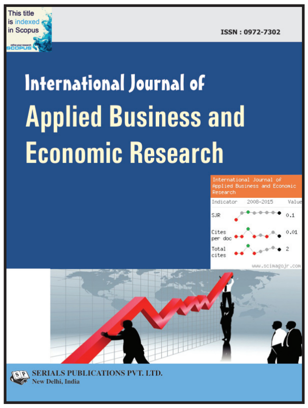

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An Empirical Study of Global Business Strategy of Korean SMEs in the Era of Multi-FTAs and Mega-FTAs: Focusing on Vietnam

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ABSTRACT

The central goal of this paper is to address the question of how FTA and FTA utilization factors influence Korean SMEs' global business strategy against multi-FTAs and mega-FTAs. First, this study conducted in-depth interviews with Korean SMEs and professional corporate service firms, which serve those Korean SMEs. The interviews were conducted through meeting, conference call, or email interview. To support the in-depth interviews, literature analysis was conducted beforehand. It was found that Korean SMEs have expanded global presence amongst Korea, China, and ASEAN countries such as Vietnam to enhance global value chain under dynamically changing global business environment. Second, it was also found that, in front of multi-FTAs and mega-FTAs, Korean SMEs strengthened localization in order to both increase productivity and maximize the benefit of FTAs in global production and marketing. Third, global business system has been upgraded and incorporated into global value chain with Korean MNCs. In sum, Korean SMEs have deployed sequential development of global business system as follow.

In Stage 1, Korean SMEs enter China at early stage of globalization, testing global value chain system by taking part of each or partial value chain;

In Stage 2, they shift into Vietnam, and/or other substitute countries for China, investing on production capacities and expanding global value chain system;

In Stage 3, they expand investment in Vietnam, and/or other substitute countries, to localize the supply of raw and/or subsidiary materials, upgrading the global value chain system. In this regard, the Stage 3 denotes the dynamics and dilemma of global business strategy by Korean SMEs, which struggle to catch up with mega trends of global business environment currently arising from the complexity of multi-FTAs and the advent of mega-FTAs.

Keywords: Free Trade Agreement, Small & Medium-sized Enterprise, Global Business Competences, Global Value Chain.

1. INTRODUCTION

For decades, more than 300 free trade agreements have been implemented in the world, and movement towards mega-FTAs has emerged. Regarding the future of mega-FTAs such as RCEP (Regional Comprehensive Economic Partnership) or TPP (Trans-Pacific Partnership), economists have been sharply split over the positive and negative effects, and both "opponents and supporters of the trade accord have quickly seized upon whichever analysis buttressed their own views." However, it is also true that mega-FTAs are enough to trigger the outpouring of much comprehensive and standardized market liberalization than ever before, as it appears on the stage equipped with newer and stronger protocols of global trade in investment, services, competition, intellectual property rights, environment, labor, and so on, targeting economic integration within the area.

