**Analysing International Business Opportunities in South Korea**

**Introduction:**

Ever since the concept of globalization took over the business world by storm, food industry has been one of the most sought after area for expansion across borders. No matter how tempting the idea of global expansion may sound, one cannot just simply jump into the deep waters of international expansion. Analysing and forecasting the cultural, national, environmental, legal and socio-economic factors is one of the first steps towards expansion. After having a closer look into these factors, South Korea pops up as a promising target to pluck our slice of profit from this multi-billion industry.

**Economic Factors:**

The economy of South Korea is ranked 11th largest in the world and 4th largest in Asia (Global Tenders, 2019). South Korean economy has witnessed the weakest growth rate since 2009 owing to the sharp squeeze in manufacturing and construction sectors (Trading Economics, 2019). However, the brighter side of the picture shows a growth of 3.1% year-on-year in the last quarter of 2018, showing a rise from a 2.0% growth in the previous quarter. Since 2017, it has been the fastest growth rate mainly owing to the services, agriculture, fishing and forestry sectors (Trading Economics, 2019). In fiscal year 2019, government spending has provided a cushion to the GDP of South Korea following a reduction of 0.4% in the last quarter till June (Kim. S, 2019). Consumer spending has significantly increased in South Korea over the years. In the second quarter of 2019, it touched the highest amount of 221901.20 KRW Billion from 220417.20 KRW Billion recorded in the previous quarter (Trading Economics, 2019). Registering to all these economic trends, South Koreans are inclined towards low-priced eating out options. Fast-food industry has seen a splurge in demand due to its competitive prices, set menus and on-going promotional offers whole year around. South Koreans, keeping in mind their busy work schedules and convenience associated with ordering fast-food through home delivery/online, prefer to spend money on this segment of food service (Mordor Intelligence, 2019).

**Legal Factors:**

A number of rules and regulations need to be taken care of before expanding business wings into this territory. Korean Commission for Corporate Partnership (KCCP) limits the expansion plans of multinational companies to specific geographical areas and certain number of branches. KCCP pays important role in the growth of local small and medium enterprises, hence imposes regulations on international subsidiaries (Korea Franchising, 2019). An authority letter needs to be obtained from Korea Trade –Investment Promotion Agency (KOTRA) before making an investment. Thereafter a registration letter from the Tax Office is obtained. Annual audited financial statements need to be submitted to local tax authorities along with income tax returns (Open A Subsidiary in Korea, 2018). In August 2003, South Korean government developed a Free Trade Zone to attract foreign investment in the region. Various tax support incentives are also available to the foreign investors along with comfortable means of money transfer to the parent company (Hayes. S, 2017). The legal structure of South Korea, with its pros and cons, welcomes foreign investment in the country by offering simpler set up procedures.

**Environmental Factors:**

A ripple effect could be created in the revenue stream of fast-food industry due to the environmental factors of South Korea. Seoul launched alarming measures to control the deteriorating condition of air and water pollution in the region (McCurry. J, 2019). Keeping these circumstances in mind, our fast-food chain must promote Corporate Social Responsibility (CSR) actions to attract the target market. Many South Korean companies have taken up measures to start welfare programs for children and youth of South Korea. In 2013, the “The Happy Burger” campaign was launched by Mc Donald’s Korea to provide 800 meals to child welfare institutes in different cities (Kim. Y, Kang. Y & Lim. M, 2017). CSR will help build a strong emotional attachment between the consumer and the brand name. Furthermore, efficient use of energy resources should be used by the company to keep the environmental damage to its minimum. Reusable packaging should be used along with easy recycling options. Efficient means of water consumption must be adopted to minimize water and soil pollution (Kim. Y, Kang. Y & Lim. M, 2017).

**Other Factors:**

A recent trend is seen in the South Korean population towards western food products. Just recently a tariff has been uplifted from the import of processed food giving new opportunities to the fast-food industry to firm its ground in the region (Marriot. J, 2019)

**National factors**

South Korea, whose population is so far estimated as more than 50 million in 2019 (the Korean Bureau of Statistics 2019), is experiencing its food service market on a rapid growth, as the nation’s socio-economic changes continues to impact spending more on dining out.

