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# Korean Enterprise Export Strategies to China Dependent on Trade Environment Changes

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## Abstract

**Purpose** – Currently, the foreign trade environment in China has shifted to a very different system. Korean enterprises have been forced to compete with Chinese enterprises in today's world market owing to the economic growth and technical improvement in China.

**Research design, data, and methodology** – The author visited Korean export enterprises in Shanghai from January 5 to 12, 2014 to implement a questionnaire survey and conduct in-depth interviews with the local enterprises. The author investigated the Shenyang area using e-mail communication. For the questionnaire, one copy of the questionnaire was given to each business and to a staff member for each of the products when a company sold multiple products.

**Results** – Selling cost advantage, efficiency of economic scale, and product differentiation had the most influence on Korean enterprises' export strategy to China. Additionally, entry barrier, product differentiation, and concentration all had an influence on Korean enterprise export strategy to China as well.

**Conclusion** – Korean enterprises developed strategies for price priority, economies of scale, and product differentiation based on changes in the competitive structure in the Chinese market.

**Keywords:** Chinese Market, Changes Of Foreign Trade Environment, Structure Between Korea And China, Export To China, Export Strategies.

**JEL Classifications:** F14, F17, F18, L11.

## 1. Introduction

### 1.1. Background

China that has grown up to be G-2 has made change of foreign trade environment to be forecast. In fact, Korean enterprises looked to experience changes in the Chinese market much more. The three countries in Northeast Asia, that is to say, Korea, China and Japan, shared division of labor to grow up to be an important axis in the world economy. South Korea and Japan exported parts, materials and equipment to China to let China manufacture by using inexpensive labor and to export finished products to America and EU last 20 years after Korea-China diplomatic relations in 2002. The division of labor helped both Korea and Japan export products to China to record export to China 24.5% and 18.1% each.

These days, the foreign trade environment in China has made change to have quite different system. The Chinese government made change of growth strategy from export orientation to domestic demand. The Korean enterprises were forced to compete with the Chinese enterprises in world market owing to China's economic growth and technical improvement. This was because the Chinese market had quite different market competition structure.

This study investigated Korea-China trade structure and changes of Korea-China trade environment to examine strategic outcome of export business to China and to find out future directions.

### 1.2. Scope and Methodologies

#### 1.2.1. Scope

This study investigated not only Korean businesses having branch offices and/or corporation in China but also Korean businesses without bases in China that exported products to China. The Korean businesses without bases in China were placed at Shanghai and/or Shenyang. Business environment and/or export market may vary depending upon products: This study investigated not only large businesses but also small businesses regardless of products.

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### 1.2.2. Methodologies

This study had same frame with 'precedent study on export strategy to Japan in accordance with changes of competition structure in the Japanese market' (Kwon & Nam, 2013). The study investigated changes of specific markets from point of view of competition structure and to examine Korean enterprises' export strategy. Not only Japanese market but also Chinese market that had fundamental difference at the nature had same structure of theoretical background, competition structure and strategies enough to investigate.

Market segmentation and competition structure analysis of the study were same as those of aforementioned studies. The study selected Chinese market instead of Japanese market to examine recent movement and changes of the Chinese market and to find out Korean enterprises' counteractions against rapidly changing Chinese market.

Aforementioned studies, enterprises' internal data, precedent studies and literary researches were used. The author visited fashion business, steel & iron trading companies and petrochemical products export business at Shanghai from January 5, 2014 to January 12, 2014 to do questionnaire survey and to have depth interview. The author investigated Shenyang area by using e-mail. At the questionnaire survey, one copy of the questionnaire was used each business, and questionnaire of each one staff of the product was used when a company sold multiple products.

The study consisted of four chapters, that is to say, Chapter 1 to Chapter 2: Chapter1 described background, scope of research, methodologies and foreign trade between Korea and China at precedent studies. Chapter2 examined changes of recent trade environment in the Chinese market, and Chapter3 adopted research models and hypotheses. Chapter4 did empirical analysis for results. Chapter 5 had conclusion.

### 1.3. Literature Review

At rapid economic growth of China, studies on changes of trade environment in

China and Korean enterprises' counteractions were made actively.

Foreign trade structure between Korea and China made change and competitiveness varied, and insight into competition and cooperative relations between both countries was provided, and international division of labor of both countries was likely to help Korea develop industries and economy at Korea-China FTA (Lim, 2008).

China is likely to be main competitor of Korea: So, Korea needs to convert industrial structure into high added value industry and to save costs by automation and information and to strengthen export of industrial machines and to differentiate Korean enterprises from American, Japanese and European enterprises in the Chinese market. China can be not only good opportunity but also threat for the Korean enterprises. At failure of creation of high level of industrial structure, China's com-

petitiveness and mass production system may jeopardize Korea's industrial base to let Chinese enterprises enter into domestic market of farming products, low-priced garment, home appliance and others (Lee, 2004).

A lot of enterprises in the world shall rush into enormous Chinese market in the future, and Korean enterprises shall have investment opportunity in China based on products with great potential from long term point of view to understand foreign trade control system and commercial practice in China (Kim, 2002).

Korean enterprises shall develop Chinese market being largest market in the world to be export market and production base by high level of technical industry in Korea and to keep and expand mutual relations with China and to understand commercial practice and life habits of the Chinese people and to be concentrated on export marketing for consumer groups at large cities and small cities (Han, 2000).

