JOURNAL OF ASIAN SOCIOLOGY
Volume 48 | Number 2 | June 2019, 263-286
DOI 10.21588/jas/2019.48.2.005

Article

The Social Construction of a Market: Institutional Transformation of the Imported Automobile Market in Korea (1987-2018)

SANG MIN LEE | HANYANG UNIVERSITY

This study utilized perspectives from economic sociology in order to analyze an industry in terms of the social relations bound to it. More specifically, this study argued that the growing imported automobile industry in Korea is not the result of better technology or optimizing rationality, but due to the changing nature of social relations between the government, firms, and consumers. This study found that the changing structure of the institutionalized relationships between the government and chaebols *and between* chaebols *and consumers significantly contributed to the rapid development of the Korean imported automobile market. In addition, this study found that, caught in the cross-pressures between domestic market structures and international pressures, the Korean government and* chaebols *broke apart, opening the way for market changes spearheaded by foreign automakers.*

Keywords: *imported, automobile, market, chaebol, Korea*

www.kci.go.kr

Introduction

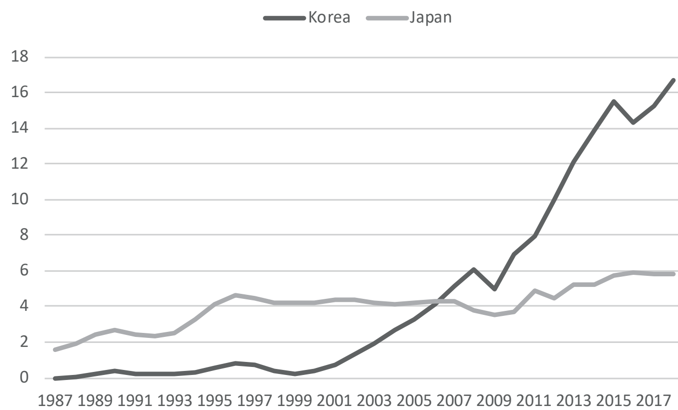
East Asian styles of capitalism build on and revitalize their own distinct institutional patterns. Although both South Korea (hereinafter Korea) and Japan have assimilated diffused economic practices from the West, they have integrated these practices into culturally and socially distinct regional ways of life (Hamilton 2004). In fact, Japan and Korea have shared certain economic similarities for a long time, particularly in terms of their imported automobile industries. The imported automobile markets in these two countries have often been used as representative examples of the most closed markets in the world.

As of 2008, the market share of foreign automakers in automobile manufacturing countries was 86.4 percent (UK), 73.3 percent (Sweden), 68.0 percent (Italy), 47.2 percent (France), 35.1 percent (Germany), and 33.4 percent (US), respectively (JAIA 2009). Korea and Japan are the two countries with the greatest market dominance by domestic automakers. Considering their scales of production and export volumes, imports make up a very small fraction of the automobile market in these two countries. In general, as seen in Figure 1, the market share of imported vehicles has remained around a steady4 to 5 percent in Japan and under 0.5 percent in Korea for a long time (JAIA 2019; KAIDA 2019a).

Currently, however, a new trend is developing in the Korean automobile industry: the rapid growth of the imported automobile market. In the early 2000s, import sales in Korea began to change dramatically. In 2007, the Korean imported car industry sold 53,390 cars, accounting for 5.1 percent of the market, overtaking the market share of imports in Japan (4.3 percent) for the first time. The Korean imported car industry has continued to grow significantly each year. In 2017, Benz and BMW sold more cars in Korea than in Japan for the first time in history. The following year, imports surpassed a 17 percent market share, and in terms of sales volume, 280,595 units of were sold in Korea, while 342,270 units were sold in Japan (JAIA 2019; KAIDA 2019a). Considering that Japan's population is nearly double that of Korea's, and that Japan's car market is more than twice the size, this is an interesting case.

Why has the Korean market suddenly changed when the Japanese market has remained stable? In addition, how has the Korean imported car market grown so rapidly? This study will examine an economic argument in order to identify an industry whose outcomes are typically attributed to

www.kci.go.kr



Source.—JAIA (2019), KAIDA (2019a)

Fig. 1.—Market Share (%) Trends in Japan and Korea (1987–2018)

economic and technical rationality. Rationality explanations of markets tend to focus on consumers' rational choice in terms of cost and benefit. In fact, many people tend to believe that the rapid growth of the Korean imported car market has mainly been attributable to good fuel economy on the part of diesel engine vehicles made in Europe (AutoInsight 2016; KAIDA 2019b).

However, this kind of rationality explanation tends to overemphasize the explicit and visible aspects of a market. If market situations begin to show interesting differences before and after a change, then this may provide additional evidence that several sociological factors have an important influence on market transformation.

Thus, this study will utilize perspectives drawn from economic sociology in order to analyze a particular industry in terms of social relations which compose it. More specifically, this study will examine, within a historical context, whether the imported automobile industry in Korea is socially constructed and thus a product of changing social relationships between the government and firms, among firms, and between firms and consumers. The findings imply that global markets do not bring common global interpretations of what is meant by the competition or efficiency of the market.

www.kci.go.kr

Economic Sociology Background of Industries

Social Construction of a Market

In general, economics puts an emphasis on incentives provided by market prices, while political economy stresses government policy. On the other hand, according to economic sociologists, markets are social structures characterized by extensive social relationships between firms, workers, suppliers, consumers, and governments. Thus, "markets were not given by outsiders, but instead reflected the social and political construction of each society, where the history and culture surrounding class relations and the various kinds of interventions by governments produced unique institutional orders" (Fligstein and Dauter 2007, p. 110). Even the highly technical and mainly economic issue of how to buy a product, presents ample room for highlighting the social construction of a market.

Other economic sociologists have attempted to examine the historical social construction of markets, such as the electricity and railway industries, from their origins. They have argued that the sociology of industry explains the social structure of an industry including the structuring of relations between firms and their trading partners, relations among firms, and relations between firms and outside institutions. In addition, they have asserted that though economic and technical rationality are important factors in the emergence of an industry, what are more important are the political culture and the socially constructed mobilization of resources and influence through social networks (Dobbin 1994; Granovetter and McGuire 1998).

