



# SHOPPING IN THE REPUBLIC OF KOREA

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## Abstract

*Large modern shopping malls are replacing smaller, traditional groceries in the Republic of Korea. The present paper analyzes this phenomenon and recommends a laissez-faire public policy response. Alterations in selling format to consumers are only the tip of the iceberg in terms of changes in the economy. They are always occurring, at least in healthy economies, and, always, roadblocks are placed in their way. For example, Wal-Mart is prohibited from opening stores in a few communities. Uber and Lyft have been met with great hostility from established taxicab services. Economists even offer a generic term for this phenomenon: "restrictions on entry." The present paper is a case study of this occurrence. It focuses on the Republic of Korea, and mainly considers grocery stores. But this small story is emblematic of what takes place in numerous countries all around the world, and many industries. We recommend a laissez-faire public policy approach to this phenomenon. If the new ways of doing things do not violate anyone's rights, now laws should be passed interfering with the new ways of engaging in commerce. But is this not unfair to the people engaged in the old industries that are withering away? Not a bit of it. The horse and buggy industry, for example, was populated by entrepreneurs who earned a good living before the advent of the "horseless carriage." Why should they be guaranteed profits when their offerings are no longer accepted by the public? And the same applies to automobile manufacturers, should their products ever be supplanted by even better means of transportation.*

**Keywords:** Shopping; Groceries; Society; Consumer Sovereignty

## 1 INTRODUCTION

Industrial development has brought about new

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types of consumers markets in the Republic of Korea. New large stores including discount markets have been threatening <sup>1</sup> smaller traditional groceries. As real income has increased (KOSIS, 2019) the level of consumption rose, which gave rise to broadened domestic demand.

<sup>1</sup> That is, they have merely been competing with them. Although banal, this is an important point to make in view of the opposition to these newcomers, by the traditionalists. Based upon

some of the more extreme criticisms of the latter against the former, one might be forgiven for thinking the supermarkets were engaged in physical violence against their smaller counterparts.



This resulted in the appearance of large and discount stores, which are called shopping complexes. They offer not only shopping but also leisure activity, such as watching movies and eating at the food courts.

This has diversified the motivation for patronizing these new shopping centers. The baby boom generation in the Republic of Korea,<sup>2</sup> is regarded as an important customer because their buying rate<sup>3</sup> in the large stores is around 60 percent, while buying rate in the large stores of the people whose age is between 20 and 39 is around 27 percent (Ko, 2017, p. 2). According to Yoon-won, Ko (2017), there are five kinds of motivation for the baby boom generation to visit shopping centers: social shopping motives, hedonic shopping motives, information-seeking shopping motives, value-seeking shopping motives, and product-seeking shopping motives (Ko, 2017, p. 21).

Consumers usually choose a complex shopping mall for their entertainment facilities including theaters and cinemas. They select based on better merchandise quality and because they feature drugstores, clinics, and banks (Jung, Jo, & Lee, 2019, p. 48).

There are many efforts to defend traditional markets against these new incursions. We can divide them into two: improvements in the old-style grocery and regulation of other big markets. This leads to several questions. Why do people go the extra mile to preserve the traditional market? That is the focus of section 2 of this paper. Are the ways used to protect the traditional market from disappearing desirable? What effects are they or will they be producing? Is not there another way? This article attempts to answer these questions.<sup>4</sup> The burden of section 3 is to discuss some solutions and regulations that have been put forth. Section 4 is devoted to considering results and 5 to critiques. We conclude in section 6.

## 2 THE IMPORTANCE OF THE TRADITIONAL MARKET

There are two main reasons why the people of the Republic of Korea sustain their traditional markets

and reject leaving their fates to the marketplace.

First, many people are working at these small grocery stores. According to Korean Statistical Information Service (KOSIS), in 2017, 363,660 merchants working in 209,884 shops in 1,450 traditional markets in the Republic of Korea. (KOSIS, Small Enterprise and Market Service - Traditional Market, Shopping Mall, and Store Management Survey, 2019) As the demand for the traditional markets decreases, they lose profits. As a result, they have been urging the politicians to regulate the big stores.