These days, the Chinese government has given limitation on processing trade to expand prohibited products and to lower and/or cancel return rate of export value added tax by processing trade limitation policy, so that Korean enterprises shall expand business with China by high added value and Chinese market oriented industry to be based on new policy and to be free from simple processing trade (Jo, 2012).

The Chinese government made change of policy in accordance with high level of industrial structure to save production costs by innovative processing technology and to elevate export margin by high added value products and to survive in the Chinese market (Ko, 2012).

## 2. Changes of Trade Environment in the Chinese Market

### 2.1. Features of Korean Trade Structure with China

In 2012, ratio of export to China in Korea accounted for 24.5% to be larger than aggregation of ratio of export to USA (10.7%) and the one to Japan (7.1%), and Korea's trade surplus accounted for 53.54 billion dollars to be more than 2 times of total trade surplus amounting to 28.29 billion dollars of Korea. In 2013, ratio of export to China including the one of Hong Kong of 5% accounted for 31T to be larger than that of remaining countries. In 2013, ratio of export in each country was large in order of China, USA, ASEAN (15%), EU (9%), Latin America (7%), Japan (6%), Middle East (6%) and Eastern Europe (5%).

Export to China increased to let trade surplus come from China. Dependence upon China of the export had risen to let trade surplus of Korea mostly come from China. Since 2006, trade surplus of China was larger than that of remaining countries. In 2012, total trade surplus accounted for 28.3 billion dollars, while trade surplus with China accounted for 53.5 billion dollars to be almost 2 times. Trade surplus with China by December 20, 2013 accounted for 60.6 billion dollars to be

much larger than total trade surplus of 40.1 billion dollars. Korea earned money in China and other developing countries to import materials from Japan and petroleum from Middle East.

China was one of the largest investment countries of South Korea to record 39.7% in 2005 being the highest and to decline gradually and to record 14.5% in 2012 and to rank 2nd largest country following the United States.

Chinese trade system was based on processing trade so that Korea-China trade relied upon processing trade as well. From initial stage of Reformation and Opening, the Chinese government made processing trade system to improve low competitiveness with foreign countries and to supplement capital in shortage and to let enterprises import all and/or a part of raw materials, parts, components and packing materials and to export finished products after processing and/or assembling.

The Chinese government enacted Act on Monitoring and Control of Processing Trade Freight to regulate all of processing trade, and enacted Act on Foreign Trade of China and other associated laws and regulations in 2004 in accordance with administrative laws and regulations to control processing trade freight by Customs Administration to revise in 2008 and then in 2010.

The processing trade occupied 50.7% of Korea's trade with China in 2012 to be larger than 33.6% of China's ratio of processing trade in the world by 17.1%. The processing trade has kept high level despite continuous decline at total trade of China. Ratio of processing trade of Korea was high at not only export but also import: The processing trade of Korea occupied 49.7% of export to China and 52.6% of import from China (50.7% based on import and export), and occupied 7.6% and 26.2% each to be high in China's import (26.4%) and export (42.1%) to the world. The processing trade has occupied high ratio at Korea-China trade by division of labor of production process between both countries. The division of labor of production process between both countries shall keep and strengthen mutual cooperation to require trade cooperation (Jeong, 2013).

## 2.2. Changes of Korean Trade Environment to China

Korea's export to China occupied 66% of intermediate materials, for instance, electronics, images, audio, communication equipment parts and compound, and chemical materials and so on. The Chinese government has recently switched growth strategy from export-oriented to domestic demand-oriented to compete with Korea. China's localization of intermediate materials by high level of industries may have great influence upon Korea's export of parts and materials to China. China shall elevate position of manufacturers to be production base and to let Korean enterprises lose share of world market and to move domestic assembly factory to foreign countries. Technical gap between Korea and China is to be lessened to let Chinese manufacturers compete with Korean manufacturers and to lessen special demand from China and to compete each other in order to take comparative advantage.

Change of trade environment between Korea and China has

been accepted to be inevitable: At first, ratio of the Chinese products in world market rose to let both countries compete each other in the export.

The Chinese manufacturers' world market share rapidly rose from 7.19% in 2003 to 16.72% in 2012, and the Korean manufacturer's share also rose from 3.23% in 2003 to 4.03% in 2012. Both manufacturers competed each other in world market at not only less gap of technology but also similarity of export structure. In 2011, China had 1,431 products with 1st ranking market share in the world to have competitiveness at farming products, labor intensive products and others and to improve competitiveness at IT area products for export: Last five years, that is to say, from 2008 to 2012, China competed with Korea at exports to China such as precision instrument (55%), petrochemical (31%), IT(29%), common machines (25%) and so on. 'Special demand from China' is likely to decrease owing to China's industrial competitiveness and expanded consumption. Added value of export to China had rate of GDP of Korea, from 2.51% in 2000 to 6.54% in 2009 2.5 times up, 7.3% in 2010, 8.6% in 2011, and export to China helped Korea develop economy, to increase by 6.0% in 2001, 10.6% in 2005, 75% in 2008, and 298% in 2009. (Shin, Lee, 2013)

A lot of professionals have paid attention to changes of economic cooperation patterns between both countries. Korean enterprises could take advantages of economic growth by supplying parts to China have lost the structure owing to high level of technology in China. The Chinese enterprises have raised ratio of supply of the parts in China. At the moment, Korean manufacturers have been threatened by local enterprises in China to compete with foreign high quality brands at consumption market. Some of professionals said that Korea's business paradigm of China should make change from toll processing production to consumer goods (service) in the era of 'consumption' in China: In fact, Korean enterprises that invested in China by taking advantages of low labor cost have recently entered into consumer markets.