In terms of the structure of relations among firms, White focuses on the monitoring reaction of other market players. He argues that "markets are tangible cliques of producers watching each other" (1981, p. 543), and that firms are not isolated entities but ranked; there is an ordering of status among them that cues their various identities (2002, p. 32). When strung together, this ordering is what he calls a 'market profile,' which refers to an ordering of a handful of producers located along a curve on the revenue axis and volume shipped axis. If firms are successful in this effort, they establish a role structure of producer-positions in relation to each other, and they reproduce this role structure and the market itself (Cetina 2004, p. 139). In addition, a 'hegemonic' dynamic between first can explain intercorporate relations. For example, firms' control over capital enables them to exercise financial hegemony over other firms. (Mintz and Schwartz 1985).

www.kci.go.kr

Social Relations as Gift Exchange and a Moral Economy

The fundamental questions of social relations are connected to giving, receiving, and repaying. Every gift exchange dyad in society is characterized by elements of moral enforcement. Sociologists have long drawn attention to the significance of the exchange of gifts, which are offered voluntarily but given and repaid under obligation. "They are not exclusively goods, wealth, and things of economic value, but rather they exchange courtesies, entertainment, and ritual" (Mauss 1954, p. 3). The exchange of gifts assumes an institutionalized form, which highlights the general function of social exchange in establishing bonds of trust. Social exchange entails unspecified obligations. Because there is no way to assume an appropriate return for a favor, "social exchange requires trusting others to discharge their obligations" (Blau 1964, p. 89).

For example, firms make big donations not to earn the appreciation of the recipients, but to earn the social approval of the community in which they are active. In this respect, corporate social responsibility (CSR) can be understood in terms of a gift exchange between businesses and society. In other words, if any portion of corporate efforts is a gift, then any portion of approval from society can also be considered a gift. Such an exchange of gifts is determined by the norms of gift giving embedded in a particular society. In terms of embeddedness, CSR can be seen as the outcome of a protective counter movement that emerges in response to the deprivations caused by a disembedded market society. CSR thus becomes a mechanism for the social regulation of the market, and a way to re-embed corporate power within global civil society (Tsutsui and Alwyn Lim 2015).

Regarding social relations as playing out according to the norms of gift giving may generate a logic of 'moral economy' (Thompson 1971; Scott 1976) for consumers based on goodness, fairness, and justice. The moral economy of social relations consists of the norms of gift giving and justice. For example, if firms fail to repay their obligations, an internalized norm of reciprocity could lead a consumer to feel angry and resentful while generating guilt within the firm. A failure to carry out obligations may result in multiple penalties that pressure the firm to make cuts. Through publicized corporate misdeeds and scandals, firms can lose consumer trust as well as their competitive position, eventually leading to bankruptcy.

In addition, the moral economy of social relations may invite third party reactions. For example, a moral economy pursued by consumers develops shareholder activism and socially responsible investment (SRI). Also,

www.kci.go.kr

perceived violations of the moral economy of industrial relations can develop social movements. According to Murray and Schwartz (2015), deprivation and hunger alone do not motivate collective resistance; rather, the cause of immiseration must be seen as a violation of a culture or subculture's traditional morals.

Historical Background of the Korean Auto Industry

The 30-year history of the imported automobile industry in Korea can be divided into two periods: the first 15 years between 1987 and 2001 and the next 15 years between 2002 and the present day. Each period represents distinctive characteristics embedded in the development of the imported car market.

The inaugural year of the imported car market in Korea was 1987. In January of that year, the government opened the market for large cars with an engine displacement of 2,000 cc and above and small cars of 1,000 cc and under on a preferential basis. Imported car sales in Korea were initially mediated by domestic capital: Korean firms (mostly *chaebols*) such as Hansung (Benz), Hyosung (Audi/Volkswagen), Hanjin (Volvo), and Kolon (BMW) began to launch the sale of imported cars in the same year. As for the atmosphere at that time, however, most people felt negatively about the measures due to the contraction of the domestic automobile industry in the initial stage of growth, the extravagance of foreign currency, and the development of a sense of incompatibility among classes resulting from excessive consumption and luxury. Sales of imported cars were insignificant: a mere 10 Benz cars marked the beginning of the official recordkeeping of imported cars in Korea (KAIDA 2019b).

Then, in April 1988, the government opened the market to its full scale by doing away with restrictions on displacement for all types of automobiles. Furthermore, tariffs of 50 percent were gradually reduced to 20 percent in 1990. In 1988, other *chaebols* such as Dongbu (Peugeot), Doosan (SAAB), Kia (Ford), Kumho (Fiat) and Ssangyong (Renault) joined in on the sale of imported cars. Sales increased from 263 units in 1988 to 1,293 in 1989, and 2,325 in 1990. However, half of these cars were the Ford Sable that Kia assembled in Korea through the original equipment manufacturer (OEM) method. Although total sales were insignificant, the press focused on the increasing sales rate in order to frame it as a social issue. Owing to this, sales decreased to 1,735 vehicles in 1991, 1,817 vehicles in 1992 and 1,987 in 1993.

www.kci.go.kr

In 1994, the market began to open up even faster. Facing commercial friction with Japan, the US also asked Korea to further open up its automobile market. This eventually resulted in a decrease in tariffs, registration tax, and consumption tax on imported vehicles (NTE Report 1997). After that time, sales continued to climb: 3,865 units sold in 1994, 6,921 in 1995, and 10,315 in 1996 (KAIDA 2019a).

In late 1997, however, Korea experienced an economic crisis. As a result of this crisis, Korea suffered the harshest economic recession of its post-war history. In the wake of the crisis, the number of sales of imported cars also decreased to 2,075 in 1998. Subsequently, the sales numbers gradually increased to 2,401 in 1999 and 4,414 in 2000, but the market share of imported cars was still only 0.4 percent (KAIDA 2019a).

