the financial crisis. Even though the decrease in income looks like recovery afterwards, its real rate of increase was much more moderate than in the previous period.

In <Figure 6.6>, the monthly consumption expenditure of the SWEHs also shows a similar curve to its monthly income. It was 1.45 million *won* (1,528.5 US dollars) in 1997 and decreased to 1.3 million *won* (927.7 US dollars) in 1998. After that, its real rate of increase was also much more moderate than in the previous period.

**Figure 6.6 Trend of Consumption Expenditure\* of Urban Labour Households**

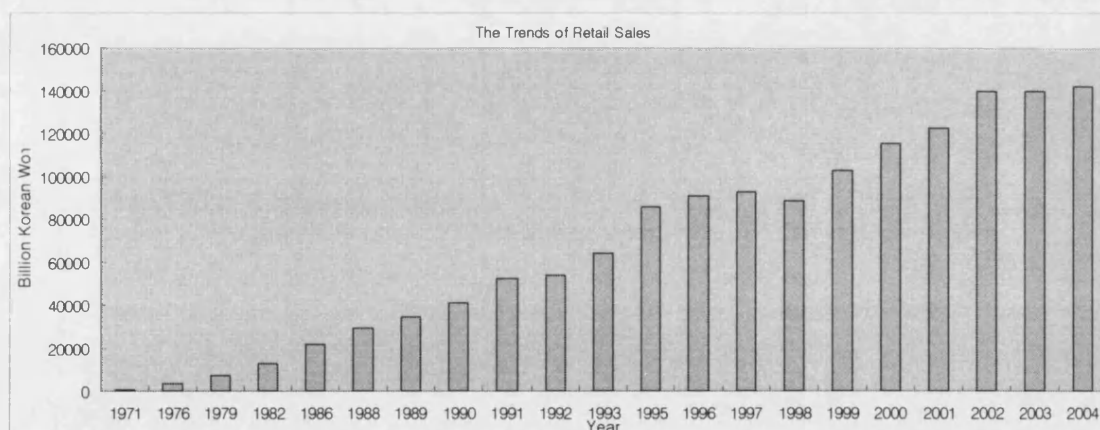


\* Nominal Term: Thousand Korean *won*

Source: KNSO, Monthly Income and Expenditure per Urban Household, each year

The total amount of retail sales is one of the most important factors which can indicate the size of the domestic consumption market. According to <Figure 6.7>, this was also critically affected by the financial crisis.

**Figure 6.7 Trends of Retail Sales**



\*Nominal Term: Billion Korean *won*

Source: KNSO, Wholesale and Retail Trade Census (1971, 1976, 1979, 1982), Wholesale and Retail Trade Census with the Overall Establishment Statistics (1986, 1991), Wholesale and Retail Trade Survey (1988, 1989, 1990, 1992, 1993, 1995, 1997, 1998, 1999, 2000, 2002, 2003, 2004), Wholesale, Retail Trade and Service Industry Census (1996, 2001)

The total amount of retail sales which recorded 90,906.9 billion Korean *won* (112,968.3 million US dollars) in 1996 slightly increased to 92,561.4 billion Korean *won* (97,325.9 million US dollars) in 1997, when the crisis broke out. However, it

dramatically declined to 88,400.9 billion *won* in 1998, when the shock from the crisis spread nationwide. Thanks to the policy of boosting consumption, it increased again after that time. Nevertheless, another decline of retail sales in 2003 may imply that the situation surrounding consumption has exacerbated considerably since the crisis.

### 2.3. Change of the Population and Urbanisation as Social Environments

Social environments such as population and urbanisation around the retail industry have maintained a harmonious influence on its development like the previous period. The ratio of the population which lived in urban areas increased to 78.8 per cent of the whole population in 1995 and to 80 per cent in 2000, growing to 81.5 per cent in 2005. The whole population increased to 47.3 million in 2005 from 44.6 million in 1995 (KNSO Population & Housing Census, each year). Population conditions became much more conducive to the development of the retail industry. The direction of the change in the family composition as a unit of consumption has been positive to its development. The decrease in the size of family but the increase in the number of families, for example, are significant pieces of supporting evidence.

**Table 6.1**                      **Trend of Generations in Household (%)**

	1970	1975	1980	1985	1990	1995	2000	2005
<b>One person households**</b>		4.2	4.8	6.9	9	12.7	15.5	20
<b>One Generation***</b>	6.8	6.7	8.3	9.6	10.7	12.7	14.2	16.2
<b>Two Generations</b>	70	68.9	68.5	67	66.3	63.3	60.8	55.4
<b>Three Generations</b>	22.1	19.2	16.5	14.4	12.2	9.8	8.2	6.9
<b>Over four Generations</b>	1.1	0.9	0.5	0.4	0.3	0.2	0.2	0.1

\*The sum of figures in each year has been a bit under 100 since 1980 because non-relative households, which consist of members of non-blood relationship, have been classified as a separate item.

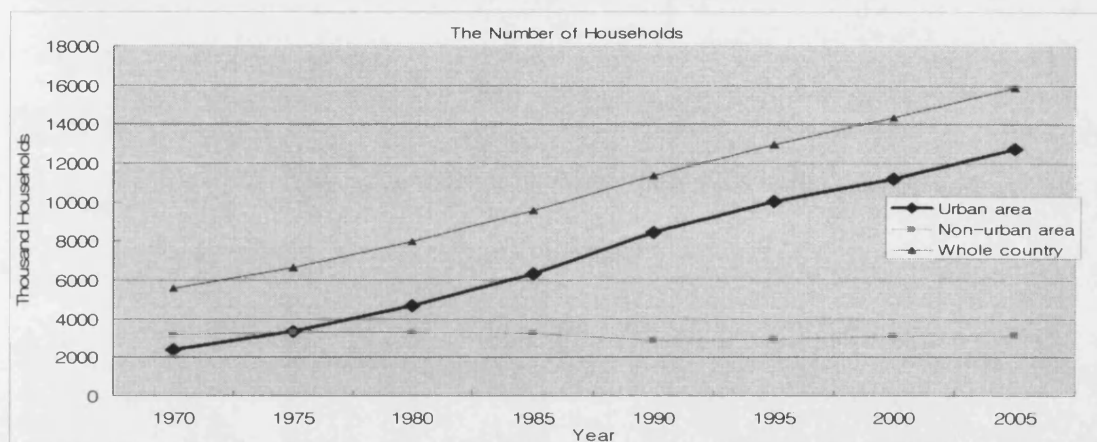
\*\*One person households: household with just one member.

\*\*\*One Generation: household which consists of members of the same generation, like a married couple without children.

Source: KNSO, Population & Housing Census, each year

What <Table 6.1> shows us consistently since the 1970s is the decrease in the size of the family. One generation and one person households have firmly increased while the number of households over one generation has clearly decreased over time. The increase in one person households seems to be particularly considerable after the mid-1990s. This is linked to the increase in the number of total households.

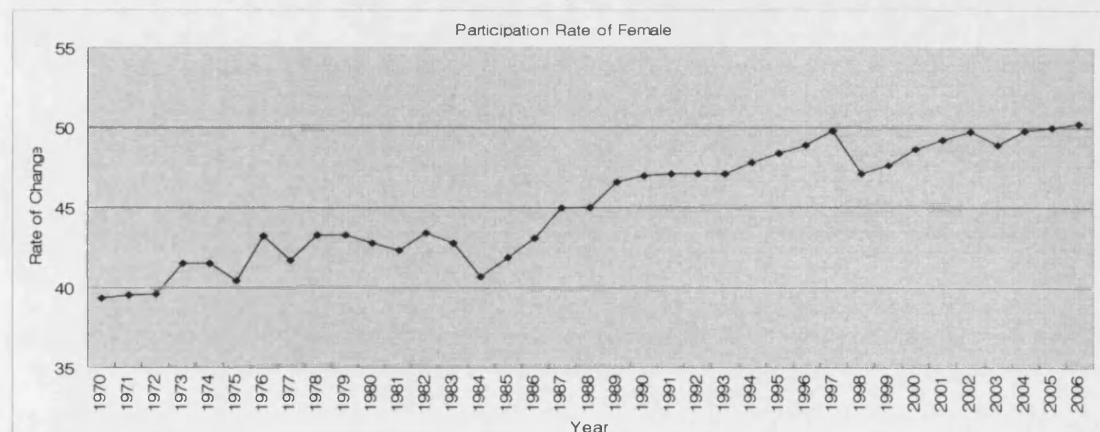
**Figure 6.8** **Number of Households**



Source: KNSO, Population & Housing Census, each year

According to <Figure 6.8>, the number of total households was 11.4 million in 1990 and increased to 13 million in 1995, to 14.3 million in 2000 and to 15.9 million in 2005. As <Figure 6.8> shows, most increments in the number of households were generated by those households concentrated in urban areas. For instance, of the 1.4 million increase in the number of households between 1995 and 2000 1.2 million were households in urban areas and a mere 0.2 million households in rural areas.

The increase in economically active females is also a remarkably influential factor on consumption patterns, and so on the development of the retail industry, as was pointed out in Chapter IV.

**Figure 6.9****Proportion of Economically Active Females\***

\*The proportion=Economically Active Female/All Females 15 Years old and over  
Source: KNSO, Economically Active Population Survey, each year.

Its proportion, which had risen since the mid-1980s, recorded 49.8 per cent in 1997 but sharply declined to 47.1 per cent in 1998 due to the financial crisis. After that, however, it increased gradually to 50.2 per cent in 2006.

### **3. The Aggravation of Inequality and the Shrinking of Consumption**

In general, it is highly possible that the aggravation of inequality is linked to the shrinking of consumption in the national economy. This is because of a more equal, higher APC. This view has explanatory power during the period from the mid-1980s to the mid-1990s in the Korean economy, when consumption was characterised by rapid expansion as income distribution improved. In contrast, the situation surrounding consumption after this period is likely to tell the opposite story. This can be explained as the shrinking of consumption as income distribution worsened following the financial crisis. This change in consumption had a considerable effect on the retail industry. Furthermore, it was a cause of the emergence of a new retail format, and a factor which encouraged a new trajectory for the retail evolution.

### **3.1. The Aggravation of Inequality**

The problem of inequality has become more serious since the mid-1990s. The financial crisis worsened this situation quite considerably. One detrimental factor resulting from the crisis was the instability of the employment system and the increase in unemployment. For example, while the average unemployment rate per annum was 2.7 per cent from 1985 to 1996, it has sharply increased to over 4 per cent since 1997 (KNSO, Economically Active Population Survey, each year). Inequality of wealth, which usually includes real estate and financial assets, was also worsening with the rapid increase in the price of houses. This change in the economic situation was a critical factor for the differentiation of the consumption market under the conditions of consumption liberalisation.

#### ***Inequality of Income***

A more serious problem for consumption was the aggravation of income inequality since the financial crisis. This is because the distribution of current income as a form of purchasing power is more influential on consumption in the short term than the amount of wealth, which cannot necessarily be liquidated. In fact, as we have seen earlier, consumption was progressive under the conditions of improvement of income inequality between the mid-1980s and the mid-1990s, although wealth inequality was hardly improved during the period.

<Table 6.2> shows the trend of the income Gini Coefficient of labour households in the urban sector. As it shows, their Gini has been exacerbated since the financial crisis in 1997. The level of Gini was around 0.285 before the crisis, but it rose to over 0.310 after the crisis. There is a tendency for the income data of the urban labour force to be

relatively less uneven than those of other categories, such as for the self-employed and income for the whole country. This is because the urban labour force works under more similar conditions in terms of workplace and pay schemes etc. compared with other categories such as self-employment and income for the whole country.

**Table 6.2** **Trend of Gini Coefficients**

<b>Year</b>	<b>Gini Coefficient (Urban Sector)</b>	<b>Gini Coefficient (Nationwide)</b>
<b>1986</b>	0.307	
<b>1987</b>	0.306	
<b>1988</b>	0.302	
<b>1989</b>	0.304	
<b>1990</b>	0.295	
<b>1991</b>	0.287	
<b>1992</b>	0.284	
<b>1993</b>	0.281	
<b>1994</b>	0.284	
<b>1995</b>	0.284	
<b>1996</b>	0.291	
<b>1997</b>	0.283	
<b>1998</b>	0.316	
<b>1999</b>	0.320	
<b>2000</b>	0.317	
<b>2001</b>	0.319	0.341
<b>2002</b>	0.312	
<b>2003</b>	0.306	
<b>2004</b>	0.31	
<b>2005</b>	0.31	
<b>2006</b>	0.31	

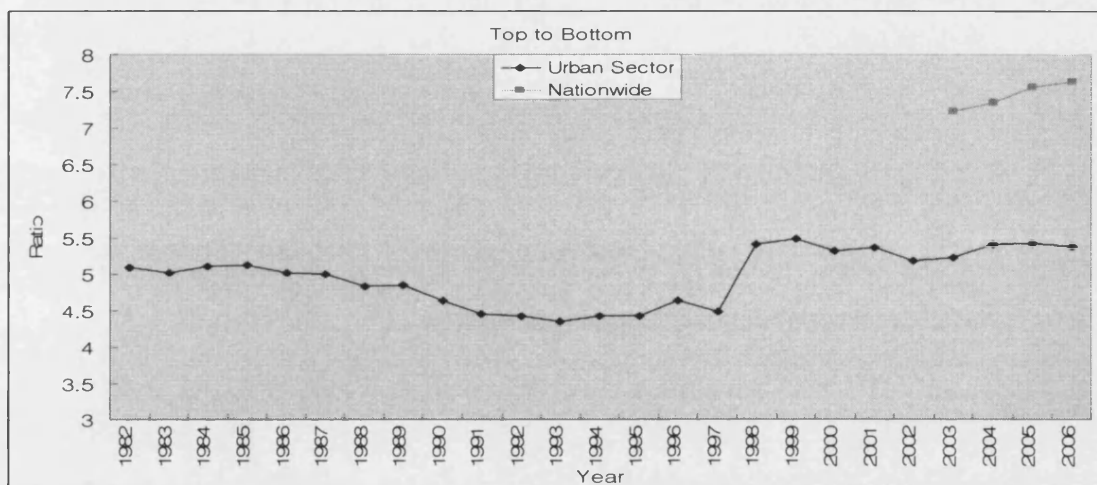
Source: KNSO, Monthly Income and Expenditure per Urban Household, each year

In fact, as the figures in <Table 6.2> since 2003 show, the Gini of nationwide households, which has been officially published since 2003 by KNSO, has been higher than that of urban labour households. In this respect, the Ginis of nationwide households before 2003 can be expected to be higher than those of urban labour households that have been published. According to research by I Jeongu and I Seongrim, the Gini Coefficient of nationwide households recorded 0.384 in 1998 as it rose rapidly after the financial crisis, while that of urban labour households was 0.303 at the same time (I Jeongu and I Seongrim 2001: 93-94).



