

The Economic Collaborative Tasks in China: New Role for the 4th Logistics Party

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Abstract

The ever-expanding Chinese economy has affected the Korean economy in many respects. So many companies, including most of major groups, has increased their economic collaborative businesses in China. Due to the sandwich situation of the economic competitiveness, many Korean companies has been seeking for the lower production costs in China, while other high-tech companies also for the prospective markets in China. Nonetheless all the Korean FDIs in China have been seriously connected with its global supply chain management. In order to promote this kind of collaboration across the border, the 4PL kind of tasks are needed.

The study suggests these tasks in terms of 3 categories of Pre-Feasibility/ Business Planning, Cultural Localization, and Networking Economies/ Relationship Management. Most of all, the collaboration across the border may promote the final vision of the FTA in the Far-east Asian countries.

Key Words : 4PL, China, Pre-Feasibility Business Planning, Cultural Localization, Networking Economies, Relationship Management

I . Introduction

The new era of Pax Sinica¹⁾ has been promoted to recover the rapidly changing world economy. The GDP of China reached 1,650 billion dollars in 2004, with 9.5% rate of growth.²⁾ Since the late 1990s, the Chinese economy has been so rapidly increased that the more than 50% of global foreign direct investments ("FDIs") have been in-flowed to accelerate this growth. In year 2004, the inbound FDI was 850 billion dollars, 26% higher from the last year. It implies that the China has been promoting the domestic as well as the global economy as the most attractive factory of the world.

This kind of ever-increasing neighboring economy has affected the Korean economy as well. So many companies, including most of major groups, has increased their economic collaborative businesses. Due to the sandwich situation of the economic competitiveness, many Korean companies has been seeking for the lower production costs in China, while other high-tech companies also for the prospective markets in China.

While the FDIs from the developed countries have been substituted the inflow of trade volume between host and home countries, the FDIs from Korea have been complemented to collaboratively increase the volume of trade in both countries.³⁾ It is very unique and important for its meaning on the cross-border business activities. Based on these intimate collaboration and the successful experience of Free Trade Area ("FTA") with Chile, Korea seeks for the feasibility of more or less FTA type of Northeast economic hub. FTA has been addressing among Korea and Japan, Korea-China-Japan, and K-C-J with ASEAN in many respects and levels. Chinese Premier Zhu Rongji proposed the study of a trilateral FTA during the summit meeting in Phnom Penh, November 2002. Since then, the trilateral joint research projects have been undertaken in many cases officially and privately. However, it is not easy for the concrete alliance in Northeast Asia because of invisible hindrance in physical as well as psychic sense. Barriers in promoting a K-C-J FTA are characterized as competitive economic structure in trade, differences in political system, a leadership struggle between China and Japan, and a lack of understanding for each other. These can not be resolved in a short time.⁴⁾

Preceding researches showed that K-C-J FTA shall increase 0.03~1.05% of Chinese GDP, 0.03~0.16% in Japan, and 1.29~4.73% in Korea.⁵⁾ Even if the economic collaboration brings the win-win prosperity in the region, the official FTA may face too much tasks and hindrances, and thus take the long-term of step-wise approach.

1) As the Pax Romana means the peace and economic glory by Rome, the World War II created the Pax Americana promoted by USA. By the same token, the Pax Sinica means the economic proliferation supported by China.

2) National Bureau of Statistics, China, 2005.1.25.

3) Yongrok Choi, 『Foreign Direct Investment: Theory and Practice』, Parkyoungsa, 2000. p. 59.

4) Xie, Kang, "China-Korea Trade and Investment Development and FTA Prospects," Presented at an *International Conference of the Korea Trade Research Association*. 2003. Seoul: Coex Conference Hall.

5) Chung et al., *A China-Japan-Korea FTA: Current Progress and Tasks*, KIEP: Joint Research Series on FTA, 2003.12., p. 91.

In spite of difficulties in macro-level of FTA, the collaborative businesses in the company level have been rapidly increasing since the late 1990s, especially between Korea and China. In China, Korea has taken the top level of inbound FDI, and its trading volume high-rocketed to the top as well.

Most of Korean small and medium businesses ("SMBs") want to establish the business relationship with China, and many of them already invested alongside the Chinese seaside. However, this kind of ever-increasing businesses may result in many unexpected or underestimated difficulties. It is the case, especially in the micro-firm level. Many envisioned companies have been tried to enter into China, but failed to successfully enter into the market.

