

**PROMOTING CZECH-KOREAN RELATIONS**

**By**

**Jan Matějka**

**THESIS**

Submitted to

KDI School of Public Policy and Management

in partial fulfillment of the requirements

for the degree of

**MASTER OF PUBLIC POLICY**

2010

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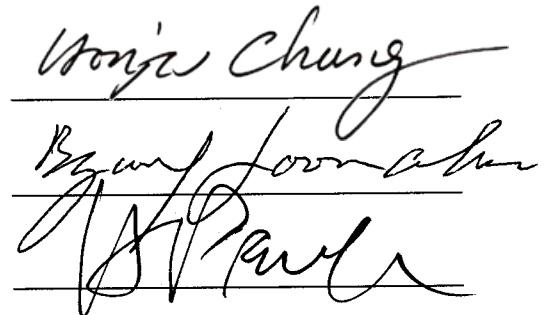
**MASTER OF PUBLIC POLICY**

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Approval as of July, 2010

## **ABSTRACT**

### **PROMOTING CZECH-KOREAN RELATIONS**

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Jan Matějka

The Czech Republic and the Republic of Korea established their diplomatic and commercial relations in 1989 and they have developed these relations in several areas in a relatively short period of time. The Czech private sector, however, is less active in the Republic of Korea. This study identifies how Czech-Korean relations could be improved and recommends strategies to achieve this goal. Using an analysis of past development and comparison of cultural and legal characteristics in the two countries, the study applies the patterns of successful past development. This analysis shows that there is a room for enhancement in promotion of active participation in Czech-Korean relations from the Czech point of view. Despite the obstacles of cultural and legal differences between the Czech Republic and the Republic of Korea, the prospects of new free trade agreements and increasing openness in Czech and Korean societies can facilitate the development of Czech-Korean relations which would have positive economic impacts on the both countries.

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## **ACKNOWLEDGEMENTS**

I would like to thank to Prof. Hongik Chung, Prof. Seth Leighton, H. E. Mr. Jaroslav Olša, jr., Sasisri Phruettiyanan and my family for their helpful guidance and support.

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## **1. Introduction**

The Czech Republic (CR) and the Republic of Korea (ROK) started their relations in 1989 and during the period 1989-2009, political and commercial connections have been built with a remarkable pace. Nowadays, Korean companies belong to the group of the most important investors in the Czech Republic. The twentieth anniversary of the relations of Czech Republic and the Republic of Korea offers an opportunity to study and evaluate the past evolution and also upcoming trends and prospects of deepening relations. The aim of this thesis is to study the development of relations between the CR and the ROK and to recommend some methods to promote these relations in the future.

Several recent studies offer statistical surveys monitoring investments and the trade structure between Korean and Czech companies. However, the lack of studies dealing with the previous evolution of establishing commercial connections impedes the creation of a comprehensive picture of the Czech-Korean relations. This study was therefore designed to review the development of relations between the two countries heretofore in order to find out the past patterns of development. Once “the patterns” are discovered, they may be used to find the ways to promote, deepen, or expand the relations between the two countries. The main interest of this study lies in commercial connections which contribute to the creation of wealth for citizens from both countries. Besides the economic sphere, the evolution of relations in politics and culture are also included in the study, as mutual recognition and convergence in these areas can facilitate and support the trade connections.

This study promises to add an overview of the past achievements of Czech-Korean relations and to provide recommendations on policies which may be adopted by the Czech government and its agencies. The recommendations concern both the areas where the past development has been successful and also the areas where the Czech-Korean relations are less

developed and thus may be expanded. By analyzing reasons of such development, this study presents an essential framework for future development. Czech organizations from both the public and private sector that are currently involved or are planning to become involved in relations with their Korean counterparts will find the final recommendations useful due to the relatively brief history of Czech-Korean relations and thus lack of experience in this area.

The research question of this study is: “What are the patterns of the past development of the Czech-Korean relations? How can these relations be further expanded or promoted?” It is hypothesized that there exist obstacles to development in particular areas of Czech-Korean relations. While Korean companies have well established commercial representation in the Czech Republic, it is not the case for Czech companies in the Republic of Korea.

Fulfilling the purpose of the study requires a review of past events in politics and international relations of the Czech Republic and Korea and statistical data concerning the trade turnovers. In order to give the general understanding of relevant factors of relations between the ROK and the CR, it is necessary to cover a broad scope of information in this study. The breadth of analysis thus limits this study to essential information on problems related to the Czech-Korean relations. This study cannot go into depth in analyzing the intentions of private companies of participating in commercial relations between the CR and ROK, because the range of data on relevant private companies was not available for this research. The intentions of these companies are anticipated by the use of macroeconomic statistical data. Despite its limitations, this study is helpful for the above mentioned institutions as a reference point and may constitute a solid basis for future research.

**2. Literature Review**

This chapter will review sources of information relevant to our topic: establishing and developing Czech-Korean relations. Through these sources we will focus on our major interest to observe how the Czech-Korean relations developed in the past and form the perspectives for the future development of these relations. The following sections compose the literature review: background information on our problem, a theoretical background of the issues and a synthesis of the current research.

**2.1 Background Information on the Problem**

In order to provide background information on the problem, the Czech Republic (CR) and the Republic of Korea (ROK) will be briefly introduced, and the history of the Czech-Korean relations in terms of political relations, commercial and cultural cooperation will be described. The barriers for the further development will be illustrated followed by the effects of such barriers on the Czech-Korean relations.

**2.1.1 Brief characteristics of the Czech Republic and the Republic of Korea**

Table 1: Key characteristics of the CR and the ROK

	<b>Czech Republic</b>	<b>Republic of Korea</b>
Area (sq km)	78,867	99,720
Population (2009)	10,211,904	45,508,972
GDP (bn USD, PPP, 2008)	262.2	1,335.0
GDP/capita (USD, PPP, 2008)	25,900	27,600
Unemployment rate (2008)	5.4%	3.2%
Political system	Parliamentary democracy	Presidential democracy
Legal system	Civil law	Civil law, common law
Official language	Czech	Korean

Source: CIA, 2009

Table 1 shows some of the main statistical data and government characteristics of the CR and the ROK. The Republic of Korea is bigger than the Czech Republic in its geographical area and size of population; although the GDP per capita of the two countries is similar, the aggregated GDP of the ROK is approximately five times bigger than that of the CR. Both countries have adopted democratic regimes and the CR has been a member of the European Union since May 2004. Both the CR and the ROK are industrialized, export-oriented countries. The ROK is ranked among the newly industrialized countries and this process started in 1960. The Czech Republic is ranked among post socialist countries and it has existed since 1993 when the former Czechoslovakia was divided in two. The market economy was adopted after 1989 and since then Czech economy has been continuously growing. The CR is located in Central Europe and the ROK in South East Asia, more than eight thousand kilometers (CIA, 2009) distant from each other.

### **2.1.2 Czech-Korean political relations**

Czech-Korean relations do not have a long history. As the current Czech ambassador in the Republic of Korea Jaroslav Olša, jr. clarifies (2009) there were only a few contacts between Czechs and Koreans before 1989. The first remarkable contact occurred in 1919, when the leader of the Czech military base in Vladivostok, Radola Gajda, supported the Korean independence movement activist Yeo Un-hyeong. Yet, this was the first and the last important contact between the two countries for the following 70 years.

The reason for such long discontinuance of relations between the contemporary Republic of Korea and the Czech Republic was the adverse course of events in the both countries. First, Korea was under the Japanese occupation during the period from 1910 to 1945 (Kang & Lee, 2007), followed by the Korean War during 1950 to 1953 (Encyclopaedia Britannica, 2009). Czechoslovakia, on the other hand, had adopted a socialist regime in 1948;

therefore it had established relations with the Democratic People's Republic of Korea together with the other countries of the “Eastern bloc”. The first agreement on economic support from Czechoslovakia to North Korea was signed in 1954 (CzechTrade, 2009).

Shortly after the transition to a democratic regime in Czechoslovakia in 1989, diplomatic relations with the Republic of Korea were established and the Czech government has continued in expanding the relations after the separation of Czechoslovakia in 1993. During the almost twenty years of diplomatic relations, bilateral agreements were established in the following areas according to the Ministry of Foreign Affairs of the Czech Republic:

Table 2: List of the Czech-Korean agreements

➤ Air services	1990
➤ Commercial and economic cooperation	1990
➤ Mutual protection of investments	1992
➤ Prevention of double taxation and tax evasion	1992
➤ Abolishment of visa obligation	1994
➤ Cultural cooperation	1994
➤ Scientific cooperation	1995
➤ Peaceful utilization of the nuclear energy	2001
➤ Cooperation in the area of youth during the period from 2003 to 2005	2003
➤ Cooperation in the area of communication and information technologies	2004
➤ Social security	2007

Source: MFA, 2009

Table 2 shows the list of agreements between the Czech Republic and the Republic of Korea established between 1990 and 2009. It reflects the trend of deepening cooperation: within 1990-1994 the agreements aim to secure transport connections and property of the each country’s citizens and, later on, more specific and concrete domains are included.

### 2.1.3 Czech-Korean trade and investments

The CR and the ROK started commercial cooperation in 1990 and the major progress in mutual trade has occurred after the year 2000. The following table shows the balance of trade between the Czech Republic and the Republic of Korea from 2001 to 2008.