Having overcome the economic crisis, the imported car market entered a recovery phase in 2001, when Korea graduated from economic insolvency early by paying back the IMF bail-out loans. The growth rate of imported car sales reached 100 percent with various new models and makers in the market. In 2002, 16,119 imported cars were sold, accounting for 1.3 percent of the market, rising above the 1 percent mark for the first time in history. Since then, the imported car industry has continued to break sales records each year. The industry sold 19,481 cars in 2003, 23,345 cars in 2004, 30,901 cars in 2005, 40,530 cars in 2006, and 53,390 cars in 2007. It has continued to grow significantly each year. In 2008, the imported car industry sold 61,648 cars, accounting for 6 percent of the domestic passenger car market for the first time (KAIDA 2019a).

When the Korea-EU Free Trade Agreement (FTA) went into effect on July 1, 2011, the number of vehicles registered annually topped the 100,000 mark for the first time. In March 2012, the Korea-US FTA went into effect, and the market began to grow at an accelerated pace, with over 130,000 cars sold in a single year. As a result, imported cars accounted for over 10 percent of the domestic passenger car market for the first time, laying the foundation for the popularization of imported cars. The imported auto market was experiencing radical changes with record high sales. In 2015, the imported car industry sold 243,900 cars and surpassing the 200,000 sales mark for the first time, accounting for more than 15 percent of the domestic passenger car market (KAIDA 2019a; 2019b).

www.kci.go.kr

Institutional Transformation of the Industry

This section will demonstrate that the imported automobile industry in Korea is socially constructed and is a product of changing social relations in terms of three dimensions: relationships between government and firms, relationships among firms, and relationships between firms and consumers.

Government-Firms

Since it initiated economic development in the early 1960s, the Korean government has directed and controlled private business, and private business has relied on the government. The Korean government actively led the development of the automobile industry, and government policy was crucial to the successes of the industry. The Korean government has maintained a tightly closed market with an array of trade barriers and has provided domestic automakers with an uncontested incubation period during which time they could develop a competitive edge for the international market.

Profit-making ventures in the Korean automobile industry have been conditioned by success in obtaining exclusive rights, licenses, or favors. In their efforts to secure licenses and government approval, firms commonly grease the skids by bestowing gifts and money to key bureaucrats and political leaders (The Economist June 3 1995). Given this environment, some foreigners may think that such payments emphasize the importance in business of developing close relationships with key politicians and bureaucrats (Journal of Commerce November 21 1995). Nurturing these relationships may be important for determining business success by improving one's product or service. In addition to buying favors and preferential treatment, the payments are also used as a hedge against punitive treatment by Korea's bureaucrats (Wall Street Journal November 21 1995).

Therefore, government-business relations depend heavily on network understanding. This means that business laws are often broadly defined and depend on negotiated interpretation, which is easier for domestic automakers than it is for foreign ones. The Korean bureaucracy holds broad regulatory and discretionary powers, such as administrative guidance, which allow it to intervene directly in the automobile market. Close government-business relations in Korea allow private business interests to influence the government's regulatory process. The approval and notification process for

www.kci.go.kr

standards and certain manufacturing processes may cause particular problems for foreign automakers. In summary, close government-business relationships in Korea based on extensive government intervention and regulation of the automobile industry work to the disadvantage of foreign automakers trying to participate in this market because these relationships tend to favor domestic automakers (Lee 2011).

On the other hand, there have been ideological issues with regard to consumption culture, such as austerity campaigns in Korea. Foreign trade partners believed that such austerity campaigns had been bolstered by the Korean government and that the effects of such campaigns on consumption culture in Korea had been enormous. Thus, one of the major concerns of foreign automakers in Korea was the public's negative perception of purchasing imported cars as the result of austerity campaigns. Since the early 1990s, as Korea's trade deficit has risen, Korea's higher government officials and mass media have regularly pointed out the negative account impact of increasing the imports of several goods such as automobiles, golf equipment, whisky, and furniture, or even individual spending on travel to and education in developed countries. Purchasing in these categories has been criticized as '*kwasobi*' (over consumption) by the mass media. This *kwasobi* discourse in Korea has explicitly tied individual lifestyles to the national destiny (Nelson 2000). Thus, the most important purpose of the Korean austerity campaigns was preventing *kwasobi*, but the problem was that such campaigns were closely related to anti-import sentiments (NTE Report, 1995–1998).

Automobiles are very visible consumer products. For many years, Koreans regarded foreign cars as luxurious goods purchased only by the rich. It is true that pervasive anti-import sentiments limited marketing opportunities and intimidated potential customers of foreign cars in Korea. For example, in December 1996 and early 1997, the tax office (ONTA) engaged in broad action directed at all lessees of imported cars, thus heightening the anti-import bias. Also, a perception has been widely held by Korean consumers that purchasing an imported passenger car could invite Korean government scrutiny and public backlash (KAIDA 2019b).[1]

This perception stemmed from the Korean government's association with campaigns and programs that discouraged the purchase of imported products. In addition, there have been cases of traffic police harassing drivers

[1] According to the 1997 JD Power Korea *Car Usage and Attitude Study*, 28% of imported car owners at the time reported 'peer pressure' and 26% reported 'risks of tax audits by the government' as the reason they did not consider purchasing imported cars (JD Power Korea 1997).

www.kei.go.kr

of foreign cars. Although the Korean government has at times denied any involvement in these austerity campaigns, these campaigns have nonetheless been aimed at the import of foreign cars. The effects of the campaigns were so powerful because media reports were often followed by actions that protected domestic automakers (NTE Report, 1995–1998). Combined with a lack of information about foreign cars, austerity campaigns bolstered by the government and mass media resulted in the public's negative perceptions of purchasing imported cars and created an anti-import sentiment in Korea. The Korean government has affected Korean consumers' behaviors, and domestic automakers have clearly benefitted from the outcomes.

Since the early 2000s, however, the anti-import campaigns which had been bolstered by the Korean government have waned due to the overwhelming trend of market openness to trade. At the same time, the independent role of the Korean government has weakened, and the force of the global market and the role played by foreign capital has grown stronger (Lee 2012). During the economic crisis, the government introduced legislation which enlarged the scope for direct and portfolio investment by foreign entities and allowed friendly takeovers by and mergers with foreign corporations. As a result, transnational capital significantly increased its control over Korea's financial sector. Direct foreign investment rapidly increased, and foreigners' stock trading value gradually increased after the crisis. As of June 2010, the percentage of shares owned by foreigners in the Korean stock market had increased to 32 percent (LGERI 2010).