Apart from the Gini Coefficient, the ratio of the top to the bottom quintile of income is also an important indicator of inequality. According to <Figure 6.10>, the ratio of the top (fifth) to the bottom (first) quintile of income rose sharply from the level of 4.4 before the financial crisis to the level of 5.4 just after the crisis. This high level has continued long past the crisis.

**Figure 6.10 Trend of the Income Gap: the Top to the Bottom Quintile**



Source: KNSO, Monthly Income and Expenditure per Urban Household, each year

In other words, the income gap shows a completely different level before and after the crisis in Korea's economy. Just like the Gini, the ratio for nationwide households was worse than that of the urban sector. It was 7.23 in 2003, and rose to 7.64 in 2006.

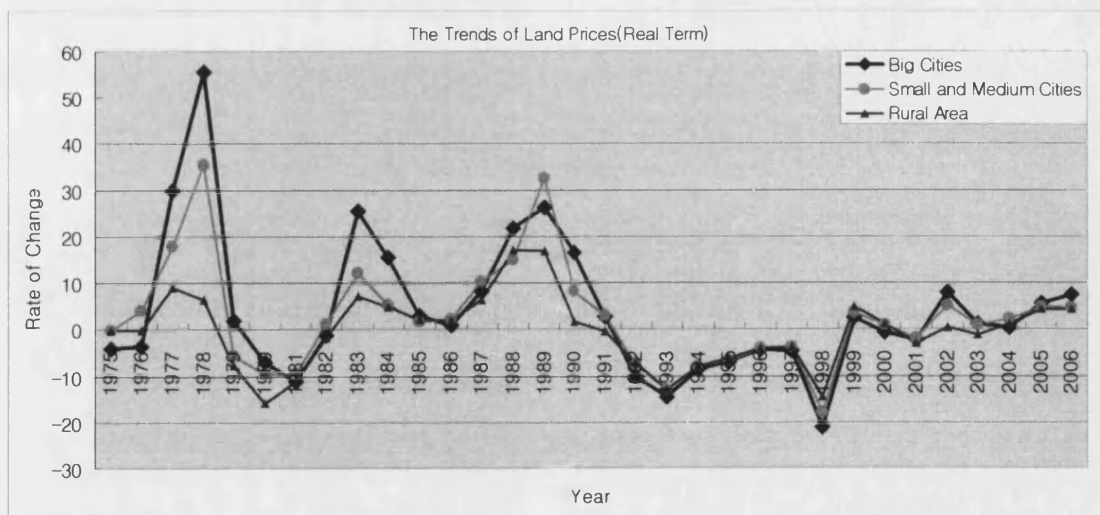
### ***Inequality of Wealth***

We have already seen that inequality of wealth in terms of land has worsened since the 1970s. To examine this phenomenon, this thesis has concentrated on the extremely uneven rate of increase in prices between urban and rural areas in accordance with the rapid industrialisation and economic growth of the 1970s, and concentrated on the extremely uneven distribution of land ownership since the mid-1980s. With the

development of the financial market, the gap between financial assets was also identified as an important factor contributing to the inequality of wealth since the mid-1980s. Consequently, wealth inequality has continuously worsened during the 1980s, whereas income inequality improved during the same period. Basically, the situation surrounding the inequality of wealth since the mid-1990s is almost the same as the situation since the mid-1980s. However, the gap in wealth has become bigger and bigger. In particular, this can also be shown through the huge gap in the rate of increase in house prices.

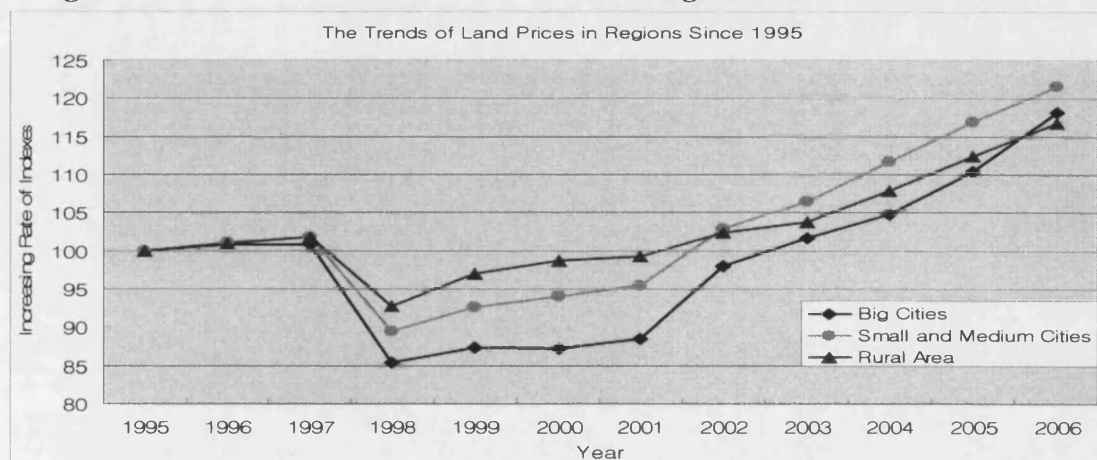
<Figure 6.11> shows the trend of land prices since the mid-1970s. According to the figure, the regional gap in the rate of increase of land prices decreases among big cities, small and medium cities and counties over time. <Figure 6.12> illustrates the indexes of the rate of increase in land prices in regions which are calculated by the criterion of 100 at 1995.

**Figure 6.11** **Trend of Land Prices**



\* Real Term calculated by the author through GDP deflator based on 100 at 2000  
Source: MOCT, Survey of Land Prices, each year

**Figure 6.12**                      **Indexes of Land Prices in Regions since 1995**



\* Indexes calculated by the author, based on 100 at 1995.

Source: MOCT, Survey of Land Prices, each year

As the graph shows, there is nearly no difference in the rate of increase in land prices in regions such as big cities, small and medium cities and counties. Rather, there is even a tendency for the rate of increase in big cities to be lower than that in other regions. Of course, this does not mean that land values have converged towards similar levels amongst regions since 1995, because there was already a huge existing gap in land prices amongst them. However, it is evident that the difference in the rate of increase amongst regions has not been a crucial factor in aggravating the inequality of land wealth, at least since the mid-1990s.

Accordingly, what should be noted is distribution of land ownership. Due to the lack of data on land distribution, this thesis makes use of the same data used in Chapter 4. As a result of this lack of data, <Table 6.3> illustrates the cumulative size of lands owned by the population in just two years, 1986 and 2005. According to the table, the situation in 1986 already seems to be serious, in that just 5 per cent of the total population owned 65.2 per cent of the total private land, but the situation deteriorated over 20 years.

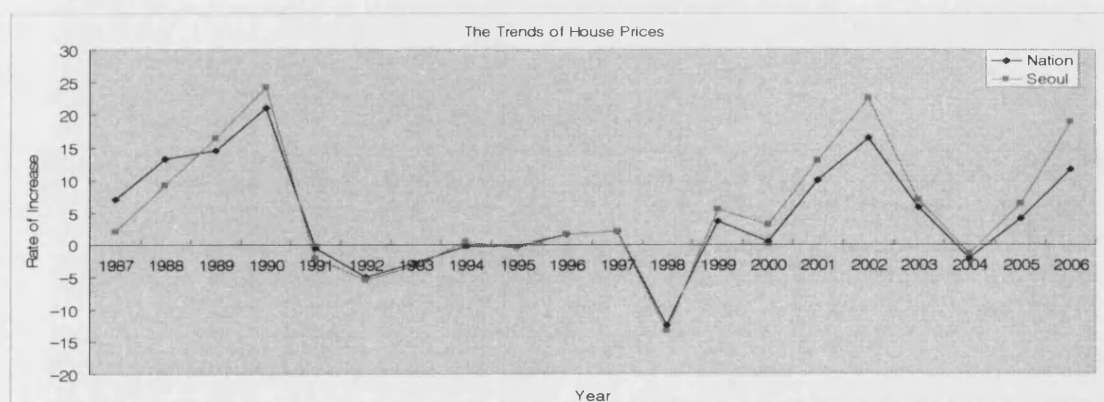
**Table 6.3**                  **Distribution of Privately Owned Lands**

The Ratio of the Population	1986	2005
Top (1per cent)		51.5
Top (~2per cent)		65.3
Top (~5per cent)	65.2	82.7
Top ~10per cent	76.9	91.4
Top ~20per cent	87.7	93.4
Top ~30per cent	93.1	

Source: I Jinsun 1993: 113; MOGAHA Gae-in-byeol-to-ji-so-yu-bun-po-hyeon-hwang-myeon-jeog-gi-jun [State of Distribution of Individual Landownership-By Owned Size], 2005

Just 1 per cent of the population owned over 50 per cent of total private land in 2005 and the share of 5 per cent of the population expanded to around 83 per cent in the same period. With this, what should be noted concerning the matter of inequality, is the change in house prices, particularly since the late 1990s. <Figure 6.13> shows the trends of house prices in the whole nation and in Seoul alone. According to the figure, the rate of increase of house prices has been initiated by Seoul, particularly since the end of the 1990s. This is a phenomenon which is especially worth taking into account because the metropolitan area of Seoul is a place where the concentration of the population is much higher, given that as much as 50 per cent of the whole population is living there.

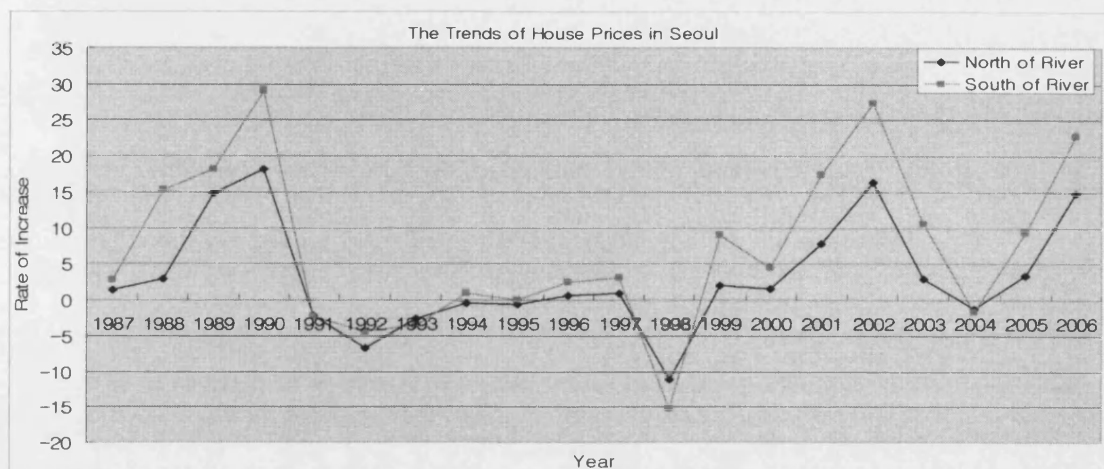
**Figure 6.13** Trends of House Prices



\* Real Term calculated by the author, based on 100 at 2003  
Source: MOCT, Survey of House Prices, each year

Thus, this implies that wealth inequality has expanded through the gap in house prices between Seoul and other areas. Then, how was the situation in Seoul in relation to house prices? What we need to do in order to grasp this situation is to trace the difference in the rate of increase of house prices between north and south of the river in Seoul.

**Figure 6.14**      **Difference in House Prices between Regions in Seoul**



\* Real Term calculated by the author, based on 100 at 2003  
Source: MOCT, Survey of House Prices, each year

<Figure 6.14> shows the trends in the areas to the north and the south of the River Han. According to the figure, the south of river, which began to be developed at the end of the 1970s, has generally initiated the rise of house prices since the late 1980s. This trend has been more conspicuous since the late 1990s. In fact, this has been one of the most serious social issues, and has been instrumental in some fairly strong regulations being applied to house prices and trade<sup>86</sup> since that time. Thus, the gap in wealth has been expanding through differences in house prices in Seoul as well.

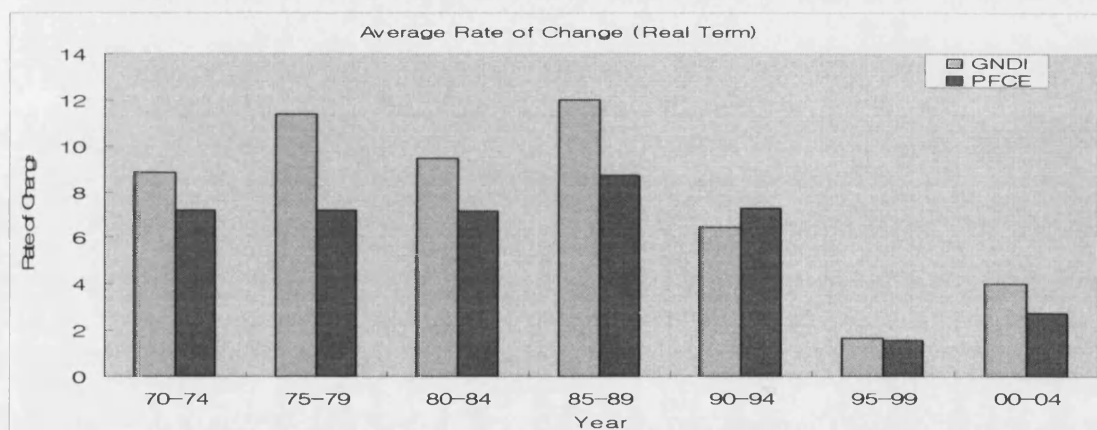
<sup>86</sup> The Korean government imposed thirty or some special policies for cooling house price since 2003 (*Younhap News Agency* 31 August 2005b).