Second, the traditional market is “traditional”. People want to preserve the culture, habits, and mores they derived from their ancestors. The extant groceries markets have not only promoted buying and selling goods but have also served as local communities in which people exchange news, meet, and greet each other and share their life stories (Joe, 2019, p. 9). Many argue that this historical “heritage” of traditional culture should be preserved, if need be, through the political process. It cannot be found cannot find in the newer discount markets and department stores etc.

## 3 SOLUTIONS AND REGULATIONS

### 3.1 Improvement of the traditional market itself

#### 3.1.1 “Markets for Culture Tourism” (MCT) program

The Market for Culture Tourism program has been undertaken by the Small and Medium Business Administration (SMBA)<sup>5</sup>. This program is focused on improving the traditional markets enabling them to function as shopping complexes, and thus become more attractive to tourists. This initiative started in 2008 (Small and Medium Business Administration (SMBA) of The Republic of Korea, 2012). This project has four elements: Modernizing facilities, developing the market characteristics, linking them with tourism, and empowerment of the market for sustainable development (SMBA, 2012).

First, consider ‘modernizing facilities.’ This

market. Offline malls also play a role.

<sup>5</sup> This administration was upgraded to ‘Ministry of SMEs and Startups(MSS)’ in 2017.

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<sup>2</sup> This refers to people born circa 1955

<sup>3</sup> Buying rate refers to the share of each age cohort in sales.

<sup>4</sup> Other factors affect the demand for traditional markets such as the development of the internet

includes improving infrastructures such as parking lots, access roads, restrooms, and safety facilities all of which would affect the satisfaction of visitors. Second, 'development of the market characteristics itself' constitutes support for using the traditional markets' inherent characteristics to develop what to eat, enjoy, look around, buy, and experience. Third, 'development of the market linking with tourism resources' is based on support for associating both developments of culture and tourism. It also builds a sightseeing symbol in the traditional markets with branding regional specialties and tourism attractions in that region. Last, 'empowerment of the market for sustainable development' refers to providing the merchant communities with education, training, consulting, promotion, and marketing.

For example, thanks to these programs, the 'Seogwilpo Maeil-Olle' market in Jeju now has a waterway inside its premises. It relates to the road of Olle, a popular tourist center in that city. As well there are foot baths and pictures painted by famous Korean artists such as Lee Jung Seop. (MSS, 2011)

### 3.1.2 "Activation Project of Traditional Market through Culture" (APTMC) program

The "Markets for Culture Tourism" (MCT) program focuses on the traditional market's 'hardware.' It changes the physical plant and equipment to something more conducive to tourism. Introduced are sightseeing characteristics relative to tradition and the culture of the local region. In contrast, the "Activation Project of Traditional Market through Culture" (APTMC) initiative deals with 'software'. Here, emphasis is placed upon the development of culture and art. This program is sponsored by the Ministry of Culture, Sports and Tourism (MCST). It was first introduced in 2008 and is aimed at not only a revitalization of the traditional market but also urban regeneration. (Cho, 2014, p. 172). It features three main categories.

First, it manages the development of the culture of the participating firms. New theaters and choirs are good examples. Second, the culture-marketing business mobilizes tradition. This includes the development of storytelling and

market branding. The third is creating a cultural environment such as public art or theater. (MCST, 2013, p. 1)

'Su-won motgol market' is a good example. This market did not have any distinct features before introducing the "Activation Project of Traditional Market through Culture" (APTMC) program. However, after introducing this program, they had experienced many changes. First, the Ministry of Culture, Sports and Tourism (MCST) introduced storytelling to uncover the past of each shop in the market. Based on these stories, it published a guidebook of the shops and broadcasted radio programs called 'Motgol love story'. It also offered merchants an education class concerning music and cooking. Merchants provided cultural information and formed a culture group called 'Motgol love of culture'; these played a leading role in revitalization. (Heo & Lee, 2012, p. 26)

## 3.2 Regulation to other markets

Business hour regulation and mandatory holidays of large stores and super supermarkets (SSM) are typical ways to protect the merchants of small stores in European countries (Lee, 2012) For example, in Germany, the business hour is limited to from 6 a.m. to 8 p.m. and all but the retail markets in gas stations, train stations and airports are required to close their doors on Sunday. In contrast, there are no such regulations that infringe on their ability to earn profits that apply to their small competitors.

