

## Chapter One. Introduction

### 1.1 Research Background

Globalization and informatization is becoming more and more trendy after the 20<sup>th</sup> century. Boundaries between markets are getting blurred, while multinational enterprises are contributing more to the international society. Global market is further connected when the WTO takes greater responsibilities.

Economic Reform and Opening up Policy of mainland China was formally enacted from the year 1979. Korean enterprises first entered China through ethnic Koreans in 1989. The year 1992 witnessed a remarkable shift from the socialist planned economy to socialist market economy of China with Deng, Xiaoping's south patrol speech. At the same time, diplomatic relations between Republic of Korea and People's Republic of China were established, and investments by Korean into China soared since then, thanks to the thriving workforces, geographical proximity, favorable investment environment of China and needs to upgrade the industry structure within Korea itself. The investment environment changed a lot after China's entering WTO. The accelerated influx of foreign capital pushed up the standards of regulation on labor and the environment set by Chinese government, and in turn increased the cost of conducting business for Korean enterprises. Competitive advantages of Korean firms are again put to top of the agenda, since the technology and R&D of Korean firms combining the division of production in China are fatal to Korean firms. Korea has the feeling that national competitive power does not lie in producing and machining, and thereby pushes for upgrading the economy after 1998 Asian Financial Crisis. In fact, "Sandwich Argument" is recently

popular when Corporate Korea realizes that Korea is narrow laned amid the productivity of China and the technology of Japan.

Korea now enjoys the highest trade surplus with China, compared to other nations, by which Koreans develop keen interest in China, especially in the sector of direct investments. Globalization and localization are two ingredients to the investment environment and the change in it. One the one hand, globalization is becoming more and more popular with WTO. On the other hand, localization is getting eye-catching recently. Korean academia is now active in the localization research, ranging from market penetration to aftermath.

<sup>1</sup> However, culture and societal differences between Korea and China give rise to numerous questions, among which problems of labor ranks the first. Realizing China's changing role to "one oh the fastest world's fastest developing consumption market" from "world factory", Korean enterprises now sense the need for localization.

Survey conducted by the KCCI (Korea Chamber of Commerce & industry) reveals the toughest problems faced with Korean firms investing in China: labor management 43.1%, change in law (21.4%), freeze of the inner market (13.3%) and taxation (6.1%).

Relevant laws regarding foreign investments in China have been changed in 2008. Situations of Korean enterprises deteriorated at the implementation of the State Employee Contract Law, the rising burden on taxation, and the appreciation of Chinese currency. Problems of labor management top the agenda. The implementation of the State Employee Contract Law, in particular, brings about direct lash to Korean firms, which caused some firms to cease operation and even to leave Qingdao. Problems of labor management and bankruptcy of Korean enterprises discontented local government and people.

---

<sup>1</sup> 백권호 외, 중국내 한국계 외자기업의 경영현지화

Key Korean investors in Chengyang District are labor-intensive, mid- and small-scale enterprises , and the cost of labor, obviously, stands out as the foremost driving forces for investments. However, the fast development of the market of mainland China calls for the stricter restrictions by the government, and then in turn burdens Korean firms. In addition, Korean enterprises in Chengyang District do not possess enough awareness regarding the characteristics of socialist market economy, and the working culture of connections in the Chinese way, so that they are lagged behind in terms of labor management and the personnel localization. HRM localization is the key to competitiveness and sustainable operations. The main theme of the paper is, therefore, to find ways for improving degrees of trust of employees to the firm, and for adapting themselves to local laws and environments.

Realizing that sustainable operations of the firm require the involvement of personnel localization, however, Korean firms turns out to be unsatisfactory in conducting the strategy. Wholly foreign-owned enterprises are major forms by Korean investments, in which firms are reluctant to hire local people as top manager. That's the one of the reason why localization of Korean enterprises are lagged behind US. and European counterparts.

Through the literature review of localization conducted by Korean and Taiwan researchers, the paper then presents concrete analysis out of the in-depth interview. Research on localization is based on the type of enterprises, the wage, the ratio of number of local people, and the degree of trust. Suggestions are also proposed at the end of the paper.

