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Master's Thesis of Graduate School of International Studies

Chinese Importer's Supplier Selection Factors

– Focusing on the Korean Cosmetics Industry–

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–한국 화장품 시장을 중심으로–

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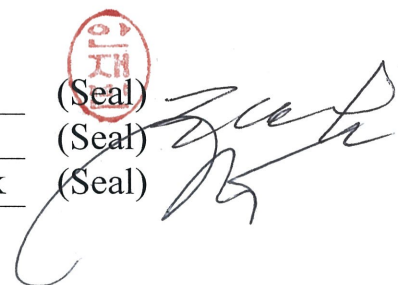
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Abstract

There's no denying that the importance of the Chinese market has exponentially grown in the Korean cosmetics industry. While China's importance is expected to continue, Korean cosmetic products have been losing competitiveness due to market environmental changes in China. In fact much research has been conducted in relation to Chinese consumer's demand for Korean cosmetics as well as strategies used by Korean cosmetics companies when entering the Chinese market. However, not many studies focused on the behaviors of Chinese importers.

Upon reviewing the literature, five importer's supplier selection factors were identified, which are related with bid, exporter-characteristics, country-of-origin, importer-exporter relationship and other external elements such as governmental regulations. Based upon the five criteria, ten Chinese importers, who are also working as local top-tier agents, were interviewed regarding their supplier selection behaviors when importing Korean cosmetics, which identified the following result. Firstly, legalities are emerging among Chinese importers due to enhanced Chinese governmental regulations showing that regulation-oriented factors are working strongly when they choose Korean exporters. Secondly, country-of-origin factors are being considered less due to market environmental changes in China. Thirdly, the growing need for cooperation between importers and exporters made Chinese importers emphasize the importance of relationships in business development. Lastly, Chinese importers experience conflicts and compromises in relation to bid oriented and exporter oriented factors to achieve bargaining power to the extent that their Korean partners remain cooperative and committed over sales in China.

Hence, this research suggests Korean cosmetics companies to find a balance in the supplier-buyer dynamics based upon the above results. What Chinese importers and Korean exporters need in the cosmetics industry is to reach a Pareto efficient Nash equilibrium.

Keyword: Chinese importers, Chinese agents, Supplier selection, Korean cosmetics, Korean SMEs, Cosmetics export

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Table of Contents

Chapter I. Introduction	1
1. Aim of Research	1
2. Background	3
3. Organization of the Thesis	9
Chapter II. Research Methodology	10
1. Importer's Supplier Selection Theories	10
2. Research Framework	15
3. Sample and Data Collection.....	18
Chapter III. Analysis on Chinese Importer's Supplier Selection Behavior	25
1. Increasing Impact of Regulation Oriented Factors	26
2. Declining Impact of Country-of-origin Oriented Factors	36
3. Increasing Impact of Relationship-oriented Factors	48
4. Conflicts and Compromises Regarding Bid and Exporter-oriented Factors	55
Chapter IV. Conclusion	62
1. Findings and Implications.....	62
2. Limitations.....	65
Bibliography	69
Appendix.....	74
1. Questionnaire in Chinese	74
2. Questionnaire in English	77
3. Questionnaire Result	80
4. List of Tables & Figures	83

Chapter I. Introduction

1. Aim of Research¹

The 2008 global financial crisis transformed China's economic priority from export and investment driven policies to domestic demand expansion. National People's Congress, China's top legislature, declared its long term policy direction to concentrate on expanding its domestic demand through China's 12th five year plan.² Likewise, comrade Xi Jinping(习近平) highlighted that China's domestic consumption accounted for 78% of its economic growth last year,³ showing its economic policy is moving in a positive direction with total retail sales of consumer goods expanding from 10.8 trillion RMB(1.56 trillion USD) in 2008 to 38.1 trillion RMB(5.5 trillion USD) in 2018.⁴ In particular, the cosmetics industry is identified as one of the industries that have driven China's domestic consumption. When considering the global beauty industry, China's share was the second largest, followed by the US, with its market size at 369.8 billion RMB (53.36 billion USD) in 2018.⁵ The industry is expected to keep growing with increases which are likely to be seen in people's propensity to invest into personal appearance and hygiene, combined with a growing

¹ Total retail sales of consumer goods and market size of beauty industry in China were calculated at \$ 1 = 6.93 RMB.

² 中国第十二个五年规划纲要第四章政策导向 (Mar 16,2011)

³ The data was quoted by Xi Jinping at the 26th APEC economic leaders' meeting from 2018

⁴ 国家统计局 (State Statistical Bureau of China)

⁵ 智研咨询 (2019.05). 2019-2025年中国化妆品市场运行态势及战略咨询研究报告

tendency to pursue luxury goods as well as income growth.⁶

In light of this, China's demand for foreign cosmetics has risen sharply. And surprisingly, one of the biggest beneficiaries of this phenomenon has been the Korean cosmetics industry. Data from ITC Trade Centre shows, in terms of cosmetics export value to China, Korea ranked number four in 2008, number two in 2015 and finally number one status in 2018⁷, highlighting the fact that Korea's cosmetics industry is showing an ever increasing dependence on the Chinese market.

Unfortunately, the outlook for the Korean cosmetics industry doesn't appear as bright as it has been so far. Local cosmetics brands in China are improving fast, and competition among foreign brands is growing rapidly.

As a consequence, possible changes in Chinese importer's behavior as well as their motivation on trading Korean cosmetics remain as the key for the future of the Korean cosmetics industry particularly when Korean cosmetics companies place a high importance on the Chinese market for their products. However, insufficient attention has been given to Chinese importer's behavior while most studies on international trade between Korea and China focus on exporter or consumer sides.

This research aims at analyzing Chinese cosmetics importers' behaviors when

⁶ KOTRA(2018.10). 2018 글로벌 화장품 산업 백서

⁷ Korea's export value to China is the sum of HS code 3303, 3304, 3305 and 3306, calculated by data from ITC Trade Centre.

choosing Korean counterparts. For this, literature explaining the importer's supplier selection factors will be discussed first, by identifying five main supplier⁸ choice criteria. What is discussed in the previous step will be reflected in the semi-structured interview for Chinese importers, who are currently trading Korean cosmetics through online and offline channels. Subsequently their rationale behind the selection of Korean counterparts when importing Korean cosmetics will be thoroughly reviewed, allowing us to identify implications for future strategies for the Korean cosmetics industry.

2. Background

The International Trade Centre says Korea's cosmetics exports value to China amounted to 34.36 million USD out of 395.8 million USD in 2008, but in 2018, Korea's dependence ratio on China remarkably increased to 46%, reaching at 2,815.03 million USD out of its whole export value, 6,160.77 million USD in the cosmetics industry.

China's contribution is more outstanding when actual performance indices of Korean cosmetics companies are taken into consideration. One example is Amorepacific, the representative cosmetics company in Korea. In 2013, Amorepacific's sales revenue totaled 3,874 billion KRW(3.37 billion USD). Among them 338.7 billion KRW(0.29 billion USD) was generated in China,

⁸ In this research, supplier refers to the ones who provide Chinese importers with Korean cosmetics, thus, Korean cosmetics companies.

encapsulating approximately 8.7% of the total sales figures. In 2016, China and Asean's contribution toward this company's performance soared to 1,575 billion KRW(1.37 billion USD), accounting for 23.5% of its total sales, 6,698 billion KRW(5.82 billion USD) but China's role was outstanding.⁹¹⁰ Popularity of Korean cosmetics in the Chinese market also offered chances for numerous Korean SMEs' to grow. For example, about 80% of Korea's cosmetics exports in the first half of 2016 were from small and medium-sized companies.¹¹ Given that Korean cosmetics are highly dependent on the Chinese market, it can be inferred that small to medium-sized cosmetics companies in Korea also benefited from the increased demand for Korean cosmetics in the Chinese market.

When a company enters the overseas market, it decides how to enter the market based on the extent to which it can bear the risks from financing, management style, and any uncertainties that may derive from the local market environment. Here entry modes vary from indirect/direct exports, licensing, franchising, and joint ventures to Foreign Direct Investment (FDI). In fact Korean cosmetics companies' entry into the Chinese market is no different from this and usually their decisions are to choose either direct/indirect exports or

⁹ Indices were collected from Data Analysis, Retrieval and Transfer System and news articles. Articles can be found at the following two websites: (1) http://www.thebell.co.kr/free/content/ArticleView.asp?key=201702020100004700000274&svccode=00&page=1&sort=thebell_check_time (2) <http://www.fnnews.com/news/201404071738502564?t=y>

¹⁰ The sales figures were calculated at \$1 = 1,150 KRW.

¹¹ 한국수출입은행 (2017.1). 화장품 산업 신성장 동력화 연구. pg25

FDI. Large sized, cash-rich companies can enter the Chinese market by establishing factories or foreign branches and operate stores directly. However, small and medium sized companies will consider other ways than direct investment. The most common way for these small and medium sized companies to enter the Chinese market is to export through Chinese importers, who also work as Chinese local agents. This method is widely used even for Chinese domestic product's distribution. The following table shows how Korean cosmetics companies have been making inroads into China since mid-1990s.

[Table 1] Examples of Korean Cosmetics Companies' Entry into China^{12 13}

No.	Company	Entry Year	Entry Mode	Entry Mode-Details	Region
1	Amorepacific	1994	FDI/WOS	Greenfield	Liaoning
		2000	FDI/WOS	Greenfield	Shanghai
		2002	FDI/WOS	Greenfield	Shanghai
2	LG	1994	FDI/WOS	Greenfield	Zhejiang
	Household & Health Care	1995	FDI/WOS	Sales subsidiary	Shanghai
		2000	FDI/WOS	Sales subsidiary	Beijing
3	THE NADREE	1995	FDI/WOS	Sales subsidiary	Jiangsu

¹² In 2017, It's HANBUL, the 20th company in [Table 1], directly invested in China by establishing a factory in Huzhou.

¹³ 'WOS' stands for wholly owned subsidiary.

No.	Company	Entry Year	Entry Mode	Entry Mode-Details	Region
4	NeoPharm	2011	FDI/WOS	Sales subsidiary	Shanghai
5	The Faceshop	2003	Indirect Exports	Local agent	Beijing
6	Rosee	1995	FDI/WOS	Greenfield	Suzhou
		1999	Indirect Exports	Local agent	Beijing, Jilin, Liaoning, Heilongjiang
7	Saimdang	2011	FDI/WOS	Sales subsidiary	Guangdong
8	Cosmocos (somang)	2005	FDI/WOS	Sales subsidiary	Shanghai
9	Skinfood	2008	FDI/WOS	Sales subsidiary	Shanghai
10	Capharm	2008	FDI/WOS	Sales subsidiary	Beijing
11	C&TECH CORP.	2015	FDI/WOS	Greenfield	Suzhou
12	AMI COSMETIC	2013	FDI/WOS	Sales subsidiary	Shanghai
13	ABLE C&C	2006	FDI/WOS	Sales subsidiary	Beijing
14	F&co	2009	FDI/WOS	Sales subsidiary	Shanghai
15	Enprani	1999	Indirect Exports	Local agent	Jilin, Liaoning, Heilongjiang
16	The Weina Korea	2003	FDI/WOS	Greenfield	Shanghai
17	Charmzone	1994	Indirect Exports	Local agent	Tianjin, Shanghai
		2002	Indirect Exports	Local agent	Beijing

No.	Company	Entry Year	Entry Mode	Entry Mode-Details	Region
		2011	FDI/WOS	Sales subsidiary	Shanghai
18	Coreana	1993	Strategic alliance	Joint venture	Beijing
		1999	Strategic alliance	Joint venture	Shanghai
		2003	FDI/WOS	Greenfield	Shanghai
		2004	FDI/WOS	Greenfield	Tianjin
		2005	FDI/WOS	Greenfield	Tianjin
19	HANKOOK Cosmetics Co.,Ltd.	1993	Indirect Exports	Local agent	Shanghai
		1995	FDI/WOS	Greenfield	Tianjin
		2006	FDI/WOS	Sales subsidiary	Shanghai
		2006	FDI/WOS	Sales subsidiary	Shanghai
20	It's HANBUL	1993	Indirect Exports	Local agent	Shenyang, Qingdao, Shanghai
		1999	Indirect Exports	Local agent	Dalian, Harbin
		2004	Indirect Exports	Local agent	Beijing
21	Anya	2008	FDI/WOS	Greenfield	Zhejiang
22	Hwajin corp.	2001	FDI/WOS	Greenfield	Liaoning