## 3. Methodology

### 3.1. Research Models

In this study, the model was same as that of "A study on export strategy to Japan in accordance with changes of competition system in the Japanese market" (Kwon & Nam, 2013) to replace research subject of Japanese market with Chinese market. Models were used to investigate not only effects of changes of competition structure in the Chinese market upon export to China, but also effects of export strategy to China upon outcome of the export to China:

### 3.2. Variables

Five variables, that is to say, market concentration, entry barrier, product differentiation, selling cost and efficiency of eco-

conomic scale were used:

3.2.1. Market Concentration

The market concentration is said to control competition at specific market and/or industry and to produce monopoly. The government in capitalism society often regulates monopoly to compete fairly in the market. The Chinese government enacted "Act on Anti-trust in China" on August 30, 2007 to put it into practice from August 1, 2008. The anti-trust law that is effective has included 57 clauses to be relatively simple and to require sub-clauses and to let action teams put them into practice. The law consisted of compulsory purchase (buying of products of nominated business operator), regional blocking (prevent product from outside area from being sold out), limitation on bidding and establishment of branches, and control of monopoly act. The law does not permit enactment of law that controls competition by using administrative agency's power.

The enactment of anti-trust law in China actively controls internal influence such as weakening of administrative monopoly, multinational corporation's cartel in the market in China, use of market control, foreign business' combination of Chinese enterprises, and combination between foreign enterprises to have influence upon plenty of foreign enterprises in China (Law firm Pacific Ocean, 2009).

Korean enterprises controlled market competition by using administrative power to give an enterprise monopoly and to block community market that is administrative monopoly in China.

The administrative monopoly in China has considerable influence upon politics, economy, society, culture and life so far. The ownership (the government) has been legally separated from the management (enterprises) at conversion into socialism market economy to let state owned control department manage the ownership, and original control department has not given up management rights of state owned enterprise to have control system without separation of the government and enterprises:

Korean enterprises in China are asked to understand history and society of administrative monopoly in China and to take preventative measure and counteraction strategy(Choi, 2012).

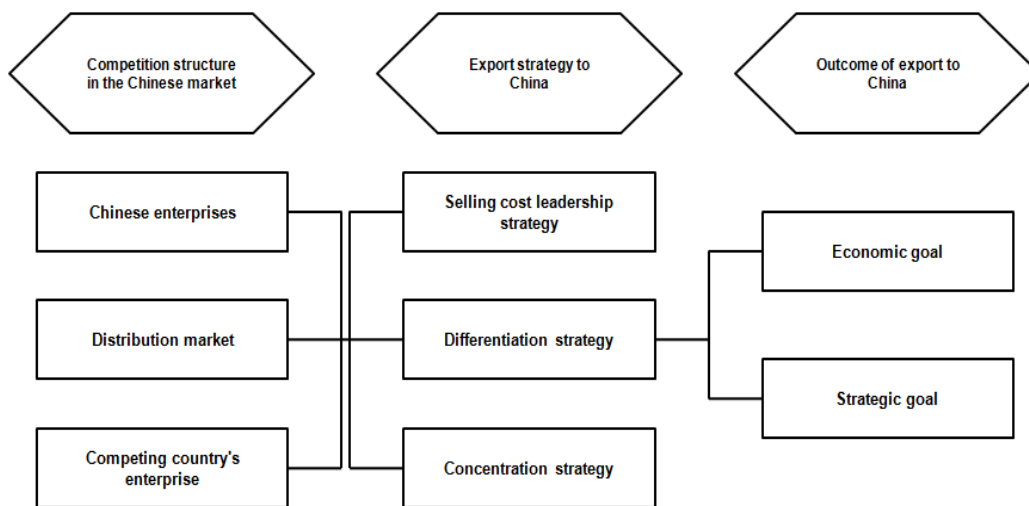
3.2.2. Entry Barrier

30 years after the Reformation in China, approach to the market has been widened. In 2001, China was allowed to be member of WTO and to internationalize. Expanded reformation does not mean completion of reformation. China has so many entry barriers such as customs duties and invisible commercial practices. When Korean enterprises develop Chinese market, the barrier may become high and thick.

Korean enterprises may have different types and methods of entry barriers in accordance with expansion of external opening and domestic market. Investment barrier, in particular, removal of local business barrier is thought to be important than trade barrier is. The Chinese government had strengthened trade remedy such as anti-dumping and anti-subsidy, and customs clearance in accordance with the Chinese government's industrial development policy to require observation and counteractions in the future.

The investment in China has so many complicated entry barriers from local production to employment and sales, for instance, regulations on processing trade, regulation on investment by each business type, tangible and intangible local contents requirements, complicated liquidation procedure, and regulation on fruit remittance. Not only foreign trade but also investment has entry barriers in China, for instance, ISO 14000, REACH and standards and CCC (China compulsory certificate).