Overall revenue in the foodservice sector in South Korea grew at a CAGR (Compound annual growth rate) of 3.5% between 2014 and 2016, and it is forecast to increase at a CAGR of 3.6% to 2021, according to data published in 2017 by Global Data.

This has encouraged a number of international food chains to establish themselves in the market. This includes the international giant fast-food chains, such as Mc Donalds, Pizza Hut, but also some medium-sized foreign restaurants, like Shake Shake Burger, which is introduced from the U.S and soon hit the South Korea food market with its average number of customers were reported as 3,000 per day for the first month of its opening (The Salt – the food magazine 2016).

Along with the successful expansion of international restaurant chains in South Korea, people living in the nation also show tendency of dining out on an increasing rate. According to Monthly Household Expenditure Survey, organised and practised by Korea National Statistical Service in 2017, people’s households’ monthly per capita spending on dining out in Korea has continued a solid growth for several consecutive years, reaching approximately $123 million in 2017. Per capita, Korean households spent 47.6 % of F&B expenditures (or 13.3% of total consumption expenditures) on dining out.

In consideration of all the factors, it can be assumed that the Korean consumers are eagerly spending on dining out, looking for international tastes, and if it is a budget choice with convenience to be followed, it can surely boost their tendency to dine out.

**Cultural factors**

Yang-Wha et al. (2001) have found that the dietary behavior of Koreans shifts toward more westernized and convenient foods and Koreans become increasingly dependent on dining out. Korean National Health and Nutrition Survey 2001 (KNHNS 2001) also shows the number of people that eat out more than once a day increased from 20.5% in 1998 to 33.2% in 2001.

Along with the cultural trend shown among Korean citizens – eating out more frequently, there has been a recent change in dining culture that is worth examining. There were very few people who dine alone in South Korea, as it is common for all family members to have meals together at home, and even children have their lunch with their classmates at school. However, as the society is becoming more competitive and the growth of individualism is found, it encourages more people to accept a rather new idea of dining alone (Gwanghyun P. 2019).

Therefore, if people are provided with decent options to choose from, either with their friends, family, or with no one else, they would welcome trying new food – in particular those to be quickly prepared in places, such as food courts, as well as those based on familiar ingredient like rice, as commonly found in Mexican or Thai cuisine.

**Political factors**

Since South Korea and the U.S implemented the Korea-U.S. Free Trade Agreement in 2012, the Agreement (FTA) led South Korea to activate more agreements with other major nations, including countries in South America – Chile, Colombia, Peru etc – as well as Asian countries such as Singapore, India, etc, with other countries – Australia, Canada, New Zealand, the E.U, and so on (Korea-Trade Agreements 2019).

As a result, a number of corporations based in such nations successfully launched in the South Korean market, including international food chains, with its tax rates reduced when operating its Korean branches, as well as its tariff for imported raw materials from such countries to be cut down.

Meanwhile, Labour productivity in the South Korean service sector is just 56% of that in manufacturing, far below OECD’s average of 93%, according to United States International Trade Commission 2007, which can reduce the burden of paying labour cost in establishing and operating international-themed food court restaurants in South Korea.

**Conclusion**

Given all the aspects, the restaurant market in South Korea seems to have so much potential in growth. South Korean citizens seem to have little emotional barrier in trying out international food, as long as it is a budget choice and is quickly cooked. Moreover, people are familiarised with a new concept of dining-out ‘alone’, which is why it seems reasonable to establish international-themed food courts, such as Mexican or Thai, whose cuisine shows rice-based meals using hot spices, similar to that of Korean.

In addition, the tax rate is reduced for international corporations whose main branches are located in countries with FTA – therefore, it seems appropriate to set up the restaurant as wholly owned subsidiary, with all the management-related skills for its structure, labour, products, and customers. As the parent company can still take a whole control over those newly-opened in South Korea, it can provide significant advice on the new business operation.

In conclusion, as all the factors seriously considered, it should be profitable to open a new food chain – Mexican or Thai-themed – in South Korea, but not as a big restaurant, but in part of food courts.

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