THE TOBACCO INDUSTRY IN SOUTH KOREA SINCE MARKET LIBERALISATION: IMPLICATIONS FOR STRENGTHENING TOBACCO CONTROL

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STATEMENT

I, Sungkyu Lee, confirm that the work presented in this thesis is my own. Where information has been derived from other sources, I confirm that this has been indicated in the thesis.

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ABSTRACT

This research analyses transnational tobacco companies' (TTCs) broader strategies for market access and demand creation through understanding market liberalisation in South Korea's tobacco industry from the late 1980s in order to inform the strengthening of tobacco control policies within the country and other emerging markets.

The research is mainly based on internal tobacco industry documents, made publicly available through litigation. Detailed analysis of industry documents related to South Korea has not been undertaken to date. Semi-structured interviews and additional primary and secondary sources served as important supplementary data sources.

The key finding of this research is that the market access strategies of TTCs, including direct and indirect lobbying on trade policies, were a response to South Korea's export-oriented economic development model and its negative attitude towards foreign investment. This was undertaken within the context of the transformation of the world trading system from the 1980s which created pressure on the country to open its market. After liberalisation, various aggressive marketing tactics to create demand for foreign brands were used by TTCs. The competition this engendered played a key role in the transformation of the Korean tobacco monopoly into a private, competitive business which emulated and refined the tactics used by TTCs. This, in turn, increased the extent and intensity of the aggressive marketing of tobacco products in Korea overall. Total volume of cigarette sales increased 25% as a result, making Korea the 8th largest tobacco market in the world by 1992, whilst smoking prevalence increased among young adults and females.

The research concludes that a fuller understanding of TTCs' strategies for global expansion can be derived by locating them within the economic development models of specific countries or regions. Such analysis, in turn, offers important lessons for strengthening global tobacco control. Of foremost importance is the need for emerging markets to appropriately balance economic and public health policies when considering liberalisation. The

South Korean experience also demonstrates that comprehensive tobacco control policies, as set out by the Framework Convention on Tobacco Control, must be implemented prior to any market liberalisation and strictly enforced within a competitive market environment.

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1	ANTR	Association of National Tobacco Retailers
2	BAT	British American Tobacco
3	BATDA	British American Tobacco Documents Archive
4	BRI	Business Risks International
5	B&W	Brown & Williamson
6	CCK	Community Chest of Korea
7	CDC	US Centres for Disease Control and Prevention
8	CNTC	China National Tobacco Corporation
9	CORA	Corporate and Regulatory Affairs
10	CSR	Corporate social responsibility
11	DSB	Dispute Settlement Body
12	ETS	Environmental tobacco smoke
13	EBRD	European Bank of Reconstruction and Development
14	FCTC	Framework Convention on Tobacco Control
15	FDI	Foreign direct investment
16	FSU	Former Soviet Union
17	FTR	Fair Trade Regulations
18	FTC	Fair Trade Commission
19	FTPG	Federation of the Tobacco Production Guild
20	GAO	General Accounting Office
21	GATT	General Agreement on Trade and Tariffs
22	GDP	Gross domestic product
23	GNI	Gross national income
24	GNP	Gross national product
25	GPE	Global political economy
26	GYTS	Global Youth Tobacco Survey
27	IMF	International Monetary Fund
28	JTI	Japan Tobacco International
29	JV	Joint venture

30	KASH	Korean Association of Smoking and Health
31	KGC	Korea Ginseng Corporation
32	KOMOCO	Korea Monopoly Corporation
33	KTGC	Korea Tobacco and Ginseng Corporation
34	KTA	Korean Tobacco Association
35	KT&G	Korea Tomorrow & Global
36	KUEA	Korea and US Economy Association
37	LTDL	Legacy Tobacco Documents Library
38	MITI	The Ministry of International Trade and Industry
39	MSA	Master Settlement Agreement
40	MOF	Ministry of Finance
41	MOS	Ministry of Sports
42	NGOs	Non-government organisations
43	NHPA	National Health Promotion Act
44	NIC	Newly Industrialising Country
45	OECD	Organisation for Economic Cooperation and Development
46	OOM	Office of Monopoly
47	PM	Philip Morris
48	RJR	R.J. Reynolds
49	ROU	Record of Understanding
50	STMA	State Tobacco Monopoly Administration
51	TBA	Tobacco Business Act
52	TIJ	Tobacco Institute of Japan
53	TNCs	Transnational companies
54	TTCs	Transnational tobacco companies
55	TTM	Thailand Tobacco Monopoly
56	USCEA	US Cigarette Export Association
57	USFK	US Forces Korea
58	USTR	US Trade Representative
59	WHO	World Health Organisation
60	WTO	World Trade Organisation

61	YAMS	Young adult male smokers
62	YNSA	Youth No Smoking Association
63	YSL	Yves St. Laurent

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CHAPTER 1 INTRODUCTION

1.1 Rationale

The World Health Organisation (WHO) estimates that tobacco use killed 100 million people worldwide during the 20th century, and currently causes 5.4 million deaths annually.(1) WHO warns that, unless urgent action in all countries is taken, this will rise to 8 million deaths annually by 2030, with more than 80 percent of these deaths occurring in developing countries.(1) In response to the significant public health risks posed by tobacco, WHO member states adopted the Framework Convention on Tobacco Control (FCTC) in May 2003, which came into force in February 2005. This historic treaty has created global impetus for strengthening tobacco control measures. However, while there have been increased tobacco control efforts worldwide, in many countries tobacco control policies remain insufficient and the disease burden from tobacco use continues to be substantial and increasing.

An important factor in the upward trend in tobacco use has been the global restructuring and expansion of transnational tobacco companies (TTCs).(2, 3) This has included the aggressive pursuit of new markets, especially in developing countries. The beginning of this expansion was the significant growth of tobacco control efforts in the US from the 1960s onwards, leading mainly US-based TTCs to seek new business in "emerging markets".(4) A review of the existing literature shows that, during the global expansion of the tobacco industry from the 1960s onwards, broadly Latin America, Asia, and the former Communist countries including the Former Soviet Union (FSU), were particular targets because of their large populations and/or rapid economic growth.(5) However, limited analysis to date has been undertaken of specific TTC strategies and activities to expand worldwide, or of the effects of such efforts on the domestic tobacco industries within individual countries. A fuller understanding of TTC activities remains a crucial task in the challenge to strengthen tobacco control worldwide.

The release of millions of pages of internal tobacco industry documents through litigation in the US since the 1990s offers significant opportunities to analyse TTC strategies for market access and expansion. The documents to date have enabled a wide range of analyses of TTC efforts to gain access to, and expand activities within, emerging markets. As will be described in Chapter 2, evidence to date suggests that TTCs have pursued market entry through a variety of strategies, supported at times by intensive political and economic pressure.(6, 7) Analysis of internal documents has provided evidence of, for example, the importance of trade liberalisation, the legal and illegal trade, corporate restructuring, and foreign investment strategies.

This research seeks to analyse the tobacco industry in South Korea before and after market liberalisation in 1988, and especially to understand TTCs' detailed strategies to gain access to the Korean market. Of particular note during the 1980s was the opening of the cigarette markets in South Korea, Japan, Taiwan, and Thailand through the assertion of trade pressures, initiated by TTCs and supported by the US government.(8) Were there communalities across these four countries that influenced the adoption of similar market access strategies by TTCs at this time? Why did TTCs assert pressure on these countries and not other Asian countries? While focusing on South Korea, this research begins by asking whether the countries patterns of industrialisation, focused on the adoption of the so-called "Asian economic development model", which mainly focused attention on exports, was a factor in how TTCs behaved during this period. In this sense, the research explores whether there may be links between TTCs' market access strategies and economic development models adopted by their targeted countries. To date, however, there has been no detailed analysis of the global expansion of TTCs into emerging markets from this perspective.

Importantly, in addition, this research will analyse how market entry by TTCs subsequently influenced Korea's domestic tobacco industry. The existing literature argues that TTCs' market access led a more competitive market environment, given the ensuing intensification of competition between existing domestic companies and new entrants, to maintain and expand their respective market shares.(9) A report from the US General Accounting Office (GAO), regarding the impacts of market access by US-based TTCs on the targeted Asian countries, suggests that more competition led by market liberalisation caused an increase in tobacco use and, hence, adverse effects on public health.(10) This research will undertake detailed analysis of what this increased competition meant within South Korea, in terms of marketing, product development and other activities by foreign and domestic tobacco companies, such as corporate social responsibility initiatives, to gain market share. The implications for public health from market liberalisation, and TTCs activities to effectively compete within South Korea and other emerging markets, will, in turn, be discussed in this context.

A fuller understanding of how TTCs gained access to the South Korean market, and the adaptation by the domestic tobacco industry to market opening, in turn offers lessons for developing appropriate tobacco control measures in the country and other emerging markets to mitigate their public health impacts. Amid the rapid growth of the tobacco pandemic, predicted to be particularly notable in Asian countries over the next two decades (11), this research will analyse what prior preparation by governments are needed before permitting market access to TTCs, or whether other emerging markets should prohibit, delay or restrict TTC expansion. Where market liberalisation is adopted, what tobacco control policies and measures are needed to mitigate the public health impact of TTC activities, notably to encourage new smokers? In short, fuller understanding of TTC strategies in the South Korean market, and their public health impacts, offers potentially valuable lessons for helping to strengthen the responses of other emerging markets. As will be described more fully in Chapter 8, such lessons are especially important in the context of contemporary efforts to implement the FCTC across the world.

1.2 South Korea's relevance as a case study

1.2.1 Public health impact of tobacco use in South Korea

One key reason why South Korea has been selected as a case study for this research is because tobacco use has been a major public health problem since the 1950s. As described in Chapter 2, there has been limited analysis of tobacco use in South Korea, and thus a resultant lack of detailed data over time of smoking behaviours among specific population groups. Nevertheless, available data show that from the end of the Korean War in 1953, cigarette consumption among adult males rose dramatically to 75 percent by 1992, the world's highest rate of smoking prevalence. By 2000, smoking prevalence remained relatively high at 68 percent among adult males.(12, 13) Meanwhile, despite strong social stigma against female smoking in Korea and regulations to restrict tobacco marketing to females, smoking prevalence among young Korean females (aged 17 to 19 years) increased from 1.6 percent in 1988 to 13 percent in 1998.(14) Although total smoking prevalence among Korean females have fluctuated over time (15), the smoking prevalence among young females (aged 20 to 29 years) recorded a rapid increase from market liberalisation until the mid 1990s (1.5 percent in 1990 to 7.2 percent in 1996).(15)

Thereafter, in 2008 the male smoking rate significantly decreased to 40 percent. This is largely attributed to increased tobacco control measures and policies by the government and non-governmental organisations (NGOs) led by the Korean Association of Smoking and Health (KASH).(16) Despite this decline, however, there is growing concerns about the rising rates of smoking among youth. According to Youth Health Behaviour On-line Survey, conducted by the Korea Centres for Diseases Control and Prevention in 2008, the smoking prevalence among male youth aged 13 to 18 years shows an upward trend from 14.3 percent in 2005 to 17.4 percent in 2008. The smoking prevalence among female youth in the same age groups shows no decrease during the same period (8.9 percent in 2005 to 8.8 percent in 2008.(17) More young females in their twenties are smoking with 4.9 percent in 2008, the highest rate among Korean females, whilst 2.3 percent of females in their 30s smoke.(16) The smoking prevalence among Korean females has been a controversial issue. Health advocates argue that the actual number of smokers among females is much higher than the official data reports, as released by the government and public health communities. Given that most surveys of smoking prevalence in Korea use self-administered questionnaires for data collection, and there remains a strong social stigma against female smoking in the country, it is believed that this results in an artificially low rate of self-reporting among female smokers. The lack of accurate data remains an obstacle to understanding the true rate of female smoking in South Korea.

Given the above, it is predicted that the disease burden from tobacco use in South Korea will remain significant for decades to come. At present, approximately 40,000 people die prematurely every year from tobacco-related diseases.(18) It is estimated that tobacco caused a total of one million premature deaths in the country from 1981 to 2008.(19, 20) Cancer has been South Korea's number one cause of death over the past three decades and, among the major cancers, deaths from lung cancer (due mainly to smoking) has rapidly increased. Tobacco remains the number one cause of cancer deaths in Korea.(21)

1.2.2 Linking the South Korean economic development model and tobacco control

A second reason for selecting South Korea as a case study is that it offers potentially new and valuable insights regarding the links between the economic development models pursued by emerging markets and tobacco control. South Korea, one of the world's poorest countries after the Second World War, experienced rapid economic development from the early 1960s. The infrastructure of the capital city, Seoul, was totally destroyed by the Korean War in 1953, resulting in millions of people living in poverty. Subsequently, the country achieved an incredible and dramatic economic transformation, known as the 'Miracle on the Han River', becoming the world's 13th largest economy within four decades.(22-25) This included the "hopeless" city of Seoul which was transformed into a key Asian centre of business and commerce, and a highly advanced world city.(22) Korea's remarkable transformation, from a developing to a wealthy advanced industrialised country, led to it being described as one of the "Asian Tigers" within the international community. In 1996 the country became a member of the Organisation for Economic Cooperation and Development (OECD).

South Korea's economic development model emphasised exports as the engine of growth. As a country without substantial natural resources, the Korean government adopted a state-led and export-oriented development strategy which required radical economic transformation. During the early stage of industrialisation, given the weakness of the private sector, the government selected key industries to lead this economic strategy, harnessing them to drive the country's export-led expansion. As part of this approach, the Ministry of Finance (MOF) set national export targets for light industry, such as clothes, shoes, furniture, consumer electronics, and home appliances. When a company reached its target, the government compensated its efforts financially, such as providing tax reductions.(26) Within this context of state-provided incentives, many Korean industries rapidly developed on the basis of export-led policies. Under this state-supported and export-driven economic development strategy, the Korean economy saw incredible growth during the second half of the twentieth century. Gross domestic product (GDP) increased from US$2.3 billion in 1962 to US$969.9 billion in 2007, with per capita gross national income (GNI) soaring from US$87 to US$20,045 during this period.(22)[1] The success of this development model, in turn, has been influential in other developing countries seeking to emulate the success of South Korea and other Asian Tigers. More detailed analysis of the South Korean development model will be provided in Chapter 3.

In relation to this research, what implications does South Korea's economic development model have for analysing tobacco control in the country? What lessons might be learned for protecting and promoting public health within the country, and in other emerging economies? First, analysis

[1] Figures are unadjusted in real terms.

of South Korea offers important opportunities for understanding how the government's economic development model shaped its foreign policy. A key part of Korea's strategy for industrialisation was the building and maintaining of strong diplomatic ties with the US, the most important foreign market for Korean exports. Similar to other Asian countries, including Japan, Taiwan, and Thailand, Korea's emphasis on economic development through state-led industrialisation and export-led economic policies was strongly dependent on a close political and economic relationship with the US government. Moreover, the US has also been the country's most important geopolitical ally spanning the Korean War, the Cold War, and the ongoing military tensions with North Korea to the present day. The country's national security, to a large extent, has remained strongly dependent on a substantial and visible military presence by the US Forces Korea (USFK) to maintain the border region between the two Koreas. As of 2008, it was reported that US military personnel in South Korea numbered 28,500.(27) The US government, in short, is arguably the country's most important strategic ally. In this context, the Korean government has been highly depended on the US economically and geopolitically. This research analyses how this dependence on the US shaped negotiations to liberalise the tobacco market in South Korea, and subsequent Korean policies to regulate the industry after liberalisation.

Second, to what extent did the government's strong emphasis on rapid economic development lead to a lesser priority being given to social protections including public health. It can be argued that the threat to public health from tobacco use in South Korea has rapidly grown during the country's rapid industrialisation process beginning in the 1960s. To what extent did government policies prioritise economic development to address widespread poverty in the country in the aftermath of the civil war? The economic development strategy from the 1960s onwards began with the establishing of a new government unit, the Economic Planning Board in 1961, and commencement of state-led Five-Year Economic Development Plans from 1962.(28) During the first, second, and third plans from 1962 to 1976, the common key target was rapid industrialisation through an externally oriented strategy, development of light industry and infrastructure, and expansion of domestic savings and foreign capital accumulation.(26) Thereafter, although social policies including the protection of public health, was introduced during the fourth, fifth, and sixth Five-Year Plans from 1977 to 1991, to what extent were these given emphasis in relation to economic development priorities.(26)

Third, this research will examine what treatment the tobacco industry has received under South Korea's economic development strategies. Under its export-driven economic model, the Korean government protected core domestic industries until they were believed capable of competing in the world market. For example, during the 1980s the automobile was supported as a leading export among Korea's heavy industry to earn foreign currency. Thus, until the domestic automobile industry became competitive in the international market, the government protected the industry by using various import restrictions.(29) In 1962, the first year of the first Five-Year Economic Development Plan, the Korean government enacted the Automobile Industry Protection Law. The three key provisions of the Law were that: the import of completed vehicles was prohibited; assembly plants were given tax exemptions; and parts and components were exempt from import duties. In the 1970s when the government focused more attention on heavy and chemical industries for the growth of exports, the automobile industry was developed under the government's protectionist policy. In the late 1980s, despite the limited liberalisation of automobile imports due to trade pressure from the US government, the biggest export market for Korean vehicles, imported vehicles were still hard to find on the streets of South Korea. This was because of the remained market barriers, such as high import tariffs and anti-import feelings among Korean people based on strong nationalism.(29) This protectionist policy, however, finally led to serious opposition from trading partners. The limited access by US car manufacturers into the Korean market remained a sensitive issue during the negotiation of the Free Trade Agreement between South Korea and the US from 2006 onwards. It is within this context that this research analyses the liberalisation of the tobacco industry in South Korea during this same period. As will be described in Chapter 5, the national tobacco industry was treated as a core business, important for the employment and tax revenues it generated. Therefore, the tobacco industry, including leaf farmers and retail outlets, were not only supported by subsidies, but also by strict protection from foreign competition through import restrictions, such as high trade tariffs.

Fourth, the research will analyse how the above influenced tobacco control policies in South Korea over time. This research will explore whether high dependence by the Korean government on the economic contributions of the tobacco industry, in the form of tax revenues and employment, have contributed to weak tobacco control policies and measures. It is known that tobacco control was given low priority from the 1960s to late 1980s.(30) Was this because the government remained strongly focused on economic development and, thus, supportive of the domestic tobacco industry? Trade liberalisation in the late 1980s appears to have coincided with ineffective tobacco control measures to deal with greater market competition. In this context, it might be argued that tobacco control measures were an oversight, and remained weak as the impact of the industry on public health was little considered. This may explain the rising levels of tobacco-related disease and death from the early 1980s onwards.(18) The research will examine the public health consequences of this situation in terms of the efforts by TTCs and the domestic industry to expand their markets. It may be argued that this explains the slow decrease of smoking prevalence among adult males from 1992 to 2000. Moreover, the research will consider whether market liberalisation in 1988 can be an important factor of the rapid increase of smoking rate in the early 1990s, and remained high smoking prevalence by 2000.

Fifth, the research will seek to understand the position of TTCs, in relation to market liberalisation, and how market access was achieved. The response by the domestic tobacco industry and the consequent impacts on tobacco use will also be analysed. The research will examine the extent to which Korea's economic development model, like other Asian countries, made it especially vulnerable to pressures by TTCs seeking market access. To what extent did this in turn influence TTCs' market entry strategies? Focused on economic development policy, to what extent did the government prioritise the protection and strengthening of the domestic tobacco industry against international competition? How does this explain monopoly ownership and trade protections, such as the ban on leaf tobacco imports, high tariffs of 100 percent on imported cigarettes, import quotas, and prohibition on Korean citizens possessing foreign cigarettes? How did the domestic industry adapt, in turn, to market liberalisation and the entry of TTCs into the Korean market?

Sixth, the limited existing literature on TTC activities in South Korea, as reviewed in Chapter 2, indicates that their entry into the market and subsequent marketing activities, have sought to build a substantial share of the market including the targeting of females and young people.(9, 31) A more substantial literature exists that describes how trade liberalisation, followed by TTC market entry, has been accompanied by greater competition; lower cigarette prices, but higher quality, brands to markets; and a significant increase of tobacco advertising and promotion activities.(9) Therefore, a key concern of this research is to understand how TTC strategies and activities impact on public health, although relevant data would be limited. Importantly, the research will analyse whether the entrance of TTCs into the Korean market influenced the activities of industry. To what extent did it adopt accordingly, leading to the market becoming a more competitive environment. As elsewhere (6, 9, 10), this would suggest that market liberalisation contributed to new smokers and its related public health risks.

Overall, this research seeks a fuller understanding of the links between economic development, trade liberalisation, and tobacco control. The experience of South Korea, in turn, offers lessons for balancing economic development and public health policies. The country is seen as a successful model of economic development by other countries. However, lessons for low and middle-income countries can be drawn. Furthermore, the analysis will contribute to understanding the continued globalisation of the tobacco industry. Hitherto focused on the growth and spread of TTCs, this research offers detailed analysis of the adaptation and restructuring of domestic monopolies, namely South Korea's KT&G (Korea Tomorrow & Global). As well as having implications for the domestic tobacco market, KT&G's transformation has relevance for the global market given its aspirations as a future global player. The analysis will have direct relevance as countries move forward to implement the FCTC, and related protocols.

1.3 Theoretical insights into the strategies of TTCs seeking global expansion

As will be described in Chapter 2, previous analyses of TTC strategies, in seeking market access and expansion into developing countries, have focused on individual countries or regions. There have been limited attempts to theorise the behaviour of tobacco companies more generally amid economic globalisation. TTCs' expansion into developing countries began from the 1960s onwards (32) and the targeted countries have been broadly grouped into three regions, which broadly correspond to three phases of expansion (although there is some overlap between these in terms of time period): Latin America, Asia, and the former Communist countries, such as the FSU.

The review of the literature in Chapter 2 will show that TTCs attempted to gain access the Latin American countries mainly by acquisition of domestic companies or through local production and licensing arrangements.(4) In the FSU and Eastern Europe, TTCs' market entry strategies similarly focused on acquisition of domestic companies, in the context of the collapse of Communism, often facilitated by the intervention of the International Monetary Fund (IMF) and the World Bank.(33, 34) However, TTCs' strategies to enter Asian markets were primarily via pressure on governments to liberalise trade, utilising the power of the US Trade Representative (USTR) and the General Agreement on Tariffs and Trade (GATT) disputes settlement mechanism.(35) While the FSU might be regarded as a special case, given the unique nature of the historical circumstances and the role of the IMF and World Bank, what explains the differences in TTCs' market entry strategies between Latin America and Asia, two regions at similar levels of economic development?

This research seeks to offer theoretical insights into the way TTCs expand into developing countries by examining how TTCs behaved in relation to different economic development models. The literature review in Chapter 2 thus attempts to identify general patterns of behaviour by TTCs in seeking market entry and expansion in emerging markets, and to relate these to the economic development models pursued by governments in each of the three regions identified above. Chapter 5 and 6 will then apply these ideas to South Korea. A fuller understanding of TTC strategies would, in turn, offer insights into the strengthening of tobacco control policies in specific countries and regions including the implementation of the FCTC in developing countries.

1.4 Purpose and objectives

The purpose of the research is to analyse the activities of the tobacco industry in South Korea during and since market liberalisation in the late 1980s in order to draw lessons for strengthening tobacco control policies, particularly in relation to the implementation of the FCTC.

The specific objectives of this research are:

a) to review the historical events leading to the opening of the Korean tobacco market in the late 1980s;
b) to understand the market entry strategies and activities used by TTCs, focusing on Philip Morris (PM), R.J. Reynolds (RJR), Brown & Williamson (B&W), and British American Tobacco (BAT), to gain access and expand their market shares within the Korean tobacco market;
c) to draw theoretical conclusions about the behaviour of TTCs in seeking market access and expansion;
d) to describe the impact of market opening on the domestic tobacco industry; and
e) to draw lessons for strengthening tobacco control in South Korea and other emerging markets in the context of the FCTC.

1.5 Research questions

In fulfilling the above objectives, the following key research questions will be addressed:

a) Which historical events led South Korea to liberalise its tobacco market?
b) What kinds of activities and strategies have TTCs used to enter the Korean tobacco market and create demand for their brands?
c) How did Korea's economic development model influence its tobacco control policies?
d) How has market liberalisation impacted upon the nature of the domestic tobacco industry in South Korea?
e) What generalisations can be drawn about how TTCs behave in relation to Korea's development model?
f) What can the public health community do to strengthen tobacco control in South Korea, and other emerging markets, in the context of the FCTC?

1.6 Outline of thesis

Chapter 2 will review the existing literature focusing on strategies by TTCs to gain market access to, and market share expansion within, a range of developing countries and regions. By focusing on TTC expansion over time, from the 1960s onwards, the research will examine how market access and expansion was achieved, and whether there are differences in strategies and activities across countries and regions. Based on this review of the literature, the thesis will put forth a conceptual framework in Chapter 3 for analysing TTC activities in South Korea. In Chapter 4, the methodology and data sources used will be described in detail, including how data were obtained and organised. The chapter also explains how data sources were triangulated, to strengthen the validity and reliability of the research. The limitations of the research are also outlined in Chapter 4.

In presenting the findings of the research, Chapter 5 will fulfil the first objective described above, to analyse the events leading to the opening of the Korean tobacco market in the late 1980s. Chapter 6 will then analyse TTC strategies to gain access to the South Korean market and to establish market share. Chapter 7 will analyse how market liberalisation, and subsequent activities by TTCs, have impacted upon the Korean tobacco market and the domestic tobacco company. This chapter will also examine the marketing tactics that the domestic company carried out in order to preserve its market share following market liberalisation. The current practices of the domestic company to compete with TTCs and the role of the company in the world tobacco market will also be reviewed.

The findings presented in Chapters 5, 6, and 7, will be drawn together in Chapter 8 in relation to the first four objectives of the research. The final objective, to draw lessons for strengthening tobacco control in South Korea and other emerging markets in the context of WHO's FCTC, will be addressed in Chapter 9.

CHAPTER 2 REVIEW OF THE LITERATURE

2.1 Introduction

This chapter reviews the existing literature on transnational tobacco companies' (TTCs) activities to gain access to, and expand their presence, within emerging markets. To date, this literature has largely focused on TTC activity within individual countries and, to a much lesser extent, in specific regions. The globalisation of the tobacco industry, however, suggests the need for fuller understanding how TTCs have behaved across different national and regional contexts as a precursor to developing more effective global tobacco control policies.

The chapter begins by reviewing the limited literature on TTC efforts to expand globally. It finds that this expansion occurred in three phases from the 1960s onwards. How market access and expansion was achieved is then examined based on a review of published literature on industry activities since the 1990s. The strategies pursued are described as either political or economic in focus.

2.2 Three phases of TTCs' overseas expansion

There has been very limited analysis to date of the changing structure of the tobacco industry on a worldwide scale.(4, 36) Since the late 1990s, and largely as a result of the release of internal documents of the tobacco industry, there has been growing analysis of TTC expansion into selected emerging markets. However, these have been focused on individual countries or, to a far lesser extent, specific regions, notably the Former Soviet Union (FSU). The existing literature on Asian countries has tended to focus on a single country, including Japan, Taiwan, Thailand, China, Vietnam, and Indonesia. There has been no attempt in this literature to locate these country-specific analyses within an understanding of the global patterns of TTC behaviour so far. Study of the FSU, for example, locates the region within the structural transformation of the world tobacco industry. However, the analysis is largely descriptive in terms of TTCs' shifting activities over time, and does not offer comparative insights regarding commonalities and differences of TTC strategies in each of the targeted countries within the region.(33, 34)

Reviewing these literatures as a whole, this research argues that TTC strategies can be seen to have changed over time, and have varied across regions, depending on the economic development model pursued by specific countries. Historically, as early as the 16th century, when tobacco began to be grown commercially in the US, Europe, and then further afield, international trade in tobacco leaf and products was a key driver of the early tobacco industry. The industry's history also overlaps with European colonisation, the Slave Trade and the Industrialisation Revolution. By the late 19th century, the cigarette market began to outpace smokeless tobacco, with markets in the Far East representing a major proportion of sales.(37) In this sense, the history of the tobacco industry is embedded within the history of international political economy.

In relation to the contemporary globalisation of the tobacco industry, there have been three broad phases of industry expansion. The first, dating from the 1960s to 1980s, saw US-based TTCs begin an initial exploration of new overseas markets prompted by a decline in domestic sales. Following the first US Surgeon General's Report in 1964 on tobacco and health, which officially concluded that smoking was hazardous to health, the US government began to discourage smoking by increasing cigarette prices, restricting smoking in public places, using health warnings and raising taxes.(4, 38-41) In addition, the growth of an anti-smoking movement was accompanied by an increased social unacceptability of smoking. As a result, per capita cigarette consumption among adults has dropped annually since 1973. Between 1980 and 1990, the domestic consumption of cigarettes had fallen by 17 percent.(38) Overall, prevalence of cigarette smoking in the U.S. had fallen from 52.6 percent to 31.7 percent among males and 34.1 percent to 26.8 percent among females.(42, 43) In order to compensate for this decline in the US domestic market and other traditional markets, TTCs looked to expand into Latin

American countries from the mid 1960s.(44) This can be described as the first phase of the tobacco industry's global expansion.

The second phase dates from the early 1980s spurred by the remarkable growth of the world trading system. This process, enabled by trade liberalisation policies in industrialised countries, and resulting in the growth in the size and number of transnational companies (TNCs) across many sectors, included further TTC restructuring.(5) This period saw a flurry of mergers and acquisitions as corporations sought to "go large" to compete more effectively in the global economy. This resulted in a greater concentration of ownership within many industries including the tobacco sector. Increased efforts by TNCs to gain greater access to new markets were a major feature of the world trading system. Within this rapidly changing global economy, Asian countries in particular experienced significant economic growth from the 1980s to the 1990s. Consequently, TTCs' second phase of global expansion focused on gaining access to these increasingly lucrative but relatively closed Asian markets where state monopolies prevailed. The regional population growth, alongside rising incomes, held much promise for a globalising tobacco industry.(5, 36)

The third phase of TTC expansion occurred from the early 1990s following the collapse of the Soviet Union. This extended the attention of TTCs to the former Communist bloc countries where governments have subsequently sought to adopt market-based economic policies including increased foreign investment, trade liberalisation, and privatisation.(36, 45) Each of these three phases is described in further detail below.

2.3 TTC market entry and expansion strategies across three regions

2.3.1 Latin America

The economies of Latin American countries depended on exporting raw materials such as oil, minerals, and agricultural commodities to the industrialised world until the 1930s, in order to earn foreign currencies to import manufactured products. Following the Great Depression during the 1930s, this economic policy could not be sustained.(46) Most Latin American countries lost their key export markets, particularly the US resulting in widespread impoverishment, trade deficits, poverty, economic stagnation and increased foreign debt. As emergency actions, most countries in Latin America began producing manufactured goods domestically that could no longer be bought abroad. Governments closely intervened in economic development and strongly encouraged national industries. This was the initial step for Latin America countries towards an 'import substitution' growth model adopted from the 1930s to 1980s.(46) Import substitution is a policy whereby a country attempts to reduce dependency on foreign goods by supporting local production of industrialised.(47) Through import substitution, Latin American countries redirected their economies away from dependence on primary exports, and towards an industrialisation policy focused on self-sufficiency, internal markets, and employment creation. In order to achieve this new economic policy, governments invested in infrastructure, such as roads, water, and energy supplies required by industry; protected local industries against foreign competition by imposing tariffs and non-tariff barriers, such as import quotas; nationalised key industries such as oil, iron, and steel; and supported an overvalued exchange rate, making Latin America's exports expensive and imports cheap.(46) The policy was most successful in countries with large populations and relatively high income levels which represented a large internal market. Smaller countries, with insufficiently sized internal markets, saw lower economic growth.(48, 49)

The existing literature shows that the tobacco industry appears to have been given a key role in the process of industrialisation in Latin America. Given that tobacco products were a luxury to import, and the high contribution of the tobacco industry to national tax revenues, governments in Latin America believed that cigarette production was a prime candidate for import substitution. It was also believed that domestic tobacco manufacturing met enough local needs and conditions. Tobacco products in Latin America were produced using locally grown dark tobacco leaf, air-cured tobacco, which was also used for cigars, snuff, and chewing tobacco.(4)

A small number of previous analyses have shown how TTCs accessed new markets and created demand for their brands in Latin American countries.(4, 36, 50) TTCs' initial behaviour in the region accommodated and supported local production by supporting leaf development and providing manufacturing technology. Within the context of Latin American governments adopting economic policies to reduce imports, this led to an uncritical attitude towards foreign investment, to achieve improvements in domestic cigarette production and increase tax revenue from tobacco products. This attitude, and the subsequent policy measures adopted by governments on the tobacco industry in the region, offered TTCs ready access to these markets via acquisitions.(4, 5) For example, British American Tobacco (BAT) gained access fairly early to the largest markets of this region, such as Argentina, Brazil, and Mexico, by the takeover of local companies.(4, 50) However, in some countries such as Colombia, the company experienced difficulties in acquiring local companies due to opposition based on nationalist sentiments, national companies, and other domestic groups that feared foreign control of the local economy. Faced with this situation, licensing agreements between local tobacco companies and TTCs, or their local subsidiaries, were often used by TTCs to achieve market access in the Latin American countries. These strategies were often welcomed by governments in the region in an attempt to address the rapid growth of trafficking in contraband cigarettes in the region. However, the literature suggests that, with legal imports restricted, contraband trade was used by TTCs as a market softening technique in Latin American countries.(4, 50) The smuggled products created local demand for foreign brands and also threatened the sales of local tobacco companies. This situation supported TTC efforts to convince governments to accept licensing or joint venture (JV) agreements.(5) For example, the Colombian government, which initially rejected foreign investment by TTCs in domestic tobacco companies, observed that the proportion of total cigarette consumption attributable to contraband rose from less than 4 percent before 1970 to nearly

18 percent in 1976.(4) In an effort to reduce contraband trade, the government encouraged local tobacco companies to sign licensing arrangements to manufacture popular TTC brands. Similarly, the Argentinian government also worried about the increase of contraband in the country which rose from 2 percent to 12 percent of total consumption in the early 1960s.(50) Argentina temporarily reduced legal import tariffs on foreign cigarettes in an attempt to control the demand for smuggled cigarettes, and this was followed by a decline in the contraband trade. By the time high tariffs were applied once again, the importers of TTC brands in the country had agreed licensing arrangements for local manufacturing.(50) Contraband sales remained at a lower level afterwards although, based on evidence subsequently published on the region and elsewhere (51-54) on TTC complicity in the contraband trade, it was the TTCs control the flow of contraband cigarettes in response to gaining favourable policy treatment, rather than tariff rates, which "solved" the illicit trade problem. Overall, control over the contraband trade, used to leverage licensing agreements with local companies, JVs of various forms (e.g. provision of manufacturing technology), and acquisition of local tobacco companies, were the main strategies deployed by TTCs to access Latin American markets.

Once TTCs were allowed access to sell their brands in the region, they then focused attention on creating greater demand for their products. Latin American countries traditionally smoke "dark" cigarettes and cigars, manufactured using locally grown, dark tobacco leaf. However, after TTCs' gained market access, sales of dark cigarettes steadily began to be replaced by "white" cigarettes, especially TTCs' international blends, such as Marlboro. Shepherd argues that this shift was partly the result of TTCs' efforts at demand creation, and partly the result of the diffusion of contemporary 'life-styles' following economic development.(4) TTCs carried out various advertising and promotional activities to generate demand for their brands, resulting in rapid growth of cigarette consumption in the 1960s and 1970s in Latin America, although this declined somewhat in the 1980s during the economic crises experience by some countries.(4, 50) Patterns of tobacco use overall in Latin

America thus changed, from many types of tobacco products to cigarettes; from "dark" to "white" cigarettes; from unfiltered to filtered cigarettes; and from short to longer cigarettes.

2.3.2 Asia

2.3.2.1 Japan

Japan was the first Asian country to adopt what is now described as the 'Asian development model' of industrialisation. In 1945, policies for reconstruction and economic growth were immediately needed given the devastated condition of post-war Japan.(55-59) These policies were largely spurred by foreign investment from the US and partly by state-led economic policies. The Ministry of International Trade and Industry (MITI), responsible for trade liberalisation, played a key role in encouraging export-led economic development (58), focusing on automobiles, the chemical industry, and electronics to serve as the engine for growth. As a result of the government's export-led policies, from the 1960s and throughout the 1970s, the 'Japanese economic miracle'[2] was achieved, with Japan having the world's second highest gross national product (GNP) after the US.(55, 57, 58) This remarkable success also reflected close collaboration between government and industry.(55, 58) During the 1980s, the Japanese economic development shifted its focus, from primary and secondary industries, such as agriculture and manufacturing, to highly sophisticated technology and information-based industries including finance, insurance, and communications.(57)

As part of this post-war reconstruction effort, Japan Tobacco and Salt Public Corporation, a state monopoly, was established in 1949. The monopoly controlled all tobacco production, advertising, sales, and distribution channels, and quickly became a major contribution to national tax revenue.(60) Due to the government's emphasis on selective trade liberalisation, and

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[2] **The Japanese economic miracle** is the name given to the historical phenomenon of Japan's record period of economic growth following the Second World War, spurred mainly by US investment but partly by the Japanese government's economic interventionism, in particular, through the Ministry of International Trade and Industry.

gradually increasing pressures to liberalise the tobacco industry from the US government from 1978 (41), the Japanese government began policy discussions on the privatisation of the state monopoly despite strong opposition by the monopoly union, tobacco retailers' association, and anti-smoking groups. As a result, the Japanese tobacco monopoly was converted to a corporation, Japan Tobacco Incorporated (JTI) in 1985.(41) The company remained two-thirds owned by the Ministry of Finance until June 2004, reducing to a 50 percent share thereafter.(61)

Analyses of TTCs strategies to aim market access to Japan to date reveal that the companies mainly employed political channels to gain a foothold.(41, 62, 63) Before market liberalisation in 1987, due to a 90 percent tariff on foreign cigarettes and restrictions in tobacco advertising in the Japanese market (41), TTCs commanded only 3.9 percent of the overall domestic market in 1986 (64, 65). Within this context, mainly US-based TTCs lobbied high-level contacts in the US government, including Senators and Congressmen, to gain support for market liberalisation. Subsequently, on behalf of the US Cigarette Export Association (UCSF)[3] the US government and politicians threatened the Japanese government with trade sanctions if it did not remove impediments to US tobacco exports.(41, 66) By the mid 1990s, Japan's trade surplus with the US was around US$50 billion annually.(67) In addition to its economic importance as an export market, the US played a vital geopolitical role in the region. Since the Second World War, the two countries remained close strategic allies which, for Japan, was highly valued given the lukewarm, and sometimes tense, relations with the People's Republic of China. Within this broad context of US-Japan relations the US Trade Representative (USTR) intensively pressured the Japanese government to open the tobacco market, under Section 301 of the US Trade Act[4]. In response, as part of a range of measures to address US concerns

[3] Three major US-based TTCs, Philip Morris, R.J. Reynolds, and Brown &Williamson formed the **US Cigarette Export Association** in 1981 in order to improve the competitive position of US-produced cigarettes in international markets.
[4] **Section 301 of the U.S Trade Act** allows the United States Trade Representative (USTR) to initiate an investigation of the trade practices of another country. The U.S. government describes Section 301 as follows: "the principal statutory authority under which the United

about market access and a ballooning trade deficit, Japan liberalised its tobacco market in 1987 by abolishing the excise tax on imported cigarettes, providing price equity between imported and domestic cigarettes, and privatising its monopoly into Japan Tobacco, Incorporated. (41, 62)

Previous analyses have shown how TTCs behaved in seeking to create greater demand for their brands in the Japanese market. During trade negotiations from 1982 to 1987, between Japan and the US, the USTR convinced the Japanese government to allow TTCs to advertise their brands, for example, on television and radio, in print (i.e. magazines), and on billboards.(68) This was underpinned by extensive market research focused on targeted population groups, such as young adults and females. In contrast to other Asian countries targeted by TTCs, Japan agreed to permit television advertising of cigarettes, thus enabling foreign brands to be introduced to established smokers, as well appealing to potential new smokers.(69) Consequently, in 1988, just a year after market liberalisation, cigarettes rose from fortieth to second place in total television advertising expenditure.(70) Tobacco control remained relatively weak over the next two decades. As well as limited restrictions on tobacco marketing, advertising, and promotion, for example, warning labels remained weakly worded, there was widespread use of cigarette vending machines, and few restrictions on smoking in public places. Despite eventually signing and ratifying the Framework Convention on Tobacco Control (FCTC) in 2004, the Japanese government was seen as one of the spoilers during the negotiations, weakening its final measures by pressing extensively for qualifying language.(71)

2.3.2.2 Taiwan

After gaining independence in 1945, following fifty years of Japanese colonial rule, Taiwan adopted a series of Four-Year Economic Development

States may impose trade sanctions against foreign countries that maintain acts, policies and practices that violate, or deny U.S rights or benefits under trade agreements, or are unjustifiable, unreasonable or discriminatory and burden or restrict U.S. commerce."

Programmes. Before the mid 1960s, the first three Four-Year Plans considered the adoption of an import substitution for economic development by focusing on agriculture. Since 1965, given the economic incentives offered under the US geopolitical strategy in Asia, the government redirected its economic policy towards state-led and export-oriented industrialisation. At this point, Taiwan invested in shipbuilding, chemicals, and petrochemicals. Due to the worldwide recession during the mid 1970s, the pace of economic development slowed. Between 1976 and 1981, the government focused on expansion of basic industry and infrastructural projects, including railroads, highways, and nuclear energy facilities. From 1980 to 1989, a longer-range economic development plan was designed which targeted trade liberalisation to boost the country's exports.(72, 73)

The monopoly on tobacco was established in Taiwan during the period of Japanese occupation. Following the establishment of the Monopoly Bureau of the Taiwan Governor's Office in 1901 to control salt, liquor, opium, and camphor, tobacco was also formally monopolised from 1905. After the independence of Taiwan in 1945, the tobacco industry came under the control of a state monopoly, the Taiwan Tobacco and Wine Bureau in 1947. The industry remained under monopoly control for the next forty years, providing the government with substantial and reliable revenues. The market share of foreign manufactured cigarettes was less than 2 percent of the domestic market before liberalisation.(8) However, in January 1987, as a result of threats of trade sanctions under Section 301 by the US government, the Taiwanese government gave up monopoly control of the cigarette market, reduced the excise tax on imported cigarettes, and allowed foreign competitors to market their brands in the country. Analyses of TTCs' activities in Taiwan to date describe how TTCs heavily lobbied the US government and the USTR to take up their case as the key strategy for market access.(8, 38, 74) Similar to Japan, Taiwan was economic dependent on the US, receiving substantial aid since independence from Japanese colonial rule, and reliant on the US as its largest export market. In addition, like Japan, the US played a critical geopolitical role as a key ally in simmering tensions between Taiwan and the People's

Republic of China, which has continues to claim sovereignty over Taiwan. Within this context, TTCs were once again able to use wider pressures of trade liberalisation to obtain a foothold to the Taiwanese tobacco market.

Once market access was achieved, the existing literature describes how TTCs subsequently carried out aggressive advertising and promotional activities (e.g. magazines, point of sale) to generate greater demand for their brands. Young adults and youths were mainly targeted by TTCs focused on so-called "light" and "mild" cigarette brands. TTCs' emphasised the allegedly mild and smooth nature of these brands, particularly appealing to younger and new smokers, and to potential quitters concerned with tobacco and health issues.(75) Importantly, the existing literature suggests that, like in Latin America, TTCs were complicit in the contraband trade in Taiwan as a means of fuelling demand for these imported brands. On distribution, given that cigarettes in Taiwan were legally sold only through licensed retailers, where they were controlled by the Monopoly Bureau, both before and after market liberalisation TTCs used betel quid[5] stalls as alternative outlets to sell their brands. Although it was illegal to sell cigarettes in betel quid stalls before market liberalisation, due to the sudden and sharp expansion of the use of betel quid street vendors by TTCs after the market was opened, the stalls subsequently became common outlets for both imported and domestic cigarettes.(76) This strategy of TTCs initially attracted domestic cigarette smokers to convert to imported brands, but later, betel quid users also became smokers of imported cigarette. The above efforts combined successfully established strong demand among Taiwanese smokers for imported cigarettes, resulting in a sharp increase in the consumption of foreign cigarettes.(75) Due to the fact that Taiwan is not recognised as a member state of the WHO, the country has not been permitted to become a signatory of the FCTC.(71)

[5] The most basic form of **betel quid** is a combination of betel leaf, areca nut (the fourth most common psychoactive substance in the world after caffeine, alcohol and nicotine) and slaked lime. Tobacco is commonly used in conjunction with betel quid.

2.3.2.3 Thailand

While Thailand has never experienced foreign colonisation, the country has grappled with ongoing challenges of political stability and economic development similar to other countries in the region. The Thai government carried out a series of Five-Year Economic Development Plans for industrialisation, and promoted the economy through a state-led and export-oriented growth model.(77) During the first three Five-Year Plans, covering the period 1961-1972, the Thai government aimed to achieve economic development to improve the country's standard of living through agricultural and industrial development. The early economic development model of Thailand encouraged import substitution. Since the fourth Five-Year Plan from 1977 to 1981, and observing the success of other Asian economies such as South Korea and Taiwan, the government shifted its development model to export-oriented industries notably electronic equipment and chemicals. The sixth development plan, between 1986 and 1991, stressed heavy industry, such as construction, and successfully achieved the early part of Thailand's ten-year economic boom with 10.5 percent growth of gross domestic product (GDP), which was more than twice the targeted growth rate of 5 percent at that time.(77, 78) Like Japan and Taiwan, the relationship between Thailand and the US was also a significant factor in Thailand's economic development.(79) Moreover, within the context of the Cold War which, in Southeast Asia manifested in, for example, the Vietnam War and ongoing instability in Cambodia, Laos and Burma, Thailand maintained close geopolitical relations with the US.

Under the Tobacco Monopoly Act enacted in 1943, the Thailand Tobacco Monopoly (TTM) became the sole legal manufacturer and importer of cigarettes.(80) The tobacco industry in Thailand, like in other Asian countries, was treated as an important source of national tax revenue and a positive contributor to economic development plans. Unlike other Asian countries, however, Thailand Since the establishment of the Thai Anti-Smoking Campaign Project (known as ASH Thailand) in 1986, however, an anti-smoking movement quickly spread and turned into a form of social mobilisation which had a lasting impact on the consciousness of the whole society concerning tobacco use.(81) As a result of this movement, the cabinet first issued an executive decree banning TTM from advertising, and a total ban was imposed on all forms of foreign cigarette advertising, both direct and indirect. Furthermore, in 1989, tobacco products were placed under the category of "harmful products" and, with establishing of the National Committee for Control of Tobacco Use in the same year, the Thai government focused attention more concertedly on tobacco control.(81) This earlier emergence of a tobacco control movement in Thailand might explain the different outcome from other Asian countries against the trade pressure by TTCs and the USTR, and fuller research is warranted

Analysis of TTC behaviour, in seeking market access and expansion in Thailand, shows that attempts by TTCs to access the Thai market began in 1985. In the early stage of seeking market access, TTCs tried to negotiate JV agreements and licensing arrangements with the TTM, but that this failed due to the Thai government's refusal.(82) Similar to Taiwan and Japan, the USTR was then prompted by industry lobbying to act on behalf of TTCs to press for liberalisation of the tobacco sector. The Thai government, however, rejected a trade agreement with the USTR in 1989 unlike Taiwan and Japan, and at the same time even banned all forms of cigarette advertising by amending the Consumer Protection Act, as described above.(82) The USTR responded by referring the Thai case to the General Agreement on Trade and Tariffs (GATT), the forerunner of the World Trade Organisation (WTO), for dispute settlement. Although the GATT dispute panel accepted that smoking posed a serious risk to human health, its decision was that the Thai ban on foreign cigarette imports only, on the grounds of public health concerns, was discriminatory and thus unjustified. Tobacco use, it was concluded, could be controlled through other measures, such as advertising bans, but that such measures should be applied to all tobacco companies, both domestic and foreign. Following this decision, in 1990 the Thai government lifted its import ban. (80, 81)

Since this decision and the subsequent liberalisation of the Thai tobacco market, TTCs have continually sought opportunities for JV agreements with the TTM to effectively expand market share. This was discussed often particularly following the Asian financial crisis of 1997-1998. BAT, for example, expected that the Thai government would welcome foreign investment in the domestic tobacco industry during this difficult economic period. However, the government declined to sign any agreement with TTCs, on the grounds of the public health impact of the tobacco industry.(80) In 1999, the International Monetary Fund (IMF) pushed the Thai government to privatise the TTM, as part of the rebuilding of the country's economy. Again, the government announced that there were no plans to privatise the TTM due to public health considerations.(80)

Faced with this stance, in order to boost demand for imported cigarettes in the Thai market, the existing literature describes how TTCs deployed wide-ranging marketing strategies, such as sports sponsorship and low-priced cigarettes, and providing higher margins to cigarette retailers than the TTM. This retailer incentive programme was successfully utilised to expand the distribution network for TTC brands.(80) With these marketing tactics, TTCs were able to circumvent some of the world's strongest tobacco control legislation in Thailand, and transform it from a "dark" (difficult to penetrate) to "light" market.(82) Thailand played an active and leading role in the negotiation of the FCTC, ratifying the treaty in 2004.(71)

2.3.2.4 China

China's economic development model, beginning with the announcement of the "open door policy" by Deng Xiaoping in 1979 (54), has contrasted with other Asian countries. The Chinese Communist government initially focused on improving economic productivity, which had proven problematic under the centrally planned socialist economy, through the selective and strategic use of market forces. Since the 1980s, while trade has been the major driver of economic growth, and foreign investment has been encouraged, China has not adopted large-scale privatisation and liberalisation policies.(83) The economy remains a combination of central planning and market-oriented reforms that has led to remarkable economic growth, with average growth rates 10 percent for the past 30 years.(83) Today, China overtakes Japan and has achieved the world's second largest economy after the US.(84)

Within this context, the tobacco industry has been under state ownership in China since the ejection of foreign tobacco companies in the early 1950s. Previously, TTCs dominated the Chinese market from the early 20th century to the 1950s. BAT heavily targeted this large market and, indeed, treated it as the company's key overseas market. From exporting the first BAT cigarette to China in 1890, the market share of BAT dramatically increased and achieved more than 80 percent of the Chinese market in the mid 1920s.(54) However, once the Communist Party took power in 1948, and the People's Republic of China was established, the Chinese market was firmly closed by the government to foreign investors by the early 1950s. As a result, BAT lost its largest source of overseas profits.(54)

This situation remained in place until the early 1980s with the adoption of the Open Door Policy. In 1982, the Chinese government established the China National Tobacco Corporation (CNTC), under the auspices of the State Tobacco Monopoly Administration (STMA). The CNTC has been responsible, under the close supervision of the STMA, for production, distribution, and sales of all tobacco products throughout the country. Analyses to date of TTC strategy to gain market access to China have shown that the Chinese government contacted TTCs in the late 1970s, to discuss potential JV agreements with local tobacco companies. Under its economic reform plan after announcement of "open door policy", the government quickly sought foreign investment to improve technological capacity and leaf growing. Importantly, cooperation was highly selective and controlled, with the Chinese government negotiating hard with TTCs to gain technical knowhow.(54, 85) TTCs, for their part, saw China as the "ultimate prize" given its population and number of smokers.(86) The companies experienced ongoing difficulties accessing the Chinese market in large part because of the complex bureaucracy of the tobacco industry between the central and provincial governments, but mainly because of a continued ban on foreign ownership in any kind of domestic business including tobacco.(86) Thus, TTCs were limited to leaf development, supplying new cigarette manufacturing machinery, and licensed manufacturing.(85, 86) TTCs also aimed unsuccessfully to reduce the excise tax on imported cigarettes, in order to cut the price of their products, and to increase the import quota. Faced with these obstacles, TTCs largely pursued unsuccessful political channels, notably through the USTR, to convince the Chinese government to liberalise the sector.(85) In addition, efforts were made to influence trade negotiations over a long period leading up to Chinese accession to the WTO.(7) However, because of the failure of these efforts to gain a foothold in the market, the Chinese market has remained largely closed to foreign cigarette manufacturers in contrast to other Asian countries. In order to circumvent such restrictions, the existing literature describes how the smuggling trade has been strategically used by TTCs to penetrate the Chinese market.(54, 85, 86) For example, it is alleged that BAT intensively increased illegal imports from the early 1980s while the CNTC kept all legal imports of foreign cigarettes restricted to a limited amount of sticks (1,400 million sticks in 1982).(54) Due to a rapid growth of contraband trading in foreign cigarettes from the 1980s to the first half of 1990s, the CNTC estimated that 99 percent of foreign brands sold in China were smuggled cigarettes in 1996.(87)

Despite a relatively closed market, O'Sullivan and Chapman describe how TTCs have sought to build brand awareness and positive images of their brands in the Chinese market perhaps to support contraband sales and, in the longer term, in anticipation of market access. The companies are described as having undertaken various promotional activities focusing on youth, young adults, and females, and have created images that smoking imported cigarettes gives smokers an experience of a western lifestyle and a young and active lifestyle.(85) Since the adoption of a ban on direct cigarette advertising in 1992, TTCs have changed their marketing strategies from direct to indirect tactics, for example, by using trademark advertising without cigarettes (e.g.

brand stretching) to maintain brand awareness. In addition, TTCs have employed seemingly independent scientists to influence scientific research on second-hand smoke in order to undermine efforts to strengthen tobacco control regulations such as restrictions on smoking in public places.(85) The country ratified the FCTC in October 2005 but the government's commitment to meaningful implementation, and its weak interpretation of the FCTC's measures to date, has raised serious doubts about the future of tobacco control in China.(71)

2.3.2.5 Vietnam

With the end of civil war in 1975, Vietnam faced the task of rebuilding its economy. From 1976 to 1985, the Communist government adopted three five-year economic development plans, concentrating on agriculture and product manufacturing. For the fourth five-year plan, from 1986 to 1990, and with economic aid from the Soviet Union, like other Asian countries, the Vietnamese government attempted to facilitate economic development by expanding exports. In 1986 the government's *doi moi* (renovation) process for economic development was implemented in earnest. Like China, the reforms included the selective use of market-based mechanisms to expand the private sector, new foreign investment laws, while retaining a Communist system of government.(88, 89) However, the collapse of the Soviet Union in 1991 brought an end to major aid and trade links, and encouraged further reforms.

The tobacco industry in Vietnam has been dominated by the state monopoly, Vietnam National Tobacco Corporation (Vinataba), and provincial tobacco companies.(88) Lee et al. write that since the mid 1980s when the government began the economic reform process, the tobacco market, which was among the world's 10 fastest growing market (90), has been targeted by TTCs.(88, 91) Under new foreign investment laws, TTCs sought to access the Vietnamese market by seeking JV agreements covering leaf development, licensed manufacturing with local tobacco companies and co-ownership of production facilities. As a result, Vinataba and local tobacco companies signed licensed manufacturing with TTCs to manufacture foreign brands, such as Marlboro and State Express 555 since the mid 1990s. TTCs achieved limited success (20 percent of market share), with Vinataba remaining in monopoly control of the sector.(88, 92)

In 1990 tobacco control measures in the form of a ban on cigarette imports, high tariffs on imported leaf, and restrictions on foreign investment were adopted, ostensibly in order to protect the domestic industry.(88) Within this context, the existing literature describes how BAT, for example, focused on illegal imports as a market access strategy and a demand creation tactic. Through building brand awareness and presence prior market liberalisation with smuggled products, the company expected to be placed in better position against other competitors. In addition, with a rapid increase in the use of smuggled products among Vietnamese people, the company attempted to convince the government to allow them to sign a licensing agreement or local production with domestic tobacco companies. This was eventually successful to a limited extent with the signing of a joint venture agreement in 1991. However, the partnership has not proven a commercial success, with the country continuing to strictly limit imports and the availability of foreign brands.(88) In this sense, the country demonstrates similarities with China which, like Vietnam, has experienced a substantial problem with the illicit trade. Contraband cigarettes remain a major problem in Vietnam despite efforts by the government to control its availability. The Vietnamese government ratified the FCTC in 2004 .(71)

2.3.2.6 Indonesia

Following the political and economic instability of the 1960s, the "New Order" administration adopted strict economic policies aimed at reducing inflation, stabilising the currency, rescheduling foreign debt, and attracting foreign aid and investment. The country benefited from rising oil prices in the 1970s that contributed to sustained economic growth. In the late

1980s, further economic reforms led to substantial foreign investment flowing into Indonesia. The country was particularly hard hit by the Asian financial crisis of 1997-1998, but has since experienced gradual economic recovery, slowed by ongoing political uncertainty.(93)

TTCs entered the Indonesian market in the early twentieth century. BAT gained initial market access via the acquisition of a factory on Java in 1908. In contrast, Philip Morris (PM) did not establish a JV with a local company until 1971. With the fourth largest population in the world, and strong growth in domestic cigarette consumption, Indonesia was seen as an important potential market by foreign companies.(94) Following the military coup of 1965-66, however, BAT's local manufacturing facilities were seized by the Indonesian government whose attitude towards foreign investment turned critical.(95) In addition, enriched by revenues from the oil boom from the early 1970s, the government attempted to protect the domestic industry from foreign investment. Given this unfavourable economic climate, PM decided to sell its production facilities in 1980.(96, 97) The situation changed again by the late 1980s when TTCs attempted to re-access the market within the context of the Indonesian government's renewed welcome of foreign aid and investment to spur industrialisation.