Global capitalism fundamentally affected the transformation of government-business relations in Korea. This change from the state-centered paradigm to 'governed interdependence' (Weiss 1998) between firms and the government in Korea became the underlying institutional basis for effective market governance. Also, the institutional framework of governed interdependence became the critical political underpinning of the state's capacity for guiding and coordinating economic change in response to the pressures and constraints generated by global market integration. As the integration of the global economy continues to advance, such as through FTAs, so does the growing irrelevance of the Korean government, as it loses its power to influence the nation's economy.

Today Korea has 15 FTAs with 52 countries (FTA PORTAL Korea). The Korean government implemented FTAs with the EU in 2009 and with the US in 2012. In particular, the FTA with the EU has had a substantial effect on the imported automobile market in Korea. It increased market access for European cars in Korea in the following ways: reducing the overall tax

www.kci.go.kr

burden on cars with larger engines, reducing the number of tariffs from 8 to 0, reducing documentation requirements, and eliminating safety standards. In addition, numerous restrictions on foreign participation in automotive and other types of consumer financing were liberalized by allowing foreign non-controlling participation of up to 49 percent; restrictions were also liberalized on foreign-owned retail distribution. Foreign auto companies were allowed to invest in local auto financing companies freely (KAIDA 2019). All of these measures were designed to liberalize the sales of imported cars. The actual result of these changes was a rapid increase in imports of foreign vehicles.

Among Firms

Since the economic crisis in the late 90s, the globalization of the Korean economy has been proceeding rapidly. The opening of the economy to foreign investment, combined with the devaluation of domestic firms, had an immediate impact on social relations among firms. Foreign acquisitions of domestic firms accounted for $8.9 billion in foreign direct investment (FDI) inflows into Korea in 1998, an amount equal to more than one-third of the total for the previous 35 years. A new record was set the following year, as an additional $15.5 billion flowed into the country (Weber 2001). Important foreign acquisitions have also occurred in the manufacturing sectors. The value-added in manufacturing by 149 foreign-invested companies—those with more than half their equity owned by foreigners—rose sharply in 1999 to 21 percent of that year's national total (Korea Economic Weekly 2000).

The most important example of this changing landscape can be found in the Korean automobile industry. Before the crisis, there were five domestic automakers in Korea: Hyundai Motors (including Hyundai Precision), Kia Motors (including Asia Motors), Daewoo Motors (including Daewoo Heavy Industries), Ssangyong Motors, and Samsung Motors (including Samsung CV). The economic crisis brought about the rapid restructuring and denationalization of the Korean automobile industry. In the middle of the crisis, Kia Motors went bankrupt and then finally merged with Hyundai Motors in 1999, along with Asia Motors. Samsung Motors merged with Daewoo Motors in late 1998, and then finally merged with Renault in April 2000. In September 2000, Hyundai agreed to Daimler-Chrysler's acquisition of a 9 percent ownership stake. In addition, Daewoo Motors went bankrupt, and subsequently merged with GM in 2002. Ssangyong Motors merged with Daewoo Motors in 1998, which then merged with the Shanghai Automotive

www.kci.go.kr

Industry Corporation of China in 2004, and most recently merged with the Mahindra group of India in 2010 (KAMA 2011).

Globalization and the growing power of foreign investors have created a new relationship between the Korean *chaebols* and foreigners. Both parties have a common interest: the maximization of profits. Foreign investors have increased their shares in the *chaebols*. As of September 2011, 32 percent of the shares in the Korean stock market were owned by foreign investors (KRX 2011). In the restructuring after the economic crisis, ownership changed for all auto manufacturers except Hyundai Motors. With the exception of Hyundai and Kia, all the other Korean manufacturers were sold to foreign manufacturers. Thus, the Korean automobile industry was reorganized into four international automakers: Hyundai Kia Group (hereafter HMC, Korea), GM Korea (US), Renault Samsung Motors (France), and Ssangyong Motors (China and India).

The imported automobile industry is another example of the globalization of Korea's economy. Access to the automobile market in Korea had been restricted primarily through the Korean automakers' singular and direct control over dealer networks. Korean automakers own their dealerships, and their dealers handle only their manufacturers' models. In this respect, the dealers function as a sub-organization of the automakers. All domestic automakers have set up direct sales branches throughout Korea to sell their passenger cars. None of the dealers of one domestic automaker handle other domestic manufacturers' products.

In addition, the Korean automakers recruit sales employees (dealers) only to work at their direct branches. As a result, dealers in Korea are members of the manufacturing company to which their dealership belongs. Strong ties that bind manufacturers and their sales employees produce a powerful sense of employee loyalty to the manufacturers, and it is thus impossible for the direct sales branches of domestic automakers to handle imported models. When dealers are in effect direct branches of the automaker, the degree of control exerted by automakers over dealers is extremely high. Although the Korean government announced that domestic manufacturers forcing dealers to handle only their models would be considered an unfair business practice, there have been no improvements, as domestic automakers directly control their sales branches (Joongang Daily 23 May 1997).

Meanwhile, foreign automakers have entered the market themselves. In setting up dealer networks in Korea, two types of dealerships for foreign automakers emerged: exclusive direct franchise outlets and indirect sales

www.kci.go.kr

centers. When foreign automakers entered into the Korean imported automobile market for the first time in the early 1990s, they faced difficulties in building exclusive direct dealerships. Thus, foreign manufacturers began to build indirect sales centers through distribution agreements with domestic firms. Thus, domestic 'firms which do not produce cars' (usually non-automobile *chaebols*) and firms that only imported foreign cars began handling imported cars through distribution agreements with foreign automakers (Chosun Ilbo, February 17, 1997).