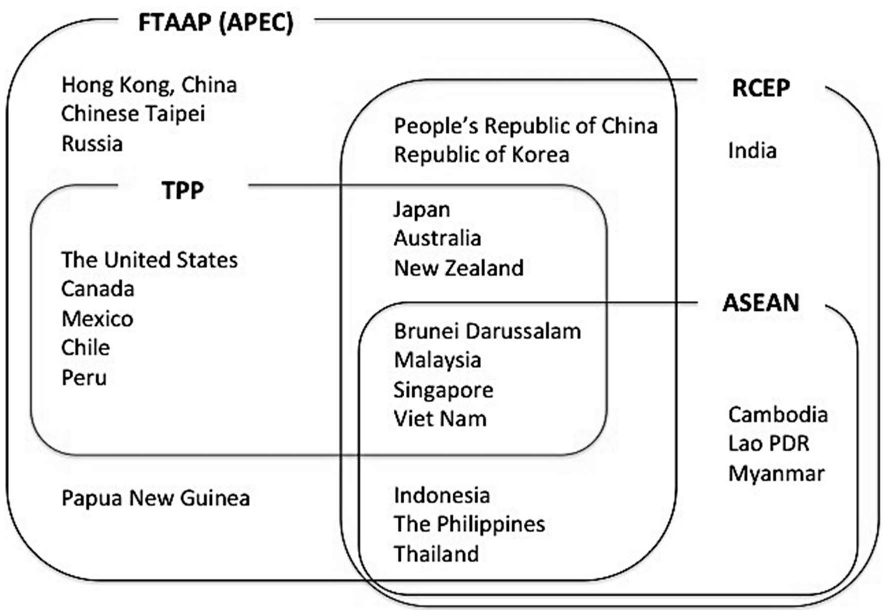

Figure 10.1: Major Mega-FTAs Settled or Under Negotiations

Data: Ye, X.P. (http://mt.sohu.com/20150222/n409114875.shtml, February 22, 2015)

Unlike EU or NAFTA, which characterizes continent as the borderline of regional block, mega-FTAs feature strategic interests amongst economically close countries crossing over continents. Besides above-mentioned TPP and RCEP, we may exemplify TTIP (Transatlantic Trade and Investment Partnership), APEC (Asia-Pacific Economic Cooperation), and Korea-China-Japan FTA. Recent executive order to withdraw the signature of US from the above mentioned TPP was signed by newly inaugurated US President Trump. Some may argue that this action signify the demise of mega-FTAs era before full-bloom, but the others refute the argument by saying that this kind of incendiary action, appealing to his political supporters against the objection by majority, simply symbolizes the era of mega-FTAs came closer to us in much serious manner than ever.

Turning our gaze toward east Asian market, it has been a decade since Samsung Electronics and LG astonished the world with strategic investment onto Vietnam, triggering global expansion of Korean SMEs; Samsung Electronics alone has poured around USD 20 billion onto Vietnam since. In addition, since 1988, more than 87.9% of total investment to Vietnam by Korean SMEs focused on manufacturing and service area, most of which come over from former investment in China or originally from Korea. It's very hard to explain these strategic initiatives of Korean companies in separation from a discussion about the era of multi-FTAs and the advent of mega-FTAs at all.

In this context, this research shall review how FTA and FTA utilization factors influence Korean SMEs' global business strategy in the era of multi-FTAs and the advent of Mega-FTAs, mainly focusing on Korean SMEs having entered Vietnam in recent years.

2. THEEORETICAL ANALYSIS

Concept and Components of FTA

FTA (Free Trade Agreement) is a kind of preferential trade agreement, which impose preferentially low tariff on goods imported from member countries against non-member countries. Preferential trade agreement can be applied to all the trading among member countries or be limited to specific goods such as ECSC (European Coal and Steel Community, established in 1952) or US-Canada Auto Pact (1962). Free trade agreement, by easing tariff and non-tariff barriers to goods, services, investment, intellectual property, and government procurement, promotes mutual trading and focuses on tariff elimination as ultimate goal.

As regionalism has spread out since GATT system in 1948, not a few RTAs (regional trade agreements) such as EFTA (European Free Trade Association), NAFTA (North American Free Trade Agreement), ASEAN (Association of Southeast Asian Nations) have been entered into force, which resulted from US Congress' rejection of ITO system, consequently weakened US centripetal power in global economic integration, and disappointment at the multilateral trade negotiations system.

In the economic integration stage of RTA, FTA is the lowest stage, and the integration level steps up in sequence of customs union, common market, and single market. In October 2013, WTO reported that 378 RTAs have become into force, including 219 FTAs as majority. The analysis by time shows that RTA began to surge since the WTO launched in 1995, with 328 cases, equivalent to 86.8% of total 378 cases, entering into force since 1995.

FTAs are different in the structure and configuration of the agreement, depending on the participating parties. While FTAs between developed countries, called "comprehensive agreement", define various sectors such as trade rules, services, and investment, FTAs with developing countries are mainly composed of product sector such as tariff elimination and trade liberalization; even with the chapters for other sectors, most of contents do may not be much burden on participating parties.

Economic Impact of FTAs

Benefits of the FTA are composed of political & diplomatic point of view and economic one, but this research shall focus on the economic impacts of FTAs.