The government supply shall be important to enter the Chinese market and to solve problems. The Act on Government Supply that was effective from the year of 2003 has regulated to buy Chinese made products and services unless products and services are supplied in China. Laws and regulations on bidding are insufficient and complicated. Bidding process is uncertain to



<Figure 1> Research Models

have many discrimination on foreign-funded enterprises. China that is not member of GPA of WTO is not allowed to ask Korea and other foreign countries to open market. The Chinese market that is enormous to be likely to strengthen economic cooperation between Korea and China shall remove entry barrier of the Chinese market as soon as possible.

The entry barrier of foreign trade has been converted from tariff barrier to non-tariff barrier. The investment area regulated local production activities in the past, and it has regulated discriminatory treatment and insufficiency of laws and industrial policy in China. As entry barriers in the Chinese market made change, so Korean enterprises shall find out investment in China to avoid discrimination from Chinese enterprises and to enjoy position of local residents (Jeong, 2010).

### 3.2.3. Product Differentiation

Differentiation strategy is to be used to overcome barriers. The strategy that looks for competitor orientation is said to be market orientation strategy. The market orientation that realizes marketing concept thinks much of consumer orientation, competitor orientation and cooperation between departments (Naver and Slater, 1990).

Differentiation strategy is said to have different product and services and to let customers think of values. (Aaker, 1998). Differentiation is said to increase value of products and/or services than competitors' ones to have competitive edge (Barney, 2000). The competitive edge strategy may have not only low cost strategy but also differentiation strategy (Porter, 1985): Most of other strategies than low cost strategy is thought to differentiate. Korean enterprises are demanded to have differentiation strategy to be free from low cost strategy and to expand market share in the Chinese market:

First, not only Chinese enterprises but also world renowned enterprises have entered the Chinese market to let global products compete each other. The market system that supply exceeds demand has created accumulation of freight to supply so many products not to differentiate, so that the Chinese consumers are difficult to select products.

Second, the Chinese enterprises have improved technical power. Last ten years, not only the Chinese capital but also the Chinese industrial product has good competitiveness in the Chinese market owing to development. Korean enterprises are forced to compete with enterprises of advanced countries such as European countries, America and Japan but also local enterprises in China, Korean enterprises poor quality and brands than enterprises from advanced countries to have less price competitiveness than Chinese enterprises have.

Third, the Chinese consumers's buying inclination made change owing to higher income. The Chinese market made change from low priced market to expensive price market owing to higher income of urban citizens, and demand on expensive products rapidly increased to meet consumers' demand. Low priced market has been filled with local enterprises products to make foreign enterprises have difficulty at production of profit.

Fourth, the Chinese people had product oriented consumption inclination. The Chinese people think much of sense of superiority by keeping home appliances to have usefulness by higher social and economic position (Kwon & Kim, 2012).

China made change from factory in the world to market in the world to let persons in the world rush into China. Saying of 1st ranking in China being equivalent to 1st ranking in the world has not been exaggerated. Differentiation is important to survive in the competition. First of all, products, brands, services and images and others should be differentiated.

### 3.2.4. Selling Costs Advantage

The price factor of marketing mix has the greatest influence upon firm profitability. The goal of enterprise is to pursue profit and to have selling cost advantage by price strategy. The Chinese government has reformed prices to let enterprises take actions against changes of competition environment so that price strategy has become important. Enterprises have adopted 'cost-plus' strategy to add profits to production cost, administrative and overhead cost, selling cost and others when deciding upon prices. The cost linking price strategy is unable to assure of mid-to-long term survival at 'red ocean' market in China. The production cost, competition structure of target market, nature of the product, price flexibility of the demand, consumers' income levels and buying power, and competitors' price strategy, etc shall be considered to lower probability of failure of competitive strategic pricing.

The price strategy starts from decision of entry prices at release of the products. Not only penetrating pricing but also price skimming is used. The penetrating pricing strategy is said to preoccupy market at low prices for target customers by taking advantages of mass production and distributors of multi-national enterprises having large-scaled facilities and global brands. The strategy has advantage of increase of market share for a short time, and disadvantage of retaliatory price, low profit, and low priced product images, etc. The penetrating pricing strategy with aggressiveness has been used at the market of soap, shampoo and daily necessities, low-to-mid class garment, and home appliances that have severe price competition and over-supply, and consumer durables such as small-sized color TV and cassette radio at maturity and decline phase.

On the other hand, price skimming strategy that multi-national enterprises with global brand power make use may be used to sell innovative products at expensive prices for high income customers at large cities at market entry phase. The strategy that is not used by small business with low brand power and/or technology does not assure of success. The product with the strategy shall satisfy design, quality, state-of-art technology and other functional and social benefits, and the strategy that relies upon brand power to neglect income level and after sales service is likely to fail. The strategy that has raised customer loyalty to establish expensive product image can expand market base for mid-to-high class customers to stabilize market.