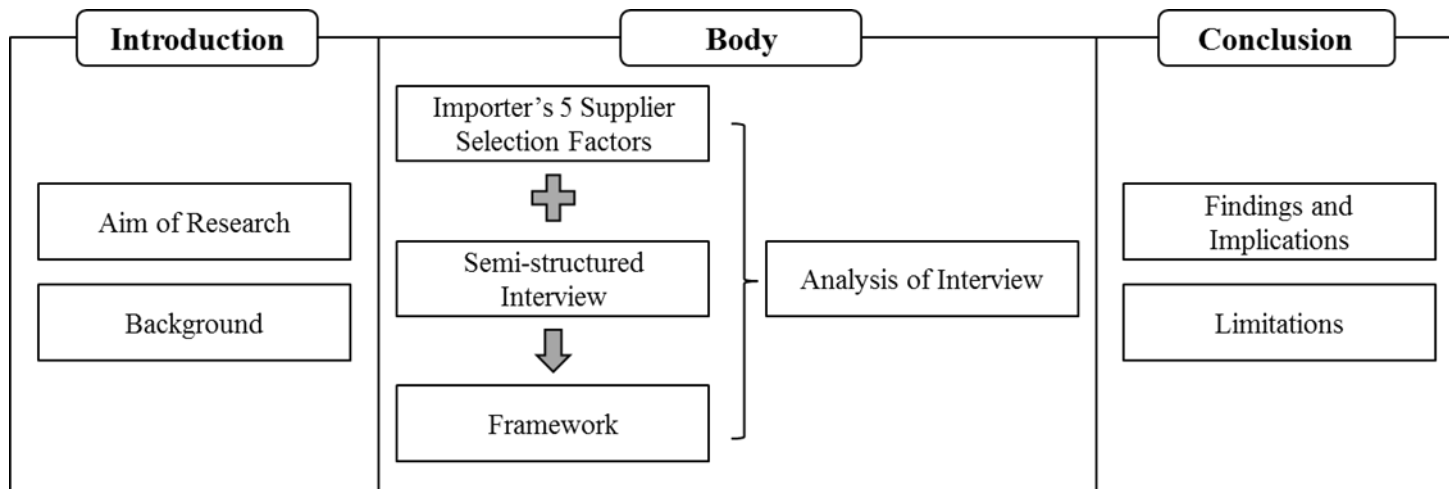
Source: Kotra (cited in “화장품 황금 대륙 중국 시장 넘보는 한국 기업” Etnews, 27. Jul. 2015)

As shown in the table above, not only companies who export products without direct entry into China but also those who have invested directly in China often utilize local agents. As of May, 2019, the number of companies registered as

cosmetics manufacturing and selling companies in South Korea amounted to 12,411, according to the Korea Cosmetic Association. Therefore, we can positively identify that a significant number of Korean companies have been distributing goods through local agents.

3. Organization of the Thesis

[Figure 1] Thesis Flow



Source: Author's work

Chapter II. Research Methodology

1. Importer's Supplier Selection Theories

Although international trade is a two sided exchange between exporters and importers, studies on importers of cosmetic products are less compared to studies undertaken on exporters. Some authors tried to study the buying behavior of importers by adopting and extending the 'organizational buying behavior model', especially the *buy-grid model*¹⁴, into the international setting. However, its effectiveness is limited due to its underlying assumption, which makes use of a 'rational choice framework', since decision makers lack of access to all relevant information in international business, Liang and Stump(1996) argue. Moreover, importer's buying behavior is quite complicated and cannot be explained by a single variable or a limited set of criteria. Hence, existing studies on an importer's supplier selection process are extensive and are based upon a number of perspectives rather than being based on a precise, single and clear theory. It is Liang and Parkhe (1997)'s research that best classifies the vast existing prior studies on importer's supplier search behavior into several categories through an integrated exporter/importer decision framework. Thus, literature for this research was reviewed based upon the framework categories on the importer's supplier selection as classified by Liang and Parke, which subsequently became the basis of the research methodology for this thesis.

¹⁴ Patrick J. Robinson, Charles W. Faris & Yoram Wind (1967). Industrial Buying and Creative Marketing

[Table 2] Liang&Parkhe’s Classifications on Importer’s Supplier Choice Behaviors

Categories	Characteristics
Conceptual Models	Sets hypotheses and prove them through an experiment based upon a modeling
Survey Studies of Choice Criteria	Adopts structured questionnaires that decide criteria and their weights for importers when choosing suppliers, by primarily focusing on bid-related variables
Field and Case Studies	Unlike survey studies of choice criteria, this method sheds lights on exporter-related factors
Country-of-Origin Stereotype Studies	Studies the effect of COO when importers select their counterparts
Interactive Relationship Studies	Sees supplier choice as an interactive social exchange

Source: Neng Liang, Arvind Parkhe (1997). Importer Behavior: The Neglected Counterpart of International Exchange. Pg512-517

(1) Conceptual Models:

Hakansson and Wootz(1975) studied how importers select suppliers under the different level of perceived risk by devising four decision variables, which are *two supplier* variables (location and size) and *two bid* variables (price and quality). Liang and Stump(1996), on the other hand, argued that importers’ buying behaviors are based upon “heuristics” coming from such as exporter reputation, by devising the *heuristic-guided model of importer buying behavior*.

Rangan (2000) argues firms' social networks can alleviate problems of supplier search and deliberation in the international exchange by testing the correlation between import value of USA, exchange rates and interaction term between the exchange rate and MNE(multi-national enterprise) dummy variable. Zhang et al.(2013) argue Chinese import demand is characterized by quality competition after analyzing disaggregated data over specific years, thereby implying quality might be the major factor that Chinese importers consider.

(2) Survey Studies of Choice Criteria:

Chao et al.(1993) found that, after setting up six supplier selection criteria , Chinese managers choose suppliers in order of quality, price, reliability of deliveries, buyer-supplier relationship, service/responsiveness to customer needs and professionalism of salesperson. Mummalaneni et al.(1996), by using the same criteria of the previous research of Chao et al., argued Chinese managers choose suppliers in order by quality, on-time delivery, responsibilities to customer needs, price, relationship with supplier and professionalism of salesperson. Ghymn and Jacobs(1993) found out product quality, timely delivery and price were considered the most when Japanese managers import products abroad while larger companies among them tended to place emphasis on governmental restrictions and delivery time. Katsikeas and Leonidou(2008) developed a questionnaire containing 20 questions of which 11 were related to bid oriented elements (e.g. wide range of products, competitive prices or brand awareness and quality) and the other nine to supplier characteristics (e.g. company reputation, short delivery times, trustworthiness or attitude) and

argued the degree of import dependence of a firm results in different preferences on supplier selection criterion.

(3) Field and Case Studies:

Chan and Chan (2010), who researched the fashion and textile industries, considered delivery, quality(e.g. certifications and commitment), assurance of supply, flexibility, cost, organizational culture and strategic issues, perceived risks and both technological and environmental issues for importer' supplier selection criteria. Cayer (1989) devised six supplier selection variables which consisted of personnel, financial capabilities, production capability, quality and material control as well as technical support. Ellram (1990) argued financial issues, organizational culture and strategy and technology are what need to be considered in supplier selection process. Additionally, Kraft and Chung(1992) analyzed Korean importer's perception against US and Japanese exporters, based upon product factors and exporter characteristic factors with the latter being made up of reputation, negotiation style, customer orientation, cultural awareness and personal communication.

(4) Country-of-Origin (COO) Stereotype Studies:

Uddin, Rahman and Parvin (2009) studied the effectiveness of COO in Bangladesh ceramic tiles and sanitary wares' international sourcing through multiple regression analysis. According to them, country-of-origin holds positive effects in terms of price benefits, quick adjustment upon importer's demands and on time delivery. Nagashima(1977) analyzed Japanese

businessmen's perceptions regarding USA products during the period from 1967 to 1975, showing a lessening in the importance of the country-of-origin effect of U.S. products. Meanwhile, Batra et al. (2000) argued that the 'non-localness' of imported goods from developed countries resulted in positive perceptions among consumers in developing countries, thereby possibly affecting the importer's behavior as a result.

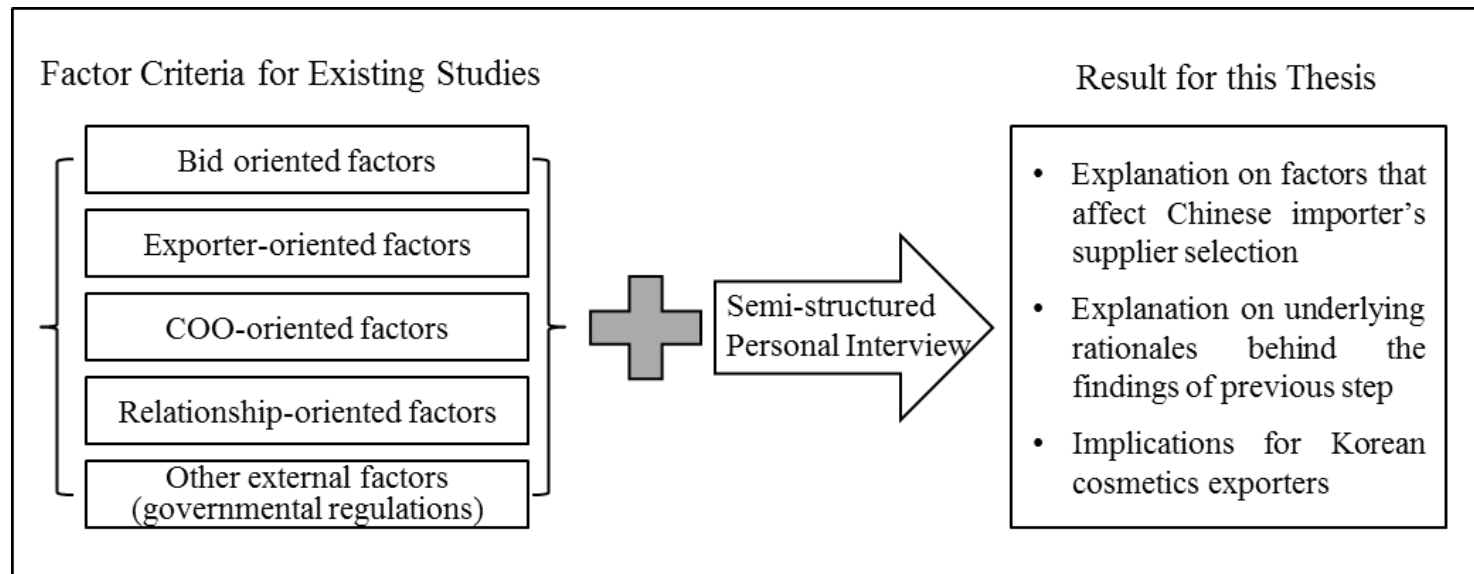
(5) Interactive Relationship Studies:

Kranton & Minehart (2001) show how networks link buyers and sellers in terms of economic benefits as well as strategic benefits. Ambler and Witzel(2000) asserted cultivating relationships is a natural process for doing business in China since developing relationships is *a natural blurring of the line between the personal and the professional*. Leonidou (1989), on the other hand, emphasized the importance of "efficiency aspects" and "behavioral aspects" in exporter-importer relationship, the latter of which represent power, conflict, co-operation and satisfaction of this international exchange relationship. Meanwhile, Morgand and Hunt (1994) considered trust as one of the key points of business relations development, which allows involved parties to maintain effective long-term and cooperative relations between them. Child (1998) explained that cooperation between firms stems from mutual reliance, emphasizing trust is needed for this cooperation to succeed.

