
A China Strategy for Innovative Korean Businesses : Focusing on Chongqing and the Liangjiang New Area

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Chapter 1. Research Background and Objectives

The Chinese government's new paradigm for economic growth is characterized by the launch of massive development projects in the Midwest and the fostering domestic market growth through urbanization. As a result, businesses and governments of advanced economies have been looking to seize new business opportunities in China. These businesses and governments are especially focusing on latecomers to industrialization—new towns and cities under development that offer much greater potential for growth—rather than well industrialized cities.

Korean industries need to outgrow their dependency on a conventional, conglomerate-centered China strategy and adopt new strategies that cater to the new wave of industrialization and growing demand for technological advancement in the country. The structures of direct investment in and trade with China need strategic approaches to manage its paradigm shift on economic growth.

The central subject of this study, then, is how innovative Korean businesses might enter the expanding Chinese market more effectively and successfully. We focus on innovative companies for two reasons. First, leading brand-name Korean companies have been struggling on the Chinese market in the recent years and their prospects for future success are limited. Notwithstanding the signs of growing volatility in the Chinese economy and the slowdown of the pace of its growth, China is still the only major market in the world that can continue to grow at five percent or more each year. China is no longer a mere “factory of the world,” thriving on cheap labor but is rapidly becoming the world’s biggest market thanks to the significant rise in income levels. So it is impossible to envision the future of the Korean economy without taking into account this massive market. Korea desperately needs an alternative strategy that will succeed where the struggling large Korean conglomerates in China have failed.

Second, innovative Korean companies face a decreasing number of opportunities and prospects on the limited Korean market, and they need to globalize in order to ensure their further and sustainable growth. However, it is nearly impossible for these businesses to pioneer new markets in North America and Europe. They would enjoy much better prospects on the emerging markets, of which China offers the most favorable conditions for our businesses. Local Chinese governments pursuing late industrialization policies and the relative vulnerability of the private market economy in China present new opportunities for innovative Korean businesses today.

Chapter 2. Globalization of Korean Innovative Businesses and China as a Target Market

1. Current status and issues of globalization of Korean innovative businesses

The innovative businesses this study refers to are ‘venture enterprise’ that tend to represent the innovative business policy and system of Korea..

There are a number of obstacles that block the globalization of these innovative businesses in Korea. First, small and medium enterprises (SMEs) lack strong orientation toward globalization. Start-ups tend to be more eager for globalization, and show a greater level of export orientation, than do exporting SMEs. Nevertheless, the vast majority of these firms are still fixated upon the domestic market, and they possess little to no presence on the global one.

Second, innovative firms lack clear and exclusive competitive advantages. While they have relatively greater competitive advantages in terms of technology and quality, they lack clear global advantages with respect to prices, designs, and marketing. The successful globalization of these startups requires clear competitive advantages that can help them offset or overcome the costs of globalization. Yet few innovative firms have developed and implemented globalization strategies to that end.

Third, innovative firms are not pursuing globalization with as much rigor as they should be. They are commonly expected to apply themselves eagerly to developing technologies and other innovative activities aimed at the global market, but this is far from the

reality of what they are doing. Our survey on SMEs reveal that for these businesses to globalize, they need to develop technologies catering to the global market, and yet most of them are developing technologies aimed at the domestic market. Innovative firms should endeavor to avoid the same pattern.

2. Significance of China as a major target market and factors to consider

Emerging markets abroad with high growth potential offer a better chance for Korean innovative firms to utilize their capabilities and innovative products than do advanced markets. Innovative firms are better off targeting these emerging markets, which offer easier entry with more numerous industrialization niches and great potential for developing demand. Also, given the need for innovative firms to make the most efficient use possible of limited management resources, it is important for them to target geographically close markets. Other factors that must be considered in deciding target markets abroad are the status and quality of local infrastructure and the available policy support and resources.

Taking all these factors into account, we conclude that the best target markets for innovative firms are emerging markets of relatively large sizes with high growth potential, particularly with great (actual or potential) demand for highly advanced technology and industries that the markets lack.

Candidate target markets for Korean innovative businesses thus include China and other emerging economies in Asia, such as India, Indonesia, and Vietnam. Of these, China offers the best fit

according to our criteria of targeted market selection.