Since 2002, the Chinese market launched price war that started from home appliances to expand to automobiles, motor

cycles, mobile phones, cosmetics and almost of other products. The market leaders may lower prices to prevent new comers from entering market and to expel enterprises with low competitiveness and to let followers lower price for the purpose of defense and to leave market at wrong actions. Price war with native enterprises may lose profit to be expelled from market. Native enterprises that do dumping sales to lessen inventory may be given subsidy and support from local governments to have less risk of bankruptcy.

Good native enterprises, for instance, Lenovo, Haier, Haishin, Congga and TCL, have lowered prices of products with good quality, design and functions to lessen inventory and to expel competitors. Foreign enterprises shall think of counteractions against price lowering, and cost saving under such a situation. When labor cost at coastal regions of China has risen more than 10% or more on average, lessening of indirect cost and/or number of administration employees from head office can be short-term alternative. High ratio of local purchasing of raw materials from South Korea and/or outsourcing from 3PL in China of logistics can save distribution costs.

Korean enterprises may ask suppliers and/or vendors to enter China, and save costs by parts standardization and/or technical innovation, and move factory to suburb and/or inland towns having advantages of low labor cost.

Another long term alternative is to research and develop common use materials and/or peripherals at local areas in China. Local R&D that has risks of disclosure of technology has advantages of new product and process development that satisfies market demand and technical standards by employing inexpensive scientists and engineers. And, industry, college and research institute R&D project with help of infrastructure of college research institute in China may expect of help from Chinese partners at entry into local market. Infrastructure of university research institute in China is to be used to promote industry-university-research institute jointly and to get help from Chinese partners when entering the Chinese market. Risks of technology disclosure shall be prevented by careful selection of localization R&D, strengthened internal security system, compensation for engineers and technicians, and follow-up.

Enterprises that export, do on-the-spot toll processing and enter Chinese market by OEM and OED shall invest directly to have on-the-spot production system. The investment may save customs duties, logistics costs and toll processing costs to meet on-the-spot demand immediately and to keep close relations with customers from long term point of view(Kim, 2005).

### 3.2.5. Efficiency of Economic Scale

'Efficiency of economic scale' is said to increase input of production factors such as labor and capital and to increase economic profits more than increase of input factors. In other words, mass production lessens cost per production unit to sell one unit of the product and to increase marginal profit and to require 'technical innovation' in advance. The technical innovation that is not simple technology innovation but combines production factors of labor and capital to increase production

scale and to elevate outcome. As such, efficiency of economic scale is made when creating affirmative effects of increase of production by using input factors effectively.

Increase of production quantity by expansion of production facilities can lessen input expenses on average for production of goods, and efficiency of economic scale is made by three factors, that is to say, economic advantages of large-scaled facilities, freight charge at buying of large quantity, less material costs, and professional production elements by division of labor. Therefore, large business earns more profits than small business does. However, efficiency of economic scale has limitation. Large scale more than specific level may increase administrative expenses of organization to have rigid organization that can offset efficiency of economic scale. Efficiency of economic scale may vary depending upon industries, and automobile industry can be affected the most. The Chinese market is difficult to say without efficiency of economic scale. Last 30 years, Chinese economy has grown up owing to opening of the country to be factory and market in the world and to develop all of industries from labor intensive to state-of-the-art technology.

First of all, China accomplished 1st ranking economy in quantity by efficiency of economic scale. The Chinese economy follows large country's growth model to take the lead of world economy in production, consumption and foreign exchange reserve and to make change of international price systems of energy and raw materials. Currently, the Chinese market competes with efficiency of economic scale that can be difficulty at the Chinese business (KT Business Administration Research Institute, 2008).

### 3.3. Hypotheses

In this study, hypotheses were used by using studies of Kwon and Nam (2013):

#### 3.3.1. Korean Enterprises' Export Strategies to China in Accordance with Changes of Competition Structure in the Chinese Market

The Chinese market had segments, for instance, Chinese made product market by Chinese enterprises, import market by enterprises from competing countries, and distribution market by distribution enterprises to make change of competition structures, for instance, market concentration, entry barrier, product differentiation, selling cost advantages and efficiency of economic scale and to have influence upon Korean enterprises' export strategies to China, for instance, cost advantage strategy, differentiation strategy and concentration strategy. Three hypotheses were used:

<Hypothesis 1> The Chinese enterprises make change of competition in the Chinese market to have influence upon Korean enterprises' export strategies to China.

<Hypothesis 2> Enterprises of export competing country

makes change of competition structure at import market in China to have influence upon export strategies to China of Korean enterprises.

<Hypothesis 3> The competition structure in the Chinese distribution market makes change to have influence upon Korean enterprises' export strategies to China.

### 3.3.2. Outcome of Korean Enterprises's Export Strategies to China

Korean enterprises' export strategies that are based on three competition strategies of Porter, that is to say, selling cost advantage, differentiation and concentration, may have influence upon outcome of export to China: Three hypotheses were used.

<Hypothesis 4> Korean enterprises' cost advantage strategy of export to China has positive influence upon export outcome.

<Hypothesis 5> Korean enterprises' differentiation strategy of export to China has positive influence upon export outcome.

<Hypothesis 6> Korean enterprises' concentration strategy of export to China has positive influence upon export outcome.

## 4. Results

The author collected materials relying upon human relations with the ones who worked for foreign trade with China almost 30 years. The author visited offices at Shanghai as well as head offices of some of companies in Korea to do in-depth interview. Test of hypotheses was done by questionnaire survey.