Table 3: Balance of trade Czech Republic-Korea (2001-2008) in thousands of USD

Year	Turnover of trade CR-ROK	Export from the CR	Import to the CR	Balance for the CR
2001	204 194	47 006	157 188	-110 182
2002	345 153	33 629	311 524	-277 895
2003	415 674	38 274	377 400	-339 126
2004	619 533	57 580	561 953	-504 373
2005	707 585	96 689	610 897	-514 208
2006	823 451	117 368	706 083	-588 715
2007	1 277 769	226 470	1 051 299	-824 829
2008	1 764 355	269 251	1 495 104	- 1 225 853

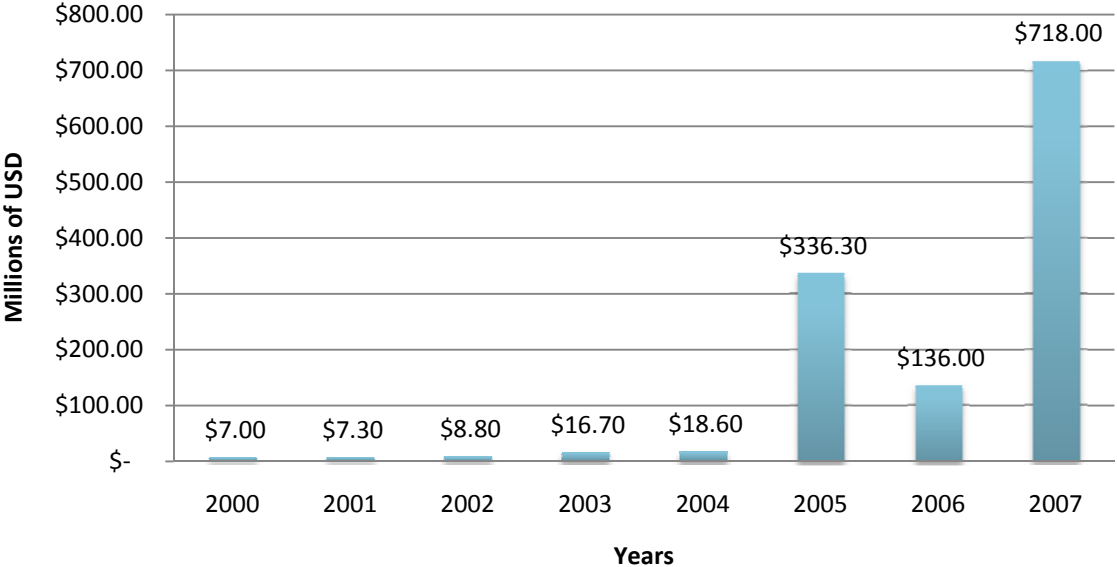
Source: CzechTrade, 2009

Table 3 shows the trend of increasing turnover of trade between the two countries; we can observe an increasing trend for both exports and imports, however from the Czech point of view the imports are getting more and more significant compared to the exports which ends up in the deficit of balance of the Czech-Korean trade. This shows that although the Czech Republic is an export-oriented country with a surplus in its Current Account (CNB, 2009); the Korean imports have had a bigger value than Czech exports to Korea during this period of time.

In October 2009 the Free Trade Agreement between the EU and the Republic of Korea (KOREU FTA) has been made. The aim of this FTA is to abolish 99% of all tariffs on traded goods between the EU and the ROK. The value of tariffs reaches 1.1 billion Euros from the side of the EU and 1.6 billion Euros from the side of the ROK per year. As the turnover of the

mutual trade between the EU and the ROK in 2008 was 76 billion Euros, this FTA is the second largest in the history of international trade, after the NAFTA enacted in 1994 (Hospodářské noviny, 2009). The fact that the EU is the biggest investor in the Republic of Korea implies that “it is increasingly important to have that free movement of goods without barriers” (Olša, 2009). During the Czech Republic’s EU presidency from January to June 2009, the KOREU FTA was one of the important tasks for the Czech diplomacy. Therefore the President of the Czech Republic, Václav Klaus, visited Seoul together with the President of the European Commission José Manuel Barroso for the first EU-Korea summit in May 2009 (ECR, 2009).

Graph 1: FDI to the Czech Republic from the Republic of Korea



Source: CNB, 2009

In Graph 1 we can study the evolution of Foreign Direct Investment (FDI) to the Czech Republic from companies in the Republic of Korea. The Czech National Bank does not register any FDI to the Republic of Korea from the Czech Republic within this period of time. This graph shows an increasing trend of the total amount of FDI during the eight-year period and it also reflects the major Korean investments in the Czech Republic which have occurred during this time. In 2001 LG Philips Displays Holding has started production of screens in the



Czech Republic; however, the Dutch partner of this holding went bankrupt and the factory in Hranice na Moravě had to be closed in 2006. However in 2006, Hyundai Motor Company signed a contract with the Czech government on investment in Hyundai factory with capacity of three hundred thousand cars per year in Nošovice, Czech Republic, which will amount in total to around 1.3 billion Euros. As this represents the only Hyundai factory in the European Union, it attracts also additional investments from Korea in order to provide subsidiary products for the car maker (Hospodářské noviny, 2008). The Grand Opening Ceremony took place on September 24, 2009, although production has started there already in November 2008 (ECR, 2009). The fact that Hyundai, one of the biggest Korean companies, has chosen the Czech Republic as a place for its important investment shows the interest of the Korean private sector in cooperation with its Czech counterpart. This interest gives hope for the future Korean investments in the Czech Republic.

#### **2.1.4. Cultural cooperation between the CR and the ROK**

Although the investments and the increasing turnover of trade between the two countries are often the major focus of international relations, cultural relations and tourism are also important. Czechs and Koreans have begun to deepen their connections in this area during the past decade.

Table 4: Korean tourists in the Czech Republic

Year	Number of Korean tourists in the CR
2004	-
2005	46 850
2006	74 907
2007	79 575
2008	68 478
2009 (Jan-Jul)	23 691

Source: CZSO, 2009

Table 4 shows the numbers of Korean tourists visiting the Czech Republic; although Koreans started to visit the Czech Republic in significant numbers only in 2005, they have already become the second largest group of Asian tourists, right after tourists from Japan (CZSO, 2009). The Czech Republic has become popular among Korean viewers of soap operas; *Lovers in Prague*, issued in 2005, has had an impact on the number of Korean tourists in the capital city of the Czech Republic, Prague (Alda, 2005). The inflow of Korean tourists to Prague, one of the most tourist-attracting cities of Europe, is facilitated by the direct connection of Korean Air; this represents the only direct connection from Prague to Asia and has existed since May 15, 2004 (CzechTrade, 2009). On the other hand, the number of Czech visitors in Korea amounts only to hundreds of people (Olša, 2009).

Along with the rise in tourism, cultural cooperation between Koreans and Czechs has also been officially declared. The city mayors of Prague (Pavel Bém) and Seoul (Lee Myung-bak, the President of the Republic of Korea since 2008) signed an agreement on cooperation between the two capital cities in 2005. They have defined the major objective of this cooperation as mutual help in the areas of culture and historical heritage (Prague's strong point) and application of modern technologies and infrastructure (Seoul's strength). Development of cultural relations is also an objective of the current Czech ambassador in Korea, Jaroslav Olša, Jr., as he has stated when he has handed the credentials on September 4, 2008 (ECR, 2009). Mr. Olša has also instigated creation of EUNIC Seoul (European Union National Institutes of Culture) together with other European ambassadors in Seoul in June 2009 (ECR, 2009).

## **2.2 Barriers to developing Czech-Korean relations**

From the previous description of the history of the Czech-Korean relations it is obvious that the relationship is one-sided in the important areas such as trade, investments and tourism.

In spite of the efforts of the Czech politicians and diplomats to promote active involvement of Czech companies and citizens to enhance the Czech-Korean relations, the statistics show the low participation. In the Czech-Korean relations, Koreans are active in all the areas – trade, investments and tourism, but Czechs are rather passive in these areas. Therefore it is important to focus on the causes of this situation in order to find out whether it is possible to make the relations mutually balanced in these areas as well.

The first reason for the low active participation of Czech companies and public in relation to Korea is the geographical distance and short history of the relations. Due to its position in the heart of Europe, Czech Republic is often considered as a “bridge” between the Eastern and Western European countries; this is a historical fact which also influences the current political and commercial orientation of the country. Moreover, because of its two-decade long democratic regime after 1989, the Czech Republic was actually an economy in transition in the past years. This is one pressing reason for the lack of knowledge and concern by Czech people about Asian countries generally, because the major interest is oriented to the other EU countries and the USA.

The second point is the relatively high rate of protectionism of domicile industries mainly from the part of the Korean administration (Yoo, 1993). The barriers of import to Korea may have a negative impact on Czech imports. For that reason the European Union Chamber of Commerce in Korea (EUCCK) makes a list of barriers of import to Korea and gives recommendations to the Korean government on how to develop trade and industrial relations between Korea and the EU. The EUCCK’s list enumerates barriers for various sectors of industries. The EUCCK also provides services for the EU companies (Business Support, Information Activities and Lobbying Activities) for a named fee and its 26 committees aim to cover all important markets where European companies are being involved (EUCCK, 2009).