Neighboring the Korean Peninsula, China offers a very attractive emerging market with high levels of growth potential, good stability, and a substantial market size. However, a number of local industries in China are now advancing at a rapid pace and have even begun to synchronize with the rest of the high-tech global market. It is therefore advisable not to take a monolithic view of China as an entirely backward market. Indeed, competition is already fierce in established urban centers. Rather than focus on these, Korean innovative firms need to target niche regions in China that are relatively underdeveloped, but that offer great potential for growth and success.

Moreover, it is critical for Korean innovative firms to identify what roles they should play alongside China's new paradigm on economic growth and prepare strategies to seize the opportunities and counter the threats that the new paradigm presents. New opportunities now opened up include the growth of market size, increased potential for growth, growing demand for high-tech and innovative companies, and niche markets for new industries. The threats referred to those such as the imbalance of market functions by region or sector, the dearth of effective channels of information, the unpredictability of regulation, and the absence of legislative or statutory grounds.

Chapter 3. Literature Review on the Globalization of Innovative Firms

A sizable number of empirical studies focus on SMEs that have

globalized or are about to globalize. Yet few studies are found focusing specifically on innovative firms.

Of the established body of literature on possible business strategies for entering specific regions of China, very few studies tailor their analyses specifically to certain types of businesses. As our study seeks to delineate a strategy for a specific type of Korean business to enter newly emerging Chinese markets, there was little of relevance to our analysis in the established literature. The following literature review, therefore, focuses on theoretical and empirical studies that focus on SMEs and emerging markets. We used this literature review to formulate the theoretical basis of our study on innovative startups.

1. General theory on types of globalization strategies

Globalization strategies vary by purpose, target market characteristics, and other diverse factors. Cho (2004) identifies three types of globalization strategies—i.e., exports, contracts, and independent investment—and analyzes each. Daniels, Radebaugh, and Sullivan (2009) group globalizing businesses by whether they make equity investments overseas and by production location. Pan and Tse (2000) classify between non-equity modes and equity modes of globalization depending on whether businesses invest in the equities of foreign companies in seeking to globalize.

In this study, we initially identify three types of globalization strategies; namely, those for exports, licensing, and foreign direct investment (FDI). However, there are certain differences between FDI in joint consortia and independent FDI to be noted. As a re-

sult, we divide the strategies into four types, i.e., exports, licensing, joint investment, and independent investment.

2. Literature on the entry of SMEs into emerging markets

Existing studies on SMEs entering emerging markets make use of broad-ranging and inclusive models of analysis. Shi, Ho, and Siu (2001) use these models to analyze Hong Kong small and medium manufacturers entering the Chinese market. Ulrich, Hollensen, and Boyd (2014) apply a comprehensive model that takes into account both business and market factors of how Danish small and medium manufacturers enter the BRICs markets.

The study by Shi, Ho, and Siu (2001) is particularly germane to our study because it concerns small and medium manufacturers of Hong Kong that target the Chinese market. The model of analysis those authors use takes into account business-specific factors and location factors, and their study also provides in-depth analysis of the findings and results of interviews. The study by Shi, Ho, and Siu (2001) thus forms a major reference point for this study.

3. Theoretical basis

Before applying the theories proposed in the established literature, we need to consider a number of factors. First, this study does not concern Korean businesses that are already operating in China. Rather, our goal is to explore ways for startups to enter a new market effectively. It is therefore impossible to turn this study into an empirical analysis of a wide sample of businesses with an

established presence in China. Second, this study assesses and analyzes possible entry strategies for a specific type of business that may target specific regions of China. In other words, we consider the business and location factors as defined in other existing studies. This is why the study by Shi, Ho, and Siu (2001) receives most of our attention out of all of those in our literature review.

Finally, although we apply business and location factors as defined by other studies in our study, we do so by making necessary modifications to those factors. The findings of Shi, Ho, and Siu (2001) are used in a selective manner because the strategic variables they identify capture the motivations behind businesses that have already entered the Chinese market, which are not applicable to our study without modification. As for business variables, some were replaced with replacement variables and other similar variables were combined together before being applied in this study.

In sum, this study explores the potential for Korean innovative firms on the Chinese market by analyzing business and location variables. Business variables in our analysis include business capability, comparative advantage, and globalization capability. Location variables include the conditions and strategic values of target markets.