### 3.2. Shrinking of and Differentiation of Consumption

#### *Shrinking of consumption*

When consumption is liberalised it becomes dependent on income. Thus, the character of consumption since the financial crisis can be summed up as a general shrinking of consumption and greater differentiation in accordance with income levels. This change in consumption is linked to a more competitive environment for the retail industry and thus is likely to force the industry to try new strategies or to innovate. Shrinking consumption will be shown nationwide and through the urban sector.

**Figure 6.15** Trends of Income and Consumption



GNDI: Average Rate of Change per annum of Gross National Disposable Income ( $i_n$ )

PFCE: Average Rate of Change per annum of Private Final Consumption Expenditure ( $\dot{C}_n$ )

\* Real Term calculated by the author, based on 100 at 2000

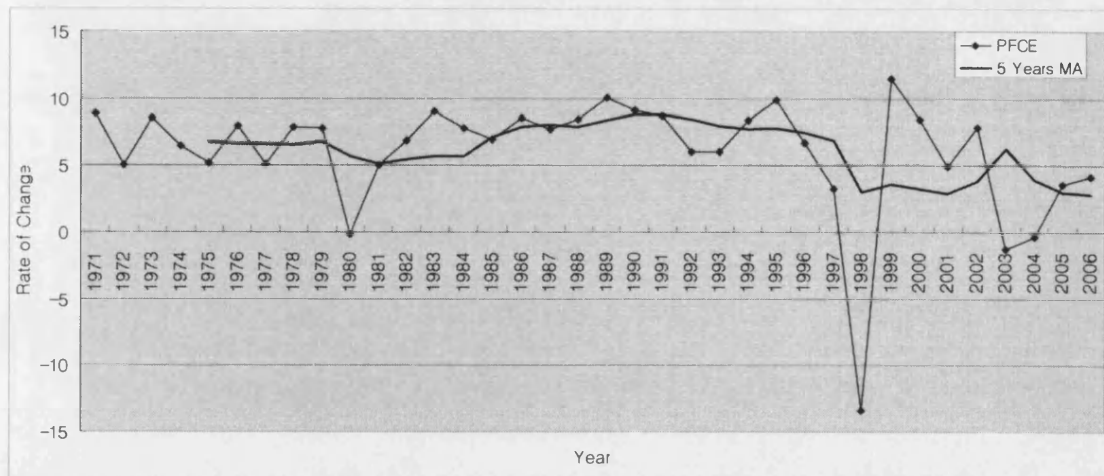
Source: Bank of Korea, National Accounts, each year

According to <Figure 6.15>, the rate of increase of both income and consumption has sharply slowed down since the mid-1990s. In particular, shrinking consumption was more serious than that of income in the second half of the 1990s. Of course, this is essentially a consequence of the financial crisis. What should be noted here is that consumption decreased more sharply than income despite the serious economic recession. This suggests that consumers were greatly affected by the recession to the extent that they reined in their spending; thus, consumption attitudes became extremely



conservative. This seems clear when the trend from the first half of the 1990s to its second half, is compared with that from the second half of the 1980s to the first half of the 1990s.

**Figure 6.16** **Rate of Increase of PFCE**



PFCE: Rate of Change of Private Final Consumption Expenditure ( $\dot{C}_n$ )

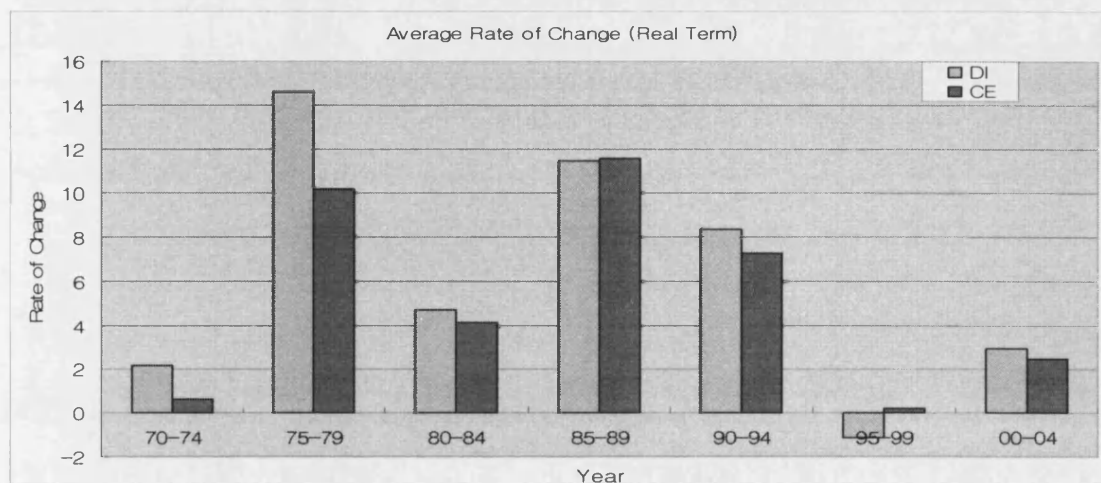
\* Real Term calculated by the author, based on 100 at 2000

Source: Bank of Korea, National Accounts, each year

<Figure 6.16> shows the trend in final consumption expenditure (PFCE) in real terms since the early 1970s. What we are seeing in the figure is the curve of PFCE, the rate of increase of which has been remarkably moderate and unstable since the crisis. A decrease per annum in the real PFCE occurred 3 times in 1998, 2003 and 2004. A rate of increase of under 5 per cent occurred 7 times between 1997 and 2006. This is worse than in the 1970s when consumption repression was enforced. A decrease in PFCE occurred only once, the minus 0.2 of 1980, even in the period between 1971 and 1985 when consumption repression existed. The average rates of increase per annum of PFCE in these periods also support this fact. According to <Figure 6.16>, the average rate of increase of PFCE was 6.53 per cent per annum between 1970 and 1985 and it increased to 8.11 per cent per annum between 1986 and 1996. In contrast, between 1997 and

2006, it declined dramatically to just 2.6 per cent per annum. The rate of increase since the crisis is much lower than half that of the previous period.

**Figure 6.17 Trends in Income and Consumption of Urban Labour Households**



DI: Average Rate of Change per annum of Disposable Income ( $\dot{I}_u$ )

CE: Average Rate of Change per annum of Consumption Expenditure ( $\dot{C}_u$ )

\* Real Term calculated by the author through the consumer price index (CPI) based on 100 at 2005

Source: KNSO, Monthly Income and Expenditure per Urban Household, each year

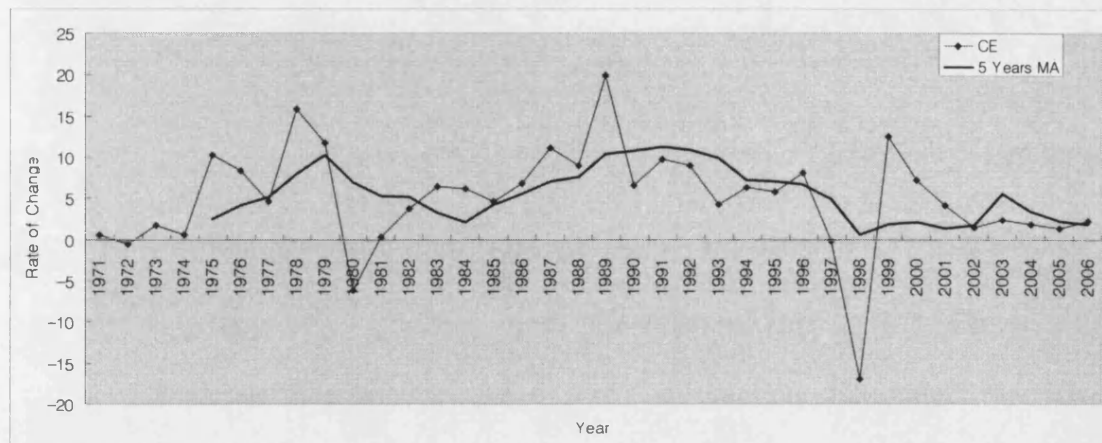
<Figure 6.17> shows that the economic situation in the urban sector was more unstable than that of the whole country in the second half of the 1990s. While the rate of increase of income at the level of the whole country declined sharply, the income of the urban sector decreased absolutely for the first time, since the 1970s, and consumption was also extremely sluggish in the period. Even after 2000, the situation of income and consumption was not better in the urban sector than in the whole country.

<Figure 6.18> is the trend in the rates of change of monthly consumption expenditure of labour households in the urban sector since 1971. Real term is calculated by CPI with base of 100 in 2005. Broadly, the general shape of the figure is hardly different from the trend of PFCE in <Figure 6.16>. A small difference in both figures seems to be the degree of fluctuation of the rate of change in accordance with the business cycle. This figure shows more fluctuations than the figure of PFCE, presumably due to the urban



sector which is more sensitive to the business cycle. What should be noted in <Figure 6.18> is the consumption situation since the financial crisis. This illustrates the extremely moderate rate of increase of the consumption expenditure of labour households in the urban sector since the crisis.

**Figure 6.18** **Rate of Increase of CE**



CE: Rate of Change of Consumption Expenditure ( $\dot{C}_u$ )

\* Real Term calculated by the author through the Consumer Price Index (CPI) based on 100 at 2005

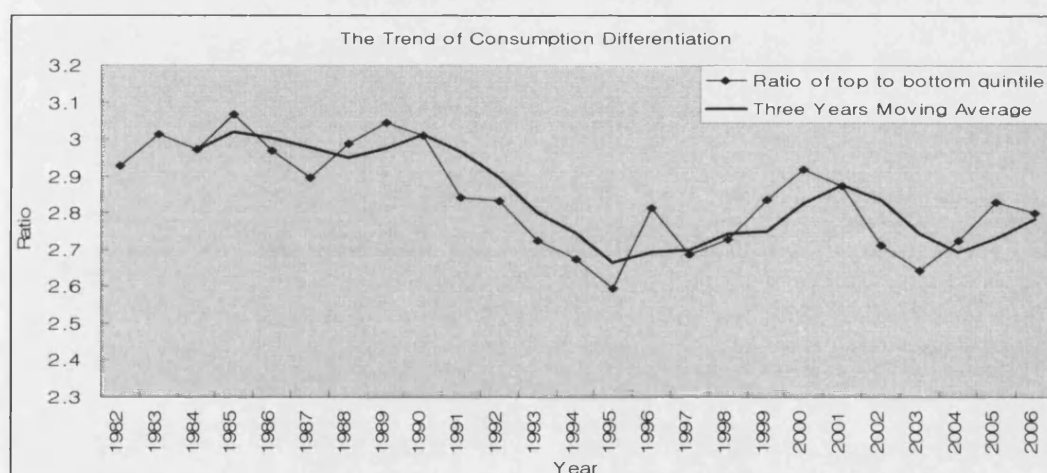
Source: KNSO, Monthly Income and Expenditure per Urban Household, each year

This is clearer in the comparison of this period with others. According to <Figure 6.18>, the average rate of increase of CE was 4.46 per cent per annum between 1970 and 1985 and it increased to 8.89 per cent per annum between 1986 and 1996. In contrast, between 1997 and 2006, the average rate of increase of CE declined dramatically to just 1.51 per cent per annum. As a result, the average rate of increase of CE per annum since the crisis declined to a level of nearly one sixth of that in the previous period. The shrinking of consumption in the urban sector was more dramatic than that of the whole country since the crisis, whereas the expansion of consumption in the urban sector was sharper than that of the whole country in the period of mass consumption.

### ***Differentiation of consumption***

Here, we look at the differentiation of consumption through income quintile of labour households in the urban sector. <Figure 6.19> illustrates the ratios of consumption of the top (fifth) to the bottom (first) quintile of income in labour households in the urban sector since 1982. As is shown, broadly the ratio tends to decrease after the mid-1980s, and it particularly declines sharply from 1989 to 1995. As we have seen earlier, this is precisely consistent with the period of mass consumption.

**Figure 6.19 Ratio of Consumption: the Top to the Bottom quintile**

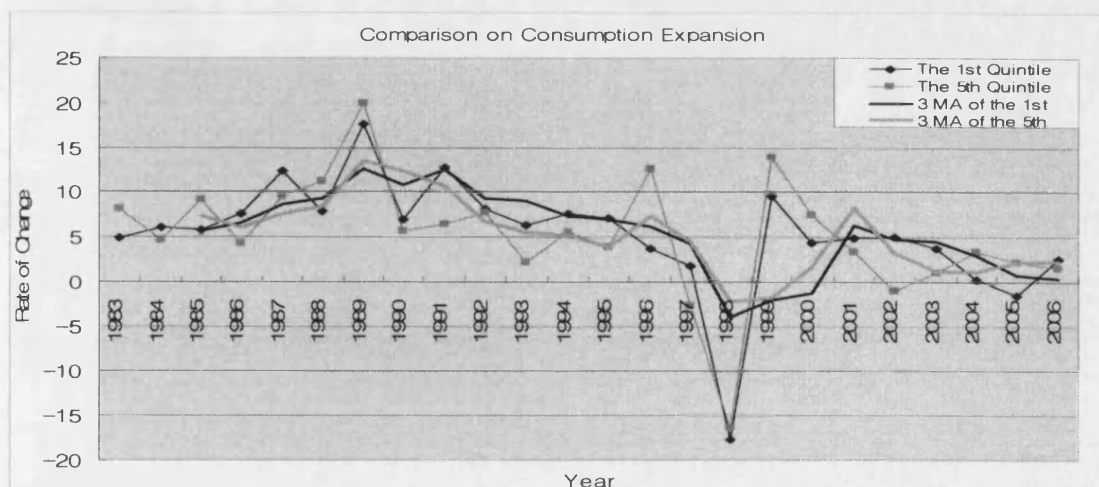


Source: KNSO, Monthly Income and Expenditure per Urban Household, each year

However, since then, its tendency has reversed. This becomes especially clear from the financial crisis of 1997 to 2000. Thanks to the policy of boosting consumption, its differentiation had diminished by 2003, but it shows a rising tendency again after that time. In sum, the differentiation of consumption has deepened since the crisis.

This is made clear by confirming who was in the leading position in the expansion of consumption. <Figure 6.20> illustrates the trends of the rate of change of consumption expenditure and of its three years moving average in the first and the fifth quintiles.