The variables included changes of trade environment of the Chinese market in the past and at present (15 questions), Korean enterprises' export strategies of export to China taking action against changes of trade environment in the Chinese market (11 questions), and outcome of export strategies to China (8 questions). Likert 5 point scale was used. Nominal scale was used to investigate opportunity of export to China, difficulties in China at the export to China, and competitors.

69 copies of the questionnaire were collected. In this study, Korean enterprises exported products to China: steel and iron products (23.5%), chemical products (19.1%), fashion product and garment (16.2%), IT and venture business (11.8%), soap opera and confectionery and distribution (8.8%), real estate and logistics (5.9%), construction materials (5.9%), securities companies and finance (4.4%), and shoes and light industry products (4.4%).

### 4.1. Reliability

Cronbach's Coefficient Alpha was used to investigate reliability of the variables. Testing of one structure by multiple questions shall have consistency and/or homogeneity.

Cronbach's Coefficient Alpha between 0 and 1 is thought to be good at 0.8 to 0.9 or more, and the one between 0.6 and 0.7 is thought to be reliable. The reliability is (Table 1): Cronbach's Coefficient Alpha of eight areas exceeds 0.6 to be reliable.

<Table 1> Reliability analysis on changes of competition structure in the Chinese market

Areas	Test items	α at exclusion of variables	Cronbach's α
Changes of competition structure in the Chinese market by Chinese enterprises	Market concentration (monopoly) by Chinese enterprises	.832	.846
	Market entry barrier by Chinese enterprises	.839	
	Product differentiation (quality and design) by Chinese enterprises	.776	
	Selling cost advantage (dumping sales) by Chinese enterprises	.799	
	Efficiency of economic sales (large quantity sales) by Chinese enterprises	.825	
Changes of competition structure of import market by competing country's enterprises	Market concentration (monopoly) by competing country's enterprises	.895	.920
	Market entry barrier by competing country's enterprises	.917	
	Product differentiation (quality, design) by competing country's enterprises	.909	
	selling cost advantages (dumping sales) by competing country's enterprises	.887	
	Efficiency of economic scale by competing country's enterprises	.901	
Changes of competition structure in Chinese distribution market	Market concentration (monopoly) of distribution market in China	.793	.837
	Entry barrier of distribution market in China	.814	
	Product differentiation (quality, design) of distribution market in China	.791	
	selling cost advantage (dumping sales) of	.797	

	distribution market in China		
	Efficiency of economic scale of distribution market in China (large quantity sales)	.825	

<Table 2> Reliability analysis on Korean enterprises' export strategies to China at changes of competition structure of the Chinese market

Areas	Test items	$\alpha$ at exclusion of variables	Cronbach's $\alpha$
Export cost advantages to China of Korean enterprises	Business administration for price competitiveness	.912	.845
	Competitive price strategy	.759	
	Effective supply of raw materials for cost saving	.711	
	Innovative production process for price competitiveness	.786	
Korean enterprises' export differentiation on strategy to China	New product development for the Chinese market	.847	.821
	Strategy for elevation of brand cognition	.765	
	Innovative marketing for Chinese market	.707	
	Active advertising strategy	.765	
Korean enterprises' export concentration on strategy to China	Customer service	.675	.684
	Service for special areas	.636	
	Production capability for Chinese market	.622	

<Table 3> Reliability analysis upon outcome of export strategy to China

Areas	Test items	$\alpha$ at exclusion of variables	Cronbach's $\alpha$
Economic outcome of export strategy to China	Increase of profits	.625	.643
	Increase of export values	.656	
	Cost saving by large quantity sales	.668	
Strategic outcome by export strategy to China	Expansion of market	.771	.778
	Competition reaction (competitiveness rating at the market)	.707	
	Foothold in the Chinese market	.730	
	Better cognition of the products in the Chinese market	.736	
	Better cognition of company in the Chinese market	.741	

## 4.2. Hypotheses

### 4.2.1. Changes of competition structure in the Chinese market and Korean enterprises' export strategy to China

<Hypotheses 1> Change of competition structure by the Chinese enterprises has influence upon Korean enterprises' export strategies to China.

Regression analysis was done with not only independent variables of market concentration, market entry barrier, product differentiation, selling cost advantage and efficiency of economic scale, but also dependent variables of selling cost advantage, differentiation and concentration.

The findings were: Selling cost advantage, efficiency of economic scale and product differentiation had influence the most upon Korean enterprises' export strategy to China. Korean enterprises made use of selling cost advantage and concentration in the Chinese market. The selling cost advantage strategy had  $\beta$  of -.479, p of .004 and F of 5.417, while the concentration strategy had  $\beta$  of .395, p of .000 and F of 6.550.

And, regression of Korean enterprises' differentiation strategy was not significant. Korean enterprises' differentiation strategy was found to be negligible in the Chinese market.

<Hypotheses 2> Export competing country's enterprises make change of competition structure in the import market in China to have influence upon Korean enterprises' export strategy to China.

The findings were: The entry barrier, product differentiation and concentration had influence upon Korean enterprises' export strategy to China. The entry barrier had  $\beta$  of .465, p of .017, and F of 3.017, and differentiation had  $\beta$  of .526, p of .008, and F of 2.687. The product differentiation at import market had  $\beta$  of .342, p of .048 and F of 2.687, and concentration had  $\beta$  of .589, p of .000, and F of 6.043 to be significant.

