



A SUCCESSFUL EXAMPLE OF HOW TO USE INDUSTRIAL POLICY IN THE 21ST CENTURY: SOUTH KOREA AND IPAD

South Korean economy constituted a successful example of economic development with its policy experience over the last five decades. Beginning with the early 1960s, South Korea took two important steps in the field of industrial policy: establishing export oriented growth model and supporting entrepreneurship.¹ This way, the country started to have a weight in the world market particularly in the electronics and automotive sectors. The country, thanks to the industrial policy based on innovation and information and communication technologies², ensured 9%³ average growth in the period between 1965 and 1980. While South Korea's per capita income was close to that in Turkey in the early 1980s, it more than doubled the latter by 2009.⁴

South Korea's remarkable success in economic development strengthened further on the basis of industrial policy efforts and the innovative approach. While many countries abandoned import-substitution policies, South Korean experience proved that similar approaches can be employed in the short term for the advancement of local industries. Responding to the change and the demand in the tablet PC market, South Korea delayed the importation of Apple's new product iPad for eight months to develop its own technology, gaining share and competitiveness in domestic and global markets.

¹ Holcombe, Randall G. South Korea's Economic Future: Industrial Policy, or Economic Democracy?

² TEPAV, Yaprak Kurtul, Selin Arslanhan, To what South Korea Owes Success in Innovations? Implications for Turkey

³ World Bank, WDI, data.worldbank.org

⁴ World Bank, WDI, data.worldbank.org, constant 2005 international \$.

Telephone and Internet Usage in South Korea

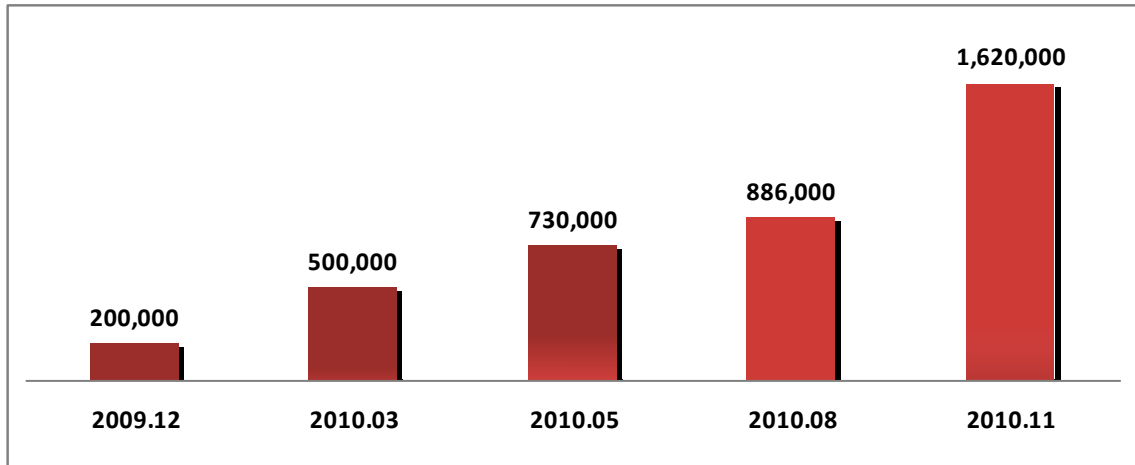
Along with the impact of the advances in the information technologies sector and R&D investments, South Korea made substantial progress in the production of high-technology goods. The number of GSM operator subscribers reached 50.6 million by 2010 and South Korea became one of the countries with largest network coverage.

Between 2004 and 2010, thanks to the broadband coverage network project, the number of households with access to the Internet increased from 860.000 in 2004 to 13.3 million in 2010.

Managing to adapt to the global trends and innovations, South Korea began to attach importance to the tablet PC technology in the last years with the introduction of Apple in the country's market.

In the process before the tablet PCs technology came to the fore, South Korea delayed the introduction of the iPhone for a considerable period of time. South Koreans who were already familiar with advanced-technology phones and mobile phone technology welcomed iPhone with excitement. The iPhone which had thousands of orders even before its introduction in South Korean markets sold 200,000 units by December 2009. By November 2010, the number of iPhone users reached 1,620,000.

Figure 1. Number of iPhone Users, South Korea



Source: KT (Korea Telecom), retrieved in November 2010.