**Figure 6.20** Who was in the leading position of consumption?



\* Real Term calculated by the author through the consumer price index (CPI) based on 100 at 2005

Source: KNSO, Monthly Income and Expenditure per Urban Household, each year

What we can see in this figure is the clear exchange of the leading group in relation to consumption before and after the financial crisis. The rate of increase of consumption of the fifth quintile was overwhelmed by that of the first one before the crisis in the 1990s, but the relationship between them was reversed after the crisis. The fact that the first quintile initiated consumption before the crisis is linked to a decrease in differentiation of consumption between the rich and the poor in the period as we have seen in <figure 6.19>. However, the higher income group took the initiative in consumption among the income groups, and the gap between both widened since the crisis.

#### **4. Return of the Department Stores to Luxury Goods with the Stratification of the Retail Industry**

##### **4.1. Complete Opening and its Effect**

The opening of the domestic market in the Korean economy began in 1981 when the government permitted the establishment of retail and wholesale shops of under 300 square metres, for just one operating category. After this, the limitation on the size of

shops was expanded to 600 square metres in 1982, and the limitation on the number of traded items was also lifted in 1984. However, the number of foreign company shops which could be established was limited to just one (Gim Jundong et al. 2003: 65-66). The active opening of the domestic market began before and after the Uruguay Round (UR) which was a trade negotiation which lasted from 1986 to 1994. The Korean government announced that the domestic market was going to be opened in order to fulfil the requirements of the UR and, in accordance with this, it announced the plan of a three-phased opening of the domestic market in 1988.

In the first stage, which began in 1989, the government permitted the import of technology from foreign retail companies and, first of all, it deregulated the wholesale sector. Thanks to this, the existing big businesses of the retail industry imported technologies relating to the development of goods and to the operations of outlets from Japan, the US and France (Choe Jangho et al. 1994: 7). During the second stage, which began in 1991, the government emphasised the opening of the retail sector, following the opening of the wholesale sector. According to this, a foreign company that owned more than one shop was able to build ten shops in the Korean domestic market. With this, the regulation on the maximum size of shops that foreign companies could invest in, was also expanded to 1,000 square metres. Its third stage began in 1993, when the government expanded the maximum size of shops to 3,000 square metres and the number of shops to twenty. Following this, regulation both of the size of and of the number of shops has been completely lifted since 1996, and the establishment of discount stores by foreign companies has been permitted since then (KCCI 1999: 7-8). The discount store as a format that sells various goods at lower prices than other types of retailers, varies both in the assortment of goods it offers, and in the operation of the

format. Thus, some researchers distinguish them according to their characteristics. In this respect, Wal-mart can be classified as a traditional discount store or US-type discount store which deals only with dry goods. Unlike this, Carrefour and Tesco (HomePlus in Korea) may be classified as Hypermarket or European type discount stores which deal with both dry goods and foodstuffs. They can be regarded as a type of combination of the traditional discount store of dry goods with the supermarket selling foodstuffs. If these two types of discount stores are classified in accordance with their range of goods, Costco, which operates a shops by membership and so is called a membership wholesale club, can be distinguished from them in terms of the operations of the shop (Seo Yonggu and An Yeonghyo 1999: 8-9; An Gwangho and Jo Jaeun 2003: 62-63; O Sejo and Bak Jinyong 2004: 94-102). Accordingly, the fact that all these types of retail format have been permitted since 1996 explains why the year 1996 has been called the beginning of a new period for the Korean distribution industry. However, the establishment of department stores by foreign companies was not permitted at that time to protect domestic companies. This protection, however, did not last long. As foreign investment was desperately needed after the financial crisis in 1997, this restriction was lifted from 1998 (Gim Jundong et al. 2003: 67)

Facing this dramatic change in the retailing environment, the government replaced a basic law affecting the distribution industry in order to rationalise the industry's management structure. For this the new law called *Yu-tongsan-eob bal-jeon-beob* [the Law for the Development of the Distribution Industry], which was enacted in 1997 focused on supporting the distribution industry. In particular, unlike the old laws, this was a law which concentrated on the deregulation of large rather than small retail institutions. (MOLEG 1997). Before and after this change, foreign companies which

entered the Korean domestic market were mainly concentrated in the field of discount stores, even if various types of foreign retail companies were expected to make inroads into the Korean domestic market (Gim Jundong et al. 2003: 70).

**Table 6.4**                      **Number of Established Foreign Discount Stores**

	1996	1997	1998	1999	2000	2001	2002
<b>Carrefour</b>	3		3	5	9	2	3
<b>Wal-Mart</b>	2	2		1	1	3	6
<b>HomePlus(Tesco)</b>				1	5	7	7
<b>Costco</b>			1		1	1	

Source: KOSCA, *Yu-tong-eob-che yeon-gam [The Yearbook of Retail Companies]*, each year

According to <Table 6.4>, the most aggressive foreign discount store company is Carrefour from France. Carrefour, which moved into the Korean domestic market in the first year of its opening, had been the largest discount store company among the foreign retail companies until it withdrew from the Korean market in 2006. Wal-Mart, which is the largest retail company in the world, also aggressively moved into the Korean market but its performance was lower than that of Carrefour. HomePlus's penetration strategy was very different from these two companies; whereas Carrefour and Wal-mart directly invested with 100 per cent ownership from the beginning, HomePlus established a company as a type of joint venture with Samsung and gradually bought the rest of the shares off Samsung. Under this strategy, it has further expanded the size of its investments over time. Costco's investment has been smaller than all of its foreign competitors, even if it also has been one of the most popular retailers among consumers. Investment from these foreign companies was a considerable factor in the discount store industry since their opening because the format of the discount store was not popular until then. In fact, the first discount store in Korea was built in 1993 in Chang-dong, a residential area of Seoul, as a branch of the E-mart Chang-dong Store by the Shinsegae Department Store (An Gwangho and Jo Jaeun 2003: 63). However, it is perhaps par for

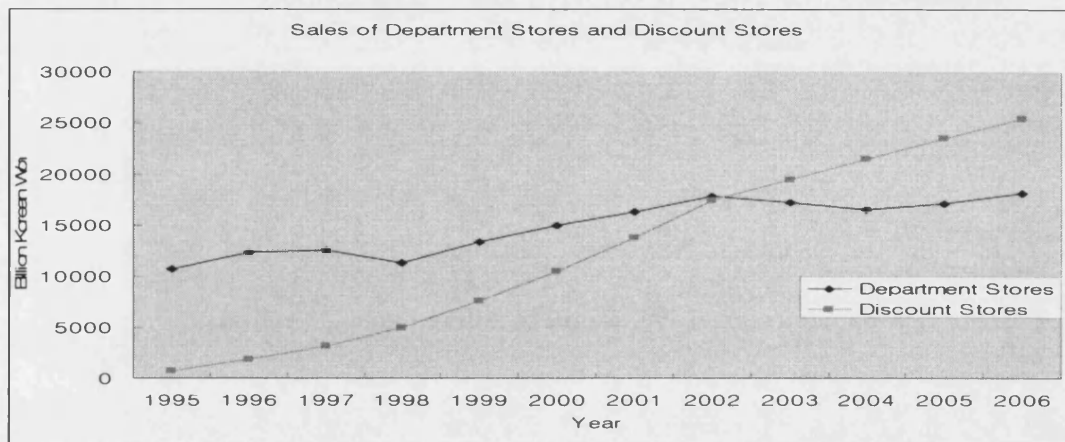
the course that this new format needed more time to gain popularity. In 1996, the total number of discount store shops was just 34 in Korea and thus the ratio of foreign companies already recorded 14.7 per cent in this field. As the ratio grew, it reached a level of 28.9 per cent in 2002 (KOSCA, *Yu-tong-eob-che yeon-gam [The Yearbook of Retail Companies]*, each year). In particular, the period since the financial crisis has been a golden age for discount stores. Another effect of the opening of the market was the popularisation of discount stores as a retail format. The market opening and the influx of foreign discount stores created the momentum to enable people to get to properly familiarise themselves with the format which had been so unpopular earlier. This is because the opening of the market and its effects constituted an important social issue at that time. What was more, as mentioned previously, the differentiation of income which had been deepening since the mid-1990s, required a new retail format for people who could not continue consuming luxuries.

#### **4.2. Rapid Growth of the Discount Store and the Stratification of the Retail Industry**

As mentioned earlier, a picture of the retail industry may be drawn since 1996 as a conspicuous convulsion combined with a complete opening of the domestic market and the emergence of a new retail format throughout the serious economic crisis. In general, economic recession can be said to have created the momentum for the emergence of the new retail format because consumers become more sensitive to prices due to their fall in income. In this regard, it is evident that the financial crisis following the market opening, provided the momentum for structural change in the retail industry from the late 1990s in Korea. As a new retail format, discount stores have rapidly grown in this

environment since the late 1990s. <Figure 6.21> shows that total sales of discount stores in 1995 was 672.3 billion Korean *won* (0.87 billion US dollars), which was just some 6 per cent of total sales of department stores which amounted to 10,697.2 billion Korean *won* (13.87 billion US dollars).

**Figure 6.21 Value of Sales of Department Stores and Discount Stores**



- 1) Sales of Department Stores in 1995, 1996 are calculated by the author through Sales Indexes by Retail Business Type, based on 100 at 2000.
  - 2) Sales of Discount Stores in 1995, 1996 and 1997 are calculated by the author through Sales Indexes by Retail Business Type, based on 100 at 2000.
- Source: KNSO, Current Wholesale and Retail Trade Survey, each year

Discount stores' total sales increased seven times over three years, as they generated 4,973.9 billion Korean *won* (3.56 billion US dollars) in 1998, and they eventually overtook department stores' sales of 17,252 billion Korean *won* (14.5 billion US dollars), by generating 19,509 billion Korean *won* (16.4 billion US dollars) in 2003. Since that time, the gap between both has been widening continuously.

The gap in growth between these two retail formats is clearer inform the indexes shown in <Table 6.5> which are calculated with the criteria of 100 in 1995. The sales indexes of department stores have never been over 200 since 1995. Their highest index was 169.4 in 2006.



**Table 6.5 Indexes of Value of Sales in Department Stores and Discount Stores**

	<b>Department Stores</b>	<b>Discount Stores</b>
<b>1995</b>	100	100
<b>1996</b>	115.8	278.1
<b>1997</b>	117.9	471.9
<b>1998</b>	106.4	739.8
<b>1999</b>	124.6	1126.1
<b>2000</b>	140.3	1562.5
<b>2001</b>	153	2051.4
<b>2002</b>	166.3	2588.9
<b>2003</b>	161.3	2901.7
<b>2004</b>	154.3	3197
<b>2005</b>	160.4	3499.9
<b>2006</b>	169.4	3789.6

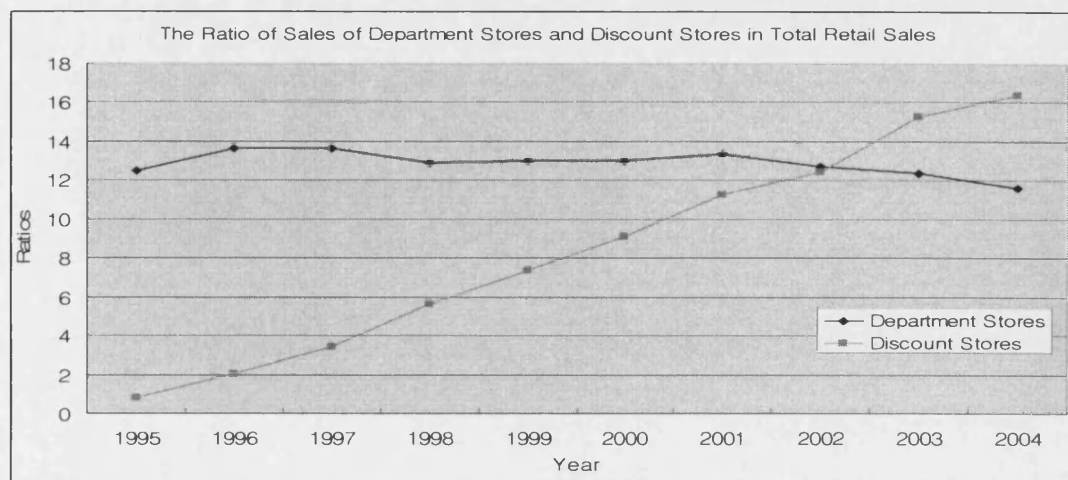
\* Indexes are calculated by the author, based on 100 at 1995.

Source: KNSO, Current Wholesale and Retail Trade Survey, each year

However, that of discount stores was 20 times bigger at 2,051.4 in 2001 and was over 35 times bigger at 3,789.6 in 2006. In particular, whereas sales of department stores increased by just 1.8 per cent in 1997 and decreased by minus 9.8 per cent in 1998, due to the financial crisis, those of discount stores increased by 69.7 per cent in 1997 and by 56.8 per cent in 1998. Thus, the financial crisis was rather a good opportunity for the discount store format. Even if the rate of increase of sales of discount stores has become more moderate over time, the increase in their total sales is still robust.

According to <Figure 6.22>, the ratio of sales of discount stores in total retail sales has also undergone a dramatic change since 1995. Its ratio was just 0.78 per cent unlike that of department stores of 12.5 per cent in 1995. However, its growth has been very rapid since then. Like trends of sales, figures of its ratio in total retail sales before and after the financial crisis were quite impressive, as they increased continuously without a pause while those of department stores declined or were sluggish.

**Figure 6.22 Ratios of Sales of Both Formats in Total Retail Sales**



1) Sales of Department Stores in 1995, 1996 are calculated by the author through Sales Indexes by Retail Business Type.

2) Sales of Discount Stores in 1995, 1996 and 1997 are calculated by the author through Sales Indexes by Retail Business Type.

Source: KNSO, Wholesale and Retail Trade Survey (1995, 1997-2000, 2002-2004, each year), Wholesale, Retail Trade and Service Industry Census (1996, 2001), Current Wholesale and Retail Trade Survey, each year

The ratio increased to 5.6 per cent in 1998 from 2.1 per cent in 1996. This implies that sales of discount stores were still noticeably robust although sluggish sales were a general phenomenon in the retail industry, as well as in department stores. After its ratio increased rapidly again to 15.3 per cent in the recession of 2003, it has remained vigorous.