Chapter 4. Business Conditions in Chongqing

Of the second- and third-class cities in the Chinese Midwest with relatively favorable business potential, this study focuses on the city of Chongqing and the market conditions it offers for newly

entering businesses. There are a number of reasons for choosing Chongqing for analysis. First, the first-class cities and other major cities on the East Coast of China are already saturated markets where world-renowned multinational corporations, including some from Korea, struggle hard amid increasingly fierce competition. The chance of the Korean innovative SMEs entering these markets, let alone succeeding on them, is extremely slim. Second, of the second-class and inland cities in China, Chongqing provides a relatively favorable business environment thanks to the central government's industrialization policy. Third, while there are a number of other Chinese cities that merit analysis, we chose Chongqing because the city's economy and industries remain underdeveloped yet have great potential. Accelerating economic growth in this city will likely exert greater ripple effects.

1. Economic status

Chongqing is one of the four direct-controlled municipalities in China, along with Beijing, Shanghai, and Tianjin, and the only such municipality in the western part of China. The Chinese government's Midwest development drive has enabled the city to grow at an astonishing pace.

Among all cities in China, Chongqing boasts the greatest population, the greatest amount of investment in fixed assets, the fourth-largest volume of retail sales, the seventh-largest gross regional domestic product (GRDP), and the eighth-largest manufacturing output. As such, it is one of the most prospective growing cities in the country today. It may lag behind other direct-control

municipalities in terms of gross manufacturing output, but it is the only western city to make the list of top 10 manufacturing cities in China, indicating that it is a center for industries in China's West. Local consumers have great and growing purchasing power, which puts Chongqing ahead of Tianjin. On the "Rankings of Competitive Chinese Cities," published by the Chinese Academy of Social Sciences, Chongqing came 26th out of 294 cities in 2013 and gained two places to be the 24th in 2014. Chongqing's ranking has been rising consistently from 2010 through 2014. On the Chinese Academy's "Index of External Economic Relations," which is based on accessibility to nearby economic centers as measured by geographical distance and travel time, Chongqing came in fourth after Shanghai, Beijing, and Guangzhou. Of the western cities, Chongqing managed to surpass even Xian and Chengdu.

Chongqing is home to the Liangjiang New Area, one of the emerging urban centers under the Chinese government's attention. As of 2014, the GRDP of the Liangjiang New Area amounted to CNY 186.1 billion, which makes it the third-largest after those of Tianjin and Shanghai. The Liangjiang New Area grew in 2014, up by 15 percent from the previous year, well ahead of the 10.9 percent of Chongqing.

2. Industrial basis

The secondary (manufacturing) sector comprises the greatest presence in Chongqing, followed by the tertiary (service) sector and then the primary sector. Manufacturing continues to lead the city's economic growth, while the service sector is expanding rapidly.

Of the four direct-controlled municipalities in China, Chongqing has a relatively greater farmer population. Its primary sector output amounted to CNY 100.3 billion or 7.9 percent of the city's GRDP as of 2013. Agriculture, livestock farming, fishery, and forestry make up 60.1 percent, 31.9 percent, 3.6 percent, and 3.2 percent, respectively, of primary sector output. Chongqing has a plan to establish agricultural production, processing, and trading clusters with businesses capable of turning local agricultural produce—such as tangerines, zhacai, medicinal herbs, pork, and silk—into booming enterprises.

At present the manufacturing sector leads the economic growth of Chongqing. As of 2013, the city's manufacturing output amounted to CNY 525 billion, 41.5 percent of the city's GRDP. As a traditional stronghold of manufacturing, Chongqing used to be a center for chemical and mechanical equipment industries, but these industries moved to the East. Because of the growing demand for new strategic industries and the rejuvenation old ones, Chongqing began to foster seven strategic industries with policy support for IT and electronics, automobiles, chemicals, equipment manufacturing, materials, consumer goods, and energy.

The tertiary sector in Chongqing is expanding at a rapid pace, and as of 2013 its output as a percentage of the GRDP had risen by 2.2 percent in just a year to 41.6 percent. Finance has a strong presence, accounting for 8.4 percent of the tertiary's sector's output, followed by wholesale and retail distribution (7.8 percent), real estate (5.8 percent), and transportation and postal service (4.6 percent). Chongqing is actively fostering logistics, tourism and convention agencies, finance, culture, and service outsourcing under its policy

for the advancement of the service sector.