As the existing literature describes, the unique nature of the Indonesian tobacco industry has led TTCs to experience some difficulty in gaining a greater market share. In 2002, only 10 percent of total tobacco use took the form of "white" cigarettes (Western styled cigarettes), while *kreteks*, a kind of cigarette based on a blend of tobacco with cloves and clove oil (96), and a key cultural signifier and powerful symbol of Indonesia, represented 88 percent of the market.(94) According to previous analyses of TTCs' marketing activities in Indonesia, in order to convert *kretek* smokers to Western brands, TTCs associated their brands with prosperous western lifestyles, which successfully appealed to people to smoke international brands. TTCs also promoted cigarette smoking among females, although female smoking was a cultural taboo in Indonesia.(94, 98) Moreover, new types of cigarettes, including "mild" and "light" cigarettes, were introduced to the Indonesian market.(94)

The Indonesian government has been consistently supportive and protective of the *kretek* industry because of the 10 million people economically dependent on the industry. Thus, the Indonesian Minister of Industry and Trade announced that the country delayed signing the World Health Organisation's (WHO) FCTC which would have negative influence on the *kretek* industry.(94, 99)

2.3.3 The Former Soviet Union and eastern bloc countries

As a Communist country, the economy of the Soviet Union was based on state ownership and central planning. During the post-war period, massive industrialisation programmes, such as investments in machine manufacture and the chemical industry, were conducted, but development fell far behind that of the Western countries. Following Mikhail Gorbachev's appointment as General Secretary of the Communist Party of the Soviet Union, the country began a transition towards a market-oriented development model for economic growth. Gorbachev's economic reforms aimed to introduce "openness" and "restructuring".(45) However, the efforts of Gorbachev for industrialisation via partial liberalisation and decentralisation failed, and led to accept more fundamental reform with international institutions, namely IMF, the World Bank, the Organisation of Economic Cooperation and Development (OECD), and European Bank of Reconstruction and Development (EBRD).(100, 101) Since the dissolution of the Soviet Union in 1991, all 15 former Soviet republics have attempted to reform their economies including the encouragement of foreign direct investment (FDI), privatisation of state-owned companies, and liberalisation under supervision of the above institutions.(45, 102) As a result, hundreds of thousands of firms were privatised across the FSU during one decade (103), and private sectors in some states, including Russia, Kyrgyzstan, and Kazakhstan, covered more than half of GDPs in their own states(104). This policy led to a flood of FDI, in particular, to the energy rich countries, including Russia, Kazakhstan and Azerbaijan.(105) The outcomes of this economic development policy in FSU were far less positive.(106) GDP of the FSU during the first 10 years declined by up to 60 percent and individual states also experienced declines of their GDP.(106)

The 15 independent states inherited individual state-owned tobacco monopolies when the Soviet Union collapsed. However, due to the decline of the previously operational central system of tobacco distribution, production, and import, the industry in all 15 states lapsed into a chaotic situation.(5) TTCs saw this as a "golden opportunity" because of the region's large population, shortage of cigarette supplies, and the states' embrace of market reforms.(33, 45) Analyses to date suggest that given that TTCs' main strategy to gain access to FSU markets has been through FDI, most of the states sought foreign investors to stimulate economic growth.(45) Through FDI, TTCs established local production, licensing arrangements, or leaf development with local tobacco companies. While TTCs attempted to gain market access by pursuing legal agreements to facilitate FDI within these countries, the existing literature suggests they also deployed the contraband trade in selected countries in order to gain market share and build brand awareness of imported cigarette brands.(33) TTCs' investments and market access strategies in the FSU had an impact on the capacity of cigarette production and changed the types of cigarettes produced. Whilst during the Soviet period most cigarettes were filter-less or low-priced filter brands, after TTCs' entrance to the markets, western-styled and luxury filter brands became mainly produced in the region.(45)

Russia and Ukraine have been the most popular countries for TTC investment, with the three smaller Baltic States, Latvia, Estonia, and Lithuania also receiving foreign tobacco investment. TTCs have also targeted the three central Asian republics of Kyrgyzstan, Uzbekistan, and Kazakhstan. In contrast, TTC investment in the Caucasus, which used to be a region of major leaf tobacco production during the Soviet period, has been delayed due to political instability within the three countries in the region - Georgia, Armenia, and Azerbaijan. There are still five remaining states in the FSU which have yet to see any investment by TTCs. Georgia, Belarus, Turkmenistan, Moldova, and Tajikistan have no investment due to resistance to privatising the economy, instability of their governments, or civil unrest. (45)

TTCs also targeted Eastern Europe in the 1990s.(45) Based on market research undertaken by TTCs, it was believed that the best strategies to enter Eastern European countries were exporting international brands, as the short-term prospects and manufacturing investment as the main opportunity for the medium prospects.(107) The main countries for investment included Poland, Yugoslavia, Romania, Bulgaria, Czechoslovakia, and Hungary. (107)

Although there was a wide range of regulation to discourage smoking in the Soviet period including bans on advertising, smoking in public places, and health warnings on cigarette packages, these anti-smoking policies were not effective. Thus, after the collapse of the Soviet Union, TTCs' efforts to advertise and promote their brands have been enormous. As a result, in Russia, half of all billboards in the capital city and three quarters of plastic bags in the nation were used for tobacco advertising by the mid 1990s.(45) TTCs also sought to use political channels through lobbying high-level contacts in order to weaken or delay implementation of tobacco control regulations, such as banning tobacco advertising and smoking in public places, requiring retail outlets to be licensed, and introducing health warnings on cigarette packages.(108)

2.4 Summary

To date, analyses of TTCs' strategies for market access and demand creation have tended to focus on analysing specific countries or regions as individual case studies. There have been limited attempts to compare and integrate these analyses. The specific market access strategies and tactics for expanding market share in each of the countries and regions reviewed above is summarised in Table 2.1-2.8.

The above review of the literature supports the need for further theorising about TTCs' activities across countries and regions to explain, not only how TTCs accessed emerging markets under different contexts and conditions, but also whether there are identifiable patterns in TTC behaviour. Comparative analysis across emerging markets, in relation to the economic development models adopted by these countries, forms the basis of the conceptual framework set out in Chapter 3.

Table 2.1: TTCs tactics for market access and expansion in Latin America

Region	Tobacco industry structure before TTCs' market access	Market liberalisation	TTCs' market access tactics	TTCs' tactics for expanding market share	
				Supply	Demand
LATIN AMIERICA (4, 5, 36, 46, 50)	Tobacco industry in the region took place to cover local use rather than exports. "Dark" cigarettes, produced by dark tobacco leaf, air-cured tobacco dominated the region. Most tobacco industries became privatised by the mid-nineteenth century.	TTCs' acquisition of local tobacco companies in the region.	Under the development policy to reduce imports, foreign investment, including leaf development, JVs, and local production, were welcomed by governments in the region. Through these investments in tobacco industry, TTCs readily acquired local tobacco companies. Contraband trafficking in cigarettes supported TTCs' efforts to convince governments to accept JV agreements.	In order to established brand awareness in the region, smuggled cigarettes were supplied.	TTCs attempted giving contemporary life-styles to their brands and led the brand change from "dark" to "white" cigarettes. Various marketing, advertising, and promotional activities were conducted.

Table 2.2: TTCs tactics for market access and expansion in Japan

Country	Tobacco industry structure before market liberalisation	Market liberalisation	TTCs' market access tactics	TTCs' tactics for expanding market share	
				Supply	Demand
JAPAN (41, 55-66, 68-70)	The state monopoly, Japan Tobacco and Salt, controlled production, distribution, sales, and advertising of tobacco industry. TTCs dominated only 1.5 percent of the overall market.	Japan abolished the excise tax in 1987 as a result of the USTR's threat of trade sanction under Section 301. Although the Monopoly has been privatised, the Japanese Ministry of Finance owns 50 percent of the total company stocks now.	The US based TTCs lobbied high-quality contacts including Senators and Congressmen to get support for liberalisation of the Japanese market. The USTR convinced the Japanese government to lower the tariff on imported cigarettes and allow TTCs to advertise its brands on TV, magazines, and billboards. TTCs adopted the power of Tobacco Institution of Japan to delay a tobacco advertising ban on TV. TTCs hired local scientists and other third parties in order to undermine tobacco control policies and regulations.	By signing the contracts with the Japanese trading companies, TTCs created their own distribution networks of licensed shops.	Marketing research to identify population to target was undertaken before and after the market liberalisation. By eliminating the excise tax on imported cigarettes in 1987, price of TTCs' brands became equal with domestic brands. This contributed to increase new young smokers. TV advertising was mainly used as the best way to build demand for imported cigarettes. Since TV advertising was banned, TTCs had alternatively sponsored sports and entertainment events.

Table 2.3: TTCs tactics for market access and expansion in Taiwan

Country	Tobacco industry structure before market liberalisation	Market liberalisation	TTCs' market access tactics	TTCs' tactics for expanding market share	
				Supply	Demand
TAIWAN (8, 38, 74-76)	Taiwan Tobacco and Wine Monopoly Bureau, the state body, controlled the Taiwanese tobacco industry. The Monopoly contracted with only 10,000 licensed retail outlets to distribute cigarettes across the country. Foreign cigarettes only dominated 2 percent of the overall market.	The government removed monopoly control of the tobacco industry, reduced the excise tax and allowed foreign competitors to promote and market their brands as a result of the USTR's threat of trade sanctions under Section 301.	TTCs persuaded the US government to take up their Taiwanese case and then the USTR threatened the government to remove a ban on imported cigarettes.	Contraband cigarettes were supplied from betel quid stalls because cigarettes were legally available only at licensed retailers dominated by the TTWMB. TTCs expanded the existing betel quid street vendors to improve distribution networks for their brands.	To build brand awareness and image of imported cigarettes before market entry, TTCs smuggled their products into the market. Mild and light cigarettes were introduced to encourage the youths and females as well as potential quitters to smoke. Aggressive promotional activities at point of sale, on TV and magazines were carried out.

Table 2.4: TTCs tactics for market access and expansion in Thailand

Country	Tobacco industry structure before market liberalisation	Market liberalisation	TTCs' market access tactics	TTCs' tactics for expanding market share	
				Supply	Demand
THAILAND (80-82)	The Thai tobacco industry was monopolised by Thailand Tobacco Monopoly. The Monopoly was solo monopoly, legal manufacturer and also importer of foreign cigarettes until 1991.	The GATT obliged Thailand to unlock its tobacco market to imports in 1990, and as a result the Thai government lifted the barrier on imported cigarettes.	TTCs repeatedly lobbied the USTR for the Thai case, but to no avail. Alternatively, TTCs employed the power of the GATT to gain access to the Thai market. Due to the restricted tobacco control regulations in the country, TTCs emphasised their activities to delay, delete and undermine the regulations through political activities.	BAT and RJR initially tried JV negotiations and licensing arrangements with the TTM, but it failed. TTCs' retailer incentive programme was deployed in order to expand distribution networks.	TTCs cut down price of their brands to raise market share. Sports sponsorship programme built brand awareness and image of TTCs products to the youth. TTCs introduced cheaper brands such as L&M instead of PM's Marlboro. Advertisings on imported magazines and broadcasts from abroad via radio or TV were undertaken.

Table 2.5: TTCs tactics for market access and expansion in China

Country	Tobacco industry structure before market liberalisation	Market liberalisation	TTCs' market access tactics	TTCs' tactics for expanding market share	
				Supply	Demand
CHINA (54, 85, 86)	Once the People's Republic of China was established in the early 1950s, the Chinese tobacco market was closed. Since then, China National Tobacco Corporation (CNTC) controlled the tobacco industry. After the 1975 Cultural Revolution, the Chinese government decided to open its door against foreign investments.	BAT exported the first foreign cigarette to the Chinese market in 1890 and dominated an 82 percent of the total market share at the time. However, the industry was closed to foreign investments under the Communist system. After re-opening of the market due to the 1975 Cultural Revolution, TTCs have struggled to gain access through leaf development, JV agreements and reduction of the excise tax on imported cigarettes. The foreign investments was formerly legalised in 1979.	Due to the complex bureaucracy of the tobacco industry between central and provincial government, TTCs tried to establish good relationships with local authorities. In order to achieve JV agreements and local manufacturing agreements with the local tobacco companies, and to reduce the excise tax on imported cigarettes, TTCs lobbied high contacts in the government. TTCs emphasised 'corporate social responsibility' activities to establish public relations to protect marketing freedom and undermine health regulations.	In order to penetrate the Chinese market, TTCs supplied contraband cigarettes to the market. Technical assistance projects through JV, leaf development and licensing manufacturing were signed between TTCs and the Chinese government.	TTCs created the images that smoking imported brands were western lifestyles, young and active. In order to build brand awareness, promotional activities focusing on the youth, young adults and females were intensively carried out. TTCs had efforts to manipulate scientific research of smoking and health by hiring local scientists.

Table 2.6: TTCs tactics for market access and expansion in Vietnam

Country	Tobacco industry structure before market liberalisation	Market liberalisation	TTCs' market access tactics	TTCs' tactics for expanding market share	
				Supply	Demand
VIETNAM (88, 90-92)	The Vietnamese tobacco market was dominated by the state monopoly, Vietnam National Tobacco Corporation (VNTC), and other provincial tobacco companies.	TTCs' first attempt to gain access to the Vietnamese market was JV agreements. BAT and the VNTC signed an agreement to negotiate JV in 1991, and signed licensing agreement in 1994. In 1994, Rothmans, RJR and PM signed licensing agreements with local tobacco manufacturers.	TTCs offered to the Vietnamese government leaf development in order to achieve JV agreements and local production.	TTCs supplied contraband cigarettes to build brand awareness of their products. Through local production and JV agreements, TTCs supplied their brands to the market legally.	Contraband cigarettes created demand for imported cigarettes before and after market liberalisation.

Table 2.7: TTCs tactics for market access and expansion in Indonesia

Country	Tobacco industry structure before market liberalisation	Market liberalisation	TTCs' market access tactics	TTCs' tactics for expanding market share	
				Supply	Demand
INDONESIA (94-99)	The Indonesian tobacco market has unique nature. Only 10 percent of the total tobacco use was consumed by white cigarettes, while traditional cigarette, *Kreteks* dominated the market with 88 percent. The Indonesian tobacco industry, as the labour intensive business, has been consistently supported by the government	BAT's involvement in the Indonesian market began with the acquisition of a factory on Java in 1908. PM established JV agreements with a local tobacco company in 1971. Through industry investment, TTCs had an effort to penetrate the market.	In order to reduce tax on imported cigarettes, TTCs lobbied the government and sought the support from leading economists in the country to lend academic credence regarding taxation and pricing of cigarettes.	A JV agreement was the main strategy employed by TTCs to supply imported brands to the market.	TTCs generated a rink between imported brands and America to build demand for their products. BAT tried to develop new brands to change *kretet* smokers to smoke white cigarettes. Mild and light cigarettes were introduced to encourage females and the youth to smoke.

Table 2.8: TTCs tactics for market access and expansion in the FSU

Region	Tobacco industry structure before market liberalisation	Market liberalisation	TTCs' market access tactics	TTCs' tactics for expanding market share	
				Supply	Demand
THE FORMER SOVIET UNION (5, 33, 45, 107, 108)	Following the collapse of the Soviet Union, the 15 independent states inherited its own government tobacco industry. Due to breaking down of the previous central system of tobacco production, distribution and import, the tobacco industry was in chaos.	TTCs employed FDI as the main strategy to gain access to the markets in the FSU.	TTCs adopted political power through lobbying activities in order to enter the markets and undermine tobacco control policies.	TTCs established licensing arrangements and leaf developments with local tobacco companies through FDI. Smuggling strategy has been deployed to supply TTCs' brands to the selected states.	TTCs aggressively undertook marketing strategies to build brand awareness and create demand for their products. Western styled cigarettes were introduced. Billboards on the streets and plastic bags were used for advertising of TTCs' brands.

CHAPTER 3 CONCEPTUAL FRAMEWORK

3.1 Introduction

Based on the review of the existing literature in Chapter 2, this chapter puts forth the conceptual framework that will frame analysis of tobacco industry activities in South Korea from the 1980s onwards. It is argued that, while analysis of individual countries and regions to date, largely based on internal tobacco industry documents, have provided valuable insights into the strategies and activities of TTCs worldwide, fuller understanding of the global expansion of TTCs can be derived from linking these strategies and activities to the type of economic development models adopted by emerging markets.

Drawing together existing understanding of TTC strategies within Latin America, Asia, and the Former Soviet Union (FSU) and eastern bloc countries, this chapter proposes a conceptual framework that will provide a fuller understanding of the market access and expansion strategies of TTCs in South Korea. The application of this conceptual framework to the South Korean context is provided in Chapters 5-7.

3.2 Economic development models by region

This section more fully describes the economic development models that were adopted in Latin America, Asia, and Eastern Europe.

3.2.1 Industrialisation of Latin America, Asia, and the Former Soviet Union

As described in Chapter 2, governments in the Latin American countries adopted import substitution economic development model for their industrialisation. Following the transformation of global political economy (GPE), led by the Great Depression in the 1930s, the countries focused on self-sufficiency by developing domestic industries. Given this, key industries in the region were intensively protected against foreign competition by adopting high import tariffs, import quotas, and so on. However, foreign direct investment and ownership for developing domestic industries, resulting in improvement of productivity and quality of domestic goods, were often welcomed by governments.(4, 5)

Similar to the Latin American countries, following various international and internal conflicts and gaining independence from colonial rule, many Asian countries also initially opted for an import substitution model in the early stages of industrialisation.(46) However, most Asian countries soon switched their economic and trade policies to a state-led and export-oriented industrialisation in the 1950s onwards.(46, 109) Export-oriented industrialisation is a trade and economic policy aimed at achieving the industrialisation of a country through exports.(47, 110) As the background of this change of Asian countries, the US took place an important role. Most Asian countries aligned themselves with the US geopolitical strategy of building a "containment belt" of capitalist countries around China and other Communist countries, thus receiving specific incentives from the US most notably access to a large export market.(46, 111) These incentives were a significant factor in the different economic development models adopted by Latin America and Asia, while providing the US with considerable influence in many Asian countries. An outward oriented economic development strategy in the Asian countries, which used exports as the engine of growth, contributed greatly to the region's economic transformation.

The process of economic development in the FSU and former Communist countries from the late 1980s, took place under specific historical conditions. Prior to this period, industrialisation in the Soviet Union and its satellite states of Eastern Europe was accomplished via state planning under the Communist system. Following the collapse of the Communist system, the newly independent states experienced considerable political and economic turmoil. They faced the challenge of reconstructing their economies which were considerably less developed compared to Western countries. Most of these states opted for mass privatisation and liberalisation of foreign investment, often acting on the advice of foreign donors or international institutions, such as the International Monetary Fund (IMF) and the World Bank.(45)

3.2.2 Attitudes towards foreign direct investment

A key distinguishing feature of the different economic development models described above lies in their approaches to foreign direct investment (FDI). Under their export-led economic policies, Asian countries used selective protection for key industries until they were competitive in the world market, and strictly controlled FDI. In contrast, despite Latin American countries opting for blanket protection against imports across most industries under the import substitution model, foreign investments were allowed almost unchecked. Moreover, governments even encouraged transnational companies (TNCs) to play a leading role in many economies, allowing them to acquire local industries, because foreign companies were seen as a vital source of technology and capital. As a result of that, from the 1960s, TNCs extended their grip on the most dynamic sectors of Latin American economies.(46) Similarly, countries of the FSU and Eastern Europe also believed they needed FDI to rebuild their broken economies. From the 1990s, therefore, FDI flowed into the region over time. For example, FDI towards Russia, the largest state of the FSU, increased from US$5.5 billion in 1995 to US$98.4 billion in 2004, and Kazakhstan's FDI also rose from US$2.9 billion to US$22.4 billion during the same period.(112)

The degree of openness to foreign investment therefore played a crucial role in each of the three development models. Under import substitution in Latin America, whilst imports were discouraged through high tariffs and import quotas, foreign investment was generally permitted and often welcomed. In the FSU and Eastern European countries in the 1990s, foreign investment was actively facilitated by governments and international institutions, alongside broad policies of privatisation and liberalisation. In

East Asia, by contrast, state-led and export-oriented development relied on strategically protecting key industries from imports until they were able to compete effectively in the world market, and this was combined with widespread hostility to foreign ownership; even where trade barriers were removed or reduced in any given sector, there was a strong preference for maintaining majority ownership by nationals.

3.3 Regional comparison of TTC strategies

3.3.1 A comparative analysis on TTCs' market access strategies under economic development models

Chapter 2 reviews the existing literature on the strategies used by TTCs in seeking market access to individual countries or regions during each of the three phases of market expansion. Looking across these studies with an understanding of different economic development models, it appears that TTCs' strategies to obtain a foothold in new markets were clearly different in accordance with the economic development models, which the targeted countries or regions adopted.

Literature review on TTCs' market access to Latin America confirms that the main tactics of companies to gain access to the region from the 1960s to 1970s was acquisition of local tobacco companies through the establishment of subsidiaries, licensing agreements, and joint venture (JV) agreements of various forms.(4, 5, 36) The form that TTC entry to Latin American markets took was largely determined by the import substitution policies pursued by governments there, which combined high trade barriers with an uncritical attitude towards foreign investment. The industrialisation model of import substitution encouraged governments to locally manufacture tobacco products given that the industry was ideally suited to import substitution, and was a substantial contributor to governments' tax revenues. Thus, the local production of tobacco products was given high priority. The suitability of tobacco manufacturing to import substitution, together with governments' uncritical attitude to foreign investment, allowed TTCs to gain access to Latin

American markets after 1960.(4) Initially, TTCs supported local tobacco companies and supplied manufacturing technology and skills, as well as capital for local production of cigarettes, but subsequently TTCs attempted to acquire the local companies by exploiting their high dependence on TTC support.

How did TTCs' detailed strategies for market entry to Latin America generally work within emerging markets? When TTCs successfully signed production agreements with local tobacco companies, the benefits were certain, thus the strategy was usually deployed by TTCs in the early phase of access to new markets. By producing locally, TTCs were able, not only to avoid high tariffs and expensive transport costs, but also to take advantage of lower-priced local tobacco leaf and labour. With reduced production costs, TTCs could invest more in advertising and promotion activities for their brands, and supply cheaper priced products to markets.(5, 113) Through a licensing arrangement, local companies produced and sold TTCs' brands under agreement which was seen to offer high quality and fuller flavours compared to local brands. Similarly JV agreements between TTCs and local tobacco companies offered improvements in efficiency and quality of local tobacco production by adopting TTCs' manufacturing technology and knowhow.(88) As a result of licensing and JV agreements, the dependence of local tobacco companies on TTCs significantly increased and, subsequently, the local companies were more easily and cheaply acquired by TTCs.(33) These tobacco industry's strategies were generally welcomed by many Latin American governments because they boosted tax revenues by increasing cigarette sales and appeared to solve the contraband problem which was causing a loss of tax revenue. Since government opposition to TTC market entry was limited, TTCs' appear not to have needed to engage in extensive political activity in order to gain entry, although they have subsequently acted politically to advance their interests.

There is little analysis so far on TTC activities in Latin America, so the evidence on the region comes mainly from Shepherd's analysis of barriers to entry in the tobacco industry using economic theory rather than a public health perspective.(4) There remains much to understand about TTCs' market expansion strategies in Latin American countries.

In contrast to Latin America, as described in Chapter 2, during TTCs' second phase of overseas market expansion focused on selected Asian countries from the 1980s until the early 1990s, TTCs' market access strategies concentrated on political activities[6] including lobbying, since these markets were largely closed to foreign tobacco manufacturers. The review of literature found that Japan, Taiwan, and Thailand, as well as South Korea were subjected to intense pressure from the US Trade Representative (USTR) as a result of TTC lobbying. These countries opted for a model of state-led and export-oriented industrialisation, and also received economic support from the US as part of its geopolitical strategy.(114, 115) This close economic and strategic relationship with the US created a degree of dependence on the US which proved significant in relation to the tobacco industry.

Within this context, TTCs' behaviour in seeking market access to Asia really focused on political activities to influence governments. The general hostility to foreign ownership in these countries, as described in Section 3.2.2, and the potential for TTCs to influence the USTR to exert pressure or refer cases to the General Agreement on Trade and Tariffs (GATT), meant that this political activity was primarily focused on trade liberalisation rather than acquisition of domestic companies.

The forms of political tactics used by TTCs can be characterised as direct and indirect. TTCs' direct tactics to assert political influence has included the use of contracted political lobbyists to influence state legislation.(116, 117) These lobbying efforts have provided the tobacco industry with support from legislators. For this reason, TTCs spent huge amounts on professional lobbying firms, and also donated millions of dollars to federal candidates, national parties and non-party political action committees in attempts to gain political engagement.(118) The indirect form of TTCs' political activities has focused on tobacco control policies by undermining the

[6] **Political activities** in this research are defined as formal political processes rather than a broader definition of political.

scientific evidence on tobacco and health. This activity has often been coordinated through front organisations and paid consultants, such as the Council for Tobacco Research (formed in 1954 to fund scientific research on the link between smoking and lung cancer)(119), and the International Committee on Smoking Issues (formed in 1977 and changed its name to INFOTAB in order to coordinate anti-tobacco control strategies).(120) TTCs also worked indirectly in advance of tobacco control policy's enactment to delay its implementation by hiring local experts and other third parties.(121-124)

TTCs' political activities in Asia included the use of contracted lobbyists and front groups to influence governments' legislation. The lobbying efforts provided TTCs with support from governments and legislators, who were prepared to support trade liberalisation, in these countries. At the domestic level, US-based TTCs worked through the US Cigarette Export Association (USCEA) to raise the issue of discriminatory trade by the Asian countries against their products. In order to remove bans on imported cigarettes in the Asian countries, TTCs recruited special political lobbyists and attempted to lobby and convince government officials of the targeted countries, US's Senators and Congressmen, the USTR, as well as the US President. (38, 82, 125, 126) This pressure eventually led to the removal of bans on imported cigarettes in Japan and Taiwan. In the case of Thailand, as described above, when TTCs failed to liberalise the market due to greater resistance by the government, the USTR alternatively resorted to pressures the government to lodge a complaint under the GATT. The Dispute Settlement Body (DSB) found in favour and Thailand was required to lift its restrictions on imported cigarettes.(38, 82, 125, 126)

Meanwhile, TTC entry into the markets of the FSU was historically specific, taking place after the collapse of the Soviet Union. Given their less developed economies compared to the industrialised western capitalist countries, following the collapse of the Communist bloc, these governments invited foreign investment in order to attract capital for economic development.

This process was also facilitated by international institutions, such as the IMF and the World Bank. TTCs were quick to take advantage of this situation, and usually acquired domestic companies in their entirety, as they had often done in Latin America in an earlier period. The literature also documents the use of political activity by TTCs at this time in order to secure their investments on the best terms possible to them.(127)

There is a slight difference in foreign investment by TTCs towards the regions of Latin America and the FSU. As described in the previous section, the Latin American countries had strict trade barriers to reduce imports and protect domestic industries from foreign competition. Foreign investment, as part of market access strategies, thus, was used by TTCs to mitigate the existing trade barriers. Given this, the investment focused on supporting leaf development and providing manufacturing technology to local companies. However, governments in the FSU highly depended on foreign aid and investment for reconstruction of economies, given the lack of resources to recover broken economies in the region. Within this context, TTCs' investment in the FSU was relatively less controlled by governments.

Although China, Vietnam, and Indonesia belong to the region of Asia, given the different economic development model and political contexts, TTCs' market access to these three countries were different from the tactics TTCs used in Japan, Twain, and Thailand. TTC strategies to gain access to China were more similar to other East Asian countries although the country was under a Communist system, because the Communist system in China has not collapsed in the way it did in the FSU and Eastern Europe. Given the difference of Chinese government policy for economic development, TTCs were not able to access the Chinese market as easily as they gained access in the FSU and Eastern Europe. As described, TTCs attempted the agreements of JV with the monopolised company, but due to the ban on foreign ownership in any kind of domestic companies in the country, these tactics did not succeed. TTCs also continued to attempt gaining a foothold to the Chinese market by using the power of the USTR, but the government has been able to resist the pressure to liberalise trade in tobacco products. Furthermore, TTCs attempted to use China's accession to the World Trade Organisation (WTO) to gain access to the Chinese market, however, the efforts were also largely unsuccessful.(7) TTCs tactics to access Vietnam were also different from other Asian countries and Latin America. Under the Communist system, the Vietnamese government sought economic development by increasing exports to the Soviet Union rather than the US. Unlike the geopolitical contexts of Japan, Taiwan, South Korea, and Thailand, Vietnam's export-oriented economic development model created a greater dependence on the Soviet Union. However, with the collapse the Soviet Union, government policies for industrialisation had to be transformed. Within this context, TTCs attempted to invest in local companies in the form of leaf development and licensing agreements with the monopolised tobacco company and have also adopted contraband trade as market access tactics. TTCs' specific tactics to gain market access to Indonesia also seems to have been different to other Asian countries. It appears that, because the Indonesian government did not adopt the same economic development model as other Asian countries, and was highly dependent on foreign aid and investments for industrialisation, the market access strategy pursued by TTCs was foreign investment to local tobacco companies. In this sense, the experience in Indonesia seems to be similar to Latin American countries.

Through a comparative analysis of TTCs' behaviour in seeking access to markets in Latin America, Asia, and the FSU, this review suggests that TTCs' strategies varied in relation to the economic development models of the targeted countries, and the governments' attitudes towards foreign investment.

3.3.2 TTCs' tactics for demand creation by regions

Based on the review of the existing literature in Chapter 2, this research finds that, despite variation in market access strategies, TTCs appear to have acted similarly in terms of their strategies for demand creation over the three phases of global expansion. The reason, as explained by Shepherd who analysed barriers to entry in the tobacco industry, has been "consumer preference" which is usually created by advertising and promotion for new products, and to a lesser extent differences in product form and packaging.

Once TTCs successfully open closed markets, their interests focus on creating and stimulating demand for imported brands. Shepherd argues that "consumer preference" is the most powerful entry barrier to new entrants in the tobacco industry. Consumer preference may arise through the location of retail outlets, the provision of exceptionally good service by firms, the technology to produce physical differences in a product, or the creation of a favourable image of a product. The first two factors result from the manufacturer's investment in supply conditions, such as distribution networks, sales forces, and market research, but they are unlikely to be decisive in most markets.(4, 36) The third factor, technology for producing differences in products or packaging, has permitted TTCs to gain a foothold in monopolised markets. However, the advantages gained by companies on the frontier of product technology are usually short-term, mainly because the differences are easy to copy. The fourth factor, the creation of favourable brand images through mass advertising and other types of promotion, reinforce differences in product form and packaging. Most industry analysts agree that established consumer preferences for existing products constitute the major obstacle to new entrants, and that demand creation through branding and related marketing techniques has been the most important source of the high degree of concentration in the industry.(36) Therefore, the consumer loyalties of existing brands are a powerful barrier to entry and make it difficult for new entrants to build brand awareness and loyalty.

As discussed by Shepherd, TTCs' entrance into new markets was typically accompanied by detailed industry-conducted market research, sophisticated and effective advertising, and promotional activities to change existing consumer preferences and create greater demand for imported brands. TTCs undertook enormous expenditure through these marketing strategies for consumer preference. The literature reviewed in Chapter 2 clearly supports Shepherd's argument.(4) TTCs' tactics to create demand in Latin America, Asia, and the FSU for their brands took a similar form, consisting of aggressive advertising and promotion in the media and at point of sale; targeting particular population groups such as young adults and females; introduction of light and low tar cigarettes; and promoting images of western lifestyles and a sense of personal freedom as associated with TTCs' imported brands. Additionally, political activities and influence were used by TTCs to mitigate existing and emerging tobacco control policies, and to enable activities to create and sustain demand for their brands. Given the above, it is argued that emerging markets engaged in market liberalisation with TTCs must be well prepared to deal with such demand creation tactics by TTCs.

3.3.3 Response of local tobacco companies to TTCs

Based on the review of the literature in Chapter 2, it is argued in this research that there have been differences in the responses of local tobacco companies in the targeted countries and regions depending on the specific strategies used by TTCs to gain market access.

Since market access was gained by TTCs, the domestic monopolies in Asian countries have been transformed, but the transformations were different from that which took place in Latin American countries and the FSU. Unlike TTCs' acquisition of local companies in both regions, the monopolies in Japan and Taiwan were privatised. The different economic development model adopted in countries within Latin America, the FSU, and Asia seems to have influenced the different forms of transformation of domestic companies after TTCs' penetration. Domestic companies in Latin America mainly pursued strategies to meet local demand, rather than exporting their tobacco products to overseas markets under an import substitution economic development model. Governments in the Latin American countries believed that TTCs' acquisition of local companies could improve local production of tobacco product.

Monopolised and state-led tobacco companies in Asian countries, however, intensively focused attention on competition with new entrants after trade liberalisation. Governments in Asia believed that TTCs penetrated and circumvented their monopolised companies, resulting in negative impacts on their exports. Thus, local companies were quickly turned into market-oriented companies via privatisation, and prepared for competition with TTCs. Although state-owned companies in Asia were often privatised after liberalisation, they have been continually protected by governments rather than selling off or allowing foreign ownership. This is because, even after liberalisation, tobacco industry still has an important role for export-oriented economic development model in Asian countries.

The Japan Tobacco and Salt Public Corporation was privatised in 1985, changing its name to Japan Tobacco Incorporated. However, as described above, despite this transformation, the Japanese Ministry of Finance retained half of the company's shares, which means the privatised company remained largely under the control of the Japanese government. The Taiwan Tobacco and Wine Bureau, the Taiwanese state monopoly, was also privatised in 2002 after Taiwan joined the WTO. Meanwhile, the Thailand Tobacco Monopoly (TTM) is still a form of monopoly to date, although the tobacco market was liberalised in 1990. Even though the country pledged to privatise the state-owned companies under the pressure of the IMF in order to overcome the Asian economic crisis in 1997, the nation's health groups strongly opposed the privatisation of TTM, arguing that the privatisation would increase smoking rates among women and the young. Moreover, the employees of the TTM also participated in opposing the privatisation, fearing that it would result in losing their jobs.(81) The monopolies in these countries, which conformed to the Asian development model for industrialisation, including hostility to foreign ownership, have not been acquired by TTCs, although the governments removed trade barriers such as high tariffs and bans on imported cigarettes, under political pressure.

3.4 A conceptual framework for understanding TTC activity in South Korea

3.4.1 TTC strategies and economic development models

The conceptual framework of this research begins by arguing that TTC activities from the 1960s can be broadly relate to the economic development models adopted in the targeted countries and regions, and to governments' attitudes towards foreign investment. The patterns of TTC behaviour suggested by the literature review along with a comparative analysis, in seeking market access and expansion lead to the following observations:

- To gain access to the countries adopting the import substitution growth model for industrialisation, TTCs have attempted to acquire local tobacco companies, preceded or accompanied by leaf development, local production, licensing manufacturing, and JV agreements.
- To gain access to the countries adopting a state-led and export-oriented growth model for industrialisation, TTCs have used political power to impact on government's decisions and exert pressure for trade liberalisation.
- To gain access to the former Communist countries seeking reconstruction and development of their economies, TTCs have used FDI as the main strategy.
- Demand creation activities were extensive and similar in all regions throughout the period since 1960.

This suggests that TTCs seem to have been influenced by the country's economic development model for industrialisation, and the government's attitude towards foreign investments.

The conceptual framework developed for this research, argues that TTCs market expansion, from the 1960s onwards, was shaped by the economic development models adopted by developing countries and regions, and governments' attitudes towards foreign investment. In relation to this research, in order to understand TTC behaviour to enter the South Korean market, as an examplar of the 'Asian development model', it is argued that important insights can be gained by analysing such strategies against Korea's economic policies and attitudes towards FDI. It is also argued that this approach, not previously applied to analyse tobacco industry activities, provides a fuller understanding of the broader political and economic context behind TTC activities in South Korea, as well as potential insights into the expansion of TTCs into other emerging markets.

3.4.2 The South Korean economic development model

Based on the conceptual framework described above, the specific features of South Korea's political economy must be understood. After experiencing over three decades of Japanese colonial rule (1910-1945), and then the Korean War (1950-1953), South Korea emerged as one of the poorest countries in the world.(128) During the period of Japanese colonisation, although the Korean economy grew 4 percent per year, the main beneficiary of this growth was Japan and the Japanese people that lived in South Korea. In addition, the Korean War destroyed about half of the country's infrastructure. Between 1953 and 1960, recovery of the war-ravaged economy was emphasised which led to slow improvement. This was because the first South Korean government, under President Seung Man Lee, was heavily dependent upon foreign aid from allies (mostly the US) and economic policy was based on import substitution.(26)

In 1961, when General Chung Hee Park took power following a military coup, Koreans were poverty-stricken and rapid economic development was urgently needed. In order to achieve a breakthrough, the Park regime established the Economic Planning Board in the Ministry of Finance (MOF) in 1961, and sought to identify an appropriate development strategy for the country.(28) Import substitution, the early economic development strategy adopted by the Korean government, was recognised as unsuccessful due to the small size of the domestic market, lack of natural resources, and continuous decline of foreign aid after reaching a peak in 1957.(26) For these reasons, the government modified its policy from an import substitution, to a state-led and export-oriented development strategy from 1962 which targeted the development of light industry, infrastructure, expansion of domestic savings, and accumulation of foreign capital through export earnings.(129)

In order to achieve this new industrialisation strategy, the Economic Planning Board initiated the first and second Five-Year Economic Development Plans from 1962 to 1971. The result was a remarkable transformation of the economy. South Korea assumed the status of a Newly Industrialising Country (NIC) by the 1970s.(128) Five-Year Plans continued to be undertaken. From the third Plan in 1972, the government focused more attention on heavy and chemical industries rather than light industry. A total of seven Five-Year Plans from 1962 to 1997 were carried out to achieve rapid industrialisation, and economic growth stabilisation.

Importantly, Korea's industrialisation process under this export-oriented development strategy was led by the actions of the government from the early stages, because sufficient investment could not be provided by the private sector alone following the long period of Japanese colonisation and the Korean War.(26) This state-led development firstly sought to transform the export market. For this purpose, the government selectively relaxed import restrictions in light industries in order to encourage industry to focus more on foreign markets by reducing the possibility of making a high profit in the domestic market. This policy of the government successfully led to a transformation of the market to a more externally oriented economy.(129) Moreover, large companies were assigned annual export targets and were closely observed by the government. Once a company succeeded in fulfilling their export goals, the company obtained numerous government benefits including preferential credit and loans, administrative support, and tax reductions. Hence, the growth of Korean companies was fuelled by the export-driven principle, and the companies themselves made efforts to achieve their export goals.(26) In addition, as part of this export-oriented model, the government adopted protective measures for core-heavy industries, such as automobiles. Given their high contribution to national economic development, these industries were protected from foreign competitors' investment, takeovers and ownerships until they became competitive in the world market.(29)

As a result of this state-led and export-oriented industrialisation policy, the share of non-agriculture in gross domestic product (GDP) increased from 60.1 percent to 89.2 percent between 1960 and 1987, while the agriculture sector decreased from 39.9 percent to 10.8 percent. In addition, per capita gross national income (GNI) also increased from US$87 to US$5,199, and GDP of the national economy expanded from US$2.3billion to US$220.7 billion during this period. Total national exports increased from US$55 million to US$61.4 billion.(26, 128) This remarkable economic growth overall was achieved by an expansion of exports, the growth of export industries, and the active involvement of the government in supporting the domestic economy.(26, 128, 130, 131)

On this basis, it is argued in this research that a fuller understanding of the economic development model, adopted by the Korean government during the period of market liberalisation, offers the basis of a framework for conceptualising TTC strategies and activities to gain a foothold in the Korean market. Similar to Japan, Taiwan, and Thailand, which have achieved industrialisation through an export-oriented development model, and consequently experienced trade pressure from the US government on behalf of TTCs, South Korea's pursuit of a similar economic development to these countries would be expected to result in intensive political and economic pressure by the US government, the largest trade ally for South Korea. Analysis of South Korea's tobacco market, in this context, will be provided in Chapter 5.

3.4.3 Geopolitical relationship between South Korea and the US

In relation to this research, and as briefly described in the previous chapter, South Korea's geopolitical relationship with the US is expected to have been particularly important to TTCs' market access strategy in South Korea. After World War II, the US replaced Japan as the main foreign power with a military presence in South Korea albeit, given the Korean War, under very different strategic circumstances. Given its geopolitical and ideological struggle against the Soviet Union, the US saw the protection of South Korea from communism, under its so-called containment policy, as particularly important.(132, 133) Under US foreign policy in the 1950s, South Korea's political and economic reconstruction was an important part of this objective of preventing the spread of Communist influence.(134) However, in asserting geopolitical influence in South Korea, critics argue that the US government intervened in the establishment of the first South Korean government as an independent country by shaping consideration of presidential candidates from the late 1940s. Thus, from the beginning of South Korea's contemporary history, the political influence of the US was strong.(134, 135) In addition, due to the broken infrastructure left behind by the Japanese occupation and then the Korean War, the immediate lack of an economic development strategy coupled with the containment policy of the US brought a high level of economic assistance from the US which proved essential to the early political and economic survival of South Korea.(134)

Within this context, General Chung Hee Park initiated a military coup in May 1961 (5.16 Coup[7]) against the first government of Seng Man Lee, the latter criticised for supporting only the wealthier classes, and successfully seized power.(136) During the Park regime, South Korea was politically

[7] **5.16 Coup (The May Coup d'état)** was a military coup carried out by general Chung Hee Park in South Korea in May 16, 1961. The purpose of the Coup was to bring the stability to the society and implementing the anti-communism policy. After this coup, the military junta, called "Supreme Council for National Reconstruction" took power and began to implement the national reconstruction policy.

stable and focused intensively on industrialisation, with a strong and close relationship with the US.(137, 138) During the period of political turmoil, following Park's assassination in 1978 to the early 1980s, the South Korean economy suffered serious problems, notably decreasing levels of exports and mounting external debts. The unstable economy was mostly influenced by the unstable political situation. Thereafter, President Do Hwan Chun took power in 1980. However, due to the military coup in 1979 which brought him to power, there was widespread opposition to Chun. This led to frequent mass demonstrations by students and young educated people throughout the country. In this unstable domestic situation, Chun flew to Washington in 1981 and met with newly-elected US President Ronald Reagan to seek his support.(134) Following this visit, Reagan buttressed the Chun regime, and promised political and economic support for his government. As a result, Chun's dependence on the US was further increased. Domestically, Reagan's support for Chun's regime accelerated anti-US feelings.(134) In addition, a US State Department official responded to the Kwangju Uprising[8] which is seen as representative of Korea's desire for democracy, as follows: "We recognise that a situation of total disorder and disruption in a major city cannot be allowed to go on indefinitely" (139) This fuelled anti-US sentiments even more, leading to an arson attack on the US Information Service Centre in Busan in 1982, the seizing of US cultural centres, and attacks on US consulates in major cities. These expressions of anti-American sentiment became common in the mid-1980s, setting the scene for complex foreign relations between the two countries on a wide range of economic and political issues. (140)

To summarise, South Korea's relationship with the US, in particular, was a key factor in the political and economic development of the country after the Second World War. Korea's emphasis on export-based economic growth

[8] **Kwangju Uprising** was a student demonstration in Kwangju, in protest against the imposition of martial law, and the arrest of several opposition leaders. In response to brutal police action, demonstrators attacked government, police, and military institutions. An estimated 2,000 people died as a result of government brutality.

and opposition to foreign ownership defined its development paradigm, whilst its geo-political dependence on the US in the context of an anti-communist containment strategy defined its foreign policy. At the same time, Korean sentiment towards the US was a mixture of resigned dependence and, particularly among the younger generation, anti-American feelings. This complex political and economic context, it is argued in this research, played an important role in shaping the available means by which TTCs could attempt to enter the Korean tobacco market. The link between the geopolitics of South Korea and US relations, in short, is a key component of the conceptual framework for this research.

3.4.4 Global political economy of the tobacco industry

The conceptual framework of this research argues that the economic development model adopted by the Korean government, and the country's geopolitical relationship with the US, in turn, offers a fuller understanding of the global political economy (GPE) of the tobacco industry in South Korea,. Briefly, political economy is the study of the interrelationships between political and economic processes. As such, it is an interdisciplinary endeavour which draws political science, economics, and international relations. GPE locates these interrelationships within the globalisation of the world economy which is eroding the boundaries between domestic and global structures and forces.(141) GPE, thus, goes beyond relations between states, seeking also to understand non-state actors (such as private companies) as well as forces and causal relationships that circumvent national borders. The field of political economy is rich in theoretical perspectives and methodological debates whose review lies beyond the scope of this research.

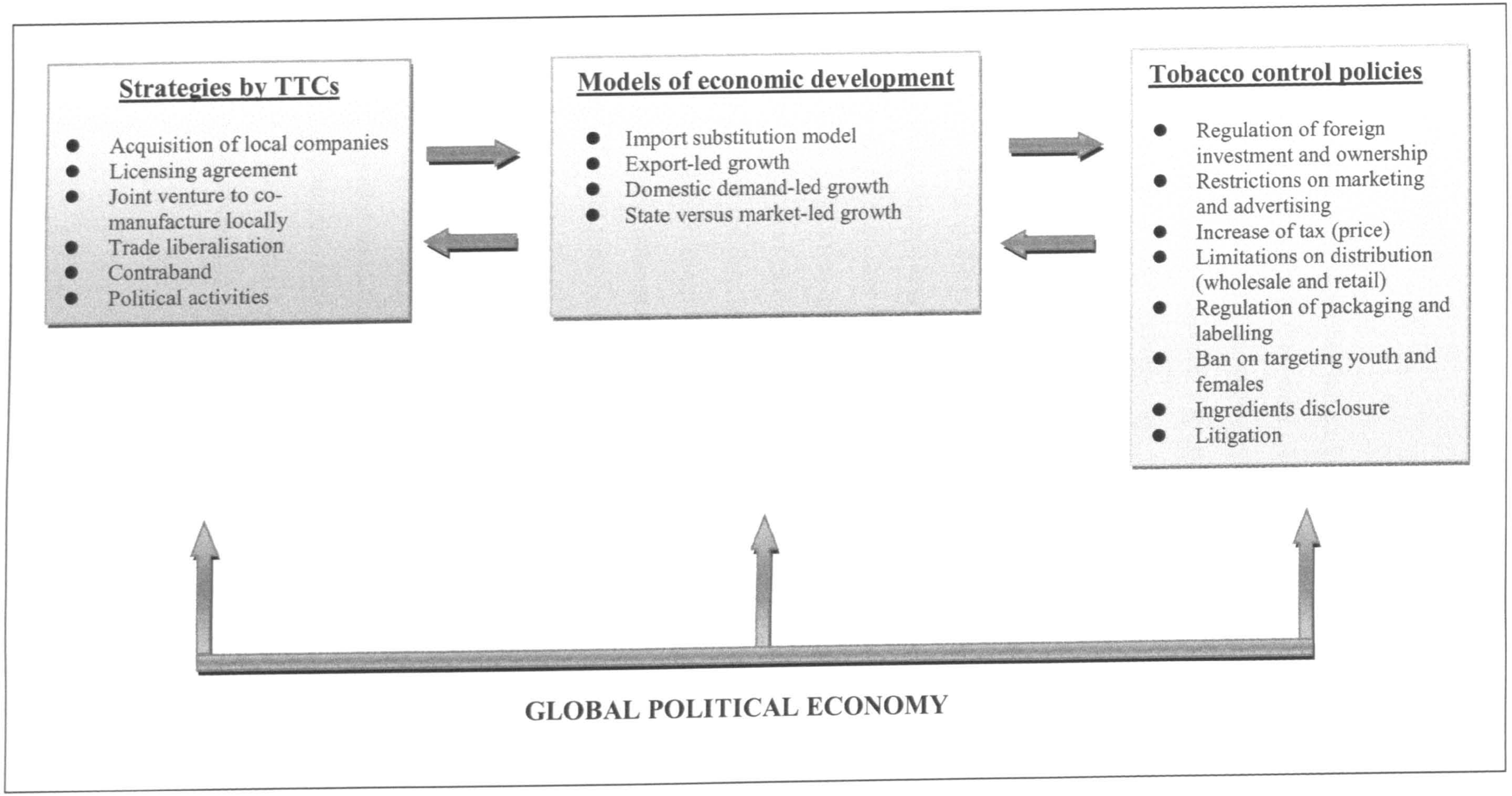
In relation to this research, this is a particularly appropriate approach given evidence of the globalisation of the tobacco industry since the 1980s.(142) The research begins by locating the South Korean economy within the GPE since the Korean War. For the purpose of this research, to understand the tobacco industry in South Korea, broad recognition of the importance of both state and market-based institutions, and the critical importance of global forces in shaping economic and public health policy frames the analysis. The integrated approach of Gill and Law,(143) who privilege the global over the international (inter-state), is especially useful in this respect. Their focus on such factors as the transnationalisation of capital, ascendance of non-state actors including transnational corporations, and corresponding impact of these forces on domestic political and economic processes, will inform analysis of the activities of TTCs and the domestic industry before and after market liberalisation .

3.5 Summary

This chapter puts forth a conceptual framework for more fully understanding TTC strategies and activities for market access and expansion worldwide. Figure 3.1 sets out this framework. First, it is argued that the specific economic development model pursued by an individual country or, in some cases, across regions, can be used to explain, in large part, what strategies and activities TTCs have adopted. Second, the economic development model, in turn, is shaped by a country's or region's political and economic history. Together, it is argued that these factors shaped the opportunities available to TTCs, seeking to enter an emerging market, and how market entry and expansion, in turn, impacts on a country's tobacco industry and tobacco control policies.

Applying this conceptual framework to South Korea, this research will begin by considering the specific features of South Korea's political and economic history, and its economic development model based on state-driven export-led growth. South Korea's geopolitical relationship with the US, it will be argued, was of particular importance to the country's response to pressures to liberalise and regulate the industry. Understanding the South Korea in this way will contribute to a deeper understanding of the globalisation of TTC strategies and activities. These insights, furthermore, will offer lessons for other emerging markets seeking to balance the complex challenges of economic development and the protection and promotion of public health. Following a description of the methodology used in this research in Chapter 4, how these factors shaped TTC strategies in South Korea will be the focus of the analysis in Chapters 5-7.

Figure 3.1: The links between economic development models, TTC strategies and tobacco control



CHAPTER 4 METHODOLOGY

4.1 Introduction

This chapter describes the methodology of the research in terms of the sources of data used, how they were collected and organised, and how the data was used to analyse TTC strategies and activities to access and expand into South Korea's tobacco market. It also explains how the data sources were triangulated, to ensure validity and reliability, and to provide a cohesive approach for the research. It concludes with the caveats or limitations of the research. A summary of the research objectives, methods used to fulfil each objective, and the sources of data is provided in Table 4.1.

Briefly, as the primary data source, tobacco industry documents (TIDs) were collected and analysed in order to understand the liberalisation of the Korean tobacco market and the strategies employed by transnational tobacco companies (TTCs) to gain access and expand their presence within South Korea. TIDs also provided insights into how TTCs' market entry impacted on the Korean tobacco industry. Other supplementary data sources offered a more complete context for the interpretation of events identified in TIDs. Semi-structured interviews with key informants, including former and current public officials, tobacco control advocates, and tobacco industry people were supplementary sources of primary data. The interviews provided means for contextualising and triangulating the industry documents, thus improving the reliability and validity of the research. In addition, an analysis of additional primary and secondary sources, such as industry publications and websites, tobacco control advocates' published and unpublished papers, media reports, scholarly journals, policy documents, and legislation were utilised to build an historical and thematic narrative. Both interviews and additional data were used in conjunction to contextualise and triangulate documentary data.

Table 4.1: Summary of the research objectives, methods, and data sources

Objective	Method	Data sources
(a) To review historical events leading to the opening of the Korean market	➢ Analysis of TIDs ➢ Review of additional sources	➢ BATDA/LTDL ➢ Korean/US government documents, WTO/GATT Documents
(b) To understand the market entry strategies and the activities used by TTCs to gain access and expand their market share in the Korean tobacco market;	➢ Analysis of TIDs ➢ Semi-structured interviews ➢ Review of additional sources	➢ BATDA/LTDL ➢ Key informants ➢ Media reports, official statistics, policy documents, legislation, etc.
(c) To draw broader theoretical conclusions about the behaviour of TTCs in seeking market access and expansion	➢ Analysis of TIDs ➢ Review of additional sources ➢ Literature review	➢ BATDA/LTDL ➢ Media reports, official statistics, policy documents, legislation, etc. ➢ Literature
(d) To describe the impact of market opening on the domestic tobacco industry	➢ Analysis of TIDs ➢ Semi-structured interviews ➢ Review of additional sources	➢ BATDA/LTDL ➢ Key informants ➢ Media reports, official statistics, policy documents, legislation, etc.
(e) To draw lessons for strengthening tobacco control in South Korea in the context of the FCTC	➢ Synthesis and analysis of all findings	➢ Consolidation of all the data

<u>Note:</u> BATDA – British America Tobacco Document Archive, LTDL – Legacy Tobacco Document Library

4.2 Tobacco industry documents

4.2.1 Provenance of tobacco industry documents

TIDs, which represent a unique resource for understanding the tobacco industry, began to be made public by an employee of Brown & Williamson (B&W) who sent documents, under the alias "Mr Butts" to various media outlets and scholars, in the early 1990s.(144, 145) The first analyses of TIDs were published as a series of articles in the *New York Times*, and as academic papers in *Journal of the American Medical Association* in 1995.(146-149) These publications introduced the potential value of TIDs to tobacco control advocates, scholars, and policy makers.

Meanwhile, additional documents began to become available through litigation. In 1998, the availability of TIDs increased exponentially as a result of the settlement of a lawsuit by the state of Minnesota and Blue Cross Blue Shield of Minnesota against several major tobacco companies to recover health care-related costs. The resultant Minnesota Consent Judgment required six tobacco companies - B&W, British American Tobacco (BAT), Lorillard, American Tobacco, Philip Morris (PM), and Liggett Group - and two affiliated industry organisations - Council for Tobacco Research and the Tobacco Institute - to make internal documents, released to the court during the discovery process, accessible to the public. As a result, over 32 million pages of industry documents are stored in a depository in Minnesota, in the US and approximately 8 million pages of documents are housed in the BAT Guildford depository, in the UK.(119, 150, 151) Initially, both depositories were to remain open for ten years, although this has now been extended to September 2021 under the terms of a subsequent legal case brought by the US Department of Justice.(152, 153) The detailed process of TIDs' disclosure to the public through the US based litigations has been discussed elsewhere.(119, 151, 154-158)

The industry's internal documents were written by company scientists, consultants, lawyers, senior executives, and other employees, as well as by outside organisations associated in many ways with the tobacco industry, such as public relations companies, advertising and law firms, and research laboratories. The documents, dating from the early 1900s, include letters, memos, telexes, emails, and research reports regarding, for example, advertising, marketing, media, and public relations strategies.(159) The contents of documents mainly contain business plans, correspondence, and reports on a broad range of topics, such as advertising and marketing strategies and sales information.(119, 159)

Tobacco industry internal documents have been used to date in a range of studies, journals, and public reports. In the early stage of using TIDs, academic studies focused attention on disclosure of the tobacco industry's false representation to the public of such issues as nicotine addiction and tobacco and health risks.(145, 160-162) The findings of previous TID studies successfully unveiled unethical and illegal practices of the tobacco industry including the following topics: TTCs' efforts to manipulate scientific research particularly on environmental tobacco smoke (ETS) (163-169); efforts to undermine the adoption of effective tobacco control policies and legislation (170, 171); complicity in cigarette smuggling (54, 172-174); and marketing strategies to access developing countries.(175) Journalists have also reported companies' connections to cigarette smuggling, collusion, anti-competitive practice, and price fixing.(176) International organisations, including the World Health Organisation's (WHO) Regional Offices, the Eastern Mediterranean Regional Office (EMRO) and the Pan American Health Organisation (PAHO), have studied TTCs activities in the Middle East (177-180) and Latin America (50), and non-government organisations (NGOs) have also studied TTCs' activities, such as marketing tactics targeting females and adolescents.(181-183)

Although a wide range of studies using TIDs has been carried out, documents have so far not been used to understand TTCs' detailed strategies to gain access to the South Korean tobacco market. Unlike South Korea, other Asian countries including Vietnam, China, Thailand, Japan, and Taiwan have been reviewed and examined using the industry's internal documents. Previous industry document research in relation to Asian countries has analysed the impact of cigarette market opening (8), TTCs' strategies to gain access to domestic markets (54, 62, 86, 175), to target youths (184, 185), to sponsor sporting events (82), and to circumvent tobacco control measures in the above Asian countries.(125, 184, 186)

4.2.2 The analysis of tobacco industry documents

Although TIDs offer an unparalleled resource for understanding the tobacco industry, the sheer size of the collections makes it challenging for researchers to meaningfully search and interpret this rich data source.(119) The field of tobacco industry document research is at a relatively early stage, with its methodology still developing.(187, 188)

This research applied Hill's framework to the analysis of TIDs. (See Table 4.2) Hill suggests a useful methodology for archival research which serves as a helpful starting point for analysing TIDs. This method has been used in the field of socio-historical research. The method is comprised of four main stages: understanding the provenance and weaknesses of the archive; planning and undertaking the search strategy; organising findings from archival data; and interpreting the data to minimise pitfalls.(189)

Table 4.2: Hill's framework to analysis TIDs

Stage 1	Understanding the provenance and weakness of the archive
Stage 2	Planning and undertaking the search strategy
Stage 3	Organising the archival data
Stage 4	Interpreting the data

Source: Hill MR. *Archival Strategies and Techniques*. Newbury Park: Sage Publications; 1993.

Under Hill's framework, first, the researcher understood the provenance of TIDs and what limitations TIDs pose for the research. As TIDs have been mainly made public through litigation, it is not an archive in the traditional sense. It is not a comprehensive collection of industry documents and, indeed, has been provided reluctantly under court order by TTCs. Some material may compromise the interests of TTCs, and there have been reports of document destruction, abuse of privilege claims, and alteration.(156, 190) The TIDs used in this research were inevitably limited, therefore. In the second stage, in order to narrow down the archives, the researcher defined search strategies. Through reviewing literature, basic knowledge of the targeted field and other primary and secondary resources, the researcher generated particular keyword search terms. In the third stage, the researcher organised data found through sorting by date, name, company, title, and so on. In the fourth stage, the researcher carefully interpreted the documents selected and organised through the previous stages by strategies as follows: reading the documents over and over again to avoid falsely rejecting documents or misinterpreting them, and contextualising and triangulating with other additional primary and secondary sources to validate the data.

4.2.3 Strategies for searching tobacco industry documents

4.2.3.1 Accessing the tobacco industry documents

There are three ways to access TIDs. The first is to visit on-site depositories in Minnesota, US, and Guildford, UK. As mentioned above, following the Minnesota Consent Judgment, both depositories have to provide industry internal documents to the public. The second possible approach is to visit the tobacco companies' websites. As required by the Master Settlement Agreement (MSA), the tobacco companies (excluding BAT and Liggett group) and two affiliated industry organisations had to disclose their various internal documents on publicly available websites since 23 October 1998 (191), and following the additional legal order, they have to maintain the internet document websites until 1st September 2021.(152) Finally, TIDs can be accessed through the websites, Legacy Tobacco Documents Library (LTDL)[9]

[9] Legacy Tobacco Documents Library http://legacy.library.ucsf.edu/

and British American Tobacco Documents Archive (BATDA)[10], created by tobacco control advocates.

There are several limitations to accessing and searching TIDs.(119, 156-158) Briefly, first, visiting the on-site depositories is not as same as visiting a public library. Compared to the Minnesota Depository, the Guildford Depository, managed by BAT, has been found more difficult and inaccessible when searching TIDs.(192) For example, operating hours of the Guildford Depository are 10:00-16:00 daily, which is relatively short compared to the Minnesota Depository which opens between 8:00 am to 20:00 pm daily. Visitors must sign a waiver form and are closely monitored by CCTV. Furthermore, only six organisations and 12 visitors can visit the depository per day. The indexing system at the depository is very crude with keyword searches possible only at file not document level. Hence, these conditions of access to the Guildford Depository have been widely criticised by tobacco control advocates but there has been little effect on company practice.(192) Due to the difficulty and inaccessibility of the depositories, it is believed that searching TIDs on the industry websites[11] provided by the tobacco companies is more efficient. Yet, these websites are also not recommended for TID research, because they were only created out of obligation and have limitations, such as different ways of indexing, misspellings, and limited search capacity.(119) In other words, industry websites are not designed to be user-friendly. Therefore, the websites, LTDL and BATDA, created and run by public health community, were used for this research to overcome the existing limitations of both visiting the depositories and searching through industry document websites. The LTDL and BATDA are fully searchable, accessible on-line anytime, and more comprehensive. The former provides the industry internal documents of US-based tobacco companies including PM, R.J. Reynolds (RJR), and B&W, which the latter holds documents of BAT. Since July 2008, BAT documents in BATDA have been integrated into LTDL so that,

[10] British American Tobacco Documents Archive http://bat.library.ucsf.edu/

[11] Lorillard Tobacco Co http://www.lorillarddocs.com, Philip Morris Inc http://www.pmdocs.com, RJR Tobacco Co/B&W Tobacco Corporation http://www.rjrtdocs.com, the Tobacco Institute http://www.tobaccoinstitute.com, Council for Tobacco Research http://www.ctr-usa.org/ctr/.

by searching LTDL, the available documents of all the targeted companies for this research could be undertaken.