2. Research Framework

As shown in the previous section, the study of importer's supplier selection behavior has been carried out using various frameworks, and even within each and the same framework, arguments are divergent. However, these studies can be said to be mostly comparable with each other since they analyzed supplier selection of importers with a focus on (a) bid-oriented factors, (b) exporter-oriented factors, (c) country-of-origin effect, (d) importer-exporter relationship and/or (e) other external variables such as governmental regulations or exchange rates. Unfortunately, while previous studies have found answers to what factors importers prioritize when choosing their foreign business partners, there is a lack of answers to why and how such decisions are made, especially regarding Chinese importer's behavior. Therefore, this study is based on the above five factors that have become an important base for existing studies, but extra questions were added to provide a deeper understanding of the rationales that are behind what shapes Chinese importers' supplier selection through a semi-structured interview. For simplification, this study focuses on what factors are considered and why when Chinese importers are selecting Korean business partners rather than simply explaining which factors are prioritized over other elements for their partner selections in the cosmetics industry.

[Figure 2] Framework for this Research



Source: Author's work

Interviews allow a researcher to learn the perspectives of individuals and their experiences, and are effective in discovering nuances (Jacob & Furgerson, 2012). In particular, interviews are useful when seeking detailed information about an individual's thoughts or motivations behind specific behaviors that cannot be revealed by quantitative data.

Meanwhile, interviews can be categorized into unstructured, semi-structured and structured ones. Among these, a semi-structured interview organizes a set of predetermined open-ended questions, with other questions emerging from the dialogue between interviewer and interviewee (DiCicco-Bloom & Crabtree, 2006). One of the advantages of using a semi-structured interview is that the method provides flexibility which cannot be found in a structured interview scenario (Barriball & White, 1994). It is also systematic and flexible since the researcher develops an interview guide containing a range of questions to which interviewees can respond with as much detail as is relevant (Cohen & Crabtree, 2006).

Thus in this research, semi-structured personal interviews were conducted with Chinese importers currently importing Korean cosmetics. The number of participants was finalized to be ten utilizing the snowball sampling method. As a non-probability sampling where subjects recruit other subjects through their social network, snowball sampling is used when the desired population of designated research is unreachable or inaccessible. For now groups or associations consist of Chinese importers who import Korean cosmetics appear to be either nonexistent or inaccessible. Hence, collecting subjects whose

qualities and conditions correspond to this research through snowball sampling was the best way to conduct the research.

3. Sample and Data Collection

As described in pp.4, cosmetics companies entering the Chinese market need to decide what entry mode is the most ideal for them. Large sized companies will more likely to undertake green field FDI while small to medium companies tend to find export more suitable. In China, roles of sellers, who are called ‘agents’, are significant in the process of both importation and domestic distribution.

Cheng Zheng(2015) explained the Chinese cosmetics industry is basically an industry developed by the steady advance of foreign global brands, and in the Chinese market, the cosmetics industry began as a kind of overseas agency system. Agents (especially, general agents or first tier agents) are delegated the rights of a particular company under the contract and act as a substitute for the company's business. In China, making use of a business system based upon utilizing an agent is widely used with sales and distribution of domestic brands as well as imported brands. Yang Ruijie(2016) describes the roles of agents as follows. Firstly, by serving as a bridge between customers and brand owner, agents can ease financial burden which brand owner would face if it solely entered the Chinese market. In addition, the brand owner can enjoy regional benefits and personal connections that agents have developed over time to assist

in generating product knowledge. Likewise, Lian Jinyu(2018) explains that a Chinese agent is well aware of the local market, has a relatively complete sales network and sales team, which not only reduces market development costs but also market risk. The author also commented cooperation between companies and agents can accelerate business success by enhancing marketing efficiency since companies need to establish a distribution channel management system where each level of agent's profits for long term cooperation can be guaranteed.

Kwak Youngsik and Nam Yongsik (2011), in an analysis of the distribution channels of cosmetics in China, explained that agents can intervene in most distribution network channels, and they may have additional distribution networks that can enhance sales and logistics difficulties. They also commented that not only Korean companies but also multinational companies consider distribution through agents when entering the Chinese market by utilizing one of the structures in [Figure 3].

Thus, for this research, ten Chinese importers who begin distribution of Korean cosmetics in the Chinese market and have exclusive sales rights over specific provinces or mainland China itself for some Korean cosmetics products were interviewed. These people are general agents (A to F in [Table 3]) or first-tier agents (G to J in [Table 3])¹⁵¹⁶ who are in charge of imported cosmetics.

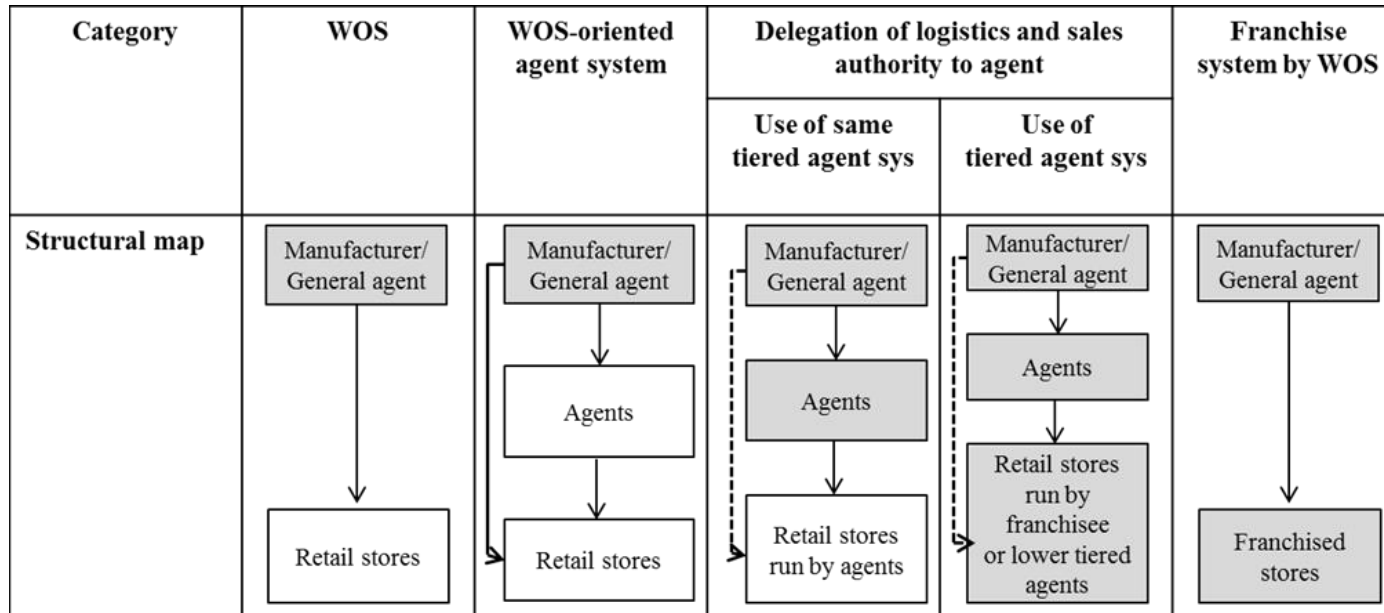
¹⁵ Cheng Zheng (2015) in her study, described the hierarchy and distinction of traditional Chinese local agents. According to Cheng, Chinese agents are classified as first tier to third tier or even lower, and low grade agents are responsible for sales in smaller administrative division. Also, low grade agents procure goods at a higher price than high grade agents.

¹⁶ General agent and first tier agent are distinguished by the size of the area to which they can

Products are handed down from them to lower-tier agents to final consumers with the price changing based on the tier level of agents. Thus, general agents or first tier agents can be seen as a medium between Chinese lower-level sellers and Korean companies. They do business directly with Korean cosmetics companies while from the perspective of the Chinese market they distribute goods to second-tier and third-tier sellers. Interviewees were specified as the ones who actually own a business and have more than two years' experiences.

have authority. General agents refer to the sellers who have the right to sell specific products across China while first-tier agents represent sellers whose right to sell are only valid in a particular province or in multiple provinces. In other words, there could be several first-tier agents who have the same right but in different provinces depending on exporter's preference. General agents are often used when an exporter is in small size and has little understanding of the Chinese market.

[Figure 3] Cosmetics Distribution Paths through Agents in the Chinese Market



Source: 광영식, 남용식(2011). 중국 화장품 유통경로 유형별 평가에 대한 서술적 연구: 시장구조 결정요인 및 네트워크 중심성을 중심으로

Their entire cosmetics import career is much longer than the tenure shown in [Table 3], as they are those who had been distributing cosmetics under other general agents for many years before setting up their own companies. The interviews consisted of four women and six men, with an average age of 32.6. Their educational profiles showed they all had acquired college qualifications.

Interviews were conducted from the second week of April to the second week of June, 2019. Face to face interviews were conducted with four interviewees during their business trips to Korea. Each interview took about an hour. The other six interviewees were performed through e-mail or Chinese mobile messenger, *wechat*.

The interviewees were asked basic pre-prepared questions first, followed by in-depth questions. Large companies such as Amorepacific are operating business in China directly by setting up offices or factories, letting required process under their controls. Therefore, it is impossible for Chinese importers to do business directly (if not officially or legally) and in large-scale with Korean large-sized cosmetics companies. As a result, interviewees for this research are characterized by doing business with Korean medium or small sized companies. From the perspective of Korean cosmetics companies, the process will be in the form of indirect or direct exporting. Interviewees who were selected for this research thus depict the similar characteristics. The details of all interviewees are as follows.

[Table 3] List of Interviewees

	Ethnic Group (Sex/ Age)	Firm Establishment Year/Place	#of Staff	Yearly Sales Revenue	Main Sales Channels	Major Product Sales Area
A	Korean Chinese (M/32)	2017 /Shandong	12	50m RMB	Online platforms, Wholesales	Hangzhou, Shandong, Shenzhen
B	Han Chinese (M/34)	2014 /Shandong	8	28m RMB	Online platforms, Wholesales	Shandong
C	Han Chinese (M/29)	2016/ Heilongjiang	5	5m RMB	Online platforms, Wholesales , Offline stores	Heilongjiang
D	Han Chinese (F/35)	2013/Anhui	18	20m RMB	Online platforms, Offline stores	Anhui
E	Han Chinese (F/34)	2014/ Guangdong	10	confidential	Offline stores, Online platforms	Southern China
F	Han Chinese	2014/ Zhejiang and	12	confidential	Offline stores, Online	Southern China

	Ethnic Group (Sex/ Age)	Firm Establishment Year/Place	#of Staff	Yearly Sales Revenue	Main Sales Channels	Major Product Sales Area
	(F/33)	others			platforms	
G	Han Chinese (F/38)	2012 /Heilongjiang	3	3m RMB	Offline stores, Online platforms	Jilin, Heilongjiang, Beijing
H	Han Chinese (M/29)	2014 /Guangdong	20	24RMB	Online platforms	Southern China
I	Han Chinese (M/32)	2016 /Sichuan	2	confidential	Online platforms	Henan, Sichuan
J	Han Chinese (M/30)	2015/ Guangdong	6	3m RMB	Online platforms	Zhejiang

Source: Author's work

Chapter III. Analysis on Chinese Importer's Supplier Selection Behavior

The most noticeable result is that unlike the past, governmental regulation oriented factors have emerged and serve as effective supplier choice criterion for Chinese importers due to recently enhanced import related laws.

On the other hand, country-of-origin criterion is no more considered as important as in the past when Chinese importers are choosing Korean counterparts due to some reasons, namely, increased standard of living in China, improved quality of Chinese domestic cosmetics and consumer's perceptual changes against Korean cosmetics. As the role of 'made in Korea' effect is diminishing, Chinese importers have started to take other factors into account.

They considered relationship factors were significant in increasing the level of cooperation between themselves and their Korean business partners, thinking that the stability of the business of the two parties can be enhanced through the factors.