Home to four national economic development zones, including the Liangjiang New Area, the bonded processing trade zones at Xiyong and Lianglu Cuntan, and the High-Tech Industrial Development Zone, in addition to 40 or so municipal industrial complexes, Chongqing is a promising platform for industrial development in China.

3. Policy environment

With strong backing from the central government, Chongqing is actively pursuing urban development. The Chinese central government is already supporting the city's growth with its Western Development Strategy, the Guiding Opinion on the Development of the Changjiang Economic Belt, and the One Belt-One Road Plan, demonstrating the strategic centrality of Chongqing to China's regional development plans.

Chongqing, for its part, has announced and launched the New Urbanization Plan for the development of a trading and distribution center upstream of the Changjiang River, the Mid- to Long-term Plan for the Development of the Local Medical and Pharmaceutical Industries (2012-2020), the Entrepreneurial Support Policy, the Mid- to Long-term Plan on the Development of Logistics, and the Eco-Friendly Industry Cluster Development Plan (2015-2020).

In other words, there is a strong policy drive for attracting and supporting investors and businesses seeking to enter and operate in Chongqing.

4. Foreign investment

As of the end of 2013, Chongqing's FDI amounted to USD 4.14353 billion, making the city the 12th-largest municipal recipient of FDI across China (1.7 percent) and the second-largest in China's West (21.1 percent) after the province of Szechuan. Hong Kong is the largest source of FDI in Chongqing (66 percent), followed by Singapore (6.0 percent), Japan (1.9 percent), and Korea (0.3 percent). Note that 76.6 percent of FDI went into the service sector—real estate alone claimed 48.3 percent—and 23.3 percent into the manufacturing sector.

Fortune 500 corporations mostly invested in manufacturing industries, such as automobiles and IT. Of the Fortune 500 companies, 236 have entered Chongqing. The liberalization of the city's financial sector has increased the number of foreign banks entering as well.

Chongqing is enhancing its capability for innovation to attract increasing foreign investment. As part of its industrial restructuring policy, the city directs a large portion of foreign investment into high-tech manufacturing, new strategic industries, and the service sector. There are also policy incentives for foreign businesses to set up their R&D centers in Chongqing.

5. Implications

Chongqing has great prospects for growth. It may lag behind the cities on China's East Coast in terms of the quality of industrial structure or economic wealth, but the city has been expanding its

output and industrial basis at a remarkable rate in recent years. As the only direct-controlled municipality in Midwest China, Chongqing's ranking has climbed by 13 places over the last four years among the rankings of urban competitiveness published by the Chinese Academy of Social Sciences. Recent Chinese central government's policymaking has also supported the growth of Chongqing and surrounding regions.

Chongqing has great strategic importance. It is a major hub of transportation by water, land, and air, and is thus capable of exerting significant ripple effects across surrounding areas. With the completion of the Changjiang Waterway, Chongqing will emerge as the center of the massive southwestern Chinese market. The city stands as a gateway for Chinese and foreign companies wishing to target not only the Chinese Southwest, but also the whole of Southwest Asia.

Chongqing remains culturally and geographically distant from Korean businesses today. Surprisingly, the Korean business community has hardly given any attention to this emerging region with its superior accessibility, stable economic growth, and strong policy support from the Chinese government. Korean businesses still prefer the closer, coastal part of China's East. They may be greatly interested in the Chinese market as a whole, but not in China's West.

Chongqing is home to 236 of the Fortune 500 companies. This attests to the growing interest of global businesses in the city. These leading multinational corporations have high hopes for thriving in China's Southwest and Southeast Asia through Chongqing.

It is therefore crucial for Korean businesses to consider and adopt models of mutual partnership with Chongqing. They would

be committing a huge mistake in dismissing Chongqing as a relatively unknown and backward region of China. The Chinese central government is directing substantial industrialization resources and support toward Chongqing. As Chongqing's economy and industrial basis grow and improve, Korean innovative startups will face fewer and fewer opportunities for entering China. It is thus critical for Korean businesses to seize the opportunity presented by this burgeoning yet underdeveloped city and share with a view to long term growth.