4.2.3.2 Searching tobacco industry documents

The strategies for searching TIDs for this research were mainly guided by two publications, one produced by the London School of Hygiene and Tropical Medicine (LSHTM) (156) and the other by the WHO (159). The above sources advise that, before searching TIDs, the researcher should be aware that: research with TIDs can be time consuming; it can be difficult to understand the specific context of a particular document; technical and scientific terms are commonly used; jargon, code words, and abbreviations are frequently used; and most of the documents are written in English. In addition, there is no system of organising documents, as in a formal archive, so their provenance is not readily available.(156)

To collect primary data from industry internal documents, the researcher, first, selected keyword search terms. To identify appropriate initial search terms, the researcher drew on relevant literature and personal secondary knowledge of the topic. Guided by these sources, the researcher identified relevant technical terms, places, brands, names of industry personnel, policy makers, and government officials, organisations, Bates numbers[12].

With these initial search terms, the researcher carried out an examination of TIDs in LTDL and BATDA, and then used the results to generate further or refined search terms. This 'snowball' method, where one document provides search terms and is used to find additional terms, were applied until no new terms are evident.(193) Previous studies warn that "industry terms" can be an obstacle to the effective searching of TIDs.(159) These include industry abbreviations, jargon, code words, and acronyms. However, pioneer tobacco document researchers have compiled lists of these terms, which are available on the LTDL website.

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[12] **Bates number:** The identity number given to each page of every TID and usually written in the margin of documents.

For the initial searching of LTDL and BATDA, the research focused on documents dating from 1980 to 2003, because TTCs first started observing the Korean market from the early 1980s, and the date of the latest released document in relation to South Korea in LTDL and BATDA was 2003. The keywords for initial searching were "Korea", "Seoul", and "South Korea". To narrow down the number of documents, several additional keywords from the research topic, such as "marketing", "strategy", and "liberalisation" were combined with "Korea" using Boolean terms 'and' and 'or'. (See Table 4.3) During the process of searching, PM, RJR, BAT, and BAT's US subsidiary, B&W, that mainly participated in the Korean tobacco market before and after market liberalisation, were targeted. Although Japan Tobacco International (JTI) had the largest market share among foreign tobacco companies in the early period following market liberalisation, the research excluded JTI from the targeted tobacco companies, because LTDL and BATDA do not store the company's documents. Furthermore, "wildcard searching" was usefully employed. This allows for searches of variations of words or phrases by adding an asterisk in place of the final letters of a search term or final digit in a Bates number. This was very useful to overcome some misspellings which are a potential pitfall as previous research has mentioned.(156) When a relevant document for the topics of the research was found, the researcher also looked at documents within either side previous and subsequent by Bates numbers to obtain additional potentially relevant documents.

Table 4.3: Initial searching of BATDA and LTDL

Keyword search terms	Number of hits				
	BAT	PM	RJR	B&W	Total
Korea*	10,916	20,043	9,064	3,596	43,619
South Korea*	6,289	6,511	4,826	1,084	18,710
Seoul	1,063	2,870	1,130	242	5,305
Korea* and strategy	3,104	4,057	2,396	913	10,470
Korea* and marketing	4,607	7,482	4,068	1,880	18,037
Korea* and market	6,310	9,352	5,361	2,355	23,378
Korea* and liberalization	477	85	54	14	630
Total	32,766	50,400	26,899	10,084	120,149

Source: LDTL, BATDA (accessed 14 June 2008)

Through initial searching of LTDL and BATDA, names of TTCs' marketing strategies, specific persons' names (industry personnel, policy makers, and government officials), organisations, and Bates numbers etc., were collected, and then these particular searching terms were iteratively used in the expanded document searching in order to narrow down the TIDs collected by the initial searching. (See Table 4.4) In addition, given the enormous number of documents found during the expanded searching, the time periods between 1985 and 2003 were applied for TID searching. The selected keywords for the expanded searching returned documents more relevant to the research.

Table 4.4: Expanded searching of BATDA and LTDL

Keyword search terms	Number of hits				
	BAT	PM	RJR	B&W	Total
Korea* and lobb* NOT crop	284	501	179	90	1,054
Korea* and "market access"	65	124	46	46	281
Korea* and "market opening"	72	114	18	43	247
Korea* and "Hankook Research" (Hankook Research conducted PM's market researches)	0	198	0	0	198
Korea* and "local manufacturing"	36	70	6	21	133
Korea* and "market entry*"	33	40	10	8	91
Korea* and Yeutter (Clayton K. Yeutter – Representative of the US Trade Representative (USTR))	11	84	30	13	138
Korea* and Deaver (Michael Deaver – A deputy of Reagan, a double lobbyist between PM and Korea's government)	2	43	17	8	70
Korea* and textile (textile – Korea's main exporting product to the US)	90	157	69	21	337
Korea* and USTR	74	132	77	32	315
Korea* and Bliley (Tom Bliley – Congressman from Richmond)	7	72	37	7	123
Korea* and Pepples (Ernest Pepples – The Senior Vice-President in B&W)	58	13	5	113	189
Korea* and McConnell (Mitch McConnell – US Senator)	15	89	122	16	242
Korea* and Reagan (Reagan - President of the US)	71	229	101	46	447
Korea* and Chun	41	15	47	28	131

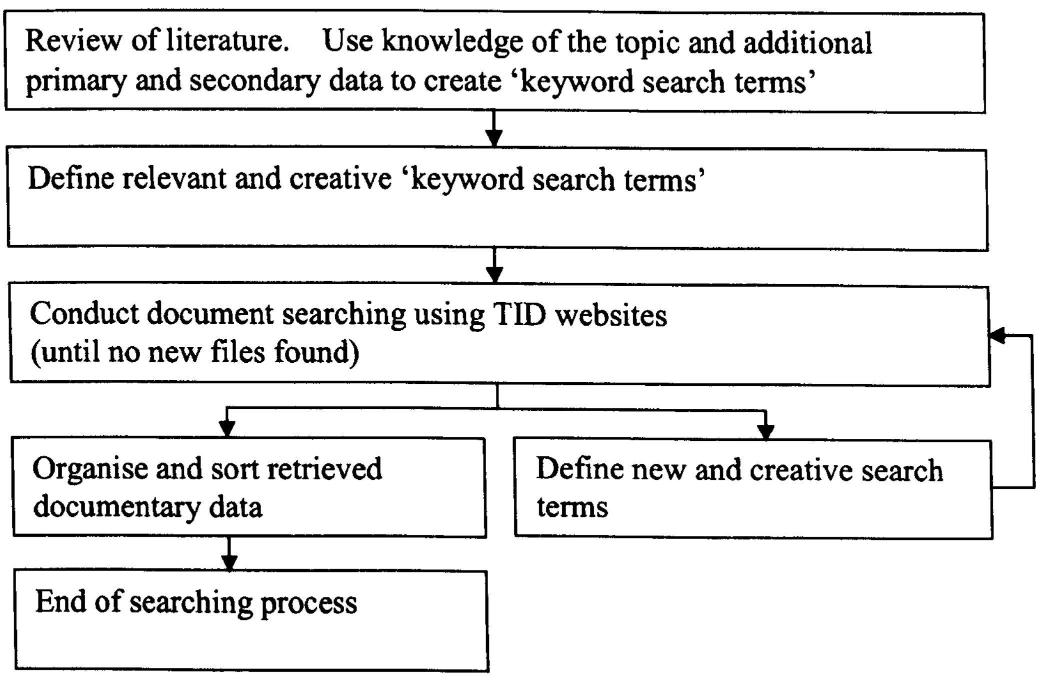
(Chun - President of Republic of Korea)					
Korea* and Richard Allen (Richard Allen - A deputy of Reagan)	69	182	123	28	402
Korea* and Laxalt (Michelle Laxalt – PM's hired lobbyist and daughter of Senator Paul Laxalt a close friend of Reagan)	0	15	3	1	19
Korea* and Helms (Jesses Helms – US Senator)	49	148	105	33	335
Korea* and USCEA (USCEA - US Cigarette Export Association)	46	105	51	36	238
Korea* and 301 petition (Section 301 petition)	51	162	65	23	301
Korea* and "gain* access"	28	85	38	5	156
Korea* and GATT (GATT - General Agreement on Trade and Tariffs)	177	146	47	19	389
Korea* and "voluntary code"	39	67	35	6	147
Korea* and "marketing strategy"	405	261	102	39	807
Korea* and YAMS (YAMS - young adult male smoker)	0	180	0	0	180
Korea* and "advertising strategy"	37	27	8	2	74
Korea* and "advertising and promotion"	271	687	242	125	1,325
Korea* and "market research report"	0	717	0	0	717
Korea* and "sponsorship activities"	86	64	6	11	167
Korea* and "consumer awareness"	73	117	36	38	264
Korea* and "brand switching"	64	275	61	24	424
Korea* and "marketing expense"	90	172	10	79	351
Korea* and "vending machine"	157	351	96	64	668
Korea* and YAUS (YAUS - young adult urban smoker)	65	5	2	10	82
Korea* and "cigarette taxation"	75	65	45	2	187
Korea* and "Tobacco Business Act"	16	28	4	2	50
Korea* and "government regulation"	47	285	52	14	398
Total number of hits					11,680

Source: LTDL (assessed from November 2008 until April 2010)

Within the range of the study topic, the searching process shown in Figure 4.1 below was iteratively undertaken. The search process was deemed completed when all possible keyword search terms had been utilised and the researcher found no new documents. When each process in the search strategy was finished, the documents retrieved were sorted and organised by date, company, and themes. Based on research questions, three themes and five sub-themes were identified to structure each result chapter and provided a systemic way of organising the retrieved documents. Documents, discussing status of tobacco industry and business in South Korea, competitors intelligence reports and projections in South Korea, tobacco consumption, general consumer surveys, and smoking behaviour were classified under the theme, 'market overview'. Documents, discussing marketing plans during particular time period, were classified under 'marketing plans'. Under the theme, 'marketing tactics', there were five sub-themes, including lobbying activities, creating a favourable mood, developing distribution routes, advertising and promotional activities, and marketing expenditure.

The searching of TIDs mainly took place from November 2008 until April 2010. As a result of TID searching, the total number of relevant documents retrieved after excluding the documents which did not relate to the research objectives and copies of documents was slightly more than 3,000 and the total number of documents used in the analysis for this research was between 550 and 600.

Figure 4.1: TIDs searching process



4.2.4 Interpreting the retrieved data

According to Bero, "interpretive data analysis", is a prevalent method for document research used by historians and social scientists, and the recommended methods for interpretation of TIDs.(119) Interpretive data analysis is conducted by iteratively reviewing data to construct an account that is coherent, supported by the evidence. It is important to seek out other primary or secondary sources to answer questions raised by the primary source material in interpretive data analysis.(119) Similarly, Bryman(194), Philips and Brown(195), and Forster(196) recommend using a "critical hermeneutic analysis" for document research.(194) Hermeneutics was originally developed in relation to the understanding or interpretation of texts. The key aim of a hermeneutic analysis is to understand the meanings of a text from the author's viewpoint. The methodology entails consideration of the social and historical context within which the text was produced by its authors.(195) While interpreting documents, it is suggested that the researcher should read them repeatedly because, as Forster observes, documents do not necessarily immediately reveal their true meaning. Therefore, it is important to re-read and go back to documents at different stages of the research process.

The most important tenet of a hermeneutic approach and interpretive data analysis is the use of context to support and contextualise the retrieved documents. In other words, without context, it is difficult to establish the reliability and validity of individual documents. Therefore, in Forster's approach in analysing company documents, semi-structured interviews are carried out with a company's senior managers as well as a questionnaire survey in order to understand the social and historical genealogy of documents.(196) Similarly, Bryman argues that understanding the social and historical context should be a precondition of interpreting a text from the point of view of the author.(194) Forster's hermeneutic approach consisting of seven steps is shown in Figure 4.2.

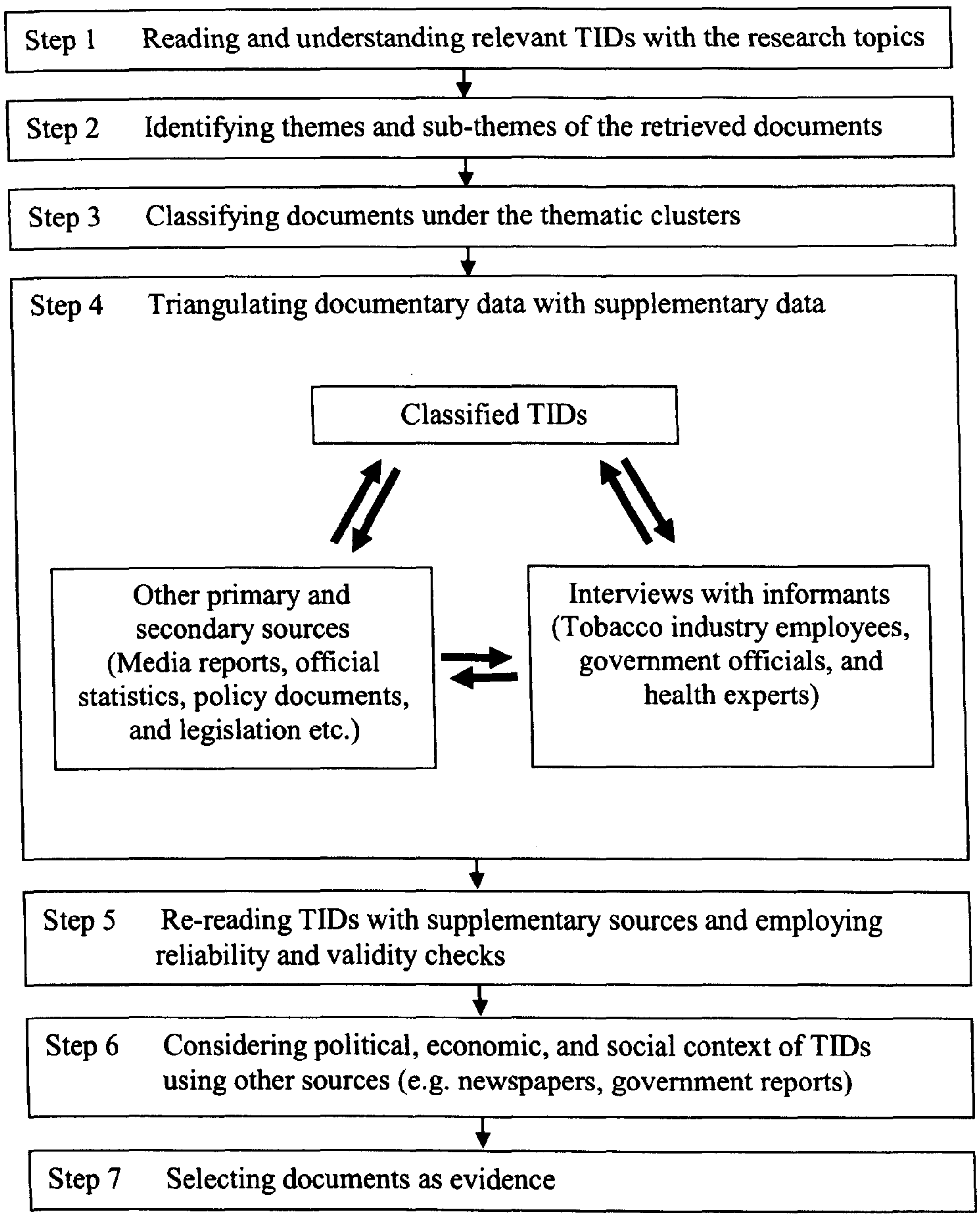
Figure 4.2: Forster's hermeneutic methodology

Step 1	Understanding the meanings of individual texts
Step 2	Identifying sub-themes
Step 3	Identifying thematic clusters
Step 4	Triangulating documentary data
Step 5	Employing reliability and validity checks
Step 6	Contextualizing documentary data
Step 7	Using representative case material

Source: Adapted from Forster N. The Analysis of Company Documentation. In: Cassell C, Symon G, editors. *Qualitative Methods in Organisational Research.* London: Sage Publications 1994

Forster's hermeneutic methodology was adapted in this research as follows in order to interpret the retrieved documents for this research. The researcher read through companies' internal documents and indexed key TIDs using basic indexing terms (subject, company, and date). The documents were re-read at a later date using the accumulated body of knowledge to check the initial selection of documents. As the second stage, the researcher began to identify themes and sub-themes within each document and groups of documents, and allocated subject coding to documents by TTC activities for market access and demand creation. In the third stage, the researcher ensured all documents were given a subject coding in the database, then ordered documents by subject and date order within the database. In the fourth stage, the researcher triangulated findings with other primary and secondary sources. In the fifth stage, which was identified by Forster as the most important, the researcher re-read documents, as knowledge increased, to confirm the reliability and validity of the interpretation. Where uncertainty existed, the researcher invited other reviewers, including Korean tobacco control advocates and the research supervisors, to affirm or disaffirm the researchers' interpretation. Other documents and additional primary data also offered further corroborating evidence. The researcher also considered the circumstances in which documents were produced and the person producing the document. In the sixth stage, documents were placed in a broader context using newspaper reports, interviews, and other contemporary materials which ensured that they were interpreted in their appropriate political, economic and social context at the time they were written. Finally, in the seventh stage, the researcher selected document subsets on which to base the presentation of findings.

Figure 4.3: Interpreting process based on Forster's hermeneutic methodology



4.3 Semi-structured interviews

In order to contextualise and triangulate industry documents, this research carried out sixteen semi-structured interviews with key informants during two fieldwork visits to South Korea between 2009 and 2010. One planned interview, with Korea's former US ambassador was declined by the interviewee for personal reasons. The interviewees consisted of tobacco control advocates, lawyers, academic researchers, government officials, and former/current employees of tobacco companies. (See Appendix A) The interviews provided not only crucial and detailed historical information and evidence in regard to the research objectives, but also creative keyword search terms for TID searching.

The method of interviews was mainly informed by the work of Anthony Seldon, *'By Word of Mouth'*.(197) At an early stage of the research, initial fact finding interviews with tobacco control advocates, notably, the Korean Association of Smoking and Health (KASH) and the Youth No Smoking Association (YNSA), in South Korea from March to April 2008 were conducted in order to better understand the background to the liberalisation of the Korean tobacco market. This contributed towards setting up a detailed research plan. In addition, in order to identify other relevant interviewees for the official interviews, the research employed a 'snowball sampling' method, where an interviewee subsequently identifies or recommends further interviewees. With this approach to sampling, Bryman suggests that initial interviews should be done with a small group of people who are relevant to the research topic and then use these to establish contact with others.(194) This process was significant in identifying relevant informants.

Brief letters of introduction about the research, which included a consent form and a description of provisions to ensure the confidentiality of interviews, were sent by email to each potential interviewee beforehand. An interview topic guide which listed key areas for discussion with suggested questions (See Appendix B) was also provided beforehand to assist the selected interviewees to decide whether or not to participate in the interviews.

Consistent with accepted ethical research practice, interviewees participated in the interviews on a purely voluntary basis and were allowed to terminate the interview at any point. Once the interviewee agreed to be interviewed, a date, suitable to the interviewee, was confirmed and the interview was carried out at a location convenient for the interviewee.

All the interviews were carried out in Korean by the researcher. Only a few interviewees permitted their interviews to be digitally recorded, while others were recorded by hand by the researcher. Government officials working in the Ministry of Finance (MOF), in particular, declined the digital recording of the interviews and did not even allow face to face interviews. Thus, these were conducted by telephone. Similarly, the tobacco industry interviewees did not consent to any recording during interviews, although did agree to be interviewed in person.

All interviews (recordings and hand-writing notes) were transcribed by the researcher on the same day. The interview scripts were then translated from Korean into English by the researcher, who was aware of the need to carefully carry out the process of transcription, translation, and interpretation. Given the time consuming process of translation, the researcher initially removed information which was irrelevant to the research topic, such as greetings and general conversations, from the Korean interview scripts before translating them into English. The completed English interview scripts were then passed on to the supervisors for third party review and analysed thematically. Third party review in the form of discussions with supervisors about the meaning of interview responses was an important device to improve the validity and reliability of interpretation. The analysis was conducted manually, involving an iterative process of reading and re-reading the transcripts, discussing them with the supervisors and triangulating with tobacco industry document data. A particular challenge was posed by those interviews where the respondent did not allow the interview to be recorded. In these cases, notes of the interview were carefully discussed with supervisors before forming a view about how the material could be used. Whether recorded or not, care was taken not to accept the veracity of interview respondents' statements at face value, but to interpret these in the context of the respondent's position and interests. When interpreting interviews, reference was continually made to the documents and to other contextual secondary sources to check whether there was corroborating evidence and whether interview responses were consistent with these other sources.

In order to carry out semi-structured interviews, the research required ethics approval from the London School of Hygiene & Tropical Medicine's Ethics Committee. This was granted on 25th March 2009 prior to conducting interviews. (Appendix C)

Figure 4.4: The semi-structured interview process

Step 1	Initial informal interviews with tobacco control advocates
Step 2	Tobacco control advocates introduce important interviewees of public officials, tobacco company personnel and other tobacco control advocates (Snowball sampling)
Step 3	Conduct official interviews with all interviewees
Step 4	Transcribe digitally recorded and hand-written interviews and translate Korean scripts into English
Step 5	Interpret and analyse the English scripts (Third party review was employed.)
Step 6	Triangulate the results of interviews with TIDs and additional primary and secondary data

4.4 Analysis of additional primary and secondary sources

Additional primary and secondary sources, identified via the literature review and interviews with key informants, were analysed in order to create keyword search terms for searching TIDs, provide important contextual background for industry document analysis, and aid in the construction of an historical, chronological, and thematic narrative of retrieved data.

Literature related to the global tobacco industry, and the Korean tobacco industry, was reviewed. This literature was collected from published books, newspaper/magazines, and internet websites (www.tobacco.org, www.globalink.org, and www.kash.or.kr). Additional data, specific to the tobacco sector, such as the US Department of Agriculture website (http://www.usda.gov) and *Euromonitor*, was also analysed.

Key informants provided further both unpublished and published documents. For example, regulations or laws on tobacco control and the tobacco business, statistical data of the Korean tobacco industry, such as cigarette consumption and market share of foreign/domestic companies, and marketing expenses of the domestic tobacco companies, were obtained from these sources.

During fieldwork in Korea, in order to fully understand the context of the Korean tobacco industry before and after market liberalisation, local Korean newspapers, Korean and English language, dating between 1984 and 1990, were searched at the Korean National Library. A total of seven of Korea's leading newspapers, notably, *Chosun-Ilbo, Joongang Daily, Donga-Ilbo, Hankook-Ilbo, Keunghang-Shinmoon, Seoul-Shinmoon*, and *Hankook Economic-Shinmoon*, and one English newspaper, *Korean Herald* were searched by using keywords, such as "imported cigarettes", "liberalisation of cigarette market", and so on. The resultant news articles provided historical, political, and economic background on the Korean tobacco market, and important context for understanding industry document. As a result of searching the keyword, more than 400 news articles were collected, including approximately 60 articles, containing crucial secondary data. These were sorted and organised by research themes. The articles were analysed and triangulated with TIDs and other data sources.

In order to understand the impact of liberalisation on the Korean tobacco industry, Korean government documents were collected by searching the National Archives of Korea (http://www.archives.go.kr/) using similar keywords applied to TID searching. Additionally, tobacco industry publications, notably *Tobacco Reporter* and *Tobacco Journal International and World Tobacco*, provided valuable sources of information on industry developments, and industry reports, news and companies' websites, such as PM Korea (http://www.philipmorrisinternational.com/KR/pages/kor/) , BAT Korea (www.batkorea.com) and KT&G[13] (www.ktng.com) were also used to understand TTCs' current activities. The KASH and YNSA provided relevant official/unofficial documents and data relevant to the analysis of tobacco companies' past and present marketing activities, including KT&G's market strategies, and to identifying the impact of TTCs market access on the domestic tobacco industry.

Overall, the additional primary and secondary data obtained from the above sources were used to supplement, strengthen, contextualise and triangulate the primary data source from the TIDs.

4.5 Caveats

It is recognised that the research needed to address four caveats. First, the tobacco industry in South Korea has been one of the major sources of revenue for the local governments. For this reason, the Korean government has maintained a close and positive relationship with the industry. This link between industry and government posed an obstacle to data collection related to the tobacco industry and certain government officials, especially from the MOF, which used to control the tobacco monopoly.

[13] **KT&G** is the privatised current tobacco company in South Korea, which stands for Korea Tomorrow and Global. It used to be monopolised by the Korean government.

Second, undertaking research on TIDs involve various limitations and difficulties.(119) The documents released to the public so far are not the comprehensive records of the industry, only those requested by plaintiffs during the discovery process for selected litigation purposes. Moreover, tobacco companies have used a variety of tactics to try to limit access to their internal documents. Tobacco companies have, for example, been accused of withholding documents, abusing privilege claims, alternating the contents, and destroying evidence.(156, 190, 198-200) As such, it is often described as "hostile" archive, collected and disseminated through legal obligation and public health advocacy. In addition, the conditions of access to the on-site depositories set by BAT, in particular, have been widely criticised as unduly difficult and in violation of the spirit of the original Minnesota legal settlement. In order to mitigate the problem of access at on-site the document depositories, the research utilised document websites operated independently of the tobacco industry. Available documents from the TID websites remain an incomplete and imperfect record, and are searched and interpreted with this understanding. The triangulation of TIDs with additional sources has enabled the researcher to achieve a fuller, if not comprehensive, knowledge of tobacco industry activity.

Third, in order to fully understand the impact of TTCs' market access on the domestic tobacco industry in Korea, the research required evidence of contemporary marketing strategies of the largest domestic tobacco company, KT&G. Recent marketing tactics of domestic tobacco companies are becoming more sophisticated and often employ indirect methods. However, it is not possible to access the internal documents of KT&G. To address this problem, semi-structured interviews were conducted, and other primary and secondary sources were used, such as industry or company websites and industry publications. It is recognised that information on Korean companies is far more limited.

Finally, the currently available data on tobacco use related to public health impact in South Korea was insufficient to establish a firm relationship between public health outcomes and TTCs strategies on market access and expansion, however likely this might be. Given the limited nature of Korean data on tobacco use, over time both before and after market liberalisation, and by specific population cohort, available data was used indicatively to understand broad trends and to triangulate findings from other data sources. What the thesis does clearly establish, however, is the impact of TTC entry into the Korean market in terms of substantially increasing competition, aggressive marketing of tobacco products and attempts to circumvent tobacco control regulations by tobacco companies. These factors were highly likely to have led to increased tobacco consumption and thus to negative health effects greater than would otherwise have been the case.

CHAPTER 5 MARKET ENTRY STRATEGY PART 1: GAINING ACCESS

5.1 Introduction

This chapter and Chapter 6 address the second objective of the research, namely to analyse, respectively, transnational tobacco companies' (TTCs) strategies and activities to gain access to the South Korean market in the 1980s, and TTCs' marketing tactics and behaviours to create demand and build awareness for their brands among the Korean population after market liberalisation.

This chapter will, first, briefly describe the history of tobacco use and the tobacco industry in South Korea before market liberalisation, including how tobacco was introduced to Korea, how it spread throughout the country, and how the tobacco industry has transformed and evolved. Second, the reasons why the US-based TTCs targeted the Korean market, as a new market in the 1980s, will be described. Third, the chapter will discuss the barriers to TTCs' market access before and after market liberalisation. Finally, the chapter will discuss the detailed strategies TTCs utilised, to gain access to the Korean market, and analyse TTCs' behaviour in relation to the Korean economic development model and resultant regulatory regimes.

This chapter focuses on the key players attempting to gain a foothold in the Korean market in the mid 1980s, notably Philip Morris (PM), R.J. Reynolds (RJR) and Brown & Williamson (B&W) which is British American Tobacco's US subsidiary. British American Tobacco (BAT) planned create opportunities to export its brands to the Korean market alongside other Asian countries, including Japan, China, and Taiwan, but the company began focusing on these markets only after 1988 when the Korean market had already been opened by the activities of US-based TTCs.(201)

5.2 The Korean tobacco industry before market liberalisation

Tobacco originally arrived in Korea with the Japanese invasion of 1592. Within 20 years, tobacco use had spread throughout the entire country, far more rapidly than, for example, cotton, which came from China and took 100 years to become widespread in Korea.(202, 203) How fast tobacco spread historically in Korea is well described. Jang Yu, who was an official in the council of state during the reign of King Injo, smoked even in the royal meetings, and said in his book written in 1635, "In Korea, people first smoked tobacco 20 years ago, but now everybody, from high officials to errand boys, smoke it". He predicted that "within 100 years, tobacco will compete against tea in the market".(202) In 1668, Dutchman Hendrick Hamel, the first westerner to write about Korea, wrote: "Tobacco in Korea is so common and even children start smoking when they reach 4 or 5 years of age".(204)

In the early twentieth century, at the end of the Chosun Dynasty, the last kingdom in Korea from 1393 to 1910, the Monopoly Bureau was established. The Bureau began managing and controlling the tobacco industry, with revenues going to the Treasury.(205) Tobacco in South Korea has remained a leading and important industry for the Korean economy even since. In 1952, the Office of Monopoly (OOM), an independent government division under the Ministry of Finance (MOF), was established to strictly control 100 percent of the domestic tobacco industry, including manufacture, distribution, sale, and import/export.(205, 206) The OOM continually encouraged heavy investment in tobacco farming and manufacturing to help build post-war economic recovery, by contributing to the Treasury through cigarette taxes. The government offered incentives to tobacco farmers to practice good husbandry and minimise the production of low quality leaf. For example, in the 1970s farmers received a 20 percent average increase in the purchase price of tobacco leaf from the government. Other government support to farmers, such as fertilizers, seeds, chemicals, and materials for drying sheds also helped increase yields an average of 20 percent annually. These government efforts, to improve tobacco leaf quality were not just for increasing domestic tobacco use. The policy was intended to increase exports as part of the state's export-oriented economic development model.(205)

The export of tobacco leaf in earnest began in the 1970s and, in order to increase volume, the OOM set the basic guidelines for tobacco production to: (a) raise the quality of tobacco leaf to international levels; (b) elevate the technology for cigarette manufacture, and (c) maximise the efficiency of management for higher productivity. As a result, cigarette exports rose by 30 percent annually from 1967 to 1978.(205) South Korea also exported tobacco leaf. From 1985 onwards, South Korea exported tobacco leaf which was valued at US$91.4 million, almost 40 percent of the total crop, while the total amount of imports was only worth US$5.9 million.(207) The OOM also exported manufactured cigarettes in the 1980s but, given the lower quality compared to international brands, cigarette exports by the Monopoly were limited in this period. (See Table 5.1)

Meanwhile, the OOM, which under government regulations was the only company able to import foreign cigarettes for resale, annually imported 200 million sticks of foreign cigarettes worth about US$2 million mainly from the US, the UK, and Japan in order to supply the US soldiers based in Korea, and for foreigners.(208, 209) (See Table 5.1) The reason why imports of foreign cigarettes in Korea were low, and provided only to foreigners, was that, before market liberalisation, the Korean people were not allowed to smoke, or even possess, foreign cigarettes under the Tobacco Monopoly Act (TMA) (1972, as amended).

Table 5.1: Exports and imports of tobacco leaf and cigarettes, 1981 to 1985

Year	Tobacco leaf				
	Output	Export		Import	
	Quantity (metric tons)	Quantity (metric tons)	Value (US$ mil.)	Quantity (metric tons)	Value (US$ mil.)
1981	86,997	37,868	100.4	12,621	68.8
1982	115,173	31,610	104.9	3,900	15.6
1983	100,677	32,843	108.9	2,212	7.2
1984	94,172	30,009	100.4	2,800	9.6
1985	75,679	28,954	91.4	1,040	5.9

Year	Cigarette		
	Production	Export	Import
	Million sticks	Value (US$ mil.)	Value (US$ mil.)
1981	72,713	5.2	1.9
1982	71,786	10.0	2.6
1983	75,519	11.3	2.5
1984	78,167	9.0	1.4
1985	75,550	6.5	1.7

Source: Kim JH. The Korean Tobacco Market. 29 Aug 1986. Philip Morris. Bats No. 2500001861-98 (Available at http://legacy.library.ucsf.edu/tid/clz09e00)

How and why was this unique criminal sanction introduced in Korea? An interview with a former OOM manager (Anonymous 1), who had worked for the OOM since 1967, suggested that it was linked to the export-oriented economic development model pursued by General Jung Hee Park, President of Korea following the military coup in 1961. This strategy sought to save foreign currency in order to invest in core domestic industries and to expand the country's exports. As part of this policy, President Park generally discouraged people from using foreign products and, in particular, prohibited people from the consumption of foreign cigarettes. Park believed that smoking foreign cigarettes had a negative impact on the country's trade surplus and economic development. Thus, Article 49 of the TMA (1972) made smoking, and even possession of foreign cigarettes, a criminal offence. If a person broke the law, he or she had to pay a fine of 1 million won (about US$800) or be sentenced to up to 10 years in prison. In order to effectively control illegal use and possession of foreign cigarettes, the OOM installed a special surveillance department under the MOF, and authorised surveillance officers to work within this jurisdiction.(210) This included enforced surveillance to prevent smuggling of foreign cigarettes, which mainly came from US military bases in Korea.

Despite these restrictions, unauthorised use of foreign cigarettes was common given their better quality and richer flavour compared to domestic cigarettes. In addition, foreign cigarettes were often given as gifts after travelling abroad, such as for Korea's gift giving seasons, especially for the higher socioeconomic classes. Cigarette smuggling from the US military bases was thus consequently widespread. A newspaper article explains how foreign cigarettes have been illegally traded, and describes the experiences of a surveillance officer who was about to retire from his position in the OOM:

> *Lee's record of crackdown on illegal possession and smoking of foreign cigarettes reached more than 5,000 cases. ... The Park regime strictly controlled supply and consumption of unauthorised foreign cigarettes. As a result, smuggled foreign cigarettes, mainly from the US military bases in Korea, were privately used. Since then, foreign cigarette squads in the OOM have been busy. ... The ways of delivering foreign cigarettes to Korean consumers were getting smarter. The smugglers used children for foreign cigarette delivery. Sometimes, females pretended to be mothers-to-be by fastening smuggled cigarettes to their bellies. ... Lee was an expert when it came to finding out who was smoking foreign cigarettes. Once he looked at smoke or smelled it, he was able to distinguish whether smokers smoked foreign cigarettes or domestic ones.(211)*

Given government policy to develop and support the tobacco industry, as a leading source of tax and export revenues in the country, and the country's subsequent rapid economic development after the Korean War, by 1977 South Korea ranked eighth for tobacco production, ninth for tobacco exports (tobacco leaf), and fifteenth for cigarette production in international comparison.(205)

The OOM's profits grew in parallel with expanding cigarette sales in the domestic market, increasing around 11 times during a 10-year period, from US$180 million in 1971 to US$2 billion in 1981.(19, 206) Domestic sales of tobacco products accounted for 93 percent of the OOM's total revenue. Concomitant with the rapid increase of cigarette sales, the OOM's contribution to the National Tax Revenue also increased. The amount transferred to the National Treasury was 6.1 percent of the government's total revenue in 1972, increasing to about 8.7 percent by 1986.(207) The former OOM manager stated when interviewed (Anonymous 1) that Korea's tobacco industry was the engine to cope with the country's destroyed economy after the Korean War. The tax contribution of the tobacco industry to the National Revenue just after the War was more than 10 percent, thus, the government steadily focused on, and invested in, the industry. He added that, when the cigarette tax was transformed from national tax to a local tax in 1989 after market liberalisation, local governments continually and more aggressively supported the industry. The economic value of the industry has subsequently been high bringing enormous investment in the industry from both central and local governments.(Anonymous 1)

5.3 Barriers protecting the tobacco industry before market liberalisation

As described in Chapter 3, the Korean government adopted an export-oriented development model from 1961 onwards. The government focused on, and invested in, manufacturing industries to export more products to Western and European countries.(212) As part of this development model, the OOM attempted to expand exports of domestically produced cigarettes, while the government strictly controlled imports by applying various regulatory barriers. This was part of government policy to protect core domestic industries until they were believed capable of competing in the world market. Four types of trade barrier provided the tobacco industry with significant protection from international competition.

First, the OOM completely monopolised cigarette manufacturing, distribution, and sales under the TMA (1972). Under the Act, only companies which were licensed by the OOM, or the OOM itself, could import, distribute, and sell foreign cigarettes.(213) This was an extremely effective barrier against foreign competition.

Second, as discussed in Section 5.2, it was a criminal offense for Korean nationals to sell, buy, possess, or smoke foreign cigarettes.(213-216) Korean people were expected to smoke only domestically produced cigarettes. Robert Bockman, the Director of Corporate Affairs for PM Asia reported in 1983 that there were more than 5,000 violation incidents and fines equivalent to US$800,000. Bockman also complained to the US Department of Commerce in 1984 that this criminal offense was a significant barrier to free trade.(217)

Third, a tariff of 100 percent *ad valorem* duty[14] was applied to imported cigarettes.(206, 218) Although the OOM had a monopoly in the tobacco market, and it was illegal for Korean people to buy or smoke foreign cigarettes, the tariff on foreign cigarettes was needed, because, as mentioned previously, the OOM imported foreign cigarettes for the US military and particular shops, such as hotels, only to be consumed by foreigners.

Finally, the importation of US-grown tobacco leaf, which was formerly available, was prohibited after 1980.(215, 218) According to a US Department of Agriculture publication in February 1989, titled "World Tobacco Situation", the Korean government had stopped imports of US-grown tobacco leaf from 1981:

> *As recently as 1980, US exported 6,155 metric tons of unmanufactured leaf tobacco to South Korea, valued at US$45.3 million. Yet, through the early to mid-1980s, U.S. leaf exports to Korea sagged, in fact, they fell to zero in 1983 as Korea pursued a policy of self-sufficiency in tobacco production and utilization.(215)*

[14] ***Ad valorem* duties** of customs are duties levied according to the value of goods and are usually expressed as percentages of value. Such duties are distinct from specific duties that are based on specific measures of goods such as number, weight, volume, area, capacity etc.

According to the interview with the former OOM manager (Anonymous 1), the reason for this change was to save foreign currency. After President Park's assassination, exports of goods decreased and foreign debts mounted.(134) (Anonymous 1) Under the downward trend of economic development, Korea's next President, Do Hwan Chun introduced this prohibition of imported US tobacco leaf. In an effort to decrease foreign debt, the Chun regime intensively focused attention on trade protection in all industries, including the tobacco industry.(Anonymous 1) As shown in Table 5.1 above, imports of tobacco leaf from 1981 to 1985 sharply decreased.

5.4 A "home run" market: TTCs' interests and opportunities in the Korean market

As discussed in Chapter 2, declining tobacco sales in the US domestic market since the 1960s, and in established markets in North America and Europe since the 1970s, have led TTCs to seek new markets abroad. After successfully expanding into Latin American markets during the 1960s and 1970s, TTCs' strategic focus moved to Asian countries during the 1980s.(4)

A 1987 B&W document, used in an operational planning meeting, describes the Korean tobacco market as one of the "home run" Asian markets, along with Japan, Taiwan, and China for their leading brand, Capri, in the future.(219) Previous analyses indicate that TTCs' interest in Asian markets in the 1980s centred on the enormous scope for growth of cigarette sales, given their rapidly growing economies, large populations, and high cigarette consumption.(6, 8, 62, 126, 220) A "Home Run" market was thus defined as a market with 'very significant volume and share growth opportunity', which must therefore be supported.(219)

What specific merits did the South Korean market have from TTCs' perspective? First, South Korea was a sizeable market with an annual cigarette consumption volume of 80-85 billion sticks in the mid-1980s (221), ranked 12th in the world tobacco market. (See Table 5.2) In 1984, the country was the 6th largest leaf exporter in the world and among the 15 largest tobacco leaf producers in the world.(210) In particular, the high consumption of cigarettes among Korean males was an obvious attraction for TTCs, as was confirmed in an interview with a former Korea Tobacco Ginseng and Corporation (KTGC) executive (Anonymous 3). According to the Korea Association of Smoking and Health (KASH), the smoking rate among Korea's adult males aged over 20 was 71.2 percent in 1985.(12) This was relatively high compared to other developed countries, such as the UK and the US at the time, where cigarette sales were declining. The smoking prevalence of male adults in the US and the UK steadily declined due to the strengthening of the tobacco control movement and increasing health concerns. The rate in the UK in 1985 was 35.8 percent for adult males and 31.5 percent for adult females.(222) The rate in the US was 30.8 percent for adult males and 25.7 percent for adult females in 1988.(223) However, the smoking rate among Korean adult females was only 8 percent in 1985.(12) This contrasting situation of prevalence between high male, and low female, smoking offered opportunities to TTCs. Whilst the country had one of the world's highest male smoking rates and was recognised as a huge established tobacco market, at the same time, the lower female smoking rate offered future opportunities for growth.(224)

Table 5.2: World cigarette consumption and production in 1987 (Billion sticks of cigarettes)

The biggest cigarette consumers			The biggest cigarette producers		
1	China	1,452	1	China	1,441
2	United States	575	2	United States	689
3	Soviet Union	464	3	Soviet Union	390
4	Japan	295	4	Japan	266
5	Brazil	161	5	West Germany	163
6	West Germany	124	6	Brazil	161
7	Indonesia	112	7	Indonesia	115
8	Poland	103	8	United Kingdom	114
9	Italy	98	9	Poland	99
10	United Kingdom	95	10	Bulgaria	92
11	France	94	**11**	**South Korea**	**81**
12	**South Korea**	**82**	12	Spain	80

Source: US Department of Agriculture (Available at http://www.usda.gov/wps/portal/usda/usdahome, accessed 10th May 2009)

Second, it was anticipated that the tobacco market in South Korea would grow very fast. A PM 1985 internal document entitled 'Korea's restrictive cigarette trade polices: a multi-million dollar loss to U.S. leaf producers', addresses future opportunities in the Korean market between 1985 and 1990. The document stresses the importance of the Korean market for US-based TTCs:

> *The Foreign Agricultural Service of the US Department of Agriculture has forecasted growth to 91.9 billion units in Korean cigarette consumption in the year 1990. Such a growth rate, roughly 2% per year, would place Korea among the fastest growing markets in the world.(210)*

However, US leaf producers as well as cigarette manufacturers were losing potential profits as a result of Korea's restrictive tobacco trade policies, as illustrated by the estimates in the following passage of the document:

> *Between 1970 and 1984, the demand for cigarettes, in the Republic of Korea, doubled from 39 .6 billion units to about 76.2 billion (Appendix Table B). Total Korean cigarette consumption during this period amounted to 891.6 billion units. Due to restrictive and prohibitive trade practices, total cigarette imports from the U.S., during this period, amounted to 1.4 billion units, all of which were consumed by foreign residents. ... If the U.S. cigarette exporter had captured 15% of the domestic Korean cigarette market during the period 1975-84, U.S. leaf producers would have sold an additional 130 million pounds of leaf tobacco (f.s.w. [farm sales weight] equivalent) valued, at auction (that is, to the grower), at $183 million. ... Similarly, if U.S. cigarette exporters captured 25% of the domestic Korean cigarette market, U.S. leaf producers would have sold an additional 216 million pounds (f.s.w. equivalent) worth $305.4 million to the leaf producer.(210)*

According to this calculation, the document concluded that if South Korea opened the tobacco market between 1985 and 1990, "As the least cost cigarette maker and the highest quality leaf producer, the U.S. has the most to gain from a liberalization of the Korean cigarette and tobacco market".(210)

Similarly, other US-based international tobacco companies also predicted that if the Korean market was liberalised, the domestic tobacco company would import not only US manufactured cigarettes, but also US high quality unmanufactured tobacco leaf. To compete with relatively higher quality cigarettes manufactured in the US, the Korean domestic brands would also need to use US high quality tobacco leaf. Because there was a limited amount of high quality tobacco leaf in Korea, due to a lack of technology, TTCs saw potential profits by exporting both manufactured cigarettes and unmanufactured tobacco leaf to the country.(218, 225, 226) One US Cigarette Export Association (USCEA) progress reports argued that US tobacco farmers would benefit from an increase of cigarette exports to Korea, forecasting that 'the benefits would increase with increased competition in fair trade settings'.(227) In fact, according to a General Accounting Office (GAO) study, about 55 percent of the increase in US tobacco production was attributed to imports of US cigarettes by Japan, Taiwan, and South Korea. The US produced 64 billion cigarettes in 1986, before gaining access to East Asian markets, but after acquiring a foothold in Japan, Taiwan, and South Korea, this more than doubled to 142 billion in 1989.(227) This extra-ordinary increase in US cigarette production indicates how important penetration of East Asian markets was to TTCs. As noted in 1990 by the US Agriculture Secretary, Clayton Yeutter:

> *The local tobacco monopolies (in Japan, Taiwan and South Korea) responded to new market challenges by importing more American burley and flue-cured tobacco to improve the quality of their own products. As a consequence, we are now selling more leaf tobacco than previously, as well as more of the value-added product, cigarettes. (227)*

In 1988, the expectation of these increased sales was widely used to gain support for market liberalisation from US Senators and Congressmen from the tobacco growing states.(216, 228)

5.5 Market access strategies by TTCs

TTCs' initial efforts to enter the Korean market involved attempts to agree joint ventures (JVs) with the Korean government in the early 1980s. However, when these were unsuccessful, they turned their efforts towards lobbying for trade liberalisation.

5.5.1 Joint ventures and licensing agreements

The establishment of JVs was one of the key strategies used by TTCs to access the Vietnamese market in the 1990s.(88) Similarly, some of the US-based TTCs attempted to agree JVs as a means of gaining access to the South Korean market in the early 1980s.(229, 230) RJR and PM both pursued a JV or a licensing agreement with the OOM to gain a foothold in the market, hiring lobbying agents to meet with senior government officials in Korea to discuss possible commercial ventures.(221, 231)

PM's five year plan for 1981 to 1985 recommended that the company "[w]ork towards concluding a licensee agreement with the Korean monopoly" to gain access to the market. The document outlined the tactics to be used to achieve this:

> *Initial contacts with the monopoly have been encouraging. We will build on this favourable early association by discussing matters of mutual interest, particularly in the area of technology and the potential for one of our international trademarks. We hope to conclude an agreement by the end of 1981.(232)*

Following the strategic plans, the company initially attempted to obtain a licensing agreement with the Monopoly but, when this failed, the development of a joint brand with the OOM was proposed.(233) A 1989 PM document titled "Negotiations with Korean Monopoly" described the company's efforts to access the Korean market from 1980 by using licensing agreements and JVs:

1980 PM submits proposal to Korean Monopoly Office (KMO) for a license agreement.
1981 PM re-submits proposal to KMO
1983 PM proposes joint brand with KMO.
1984 PM sends Korean Embassy background information on the Marlboro License Agreement with Japan
1985 PM presents joint venture proposed [proposal] to KMO.
1986 Letter from PM to Finance Minister of Korea, offering a new joint venture proposal to the KMO (233)

A 1989 RJR document responding to the GAO's investigation of TTCs' expansion in Asian markets also notes the company's efforts to gain access to the Korean market via a JV:

> *In the early to mid 1980's, RJR pursued various strategies and proposals to open the Korean market to RJR products. These included, among other things, proposals for access via import licensing or a joint venture.(234)*

However, these approaches by RJR and PM were generally unsuccessful.(235) As the RJR document concludes, "All proposals were ignored or rejected by the Korean government".(234) In the mid 1980s, following the failure of negotiations for JVs with the OOM, the consulting arrangements on this issue between lobbying agencies and PM/RJR were terminated.(10) One possible reason why the Korean government strongly resisted JVs/licensing agreements with the US tobacco companies was explained by the former OOM manager (Anonymous 1) during interview:

> *I was not involved in the issue of JV agreements with foreign companies when I worked for OOM. However, I assume that the refusal of the Korean government to make JV agreements with the US tobacco companies was an absolutely natural outcome. As I know, there was no regulation prohibiting JV agreements between domestic and foreign companies under the law. Then why did the government reject US tobacco companies' suggestion? The reason was that the top priority in the government economic policies was saving foreign currency at that time. Signing JVs with foreign companies would result in a huge outflow of foreign currency for brand loyalties, thus the government did not allow the monopoly company to sign JV agreements with the US-based tobacco companies.(Anonymous 1)*

This view is consistent with the Korean government's development approach at the time, which was generally resistant to foreign investment, including through JVs or licensing agreements.

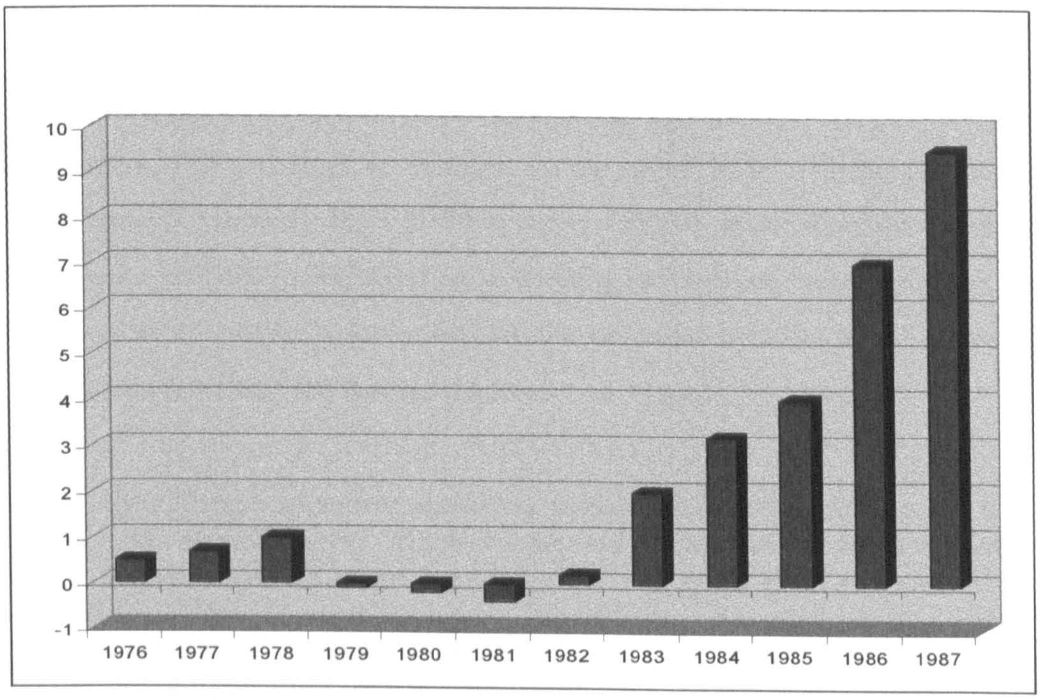
5.5.2 Trade lobbying

After the failure of the initial approaches on JVs and licensing agreements, TTCs turned their market access strategy towards lobbying the US government to exert pressure on the Korean government for trade liberalisation. An RJR performance record emphasised: "continue to increase market access in monopoly markets (Korea, Thailand, Taiwan); utilizing US Government support where needed".(236)

Some particular features of South Korea favoured the new strategy. First, South Korea was only one of four Asian countries along with Japan, Taiwan, and Thailand which controlled their tobacco industry by a monopoly system.(237) Second, as discussed in Section 5.3, a number of barriers to foreign participation in the Korean market were in place prior to liberalisation.(238) Third, the overall trade surplus of South Korea with the US was extremely high in the mid to late 1980s. Three countries, South Korea, Japan, and Taiwan, accounted for US$73 billion of the US$137 billion US trade deficit in 1988. (227) In particular, as shown in Figure 5.1, South Korea's trade surplus with the US sharply increased from 1982.

Based on these factors, TTCs began to raise the issue of "discriminatory trade restrictions" in the Korean tobacco market with the US Congress and President Reagan. The opening of foreign markets to US goods was a priority policy for President Reagan during the mid 1980s.(239, 240) Thus, the protection of the tobacco industry in South Korea became a good target for the Reagan Administration. TTCs' next approach to entering the Korean market therefore focused on exerting pressure on these trade issues in the mid-1980s.

Figure 5.1: Trade surplus for South Korea with the US (US$ billions)



Source: Financial Times. World Trade News, 12 Feb 1988

5.5.2.1 Lobbying the US government

In order to effectively pursue an industry-wide policy on market liberalisation in the four targeted Asian countries (Japan, Taiwan, South Korea, and Thailand), the big three US-based TTCs, namely PM, RJR, and B&W, formed the USCEA. The USCEA was a not-for-profit corporation chartered in 1981 to improve the competitive position of US-produced cigarettes in foreign markets. The core role of the USCEA was to offer market information on the targeted countries to US government officials during trade negotiations and to lobby for the interests of the US tobacco companies. Towards that end, the executives of the Association frequently met with US government officials, usually at US embassies in the targeted countries.(10, 229)

In contrast to the approach with JV agreements or local production, during the mid-late 1980s, the USCEA actively worked on the Korean case as a collective representative of the US-based TTCs. It frequently contacted and met with US government officials in order to argue alleged discriminatory practices by the Korean government.(10) In doing so, the USCEA was extremely successful in recruiting the Administration to its cause.

In order to raise the Korean case as an important issue with the US government, PM's Richard L. Snyder, an executive officer of the company, asked Hamish Maxwell, the Chief Executive Officer, to mention the issue of the Korean tobacco market during a meeting with Vice President Bush in January 1985. Snyder's letter set out the potential benefits to US tobacco companies of opening the Korean market:

> *The Korean cigarette market is a potentially lucrative one for U.S. cigarette exporters. Each one percent of the total market is valued at approximately $15 million. There is a market for U.S. exports, since even the Monopoly's own brands are American-style blended cigarettes. Increased exports would have a direct positive effect on the utilization of U.S. tobacco leaf. Yet because of Korea's closed market policy, U.S. cigarette manufacturers and, consequently, U.S. tobacco leaf growers are denied the benefits of having access to this important market.(241)*

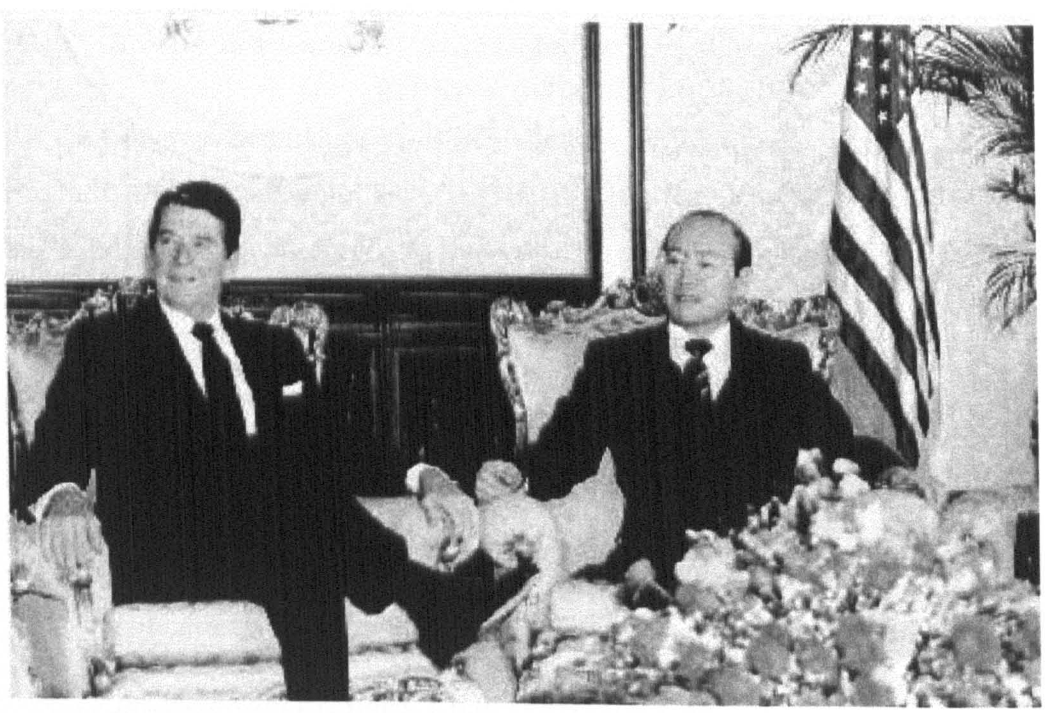
Snyder also provided recommended action for the US government to achieve Korea's market liberalisation:

> *U.S. government officials, when discussing trade issues with the Republic of Korea, should impress upon the Korean government the importance of providing market access to a competitive U.S. manufactured consumer product. It is incomprehensible that U.S. cigarette manufacturers should be denied access to this important market and in fact have the usage of their product outlawed.(241)*

The US government began to exert pressure on Korea during Reagan's first visit to Seoul to meet Korean President Do Hwan Chun in November 1983. There were three summit meetings in total between Chun and Reagan. The first meeting was held in Washington in 1981. Once Reagan had initiated his presidential work, Chun officially visited him. This meeting was arranged by the White House Deputy Chief of Staff, Michael Deaver, who was later employed by PM to lobby the Korean government. At the meeting, both

Presidents agreed to establish the Security Consultative Meeting and the Economic Consultative Meeting between the two nations. Tobacco was not included on the agenda during this first meeting. However, the second summit meeting in 1983 focused on free trade, including liberalisation of the tobacco industry. In order to strengthen negotiations on free trade, both governments agreed to establish the Korea and US Economy Association (KUEA).(242) Through the KUEA, US and Korean officials regularly discussed free trade issues between the two countries. Subsequently, Chun visited Reagan again in 1985 to further strengthen the two countries' military and economic links.

Figure 5.2: The second presidential meeting between Chun and Reagan in 1983 in Seoul



__Source:__ The Korean National Archive: Two Presidents during the second summit meeting in Seoul in 1983

For the visit by Chun to Reagan in April 1985 individually, TTCs were eager to raise tobacco as a key topic for discussion. Each TTC and the USCEA collectively, lobbied US government officials, Senators, and Congressmen to convince President Reagan to support the industry's case.

Chun's visit to Washington was seen as an opportunity for TTCs to influence the negotiations.(214, 243) In order to effectively raise the industry's case during the presidential meeting, TTCs began to lobby high-level US contacts in earnest.

