

The keiretsu system has proven to be an efficient organizational structure that provides incentives to suppliers to remain efficient and flexible, and good at transferring information between economic agents within the entity.¹¹ In competitive market situations, where Japanese domestic markets are not distorted by trade restrictions, or by discriminatory or otherwise restrictive domestic regulations or practices, the keiretsu system may not reduce competition. In non-competitive market situations, where economic rents are available, the system would allow for collusive business practices. Many observers conclude that the keiretsu may make it more difficult for foreign firms (including firms from elsewhere in North Asia) to penetrate domestic Japanese markets.¹²

2.2 Korea

South Korea (Korea) is a densely populated country with few natural resources. It is also subject to an ongoing security threat from the Democratic People's Republic of Korea (DPRK). Over the past three decades, however, Korea has risen from the ranks of the poorest economies in Asia to stand on the verge of becoming an advanced industrial economy. Korea's recent economic performance has been impressive, with annual real GDP growth averaging almost 9 per cent between 1980-93.¹³

The first phase in Korea's economic development occurred after the military government of General Park Chung Hee took control in 1961. After a few years of poor economic performance, the Park government reversed the country's previous course favouring import substitution and introduced a five-year plan that adopted a more outward-oriented strategy. The state continued to play a major role in the economy, however, with export targets being formulated in considerable detail. The government encouraged the establishment of general trading companies along the lines of Japan's approach, and giant industrial conglomerates (called chaebol) similar to Japan's keiretsu.

¹¹ For a detailed narrative on the keiretsu system and the trade implications for foreign firms, see James McCormack, "The Japanese Way: The Relationship Between Financial Institutions and Non-Financial Firms", Department of Foreign Affairs and International Trade, Policy Staff Paper No. 93/16, June 1994.

¹² For example, see I. Prakash Sharma, *op. cit.* p. 26.

¹³ World Bank, World Tables 1994, Washington, 1994.