Among bid oriented factors, some factors (e.g. quality and packaging of products) were emphasized more than others, such as price bid or brand awareness. Interviewees showed a higher level of differing opinions on exporter oriented questions, and they made use of strategic calculations in relation to exporter oriented factors and brand awareness from bid oriented factors. Further interviews revealed that this was largely attributable to their willingness to have a higher level of bargaining power in the buyer-seller relationship.

[Table 4] Summary of Chinese Importer's Supplier Selection Analysis

Importer's five supplier selection factors		The level of importance
Government regulation factors		High
Country-of-origin oriented factors		Low
Relationship-oriented factors		High
Bid-oriented factors	Brand awareness	Variable
	Others	Moderate
Exporter-oriented factors		Variable

Source: Author's work

1. Increasing Impact of Regulation Oriented Factors

Ray Collins and Ximing Sun(2010) argued firms use grey channels, which are neither obviously legal nor illegal, to avoid China's high import tariffs, demanding regulatory barriers, and inefficient distribution networks. The existence of grey channels has freed Chinese importers from taking governmental regulations into account when they choose trade counterparts. Indeed, the practice has been commonly adopted by both Chinese importers and Korean exporters as a way to enter the Chinese market due to some benefits that grey market offers: tax avoidance and distribution of products that have not been licensed by the Chinese government.

To counter such practices, the Chinese government has continuously eased its level of requirements by lowering tax rate for customs clearance or by simplifying the process of getting approvals for foreign cosmetics products

from the Chinese government. This was to eradicate illegal import and distribution of foreign cosmetics in the wake of the explosive demand for foreign cosmetics among Chinese consumers and to increase consumption within legal bounds. The biggest change was revision of the consumption tax rate in 2016. Chinese consumption tax rate was reduced by half from 30 per cent to 15 per cent as of October 1, 2016.¹⁷ Continued tax cuts have been made even after 2016, especially as of April 1, 2019, with value-added taxes for manufacturing industry dropping to 13 per cent, which is on a steady downward trend.

¹⁷ 中华人民共和国财政部, “关于调整化妆品进口环节消费税的通知”财关税[2016] 第48号

[Table 5] Tax Rate Changes on Imported Cosmetics Products in China

HS CODE	Details	2008.12			2018.12		
		Tariff (%) ¹⁸	Consumption Tax(%) ¹⁹	VAT (%)	Tariff (%) ²⁰	Consumption Tax(%) ²¹	VAT (%) ²²
3304.1000	Lip make-up preparations	10	30	17	5	15	16

¹⁸ WTO-IDB

¹⁹ 中华人民共和国消费税暂行条例2008修正本). The full context as to tariff rate can be found at: http://xxgk.ganzhou.gov.cn/c100442k/2018-07/05/content_ac7ec0643af746b58d0063212c9a870d.shtml

²⁰ Data was rearranged based upon a notice released by Ministry of Finance of the People's Republic of China. The table shows selectively chosen data based on the most imported Korean cosmetics items from China. The full context as to tariff rate can be found at: http://gss.mof.gov.cn/zhengwuxinxi/zhengcefabu/201805/t20180531_2914284.html

²¹ Information on consumption taxes can be found below with the consumption tax revision undertaken in 2016 being still valid. http://gss.mof.gov.cn/zhengwuxinxi/zhengcefabu/201609/t20160930_2431059.html

²² In May 2018, the Chinese authorities lowered the value added tax from 17% to 16%, and 11 months later, April 2019, the value-added tax was reduced to 13% again, based upon 中华人民共和国财政部税务总局,” 海关总署公告”[2019年]第39号

HS CODE	Details	2008.12			2018.12		
		Tariff (%) ¹⁸	Consumption Tax(%) ¹⁹	VAT (%)	Tariff (%) ²⁰	Consumption Tax(%) ²¹	VAT (%) ²²
3304.2000	Eye make-up preparations	10	30		5	15	
3304.3000	Manicure or pedicure preparations	15	30		5	15	
3304.9100	Powders, whether or not compressed	10	30		5	15	
3303.0000	Perfumes	10	30		3	15	
3304.9900	Others (including preparations for the care of the skin, suntan preparations, etc.)	6.5	0		1	0	

Source: Author's work based upon WTO-IDB and data from Ministry of Finance of the People's Republic of China

Unfortunately the Chinese government's efforts were not enough to stop both cosmetics importers and Chinese consumers from using the grey zone. As Bloomberg pointed out, online platforms such as *Taobao*(淘宝) and *Wechat*(微信) have constantly been identified and promoted as entities for distribution for foreign cosmetics without paying taxes, compelling the Chinese government to introduce the E-commerce law(中华人民共和国电子商务法)²³ which came into effect as of January 1st this year. On August 31st, 2018, the law was passed at the fifth meeting of the Standing Committee of the 13th National People's Congress of the People's Republic of China by requesting business registration obligation for online sellers with its aim being to prevent tax evasion as well as protecting consumer's rights and intellectual property. Indeed, with the requirement for businesses to register themselves, any transaction details and responsibilities of the goods became more open and traceable. Another notable part is that this law has also enabled the import of certain amounts through cross border e-commerce (CBEC) to be exempted from import licensing, registration and filing requirements.²⁴ This way, online cosmetics transactions without customs clearance or hygiene license²⁵ can also be recognized as

²³ The full text of the Chinese e-commerce law can be found at:
http://www.npc.gov.cn/npc/xinwen/2018-08/31/content_2060172.htm

²⁴ Fu Weigang, Li Mingtao, Ma Ce(2018). E-commerce law: daigou going gone.

²⁵ According to 'Regulations for Cosmetics Hygiene Regulations(化妆品卫生监督条例实施细则)' all cosmetics distributed in China should be reviewed by the National Medical Products Administration. As the only certificate of Chinese government approval that proves that imported cosmetics can be sold legally in mainland China, customs clearance and sales in China are impossible if hygiene license is not obtained(except for cross border online transactions

legitimate imports as long as importers comply with governmental regulations, along with existing conventional trade. Surprisingly, the result of interviews suggests that strengthened laws and surveillance of the government have emerged as powerful factors for Chinese importer's supplier selection consideration.

"In the past, I traded Korean cosmetics through grey market 100% which doesn't require customs clearance or Chinese hygiene license at all. However, now, I have to comply with governmental regulations by using either conventional trading model, which requires customs clearance, or cross-border trade. So I prefer products that have already received Chinese hygiene license. "

—A, Male, 32, Shandong Province

"With the introduction of E-commerce law, using grey market isn't available at all. Illegal distribution has been banned by the government, officially. With this, I prefer goods that meet government's requirements because it is much safer. "

-B, Male, 34, Shandong Province

"Until recently, I tried to avoid customs clearance. In fact, it wasn't just me.

below a certain amount according to e-commerce law). Product safety test procedure and period of time required for obtaining the license vary depending on the type of cosmetics. Non special use cosmetics need about 6 months while special use cosmetics (such as sunscreen) need more than 10 months to acquire hygiene license. The validity period is four years, and even the same series of products produced by the same producer must apply for individual hygiene certificates for each product.

The full context can be found at: <http://samr.cfda.gov.cn/WS01/CL1166/110201.html>

Everyone did that.”

-C, Male, 29, Heilongjiang Province

All the ten interviewees agreed that introduction of e-commerce law has dramatically changed their behavior in relation to supplier choice, making them consider exporter's availability to meet governmental regulations as top priority. However, as mentioned earlier, prior to the introduction of the E-commerce law, importing through grey channels had been common knowledge in China along with its aim to distribute products without governmental approvals and most importantly to evade import taxation. Fisman and Wei(2004) explained Chinese grey customs clearance, which is one part of the Chinese grey market, is made through underreporting of unit value; underreporting of taxable quantities; and mislabeling of higher taxed products as lower-taxed products.

“By receiving products from Hong Kong and shipping them to mainland China, tax, which should have been paid to the government, could be avoided. Plus, cosmetics without hygiene license could be distributed this way.”

-F, Female, 33, Zhejiang Province

“I used to use customs office that I have guanxi (special personal relationship) with. Then I made my Korean partner put products with hygiene license on the top and the ones without hygiene license at the bottom when packing. According to official rules, products without hygiene should have been confiscated but I was ok.”

-G, Female, 38, Heilongjiang Province

“It is important that you have an acquaintance who works at customs. Not every time all products reported to customs are examined. So I reported cosmetics as lower- taxed products. It’s not a perfectly safe way, but I used to use this way.”

-D, Female, 35, Anhui province

Use of the grey market has been available through *backdoor* imports via Hong Kong or through an importer’s personal relationship with customs officers. Koh(2016) mentioned another way the grey market is utilized is to receive cosmetics from Korea continuously with a small amount of parcels, by describing this practice as smuggling.

As shown above, in the past the Chinese governmental regulation was not a significant factor in Chinese importers' supplier choice options because there always were ways to avoid it. However, the government's unprecedentedly intensified regulations this year have forced Chinese importers to take this into account when choosing Korean exporters, which is the most outstanding change in the behavior of the Chinese cosmetics importers. Chinese e-commerce law has set a legitimate way for cross border trade where imported goods are transacted online by regulating e-commerce under stricter control while supporting its legal growth. In particular, it is transforming the previously unregulated nature of consumers and importers into legal practices by raising the tax-exemption limit and by allowing transactions of products without Chinese hygiene license to some extent.

[Table 6] Tax Benefits for Imported Cosmetics through Cross Border Trade in China

	2018.5.1~2019.3.31 (VAT:16%)	After 2019.04.01 (VAT:13%)
1ml(g)≥10RMB 1 piece≥15RMB	25.50%	23.05%
1ml(g) < 10RMB 1 piece < 15RMB	11.20%	9.10%
Tax free quota	RMB 5,000 for single transaction 26,000 RMB for annual transaction of individual consumers as of 2019.4.1	
Tax calculation	(Consumption tax+VAT)/(1-Consumption tax)*VAT	
Notes	* Tariff is exempted if transaction amount is within tax free quota * Outside the tax-free range, the tax will be levied as the standard for conventional trade over the whole amount	

Source: 鲍一凡. “个人跨境购物免税额明年调至2.6万元” Sina, 14. Dec. 2018 and 크로스보더 세금 정책 변경(과징 종합세),상하이방 상하이저널, 23.Apr.2019

“Since my company has been growing that not abiding by the law could destabilize business activities especially when the government is strengthening the law.”

-B, Male, 34, Shandong Province

“Products with hygiene license are even preferred among consumers as that license proves the safety and reliability of products.”

-E, Female, 34, Guangdong Province

“Cross border trade allows cosmetics without hygiene license to be distributed but I still prefer the ones with hygiene license. We don’t know when the government will further tighten regulations on online sales. In fact, I think the government soon will continue to expand its regulations, so I need to be prepared.”

-H, Male, 29, Guangdong Province

Interviewees were clearly aware of the need to comply with newly strengthened governmental regulations, thinking that compliance is a much safer way to operate their business in the long-term. What’s noteworthy here is that even importers who mainly sell cosmetics online preferred products with a governmental license. They believed that they are put in such an unstable situation where the government may push for additional regulations. As has been explained so far, official and legal trade practices are growing within the Chinese cosmetics market, while the grey zone is rapidly diminishing as an entry point. As a result, it is expected that Chinese importers will increasingly consider regulations required by the Chinese government, trying to remain in what the Chinese government sets as a legal area. This clearly shows the Chinese cosmetics industry, which has been fraught with illegal practices, is now in the process of normalization with the government’s lead. Consequently, governmental regulation factors will be increasingly policed and implemented in the Chinese importer’s supplier choice considerations.

2. Declining Impact of Country-of-origin Oriented Factors

As a psychological effect, country-of-origin affects consumer's perceptions and purchasing decisions on imported goods. China has been a prime example showing how the impact of a country-of-origin works in developing countries, particularly, where consumers have a low level of trust with domestic goods. The 2008 Chinese milk scandal which killed six infants with melamine laced baby formula well depicts the powerful impact of country-of-origin effect in China by prompting Chinese consumers to remain obsessed with Australian milk powder even 10 years later.²⁶

As Jin Hong (2013) explains, the Chinese cosmetics market, which was dominated by Shanghai-made brands, began to prefer foreign brands after the economic reform. From 1982 to 1996, global cosmetics giants such as Johnson & Johnson and L'oreal entered the Chinese coastal cities, and more global brands are increasingly entering the Chinese market at a rapid rate.