Tablet PCs

Seeing the huge potential of the iPhone, South Korean domestic producers started to develop new strategies in touchpad phone production. Meanwhile, US based Apple introduced the iPad, a new product that will break grounds in the tablet PC market, in April 2010. South Korean market was inspired by the iPhone so that more than 5.000 article was published on the iPad and its impact as of January 2010, when the rumors about the introduction of the product started to spread.

The common opinion in these studies was that, iPad cannot dominate the computer sector in countries like South Korea in which all operating systems are built on Microsoft Office.⁵ Meanwhile, iPhone strengthened its position in the South Korean market,

⁵ ROA Holdings White Paper February 2010. Apple iPad's impact on Korea Device Market

signaling that the iPad that has a similar design will arouse as much interest. Contrary to the common opinion, however, Apple iPad, introduced on April 3, 2010, sold by more than 3 million in 80 days.

The product introduced in the South Korean market had two different models, wi-fi and 3G included, and different memory capacities. Though the wi-fi included model did not require subscription to any GSM operator, the introduction of the product was banned by the Korea Communication Commission (KCC). Stating that the product included wi-fi connection and thus had to be issued relevant certificates, the officials stipulated that those who used the product illegally shall be punished with imprisonment for three years or pay a US\$ 20.000 fine.⁶

Nevertheless, these sanctions could not prevent the Apple fans from obtaining the product. Thousands of iPads were sold in South Korea via fiends in the USA or other intermediaries. The wave rapidly spread across Asia. Korean government delayed the introduction of the iPad as much as possible on grounds that it will cause disequilibrium in the innovative and export-oriented economic model of the country. The government wanted to avoid a picture where this innovative product will be to the benefit solely of importers and approved the introduction of the iPad in Korean markets only in November 30, 2010, 8 months after the introduction of the product in US markets. Until then, coupled with the efforts of the firms seeking to earn a share in the relevant market, important developments were witnessed in South Korea's tablet PC markets.

The Rise of Alternative Products in Korea

On August 30, 2010, Korea Telecom (KT), the official distributor of iPhone and iPad, introduced the tablet PC the "identity-Tab". The 7-inch tablet PC with wi-fi, Bluetooth, TV and Android 2.2 operating system was sold at a price way below the market rate. The product was sold at a monthly US\$23 with a 24-month contract and Wibro⁷ contract that enables access to the internet in all sites and at a non-contracted price of US\$418. On the other hand, iPad with no internet connection was introduced months after its release in the US at US\$450 (500.000W)⁸.

On November 12, 2010 before the introduction of the iPad, Samsung Galaxy Tab, a 7-inch tablet PC and telephone, was introduced by the SK Telecom, the leader GSM operator. As the data for December 2010 suggests, Samsung Galaxy Tab sold 250.000 units and the iPad, introduced on November 30, 2010, sold 100.000 units in the domestic market. Even though the sales remained below the expectations from the tablet PC market, Samsung Galaxy Tab substantially affected Apple iPad's sales performance in the Korean domestic market. On the other hand, despite assertive targets, Galaxy tab sold only 2 million units with 16% return rate in the global market and fell behind Apple iPad that received advanced orders for 7 million units from the day it was announced.

On March 11, 2011 Apple introduced the new tablet PC iPad 2 with superior applications at the sales price of iPad 1. The price of the product was announced in Apple South Korea web page; however, the product is yet not introduced as of April 2011. Meanwhile, Samsung announced that its new tablets PC Galaxy Tab 8.9 and 10.1 were on the way.

⁶ <http://asia.cnet.com/blogs/apple-ipad-resellers-no-longer-exist-online-in-korea-62114392.htm>

⁷ Wibro, wireless internet modem. <http://www.wibro.or.kr/new/overview01.jsp>

⁸ <http://www.apple.com/kr/>

South Korea tries to respond to the changing consumption demand via alternative firms that carry out domestic production for domestic markets instead of settling as a net importer, which should be assessed as a separate case to exemplify how to use import-substitution in the twenty-first century. With the rising popularity of tablet PCs and the introduction of new models, South Korea turned to support domestic firms in terms of their production and competitiveness capacity first in the domestic and then in the international market. This way, domestic producers became competitive in the global market and earned a significant share in the tablet PC market. On the other hand, how protectionism and international competitiveness can work simultaneously requires specific attention.