A tariff elimination of a FTA has various economic impacts on the participating parties of the agreement, which includes, not limited to, production, exports and imports, GDP, welfare, etc. Regarding the short-term economic impacts, J. Viner(1952) pointed out trade creation effect and trade diversion effect as static effect of FTA. FDA, during mid-to-long term, will bring about dynamic impacts such as economy of scale, promotion of effective competition, and increase of foreign direct investment.

Trade creation effect is defined as the increase of trading stimulated by tariff reduction or elimination; for example, Korea-Chile FTA is reported to have increased the bilateral trades by 4 times 5 years after having entered into force. Trade diversion effect takes place when trade is diverted from a more efficient country to a less efficient one after FTA; for instance, the 1st wine exporter to Korea has been diverted from France to Chile since Korea-Chile FTA.

One of major benefits of FTA is to expand 'economic territory', and to take the market in advance to competitors. In the middle of market expansion, industry with comparative advantage is to increase the presence and further strengthens the competitiveness, leading to the efficient allocation of resources within the economic territory. Jung Hur et. al., (2010), based on panel data analysis about 96 countries during 1960 to 2000, analyzed the economic impacts on trading of Hub & Spoke FDAs and concluded that FTA participating parties, after 12.4 years from the agreement coming into force, could achieve average annual trade growth rate of 5.57%. MERCOSUR, or a kind of customs union among Argentina, Brazil, Paraguay, Uruguay and Venezuela, noticed the reallocation of resources resulting from tariff elimination, which was followed by the restructuring of manufacturing process patterns within the region: reinforcement of global value chain.

Dynamic Effect of FTA is mainly perceived in economies of scale through the process of market expansion. Economies of scale can be considered as the increased production efficiency to be formulated by intensified competition and accelerated technical development in internal and external economies (Carrere, 2006). In the course of FTA, tariff exemption and market opening induces new market entry of companies in other member countries, which can be resulted in economies of scale via market expansion and augmentation of market participants. Since market competition is intensified due to the new entry of overseas companies, domestic companies in the exposition of such competition can develop global competitiveness through promoted opportunities and efficiency of investment in a medium to long term. Additional trend in such a course is the augmentation of FDI to purse new business chances in the expanded FTA markets. Naturally, if companies fail in defending their domestic markets or preparing competitiveness for global markets, they can experience earning loss in a short term or face to be collapsed in a medium to long term.

FTA Components To Influence Global Business of Companies

The structure and contents of FTA agreement are different in accordance with the timing and the counterpart country, so this research will take Korea-US FTA to review the FTA components, which affect the FTA utilization and global business of companies.

FTA contract on products includes independent descriptions on general regulations, tariffs, criteria for place of origin, procedure of customs clearance, and terms on specific industries such as an automotive industry. Contracted countries authorize national treatment for mutual products in principle which means a status not to be treated more disadvantageously than the most advantageous conditions on the same kind of products, directly competing products, and substitutable products.

To promote trade liberalization, FTA member countries are subjected to exempt tariffs on other parties' products such as industrial, forestry, and fishery products and not allowed to raise conventional tariffs or apply new tariffs on products of origin. If mutual parties agree to impose new import regulations, they need to be publicized by government gazette or internet prior to effectiveness of new authorization process 3. 94% of products in the amount of import are exempted for tariffs in advance, which led South Korea to impose a long-term exemption, a nonlinear tariff exemption, and TQR for agricultural, fishery, and forestry products that are susceptible to import.

Safeguard was applied to textile and garment markets, similarly with South Korea's safeguard in an agricultural market. Safeguard can be classified into WTO safeguard, special safeguard on agricultural products, and safeguard on textile and garment products. The last safeguard can be issued in more alleviated conditions than WTO safeguard and can be effective in ten years' duration after tariff exemption in effective on individual items.