The purpose of this paper is to find out the success factors for the localization into the Chinese market, especially in terms of 4th party logistics (4PL) for the regional supply chain management("SCM").

II. Current Status and Issues in China

1. Business in China

Korea is unique in that it increased market share in China. According to KOTRA, the rapidly increasing export, Korea became the second in the trading counterparts of China as shown in <Table 1>. As shown in the table, all the top three countries, except Korea, have decreased their share in import. Korea has increased its share, meaning that the product competitiveness of Korea has surpassed over the time. In the year 2004, Korea recorded 44% increase in its export to China. It is a little lower than 51% in 2003, but still top among the competing countries.

<Table 1> Import Trend by China (Unit: Mil.\$, %)

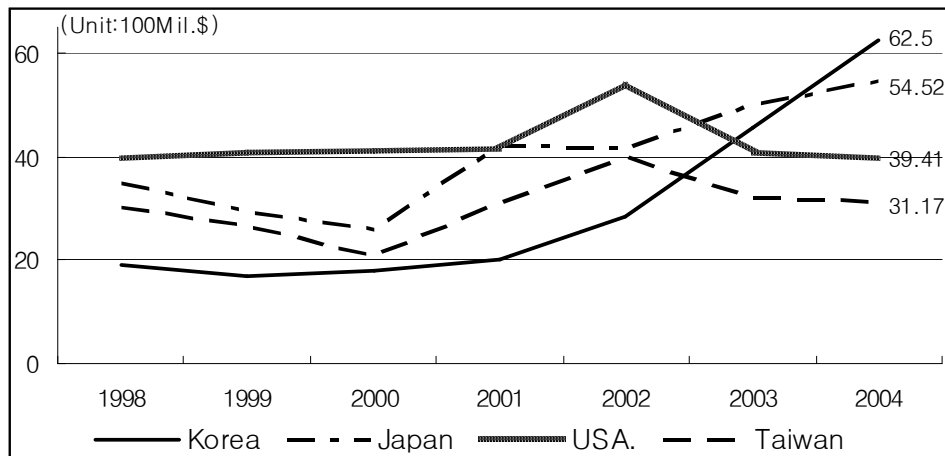
Ranks	2002			2003			2004			2005.1		
	Country	Amount	Growth	Country	Amount	Growth	Country	Amount	Growth	Country	Amount	Growth
1	Japan	53,489	24.9	Japan	74,024	38.7	Japan	94,191	26.9	Japan	6,896	26.6
2	Taiwan	38,082	39.3	Taiwan	49,364	29.6	Taiwan	64,759	31.2	Korea	5,194	27.7
3	Korea	28,580	22.2	Korea	43,160	51.0	Korea	62,165	44.0	Taiwan	5,070	19.1
4	USA.	27,227	3.9	USA.	33,882	24.4	USA.	44,652	31.8	USA.	3,477	6.4
Overall		290,302	21.2		413,095	39.9		560,811	35.8		44,261	23.9

Source: KOTIS, *Statistics of China*, 2005.3.

Korea also took the head in its inbound FDI(Foreign Direct Investment) as shown in <Table 2>. Based on the statistical report by the Ministry of Commerce of China, Korea Trade Association told the inbound FDI by Korean firms took the top rank, with 6,250 million dollars in 2004. Except the special regions such as Hongkong or Virgin Island, Korea has increased its investment into China from the 4th with 2,700 million dollars in 2002, the second with 4,400 million dollars in 2003, to the top in 2004.

<Table 2> shows that the Korean companies preferred China as the best alternative compared to the decreasing comparative advantages and worsening business environment in Korea, and took the new investment as well as re-investment for diversification in region and field of business. While the other countries such as USA, Japan and Taiwan took the steady-status under the increasing uncertainty by the concern of bubbles since 2002.