As of 2015, China's imports of Korean cosmetics have increased exponentially. In terms of market environmental change within China, the development of online platforms and the following informal trade practice so called 'daigou'²⁷ were hugely influential whilst from the side of the Chinese

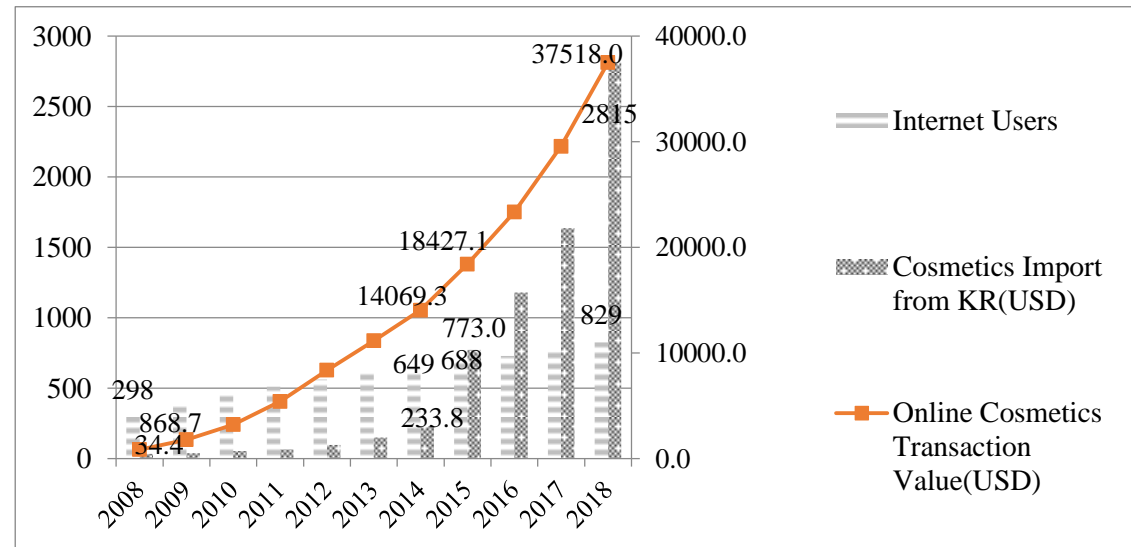
²⁶ Rebecca Puddy & Rhett Burnie. "China's thirst for baby formula creating problems for Australian shoppers and staff." ABC, 16. Dec. 2018

²⁷ Daigou refers to behavior where individual purchases goods from a foreign country instead of actual consumers and then distribute them back in China. The government usually exempts taxes on goods that are usually purchased by foreign travelers on a small scale. Daigou was commercialized by exploiting this system of government, and it became regulated by the

consumers' awareness, the Korean wave and Korean national image, thus country-of-origin effect, held the power. However, the results of interviews indicate that the country-of-origin effect on Korean products has not been as effective as in the past.

Chinese. For sure, it is cheaper to buy goods through Daigou than to buy officially imported goods because Daigou doesn't pay taxes required by the Chinese government. The practice could grow due to consumers' distrust of goods circulating in China and the advantages of buying foreign goods at low prices.

[Table 7] Online User, Cosmetic Transaction & Korean Cosmetic Import Status^{28 29}(unit: 1million)



Source: Author's work based on CNNIC(2019) 第43次中国互联网络发展状况统计报告 and ITC TRADE MAP

²⁸ ITC TRADE MAP trade map for China's cosmetics import value from Korea based upon HS code 3303, 3304, 3305 and 3307.

²⁹ Online cosmetics transaction value was calculated at \$1= 6.93RMB.

“In fact, products labeled as ‘made in Japanese’ have always been more popular than products produced in Korea. However, products labeled as ‘made in Korea’ gained popularity with its price that anyone could easily access. Unfortunately, with rising wages and economic development, Chinese consumers now have the capacity to consume premium goods such as Japanese. Thus, I need a partner whose products can show something more than just being ‘Made in Korea’.”

-D, Female, 35, Anhui Province

“Wealthy people want prestigious cosmetic brands from, such as, Europe. People who are sensitive to prices are seeking domestic Chinese with their quality enhancement. And those who are extremely sensitive to prices use Thai products. Thus, room for Korean products is getting smaller.”

-F, Female, 33, Zhejiang Province

“When I just entered the cosmetics industry, the Korean wave was one of the biggest factors that influenced consumers’ love for Korean products. But the popularity of Chinese pop stars and Chinese cosmetics soared during the period of strained relations between Korea and China due to the THAAD issue that influence of the Korean wave was significantly dampened. So there has to be extra benefits to be my partner.”

-I, Male, 32, Sichuan Province

“I think during the time that the image of Korean products was deteriorated

due to the THAAD issue, Chinese domestic products and Japanese products obtained a huge chance.”

-J, Male, 30, Guangdong Province

As such, according to importers, the country-of-origin effect of Korean products has been waning, presenting a dichotomy in the consumer segment. Consumers who are less sensitive to price due to income increase seek premium products, while those who are more sensitive to price select Chinese domestic products or products from other countries such as Thailand. The weakened country-of-origin effect of the Korean cosmetics is attributed to three reasons: improvement in China's standard of living; quality enhancement of Chinese products; and changes in its consumer's perceptions.

In fact, China's per capita GDP, which was only 3471.2 USD in 2008,³⁰ increased to 9776.3 USD in 2018,³¹ presenting more than a two-fold increase within a decade. However, China is also well known for its high income inequality. Although the level of income inequality has been alleviating slightly with the Chinese government's policies, China's net Gini coefficient still stands at 50 points as of 2013, which is much higher than the world's average.³²

³⁰ WITS

³¹ CEIC

³² Solina Jain-Chandra et al. Inequality in China- Trends, Drivers and Policy Remedies, IMF Working Paper (2018.1 published). Pg 4

Another point we should notice is that Korean cosmetics are positioned as medium priced in the Chinese market.

[Table 8] Analysis of Brand Position by Price in the Chinese Cosmetics Market³³

	US/ European	Japanese	Korean	Chinese	Thai
Prestigious brands /Above 600RMB	CHANEL, Dior, Estee Lauder, Lancome, Shu Uemura	Shiseido, SK II, Dew Superior, FANCL, POLA, Episteme			
High- priced brands /300- 500RMB	Artistry, Biotherm, Clinique, Clarins, Kiehls, M.A.C	Aupres, WHITIST, DHC, ASTALIFT, BRNCHIR SUPERIOR	Sulwhasoo, Whoo		
Medium- priced brands/ 100- 300RMB	L'oreal, Olay, Ponds, MaryKay, Maybelline NY	URARA, releiver, CHIFURE, ORBIS, Nature&Co, Za, AQUA LUNASH	The Face Shop, Innisfree, Age20's, 3ce	Herborist (佰草集), Chando(自然 堂), INOHERB(相 宜本草)	
Low – priced brands / Under 100RMB				Proya(珀莱 雅), Tjoy(丁 家宜), Maxam(美加	Ray, Mistine, Beauty Buffet, Atreus

³³ Korean data was reorganized to fit the current market situation and Thai column was inserted additionally by author.

	US/ European	Japanese	Korean	Chinese	Thai
				净), Pechoin(百雀 羚)	

Source: JETRO(2012), 中国化粧品市場調査報告書

Increased income has enabled those who were previously consumers of Korean cosmetics to move into the segment for higher priced brands such as those from Europe, U.S.A or Japan. Since country-of-origin effect insinuates the belief that products made in developed countries have higher quality (Josiassen & Harzing, 2008), it might be natural for Chinese consumers who now have more income to purchase products made in relatively more developed countries than Korea. While products displaying a more powerful country-of-origin effect are absorbing consumers with increased income, who had been targets for Korean cosmetics, with those who are more price conscious turn to less expensive products produced in China itself or countries other than Korea. In short, the maximum effect of country-of-origin on Korean cosmetics appears to have been achieved within a certain income level among Chinese consumers.

Then why doesn't the country-of-origin effect hold its validity even amongst those consumers sensitive to price? Quality enhancement of Chinese products and changes in the consumer's perception explain this phenomenon. Neelam(2006) explained the country-of-origin effect is based upon consumer's perceptions on domestic made products while researchers such as

Netemeyer(1991) showed how consumers with high sense of ethnocentrism are able to evaluate indigenously made products more favorably than imported goods.

In 2018, the Chinese cosmetics market was composed of 29.9% of the premium market and 70.1% of the mid to low-priced market. In the premium market, overseas premium brands are still gaining attention, but in the mid to low-priced cosmetics market, Chinese domestic brands are growing rapidly. In 2012, market share for Chinese domestic brands and global cosmetics in the mid to low priced cosmetics market accounted for 11.6% and 49.4% respectively then 21.9% and 38.6% in 2018,³⁴ showing the status of Chinese domestic cosmetics, whose growth rate is much higher than ever. Lee Jaewoo and Lee Mihye(2017) pointed out that the fast paced expansion of Chinese domestic brands centers upon their aggressive investment in marketing and R&D .³⁵ In the past, a reasonable price, far better quality than the Chinese products, other positive impressions shaped the ‘comparatively competitive country-of-origin effect’ on Korean cosmetics. However, as Chinese products, which were originally more price competitive than Korean products, have improved their quality that the country-of-origin effect on Korean products has diminished accordingly.

³⁴ 智研咨询 (cited in “2018年中国化妆品市场继续保持全球第一增速，本土化妆品品牌全球份额稳定上升”，搜狐， 20.Jun,2019)

³⁵ 한국수출입은행 (2017.1). 화장품 산업 신성장 동력화 연구.

[Table 9] Market Share Change of Top 20 Companies in the Chinese Medium-to-Low Priced Cosmetics
Market between 2012 and 2018³⁶ (unit:%)

2012				2018			
Company	Market share	Company	Market share	Company	Market share	Company	Market share
P&G	16.3%	Longliqi (隆力奇)	1.7%	P&G	11.7%	Beiersdorf A G	2.4%
L'oreal	8.9%	Inoherb (相宜本草)	1.5%	L'oreal	7.8%	Johnson &Johnson	1.8%
Unilever	4.9%	Proya (珀莱雅)	1.4%	CHICMAX (上海上美)	4.0%	Proya (珀莱雅)	1.7%
Mary Kay	3.8%	Henkel	1.4%	Pechoin (百雀羚)	3.8%	Wanmei (完美)	1.6%
Shiseido	3.7%	广州环亚	0.9%	Unilever	3.8%	Henkel	1.5%

³⁶ Chinese brands are marked by placing the Chinese name in bracket after the English brand name.

2012				2018			
Company	Market share	Company	Market share	Company	Market share	Company	Market share
Beiersdorf A G	3.0%	KAO	0.9%	Jala (伽蓝集团)	3.7%	广州环亚	1.3%
Jahwa (上海家化)	2.4%	Amway	0.9%	Jahwa (上海家化)	3.0%	Hanhoo (韩后)	1.3%
Johnson &Johnson	2.4%	AVON	0.9%	Mary Kay	2.9%	Yujiahui (御家汇)	1.1%
Wanmei (完美)	2.1%	Meiji(美即)	0.9%	Shiseido	2.7%	Inoherb (相宜本草)	1.1%
Jala (伽蓝集团)	2.0%	Amorepacific	0.8%	Amorepacific	2.4%	Longliqi (隆力奇)	0.9%
Total market share of Chinese cosmetics			11.6%	Total market share of Chinese cosmetics			21.9%
Total market share of foreign cosmetics			49.4%	Total market share of foreign cosmetics			38.6%

Source: 智研咨询 (cited in “2018年中国化妆品市场继续保持全球第一增速本土化妆品品牌全球份额稳定上升”, 搜狐, 20.Jun.2019)

Moreover, changes in Chinese consumer's perceptions seem to accelerate the deterioration of the country-of-origin effect on Korean cosmetics. As Park(2017)³⁷ delineated, the role of the Korean wave as well as Korean national image accounted for 42.7% in terms of affecting Chinese consumer's perceptions on imported consumer goods from Korea. However, as shown in Park's survey, deployment of THAAD has given a significant number of consumers a negative image of Korean products by turning Chinese consumer's attention to Chinese or European and Japanese products. This supports one of the interviewees' opinions by implying tourism and cultural export bans on Korea between 2016 and 2018 due to diplomatic conflict between China and Korea would have impacted on the perceptions of Chinese consumers, resulting in a negative country-of-origin effect on Korean cosmetics. Movements aimed at advocating Chinese domestic brands by aiming at building national confidence³⁸ are another strategy of Chinese cosmetics brands to be considered thoroughly.