The Czech Ministry of Foreign Affairs (MFA, 2009) registers the most frequent problems of Czech companies or businessmen coming from their activities in Korea: language barrier, social rules (for example relations between younger-older), negotiation habits (for example forbidding to point out mistakes), difficulties with conversion of currencies and units of measurement, misunderstanding from casual conversation (Koreans have no understanding for sarcasm and Czech “black humor”), problems with copying of products by Korean partners, different food and the impossibility to use mobile phones designed for the European GSM system.

The preceding section has illustrated the background information on the problem. Although the Czech Republic and the Republic of Korea have achieved a significant progress during the short period of relations, there are some areas which might be improved in the future in order to develop the relations in the future. In particular, some restraints from the Czech part are observed in the areas of trade, investment and tourism. The major reasons for this situation are recognized as the following: cultural differences, differences in legal systems and protection of Korean industries. The obstacles of geographical distance and the shortness of relations can be overcome because of the process of globalization as well as decreasing costs of transportation and information.

### **2.3 Theoretical Background**

This study takes the perspective that international cooperation in the areas of political relations, trade and mutual cultural enrichment is a way to increase wealth and overall well-being in both countries who cooperate. This statement should be applicable to any country including the Czech Republic and the Republic of Korea.

International cooperation has two major motivations – prevention of war conflicts and economic development. Such reasons were in fact the motives of the foundation of the

European Coal and Steel Community (ECSC) in 1950, the forerunner of the European Union (EU, 2006). The ECSC has played a crucial role in the post-war Europe when the destroyed countries began to rebuild their economies together under a superior organization. The European Union has been enlarged several times during its existence which shows the attractiveness of such peaceful economic cooperation. Although the Czech Republic and the Republic Korea are not both members of a mighty institution such as the EU, bilateral agreements may have a similar effect; moreover, both countries are members of the OECD (Organization for Economic Cooperation and Development) which promotes liberalization of trade between its member countries. The policy of isolation, on the other hand, is a way to economic, social and political decline. The northern neighbouring country of the Republic of Korea, the Democratic People's Republic of Korea, is an example of such a case. The low level of economic development of the DPRK shows the unfortunate consequences of the policy of isolation.

The second argument to support international cooperation comes from the theory of international trade. According to Yoo (2009), international trade gives the possibility to achieve a higher possibility of consumption and hence higher satisfaction thanks to specialization in production and exchange of goods. The theory of international trade (based on the Heckscher-Ohlin Theorem) suggests that each country should specialize in production of such goods, which are relatively inexpensive to produce in local conditions and subsequently exchange these goods with other countries. In the neoclassical framework this means that inhabitants of a country which participates in international trade will achieve a higher Indifference Curve, which implies a higher level of satisfaction.

The above-mentioned Heckscher-Ohlin theory is more broadly applicable to economies with a big difference in production factor abundance, however. This means that this theory is valid for the case of trade between developed and developing countries, but it is less

applicable in the case of trade between two countries which have achieved similar level of economic development; the Leontief Paradox has proven this claim (Yoo, 2009). This is actually the case of the Czech Republic and Republic of Korea which have achieved a similar level of GDP per capita (Purchasing Power Parity, 2008 US Dollars): 27,600 in the Republic of Korea and 25,900 in the Czech Republic (CIA, 2009). The two countries also achieved the same evaluation from the rating agencies Standard & Poor's (group A) and Fitch (group A+) and slightly different evaluation from Moody's – the Czech Republic group A1 and the Republic of Korea group A2 (CNB, 2009). Seemingly, there is little the two countries can offer each other as insinuated by the Hecksher-Ohlin theory.

However, the theory of Intra-industry Trade suggests that countries with similar industrial structure can trade in the same goods and achieve increasing returns to scale because of the increasing size of the potential market for their products. This means, in other words, that international trade can increase the wealth even for countries with similar economic levels (Yoo, 2009). A classical example which demonstrates this theory is the trade between France and Germany, countries with similar industrial structure. This theory is also illustrated by the rising trade levels between the CR and the ROK.

Conversely, there is a competing perspective towards the research question on identifying the obstacles to the future development of the Czech-Korean relations. It states that the current one-sided Czech-Korean relation in terms of trade, investments and tourism is appropriate to the existing conditions and any efforts to improve the relations artificially from the political and diplomatic sphere are useless. This claim can be valid if the above stated obstacles, such as differences in culture, legal background, protection of Korean industries, geographical distance and the shortness of relations are more important than potential benefits. In that case it might be difficult to develop further the Czech-Korean relations. We may

expect that mutual understanding and suitability of manners are crucial elements for any kind of relationship, including the Czech-Korean relations.

## **2.4 Summary**

Despite the fact that the Czech-Korean relations do not have a long history, they have continuously developed over the past two decades and have become significant in some areas. Important areas of cooperation are trade and investment, political cooperation and lately also cultural collaboration. However, it seems like most of these activities come from the Korean initiative, although Czech politicians and diplomats have contributed significantly to this progress.

The research question of this study (what are the patterns of the past development of the Czech-Korean relations and how could they be improved in the future) requires further analysis of the causes and effects of the past successful development in the areas of mutual commercial activities, political cooperation and cultural connections. Obstacles identified as potential causes of lack of participation in some areas of the Czech-Korean relations are cultural differences and different legal background and legal cultures and they will be analyzed later in this study. Understanding the impacts of these barriers will enable the prediction of future trends and policy recommendations.

The research question of this study has not been discussed in any previous formal academic study (as confirmed by Jaroslav Olša, Jr., the ambassador of Czech Republic in the Republic of Korea). The task of this study is therefore to provide a broad analysis of problems related to the area of the Czech-Korean relations in order to find the major trends which can be studied more narrowly by researchers in future studies.

### **3. Research Methodology**

This chapter will illustrate the methods applied by the author. Both qualitative and quantitative types of research will be introduced with a justification for their usage. The research design, research methods and analysis procedures will be discussed; the validity and reliability of these methods will be also presented.

The purpose of the applied methods is to answer the research questions on developing Czech-Korean relations: (a) what are the patterns of the past development of the Czech-Korean relations and (b) how these relations can be further expanded or promoted.

#### **3.1 Research Design**

This study utilizes both quantitative and qualitative methods of research. Quantitative research gives data on the past evolution of certain activities relevant for the research questions. Qualitative research is applied to explain causes of obstacles. The design is exploratory, to reveal more information about the past development; descriptive, to be able to describe the obstacles to the development; and causal, to compare the development of Czech-Korean relations.

The first component of the research was an analysis of past development of Czech-Korean relations, used to find patterns of the successful and rapid development. Second, the areas which fall behind are analyzed in terms of the future prospects of improvements. The third component has revealed the major source of obstacles to the development in the areas where the Czech-Korean relations fall behind compared to the previously analyzed areas of success.



### **3.2 Research Instruments**

To analyze the first component of the research, e.g. past achievements in developing Czech-Korean relations, the methods of literature search and analysis of selected cases were applied. The literature search provided the statistical data necessary for the analysis of level of trade, FDI, and tourism between the CR and the ROK. The analysis of selected cases provided understanding of the patterns of the past development. The second component, expansion of the less developed areas in the Czech-Korean relations, was analyzed through literature search in order to specify perspectives of promoting Czech participation in these areas and comparative analysis which provided knowledge of successful role-models in these areas. In order to analyze the third component of the research (barriers to the development), the study has applied these instruments: analysis of selected cases (to discuss cultural and legal differences) and comparative analysis (to compare Czech, American and Korean legal system). The analysis of legal systems was built on the theoretical model developed by Gleaser & Shleifer in 2002. This theoretical model was used to compare the main characteristics of Czech and Korean legal system.

### **3.3 Analysis Procedures and Data Collection**

This study gathered information related to the Czech-Korean relations in the issues of mutual trade, political relations, foreign direct investment (FDI) and culture. Furthermore, detailed theoretical frameworks dealing with the areas of FDI and law and legal culture make a large part of the synthetic analytical research. In order to find a benchmark for evaluation of the Czech policies which promote Czech participation in the Czech-Korean relations, the case of the Netherlands was chosen as a representative model. The Netherlands are successful in developing those areas where the CR is less successful; at the same time, the Netherlands share with the CR similar area and geographical distance from the ROK and size of population, which enables the comparative analysis of Czech and Dutch policies.

The data was collected from online databases JSTOR, SSRN and Google Scholar which store papers from reputable journals such as The Quarterly Journal of Economics, American Journal of Business and Journal of Comparative Economics. Additionally, other academic research papers relevant for this study were found in the websites of influential institutions such the European Commission, OECD, KEIA (Korean Economic Institute), KIEP (Korea Institute for International Economic Policy) and also the Technical University of Ostrava, Czech Republic. Statistical data was collected from trustworthy international, Czech, Korean and Dutch institutions: CIA, Eurostat, Czech Statistical Office, Czech National Bank, Czech Trade, Ministry of Foreign Affairs of the CR, Prague Stock Exchange, Invest Korea, FKI (Federation of Korean Industries) and the Embassy of the Kingdom of the Netherlands in Seoul. Finally, information on current affairs was found on the websites of The Korea Herald, Korea Times and the Czech News Agency.