The Korean Supreme Court also determined that "local government can limit business hours and obligatory large-scales and discount stores and SSMs by Distribution Industry Development Act." (Kim, 2017, p. 236) Now, the business hour of bigger markets is regulated by allowing them not to be open from midnight to 10 a.m.<sup>6</sup> In addition, local governments can set one or two mandatory holidays per month. Those who violate this law are fined approximately three thousand dollars. This typically applies only to stores larger than three thousand square meters.

It is more than passing curious why the Supreme Court ruled in favor of this law even though the Constitution of Republic of Korea reads: "The

business hour.)

<sup>6</sup>These two times of day are inconsistent with each other. They are both examples of different regulations of the

economic order of the Republic of Korea shall be based on a respect for the freedom and creative initiative of enterprises and individuals in economic affairs." (Constitution, 1987, p. Article 119 (1)). The explanation can be found in the very next provision: "The State may regulate and coordinate economic affairs to maintain the balanced growth and stability of the national economy, to ensure proper distribution of income, to prevent the domination of the market and the abuse of economic power and to democratize the economy through harmony among the economic agents." (Constitution, 1987, p. Article 119 (2)).

In short, in this view, if the regulation is reasonably aimed at "balanced growth," it will pass muster even though it limits the rights of economic subjects. Thus, Supreme Court supported 'preventing market dominance and abuse of economic power in hypermarkets.' It found that 'Democratization of the economy through harmony among economic agents such as large marts and small and medium merchants' promoted the common goods. (Kim, 2017, pp. 307-308)

## 4 RESULTS

### 4.1 Improvement of the traditional market itself

An improvement of the traditional market is often regarded as the best way to revitalize them. This is what seems to have occurred. For example, the 'Su-won motgol market', has been resuscitated. The number of visitors had increased about thirty percent and the sales of each shop in it had increased about twenty-two percent for two years since 2008 when the APTMC program started to support it. (Huang, 2012, p. 8). Also, the 'Motgol love of culture', the nonprofit organization consisting of the local merchants has played an important role in this revitalization. Merchants issued coupons, developed delivery services, and built up the traditional market culture school program.

<sup>7</sup> Economists predict the future only to demonstrate they have a sense of humor. If they could unerringly foretell what was in store for us, they would be far wealthier than they now are.

<sup>8</sup>In the view of Rothbard (1982, p. 162): "Taxation is theft, purely and simply, even though it is theft on a grand and colossal scale which no acknowledged criminals could

### 4.2 Change and alterations

Change and alterations are necessary concomitants of economic improvement. However, not all modification is successful. For many years, shopping malls outcompeted stand-alone large box stores, which successfully supplanted the older smaller mom and pop providers. Now, however, it looks as if even this latest iteration, shopping malls, is in the process of giving way to yet another institution: purchases through electronic means. Will the latter supplant the former? It is difficult to make any such determination.<sup>7</sup> Perhaps it will depend upon our future experience with Covid, which seems to have helped electronic purchases take the place of face-to-face commerce.

## 5 CRITICISM

There are two elements of these programs to be criticized. First, there is coercion. From whence does the government derive money to support these projects? The answer is simple: taxation. All governmental activities are derived from taxes. The difficulty with this source of revenue is that it is coercive.<sup>8</sup>

Strict opposition to all taxation would amount to anarchism. A more moderate position would be to limit this source of funding to only the most important of expenditures. It is difficult to see how protecting small grocers against their larger competitors would qualify under even this less radical position.

Most taxpayers wish their money to be spent on public goods<sup>9</sup> from which they can benefit. The money used to APTMC from 2008 to 2013 amounts to 11 billion won (MCST, 2013), and the money used to MCT program from 2008 to 2013 amounts to 35 billion won (Cho, 2014, p. 171). It is difficult to see how this expenditure can benefit consumers, the vast proportion of taxpayers, particularly since these funds were spent to undermine their freely made choices. The point is, based upon their voluntary expenditures, the large

hope to match." Schumpeter (1942, p. 198) states: "The theory which construes taxes on the analogy of club dues or of the purchase of the services of, say, a doctor only proves how far removed this part of the social science is from scientific habits of mind"

<sup>9</sup> For a critique of this concept, see Hoppe (1989), De Jasay (1989), and DiLorenzo and Block (2017).

competitors were expanding. But the government was allocating vast sums of money to support the smaller grocers, the patronage of which was declining. It is as if the populace were switching from meat to fish, or from soccer to baseball, and the government was subsidizing the former at the expense of the latter. Consumer sovereignty was being attacked, not supported.