<Table 2> Inbound FDI in China by Countries



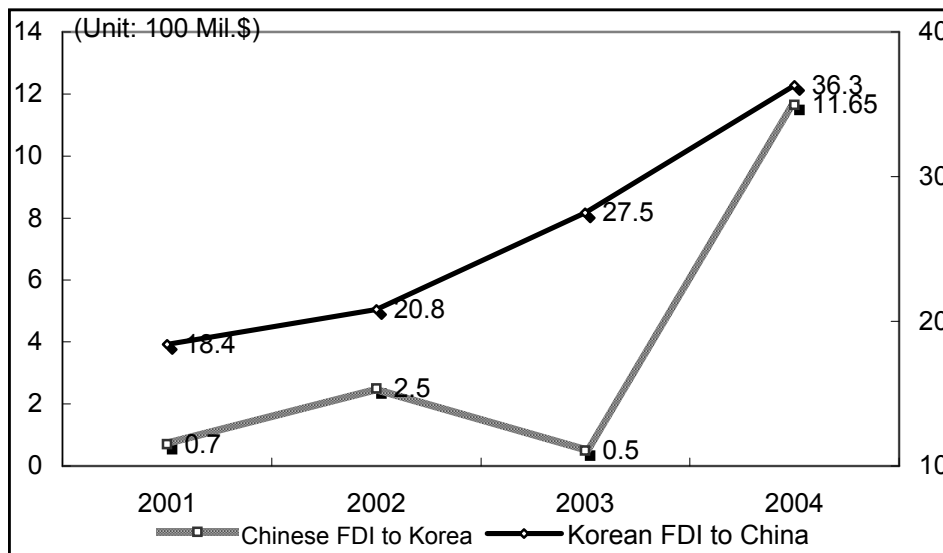
Sources: Korea Trade Association, 2005.
Joongang Ilbo, 2005. 1. 26.

The type of FDI in China by Korean firms is concentrated on manufacturing. 89% of Korean investment flowed into the manufacturing, while only 7.8% in service industry. It is sharply different from the pattern of other countries' FDI. USA took 29% of FDI in service industry, and Japan 17%. The "selective concentration" by Korean firms, compared with the other competing countries, has been flowed into the Northeast China such as Sandoong and Ryaoning provinces, in a field of manufacturing industries. It implies that these regions have integrated into the wide range of collaborative business with Korea in terms of global value chain management.

This collaboration in business could be shown clearly in terms of mutual FDI flow in both countries. In <Table 3>, China has been the best country for FDI from Korea since 2002. Compared to 1.42 billion dollars into USA.

and 0.71 billion into EU, FDI into China from Korea took the amount of 3.63 billion dollars in year 2004. It took the 45.7% share among 7.94 billion dollars total FDI of Korea in 2004. Especially the investment by large companies high-rocketed with 90.1% increase in its volume. It implies more intensive manufacturing integration is on the progress in the region over the border. Moreover, <Table 3> shows the investment by China increased from 50 million dollars in 2003 to 1,165 million in 2004. It means the share of China in Korean inbound FDI increased from 0.8% in 2003 to 9.1% in 2004. It should be noticed that Chinese investment flowed into the heavy industry by the international M&A such as Ssangyong Motor Co. by Shanghai Train Co. and Incheon Oil Co. by Sinochem. This kind of M&A or integrated manufacturing across the border made two countries more collaborative integration of business in many respects.

<Table 3> FDI Flow between Korea and China



Sources: Ministry of Commerce, Industry and Energy of Korea (for Chinese FDI)
Ministry of Finance and Economy of Korea (for Korean FDI)

However, it is not easy to figure out the success factors for the value chain integration in the Northeast Asia, because the Chinese economy itself has many diverse facets and thus could not be simplified for the analysis. Instead, the paper shall concentrate on the case study of the Sandoong province. Sandoong has been took the major role for this kind of business collaboration between two countries. Therefore, the following chapter shall address the current tasks and prospects of the Sandoong, especially in the region of Qingdao to find out the success factor for the collaborative integration of the business in the Northeast Asia.

2. Business in Qingdao

Sandoong province, represented by Qingdao city, has been one of three selective centers for the economic cooperation between Korea and China. The other two provinces are Joogang delta province, represented by Hongkong and Gwangdong, and Jangang delta province, represented by Jangsoo and Shanghai. As shown in <Table 4>, Sandoong has been leading province of the economic cooperation for early 90s and recovering its role recently. The amount of Korean export to Sandoong reached 7.7 billion dollars in 2004, 30.2% higher than the last year.