### **3.4 Validity and Reliability**

This study uses official statistical data sets which reflect the trends in trade, investments and tourism. The study also uses research made by think-tank organizations and independent observers to acquire profound understanding of the situation. The depth of research from the reputable sources of information increases the validity of the research, as also does the breadth of research which is determined by the extensiveness of the research question.

This study acquired necessary breadth and depth by analyzing the wide issue of the Czech-Korean relations by dividing it in the crucial areas which are studied separately. Past development is analyzed for the reader to understand the patterns of successful development in the case of the Czech-Korean relations. The researcher is confident that other researchers would reach similar conclusions by evaluating the perspectives for the future development to the considered obstacles.

## **4. Results**

This chapter focuses on results from this study. It consists of two main sections which aim to analyze the prospects of the main two hypotheses; the first hypothesis suggests promoting Czech-Korean relations in the areas with the lack of participation and the second hypothesis recommends continuing in the current arrangement of relations as it has been developed during the past years. The first section contains analysis of past achievements in developing Czech-Korean relations in trade, investments and tourism. The second section deals with the enhancement of less developed areas of Czech-Korean relations. The third section studies the differences between the Czech and Korean legal systems and examines how conflict resolution can be a crucial barrier to deepening the Czech-Korean relations.

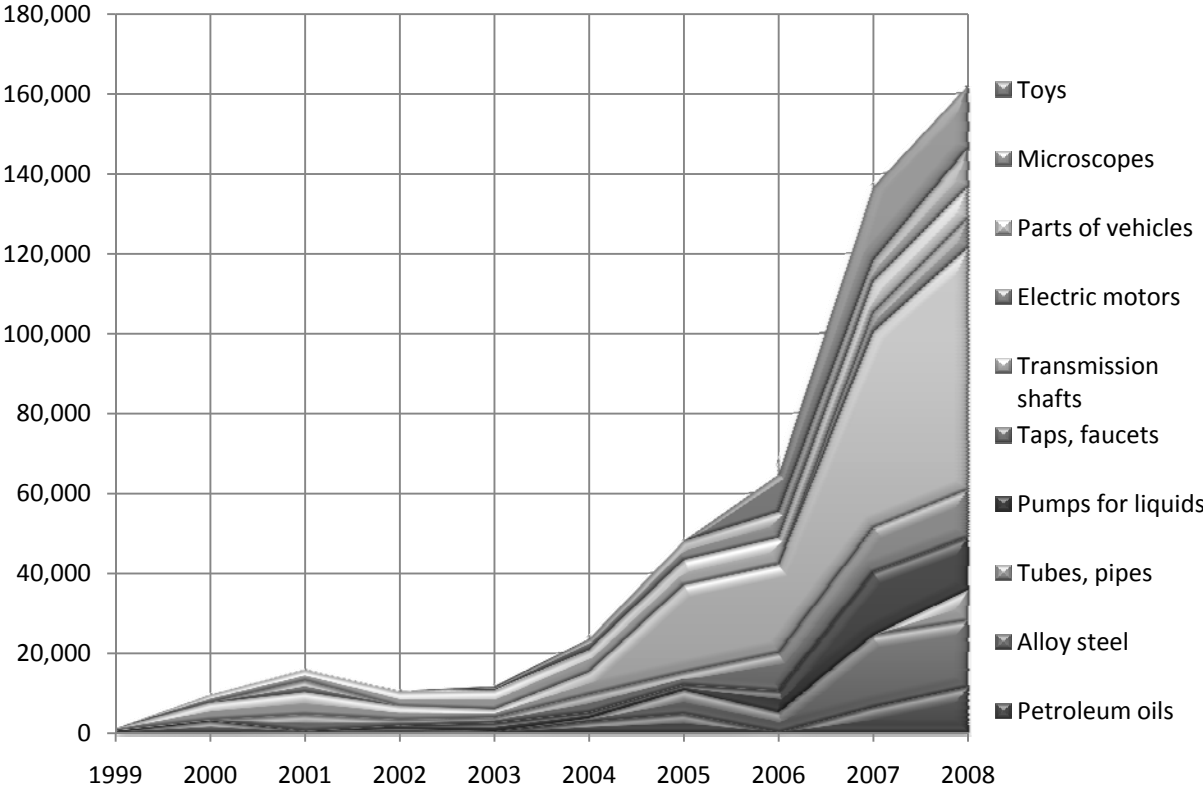
### **4.1 Analysis of achievements in the Czech-Korean relations**

This section focuses on the past successes in establishing and developing Czech-Korean relations. Understanding the patterns of the past development gives an idea about directions for the future development.

#### **4.1.1 Diplomacy and trade**

The fast development of political relations between the CR and the ROK during the period 1989-2009 has been favorable for the development of trade between the two countries; the turnover of trade between CR-ROK has been continuously growing during the past decade (1999-2008). Graph 1 and Graph 2 reflect the increasing trend in trade of ten major commodities regarding Czech exports to the ROK and Czech imports of goods from the ROK. The graphical visualization aggregates the volumes of particular commodities which are represented by the key on the right side of the graphs.

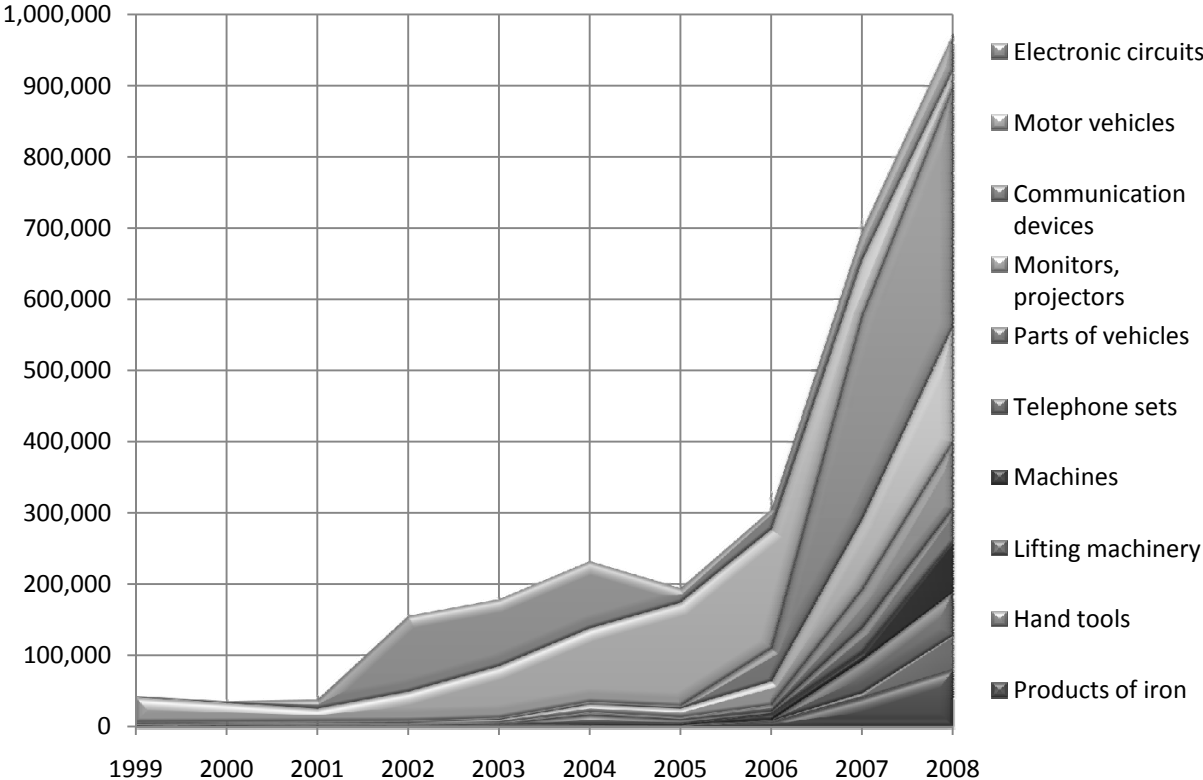
Graph 2: Czech exports to the ROK 1999-2008 in thousands of USD



Source: CZSO, 2009

Graph 2 shows the evolution of Czech exports to the ROK during 1999-2008. As observable in Graph 2 the growing tendency has started since 2004, but the major growth is detected within the period 2006-2007 when the volume doubles. This big increase in the volume of trade is related exclusively to the trade between the ROK and the CR; the statistics of Eurostat (2009) show that the volume of exports from EU to the ROK has increased from 18.7 to 20.18 billion Euros and imports to EU from the ROK have slightly decreased (from 29.82 to 29.02 billion Euros) between the years 2006 and 2007. The reason of such rapid growth is apparently associated to the process of contracting with Hyundai company on FDI to the Czech Republic, which has opened the door for expanding trade relations between the CR and the ROK. The item which contributed the most to the increasing trend in 2007 is transmission shafts which are utilized as an intermediate product in the Korean shipping industry.