Chapter 5. Prospects for Korean Innovative Firms on the Chinese Market

We analyze and explore the capabilities of Korean innovative firms to enter the Chinese market and their understanding of Chongqing. The prospects for these businesses are analyzed using a survey that measures their technological and globalization capabilities and by examining the general competitiveness and growth potential of Chongqing.

1. Survey results

More than half of the Korean innovative firms that participated in our survey reported sales abroad, showing a level of globalization that was higher than not only that of SMEs in general, but also higher than the innovative firms average (33.0 percent) as measured on the Detailed Fact-Finding Survey on venture business in Korea.

The most common motive for globalization among these businesses was worry over the limits of the Korean market. Yet there were also considerable numbers of businesses seeking to diversify their markets and develop global supply networks. The majority of the surveyed businesses were still in the early stage of globalization/exports, and significant numbers of them were also at the stage of securing stable export markets and globalization management.

With regard to competitive advantages, 42.2 percent of these businesses reported growing less and profiting less than their rivals. Another 25.7 percent reported growing more, but profiting less, than their rivals, and the remaining 19.3 percent reported growing and profiting more than their rivals. More than half (52.7 percent) of the surveyed businesses responded that they lacked a high profile on their target markets. But another 34.5 percent responded that they had possessed, maintained, and improved a high profile on their respective target markets. As for technological competitiveness, 22.0 percent of the businesses used world-class technologies, and 37.6 percent had the best technologies of their respective industries in Korea. Almost 60 percent, in other words, employed topnotch technologies at least on the Korean market. In addition, 64.5 percent of the surveyed businesses answered that their competitive advantage over foreign rivals was thanks to their superior technologies.

With regard to experiences with the Chinese market or local networks leading into that market, 52.8 percent of the businesses had experience with the Chinese market in one way or another. Yet the vast majority (72.7 percent) either lacked, or were still searching for opportunities to form networks with Chinese partners. Only 6.4

percent of the businesses reported having established advanced networks. This group businesses consisted mainly of large globalized companies generating at least KRW 10 billion in sales revenue each and showing high rates of growth and profitmaking.

When asked whether they had heard of or were aware of Chongqing, 76.4 percent of the surveyed businesses answered that they either had never heard of or did not have much knowledge of the city. It is important to note, however, that at least 21.8 percent, or almost one out of five, reported some awareness of Chongqing.

When the group of aware businesses was asked about the current status of competitiveness and the market potential (a substitute for the variable of future competitiveness) of Chongqing, 83.5 percent of them rated it as relatively more or very much more competitive than other regions or provinces of China. When asked to rate its market potential, 89.1 percent of these businesses answered that Chongqing city showed relatively great or very great market potential. In other words, the businesses aware of Chongqing leaned more favorably toward its future potential than its current status.

When this group of businesses was also asked to assess the likelihood of their entry into Chongqing, 55.5 percent answered that it was likely, though seen as quite risky, while another 25.5 percent answered that it was likely and not seen as risky. At least a quarter of all surveyed businesses, then, held Chongqing as a prospective market for global expansion.

2. Empirical analysis on factors affecting entry into Chongqing

A simple cross-analysis of the survey results made it impos-

sible to identify the effects of independent changes in the given variables because the analysis simply measured and calculated statistics without controlling variables. We therefore ran regression analyses to control variables and determine how changes in each variable would affect the likelihood of Korean innovative startups' expansion into Chongqing. As this study concerns startups with the potential or likelihood of globalization rather than already globalized companies, it was critical to identify which factors affected businesses' decision making on whether or not to globalize.

Our empirical analysis involved a multiple regression formula, as shown below, designed to gauge how changes in each possible variable would affect the prospect of Korean innovative startups' entry into Chongqing.

$$OLS: Y_i = \beta_0 + \sum_j \beta_j X_{i,j} + \sum_k \beta_k X_{i,k} + \epsilon_i$$

i : Given company

Y_i : Likelihood, as perceived by i , of entering Chongqing (out of a three-point scale)

$X_{i,j}$: Possible variable, e.g., the revenue of i (as of 2014), technological innovation (out of a four-point scale), proportion of overseas revenue (out of a four-point scale), China experience dummy, awareness of Chongqing (out of a four-point scale), assessment of Chongqing's competitiveness (out of a four-point scale), and perception of Chongqing's market potential (out of a four-point scale).