This emergence and rapid growth of the new retail format since the crisis was directly linked to the differentiation of the retail industry. In fact, it is clear that the department store industry was not ruined, although its stagnation was emphasised until now, compared with the rapid growth of the discount store industry. Its market share in whole retail sales was at the level of over 10 per cent even in 2004, even though it was lower than that of the discount stores. In this respect, it is highly possible that the growth of the discount stores demonstrated a reduction in market share of traditional retailers rather than department stores. In other words, this retail format, which grew

more rapidly than the department store, emerged between the department store industry and traditional retailers, and appeared to take market share away from traditional retailers mainly. As a result of this, the retail industry, which had been composed mostly of department stores and traditional retailers, changed to a tripartite structure. This can be considered a differentiation of the modern retail sector, which was now composed of both department stores and discount stores. As we have seen, the modern sector in the retail industry had consisted of only the department store industry since the 1970s. Department stores had been the only modern retail format in existence even since the period of mass consumption because they moved from being a purveyor of luxury goods to one of popular goods. In this respect, the structure of the Korean retail industry had been unique because the emergence of mass consumption generally results in the differentiation of the consumption market with the emergence of proper retail formats for mass consumption such as supermarkets and general merchandise stores. The emergence of the discount store format thus implies that the structure of the Korean retail industry performed according to the general trajectory of the retail evolution. As an appropriate retail format for mass consumption emerged and grew during the economic crisis and the liberalisation, the modern retail sector in Korea became differentiated. As a result, the tripartite structure of the Korean retail industry took shape: the department store serving as an upmarket store; the discount store serving the middle market; the traditional market catering for the lower end of the marketplace.

### 4.3. Back to Luxury for the Department Store

#### *Fierce Competition in the Existing Retail Market*

Both the opening of the domestic market and the coming of the financial crisis have been directly linked to the emergence of the new retail format in the Korean market, and this has inevitably caused fierce competition in the mass retail market. It was clear that this change of situation contributed to the oppressed growth of department stores, because they had led the mass retail market since the emergence of mass consumption in the mid-1980s. While the Korean department stores had changed their strategy to one of adding lower prices and popular goods to their existing structure in order to obtain market share of the emerging mass consumption market since the mid-1980s, the basic strategy in developing the new retail format was that of lower prices and popular goods. In other words, it mirrored the situation in which department stores had to withdraw from the middle market. In fact, new retailers have been more competent than department stores in the mass consumption market. One key indicator of this is that the number of their outlets has increased more rapidly than those of department stores. The trends of the figures in <Table 6.6> clearly show the differences between the discount store and the department store. Whereas the number of department store shops has been decreasing since 1998, the number of discount store shops has been increasing.

**Table 6.6 Number of Outlets in Department Stores and Discount Stores**

	1996	1998	2000	2002
<b>Department Stores</b>	106	116	101	86
<b>Discount Stores</b>	40	87	123	233

Source: KCCI, Analysis of Current Retail Management, each year

It is likely that the number of discount store shops outnumbered that of department store shops in 1999 and there were nearly three times the number of department store shops in 2002. This is related to the faster establishment of relatively small shops by

discount stores, in residential areas. In fact, the average size of discount store shops, which was 11,364 square metres in 2002, was about 30 per cent smaller than that of department store shops which averaged 15,600.9 square metres in the same year (KCCI 2003: 28, 45). To that extent, investors seemed able to decide and carry out their projects quickly. Second, their assortments of goods are more fitted to the mass consumption market than those of department stores. For example, this difference is evident with foodstuffs, which represent essential rather than luxury goods. While the ratio of foodstuffs among discount store goods is over 50 per cent in value of sales, that of department stores is just roughly 15 per cent, although there is a change according to periods (Ibid: 25, 44). Accordingly, the discount store format seems to have occupied a more favourable position than that of the department store for mass consumption in residential areas. Finally, one of the most important things which makes discount stores more competitive, is price competitiveness. According to a survey by KCA in 1998, 74.1 per cent of 701 respondents indicated that the most important reason for consumers buying goods in discount stores was lower prices (KCA 1998: 21). In fact, the prices of goods on offer in discount stores, were analysed as roughly 10 per cent lower than those of department stores (Ibid: 34).

To summarise, the intense competitiveness of the retail market which emerged since the mid-1990s has provided a disadvantageous environment for department stores. This critical factor has driven department stores out of the mass market.

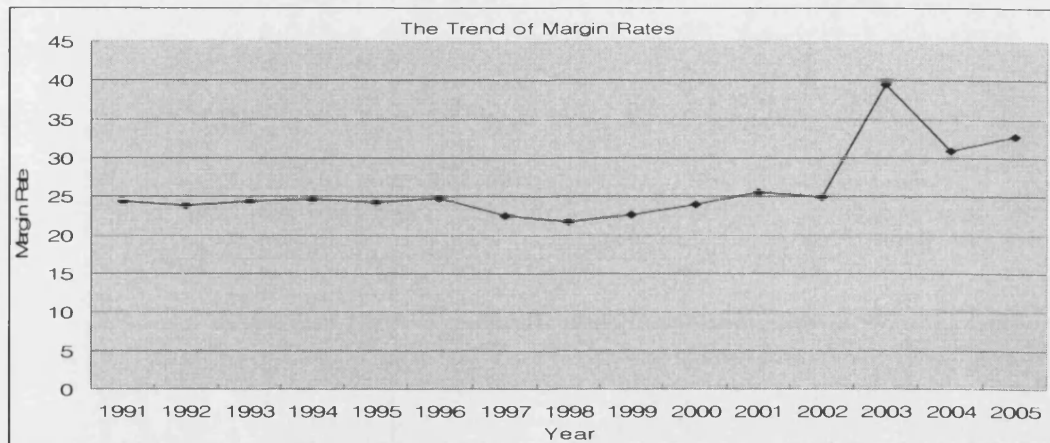
### ***Emergence of New Markets for Luxuries***

The expansion of the income gap is linked to the differentiation of consumption during liberalisation when no consumption repression is present. After the financial



department stores, which has been achieved since the late 1990s, can be understood as the successful adaptation to cater for new markets. First, department stores' rate of margins shows that the ratio of income to expenses has improved since 2000. According to <Figure 6.23>, department stores' rates of margin maintained a level of 24 per cent until the mid-1990s when in 1998, it declined to 21.66 per cent due to the financial crisis.

**Figure 6.23**      **Trend in Department Stores' Rates\* of Margin**



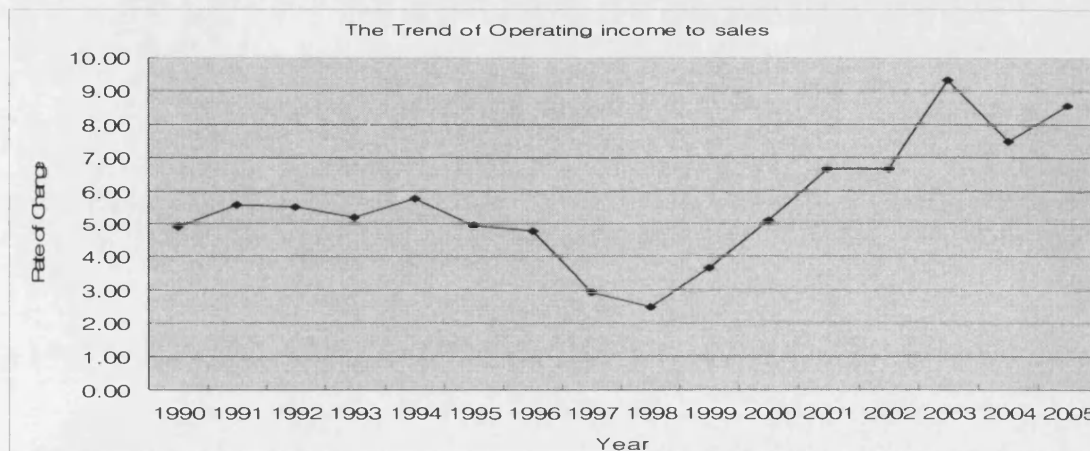
\*Rate of Margin=  $(1 - \text{Cost of Sales} / \text{Sales}) \times 100$  which represents gross margin as a percent of sales and so shows what a firm makes on its cost of sales, revealing productivity and efficiency.

Source: BOK, Financial Statement Analysis, each year

However, the margin increased to 32.85 per cent in 2005, bouncing back again after that. In particular, the trend since 2001 seems to indicate that there has been a dramatic change in the management of department stores. This implies that their productivity and efficiency has been higher since the crisis. The trend in operating income to sales also shows a similar trend to the margin rates.

The ratio of operating income to sales increases when the rate of increase of operating income is higher than that of sales.

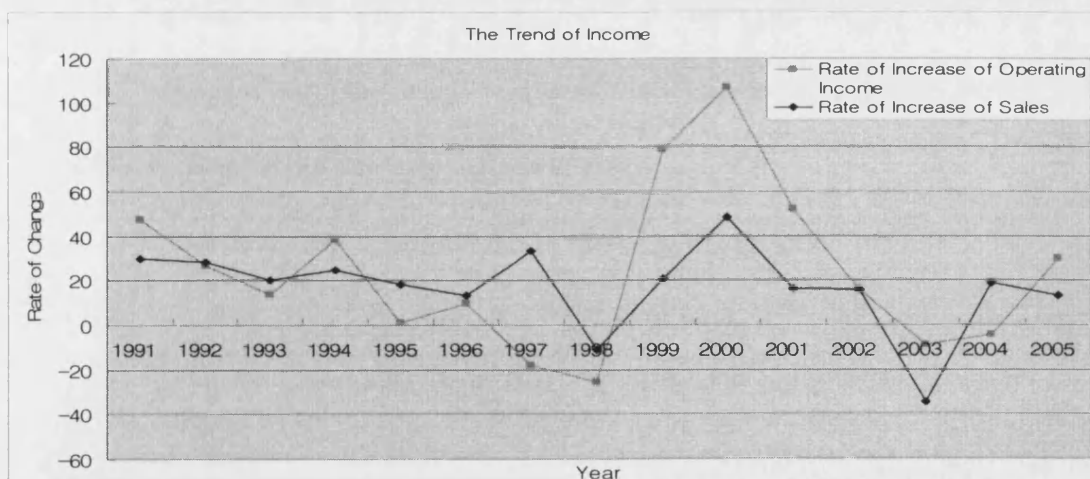
**Figure 6.24 Trend of Ratio of Operating Income to Sales of Department Stores**



Source: BOK, Financial Statement Analysis, each year

<Figure 6.24> illustrates that the trend in the ratio of operating income to sales was maintained at the level of 5 per cent and 6 per cent until 1995, but diminished to less than half that level during the financial crisis. After that, its considerable change to over 7 per cent indicates that profit structure of department stores had improved.

**Figure 6.25 Relationship between Sales and Operating Income of Department Stores**



Source: BOK, Financial Statement Analysis, each year

<Figure 6.25> allows the curve for the ratio of operating income to sales, to be disaggregated into both rates of increase. Through this figure, it can be understood that there was a conspicuous change in the profit structure before and after the financial



crisis. Put simply, there was an increase in income while sales were relatively sluggish. Thus, it can be presumed that department stores were returning to the market for luxuries which have a higher margin per unit than staple goods. This presumption is more convincing if changes -- such as the fierce competition in the middle market and the relative stagnation of their market share in total retail sales -- are considered.

## **5. Concluding Remarks**

The Korean economy changed drastically before and after the financial crisis. The economic growth rate has slowed and social stability has worsened because of instability in the employment system. The income gap has become bigger. In addition, the consumer market has been turbulent due to the complete opening of the domestic market just before the crisis. Needless to say, this structural change of the Korean economy catalysed change in the retail industry.

First, one of the most important factors which influenced the retail industry was the change in consumer behaviour resulting from poor consumption conditions. As we have seen, a thriving economy and a decrease in income gap were beneficial for consumption in the previous period. The situation since the mid-1990s presented a reverse situation. The lower economic growth from the financial crisis dramatically shrunk both income and consumption. In particular, the decrease in income with extreme sluggishness of consumption took place in the urban sector during the second half of the 1990s, for the first time since the 1970s. Even if such a serious economic recession was gradually improved over time, basically the Korean economy looked sluggish and unstable around the year 2000, compared with the previous period. The increase in income gap was an additional factor which exacerbated consumption conditions. While the rich had money

for excess consumption, the poor were short of money for consuming even basic necessities. In this respect, the consumption environment of the Korean economy has been bad since the financial crisis, and it made the Korean consumer market more competitive in terms of demand. In addition, participation of foreign retailers in the Korean market due to market liberalisation, significantly increased competitiveness in the consumption market in terms of the number of players. Furthermore, consumers become more sensitive to price in the recession. In contrast, at that time, there was no modern retail format to accommodate this situation in the existing retail structure. Only the department store as a modern retail format had broadly catered for upmarket consumption and a part of mass consumption until then. This situation was a necessary and sufficient condition for retail innovation. In other words, the Korean consumer market can be said to have been receptive to retail innovation at that time. Consumer sensitivity to prices could be satisfied through the evolution of the discount store format. Now the department store which had expanded its marketing since the 1980s, stood at the crossroads, deciding whether to move up or downmarket. This indicates that stratification of the Korean retail industry was an inevitable consequence of economic development. As we have seen, the Korean department store industry chose to move upmarket, which was its original position in the retail hierarchy. As it ended its short golden age, its role within the lower end of the market has been gradually taken over by the discount store format since the mid-1990s. Since then, the discount store has led the mass market, and is currently enjoying explosive growth.

## **Chapter VII: Distinctive Evolution of Korean Retailing: Theoretical Consideration and Contemporary Developments**

### **1. Introduction**

This thesis concludes by summing up the recent evolutionary pattern of the department store and discount store formats, and reappraising the application to the Korean case of the evolutionary theory of retail development. In that respect this chapter moves away from the structure of the previous chapters in focussing on analysis of the present shape of these formats rather than their historical evolution over time. Nevertheless, this conclusion will retain the historical perspective, in as far as it analyses the current situation, through identifying a causal relationship between present and past retail formats.