Graph 3: Czech imports from the ROK 1999-2008 in thousands of USD



Source: CZSO, 2009

Graph 3 shows the evolution of Czech imports from the ROK between 1999 and 2008. As in the case of Czech exports to the ROK, the turning point is the year 2007, when the volume of imports from the ROK more than doubles, which is the result of the expansion of trading between the CR and the ROK. The most remarkable items are electronic circuits, motor vehicles and transmission devices on this graph. Trade with electronic circuits was expanding in 2002, but has declined in 2005; this is explained by the increasing imports of this item from China to the CR, which value in thousands of USD has grown from 103.3 to 171.6 USD in 2004-2005 (CZSO, 2009). Imports of motor vehicles from the ROK to the CR have declined in 2007 due to the beginning of production in the Hyundai factory in the CR and communication devices are the most expanding item since 2007 due to the increasing imports of Korean mobile phones.

The evolution of trade between the CR and the ROK follows the pattern of intra-industry trade as products from similar industrial sectors are traded. Yet, although the increasing tendency in both exports and imports during the studied period of time are surely positive, one aspect of the Czech-Korean trade is negative. The volume of Czech exports to the ROK represents roughly only one sixth of the volume of Czech imports from the ROK considering the “top ten” traded items displayed on these graphs. Such vast disparity proves the existence of barriers to trade on the Korean side, because the natural obstacles (such as transportation costs) are overcome as evidenced by the Korean products carried to the CR in large volumes.

#### **4.1.2 Investments**

Investments to the Czech Republic, similar to the Czech-Korean trade are also following the pattern of comparative advantage. Alvis (2006) points out the major reasons of Korean investments in the CR and other countries of Central Europe as due to the following: “well educated and inexpensive workforce and proximity to European markets”. He adds that labor costs in Central Europe amount to only 50% of the costs of labor in Western Europe, while transportation costs are low due to the geographical proximity. When investing in this area, Korean companies are well positioned to export to the European markets. This also decreases the costs of transportation and shipping time which are otherwise associated with production in Korea.

Besides the above mentioned factors, the flow of Korean FDI to the CR was also influenced by the GDP of the both countries. Bevan & Estrin (2004) argue that FDI is positively related to the GDP of both host and source country. Another factor pointed out by these authors are unit labor costs in the host country and geographical distance between the countries, which are related inversely to the volume of FDI. This claim is valid for the case of

Korean FDI in the CR. The GDP of the both countries is similar – USD per capita 25,900 in the CR and 27,600 in the ROK (CIA, 2009). On the other hand, the average salary of a car mechanic (this category of job is relevant to the Korean investment in car manufacturing) is different. In the Czech Republic in 2005, the net monthly income of a car mechanic was 455 USD while in the ROK in the same year it was 1403 USD (World Salaries, 2006) which is more than three times higher. This finding gives a strong supporting evidence to the theory of Bevan & Estrin.

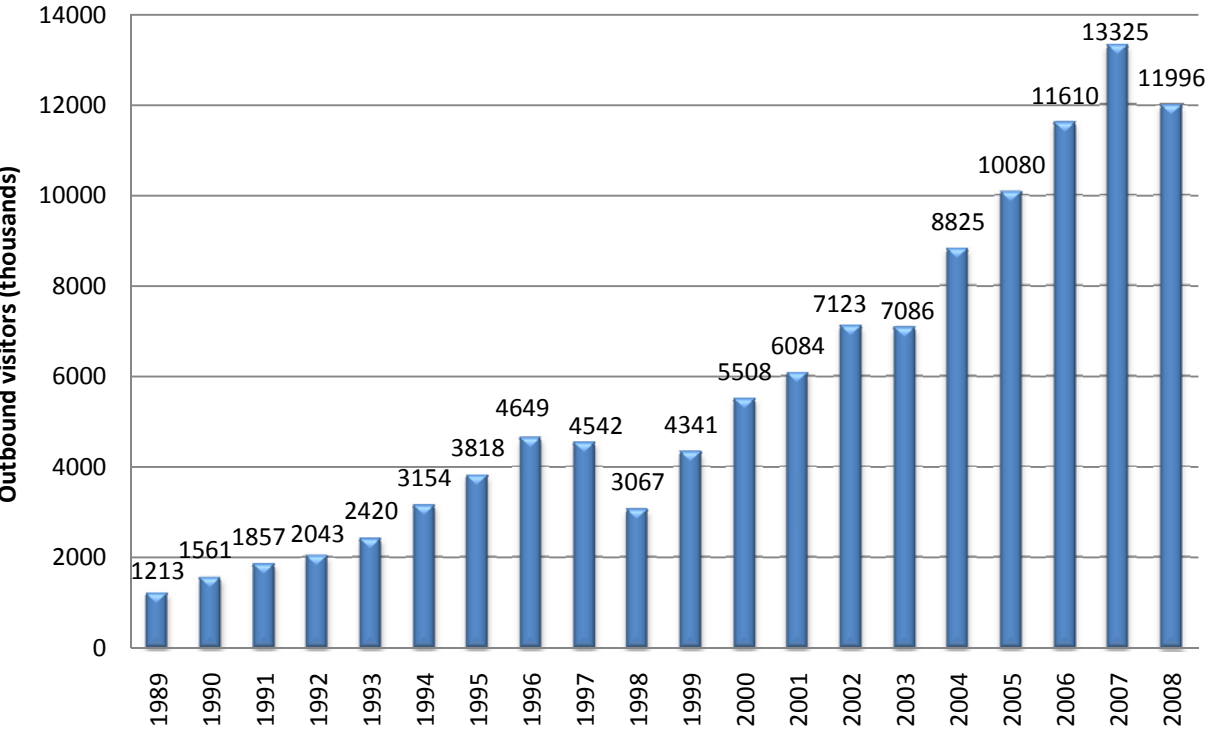
Despite the big achievements in attracting FDI to the CR from the ROK in the past years, the concurrence from the other countries in the Central Europe must be taken into account for the future FDI. Other countries from this region, e.g. Poland, Slovakia and Hungary are also successful in attracting the foreign investors, including FDI from Korea. In the car manufacturing sector in particular, the Hyundai factory in Nošovice, Czech Republic is located approximately twenty kilometers from the borders both with Slovakia and Poland which gives a possibility of choice between the three countries for Korean investors. Moreover, the Hyundai factory in Nošovice cooperates with the Kia factory in Žilina, Slovakia, as they are located a mere sixty kilometers from each other. Poland is identified as the major alternative for the CR in terms of attracting FDI, as it is “likely to become one of the major manufacturing sites for electronics and domestic appliances in Europe” (Frost & Sullivan International, 2008).

**4.1.3 Tourism**

The increasing trend of Korean visitors has to be analyzed in a broader view considering the factors in the both Czech and Korean side. Prague, the most visited town in the CR, is ranked as the fifth most visited city in Europe (Czech News Agency, 2009). The touristic attractiveness of Prague along with intensive promotion coming from the succesful television programe *Lovers in Prague* and the active participation of the Czech embassy in various cultural events in Korea gives one supporting factor for the high numbers of Korean visitors in the CR.

The second factor comes from the Korean society, which has tended to become more interested in travelling abroad in the past decade. The following statistics give supporting evidence for this claim.

Graph 4: Korean Outbound Visitors 2004-2008 (thousands)



Source: Korea Tourism Organization, 2010



Graph 4 shows that the number of Korean outbound visitors has grown significantly during the indicated period; between 2004 and 2007 the number of Korean outbound visitors has almost doubled. This fact gives a pressing reason to the enormous increase of Korean tourists in the CR, which have become the second major group among Asian visitors, right after Japanese tourists.

## **4.2 Improving Czech participation in Czech-Korean relations**

This chapter aims to examine whether it is reasonable for the Czech government to become more involved in participation in the Czech-Korean relations through the Czech embassy in Seoul and other government agencies in order to help Czech companies to overcome the above stated barriers. The claim that promoting the participation of Czech organizations and individuals in the Czech-Korean relations is profitable comes from the recent developments, such as the newly adopted Free Trade Agreement between the EU and Korea (KOREU FTA). Additionally, support comes from the attempts of the Korean government to promote investment opportunities for foreign investors in Korea and finally the promotion of Korean tourism which aims to increase the number of foreign tourists in Korea and thus constitutes an opportunity for Czech companies to enhance their involvement in this perspective market.

### **4.2.1 Supporting Czech exports to Korea**

The fact that the balance of trade between the Czech Republic and Korea is in deficit from the Czech point of view constitutes an argument for the support of Czech exports to Korea. The Czech Republic, as an export oriented country, has a high potential to find new markets in Korea.

Analysis of the services of the representative office of the Czech Republic in Korea reveals that there is room for improvement in the area of support of Czech companies exporting to Korea. This becomes apparent in comparison to the services of the Embassy of the Kingdom of the Netherlands in Seoul which offers specialized departments to support Dutch exporters to Korea. The exports of Netherlands, the fifth largest exporter to Korea among EU countries, amount to 3.2 billion USD (EKN, 2009), while Czech exports to Korea

amount to 270 million USD. The following table shows the structure of the embassy of the Netherlands in Seoul.