<Table 4> Korean Export to Chinese Province (Unit: Mil.\$, %)

Ranks	2002			2003			2004			2005.1		
	Province	Amount	Growth	Province	Amount	Growth	Province	Amount	Growth	Province	Amount	Growth
1	Quangdong	7,842	22.2	QD	10,826	38.1	QD	14,509	34.0	JS	1,649	86.7
2	Sandoong	4,184	13.8	JS	7,545	107.0	JS	14,391	90.7	QD	963	7.1
3	Jangsoo	3,644	41.7	SD	5,465	30.6	Sanghai	7,711	43.9	SD	631	36.5
4	Tienjin	2,805	48.3	Sanghai	5,358	99.8	SD	7,117	30.2	Sanghai	582	9.2
	Overall	28,580	22.2		43,160	51.0		62,165	44.0		5,194	27.7

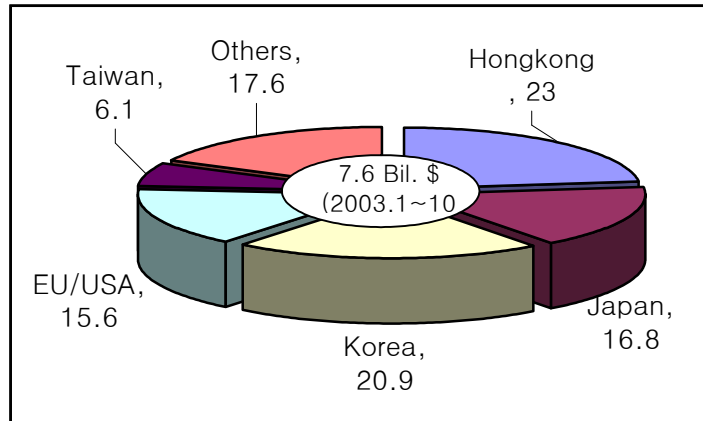
Source: KOTIS, *Statistics of China*, 2005.3.

Korea took the top in inbound FDI toward Sandoong during 2003 and 2004. Most of the FDI targeted to Qingdao as shown in <Table 5>. The accumulated amount of FDI in Qingdao reached 10.2 billion dollars at the end of 2004. It means almost 40% of total amount of FDI in China went to Qingdao. The total employees in Korean companies reached 0.3 million, which counts for 60% of all the foreign companies.

Qingdao was designated as a special economic zone in 1984. Due to the historical background of opening policies, more than 70% of residents are from other provinces. Qingdao is the headquarter of the biggest electronic manufacturer, Haier, beer company, Qingdao Beer, and one of the global carriers, Musk-Sea Land. 103 projects by 66 companies among the top 500 global companies have heavily involved in the region. As shown in <Table 5>, the FDI amount highly increased from 2.7 billion dollars in 2002 to 7.6 billion till October of 2003.

Due to this kind of active involvement by FDI, the regional GDP is much higher than any other cities in China as shown in <Table 6>. Especially, the annual growth of GDP should be noted for its role as an economic hub in surrounding Bohai Sea. Company-friendly business environment boosted the global business, and many of these businesses are from Korea including LG, POSCO, SK, etc.

<Table 5> Inbound FDEI in Qingdao (Unit: %)



Source: Joongang-Ilbo, 2005.3.2

<Table 6> Regional GDP in Qingdao (Unit: Billion Yuen)

1999	6.5
2000	8.57
2001	13.0
2002	16.92
2003	21.24

Source: Joongang-Ilbo, 2005.3.2

3. Issues for Global Collaboration

China, represented by Qingdao is still a land of opportunity. It creates so diverse future prospects for the companies and opens for the collaborative businesses globally. However, the high-rocketed entry by many Korean firms may induce lots of unexpected difficulties in the firm level as well. There are issues for the business strategies and supporting policies for the easy and comfortable entry into the Chinese market.

In spite of lots of difficulties in the macro-level, many Korean companies have been heavily entered into the Chinese market by export and FDI. Most of these businesses are not instantaneous neither once-for-all lump sum deal. As Chinese market opens more widely and deeply, as shown representatively in Qingdao, Korean companies shall promote more the cooperative or collaborative businesses over time. However, due to the lack of politically

supporting environment such as FTA, many companies should provide with its through and transparent localization strategies.

Most of failure cases in Chinese market result from the negligence of this localization factor.⁶⁾ Without mutual understanding for the cultural differences, business system and practices, the global value integration could not be achieved effectively. In order to utilize this localization factor in collaborative business, the following issues should be clarified and settled first.