³⁷ Jin Woo Park (2017, Dec published). 한중 관계 개선에 따른 중국 내 한국 소비재 인지도 조사, IIT Trade Focus. Volume 47, page 11.

³⁸ Crystal Tai. "K-beauty: is China falling out of love with Korean cosmetics?" SCMP, 17. June. 2019

[Table 10] Factors Influencing Korean Product Image in China³⁹

	Average	20s	30s	40s	50s
Personal satisfaction	27.4	26.2	28.7	30.2	22.6
The Korean wave (Kpop, Kdrama and etc.)	25.2	21.4	23.8	27.5	28.5
Korean National Image	17.5	23.4	15.3	15.7	15.6
Personalized product reputation(by usage)	14.8	14.5	12.6	13.8	19.9
Product reputation (online)	6.7	6.9	9.6	5.6	4.3
Chinese tourist experience in Korea	4	2.4	5.4	3.6	4.8
Advertisement	3.9	4.8	3.8	3.3	3.8

Source: Jin Woo Park (2017, Dec published). 한중 관계 개선에 따른 중국 내 한국 소비재 인지도 조사, IIT Trade Focus. Volume 47, page 11.

However, the interviewees admitted that consumers' perceptions of Chinese products will take time to fully change, and there is still a role for the Korean wave. Therefore, although the effect of country-of-origin on Korean cosmetics is smaller than in the past, it is still valid among consumers and affects an importer's strategy. In other words, it cannot be said that the Chinese importers completely exclude country-of-origin effect in selecting Korean exporters, and

³⁹ The survey is based upon answers from 1000 residents from 10 cities with high consumption rates in the East, Middle East and Western regions.

this phenomenon is likely to remain for the time being. But the waning impact means the growing need for providing additional benefits to Chinese importers through other factors to be chosen as their trade partners for Korean cosmetics exporters.

3. Increasing Impact of Relationship-oriented Factors

In order to make advances into the Chinese consumer market, it is of prime importance to develop a set of strategic alliances with Korean exporters whilst also developing relationships with the relevant Chinese entities. Such alliances, Su-Kyung Oh (2010) suggested, would allow Korean exporters to capitalize on China's existing domestic market by making use of China's existing direct distribution strategies with Chinese retailers and their knowledge of consumer trends as strategies to advance into the Chinese consumer market. Meanwhile, Morgand and Hunt(1994) consider trust as one of the key components of business relationship development, which ensures efficacious long-term and cooperative relations between two parties. Child(1998) emphasized that cooperation between firms stems from mutual reliance and that trust is needed for this cooperation to succeed.

When asked about importer-exporter relationship oriented questions, all of the interviewees answered trustworthiness was the most essential element when choosing Korean counterparts. Trustworthiness is generally believed to be more robust in business relationships that have an obvious long term, intimate and

trustworthy history. Ironically, however, interviewees showed differing responses when questioned on their preferences to maintaining a long term buyer-seller relationship with the same firm or on their willingness to trade with intimate counterpart though all of them sought trustworthiness in buyer-seller relationships. In fact, half of the interviewees responded that intimacy doesn't necessarily affect their trading partner selection since profit making comes first while the other half saw transaction with close partners can heighten the level of cooperation, by resulting in more profits. Every interviewee expressed their interest in building long-term relationships in business. Although two interviewees responded that they don't take availability to have such relationship into account when determining their business partners, they opined it was not that they don't want long-term relationship but it's unlikely to be realized with their Korean partners. Others agreed with this opinion though they showed strong interest in long-term relationship not like the two.

“Korean companies are cooperative with importers until their products become popular in China, but then their attitudes change. Once their product starts to gain traction, they terminate the contract after paying fines, and continue business again with larger importer. It is impossible to establish a long-term relationship based on trust in the first place.”

-F, Female, 33, Zhejiang Province

Despite past unpleasant experiences where their efforts for making imported cosmetics popular had become useless since their Korean counterparts changed view toward the requirement of a business partner once their product had been accepted into the Chinese market, interviews showed they still pursue long-term, trust based relationship when seeking Korean counterparts. Their rationale for this behavior boils down to one thing: the growing need for a higher level of cooperation between the two parties.

According to the interviewees, the competitiveness of Korean cosmetics is rapidly declining. As was explained in the previous section, changes in the standard of living, Chinese consumer's perception on the Korean cosmetics as well as quality enhancement of Chinese products are definitely responsible for the diminishing attractiveness of the Korean products. Additionally, the emergence of difficulties which have negatively impacted on the Korean-Chinese importer relationship is accelerating the decline of Korean cosmetics' competitiveness. However, this can be improved through increased cooperation and trust in long-term relationships, interviewees said. In short, the deterioration of the competitiveness of Korean cosmetics is one factor that caused the Chinese importers to give more importance to the buyer-seller relationship when choosing Korean trading partners. The following two data sets show the actual cosmetics imports value and growth rates of China's top five cosmetics importing countries from 2008 to 2018.

[Table 11] Import Value on China's Top Five Cosmetics Import Countries (unit: 1m USD)⁴⁰

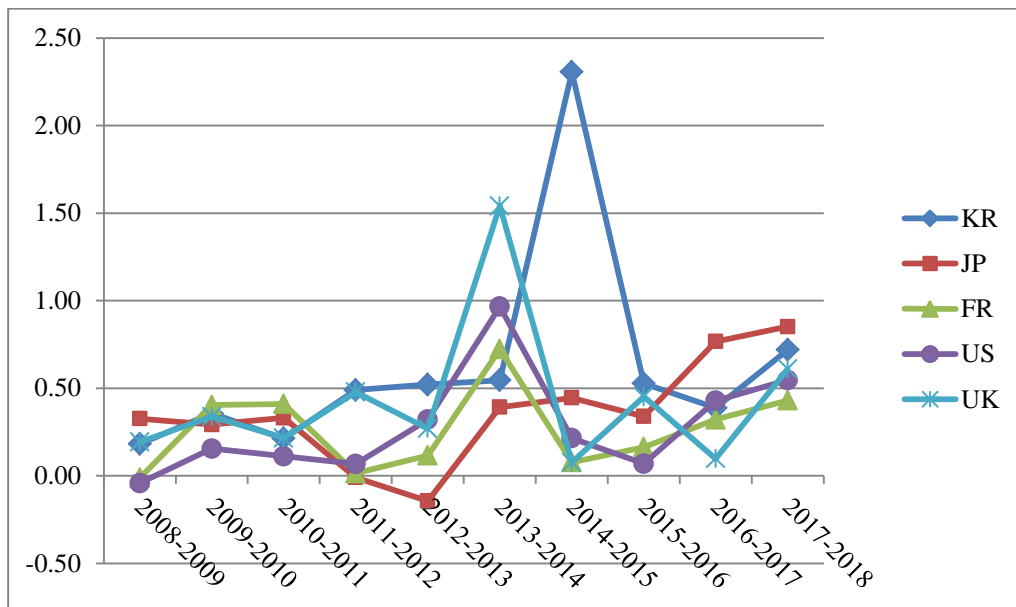
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
KR	34.4	40.6	55.1	66.8	99.5	151.3	233.8	773.0	1180.7	1637.4	2815.0
JP	156.2	207.0	267.6	356.0	352.3	301.5	419.6	606.4	812.1	1434.5	2656.5
FR	265.1	261.8	367.5	518.2	525.7	586.8	1011.0	1088.9	1266.6	1673.4	2392.7
US	114.5	109.7	126.6	140.7	150.2	198.4	390.1	473.9	506.7	723.6	1119.2
UK	19.1	22.7	30.4	36.9	54.6	69.3	176.1	189.6	275.0	301.9	485.9

Source: Author's own calculation based on ITC TRADE MAP

⁴⁰ The data was collected based upon HS code 3303,3304,3305 and 3307.

[Figure 4] Growth Rate on China's Top Five Cosmetics Import Countries

⁴¹(unit:%)



Source: Author's own calculation based on data from ITC TRADE MAP

As interviewees argued, Korea's cosmetics exports to China have risen sharply since 2015 becoming the largest exporter of cosmetics by 2018. However, the growth rate declined sharply from the same year, which raised questions about the possibility of future growth of Korean cosmetics in China. Interviewees identified two practices, which can further threaten the status of Korean cosmetics, in a buyer-seller relationship being: frequent contract violation; and

⁴¹ Growth rate was calculated as (import value of year x – import value of year (x-1))/import value of year(x-1).

behaviors that do not reflect the local demand.

“Japanese cosmetics companies plan annual production with Chinese importers at the beginning or the end of the year. No matter how popular a product may be in China, there is no additional production beyond planned quantity. Therefore, the brand value is maintained, and upon gaining popularity, it lasts a long time. However, in the same case, Korean companies produce additional products and unofficially provide them to additional importers that were not originally contracted. Such activity may be beneficial in the short term, but eventually their products will be devalued.”

-A, Male, 32, Shandong Province

“Korean companies easily break contracts. Let’s say importer A contracted with a Korean exporter, then importer B comes in and says he wants to buy larger quantity of goods than A. Now the exporter terminates contract with A even though contract period isn’t over. Then B is provided goods at a lower price than A and enters the market with lower consumer price than A. Then A has to lower his sales price than B even if it generates loss for him. The chicken game starts and eventually the brand value and the price policy are destroyed.”

-F, Female, 33, Zhejiang Province

“Chinese people know the Chinese market better. Say, the most popular facial mask in the Chinese market is priced at 49 RMB, and average price of Korean products is at 79 RMB. Would a Chinese customer choose Korean products? Let’s say you found huge demand for skin care products in the market and

Korean companies only produced facial mask of which market is already saturated. Would you trade with Korean companies? What's worse is that Chinese consumers now have ever increasing choices when selecting cosmetic products with the development of domestic brands and ever fierce competition among foreign brands. That's why we need cooperation based on reliable relationship.”
-C, Male, 29, Heilongjiang Province

“It is necessary to develop products, set prices and do promotions that reflect Chinese consumers' tastes in order to appeal more to them. Cooperation between importers and Korean counterparts can make this work.”

-D, Female, 35, Anhui Province

Chinese agents are classified as first tier to third tier or even lower. Lower-positioned agents are responsible for sales in smaller administrative division.⁴² Usually, general agents or first-tier agents firstly import overseas cosmetics and they resell these products to lower tiered agents, by adding their own profits. This way, products are moved from higher tier to lower tiered agents before reaching at the hand of retailers or final customers. Since the distribution structure is highly intertwined, in the situation interviewee A and F described, abrupt contract termination with one importer can lead to a series of negative ripple effects. In such structure, if the price competition is started between a

⁴² 程正 (2015) . T7护肤品牌运营策略研究

new importer and former importer the brand value will deteriorate at a significantly faster rate, especially when the latter still has unsold inventories. In addition, it is also necessary to quickly identify their needs so as to satisfy the Chinese consumers' demand. Chinese importers believe this can be achieved far better through the enhancement of importer-exporter relationships.

To conclude, Chinese importers emphasize importer-exporter relationship focused factors more than ever. Past experiences and the current market situation where Korean cosmetics are losing competitiveness had made Chinese importers believe only the existence of strong bonds in the importer- exporter relationship can ensure business stability for both parties.