Table 5: Structure of Embassy of the Kingdom of the Netherlands in Seoul

✓ Commercial Department
✓ Cultural and Educational Section
✓ Operational Management and Consular Affairs
✓ Agricultural Department
✓ NFIA (Netherlands Foreign Investment Agency) Korea

Source: EKN, 2009

Table 5 shows that the embassy of Netherlands consists of specialized departments which are created to support Dutch exporters in Korea; there are nineteen diplomats and staff working in the embassy and seven diplomats and staff in the NFIA (EKN, 2009). Table 5 also shows that special attention is provided to the agricultural sector; among Dutch companies exporting to Korea, three quarters of them are related to agriculture. (Fenedex, 2009). The structure of Embassy of the Kingdom of the Netherlands in Seoul cannot be compared side-by-side with the structure of the embassy of the Czech Republic, because it consists only of four Czech diplomats and four assistants (ECR, 2009). As their capacities to help Czech exporters in Korea are limited, this implies that small in-place promotion of Czech exports is one of the reasons of low rates of Czech exports to Korea and should be therefore improved in order to gain benefits from the new opportunities provided by the KOREU FTA. The lack of promotion of Czech exporters in Korea is going to be partly solved by the Czech Info Center in Seoul, newly established by the Czech embassy in cooperation with the company Castle Praha Corp. in November 2009 (ECR, 2009).

#### 4.2.2 Czech Investments to Korea

Recently, the Korean government has tried to support the inflow of foreign investment (FDI) to Korea. One of the new policies plans to “dramatically reduce the time needed to authorize industrial parks to a maximum of six months, down from the current two to four years” (Ahn, 2008). Moreover, the Korean government will continue with foreign investment-friendly policies as Strategy and Finance Minister Yoon Jeung-hyun has stated; according to his vision, Korea should become a free economic zone in order to survive the competition with Japan and China on the global market (Lee, 2009). This and other policies have a big impact on the process of investing in Korea; therefore following these reforms the conditions for Czech investors become more favorable as well. The following table shows advantages of Korean territory for Czech investors:

Table 6: Advantages of Korean territory for Czech investors

✓ Location – access to the East-Asian markets
✓ Immense market – 700 million inhabitants within the radius of 1200 kilometers
✓ Excellent infrastructure – high quality logistics, internet access, etc.
✓ High level of education of the workforce
✓ High profitability of companies – ranking in the 3rd place in the world (Forbes)
✓ Government support for the FDIs
✓ Stable economic growth

Source: CzechTrade, 2009

Table 6 shows that Korean economy has high potential to acquire FDI; these advantages together with new policies which facilitate the process of investing in Korea are considerable for Czech investors which are not yet present in Korea in great numbers.

However, there are still significant barriers which must be taken into account when investing in Korea. American investor Jim Rogers points out “I know Korea says loudly and widely that it welcomes foreign investors but Korea's actions tell a different story. They have

driven me away and presumably others as well” (cited in York, 2009). This statement is based on the experience with establishing new business in Korea, problems with banking services and reluctance of Korean administration for a remedy. Another example is the case of Lone Star (a US equity firm) that has been having problems with its stake in KEB (Korea Export Bank). Although Lone Star acquired its stake in KEB legally in 2003, it had to deal with an ex-post regulation prescribed by the Korean government in 2005, when Lone Star was offering its shares to Kookmin Bank in 2005 (Keat, 2009). This shows that there may be difficulties for individual investors when processing investment in Korea.

Companies from the Netherlands are successful in the area of FDI in Korea; The Netherlands are the biggest European investor in Korea (considering the EU countries separately, it is the third biggest investor in Korea, after the US and Japan). It is therefore relevant to analyze the structure of their investments in order to find a pattern of a “successful investor in Korea”.

Table 7: Dutch companies present in the Republic of Korea

✓ Unilever – food, personal care, home care
✓ AkzoNobel – paints, coatings, specialty chemicals
✓ Philips – electronics
✓ Shell – fuels, oils, chemicals
✓ ABN Amro – banking
✓ ING – banking, insurance

Source: FKI, 2005

According to the Federation of Korean Industries (FKI, 2005), the companies listed in Table 7 have a global outlook and often participate in projects with foreign companies; LG Philips LCD in South Korea is such an example. This shows that mostly multinational companies are appropriate to invest in Korea.

Table 8: Foreign investment procedures in Korea

✓ Foreign Investment Notification – Invest Korea, KOTRA, foreign exchange bank
✓ Investment Capital Remittance – foreign exchange bank
✓ Incorporation Registration – court registry office
✓ Incorporation Notification & Business registration – municipal tax office
✓ Paid-in Capital Transfer to Corporate account – foreign exchange bank
✓ FDI Company registration

Source: (Invest Korea, 2009)

Table 8 illustrates the procedures necessary for foreign investors in Korea. The first and last rows show the additional activities foreign investors have to pass before starting their business in Korea. This includes cooperation with the specialized agency (KOIMA) which has exclusive position in this process. This procedure requires additional costs to foreign investors which may be outweighed by benefits in case of large investments.

This begs the question of suitability of Czech companies for such conditions, as most Czech companies are rather small with only a few large companies who invest in international markets. The Prague Stock Exchange registers only thirteen companies with total volume of trade of just 57.8 billion USD in 2008 (PX, 2008).

Table 9: FDI from the Czech Republic as of 31 December 2007

Country/Zone	USD million
Europe	8386.0
Asia	73.0
India	59.7
China	11.2
Total World	8557.4

Source: CNB, 2009

Table 9 illustrates the major destinations of Czech FDIs in 2007. According to this statistic, 98% of Czech FDI goes to the other European countries and only less than 1% of the

total amount goes to Asian countries, to India and China in particular. This demonstrates that Czech investors focus on nearby areas within Europe and do not expand globally. In analogy to the case of Czech exports to Korea, a costly promotion provided by government agencies may not be profitable.

#### 4.2.3 Promoting Korean tourism in the Czech Republic

Tourism in Korea has room for improvement as the number of outbound visitors (13.33 million) is more than double compared to the number of inbound visitors (6.45 million) in Korea in 2007. Moreover, Chinese and Japanese tourists account for 50.3% of inbound visitors while visitors from Europe are listed in the category “others” which accounts for 23.6% (Invest Korea, 2009). However, according to CzechTourism, Asian cities (such as Hong Kong, Bangkok and Singapore) are getting more popular among European tourists (Czech News Agency, 2009); this trend of “Asian fashion” constitutes an opportunity for Korean tourism as well. The following table depicts the main trends of Czech outbound visitors.

Table 10: Destinations and main purpose of long trips of Czech residents in 2008

Destination	Number of trips (thous.)	Main purpose of trip	Number of trips (thous.)
Europe	4 343	Holiday and leisure time	7 393
Africa	388	Visit of relatives-friends	1 772
America	164	Health care stay	315
Asia	74	Other private stay	427
Total	4 987	Total	9 906

Source: CZSO, 2009

The left side of Table 10 shows the number of long trips (4 and more overnights) of Czech residents abroad divided by final destination. Trips to other European countries account to 87% of the total number of trips. The right side of the table displays the main purpose of long trips made by Czech residents in the Czech Republic and abroad. The main

preference is holiday and leisure time and amounts to 75% of the total number of trips. Table 10 proves that Czech people are oriented towards nearby areas in the area of tourism. Considering the purpose of trips, as 7 from top 10 destination countries are located around Mediterranean Sea, The Alps and UNESCO world heritage sites (CZSO, 2009), the main interest of Czech tourists is holiday at sea, mountain tourism, and sightseeing. Despite the potential of mountain tourism in Korea, high costs of travel to Korea and lower satisfaction are the factors which cause the small number of Czech visitors in Korea.



### **4.3 Barriers to developing Czech-Korean relations**

This section focuses on barriers to developing Czech-Korean relations, as previously identified. The following areas will be discussed: cultural differences and comparison of Czech and Korean legal systems. Identifying the barriers is a necessary step before analyzing the areas of Czech-Korean relations with lack of active participation, which will be a topic of the next section.

#### **4.3.1 Cultural differences in workday situations**

The cultural differences between Czech and Korean people come from the historical evolution of two distant countries. They were not in any contact and therefore no convergence between the cultures has occurred. According to White & Lee (2004), Korean culture was influenced by the Confucian philosophy and four distinct social classes were established in Korea during the Choson dynasty (1392-1910). The rules about the social classes were based on a complex system of hierarchy in the society. The country was isolated from the rest of the world until the beginning of the Japanese occupation in 1910; some Confucianist principles are still maintained nowadays.

Czech culture, on the other hand, was influenced both by the era of open, prosperous and “Western-oriented” Czechoslovakia of the first half of the 20<sup>th</sup> century and by the communist era of political, social and economic decline in the second half of the 20<sup>th</sup> century. After 1989, Czech society became open again, although some anachronisms of socialism (such as the recent generation’s small experiences with market economy and democracy, which is demonstrated by the instability of the government in 2009) still remain.