Foreign automakers began to break out of their relationships with indirect sales firms and construct direct dealer networks. The following firms established corporations in Korea: BMW in 1995, Chrysler, Ford and GM in 1999, and Volvo, SAAB and Toyota in 2000. This meant that foreign automakers began to exert an influence on the Korean imported car market. Major European automakers such as Benz and BMW have invested several hundred million dollars into the Korean market, both in dealer and service networks and in their own import and driving experience centers. They have concentrated on introducing their models to the luxury car market sector of over $70,000 and to the under-2000 cc sector of diesel engines with prices over $40,000, and they have gained high shares of those market sectors (KAIDA 2019b).

Table 1 reveals the breakdown of import sales in the Korean imported automobile market from 2002 to the present. European cars have successfully penetrated the Korean imported car market. This table reveals an interesting finding: European cars have clearly dominated sales growth in the market, accounting for up to 80 percent of all imported cars sold in Korea; among them, German cars accounted for about 85 percent. German cars have a strong reputation for quality and style. Thus, most Korean consumers associate the term "import" with Benz or BMW. In contrast, American cars account for only about 8 percent of the imported car market. This low market share indicates that US manufacturers have not yet formed specific positions in the Korean imported car market. Despite their very short history in Korea, on the other hand, Japanese cars have had relative success in penetrating the Korean market, accounting for 15 to 20 percent of imports.

This means that although Korean automakers have had many Korean enthusiasts (volume shipped) in many sectors of the market, generating profits (worth/revenue) is another issue. This has had a substantial effect on social relations between domestic and foreign automakers. In fact, HMC's overall number of cars priced at over $70,000 does not exceed that of German cars. Thus, there has been an ordering of status among domestic and foreign

www.kci.go.kr

TABLE 1
BREAKDOWN OF PASSENGER CAR SALES IN THE KOREAN MARKET
UNITS (MARKET SHARE)

Motives	2002	2004	2006	2008	2011	2013	2015	2018
EU (MS)	10,182 (63.2%)	12,999 (55.7%)	23,769 (58.6%)	32,756 (53.1%)	77,849 (74.1%)	122,798 (78.5%)	197,396 (80.9%)	194,175 (74.5%)
Germany (MS)	8,711 (85.6%)	10,539 (81.1%)	18,981 (79.9%)	25,946 (79.2%)	66,917 (86.0%)	105,580 (86.0%)	167,043 (84.6%)	153,447 (79.0%)
US (MS)	2.969 (18.4%)	3,509 (15.0%)	4,556 (11.2%)	6,980 (11.3%)	8,252 (7.9%)	11,657 (7.4%)	17,501 (7.2%)	21,277 (8.2%)
Japan (MS)	2,968 (18.4%)	6,837 (29.3%)	12,205 (30.1%)	21,912 (35.5%)	18,936 (18.0%)	22,042 (14.1%)	29,003 (11.9%)	45,253 (17.4%)
Total (MS)	16,119 (1.3%)	23,345 (2.7%)	40,530 (4.2%)	61,648 (6.0%)	105,037 (8.0%)	156,497 (12.1%)	243,900 (15.5%)	260,705 (16.7%)

Source.—KAIDA (2019a)

automakers that cues their identities, and German automakers have been successful in creating an ordering that White called a market profile (2002, p.32). For example, the best-selling car models in the luxury car market are S class/E class, 7 Series/5 Series, and Genesis G90/G80, where Benz ranks above BMW, BMW above HMC, and so on, in perceived quality.

Firms-Consumers

Korean consumers have become accustomed to national brands, due to domestic automakers have dominated the domestic markets for a long time. More strictly speaking, Korean car users have long been accustomed to purchasing cars from extremely limited choices among the domestic models. For many years, Japanese cars were fully prohibited from being imported, and both American and European cars were unaffordable due to the extremely high tariffs and taxes. Because of this, domestic automakers have long enjoyed stable positions in the market. Korean car users have been unable to make such comparisons for many years due to insufficient information and knowledge about imported cars.

Moreover, there are many Korean consumers for whom a new Benz or BMW is desirable but unacceptable, simply because it makes too bold a social statement, especially in a business context. A Korean salaryman arriving at a

www.kci.go.kr

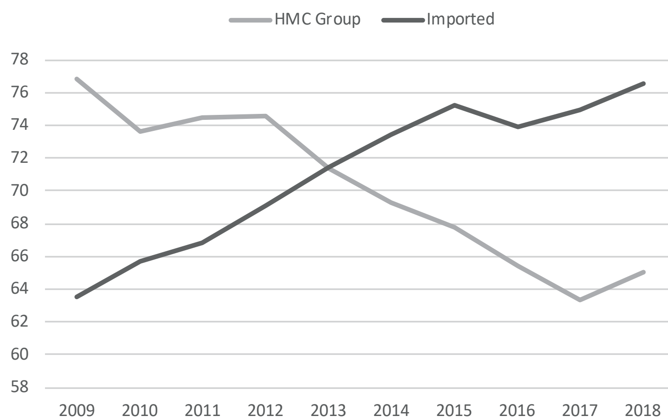
meeting driving a Benz would convey all kinds of connotations, whereas a domestic model would be more discreet and raise fewer eyebrows. Therefore, Korean consumers tend to be easily satisfied with Korean cars. If there is one company that has recognized such Koreans' tastes, habits, and requirements, it is HMC. As a company, they have built the cars that the majority of Koreans want to buy. Thus, for Korean consumers, buying HMC cars is a rational choice in that Korean cars perform well with an affordable budget.

However, signs of changing consumption culture in the imported automobile market have been increasingly apparent since the early 2000s. First, market openness has provided Korean car users with many choices for imported cars. Foreign automakers have introduced a much higher level of safety and convenient service as well as performance in comparison with domestic automobiles. Coming into contact with imported cars, consumers naturally developed a taste for certain aspects present in these foreign cars and came to desire much more from domestic vehicles. While domestic automakers had a simple aim of selling cars, foreign automakers supported various cultural and sports events and also conducted intimate marketing activities through direct contact with customers by diversifying events. Also, the service shops of foreign automakers were smaller in size than those of domestic automakers, but they were relatively larger in scale when comparing sales numbers, which made big differences in providing active after service (A/S) programs. Consequently, it became an opportunity to change the understanding of consumers and to make automakers recognize the importance of the imported car market (KAIDA 2019b).