Being different from Chinese enterprises, Korean enterprises relied upon selling cost advantage, differentiation and concentration.

At concentration of import market in China by competing country's enterprises, Korean enterprises had significantly negative selling cost advantage, differentiation and concentration to have problems of active actions.



<Table 4> Regression analysis upon changes of competition structure in the Chinese market by Chinese enterprises

Hypothesis	Independent variables	Regression				
		F	p	Constant	$\beta$	p
H1(1) Changes of competition structure in the Chinese market → selling cost advantage	Market concentration by Chinese enterprises	5.417	0.004	-1.490	.198	.299
	Market entry barriers by Chinese enterprises				.093	.575
	Product differentiation by Chinese enterprises				-.252	.153
	selling cost advantages by Chinese enterprises				-.479*	.006
	Efficiency of economic scale by Chinese enterprises				.871*	.000
H1(2) Changes of competition structure in Chinese market → Differentiation strategy	Market concentration by Chinese enterprises	1.873	0.111	-1.239	-.155	.462
	Market entry barriers by Chinese enterprises				.222	.232
	Product differentiation by Chinese enterprises				.206	.293
	selling cost advantages by Chinese enterprises				.200	.288
	Efficiency of economic scale by Chinese enterprises				-.127	.522
H1(3) Changes of competition structure in Chinese market → Concentration	Market concentration by Chinese enterprises	6.550	0.000	-2.094	.139	.450
	Market entry barriers by Chinese enterprises				-.060	.708
	Product differentiation by Chinese enterprises				.395*	.022
	selling cost advantage by Chinese enterprises				.101	.536
	Efficiency of economic scale by Chinese enterprises				.045	.794

Note: "\*" indicate 5% significance.

<Table 5> Regression on Korean enterprises' export strategy to China in accordance with changes of competition structure in import market in China

Hypotheses	Independent variables	Regression				
		F	p	Constant	$\beta$	p
H2(1) Changes of competition of import market of competing country's enterprises → selling cost advantages	Concentration at import market of competing country's enterprises	3.017	.017	-1.128	-.326	.217
	Entry barrier at import market of competing country's enterprises				.465*	.017
	Product differentiation at import market of competing country's enterprises				-.236	.614
	Selling cost advantage at import market of competing country's enterprises				.030	.922
	Efficiency of economic scale at import market of competing country's enterprises				.444	.075
H2(2) Changes of competition structure at import market of competing country's enterprises → Differentiation	Concentration at import market of competing country's enterprises	2.687	.029	-.238	-.499	.063
	Entry barrier at import market of competing country's enterprises				.526*	.008
	Product differentiation at import market of competing country's enterprises				.342*	.048
	Selling cost advantages at import market of competing country's enterprises				-.309	.314
	Efficiency of economic scale at import market of competing country's enterprises				.021	.933
H2(3) Changes of competition structure of competing country's enterprises → Concentration	Concentration at import market of competing country's enterprises	6.043	.000	-1.263	-.119	.620
	Entry barrier at import market of competing country's enterprises				.222	.207
	Product differentiation at import market of competing country's enterprises				.589*	.000
	selling cost advantage at import market of competing country's enterprises				-.538	.055
	Efficiency of economic scale at import market of competing country's enterprises				.262	.247

Note: "\*" indicates 5% significance.

<Hypotheses 3> Change of competition structure of distribution market in China has influence upon Korean enterprises' export strategy to China.

At regression, competition structure of distribution market in China had positive influence upon 3 kinds of competition strategies, that is to say, selling cost advantage, differentiation and concentration. In other words, selling cost advantage had  $\beta$  of .326,  $p$  of .082, and  $F$  of 4.545, and differentiation had  $\beta$  of .303,  $p$  of .041, and  $F$  of 4.702, and concentration had  $\beta$  of .464,  $p$  of .005, and  $F$  of 10.371 to be significant.

4.2.2. Korean enterprises' export strategy to China

<Hypotheses 4> Korean enterprises' selling cost advantage strategy to China has positive influence upon export outcome.

Korean enterprises' selling cost advantage strategy to China that had four variables, that is to say, efficiency of business administration, competitive price strategy, efficient supply of raw materials and innovative production process had export to China not to be significant, and not only strategic outcome but also ef

<Table 6> Regression on Korean enterprises' export strategy to China at changes of competition structure of distribution market in China

Hypotheses	Independent variables	Regression				
		F	p	Constant	$\beta$	p
H3(1) Changes of competition structure of distribution market → Selling cost advantages	Market concentration at distribution market in China	4.545	.001	-1.740	.217	.160
	Entry barrier at distribution market in China				.221	.172
	Product differentiation at distribution market in China				-.301	.063
	Selling cost advantages at distribution market in China				.326	.082
	Efficiency of economic scale at distribution market in China				.045	.830
H3(2) Changes of competition structure of distribution market → Differentiation	Concentration at distribution market in China	4.702	.001	-1.417	.257	.094
	Entry barrier at distribution market in China				.108	.499
	Product differentiation at distribution market in China				.065	.681
	Selling cost advantages at distribution market in China				.303*	.041
	Efficiency of economic scale at distribution market in China				-.385	.068
H3(3) Changes of competition structure of distribution market → Concentration	Concentration at distribution market in China	10.371	.000	-1.835	.493*	.000
	Entry barrier at distribution market in China				-.272	.054
	Product differentiation at distribution market in China				.243	.082
	Selling cost advantage at distribution market in China				.464*	.005
	Efficiency of economic scale at distribution market in China				-.358	.052

Note: "\*" indicates 5% significance.