Temporary import is differently regulated according to conditions in each country's FTA. While it is not regulated in the Korea-EU FTA, it is permitted in the Korea-Chile FTA and the Korea-US FTA. Especially, the Korea-US FTA allows temporary import without tariffs under specific conditions that include specialized broadcast and movie equipment regardless of origin, products for exhibition and demonstration, and commercial sample products. Although the duration for temporary import is set on entry, it can be extended with approval of customs office. The product undergone temporary import requires to be exported with the associated importer's or resident's exit possibly through the rapid transfer policy and is allowed to be exported via other customs ports different with the original port.

An analysis on the Korea-US FTA and the Korea-EU FTA reports that products are regulated in a high level of concession tariffs and market liberalization. For example, the rate of advanced tariff exemption within three years exceeded 90% and advanced liberalization was contracted for products of interest. Through such a high level of FTA with US and EU, South Korea improved the possibility of market expansion for major exports and new market entry for tentative exports. Comparing the two FTAs, Europe conducted tariff exemption earlier than South Korea in the Korea-EU FTA while a high rate of Korea's advanced liberalization was agreed in the Korea-US FTA.

Technical barriers are commonly used to hinder a trade partner from entering into domestic market by imposing intricate technical regulations. This can be applied to any product; for instance, a country may require much higher safety standards than internationally recognized level, preventing foreign product from being imported. In this context, FTA is to adopt the measures to alleviate technical barriers to free trade. Korea-US FTA was to to increase mutual understanding of the other party's own system, and both parties agreed to strengthen cooperation areas in standards, technical regulations, and conformity assessment procedures.

In recent FTAs, protection of intellectual property (IP) rights is being gradually intensified. The Korea-US FTA agreed to prolong protection period of IP rights to author's death or 70 years after publication. The effective point was postponed by two years after issuing the agreement. The range of exclusive effect on trademark rights was confined to 'same' and 'similar' products with the issued product and exclusive rights were imposed to holders of collective mark rights for geographical indications and trademark rights based on first-to-file system. Usage rights of trademark were exempted from registry requirements and smell and sound with commercial meaning were acknowledged as a trademark.

FTA and FTA Utilization by Companies (China, US, EU, ASEAN, and Korea Cases)

China

China's strategies in FTA contract are distinguishable in before and after of 2008. After making CEPA (Closer Economic Partnership Arrangement) with Hong Kong and Macao in 2003, China subsequently contracted FTAs with ASEAN, CEPA, Pakistan, and Chile in a trend that first agreement is made in product areas and later service areas. While, China's FTAs with New Zealand, Singapore, Peru, and Cost Rica after 2008 are comprehensive agreements on services, investment, and various areas besides products.

Key features in China's FTA strategies are exploiting as a way to secure energy and resources. For example, China's FTA with GCC focused on securing oil import partners and the FTAs in the course of contract with Chile, Australia, and India reflected their intention to secure copper resources. In addition, China made a major effort in FTAs with circumjacent developed and developing countries rather than advanced countries at early stages, which can be interpreted that China intended a complementary economic system not to produce significant impact on mutual parties as well as regional stabilization besides economic benefits.

Table 10.1
Current Status of FTAs by China

Status	*Counterpart*	*Milestones*	*Remarks*
Entry Into Force	Hong Kong, Macao	Signed on 2003. 6. In force since 2004. 1.	CEPA[1] (Product, Service, Investment)
	ASEAN	Signed on 2004. 11. (Product) In force since 2010. 2. (Investment)	Product, Service, Investment
	Pakistan	Signed on 2006. 11. (Product) In force since 2009. 3. (Service)	Product, Service, Investment
	Chile	Signed on 2005. 11. (Product) In force since 2010. 8. (Service)	Product, Service
	New Zealand	Signed on 2008. 4. In force since 2008. 10.	Product, Service, Investment
	Singapore	Signed on 2008. 4. In force since 2008. 10.	Product, Service
	Peru	Signed on 2008. 10. In force since 2009. 1.	Product, Service, Investment
	Costa Rica	Signed on 2009. 4. In force since 2010. 3.	Product, Service
	Iceland	Signed on 2013. 4. In force since 2014. 7.	Product, Service, Investment
	Switzerland	Signed on 2013. 7. In force since 2014. 7.	Product, Service, Investment
	Korea	Signed on 2014. 11. In force since 2015. 12.	Product, Service, Investment
	Australia	Signed on 2015. 6. In force since 2015. 12.	Product, Service, Investment