4. Conflicts and Compromises Regarding Bid and Exporter-oriented Factors

Throughout the interview, it was revealed that bid oriented factors only moderately influence Chinese importer's supplier decision factors. All the interviewees answered that they put more importance on the quality and packaging of cosmetic products rather than on price when choosing Korean counterparts. A lower price bid can appeal to Chinese importers but only when products have high quality with attractive packaging. Regarding this, interviewees commented as follows.

“If my Korean partner is willing to provide products at a lower price by reducing his or her margin then it will be appreciable. However, products are usually first known online. So quality and design of products must be excellent in order to attract customers' attention and to maintain a good reputation.”

-F, Female, 33, Zhejiang Province

“Cosmetics do not differ greatly in ingredients or the production cost. After all, the important thing is the visible aspect.”

-H, Male, 29, Guangdong Province

Unlike other elements from the bid-oriented factors, interviewees' opinions on brand awareness were not identical and the reason of this will be addressed later in this study.

Their opinions were more fragmented in relation to exporter oriented factors where interviewees were asked to outline their preferences on five items such as trading partner's (a) size, (b) financial capacity, (c) past export experiences to China, (d) willingness to provide promotional support and (e) on time delivery capability. Unexpectedly, they presented the same preferences only on the last two elements.

However, further interviews showed a deeply entrenched and consistent logic behind their inconsistent preferences on elements over brand awareness, which belongs to bid oriented factors, and exporter oriented elements. That is, Chinese

importers are consistently going through the process of conflicts and compromises between the two ranged factor criteria when choosing Korean counterparts in order to increase their bargaining power.

With reference to exporter oriented factors, authors such as Hakansson and Wootz(1975) or Joseph R. Cater and Ram Narasimhan(1990) argued larger firms are considered less risky thus are more preferred when dealing with foreign suppliers. In addition, given that Chinese importers want exporters who can provide products satisfying Chinese governmental regulations with promotional support, we can naturally reach an assumption that Chinese importers would prefer to choose large sized firms with financial strength and former export experiences. Interviewees were well aware of the benefits of having a business relationship with large sized companies which have stronger financial status and extensive export experience. However, choosing such firms is not necessarily beneficial, some interviewees argued.

"In most of the cases, the level of cooperation decreases proportionally to the size of trading partner. Doing business with a bigger company leads to more constraints with less autonomy."

-C, Male, 29, Heilongjiang Province

"Bigger and richer company is more hierarchical that when problems happen that need to be corrected immediately, such as detection foreign substance in

product, it requires too much time and long process. Of course, reflecting my opinions on product development isn't easy."

-D, Female, 35, Anhui Province

"Big and rich companies tend to be less cooperative. If exporters are too small or financially unstable, they cannot support me in promoting products."

-G, Female, 38, Heilongjiang Province

"The counterparty should be able to meet the standards demanded by the government. But companies with less experience in China are more dependent on me and give me greater degree of autonomy."

-J, Male, 30, Guangdong Province

Size and financial status of trading partners can guarantee the authenticity of products to some extent, probably due to legal resources as bigger companies can exert highly sophisticated authenticity confirmation system. In addition, these companies are more capable of supporting promotional activities in China. However, for them, choosing such companies as a trading partner can result in weakened buyer's bargaining power.

The same logic was found in preferences on their perceptions on product's brand awareness. Generally speaking, from the importer's perspective having a higher brand awareness of a product will naturally lead to an increased willingness to import. However, interviewees' recognitions on brand awareness,

or how well-known the goods are in Korea, were complex. They agreed that cosmetics with higher brand awareness are less difficult to promote and to gain trust from Chinese consumers. However, more than half of the interviewees responded that they do not necessarily consider brand awareness as a significant priority when choosing their Korean business partners.

"Not every well-known brand among Koreans cosmetics garners attention in China. In addition, there are many products succeeded in China even they were launched in China first, by targeting the Chinese market. I now have an eye to pick what will attract Chinese consumers that I'd rather consider other aspects more than just focusing on brand reputation."

-A, Male, 32, Shandong Province

"Companies with well-known brands are not easy to control. I'd rather pick products that are not yet popular but have potentials. This way I can be in a better position."

-J, Male, 35, Guangdong Province

Brand awareness and some elements from the exporter-oriented factors are what can benefit Chinese importers obviously. Interestingly, Chinese importers believed the larger the benefits are, ironically, the smaller their autonomy will be. In supplier-buyer dynamics, an increase of a supplier's bargaining power

proportionally decreases the Chinese importers' bargaining power. Indeed, size of firms mostly equates to the degree of bargaining power available. Thus, Chinese importers calculate the degree of benefits and disadvantages from these factors to find a balance in between when considering Korean business partners. Their rationale behind such behaviors, thus, comes down to one obvious reason: antipathy against losing bargaining power.

As the relative power of one party can exert on the other, bargaining power offers the one in power a favorable bid whilst offering a less favorable (if not unfavorable) bid to the weakly positioned party. Likewise, Argyres and Liebeskind (1999) explain firms with little bargaining power are apt to face constraints coming from contractual commitments that they must engage in.

“The Chinese market is changing rapidly that determining ingredients, packaging, price, distribution channels as well as promotion method has to be more strategic. Importers like me know better about this stuff. However if my trading counterpart is too big or has well-known brand, I will be constrained in suggesting such things.”

-E, Female, 34, Guangdong Province

“I want a relationship where we can share our vision and grow together. However, too successful trading partner will not be cooperative nor be committed in the relationship.”

-I, Male, 32, Sichuan Province

Interviewees for this research wanted to hold bargaining power to the extent that their Korean partners remain cooperative and committed over sales in China, letting Chinese importers be involved into the product development process, pricing and marketing strategy development. Once again, they explained that they are seeking an environment where cooperation is available since strategies based on cooperation should be taken to enhance the competitiveness for Korean cosmetics. However, the process of prioritizing a partner's size or product awareness sometimes means *losing grip* on a buyer's bargaining power, decreasing the chance of cooperation between Chinese importers and Korean exporters. Hence, they consistently reiterate the conflicts and compromises regarding brand awareness and exporter oriented factors to the extent that their desired level of bargaining power is maintained.

Chapter IV. Conclusion

1. Findings and Implications

Importer's supplier selection behavior cannot be explained by a single factor. Their decisions on choosing suppliers include the sum of considerations on multiple aspects surrounding their trading partners and themselves. Accordingly components of an importer's behavior cannot be concisely classified, but, the Liang and Parkhe's studies (1997) allowed the categorization of these components into five factors which are: (a) bid-oriented factors, (b) exporter-oriented factors, (c) country of origin factors, (d) relationship factors and (e) other external factors.

External factors usually include governmental regulations and exchange rates. However since the interviewees are the ones who have been doing business with Korean exporters over years, not other exporters from other countries than Korea so their behavioral characteristics centering on exchange rates were excluded. As there was information that the Chinese cosmetics environment was changing significantly with the introduction of the e-commerce law, it was timely to consider only government regulations as an external factor.

Rather than simply ordering the importance of these five factors, this research analyzed how the five factors affect Chinese importers and why when they select their Korean business partners in the cosmetics industry using a semi-structured interview. Then the following results were obtained:

Firstly, the impact of governmental regulation is becoming a high priority for

Chinese importers when choosing their Korean suppliers. Due to the introduction of e-commerce law, which has been in effect since January, 2019, the Chinese government's demand for legitimate trade of importers has been strengthened. Hence, unlike the past, Chinese importers are emphasizing a business partner's capability to meet the Chinese government's regulations, which appears to be a significant behavioral change for them.

Secondly, country-of-origin factors are not considered as important as before. An increased standard of living in China, the quality improvement of Chinese domestic cosmetics as well as changes in Chinese consumer's perception of the Korean cosmetics are comprehensively decreasing the country-of-origin effect of Korean cosmetics. Thus, country-of-effect is not what critically affects Chinese importer's supplier choice decision.

Thirdly, relationship oriented factors are strongly taken into account when Chinese importers choose Korean business partners. In particular, they see trustworthiness in the relationship as the most important factor in such an environment where the need for cooperation between the two parties is growing significantly, mostly due to the weakening competitiveness of Korean cosmetics.

Lastly, conflicts and compromises regarding exporter-oriented factors and brand awareness which belong to bid oriented factors are happening whilst bid-oriented factors are just moderately affecting Chinese importer's choice in general. This is due to their willingness to have more bargaining power in the importer-exporter relationship which was brought by, again, the need for

increased cooperation between the two parties. By having bargaining power to the level they desire, Chinese importers are trying to reflect what they want in terms of product development, pricing policy and marketing plans.

All interviewees for this research agreed that Korean cosmetics became less competitive compared to the past due to development of Chinese own domestic cosmetics, income increase of Chinese workers, rapidly changing consumer's demand and the heated competition among global cosmetics brands in the Chinese market. However, most of them believed there's still potential for Korean cosmetics brands.

At present, in China, Korean cosmetics have positioned themselves as medium to low-priced products while Chinese cosmetics are positioned as low-priced products in the market. This could pose a threat to Korean products since Chinese cosmetics products are catching up with Korean ones quickly due to their significant quality enhancement. However, it is expected that it will take some time for Chinese consumers to have full reliability against Chinese domestic cosmetics, and there is still demand for Korean products among those who were born in the 1990s(九零后)and 2000s(零零后), interviewees commented. In addition, Korean cosmetics are a better fit with Asian's skin as they use healthy ingredients with a reasonable price.

However, all the described current changes in the Chinese cosmetics market highlight the increased need for Korean cosmetics companies to be more strategic. Companies unable to enter the Chinese market directly through the

establishment of a local branch or factory mostly use general agents or first tier agents, who prompt importation and distribution in the local market by working as Chinese importers. Thus, it will be important for Korean companies to firstly identify a reliable agent. The second important factor to understand is that the demands of these agents are changing and that many of these are reasonable. To the extent of not losing a supplier's bargaining power, it seems that Korean companies need to reflect what Chinese importers or agents require as part of their business strategy. This way, Korean companies can meet the demand of Chinese consumers, by maintaining their status as a cosmetics maker in China.

Chinese importers are adopting legal practices while focusing on expanding the buyer's bargaining power to the extent that it encourages their Korean business partner to be more cooperative. With this in mind, the Korean cosmetic exporters should find a balance within the supplier-buyer dynamic. A certain level of tension, balance and cooperation in the dynamics can benefit both parties. What Chinese importers and Korean exporters need in the cosmetics industry is to reach a Pareto efficient Nash equilibrium.

2. Limitations

Interviewing ten people might have limitations in developing a general understanding regarding a Chinese importer's supplier selection behavior when importing Korean cosmetics. Moreover, in reality, Korean cosmetics are distributed not just through general agents or first-tier agents, but also through

individuals who are not official distributors or Daigou agents. There are still players who are remaining in the grey zone by using “smoke and mirrors”, which reflect the fact that the Chinese law hasn’t reached a complete and effectively working level. However, importers who are similar to this research’s interviewees will eventually be the only survivors in the Chinese market since the Chinese government has been increasingly emphasizing the importance of legality within Chinese society. Hence, understanding their rationale will be helpful especially for Korean small and medium sized cosmetics companies, who cannot enter the Chinese market directly but need to make connections with those who are called general agents or first-tier agents for export.

Another limitation of this research is that the perspectives of Korean cosmetics companies or Korean exporters have not been reflected. In addition, this study does not fully cover the methodology of how to identify a reliable Chinese partner with whom they can develop a sound partnership. In fact, many reports have shown the cases where Korean companies are victimized due to the wrongdoings of Chinese general agents. There are many small and medium-sized Korean companies that are on the road to success through the creation of an effective synergy with their Chinese partners, but there are certainly companies whose business is in jeopardy due to their Chinese partners. That is, in order to optimize research, the perspectives of both Chinese importers and Korean exporters should be evenly studied.

Thirdly, the credibility of the interviewees' answers is also unlikely to be perfect. In fact, some interviewees appeared to be cautious about the full

disclosure of their behaviors to questions which they thought to be sensitive, by asking not to reveal the details of their behaviors that could limit their business. Given this, we can assume that there might have been some discrepancies between what they have actually been doing and their answers particularly regarding their responses to governmental regulation oriented questions. Nonetheless, the Chinese government's restrictions on cosmetics imports are highly unlikely to be eased that even if the answers of some interviewers were different from the facts, the inconsistencies will likely decrease over time.