B&W's lobbying activities are well described in industry documents. The Senior Vice President and General Counsel in B&W, Ernest Pepples, was central to these lobbying activities. Additionally, Thomas Jerome Bliley Jr., known as Tom Bliley, the Congressman from Richmond, supported Pepples by connecting him with other Senators and Congressmen. In a 1985 memo titled "KOREA", Pepples introduced Bliley as the key person to obtain support from the US Congress:

> *Tom Bliley, the Congressman from Richmond, was most helpful in obtaining support from Members of Congress for letters protesting Korea's discriminatory treatment of imported cigarettes.(243)*

All the Congressmen named on Bliley's letter - William Hill Bonner, James T. Broyhill, Dan Daniel, John Duncan, Hal Rogers, Roy Rowland, Gene Snyder and Lindsay Thomas - agreed to raise the issue with US government officials, including President Reagan.(243) Indeed, Congressmen Carroll A. Campbell Jr. sent a letter to directly to the President saying:

> *Given the liberal trade benefits Korea receives from the United States, the irony of this situation is self-evident. The U.S. enjoys a substantially favourable worldwide balance of trade in tobacco and tobacco products. However, Korea is one of only a handful of countries where the opposite is true. I believe this issue needs to be addressed, and I would appreciate your assistance in raising this problem with President Chun Doo Hwan.(244)*

B&W's efforts to convince US Senators were supported by Senator Mitch McConnell. Ernest Pepples believed that Senator McConnell would send protest letters regarding the closed Korean tobacco market to other Senators, including Mark Andrews, Wendell H. Ford, Ernest F. Hollings, Bob Packwood, Paul S. Trible, Jr., Jesse Helms, John P. East, Mack Mattingly, and John Warner.(243) Later, these ten Senators sent a co-authored letter to

President Reagan emphasising that the issue of Korea's discriminatory barriers against US cigarettes had to be the priority issue of the list of trade matters when the two Presidents met in Washington on 24th - 27th April 1985:

> *The methods used to prevent U.S. access to the Republic of Korea's tobacco market are not as crude as an outright ban on importation, but through a 100 percent ad valorem tax tariff barrier and such non-tariff barriers as civil and criminal sanctions against Korean nationals possessing cigarettes of American manufacture, a state tobacco distribution and wholesale monopoly, and restrictions against the importation of quality U.S. grown leaf tobacco. ... We would hope that some form of an "agreement in principle" could be reached during the President of the Republic of Korea's visit. This 'agreement' could allow for more U.S. leaf imports, increase retail outlets for American cigarettes in, say, larger metropolitan areas, and a relaxing of sanctions against the possession of American cigarettes.(214)*

Senator Jesse Helms, in his role as Chairman of the Senate Committee on Agriculture, Nutrition, and Forestry, also sent a letter to President Reagan on 11th April 1985 to urge the following:

> *An agreement in principle regarding Korean imports of US leaf products: Relaxing of Korean laws against possession of US cigarettes by Korean citizens; Expanding Korean retail outlets allowed to sell US brands; and Possible (sic) joint ventures or license arrangements allowing Korean manufacture of American brands with quality American leaf.(245)*

Similarly, Senator Ernest F. Hollings sent a letter to the US Trade Representative's (USTR) Ambassador, Robert E. Lighthizer on 4th April 1985:

> *In the light of Korea's large and growing volume of trade with this country, the United States is favorably positioned to insist firmly on the prompt beginning of a program to liberalize the unfair restrictions Korea now imposes on trade in tobacco products. Such a program commencing now and timed for full implementation to coincide with the opening of the Olympic Games might include: A gradual, substantial increase in the number of retailers licensed to sell imported cigarettes, particularly in Seoul and Pusan, Korea's two largest cities; Relaxation of the law forbidding Korean nationals from consuming or possessing foreign cigarettes; Consideration of licensing or joint-*

venture arrangements for the local manufacture of foreign cigarette brands, which could also contribute to an increase in exports of Korean-made cigarettes. When President Chun Doo Hwan of South Korea visits you later this month, I would hope that his country's policies toward United States tobacco will be high on your discussion agenda. Since Korea is planning to showcase itself to the world as host of the Asian Games in 1986 and the Olympics in 1988, the time is propitious for pressure to be applied on Korea to begin promptly a liberalization of its discriminatory restrictions on the importation of foreign cigarettes.(235)

Most of these letters from Senators and Congressman were sent directly to the President because the USTR worked under his direction and his agreement on any action was therefore necessary. The USTR, William E. Brock, subsequently responded as follows:

I fully agree that the import licensing restrictions, the high tariffs, the law which prohibits Korean citizens from purchasing foreign cigarettes, and the limitations placed on the distribution of tobacco products in Korea have all worked to impede the importation of U.S. cigarettes. ... In the meetings with the economic officials accompanying President Chun this month, we plan to reiterate the necessity for liberalizing trade in cigarettes. ... We also intend to hold discussions with Korean officials in May-June regarding market access. Our objective will be to get the Koreans to commit to begin liberalizing their market access restrictions. Please be assured that cigarettes are a top priority for these discussions. We feel strongly about the need for Korea to open its market, and we will press very hard for such liberalization.(246)

An internal PM memo explained how important these letters were to the company's strategy:

The letter is one of many elements in a program which Philip Morris is employing to: (1) sensitize U.S. government officials in the legislative and executive branch to trade barriers and trade opportunities in South Korea; and (2) ensure that the cigarette trade barrier issue is as prominent as possible during President Chun's visit later this month.(247)

5.5.2.2 Lobbying the Korean government

While B&W sought for support from US government officials, PM and RJR respectively lined up strong teams of lobbyists to exert direct pressure on the Korean government. RJR hired Richard Allen, a former national security director, and PM made contact with Michelle Laxalt, daughter of Senator Paul Laxalt and close friend of President Reagan, and Michael Deaver, a former presidential deputy chief of staff.(248)

In July 1985, Michael Deaver, asking PM to pay US$150,000 for lobbying President Chun, flew to Seoul.(249) In a 75 minute meeting with high-level officials and the President, Deaver argued a classic case of "You scratch my back, I'll scratch yours". By citing the protectionist textile bill[15] (250) which was introduced by Representative Ed Jenkins of Georgia, as a negotiation card, Deaver told President Chun that "the tobacco issue was tied to the Korean textile exports to US".(251) When Chun complained about the textile bill, Deaver said that he would help South Korea in the textile bill in return for the help from President Chun on tobacco, given that the key Senators who agreed to the textile bill were from the tobacco growing states. When a senior advisor of the Chun Administration subsequently requested Deaver's help on Jenkins's bill, Deaver agreed by saying "If you help me on the tobacco access issue, I will help you in [textiles]". (251, 252) In doing so, Michael Deaver also became a lobbyist for the South Korean government, signing a three year contract for US$475,000 to influence White House decisions on Korean matters.(207)

Michael Deaver resigned from the White House Staff in May 1985 under investigation for corruption. Subsequently, he was investigated by the Office of Independent Counsel Whitney North Seymour, Jr because of allegations of illegal lobbying activities in May 1986. During the

[15] **Ed Jenkins's textile bill** pressured President Reagan to tighten textile trade far more from international competition to protect the US textile industry. According to the bill, US textile factories were being force to close. However, the US government had been strongly opposed to textile industry protection under the Multi-Fiber Arrangement since 1961. Reagan, who was leading free trade in the world market at the time, unavoidably faced pressure on his economic policy from Congress.

investigation, he lied on five counts before a congressional committee and to federal grand jury investigators about his lobbying activities. Deaver was eventually charged with perjury and false testimony on 16th December 1987 and sentenced to 3 years' imprisonment. However, later the sentence was reduced to 3 years' probation and a fine of US$100,000. Deaver was also ordered to perform 1,500 hours of public service.(229, 249, 253)

5.5.2.3 Limited liberalisation

The Korean government adhered to the policy of restricted entry for foreign cigarette companies in order to save foreign currency through not buying imported products or paying royalties, and protecting the domestic tobacco industry from international competition. Its protection of a key national industry, and continuing opposition to foreign investment in that industry, was entirely in keeping with its overall development model. However, due to the consistent pressure from the US government since the presidential talks in 1985, the Chun Administration inevitably had to consider making concessions.

The need to make such concessions was almost inevitable because the US was Korea's largest trading partner, absorbing approximately 40 percent of total exports worth about US$27 billion in the mid-1980s.(254) In addition, as shown in the previous section, US threats to restrict textile exports, which alongside cars was the top Korean exported good, was a tactic the Chun regime could not ignore. After the assassination of President Jung Hee Park in 1978, Korea's economy had faced a number of challenges, whilst economic aid from the US continually decreased.(134) Thus US pressure on textile exports was serious for the Chun regime. As well as depending economically on trade with the US, Chun also depended on military support from the Reagan government.(134) This was crucial given the rising tension between South Korea and North Korea in the 1980s, particularly following North Korea's bombing of Rangoon in Burma[16] (currently Myanmar) in an attempt to assassinate President Chun in 1983 and the mid-air explosion of Korean Air Flight 858[17] in 1987, which was believed to have been perpetrated by North Korean agents,(Anonymous 1 and 3)

Following the decision to make concessions on the extent of market liberalisation, the MOF and the OOM considered three options that would minimise the impact on the Korean tobacco industry. As the first option, the OOM would import a fixed amount of US cigarettes annually. Second, the OOM would sign an agreement with the US-based TTCs for technical support. Finally, the OOM and the US-based TTCs could sign a JV or local manufacturing agreement. The government calculated the pros and cons of the three options, and carefully compared them in order to minimise the expected losses following liberalisation. The main criterion of the government's decision on the issue was how much foreign currency could be saved.(255) After careful consideration, the government selected the first option; the OOM would regularly buy a fixed amount of US manufactured cigarettes from July 1986. Based on the agreement, the Korean government

[16] **North Korea's Rangoon bombing:** In October 1983, President Chun officially visited Burma. On 9 October, he went to lay a wreath at the martyrs' memorial in Rangoon, which commemorated Thankin Aung San, founder of independent Burma. Chun's car was delayed by traffic, and just before he arrived, a bomb was exploded and demolished the memorial, killing 21 and wounding 46. The dead included the Korean foreign minister, Bum Suk Lee, the economic planning minister and deputy prime minister, Suk Joon Suh, and the minister for commerce and industry, Dong Whie Kim. The others were advisers to the president, journalists and security personnel. Just before the explosion, the South Korean ambassador had arrived in a large car. Presumably the terrorists, watching from a distance, had assumed that the president had arrived and the ceremony was beginning, and so detonated the bomb by radio. Two days later, police arrested their first suspect, who tried to blow himself up with a hand grenade. The same day, villagers reported two suspicious foreigners to police, and they were North Koreans. During the investigation, they confessed that they had been sent to assassinate President Chun. (Korea's Military White Paper)

[17] **The mid-air explosion of the Korean Air Flight 858 in 1987:** Korean Airlines Flight 858 (KAL 858) flying from Abu Dhabi to Seoul, exploded over the sea near Burma, killing all 115 passengers and crew members on board on 29th November 1987. It later emerged that two North Korean agents, Hyun-hee Kim and Sung-il Kim, had conducted the bombing mission upon receiving orders from their superiors to disrupt preparations for the upcoming Olympic Games in South Korea. The two agents posed themselves as father and daughter tourists from Japan, and travelled to Moscow, Budapest, Vienna, and Belgrade before arriving in Baghdad on 29th November. The two boarded KAL 858 with the purpose of programming the improvised explosive device (IED), disguised as a transistor radio to detonate after nine hours. Hyun-hee Kim and Sung-il Kim disembarked in order to transfer to Bahrain and the IED exploded as planned after nine hours over the Andaman Sea, killing all 115 passengers and crew. (Korea's Military White Paper)

removed its ban on the public sale of imported cigarettes so that Korean nationals could buy foreign cigarettes.(256) The fixed amount of foreign cigarettes the OOM agreed to buy annually was one percent of the total market.(257)

After one percent of the market was opened to the US-based TTCs, several changes took place to tobacco-related regulation and the government monopoly. First, the OOM was transformed from a government division into a state-run corporation, Korea Monopoly Corporation (KOMOCO). In order to compete better with the TTCs, the newly formed company initiated a more market-oriented approach. Second, the criminal sanction on possession and use of foreign cigarettes by civilians was eliminated by revising the TMA. Third, cigarette advertising and product promotion were initially restricted by adding a new provision into the revised TMA, so that almost all forms of cigarette advertising were prohibited, in an attempt to restrict TTCs' opportunities to expand. Under Article 30 of the TMA (1987, as amended), mass media, printed media, public transportation, signboards, posters, public places, and promotional activities etc. should not be used for cigarette advertising. Before the limited market access, there were no provisions in the TMA (1972) to regulate cigarette advertising.(213) Several other changes were also made to the tobacco-related regulations. The detailed changes to the regulations following market liberalisation will be discussed further in Chapter 7. Finally, the duty on imported cigarettes was reduced from 100 percent to 70 percent in July 1987 (218), and later, due to consistent complaints about the remaining import tariff by the US government, the tariff was reduced again to 50 percent in January 1988.(206, 258)

However, despite limited market liberalisation, like the OOM, the newly created KOMOCO continued to monopolise the domestic manufacture of cigarettes, as well as the distribution and sale of all cigarettes, including imports. Additionally, the cultivation of tobacco leaf was subject to the corporation's quota. KOMOCO paid compensation to farmers in the event of poor harvests and prepaid part of purchase expenditures in advance of actual purchase in order to support tobacco farmers. The pricing of cigarettes, including foreign ones, was governed by presidential decrees.(259)

5.5.2.4 TTCs press for complete liberalisation

Although the US-based TTCs gained a small foothold in the Korean market with limited market liberalisation, companies doing business in Korea continued to complain of tariff and non-tariff barriers.(215) Moreover, despite the agreement to allow access to one percent of the market, imported cigarette sales at the retail level, in fact, accounted only for 0.06 percent of the total market in the first year of limited market liberalisation. TTCs alleged that this was due to continued discriminatory trade practices by the state-run corporation, KOMOCO.(257) In this context, the US government again pressed to the Korean government for further market opening including: allowing that private companies could import and sell foreign cigarettes; removing the remaining tariff on imported cigarettes for fair competition with the domestic brands in terms of price; and permitting all forms of cigarette advertisements.(260) In response to this request, the Korean government agreed to seek an acceptable agreement on tobacco market liberalisation by the end of 1987 during the KUEA's meeting in June 1986, and in order to achieve the agreement, both governments' officials met four times in 1987 and once again in January 1988.(261)

Following the actions of the US government, a number of US Senators from the tobacco-producing states once again pursued the issue of Korea's trade barriers to US cigarettes. Senator John Warner (Republican politician and Senator from the tobacco state Virginia), who played an important role in the liberalisation of the tobacco market in Japan, fully supported intervention by the USTR on the Korean case. As in the Japanese case, he took a keen interest in the tobacco talks between the US and South Korea, writing several letters to President Chun and Korea's US Ambassador Kyung Won Kim urging the removal of all the remaining barriers to foreign entry to Korea's tobacco market, by arguing that these were discriminatory and that the Korean consumer should enjoy a real choice.(216) In addition, he also warned the Korean government that he would support a Section 301 petition, which allows the USTR to initiate an investigation of the trade practices of another country, if talks between the two countries regarding tobacco trade issues broke down. He stated that "It was time for the Republic of Korea to realize that the United States will not sit idly by and allow unfair trade practices to continue"(216, 261)

Similarly, Senator Wendell H. Ford from Kentucky and Senator Jesse Helms from North Carolina, the US's leading tobacco-producing state, wrote a letter to President Chun on 14th July 1987 to urge the Korean government to make a commitment to open its market to the sale of more imported cigarettes. In the letter, the Senators argued "The Korean government simply must go further in removing all the restrictions that limit sales of cigarette imports in Korea" and claimed that "The Government of the Republic of Korea and the Korea Monopoly Corporation unreasonably restrict the import and sale of foreign cigarettes in the following ways":

- *By fixing the retail price of imported cigarettes at a prohibitively high level through a combination of unreasonably high tariff, discriminatory domestic taxes and excessive monopoly profit;*
- *By magnifying the economic effect of the tariff by calculating the domestic taxes and monopoly profit on a price base that includes that import duty;*
- *By imposing a 1% per annum limit on import penetration;*
- *By allowing only KOMOCO to import foreign cigarettes; and to dictate the timing, brand mix, price, and quantity of each order without reference to market factors;*
- *By granting KOMOCO sole warehousing and distribution rights for foreign cigarettes, and restricting the availability of imports for dealer pickup;*
- *By imposing an unreasonably low retail margin, which discourages retailers from stocking foreign cigarettes;*
- *By restricting competition by banning virtually all forms of advertising and promotion; and*
- *By restricting manufacturing, licensing, joint venture, and investment in the Korean tobacco industry by non-Korean private entities.(262)*

At the end of the letter, the Senators urged several steps to be taken to completely open the market:

- *Give foreign cigarette companies or their agents the right to import cigarettes in Korea without any involvement of the Government of Korea or its instrumentalities;*
- *Allow foreign cigarette companies or their agents, at their option, to distribute cigarettes in Korea either through the existing KOMOCO distribution system on a non-discriminatory or through an independent wholesaler network;*
- *Terminate unreasonable and discriminatory import duties, internal taxes, and distribution charges on imported cigarettes, and set such charges at reasonable levels; and*
- *Guarantee foreign cigarette companies the right to advertise and promote their products.(262)*

Later, Senator Jesse Helms again wrote a letter to President Chun on 21st July 1987 and argued, in particular, that Korea's prohibitions on advertising and promotional activities for cigarette sales were "unreasonable and discriminatory actions [which] deprive US tobacco companies access to a cigarette market".(263) In order to further negotiation and mediation, Korea's US ambassador, Kim wrote back asking for more time, but Helms threatened in a letter co-signed by 19 other Senators that:

> *[F]ailure to reach an agreement promptly on removing barriers to cigarette imports could seriously erode the trade relations between the US and Korea.(263)*

Although there were five meetings between Korea and the US on the tobacco issue in 1987 and 1988, they failed to reach agreement. The USCEA subsequently filed a petition to the USTR requesting assistance in overcoming the Korean government's restrictions on access by US tobacco companies on 22nd January 1988 under Section 301.(38, 264) In the petition, the USCEA charged that the Korean government and KOMOCO "discriminate against and unreasonably burden" the import and sale of US cigarettes, and argued that "Our experience in other major markets leads us to believe that imports of American cigarettes could garner 25 percent of the total Korean cigarette market".(257) In the process, the USTR had 45 days to decide whether to initiate a formal investigation of the alleged trade barriers.

Once notified and to avoid a USTR investigation, Korean officials flew to Washington and met US officials from 10th-11th February, 1988. Once again, dependence by South Korea on the US as its largest trading partner and military ally led the Korean government to agree to take action. During the meetings, the Korean government offered to cut the retail prices of imported cigarettes to 820 won (about US$1.00) in February 1988 and to 700 won (about US$0.80) in 1989 from the current price ranged from 1,400 won to 1,600 won, by cutting the duty. However, the USTR countered by requesting an immediate move to the lower price of 700 won for all imports, and the drastic improvement of marketing channels for foreign brands.(264) The negotiations were unsuccessful in reaching agreement so that, finally on 16th February 1988, the USTR initiated an investigation and requested consultations with the Korean government under Section 301. When Section 301 was initiated, a BAT Area Manager, Coburn Ronayn (RJM) predicted that the Korean tobacco market would be opened soon after visiting Seoul in February 1988:

> *[T]he Koreans will bow to the threat of sanctions, particularly if these are aimed at two of their principal exports, i.e., electronics and motor cars for which at this time they would have great difficulty in finding alternative markets.(265)*

Basically, when any US exporter of legal products faces allegedly "discriminatory" foreign trade barriers, the US government can use the USTR for assistance in removing those barriers. The USTR's policy has been that when petitioned by an industry with a legally sound complaint dealing with unfair trade practices, it must act on the petition. The US trade policy for tobacco was the same as that for any other legal product. Hence, such assistance from the USTR was also available to the US-based TTCs.(38) On the USTR's involvement in TTCs' market access, the USTR's representative, Sandra Kristoff argued that "as long as cigarettes remain a legal commodity in the United States and abroad, there is no legal basis to deny cigarette manufacturers assistance in gaining market access" and clearly explained the role of the USTR on international trade issues under the Reagan Administration as follows:

> *This Administration's trade strategy is to open markets, so that trade can expand, and to negotiate a clear set of enforceable rules that will curb unfair trade practices that inevitably lead to controversy and a disruption of trade. We seek to implement our strategy in three ways. First and foremost, we are working very hard to achieve a successful conclusion on the current round of international trade talks ongoing in Geneva under the auspices of the GATT [General Agreement on Trade and Tariffs]. The second way we are implementing the President's trade strategy is through market-opening negotiations with our key trading partners. And finally, we are using our own trade laws to pry open markets and enforce our legitimate rights under trade agreements.(266)*

On May 27, 1988, South Korea and the US signed a Record of Understanding (ROU-Appendix D), providing open, non-discriminatory access by US tobacco companies to the Korean market. Following the agreement, the USTR terminated its investigation of Section 301 on May 31, 1988.(38, 267)

Subsequently, the Korean government initiated drafting of revised legislation on the tobacco industry based on the ROU. During the legislative process, the USTR and Korea's officials met and discussed the detailed provisions of the regulations, and each TTC and the USCEA collectively continued to work closely with the USTR to improve their opportunities in the newly opened market. According to a 1988 PM document, the representative of USTR, Kristoff told the company that "she will actively pursue our [PM's] interests during the interim and do so even more actively as the ROK [Republic of Korea] begins to draft the legislation".(268) In the letter, the author, Donald Nelson, Vice President of Sales Development & Training for PM, stressed how the company was able to help Kristoff:

> *Her experience with the intellectual property dispute*[18] *[with the Korean government] has embittered her with respect to their drafting of legislation. She emphasized that she needed our help in gathering intelligence as that process begins. She noted that Amembassy Seoul has not been particularly adept in getting draft legislation, so our involvement in the process is critical if we are to head off bad provisions before they advance too far.(268)*

The result was a series of major concessions which substantially liberalised the Korean market. Under the ROU, which became effective on July 1, 1988, South Korea wholly removed the import tariff on foreign cigarettes, increased the number of licensed retail outlets selling imported brands, and permitted limited cigarette advertising by revising the TMA and its Enforcement Ordinance in July 1988. The key changes following the ROU were as follows (269, 270):

a) The prices of imported cigarettes were to be determined by foreign cigarette manufacturers, but the companies were to notify the Korean MOF in advance of the retail prices as determined;
b) Only a specific excise tax was to be levied on cigarettes. The excise tax was to be applied to all cigarettes, both imported and domestic manufactured ones;
c) The remaining import tariff on cigarettes of 50 percent was to be reduced to zero percent.
d) The government was to modify the relevant regulations to permit any foreign cigarette manufacturer to conduct temporary and permanent point of sale promotions. The modified regulations were to permit each foreign cigarette manufacturer to place 120 advertisements per brand family in magazines annually;

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[18] **Intellectual property dispute** between South Korea and the US: Before initiating Section 301 on tobacco, the USTR had already used Section 301 petition to open the Korean insurance market and protect foreign intellectual property rights in Korea. As a result of that, Korea Intellectual Property Rights & Insurance Understandings were signed in July 1986 by both governments.

e) Any foreign cigarette manufacturer could sponsor social, cultural, musical, athletic, or similar events or functions, if such events did not specifically directly target women or youths;

f) A health warning was to appear on each pack of cigarettes; and

g) Cigarette samples by sticks were to be permitted at licensed retail outlets.

5.6 Obstacles to market share following initial liberalisation

Although the Korean market was formally fully opened following the signing of the ROU, there were still substantial social and regulatory barriers in the market. In particular, the hostile attitude of many Korean nationals towards imported US cigarettes sharply increased.

5.6.1 Social barriers

5.6.1.1 Public hostility following the beginning of import sales in 1986

After the limited market liberalisation in 1986, KOMOCO licensed five hundred retailers to sell foreign imported cigarettes to Korean nationals. Tourist hotels and popular sightseeing sites were also permitted to sell imported cigarettes to the public and additionally retailers were temporarily permitted to sell imported brands near sports complexes during the 1986 Seoul Asian Games.(271)

The MOF announced that KOMOCO imported 6 million packs of 30 kinds of foreign cigarettes in 1986 for sale in the domestic market. However, in fact, only 10 brands including Kent, Kool, Lark, Marlboro, Parliament, Winston, Silk Cut, and More were selectively displayed in the licensed retail shops initially. The price per pack was in the range from 1,400 won (about US$1.80) to 1,600 won (US$2.00). This was relatively expensive compared with the domestic mainstream brand, Pine Tree, which cost only 500 won (US$0.60) due to the 100 percent tariff on imported cigarettes that was still in place at that time.(272)

Figure 5.3: Foreign cigarettes begin to be sold in Korea

Source: *Hankkook-Llbo*. Imported cigarettes start to be sold in the market from tomorrow. 31 August 1986
Note: An employee of the OOM delivered imported cigarettes to a retailer located in Seoul.

When US manufactured cigarettes became available in the Korean market in 1986, on-going hostility towards imported cigarettes effectively prevented wide-spread consumer acceptance of them.(209, 273) The depth of hostility to imported brands is illustrated by interviews for a newspaper report. On the first day of sales, a newly licensed retailer of imported cigarettes described the strong anti-imported cigarette sentiment:

> *Although I have displayed imported brands since 6:00 am today, I have not yet sold a single pack of imported cigarettes until 9:00 am. This is because the consumers of domestic brands are conscious of the eyes of others due to patriotism and the pricy cost of the cigarettes also led people to not buy the imported brands (272)*

A PM employee reported the hostility towards imported cigarettes among the Korean people:

In Seoul, the Consumers Union of Korea launched a campaign urging Koreans to boycott foreign cigarettes. .... The Korea Labor Union of Cigarette Manufacturers launched a "Let's not smoke foreign cigarettes" campaign on August 30 in the middle of city Seoul with a slogan "Do we need to smoke foreign cigarettes?" distributing 14,000 leaflets. ... Also the Citizen's Association ... decided to bring meetings beginning from August 30 in Seoul to other major cities around the nation to urge and educate people, mainly housewives, of their roles in the age of foreign cigarettes. Furthermore, 30,000 people demonstrated in Seoul with a slogan "Do not smoke imported cigarettes!" showing strong opposition to the government's ban-lift, and the nation's 500,000 tobacco farmers appealed to the authorities through their union asking protection of their possible loss of income because of imported cigarettes. Even nightclubs posted signs reading "We won't sell foreign cigarettes!".(207)

As the above PM report indicates, anti-US cigarette groups began to organise themselves through non-governmental organisations (NGOs). In regard to TTCs' market access, several organisations, including the Korean Consumer Union, the YMCA, and radical anti-government groups opposed the opening of the tobacco market and aggressively contributed to anti-imported cigarette activities. The organisations, the Association of National Tobacco Retailers (ANTR) and the Federation of the Tobacco Production Guild (FTPG), which used to have close relationships with the monopoly division, also joined the movement, urging smokers not to smoke imported cigarettes and arguing that South Korea was under a heavy burden of foreign debts. The FTPG which represented about 100,000 leaf tobacco farmers, expressed concerns in terms of the possible damage to Korea's economy of increased foreign debts.(207, 274) The Korean Consumer Union, which embraced 560,000 regular and associate members at the time, conducted an hour-long campaign in downtown Seoul to boycott US-made cigarettes. In a street demonstration, about 30 union members urged passersby not to buy or smoke imported cigarettes. They carried placards, one of which read, "Smoking imported cigarettes only serves to snowball foreign debts".(207, 275) However, during this period, smoking was overwhelmingly seen as a trade and economic issue rather than a public health one. Activities and organisations usually urged the public to smoke Korean-manufactured cigarettes instead of foreign ones.

Figure 5.4: Mass campaigning on the street against smoking foreign cigarettes

Source:. *Chosun-Ilbo*. Do not smoke foreign cigarettes. 31 August 1986.
Note: Domestic tobacco producers, the Federation of the Tobacco Production Guild carried out a street education drive to appeal for consumption of locally made cigarettes. The picket reads "Be proud civilian by using domestic cigarettes"

Source: *Chosun-Ilbo* 1986. 8. 14.
Note: A banner at Baemyong High School reads; "Those who smoke imported cigarettes are traitors to the country" written by the principal of the school.

This anti-US sentiment can be explained by understanding the political relationship between the US President Reagan and Korea's President Chun. A large section of the Korean public, particularly radical students, resented the dependence of President Chun on the Reagan Administration (discussed in Chapter 3). Reagan's support for Chun legitimised the regime, despite the repression of Korean students and civilians demanding democracy. Reagan had criticised the student rising in Gwangju, 'GwangJu Democratisation Movement', which fought against Chun's military dictatorship in May 1980, as an illegal riot. In this context, when Reagan visited South Korea for trade negotiations including tobacco in 1983, anti-US sentiment reached a peak, and even the US embassy in Busan was set on fire by radical students.(134)

Internal TTC documents complained about the hostility towards imported cigarettes in South Korea during this initial period from 1986. A PM document notes that there were various forms of anti-import movements in the market, with massive education drives; media reports leading the anti-US mood; protests by radical student groups, KOMOCO workers, the retailers association and leaf tobacco farmers; consumer groups' domestic product use campaign; and a non-smoking campaign by tobacco control advocates.(276)

5.6.1.2 Imported cigarette boycotts following the signing of the ROU

When imported cigarettes were initially distributed in the market from September 1986, anti-imported cigarette sentiment was mostly led by general anti-US feeling, attributable to the Reagan Administration's policy on South Korea.(277) Furthermore, when the ROU was signed between the US and South Korea in 1988, the anti-US mood intensified, and imported cigarette boycotts were promoted with references to "Korea's Opium War" and the US as "the envoy of death".(278)

The highly nationalistic local media generally contributed to anti-imported cigarette sentiment. From 1988 onwards, hardly a day passed when anti-imported cigarette news did not appear in the Korean newspapers and broadcast media. Most of the stories in regard to imported cigarettes were designed to create a xenophobic and exclusionary climate towards foreign cigarettes. A BAT document describes the main themes of the Korean media reports on the topic of imported cigarettes:

> *a) Imports constitute an "invasion"*
> *b) Foreign advertising, promotions and sponsorships are unfair, illegal and exaggerated*
> *c) Import tar and nicotine contents are higher than for domestic products and give the impression that imported products are "unsafe" when compared to domestic products.*
> *d) Non-smokers, minors and women are the main targets of foreign companies.*
> *e) Smoking Korean cigarettes benefits the country tax-wise at both the national and local levels.(279)*

The leading newspaper, *Chosun-Ilbo*, even published an article in the opinion section on 13th Feb 1992 in order to convince Korean nationals not to smoke foreign cigarettes after the market share of TTCs grew in the early 1990s:

> *It seemed like our consumer movement and market protecting measures are[were] experiencing some level of success in the beginning of market opening for foreign cigarettes. However, now the market share by foreign cigarettes is over 5%, our citizens' loyalties to our products are being crumbling[crumbled] down. We need to recreate an environment in which a smoker who is unable to cut smoking should at least feel ashamed of smoking foreign cigarette[s]. Moreover, we need to reflect upon our behaviours which cause harm to our national economy.(280)*

This media coverage contributed to the initiation of the US GAO's investigation on the marketing activities of the US-based TTCs in Asian markets, including South Korea.(281) Moreover, academic research also contributed to the anti-imported cigarette sentiment, via a project which analysed and compared the amount of tar and nicotine included in domestic and imported cigarettes. This research found that imported brands contained more tar and nicotine than domestic ones and this was widely reported throughout the country.(282)

Furthermore, a 1991 BAT document claimed that the hostility to imported cigarettes among Koreans was often supported by KTGC.(283)

According to interviews with a former OOM manager (Anonymous 1) and a KTGC executive (Anonymous 3), KTGC ordered licensed cigarette retailers not to display imported cigarettes in their shops. Basically, under the regulations, the OOM was able to give orders on how to display cigarettes to licensed retailers, which was enforceable due to the right of OOM to permit or cancel the license. Although this provision in the regulations was eliminated following market liberalisation, KTGC still had similar powers over retailers because it had been committed for the right of licensing retailers by the MOF.(Anonymous 1 and 3) In addition, once the market was opened in 1988, KTGC distributed official internal documents to all retailers to inspire owners' patriotism, for example, designating the selling of imported cigarettes as an unpatriotic activity. (Anonymous 1)

5.6.2 Regulatory barriers

5.6.2.1 Changes to cigarette taxation

After market liberalisation, the most serious regulatory barriers to TTCs, such as the 100 percent duty on imported cigarettes and the criminal sanction prohibiting possession and use of imports by Korean nationals, were removed by revising the TMA (1972). However, changes to the tax payment system after market liberalisation affected import sales.(38)

Following the ROU, it was agreed that only a specific excise tax was to be levied on both imported and domestic manufactured cigarettes. The US government requested this change of the Korean government, in order to allow fair competition with domestic brands in terms of price. With this change, the cigarette tax was also transformed from a national to a local tax in 1989. The reason for this decision by the Korean government was the increase in property tax following rapid income growth in the late 1980s. To change the property tax from a local tax to a national tax, the government conceded cigarette consumption taxation to local governments. While this research finds no clear evidence that the Korean government revised this cigarette tax system to protect the domestic tobacco company from TTCs' penetration in practice this caused an unexpectedly negative effect on TTCs' sales. Since this change, the cigarette consumption tax has provided a substantial percentage of local governments' tax revenue. Therefore, the economic benefit of the tobacco industry became deeply embedded at the local level. According to a KTGC report on the contribution of the cigarette consumption tax to local governments from 1989, the average contribution rate of cigarette tax to local governments in 1989 was 37.2 percent. Approximately a third of the total revenue for local governments came from the sale of cigarettes.(284-286) Additionally, according to a report from a Korean newspaper, one of the largest local governments, Kyonggi Province, significantly depended on the cigarette consumption tax, which accounted for 40 percent of its total tax revenues in 1992.(287) Cigarette sales played an important part in the allocation of municipal tax revenue. Therefore, local governments aggressively encouraged the smoking of domestic cigarettes so as to increase their tax revenues. The more domestically produced cigarettes that were purchased in an area, the more money that area received in tax revenues. Imported cigarettes were only sold in the capital city of Seoul and other large cities in the country including Busan, Daegu, Daejun, and Incheon, thus, the local governments emphasised the use of domestic cigarettes. Hence, some consumers came to perceive consumption of foreign produced cigarettes, as self-indulgent, costing the local community valuable entitlements.(288) After these changes to the cigarette tax system, campaigns entitled "Let's smoke our hometown cigarettes" spread across the whole nation. An RJR document complains about the harassment surrounding imported cigarette sales by local governments in Korea:

> *Anti-Import Rally - In Kwangju a "Buy Hometown Cigarettes" rally was staged, organized by 12 Korean institutions, including an ROK government supported organization, clearly aimed at discouraging foreign imports ; rally could not have taken place without implicit government support*.(289)

Recently released research on Korean local governments' dependence on the cigarette consumption tax showed that the tax still contributed highly to their revenues, ranging from 8.8 percent to 54.1 percent between 2002 and 2003, with the average dependence of local governments on cigarette consumption tax at 26.4 percent during the same period.(285)

5.6.2.2 Restrictions on cigarette advertising

The restrictions on marketing activities in the tobacco industry also hindered TTCs' sales. As newly entered competitors in the market, TTCs had to build brand awareness, thus marketing activities including advertising and promotional campaigns were essential for them. Hence, as discussed above, during the trade negotiations, the USTR, following lobbing by TTCs, pressured the Korean government to allow all forms of marketing activities.

As a result, the ROU allowed limited advertising, notably magazine advertising (a maximum of 120 magazine insertions per year per brand family), point of sales advertising (such as sampling by stick and signboards inside of cigarette retail shops), and sponsoring events by using the name of the company but not the products they sell.(290) Nevertheless, most forms of cigarette advertising, including broadcasting, newspapers and standing signboards, were banned. Indeed, a 1993 PM General Consumer Tracking Study emphasised the importance of advertising in the Korean market: "Advertising, although limited, should be used to boost the awareness and images of Philip Morris' imported brands".(291)

Although some advertising was permitted, there were limitations in the regulations. Cigarette advertising in magazines read by youths or females was strictly prohibited. All cigarette packages and advertising in magazines had to exhibit the health warning, "Smoking can cause cancer and is especially hazardous to pregnant women and youth." All point of sale materials had to be in the immediate vicinity of the particular sales area. Free sampling of a cigarette stick was tightly controlled and had to be conducted within one meter of retail facilities. Moreover, any events targeting youth or women were banned from cigarette promotion.(290, 292, 293)

Within this context of strong social and regulatory barriers to market entry, TTCs attempted to increase their market share by employing various direct and indirect marketing strategies. The detailed tactics used by TTCs will be described and analysed in the following chapter.

5.7 Summary

This chapter has discussed the strategies TTCs employed to gain access to the Korean market, and analysed TTCs' behaviour in relation to the Korean economic development model and regulatory regimes. TTCs' early tactics to gain market access involved attempts to agree JVs and licensing agreements with the monopolised domestic tobacco company to gain a foothold in the strictly controlled market. However, these tactics were ineffective given the Korean government's economic policies focused on industrialisation and foreign investment through export-led growth. After the failure of these initial approaches, TTCs subsequently lobbied US officials and politicians to exert trade pressure on the Korean government. This pressure was successful in opening the market, largely because of Korea's economic and military dependence on the US.

While the Korean government made efforts to review regulatory provisions during trade negotiations, these were to protect the domestic tobacco industry and support economic policy rather than in the interests of public health. The research offers lessons to other developing countries attempting to balance the complex relationship between health and economic development to be in Chapter 9.

Although the market was opened to TTCs, social and regulatory barriers still remained, requiring TTCs to find more sophisticated marketing tactics to build their brand awareness. The detailed marketing strategies of TTCs will be discussed in the following chapter.

Table 5.3: Timeline of key events of the Korean tobacco industry

Year	Event
1952	• The Office of Monopoly (OOM) was established to monopolise the tobacco and ginseng business.
1986	• The Korean and US government signed trade agreement in July. The Korean government agreed to lift a ban on importing cigarettes for domestic sales with import quotas.
1987	• The OOM was transformed from the government agency into the state-owned corporation, Korea Monopoly Corporation (KOMOCO).
1988	• The Korean government signed the Record of Understanding (ROU) with the US, providing open, non discriminatory access to the Korean tobacco market.
1989	• The Tobacco Business Act (TBA) became effective. • The TBA allowed limited cigarette marketing, advertising, and promotional activities at retail outlets to a limited extent in certain magazines, and by sponsoring social, cultural, musical, athletic, or other events. • The TBA required cigarette packs and advertising materials to include health warnings. • KOMOCO was renamed to Korea Tobacco and Ginseng Corporation (KTGC).
1991	• The Korean Tobacco Association (KTA), composed by Brown & Williamson (B&W), KTGC, Philip Morris (PM) and R.J. Reynolds (RJR), signed a 'Voluntary Self-regulatory Code' for tobacco marketing in South Korea. • The Code was formulated in consonance with the provisions of the TBA and its enforcement decree and the provisions of the Korea-US ROU.
1995	• National Health Promotion Act (NHPA) became effective to protect young adolescents aged under 19 years from smoking, and regulate tobacco companies' advertising which targeted the young generation and females.
2001	• Abolition of the tobacco manufacturing monopoly right of KTGC was implemented. • Levy 40 percent duty, which used to be zero percent after market liberalisation, on imported cigarette.

2002	•	KTGC became a joint-stock company from a state-owned corporation. • The name of company was also changed to KT&G (Korea Tomorrow and Global). • British American Tobacco (BAT) established a local manufacturing facility in Sachon city in South Korea. • PM also established a local manufacturing facility in Yangsan city
2004	•	Japan Tobacco International (JTI) signed a licensing agreement with KT&G for local manufacturing of its' international brand, Mild Seven.
2005	•	South Korea ratified the Framework Convention on Tobacco Control on 16 May.
2007	•	South Korea acceded to Korean-US Free Trade Agreement. 40 percent of import tax for foreign cigarettes will be abolished within 15 years.
2008	•	A new local tobacco company, 'Woori Tobacco' won a license to manufacture and sell cigarettes in the Korean market.

CHAPTER 6 MARKET ENTRY STRATEGY PART 2: CREATING DEMAND

6.1 Introduction

As described in Chapter 5, following intensive trade pressure by the US government, in 1988 the regulatory and trade barriers restricting cigarette imports to South Korea were lifted. This opened the way for transnational tobacco companies (TTC), Philip Morris (PM), R.J. Reynolds (RJR) and Brown &Williamson (B&W), to move into the Korean market, competing with one another and with the domestic company, Korea Tobacco and Ginseng Corporation (KTGC).(226)

Prior to this development, the government division, Office of Monopoly (OOM), monopolised the tobacco market, so that cigarette advertising to create demand and build brand awareness, while legal at that time, was not so crucial for the OOM. However, once the market began to be opened to TTCs, initially through import quotas in September 1986, the government quickly recognised the need to restrict cigarette advertising. Thus almost all cigarette marketing, advertising, and promotional activities were prohibited under the revised tobacco-related regulations from April 1987. During the trade negotiations on complete tobacco market liberalisation between the US and South Korea, the US Trade Representative (USTR), lobbied by TTCs, pressured the Korean government to allow the US cigarette manufacturers not only to sell in its market, but also to advertise and promote their products. Therefore, based on the Record of Understanding (ROU), the Korean government had to allow some forms of advertising and promotional activities to tobacco companies from July 1988, however, they were strictly limited compared to the Japanese case where TV advertising was allowed.(62)

In response to the ROU, the Ministry of Finance (MOF) amended the Tobacco Monopoly Act (TMA) in July 1988, and based on the reformed TMA, limited marketing, advertising, and promotional activities were permitted at the point-of-sale, in selected magazines, and for cultural, social, and sport events. All other forms of direct tobacco advertising were prohibited in an effort by the government to restrict market competition between domestic and imported brands. However, under the limited advertising conditions in South Korea, as well as anticipated hostility to US tobacco products, TTCs pursued aggressive and sophisticated marketing tactics to overcome the negative market conditions.

This chapter will analyse how PM, RJR, and British American Tobacco (BAT), including its US subsidiary B&W, sought to create demand for their brands among Korean consumers and establish a firm market presence. The actual shift in market share suggests TTCs were relatively successful at achieving these goals despite an initially anti-foreign mood, and stronger tobacco control policies. This chapter seeks to understand how this was achieved.

6.2 Target populations for TTCs marketing practices

With the assistance of the USTR, TTCs successfully gained access to previously closed markets in Asia from 1986 onwards. Following access to these new markets, cigarette manufacturers implemented intensive marketing, advertising, and promotional campaigns, including in South Korea. However, these activities of tobacco companies in the US became increasingly controversial because of the harmful effects of cigarettes on health. Due to the efforts of US public health advocates, the Chairman and four other members of the Senate Committee on Labour and Human Resources, and 20 members of the House of Representatives requested that the US General Accounting Office (GAO) review certain marketing, advertising, and promotional practices of the US-based TTCs in selected Asian countries, including South Korea.

At a meeting held between PM and the GAO in November 1989, at PM's Seoul office, the company's marketing strategies and its impacts on public health in Korea were discussed. The GAO questioned what strategies PM applied in the Korean market, and whether the strategies were intended to entice non-smokers. A 1989 PM document stated the company's official response to this issue:

[A]lthough Korean advertising seemed a bit cluttered there was no magic in Philip Morris advertising. Basically, you just try to get your name out there in the hope that the consumer will try your product and prefer it to that of your competitor. Advertising does not make a person buy a type of product, it only gets him to try a particular brand.(294)

Duck Song (PM Asia's President) added that there was no evidence that PM's brands induced non-smokers to smoke, offering as an alternative explanation to the "recent increased cigarette consumption trends in Korea after market liberalisation", "dramatic increases in disposable income and spending patterns for other consumer goods."(294)

After interviewing PM, the GAO met representatives of RJR in December 1989 to discuss the same topic. During the meeting, RJR similarly argued that the company only marketed their brands to established consumers, and did not encourage non-smokers to initiate smoking:

Prior to liberalization, there was no advertising (or very limited in the case of Korea) because the government monopolies didn't need to advertise. We have minimal advertising opportunities in these markets – just enough to tell consumers that our products were available.(295)

Both companies insisted that the marketing practices they carried out in South Korea were minimal, intended only to raise awareness of their brands as newly available in the market.

Despite these claims, the GAO's 1992 report drew attention to allegations by the South Korean government that "U.S. cigarette companies violated "implicit" advertising restrictions".(35) The Korean government attributed such violations, in part, to "excessive competition among the three big U.S. cigarette companies".(35) One of Korea's leading newspapers also reported that the number of reported "unfair" business practices by TTCs was almost 13,000 cases in 1991 alone.(278) (See Table 6.1). Such tactics included: cigarette sales at unlicensed places, such as nightclubs and coffee shops; installation of sign boards at unlicensed locations; free sampling in non-licensed places; and gifts to consumers that exceeded the value limits imposed by Korea's Fair Trade Regulations (FTR).(35, 278) The detailed marketing strategies of each TTC will be discussed in the following sections.

Table 6.1: Reported violations of TTCs' marketing activities in 1991 (by KTGC)

Forms of activities	Details of the activities	Number of Cases
Sales	Sales of imported cigarettes by unlicensed retailers, e.g. entertainment places	5,595
Advertisement	Placing advertisement materials at unlicensed spots or missing warning phrase	7,134
Promotion	Offering free cigarettes at unlicensed places	54
Others		129

Source: Foreign Cigarette Smoke Covers the Whole Nation. 15 Feb 1992. British American Tobacco. Bats No. 600503056 (Available at http://legacy.library.ucsf.edu/tid/mfj43a99)

6.3 TTCs' strategies to overcome barriers and create demand for their brands

TTCs justified their circumvention of advertising regulations by their need to desire compete with other TTCs and domestic companies, Korea's strict regulations, and strong anti-foreign sentiment towards imported cigarettes. As previously discussed, according to Shepherd, building brand image and loyalty is the most important factor for new players attempting to access a market. Yet, foreign brands had an inherently negative image for many Korean people, due to political and cultural biases related to anti-US sentiment.(238) According to TTC documents, a 1990 PM Asian Plan describes the impact of nationalism on hostility to imported cigarettes:

> *The cigarette market in South Korea was growing rapidly. However, imports had failed to gain the acceptance of mainstream Korean smokers. This reflects both widespread consumer belief that buying*

foreign cigarette was unpatriotic, and the effectiveness of local activities aimed at disrupting sales of imported brands.(296)

In order to overcome these challenges, TTCs first sought to identify and target particular population groups that were relatively less nationalistic and more interested in foreign manufactured products by conducting market research.(297) Second, TTCs developed efficient distribution routes to avoid the disruption of the domestic company which used to monopolise all the distribution routes prior to market liberalisation. Third, TTCs adapted the types, packaging, and sizes of cigarettes to those of Korean styled cigarettes. Furthermore, the companies developed and introduced various lower tar and nicotine cigarettes with the eye-catching words "Light", "Slim", and "Super Slim" in order to target young people and females, and to discourage established consumers from quitting. Finally, TTCs carried out marketing, advertising, and promotional activities to build brand awareness.

6.3.1 Creating "a favourable mood and atmosphere" to overcome social barriers

Due to strong anti-foreign sentiment and regulatory barriers, TTCs and their Korean distributors and retailers, suffered during the initial stage of market liberalisation.(278) Jung Hoon Kim (Market Service, PM), in his market report, suggested ways to create more favourable attitude and feelings towards imports:

Since the life of foreign tobacco provision is an emotional and sensitive issue, we PM have to be the initiator of creating a favorable mood for import brands to gain leverage in terms of PM brands' image and value. "The market is big, but the society is small." For example, if in case of going for local manufacturing, PM should take the initiative, i.e., take the leadership role in buying Korean leaf tobaccos[tobacco] at an attractive price, or provide favorable terms to the tobacco farmers. This may sound unfavorable and would raise a question of "Why should we?," but if this fact is publicized well and carefully through selected media sources enough to create a favorable mood and atmosphere for PM, the extra cost will definitely payback as PR or Ad expenses. Moreover, PM will be able to reduce the resistance among the people, and they will be more willing to buy PM *brands with little emotional resistance. Also, PM can leverage with the authorities for favorable tax advantages and establish a smooth working relationship with them, both of which are critical success factors.(207)*

This recommendation was not acceptable in the market, because while Korea Monopoly Corporation (KOMOCO) still monopolised the Korean tobacco leaf under TMA (1987), tobacco farmers remained under control.(298) Thus, there was no opportunity for PM to "provide favourable terms to the tobacco farmers".(207) Local manufacturing by TTCs was also not allowed under the limited conditions of market access agreed in 1986. However, after the government's announcement of the complete privatisation of the domestic company in 2001, PM and BAT established their own cigarette manufacturing facilities. Leading up to local manufacturing, both TTCs drew up plans to create a more favourable mood towards them, such as buying Korean leaf tobacco and recruiting local labourers. Within this context, PM had alternatively made efforts to soften anti-foreign sentiment by attempting to influence public opinion, and to improve its relationship with KTGC.

First, we will continue efforts through Corporate Affairs. Our action plans to influence public opinion and media coverage, manage potential crises, and ensure that the trade agreement is fully respected are detailed in the Korea Corporate Affairs section. Second, we will work through purely commercial channels to improve our relationship with the Monopoly. We have succeeded in opening communications with KT&G [KTGC], and at their request are now exploring the possibility of transferring Diet technology. While we cannot assess the direct impact such a venture would have on our overall relations with KT&G [KTGC], we believe a successful technical and commercial exchange could pre-empt competitors' attempts to make local production agreements and would, as in other markets where we have worked successfully with monopolies, strengthen our overall competitive position.(296)

6.3.2 Targeting of particular population groups

TTCs' marketing strategies to create demand in Korea for their brands and to build brand awareness were as important as overcoming anti-imported cigarette feelings among the Korean population. In this sense, TTCs needed to know which population groups were more inclined to smoke foreign cigarettes.

One of Korea's import distributors, Samyang International Corporation, submitted a business proposal, which included Korea's market research, to PM in 1988. In the proposal, it was predicted that after complete market liberalisation, foreign cigarette consumption would grow among high-income smokers, frequent overseas travellers, health-conscious, young smokers (seeking new fashion), and female smokers (seeking better quality and new fashions).(209) This kind of information, from a variety of market research, was carefully used by TTCs considering target groups for their marketing activities.

Based on this kind of research, TTCs mainly targeted three groups: young adult male smokers (YAMS) aged 18 to 24; "starters" (who recently started smoking); and young females usually aged 18 to 25. First, TTCs prioritised the targeting of young people because, apart from politically active college students, this group tended to be less nationalistic and anti-foreign. Targeting this group would allow TTCs to get a foothold in the market and begin to overcome the entrenched social and cultural barriers to expand their market share.(273) TTCs attempted to target young adult males through deploying "below-the-line"[19] tactics (299-303), which focused on non-media advertising and promotional activities. These activities were conducted soon after market liberalisation and the forms of tactics varied. The tactics were based on the results of focus group studies and other market research to obtain particular information on the target groups.(304) For example, PM's Korean marketing team planned to conduct research to understand the young adult male smoker aged 18 to 24 years, mostly college students, in terms of their attitudes, values, aspirations, interests and lifestyle. Through the research, PM investigated which international brands Korean YAMS smoked; which

[19] There are two broad types of marketing tactics that can be used to promote products: **"above-the-line"** and **"below-the-line"**. Forms of promotion by "below-the-line" tactics include events, point-of-sale displays, direct marketing, email promotions, text message promotions, premiums, price reductions, public relations activities, sponsorship, trade show, exhibitions, and so on. On the other hand, "above-the-line" tactics are carried out through promotional activities and advertisements in newspapers, magazines, cinema, TV, radio, billboards and so on.

events they intended to attend; what they thought about lighter cigarettes; and what they thought about imported cigarettes.(305) A B&W document anticipated young adults would comprise a substantial market by the mid 1990s:

> *Import volume growth will continue to grow, reaching over 19% SOM [share of market] by 1998 primarily as a result of the popularity of imported cigarettes with young adult smokers.(306)*

Among imported brands, the most successful was PM's Marlboro Red with half of Korean young male smokers, who smoked imported brands, smoking this brand. The brand's image attempted to appeal to this group by associating itself with values, such as freedom, open-mindedness, straightforwardness, confidence, composure, rebellious, relaxed, hard-working, and stoical.(307) In a 1994 PM's Korean market research, a young male smoker describes the image of Marlboro Red:

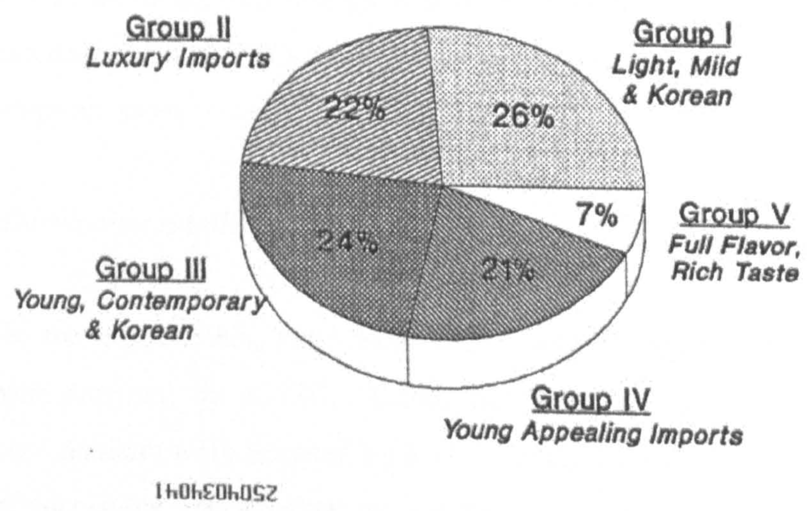
> *[Young] People like to do more of what they are told not to. That is positive for the people who smoke this brand. ... It's preferred by the new generation because the image is rebellious. They feel suppressed by many things. They have to be aware of how their parents feel and they want to be free at least when they smoke outside. So they like to enjoy more freedom through the brand.(307)*

Second, TTCs focused attention on "starters" who recently experienced smoking in their life, were not addicted to tobacco yet, and did not have any preferred brands. The starters were not defined as regular smokers but could be enticed to smoke regularly. A 1990 PM Korean Cigarette Market Study (n=1,200) defined the characters of Korean smokers and divided them into five groups in terms of participants' demographics, smoking behaviour, and preference of cigarettes types.(297) As shown in Figure 6.1, among the five groups, PM decided to pay more attention on better understanding Group IV 'Young Appealing Imports', because the group mainly consisted of young people who were under 25 and preferred foreign manufactured products, not only cigarettes but also other imported products.

Moreover, the members of this group were expected to have fewer anti-foreign feelings towards imported cigarettes.(297) The most important characteristic of individuals in Group Ⅳ was that a third of the group were starters. Therefore, the research confirmed this group should be "the prime development target market" and emphasised that "to build the import segment in the Korean market, a higher intake of starters was necessary".(297) According to the PM's research, in 1990, the number of starters in South Korea was 6.4 percent of the total smokers which was seen as a good level, compared to other Asian countries. Over two thirds of Korean starter smokers were high school or college students.(297)

Group Ⅱ "Luxury Imports", relatively wealthy, was also classified as the target market given their higher likelihood to smoke imported cigarettes. Unlike Group Ⅳ and Ⅱ, Group Ⅰ "Light, Mild & Korea", who were generally older, believed that "Smoking imports is unpatriotic and too expensive", and Group Ⅲ "Young, Contemporary & Korean", who were generally younger, also believed that "I'd be embarrassed to smoke imports. It's unpatriotic". Group Ⅴ "Full Flavor, Rich Taste" tended to smoke less expensive and strong taste cigarettes.(297)

Figure 6.1: Korea's smoker groups with different characteristics in 1990



Source: Korean Cigarette Market Study. Sep 1990. Philip Morris. Bates No. 2504034023 (Available at http://legacy.library.ucsf.edu/tid/bda42e00)

In the initial period following market liberalisation, TTCs made efforts to win a share of the substantial market offered by existing male smokers, focused on YAMS and starters. However, TTCs quickly recognised an opportunity offered by the Korean females for longer term business. Like other Asian countries, smoking was a social taboo for women in Korea, but the country's rapid economic development also brought widespread social change towards females' roles.(14, 260) TTCs recognised this change. For example, PM observed through market research that 14 percent of Korean starters were young females.(297) Encouraged by such change, TTCs targeted young Korean females by portraying smoking as the symbol of equality.(14)

6.3.3 Developing distribution routes

Once TTCs identified their target groups, they sought efficient distribution routes. According to market research, the most attractive places for imported cigarette sales in the Korean market were coffee shops, bars, nightclubs, sauna (public-bath), billiard game room, convenience stores, hotels, and sport facilities (such as golf and bowling) etc.(209) However, due to existing social barriers and legislation regulating cigarette retail sales, TTCs' sales usually challenge. Distributions in rural areas were a particular challenge due to strong anti-foreign sentiments towards imported cigarettes. Documents describe how TTCs attempted to develop new distribution routes in order to improve sales.

6.3.3.1 Developing retailers

In the early 1990s, there were about 140,000 cigarette retail outlets which were licensed by KTGC. Under the Tobacco Business Act (TBA, 1989) these retailers were licensed by KTGC under the authority of the MOF. Retailers' decisions on whether or not to stock, display, or recommend imported brands had a considerable impact on the buying patterns of consumers. About 90 percent of these retailers were "mom and pop" grocery stores, the owners of which were largely conservative and older Koreans, who were nationalistic and loyal to domestic cigarette brands. In this context, these traditional cigarette sellers contributed significantly to hindering the growth of TTCs' sales.(292, 308) This form of market restriction was a tough challenge for TTCs.