First, pre-feasibility study should be more practical and concrete based on the detailed SWOT analysis. Lack of in-depth study on the enterprise resources and systems, the entry is too vaporous. Lack of knowledge on market and customers, the operation is too erratic. Matrix solution from both pre-feasibility studies could provide with contingency strategies effectively.⁷⁾

Second, localization in business system and functions should be based on the cultural management strategies. Lots of serious difficulties in foreign market may result from simple misunderstanding for the cultural differences such as communication, conceptual and context error in business. To plan globally, but to act locally is not easy, but so urgent task for local business.

Third, networking of knowledge management is required for the efficient collaboration in business. The economies of scale is no more effective for the global value integration. The economies of scope such as the power of information holds no longer for the selective concentration on the core competence. Only the economies of networking gives new comparative advantage in the globally collaborative business.

All these three issues should be resolved for the business integration in Northeast Asia. Fortunately, the region is so close, not only in terms of physical terms, but of psychic conditions. The task, then, is to set up the new paradigm for the global business integration or collaborative value chain integration under the cultural recognition. The following chapter shall address the direction of these paradigms.

III. The Cultural Paradigm for the Collaborative Business

1. Pre-Feasibility and Business Planning

To successfully enter into the Chinese market and operate business efficiently, cultural paradigm is so important.

6) Choi, Yongrok, "Characteristics of Korean FDI on the Transition Status", *Journal of Korea Trade*, Korea Trade Research Association, Vol. 3, 1999. pp.157~185.

7) Choi, Yongrok, "Procedural Strategies on the Feasibility Analysis of the Foreign Direct Investment", *Korea Trade Review*, Korea Trade Research Association, Vol. 24 No.2, 1999. pp.119~140.

Since the global business involves many difficulties from the different structure, functions and procedures, the step-wise cultural paradigm is required. At the pre-entry stage, the pre-feasibility study should be more practical and concrete based on the detailed SWOT analysis.

SWOT analysis consists of environmental study and pre-feasibility for self-potential capacity. In general, SWOT analysis is used to develop the entry strategy into the new market, but most of cases do not utilize much about the checklist coming from the opportunity and threat factors resulting from the cultural facets, and thus could not effectively induce the cultural paradigm in more practical terms and conditions.⁸⁾

For example, the Chinese cultures from Indonesia and from Thailand are so different in that the first are anti-public, the latter pro-public. In general, Indonesia people have some reluctancy or antipathy against Chinese people, while the people in Thailand are tend to show more intimacy or friendship. All these cultural factors come from the historical or socio-economic background.

By the same token, the people in Qingdao tend to have more open mind for the foreign companies than the people in Peking. If we could understand more about this kind of cultural factors in detail in the stage of pre-feasibility study or market research, we could utilize more basic elements to localize the business with better collaboration in the region. Many Korean companies disregarded this factor and considered them to be superior in terms of capital, technology or knowledge. It created unavoidable dispute and conflict even in every day operation of the business, resulting in failure or retract.

2. Cultural Localization

As the maxim says, "in the Rome, act as a Rome", the key success factor in the operation stage is the through and perfect localization in terms of company culture and identification. In case of POSCO, the basic strategy of the business in China has been the cultural exchange that "the company should be changed into the real Chinese one, while the employees into the POSCO type." This cross-cultural efforts emphasizing the cultural factors created challenging environment for the co-sharing future.

Another example could be found in SK. SK has entered since 1990, earlier than the official opening of the political relations with China. After the 1 billion dollars of Senjun Project failed, which is focused in a field of energy industry prohibited by Chinese government, SK realized the most important factor in doing business with China to be culturally identified as a Chinese company. One of the efforts by SK is exemplified with SK Jangwenbang, a TV program for the scholarship on behalf if the Chinese students. SK does not want to be one

8) Choi, Yongrok, *Foreign Direct Investment: Theory and Practice*, Seoul: Parkyoungsa, 2000. pp.139-144.

of the Korean companies entered into the Chinese market. It wants to be identified as a real Chinese company through "the second start-up for the global business".

Samsung invokes the importance of culture in the business operation in host country and thus emphasizes much about the culture marketing such as the sponsorship for social events, advertisement as a cultural leader, etc. This kind of transparent and culture-oriented business in the host country creates the more productive context of the company for all the related parties.

