

The Current Status of and Challenges in the Expansion of ROK Enterprises into China With a focus on Tianjin Municipality

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Summary

Accompanying the progress in economic globalization in the latter half of the twentieth century, domestic production costs in the ROK have risen, and one after another ROK enterprises have transferred their production bases abroad. Particularly in recent years the shift to China has been marked. The most important indicator of this is the increase in foreign direct investment into China and the expansion of production bases in China.

Concerning the ROK's direct investment into China, labor-intensive SMEs expanded into Shandong Province, Tianjin Municipality and Liaoning Province in the mid-1990s, but in recent years investment has been concentrated also in *Huadong* [east China] centered on Jiangsu Province.

The ROK's direct investment into China has been an engine for exports to China, with the result that the increase in exports to China is striking. The export inducement effect of an increasing export of components to China accompanying the expansion of ROK firms into China, and the import inducement effect of a reverse import taking place from ROK enterprises in China to the ROK, have both been seen. As a result, for the ROK, China, as an export destination, overtaking the United States in 2003, and also as an import source, overtaking Japan in 2007, has become number one in both respects. In this way, for the ROK, China's presence as a trading partner has markedly increased.

Tianjin Municipality, dealt with in this paper, through the promotion of construction of the Bohai Sea Rim Economic Region and the Tianjin Binhai New Area, is drawing attention as China's new economic growth spot. While its role as the gateway to the capital, Beijing, is great, for the geographically-close ROK the city is rated as an important base for the expansion in China of ROK firms.

Formerly there were many ROK firms that expanded into Tianjin for the cheap labor-force, but in recent years there have been more enterprises which are conscious of the Chinese domestic market. The ROK companies which are expanding into Tianjin are mostly concentrated in high-tech industries, the IT industry and the automobile industry, as well as component and parts-supply industries for automobiles and telecommunications. The Tianjin production bases of Samsung Electronics and LG Electronics can be given as instances of large-scale investments.

Although ROK enterprises in China are actively developing their business, they are also facing problems and challenges such as (1) a rise in costs, particularly labor costs; (2) intensifying competition with local firms; and (3) frequent changes in regulations and systems. These are common problems for foreign-invested companies and are not limited to ROK enterprises in China, yet as specific problems for ROK enterprises in China they can highlight the smallness of the firm.

From late 2007 to the start of 2008, instances have often been reported where the management flees abroad without a proper settlement of accounts (a so-called "unannounced withdrawal"). For small and medium-sized ROK enterprises in China, the business environment in China is continuing to be fierce, including the rise in labor costs, the appreciation of the yuan, the implementation of an employment contract law, and the unifying of business income taxation.

Despite such a harsh business environment, ROK enterprises in China, when seen as a whole, are showing, as before, a positive attitude toward business in China. Not only manufacturing industry, but service industries are also continuing to be active in expanding into China.

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