Since 2009, HMC has been losing its dominant market power in the domestic automobile market. As shown in Figure 2, HMC accounted for 77 percent of the market share in 2009, but it declined to 63 percent in 2017 (KAMA 2019). The gap created was filled with imported cars. This reflected an increasing desire among many Korean car users for higher quality and safer cars and that imported cars were no longer regarded as conspicuous consumption.

A rapid increase in the market share of imports initially began with consumers' evaluation of imported cars in terms of their economy and technology. Many consumers were aware that the economic efficiency of imported cars was much higher than that of domestic cars. According to the *2016 Consumer Survey*, the number one reason to prefer imported cars was fuel economy (20 percent), and the experienced fuel economy of imported cars was stronger among diesel cars. This occurred because good fuel economy packages included environmental concerns such as 'clean diesel,'

www.kci.go.kr



Source.—KAMA (2019); KAIDA (2019a)

Fig.2.—Market Share (%) Change between HMC and Imported Cars (2009–2018)

which allowed consumers to think of themselves as thrifty, smart, and reasonable while comfortably owning their preferred imported car. The second ranked reason to prefer imported cars was safety (16 percent). In general, safety issues are deeply associated with image and belief. The interest of consumers in fuel economy and safety provided the possibility for imports to lead as the optimal alternative (AutoInsight 2016). Such a change in understanding made it possible to grow the imported car market. In practice, the popularity of imported diesel cars can be seen in their sales volume: they made up only 4 percent of the total sales volume of imported cars in 2005 but had increased to 25 percent in 2010, and they surpassed 2/3rds of all imported cars (68 percent) in 2014 (KAIDA 2019a).

However, such a rapid change would not be possible based on economic and technical aspects alone because price is a subjective matter. For consumers, the top reasons 'not to prefer' imported cars were also economic and technical, including parts prices, A/S and vehicle maintenance costs (AutoInsight 2016). This means that the Korean imported automobile industry has not resulted just from technology or optimizing rationality, but from other factors, including the changing nature of social relations between consumers and domestic automakers.

In the middle of the imported car boom, there were signs of structural change in the social relations between consumers and domestic automakers. When consumers viewed the cars, they took various aspects into account,

www.kci.go.kr

including not only the price and quality of the car but also the provided services and the role and activities of the company. In particular, Korean consumers began to develop a much more critical view of domestic automakers in terms of their ethical practices such as moral and social responsibility, transparency of business, and labor relationships (Automobile Syndicated Study 2015).

In Korea, the most preponderant brand of domestic car is HMC, and thus the disappointment of consumers has been focused on HMC. Consumers buy HMC models because there are no suitable alternatives, not because they like the company. A portion of consumers are becoming anti-Hyundai due to their disappointment in the company. This is a matter of the 'moral economy' as understood by Korean consumers, based on goodness, fairness, and justice. For example, many Korean consumers tend to believe that HMC is preferential to overseas consumers while discriminating against domestic consumers, in terms of quality assurance and parts aspects (Edaily March 1, 2019).

The dominant position of HMC has been supported by profits gained in the protected domestic market. These profits, in turn, have allowed the company to keep export prices low in order to gain market shares abroad. In fact, HMC has long enjoyed a stable position in the market, based on huge profits produced annually in the domestic market. Korean consumers believe that HMC has grown into a global company thanks to domestic consumers who supported it despite their losses. As illustrated in Table 2, the ratio of total operating income to domestic operating income accounts for about 100 percent until 2009. This means that losses from abroad are offset by domestic market gains. Thus, Hyundai's creative marketing strategies in the US, such as its unlimited warranty program and Hyundai Assurance program, would not be possible without stable domestic gains (Lee 2011).

Nevertheless, rather than HMC bringing these benefits to domestic consumers, only the company owner and labor union reaped the benefits. Chung Mong-koo, chairman of HMC, was convicted of appropriation in 2006, but his prison term was reduced to community service and a $1 billion donation to charity. Chung made such a large donation to earn the social approval of Korean society. However, HMC failed to fulfill its obligations, and then an internalized norm of reciprocity led consumers to feel angry and resentful. In addition, quite a few consumers believed that the HMC labor union was a nobility union that unduly pursued only its own interests (Hankyoreh May 1, 2011; Jan. 13, 2013; Song 2017).

Such an idea not only generated an anti-Hyundai propensity, but also

www.kci.go.kr

TABLE 2
HMC's Consolidated Financial Statements by Region
(Amount: million won)

Motives	2003	2004	2005	2006	2007	2008	2009
Domestic Operating Income[a]	2,654,952	2,202,845	2,096940	1,984,375	2,531,080	3,474,314	4,923,882
Overseas Operating Income	160,218	71,247	-42,642	-26,501	-17,684	-130,774	-138,250
Total Operating Income[b]	2,815.170	2,274,092	2,054,298	1,957,874	2,513,395	3,343,540	4,785,632
a/b (%)	94.31	96.87	102.08	101.35	100.7	103.91	102.89

Source.—HMC (2010).

made many consumers switch over to imported cars. Consequently, the consumers' moral economy of emotional objection to HMC made it possible to foster the imported car market. Despite current huge scandals like Dieselgate by German automakers, consumers' desire to buy imported cars has not died down. In a previous era, HMC was forgiven for everything. This made Korea into a tomb of imported cars and a market with the highest market share of domestic cars. However, such prime times have gone. The majority of consumers are willing to change over to imported cars whenever the circumstances allow for it (Automobile Syndicated Study 2015; AutoInsight 2017). In sum, a simultaneous welcoming sentiment toward imported cars and a desire to reject the major domestic automaker has led to growth in the imported car market through a synergistic effect.

Implications

As global economic integration proceeds, the Korean government is becoming less relevant and powerful. At the same time, the structural transformation of the imported automobile industry is an ongoing process and is propelling the industry into a new phase of its evolution. This occurred due to structural changes in both internal and external market conditions. Internal market conditions consist of social relations among the government, firms, and consumers, while external conditions consist of outside pressures

www.kci.go.kr

for market openness to trade and global capitalism.

