

GROWTH POTENTIAL OF ELECTRONIC COMMERCE IN KOREA

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Market Trends

For several years, the number of Internet users in Korea has been continuously climbing. The number of Korean Internet-using households in 1995 was only 300,000, but it jumped to 1.1 million in 1998; the Internet service industry in Korea grew by 370 percent during this period. The transaction volume through electronic commerce (EC) market leaped from 1.4 billion won in 1996 to 15.1 billion won in 1998.

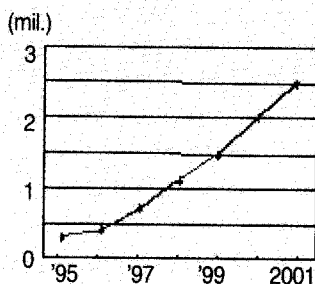
A recent survey by the Wharton Econometric Forecast Associates (WEFA), a U.S. economic research institute, forecast that Korea's

electronic commerce will amount to \$2.16 billion in 1999 and further increase to \$9.61 billion in 2003.

This dramatic growth is ascribed to the rising needs of the private sector, the continuous building of information industry infrastructure and the mushrooming Internet shopping malls. In particular, e-mails have led to revolutionary changes in the conventional distribution system. Many companies are starting online shopping malls, aiming to win a big market share at the initial stage. Looking at the promising online shopping industry and its enormous growth potential, it will be helpful to understand how rapidly the Korean EC market is growing.

Figure 1. The growth of EC market in Korea

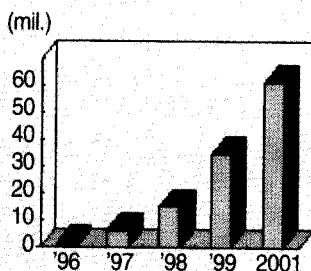
■ The number of Internet and PC online service subscribers in Korea



	1995	1996	1997	1998	1999	2000	2001
No. of households (mil.)	0.3	0.4	0.7	1.1	1.5	2.0	2.5
Growth rate (%)	-	33.3	75.0	57.0	36.4	33.3	25.0

Source: ETRI('97.3)

■ The market volume of EC using Internet in Korea



	1996	1997	1998	1999	2000
Sales (million won)	1,400	6,258	15,094	34,434	61,396
Growth rate (%)	-	348.9	140.2	128.1	78.3

Source: DACOM

Internet Shopping Malls in Korea

Internet Service Providers (ISPs) in Korea have their own history of EC business. Recently, Korean conglomerates with relatively large amounts of capital such as Samsung are reported to be looking for advanced foreign companies to be business partners. Last month, Samsung Corporation began to sell books online after forming a strategic tie-up with Amazon.com.

The most distinct characteristic of the Korean EC market is the competitive establishment of cyber shopping malls. Interpark (Dacom Corporation), Shinbimall (Hyundai IT), Uniplaza (Samsung SDS) and Samsung Shopping Mall (Samsung Corporation) are the leading cyber market players. Traditional department stores and manufacturers are participating in the Internet business. The major system integration (SI) companies within Hyundai, Samsung, LG and SK business groups are also deliberating entry into the online sales market.

The number of Internet-based sales service firms reached 350, as of January 1999. Monthly sales revenue of those companies was only \$45,000, while only a few of them are known to get more than \$170,000.

Managerial and Institutional Issues

Although the Korean EC market is growing at an amazing speed, there are several problems in managerial

and institutional practices.

First, there is no systematic mechanism that coordinates and/or integrates market activities and players. Ministries which are involved in electronic commerce — Ministry of Commerce, Industry and Energy, Ministry of Finance and Economy, Ministry of Foreign Affairs and Trade and Ministry of Information & Communication — need to show smoother teamwork and pursue more cooperation with the private sector.

Second, legal and institutional conditions have not been put in order. As of now, different legal clauses define “electronic commerce”, yet they fall short of providing commercial definitions and are insufficient for supporting the growth of EC market.

Third, technology-related basis is still weak, particularly regarding standardization, codification and authentication. Korean companies still rely on advanced countries for core technology regarding electronic commerce.

Despite the present shortage of EC professionals, the Korean EC market’s future looks very bright. Global ISPs’ active entry into the Korean market proves that the future of the Korean EC market is promising.

Companies such as America Online (AOL), Yahoo! and Altavista have already begun their advance into Korea, expecting it to become the world’s 10th biggest EC market by the year 2003. **VIP**

Table 1. The Performance of Internet Shopping Malls in Korea

(unit: \$mil., %)

	Sales volume in the 1st quarter, 1999	Rate of growth
Interpark	33	500
Samsung Shopping Mall	58	300
Lotte shopping	66	500
Uniplaza	50	50
LG Mall	N.A	200
Shinbimall	8	300

Source : HRI