Status	Counterpart	Milestones	Remarks
Under Negotiation	GCC		
	Norway		
	China-Korea-Japan		
	RCEP		
	ASEAN FTA Upgrade		
	Sri Lanka		
	Maldives		
	Georgia		

Data: China FTA Network (http://fta.mofcom.gov.cn, visited on April 10, 2016) 1. CEPA (Closer Economic Partnership Arrangement)

According to the analysis by Shen(2011), only less than half of China's exporting SMEs understood appropriately the details of FTA. 56.0% of surveyed companies comprehended regulations on place of origin and application process and 58.9% of them did preferential rate of tariffs. Especially, they showed lower understanding on customs clearance process of preferential trade (39.4%) and concession tariffs and other terms (35.3%).

U.S.

US FTA strategies focus on maximizing benefits by exploiting multilateral trade negotiations and regional trade negotiations as a dual-track approach because their polices put a higher priority on political and strategic values than economic values. In this regard, they have pursed preceding FTA contract with regions which are amicable to them and possess a strategic status in war on terrorism. They contracted FTA with Israel in far more advance, 1985, and Singapore (2004), Australia (2005), Morocco (2006), and Oman (2009) in earlier stages. The Korea-US FTA has been effective since 2012.

A distinctive feature in FTA utilization of US companies is that strict criteria of origin has influence more than preferential rate of tariff. For instance, while preferential margin rate is similar in leather ware (6.38%) and transportation machinery (6.28%), FTA utilization shows a significant difference in 59% and 98%, respectively. This is analyzed to account for trade protection rating (strictness index): strictness index of leather ware (5.6) is lower than transportation machinery (4.8). Additionally, although textile products show a high preferential margin rate of tariff (16.7%), calculated by subtracting NAFTA tariff rate from MFN tariff rate, they show a low rate of FTA utilization (66.7%), which is also attributed to the strictness of origin criteria.

European Union

EU FTA is expanding the scale through recent FTA effectiveness with Serbia (2013), Korea (2015), Bosnia-Herzegovina (2015), Kosovo (2016), negotiations agreed with Peru and Colombia, individual negotiations with Mercosur and Japan, and TTIP with US. The portion of South Korea in EU FTA trade is reported as 74.5% after the Korea-EU FTA was effective.

It was analyzed that export companies to EU generally showed a low utilization rate of FTA and PTA (Preferential Trade Agreement). Developing countries under GSP were reported to receive preferential tariffs for only 43% of EU exports by Inama (2003). In addition, export companies of developing countries were analyzed to mark 33% in utilization rate of EU GSP (Candau et. al., 2004).

Breton and Manchin (2002) analyzed that CEEC companies received preferential tariffs for only 35% of exports to EU in a FTA and Gallezot (2003) insisted that developing countries are largely exploiting PTA benefits for agricultural products among entire exports to EU.

ASEAN

ASEAN, featured in a high regional trade rate, actively droved FTAs with nearby large-scale economies such as South Korea, China, Japan, Australia, New Zealand, and India as well as regional trade liberalization. They made all FTAs with the countries effective by 2010 and marked 57.6% in trade portion with FTA countries. Since there exist differences according to ASEAN countries in the aspect of economic scale and advanced level of economic system, they are focusing more on FTAs with individual countries than overall ASEAN since 2011. In this regard, only four countries, Singapore, Vietnam, Malaysia, and Brunei in a high level of economic openness, participated in TPP among entire ASEAN 10 countries.