This chapter contends that the department store enjoyed only a short heyday, but that this phenomenon was the natural result of the previously examined evolution of Korean retail institutions. It can be said to be an integral and unavoidable part of Korea's retail evolution. It was the outcome of the range of interactions between the three 'actors' in retail development that have been described, namely the government, the retailer and the consumer. This will therefore also continue to influence retail evolution in the future. This in turn leads to a need to re-examine application of the conflict theory of retailing, which argues that competition between different retailing formats is integral to the development and evolution of retailing. As we have seen, the absence of any serious survival game between the department store and discount store formats in Korea, seriously calls this accepted theory into question. The department store has compliantly withdrawn from its existing market, and the discount store has

quietly replaced it. We therefore have a relationship of cooperation, rather than conflict, between the two formats. The short heyday of the department store is closely related to this cooperation and peaceful situation. In other words, conflict theory is of limited explanatory power in relation to Korea's retail evolution. This thesis argues for a distinctive pattern of evolution resulting from the distinct ownership structure in the Korean retail industry, one of the three elements mentioned above.

Whatever the reason for this distinctive evolution, there is no doubt that it is likely to play a significant role in acting as an initial condition leading to further distinct features at the next stage of Korea's retail development. As mentioned earlier, the Korean department store format occupied a significant part of the mass consumption market from the beginning of the period of mass consumption starting in the mid-1980s. This suggests a pattern different from that found in many other economies, in which major changes in consumption pattern, such as the development of mass consumption, tend to give rise to an environment that generates new retail formats, such as the discount store and the general merchandise store. As a result of competition with these new retail formats, it is common for department stores to adopt the strategy of focussing on luxury goods. However, despite the rise of mass consumption in Korea, it appears that the emergence and development of new retail formats better suited to such consumption needed more time, and were somewhat delayed. The late development of these new retail formats is not simply a matter of delayed emergence, it has also generated a certain kind of path dependence. A number of other factors both inside and outside the retail industry responded in particular ways to the gap, in turn creating conditions that are likely to continue to mean that retail development in Korea possesses certain distinctive characteristics. One result of this distinct situation has been the

luxurious discount store format identified here as the Korean-style discount store (KDS), which will be discussed in this final chapter. It will be shown how the Korean-style discount store interacts with a pattern of consumer behaviour that has been accustomed to the high level of department store service since the start of the period of mass consumption, and has been shaped by a longstanding environment of equal or uniform consumption.

## **2. The Short Heyday of the Department Store**

The year 2003 is understood in the Korean retail industry as the beginning of a new era. This is because the leading position in the mass retail format changed to the discount store from the department store, as the former exceeded the latter in sales (Hitoshi 2003: 37). The heyday of the department store finished at most around 15 years after the period of mass consumption started in the mid-1980s. Even if there was a department store as a retail format before the period of mass consumption, as has been seen earlier, it was poor in terms of its market share and its influence on the retail industry. Thus, this can be called the era of the traditional market. However, the department store which started its heyday in the period of mass consumption took the initiative in innovation and the modernisation of the retail industry. Its market share, as the only modern retail format in Korea, rose rapidly, although it did not exceed the market share of traditional retailers. It was called a rising sun and its growth rate was absolutely the highest among all retail formats. This had continued for around 15 years. The fact that the discount stores' sales exceeded that of the department stores, however, seems to imply that the leading position in the retail industry was being transferred from the department store format to the discount store format, and that its heyday was over.

What should be taken into account here is that its heyday was much shorter than those of other countries. For instance, the 'Golden Age' of the department store had lasted until the First World War in most western countries even if there were differences in the countries to some extent. Its turnover had remarkably expanded up to that period (Perkins and Freedman 1999: 124). Thus, the 'Golden Age' of the department store format can be understood to last around 70 years in these countries because the department store format had emerged and developed since the middle of the nineteenth century.

Particularly, even in comparison with the Japanese case, which was similar to the Korean example, its character looks clear. It is understood that the place of Japanese department stores as a leading retailer, had lasted for over 50 years. The first department store in Japan was the Mitsukoshi department store. The 'department store proclamation' was issued by Osuke Hibi, the first senior managing director, in 1904. After that, Matsuzakaya began the operation of a department store in 1910 and subsequently Matsuya (1919), Takashimaya (1919), Daimaru (1920) etc. followed them (Larke 1994: 172). They were just retailers of luxury goods previously, but with the emergence of mass consumption, mainly in the urban sector after the 1920s, they became popular shops for the masses. The turning point of this strategy was the period of the early 1920s. First, after the end of the First World War, the Japanese economy was boosted and then urbanisation and the growth of salaries accelerated even further. This change of circumstances led department stores to expand their range of goods to meet the demands of their rapidly increasing customer base. Second, the growth of large cities produced a movement of the population into the suburbs and was linked to the emergence of private railways which connected the city with the suburbs. In this

process, private railway companies took part in housing developments around suburban terminals and the construction of so-called 'terminal department stores' (Ikeo 1997: 150-151). Examples of major terminal department stores are Odakyu, Keio and Tobu in Tokyo, Sotetsu in Yokohama, Meitetsu in Nagoya, and Kintetsu, Hanshin, Hankyu and Sanyo, all in the Kansai area. Traditional department stores responded to this change of circumstances by means of a strategy of expansion through the opening of new branches. For instance, Mitsukoshi built Shinjuku Store in 1929, Ginza Store in 1930, Takamatsu Store in 1931 and Sapporo Store in 1932. Inevitably, this accelerated the establishment of modern management based retailing as a large-scale business (Larke 1994: 185-190). This type of competition and strategy in the department store industry seems to be quite similar to the Korean case since the 1980s. Taking the initiative in retail innovation, the department store was the only modern retail format that expanded its operating area in both countries, although in different periods. The Japanese department store industry, which suffered from the military economy and strong regulation in the 1930s, faced its second period of rapid development after World War II. The momentum of the economic boom came with the Korean War between 1950 and 1953 on the basis of munitions. After that, the Japanese economy entered the period of long-term economic growth, and then domestic consumption expanded rapidly with the Income Doubling Plan in 1960 (Ishihara 1997: 106). The second promotion period of the department store, however, came out of fierce competition with another retail format which is called the Self-Service Discount Department Store (SSDDS), the Japanese General Merchandise Store (GMS) (Ikeo 1997: 126-127). SSDDS which came later but achieved competitiveness, due to having lower prices than the department store, grew rapidly. For example, Daiei, the largest GMS, which was established in 1957, was

ranked tenth in sales among Japanese retailers in 1963, and fifth in 1968. Continuing its rapid growth, it became the top retailer in terms of sales eventually in 1972, when it operated 90 outlets and the amount of its sales was recorded as 305.2 billion yen (Tatsuki 1995: 77-78). In this process, as the sales of the department store were exceeded by those of GMS in 1972, the department store handed over its leading position in the retail industry to GMS (Hitoshi 2003: 37). Consequently, even if there are considerable similarities between the Korean and the Japanese cases in the evolutionary process of the department store, the length of the heyday of the department store was quite different in both instances.

### **3. The Limitation of the Conflict Theory in the Korean Retail Industry**

#### **3.1. Two Different Formats under the Same Roof**

While the procedure of retail evolution in Korea has mainly corresponded to environmental theory since the 1970s, its procedure from the late 1990s would be more appropriate to conflict theory which argues that conflict between retail formats decisively influences the evolution of each retail format (Brown 1987). Both the emergence of the discount store as a new retail format and the change in the department store as a response to competition, and as a result of conflict with the new retail format, seem to present a proper example of conflict theory. Some scholars also suggest the application of conflict theory to the evolution of Korean retail formats (O Sejo and Sekine Takasi 2002: 141). In fact, the existence of other competing retail formats is likely to be inevitably accompanied by a conflict between them and thus to be related to conflict theory. In this regard, the Korean case since the middle of the 1990s has never been different from general conditions to be applied to the theory.



However, the Korean example seems to be different from other cases in respect to the emergence and developmental procedure of the new retail format. The emergence of a new retail format will usually assume the appearance of different ownership and organisation from the existing dominant retail format, whether it is a newcomer or not to the retail industry. For example, Wal-Mart in the US, Carrefour in France, Tesco in the UK and Daiei in Japan etc., which are the most representative discount store companies in each country, belong to this category as a new retail format at that time (Their own web pages). They were born as one of several small companies among existing retailers, but have become the most dominant retailers through many innovations towards a new retail format. For example, Tesco was established by Jack Cohen in 1919 when he began to sell surplus groceries from a stall in the East End of London. The first store which was named Tesco, opened in 1929 and Tesco Stores (Holdings) Ltd floated on the Stock Exchange in 1947. It was 1956 when Tesco opened the first self-service supermarket in Maldon and afterwards it assumed its present shape with rapid growth (<http://www.tescocorporate.com>). The history of Carrefour is not hugely different to that of Tesco. It was founded in 1959 and opened its first supermarket in 1960. It was 1963 when Carrefour invented and opened a new store called the hypermarket, offering food and non food items within a floor area of 2,500 square metres. It established the first hypermarket outside France, in Belgium, 10 years after its foundation in 1969, and was listed on the Paris Stock Exchange in 1970. Even if Carrefour grew more rapidly than Tesco through some mergers, it is clear that it has become the most dominant retailer through many innovations towards a new retail format (<http://www.carrefour.com/cdc/group/history>).

In contrast to these cases, most of the Korean discount stores as a new retail format were born as a kind of big business from the start, owned by the existing dominant retail companies. For instance, E-Mart, which is the biggest discount store company in Korea, was established in 1993 by Shinsegae Department Store Company. Its market share is estimated as over 30 per cent of sales within the whole discount store industry. While its growth was relatively slow before the financial crisis in 1997, it became more rapid after the crisis with the change of socio-economic environment. It opened its 10<sup>th</sup> store in 1997, but established its first store outside Korea, at Shanghai in China in the same year, just 4 years after its establishment. This strategy, whereby it could aggressively make inroads into foreign markets from its early establishment, is likely to have been a strategy that only big business could follow. Its growth became more rapid after the crisis, with an increase in investment. E-Mart opened its 20<sup>th</sup> store in 1999, and established its 40<sup>th</sup> store in 2002. Meanwhile, it opened its 7<sup>th</sup> store in China as part of increasing its foreign investment, and established its 106<sup>th</sup> store in 2007 (<http://about.shinsegae.com/company>). Lotte-Mart which is the second biggest discount store chain in Korea also followed a similar path of development to that of E-Mart, even if the discount store business materialized later than its competitor. It began its operation in 1998 with two stores established as a business division by Lotte Department Store Company. It built its 20<sup>th</sup> nationwide store by 2001, and opened its 35<sup>th</sup> store in 2004. By 2007 it was operating 57 stores ([http://company.lottemart.com/company/history\\_2007.jsp](http://company.lottemart.com/company/history_2007.jsp)).

Accordingly, in Korea, the emergence of the discount store as a new retail format would imply, on the one hand, a kind of innovation in the retail industry and, on the other hand, a kind of business diversification by the existing dominant retail companies.

They still have two different kinds of retail formats under the same roof, even if there is no lack of competition within each retail format.

### **3.2. The Conflict Theory under the Market Segmentation of the *Chaebol***

It is inevitable that this type of firm structure has had a huge effect on the shape of competition and conflict between different retail formats. Conflict between different ownerships and organisations in each retail format can occur around the survival of the organisation, and consequently of the retail format. In contrast, conflict and competition between different retail formats as parts under the same roof, are regulated by the principle of survival of the company, rather than of a particular retail format. Under this situation, the determining factor for retail evolution is not conflict and competition between different types of retail formats, although there is a conflict between both superficially. Rather the crucial factor could be cooperation between both for profit maximisation of big businesses. The reason why the application of the conflict theory should be limited in the Korean case is related to this context of ownership structure.

As we have seen earlier, income inequality in the Korean economy has been rapidly exacerbated since the mid-1990s. In addition to that, consumption liberalisation was likely to have already been sufficiently embedded in society. This means that the material and the social conditions necessary for upmarket trends would have matured. On the other hand, the shock and recession after the financial crisis strengthened the market need for lower priced goods. It was particularly inevitable that the expansion of the income gap and of unstable employment made consumption attitudes conservative, unlike the enthusiastic attitude in the past. A differentiated market would require a differentiated retail format. Therefore, the retail company which had taken both the

middle and the upper market through the existing department store format until then, needed to accommodate this situation. In this respect, the establishment of discount stores as a new retail format by the existing big retailers can be understood as a response to the segmented market for profit maximisation of the company and, in turn, the rapid growth of the discount store can be considered a good result from the positive strategy of market segmentation. In Korea, the fast retreat of, and the strategic change of, the department store are deeply related to this character of the context. While the department store's transition into supplying upmarket goods, constituted, on the one hand, a loss of a part of the market, it provided the opportunity, on the other hand, of being able to open up a new market with different kinds of retail formats. What is more, as mentioned in the previous chapter, the productivity and efficiency of the department store had considerably improved despite its sluggish turnover after the financial crisis. This implies that the strategy of market segmentation by the retail company had been very successful. From the viewpoint of the retail format, evolution of the department store was not a result of conflict, but a result of cooperation with the discount store format for profit maximisation of big businesses. Thus, it can be seen, that from the mid-1990s, conflict theory has only had limited application to the Korean case. Consequently, the short heyday of the department store format can be understood as being linked to the market segmentation strategy of big retail companies under such circumstances.

#### **4. The Different Trajectory of Retail Evolution: the Korean-style Discount Store Format**

##### **4.1. The Character of the Discount Store Format in Korea**

The character of the birth and development of the discount store is necessarily linked to the character of its management and its evolutionary trajectory. First of all, as we have seen earlier, the new retail format had to offer lower prices as a modernised mass retailer, which was different to the traditional market. This would be the primary requirement of the segmented market before and after the crisis. The discount store format, in this respect, was indispensable in this socio-economic situation characterised by the income gap, embedded consumption liberalisation and economic crisis.