Lastly, some of the information in this study had to rely entirely on the personal opinions of the interviewees with the absence of official data such as interviewee's personal experiences in their previous importer-exporter relationship. However, it is difficult to dismiss this as a fake, given that the majority of interviewees highlighted the same opinions.

Notwithstanding these limitations, it is obviously important to understand the Chinese importer's supplier selection behaviors when considering the possibility of further development of the Chinese cosmetics market and the growing dependence of the Korean cosmetics industry on China. However, little has been studied regarding Chinese cosmetics importer's behaviors when choosing Korean business partners. By interviewing actual Chinese importers, this study tried to provide pragmatic information on how Chinese importers choose Korean business partners and why, rather than simply ranking supplier choice factors. Although further research is needed, this research will serve as a strong introduction in beginning further studies surrounding Chinese importers'

supplier selection behaviors, by suggesting practical insights for Korean cosmetics exporters.

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Appendix

1. Questionnaire in Chinese

大家好,我是就读于首尔大学国际研究生院的金赞喜。本次问卷调查使用采访的方式,旨在更深入的了解与分析中国进口公司对于韩国化妆品品牌的选定因素。论文的题目为《中国化妆品进口商选择韩国客户的原因》,采访的对象为直接从韩国化妆品公司获得产品供应的进口商及代理商。本次采访的所有内容都将匿名使用,且除学术目的外,不用于其他用途,敬请放心。谢谢。

《 中国进口者个人特点 》

- 年龄 /民族/ 性别/学历
- 经历
- 您是总代理还是一级代理?
- 公司成立日期 /公司地址
- 年销售额
- 员工人数
- 主营产品和品牌
- 主要销售渠道
- 销售地区

《 政府规制相关项目 》

- 与过去相比,使用灰色通关的比率正在减少? 理由是?

- 与过去相比, 使用正常通关的比率正在增大吗? 理由是?
- 使用跨境的比率在增加吗? 理由是?
- 若对方只坚持正常贸易的话, 会不会不交易? 理由是?
- 是否更喜欢有卫生许可的产品? 理由是?

《 原产地效应相关因素 》

- 与过去相比,您的消费者怎样看待韩国产化妆品? 是否更喜欢?
- 选择产品时受韩流影响吗? 理由是?
- 喜欢能体现韩国特点的产品吗? 理由是?
- 你更喜欢韩剧里出现的或者韩国人气明星使用的产品吗? 理由是?
- 您感到韩国制造的产品的效果正在减弱吗? 理由是?

《 产品特征相关因素 》

- 如果企业给出的供应价低,交易意愿是否会增强? 理由是?
- 您认为产品的质量重要吗?
- 您认为产品的设计重要吗?
- 您认为产品的质量和设计比价格更重要吗?
- 您重视产品在韩国的知名度吗?

《 出口商特征相关因素 》

- 是否更想与大公司交易?
- 在选择交易的企业时, 企业的资产状况越好,越想交易吗? 理由是?
- 是否更想与有出口经验的公司交易?
- 是否更喜欢遵守出库日期的企业?
- 是否偏爱积极帮助营销活动的企业?(提供宣传品,支持营销费用等)

《 进口商-出口商关系相关因素 》

- 是否愿意与同一出口商进行长期交易？那么,要不然理由呢？
- 在与出口商往来时是否看重信义？
- 是否认为彼此公司关系越亲密,或者信任关系越密切,越能增加销售业绩？理由是？

《 其他提问 》

- 是否有偏好的付款条件， 合同条件(合同期限,MOQ等)， 或交货条件？
- 除上述问题提及的方面， 您在选择韩国化妆品企业时是否还考虑其他因素？

2. Questionnaire in English

As a M.A. student currently attending Graduate School of International Studies at Seoul national university, I am hoping to interview Chinese importers in relation to their supplier choice behaviors when importing Korean cosmetics. This interview is targeted for importers who do business directly with Korean companies. All the information acquired through this interview will be used anonymously and only for academic purposes. Thank you for your help.

《 Importer-related characteristics 》

- Age /Ethnic group/Sex/ Education
- Working experience
- Are you a general agent or a wholesaler or the both ?
- Firm establishment year /place
- Yearly sales revenue
- Number of employees
- Key products and brands
- Key sales channels
- Key products sales area

《Governmental regulation-related factors》

- Are you importing cosmetics through grey channels less than the past?

- Are you importing cosmetics through conventional trading channels more compared to the past? If so, why is it?
- Are you importing cosmetics through cross-border platforms more compared to the past? If so, why?
- Are you more willing to trade with company that insists to use conventional trading route? If so, why?
- Do you prefer companies with products that have Chinese hygiene license? If so, why?

《Country-of-origin related factors》

- Are products made in Korea more popular among consumers than in the past?
- Does the Korean wave affect your decision on selecting your trading partner?
- Do you prefer products that present Korean characteristics better?
- Do you want to import products that are exposed to Korean dramas or used by Korean celebrities?
- Do you think impacts of ‘made in Korea’ have been decreasing?

《Bid-related factors》

- Do you prefer to trade with companies that offer lower price bid?
- Do you put importance on quality of products?
- Do you put importance on packaging of products?
- Do you prioritize quality and packaging of products over price?
- Do you put importance on brand awareness?

《Exporter-related factors》

- Are you more willing to trade with larger firms?
- Are you more willing to trade with financially rich companies?
- Do you prefer firms with official export experiences in China?
- Does on time delivery matter to you?
- Do you think promotional support by your business partner is important?

《Relationship-related factors》

- Do you prefer to have a long-term relationship with the same partner?
- Do you put importance on trustworthiness?
- Do you think intimacy between sellers and buyers increase the likelihood of business transactions?

3. Questionnaire Result⁴³

Category	Questions	Interviewee List									
		A	B	C	D	E	F	G	H	I	J
Regulation-oriented	The rate of using grey clearance is decreasing.	O	O	O	O	O	O	O	O	O	O
	The rate of using official customs clearance is increasing.	O	O	O	O	O	O	O	O	O	O
	The rate of using cross-border trading is increasing.	O	O	O	O	O	O	O	O	O	O
	I prefer company that insists to use conventional trading route.	O	O	O	O	O	O	O	O	O	O
	I prefer company with products that have Chinese hygiene license.	O	O	O	O	O	O	O	O	O	O
COO-oriented	Compared to the past, products produced in Korea became more popular among consumers.	△	X	X	X	X	△	X	X	X	X
	The Korean wave is still valid among Chinese consumers that this affects my decision.	△	O	△	△	O	O	O	O	△	△
	I prefer products that present Korean characteristics better.	X	O	△	△	O	△	O	O	△	△

⁴³ Notation: O(Yes), X(No), △(Conditional)

Category	Questions	Interviewee List									
		A	B	C	D	E	F	G	H	I	J
	I want to import products that are exposed to Korean dramas or used by Korean celebrities.	O	O	O	O	O	O	O	O	O	O
	I think impacts of 'made in Korea' have been decreasing.	O	O	O	O	O	O	O	O	O	O
Bid-oriented	I prefer to trade with companies that offer lower price bid.	O	O	O	△	△	△	△	△	△	O
	I put importance on quality of products.	O	O	O	O	O	O	O	O	O	O
	I put importance on packaging of products.	O	O	O	O	O	O	O	O	O	O
	I prioritize quality and packaging of products over price.	O	O	O	O	O	O	O	O	O	O
	I put importance on brand awareness.	△	△	O	O	O	△	△	O	△	△
	The larger the counterpart's firm is, the more I am willing to trade with it.	O	X	X	△	△	X	△	△	△	△
Exporter-oriented	I am more willing to trade with financially rich companies.	O	O	O	△	O	△	△	O	△	O
	I prefer firms with official export experiences.	X	X	X	O	O	△	△	O	O	X
	On time delivery is important.	O	O	O	O	O	O	O	O	O	O
	Promotional support is important.	O	O	O	O	O	O	O	O	O	O

Category	Questions	Interviewee List									
		A	B	C	D	E	F	G	H	I	J
Relationship-oriented	I prefer a long-term relationship with the same partner.	O	O	△	O	O	O	△	O	O	O
	Trustworthiness is important.	O	O	O	O	O	O	O	O	O	O
	Intimacy between sellers and buyers increases the likelihood of business transactions.	△	O	△	O	O	△	△	O	O	X

Source: Author's work

4. List of Tables & Figures

[Table 1] Examples of Korean Cosmetics Companies' Entry into China

[Table 2] Liang & Parkhe's Classifications on Importer's Supplier Choice Behaviors

[Table 3] List of Interviewees

[Table 4] Summary of Chinese Importer's Supplier Selection Analysis

[Table 5] Tax Rate Changes on Imported Cosmetics Products in China

[Table 6] Tax Benefits for Imported Cosmetics through Cross Border Trade in China

[Table 7] Online User, Cosmetic Transaction & Korean Cosmetic Import Status

[Table 8] Analysis of Brand Position by Price in the Chinese Cosmetics Market

[Table 9] Market Share Change of Top 20 Companies in the Chinese Medium-to-Low Priced Cosmetics Market between 2012 and 2018

[Table 10] Factors Influencing Korean Product Image in China

[Table 11] Import Value on China's Top Five Cosmetics Import Countries

[Figure 1] Thesis Flow

[Figure 2] Framework for this Research

[Figure 3] Cosmetics Distribution Paths through Agents in the Chinese Market

[Figure 4] Growth Rate on China's Top Five Cosmetics Import Countries

국문초록

한국 화장품 업계에 있어 중국 시장의 중요도는 크게 증가해왔으며 중국 시장의 중요성은 계속해서 지속될 전망이다. 하지만 중국 시장 환경의 급격한 변화로 인해 한국 화장품은 경쟁력을 잃어가고 있다. 이에 따라 많은 선행 연구들이 중국 소비자의 수요 변화나 한국 화장품 업계의 전략에 대해 분석해왔지만 정작 중국 수입업자의 행동 요인이나 동기에 대한 연구는 부족한 실정이다.

본 연구는 기존 문헌 검토를 통해 수입업자의 수출업자 선택 요인이 입찰적 요건, 수출업자의 특징적 요건, 원산지 효과 관련 요건, 상호간 관계적 요건, 기타(정부 규제 등) 요건으로 나뉜다는 점을 발견했다. 이에 따라 다섯 가지 수입업자의 공급자 선택 요인에 근거해 현재 활동 중인 현지 총대리상 혹은 일차 대리상이자 수입업자인 중국인을 대상으로 한국 화장품 수출업자 선택 요인에 대해 인터뷰했으며 다음과 같은 결과를 얻었다.

먼저, 중국 당국의 규제 강화로 인해 중국 수입업자들 사이에서는 합법적인 무역 관습이 형성되고 있다. 이로 인해 그들은 한국 수출업자 선택 시 정부 규제 관련 요건 만족 여부를 중요시한다. 둘째, 중국의 시장 환경 변화로 수출업자 선택에 있어 중국 수입업자의 한국산 원산지 효과에 대한 고려는 크지 않다. 셋째, 수입업자-수출업자간 협력의 필요성 증대로 중국 수입업자들은 양자간 관계적 요건을 강조한다. 마지막으로, 중국 수입업자들은 입찰 관련 요건과 수출업자 특징 관련 요건 선택에 있어 갈등과 타협의 과정을 겪는다. 이는 중국 내 제품 판매 관련 사항에 대한 한국 파트너사들의 보다 협력적인 태도를 유도하기 위해 구매자 교섭력을 확대하기 위함이다.

따라서 본 연구는 상기 결과물에 의거해 한국 화장품 업체들이 공급자-

구매자간의 역학 속 균형을 찾길 제안한다. 화장품 산업에서 중국 수입업자와 한국 수출업자에게 필요한 것은 파레토 최적의 내쉬 균형을 달성하는 것이다.

핵심어: Chinese importers, Chinese agents, Supplier selection, Korean cosmetics, Korean SMEs, Cosmetics export

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