ASEAN countries were analyzed to an overall low utilization rate of FTA and showed a significant difference in the rate according to exporting countries. Cambodia, Laos, and Myanmar were reported to mark under 10% of FTA utilization that are late ASEAN participants. CEPT utilization of AFTA (ASEAN Free Trade Agreement) was increased to 28.6% in 2008 from 5.6% in 1998, of which specific portions were significantly different according to exporting countries and trading parties (JETRO 2009). Based on Hiratsuka et. al., (2008), while FTA utilization rate of Thailand marked 50.6% in export to Indonesia, it was 0% in export to Cambodia. The research also reported that FTA utilization rate of Malaysia considerably marked 46.7% in export to Vietnam but only 0.3% in export to Myanmar. Analyzing FTA utilization rate of entire AFTA markets, while the rate of Thailand was dramatically increased from 4.0% in 1998 to 26.8% in 2008, the rate of Malaysia showed a slight increase from 1.2% to 9.3% in the same period.

Korea

According to Jung I. G. (2009), only 9.5% of respondents in Korean SMEs were active in FTA utilization of Korea-Chile, Korea-Singapore, Korea-EFTA, Korea-ASEAN FTAs in 2009. In Jung J. W.(2013)'s survey over FTA utilization by Korean SMEs, this figure went up dramatically since a variety of FTAs entered into force with major trading partners and economic blocks such as ASEAN(2007), INDIA(2010), Peru(2011), US(2012), and Turkey(2013), and other major FTAs with China, Canada, Australia, and Vietnam came within visibility: FTA utilization ratio went up to 50% in 2013 survey.

However, FTA utilization by Korean SMEs shows not a little difference in accordance with the trading partners. Survey by Korea Federation of SMEs(2013) shows that FTA utilization of Korea-Singapore FTA is hovering around 34%, contrasting with those of other FTAs such as Korea-EFTA FTA, Korea-Chile FTA, and Korea-Peru FTA; for instance, Korea-Chile FTA has recorded more than 90% in utilization. It is mainly because Singapore already applied 0% of exchange tariff rate to imports and made little difference between general tariff and preferential tariff, providing SMEs with little incentive. On the contrary, agreements with EFTA, Chile, and Peru offered higher rate of preferential tariff immediately after entering into force, and tariff elimination ratio was as high as 100%, 67.9%, and 41.8% respectively in numbers of item applied, with comparatively higher haptic effect. By industrial sector, FTA utilization in preferential tariff of automobile and machinery industries was higher compared to other industries.

3. RESEARCH METHODS

In-Depth Interviews

In-Depth Interviews were conducted, during January through April 2016 at Hanoi and Ho Chi Minh City, Vietnam, with several Korean SMEs running business in China and Vietnam, and major corporate service firms-legal, accounting, engineering, logistics, and hospitality.

Research Questions

1. What is your industry and business allocation among Korea, China, and Vietnam?
2. Who are your global business partners in the value chain of your industry?
3. Why did you select Vietnam, as well as China, if any, as your destination of global business?
4. Which FTA does mostly influence business of you, or your clients, and why?
5. How corporate factors in FTA utilization influence global business of you, or your clients?
6. As a global business player ranging from Korea to China and Vietnam, what is business strategy, or strategic direction, of you, or your clients, to cope with the change in global business environment influenced by FTAs and Mega-FTAs?

4. RESULTS AND DISCUSSION

Company A, which launched its first branch in Vietnam 15 years ago, sourced subsidiary materials from both Korea and China in half-to-half basis at the early stage; however, it now procures materials form all over the world with the same or similar level of quality. In particular, knitted goods, one of major materials, are provided from eastern coast of China on the strength of R&D and investment in equipment by Chinese suppliers, allowing the company to enjoy cost competitiveness with the same or similar level of product quality.

Company B, having sourced synthetic rubber from Korea and China initially, chose Vietnam as the 2nd offshore base to build natural rubber production facilities to intensify localization. Successful transition, from Korea-dependent raw material sourcing system to localized one, brought the company balance in global sourcing system by cutting down Korea's formerly heavy weight to less than 30% of total. Besides 5% of domestic consumption, the rest of total production is exported to Korea and other countries, most of which include ASEAN's FTA counterparts-China, Japan, India, Australia, and New Zealand-subject to FTA preferential tariffs. This company is also looking forward to utilizing other FTAs to allow Vietnam direct access to other major economies with substantial amount of preferential treatments.