<Table 7> Regression on export outcome by Korean enterprises' selling cost advantage strategy to China

Hypotheses	Independent variables	Regression				
		F	p	Constant	$\beta$	p
H4(1) Selling cost advantage → economic outcome	Economic outcome by business administration efficiency	1.341	.132	-1.132	.067	.656
	Economic outcome by competitive price strategy				-.073	.710
	Economic outcome by raw material supply efficiency				.420	.101
	Economic outcome by innovative production process				-.121	.553
H4(2) Selling cost advantage → strategic outcome	Strategic outcome by business administration efficiency	5.019	.001	-.872	-.214	.128
	Strategic outcome by competitive price strategy				.187	.303
	Strategic outcome by raw material supply efficiency				.574*	.016
	Strategic outcome by innovative production process				-.295	.120

Note: "\*" indicated 5% significance.

iciency of raw material supply had  $\beta$  of .574, p of .016, and F of 5.019 to be significant. Korean enterprises had strategic outcome of supply of raw materials in the Chinese market to attain business administration efficiency, price strategy, supply of raw materials and innovative production process.

<Hypotheses 5> Korean enterprises' export differentiation strategy to China has positive influence upon export outcome.

<Hypotheses 6> Korean enterprises' export concentration strategy to China has positive influence upon export outcome.

Korean enterprises' export concentration strategy to China had export outcome to have strategic outcome of preferential services at special areas and strategic outcome of production ability of special products with  $\beta$  of -.388, p of .001, F of 6.029,  $\beta$  of .259, p of .021, and F of 6.029 to be significant. Korean enterprises could obtain strategic outcome of production ability

<Table 8> Regression on export outcome by Korean enterprises' export differentiation strategy to China

Hypotheses	Independent variables	Regression				
		F	p	Constant	$\beta$	p
H5(1) Differentiation strategy → economic outcome	Economic outcome at new product development	2.944	.027	-.745	-.186	.245
	Economic outcome at brand cognition				-.164	.415
	Economic outcome at innovative marketing method				.214	.303
	Economic outcome at active advertising strategy				.352	.069
H5(2) Differentiation strategy → strategic outcome	Strategic outcome at new product development	1.847	.131	.876	-.408*	.015
	Strategic outcome at brand cognition				.083	.689
	Strategic outcome at innovative marketing method				.012	.954
	Strategic outcome at active advertising strategy				.103	.600

Korean enterprises' export differentiation strategy to China has export outcome: Strategic outcome by new product development had  $\beta$  of -.408, p of .015, and F of 1.847 to be significant (The economic outcome had p of .027 to be below than 0.6 at reliability not to be significant.).

But, not only four of independent variables of economic outcome but also three of independent variables of strategic outcome were not significant. Korean enterprises' differentiation strategy in the Chinese market was not effective despite making efforts, and strategy was not used properly.

by special services at specific areas in China.

Not only three of independent variables of economic outcome but also one of independent variable of strategic outcome was not significant. Not only Korean Enterprises' Chinese market segmentation but also niche market development had problems.

<Table 9> Regression on export outcome of Korean enterprises' export concentration strategy to China

Hypotheses	Independent variable	Regression				
		F	p	Constant	$\beta$	p
H6(1) Concentration strategy → economic outcome	Economic outcome by reinforced customer service	.291	.831	-.518	.133	.375
	Economic outcome of special service at specific area				-.038	.756
	Economic outcome of reinforced production ability of special products.				.031	.799
H6(2) Concentration strategy → strategic outcome	Strategic outcome by reinforced customer service	6.027	.001	.597	-.015	.909
	Strategic outcome of special services at specific areas				-.388	.001
	Strategic outcome of reinforced production ability of special products				.259	.021

## 5. Conclusion

This study investigated Korean enterprises' export strategies and outcome to take actions against rapidly changing trade environment in China.

The findings were:

The Korean enterprises took actions of cost, scale and economic advantages against changes of competition structure in the Chinese market, and took product differentiation strategy as well. The Korean enterprises took entry barrier strategy as well as product differentiation strategy of selling cost advantage to compete with Japanese enterprises to take product differentiation strategy under situation of differentiation and concentration. The Korean enterprises took selling cost advantage strategy.

The Korean enterprises had outcome of export to China to keep efficiency of raw material supply, and to get economic advantage at new product development, and to produce special service and products at specific regions. The Korean enterprises could attain strategic outcome to a certain degree that was negligible from point of view of business profits, and that profit-making in the Chinese market was difficult to get.

This study had limitation on regions and number of export businesses to China, for instance, Shanghai and Shenyang in the region and some of Korean enterprises in the number: So, the study could not investigate overall situation in China. And, the study could not reflect features of each industry and product. Further studies are needed to investigate each industry in detail.

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