Vašutová (2007) reveals the key aspects of Korean culture contrasting with Czech habits which are manifested in work situations as notified in the company Hyundai Motor Manufacturing Czech in Nošovice. There are four major areas distinguished by the author:

Table 11: Workplace characteristics in Hyundai Motor factory in Nošovice

Favorable conditions for continuous progress	<ul style="list-style-type: none"> <li>• Mistakes are acceptable by the employer due to attempts to improve working processes which often incurs mistakes</li> <li>• Moral transgression is unacceptable and leads to constant pressure</li> </ul>
Workload and work categorization	<ul style="list-style-type: none"> <li>• 12-14 hours spent in work compared to regular 8 hours in the CR</li> <li>• Particular working positions are not specified – employees work on projects which are currently desirable</li> </ul>
Collectivism Vs. Individualism	<ul style="list-style-type: none"> <li>• Individual interests are subordinate to collective</li> <li>• Collective responsibility for decisions contrasts with the individual responsibility usual in the CR</li> </ul>
Men Vs. Women	<ul style="list-style-type: none"> <li>• Distrust in education and abilities of women</li> <li>• Koreans are able to become more respectful to Czech women in their work, however they do not change behavior towards Korean women</li> </ul>

Source: Vašutová (2007)

According to the author, these workplace characteristics are contrasting those of an ordinary Czech company (although Czech women are also being partly discriminated against by Czech employers). These findings provide the chief reasons of potential conflicts between Czechs and Koreans in working environment. Lack of information about the cultural differences may be a source of misunderstanding which is an obstacle for developing closer

relations. Nevertheless, as the Hyundai plant in the CR, as well as other Korean companies in the region (including Slovakia and Poland with similar cultural background) are able to run without serious problems, there is a strong chance to overcome these cultural difficulties if other factors are favorable.

#### **4.3.2 Comparison of Czech and Korean legal systems**

The Czech and Korean legal systems do not have common roots and so any convergency of laws and rules come from the bilateral contracts and also the process of globalization. Both written and unwritten laws are relevant and the differences may constitute a barrier for the Czech-Korean relations. Rules and common habits are important when arranging contracts for businesses (trade and investments). Also, personal dealings and negotiations are affected by the common legal background of each part of the relation.

The study of White & Lee (2004) compares American and Korean dispute resolution. The authors conclude that “in comparison, in Korea disputes are resolved within a cultural framework that generally ignores the law and the legal process. Indirect and very nonconfrontational resolutions of disputes are more common”. This shows that unlike in the U.S., dispute resolution in Korea does not follow the accepted legal rules, but rather is dependent on personal capacity to negotiate. This implies that Korean legal system is in fact alegalistic and regulation of society thus lies upon ethical standards and informal norms. On the other hand, the tradition of common law in the U.S. gives the major importance to rules determined in contracts and by courts of justice which must be followed.

The study of Djankov et al. (2003) categorizes the legal systems and creates groups of countries with similar characteristics. In this categorization, the Czech legal system belongs to the group of countries with socialist traditions, while the Korean legal system belongs to the

German tradition of legal systems. These two categories are considered as newly adopted in the case of the CR and the ROK and according to the authors such “legal transplantations may have led to an inefficiently high level of formalism, particularly in the developing countries”. This claim is apparently based on the evolution of legal systems during the second half of the 20<sup>th</sup> century and overlooks the previous historical development of the Czech and Korean legal systems.

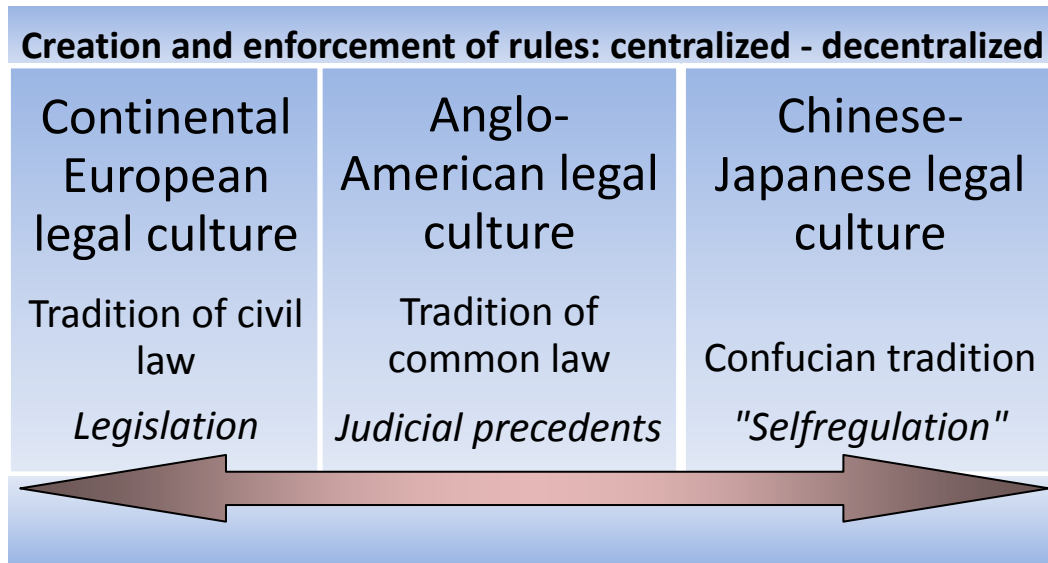
It is crucial to consider the legal system in both countries from the longer historical context. Hungr (2006) categorizes the Czech legal system to the group of Continental European legal culture and Korean legal system to the Chinese-Japanese legal culture. The Continental European legal culture is based on *lex scripta* (written law) which is created by legislators. The Czech legal system, in particular, was influenced by the Austrian legal code ABGB (Allgemeines bürgerliches Gesetzbuch) which was in force from 1811 to 1950. The code ABGB comes from the tradition of the Roman law, it was inspired by French civil law and it is based the ideals of freedom and equality before the law. Chinese-Japanese legal culture is based on a “specific symbiosis of contrasting opinions of Confucian philosophy and Legalism, philosophy centered on the ruler”. Confucian philosophy leads to creation of the caste system and thus privileged social classes are protected (Confucius: “Principles of human relations do not apply to poor men and punishments to lords”).

Gleaser & Shleifer (2002) analyze legal systems from the perspective of protection of law enforcers from their adversaries and litigants who may menace the law enforcer through bribes or violence. The authors argue that historically the law enforcers created legal systems as a result of the political situation in their country regarding the strength of their position to govern the country. Using the example of twelfth and thirteenth century France (weak position of the king) and England (strong position of the king), the authors claim that “the

higher the risk of coercion, the greater the need for protection and law control of law enforcers by the state”. This explains the reason why French civil law was based on legislation while English common law has been historically more “liberal” and was determined by decentralized creation of law by courts of justice. Based on this model, the Czech and Korean legal systems can be evaluated.

Using the framework and above stated characteristics of legal systems, Czech, American and Korean legal systems can be compared in terms of centralization of legislation (creation of rules) and its enforcement in society. The Czech legal system, which belongs to the Continental European culture, is determined by all-embracing rules which are created centrally by legislation process. Behavior of individuals is regulated by formal rules, while ethics standards and informal norms are often overlooked. The legal system in the U.S. is traditionally characterized by the decentralized creation of judicial precedents which are then enforced on individuals. Finally, in Korea, individuals are supposed to behave in conformity with ethics standards which are applied individually; formal rules are often ignored. An example of this issue are the numerous brothels in Korea which, while illegal by law, are not prosecuted. Additionally, Korean contracts often do not have a clear explanation of the duties of the employee, which can create some problems.

Scheme 1: Comparison of legal cultures



This comparison implies that Czech and Korean legal systems are far from each other in terms of creation and enforcement of rules. As often observed, Koreans consider official dispute resolution by formal way at a court of justice as a last resort and prefer informal ways. Europeans and Americans, on the contrary, prefer formal methods to solve problems.

Although nowadays the majority of legal systems around the world converge to centralized legislation through international agreements on law, differences among legal cultures stay deeply rooted in workday situations. This finding represents a large obstacle to the Czech-Korean relations in situations when contracts are created. Unawareness of Czech people about common habits in Korea gives them a disadvantage as such habits are not explicitly stated. It seems that Koreans are less disadvantaged in this sense, as rules are explicitly stated by Czech part of contracts. However, this could also cause a problem for Korean employers, who would expect foreigners to do what they are told, rather than what is in the contract.

## **5. Summary and Recommendations**

The Czech-Korean relations were established after 1989 and during the twenty-year period they have achieved fast development in various areas. The aim of this study was to identify the patterns of the successful past development in order to provide recommendations for the future development. While Czech government agencies provide reporting on current affairs, diplomatic achievements and some useful information about Korea for Czech companies, little research has been done on the process of establishing and developing Czech-Korean relations, and no study has analyzed the opportunities for expanding these relations in the future. This study therefore analyzed the key areas of cooperation between the CR and the ROK – namely the political, commercial and cultural relations, as well as the most relevant barriers to the development and future perspectives for developing Czech-Korean relations.

In this chapter, a summary of the results will be presented in relation to the overall research questions followed by supporting evidence for the key arguments. At the end of the chapter, recommendations for the policymakers will be offered.

The patterns of the development of Czech-Korean relations in the past are based on establishment of basic diplomatic agreements followed by extending relations in the key areas – commercial and cultural connections – according to the principle of comparative advantage and economic profitability. However, development in some areas has been restrained due to administrative or cultural barriers, mostly occurring on the Korean side. The future development of Czech-Korean relations should be based on current achievements. The areas where Czech-Korean relations are less developed should be expanded when the barriers will be eliminated.

The CR and the ROK are both growing economies and they share an experience of periods of oppression which was followed by periods of economic development. This resemblance has been the pressing stimulus for the fast establishment of Czech-Korean relations. The bilateral agreements between the CR and the ROK are the basis of the cooperation between the CR and the ROK. The public sector of the CR (Embassy of the CR in the ROK, Government of the CR, etc.) is active in developing relations with the ROK; agreements on cooperation in many areas were made, including scientific research and academic programs. The major achievement of the Czech embassy in Seoul was made in the area of culture by organizing various events in Korea which contribute to the publicity of the CR among Korean people.