Another problem with the MCT program is that the 'modernizing facilities' project at some part gave rise to criticism such as 'the construction of the arcade made the atmosphere of the market dim because it blocked the sunlight', and 'sometimes the same form of the signs makes shopping boring'. (Cho, 2014, p. 176) Also, there has been criticism that the same form of the markets of the different regions resulting from this project eliminates the inherent characteristic of each market and too much construction can bring about the destruction of the environment.

Then there is the problem that these programs constitute an obvious violation of the large stores' rights. If the government were to prop up meat at the expense of fish, or soccer which competes with baseball, it would be improperly benefitting the latter and denigrating the former. But the same logic applies to small and large markets. Let us try another analogy. If the Republic of Korea penalized all left-handed people and rewarded all those who were right-handed, this would appear too most to be blatantly unfair. But, again, the same applies to the present case.

These regulations can be also ineffective even on their own terms.<sup>10</sup> In the poll about the frequency of buying in the large stores aimed at one thousand consumers, only ten percent of consumers patronize the large stores every week, twenty-two percent do so three times a month and forty-eight percent appear once a month (Lee, 2012). The other twenty percent entirely avoid the large stores. That is, over half of the people do not benefit from the mandatory holidays of the large stores.

Lastly, there are unintended consequences. These regulations were put in place to help the merchants of the traditional market who have difficulty sustaining themselves. But they result in other people's difficulty: part-time employees of

the large stores and SSMS. The business hour regulation and the mandatory holidays lead to unemployment of the workers who worked at those ~~that~~ times and during that day.

In short, the regulation brings about unemployment of other people, while having little effect on the revitalization of the traditional market. If so, is it legitimate and should be done? We should think about it again carefully.

## 6 CONCLUSION

The people enjoy the crowded traditional markets where they exchange and talk about their life with other people in a friendly atmosphere, sometimes buying extra food from local merchants. However, thoughtlessly, and improperly subsidizing these markets can be dangerous. One way to solve some problem brings about other results which are either good or not.

The programs 'Markets for Culture Tourism', "Activation Project of Traditional Market through Culture" and the business hour regulations were introduced to stop the decline of the traditional markets. They were effective to some degree, but they also created negative side effects. Further, MCT and APTMC require taxation, and their one-size-fits-all markets' environment unduly promoted homogeneity. Unfairly promoting the large stores also caused unexpected unemployment.

How can the traditional markets survive? The best solution is simple: Leave this problem to the market. Ultimately, the efforts of the merchants of the traditional markets themselves are the key to sustaining their jobs. There are lots of cases that demonstrate this. One example is the 'Seoul Woorim market'. (Huang, 2012, p. 7) This business firm had gone into eclipse after a large store was built near it. But merchants renovated the facilities with their association's budget amounting to 250 million won, bought 150 carts, and operated a new delivery service. Also, they designated it as a smoke-free area for the first time in the Republic of Korea in 2010. They created a local theater in 2011, using video to promote the 'Seoul Woorim market'. As a result, the revenue and the building rent increased, and consumers

is better that it be ineffective, rather than be effective.

<sup>10</sup> This fact should be added to the positive side of the ledger. If a program is misconceived in the first place, it

returned.

Of course, not all such small businesses survive. The horse and buggy industry had to give way to the automobile. Typewriters were consigned to museums given the onslaught of computers. We take pictures now more with cell phones than old-

fashioned cameras. Attempts to stultify progress in consumer satisfaction led to a moribund economy. As Smith (1937 [1776]) warned, the wealth of nations depends upon free enterprise. Governmental attempts to override it, such as the policies depicted in this paper, lead in the very opposite direction.

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