There are various kinds of discount store formats in the world, such as the discount store, the supercentre, and the hypermarket to name but a few. Among them, the Korean discount store format is considered similar to the hypermarket where the supermarket format for foodstuff, and the discount store format for dry goods are mixed up (O Sejo and Bak Jinyong 2004: 107). According to the definition of the International Chamber of Commerce, “the hypermarket is a retail establishment of a minimum sales area of 2,500 square metres selling mainly in self-service and at very competitive prices a wide range of food and non-food products with adequate parking facilities available”. But individual countries have slightly different definitions even if the above definition provides the basic concepts of the hypermarket format (Dawson 2002: 14-15). The hypermarket which is generally called a supermarket such as Tesco, Sainsbury’s and Carrefour, is a format which combines the supermarket with the discount store. This kind of format developed in Europe, and has expanded rapidly in developing countries where the modern retail format is not diversified. In contrast, this format has not been

successful in the US until now because the position of the supermarket format has been very strong among retail formats (O Sejo and Bak Jinyong 2004: 100-102). This implies that the Korean discount store is similar to Tesco and Carrefour as a type of hypermarket rather than Wal-Mart as a type of original discount store. This difference seems to be deeply related to the historical structure of the retail industry and of consumption. For example, there was a supermarket chain which specialised in foodstuffs in the US when the discount store technology of dry goods was developed by Wal-Mart around the 1940s. Thus, as its technology has spread, the supermarket format as the type of discount store format for foodstuffs has developed separately from the discount store for dry goods (Yokomori 2003: 193). Unlike this, the hypermarket format has developed in the UK and France as multiple chains which specialised in foodstuff and non food items, but which adopted discount store technology and expanded their range of goods (Lyon et al. 2004: 30; Dawson 2002: 20-22). In this respect, it is natural that the discount store format has been closer to the hypermarket format in Korea, where modernised retailers did not have a specialised retail format for foodstuffs. Furthermore, the importance of edibles seems to be quite high in the Korean discount store format, which was established in order to take over the middle and necessity market shared by department store companies. In other words, it is not an exaggeration to say that the discount store aimed to take over the market for food provisions as a necessity market, while the department store assumed market dominance as a purveyor of luxury goods. This can be shown in the trends of goods for both the department store format and the discount store format. <Table 7.1> shows the trends in the ratios of main items to sales in the department store and the discount store since 1995, when the discount store format began to constitute one of the retail formats.

**Table 7.1                      Ratio of Each Item to Sales in Both Retail Formats**

		1995	1996	1997	1998	1999	2000	2001	2002
<b>Department Store</b>	<b>Apparel</b>	42.7	46.2	44.4	44.2	46.6	49.1	53.9	55.3
	<b>Foodstuff</b>	20.9	18.4	22.3	21.4	21.1	15.7	18.6	15.1
<b>Discount Store</b>	<b>Foodstuff</b>	50.9	54.3	52.8	56.8	57.6	58.6	54.6	49.7

Source: KCCI, Analysis of Current Retail Management, each year

According to <Table 7.1>, it was around 1997 that the change in these trends was clearly shown in the ratios of apparel and foodstuff to department store sales. The ratio of foodstuff decreased by 7.2 percentage points from 22.3 per cent in 1997 to 15.1 per cent in 2002, while that of apparel increased by 11.1 per centage points from 44.4 per cent in 1997 to 55.3 per cent in 2002. As we have seen earlier, basically this can be understood as evidence of the department store's move upmarket in accordance with the change in socio-economic conditions. Thus, <Table 7.1> explains how the discount store format played a role in the department store's transition, as the discount store increased the ratio of foodstuffs in its sales. In particular, the discount store is expected to take over a considerable portion of the foodstuffs market owned by the department store, with its rapid growth since 1997. Of course, as we have seen earlier, this is closely related to the ownership structure of the Korean big retail company which has different types of retail formats in-house. As a result of this, the Korean discount store is much more similar to Tesco and Carrefour, as a type of hypermarket, rather than Wal-Mart which is just a discount store. Apart from this, we can see a decreasing ratio of foodstuffs even in the discount format since 2001. This phenomenon is likely to be closely related to the character of the Korean-style Discount Store (KDS) which was a discount store similar in some respects to the department store. We will examine this in the next section.

#### **4.2. The Discount Store like the Department Store**

However, the Korean discount store is uniquely called the Korean-style Discount Store (KDS), because it differs even from the hypermarket, in terms of offering high services like the department store. Accordingly it can rather be understood as a new retail format which provides a low cost, comprehensive range of goods and also high services simultaneously (Choi 2003: 50-55). In fact, the discount store format as an innovative newcomer operates on the conceptual basis of the exchange of high services for low prices. This seems consistent with the retail wheel theory of McNair (1931, 1958, 1976, 1978). As a compensation for the sacrifice of high services like the department store, the consumer is to be given a lower price of goods. This is shown in the reduction of decoration and clerks for consumer services in terms of its operations. It is also the reason why the discount format, in general, employs a warehouse system and self-service technology, compared with the luxurious decoration and face-to-face sales of the department store. In contrast to this, the KDS carries out face-to-face sales to a large extent, although it basically employs a self-service system. Most of the KDSs are also decorated with luxurious materials and an atmosphere which is similar to the department store (Im Yeonggyun et al. 2002: 55-56). Consequently, it is different even from the hypermarket format and, thus, it can be understood as a new retail format. This character has often been pointed out as a main factor in its competitiveness, as global winners withdraw from the Korean domestic market (O Seyeong and Gim Ilsan 2003: 216-217). For instance, Wal-Mart which made inroads into the Korean domestic market in 1998 withdrew in 2006. Just before that, Carrefour also announced that it was withdrawing from the Korean market. The withdrawal of Carrefour, which had always been in second or third place among the Korean discount stores since the establishment



of its Korean branch in 1996, was considered very surprising. Furthermore, its departure was doubly unusual given that its version of the discount store was quite similar to that of the KDS as a kind of hypermarket. Some scholars point out that such an exceptional phenomenon is related to the high services presented by the KDS, unlike foreign discount stores such as Wal-Mart and Carrefour (Gim Juheon 2005: 87-89; Im Yeonggyun et al. 2002 etc.).

This type of management seems to be deeply related to the role of the department store as the first modern retail format in Korea. As we have seen earlier, the period of mass consumption in Korea was dominated by the department store, which moved from a strategy of carrying luxury goods to popularisation. With the increase in income and the decrease in the income gap, consumers in the middle market have enjoyed the high quality services presented by the department store since the mid-1980s. This character of the retail format necessarily influences the construction of consumers' tastes, although influences in the opposite direction are also true because each unavoidably depends on the other. What is more, a customary preference, for whatever reason, does not easily change. Accordingly, consumers who were accustomed to the consumption pattern of the department store in the period of mass consumption might have had a tendency to maintain their attitude towards consumption for quite some time, even if some of the conditions surrounding their consumption, and retail structures themselves have had changed.

In addition to this, such a consumption attitude seems strengthened due to the condition of equal consumption for a long time, as we have seen earlier. Even if the department store as an existing retail format moves upmarket and a new retail format appears to cater for mass consumption, people in the mass market are unlikely to be

satisfied with the new format if it provides considerably different circumstances of consumption from the previous one. This inference can be backed up by arguments about the same class identification through consumption. In research on the structure of consumption during the period from the mid-1980s to the early 1990s, Baek pointed out that the structure of consumption expenditure had converged in Korean society regardless of income level. He particularly emphasised that the main factor which made people get *jungsan-cheung ui-sig* [the same class identification] was consumption rather than income and wealth (Baek Ukin 1994: ii-iii, 125-126). The main concern of Baek's research is different from this thesis, in that it focused on the structure of consumption at each income level. However, it may be clearly understood that people were quite sensitive to consumption and consumption patterns in terms of social equality from the mid-1980s. This view which emphasises consumption or a particular item of consumption as a criterion of same class identification, is consistently reflected in much research (Jo Donggi 2006; Jang Sehun 2006 etc.). As a result of this situation, it is natural that the KDS, which is similar to the department store, was more successful than foreign discount stores which concentrated mainly on low prices, as Choi pointed out (2003: 50-55).

This initial condition seems to predict a future path for retail formats to a large extent. Competition for luxury goods shops appears to accelerate in the Korean discount retail format. *Han-gug-gyeongje-sin-mun* [The Korea Economic Daily] sketched a landscape of the discount store industry which competed for the luxury shop (14 October 2002). One of the representative examples is the success of Homeplus, which is late-comer of the discount format in Korea. Homeplus, which is owned by Tesco, was established in just two outlets in 1999. However, after growing very rapidly, it had 62

outlets in 2007 and has the second biggest market share, behind leader E-mart in the discount retail format. Particularly, one of the reasons why it comes into the spotlight is its high performance such as the biggest providers of sales per square metres and the most rapid growth rate of sales in the industry. This high performance is understood to be closely related to its strategy of being a luxury outlet with low prices (*Mae-il-gyeongje-sin-mun* [The Maeil Business Newspaper] 18 September 2007). In fact, this company aggressively stresses such a marketing strategy saying “higher elegance than the department store, lower price than the discount store” in advertisements (<http://corporate.homeplus.co.kr>). This pattern of competition among discount store companies has strengthened, and is encouraging the development of even a discount store equivalent of the department store (*Jo-seon-il-bo* 27 September 2007). In this process, the discount store even threatens areas of the department store. A director of sales promotion of a department store said, “as the discount store becomes more and more luxurious, competition between the department store and the discount store is taking place in some goods” (*I-de-il-li* [*E-Daily*] 9 October 2007). Nevertheless, this does not mean that the discount store format changes to that of the department store format in its goods and basic management skills like the self-service system. Thus in a bid to further differentiate itself, the department store has sought to boost its image of being much more comfortable and luxurious than the discount store (Ibid).

In sum the KDS is different from the ordinary discount retail format in terms of its customer service, and decoration of the shop. Rather, it is likely to be similar to the department store format. However, the fact that it offers low prices and self-service and mainly sells necessities like foodstuffs implies that it is basically positioned as a category of the discount store format. As mentioned, this character which earlier made it

competent when competing with foreign discount stores, was the result of a survival strategy in Korea's distinctive consumption environment, including consumption attitude. On the other hand, this can be said to be an evolutionary result in terms of the retail company; the department store in the city centre as a luxury shop for the rich; the department store like the discount store in sub-city centres, reflecting a mixed department and discount store to cater for the mass market; and the discount store like the department store as a luxury shop carrying necessities for the mass market. Even if the direction of evolution heads downmarket, the character of the original format does not disappear due to the Korean distinctive context surrounding the retail industry. Consequently, the KDS, the discount store like the department store, may be a creature that Korea's various retail industry and consumption conditions produce.

## **5. Concluding Remarks**

In general, fierce competition between existing and the emerging retail formats usually takes place in the early stages of retail innovation. Conflict theory in particular among theories of retail evolution, pays attention to this competition and conflict between both formats as one of the determined factors of retail evolution. In this regard, a lot of research has dealt with the pattern of conflict between the department store and the discount store (Gross 1964; Greenley and Shipley 1992 etc.). However, as we have seen, the relationship between both formats in Korea was very different from other cases because most main discount stores in Korea are managed as a business division of the department store company. In other words, both formats under the same roof are an instrument of market segmentation to maximise profits in a big retail company. Therefore, their relationship basically can constitute cooperation in the same company

even if there is, sometimes, internal competition between both divisions. The direction and the speed of retail evolution would be determined not by conflict but by performance of market segmentation. So, conflict theory may have a limited meaning to examine the Korean retail evolution due to its character of ownership. On the other hand, this can also be said to be basically produced by the character of the consumption market because the market segmentation has been decided as a strategy for profit maximisation of the company, under changeable consumption market conditions. The fact that the department store which has moved upmarket makes much better results than before, implies that it has an accurate understanding of the consumption market, and thus its strategy is very successful.

Another characteristic of the Korean retail evolution is the emergence of a discount store similar in character to the department store, which is called the Korean style Discount Store (KDS). Of course, evolution of the KDS may primarily depend on the character of consumption attitudes. The period of mass consumption in Korea was initiated by the department store, and consumers in the middle market have enjoyed various services for consumers presented by the department store. Therefore, consumers who were accustomed to the marketing pattern of the department store in the period of mass consumption may not alter their consumption attitudes for some time. Put simply, consumers might expect a new retail format to be a modified department store in the mass market, even under the stratified consumption market conditions. Nevertheless, the reason why this is a result of the interaction between the retailer and the consumption market is shown by a comparison between the domestic and foreign retailers. Most foreign retailers did not change their original discount store format strategies to fit the context. As a result, the foreign type of discount store has not been a

main format of the discount retailer. This demonstrates that foreign retailers did not properly penetrate the Korean market. In contrast, the domestic retailer had created the KDS which has particularly catered for Korean consumption attitudes. In this respect, the KDS, though seeming unique, is the result of successful interaction between the retailer and the consumer, and is the natural embodiment of Korean retail evolution, reflecting the Korean context and its particular conditions.

## **Chapter VIII: Conclusion**

This study began with a question about the department store: why was the golden age of the department store so short in Korea? This question has inevitably been linked to other questions: why was the leading role of the department store in the consumer market delayed, and why was its golden age quite explosive. These were the empirical research questions suggested in the hypotheses articulated in Chapter I. Thus this study first of all embodies historical research on the retail industry with special reference to the Korean department store industry. It has examined the distinctiveness of the Korean retail evolution since the 1970s. The research inevitably also relates to theoretical concerns, because this newly examined situation can be comprehensively and systematically understood through making use of existing theories of retailing, and seeing how far the Korean situation is in line with what these theories would suggest. On the other hand, all existing theories are always dependent for their development on the examination of new situations. The research strategy in this thesis has been to relate these existing theories to the Korean case along these lines. In addition, this study has sought to locate the evolution of retailing within the context of Korean economic growth and the consumption market. As another perspective on retail evolution it has also explored the relationship between the stratification of consumption and economic growth.

The methodology adopted in this thesis can be summarised with two themes: the adoption of a chronological approach; and a focus on tracing the behaviour and response of the three main 'actors' in retailing development, namely the government, the consumer and the retailer. The chronological account showed that retailing development can be categorised into three distinct eras according to the degree of

stratification in the consumer market: the period from the 1970s to the middle of the 1980s; the period of the mid-1980s to the mid- 1990s, and the period since the middle of the 1990s. It was argued that the three elements in retailing development – government, retailer and consumer – were engaged in a process of mutual interaction, and hence shaped the way in which retailing developed. This focus has been the main concern of this work. Of course, that role could not have been carried out without the presence of particular socio-economic circumstances, which were fundamental in influencing the different ‘actors’. However, in order to focus on the three subjects these socio-economic circumstances have largely been considered as given conditions.