These two structural conditions are not mutually exclusive. When internal and external market conditions integrate structurally, it may accelerate a rapid transformation of the market, which has a broken social equilibrium between the centripetal forces of homogeneity and centrifugal forces of heterogeneity (Pareto 1935). This change made the previous balance of forces between government and domestic firms (*chaebols*) inherently unstable and unpredictable.

In terms of external conditions, on the one hand, the new market openness has resulted in massive entry of foreign investors, with consequences for the Korean economy. As a new, powerful group, foreign investors have partnered with the domestic *chaebols* to play a pivotal role in the nation's economy. Thus, the relationship between the government, *chaebols*, and foreign firms has evolved into a situation in which the government and *chaebols* exercise some control while foreign firms influence the market substantially.

As seen in Figure 3, the traditional dyadic relationship between the government and *chaebols* has been fundamentally altered into a new triadic relationship between the government, domestic *chaebols*, and foreign capital. When a dyad becomes a triad, the seemingly insignificant addition of a single member actually brings about a major qualitative change (Simmel 1950). In terms of internal conditions, on the other hand, the changing structure of institutionalized relationships between the government and *chaebols*, and between *chaebols* and consumers has significantly contributed to foreign

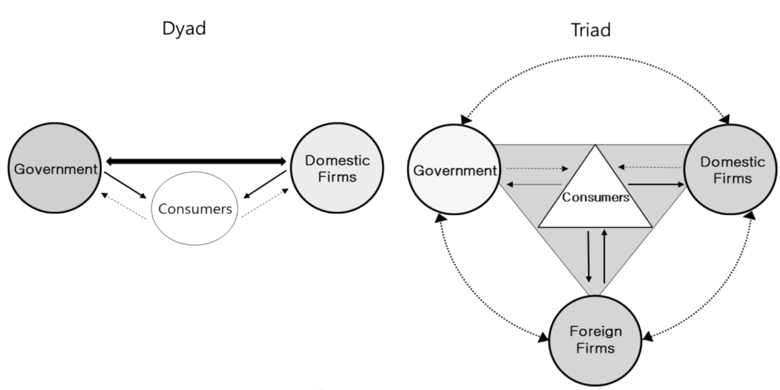


Fig. 3.—From Dyad to Triad Relations in the Korean Imported Car Market

www.kci.go.kr

automakers emerging as strong players.

In summary, a third member entering the dyadic group has brought about rapid market changes to the Korean imported automobile industry that were previously thought to be impossible. In the first stage of this transformation, as global economic integration ensued following the economic crisis, the state's capacity for guiding and coordinating economic policy became less powerful. The next stage was the disintegration of the government and *chaebols* that had theretofore provided the sole unified bulwark of social and economic order. No longer reinforced by the coercive power of government, the existing social relations between them became vulnerable to challenges from the outside. Thus, the market transformation emerged because the government came under unwonted pressures from trade partners abroad and because those pressures led to internal disintegration between government and *chaebols*. The Korean government could not provide domestic firms with any more privileges, which opened the door for foreign competitors.

Finally, in response to the pressures and constraints generated by the global market integration, the government lost its power to influence consumption culture which had been based more on nationalism and less on consumer preferences. Moreover, a failure to repay obligations and a loss of consumer trust eventually destroyed the old relations between *chaebols* and consumers and undermined a solid market share of domestic firms. While Korean consumers shared a negative perception of purchasing imported goods in the past, Korean consumers now share negative perceptions of domestic automakers. Therefore, angry consumers created an opportunity for foreign automakers to consolidate the market transformation. This implies that the Korean imported automobile market is socially constructed by social relations between the government, domestic automakers, and consumers, not only by market openness or by the economic/technological competence of foreign automakers.

Conclusion

The nature of the Korea's imported automobile market preceding the foreign currency of 1997can be summarized into three dimensions: the Korean government's protectionist policies, *chaebols*' especially favored position in the closed domestic automobile market, and ideological issues of consumption cultures such as anti-import campaigns. The first two points

www.kci.go.kr

are related to regulations on the supply of imported goods, while the last one is related to regulations on the demand for imported goods.

After the crisis, however, the globalization of the Korean economy rapidly proceeded. When foreign business entered the dyadic group as a third member, various previously impossible processes became possible. As a result, market transformation emerged in the Korean imported automobile industry because the changing structure of social relations between the main economic players impinged upon the government's powers. These transformations ultimately blocked or fettered bureaucratic initiatives for coping with the escalating global economic competition in a world undergoing uneven transformation by global capitalism.

Within its historical context, this study found that the Korean imported automobile market was a product of new social relations between the government, firms, and consumers. This study also found that a rapid market transformation in the Korean imported automobile industry developed when the government became unable to meet the challenges of evolving international situations. *Chaebols* were subjected to intensified competition from more developed automakers abroad, and they were constrained or checked in their responses by the institutionalized relationships of the Korean government to *chaebols* and consumers. As a result, caught in the cross-pressures between domestic market structures and international pressure, the Korean government and *chaebols* broke apart, creating opportunities for market transformations spearheaded by foreign automakers.

This study examined the argument that the Korean imported automobile industry did not result from technology or optimizing rationality, but from the changing nature of relations among the main economic players in market: governments, businesses, and consumers. While previous studies would argue that economic and technological conditions lead to market transformation, this study argues that it is not material conditions per se but rather social opportunity—in particular, the breakdown of state bureaucracy and *chaebol* mechanisms as well as changing consumer cultures—that leads to a rapid market transformation.

This study focused on the processes by which the centralized administrative and business machinery disintegrated in Korea, making social relations vulnerable to challenges from below (consumers) and outside (foreign capital). This study concludes that economic or technological rationality explanations alone are not sufficient enough to understand the institutional transformation of the market. A market transformation such as the Korean case presents itself with the significant factor of social relations conducted with the accompanying

www.kci.go.kr

social, political, and economic implications.