Company C is seriously considering whether to increase local procurement from Vietnam at the exchange of tax benefits offered by local government: 5 years exemption plus phased increase of corporate tax. In case the management decides to expand panel production facilities in High Tech Park in Ho Chi Minh City, supply from Korea and China will plummet from current 90% to less than a fourth.

Company D, having entered China 15 years ago to try global value chain spanning over Korea and China. Looking for lower labor cost, preferential taxes, and diverse governmental supports in China, the company managed business by being supplied key materials and facilities from Korea, manufacturing in China, and exporting to Korean or global markets. They further developed the strategy in a way to make sourcing in Korea and China with increasing numbers of raw materials supply from China, which was improved in technology and labor proficiency more than the past. Also the strategy included launching production bases in Asia through FTAs actively contracted by ASEAN; for instance, manufacturing in Vietnam or Indonesia cost the company much lower than before. They are considering a new direction to unify value chain by directly investing in subsidiary materials supply chain near the current factory in Vietnam. It was proposed by Vietnam government visualizing their investment plans on industrial infrastructure with providing various benefits to companies. Referring an associated person in business, there are plenty of manufacturing companies offered with similar proposals.

Company E opened a five-star hotel with 618 rooms in a 167,602 floor square meter at the central Hanoi in September 2010 and soon enjoyed a high occupancy rate above 80%. Although such a fast success was partially contributed by hosting major international events such as ADB congress in 2011, the main factor of the success was a long-term accommodation by business people from large MNCs and SMEs preparing switch of their business from Korea or China to Vietnam. In the background, Samsung Electronics initiated operation of the world's largest mobile phone factory in Bac Ninh Province near Hanoi and established the second factory in Thai Nguyen Province; as a result, both factories account for more than 70% of total mobile phone supply by Samsung in globe. Accordingly, business people from not only Samsung but also its 1st, 2nd, and 3rd vendor companies required to be accommodated in a long-term period. Based on such a grand success, the hotel achieved the first five-star level from Vietnam government in 2012.

Company F was established in late 1990s and its Vietnam corporation was incorporated in 2008. The company with 10 Koreans among total 200 workers is providing total distribution service including forwarding, customs clearance, warehouse, transportation, 3PL and 4PL as a main business. The Vietnam corporation is working with Samsung Electronics Vietnam, SDI, Samsung's 1st vendors, and textile and garment companies as main business partners. Based on its high annual growth rate of over 20% in a customs clearance division of China-Vietnam border, the company's core business area came to include equipment import on Korea-Vietnam projects and material import logistics and transportation between China and Vietnam, despite of slightly declined market share due to new competitions in a larger market.

Company G is a legal service firm to be headquartered at Hanoi and operate a branch in Ho Chi Minh. This corporation, in honored selection as Legal 500, IFLR & Chamber Asia, is providing global legal services with 50 Korean and Vietnam lawyers. They are experiencing heavily increased requests on transfer of Chinese business to Vietnam from Korean customers. While the first movement on the transfer was driven by Samsung's mobile phone business and associated vendors in value chain, nowadays the requests of market investigation and legal term review are focusing on IT, semiconductor business, and logistics in addition to traditional textile and garment business. The firm, as main reasons behind the business transfer from China to Vietnam, named the increase of raw cost (labor cost and real estate) in China, Vietnam's national industry complex with preferential benefits overcoming the insufficient logistics and infrastructure, and the strong intention of Vietnam government to induce active glove investment through multidimensional market openness.

Company H, an engineering and consulting company, have conducted a large-scale projects through their Beijing and Shanghai corporations in China and even in Vietnam with completing Vietnam Electricity building (established by the first International Design Competition in Vietnam), Foreign Ministry building, Petro Vietnam, and Department of Defense. They anticipated that Korean SMEs' business switch rate from China to Vietnam is constantly increased despite of some variations in industries. Such anticipation is based on the increasing numbers of customer request in search of industrial expansion in Vietnam or business transfer from China, and the company supports such a trend by the fact that a real estate market in Vietnam is rebounding from 2015 after hitting a bottom in 2014.