When the national economy grew quickly in the 1990s, mom and pop outlets were rapidly replaced with convenience stores. People were more likely to use convenience stores which provided clean and modern facilities/services. As this change took place, TTCs benefited from increased distribution levels and visibility in a less hostile environment.(292) In order to increase these sale channels, TTCs developed cooperative relationships with convenience stores.(308) For example, TTCs delivered their brands more often than KTGC in order to help the stores to reduce inventory costs, and allowed 10 percent more sales margin, compared to KTGC.(283) These tactics helped to build positive relationships between TTCs and convenience stores, in contrast with mom and pop stores. Moreover, as part of "below-the-line" tactics, TTCs offered gifts to owners of convenience and mom and pop stores. The most effective time for this promotional tactic was, the Lunar New Year and the September "Chusok", Korea's Thanksgiving Day, as traditional gift giving times. Each TTC competitively offered gifts, such as kitchen appliances and lighters to retailers. In case of free lighters from TTCs, the retailers resold contributing extra income. As one BAT document stated, this tactic "was almost required for import manufacturers...to keep distribution".(292)

Moreover, TTCs subsidised contracted Korean wholesale distributors. For example, PM had five distributors that imported its brands and sold them to the Korean market. Due to the low level of imports in the early stage of market liberalisation, the distributors experienced difficulty maintaining their business. Hence, TTCs supported them by offering subsidies until import volumes increased:

Distribution is critical to succeeding in Korea, and independent distribution is the only realistic option available in the current environment. All five PMK [PM Korea] distributors remain fully committed to our business despite operating losses sustained for more than a year and a half. Under current volume projections, they will not reach breakeven during the Plan period. Subsidizing distribution is a cost of building our business in Korea. Therefore, until volume increases, we plan to mitigate the financial pressure on our distributors. We will:

- *Continue the current distributor subsidy, covering up to 75% of operating losses.*
- *Freeze distributor headcount at the 1990 level. Additional coverage in rural areas will be obtained through sub distribution networks.*
- *Increase the subsidy level to fully cover operating losses beginning in 1991, if volume does not meet or exceed the current projection. Should that occur, we will also evaluate further rationalization of the existing distribution and merchandising infrastructure.(296)*

PM continued their support of distributors in order to expand market share in the mid 1990s. In the company's three year plan between 1994 and 1996, PM decided "to increase the distributor margin from Won 50 to Won 60 concurrent with the January 1994 retail price increases".(309) In addition, the document stated:

[T]o expand the current direct service capability to handle the forecast growth in our customer base in metropolitan areas, we will provide the distributors with a temporary investment incentive of an additional Won 4 (0.5 cent) per pack for next three years.(309)

6.3.3.2 Cigarette vending machines

As well as using convenience stores to expand sales, TTCs invested in cigarette vending machines which were first introduced in Korea in 1980. The OOM established 392 vending machines in 1980, but only a small amount of cigarettes were sold by machine due to well-established retailers across the country.(261) However, following market liberalisation, cigarette vending machines quickly became a common and effective route for foreign cigarette sales, because there was no regulation on it until 1991.(261)(ISK) RJR signed a contract with a Korean distribution company to install cigarette vending machines for RJR brand. Based on the contract, Choil Distribution established 3,000 cigarette vending machines in Seoul and other metropolitan cities in 1989 alone. PM installed 4,000 machines in 1989.(261)

The vending machines had some clear advantages for TTCs. First, it made foreign brands more accessible to targeted population groups, such as young females who usually found it socially awkward difficult to buy cigarettes from retailers. Second, the machines could be used as a venue for point-of-sale advertising.(296, 310) As advertising was only available at retail outlets under existing regulations, displaying their brand images on cigarette vending machines circumvent the regulation. (See Figure 6.2) For example, B&W installed advertising panels for the company's leading brand, Kent, on contracted cigarette vending machines.(311)

Figure 6.2: Cigarette vending machine with Vantage advertisement image

Source: *Donga-Ilbo*. Foreign cigarette smoke covers the whole nation. 15th February 1992

Importantly, cigarette vending machines were located where young people usually gathered, around school zones, entertainment areas, and high streets. Because there was no regulation of vending machines, it was possible for the companies to install a machine wherever they wanted.(312) Following TTCs' example, KTGC recognised this new point of competition, and established a new vending machine company, Korea Cigarette Vending Machine. The company installed 3,300 vending machines in 1991.(261)

Even though TTCs conducted various tactics for cooperative relationship with retail owners, only a third of them, approximately 50,000 out of 140,000, displayed and sold imports in the early 1990s.(238) Hence, TTCs' investment in cigarette vending machines became more aggressive. At their peak in 1991, vending machines accounted for approximately 7 to 8 percent of all cigarette sales including imports and domestic brands, and TTCs made about 20 percent of their sales through the machines.(296)

However, this effective sales channel for imported cigarettes eventually attracted concern. From 1990, the growth in the number of vending machines was criticised by consumer and tobacco control advocates, who complained that the machines were a leading point of access to cigarettes for young males and females. In addition, it was argued that the machines were deliberately placed by TTCs in areas where youths gathered and were used to cover sales to minors who were not supposed to smoke.(292) This attention by non-government organisations (NGOs) and the mass media caused TTCs to carefully consider whether to invest further in them after 1991.(281)

In 1992, one of the local governments finally enacted a new provision, prohibiting cigarette vending machines from being installed within 200 meters of schools and other places where young people gathered, so that the significant upward trend in the installation of vending machines was slowed.(313) A total of approximately 15,000 cigarette vending machines were installed in South Korea from 1987 until 1993, but this sharply decreasing because of high maintenance costs and strengthening restrictions.(308)

6.3.4 Marketing practices

6.3.4.1 Advertising to gain attention of Korean nationals

Given restrictions on tobacco advertising on TV, radio, and newspapers, TTCs actively developed opportunities for magazine advertising in order to bring their brands to the attention of potential and existing Korean smokers. Under TBA (1989), cigarettes including imported brands were permitted in magazines as long as it is not published more than once a week and be registered under the Act concerning Registration of Periodicals. There was also a limit of a maximum of 120 magazine insertions per year per brand family. Additionally, Korean language magazines which were usually read by youths and females were excluded from cigarette advertising. Any kind of foreign language magazines were available for cigarette advertising.(314)

To develop and maximise the effect of magazine advertising, TTCs carried out research to find out which Korean magazines best matched the targeted market segments of particular brands. A BAT consumer survey showed the company's efforts to reach, for example, Korean females despite prohibitions against cigarette advertising in women's magazines:

> *In terms of communication, a gateway to more effective communication may involve taking advantage of the increased prominence of women's magazines. Since 1997 there has been a move towards imported magazines such as Vogue, Elle, Marie Claire. This kind of environment should be born in mind as an option for Finesse in the future .(315)*

The Korean government also restricted cigarette advertising signboards and posters. The TBA (1989) only allowed this method at the point-of-sale. In practice, however, this regulation was ineffective due to a lack of enforcement by the government. As a result, TTCs' signboards and posters quickly covered busy streets in the large cities. Perhaps the best example is "Daehak-Ro (University Road)" which is known as the main location where young people gather in Seoul. RJR evaluated this street as the key place to introduce its brands to this target market. Consequently, Daehak-

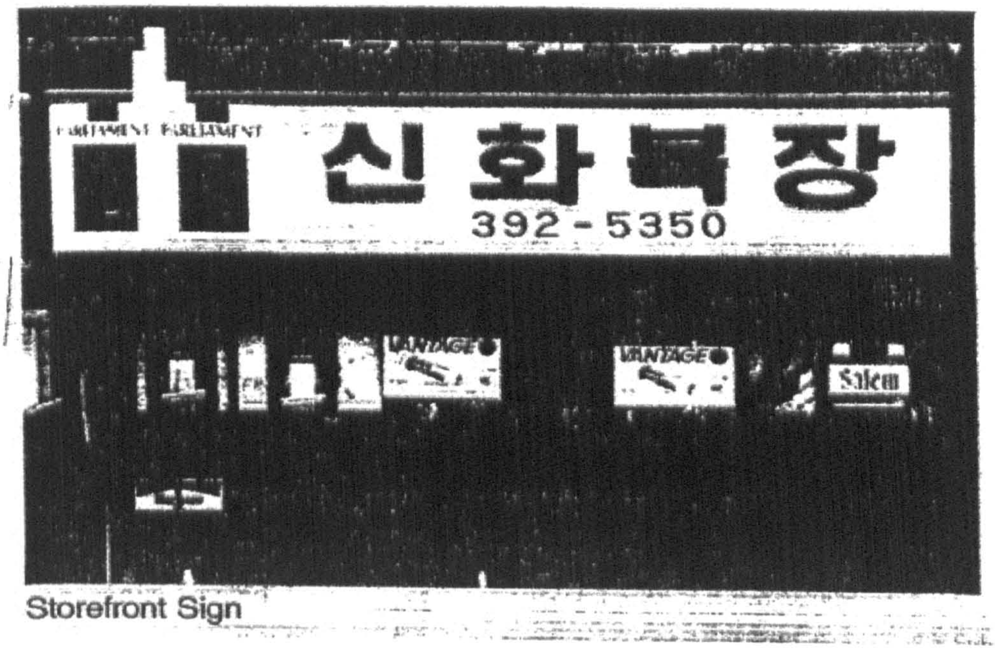
Ro was completely covered by RJR signboards and sunshades advertising RJR's leading brand, Salem, with the result that the street was called "Salem Street" among Korean young people.(278) Similarly, PM advertised its major brand, Marlboro on signboards. Images of Marlboro covered a third floor restaurant building and a huge signboard of Marlboro was installed on top of the restaurant.(278) As one newspaper report described "Seoul and other large cities became full of signboards and the colours of US imported cigarettes".(287)

TTCs' offers for cigarette signboards were generally attractive to Korean small business owners. An article in a Korean newspaper describes how TTCs obtained permission to install billboards:

> *One Korean restaurant building ... is fully covered with Marlboro cigarette advertisement. Theses advertisement signboards are very luxurious, made of tapholin [tarpaulin] and panaplex [panaflex]. The owner of the building says "There is no reason to refuse this free signboard and sunshade which cost [a] couple of million won [US$2,000]. They also clean these signboard every month and promise to give gift[s] on national holidays.(278)*

Amid indifference by the government to enforce restrictions signboards and the rapid a widespread increase of tobacco advertising, anti-foreign sentiments towards imported cigarette sentiment diminish, and TTCs' brands became more popular. This change, in turn, encouraged TTCs to expand their signboards across the country. Figure 6.3 shows an example of PM's Parliament signboard for a clothing shop.(316)

Figure 6.3: PM's Parliament signboard on a clothing shop in Seoul



Source: Parliament Below-the-Line Programs. Philip Morris, 1993. Bates No. 2501222953. (Availabe at http://legacy.library.ucsf.edu/tid/qjs32e00)

TTCs' company logos and cigarette brands have been used on non-tobacco products, such as clothing, footwear, and toiletries, to build brand awareness. This has been known as "trademark diversification" or "brand stretching" and has been extensively used in many countries.(317) This strategy has been used, in particular, to familiarise non-smokers, such as young people with cigarette brand images. (317)

Trademark diversification was prohibited in the Korean market under the TBA (1989). However, documents describe examples TTCs attempts to use this method. For example, to develop non-tobacco products, as an advertising channel a Business Risks International (BRI) conducted 'South Korea market survey' on behalf of RJR in 1991. BRI's contacted hundreds of traders of children's products in Seoul, Busan, and Daegu through the help of the Korean Trade Office, a government sponsored organisation dedicated to the promotion of Korea's industry and trade. After the survey, BRI sent the survey results with approximately 400 business cards of Korean companies that printed brand logos on bags, toys, hats, towels, stationery, and watches. The report shows the negative perception of the strategy in the Korean market as follows:

> *The overall impression given by KOREAN vendors was that cigarette brands are rarely used on non-cigarette or cigarette accessory products for local sale. The reason most commonly cited was that cigarette brands, particularly foreign ones that are used on these products do not sell well. Although some vendors claimed to have sold cigarette candy several years ago, most have since ceased sales of such due to low profit margins. For your information, sightings of non - R. J. REYNOLDS cigarette brands on products of interest (i.e. for children or women) were also scarcely found.*(318)(emphasis in original)

Despite this unpromising research, former president of Korean Association of Smoking and Health (KASH) (ISK) recalls such tactics: "I remember when foreign tobacco companies sponsored music and sports events, they handed out free caps or shopping bags with their logos".(ISK) Figure 6.4 shows a brochure of a Korean hat manufacturer surveyed by BRI including a Marlboro branded hat.

Figure 6.4: Brochure of a Korean hat manufacturer

Source: RJR. South Korea Market Survey. Jul 1991. Bates No. 515221420 (Available at http://legacy.library.ucsf.edu/tid/wfc03d00)

Cigarette advertisements in magazines mainly read by youths and females, and cigarette signboards installed outside of buildings, were "illegal" activities under the TBA (1989). TTCs also recognised these strategies were illegal once they joined the market in July 1988. In a PM internal document titled "Materials for Conference on Details of Criteria for Advertisements and Promotional activities on cigarettes, July 1988", the detailed criteria for cigarette advertisements under the regulation were explained. In the case of magazines, *Lady Kyungyang* and *Yeosung Dong-A*, which were carefully observed by BAT to improve communication with the Korean females, had to be excluded from the advertisements. In addition, the outdoor advertisements, such as store name signboards, skylight screens, and projecting billboards etc. were classified as "examples of illegal and improper cigarette advertisements and sales promotional activities".(319) However, in order to boost market share, in fact, TTCs often circumvented the existing regulations.

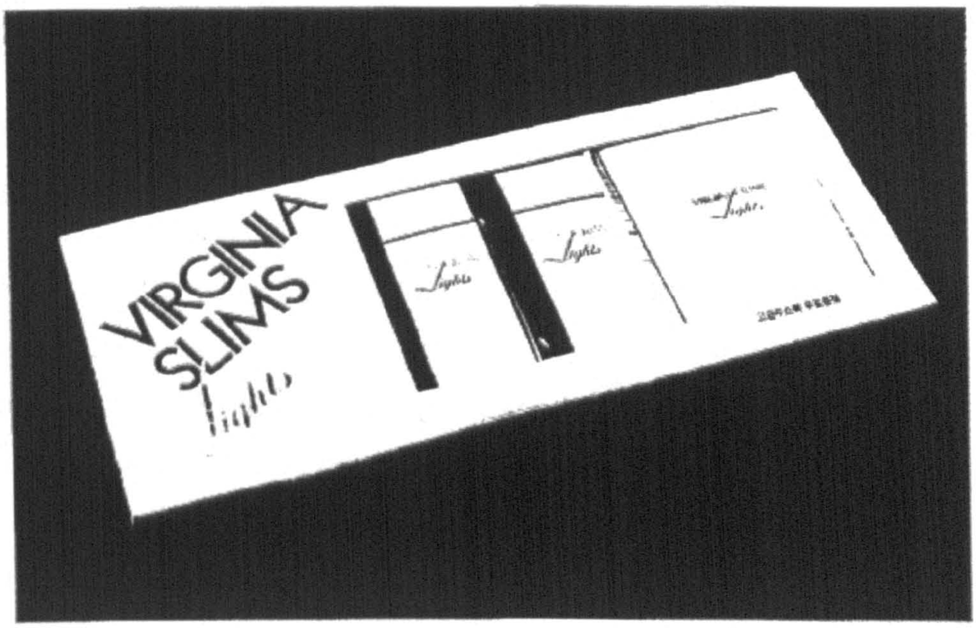
6.3.4.2 Promotion to stimulate demand for imports

Under the TBA (1989), cigarette promotion was permitted only at retail outlets. Free sampling by sticks was a common tactic for both TTCs and KTGC to promote their own brands. Through such promotion, TTCs expected Korean smokers to switch their brands to imported ones. But, free sampling of sticks at retail outlets was not seen as sufficient by foreign tobacco companies, so TTCs used the method in unauthorised places, such as bars, night clubs, and coffee shops where target groups gathered. Bars, night clubs, and coffee shops were basically not able to be licensed by KTGC to sell cigarettes at that time. Under the TBA (1989), each cigarette retailer should be located 200 meters away from other retailers.(314) In order words, KTGC strictly controlled the licensing of retail outlets. Bars, night clubs, and coffee shops were not designated as retailers. Yet, almost all sold cigarettes to customer's demand. As customers often asked waiters or waitresses for cigarettes, these venues bought cigarettes in advance from the retailer for resale.(ISK) TTCs took advantage of this situation to distribute free samples.

As a result of promotion activities in bars, night clubs, and coffee shops, in the early 1990s, imported brands sold well in these areas. TTCs continued to develop this opportunity and supplied their brands via a network of "underground" dealers who distributed imported cigarettes to unlicensed outlets.(283, 320) A BAT market overview recommended the company: "Expand coffee shops and night-life programs to cover all areas in Korea and continue to lead in these important areas of import segment growth"(321). A B&W market plan for 1996-1998 also suggested focusing attention on "night life campaigns" to inspire Kent image within target groups.(306)

A related tactic was the provision of free gifts, such as lighters, towels, shavers, teaspoons, fountain pens, and calculators to consumers who bought 10 packs of imports.(278) This was permitted in Korea under the Fair Trade Regulations (FTR), which treated cigarettes as a normal consumer product.(322) The FTR limited the value of trade gifts to 10 percent of the product's retail price if the price range was between 5,000 won (about US$6) and 500,000 won (US$600). A consumer who bought a product priced more than 500,000 won could be offered a gift worth 5 percent of the price paid, and the maximum cost of gifts was 50,000 won (US$60).(322) Despite these rules TTCs offered gifts which exceeded the limits permitted. PM in 1989 firstly introduced "consumer pack promotion", which included a pocket sized address book, in the Korean market to promote its leading brand, Virginia Slims.(316, 323) (See Figure 6.5) The company also gave desk diaries, valued at 3,500 won to consumers who bought 10 packs of Marlboro, which cost 8,000 won. Similarly, RJR offered luxurious cigarette lighters, valued at 2,400 won to those who purchased 10 packs of More, which cost 10,000 won.(35)

Figure 6.5: PM's address book promotion with Virginia Slims



Address Book Promotion

Source: PM. Virginia Slims Below-the-Line Programs Update Hong Kong Taiwan Japan Korea. 1990. Bates No. 2500152276 (Available at http://legacy.library.ucsf.edu/tid/sfn19e00)

During the US GAO's investigation on the marketing practices of US-based TTCs, the Korean government complained that: "The companies [US-based TTCs] induced smoking by giving consumers gifts that exceeded the value limits imposed by the Korean Fair Trade Act." Nine cases of illegal gifting under the FTR, involving the brands Marlboro, Yves St. Laurent (YSL), Winston, and Mild Seven, were reported by the Fair Trade Committee in 1991.(312)

6.3.4.3 Sponsorship

US-based TTCs faced increased restrictions on marketing and advertising during the late 1960s and 1970s in their domestic market. To overcome these restrictions TTCs sponsored sports and cultural events.(324-327) The expansion of overseas markets from the 1960s onwards was met with similar restrictions. Thus, sponsorship has been an important tactic to expand and maintain market presence worldwide.(328)

According to previous studies, the purpose of TTCs' sponsorship programmes is to obtain recognition and acceptance from young starters for their brands, and compete with other brands.(324) The rationale for appealing to young starters is that they are on the stage of initiation of smoking and potential consumers in future. Through sponsorship, TTCs hope that young people would not view cigarettes as a derelict product but as a legitimate source of meaning and consumptive pleasure.(324, 329-333) Moreover, sponsorship programmes enable TTCs to associate their brands with desirable lifestyle images, and also to circumvent tobacco regulations which become increasingly restrictive.(283, 324, 334, 335)

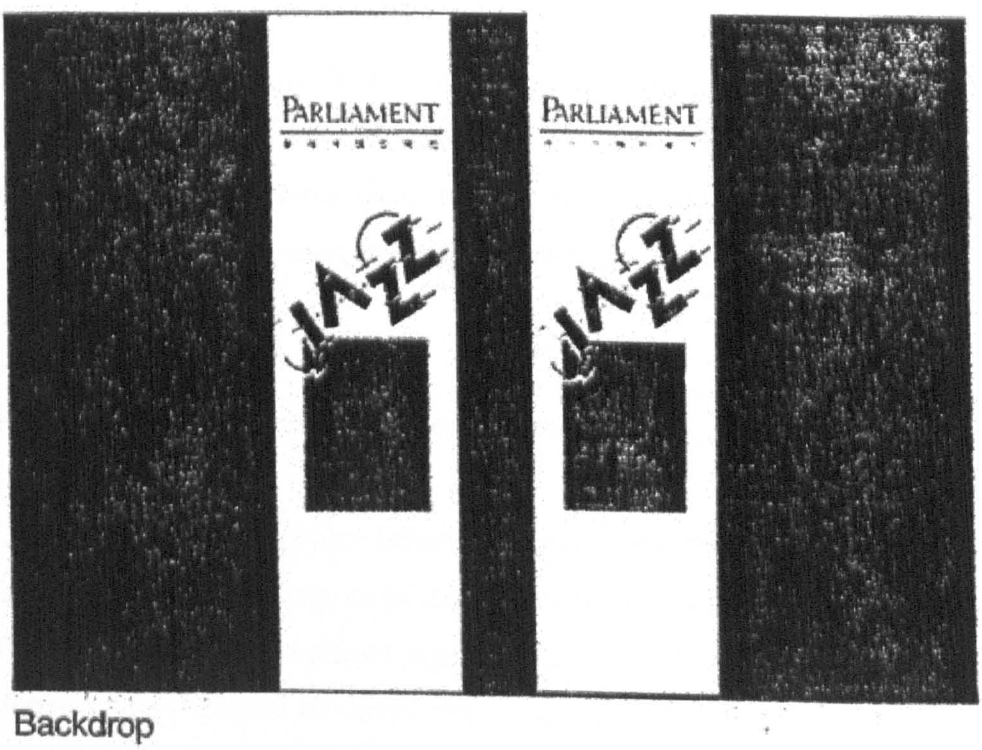
In Korea, TTCs were able to use sponsorship programmes since the revision of TMA Enforcement Ordinance in July 1988. Under the amended regulation, sponsorship programmes by tobacco companies of various events have been allowed.(336) Any events for women or youths, however, were excluded from TTCs' sponsorship. Under the regulation, TTCs sponsored 34 times on various events, such as tennis tournaments, Takwondo (Korea's martial art) championships, boxing games, golf tournaments, and music concerts etc, from 1986 to 1991.(278) These cigarette sponsorship programmes have been generally undertaken to integrate a brands' established image with the image of the sponsored events. For example, B&W considered sponsoring a golf tournament for Kent, the company's leading brand in Korea:

> *Golf and KENT are very compatible in terms of positioning. KENT is a high quality, milder U .S. International brand for stylish, self-assured adults. Golf is a high quality, relaxing, international sport for stylish, self-assured adults. The target audiences of both KENT and golf are nearly a perfect match: male and female, 25+ years old, better educated, above average income. Both are very image compatible in that they are a creative natural fit for upscale sociability in a resort setting.(337)*

PM also considered how best to match events to its leading brand images. In a letter entitled "Special events", PM's marketing manager considered different events for its top three brands, Virginia Slims, Parliament, and Marlboro.(338)

The letter, sent to another marketing expert in order to discuss suitable ways of sponsoring in the Korea market, illustrates how PM decided which events to sponsor. For Virginia Slims, the author agreed that a women's tennis exhibition was seen as 'ideal', but, at the same time, it was warned that while sponsoring the women's tennis, "we have to be careful that we don't seem to be targeting females". Similarly, the author agreed a Jazz band event would be ideal to promote Parliament, because the expected audience were young adults. (See Figure 6.6) To build awareness and demand for Marlboro and its family of brands, men's tennis and golf tournaments were recommended.(316, 338) Discos, motor sports, and skiing were also recommended for sponsorship programmes (339), as informed by market research which attempted to understand the lifestyles of target groups such as YAMS.(296) RJR sponsored a tennis match which was very popular with Korea's young adults to advertise its leading brand, YSL. As RJR's expectation, the 1989 YSL Tennis Tournament achieved good media coverage for YSL.(311)

Figure 6.6: PM's backdrop for the Jazz Superband World Tour in Seoul



Source: Parliament Below-the-Line Programs. 1993. Philip Morris. Bates No. 2501222953 (Available at http://legacy.library.ucsf.edu/tid/qjs32e00)

The increase in tobacco sponsorship led public health advocates to raise concerns that they targeted those who were not supposed to smoke. A leading newspaper criticised PM's sponsorship of concerts by leading US singers and bands, such as Jean Harris and Jose Feliciano, for being "targeted at potential customers, middle schoolers and high schoolers who were not supposed to be smokers." (278) A group of thirty tobacco control and consumer advocates sent a letter to PM demanding an immediate halt to the Marlboro Concert Series. The group accused PM's sponsorship of inducing minors to smoke by holding concerts featuring popular young entertainers. Similar letters were also sent to co-sponsors, usually broadcasting companies, and advocacy groups pressured entertainers to decline invitations to perform at TTC sponsored events.(340) Given the increasing criticism of sponsorship programmes by TTCs, this tactic became less common in the middle and late 1990s.(ISK)

As shown in the above examples of TTCs' sponsoring programmes, when they considered suitable events for sponsorship, the expected participants of the events were the most important factor. Some of the sponsored events were targeting youths and women, which was prohibited under the regulations. However, it was usually difficult to distinguish legal and illegal sponsorship programmes under the law, because the participants for almost social, cultural, musical, and sports events were mixed. Such sponsorship programmes has been therefore widely used and efficient form of "below-the-line" activity for TTCs.

6.3.5 Adapting products to local tastes

In the initial period following market liberalisation, TTCs generally failed to meet the preferences of Korean smokers in terms of taste and flavour. The reason was that imported cigarettes tended to be too strong for Korean smokers who preferred flavoured and relatively lighter cigarettes.(207) TTCs quickly responded by developing new versions of their leading brands to meet local tastes. In fact, TTCs cigarette blends for domestic use and international use were different. Blend formulations for certain individual brands and brand styles for certain markets occasionally varied, in order to make the cigarettes more responsive to local tastes or to comply with local restrictions and regulations.(234) TTCs therefore conducted market research on the specific tastes of the targeted groups developing products cigarettes accordingly. Product development also took into account its appearance, such as package design and cigarette length.(341)

Once the Korean market was opened, based on market research TTCs strategically introduced long length cigarettes of 100mm, although 84mm cigarettes were the general trend in Korea. PM's market overview in 1986 observes the characteristics of Korean cigarette:

> *The Korean cigarettes, with only 15 different cigarette brands in the market, have dominant characteristics. 12 out of 15 brands are king size (84mm) filter cigarettes in 20's soft packs, and 13 out of 15 are non-menthol. Also, 10 out of 15 brands have white tips, and 7 out of 15 are 500 Won brands.(207)*

Although the Korean tobacco monopoly, OOM only manufactured shorter size cigarettes compared to foreign ones, there was strong interests and demand for long length cigarettes among Korean smokers. Many Korean female smokers in particular preferred long length cigarettes. An interview with a young female smoker on a TV programme described this trend in the initial period following market liberalisation:

> *Song [Producer]: "What do female smokers smoke these days? foreign cigarettes?"*
> *A young female smoker: "Yes. Do you really think young female smokers smoke Korean cigarette? No, foreign cigarettes are more popular and attractive."*
> *Song: "Are Korean cigarettes dull?"*
> *A young female smoker: "Yes, of course. They are too short. Foreign brands are longer, slimmer and much prettier"*
> *Song: "Do young smokers know cigarette tastes"*
> *A young female smoker: "Who knows tastes? I don't think so. They just follow others."(312)*

The top five imported brands, shown in Table 6.2, were all long length ones. This tactic was successful, with these brands attaining significant market share (68.5 percent of the imported cigarettes in 1988).(277)

Table 6.2: The top five imported brands in the Korean market in 1988

	Brand	Share of imported cigarette market (%)
1	Kent Deluxe	17.2
2	YSL	16.5
3	Parliament	13.6
4	Marlboro Lights 100's	11.7
5	Kent KS	9.5

Source: Republic of Korea: Demographic Data. British American Tobacco0000. Bates No. 401856309 (Available at http://legacy.library.ucsf.edu/tid/trv02a99)
Note: KS – king size

TTCs' cigarette packages were also different from those of traditional Korean cigarettes. Like long length cigarettes, luxury and better designed cigarette packages, and hard packages were introduced by TTCs. Before market opening, the domestic cigarette package was relatively plain and occasionally used to advertise government's policies. Korea's smokers never expected good designed and hard packages of cigarettes at that time.(ISK) Korean smokers responded readily to TTCs' new style cigarette packs. Box-style hard packs, with their more luxurious look, have led the market since the early 1990s. In 1993, of domestic brands, more than 97 percent of sales were in soft pack styles, while soft pack sales of imported brands were only 2.8 percent. Almost imported cigarettes used box-style packs.(308) As expected, the long and box style packaged cigarettes were effective in appealing to the targeted groups. Following the new package trend in the market, PM strategically planned to introduce a new version of Marlboro:

> *In the area of line extensions, we will launch Marlboro Lights KS Box in 1991 and a KS Box Ultra lights version in 1992. Marlboro Lights 100's Box is being developed as a contingency replacement for the Soft Pack version in 1990.(296)*

Whenever PM considered introducing new brands to the market, package design was an important factor. The following quote illustrates how carefully PM considered the design of packaging when selecting brands for the market:

> *In terms of pack design, I am very positive that PM brands' pack designs are better appealing to Koreans than other import brands in the market. However, if "Merit" is in the market, instead of "Lark", it will definitely do well as much as "Marlboro Lights" will do, because both brands' pack designs have similar images to the Korean high priced brands, hence very much appealing to the Korean smokers. The pack designs of Winston and Camel would not be attractive to Korean people. (207)*

Virginia Slims was PM's primary brand in Korea following market opening. This brand appealed especially to Korea's females. Thus, when the market became more competitive in the early 1990s due to the aggressive marketing activities of competitors, PM also planned to replace the package design of Virginia Slim to appeal to females more effectively:

> *VSL [Virginia Slim Light] has the potential for further growth in Korea, and during the Plan we intend to maintain full support for the brand. In 1990, we will make a change in creative to position VSL for growth over the long term, replacing the current pack-as-hero communication with the US/international campaign attractive to fashion-oriented young adults.(296)*

TTCs' investigations of the preferences of Korean smokers showed that there was a strong proven demand for lower tar and nicotine cigarette which had a mild taste and rich flavour.(292, 342) The demand for these products rapidly increased in Korea "due to the fact that people prefer to enjoy rich tobacco flavor, but are getting more health conscious with the growing anti-smoking movements".(207) TTCs saw that Korea was a predominantly low-tar market.(273)

Once TTCs started selling light and mild cigarettes in the Korean market, they were particularly popular with female smokers and starters among young adults who naturally find lighter tastes, much more palatable, and easier to enjoy. A BAT document evaluates that light and mild cigarettes were "...offering a way to respond to the growing awareness of the health impacts of smoking, since they are attractive to existing smokers who wanted to quit smoking for health concerns."(343) In fact these types of cigarette, containing less than 10mg tar, quickly came to dominate the market and accounted for 88 percent of total cigarette sales in Korea in the early 1990s.(292) A 1991 PM's document entitled "New product development – Korea" emphasises the importance of lower tar and nicotine cigarettes in the Korean market based on market survey, and suggests that:

> *Our new product development objective is to develop an LTN [lower tar and nicotine] products which flavour system will appeal to 88 Lights smokers at the same time to deliver a claimable level of lower nicotine.(342)*

The document also explains why this objective was so important in the market, and the reason was that image communication between cigarette brands and consumers was difficult in Korea given the restricted marketing situation:

> *A new product must carry a more tangible consumer benefit that is easier to communicate than an image benefit. Since market opening in Korea, except Marlboro, and YSL to a certain extent, no other import brands have been able to create any strong image. Any image benefit will take a long time and much resource to establish itself in the Korean smokers' mind if successful at all. The consumer benefit of a similar flavor system to 88 Lights will also be difficult to communicate. Thus, we believe that it is critical that the ring product to be launched in the third quarter next year must offer a [ta]ngible, claimable product benefit such as lower nicotine delivery while promising the mainstream taste.(342)*

As part of actions to achieve their objectives, PM reformulated its brands with reduced tar deliveries to fit local tastes. The company changed its leading brand in the Korean market from Marlboro Red to Marlboro Lights to directly compete with Japan Tobacco International's (JTI) growing Mild Seven. When PM launched Virginia Super Slims in the market, the new lighter brand was quickly ranked the second largest imported brand behind JTI's Mild Seven in the early 1990s.(344) In addition, PM reduced tar deliveries of Marlboro Red from 16mg to 13.5mg.(296) However, after investigating the preferences of Korean smokers through a research programme, called Seoul Consumer Panel, Marlboro Red reduced its tar level again, from 13.5mg to 12mg in 1991.(345) Afterwards, market research was regularly undertaken and in 1993 a further reduction of tar levels for the Marlboro brand family was recommended, in order to achieve the mainstream taste preferred by Korean smokers:

> *To reduce the strength of Marlboro and thereby move it further into line with the mainstream taste perception the following actions will be taken:*
> - *Reduce tar level to 10mg.*
> - *Filter length will increase from 21mm to 27mm.*
> - *Specification will be similar to Marlboro Lights but ventilation will be modified to achieve 10mg tar.*
> - *Tipping paper will be cork on white with Marlboro pre-printed, similar to Marlboro Medium tipping.*
> - *The reduction in tar to be actioned immediately. No external panel testing required prior to release as Marlboro at 12mg, 9mg and 7mg has already been tested.(346)*

Through its analysis of major markets, BAT, which joined the market later than other US-based TTCs found that South Korea was dominated by lower tar and nicotine brands and expected that the mild segment in Korea would grow at the annual rate of 2 percent by the mid 1990s. In addition, the company recognised that PM had achieved a dramatic increase of market share from 5 percent to 32 percent of imports in Korea from 1989 to 1990 as a result of the enhanced performance of light and mild brands such as Virginia Slims and Marlboro Lights. Hence, BAT also planned to introduce mild versions of its brands between 1991 and 1995 to the Korean market.(347)

Similarly, B&W predicted the growth of the low tar segment under 5mg in the Korean market in the mid 1990s, given that consumers were becoming more aware of smoking and health issues. Based on this forecast and following the increase of female smoking incidence, the company marginally expanded the menthol segment.(306) Prior to this, B&W had already introduced Kent, a primary brand with mild flavour perception, and had launched Finesse, a super slim cigarette (called 'Capri' in other countries) to appeal mainly to females.(306) In 1992, to respond to the upward trend of low tar deliveries in the market, B&W introduced Kent Mild.(348)

In RJR's case, most of the cigarette brands it imported to the Korean market were low tar products and/or menthol flavoured, including Camel Filter, Camel Lights KS, Winston KS, Winston Light KS, Winston Lights 100, More Filter, More Lights 100, Salem King Size, Salem Lights 100, Salem Lights King Size, YSL Regular, and YSL Menthol.(234)

Table 6.3: Percentage share of low tar cigarettes among imported brands in Korea (%)

	1989	1990	1991
More tar than 11 mg	21.9	19.2	18.3
Low tar	78.1	80.8	81.7

Source: PM. Marlboro Red Situation Analysis (Korea). 1989. Bates No. 2504026063 (Available at http://legacy.library.ucsf.edu/tid/aqq19e00)
Note: There was no exact norm on lower tar cigarettes in Korea in the 1990s, but generally the cigarettes containing less than10mg of tar were classified as low tar cigarettes.

Table 6.4: The top four brands by each TTC in the early market liberalisation

	RJR	PM	B&W
1st	YSL (65%)	Parliament (36%)	Kent Deluxe (47%)
2nd	Winston (12%)	Marlboro Light (31%)	Kent KS (26%)
3rd	More (11%)	Marlboro KS (18%)	Kent Mild (17%)
4th	Other (12%)	Lark (15%)	Pall Mall (10%)

Source: Republic of Korea: Demographic Data. British American Tobacco0000. Bates No. 401856309 (Available at http://legacy.library.ucsf.edu/tid/trv02a99)
Note: KS – king size

6.3.6 TTCs' initial marketing expenditure

There is limited evidence available of how much TTCs spent on marketing activities to create demand for their brands in Korea following market liberalisation. However, the former president of KASH, Il Soon Kim (ISK) recalls during the interview that "After the market liberalisation, some of the US tobacco control advocates we trusted said that TTCs spent tens of thousands of US dollars to access and advertise their brands to the Korean tobacco market".(ISK) In addition, one of the popular TV programmes in Korea, PD Diary reported that PM invested 16 billion won (about US$15 million), a third of the company's total revenue in 1991, while accusing TTCs' marketing penetration in the market after market liberalisation.(312)

The analysis of tobacco industry documents and Korean sources in this chapter suggests that TTCs intensively undertook advertising and promotional activities, involving both "above-the-line" and "below-the-line" tactics. Some activities circumvented regulations restricting their activities, which usually cost much more than general advertising. Hence, attempting to unveil TTCs' marketing expenses can be useful for better understanding their market access strategies, and may also shed light on how much TTCs spent on "below-the-line" activities.

Since regulations restricted marketing activities, allowing only limited advertising in magazines and promotional activities only within retail outlets, marketing expenses of TTCs' might be relatively low. Yet, according to a BAT document, TTCs were predicted to have a net loss in the years following market liberalisation due to increased overheads and huge marketing costs.(292) The expected losses of PM, JTI, RJR, and B&W for 1992 and 1993 are shown in the table below.

Table 6.5: Profit contribution in 1992 and 1993 (US$ millions)

	PM	RJR	B&W
1992	- 8.0	- 8.0	- 4.9
1993	- 3.0	- 9.0	- 3.6

Source: Tobacco Strategy Group: Major Market Strategies - Korea. British American Tobacco. Bates No. 500036015 (Available at http://legacy.library.ucsf.edu/tid/riz70a99)

Detailed evidence of TTCs' marketing expenses is given in a BAT market overview document.(292) The document illustrates how much PM, RJR, and B&W spent in the Korean market in 1992. The expenses were broadly divided into media/promotion and sales. PM had a relatively high level of marketing expenditure. In 1992, the company's marketing expense was estimated at a total of US$37.7 million, US$28.7 million in media/promotion, US$5 million in selling field and US$4 million in other. RJR spent a total of US$23 million, US$19.4 million in media/promotion, US$2.6 million in selling field and US$1 million in other. B&W used US$10.9 for marketing activities.(292) The total of marketing expense the US based TTCs spent in Korea in a single year 1992 was US$71.6 million and US$78.4 million in 1993.(308)

Table 6.6: Marketing expense in 1992 (US$ millions)

	PM	RJR	B&W
Media/promotion	28.7	19.4	-
Selling field	5	2.6	-
Total	37.7	23	10.9

Source: Korea. British American Tobacco. Bates No. 500059543 (Available at http://legacy.library.ucsf.edu/tid/qox08a99) and Tobacco Strategy Group: Major Market Strategies - Korea. British American Tobacco. Bates No. 500036015 (Available at http://legacy.library.ucsf.edu/tid/riz70a99)
Note: No data on B&W's expense on media or promotion and selling field. But the total expenditure B&W used in 1992 was available from a TID.

Table 6.7: Market expense in 1993 (US$ millions)

	PM	RJR	B&W
Media/promotion/vending	36.5	17.5	-
Selling field	5.5	3.0	-
Other areas	4.5	1.5	-
Total	46.5	22.0	9.9

Source: Republic of Korea - Imports Picking up Market Shares. British American Tobacco. Bates No. 500224594 (Available at http://legacy.library.ucsf.edu/tid/yqm33a99)

6.4 The role of corporate social responsibility initiatives to expand market share within a "dark" market

By the late 1990s TTCs recognised that the Korean market had become "darker", an industry term for markets that had adopted stronger tobacco control measures.(349, 350) One key response to this trend has been corporate social responsibility (CSR) tactics. In a 1997 market overview by BAT Korea, the planned role of Corporate and Regulatory Affairs (CORA) in overseeing the company's CSR activities in the Korean market was described:

> *Increased pressure on the industry is expected on smoking and health issues and the market becoming darker due to further marketing restrictions. We will increase our emphasis in this area by appointing a CORA manager and enlisting a PR firm to act on our behalf.(321)*

In fact, according to a former BAT Korea employee and a member of CORA from 2001 (Anonymous 5), only two persons in the Marketing Team developed "below-the-line" strategies, with most of the CSR tactics planned and conducted by public relations companies.(Anonymous 5) One of his main duties in CORA was to improve public relations through CSR activities. The marketing companies he mentioned (without exact names), usually carried out research to analyse market trends and develop aggressive marketing, advertising, and promotional tactics. (Anonymous 5) He recalled during the interview that the Legal Team in CORA and the Marketing Team often argued in regard to new marketing tactics, because most tactics were "too aggressive"; "might break the law", and "could be targeted by tobacco control activists". (Anonymous 5)

The major TTCs in Korea's market, PM and BAT, have carried out various CSR activities since they established their local manufacturing facilities in Korea following privatisation of KTGC, in order to improve the companies' images and communication with the public. The following examples of the companies' recent CSR activities mostly come from additional sources, such as newspapers, companies' CSR reports/websites, and tobacco control advocates' published/unpublished data, rather than the industry internal documents, given the limited access to the recent documents of PM and BAT.

As CSR activity, since 1999 PM has started the refrigerator van donation with Korea's largest charity, Community Chest of Korea (CCK)[20]. To date, 32 vans with PM's logo are used to deliver fresh food to neglected and poor people with the catchphrase "Philip Morris delivers love". This programme might be the model of KT&G's car donation. However, unlike KT&G's free vehicles programme donating 100 cars each time, PM (PM Korea since 2001 after establishment of its local manufacturing facility) just donates one van each time to one selected social care organisation.

[20] **Community Chest of Korea (CCK)** is a nationally networked non-government organisation in South Korea. The organisation consists of 16 local offices and works to create lasting positive change in the community and people's lives. Since its establishment in 1998, CCK has grown to become Korea's largest community-impact charity. CCK seeks to engage individuals, businesses, and local organizations to cultivate a culture of sharing in the community.

Figure 6.7: PM Korea's donation ceremony of refrigerator vans

Source: Financial News website (Available at http://www.fnnews.com/view?ra=Sent1001m_View&corp=fnnews&arcid=110127171059&cDateYear=2011&cDateMonth=01&cDateDay=27, accessed 27th January 2011)
Note: PM Korea donates its 32nd refrigerator van to a social welfare centre on 27th January 2011.

The other programme PM Korea has conducted is a campaign targeting convenience stores not to sell cigarettes to youths under 19 years of age (as stipulated by the TBA). The campaign mainly focused on owners of convenience stores and clerks to check the age of cigarette buyers by asking for their identity cards, if they look younger than the age restriction. In the process of the campaign, PM Korea has provided signboards, stickers, and posters which are decorated with the company's logo and name (See Figure 6.8) to promote the campaign. According to a media interview with the President of PM Korea, the company would not provide their brands to convenience stores that violated the minimum age restriction. In addition, the President emphasised that protecting youths from smoking could result in a short term profit loss, but that the company was expected to benefit in the longer term.(349) In other words, although the company's sales might decrease in the short term, socially responsible activities can build good relationships with the public and achieve "sustainability management[21]" under a stricter market environment. However, the actual effect of the campaign on preventing youth smoking has never been reported publicly, and most convenience stores proved uninterested in this kind of campaign, according to Bok Kun Lee, a key informant.(BKL)

Figure 6.8: PM Korea's "protecting youth from cigarette sales" campaign at convenience stores

Source: *Hankyoreh 21 Journal* website (Available at http://www.hani.co.kr/section-021011000/2006/07/021011000200607060617021.html, accessed 20th January 2010)
Note: PM Korea's President checks a customer's identify card to confirm his age.

BAT's CSR programmes have been relatively varied compared with PM. Since BAT Korea was established in 2001, the focus of CSR activities

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[21] **Sustainability management** is a strategy or goal to achieve long-term prosperity. Through balancing social, environmental, and economic considerations, corporations can achieve sustainability management. A company should provide products and services which fulfill not only the needs of the customers, but also are environmentally and socially responsible at the same time. If customers do not feel good about the products and services they are buying, they will not continue to buy them. There must be an emotional investment from the customer. This creates brand loyalty and a sense of belonging. To the tobacco industry, this sustainability management is, particularly, important due to the rapidly increased tobacco control policies and regulation. Given this, to achieve long-term prosperity, the industry must communicate with customers and obtain strong loyalty by focusing sustainability management.

has been to achieve sustainability management based on the company's CSR manual. As one former BAT Korean employee (Anonymous 5) describes:

> *The headquarters of BAT provides the manual for CSR activities. The local subsidiaries conduct their own CSR programmes and sometimes modify the manual to meet local situations.(Anonymous 5)*

Like PM, CSR programmes of BAT Korea have given attention to youth smoking prevention in the form of the "I love I" campaign with major media, such as a leading Korean newspaper, *Jongang-Iibo,* and an internet portal site, *Yahoo Korea.* The programme targeted youths aged from 11 to 17 years, and was intensively advertised through its co-organisers, the newspaper and internet portal site. Similar with PM Korea's campaign, BAT Korea has also carried out campaigns to cigarette retailers not to sell cigarettes to youths. As well as youth smoking prevention, BAT has aimed its CSR efforts at college students (normally aged 19-27 years) through the "BAT Leadership Academy". While the programme is ostensibly billed as enabling participants to learn what they need to become a leader, according to a key informant, the company also learns how young people think. (BKL) BAT Korea has not only targeted youths, but has also conducted CSR activities aimed at poor and neglected people. Like PM Korea, BAT Korea has worked with CCK by donating funds collected by the company's employees. "Han-Sa-Lang", which means 'one love', is a voluntary community service team in BAT Korea. The team regularly raises funds which it donates to CCK to support elderly and low income families. The CSR activities of BAT Korea have been reported in the company's annual "Social Report" since 2003, changed to the "Sustainability Report" in 2009.

Figure 6.9: BAT Korea's website to introduce its' CSR activities

Source: BAT Korea website (Available at www.batkorea.com, accessed 10th September 2010)

BAT Korea and PM Korea have made efforts by CSR activities in order to change their image from a harmful industry to a socially responsible industry in Korea. Through this, they have attempted to obtain sustainability management in the market which has become continually "darker". Although many CSR programmes have particularly supported poor and old people, as marketing tactics they have paid attention to targeted groups, young adults and females by advertising how much they are responsible on social issues and how much they give back to the society through CSR programmes.

6.5 TTCs' recent practices

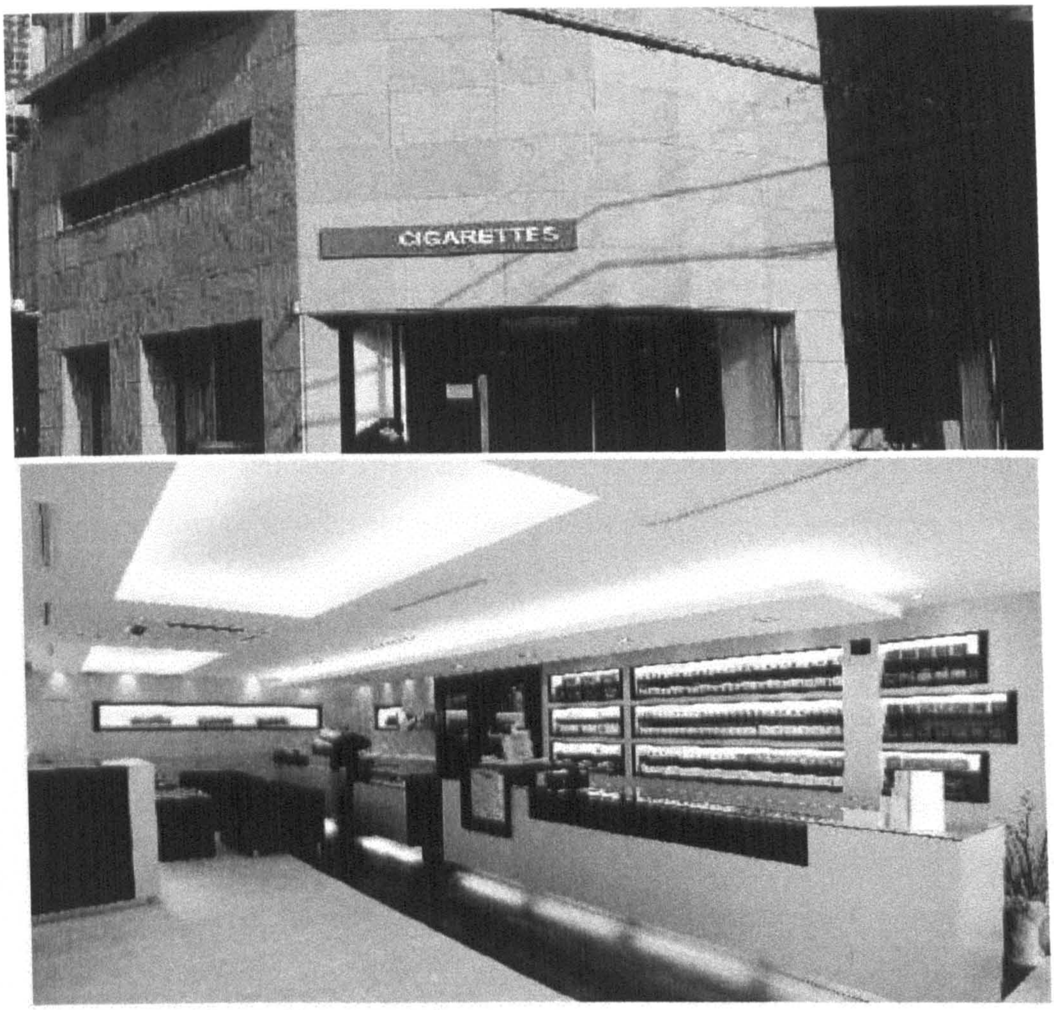
BAT and PM Korea continued to undertake "below-the-line" tactics to improve their sales. For example, both companies, as well as KT&G, pay a "listing fee" to owners of convenience stores to place their brands in an eye-catching spot, such as the cashier's counter, although the current TBA states that cigarette manufacturers are prohibited from giving money to licensed cigarette retailers. According to a newspaper article, the "listing fee" is a few million won (a few thousands US$) on a monthly or yearly basis.(351)

Whilst BAT Korea has initiated its CSR activities since 2001, the company also ran a task force team at the time to promote its' leading brand in Korea, Dunhill. The team employed various "below-the-line" tactics, such as free sampling at night clubs, bars, and coffee shops. In particular, the unique tactic of the team was that the young people recruited by the company "accidentally" left empty Dunhill packages on the tables of the above places. According to the interview with the former BAT Korea employee (Anonymous 5), this tactic was very successful and contributed to an increase of Dunhill's market share from 5 percent to 13 percent in the period of 2001 to 2002.(Anonymous 5)

These days, young adults aged over 19 prefer private parties rather than night clubs. Not only BAT Korea, but other tobacco companies do not miss this opportunity. Although BAT Korea and PM Korea officially denied their sponsorship of private parties, according to a newspaper interview with a party organiser, tobacco companies support all or half of the costs for parties and get chances to advertise their brands to the participants.(351)

In addition, BAT Korea runs a unique café, "Cigarette", in the wealthiest street of the country, Chungdam-Dong, in order to study the lifestyle of the young Korean people according to the former BAT Korea employee (Anonymous 5). Through the café, the company collects information on young people's smoking habits, trends, and so on. The café offers customers relatively cheap beverages, a comfortable/luxury environment, and also sells BAT cigarettes. The café is popular with smokers, but, these days, non-smokers also often visit it.

Figure 6.10: BAT Korea's "Cigarettes" café



Source: Youth No Smoking Association

Although such "below-the-line" tactics are still undertaken by BAT Korea and PM Korea in order to maintain and expand their sales, building the image of a socially responsible tobacco company has become more important for TTCs. In response to the growth of tobacco control policies and legislation, CSR activities allow tobacco companies: to acquire credibility in the eyes of the public; to silence potential critics; to restore its battered reputation; to mitigate future lawsuits; and thereby to increase the value of corporate stock.(352-354)

6.6 TTC success in achieving growth in market share

An analysis of trends in market share suggests that TTCs have been relatively successful at achieving sales growth by undertaking the above described tactics, despite anti-foreign sentiment, and adoption of stronger tobacco control policies in Korea. Since 2001, in particular, when BAT and PM established their own cigarette manufacturing facilities in South Korea, growth in market share of their brands has accelerated.(206, 355, 356) Table 6.8 shows the growth of TTCs market share from 1988 to 2007. The exception during this period was a decline in the market share of imported brands between 1996 and 1998, due to the Asian economic crisis, which led to a large outflow of investment and foreign currency from South Korea. From 2000, however, the Korean economy recovered, leading to a resumption of growth in market shares of TTCs again.

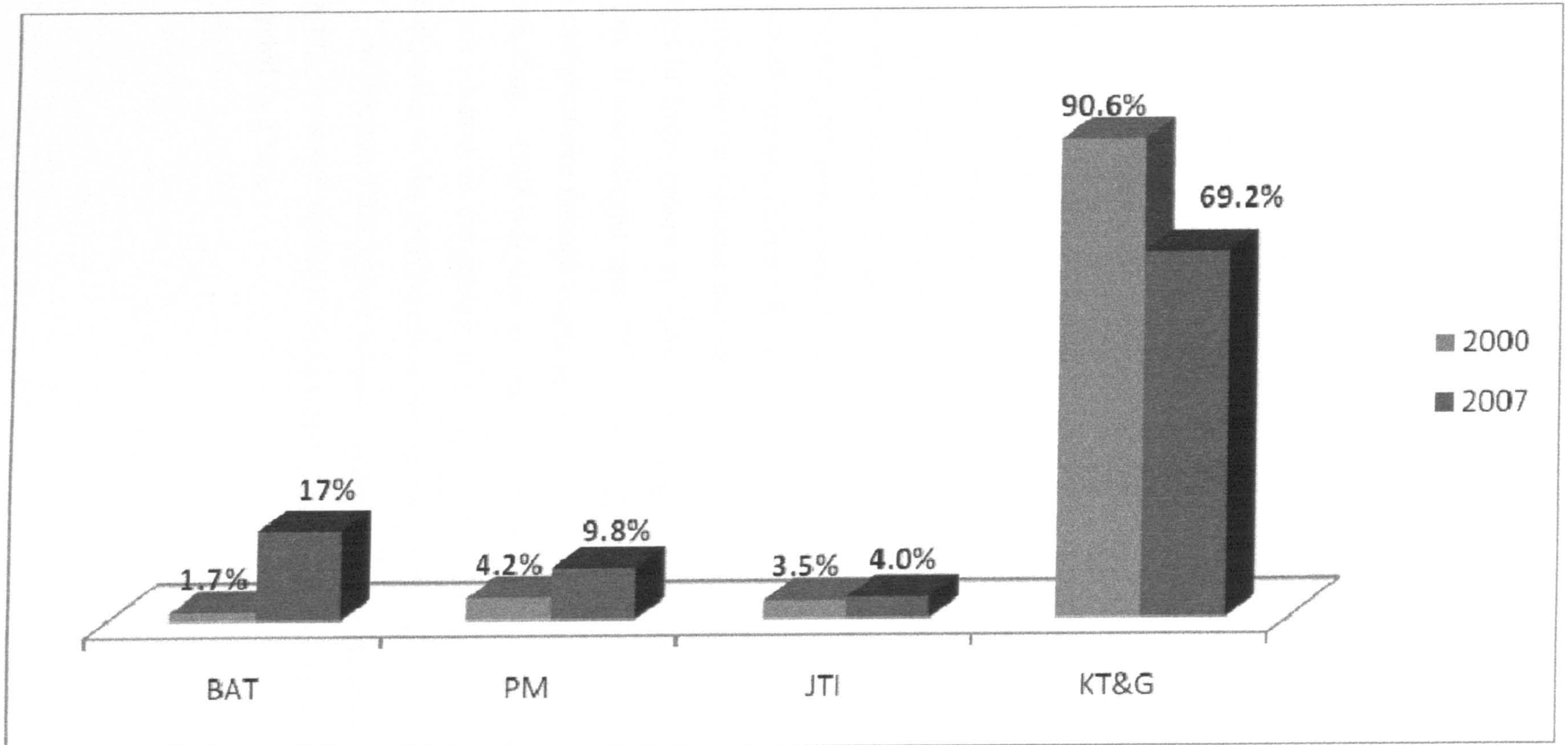
BAT was the leader among TTCs with 17 percent of the total cigarette market in 2007, followed by PM with 9.8 percent and JTI with 4 percent.(356) As shown in Figure 6.11, BAT expanded its market share tenfold from 1.7 percent in 2000 to 17 percent in 2007. PM more than doubled its market share during the same period. In contrast, KT&G, which held 100 percent of market share prior to liberalisation, dropped to 69.2 percent by 2007, although it remains by far the market leader in South Korea.(356) This growth suggests that, following market liberalisation, the varied marketing strategies described in this chapter had a positive impact on increasing market share for TTCs.

Table 6.8: Percentage share of foreign-owned brands, 1988 – 2007

1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2004	2005	2006	2007	2008	2009
2.9	3.8	4.0	4.8	5.3	6.5	8.5	12.4	11.0	11.2	4.9	6.5	9.4	15.7	22.7	27.0	29.2	30.8	33.9	41.7

Source:
1) Korea. British American Tobacco. Bates No. 500059543 (Available at http://legacy.library.ucsf.edu/tid/qox08a99)
2) Tobacco Strategy Group: Major Market Strategies - Korea. British American Tobacco. Bates No. 500036015 (Available at http://legacy.library.ucsf.edu/tid/riz70a99)
3) Korea: Market Overview. British American Tobacco. Bates No. 800058927 (Available at http://legacy.library.ucsf.edu/tid/hau50a99).
4) Choi CM. Correlation between increase of cigarette price and market share of imported cigarette. Korea Non-smoking Institute. 26 April 2006 (1997-2001)
5) Korea Total Industry; Korea Import Share; Korea Import Volume; Korea Major Import Brands; Korea King Size Lights. Brown & Williamson. Bates No. 482314161. (Available at http://legacy.library.ucsf.edu/tid/gjr11c00)
6) Baig MI. Market share of domestic brands drop to under 70%. Seoul-Sinmoon. 11 February 2008 (2004-2007)
7) Bum HJ. 77% of smoking student smoke foreign brands. Two times higher than adults. The Daily Naeil. 26 November 2009. (2008)
8) Oh SH. Win Dunhill and Marlboro by using foreign brands. Hankook Economy 7 June 2010.(2009)

Figure 6.11: Comparison of market share by leading tobacco manufacturers in Korea between 2000 and 2007



Source: Baig MI. Market share of domestic brands drop to under 70%. Seoul-Sinmoon. 11 February 2008

6.7 Summary

This chapter describes the varied marketing tactics of TTCs to stimulate demand for their brands among the Korean people. Importantly, the practices TTCs used, however, were not simply what were declared to the public, namely those compliant with the restrictions under the TBA. As time went on, given the adoption of stricter regulations, this research found that TTCs increasingly used "below-the-line" tactics in order to circumvent a more restrictive marketing environment. This was effectively achieved by TTCs first studying the market and identifying target groups, and then developing strategies which were similar to the strategies they had used during the previous market access to Latin America and other Asian countries.

As analysed by Shepherd, who argued that consumer preference is the most powerful entry barrier to new entrants in the tobacco industry, TTCs' marketing practices and promotional campaigns in South Korea paid particular attention to creating demand, by creating favourable brand imagery to appeal not only to existing but also potential smokers. However, given the hostility towards imported cigarettes among Korean people after market liberalisation, and legal restrictions on cigarette marketing activities, the communication of such messages to target groups to build brand image posed challenges. To overcome this, it was alleged that TTCs attempted to circumvent existing regulations and resistance through engaging in "illegal" strategies and indirect forms of marketing. CSR was also an important component of such below-the-line tactics. Based on the growth in TTCs' market share in Korea from market liberalisation to the present, these tactics have successfully achieved their goals. As discussed in Chapter 9, these findings offers lessons for other countries facing increased market liberalisation, notably developing countries yet to be targeted by TTCs.

CHAPTER 7 MARKET LIBERALISATION & KOREA'S TOBACCO INDUSTRY

7.1 Introduction

This chapter will describe in detail how the domestic company and tobacco-related regulations have changed in Korea since the late 1980s as a result of market liberalisation. As described in Chapter 5, the government expected the increased market access by transnational tobacco companies (TTC) to the South Korean tobacco industry to lead to greater competition. In anticipation of this, the Office of Monopoly (OOM) was reformed into a state-run corporation to make it more competitive with TTCs, including greater responsiveness to anticipated changes in the liberalised market. Tobacco-related regulations were also revised to comply with the Record of Understanding (ROU) between the US and South Korea.

This chapter will begin by analysing how market liberalisation and the consequent activities by TTCs have impacted upon the Korean tobacco market and the domestic tobacco company. This will be followed by an examination of the marketing tactics that the domestic company carried out in order to preserve its market share following liberalisation. The current competitive activities of KT&G[22] will then be reviewed and, finally, the current role of KT&G in the global tobacco market.

The findings of this chapter suggest that, in response to competition from TTCs, the reformed Korea Tobacco and Ginseng Corporation (KTGC) attempted to draw on influence achieved under its former monopoly status to hinder the sale and distribution of imported cigarettes. KTGC also appealed to nationalist feelings held by Korean consumers, playing on the company's status as a public corporation and major contributor to national revenues. Additionally, the company pursued various competitive strategies, such as upgrading the quality and image of its brands, advertising brands in innovative ways, and substantially increasing the level of marketing spend overall in order

[22] KT&G stands for Korea Tomorrow & Global and is the current name of the privatised Korean tobacco company.

to compete with foreign competition. All of these developments transformed the Korean market.

As a result of this more competitive market environment, the total volume of cigarette sales in Korea increased, from 81.4 billion in 1991 to 101.7 billion sticks in 1992, the highest level in Korean history. With this rapid increase in tobacco consumption, South Korea became the 8^{th} largest tobacco market in the world in 1992.(225, 292) The consequent impact on public health will be discussed in Chapter 8.

7.2 Transformation of Korea's domestic tobacco company

7.2.1 Restructuring and privatisation of the domestic industry

In direct response to greater market competition, the OOM underwent several reforms. First, following the decision in 1986 to allow TTCs to sell their brands to Korean consumers within limited import quotas, the government decided to transform the OOM into the state-owned company, Korea Monopoly Corporation (KOMOCO) in 1987. This decision was the result of a prediction by the Ministry of Finance (MOF) that, given a more competitive market, the OOM needed to improve efficiency and behave more aggressively.(357)

After South Korea and the US signed the ROU in 1988, which more fully opened the Korean tobacco market, the word 'monopoly' in the name of KOMOCO ceased to be used. In 1989, KOMOCO was renamed KTGC under the newly enacted Tobacco Business Act (TBA, 1989) which replaced the Tobacco Monopoly Act (TMA). With this change, KTGC lost some of its monopoly status and consequently initiated its own activities to compete with foreign companies. KTGC's detailed marketing practices to preserve its market share are discussed in section 7.5.