$X_{i,k}$: Control variable, e.g., the globalization motive and the main industry dummies for i

ϵ_i : Residual

Our analysis reveals both the business capability and comparative advantage (in terms of revenue and technological innovation) to be statistically significant. In particular, the more innovative a company's technology, the more likely it was to enter China. On the other hand, the globalization capability (in terms of the proportion of overseas revenue, experience with the Chinese market, and the awareness of Chongqing) bore little significant correlation. In other words, in deciding whether or not to globalize, businesses focus more on their comparative advantages rather than their previous experiences with globalization. Their competitive advantages had decisive impact on whether these businesses perceived potential success or failure of the globalization.

Businesses' assessment of the likelihood of their actual expansion into Chongqing showed significant sensitivity to their perception of the city's competitiveness. The more competitive Chongqing seems to these businesses, the more likely they rated their expansion into the city. However, businesses' perception of the market potential of Chongqing showed little significant correlation.

Chapter 6. Entry Strategy

1. Assessment of the prospects for Korean innovative firms in Chongqing

In terms of competitive advantage and globalization capability, Korean innovative firms enjoy favorable prospects of successfully in entering Chongqing. Those already globalized with world-class

technologies enjoy even better prospects. As Chongqing continues to grow economically and is a great location for cluster-type industrial areas, such as for IT, automobile, chemical industries, businesses involved in or catering to these industries are also likely to enter the city. Chongqing is an especially attractive Chinese base for companies that have already begun to globalize and diversify their markets abroad or that are still in the early stages of globalization and seek to develop and extend their global supply networks.

However, the investment environment of a city is another decisive factor for foreign businesses considering whether to enter it. Chongqing, on the whole, does not offer the best investment environment in China. But if we exclude the first- and second-class Chinese cities that have already achieved considerable degrees of economic development and industrialization, Chongqing emerges as a particularly attractive investment environment, and even more so if compared to other cities and towns in the western inland region of China.

While Chongqing's attractions are relatively unknown to Korean businesses because it is farther to reach than other Chinese cities on the East Coast and because it remains relatively underdeveloped, greater awareness is likely to come soon. Hyundai Motor recently announced its decision to invest in Chongqing, generating interest in the city. Businesses will discover that Chongqing is already home to other brand-name Korean companies, including POSCO, Hankook Tire, and Pulmuone, and therefore the city offers resources from which newly entering Korean innovative businesses may benefit.

Our empirical analysis also reveals that businesses' assessment

of the likelihood of entering Chongqing is significantly correlated to their perception of the city's competitiveness. The more competitive a business rated Chongqing as a market, the greater the business assessed its likelihood of entering the city.

As mentioned earlier, firms with advanced and innovative technologies reported a greater likelihood of entering Chongqing. Part of that assessment reflects their confidence in technological competitiveness and that they recognize Chongqing as a market upon which they could exercise their technological competitiveness and innovation and succeed.

2. Entry strategy

(1) Possible fields of entry

First, newly entering innovative startups could supply parts and materials in industrial clusters led by large corporations. Chongqing is one of the representative manufacturing centers of China, and provides many benefits and incentives for cluster-type industries, such as those for automobiles and machinery. Chongqing is also emerging as a new base for Hyundai Motor and giants of Korean manufacturing. Korean innovative firms therefore have the opportunity of entering Chongqing via the supply chains for large corporations.

Second, there are emerging and strategic new industries. The overlapping with traditional industries and the surplus of major industries are causing restraints on investment in established and conventional industries in late industrializers such as Chongqing.

Accordingly, the Chinese government has designated and is actively fostering seven strategic new industries, and various local governments, encouraged by the central government, are shifting their focus onto new industries, such as high-tech, environmental, and knowledge-service industries. In the case of Chongqing, it has launched policy programs to foster such emerging industries as IT, pharmaceuticals, environmental protection, smart manufacturing equipment, and materials.

These so-called new growth industries, with emerging (nascent) markets and great potential for niche market development, are well suited to innovative businesses and startups. Korean businesses, however, have generally refrained from entering these new growth markets overseas. Newly entering innovative startups thus are unlikely to find many established business networks to utilize in Chongqing.