<Table 8.1> gives a chronological summary of the changes in the main factors that have been considered in this thesis. What should first be noted in the 1970s is the fact that the consumption and retail industry were firmly repressed by the Korean government. While some scholars have argued about whether consumption was generally repressed in the 1970s in order to invest in the manufacturing sector, concrete examination of consumption repression, including the retail industry, has been carried out in this thesis. This work has explored why investment in the retail industry was very difficult in the 1970s. Through an international comparison of APC, it also found that this policy was reflected in everyday life. A consequence of this situation was uniformity in the consumption market which provided a decisive clue towards understanding the backwardness of the department store industry as a modern retail format in the 1970s. This research then made it clear that the emergence of the modern retail format was artificially delayed despite its potential development given various favourable socio-economic factors.



**Table 8.1**                      **Epitome of the Present Research**

		<b>From 70s to the mid-80s</b>	<b>From the mid-80s to the mid-90s</b>	<b>Since the mid-90s</b>
<b>Circumstances</b>	<b>Economic Growth</b>	High Growth	High Growth	Low Growth
	<b>Income Distribution</b>	Inequality	Equality	Inequality
	<b>The State of Consumption</b>	Equality	Equality	Inequality
<b>Actors</b>	<b>Government (Consumption and Retail Policies)</b>	Repression	The Beginning of Liberalisation	Liberalisation
	<b>Consumer (Consumption Attitude)</b>	Frugality	More Consumption	Less Consumption
	<b>Industry (Investment in The Retail Industry)</b>	Avoidance of Investment	The Beginning of Investment	Expansion of Investment
<b>Results</b>	<b>Stratification of Consumption Market</b>	Uniform Market (Traditional Market)	Stratifying Market (Department Store & Traditional Market)	Stratified Market (Department Store & Discount Store & Traditional Market)
	<b>The Status of the Department Store</b>	Backwardness	Explosive Growth	Retardation
<b>Theory</b>	<b>The Theory of Retail Evolution</b>	Political Economy Theory in the Environment Theory (Policy Factor)	Political Economy Theory (Policy & Market Factors)	Political Economy Theory based on the Combined Theory; Limitation of the Conflict Theory (Market Factor)

This is a finding of the present thesis in contrast to most existing research which attributed the backwardness of the retail industry to economic immaturity in the 1970s.

In the 1980s, the political situation altered rapidly and Korean society began to pursue liberalisation and democratisation. As authoritarian repression weakened, it triggered a strong reaction in Korea. With continuous economic growth, the imbalance between income and consumption increased and thus consumption expanded explosively since the middle of the 1980s. The main character in the so-called mass consumption era was the department store as the only modern retailer. However, my research questions why the proper retail format for mass consumption did not appear, in contrast with other countries at that time. In relation to this point, my research argued that its absence was the combined result of two actors' behaviours: the department store's strategic transition from a supplier of luxury merchandise to a supplier of necessities; and the enthusiastic consumption attitude of the Korean consumer reacting to social achievement of liberalisation and their purchasing power, resulting from an imbalance between income and consumption. This thesis established that consumption attitudes changed sharply (within the period), and the urban sector in particular, was much more sensitive to consumption in accordance with the change of situation. This analysis might provide the proper reason for explosive growth of the department store industry. However, this might not be naturally linked to the short heyday of the department store despite economic recession since the middle of the 1990s. Strong growth and bargaining power of a retail format in the market is generally likely to make its golden age longer; the Korean department store industry has been in such a place. In order to resolve this deadlock, this thesis paid attention to the fact that the consumption market was stratifying under the condition of liberalisation. It is inevitable that liberalisation causes stratification of consumption in accordance with income levels, while it stimulates consumption in general by lifting constraints on consumption. Of

course, what we looked at more clearly in the second period of this research was a general expansion of consumption rather than consumption stratification. Yet within this situation, the need for a retail format which could be appropriate to a stratifying market became more and more apparent, particularly since the financial crisis. What this thesis noted here, is the oligopolistic character of the Korean economy due to the existence of the *chaebol*. This kind of character has been applied to the retail industry as we have seen earlier. Due to this structure, a new retail format for the stratified market has been established as a business division by the existing big businesses in Korea, even though in other countries such as the UK, Japan and the US, it started off as a small business by separate investors, and grew from there. Accordingly, the emergence of the new format can be understood as a diversification of management with in-house innovation in Korea, whilst the cases in other countries showed innovation in the retail industry. The department store and the new format under the same roof are just components of the company to maximise profits, and are a kind of portfolio of assets by the big business. According to strategic decisions of the company, one of the retail formats can decrease or increase regardless of the life of the format. The Korean department store industry moved into the luxury market and in doing so gave up its share in the existing mass market. Yet retail big businesses had nothing to lose because the discount store as a new format rapidly expanded its share in the mass market, filling the void which the department store had left. Besides, the strategy of the department store has been successful in terms of rapid improvement of its productivity despite sluggish turnover, as this thesis analysed. At this point, the department store industry preferred to move into the new luxury market which had newly emerged since the financial crisis than to be ousted from the mass market. Therefore, this research found

the short golden age of the department store is closely related to the Korean *chaebol* system and thus found the way of the retail evolution can greatly depend on the ownership structure of the company.

Even if the department store left the mass market, it might have left a strong imprint on consumers who experienced the department store as the first modern retailer. The memory of the previous period would have influenced the present irrespective of differences in direction. Consumption repression in the 1970s unexpectedly provided the psychological reason and the material source of explosive consumption of the department store to large extent in the next period. If consumption repressed was an unpleasant memory, the next phase of enthusiastic consumption within the department store provided a much more positive period of history. This period had an important influence on shaping the discount store as a new retail format. What is more, according to this research, Korean consumers have lived under the condition of equal or uniform consumption for a long time; equality of consumption repression in the 1970s and equality of affluent consumption since the 1980s. It is highly possible that these historical experiences made consumers prefer the same retail format in the mass market as that of the department store even after the consumption market had been stratified. Korean consumers have forged a distinctive consumption attitude through distinct experiences over a long period. A result of this situation has been linked to the appearance of the KDS, which has provided a low cost, comprehensive range of goods and also high services like the department store format simultaneously. This thesis emphasised that the main reason why the domestic discount retailer of the KDS type has been dominant despite serious worries as market liberalization began, was related to the character of consumption attitudes. A particular type of competition which was formed

among market contenders in the initial period due to a particular historical situation, was self-fulfilling in the trajectory of path dependency. The fact that competition for the luxury shop accelerated in the Korean discount retail format shows this situation. The KDS strengthened its character more, through interaction with consumers formed by distinctive environments in their history.

In theory, this research has paid attention to the usefulness of political economy theory as a divergent view within environment theory. With this it has considered the view of combined theory as a part of the theoretical framework, while assessing the Korean case using a chronological framework. As mentioned in the introductory chapter, political economy theory which was applied, in many cases, to importers of the modern retail format, has been established as having enormous explanatory power for Korean cases too. Despite rapid economic growth in the 1970s, the backwardness of the retail industry can be explained by viewing policy motivations as an environmental factor. This is a key finding of this thesis, given that most existing research has ascribed the backwardness of the retail industry to economic immaturity at that time. This thesis also examined the second period of this research, from the mid-1980s to the mid-1990s, in terms of political economy theory. In contrast to the previous period, policy factors were combined with market factors relating to the economic policy of liberalisation. I have argued that the inverse-evolution of the department store format, from luxuries to necessities, is not well understood without this theoretical approach I use. The department store adapted itself to keen consumption trends when the market liberalised. In contrast, the emergence of the discount store format and return of the department store format to luxuries since the middle of the 1990s, provides a possible application of different theories -- such as the convergence view of environment theory, the cyclical

and the conflict theories -- to the Korean retail evolution. First, immediately following the emergence of the discount store format, the similarities in the outward structure of the retail industry with that of advanced countries is consistent with the convergence view. The operating system of the two formats in terms of price and service has been similar to the principle of the wheel of retailing as one of the main theories in cyclical theory. Coexistence of two different kinds of retail formats has meant that some scholars have attempted to apply conflict theory to the Korean retail evolution. This thesis examined the application of conflict theory and argued that the applicability of this theory is limited in reference to the Korean retail evolution. This is inherently related to the distinctive ownership structure of the Korean *chaebol* which has owned both retail formats. Given that both retail formats operated under the same roof, the emergence of the discount store format and return of the department store format to luxuries, was a result not of conflict between both formats but of the strategic decision to segment the consumption market to match changing market circumstances. Thus, under this condition, the evolution of the retailer, particularly the department store format, is likely not to depend on competition and conflict, but to depend on cooperation for profit maximisation of big retail businesses. Thus, this change in the retail industry can be considered as a kind of business diversification, and in-house innovation which has been carried out by big businesses. In this respect, application of conflict theory to the Korean case is limited even though there is an element of competition between the formats. At any rate, as liberalisation has left a greater imprint on the market, intervention has weakened over time. Other evolutionary theories apart from political economy theory, are more likely to be applied to the Korean case because most of them have been produced in such market conditions. The explanatory power of

the convergence view in environment theory, which decides the stages of development in the retail institution according to the level of industrialisation, seems to have become more prominent than before. However, although it is outwardly correct to some extent, the political economy theory as a divergence view in environment theory still holds the key to the interpretation of its evolutionary path. The emergence of the KDS can be illustrated as an example. The historical distinctiveness of the relationship between internal (retailer) and external (consumer) factors, is likely to produce distinct results even in a similar macro-economic liberalised environment. Therefore, this thesis underscores especially the usefulness of political economy theory for an examination of the Korean case, although combined theories such as the environment-cycle theory and environment-cycle-conflict theory are taken into account.

In addition, this thesis tried to suggest new perspectives of the relationship between consumption and economic growth even if this was not the main goal of this research. It looked at consumption as a criterion of equality or inequality, and paid attention to consumption as a factor that had a huge effect on people's attitudes to prevailing economic systems. This is different in two respects from conventional views of the relationship between consumption and economic growth. First of all, conventionally, consumption has been argued in terms of the character of the demand side in research on economic growth (Gilboy 1967; Murphy et al. 1989a, 1989b, etc.). Emphasising the importance of the demand side for economic growth, Gilboy, Murphy and others have argued that consumption was one of the leading factors for successful industrialisation. In contrast to this, this thesis sheds light on the fact that consumption intervened on the supply side of the human factor. It argued that people's participatory attitude to the existing system as one of the determining factors for economic growth, depended on the

state of consumption. Secondly, the research on the relationship between equality or inequality and economic growth usually makes use of the income factor as a criterion of the distribution state. Various empirical and theoretical researches by Rodrik (1994, 1999a, 1999b, 2000a, 2000b), Alesina (1994, 1996), Perotti (1993, 1996), Persson (1994), Barro (1991, 2000, 2001), Bertola (1993) and Croix & Doepke (2003) have shown that less income inequality is very positively linked to economic growth. Most of them pointed out that social conflict resulting from income inequality causes huge costs and retards economic growth. In comparison, this thesis stressed consumption inequality, instead of income inequality, as a cause for social conflict while it accepted its main idea of the negative correlation between inequality and economic growth. Consequently what this thesis intended to argue through two kinds of differences is that the state of consumption plays an important role on the supply side, because it can cause social conflict. In other words, if consumption is classless, society can be less conflictual, even if income inequality is high. Thus, people would be willing to support the prevailing economic system. This argument is that people are aware of inequality at the stage not of income, but of consumption, in which any income distinction is actualised and realised. However, differences between incomes can be considered as an index of inequality when income is directly linked to consumption in a normal economic situation, and where there is no repression or strong regulation of consumption markets. In the real world it is the discrepancy or non-discrepancy between income and consumption that matters. For instance, if strong repression is imposed on consumption for whatever reason, the normal pattern of relationship between income and consumption will not appear. If the gap between incomes does not lead to differences between people's consumption patterns, in terms of quality and



quantity, people cannot perceive the seriousness of the inequality even if there is a huge distinction between their incomes. This view stemmed from the Korean economic situation since the 1970s. In particular, the socio-economic situation in the 1970s might require a new perspective given that the Korean economy achieved high economic growth despite strong consumption repression and rapidly exacerbating income inequality. Most scholars who agree with this view argue that possible forms of resistance to this unequal situation, like the organization of trade unions, were banned by the authoritarian state (Amsden 1989: 199, 206; Evans 1994: 220, etc.). However, this thesis has two questions about this argument; can such repression be successful in the long run and moreover, can a considerable economic performance be realised in the repressive situation in which people may have passive and resistant attitude to the existing system. According to conventional theories on the relationship between consumption, equality or inequality and economic growth, worsening income inequality since the 1970s is likely to have limited the level of performance of the Korean economy. Thus this thesis assumed there is a seriously missing point in the existing research which plays an important role in people's agreement to the existing system.

The disparity between income and consumption was, in fact, a by-product of consumption repression resulting from an industrial policy concentrating only on the manufacturing sector, rather than an intended policy. The effect of this by-product has weakened with the beginning of socio-economic liberalisation since the mid-1980s. The discrepancy between income and consumption has eventually waned and, on the other side, the situation of income inequality had been considerably improved since then. The Korean economy has continuously achieved good economic results since the mid-1980s thanks to affluent consumption under less stratified retail market conditions. However,

after the financial crisis, the social conflict has increased with the emergence of the obviously stratified consumption market under great income inequality conditions similar to those of the 1970s. At the same time, consumption is rapidly shrinking and the Korean economy is exhibiting symptoms of relatively lower economic growth than before. Conventional theories seem to recover their explanatory power when examining Korean society from the mid-1980s. However, from the viewpoint of this thesis, the recovery of conventional theories just implies that income can be used as a proxy of consumption. This is basically because the discrepancy between income and consumption disappears with liberalisation. Consequently the consumption approach of this thesis can be said to have more consistent interpretive power than the income approach for understanding Korean economic development since the 1970s.

This thesis therefore suggests a more general theory that can be applied to other contexts. Such a theory may indeed be required because a number of developing countries are pushing economic growth as their main political agenda. Furthermore, if consumption policy (consumption repression) is used successfully, it could be considered a highly significant policy for continuous economic growth, whereas in the Korean case it was more of an unintended consequence. Such an extension of the findings of this thesis will require time, effort, consistent data and a large body of evidence, but can hopefully be a topic for research in the future.

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