Amid the Asian economic crisis in 1997, KTGC found itself subject to further reform, with the government initiating a process to privatise the state-run corporation. As discussed in Chapter 3, during the 1980s and 1990s, the Korean economy experienced rapid growth under an export-oriented economic strategy. However, global financial volatility adversely impacted on the country's macroeconomic climate, highlighting structural weaknesses, such as corporate over-investment, a vulnerable financial structure, and mismatch of foreign assets and liabilities by the banking sector. The resultant crisis led the Korean government to request assistance from the International Monetary Fund (IMF) and, on 3rd October 1997, a recovery programme was agreed. The programme required comprehensive structural adjustment in the corporate and financial sectors.(358) As part of this programme, the IMF also suggested privatisation of state-run corporations including KTGC. This policy was consistent with IMF policy to support privatisation of state-run tobacco companies in Bulgaria, Mali, Moldova, Thailand, Turkey, and South Korea. In contrast, by this period the World Bank had recognised "tobacco use is an impediment to development" because the economic costs of tobacco-related disease are enormous.(359, 360)

Under pressure from the IMF, the Governor of the Bank of Korea, Chol Hwan Chon, and the Minister of Finance and Economy, Kyu Sung Lee, sent a 'Korea Letter of Intent and Memorandum on Economic and Financial Policies' to the IMF Managing Director Michel Camdessus in March 1999. In this letter, the Korean government reported that "Public sector reform has been advanced through privatizing and restructuring public enterprises and downsizing government bodies"(361). It was promised that:

> *[f]ull privatization of four other state-owned enterprises (Korea Ginseng and Tobacco, Korea Gas, Daehan Oil Pipeline, Korea District Heating) will occur in phases over the next four years.(361)*

A November 1999 Letter of Intent and a July 2000 letter further clarified the March letter, explaining that "Korea Tobacco and Ginseng [KTGC] was publicly listed and an 18 percent stake in the company has been sold"(362). It was stated that "The government plans to reduce its shares in the company including by issuing depository receipts in foreign stock markets".(363) These changes came in 2002 when the government transformed KTGC into a joint stock company, despite strong anti-privatisation sentiments among the public.(261)

From 1999 to 2002, KTGC stocks owned by the government were listed on the Korean Stock Market, as well as various international stock markets. By December 2002, KTGC was completely privatised, changing its name to KT&G. Since privatisation, KT&G can no longer be described as a Korean company, with more than half of the company's stocks now held by non-Korean shareholders.(364)

The documents suggest that some TTCs attempted to participate in KTGC's privatisation. Philip Morris (PM) stated an intention to take over KTGC in 1998. In particular, the company highly prized KTGC's national distribution network. In October 1998, PM President Geoffrey Bible met President Dae Jong Kim at the Blue House[23] (Cheng-Wa-Dae), stating that PM was ready to participate in KTGC's privatisation. PM's strategy to take over KTGC was, firstly, to push the government to divide the state-run company into several privatised companies, and, secondly, to buy each company.(261, 365) A 1997 British American Tobacco (BAT) market overview was also keen to take advantage of the business opportunities arising from KTGC's privatisation:

> *Changes in this organization [KTGC] are expected due to the privatization discussed for 1998. We are continuing to liaise closely with them [the Korean government] to ensure that we are the "first contact" for any business opportunities which may arise.(321)*

However, these attempts by TTCs failed because the government preferred to sell KTGC to domestic companies rather than foreign investors. The government still believed that the contribution of the tobacco industry to Korea's economy was significant. Although most national industries, including private and public companies, experienced difficulties, KTGC was still profitable at the time. In addition, negative public opinion on selling domestic companies to foreign companies was widespread.(366)

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[23] **The Blue House** or "Cheong-Wa-Dae" is the executive office and official residence of the President of Republic of Korea.

Given the severity of the economic crisis, however, the government inevitably had to change its policies on the tobacco industry. As part of the IMF's programme, the government enacted a new regulation, 'Act on The Improvement of Managerial Structure and Privatisation of Public Enterprises'[24] in 1997.(367) The government planned to privatise the core state-run companies including KTGC under the Act, while limiting the holding of stock by foreign investors to 7 percent. However, since the completion of privatisation in 2002, the company has no longer been regulated by the Act. This means that there has been no ceiling on foreigners' possession of KT&G shares since 2002. Thereafter, foreign ownership of shares in KT&G significantly increased, as shown in Table 7.1.

Table 7.1: Foreign ownership of KT&G shares

Year	Percentage of foreign ownership
2002	27.7
2003	38.0
2004	63.1
2005	55.9
2006	52.5
2007	-
2008	52.5

Source: KT&G's annual reports (Available at http://www.ktng.com/kor/ir/irbrief.jsp, accessed 10th October 2010)

Since privatisation, the biggest foreign shareholder has been Franklin Mutual Advisers, LLC, which is a subsidiary of Franklin Resources, Inc, a global investment organisation operating as Franklin Templeton Investments. Franklin Mutual Advisers, LLC, began purchasing KT&G's stocks through the

[24] The purpose of the Act for public enterprises was to improve the efficiency of business management and promoting expedited privatisation, while preventing the concentration of economic power in the course of the promotion of privatisation". Four corporations - KTGC, the Korea Telecommunications Corporation, the Korea Gas Corporation, and the Korea Heavy Industry and Construction - were governed by the Act.

Franklin Mutual Global Discovery Fund from late 2000 (368), and became the biggest shareholder among foreign investors with more than 8 percent in 2005 and 10 percent in 2006 (369). The Franklin Mutual Global Discovery Fund has basically invested in undervalued companies from around the world of any size or sector that they believe have the potential to deliver long-term capital growth. Thus, KT&G, which experienced a 50 percent decrease of its stock price due to the Asian Economic Crisis, was an attractive target for the Fund. The top investment sectors which the Fund currently invests in are food, beverages, and tobacco. Among the top ten holdings of the fund were three tobacco companies: BAT, Imperial Tobacco and Lorillard.(370)

7.2.2 End of monopoly over manufacturing

The privatisation of KTGC brought many changes to Korea's tobacco industry. First, the MOF eliminated KTGC's monopoly over cigarette manufacturing. Since 2001, any company having relevant capital and manufacturing capabilities could obtain a cigarette manufacturing license from the MOF.(371) Second, the notification but not approval of the MOF on cigarette pricing was required in advance. Third, the government abolished KTGC's mandatory quota to purchase tobacco leaves, provide subsidies and compensate Korean tobacco farmers for bad weather factors.(371)

Once the monopoly of cigarette manufacturing was abolished, both PM and BAT established their own local subsidiaries, PM Korea and BAT Korea, respectively and successfully built local manufacturing facilities as they had long hoped to do.(372) BAT Korea established its factory at Yangsan City in Gyungnam Province. According to key informants, the provincial governor of Gyungnam Province was keen on inviting foreign tobacco manufacturers to his Province in order to improve public revenues.(BKL, Anonymous 5) To win over the local community and achieve planning approval from the local authority, BAT offered several benefits such as employment of local people and use of Korean tobacco leaf. Thus, despite protests from tobacco control advocates, BAT won approval to build its factory.

During the same period, PM also contacted the local government of Gyungnam Province, and was given permission for its factory at Sachun City. As a result of BAT's and PM's local production facilities, total cigarettes manufactured in South Korea sharply increased in 2002 by around 20 percent. (See Table 7.2)

Table 7.2: Cigarette production in South Korea, 1986 to 2004

Year	Million sticks manufactured	Key event
1986	78,490	Market liberalisation with import quotas
1987	81,433	
1988	86,244	Complete market liberalisation
1989	86,796	
1990	92,000	
1991	94,376	
1992	96,662	
1993	96,900	
1994	90,679	
1995	87,509	
1996	93,001	
1997	94,252	Beginning of KTGC's privatisation
1998	103,586	
1999	97,135	
2000	98,286	
2001	97,700	
2002	93,750	Complete privatisation of KTGC and abolition of manufacturing monopoly
2003	122,341	
2004	123,700	

Sources:
1) United States Department of Agriculture, Foreign Agricultural Service. (Available at http://www.fas.usda.gov/psdonline/psdDownload.aspx, accessed 15 June 2010)
2) United States Department of Agriculture, Foreign Agricultural Service. Tobacco: World Markets and Trade. September 2002.

As described above, while PM and BAT attempted to participate in KTGC's privatisation in the late 1990s, after privatisation in 2002, there is no evidence of TTCs holding KT&G shares, although the Franklin Mutual Global Discovery Fund also holds shares in BAT, Imperial and Lorillard. Why have TTCs not been interested in holding KT&G shares since privatisation? One reason is likely to have been the establishment of local manufacturing capacity. Another may have been TTCs' concerns over public hostility to foreign cigarette companies. As one PM Korea manager (Anonymous 4) described, "If PM buy KT&G's shares, the company would face strong anti-PM sentiment from Korean nationals".(Anonymous 4) Similarly, a former BAT Korea employee believes that BAT would not buy KT&G's shares, because the company recognised that such action would cause hostility towards BAT among Korean people.(Anonymous 4 and Anonymous 5)

7.3 The revision of tobacco-related regulations in Korea

The first tobacco-related regulation adopted in South Korea was the TMA, enacted in 1956 under the OOM to regulate the tobacco industry as a national business. Subsequently the Act was totally amended in 1972, and following economic development, it was revised three times in 1981, 1983, and 1987 before its abolition on 1 January 1989. While there were relatively small amendments in 1981 and 1983, the major reform was carried out in 1987 following TTCs' initial market entry in 1986. The key changes during the amendment in 1987 are as follows.

First, the possession and use of foreign cigarettes was a criminal offence under Article 49 which stated: "It is not permitted to sell, buy, or possess cigarettes which are not manufactured and distributed by the OOM".(373) As discussed above, during negotiations on market liberalisation, this provision caused TTCs to complain strongly. Thus, following the trade agreement, the revised TMA (1987) eliminated Article 49 and Koreans have since been permitted to sell, buy, and smoke foreign cigarettes.

Second, from limited market liberalisation in 1986, the government was concerned about TTCs' marketing and advertising practices as the key means to build brand awareness for their products.(357) Thus, the TMA (1987) and its Enforcement Ordinance added new provisions, Article 29 and 30 respectively, which restricted almost all forms of cigarette advertising and promotion. The detailed restrictions on cigarette advertisements were as follows:

Prohibited cigarette advertising and promotions:

a) by using broadcast media, such as TV, radio;
b) by using printed media, such as newspapers, magazines, but print media in foreign languages are excepted;
c) by using public transportation, such as buses, trains, but airplanes and ships travelling on international routes are permitted;
d) by using outdoor signs, such as billboards, placards, posters, neon signs;
e) in public places such as cinemas, sports centres; and
f) by distributing free cigarettes or promotional materials to retailers and consumers.(374)

Third, prior to the limited market liberalisation, the OOM monopolised the country's tobacco industry, including manufacturing, distribution pricing, as well as tobacco leaf cultivation and licensing of cigarette retailers. Under the revised TMA (1987), the authority of the OOM was given to the state-run company, KOMOCO. The tobacco business remained monopolised.

As briefly described in Chapter 5, during trade negotiations, the US Trade Representative (USTR) on behalf of the US Cigarette Export Association (USCEA) pressured the Korean government to lift restrictions on all forms of cigarette advertising and promotion.(215) Following completed market liberalisation, the MOF further amended the TMA Enforcement Ordinance in July 1988 based on the provisions in the ROU, and allowed selective forms of cigarette advertising and promotion as follows:(336)

a) cigarette promotion (by free sampling or displaying advertising posters, stickers, and signboards) in the retail shops.
b) placement of 120 advertisements per brand family annually in magazines except magazines specifically directed at women or youth.
c) sponsorship of social, cultural, musical, athletic, and other specific events except events directed at women or youth.
d) advertising on airplanes and ships, operating in international routes, at international airports or waiting rooms of international piers.(336, 375)

The TMA (1987) was abrogated on 1 January 1989 and the TBA came into effect on the same day. However, it is argued here that the TBA (1989), like the TMA, primarily addressed economic and industrial concerns, and paid limited attention to public health. The purpose of the TBA was "to contribute to the national economy and to ensure the sound development of the tobacco industry." (314)

Under the newly enacted TBA (1989), KTGC still monopolised cigarette manufacturing. However, cigarette imports and sales were liberalised. In order to protect tobacco leaf farmers, KTGC continued to support leaf cultivation. The state-run company no longer had authority over cigarette distribution, with cigarette retailers needing permission from the MOF. However, the MOF committed licensing cigarette retailers to KTGC, thus, the company practically had the same power on licensing retailers after market liberalisation. While the price of domestic cigarettes was determined by KTGC, imported cigarette prices were determined by the importer and needed only to be declared to the MOF in advance. In addition, KTGC was no longer able to give instructions to licensed retailers.(314) In terms of restrictions on tobacco marketing, advertising, and promotional activities, there was no change from the TMA (1987) and its Enforcement Ordinance 1988.(290, 314)

Following government policy to privatise state-run companies, including KTGC, to address the economic crisis, the TBA was significantly amended in 2001. As discussed above, KTGC's manufacturing monopoly was abolished and its interventions on tobacco leaf cultivation and cigarette sales/distribution were also eliminated. However, licensing cigarette retailers has still been committed to KTGC.(371) In terms of cigarette advertising, there was a slight change, with the contents of cigarette promotional materials not permitted outside retail outlets, and the amount of annual magazine advertisements was reduced from 120 to 60.(376) In addition, the TBA (2001) inserted a new provision: "All manufacturers, import, and sale business operators and wholesalers shall be prohibited from giving out money and other promotional materials to retailers in order to enhance their tobacco sales".(371) As discussed in Chapter 6, these practices were previously widely used by TTCs and KTGC in competing for market share.

Since the amendment of the TBA in 2001, the Act has been continually revised in accordance with changes in tobacco policy and the market environment. At the time of writing, it has been amended 15 times since its enactment in 1988.

7.4 Undermining tobacco control policy

As well as creating demand and building brand awareness following market liberalisation, TTCs attempted to protect the tobacco industry from increasing concerns about the health impacts of tobacco use and the growth of the tobacco control movement. For this common purpose, this research argues that TTCs and KTGC made collective efforts to circumvent and undermine emerging tobacco control policies, which in their view transformed the environment into a "dark" market.

Previous analysis has shown that the tobacco industry has used a variety of tactics to impede tobacco control policies and regulations. These include conducting public relations campaigns, paying scientific experts to create controversy about established facts, funding political parties, using front groups and allied industries, and pre-empting strong legislation by adopting voluntary codes or weaker laws, and so on.(377)

7.4.1 Voluntary self-regulatory Code

In response to the USTR's pressure on Korea's restrictions on all forms of tobacco marketing, advertising, and promotional practices, the MOF allowed limited forms of marketing practices for the tobacco industry by amending the TMA in 1987. At the same time, the MOF also added a new provision that suggested that the tobacco industry organise a consultative group and make efforts to observe the limitations on marketing.(336)

Following the MOF's suggestion, KTGC, PM, R.J. Reynolds (RJR), and Brown &Williamson (B&W) formed the Korean Tobacco Association (KTA) in 1988 as a forum to address issues of importance to the tobacco industry.(238) However, the Association was ineffective until 1990 because of competition between the member companies. The main activity of the KTA in the beginning was just to support the Korean Cigarette Consumer Association as an indirect way to communicate with existing consumers. Later, however, the Association turned its role to an organisation to protect the industry from a "dark" market environment.

The member companies of KTA signed a Voluntary Self-regulatory Code for their marketing, advertising, and promotional activities on 12th January 1991. The Code reflected the need to agree on the scope of tobacco marketing, advertising, and promotional activities, and cooperation among the signatories. The detailed contents of the Code are as below:

> *Advertising is to be directed at existing adult smokers and shall be intended solely to encourage brand loyalty, and not to increase consumption or increase the number of smokers. It shall not be specifically directed at women and youths. Cigarettes shall not be advertised via cinema, television, radio, newspapers or publications directed at women or youths. Each member of the KTA shall not place more than 120 cigarette advertisements per brand family in magazines per calendar year. The creative content of magazines is restricted concerning the representation of persons smoking, health claims, the depiction of physical activity and testimonials of sports or popular celebrities. Health warnings shall be displayed on cigarette packets in accordance with the requirements of the Roll [Rule] and Article 13 of the Enforcement Decree of the Tobacco Business Act. Health*

warnings shall also appear in magazine cigarette advertisements, and on other advertising media, such as illuminated signs, umbrellas and vending machines. Point-of-sale promotional material may only be situated inside retail outlets or in their immediate vicinity. Entry forms and advertising materials for all cigarette sales promotions must state that persons who are minors are ineligible. Free samples are restricted to one cigarette only, given to adult smokers who also purchase cigarettes at licensed retail outlets. Members of the KTA may sponsor social, cultural, musical, sports or similar events which are not specifically directed at women or youths. Members shall respect the marketing activities, materials and property of other members and shall refrain from unfair practices and respect the integrity of cigarette retailers.(378)

The Code was ostensibly formulated in consonance with the MOF's suggestion under the TMA (1987), and limited the member companies' marketing practices based on the regulation. Yet, as discussed in Chapter 6, the member companies had undertaken varied marketing tactics, which were allegedly "illegal" and should not have been done under the Code. The Code therefore appears to have just been used to mitigate growing health concerns on smoking and increased tobacco control policies/regulations.

7.4.2 Weakening the National Health Promotion Act

Before the enactment of the National Health Promotion Act (NHPA) (1995), Korea's tobacco-related regulations were administered by the MOF. This reflected the focus of tobacco policy upon its economic rather than health aspects. In this context, tobacco control policies remained insufficient, leading the Ministry of Health (MOH), Korea Association of Smoking and Health (KASH), and other tobacco control advocates to press for the enactment of a new tobacco law under the MOH in the early 1990s. With the enactment of the NHPA in 1995, tobacco regulation under the responsibility of the MOH finally emerged.

The NHPA restricted cigarette advertising and promotional activities in the same way as the TBA and, in addition, prohibited the sale of cigarettes to youths aged under 19 and regulated possible locations for the installation of cigarette vending machines. Moreover, since the enactment of NHPA, a

National Health Promotion Fund has been introduced, funded by the sale of each pack of cigarettes.(379) It was evaluated as the most unique achievement of the new regulations by Korea's tobacco control and health advocates.(BKL, ISK)

However, TTCs and KTGC collectively sought to influence the passage of the Act by using the KTA to oppose it, sending an official opinion letter signed by all the member companies of KTA to the MOH registering their disagreement with the new bill issued in September 1994.(380) A KTA document, titled "Opinions on the Legislation Proposal of the Public Health Promotion Law(Draft)", set out the company's objections:

> *The purpose of the enactment of this law lies in promoting national health by changing the national health education policy from passively detecting diseases in their early stages and treating them to actively conducting health education, improving nutrition and advocating a healthy lifestyle.*
>
> *This law overlooks air pollution caused by automobile exhaust fumes, cancer causing pollutants in tap water, pesticides and environmental pollution which directly cause harm to national health and only restricts cigarettes (alcohol). It therefore violates the purpose of the enactment and lacks equity.(381)*

In addition, in the document, the Association even claimed that:

> *There is no such precedent because there is no objective and scientific proof that smoking is harmful to one's health and because such restrictions would infringe upon the personal right to smoke. Also, proceeds from the sales of cigarettes contribute a great deal to the nation's economy.(381)*

The KTA strongly argued against the proposed regulation, suggesting the rewriting of some of its provisions along the lines recommended by tobacco companies. As a result, the Act proposed by MOH and the actual Act finally enacted differed in significant ways. The KTA claimed disagreement on every line in the draft related to the tobacco industry. On Article 11 in the proposed draft, the role of the central and local governments on education and anti-smoking campaigns to inform the public that smoking was harmful to their health was described. In addition, the Article regulated the need of health warnings on the front and back of cigarette packs. To these provisions, the KTA argued that:

- *To choose whether to smoke or not smoke is a fundamental right. Therefore, it is an infringement upon a person's fundamental right for the government to restrict smoking...*
- *There is no precedent whereby the government, through legislative means, advocates anti-smoking campaigns or supports anti-smoking groups...*
- *The "Korea-US Record of Understanding on the Tobacco Market" concluded by the Korean and US governments on July 1 of 1988, stipulates that health warnings should be placed on the side of cigarettes packs (Paragraph 6-E) and also that there should be consultations prior to the amendment of the law (Paragraph 7-A). Therefore, the two governments need to discuss the Record of Understanding beforehand.(381)*

Whilst the arguments by the KTA on Article 11 did not lead to any change to the final draft (379), the KTA's disagreements with Article 12 did impact on the final draft. Article 12 in the proposed draft included restrictions as follows:

1) *No one shall hand out free cigarettes or offer premiums to promote the sale of cigarettes.*
2) *Cigarette manufacturers, distributors, wholesale and retail dealers as designated by the Tobacco Business Law shall not hand out money to promote the sale of cigarettes*
3) *No one shall be allowed to set up cigarette vending machine.*
4) *Retail dealers and other distributors shall be forbidden to sell cigarettes to anyone under 19.(381)*

On the third provision of Article 12, the KTA argued that:

- *This provision is clearly unconstitutional since it excessively and fundamentally violates the right to choose an occupation and the right to commerce guaranteed by Article 15 of the Constitution.*
- *The final aim of prohibiting cigarette vending machines to be set up is probably to prevent teenagers from smoking. However, "the principle of prohibiting excessiveness" stipulated in the*

Constitution should be applied in this case. There also needs to be a clear justification that prohibiting the installation of vending machines will prevent teenagers from smoking. However the following two reasons are not mentioned at all in this Draft.

- *It will not be possible to prevent teenagers from smoking solely by prohibiting the setting up of vending machines....*
- *It may be possible to prevent teenagers from smoking through anti-smoking education and guidance without outlawing vending machines*

- *The all-out prohibition of vending machines is excessively restrictive since there already exist law[s] (School Health Law and Tobacco Business Law) to prevent teenagers from smoking.(381)*

In relation to the fourth provision, the KTA complained that:

- *This provision is realistically impossible to enforce.*
- *This is because there are no means by which retail dealers may check to see if those wanting to buy cigarettes are indeed over 19. In other words, it is impossible to tell if a person is over 19 simply by their outward appearance. Furthermore, retail dealers have no right to request IDs or other documents that may state an individual's age and those wanting to buy cigarettes have no obligation to provide such documents. (381)*

The opinion of KTA on Article 12 was generally accepted into the final draft. Thus, whilst the provision to prohibit the selling of cigarettes to anyone aged under 19 was retained, Sections 1, 2, and 3 were removed or amended based on the opinion of KTA.(379) TTCs and KTGC thus collectively attempted to weaken tobacco control policies, with some success.

7.4.3 Downward pressure on prices

As discussed in Section 7.3, before TTCs' market entrance, cigarette prices were determined by the Monopoly. When the market was partly opened to foreign companies in 1986, the price was still monopolised by the state-run company, KOMOCO. Due to this, the price of imported cigarettes was almost three times higher than domestic cigarettes.(234) According to the former OOM manager (Anonymous 1) interviewed for this research, given that cigarette price was one of the important factors to influence consumers' decisions at that time, the government strategically controlled the price of imported cigarettes. (Anonymous 1)

After the signing of the ROU, however, the price of imported cigarettes was determined by the importer of those cigarettes. They just needed to declare the determined price to the MOF. The government and state-run company, KTGC, were no longer able to raise the price of imported cigarettes, hinder the entry of new competitors, and interfere with competitors' business or otherwise restrict competition. Through this, TTCs were better able to compete with the domestic brands.

The Korean government also eliminated the remaining tariff on imports in July 1988. According to a former manager of KOMOCO (Anonymous 2), because KTGC still monopolised cigarette manufacturing although the tobacco market was fully opened (206, 215, 258), the zero percent tariff was acceptable.(206, 215, 258) In addition, under the ROU, only specific excise tax could be levied on cigarettes, thus, the educational and sales taxes on cigarettes were removed, and the excise tax, 360 won, equally applied to all cigarettes, both imported and domestic ones.(261, 296)

After this change, imported cigarettes became cheaper than the previous prices. In 1986, the price range of imported cigarettes was from 1,400 won to 1,600 won (382), but the price after the change, went down to 800-1, 000 won.(296, 308, 383) For example, the price of PM's premium brand, Marlboro, declined from 1,400 won in 1986 to 800 won in 1988. (See Table 7.3) In the same period, the price of domestic brands slightly increased from 500 won in 1986 to 600-800 won in 1988.(308)

Table 7.3: Price change of PM's Marlboro after complete market liberalisation

Limited liberalisation in 1986 (won)		Complete liberalisation in 1988 (won)	
Manufacturer cost	327.15	Manufacturer cost	300
Tariff and clearance fee	410.01	Excise tax	360
Educational tax	124.55	Retail margin	80
Sales tax	74.73	Distributor margin	45
Retail margin	30	Importer margin	15
Importer margin (KOMOCO)	433.56		
Price per pack	1,400	Price per pack	800

Source:
1) Imported cigarettes on sales from 1st September. Seoul-Sinmoon. 13 August 1986.
2) Philip Morris Asia Plan. Philip Morris. Bates No. 2500066295 (Available at http://legacy.library.ucsf.edu/tid/jwe42e00)

Given the importance of price for sales, TTCs have continually raised issues on cigarette price and taxation following the change of market environment. When the government proposed to raise the cigarette price by increasing the excise tax in the early 1990s, TTCs attempted to hinder the proposal. A 1992 BAT letter from Richard Davies to Mike Baker describes how TTCs responded to the proposed tax increases of the Korean government as follows:

> *I have talked to Brown & Williamson who are aware of this development. They have advised me that R J Reynolds is taking this up with the U.S. Embassy in Seoul on the basis that such a tax increase is a violation of the Record of Understanding between the Korean Government and the USTR. If the Koreans proceed with this proposal it could envoke[evoke] the consultation procedure within the above Agreement.(384)*

Despite of the efforts of TTCs in recruiting the US Embassy in Seoul and working collectively, the tax went up 120 won per pack from 360 to 480 won (excise tax, 460 won and public fund, 20 won) in 1994. As a result, cigarette prices followed the increase in the range of 100 won (domestic brands) – 200 won (imported brands).(308) Subsequently, since 2002, due to the privatisation of KTGC, the domestic cigarette prices have been also determined by the privatised company, KT&G. Since then, the price of all cigarettes in Korea is decided by the manufacturers under market conditions.

In 2001, when the monopoly of cigarette manufacturing was removed, any foreign tobacco company could manufacture their own brands in Korea. Following this change, the Korean government has levied a 40 percent tariff on imported cigarettes again. However, this has not impacted on the sales of Korea's leading TTCs, PM and BAT, because they have their own manufacturing factories in Korea.(206, 215, 258)

7.5 The response of KTGC to market liberalisation

7.5.1 Increase of marketing activities in a competitive market environment

Prior to market opening, the OOM controlled the industry, including production, distribution, and sale of cigarettes. In this context, the Monopoly advertised very little, if any, because there was no competition in the market. An internal document of RJR describes advertising in the Korean market before market liberalisation as follows: "Prior to liberalisation, there was no advertising or very limited in the case of Korea because the government monopoly didn't need to advertise." (295) PM's employee, Jung Hoon Kim (Marketing Service) also noted that there was little cigarette advertising and promotional activities by the government monopoly before liberalisation:

> *The OOM does not advertise on radio, TV, cinema, billboards, and rarely advertise on newspapers or magazines. There are no coupons, sublets, POS [point of sale] & sampling. Only a small number of stickers for retail outlets. In fact, there is no need for the OOM to advertise nor promote their products. It's a monopoly market. When a new brand is launched, the public medium will let the public know, and it will sell. There are only 15 OOM cigarette brands in the market, and people know which brand is what.(207)*

In addition, there is little evidence that the OOM's marketing targeted specific population groups, such as women, prior to market opening.(38)

Documents suggest, however, that following TTCs' entry into the market, the domestic tobacco company's marketing, advertising, and promotional activities dramatically increased.(9) What factors contributed to these changes? First, as discussed in Section 7.2.1, the Korean government predicted increased competition once the market was opened to foreign companies in 1986. This expectation led KTGC to give greater attention to marketing oriented activities, such as developing and upgrading their brands to preserve customer loyalty and target females, and increasing sales promotions, etc.

Second, during the early stage of market liberalisation, KTGC still retained a monopoly on cigarette manufacturing and strong influence over sales/distribution, and the government's tobacco policies. However, this power became rapidly weaker in the early 1990s due to TTCs' intensive marketing activities and their strong complaints about these remaining elements of monopoly. KTGC quickly realised that the company needed to concentrate more on marketing oriented strategies.

Third, there were changes in Korean consumers' behaviour related to cigarette purchasing/smoking and social attitudes towards imported cigarettes from the early 1990s. At the beginning of market liberalisation, the Korean public avoided imported cigarettes because they were not manufactured by a Korean company. This nationalism towards imported cigarettes was significantly useful for KTGC to protect its market position from TTCs. Yet, Korean nationalism, which effectively hindered TTCs' activities as a major barrier, weakened with the country's rapid economic development, leading to changes in culture and social attitudes towards western countries, and an increasing desire for better quality imported products. According to market research conducted by PM in1993, there was a downward trend in nationalist attitudes among Korean consumers towards foreign cigarette brands, from 85 percent in 1991 to 78 percent in 1993.(291) Furthermore, the higher prices of TTCs' brands became less of a problem to Korean people. A 1993 PM

General Consumer Tracking Study found that a prejudice - "Imported cigarettes are too expensive" - among Korean smokers significantly decreased from 61 percent in 1991 to 28 percent in 1993.(291) This change can be explained by not only the falling prices of imported cigarettes after market liberalisation, but also increased income among Koreans following the country's economic growth.

As a result of the above factors, KTGC which used to not market, advertise, and promote their brands through particular strategies intensively focused more attention on marketing oriented tactics.

7.5.2 KTGC's tactics to preserve market share

During the early phase of market liberalisation, when KTGC had no experience of market competition, it focused on thwarting TTCs' activities and strategies by using its remaining monopoly power rather than compete through marketing oriented strategies. As discussed in the previous chapters, there were strong anti-imported cigarettes sentiments among Koreans once the market was opened to imports. According to the interview with the former OOM manager (Anonymous 1) and KTGC's former executive (Anonymous 3), KTGC used this to protect its market share. Thus, the company frequently sent official letters to all the registered cigarette retailers urging them not to sell imported cigarettes by appealing to their patriotism.(Anonymous 1) KTGC even ordered the licensed cigarette retailers not to display imported cigarettes in their shops. Given its previous role in the market as the government monopoly division, KTGC easily utilised its strong influence over cigarette retailers, which used to be legally available under the TMA (1972) before the market liberalisation, to thwart TTCs' activities and solidify its dominant position.(292)(Anonymous 1 and 3)

Sometimes, KTGC acted more aggressively to hinder TTCs' marketing activities. A RJR document addresses how KTGC behaved in response to TTCs' market access in 1988:

> *KT&G[KTGC] personnel tore down, defaced, and covered point-of-sale posters, shop signs, and awnings of importers. In some instances, they falsely told retailers that the placement of signboards is illegal and threatened to take them down. Threats were made against retailers regarding license renewal if they continued to allow import point-of-sale (POS) materials at their establishments.(221).*

A 1989 PM document also claimed:

> *[T]he Monopoly [KTGC] has initiated harassment campaigns against imported cigarettes on several fronts. It has done everything possible to discourage retailers from selling imports, including threatening them with fines or loss of license for displaying point of sale material and defacing store front signs. The Monopoly has also appealed to retailers' sense of national pride, by claiming that they are hurting local farmers through the sale of imported cigarettes. The Monopoly has supported the efforts of its union to discourage the public from purchasing imported cigarettes.... This atmosphere persists today and, we believe, contributes to the performance of U.S. brands in Korea compared to the Japanese and Taiwanese markets.(233)*

Yet, as discussed before, these tactics of KTGC did not last long because of the rapid change of market environment and the attitudes of Korean nationals.

A BAT document forecasted that KTGC would seek marketing oriented tactics to compete with TTCs:

> *KT&GC has realized that their traditional marketing strategies were no longer as powerful as before and they were gradually losing control over the nationalistic consumer. . Both above the line and below the line activity was intensified in an effort to restrict the growth of imports.(308)*

The document also notes KTGC's short term strategies to maintain its market presence as follows:

- *Increase focus on the consumer*
- *Continue to diversify their product ranges, particularly into higher price segments*
- *Maintain their distribution strength*
- *Increase marketing spend level (sales promotion)*
- *Develop export business*
- *Upgrade quality and image of quality (308)*

Most of the things listed above are about new product development. In fact, KTGC moved quickly to preserve customer loyalty by developing and upgrading products as the initial activity to protect itself from TTCs' market penetration.

To do this, first, KTGC undertook to develop new products that were of similar quality to imported cigarettes and could therefore more easily compete with them. The company introduced a high-quality blended cigarette, 88 (Eighty-eight), that contained US tobacco leaf, and also upgraded the quality of other existing brands. Due to the improvement of quality, the manufacturing costs were, of course, increased but KTGC held down the prices of it brands. Thus, high-quality Korean cigarettes sold for 700 won (US$1) per pack, while their foreign counterparts fetched 1,000 won(US$1.60) in the early 1990s.(288) Furthermore, KTGC attempted to develop similar brands to TTCs' leading products, notably Mild Seven, Virginia Slims, Marlboro, Finesse, Kent, Vantage and Yves St. Laurent (YSL), which accounted for 89.2 percent of imports.(308) In a PM document, this change of tactic by KTGC was anticipated:

> *Korea remains primarily a soft pack, 85mm, low tar market. A combined share of 72% is held by three Monopoly brands, Pine Tree, 88, and new Mount Halla, priced respectively at 500, 600, and 700 Won per pack. During the Plan period, we anticipate KT&G will launch products to match imports in every segment, with concentration on higher priced entries.(296)*

As a result, the 88 family brands, 88 Gold, 88 Light, and 88 Menthol were introduced soon in the market and replaced the former domestic mainstream, Pine Tree and 88.

Second, in response to TTCs' marketing tactics to target females by introducing new brands, Finesse and Virginia Slim, KTGC similarly developed and marketed new brands with feminine names, such as Lilac, Jade, and Rose to reach out to Korean females.(38) This was a significant change in the domestic company's activities after market liberalisation. KTGC also made efforts to provide similar packaging styles and length of cigarettes as those of imported ones.(215)

Third, along with developing new high quality and designed brands, KTGC's strategies to improve their margins were to encourage consumers to switch to more expensive brands (i.e. "trade up") rather than increase product prices themselves. This was the reason why KTGC tended to introduce new and improved brands in the higher price category. This strategy was quite successful as evidenced by the successful launch of 88 which was priced 20 percent higher than Pine Tree, the dominant brand at that time (about 55 percent share of market). In its first full year in the market, 88 attained almost a 50 percent share of the market.(292) KTGC continued to remain extremely focused in terms of new product offerings and resources behind them. Given the success of 88, the company introduced other new brands such as Hallasan, Expo and Glory.(385) In addition, a PM document predicted that "KT&G's interest in co-operating with a competitor, to gain either international trademarks or advanced technology, is likely to increase as imports penetrate further into the market".(296) As predicted, KTGC sought joint development with foreign companies, such as Japan Tobacco International (JTI) in 2000.(386)

Fourth, during the early 1990s, KTGC continued to use its strengths in distribution, sales force support, and lobbying influence to protect the company's market share, and at the same time, became more marketing oriented, according to a BAT document.(283) KTGC aimed to effectively transform and develop from a manufacturer/distributor to a manufacturer/marketer. As a marketer, KTGC increased marketing activities, particularly in trade and retail promotions. As a result, KTGC's advertising and promotional expenditures skyrocketed 641 percent between 1987 and 1990.(9, 113) According to the former KTGC executive interviewed (Anonymous 3), KTGC's promotional practices focused on young people (He did not mention the exact age of the young people. However, when Korean people mention young people, they are generally university students.). He mentions that:

As you know, there have been strong regulations on cigarette advertising and promotional activities in the Korean market. The restrictions apply equally on domestic and imported cigarettes. There were nothing the tobacco companies could do to promote sales. TV and radio were prohibited for cigarette advertising. Hence, we [KTGC] usually carried out various programmes, such as running a sports team [KTGC Volley Ball Team] and providing scholarships to young people, to approach the target group, young people. You know, these are indirect advertising strategies.(Anonymous 3)

Furthermore, as discussed in Chapter 6, following the increase in the use of cigarette vending machines by TTCs, KTGC also invested in vending machines in order to compete effectively, establishing its own cigarette vending machine company.

7.6 KT&G's tactics in a competitive and "dark" market

Since KTGC was privatised in 2002, the newly named KT&G has been highly focused on marketing, advertising, and promotional activities for their brands.

As TTCs, particularly PM and BAT, have continued to increase market share since 2002, KT&G has resorted to ever more creative tactics, employing increasingly similar marketing tactics to stay one step ahead of the competition. However, regulations continue to restrict tobacco companies' marketing activities and, furthermore, these have been getting stricter. Therefore, KT&G's current advertising and promotional activities are mostly focusing on sophisticated "below-the-line" tactics as TTCs have done, and broader CSR programmes have become an increasingly important way of both promoting the company and winning the hearts and minds of the South Korean public. These days, the CSR activities are common and leading tactics not only for KT&G but also TTCs, as shown in Chapter 6.

7.6.1 Transforming image

In order to prepare effective marketing tactics, KT&G initially conducted company image advertising through TV, radio, newspapers, and magazines just after privatisation. Although cigarette advertising in these media has been strictly prohibited, KT&G skirted the regulation by advertising its company image for several years from 2003 to 2007, until KT&G's image advertising in TV, radio, and print media became a social issue by the efforts of tobacco control advocates.(387) By employing famous actors, a singer, a magician, and a young movie director in its advertising, the company initially let people know its new name and the company's vision with the catch phrase "We are imagining a better tomorrow". Subsequently, the advertising emphasised "imagination" by using the term "Sang-Sang-Ye-Chan" (meaning "Praise imagination"). There was nothing showing what KT&G manufactured and sold in any form of KT&G's advertising. As a result, KT&G was able to raise awareness by the public and successfully build a good image, in particular, among the younger generation. (See Figure 7.1) According to a tobacco control activist, Bok Kun Lee (BKL), currently many young people in fact do not realise that KT&G is a tobacco company.(BKL)

Figure 7.1: Examples of KT&G's image advertising in magazines and newspapers

Source: Youth No Smoking Association
Note: In this image, a young couple visit an old woman who lives alone for their weekend date. The title of the advertisement is "Imagining a better tomorrow". The message KT&G emphasises is the need to take care of a neglected class of people for a better tomorrow.

Source: Youth No Smoking Association
Note: In this image, the nation's famous film producer says "My movie starts from imagination". Through the poster, KT&G addresses "KT&G is supporting young imagination".

To undertake this strategy to transform the company's image through the mass media, KT&G spent substantial sums, as shown in Table 7.4.

Table 7.4: KT&G's advertising expenditure on TV, radio, newspapers and magazines (US$)

Year	2000	2001	2002	2003	2004	2005*
Brand image cost	955,212	620,282	764,131	16,313,614	14,170,651	7,561,445
Total cost of ads	2,204,902	894,994	3,536,982	19,254,243	17,741,504	8,727,013

Source: Youth No Smoking Association
Note:
1) Brand image cost: Advertising expenses for company image promotion
2) Total cost of advertising: Cost for all kinds of promotion including products promotion
3) 1,000 won is equivalent with US$1
4) * : data from January to August 2005

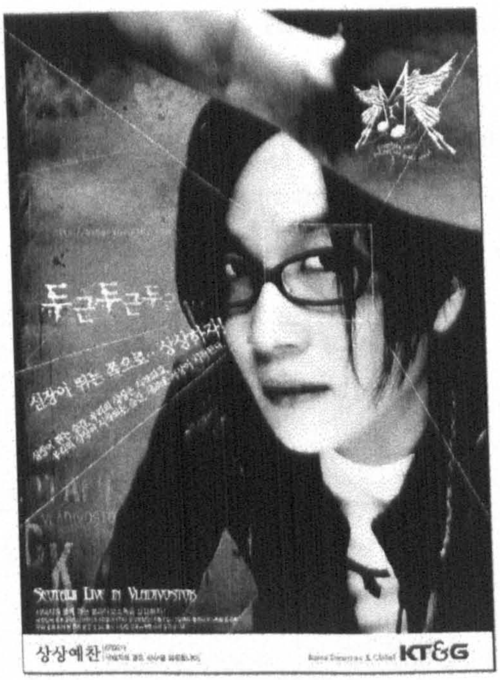
This notable increase in KT&G's advertising expenditure between 2002 and 2003 was not unusual for a tobacco company first entering a new market. It was a similar pattern for the TTCs when they first entered the Korean market, as described in Chapter 6. Although KT&G was the established domestic company, in order to re-establish itself, maintain significant market share and compete effectively following liberalisation, privatisation and its change of name, KT&G needed to spend a lot of money on advertising. After privatisation in 2002, the company therefore behaved similarly to a new firm entering a competitive market for the first time, despite starting with a much larger market share than the TTCs.

7.6.2 "Below-the-line" tactics

With a more positive company image among the people, KT&G has also found ways to compete with TTCs through subtle "below-the-line" activities. From 2003 to 2005, KT&G intensively focused on advertising and sponsoring sporting and music events and so on. In addition, KT&G introduced new attractive package designs and new products based on the most developed manufacturing technology. In an attempt to build good relationships with retail outlets, the company also sponsored retailers by providing subsidies, which is prohibited under the law.

Through various sponsorships of music festivals, TV entertainment programmes, and sports events, the company tried to approach young people who could be the future customers for the company. With the catch phrase, "KT&G supports fresh imagination of Tae-Ji Seo", the company sponsored Seo, the most famous singer in South Korea, also known as "Culture President of Korea" in 2004. (See Figure 7.2) The sponsorship programmes included Seo's comeback music concerts and his overseas travelling with a group of 800 young people, called "KT&G's Imagination Tour Team". For KT&G, these programmes offered interaction between young people and the company, and attempted to establish a brand image that was fresh, energetic, and young.

Figure 7.2: Advertising for Tae-Ji Seo's overseas trip with 800 members of "KT&G's Imagination tour team"



Source: Youth No Smoking Association
Note: In this advertisement, KT&G introduces its sponsorship programme for the country's most famous singer, Tae-Ji Seo and his tour with KT&G's Imagination Tour Team".(advertised in May 2004)

KT&G also sponsored a TV entertainment programme, titled "Sang-Sang-Won-Jung-Dae", which means 'adventurers for imagination', in 2005. In the programme, several popular comedians travelled around the world to experience extreme rides in the world most famous amusement parks. The main target audience of the programme was children, youths, and young adults. KT&G's logo was not shown during the programme, but KT&G's logo as a sponsor for the programme was broadcast prior to its airing. KT&G's image advertising emphasising "Sang-Sang-Ye-Chan" and the name of programme "Sang-Sang-Won-Jung-Dae" matched each other.

As well as sponsoring sports events, KT&G owned and run four sports teams, notably Volleyball team, Basketball team, Table tennis team, and Badminton team. Until October 2010, these four teams had been run directly by KT&G, but now have been handed over to KT&G's subsidiary, Korea Ginseng Corporation (KGC). The most popular team among the four is KT&G Basketball Team (currently KGC Basketball Team). Basketball is one of the most popular sports and recognised as a national sport in Korea. Thus, a majority of children love basketball and KT&G's team has a huge number of young supporters. However, the important problem is that those children who support KT&G's team do not recognise what KT&G is and what it actually manufactures.(BKL) In 2005, KT&G sponsored the 2005 Korea National Volleyball League as the main sponsor. Through this sponsorship, as shown in Figures 7.4, the KT&G logo was prominently displayed during TV broadcasting.

Figure 7.3: KT&G's four sports teams before October 2010

Source: Youth No Smoking Association

Figure 7.4: Display of KT&G's logo through sponsorship of the 2005 Korean National Volleyball League

Source: Youth No Smoking Association

Meanwhile, in order to obtain a better position in the market, KT&G has managed cigarette distribution, just as the previous forms of the company did by using monopoly power. KT&G has supported cigarette retailers by offering monthly subsidies and discounted rates on wholesale prices of KT&G brands.(388)(BKL) This activity of tobacco companies, however, has been restricted under the TBA as previously discussed. This is intended to build good relationships between the retailers and the company, so that KT&G can control cigarette displays in the shops so that they only show or sell KT&G brands. As well as subsidies, KT&G has provided various convenient facilities to retail outlets for free. In particular, Korean motorway service stations are a good example of KT&G's tactics to control retail outlets. The convenient facilities KT&G offers include TVs, ashtrays, benches, and sun shades etc. (See Figure 7.5) Through these donations, the company has secured the right to sell its cigarette brands exclusively to motorway service users. The arrangement ensures competing brands are excluded from a large number of distribution outlets.(BKL)(389) An article on KT&G's tactics on motorway service stations has been published in the academic journal *Tobacco Control* as News item in 2008.(Appendix D) KT&G was fined by the Fair Trade Commission (FTC) in June 2008 for these activities.(388, 390) BAT Korea reported to the FTC in 2007 that KT&G offered incentives to cigarette retailers not to display BAT's brands. This was thought at first a rumour, but an investigation of the FTC proved it true.(390)

Figure 7.5: KT&G logoed umbrellas and ashtrays in one of Korea's motorway service stations

__Source:__ Youth No Smoking Association

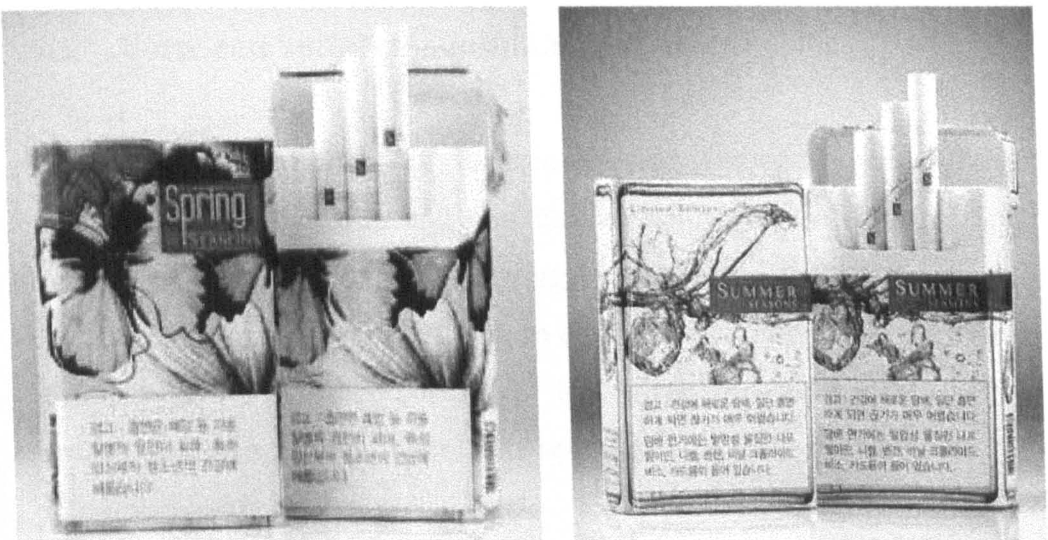
Furthermore, in order to target young adults, mainly young females, and research their smoking habits and lifestyle, KT&G has run special smoking cafés in the capital city and also conducted focus group studies. In KT&G's smoking cafés, there are various facilities for study/business meetings, games, and movies for customers. Although these are smoking cafes, many non-smokers also visit them, to take advantage of the comfortable facilities and cheaper beverage/food prices they offer. In addition, the cafés are used for new brand launching events and other marketing activities. KT&G's focus group studies are quite popular with college students due to relatively high payments. Bok Kun Lee says:

> *KT&G also conduct focus group research for their new products. Before launching a new cigarette, the company recruits young adults aged 20-25 and conducts their studies. In this case, the female participants get paid more than the males.(BKL)*

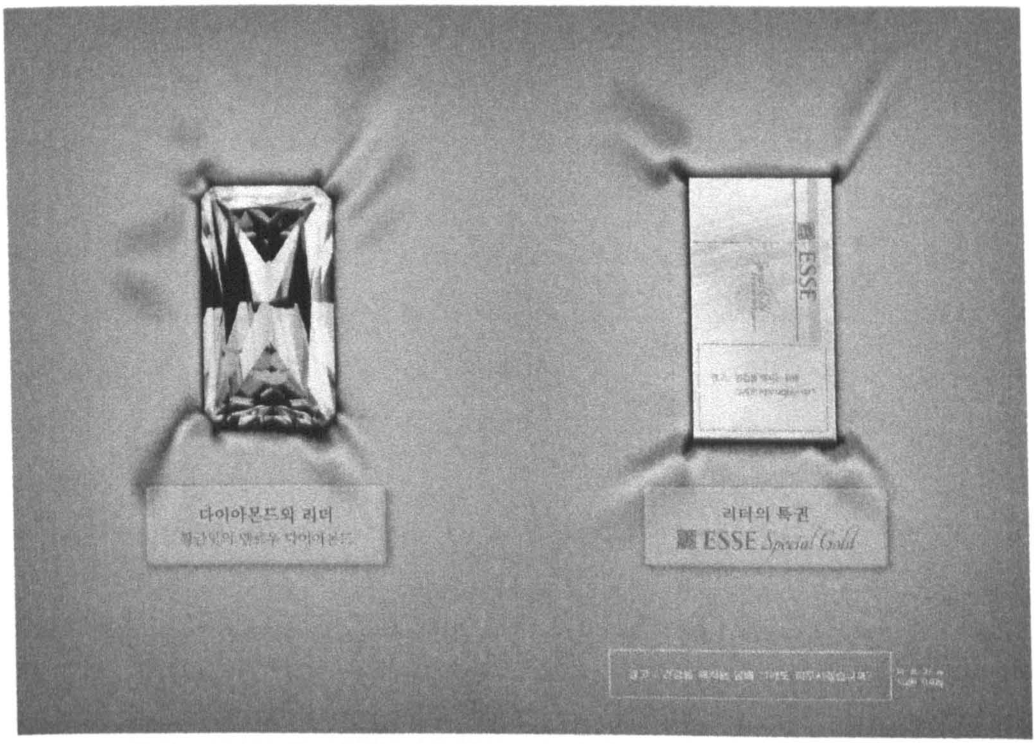
As a tactic to retain current smokers who are loyal to KT&G's brands and to attract new customers, KT&G has adopted unique, colourful, and eye-catching cigarette package designs. This contrasts with the growing debates in many countries about the adoption of plain cigarette packaging. While many countries have adopted regulations on cigarette package design requiring larger warning messages or graphic images, and prohibiting the use of cartoons (on the grounds that they appeal to children), KT&G has been developing new designs. The company has even worked on this in collaboration with one of Korea's most famous fashion designers. The results are a cartoon cat character for the brand, Raison; the use of different designs following the four seasons for the brand, Seasons; and rendering warning messages less effective, by making them the same colour as the package itself. (See Figure 7.6)

Figure 7.6: Examples of KT&G's cigarette package designs

Source: Youth No Smoking Association
Note: KT&G's cartoon character, Raison cat



Source: Youth No Smoking Association
Note: Both package designs are for one of KT&G's current brands, Seasons. As the four seasons of nature, spring, summer, fall and winter, there are four different designs which illustrate each season's colours and mood. The left one is the spring version of Seasons cigarette package and the other is the summer version.



Source: Youth No Smoking Association
Note: The package design for KT&G's international leading brand, Esse Special Gold. To evoke an image of luxury, the advertisement for the brand shows the most precious diamond, yellow diamond. The main target group for Esse Special Gold is leaders and older people.

7.6.3 Corporate social responsibility activities

Given the growth of tobacco control activities and tightened regulations against smoking and the tobacco industry's activities in South Korea, KT&G have turned their marketing activities from direct and aggressive to indirect styles since the mid 2000s, in a similar way to TTCs. KT&G has adopted 'corporate social responsibility' (CSR) tactics, just as the TTCs have done, but according to Bok Kun Lee, these days KT&G leads the industry in these type of activities:

> *The current marketing tactics of the tobacco companies in Korea are CSR activities. They use these unique strategies as a loophole from tobacco control policies and stronger regulations. KT&G is the best at this. BAT Korea and PM Korea also employ CSR activities as the main marketing strategies, however, perhaps due to several experiences of lawsuits around the world, foreign companies are playing very carefully.(BKL)*

Although PM Korea and BAT Korea have invested in CSR activities in order to communicate with the Korean people and to project an image of a sustainable company, actual expenditure on these programmes is quite low. According to a newspaper article, in 2009 PM Korea and BAT Korea spent no more than 0.01 percent of their cigarette sales in Korea on such activities.(391) In contrast, KT&G has spent more than 1 percent of its cigarette sales in both the domestic and international markets on CSR activities. The former President of KASH, Il Soon Kim, comments on the tobacco industry's CSR programmes:

> *Foreign tobacco companies pretend that they care about social issues, so they carry out various CSR activities, but in fact, the purposes of these activities are to change their companies' image from companies manufacturing death to companies making a better world. Virtually they spend a small budget on CSR activities, but they focus on advertising their activities through various media.(ISK)*

Analyses of CSR activities in the tobacco industry to date have tended to focus on their role in mitigating anti-tobacco sentiment and maintaining credibility or regaining lost legitimacy.(353) However, CSR may also play a role in marketing, since company logos are widely emblazoned in ways that do not directly advertise particular cigarette brands, but which promote the company and its products generally. Such activities thus effectively circumvent current restrictions on direct tobacco advertising. CSR may thus be seen, in part, as a response to stronger tobacco control measures.(353, 354)

KT&G launched its CSR activities in earnest in 2003. During its transformation of company image after privatisation, KT&G focused on "sustainability management" and established the KT&G Welfare Foundation in July 2003. The company has determined four main areas in its CSR activities, notably, social welfare, social responsibility, social value creation, and environment protection.(392) In July 2007, KT&G officially announced that the company would spend more than US$216 million for CSR activities until 2010 (See Table 7.5), and this was widely reported in the media.

Table 7.5: KT&G's planned budgets for CSR, 2007-2010 (US$ million)

Area	Item	Budget	Direct expense	Indirect expense
Social welfare	Financial and medical supports for neglected or old people	61.8	61.8	
social responsibility	Public campaigns, non-smoking programmes for youths, improving smoking areas	8.5	4.7	3.8
social value creation	Supporting academic research, cultural activities, and students	137.9	113.5	24.4
environment protection	Supporting academic research on environment issue and environment organisations	1.2		1.2
Others	Social communication and donation	6.8	2.8	4.0
Total		216.2	182.8	34.4

Source: Youth No Smoking Association
Note:
1) Direct expense for KT&G's direct programmes
2) Indirect expense for other organisations committed by KT&G
3) The Korean currency won is converted to US dollars. (1,000 won= approximately US$1)

KT&G's CSR has particularly targeted neglected and vulnerable groups, such as elders who live alone and social care organisations. It even targets children. There are a number of examples of KT&G's CSR. First, KT&G attempts to interact with younger people by supporting various scholarships and holding exhibit competitions for them. The company frequently holds or sponsors open exhibits with cultural and academic topics to target college students and young office workers. The prizes for these competitions are usually much higher than for others, thus, thousands of students participate. Through this, KT&G aims to communicate with young people, their target group for the tobacco business.

Second, KT&G has donated 100 cars to social care organisations every year since 2004. The cars clearly bear the KT&G logo and are the same colour as the company's cigarette delivery vehicles. (See Figure 7.7) This programme has successfully built good relationships between KT&G and social care experts and their clients, and allowed KT&G to promote its public image. Thus, when the government and tobacco control advocates attempt to reinforce tobacco related regulation, this activity can act as an 'umbrella'.(BKL) To date, there are 700 cars with KT&G logos being driven by social care workers. This not only allows KT&G to promote a socially responsible image, but ensures that its logo is widely displayed.

Third, there has been the 'Love Kimchi' (traditional Korean side dish made of cabbage) project since 2004. This activity has ostensibly aimed at helping low-income households stock up for winter. KT&G pays for the ingredients and recruits volunteers to make kimchi, which is then donated to low-income households and older people. The volunteers at kimchi-making events wear aprons and hair bands displaying the KT&G logo, providing valuable publicity for the company. (See Figure 7.7)

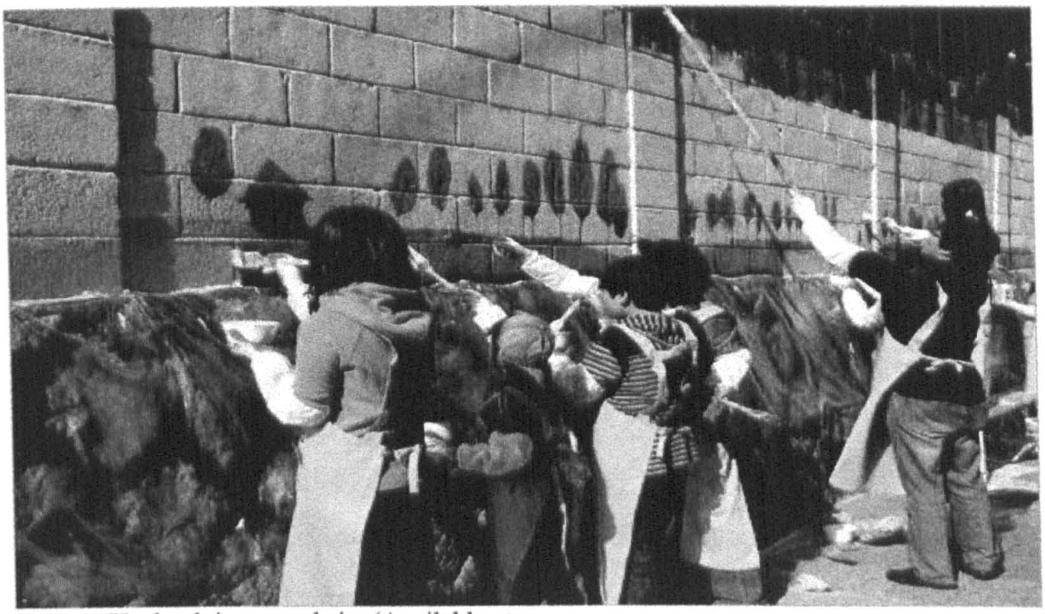
Finally, perhaps the most pernicious example is the 'Dream in Painting' project. By drawing murals on wall of elementary schools, KT&G attempts to project a good brand image to children, who might be its future customers. This project recruits university students or parents as volunteers to paint the murals. During the first event in May 2007, three hundred students were recruited to participate in the project. Although KT&G's logo cannot be included in the mural, all participants wear KT&G's aprons. This programme has been carried out increasingly regularly, 3 times in 2007, 5 times in 2008, and 6 times in 2009. (See Figure 7.7)

These CSR programmes have built an important constituency of support for KT&G. According to tobacco control advocates, the beneficiaries of KT&G's CSR activities have repeatedly complained about anti-smoking activities. The beneficiaries, simply and clearly, say that "KT&G helps us who are neglected by the government, communities and even families. We need continued help from KT&G, thus, do not disturb their business".(BKL)

Figure 7.7: Examples of KT&G's CSR programmes

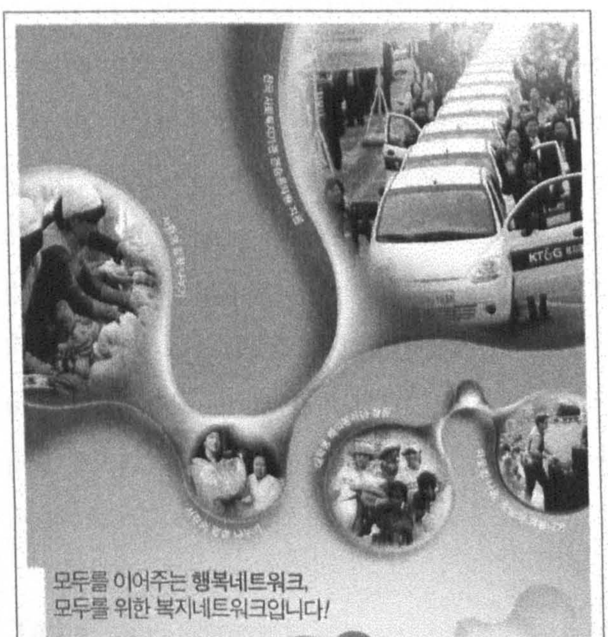
Source: Youth No Smoking Association
Note: The car in the right picture is a KT&G Welfare Foundation car. The ostensible purpose of the car is to help neglected people. The car in the left picture is KT&G's cigarette delivery van. The similarity between the two in terms of the prominence of KT&G's logo can clearly be seen.