Third, newly entering businesses could make active use of entrepreneurial support and incentive programs. Under Premier Li Keqiang's leadership, the Chinese government has launched a broad-range of ambitious policy programs to foster entrepreneurship under the slogan, Startup by the Masses, Innovation by Everyone (大众创业 万众创新). This has caused various local governments to wage similar programs on their own, including the entrepreneurial support policy announced by Chongqing in May 2015. Korean innovative firms with prospective business plans could benefit greatly from such programs. Cooperation and partnership at the level of governments between Korea and China may further help and support innovative entrepreneurship.

Fourth, Korean innovative startups could target local specializa-

tion industries. China's late industrializers such as Chongqing face stiff barriers in entering mature industry markets, while struggling with shortages of resources for nurturing new growth industries. Some have thus begun supporting industries based on local conditions and resources with policy programs. But supported industries are forced to make use of resources already available in their region, and thus may not offer much of a prospect for businesses seeking far-reaching industrialization. Nevertheless, these industries can be particularly attractive to newly entering businesses with the technology, experience, and capabilities required. Chongqing, for its part, is fostering industries that make use of its relatively abundant agricultural and mineral resources, including, as mentioned earlier, medicinal herbs, zhacai, pork, and silk. Newly entering Korean businesses that target these industries can expect to receive active support from the city.

Fifth, there is a growing market for consumer goods, thanks to the expansion of the middle class. The rising levels of income and the growing purchasing power of Chinese consumers will rapidly increase and diversify the consumer goods market. Undoubtedly, middle-class consumers will play more influential roles in the Chinese economy, and so it would be wise for businesses to cultivate niche markets that cater to these consumers' needs. The wide urban-rural gap in Chongqing and the polarization of its consumer class may have prevented a well-functioning consumer market from arising until now. Chongqing's consumers, however, tend to spend more than they earn and show a rapid rise consumption levels. Korean innovative startups that proactively take advantage of the rise in consumerism in Chongqing will thus have an upper

hand in entering and dominating its growing middle-class consumer market.

(2) Modes of entry

Unlike in the past, Korean businesses seeking to newly enter the Chinese market are unlikely to succeed by going it alone. Current Chinese policy leans toward limiting the amount of foreign investment in industries in which the government wants to cultivate for local businesses.

In general, the choice of whether to enter a foreign market alone or through partnership with a local entity depends on the levels of demand and competition, as well as the availability of resources, on the target market. The stronger the competitive advantage of an entering business, the more likely it will have success in generating desired outcome, and therefore the more likely it is going to seek entry into the market by itself. However, a firm without a strong competitive advantage, but with products that could sufficiently appeal to potential consumers, could still enter a new market through partnerships with local businesses. Such partnerships would be crucial to enhancing the appeal and usability of the resources and capabilities the firm already has.

We should note that Korean innovative firms in general are not competitive enough to be confident in taking their operations into China by themselves and succeeding. The majority of products of these businesses have developed specifically target the domestic market. Few of their products that are mature and appealing enough to succeed on the Chinese market.

Meanwhile, the Chinese government's newfound domestic focus in its growth policy means that Korean innovative firms need to reconsider their export-centered strategies in dealing with China. The Korea-China FTA might lower the tariff barrier between the two countries, but the agreement hardly lowers tariffs for high-value-added and core equipment products with which Korean innovative firms have an advantage. A tariff abolition will not occur overnight, but will take place phase by phase over many years. It will be thus very difficult for Korean businesses to enter and succeed on the Chinese market with export-centered strategies alone. Korean innovative firms are strongly recommended to enter China and corporatize their operations, taking as much advantage as possible of the incentives provided by local Chinese governments. The Chinese domestic market is much greater in size and offers much better prospects than catering to the Chinese import market.

Due to the uncertainty over the Chinese market and dearth of Korean innovative firms' experience with China, it will be better for these businesses to enter and expand in China incrementally. They may begin first by setting up local branches or distributorships, and expand later after securing client bases and participating in the distribution networks. However, innovative firms in the IT, biotechnology, environmental, smart car, and knowledge service areas may branch out more actively by setting up local corporations and thereby seizing opportunities in the emerging market ahead of others.