(*Submitted*: March 13, 2019; *Revised*: May 10, 2019; *Accepted*: June 18, 2019)

References

AutoInsight. 2016. "2016 Consumer Survey: Why are People Flocking to Imported Cars?"

______. 2017. "2017 Survey: Hyundai in Urgent Need to Improve Its Corporate Image."

Automobile Syndicated Survey. 2015. "Hyundai Motor, a Company that Does Reverse Discrimination after Growing Because of Consumers." Consumer Insight. July.

Blau, P. M. 1964. *Exchange and Power in Social Life*. New York: John Wiley & Sons.

Cetina, K. K. 2004 "Capturing Markets? A Review Essay on Harrison White on Producer Markets." *Socio-Economic Review* 2: 137–148.

Chosun Ilbo. 1997. (In Korean) "Degiup waejecha sooipe apjang [Large Corporations and Importing Foreign Cars]." Feb. 17.

Dobbin, F. 1994. *Forging Industrial Policy: The United States, Britain, and France in the Railway Age*. Cambridge: Cambridge Univ. Press.

Edaily. 2019. (In Korean) "Hyundaicha naesoochabyul hwangoltaltae ganeunghalka? [Will Hyundai Motors be Discriminate against the Domestic Market?]." March 1, 2019.

Fligstein, N. and L. Daute. 2007. "The Sociology of Markets." *Annual Review of Sociology* 33: 105–128.

FTA PORTAL Korea. http://www.fta.go.kr/main/.

Granovetter, M. and P. McGuire. 1998. "The Making of an Industry: Electricity in the U.S." *Sociological Review* 46(1): 147–173.

Hamilton, G. G. 2004. *Commerce and Capital in Chinese Societies*. New York: Taylor & Francis.

Hankyoreh. 2011. (In Korean) "Nodongjul kwa nodonggyijok [Labor Day and Nobility Union]." May 1.

______. 2013. (In Korean) "Woorineun inganshobada [We are a Human Shock Absorber]." Jan. 13.

HMC 2010. *Business Report*, Hyundai Motor IR Data.

JAIA. 2009. 2019. "Imported Car Market of Japan." Japan Automobile Importers Association.

JD Power Korea. 1997. (In Korean) "*Jadongchasayongmit Tedojosa* [Car Usage and Attitude Study]." JD Power & Associates Korea.

www.kci.go.kr

Joongang Daily. 1997. (In Korean) "*Jadongcha Dealer-je Yonne Doip* [Introducing Car Dealerships This Year]." May 23.

Journal of Commerce. 1995. "South Korean Business Brass: No More Bribes." Maginier, M. November 21.

KAIDA. 2019a. *Statistics Center*. Korean Automobile Importers and Distributors Association.

_______. 2019b. "History of the Korean Imported Car Market." Korean Automobile Importers and Distributors Association.

KAMA. 2011. 2019. "*Korean Automotive Industry*." Korean Automobile Manufacturers Association.

Korea Economic Weekly. 2000. "Foreign-Invested Companies Growing in Importance." October 30: 4.

KRX. 2011. Korea Exchange. http://www.krx.co.kr/index.jsp.

Lee, S. M. 2011. "A Comparative Study of the Automobile Industry in Japan and Korea: From Visible to Invisible Barriers." *Asian Survey* 51(5): 876–898.

_______. 2012. "From Dyad to Triad: The Changing Nature of State-Market Relations in Korea." *Korean Journal of Sociology* 46(6): 95–122.

LGERI. 2010. "Effects on Security Market by Foreigners." September, 2010.

Mauss, M. 1954. *The Gift: Forms and Functions of Exchange in Archaic Societies*. London: Cohen & West.

Mintz, B. and M. Schwartz. 1985. *The Power Structure of American Business*. Univ. of Chicago Press: Chicago.

Murray, J. and M. Schwartz. 2015. "Moral Economy, Structural Leverage, and Organizational Efficacy: Class Formation and the Great Flint Sit-Down Strike, 1936–1937." *Critical Historical Studies* 2(2): 219–259.

Nelson, L. 2000. *Measured Excess: Status, Gender and Consumer Nationalism in South Korea*. New York: Columbia Univ. Press.

NTE Report. 1995. 1996. 1997. 1998. "Korea" The President's National Trade Estimate Report on Foreign Trade Barriers. USTR.

Pareto, V. 1935. *The Mind and Society*. New York: Harcourt, Brace & Co.

Scott, J. 1976. *The Moral Economy of the Peasant*. New Haven: Yale Univ. Press.

Simmel, G. 1950. "The Triad." K. H. Wolff (ed.). *The Sociology of George Simmel*. Glencoe: Free Press.

Song, H. K. 2017. (In Korean) *Gaboji aneungil* [A Way that is not to Go]. Seoul: Nanam.

The Economist. 1995. "Survey: South Korea." June 3: 4.

Thompson, P. E. 1971. "Moral Economy of the English Crowd in the Eighteenth Century." *Past and Present* 50: 76–136.

Tsutsui, K. and A. Lim. (eds.) 2015. *Corporate Social Responsibility in a Globalizing World*. Cambridge: Cambridge Univ. Press.

Wall Street Journal. 1995. "South Korean Say Bribes are a Part of Life." Glain S. November 21.

www.kci.go.kr

Weber, R. B. 2001. "Foreign Investment into Korea: Leveling Off, But Still Significant." *Korea Insight* 3(2): 1.

Weiss, L. 1998. *The Myth of the Powerless State*. Ithaca: Cornell Univ. Press.

White, H. 1981. "Where Do Markets Come From?" *American Journal of Sociology*, 87: 517–547.

______. 2002. *Markets from Networks: Socioeconomic Models of Production*. Princeton: Princeton Univ. Press.

SANG MIN LEE is a professor of sociology at Hanyang University and a former research fellow at the Samsung Economic Research Institute (SERI). His research interests include economic sociology and the sociology of firms. *Address*: Department of Sociology, College of Social Sciences, Hanyang University, 222 Wangsimni-ro Seongdong-gu Seoul Korea 04763 [*E-mail*: hahaha@hanyang.ac.kr]

www.kci.go.kr