Source: Edaily website (Available at http://www.edaily.co.kr/news/NewsRead.edy?SCD=DC14&newsid=02440326589884408&DCD=A00204&OutLnkChk=Y, accessed 20th December 2009)
Note: "Love Kimchi" project which has begun in 2004 and ostensibly aimed at helping low-income households stock up for winter. The volunteers at kimchi making events wear aprons and hair bands displaying the KT&G logo, providing valuable publicity for the company.



Source: Hankook i.com website (Available at http://kids.hankooki.com/lpage/news/200711/kd20071104152705771 20.htm, accessed 20th December 2009)

Note: ''Dream in Painting'' project which recruits university students, parents and volunteers to paint murals on the walls of elementary schools. Three hundred students were recruited to participate in the project in May 2007. Although KT&G's logo cannot be included in the mural, all participants wear KT&G aprons.



Source: Youth No Smoking Association

Note: The poster show KT&G's various CSR activities which have been discussed above.

7.7 Emergence of a new TTC

As the South Korean market became more competitive, there is evidence that the domestic industry has attempted to develop its own export markets in order to overcome volume losses in the domestic market.(308) This was significantly similar to what US-based TTCs did in response to increasing tobacco control activities in the domestic market in the 1960s. However, unlike the US tobacco companies, KOMOCO/KTGC, as the state-owned company and the joint stock company, were initially limited in their ability to access other countries due to low quality and thus less competitive products. Therefore, before privatisation, the Korean tobacco company's efforts to expand overseas markets were relatively slow, but after market liberalisation, KTGC's exports steadily rose from 2 percent of the total production in 1989, to 6 percent in 1991.(308) Since 1996, KTGC has in earnest started overseas sales and the target markets reached 35 countries, mainly in Central Asian and Middle Eastern countries. However, their initial exports were carried out by export brokers rather than direct exports.(261)

Once KTGC was privatised in December 2002, the newly named KT&G officially announced its vision including plans to intensify its focus on expanding overseas markets. On the KT&G website, the company noted that its profits would rise dramatically until 2010 through increasing exports. Following privatisation, KT&G started direct exports of its brands to the target markets.(393) Evidence suggests, KT&G has successfully expanded abroad, potentially becoming another TTC active in the world market since 2002.(261, 394-401) (See Table 7.6 and Table 7.7)

Table 7.6: Cigarette exports by KT&G (Billion sticks of cigarettes)

Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Export	6.1	16.4	21.4	30.9	31.1	28.5	31.2	37.3	38.9	36.9

__Source:__ 1) *Joongang Daily*. Overseas sales keep KT&G growing. (2000)
2) Parker J. A Look at The Far East. South Korea was the leading Far East Cigarette Exporter During 2002-2005. Tobacco International. November 2007 (2001)
3) KT&G Annual Report (2002-2009) (Available at http://www.ktng.com/kor/, accessed 15th April 2010)

Table 7.7: Cigarette exports by KT&G, 1996-2008

Year	Exports (million US$)
1996	8.1
1997	9.9
1998	13.1
1999	17.5
2000	41.9
2001	98.3
2002 (privatisation)	189.7
2003	273.7
2004	302.8
2005	272.9
2006	333.8
2007	379.3
2008	501.5

Source: Song Y. The Impact after Tobacco Market Opening in Korea. Seoul: Yeonsei University; 2009, KT&G Annual Report (Available at http://www.ktng.com/kor/, accessed 15th April 2010)
Note: The Korean currency, won is diverted to US dollar. (1,000 won= US$1)

KT&G's exports of cigarettes recorded impressive growth after privatisation. Compared to 2001, before privatisation, the total export revenue soared by more than 93 percent in 2002. Central Asia and the Middle East remained KT&G's most important international markets, and the company expected that exports to the US, Southeast Asia, and China, would also be potential opportunities at the time.(394) In 2003, the total export sales volume represented more than 30 percent of KT&G's total cigarettes sales, and the company began its market expansion to Eastern Europe and Russia.(395) While reinforcing its status in the Middle East and Central Asia, KT&G diversified its target countries to the US, Southeast Asia, China, and Russia in 2004. Due to aggressive market expansion in new target countries, the increase of exports was solid at the time.(396) Although there was a slight decline in exports in 2005, from 2006 onwards, the total overseas sales volume increased again.(397, 398) Since 2006, KT&G has intensively focused on Russia, Uzbekistan, Iran, Iraq, and China.(398) From 2007, the company began to target Turkey, the 7th largest tobacco consuming nation in the world, in anticipation that Turkey could become a gateway to the European Union (EU) region. Market access and local production in Turkey will allow KT&G to export its brands to the EU without paying tariffs, if Turkey's application to join the EU is successful. Hence, KT&G attempted to set up subsidiary companies in Turkey.(399, 400) In 2008, KT&G completed construction of its first overseas cigarette manufacturing facility in Turkey. KT&G plans for the new factory to sell 4 billion cigarettes annually by 2012.(402)

As a result of KT&G's efforts, Afghanistan, Kazakhstan, Iran, Iraq, and other Former Soviet Union (FSU) countries have imported large amounts of high quality blended cigarettes from KT&G. The market share of KT&G's brands in Iraq was 41 percent and its share in Afghanistan was 25 percent in 2006.(403) Recently, KT&G has been newly targeting India. In addition, the company achieved new manufacturing factories in Iran under a joint venture (JV) agreement with Iran's government, and in Russia. Through establishing local companies in Turkey, Iran, and Russia, KT&G has obtained a stable market presence in the Middle East and the FSU. Furthermore, the company is also preparing to approach the US.(404)

The fact that KT&G appears to be turning into a new TTC is consistent with supports the conceptual framework of this research regarding the behaviour of tobacco companies vis-à-vis economic development models. Under the development model of export led growth, although the Korean government could not resist imports into Korea when faced with US trade pressures, its privatisation of the domestic tobacco monopoly has been consistent with a strategy to become a more competitive company capable of competing with TTCs, not just in Korea but abroad. The increasing export orientation of KT&G is entirely in keeping with the wider Korean development model, which supports the interests of national firms which can earn foreign currency through exports. This is similar to Japan, where the cigarette monopoly was also partly privatised and became a world leading TTC itself, following the entry of western TTCs into the market.(41)

7.8 Summary

This research finds that TTCs' greater access to the Korean market from the late 1980s transformed the cigarette market into an extremely competitive one. This, in turn, spurred the transformation of the domestic company, KTGC, which used to enjoy monopoly status, and existed without any real marketing activities, into a marketing-oriented competitive company. KTGC undertook varied marketing activities following TTCs' entry to the market in order to preserve its market share.

Following the rapid change of the market environment, and the country's economic circumstances after the financial crisis of 1997, the Korean government decided to privatise KTGC. Since privatisation, KT&G has not only developed more sophisticated marketing practices, such as "below-the-line" tactics and CSR programmes to preserve its domestic market share, but has looked to expand throughout the world. This is similar to TTCs during an earlier period in order to offset their losses in the domestic market. The company it is argued, is thus in the process of becoming a new TTC in the world tobacco market. KT&G's current efforts at market expansion into other countries is likely to increase competition within the global tobacco market, and based on evidence elsewhere, will contribute to an increase in tobacco consumption in the targeted countries. In short, TTCs' entry into the Korean market about 20 years ago appears to have prompted the emergence of a new TTC, which threatens public health in both South Korea and a number of other countries worldwide.

CHAPTER 8 DISCUSSION

8.1 Introduction

The findings presented in Chapter 5-7, based on detailed analysis of the tobacco industry's internal documents, and supported by semi-structured interviews with key informants, and other additional primary and secondary sources, are drawn together in this chapter in relation to the first four objectives of the research. This chapter also discusses the implications raised for public health in South Korea and other emerging markets, arising from the research findings.

The final objective of this research, to draw lessons for strengthening tobacco control in South Korea and other emerging markets, in the context of the Framework Convention on Tobacco Control (FCTC), will be addressed in Chapter 9.

As discussed in Chapter 4 (Section 4.5), there were limitations on the availability of data for this research. The primary data source for this research, industry internal documents, by their nature as described previously, proved to pose limitations and challenges regarding their interpretation. While substantial in volume, the limited time period covered by currently available documents (up to 2004), the non-comprehensive nature of the collection, and the fact that the documents are those of TTCs and not Korean domestic companies, all had to be taken into account when used in this research. To overcome these limitations, interviews and other primary and secondary sources were used to supplement and triangulate available documents.

Both, in turn, proved to pose their own methodological challenges. It was sometimes difficult, in particular, to gain access to certain key informants for interviews. When former employees within the tobacco industry were approached, they declined to be interviewed. Government officials in the Ministry of Finance (MOF), which used to control the Korean tobacco monopoly, also did not want to participate in the research. The close links between the domestic tobacco industry, KT&G and the Korean government thus proved an obstacle to the collection of industry-related data and accessing key informants. In other cases, it was also sometimes difficult to verify the accounts given by some interview respondents because there was no corroboration through available primary source documents. In such cases, care was taken to consider whether respondents' accounts were consistent with secondary sources, and whether respondents had particular interests that might have a bearing on how they chose to portray events or explain issues.

In order to analyse the impact of market liberalisation on the domestic tobacco market, evidence of KT&G's activities was required. At the present time, access to KT&G's internal documents is not available, and the research needed to rely on publicly available documentation and key informants from the Korean tobacco control community. This somewhat he results relating to the fourth objective of the research were limited.

Finally, discussion of the direct causal relationship between public health outcomes and market liberalisation was limited by the nature of Korean data on tobacco use over time. Detailed and comparable data by population cohort on smoking prevalence over time does not exist in South Korea. The research has thus taken care in drawing conclusions regarding the public health consequences of TTC activity, instead demonstrating how market liberalisation has led to intensified competition, more aggressive and targeted marketing, and ultimately a sharp increase in total sales of tobacco products.

8.2 Understanding the broader context of the liberalisation of the South Korean market

The first objective of this research was "to review the historical events leading to the opening of the Korean tobacco market in the late 1980s". The conceptual framework developed for this research, as presented in Chapter 3, argues that transnational tobacco companies' (TTCs) expansion worldwide, from the 1960s onwards, was shaped by the type of economic development model adopted by targeted countries and regions, including the respective governments' attitudes towards foreign investment. It is argued that this linking of economic development models with TTC strategies, within a broader context of an emerging global political and economic, has not been previously applied to analyse tobacco industry activities. This approach offers a fuller understanding of TTC activities in South Korea, as well as potential insights into the expansion of TTCs into other emerging markets.

8.2.1 Government policy on tobacco industry under export-oriented economic development model

The findings of this research confirm the close relationship between the economic development model adopted in South Korea, and the changing nature of the country's tobacco industry. Beginning in the early 1960s, the Korean government focused attention on rapid economic development. As described in Chapter 3, following Japanese colonisation and the Korean War, much of the country was destroyed including key industries and infrastructure, and there were limited domestic resources available for recovery from these difficult circumstances. Moreover, political instability added to this precarious situation, prompting the government to focus its efforts on economic development as the country's highest priority. Thus, under General Park, who became President through a military coup in 1961, there was a strong emphasis on the reconstruction of the economy, and the need to foster an industrialisation movement among Koreans. For example, one policy introduced by President Park to change people's perceptions of economic development was the "New Village Movement".(405, 406) The Movement initially pursued modernisation of rural areas in 1970, but was eventually extended throughout the country. The purpose of the movement was to change people's thinking and behaviour towards economic development. Through the creation of this mass social movement, the government and population became strongly unified in focus on economic development as the country's top priority.

In this context, the Park regime gave particular attention to exports as a key driver of economic growth and development. Unlike North Korea with its considerable mineral resources, South Korea possessed limited natural resources. The government thus decided to adopt a development model focused on earning foreign currency via export-oriented manufacturing. The

Korean government's third Five-Year Economic Development Plan from 1972 consequently invested in heavy industries, such as the steel, automobiles, and shipbuilding industries, along with the chemical industry, in order to transform the economy. Along with these exports, President Park also encouraged the export of human resources. For example, he dispatched personnel to the war in Vietnam during the 1960s, initially as non-combatants (i.e. trainers, medical personnel) but later as combat troops numbering over 300,000 soldiers. Similarly, miners and nurses were sent to Germany, as part of the government's economic development policy, to earn South Korea much needed foreign currency. In return, the government received more aid from the US, and the country benefitted from the remittance of foreign currencies to families back home. As described in Chapter 3, this state-led export-led economic development model was successful at enabling South Korea to become one of the "Asian Tiger" of the 1980s onwards.

In this context, the tobacco industry in South Korea was not seen as a key industry, in terms of the government's economic development strategy. Exports of tobacco leaf and products before market liberalisation were limited due to their lower quality compared to international tobacco leaf and brands. Nevertheless, the government adopted trade policy measures to protect the industry because the sector was a significant source of tax revenue dating from the Korean War, and thus seen as a significant contributor to the government's economic development goals. As a former Office of Monopoly (OOM) manager stated, "To the government, the sale of tobacco was probably the only source of income just after the Korea War in the 1960s."(Anonymous 1) In addition, in order to generate a trade surplus from exports, and prevent the outflow of foreign currency to pay for imports, the government did not want to liberalise the industry until it became competitive in the international market. Therefore, measures to protect the tobacco industry in South Korea from foreign competition were deemed to be economically justified from the 1950s onwards. The most important consideration by the government in regulating the tobacco sector was thus domestic economic development, with the industry treated as a key sector to promote growth within the national economy. As will be discussed in Chapter 9, these economic goals were deemed of higher priority than protecting public health from the adverse effects of tobacco use.

Moreover, this research confirms that the Korean government strictly controlled foreign direct investment (FDI) within the tobacco sector, as part of its economic development model. As part of a state-led and export-oriented economic development model, until the early 1980s, South Korea relied heavily on borrowing and maintained a somewhat restrictive policy towards FDI. As described in Chapter 5, the government thus firmly resisted TTCs' initial efforts to gain market access via joint venture (JV) agreements to enable local manufacturing with the Korea Monopoly Company (KOMOCO) in the early 1980s. Foreign ownership, which TTCs successfully achieved in Latin America and the Former Soviet Union (FSU), for example, which enabled them to gain footholds in those regions, was not possible in South Korea. Given this different policy stance by the South Korean government, TTCs were required to find alternative strategies to gain market access.

8.2.2 The impact of the restructuring of the world trading system and global political economy on South Korea's tobacco industry

Although the Korean government protected the tobacco industry from foreign competition until the 1980s, and adopted policies accordingly designed foremost to support economic development, this research shows that structural change in the global political economy (GPE) from the 1980s influenced the Korean government to eventually liberalise its closed tobacco market.

The Uruguay Round of trade negotiations under the General Agreement on Tariffs and Trade (GATT) commenced in 1986, with 123 participating countries and a mandate of unprecedented breadth of fifteen subjects. The seven and a half year process eventually led to the biggest reform of the world trading system since 1945.(9, 407) Under an umbrella agreement creating the World Trade Organisation (WTO), agreements were reached on the renegotiation of the GATT (including agriculture), trade in services and intellectual property rights.(408) Additional measures for dispute settlement and the conduct of trade policy reviews were agreed. While a proposed Multilateral Investment Agreement was not adopted during this period, and would remain controversial, the financial sector was extensively liberalised from the 1980s onwards, leading to a marked increase in trade and investment flows worldwide. The globalisation of the financial sector, in turn, underpinned the restructuring of the world economy into an increasingly globalised entity. The US government, under the Reagan Administration, was a leading player in the Uruguay Round. As described by Griswold, "Reagan's heart and head were clearly on the side of free trade".(409) President Reagan declared in 1986:

> *Our trade policy rests firmly on the foundation of free and open markets. I recognize ... the inescapable conclusion that all of history has taught: The freer the flow of world trade, the stronger the tides of human progress and peace among nations.(409)*

This research confirms that the transformation of the world trading system, towards increased liberalisation and globalisation, strongly advocated by the US government, had a direct influence on South Korea's decision to liberalise the tobacco industry. While the Uruguay Round of the GATT did not directly pressure the Korean government to liberalise its closed tobacco market, changes to the world trading system affected the global political economy underpinning the bilateral relationship between South Korea and the US. This, in turn, had profound implications for the scope of Korean policy making during this period.

The US, the leading player in this restructuring of the world trading system in the 1980s, was the largest and most important ally to South Korea in terms of political, economic, as well as military links. From the 1950s onwards, the US was the main aid donor to the South Korean government, helping fuel the reconstruction of its broken economy. However, the success of the Korean economic miracle, driven by substantial levels of exports, much of it to the US as Korea's largest trading partner, in time created a substantial trade deficit. The US government, faced with its own economic woes domestically, began raising the issue of the trade deficit between Korea and the US, citing unfair trading practices by Korea and other Asian countries.

The findings of this research confirm that an understanding of Korea's decision to liberalise the tobacco industry must be located within this broader GPE context. This context offers a fuller account of the pressures faced by the Korean government as it gave primacy to its pursuit of economic growth and development. As described in Chapter 5, this link between trade and tobacco was clearly apparent. During bilateral negotiations between South Korea and the US, the US government pointed repeatedly to the substantial and growing trade surplus by South Korea with the US. It was alleged that, although the US imported plenty of products manufactured by South Korea, the Korean government denied access to US products including tobacco products. Tobacco industry documents reveal that Michael Deaver was recruited by Philip Morris (PM) to assert pressure on President Chun by emphasising that market liberalisation of Korea's tobacco industry was tied to Korean textile exports to the US. Further pressure was exerted by several US Senators warning the Korean government that the failure to reach an agreement would seriously erode broader trade relations between the two countries. The findings of this research confirm that the decision of the Korean government on market liberalisation was thus a direct trade off between the tobacco industry and other key industries under the government's export-led economic development model.

In conclusion, a fuller understanding of the government's changing policies on the tobacco sector in South Korea since the Korean War must be located within the historical context of a changing global political economy. The conceptual framework of this research, linking economic development models to TTC strategies on market access and expansion, shows that the Korean government succumbed to these broader pressures. This research finds that, when faced with industry-led and US government expressed pressures to liberalise cigarette imports, Korean policy debates focused on the economic importance of continued access by Korean exports to US markets. This research shows that, it was this interaction between the domestic priority to maintain the momentum of economic development through export-led growth, and structural changes in the world trading system and the GPE, which can explain the liberalisation of the tobacco sector by South Korea in the late 1980s. The public health consequence of this important decision of the South Korean government, as will be summarised in Chapter 9, was of limited if any concern in policy debates during this period.

8.3 Understanding of TTC market access and expansion strategies

The second objective of this research was "to understand the market entry strategies and the activities used by TTCs, focusing on Philip Morris (PM), R.J. Reynolds (RJR), Brown & Williamson (B&W), and British American Tobacco (BAT), to gain access and expand their market share to the Korean tobacco market".

8.3.1 TTCs' threat to South Korea through trade pressure

Within the context of an export-led economic development model and the changing world trading system described above, how did TTCs seek to gain access to the Korean market? As identified through the literature review of Chapter 2, TTCs had a variety of strategies available to access new markets. The evidence presented in Chapter 5 shows that early tactics used by TTCs to gain a foothold in the Korean tobacco market were similar to those deployed elsewhere, notably in Latin America. TTCs initially sought exclusivity in negotiating JVs and licensing agreements with the domestic monopoly to circumvent measures to keep the market firmly closed to foreign companies. Such tactics led to the successful acquisition of local tobacco companies, and complete market access in Latin America during the 1960s and 1970s. However, when TTCs similarly suggested JVs and licensing agreement to the Korean government, these options were quickly rejected given the governments strong emphasis on strong Korean-owned industries and limited foreign direct investment. As described above, the government thus did not accept FDI or any form of foreign ownership within the industry. Therefore, TTCs focused their attention on lobbying the US government to exert trade pressure in the 1980s. During this lobbying process, industry documents reveal how the US Cigarette Export Association (USCEA) cited repeatedly the trade imbalance between the two countries and claims of "discriminatory trade restrictions" in the Korean tobacco market. Lobbyists emphasised the trade off between the tobacco industry and access to the US market by Korean export. This research shows that, TTCs not only benefitted from changes in the GPE as described above, but actively pursued market access through the active engagement in trade policy debates between South Korea and the US. Far from being passive players in the process of trade negotiations, it is confirmed that TTCs effectively harnessed the power of the US government to open Korea's tobacco market. While the role of the TTCs in pressuring for market access by the US Trade Representative (USTR) is well-known, how this was achieved within the context of Korea's domestic policies has not been previously analysed.

8.3.2 TTCs' responses to regulation of the Korean tobacco industry after market liberalisation

The Korean government anticipated an increase in TTCs' marketing activities once the domestic market was partly liberalised in 1986, and moved to revise the existing tobacco-related regulations to address this. As described in Chapter 6, the new regulation thus prohibited all forms of tobacco marketing, advertising, and promotional practices in 1987. However, as part of further pressure from the US government under bilateral trade negotiations, which successfully pushed for complete liberalisation of the tobacco market, both countries agreed to certain forms of tobacco marketing under the Record of Understanding (ROU) in 1988.

On the surface, permitted marketing activities seemed highly restricted. However, as described in Chapter 7, TTCs responded by deploying varied marketing tactics which enabled their products to achieve increased market presence. Following initial liberalisation, TTCs' tactics focused on addressing the lack of "social acceptability" of their brands due to negative perceptions of imported, notably US manufactured, cigarettes. Thus, TTCs tried to build a more positive image among Korean people, and targeted young people in particular because they had less nationalistic attitudes compared to older Korean people. At the same time, TTCs sought to improve distribution routes hitherto strongly controlled by KT&G, and undertook "below-the-line" marketing tactics to increase awareness of, and stimulate demand for, foreign brands. As stated in Chapter 7, these tactics of TTCs achieved successful market expansion in the Korean market during the short period after market liberalisation. Consequently, the limited tobacco control measures, providing exceptions of tobacco marketing activities to TTCs, were proven to be insufficient and ineffective at controlling TTCs' marketing activities. Importantly, these findings show that the tobacco control measures, adopted by the government during and after market liberalisation, were shaped by economic rather than public health considerations. As will be discussed in Chapter 9, it was this feature that subsequently enabled them to be so readily circumvented by TTCs. In addition, lessons can be drawn that governments, engaged in market liberalisation or not yet targeted, should adopt strong and appropriate tobacco control measures as part of the negotiation of the conditions of market liberalisation. This will be discussed in detail in Chapter 9.

In South Korea, the research shows that over time, further and stricter tobacco control measures were adopted. (See Table 8.1) Nevertheless, TTCs met these with increased efforts to circumvent a more restrictive marketing environment. Public health concerns about tobacco use, within and outside of the country, led the Korean government to introduce additional legislation that set out stronger restrictions on the types and content of tobacco advertising, promotion, and sponsorship. While tobacco control advocates had begun to consolidate and strengthen their efforts by the 1990s, so too did the tobacco industry continue to evolve its tactics, from a focus on mitigating social opposition to active demand creation. This research finds that, as TTCs recognised that the Korean market was beginning to become a "dark" market, they pursued more indirect tactics to exploit legislative loopholes alongside "below-the-line" activities, and changed their marketing framework. Such combined tactics were effectively used to circumvent Korean regulations.

Table 8.1: Key tobacco control policies in South Korea since market liberalisation

Year	Tobacco control policy
1995	Enactment of the National Health Promotion Act
1998	Introduction of school based anti-smoking campaign and education
2003	Expansion of smoke free areas (Internet cafés and larger restaurants)
2004	Increase of cigarette consumption tax (500 won)
2005	Introduction of smoking cessation clinic and quit-line in local health centre.
2006	Expansion of smoke free areas (Large buildings, small offices, theatre, indoor gym, schools, nurseries, medical facilities, and transportation facilities etc.)
2008	Adding health warning labels of 6 cancer causing substances
2009	National campaign for 'Smoke Free Healthy Korea'

Source: EJ Choi. Measures for Tobacco Control. International Seminar on Tobacco Price and Tax Measures; Seoul: Korea Institute for Health and Social Affairs; June 2010.

By the 2000s, TTCs were giving particular attention to Corporate Social Responsibility (CSR) activities. CSR programmes quickly emerged as a means used by TTCs worldwide to enable their corporate image and related brands to maintain a positive public presence. This was especially important in light of substantial public approbation from the 1990s. CSR was potentially more effective than promotional activities because, unlike traditional marketing activities through television, radio, and print media, CSR activities are interactive and seek to build broader relationships with the public.(410) Through CSR programmes, tobacco companies are able to transform their image from manufacturers of a lethal product to that of socially responsible companies. CSR programmes thus play multiple roles for tobacco companies: they potentially legitimise them in the eyes of those who benefit from such programmes, the wider public and policy-makers; they are used to bolster arguments against further effective regulation; and they allow companies to promote their company image and, by extension, their products, even where advertising is prohibited. In addition, although tobacco regulations have banned some "below-the-line" activities of the industry, authorities have not appeared willing to regulate CSR activities, or at least to enforce restrictions on CSR activities as violations of tobacco control policies. Policy-makers, regulators and tobacco control advocates need to be clear about the real purposes of CSR programmes by the tobacco industry, and ensure that this understanding is disseminated widely. Recommendations concerning the effective control and surveillance of tobacco industry CSR programmes are made in Chapter 9 (Section 9.4).

The research finds that sponsorship programmes in South Korea have been also effectively used by TTCs to create greater demand for their brands. This is a well-known form of indirect marketing. Although sponsorship does not advertise tobacco products directly, sponsorship by TTCs undermines tobacco control policies and regulations by functioning like advertising; enables the targeting of specific populations notably youth; and misleads by associating smoking with certain desired attributes, such as a healthy and active lifestyle, or glamorous and exciting activities.(328) The research has shown that, through sponsorship, the tobacco industry in South Korea has been able to maintain its visibility. It has been shown that this has been an important area of competition among TTCs and the domestic company as they have sought to protect and expand their market shares.

In conclusion, once the Korean market was opened, TTCs' marketing tactics have continually evolved to effectively circumvent existing and emerging tobacco control measures. Although TTCs' strategies for market access in South Korea were shaped by the country's economic development model, resulting in different market access strategies from Latin America and the FSU, once access was gained, the tactics to create and expand demand for

TTCs' brands among the Korean people proved similar with other countries and regions. The findings of this research, above all, offer lessons that strong and comprehensive tobacco control policies and regulations, which affect domestic and imported brands equally, should ideally be developed before and after the adoption of market liberalisation. In addition, this research suggests that governments need to carefully design tobacco control measures, as will be discussed in Chapter 9, to take account of a more competitive market environment, supported by strong enforcement of such measures and close monitoring by the government and public health communities in ways that effectively address changes in TTC tactics.

8.4 Theory of TTCs behaviour on market access and expansion

The third objective of this research is "to draw broader theoretical conclusions about the behaviour of TTCs in seeking market access and expansion". To date, there have been limited attempts to theorise the behaviour of tobacco companies more generally amid economic globalisation. This research has attempted to seek theoretical insights into how TTCs have pursued market expansion globally by examining TTC strategies and activities in relation to different economic development models. As informed by the literature review in Chapter 2, it is argued that the global expansion of TTCs from the 1960s onwards can be seen as broadly influenced by the economic development model adopted by the targeted country or region. This provided the conceptual framework for this research on South Korea and, as described above, is supported by the findings of this research. The research suggests, in short, that there are generalisable patterns in the behaviour of TTCs in seeking market entry and expansion into emerging markets across the three regions reviewed. This is a significant advance on previous work in that, whilst a number of authors have conducted rigorous research on various countries and regions, no attempt has previously been made to identify such patterns of TTC behaviour and relate them across countries to their economic development models. The research also confirms Shepherd's previous work (4) in emphasising the importance of demand creation to TTCs' strategies once market access has been gained.

For South Korea, as described in 8.3.1, TTCs mainly used lobbying and other political pressure tactics, in cooperation with the US government, to gain a foothold in South Korea. As shown in existing literature, this strategy was similarly used in other Asian countries during this period, namely Japan, Taiwan and Thailand. These tactics were clearly influenced by these countries' pursuit of an export-oriented and state-led economic development model which made them exceptionally dependent on the US as a key export market, and closely integrated their economies into an increasingly globalised world economy. In three of the four countries (i.e. South Korea, Japan and Taiwan), the US was of additional geopolitical importance. The industry documents reviewed suggest that these factors directly influenced the decisions of these governments to liberalise their tobacco markets.

In contrast, Latin American countries adopted import substitution as an economic development model from the 1950s. As described in Chapter 2, given the natural resources in the region, and in contrast with South Korea, Japan and Taiwan, these countries focused attention on the development of their domestic industries to better provide for domestic needs. The tobacco industry was a key target of this import substitution model of development. In order to improve the productivity and quality of outputs of local tobacco companies, governments in Latin America sought technical support from foreign companies and had an open attitude towards foreign direct investment. Within this context, TTCs provided technical knowhow and new machinery to local companies, and successfully signed JVs including local manufacturing agreements. Over time, TTCs then found it relatively easy to acquire local companies in the region which became fully owned subsidiaries.

The former Soviet Union and Eastern Europe faced much political and economic upheaval after the collapse of the Soviet Union. State-owned enterprises, already highly inefficient and producing poor quality goods, were obsolete and faced a dire lack of new capital. Overall, many decades of central planning had failed to produce economic growth comparable to other regions, with major shortages of essential commodities and consumer goods. Amid the transition of these economies towards a more market-based system, which led to the large-scale privatisation of major industries, governments sought FDI to reform and rejuvenate formerly state-owned enterprises. This policy was supported by the IMF and World Bank. As discussed in Chapter 2, for the tobacco industry, in many former Soviet bloc countries, domestic tobacco companies were sold off to TTCs in whole or in part. TTCs became a leading source of foreign investment and, with this status, were able to profoundly influence the structure of the tobacco sector and its regulation.

In conclusion, while this research focuses on the case of TTCs' market access and expansion in South Korea, its findings support broader theorising about TTCs' varying strategies in other regions and worldwide. Bringing together the limited existing theory of tobacco industry and corporate strategy in seeking new markets (4), and new analysis of internal industry documents and other data on South Korea, this research explains more fully variations in how TTCs act in different markets. This contribution to the theory of TTC strategies and activities offer new insights for the strengthening of tobacco control policies in emerging markets as will be discussed in Chapter 9.

8.5 Impact of market access by TTCs on the domestic tobacco industry in South Korea

The fourth objective of this research is "to describe the impact of market opening on the domestic tobacco industry" in South Korea. The limited analyses available to date on trade and tobacco shows that the opening of tobacco markets through trade liberalisation has increased competition, resulting a higher level of consumption of tobacco products and, ultimately, adverse impacts on public health.(9, 14) The findings of this research are largely supportive of such conclusions but suggest that there is need to understand this process more fully, including the impacts on domestic tobacco industries.

This research confirms that, due to the increased access by TTCs to the Korean market, and TTC engagement in effective marketing practices, the domestic tobacco industry adapted in response and changed its own behaviour accordingly. The Korea Tobacco Ginseng and Corporation (KTGC), most importantly, needed to compete with TTCs to preserve its dominant market share. Initially following market liberalisation, the company had limited marketing experience given its previous status as a monopoly supplier, and thus sought mainly to hinder the marketing, advertising, and promotional activities of TTCs rather than to compete using its own similar marketing tactics. Over time, however, KTGC transformed itself into a more competitive and market-oriented company. KTGC quickly learnt from TTCs' marketing practices, as discussed in Chapter 6 and 7, and adopted similar strategies. This change, in turn, created more competition in the Korean market.

On price, market liberalisation did not lead to a reduction in all cigarette prices on the market, but it did reduce the prices of imported cigarettes. When foreign cigarettes were initially imported to Korea under permitted import quotas in 1986, the price per pack of 20 cigarettes of imported brands was between 1,400 won (US$1.80) and 1,600 won (US$2.00) due to the 40 percent import tax. Although imported brands were of better quality, and had reportedly more flavour than domestic brands, Korean people generally felt that imports were too expensive (at least three times more expensive than Korea's domestic brands at 500 won or 600 won). Thus, relatively high price was one of the key barriers to expanding market share for TTCs. However, once the market was more fully liberalised in 1988, the price of imported brands declined to 800 won (US$1.00), on average, due to the elimination of the import tax. In addition, the price of cigarettes became determined by TTCs themselves, instead of the Ministry of Finance (MOF). TTCs were thus free to compete with domestic brands on price, while offering a product seen as superior in quality and flavour. This price change of imported cigarettes thus accelerated market competition, and gradually resulted in an increase in market share for TTCs.

TTCs also developed and introduced new brands distinguished by taste, ingredients, and package design to appeal to particular local market segments.

This led to much greater brand diversification in the Korean market. Before market liberalisation, there were only a few brands manufactured by the monopoly. In 1986, when one percent of the market was opened to foreign brands, a total of 25 brands were sold in South Korea. By the end of 1991, 253 brands produced by 44 manufacturers from 15 foreign countries were registered with the Korean MOF (261). In addition, the domestic company introduced new brands of cigarettes to compete with those of TTCs. As a result, Korean people became exposed to a far greater diversity of brands distinguished by taste, design and marketing after liberalisation.

Another important finding of this research concerns the implications of tobacco privatisation for public health. KTGC was privatised under pressure from the International Monetary Fund (IMF) as discussed in Chapter 7. On the one hand, previous analyses argue that privatisation of monopolised tobacco companies threaten tobacco control because privatised companies place greater emphasis on profit making by using varied marketing tactics compared to state monopolies.(63, 359, 411) Thus, privatisation is believed to likely increase cigarette consumption and has adverse impacts on public health. On the other hand, privatisation may benefit tobacco control because governments may feel more compelled to regulate the industry if it is not itself directly involved in its ownership or operation. This research finds that, in Korea, privatisation of KTGC resulted in the further stimulation of market competition. Since privatisation, KT&G has been more active in its marketing activities in order to preserve its market share from TTCs. Its focus has been on transforming its operations and image, from an inefficient government monopoly to a competitive private company, using for example "below-the-line" tactics, such as sponsorship programmes and CSR activities. The privatisation of KTGC also brought dramatic change to the Korean tobacco market as a whole via foreign investment. The consequent revision of tobacco-related business regulations enabled PM and BAT to finally establish their own local subsidiaries and cigarette manufacturing facilities in South Korea.

In other words, market liberalisation followed by privatisation led to a restructuring of the Korean tobacco industry from an inward-looking and highly protected domestic monopoly into a more competitive and outward looking sector. Indeed, these changes have even led to KT&G seeking expansion into foreign markets itself, notably where there are emerging markets and relatively weak tobacco control policies. Having developed its own marketing expertise, and new brands, initially to compete with TTCs and avoid with a loss of market share at home, KT&G today finds itself an aspiring TTC. In 2006, KT&G held more than 40 percent of market share in Iraq, the biggest company in this market based on total sales, and a 25 percent of market share in Afghanistan, the second largest company in this market after BAT.(403) In addition, given the intensive efforts of KT&G to increase exports of its brands internationally, the largest agricultural crop exported from South Korea since 2005 is tobacco leaf and products. Although other companies, including, BAT Korea, PM Korea, and Woori Tobacco[25] also export their brands, exports are a relatively small proportion of their sales, and a small proportion of Korea's total tobacco exports. In contrast, in 2009 KT&G contributed 93 percent of total tobacco exports from South Korea.(412) KT&G plans to increase its exports in future to the Middle East, Central Asia, and Russia as existing markets, and South East Asia and India as new markets according to the company's vision statement of 2010.(412)

In conclusion, this research provides a fuller account of the impact of TTCs on the domestic tobacco industry in South Korea following market liberalisation. TTCs stimulated the domestic tobacco company to adapt accordingly, resulting in a more competitive environment domestically and, in turn, globally. This supports the economic theory that trade liberalisation leads to greater competition. In relation to the tobacco industry, this has been in the form of reducing cigarette prices, increasing tobacco advertising and

[25] **Woori Tobacco:** Since 2001, when the MOF eliminated KTGC's monopoly over cigarette manufacturing, any company having relevant capital (more than US$ 30 million) and manufacturing capabilities (an annual production capacity of at least five billion cigarette sticks) could obtain a cigarette manufacturing license from the MOF. Although this has proven an effective barrier to controlling access of smaller tobacco manufacturers including local and foreign companies, in early 2008, a local tobacco company, Woori Tobacco won a license to manufacture and started selling cigarettes.

promotional activities, and increased export activities.(9) As will be discussed below, these developments have profound implications for public health in South Korea and globally.

8.6 Implications of market liberalisation for tobacco control and public health

As well as leading to a restructuring of the Korean tobacco industry, and a consequent increase in competition-driven activities, a key finding of this research is that increased TTC market access in South Korea has had public health impacts domestically and, if KT&G continues to expand its market presence abroad, globally. This section discusses the impact of TTC activities on public health.

8.6.1 Increase of cigarette consumption by volume

As described in Chapter 6, once market access was achieved, TTCs actively pursued strategies to increase their market share. While TTCs publically insisted that they were only informing existing smokers of the increased availability of imported brands on the market, and thus were seeking to convince these smokers to switch brands rather than encourage new smokers,(413) the findings of this research suggest otherwise. Analysis of available evidence on tobacco use in South Korea, before and after market liberalisation, suggests that increased competition led to an upward trend in tobacco use in certain population groups. While limited in detail and period of time covered, this data raises important public health implications.

As mentioned above in Chapter 7, several industry documents on the South Korean market report that the total volume of cigarette sales in Korea increased sharply from 81.4 billion in 1991 to 101.7 billion sticks in 1992 (around 25%) after market liberalisation.(225, 292) Correspondingly, alongside this increase in total volume of cigarette sales, the limited data on total cigarette consumption in South Korea from 1981 onwards suggests that there is a clear trend of increasing total consumption. (See Table 8.2) From

1981 to 1985, the period before market liberalisation, total cigarette consumption slightly increased. However, there was a high level of growth of tobacco use between 1986 and 2000 after market opening. In 1988, when the market was completely liberalised, and in the early 1990s when market competition between TTCs and KTGC began to intensify, this upward trend in cigarette consumption by volume was especially significant. Based on this trend, South Korea was ranked the 5th largest cigarette market in the world in 1996, in terms of number of cigarettes consumed, an increase from 13th place in 1985.(414, 415) Since 2001, the upward trend of tobacco use has slowed, apparently due to the increase in health concerns on towards smoking among Koreans and stronger tobacco control efforts, although this has not been the case for all population groups.

Table 8.2: Total cigarette consumption among Koreans, 1981-2007

Year	Million sticks of cigarette consumption	Key Event
1981	73,112	
1982	73,986	
1983	74,751	
1984	76,575	
1985	77,557	
1986	78,303	- Limited market liberalisation with import quotas
1987	81,712	
1988	87,329	- Completed market liberalisation
1989	92,133	
1990	95,475	
1991	98,235	
1992	101,438	
1993	105,337	
1994	96,140	- First cigarette tax increase (120 won per pack)
1995	97,348	- The National Health Promotion Act was enacted.

1996	102,738	- Cigarette tax increase (168 won per pack)
1997	99,668	- The government initiated the process of KTGC's privatisation - Cigarette tax increase (2 won per pack)
1998	106,550	
1999	95,670	- Add 10 percent of Value Added Tax on each cigarette pack
2000	104,945	
2001	98,917	- Cigarette tax increase (121 won per pack)
2002	91,956	- Complete privatisation of KTGC and abolition of manufacturing monopoly - Cigarette tax increase (158 won per pack)
2003	96,925	
2004	106,511	- Cigarette tax increase (409 won per pack)
2005	82,322	
2006	87,724	
2007	91,855	

Source: Kim WN. A Study of the Tobacco Pricing Effect on National Health. Korea University. 2002 (1981-1989), Ann JB. Reformation of Tobacco Tax. International Seminar on Tobacco Price and Tax Measures; Seoul: Korea Institute for Health and Social Affairs; June 2010 (1990-2007)
Note: Cigarette consumption in the table reflects official trade.

Given population growth (38 million in 1980 to 47 million in 2000) (416), the rising trends in total cigarette consumption described above might be explained by a proportionate growth in the number of smokers, rather than the impact of any TTC marketing activities. Analysis by per capita cigarette consumption confirms, however, that the increased consumption after market liberalisation was not only due to population growth. (See Table 8.3) Prior to market liberalisation, the amount of tobacco use per person slightly fluctuated, but the change was not significant. After market liberalisation, however, per capita consumption steadily increased until the early 1990s. This data suggests that smokers also smoked more per capita (200 cigarettes per capita more by 1999) on average. This finding, thus, confirms that Korean smokers were not simply switching brands from domestic cigarettes to imports, but were also smoking more on average per person following market liberalisation. This increase in volume of consumption per smoker, in turn, suggests a corresponding increase in risk to health from tobacco use.

Table 8.3: Per capita cigarette consumption among Koreans aged over 19 years, 1981-1999

Year	Per capita consumption
1981	1,888
1982	1,882
1983	1,873
1984	1,895
1985	1,901
1986	1,900
1987	1,964
1988	1,873
1989	1,895
1990	1,901
1991	1,900
1992	1,964
1993	2,405
1994	2,163
1995	2,230
1996	2,342
1997	2,271
1998	2,303
1999	2,052

Source: Kim WN. A Study of the Tobacco Pricing Effect on National Health. Korea University. 2002

The research also compared the amount of cigarette consumption between domestic brands and imported brands. Given limited data, this comparison can only be undertaken from 1990. As shown in Table 8.4, it is clear that in the period that per capita consumption increased, the consumption of imported brands dramatically increased, compared to domestic brands. This suggests that, although there were strong feelings towards imported cigarettes, and the US more generally, among many Koreans at the beginning of market liberalisation, many existing smokers switched from domestic to imported brands, or new smokers choose to smoke imported brands. Without the intensive marketing activities and competitive practices of new market entrants against the domestic brands, it is unlikely this would have been achieved within this short period.

Table 8.4: Comparison of consumption between domestic and imported brands among Koreans

Year	Domestic brand		Imported brand	
	Consumption (Million sticks)	The rate of growth (%)	Consumption (Million sticks)	The rate of growth (%)
1990	91,274	3.91	4,201	-0.83
1991	93,323	2.24	4,912	16.92
1992	95,960	2.83	5,478	11.52
1993	98,384	2.53	6,953	26.93
1994	87,581	-10.98	8,559	23.10
1995	84,877	-3.09	12,471	45.71
1996	91,299	7.57	11,439	-8.28
1997	88,069	-3.54	11,599	1.40
1998	101,289	15.01	5,261	-54.64
1999	89,457	-11.68	6,213	18.10
2000	95,076	6.28	9,869	58.84
2001	83,416	-12.26	15,501	57.07
2002	72,486	-13.10	19,470	25.60
2003	74,386	2.62	22,540	15.77
2004	82,305	10.65	24,207	7.40
2005	60,072	-17.01	22,250	-8.08
2006	62,587	4.19	25,137	12.98
2007	63,582	1.59	28,273	12.48

Source: Ann JB. Reformation of Tobacco Tax. International Seminar on Tobacco Price and Tax Measures; Seoul: Korea Institute for Health and Social Affairs; June 2010

Note: The decrease of consumption in 1998 was due to Asian economic crisis which led significant outflows of foreign capital.

8.6.2 Increase of smoking prevalence

As described in Chapter 6, this research shows that TTCs particularly targeted Korea's young adults and females in order to create demand for their brands via marketing, advertising, and promotional activities. Analysis of changes in smoking prevalence among these groups can improve understanding of the public health impact of TTCs' market access in South Korea. Table 8.5 shows smoking prevalence according to age group between 1980 and 2008. The smoking prevalence rate in the groups aged 20-29 years and 30-39 years in both males and females significantly increased from 1985 to 1996, while the rate in other age groups mostly decreased. A possible explanation of the reduction in smoking prevalence among older age groups is that such groups were more receptive to public health arguments on tobacco use, or they may be less targeted by the industry given their lower likelihood of brand switching. Moreover, due to rapid economic development in South Korea and the introduction of a new social trend focusing on "well-being in life", which put greater priority on health rather than material things, the overall trend of smoking prevalence in Table 8.5 shows a steady and considerable decrease. In particular, implementation of the National Health Promotion Act (NHPA) in 1995, enforcement of stronger tobacco control policies, and the tobacco-related death of Korea's most famous comedian, Ju-il Lee also strongly influenced this decreasing trend in tobacco use. The data, in contrast, shows an increase of smoking prevalence among Korean young adults. This trend, along with the above data on the increase in per capita cigarette consumption and use of imported cigarettes after market liberalisation mainly by young adults, suggests that this has been the result of intensive targeting by tobacco companies. This trend is also observed in an industry document:

> *Smoking incidence in Korea increased since market liberalisation with 73% of males smoking and roughly 5% of all adult females smoking. Fuelling this growth is the increasing number of female and younger adult smokers.(417)*

Table 8.5: Smoking prevalence of Korea's adult over 19 years old, 1980-2008 (%)

Gender	Age	1980	1985	1990	1992	1994	1996	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Male	20-29	76.5	71.6	77.7	82.1	76.9	79.2	70.5	67.3	77.3	71.1	66.2	66.1	59.4	50.8	44.3	43.1
	30-39	78.4	74.0	79.1	75.4	76.1	77.5	71.3	71.3	78.6	66.5	61.4	61.1	57.2	51.0	54.9	52.1
	40-49	81.6	71.2	72.9	73.1	73.4	60.0	65.2	67.8	69.5	60.8	55.7	58.3	50.4	44.4	43.7	42.5
	50-59	83.3	69.2	73.2	62.7	70.9	55.8	51.9	64.1	62.1	44.8	47.7	50	43.7	39.1	36.4	32.5
	60+	79.5	66.3	68.9	72.0	51.4	54.2	44.4	55.6	43.7	42.2	41.5	45.3	31.1	27.1	21.7	23.8
	Adjusted Rate	79.3	71.2	75.3	75.1	72.9	69.8	64.9	67.6	69.9	60.5	56.7	57.8	50.3	44.1	42.0	40.4
Female	20-29	1.4	1.3	1.5	3.8	3.3	7.2	4.8	5.7	5.3	8.1	4.5	5.0	4.9	3.5	5.4	4.8
	30-39	2.7	1.6	1.4	3.9	0.7	5.2	3.2	2.0	2.1	2.6	0.8	1.9	1.9	1.2	3.6	2.3
	40-49	9.2	4.1	3.3	3.7	0.8	1.8	2.8	1.1	2.6	3.1	4.5	2.5	3.0	2.3	5.4	4.0
	50-59	28.4	16.4	11.3	6.0	8.2	2.8	4.8	2.4	1.7	7.6	4.1	3.7	1.0	2.3	2.8	2.8
	60 +	47.2	32.5	29.5	12.1	7.1	10.4	10.4	0	3.4	10.5	4.5	7.6	4.3	2.7	5.6	4.6
	Adjusted Rate	12.6	8.0	7.7	5.1	3.5	5.3	4.4	3.0	3.1	6.0	3.5	4.0	3.1	2.3	4.6	3.7

Source: Korean Association of Smoking and Health. 2008 actual smoking rate among adults over 19 years old. (Cited from http://www.kash.or.kr/user_new/pds_view.asp, accessed 26th April 2010

Among Korean youth, in principle those legally protected from tobacco marketing, 23 percent of males aged 16-18 years smoked in 1988. (Table 8.6) This rate increased to 32 percent in 1991 after market liberalisation, peaking at 35.3 percent in 1997.(12) The smoking rate of female youths aged 16-18 years increased from 2.4 percent in 1991 to 10.7 percent by 2000. Among youths aged 13-15 years, the proportion of male smokers increased from 1.8 percent in 1988 to 7.4 percent in 2000, and the smoking prevalence among females increased from 1.2 percent in 1991 to 3.2 percent in 2000.(12) The data of youth smoking prevalence, before and after market liberalisation, therefore appears to suggest that, within a more competitive market environment, where both TTCs and the domestic tobacco industry more actively marketed their respective brands, there appears to have been an increase in tobacco use and, ultimately, on public health in South Korea. Importantly, this analysis directly challenges industry claims that only existing smokers are targeted. Particularly important is the increase in the uptake of smoking among youth. This finding has clear implications for public health practice and will be discussed in Chapter 9.

It is important to recognise that the female and youth prevalence data this research analysed may not be reliable because of the methodology used for data collection. The most common way to study smoking prevalence in South Korea has been a self-administrative questionnaire. Apart from male smokers, female and youth smokers usually do not provide true answers to the questionnaire given that female smoking used to be taboo and youth smoking is not allowed under the law. Thus, the data in Table 8.6 below are likely to be an underestimate. Given this, there is limitation to analyse and interpret the impact of TTCs' market access and marketing activities on youth and female smoking in South Korea. In order to overcome this, the methodology for smoking prevalence of youths and females has to be improved to obtain more reliable data. For example, urine test can be one of the most reliable methods to examine practical smoking prevalence among youths and females. This effort is essential to implement strong tobacco control policies on female and youth smoking.

Table 8.6: Smoking rates among Korean youth by gender and age

Gender	Year	Middle school students (%)				High school students (%)			
		13 years	14 years	15 years	Total	16 years	17 years	18 years	Total
Male	1988	0.4	2.1	2.7	1.8	9.5	19.1	40.4	23.0
	1989	1.8	1.6	2.0	1.5	17.3	26.8	50.0	32.0
	1991	1.9	3.8	3.6	3.2	14.3	38.2	44.8	32.2
	1993	1.6	2.5	2.7	2.2	13.6	24.9	40.2	25.5
	1995	1.0	4.2	1.9	3.8	15.2	30.3	33.2	26.1
	1997	1.5	3.8	6.3	3.9	21.6	41.0	41.6	35.3
	1999	1.1	8.7	7.0	5.6	24.7	31.1	41.0	32.3
	2000	2.7	6.3	10.6	7.4	19.9	29.8	37.9	27.6
	2001	2.2	5.5	8.5	6.0	10.1	32.6	29.6	24.8
	2002	2.0	1.4	7.8	3.5	15.8	24.2	30.2	23.6
	2003	1.6	0.7	5.6	2.8	21.4	20.0	25.2	22.1
	2004	0.5	2.9	4.4	2.4	10.8	17.3	21.5	15.9
	2005	3.8	3.5	5.7	4.2	12.6	22.1	13.2	15.7
	2006	3.1	4.9	8.2	5.3	18.1	21.9	22.4	20.7
	2007	2.1	3.4	9.4	4.8	19.1	15.3	13.3	16.2
Female	1991	0.8	1.0	1.8	1.2	1.3	1.9	4.3	2.4
	1993	1.4	1.5	1.1	1.4	1.2	2.7	2.6	2.2
	1995	1.2	2.8	3.6	2.6	3.8	5.1	5.6	4.7
	1997	3.2	4.4	3.7	3.9	9.9	7.2	7.3	8.1
	1999	2.2	3.2	3.5	3.1	10.5	7.4	5.3	7.5
	2000	0.9	1.0	6.6	3.2	12.2	10.0	10.5	10.7
	2001	0.6	1.8	3.3	2.0	9.6	6.1	7.3	7.5
	2002	0.0	1.6	0.8	0.9	8.5	9.6	3.5	7.3
	2003	0.0	2.0	4.2	2.3	6.8	7.6	5.3	6.8
	2004	2.1	1.3	1.7	1.7	9.2	8.5	4.9	7.5
	2005	2.9	2.7	3.5	3.3	5.2	8.1	5.9	6.5
	2006	1.9	3.2	4.7	3.3	6.3	4.7	4.8	5.2
	2007	1.8	3.9	2.5	2.6	6.6	3.9	5.4	5.2

Source: Korean Association of Smoking and Health. A National Survey on Smoking among Middle and High School Students, 1998-2007. Seoul, September 2007
Note: Standardised to 1988 population

8.6.3 Public health implications of a more competitive market since 2005

Competition in the tobacco industry continues to impact on tobacco use, especially among Korean youth and young adults. Although KT&G has expanded its efforts, by using direct and indirect forms of marketing in order to preserve its domestic market share, international brands of TTCs have increasingly dominated this market segment. The images to market international brands used elsewhere, and in South Korea since the early 1990s, continue to strongly influence brand choice among these population groups. According to a report published in 2008, 9 out of 10 youth smokers aged 13-18 years regularly smoke foreign brands, such as Dunhill and Marlboro (87.9 percent among middle school students aged 13-15 years and 95.5 percent among high school students aged 16-18 years).(418) In addition, a survey carried out in 2009 by Korea Research (N=2,056, students from 22 colleges) reports that about 77 percent of Korea's college students smoke foreign brand cigarettes.(419, 420) These figures indicate how TTCs have successfully positioned themselves in the Korean market since market liberalisation. It is expected that KT&G will respond by using comparable marketing tactics in order to re-assert sales within these groups.

The contemporary market environment in South Korea is described in the Global Youth Tobacco Survey (GYTS), conducted by the World Health Organisation (WHO) and the US Centres for Disease Control and Prevention (CDC) as part of the Global Tobacco Surveillance System. In 2005, South Korea conducted the GYTS which was a school-based survey of middle school students aged 13-15 years. A total of 6,234 students from 75 schools participated in the survey.(421) The percentage of students who never smoked, but were likely to initiate smoking within the next year, was 17.1 percent and within the five years was 28.2 percent. In other words, Korean youths aged 13-15 years appear to have had a high intention to smoke in their future time. There was also a high level of awareness of cigarette marketing and promotion. A total of 50.8 percent of youths saw pro-cigarette ads in newspapers or magazines, and 14.5 percent were offered free cigarettes, despite sampling being forbidden by law to those below 19 years of age. Moreover, cigarette remains accessible to the young, with 26.3 percent of participants able to buy their own cigarettes without being refused by retailers on the basis of their age.(421)

Table 8.7: Fact sheet of South Korea's Global Youth Tobacco Survey 2005

Prevalence 28.0% of students had ever smoked cigarettes (Male = 31.0%, Female = 22.9%) 7.0% currently smoke cigarettes (Male = 7.4%, Female = 5.0%) 17.1% of never smokers are likely to initiate smoking next year 28.2% of ever smokers first tried smoking at less than 10 years of age **Knowledge and Attitude** 13.4% think boys and 8.9% think girls who smoke have more friends 9.3% think boys and 4.1% think girls who smoke look more attractive **Access and Availability—Current Smokers** 11.4% usually smoke at home 34.0% buy cigarettes in a store 26.3% who bought cigarettes in a store were NOT refused purchase because of their age **Environmental Tobacco Smoke** 39.9% live in homes where others smoke in their presence 64.5% are around others who smoke in places outside their home 83.9% think smoking should be banned from public places 82.1% think smoke from others is harmful to them 55.7% have one or more parents who smoke 6.7% have most or all friends who smoke **Cessation—Current Smokers**	**Highlights** • 7% currently smoke cigarettes; approximately 3 in 10 the students who have ever tried smoking first tried before 10 years of age. • ETS exposure is high—four in 10 students live in homes where others smoke in their presence; two thirds are exposed to smoke in places outside their home; over half have at least one parent who smokes. • 8 in 10 students think smoke from others is harmful to them. • Over 8 in 10 students think smoking in public places should be banned. • Approximately 7 in 10 smokers want to quit. • Over 8 in 10 students saw antismoking

69.3% want to stop smoking 74.6% tried to stop smoking during the past year 69.7% have ever received help to stop smoking **Media and Advertising** 87.5% saw antismoking media messages, in the past 30 days 50.8% saw pro-cigarette ads in newspapers or magazines, in the past 30 days 8.1% have an object with a cigarette brand logo 14.5% were offered free cigarettes by a tobacco company representative **School** 66.2% had been taught in class, during the past year, about the dangers of smoking 19.4% had discussed in class, during the past year, reasons why people their age smoke 44.7% had been taught in class, during the past year, the effects of tobacco used	media messages in the past 30 days; half of the students saw pro-cigarette ads in newspapers and magazines

Source: Adapted from US Centres for Disease Control and Prevention. Global Youth Tobacco Survey, South Korea Fact Sheet.(available from http://www.cdc.gov/tobacco/global/GYTS/factsheets/wpro/2004/southkorea_factsheet.htm accessed 6th June 2008)

Of particular concern, in relation to youth smoking, are the CSR programmes by TTCs and KT&G. TTCs and KT&G have developed their own youth smoking prevention programmes which have been widely advertised in newspapers, magazines, internet, and other places. The industry claims these programmes delay smoking by youths. Analysis of such initiatives elsewhere have shown them to be ineffective at preventing smoking (422) and, indeed, it has been argued that they have been used by the tobacco industry to indirectly encourage youth smoking, or at least to improve corporate image.(423, 424) Independent research on industry-sponsored youth prevention programmes in South Korea, their motives and real impact on youth smoking prevalence, is urgently needed.

Although public health challenges from the industry's activities and tobacco use remain and increase, there are several omissions in tobacco control measures in South Korea, particularly, compared to those specified in the FCTC. Table 8.8 shows the current tobacco control measures in Korea.

Table 8.8: The infrastructure for tobacco control in South Korea

Bans on Advertising, Promotion and Sponsorship	
National TV and radio	Yes
International TV and radio	Yes
Local magazines/newspapers	No
International magazines/newspapers	No
Billboards/outdoor advertising	Yes
Point of sale	No
Internet	Yes
Free distribution	Yes
Promotional discounts	Yes
Non-tobacco products with tobacco brand names	No
Non-tobacco brand used for tobacco product	No
Appearance of tobacco products in TV and /or films	No
Sponsored events	No
Smoking-Free Environment	
Health-care facilities	Yes
Educational facilities, except universities	Yes
Universities	No
Governmental facilities	No
Indoor offices	No
Restaurants	No
Pubs and bars	No
Health Warnings on Tobacco Packages	
Laws or regulations banning misleading terms	No
% of principal display areas covered by warnings	30%

Warnings are mandated and specific	Yes
Warnings appear in/on each package/label	Yes
Warnings describe harmful effects of tobacco use	Yes
Warnings are large, clear, visible and legible	Yes
Warnings rotate	Yes
Warnings are written in the principal language(s)	Yes
Warnings include a picture	No
Treatment of Tobacco Dependence	
Quit line	Yes
Nicotine replacement therapies sold	Yes
Counselling in health clinics	Yes, in some
Counselling in hospitals	Yes, in some
Counselling in offices of health professionals	No
Counselling in the community	No

Source: World Health Organization. WHO report on the Global Tobacco Epidemic-the MPOWER package 2008 (page 134-137)

Industry advertising, promotion, and sponsorship need to be more firmly controlled. 'Above-the-line' activities of tobacco companies are almost prohibited, however, any types of sponsorship programmes of tobacco companies are still allowed under the regulations, thus, the companies continue to sponsor social, cultural, and musical events and develop these programmes. This should be reconsidered and prohibited following the recommendations of the FCTC.

Overall, the findings of this research raise important questions for the protection of public health in South Korea following liberalisation of the tobacco market. Chapter 5 shows that these trends have occurred within a liberalised and, consequently, more competitive market environment. The findings of Chapter 6 describe how tobacco companies have responded to greater competition by increasing, and strategically targeting, their marketing efforts. Thus, despite the adoption of allegedly stronger tobacco control measures following market liberalisation, including decades of legal restrictions on tobacco marketing to Koreans under the age of 19 years, there has been an upward trend in smoking prevalence notably within these population groups. The creation of a new generation of smokers will have significant consequences for public health in future if not urgently addressed with more effective tobacco control measures.