3. Policy implications

(1) Distribution of in-depth information

While there are numerous agencies in Korea that provide information on possible foreign markets, businesses that seek to export to or expand into these markets constantly complain of a lack of useful information. Our survey revealed a great need among participating businesses for quality information, as the existing system of information caters to SMEs and thus does not provide what is specifically needed by innovative firms with global aspirations.

It is critical, then, to reform and upgrade government channels of information so that Korean innovative firms can obtain the specialized information they need for entry into China. The new information system should provide not only generic analyses on local market trends, but also analyses of new laws and regulations on product reliability and safety requirements, plus other important and timely pieces of policy information with which Korean innovative businesses can properly plan and schedule their entry into the Chinese market.

(2) Expansion of infrastructure supporting Korean-Chinese distribution partnerships

The issue of accessing and securing effective channels of distribution in China is growing all the more important for Korean businesses. The Korean government and its agencies are trying to help Korean startups either join established networks of distribu-

tion or make use of distribution channels already established by other Korean companies. China, however, wields greater influence over the selection and use of distribution channels. Also, the sustainability of current Korean policy on using established channels of distribution remains in question.

The number of outlets that display and sell products from Korean SMEs in China may have increased slightly, but they may not be effective. These display-oriented shops are unlikely to multiply due to the lack of the brand value of their products.

Aside from enabling Korean companies to make use of established networks of distribution in China, it will also be necessary to encourage Korean companies to develop new networks along with Chinese partners. The recent attempt to set up malls of Korean imported products around the bonded trade ports in certain parts of China shows the growing interest of Chinese distributors in Korean products. Korea could also participate in distribution network expansion projects led by China.

(3) Effective investment support for Korean businesses newly entering China

Local governments, major public corporations, and various state agencies in China have recently allotted massive public funds to acquire major private businesses and support investors. While the majority of these funds cater to China's overseas resource and energy projects, they also go toward attracting high-tech foreign companies to invest and set up operations in China.

Korean innovative SMEs are unable to expand their operations

in China even when offered favorable terms and conditions. They remain incapable of taking advantage of the massive amounts of investment in them that China is willing to make. It is therefore crucial for the Korean government to develop a new investment support system that provides effective guidelines on how Korean businesses seeking entry into the Chinese domestic market might invest in China. The new system may also provide public investment support for Korean businesses that are required to increase their capital in China in accordance with Chinese investment regulations. The Korean government could collect their investment back from these businesses by sharing in the profits they generate in China.

(4) Increasing support for export-oriented R&D

For Korean businesses to enter China effectively, they need to develop China-oriented products that cater to local industries and consumers. The majority of Korean businesses have been merely focusing on exporting products that were originally intended for the Korean market, so they now need to focus on researching and developing China-oriented products and tailoring their export strategies accordingly.

The Korean Small and Medium Business Administration (SMBA) supports SMEs in the development of export-oriented products with its purchase-guaranteed R&D program. However, the amount of support provided by the program remains marginal. Given the growing need for export-oriented R&D, it is crucial that the Korean government increase its support to that end.

The current SMBA program that provides R&D support for SMEs with definite foreign clients should extend its reach to SMEs that are also willing to research and develop products to meet potential demand on target markets abroad. It could even be extended to support businesses that are only researching and analyzing demand on overseas markets. In addition, R&D support programs of other governmental agencies and departments should be expanded to support Korean businesses seeking to enter the Chinese market.

(5) Enhancing the effectiveness of local support via local private-sector networks

Korean innovative firms face both great opportunities and risks in entering China. The majority of potentially successful businesses hesitate or refuse to expand into China due to the lack of information or assistance. Given that innovative firms lack information and resources to make decisions regarding the Chinese market, it is important to enlist private-sector networks, INKE, consultants and specialists to help them. Entry into lesser known markets such as Chongqing carries even greater risk as businesses lack the understanding and information of such markets to manage their local operations successfully. Local experts and consultants should thus be enlisted and Korean businesses should be encouraged and assisted to talk with them to enable them to decide on matters of feasibility. Local experts and consultants could assess the local market in advance on behalf of interested businesses. The opinions they submit should serve as useful guidelines for deciding whether,

when, and how to enter the Chinese market. The Korean government should encourage projects for fostering and utilizing local private-sector networks and concentrate its support on businesses that target local specialization, strategic industries, and markets in China.