Chapter 1

Theories and Framework

1 Introduction

The process of the distribution of goods is essential in order to ensure the circulation of goods following production, because continuous production cannot exist without the distribution of goods. This applies to the operations of a company. A company can only survive in the market when the goods that it produces are put into circulation – two factors which operate consecutively, whether they are integrated within its organization or not. However, in the field of economics, there is generally a tendency for the study of the distribution sector to be considered as less important than that of the production sector. The distribution process is seen as a factor that automatically follows the production process, or as dependent on the production process. This tendency is also found in studies of the South Korean economy. Most such studies have focussed on the structures of production, export, and investment and have endeavoured to analyze the relationship between these factors and rapid economic growth (Luedde-Neurath 1988; Amsden 1989; Wade 1990; Park 1992; Koo and Kim 1992; Chang 1996). This may reflect circumstances in the real world, because the Korean economy has certainly achieved rapid economic growth through investments and exports. Since the 1970s, the heavy and chemical industries have also been a driving-force. In particular, it is believed that the Korean government has also played an important role in economic growth. It is unsurprising, therefore, that this perception of Korean economic growth has been accepted by a number of scholars.

However, the distribution sector in the Korean economy has received increasing attention as the domestic market has been expanding in line both with the increase of income, and with consumption liberalization dating back to the 1980s. Some chaebols,¹ which had concentrated on the manufacturing sector for a long time, became involved in the distribution industry, in particular, the retailing sector, because they discovered a chance for more profit in this sector. As the influence of domestic consumption on the Korean economy increased, its importance grew. This change in economic circumstances also

¹ This term refers to Korean conglomerates like Samsung and Hyundai which have various subsidiary companies in addition to their main interests. They are somewhat similar to the Japanese zaibatsu.
influenced the relationship between manufacturer and consumer. Until then, it was a fact that manufacturing companies had not considered domestic consumers’ preferences to be as important as those of the export market. However, the growth of the domestic market, and the profits it has generated, has boosted the significance of internal consumers’ behaviour. Manufacturing companies have had to address the preferences of domestic consumers given the extent of their strategic importance to their businesses. Thus Korean economic growth cannot be fully explained without due consideration of the distribution sector. In particular, this work is premised on the belief that an economic history approach to studying the evolution and development of the distribution industry in Korea since the 1970s will yield key benefits. This approach will significantly assist in an examination of the Korean economy’s various characteristics, and provide some predictions regarding its future. The study of the distribution industry has been lacking in the field of economic research, although it has received some attention in the discipline of marketing in management studies. However, even here, the process and rationale behind the development in retail institutions has received little attention. Instead, such studies have mainly concentrated on the marketing strategy of manufacturing or retailing companies. As a result, the management studies approach has not been wholly successful in analyzing the characteristics of Korean retail institutions and the domestic market.

This book will examine the evolution of Korean retail institutions, and their interaction with aspects of the macroeconomic environment, such as economic growth, and changes in government policy and consumer behaviour. It may be useful to review the distinctive characteristics of Korean retail institutions. It is believed that this approach will help us to understand the Korean economy more fully and, in particular, the major changes that have taken place since the middle of the 1980s. Research concerning the evolution of retailing is also understood to be an important field in the study of retailing, whether it be theoretical or empirical, because it is fundamental to other types of research into retailing, such as the modelling of its role in economic growth. In particular, since the 1990s, as globalisation has led to the internationalisation of retail institutions, research concerning the evolution of retail institutions in developing countries has received scholarly attention. In line with this trend, this work will contribute to the development of the study of the retail system in developing countries. It also analyses the evolution of retail institutions in Korea from the viewpoint of the environmental theory of retailing and in part the conflict theory of retailing. This approach illustrates the strengths and weaknesses of theories in the study of the evolution of retail institutions in develop-