This research suggests that Korea, in liberalising its tobacco market as part of the government's broader strategy of economic development, must be far more proactive in adopting correspondingly strong tobacco control policies. Chapter 9 will examine the implications for strengthening tobacco control policy to address the problem of regulating the tobacco industry within a competitive market and, in particular, in the context of the implementation of the FCTC.

8.7 Implications for global public health and tobacco control

Through analysing TTCs' market access into South Korea and its' impacts on the domestic tobacco industry and public health, this research emphasises that the economic development policies of emerging markets should take account of TTCs' strategies for global market expansion. The research suggests that TTCs strategically approach emerging markets where there are relatively weaker tobacco control polices and measures, using a variety of market access strategies. These strategies threaten public health by both supply and demand creation tactics. Therefore, emerging markets have to put in place comprehensive tobacco control legislation prior to the adoption of market liberalisation policies. In short, in tradeliberalisation processes, health must be given much higher priority.

As discussed in Chapter 7, there is evidence that KT&G is becoming a new TTC itself. KT&G increasingly focuses on market expansion abroad and is seeking to become a leading transnational company. It is argued here that KT&G has learnt how to compete with existing TTCs, and how to create demand in global markets, since the Korean domestic tobacco market was liberalised. This suggests that KT&G must also now be closely monitored nationally and internationally by governments and tobacco control advocates. If not, its aggressive market access activities will further undermine global tobacco control, and thus add to existing threats to global public health.

Overall, given continued and rapid globalisation of the world economy, global public health including tobacco control must be given greater priority. This must be seen as part of efforts to better manage the social and environmental consequences of globalisation. The FCTC offers comprehensive guidance to governments on the policies needed to achieve this goal, as well as a blueprint for collective action globally to tackle perhaps the most pressing public health threats worldwide.

8.8 Summary

Through analyses of internal industry documents supported by interviews with key informants and additional primary and secondary data sources in English and Korean, this research finds that TTCs adopted their market access strategies according to Korea's export-oriented economic development model and its attitudes towards foreign investment. Direct and indirect lobbying by TTCs of the US and Korean governments within the context of the transformation of world trading system in the beginning 1980s, pressured the South Korean government to liberalise its tobacco market. This finding supports the conceptual framework of this research, and extends further the limited theorising on the market access and expansion strategies of TTCs within a globalising world economy. At the same time, the research extends the existing literature on South Korea, in particular, by analysing the country's experience in substantial detail. This research offers a fuller account of TTC behaviour in one country, and raises implications for analysing how TTCs adopted to the conditions faced in other countries and regions.

Once the market was opened, this research offers fuller understanding of the various tactics used by TTCs to create demand for their brands. It is confirmed that TTCs targeted particular population groups, such as young adults and females, and smoking patterns changed accordingly. As a result, the tobacco market in South Korea has become extremely competitive domestically. Furthermore, the previously monopolised domestic company KT&G is predicted to assume a role as a new TTC in the world tobacco market seeking its own access, to other emerging markets. This research supports the limited previous studies which describe that tobacco market liberalisation leads to greater competition. In addition, although the data on public health impacts of market liberalisation were limited, the findings suggest there are important public health implications in the way in which TTCs gained market access. The implications of the findings of this research, and the corresponding response required by the public health community, especially within the context of the implementation of the FCTC, are addressed in Chapter 9.

CHAPTER 9 CONCLUSIONS AND RECOMMENDATIONS

9.1 Introduction

The overarching rationale for this research, from the perspective of public health, is to contribute to efforts to better address the rising health risks and impacts from the global tobacco pandemic. It is now widely recognised, by the World Health Organisation (WHO) and many others, that this increasing trend in tobacco use can be attributed to the worldwide expansion of transnational tobacco companies (TTCs). As traditional markets have declined, TTCs have actively and aggressively pursued emerging markets, especially in developing countries.

As discussed in Chapter 8, the research confirms that TTCs' market access and expansion into South Korea from the mid to late 1980s has been part of this global expansion, resulting in an increase in tobacco use within the country by both total volume and smoking prevalence among young adults and females during the early period of market liberalisation. The entry of TTCs into the Korean market has stimulated increased competition, with the formerly state-protected domestic monopoly required to respond accordingly, even leading it to aspire to become a new TTC. Consequently, KT&G now seeks to expand into other emerging markets, further contributing to the globalisation of the tobacco pandemic. This research, in short, offers a fuller and more detailed account of how trade liberalisation and the tobacco industry impacts on public health in emerging markets and globally.

These findings raise important implications for strengthening tobacco control to deal with TTCs within an increasing globalised industry and world economy. Based on these findings, this chapter addresses the final objective of the research, namely "to draw lessons for strengthening tobacco control in South Korea and other emerging markets in the context of the Framework Convention on Tobacco Control (FCTC)".

9.2 Balancing the goals of economic development and public health policy

The findings of this research shows that Korea's tobacco industry has been shaped foremost by government policies focused on economic development and growth. The tobacco industry, prior to and immediately after liberalisation, was regulated by the government according to the economic development model. In other words, the tobacco industry has been shaped by an economic logic rather than by public health policy goals. As well as influencing the domestic tobacco industry, how TTCs have been able to access and expand within South Korea has also been driven by this economic logic. Hence, the government believed that strict tobacco control measures might lead to harmful economic consequences, slowing the country's rapid progress. Public health considerations were not given due consideration until long after liberalisation occurred.

Based on the findings of this research, however, it is recommended that a more balanced consideration of both economic and public health policy goals is needed in the regulation of the tobacco industry in South Korea. Many governments in the developing world, including South Korea, believe that tobacco control efforts are juxtaposed with economic policy, with public health gains achieved through negative impacts on economic development and growth. Reducing tobacco use, it is often argued, leads to a loss of employment, and government revenues from taxation. However, there is substantial and growing evidence that tobacco control has net economic benefits. The World Bank, for example, argues that government policies to increase tobacco taxes (with the aim of improving public health rather than increasing tax revenues) would not lead to long-term job losses. Rather, World Bank evidence suggests that national revenues would increase in the medium and long term from higher taxation and, through stronger tobacco control measures, public health gains with additional associated economic benefits would also be achieved.(360) In other words, there is a clear economic and public health logic for governments to adopt stronger tobacco control.

The economic cost of tobacco use, notably in developing countries, is also increasingly recognised. There is evidence that tobacco industry contributes to a circle of poverty in developing countries. Individually, as a strong addition, there is substantial evidence that a large proportion of family income can be spent on tobacco, sometimes at the expense of other basic needs.(425) On a macroeconomic level, higher investment in the tobacco industry, within countries with limited resources, seeking to foster the goals of economic development, ultimately results in a higher economic burden created by the cost of treating tobacco-related illnesses and the consequent loss of productivity from tobacco use. In other words, for emerging markets, investment in the tobacco sector can be argued to worsen the poverty of individuals and be a net drain on precious resources.(403) While the tobacco industry in developing countries may provide economic benefits in the short term, but it is more likely to be offset by longer-term costs to deal with tobacco-related diseases.(426) This is especially so where there is a failure to address the public health impacts of market liberalisation of the tobacco industry. For this reason, it is essential that the full costs of tobacco production and consumption, including the public health consequences of tobacco use, be integrated into the regulation of the sector by governments. In order to achieve this, health impact assessment (HIA), for example, may be a means of assessing the broader impacts of economic development policies, and thus reconciling what are seen as separate policy spheres.

9.3 Adopting strong and comprehensive tobacco control measures before market liberalisation

The WHO warns that only 5 percent of the world's population live in countries that have adopted comprehensive measures to fully protect their populations from the harms of tobacco use.(1) This means that 95 percent of the world's population remain exposed to these risks. In this context, TTCs continue to readily employ a varied range of tactics to create new demand for their brands in emerging markets around the world. The findings of this research also support the analysis of other countries which show that the tobacco industry has actively and strategically attempted to undermine and circumvent existing and anticipated tobacco control policies and measures. Where there has been a lack of preparation for market access by TTCs, many countries have attempted to introduce restrictions retrospectively. This research has shown that, in the Korean case like other Asian countries, it was much harder to introduce and implement restrictions on the tobacco industry after market liberalisation because of such efforts by TTCs to hinder regulation. Those tobacco control policies were already in place, as described in Section 9.2, were so focused on the economic goals of protecting the domestic industry, rather than the protection of public health, that there has been limited attention to the latter. The lessons to be drawn from this research is that emerging markets should develop and adopt comprehensive tobacco control policies and measures, with public health goals firmly in mind, before market liberalisation is adopted. Indeed, tobacco control should be an integral part of the conditions negotiated for market liberalisation, with measures apply equally to both domestic and foreign tobacco companies. If the measures adopted are used as veiled means of protecting the domestic industry from foreign competition, as argued by US companies in the case of Thailand, this would open them to challenge within the WTO as discriminatory. In the case of South Korea, where the government's banning of imports of foreign cigarettes in order to protect domestic tobacco industry was argued to be discriminatory by the US government, equal consideration needed to be given to the wider public health impacts on Korean society by policies to address these claims.

What kinds of tobacco control measures should be adopted prior to market liberalisation? For governments engaged in trade liberalisation, there is a need to ensure that the measures introduced are comprehensive and difficult to circumvent. The findings of this research suggest, not only that TTCs circumvented existing tobacco control measures in various ways, as described in Chapter 6, in order to build market share, but the domestic company, KTGC was also able to engage in a wide range of marketing activities in an effort to protect its market share from TTC competition despite the adoption of new regulations. As a result of the lack of strong and comprehensive tobacco control measures before market liberalisation, tobacco use among young adults and, in particular, young females rapidly increased.

The FCTC lists comprehensive measures to guide effective tobacco control, as listed in Table 9.1, which should serve as an ideal standard for emerging markets to aspire. There are broadly two parts in the FCTC to minimise public health impact of tobacco use, demand-side measures and supply-side measure. In this section, the former will be emphasised.

Table 9.1: Summary of FCTC provisions (Part 3 and 4)

Part 3: Measures relating to the reduction of demand for tobacco
Price and tax measures to reduce the demand for tobacco (Article 6)
Non-price measures to reduce the demand for tobacco (Article 7)
Protection from exposure to tobacco smoke (Article 8)
Regulation of the contents of tobacco products (Article 9)
Regulation of tobacco product disclosures (Article 10)
Packaging and labelling of tobacco products (Article 11)
Education, communication, training and public awareness (Article 12)
Tobacco advertising, promotion and sponsorship (Article 13)
Demand reduction measures concerning tobacco dependence and cessation (Article 14)
Part 4: Measures relating to the reduction of supply for tobacco
Illicit trade in tobacco products (Article 15)
Sales to and by minors (Article 16)
Provision of support for economically viable alternative activities (Article 17)

Note: see Appendix G for detailed provisions.

As suggested under the FCTC, it is recommended that governments adopt the following measures in tandem: (a) higher prices on tobacco through regular excise tax increases; (b) prohibitions on all tobacco advertising and promotion; (c) bans on smoking in public and work places to achieve smoke free environments; (d) support and help for current smokers who wish to quit; (e) information on the risks of tobacco use and benefits of quitting; (f) large and clear warnings on tobacco packages, preferably with pictures; and (g) bans on using "light", "slim", and "super light". The FCTC requires states which are signatories to the agreement to implement the above provisions within a fixed period of time (e.g. strong health warnings on tobacco packaging within three years, and the establishment of comprehensive bans on all tobacco advertising, promotional sponsorships within five years upon entering the treaty).

To date, there remain concerns that implementing the FCTC, particularly in developing world, remains challenged by the absence of appropriate legal frameworks within many countries, a lack of adequate resources, and most importantly insufficient political support for tobacco control as a public policy priority.(427) Based on the Korean case of market liberalisation, this research recommends certain measures could be given priority prior to market liberalisation by emerging markets. It is strongly recommended that all forms of marketing (in the form of direct and indirect advertising, promotion and sponsorship activities) be banned before market opening. South Korea, once the tobacco market was partially opened in 1986, prohibited almost all forms of tobacco marketing under the revising regulations of 1988. However, during negotiations for complete market liberalisation, due to strong pressure by the US government, the Korean government agreed to allow some marketing activities such as at the point of sale, in selected print media up to a certain number of times (e.g. magazines and newspapers). This led to a complex and, to some extent, ill-defined list of "do's" and "don'ts" which left the onus on the public health community to interpret the regulations, monitor the industry, and argue the existence of violations. This research concludes that this policy, in practice, opened the door to TTCs to circumvent the existing limited restrictions as described in Chapter 6. The lack of official monitoring and enforcement of existing restrictions further rendered the adopted measures ineffective.

Given the problematic nature of Korean restrictions on tobacco marketing, it is recommended that each provision of tobacco control measures be clearly enforceable in practice. In Korea, for example, a provision prohibiting tobacco sponsorship of events for youths and females has been difficult to enforce because it is impossible, in many cases, to argue that an event is attended exclusively by these population groups. As such, the restriction becomes meaningless. Most social, cultural, musical, and sporting events are supported by a mixture of population groups, and thus separating legal and illegal tobacco sponsorship cannot be determined. Such sponsorship programmes have thus continued to be widely used by tobacco companies and, indeed has become a highly effective form of "below-the-line" marketing activity. Once again, the unclear provisions stipulated under the existing law have resulted in ineffective tobacco control and enforcement in South Korea.

It is also recommended that voluntary codes on tobacco marketing not be adopted, and that restrictions should carry binding legal authority. This research has shown that TTCs and Korea's domestic tobacco company has supported voluntary codes as a further means of circumventing stronger tobacco control measures. As informed in Chapter 7, when the government reinforced tobacco control through implementing a new bill, TTCs and KTGC collectively attempted to weaken the proposed legislation by adopting and applying a voluntary code. The industry argued that it could regulate its own activities, thus saving the government undue cost and effort. However, this research has shown that, similar to other countries (428-432), this has been a strategic move to prevent the adoption of stronger and binding regulation. Such efforts to have a voluntary code adopted in lieu of binding legislation may be made during negotiations to achieve market liberalisation. Existing evidence, however, shows that voluntary codes by industry are ineffective at restricting tobacco marketing (62, 433-435), and that such efforts should be strongly resisted.

A further lesson from the case of South Korea is the absence of the Ministry of Health (MOH) from negotiating with the US government on market liberalisation despite the profound public health consequences concerned. As a former MOH official Dae Kyu Oh (DKO) stated:

> *The MOH was neither involved nor invited in the process of trade negotiation between South Korea and the US. There was no chance to inform the government of the health concerns of tobacco use, although the department recognised the harmfulness of cigarette smoking. (DKO)*

Within this context, it is perhaps unsurprising that the government found it difficult to implement strong and effective tobacco control measures during, or even after negotiation, and that the government was not able to argue convincingly with the US government on the public health impact of tobacco market liberalisation in Korea due to a lack of relevant expertise. In contrast, the Thai government acted differently during its trade negotiations with the US government. Two of the most prominent Thai anti-smoking activists joined the three-member Thai delegation to the US Trade Representative (USTR) hearings, providing key evidence to support the government's arguments in favour of strong tobacco control measures.(81) Ensuring similar representation of expertise, in the case of South Korea, might have led to a different result. It is thus recommended that the involvement of public health experts during trade negotiations be encouraged, where public health impacts are relevant, to enable effective responses to efforts by TTCs to use trade liberalisation to circumvent tobacco control measures.

9.4 Enforcement of tobacco control in South Korea

As stated in Chapter 8, not only is the introduction of strong tobacco control measures important, but full and effective enforcement of those measures over time are equally essential in emerging markets. Even where strong measures have been adopted, governments must anticipate and respond to tobacco industry's attempts to circumvent such measures. Therefore, governments must closely monitor tobacco industry compliance with the measures and enforce strict penalties for non-compliance. The findings of this research show that this was far from the case in South Korea and remains a challenge to the present day.

As discussed in Section 8.3.2 in Chapter 8, following the increased adoption of tobacco control measures in South Korea since 2005, TTCs and KT&G deployed indirect marketing methods to expand their respective market shares. In addition, Section 8.6.3 emphasises that Korea's youth and young adult smokers were actively targeted by the tobacco industry. Despite the government's efforts, and the tremendous contribution of non-state anti-smoking organisations, the public health risk from tobacco use in South Korea remains substantial. The fuller understanding of tobacco industry activities provided by this research suggests a number of recommendations for strengthening the enforcement of tobacco control in South Korea.

First, as described in Chapters 6 and 7, the tobacco industry in South Korea has been regulated under two different sets of regulations and, in turn, two separate government bodies since market liberalisation. These are the Tobacco Business Act (TBA), under the jurisdiction of Ministry of Finance (MOF), and the National Health Promotion Act (NHPA) under the jurisdiction of MOH. With different public policy goals, they coexist and represent potential conflicts in how the industry should be regulated. While the TBA addresses the financial and economic aspects of the industry's operation, regulating the tobacco industry as a profit-seeking business, the NHPA deals with measures to minimise the harmful public health effects of, and ultimately to reduce the level of, tobacco use. These two policy goals are fundamentally incompatible. Prior to the privatisation of KT&G, the government was the main producer of tobacco products, seeking to maximise revenues through sales and taxation. At the same time, the government held a responsibility to protect and promote population health through a decrease in tobacco use. To date, the government continues to demonstrate a duality in its approach to the regulation of the tobacco industry, seeking to reconcile perceived economic benefits with public health costs. Based on the findings of this research, it is recommended that a unified approach to tobacco control be adopted in terms of the legal framework and enforcement as set out under the FCTC.

Second, more effective control and surveillance of TTCs' indirect activities, such as corporate social responsibility (CSR) programmes, is needed as part of effective enforcement measures by the Korean government and tobacco control advocates. The main tobacco manufacturers in Korea, British America Tobacco (BAT) Korea, Philip Morris (PM) Korea and KT&G collectively, and individually, began manoeuvring to protect their dominant market positions by employing a wide range of CSR activities. As discussed in Chapter 6 and 7, under a so-called "dark" marketing environment, as South Korea has gradually become over time, CSR activities have become increasingly important to both promote the industry and individual company's image, thus winning back the "hearts and minds" of the public, as well as a key tactic within a broader marketing strategy. However, as stipulated under the FCTC, it is recommended that the government recognise that CSR should be more closely regulated. For example, the government should require the industry to report expenditure on CSR programmes to the public under Article 5.3. It is also recommended that the government and public health advocates work to raise public awareness of CSR activities by the tobacco industry in South Korea. Overall, the government and tobacco control advocates must remain wary of efforts, such as CSR, which circumvent tobacco control policies. Increased monitoring and public disclosure of the industry's use of CSR, and other indirect/underground marketing tactics, should for a core part of tobacco control enforcement efforts.

9.5 Reinforcement of the FCTC and additional protocols

The higher priority given to economic development over the protection and promotion of public health has resulted from partial, weak and inadequately enforced policies and regulations on tobacco control, and a lack of experience in dealing with TTCs' market access and expansion strategies in emerging markets leave many countries and regions, particularly, developing countries, vulnerable to further penetration by TTCs. These factors threaten global health, underlining WHO's warning that 80 percent of tobacco-related deaths worldwide will occur in developing countries by 2030. The findings of this research on South Korea thus offer important lessons to other countries. Along with the above recommendations, a further recommendation of this research is that the FCTC, as an historic treaty, requires further reinforcement given the global nature of the tobacco pandemic. The treaty offers a unique and valuable framework for enabling collective action across countries to tackle the significant, and growing, public health threat from tobacco use worldwide.

Importantly, the current FCTC does not contain any provisions to regulate or ban TTC investments in developing countries, and minimal reference to the links between trade and tobacco. However, this research finds that TTCs can resort to a range of strategies, including joint ventures (JV), licensing agreements, privatisation, foreign direct investment, and illicit trade to gain access and expand into emerging markets, notably developing countries. It is thus recommended that additional measures are still needed, under the auspices of the FCTC, to deal with the full range of tobacco industry strategies and activities. The FCTC Secretariat may also provide States Parties with support on how to deal with market access strategies in order to improve awareness and strengthen the representation of public health interests in negotiations.

Although this research finds that FDI, privatisation, and other economic factors are integral parts of the story behind the TTCs successful efforts to gain market access in South Korea, the FCTC gives little attention to supply-side measures. This includes provisions on the illicit trade in tobacco products, and the provision of support for economically viable alternative activities. (See Table 9.1) This lack of emphasis on supply-side measures in the FCTC appears to be in keeping with the advice of the World Bank that tobacco control should be based on demand-side measures. The World Bank acknowledges that tobacco is a historically attractive crop to farmers because it provides a higher net income yield per unit of land than most cash crops. In addition, its global price is relatively stable compared with other cash corps. Given these benefits of tobacco production, the Bank argues that supply-side tobacco control measures, such as the prohibition of tobacco or crop substitution and diversification, have less evidence of success tobacco control.(360) The Bank stresses that, if one supplier were to shut down, an alternative supplier is likely to emerge quickly.(360) On trade liberalisation of tobacco, the World Bank argues that, although trade liberalisation has contributed to an increase in the consumption of tobacco in low- and middle-income countries, due to its strong tie with economic growth and incomes, such supply-side restriction would have an undesirable action for tobacco control. However, the Bank agrees that one supply-side measure, action against smuggling, is a key to an effective strategy to control tobacco use. Based on this, the World Bank argues that reduced demand for tobacco would be better effective approaches to curb tobacco use.

The FCTC was influenced by this World Bank analysis which was conducted two decades ago. The adoption of a protocol on the illicit trade in tobacco products will be an important development. This research supports the view that further attention to other supply-side aspects of tobacco control under the FCTC is warranted. It is thus recommended, based on the findings of this research, that the FCTC should be strengthened further with new supply-side measures. The research concludes that there is a need to re-visit the relative neglect of supply-side measures, with further research undertaken on how such provisions might be defined and adopted to further global tobacco control.

Finally, in terms of improving supply-side tobacco control measures, this research concludes that there is a need for greater coherence among multilateral institutions, namely the International Monetary Fund (IMF), World Trade Organisation (WTO), WHO, and the World Bank, so that these institutions do not work contrary to each other in tackling the complex policy challenge of tobacco control. This research finds the contrasting, and at times contradictory, positions that different multilateral institutions play, in relation to tobacco has been a detriment to efforts by individual countries, notably developing countries, to forge comprehensive and unified policies at the national level. After market liberalisation, with South Korea struggling with the Asian economic crisis, the IMF pressured the Korean government to privatise the Korea Tobacco & Ginseng Corporation (KTGC). The IMF and WTO also advocated an economic rationale, in effect supporting the tobacco industry's global expansion. Therefore, the roles of IMF and WTO, unlike the WHO and World Bank, are likely to increase tobacco epidemic by supporting TTCs' market expansion abroad.

There has been limited analyses of these multilateral institutions' roles to date in relation to the tobacco sector.(359, 436) The principle aim of WTO includes: a commitment to achieving free trade and fair competition; limits on and eventual elimination of tariff and non-tariff barriers to trade; non-discriminatory treatment of all trading partners; the non-discriminatory treatment of domestically produced and foreign products; predictability by ensuring that trade barriers are not erected arbitrarily; negotiated elimination of trade barriers; the settlement of disputed; and opposition to retaliatory sanctions.(9, 437, 438) Under the principle, WTO's multilateral agreements significantly expanded global trade in tobacco products by mandating sizable reductions in tariff and non-tariff barriers to trade in tobacco products.(439) In addition, similar to South Korea, several countries, notably, Bulgaria, Mali, Moldova, Thailand, and Turkey, have been pressured for privatisation of their tobacco monopolies by the IMF in order to overcome economic crisis.(359) However, in most cases, there were no public health considerations involved, influencing governments' decision on privatisation. Rather, the countries made efforts to delay privatisation due to fiscal policy and unpopularity of foreign ownership.(429, 440, 441) There are currently more than 20 countries in the world where they still monopolise their tobacco industry by government divisions. These countries should be paid particular and further attention and supports by multilateral institutions to protect people from tobacco epidemic. In addition, cross agency collaboration between multilateral institutions on tobacco control such as the WHO initiates during the negotiation of the FCTC.

Related to the above recommendation, it is also suggested that the US and other home governments where TTCs are based should cease to act on behalf of tobacco companies abroad. The promotion of tobacco industry interests abroad, when strong tobacco control is practiced at home, must be recognised as a direct contradiction. In the case of South Korea, the bilateral relationship between South Korea and the US during negotiations to open the tobacco market was critical.

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APPENDIX

Appendix A Key informants for semi-structured interviews

	Informant	Interview date
Government officials	Dae Kyu Oh, former manager of the Ministry of Health (DKO)	29 May 2009
	Anonymous 8, current officer in the Ministry of Finance (Anonymous 8)	31 Aug 2010
	Anonymous 9, current officer in the Ministry of Finance (Anonymous 9)	31 Aug 2010
Lawyer	Kung Kun Lee, lawyer and medical doctor (KKL)	29 May 2009
Tobacco control advocates	Il Soon Kim, former President of the Korean Association of Smoking and Health (ISK)	16 Apr 2009 7 Oct 2010
	Bok Kun Lee, Secretary Director of the Youth No Smoking Association (BKL)	14 Apr 2009 25 Aug 2010
	Kang Mo Chung, President of the Korean Consumer Union (KMC)	15 June 2009
	Jin Sook Choi, former Secretary Director of the Korean Association of Smoking and Health (JSC)	17 Apr 2009
Researcher	Eun Jin Choi, researcher of MOH (EJC)	31 Aug 2010
Tobacco industry employees	Anonymous 4, employee of Philip Morris Korea (Anonymous 4)	24 June 2009
	Anonymous 5, former employee of British American Tobacco Korea (Anonymous 5)	1 Sep 2010
	Anonymous 1, former manager of the Office of Monopoly (Anonymous 1)	23 Aug 2010

Anonymous 6, former manager of the Korea Monopoly Office (Anonymous 6)	23 Aug 2010
Anonymous 2, former manager of the Korea Monopoly Office (Anonymous 2)	24 Aug 2010
Anonymous 3, former executive of the Korea Tobacco and Ginseng Corporation (Anonymous 3)	24 Aug 2010
Anonymous 7, KT&G (Anonymous 7)	27 Aug 2010

Appendix B Interview topic guide

Tobacco industry (OOM, KOMOCO, KTGC, KT&G)
- How did TTCs try to access South Korea's monopolised tobacco market in the early and mid 1980s? - How did OOM respond to TTCs' proposals, such as joint ventures and licensing manufacturing? - What effects has Korean domestic tobacco industry had since market liberalisation? - Can you tell me about the background of privatisation of KOMOCO? - Since KOMOCO was privatised, PM and BAT opened local manufacturing facilities in South Korea. How has this affected KTGC? - JTI and KT&G agreed on licensing manufacturing, unlike PM and BAT. Why? Were there any different factors in relation to JTI? - How does KT&G evaluate the smuggled segment of the market in South Korea? - What do you think of TTCs' marketing practices in South Korea? - What is the future plan for the next decade and how will KT&G respond to TTCs' growing market penetration? - Which strategies do you focus on in order to maintain market share?
Tobacco industry (TTCs in Korea)
- What opportunities were/are there in Korea's tobacco market? - What is your approach to Korean tobacco policy? - What do you think of other competitors' marketing activities? - Which strategies do you focus on in order to maintain market share?
Tobacco control advocates
- Political and economic situation in South Korea before market liberalisation

- Which marketing strategies did TTCs employ during the 1988 Seoul Olympic Games? - How has the tobacco market changed since market liberalisation? - What was the purpose of President Chun's Washington visit in 1985? - After President Chun's meeting with the US President Reagan, what changes took place in the tobacco market? - What was the textile petition of the US in 1985? - What did the Korea Consumer Union do against TTCs' market access? - Which marketing strategies were employed by TTCs at the beginning of market opening in order to promote their brands? - Current marketing strategies of BAT, PM, JTI, and KT&G
Government officers
- When the tobacco market opened, what did the Department of Health do in order to prevent people from smoking? - Were licensing manufacturing, joint ventures, and foreign investment prohibited in the Korean tobacco industry by non-Korean private companies? - What was the background of KTGC's privatisation in 2002? Was there any pressure to privatise? - What was the purpose of President Chun's Washington visit in 1985? And what happened during the meeting? - What was the textile petition of the US in 1985 and how did it impact on Korea's tobacco market?

Appendix C Ethics approval form for interviews

LONDON SCHOOL OF HYGIENE
& TROPICAL MEDICINE

ETHICS COMMITTEE

APPROVAL FORM
Application number: **5470**

Name of Principal Investigator	**Sungkyu Lee**
Department	**Public Health and Policy**
Head of Department	**Professor Anne Mills**

Title: **The tobacco industry in South Korea since market liberalisation: Implications for strengthening tobacco control**

This application is approved by the Committee.

Chair of the Ethics Committee .... [redacted] ....

Date ....25 March 2009..

Approval is dependent on local ethical approval having been received.

Any subsequent changes to the application must be submitted to the Committee via an E2 amendment form.

Appendix D Record of Understanding between South Korea and the US concerning market access for cigarettes

RECORD OF UNDERSTANDING BETWEEN THE
GOVERNMENT OF THE REPUBLIC OF KOREA AND
THE GOVERNMENT OF THE UNITED STATES OF AMERICA
CONCERNING MARKET ACCESS FOR CIGARETTES

The Government of the Republic of Korea and the Government of the United States of America, recognizing the need to provide open and non-discriminatory access for imported cigarettes to the Korean market, have agreed as follows:

I. BASIS OF THE UNDERSTANDING

A. The Government of the Republic of Korea(hereinafter shall be referred to as "the Korean government") shall accord foreign cigarette manufacturers, their subsidiaries, affiliates, branch offices or agents(hereinafter shall be referred to as "foreign cigarette manufacturers") non-discriminatory access to the Korean market including the right to import, distribute, and sell imported cigarettes on terms consistent with this Record of Understanding.

B. Except as otherwise provided in this Record of Understanding, importation, distribution, and sale of imported cigarettes shall occur independent of the authority of the Korean Monopoly Corporation(hereinafter shall be referred to as "KMC").

C. The Korean government shall ensure that the level and conditions of market access for imported cigarettes provided for in this Record of Understanding remain unimpaired by restrictions or requirements affecting directly or indirectly the importation, distribution or sale of imported cigarettes.

The Korean government shall accord full national treatment in the importation, distribution and sale of imported cigarettes.

Any modification of the conditions of distribution or sale of cigarettes in the Korean market shall be applied equally to all classes and brands of cigarettes whether imported or national origin.

Ⅱ. CONDITIONS OF IMPORTATION

A. The Korean government shall ensure that KMC automatically and immediately commission to any domestic or foreign-invested entity qualified to engage in import activities under the Korean Foreign Trade Act designated by any foreign cigarette manufacturer the authority to import, distribute, and sell imported cigarettes. Such commission shall be effective from July 1, 1988 to the effective date of the legislation enacted in connection with this Record of Understanding (hereinafter shall be referred to as "new legislation"). Any entity granted authority to import, distribute, or sell imported cigarettes shall be able to enter into agreements with wholesalers, distributors, or sub-distributors to engage in these same activities.

Until the effective date of the new legislation, such entity shall provide KMC with a list of the parties to such agreements.

Upon the effective date of the new legislation, cigarettes *shall be placed* on automatic import approval status, and the requirement for the commissioning by KMC of the authority to import, distribute, or sell imported cigarettes shall be rescinded in accordance with the new legislation.

Effective January 1. 1989. foreign cigarette manufacturers shall be permitted to import directly and sell cigarettes in Korea upon automatic and immediate commissioning of such authority by KMC.

B. Any foreign cigarette manufacturer shall be permitted to import cigarettes directly into Korea without restriction on product cost, retail margin, quantity, style, size, package configuration, or frequency of importation, except that the retail margin shall not exceed 10 percent of the retail price for a period not to extend beyond December 31, 1988.

C. The importing entity shall be solely responsible for all functions and activities related to the importation process and formal customs clearance and customs entry into the Republic of Korea. Imports of cigarettes shall be cleared through Korean customs expeditiously in accordance with applicable laws and standard procedures.

D. Any foreign cigarette manufacturer shall be permitted to own bonded warehouses in accordance with relevant Korean laws. In addition, such entities shall be able to maintain, operate and manage bonded warehouses and to determine warehouse inventory levels. Such entities operating bonded warehouses shall be solely responsible for the flow of goods into and out of such warehouses, as well as the distribution of said goods through wholesalers, independent distributors, and directly to retail outlets.

Ⅲ. CONDITIONS OF DISTRIBUTION

A. Any foreign cigarette manufacturer shall be permitted to distribute cigarettes through wholesalers, distributors and sub-distributors to licensed retail outlets. In addition, any foreign cigarette manufacturer shall be permitted to sell directly cigarettes to wholesalers, distributors, sub-distributors, and licensed retail outlets. Sales of cigarettes at retail prices may be offered only by licensed retail outlets or service businesses which purchase cigarettes from licensed retail outlets.

B. Imported cigarettes may be sold directly to licensed duty-free outlets without payment of any fees duties or taxes.

C. All retailers currently designated by the KMC to sell cigarettes of national origin shall be permitted to sell imported cigarettes without imposition of any additional requirement. Applications for designation as cigarettes retailer shall be granted automatically and immediately by the appropriate Korean authority, provided that such applications satisfy the applicable laws and regulations.

D. Any foreign cigarette manufacturer may retain the services of the KMC to distribute imported cigarettes under the terms to be mutually agreed upon between them.

IV. PRICING

A. Any foreign cigarette manufacturer shall determine the import price and retail price for each type style or brand of imported cigarettes. These prices may be adjusted at the discretion of the foreign cigarette manufacturer.

Prior to the effective date of the new legislation, a foreign cigarette manufacturer should notify the KMC of the nation-wide uniform retail price at which each brand of cigarettes shall be sold, and after the effective date of the new legislation, should notify the Ministry of Finance of the retail price as determined by such foreign cigarette manufacturers. The effective date of such retail price shall be the sixth day following such notification.

B. Commercial terms, fees, commissions, retail margins, credit and inventory terms, and prices to all classes of trade shall be determined solely by the foreign cigarette manufacturers, importers, wholesalers, distributors and other agents.

C. The Korean government shall submit to the National Assembly at the opening of its Fall 1988 session all legislation necessary to establish a specific excise tax on all cigarettes, the rights of foreign cigarette manufacturers to engage in all activities set forth in this Record of Understanding and a zero percent import tariff on cigarettes. Such excise tax shall be applied to all cigarettes whether imported or of national origin. The specific amount of tax shall be 18,000 won per thousand cigarettes. However, cigarettes with a retail price of 200 won or less may be subject to lower excise tax.

The excise tax shall replace any and all other taxes and revenue measures, including local and regional taxes. The legislation establishing the excise tax shall specify that the terms and conditions of the payment of said tax shall be the same for cigarettes of national origin and imported cigarettes. The Korean government shall exert every effort to achieve prompt enactment of such legislation. On enactment of such legislation, the Korean government shall take all necessary steps to implement the law immediately.

Prior to the effective date of the new legislation, the financial contribution payable by the foreign cigarette manufacturer to the KMC shall be 18,000 won per thousand cigarettes. This payment shall constitute all financial contributions imposed on imported cigarettes including tariffs, defense taxes, value-added taxes, education tax, tobacco sales taxes, monopoly payments, and any other assessments or charges.

Upon payment by the foreign cigarette manufacturer to the KMC of 18,000 won per thousand cigarettes, the KMC shall provide immediately to the foreign cigarette manufacturer a receipt of *proof of payment*.

Presentation of such receipt at customs shall satisfy all requirements for payment of any tax burden needed to accomplish formal customs entry. Within thirty (30) days from the end of the month of custom entry, the foreign cigarette manufacturer shall pay to KMC 7,200 won per thousand cigarettes. Any and all liability for payment of each portion of the financial contribution shall cease immediately upon presentation of each payment.

D. Prior to the effective date of the new legislation, the Korean government shall ensure that KMC refunds to the foreign cigarette manufacturer the entire fiscal contribution paid by the foreign cigarette manufacturer in the event that imported cigarettes have been so damaged as to be unable to be sold to consumers, and such damaged cigarettes are re-exported within one year of customs clearance of such cigarettes. The portion of the fiscal contribution allocated by KMC to the education tax and tobacco sales taxes shall be refunded upon presentation of proof that such cigarettes have been physically destroyed. Upon the effective date of the new legislation, the Korean government shall ensure that the appropriate tax authority refunds the full excise tax if the damaged cigarettes are re-exported within one year of customs clearance or upon presentation of proof that the cigarettes were physically destroyed.

V. INVESTMENT

A. Any foreign cigarette manufacturer may negotiate technology transfer and enter into licensing agreements with the KMC.

B. The zero percent import tariff to be established by the new legislation shall be maintained at zero percent until such time as the Korean government permits foreign investment in the manufacture of cigarettes in Korea without restriction on the form of such investment.

VI. ADVERTISING AND PROMOTIONAL ACTIVITIES

A. No later than July, 1, 1988, the Korean government shall modify the relevant regulations to permit any foreign cigarette manufacturer to conduct temporary and permanent point of sale promotions independently or through retail outlets, provided that such promotions should be conducted in the immediate vicinity of retail outlets, and are intended to promote awareness of the availability of imported cigarettes and to facilitate brand experimentation among smokers, and are not intended to stimulate new smokers.

B The modified regulations shall permit each foreign cigarette manufacturer to place 120 advertisements per brand family in magazines annually, provided such magazines are not specifically directed at women or youth. Such magazines shall not be subject to restrictions in accepting such advertisements. In addition, such advertisements shall include Korean health warning in effect at the time of advertisement.

C. Any foreign cigarette manufacturer may sponsor social, cultural, musical, athletic, or similar events or functions. Brand sponsorship of such events shall be permitted. Such events shall not be specifically directed at women or youth.

D. Cigarette samples may be restricted to stick by stick distribution at licensed retail outlets.

E. A health warming shall appear on each pack of cigarettes. The text shall be in the Korean language on the side of the package and shall be identical to that of Korean brands of national origin. The type size, type face, and format shall be essentially equivalent to the current health warning on Korean brands of national origin. In the event that health warning on Korean brands of national origins is modified, a minimum of six months advance notice shall be provided to each cigarette manufacturer, and all cigarettes in inventory or ordered prior to the modification shall be allowed to continue to be sold in Korea for a period of one year from the date of such advance notice.

VII. CONSULTATIONS

A. Both sides agree to consult promptly at the request of either party on any matter relating to this Record of Understanding.

B. Initial consultations shall be held prior to the submission of the new legislation to review and discuss its contents to ensure consistency with this Record of Understanding.

C. Based on the commitments contained in this Record of Understanding, and in anticipation that successful implementation of these commitments will proceed as scheduled, the United States government shall terminate the investigation into Korea's policies and practices relating to market access for cigarettes conducted under section 301 of the U.S. Trade Act of 1974, as amended.

VIII. EFFECTIVE DATE

This Record of Understanding shall be effective on July 1, 1988.

Done at Washington. D.C. on this twenty-seventh day of May 1988.

For the Government of the Republic of Korea

/Sgd./ Tong-Jin Park

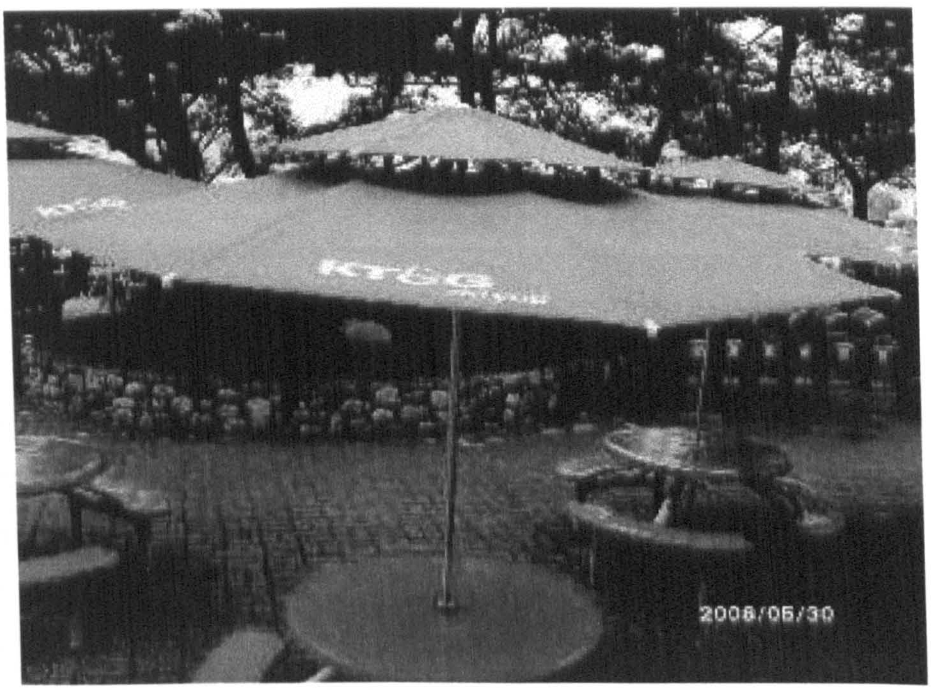
For the Government of the United States of America

/Sgd./ Claton Yeutter

Appendix E South Korea: Smoking on the roads

Tobacco Control, 2008; 17(5):300-300

Sungkyu Lee, Kelley Lee
London School of Hygiene & Tropical Medicine, UK



Note: South Korea: KT&G promotion at a motorway service station.

As transnational tobacco companies have continued to increase market share in South Korea, Korean Tomorrow & Global (formerly Korean Tobacco & Ginseng) has resorted to ever more creative tactics to stay one step ahead of the competition.

The latest showdown has been on the nation's motorways where the former state monopoly has ensured its logo and colours are prominently displayed by donating umbrellas, tables, seating and bins to motorway service areas. The high-tech bins are a particular innovation, composed of ash tray and trashcan, as they light up at night to optimise visibility.

For KT&G, the benefits are three-fold. While emblazoned with the KT&G logo, the facilities are not ostensibly advertising KT&G brands, and thus effectively circumvent current restrictions on tobacco advertising using billboards and the print media. Second, in exchange for these donations, the company has secured the right to sell its cigarette brands exclusively to motorway service users. The arrangement ensures competing brands are excluded from a large number of distribution outlets. Third, KT&G's efforts to portray itself as a socially responsible company are given a substantial boost. Service area donations are part of the company's broader corporate social responsibility programme which supplies equipment to schools, public buildings and social welfare agencies.

All donations have been eagerly received by the Korea Expressway Corporation (''people who build connections of happiness'') which is responsible for maintaining the country's road and service amenities. Rapid growth of the economy since the 1980s has been accompanied by a major expansion of the country's transport system, with the development of motorways a key goal in recent years. Growth has also been fuelled by the increased availability of motor vehicles, which has contributed greatly to the mobility of an increasingly affluent population. The expressway company has thus welcomed KT&G's ''donations'' as part of its goal to provide ''top quality expressway services''. With around 4,000 kilometres (2,485 miles) of national highways in South Korea by 2010, and over 76,000 kilometres (47,200 miles) of paved roads, KT&G stands to gain much mileage from this captive market.

Appendix F South Korea: KT&G *prepares for* FCTC with charity drive

Tobacco Control, 2008; 17(6):371-371

Sungkyu Lee, Chris Holden
London School of Hygiene & Tropical Medicine, UK

Note: South Korea: one of the cars used by KT&G's corporate social responsibility programme.

As the South Korean government was due to begin considering legislation to implement the Framework Convention on Tobacco Control (FCTC) in August, Korea Tomorrow & Global (KT&G, formerly Korean Tobacco & Ginseng) began manoeuvring to protect its dominant market position from stronger regulation. Since the opening of the South Korean market in 1988 and KT&G's privatization in 2003, the company has struggled to maintain its share of the market, now at 70%, from foreign competitors. In the process, corporate social responsibility has become a key part of its strategy.

Under the Tobacco Business Act, enacted in 1989, tobacco companies are restricted from advertising in the broadcast media and some print media, as well as prohibited from marketing specifically to young people under 19 years old and females. Advertising of cigarette brands and promotional activities are only permitted at retail outlets, and in certain magazines, and so corporate social responsibility (CSR) activities have become an increasingly important way of both promoting the company and winning the hearts and minds of the South Korean public.

KT&G launched its CSR programme in 2003 with the creation of the KT&G Social Welfare Foundation. The foundation announced that it would spend more than US$200million by 2010. Three examples illustrate how the foundation has used CSR to circumvent marketing restrictions, whilst simultaneously legitimizing the company.

The first is the donation of 100 cars to social welfare organisations each year since 2004. The cars clearly bear the KT&G logo and have the same colouring as the company's cigarette delivery vehicles. A second is the "Love Kimchi" (a traditional Korean side dish made of cabbage) project begun in 2004 and ostensibly aimed at helping low-income households stock up for winter. KT&G pays for the ingredients and recruits volunteers to make kimchi, which is then donated to low-income households and older people. The volunteers at kimchi-making events wear aprons and hair bands displaying the KT&G logo, providing valuable publicity for the company. By meeting poor people's needs that are not met by the state, KT&G hopes to win support and make it difficult for the government to ban its "socially responsible" activities. A third, and perhaps the most pernicious example, is the "Dream in Painting" project. This recruits university students, parents and volunteers to paint murals on the walls of elementary schools. Three hundred students were recruited to participate in the project in May 2007. Although KT&G's logo cannot be included in the mural, all participants wear KT&G aprons.

The increased use of CSR in South Korea illustrates how a national tobacco company has responded to greater market competition and the shadow of the FCTC by adopting familiar tactics used by transnational tobacco companies (TTCs). As with TTCs, tobacco control advocates must remain wary of such efforts which circumvent restrictions on marketing and advertising, and gain the company much needed credibility at a time when stronger regulation looms.

Appendix G FCTC provision from Article 6 to Article 17

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- ***Article 6***
- *Price and tax measures to reduce the demand for tobacco*
    - The Parties recognize that price and tax measures are an effective and important means of reducing tobacco consumption by various segments of the population, in particular young persons.
    - Without prejudice to the sovereign right of the Parties to determine and establish their taxation policies, each Party should take account of its national health objectives concerning tobacco control and adopt or maintain, as appropriate, measures which may include: (a) implementing tax policies and, where appropriate, price policies, on tobacco products so as to contribute to the health objectives aimed at reducing tobacco consumption; and (b) prohibiting or restricting, as appropriate, sales to and/or importations by international travellers of tax- and duty-free tobacco products. 3. The Parties shall provide rates of taxation for tobacco products and trends in tobacco consumption in their periodic reports to the Conference of the Parties, in accordance with Article 21.
- ***Article 7***
- *Non-price measures to reduce the demand for tobacco*
- The Parties recognize that comprehensive non-price measures are an effective and important means of reducing tobacco consumption. Each Party shall adopt and implement effective legislative, executive, administrative or other measures necessary to implement its obligations pursuant to Articles 8 to 13 and shall cooperate, as appropriate, with each other directly or through competent international bodies with a view to their implementation. The Conference of the Parties shall propose appropriate guidelines for the implementation of the provisions of these Articles.
- ***Article 8***
- *Protection from exposure to tobacco smoke*
- Parties recognize that scientific evidence has unequivocally established that
- exposure to tobacco smoke causes death, disease and disability.
- Each Party shall adopt and implement in areas of existing national

jurisdiction as determined by national law and actively promote at other jurisdictional levels the adoption and implementation of effective legislative, executive, administrative and/or other measures, providing for protection from exposure to tobacco smoke in indoor workplaces, public transport, indoor public places and, as appropriate, other public places.

- ***<u>Article 9</u>***
- *Regulation of the contents of tobacco products*
- The Conference of the Parties, in consultation with competent international bodies, shall propose guidelines for testing and measuring the contents and emissions of tobacco products, and for the regulation of these contents and emissions. Each Party shall, where approved by competent national authorities, adopt and implement effective legislative, executive and administrative or other measures for such testing and measuring, and for such regulation.
- ***Article 10***
- *Regulation of tobacco product disclosures*
- Each Party shall, in accordance with its national law, adopt and implement effective legislative, executive, administrative or other measures requiring manufacturers and importers of tobacco products to disclose to governmental authorities information about the contents and emissions of tobacco products. Each Party shall further adopt and implement effective measures for public disclosure of information about the toxic constituents of the tobacco products and the emissions that they may produce.
- ***<u>Article 11</u>***
- *Packaging and labelling of tobacco products*
- Each Party shall, within a period of three years after entry into force of this Convention for that Party, adopt and implement, in accordance with its national law, effective measures to ensure that: (a) tobacco product packaging and labelling do not promote a tobacco product by any means that are false, misleading, deceptive or likely to create an erroneous impression about its characteristics, health effects, hazards or emissions, including any term, descriptor, trademark, figurative or any other sign that directly or indirectly creates the false impression that a particular tobacco product is less harmful than other tobacco products. These may include terms such as “low tar”, “light”, “ultra-light”, or “mild”; and (b) each unit packet and package of tobacco products and any outside packaging and labelling of such products also carry health

warnings describing the harmful effects of tobacco use, and may include other appropriate messages. These warnings and messages: (i) shall be approved by the competent national authority, (ii) shall be rotating,

- (iii) shall be large, clear, visible and legible, (iv) should be 50% or more of the principal display areas but shall be no less than 30% of the principal display areas, (v) may be in the form of or include pictures or pictograms.
- Each unit packet and package of tobacco products and any outside packaging and labelling of such products shall, in addition to the warnings specified in paragraph 1(b) of this Article, contain information on relevant constituents and emissions of tobacco products as defined by national authorities.
- Each Party shall require that the warnings and other textual information specified in paragraphs 1(b) and paragraph 2 of this Article will appear on each unit packet and package of tobacco products and any outside packaging and labelling of such products in its principal language or languages.
- For the purposes of this Article, the term "outside packaging and labelling" in relation to tobacco products applies to any packaging and labelling used in the retail sale of the product.

- ***Article 12***

- *Education, communication, training and public awareness*

- Each Party shall promote and strengthen public awareness of tobacco control issues, using all available communication tools, as appropriate. Towards this end, each Party shall adopt and implement effective legislative, executive, administrative or other measures to promote: (a) broad access to effective and comprehensive educational and public awareness programmes on the health risks including the addictive characteristics of tobacco consumption and exposure to tobacco smoke; (b) public awareness about the health risks of tobacco consumption and exposure to tobacco smoke, and about the benefits of the cessation of tobacco use and tobacco-free lifestyles as specified in Article 14.2; (c) public access, in accordance with national law, to a wide range of information on the tobacco industry as relevant to the objective of this Convention; (d) effective and appropriate training or sensitization and awareness programmes on tobacco control addressed to persons such as health workers, community workers, social workers, media professionals, educators, decision-makers, administrators and other concerned persons; (e) awareness and participation of public and private agencies and nongovernmental organizations not affiliated with the tobacco industry in developing and implementing intersectoral programmes and strategies for tobacco control; and (f) public awareness of and access to information regarding the adverse health, economic, and environmental consequences of tobacco production and consumption.

- ***Article 13***

- *Tobacco advertising, promotion and sponsorship*

- Parties recognize that a comprehensive ban on advertising, promotion and sponsorship would reduce the consumption of tobacco products.
- Each Party shall, in accordance with its constitution or constitutional principles, undertake a comprehensive ban of all tobacco advertising, promotion and sponsorship. This shall include, subject to the legal environment and technical means available to that Party, a comprehensive ban on cross-border advertising, promotion and sponsorship originating from its territory. In this respect, within the period of five years after entry into force of this Convention for that Party, each Party shall undertake appropriate legislative, executive, administrative and/or other measures and report accordingly in conformity with Article 21.
- A Party that is not in a position to undertake a comprehensive ban due to its constitution or constitutional principles shall apply restrictions on all tobacco advertising, promotion and sponsorship. This shall include, subject to the legal environment and technical means available to that Party, restrictions or a comprehensive ban on advertising, promotion and sponsorship originating from its territory with cross-border effects. In this respect, each Party shall undertake appropriate legislative, executive, administrative and/or other measures and report accordingly in conformity with Article 21.
- As a minimum, and in accordance with its constitution or constitutional principles, each Party shall:
    - prohibit all forms of tobacco advertising, promotion and sponsorship that
- promote a tobacco product by any means that are false, misleading or deceptive or likely to create an erroneous impression about its characteristics, health effects, hazards or emissions; (b) require that health or other appropriate warnings or messages accompany all tobacco advertising and, as appropriate, promotion and sponsorship; (c) restrict the use of direct or indirect incentives that encourage the purchase of tobacco products by the public; (d) require, if it does not have a comprehensive ban, the disclosure to relevant governmental authorities of expenditures by the tobacco industry on advertising, promotion and sponsorship not yet prohibited. Those authorities may decide to make those figures available, subject to national law, to the public and to the Conference of the Parties, pursuant to Article 21; (e) undertake a comprehensive ban or, in the case of a Party that is not in a position to undertake a comprehensive ban due to its constitution or constitutional principles, restrict tobacco advertising, promotion and sponsorship on radio, television, print media and, as appropriate, other media, such as the internet, within a period of five years; and (f)

prohibit, or in the case of a Party that is not in a position to prohibit due to its constitution or constitutional principles restrict, tobacco sponsorship of international events, activities and/or participants therein.

- Parties are encouraged to implement measures beyond the obligations set out in paragraph 4.
- Parties shall cooperate in the development of technologies and other means necessary to facilitate the elimination of cross-border advertising.
- Parties which have a ban on certain forms of tobacco advertising, promotion and sponsorship have the sovereign right to ban those forms of cross-border tobacco advertising, promotion and sponsorship entering their territory and to impose equal penalties as those applicable to domestic advertising, promotion and sponsorship originating from their territory in accordance with their national law. This paragraph does not endorse or approve of any particular penalty.
- Parties shall consider the elaboration of a protocol setting out appropriate measures that require international collaboration for a comprehensive ban on cross-border advertising, promotion and sponsorship.

- ***Article 14***

- *Demand reduction measures concerning tobacco dependence and cessation*

- Each Party shall develop and disseminate appropriate, comprehensive and integrated guidelines based on scientific evidence and best practices, taking into account national circumstances and priorities, and shall take effective measures to promote cessation of tobacco use and adequate treatment for tobacco dependence.
- Towards this end, each Party shall endeavour to: (a) design and implement effective programmes aimed at promoting the cessation of tobacco use, in such locations as educational institutions, health care facilities, workplaces and sporting environments; (b) include diagnosis and treatment of tobacco dependence and counselling services on cessation of tobacco use in national health and education programmes, plans and strategies, with the participation of health workers, community workers and social workers as appropriate; (c) establish in health care facilities and rehabilitation centres programmes for diagnosing, counselling, preventing and treating tobacco dependence; and (d) collaborate with other Parties to facilitate accessibility and affordability for treatment of tobacco dependence including pharmaceutical products pursuant to Article 22. Such products and their constituents may include medicines, products used to administer medicines and diagnostics when appropriate.

- ***Article 15***

- *Illicit trade in tobacco products*

- The Parties recognize that the elimination of all forms of illicit trade in tobacco products, including smuggling, illicit manufacturing and counterfeiting, and the development and implementation of related national law, in addition to subregional, regional and global agreements, are essential components of tobacco control.
- Each Party shall adopt and implement effective legislative, executive, administrative or other measures to ensure that all unit packets and packages of tobacco products and any outside packaging of such products are marked to assist Parties in determining the origin of tobacco products, and in accordance with national law and relevant bilateral or multilateral agreements, assist Parties in determining the point of diversion and monitor, document and control the movement of tobacco products and their legal status. In addition, each Party shall: (a) require that unit packets and packages of tobacco products for retail and wholesale use that are sold on its domestic market carry the statement: *"Sales only allowed in (insert name of the country, subnational, regional or federal unit)"* or carry any other effective marking indicating the final destination or which would assist authorities in determining whether the product is legally for sale on the domestic market; and (b) consider, as appropriate, developing a practical tracking and tracing regime that would further secure the distribution system and assist in the investigation of illicit
- trade.
- Each Party shall require that the packaging information or marking specified in paragraph 2 of this Article shall be presented in legible form and/or appear in its principal language or languages.
- With a view to eliminating illicit trade in tobacco products, each Party shall:
    - monitor and collect data on cross-border trade in tobacco products, including illicit trade, and exchange information among customs, tax and other authorities, as appropriate, and in accordance with national law and relevant applicable bilateral or multilateral agreements; (b) enact or strengthen legislation, with appropriate penalties and remedies, against illicit trade in tobacco products, including counterfeit and contraband cigarettes; (c) take appropriate steps to ensure that all confiscated manufacturing equipment, counterfeit and contraband cigarettes and other tobacco products are destroyed, using environmentally-friendly methods where feasible, or disposed of in accordance with national law; (d) adopt and implement measures to monitor, document and control the storage and distribution of tobacco products held or moving under suspension of taxes or duties within its jurisdiction; and
- (e) adopt measures as appropriate to enable the confiscation of

proceeds derived from the illicit trade in tobacco products.

- Information collected pursuant to subparagraphs 4(a) and 4(d) of this Article shall, as appropriate, be provided in aggregate form by the Parties in their periodic reports to the Conference of the Parties, in accordance with Article 21.
- The Parties shall, as appropriate and in accordance with national law, promote cooperation between national agencies, as well as relevant regional and international intergovernmental organizations as it relates to investigations, prosecutions and proceedings, with a view to eliminating illicit trade in tobacco products. Special emphasis shall be placed on cooperation at regional and subregional levels to combat illicit trade of tobacco products.
- Each Party shall endeavour to adopt and implement further measures including licensing, where appropriate, to control or regulate the production and distribution of tobacco products in order to prevent illicit trade.

- ***Article 16***

- *Sales to and by minors*

- Each Party shall adopt and implement effective legislative, executive, administrative or other measures at the appropriate government level to prohibit the sales of tobacco products to persons under the age set by domestic law, national law or eighteen. These measures may include: (a) requiring that all sellers of tobacco products place a clear and prominent indicator inside their point of sale about the prohibition of tobacco sales to minors and, in case of doubt, request that each tobacco purchaser provide appropriate evidence of
- having reached full legal age; (b) banning the sale of tobacco products in any manner by which they are directly accessible, such as store shelves; (c) prohibiting the manufacture and sale of sweets, snacks, toys or any other objects in the form of tobacco products which appeal to minors; and
- (d) ensuring that tobacco vending machines under its jurisdiction are not accessible to minors and do not promote the sale of tobacco products to minors.
- Each Party shall prohibit or promote the prohibition of the distribution of free tobacco products to the public and especially minors.
- Each Party shall endeavour to prohibit the sale of cigarettes individually or in small packets which increase the affordability of such products to minors.
- The Parties recognize that in order to increase their effectiveness, measures to prevent tobacco product sales to minors should, where appropriate, be implemented in conjunction with other provisions contained in this Convention.
- When signing, ratifying, accepting, approving or acceding to the

Convention or at any time thereafter, a Party may, by means of a binding written declaration, indicate its commitment to prohibit the introduction of tobacco vending machines within its jurisdiction or, as appropriate, to a total ban on tobacco vending machines. The declaration made pursuant to this Article shall be circulated by the Depositary to all Parties to the Convention.

- Each Party shall adopt and implement effective legislative, executive, administrative or other measures, including penalties against sellers and distributors, in order to ensure compliance with the obligations contained in paragraphs 1-5 of this Article.
- Each Party should, as appropriate, adopt and implement effective legislative, executive, administrative or other measures to prohibit the sales of tobacco products by persons under the age set by domestic law, national law or eighteen.

- ***<u>Article 17</u>***

- *Provision of support for economically viable alternative activities*

- Parties shall, in cooperation with each other and with competent international and regional intergovernmental organizations, promote, as appropriate, economically viable alternatives for tobacco workers, growers and, as the case may be, individual sellers.