The Czech private sector, on the other hand, is less active in all the activities in the ROK. Public and private sectors in the ROK have been successful in common efforts, therefore Korean companies are active in the CR as commercial partners and investors. Korean companies are looking for opportunities of expansion of their businesses in the EU and the Czech Republic is an attractive strategic area of production and transport due to its skilled but inexpensive labor force and geographical position near to main European markets. Moreover, Korean tourists have become the second most frequent visitors in the CR among other Asian countries due to numerous Czech sights of historical and cultural interest.

As this study shows, Czech companies are not very active in exporting and investing in the ROK, also the outflow of tourists from the CR to the ROK is negligible. The major obstacles to development in these areas are administrative obstacles and cultural differences including differences in legal culture. The analysis in this study has shown that as a result of historical evolution, the Czech and Korean legal cultures are different in creation and enforcement of rules. The fact that the Czech legal culture is based on written legislation, while the Korean legal culture is based on ethics standards and informal norms in fact



represents a disadvantage for potential Czech investors or exporters to the ROK especially when they do not have familiarity with Korean habits. The experience from the company Hyundai Motor Manufacturing Czech in Nošovice shows, on the other hand, that Koreans are able to adapt to local conditions and habits in the Czech Republic. These findings point out the reasons of the one-sided nature of Czech-Korean relations.

For the future development of Czech-Korean relations, changes in the regulations of trade and foreign investments in Korea as well as overall changes in Korean society will be crucial. Despite the lack of worldwide multinational companies in Czech Republic, the Czech Republic is a pro-exporting country and many Czech companies are competitive in European and world markets. The current deep deficit in the balance of trade between the Czech Republic and Korea shows the outward orientation of Korean international trade policies. This fact is detrimental to free trade and in the long run damages both the Czech and the Korean economies. This will be expectantly corrected by the newly adopted KOREU FTA which will come into force in 2010. Hopefully both tariff and non-tariff barriers will be abolished in favor of free trade. The attempts of the Korean government to promote international cooperation aim to increase openness of the younger generations to foreigners which may have positive impacts on developing Czech participation in Czech-Korean relations as well.

In order to continue developing Czech-Korean relations following the patterns of the past successful development, the condition of economic profitability based on principles of comparative advantage should be maintained. The Czech government should carefully evaluate the economic impacts of possible future plans for stimulation of Czech companies to become involved actively in the ROK. Korean markets may be a great opportunity for Czech companies to expand which could generate positive impacts on the whole Czech economy. However, such positive impacts are so-called positive externalities which cannot be exactly

quantified. Therefore, promotion policies should come as a result of previous consideration of potential benefits compared to the costs of the promotion in the CR and the ROK. Four main strategies should be adopted to promote Czech companies to export and invest in the Republic of Korea, as detailed in the below table.

Table 12: SWOT analysis of promoting Czech companies to export and invest in Korea

<p><b>SWOT Analysis:</b></p> <p><b>Promoting Czech companies to export and invest in Korea</b></p>	<p><b>Strengths</b></p> <ul style="list-style-type: none"> <li>• Good relations with the ROK on the political level</li> <li>• Popularity of the CR in the ROK thanks to tourism and culture</li> <li>• Number of Czech products exported to Korea represents good basis for future extension</li> </ul>	<p><b>Weaknesses</b></p> <ul style="list-style-type: none"> <li>• Little knowledge about the ROK among Czech people</li> <li>• Smaller size of Czech companies discourages investing outside of the EU</li> <li>• Barriers – language, legal system, culture, etc.</li> </ul>
<p><b>Opportunities</b></p> <ul style="list-style-type: none"> <li>• Implementation of KOREU FTA – no tariffs on trade</li> <li>• New trends in Korean society – openness to the world</li> <li>• New markets in Korea can be created</li> </ul>	<p><b>EXPANSION STRATEGY</b></p> <ul style="list-style-type: none"> <li>• Benefit from current projects and relations to promote Czech companies and their products in the ROK</li> <li>• Capture new markets in Korea by using marketing based on popular motives of Czech culture</li> <li>• Focus on young generation of Koreans</li> </ul>	<p><b>PREPARATION STRATEGY</b></p> <ul style="list-style-type: none"> <li>• Enhance the information campaign for Czech companies (both big and small)</li> <li>• Promote Korea in the CR as an allied country in the Far East</li> <li>• Cooperate with EU institutions on implementation of the FTA</li> </ul>
<p><b>Threats</b></p> <ul style="list-style-type: none"> <li>• Protection of Korean products despite the “liberalization of international trade”</li> <li>• Korean consumers’ patriotism – disregard for Czech products in favor of Korean products</li> <li>• Conflicts resulting from cultural differences</li> </ul>	<p><b>OVERCOME STRATEGY</b></p> <ul style="list-style-type: none"> <li>• Use diplomacy to ensure decreasing barriers to free trade for Czech imports to Korea</li> <li>• Use familiarity with the CR from the cultural area to introduce Czech products on Korean markets</li> <li>• Promote policy of mutual “cultural enrichment” to increase tolerance for cultural differences</li> </ul>	<p><b>DEFENSE STRATEGY</b></p> <ul style="list-style-type: none"> <li>• Prevent failures of Czech companies when dealing with Korean partners and administration by providing consultancy</li> <li>• Mediate negotiation services in case of conflicts in businesses</li> <li>• Remain cost-effective, do not waste taxpayers’ money on inefficient promotion in the ROK and in the CR</li> </ul>

Table 12 gives recommendations for the Czech government or Czech government agencies on promoting Czech companies to participate actively in the areas where they are currently rather passive – exports and investments in the Republic of Korea. Four strategies are the result of the SWOT analysis.

The *expansion* strategy aims to utilize strengths of the current position of Czech companies in the ROK and opportunities offered by the trend of liberalization the ROK. Czech companies operating in Korea should pick up the threads of the previous achievements of Czech embassy in Seoul in diplomatic and cultural areas. They should focus on consumers who have some familiarity with the Czech Republic – rather young generation of Koreans who travel and are open for new trends coming from abroad. Czech products may be promoted by demonstrating cultural aspects and exclusivity to consumers; such marketing would bring some comparative advantage to the Czech companies in Korea. Czech Info Center in Seoul, established by the Czech embassy in cooperation with the company Castle Praha Corp. in November 2009, could play the role of a mediator between Czech companies and marketing firms in Korea.

The *preparation* strategy focuses on weaknesses of current participation of Czech companies in Korean markets regarding the opportunities. The activities suggested by this strategy should be performed by the Czech embassy in Seoul. The embassy may offer more services providing information and consulting for Czech companies interested in expansion to Korea. However, for such requirement of additional services there is a lack of capacity in the Czech embassy in Seoul according to its current structure as it was shown in this study. Some of the consulting services may be provided by the the European Union Chamber of Commerce in Korea (EUCCK), therefore the Czech embassy should keep close relation with this institution. The preparation strategy is crucial, as it may prevent possible

misunderstandings and conflicts and thus it saves costs to both Czech and Korean companies who decide to cooperate.

The *overcome* strategy compares the strengths to the threats which may arise during expansion of Czech companies in the ROK. The threats come from Korean protectionism and cultural differences and overcome strategy aims to deal with the threat of failure which may discourage future commercial relations. This strategy should be also ensured by the Czech embassy in Seoul by developing their diplomatic agreements with Korean government institutions and providing information on Korean legal system to Czech companies involved in the ROK. This minimizes administrative barriers for Czech products in Korea and overcomes possible conflicts between Czech companies and their Korean counterparts.

And finally, the *defense* strategy seeks for the ways to avoid problems which could arise from the combination of weaknesses and threats. The defense strategy can be performed both by the Czech embassy in Seoul and the EUCCK. In the case a conflict occurs between Czech and Korean trading partners, services of mediation and consultancy are helpful due to the constraints coming from the smaller size of Czech companies, language barriers and limited information on Korean legal system.

These strategies provide basic instructions for Czech public sector institutions to promote Czech institutions from the private sector in the ROK. The strategies to utilize the comparative advantages of Czech companies are identified, while the strategies to solve problems caused by some disadvantages of Czech companies are pointed out as well. This SWOT analysis also provides a balanced mix of policies to maximize benefits and minimize costs of Czech companies when expanding to Korean markets. Many Czech companies would say that exporting and investing in the ROK which is geographically remote from their main commercial partners, is not worthy, but the new FTA between the EU and the ROK together

with liberalization of Korean economy constitute favorable conditions for active participation in the ROK.

This study has examined the relations between the Czech Republic and the Republic of Korea. It has analyzed these relations from various perspectives during their relatively short history. Although some obstacles of development were identified, following the patterns of the successful development in the past is the key to success in extending and promoting Czech-Korean relations in the future. This study has analyzed wide scope of areas of Czech-Korean relations and provides a synoptic evaluation of past achievements and possible progress in the future. The further research can focus on particular areas of Czech-Korean relations in order to acquire more specific knowledge. The Czech Republic and the Republic of Korea have been successful in developing their relations during 1989-2009 and hopefully they will follow up with this trend in the future.

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