## 1-2 Objectives and Motives of Research

“The most valuable asset of the firm is people”, says Korean entrepreneurs conducting businesses in China. Talents provide potential development for corporations and institutions, and every corporation must treat talents well and use them wisely.

Korean firms love to see the development of China. The rise of China offers much more business opportunities for Koreans, and will eventually contribute to the economic development of Korea. Majority of the Korean entrepreneurs have faith in that China will be the country for another takeoff of Korean firms.

Proverb of ancient China wrote: “If the family lives in harmony, all affairs will prosper.” The human resources management, therefore, is not only of prime importance to the success, but also the foundation for daily operations.

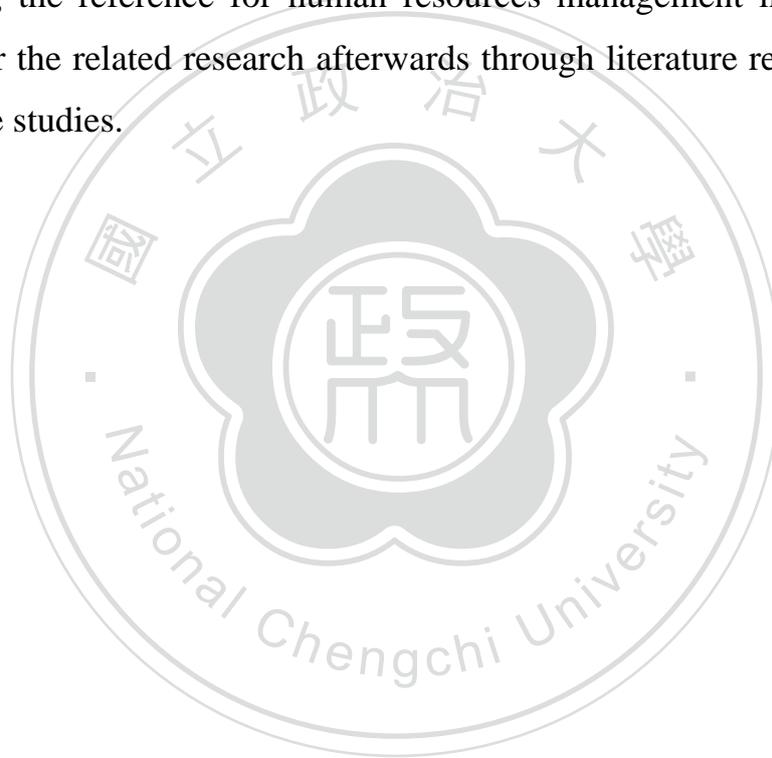
Motives of research are out of personal interests, spurred by conference of “A comparison of the investment strategy between Taiwanese and Japanese Enterprises in China” directed by Professor Chen, De sheng.

Korean firms do not take it for granted that local subsidiaries need to be dictated by Korean people when it comes to long-term operation and continued success. The human resources management pattern of Korean firms is shifting to localization. Controversy arises in the degree of localization, comprehensive of part of localization? Which serves best in terms of hiring and nurturing talents and managers to bring local elements into play?

Based on literature review and the case studies, the present research aims at following finds:

1. Conducting salary and position survey of Chinese workers in Korean firms

2. Understanding the situation and problems of human resources management of Korean enterprises in China. Low degree of trust prevails the labor issue.
3. Understanding the model and tactics of labor management system, and looking for factors affecting the human resources management in different industries.
4. Researching human resources management through case studies and positive analysis.
5. Framing the reference for human resources management in China, laying basis for the related research afterwards through literature review, interview and case studies.



### **1-3 Structure of the Paper**

Chapter One is for introduction. Research background, objectives and motives of research and the structure of the paper is presented.

Chapter Two gathers literature review. Three parts, namely international human resources management, level of trust and personnel management, as well as localization of human resources, are thoroughly rendered.

Chapter Three aims at exhibit the research methods, including research methods and targets, process of research and framework of analysis, and, lastly, research limits.

Chapter Four probes into research findings that analysis on compensation and position, on degree of trust, and on other factors are conducted.

Chapter Five reaches conclusions and suggestions.

Chapter Six, the appendix, is composed of facts of Chengyang District, and the summary of the interview.