Many other Korean companies entered in Qingdao, such as LG and Hyundai, also try to utilize the cultural factors to identify the function of business operation in China. In their business practices, the diverse cultural strategies are maximized to enhance the global collaboration across the border.

Cultural identification among the parties related with the company in host country creates the best solution in case of emergency or new challenges. Hynix in USA had been sent to the Federal Court for the subsidy from Korean headquarter just after the IMF crises in 1997. But the State Government of Oregon made the best efforts of the plea for Hynix. They argued Hynix is not Korean company, but USA company and the subsidy should not be the case for the different local company such as Hynix. KORINDO, a Korean company invested in Indonesia, has received several prizes from the Indonesian government for its efforts on the local society and regional economy. These examples show that the cultural factors do invoke the stronger royalties from the employees and investors, better support from the related parties, and higher expectation from the local society.

3. Networking Economies and Relationship Management

All these localization in terms of cultural identification could take the diverse activities such as employees training system, partnership with local suppliers, and participation for the social sponsorships. One of the most important paradigms for the localization is certainly related with the economies of networking coming from the relationship management.

In the era of ubiquitous IT technology, the e-business related business transformation is necessary not only for the global integration of the business collaboration, but for the market relation management. Here, we identify market relation management instead of a more familiar term of customer relationship management. The reason for the term market instead of customer is based on the consideration on the cultural localization. All the business in China is related not only with the consumer in Chinese market, but with the surrounding organizations such as government agencies, international competitors and the headquarter in Korea. The market relation management includes, thus, diverse networking strategies with all the related parties.

In China, the relationship called as "Quansi" is not just a business relation, but mutual trust and friendship

in the long-term. The salesman strategy aims for the maximization of profit in the short-term, while the strategy of entrepreneurship is based on the creation of the higher value for win-win on both side in the long-run. The relationship management is based on the value-creation in the long-term, instead of maximum profit in the short-term. It emphasizes the personal consideration and data-based treatment under the 80 versus 20 percent selective concentration rule. Therefore, the relationship management is based on the IT technology and the e-business transformation of the local business.⁹⁾ More complicated systematic approach for the related parties shall result in the customized effect for the long-term. The integrated business operation with headquarter in home country is necessary for the business collaboration on the global value chain. Especially, we emphasize the economies of networking does not come from the supply chain integration, but from the value chain management. The first aims just to share the function of production from material procurement to consumption, while the latter concentrates on the invisible effects from the sharing of all the business function such as marketing, R&D, production, promotion, and labor/investor relationship management to create new values. Of course, all these process should be based on the cultural facets of the strategies in home/host countries.

IV. Concluding Remarks

There have been numerous literatures for the desirable set up of Korea-China-Japan FTA. However, most of these researches are handled the micro-level and thus presented the optimal suggestions for the policy-related government actions. Unfortunately, most suggestions have internal limits because of physical as well as psychic barriers. The difficulties from the governmental sectors could not be resolved in a short time. Therefore, the paper is aimed to focus on the firm level to set-up more productive step-wise paradigm for the global collaboration in the Northeast Asia.

We propose the in-depth SWOT analysis and pre-feasibility study in the initial stage of business collaboration based on the cultural awareness. In the operation stage, the cultural localization should be emphasized for the optimal growth on the harmonious collaboration between China and Korea.

In the long-term, economies of networking coming from the relationship management should be amortized in the business strategies. More participants on the global value chains across the border could bring more productive benefits for all.

9) This relationship management is the key factor for 4PL in global SCM. Even for the advanced 3PL, the key factor is transportation, while 4PL focuses not only on the flow of GSCM, but on the collaboration in the functioning transformation from production into the consumption across the border.(Yongrok Choi, "A Study on the e-Trade Alliance in Far-east Asia", Geba, *The e-Business Studies*, Vol.3 No.2, 2002.12. pp.534-78.)

Before the governmental resolutions are provided, there have been more aggressive and pro-active businesses in many cases in history. Vietnam and Russia are the examples for these cases of Korea. There have been promoted diverse integration in the global business already between Korea and China. However, many successful practices in the collaborative business also resulted in failure cases in the entry and operation level of Chinese market. The paper sheds lights on the cultural factor in the global business. Without the in-depth paradigm on the culture, the global collaborative business across the border could not be sustainable in the long-term.

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