Following is detailed analysis to support such trend as in-depth interviews. First, although China has acquired the reputation as "global factory", its labor cost has recently skyrocketed; in contrast, minimum wage in Vietnam is remaining VND 3,700,000, or around USD 180. Second, Vietnamese government has expressed strong will to induce FDI (Foreign Direct Investment) compared to previous times. Especially, they exempt tax for investment of high-tech industries or over USD 300 million dollars, which is comparable to policies of China government at early stages of FDI attraction. Third, various high-tech industrial complex connected with the infrastructure of large cities is being built in the three main cites, Ho Chi Minh, Hanoi, and Haiphong. Although industrial infrastructure is still immature, a cheap rent fare in 1/5 – 1/10 compared to one of large cities is a compelling point. Fourth, it was an innovative trigger point that Samsung transferred their mobile phone factories with its 1st, 2nd, and 3rd vendor companies, who previously achieved success by participating in Samsung overseas business. This initiative made cooperative investment together. As a result, the industrial complex could be swiftly stabilized with companies' active contributions even by overnight air transport of key components, if necessary. Lastly, the access to new market in advanced countries came into visible distance with current Vietnam-EU FTA and expected TPP. Besides traditional textile & garment industry, manufacturing equipment, IT, and logistics industries are promising, according to the company's market research expert who is in charge of both China and Vietnam.

5. MANAGERIAL IMPLICATIONS

Majority of interviewees in this research are characterized as Korean SMEs, headquartered in Korea and running global business in both China and Vietnam, indicating the dynamics of Korean SMEs' global business development.

First, Korean SMEs, with global business presence amongst Korean, China, and Vietnam, have implemented global business system and are struggling to be equipped with the best global production & sales system under dynamic business environment spanning several countries and/or continents, regardless of the size and history of business.

Second, successful localization at once allows productivity and benefit of FTA preferential tariff amongst ASEAN countries. The localization move is expedited by the host country government's effort to attract foreign direct investment in addition to company's own 'glocalization' necessity.

Third, Korean global SMEs have spurred global business system development and struggled to be incorporated into global value chain, in alliance with MNCs (Multi-National Corporations) or independently.

6. CONCLUSION

Based on this research, we can figure out how globalization and global value chain development of Korean SMEs, which span Korean, China, and Vietnam, have unfolded as follow.

Stage 1: Enter China at the initial stage of globalization, testing global value chain system by dividing each value chain: sourcing (Korea) – production (China) – marketing & sales (export via China or Korea),

Stage 2: Enter Vietnam (or other substitute country except China) and invest production facilities, expanding global value chain system: sourcing (Korea and China) – production (Vietnam) – marketing & sales (export directly from Vietnam or via Korea),

Stage 3: Expand investment in Vietnam (or other substitute country except China) to localize the supply of raw and/or subsidiary materials, upgrading the global value chain system: sourcing (Vietnam and China) – production (Vietnam) – marketing & sales (direct export to ASEAN or FTA counterparts of Vietnam)

Herefrom, *stage 3* denotes the dynamics and dilemma of global business strategy by Korean SMEs, which struggle to catch up with mega trends of global business environment currently arising from the complexity of multi-FTAs and the advent of mega-FTAs: how to secure global business competences and how to seek for propitious opportunities through global investment.

7. LIMITATIONS AND FUTURE AGENDA

This research has been conducted to maintain objectivity, reliability, and validity in the study, yet certain limitations have remained, which restrict its applicability. *First,* other strategic options such as selection of countries other than Vietnam, external factors other than FTAs, etc. have not been included in the present study. *Second,* further distinction between corporate external and internal factors in FTA utilization shall be useful to better understand 'going global' motivations of Korean SMEs. *Third,* the current study, due to its nature of in-depth interviews, is confined to limited numbers of companies in specific industry or professional service field in Vietnam. Therefore, future research may explore cases of much more companies in scale. Other strategic orientation than FTA utilization in Vietnam can also be considered for next researches.

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