

# How the FTA's Utilization in Contract for the International Sale of Goods of Korea's Companies Affects Their Export Performance

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## Abstract

**Purpose** – This paper aims to articulate relationship about factors influencing FTA utilization by dividing them into company's external and internal factors and performing investigation on the relationship between FTA utilization and export performance.

**Design/methodology** – This study verified factors influencing FTA utilization by dividing them into company's external and internal factors and performing investigation on the relationship between FTA utilization and export performance. Empirical analysis was performed by setting internal and external factors required for FTA utilization as variables. To achieve this, research model was established based on previous study, hypothesis was deduced, and statistical program were used to test the hypothesis. This study performed empirical analysis using statistical program of SPSS 18.0 and AMOS 18.0 for the research model.

**Findings** – Empirical analysis was performed regarding the effect of the FTA utilization on export performance and previous study defined export performance as the company's increased economy benefits through export and increase in new transactions. Analysis was also performed for factors affecting the FTA utilization by the company and through management and response of external factors and internal factors it was confirmed that the FTA utilization by the company led to increase in the company's export performance as a result. This study proposes a method to achieve export performance based on this.

**Originality/value** – Companies seeking to utilize the FTA sign the Contract for the International Sale of goods and there are many conditions to meet in order to receive trade preferences during the transaction process. Existing trade order and order in the FTA have to be followed. Country of origin can be seen as key in the FTA. The Rule of Origin becomes the most important evaluation standard in applying preferential tariff in the FTA. Such regulations can be seen as external factors which cannot be controlled by the company. Internal factors are capabilities owned before that can be controlled by the company. The study sought to test the variables regarding factors centered on such capability. This study verified factors influencing FTA utilization by dividing them into company's external and internal factors and performing investigation on the relationship between FTA utilization and export performance.

**Keywords:** Export Performance, Free Trade Agreement, FTA Utilization, The Contract for the International Sale of goods

**JEL Classifications:** F14, K33, R10

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## 1. Introduction

### 1.1. Purpose and Background of Research

The key to utilization of the FTA is the country of origin, and the reason that the country of origin is important is that it becomes the criterion to determine whether to apply the benefit of preferential tariffs (Lee Myung-Gu, 2007). The country of origin is determined by following the Rule of Origin (RoO) in the FTA, and this means the various criteria, legal regulation procedures, and administrative rules required in deciding, checking, and displaying the country of origin (Jang Geun-Ho, 2005; Okuda, 2010). The RoO becomes the most important evaluation standard in the FTA for applying preferential tariff (Yamagami Hideki and Yuko Ushijima, 2009), and since it serves a very important role in the effective execution of the FTA and the prevention of bypass penetration by non-FTA countries, or free-riding by third-country goods (Ahn Jae-Jin, 2008), it is emerging as the most important issue between treaty partners during the FTA negotiation process. If a country signs an FTA with another country, the export competitiveness of the contracting party's goods improves, a mutually stable foreign market is secured (Jung Jae-Yeol, 2010), and a preferential FTA conventional tariff rate that is lower than the base tariff rate is applied. From this aspect, the FTA is a system that fundamentally provides benefit to the contracting parties (Choi Jae-Soon, 2008), but it is not that easy for companies to completely enjoy such benefits.

Korea is continuously expanding the FTA, but each agreement consists of different RoOs, and each country and company frequently face difficulties in utilizing the FTA through understanding of the RoO. Unlike the original goal, the RoO acts as a trade barrier, and is at times a hindering factor, so it acts as an obstacle to free trade. This is being pointed out as the biggest cause in dropping the utilization rate of the FTA, but not much effort is being deployed to finding solutions to this problem. Rather, countries worldwide, being conscious of their industry and business, strictly adopt the RoO when signing the FTA, which leads to excess cost effect, and determines difficult procedures that become obstacles to FTA utilization (Cho Sung-Jang and Cho Chan-Hyuk, 2016). Previous research has focused on the economic effect on the country and industry, and the support of small and mid-sized businesses through FTA utilization. Meanwhile, studies regarding the FTA utilization method and the required process and regulation are relatively lacking in number. Therefore, studies regarding the relationship between FTA utilization and the RoO, and the relationship between a company's capability and resources that can utilize the FTA, are necessary. In addition, the FTA is not a completely new trade environment, but should be approached and understood as an evolved form of the existing trade paradigm. Trade basically has the form of transaction by document, and when a company seeks profits through trade, it prepares documents based on the Contracts for the International Sale of Goods and must execute the company's obligation regarding the trading partner based on such documents.

However, FTA-related study is performed, and its results are interpreted in separation from the existing trade paradigm. The company's FTA utilization and result are also interpreted separately from general trade.

Accordingly, this study investigates the basic conditions of the RoO for applying FTA benefits in free trade and FTA, utilizing the company's export performance, as well as internal and external environments. For internal and external environments, the general capability and resource of the company engaging in trade are set as variables through previous research, and then verified. Based on this, the effect and improvement method of the FTA RoO are deduced, and the details that need to be prepared for FTA utilization by the company are then drawn.

## 1.2. Scope and Method of Research

In order to achieve the above research purpose, this study established hypotheses through literature study, and derived the results through empirical analysis. Literature study referred to FTA-related agreements and law, books, theses, research reports, statistics, etc. Through previous study, the existing agreement and domestic legal system regarding the country of origin confirmation document of the preferential rules of origin were reviewed and analyzed.

Also, a research model was established based on previous study regarding the RoO related to FTA preferential rules of origin, hypotheses were deduced, and statistical techniques were used to test the hypotheses. This study performed empirical analysis using the statistical techniques of SPSS 18.0 and AMOS 18.0 for the research model.

This study consists of a total of 5 chapters. Following this Introduction, Chapter 2 analyzes a Theoretical Survey and Previous Studies of Contracts for the International Sale of Goods and the basic conditions of the RoO. Chapter 3 establishes a model for the company's FTA utilization and export performance and deduces research variables. Chapter 4 derives results through empirical analysis, and then interprets them. Chapter 5 concludes the paper with a research summary and describes the limitations of this research.

## 2. Theoretical Background

### 2.1. Rule of Origin (RoO) of the FTA

There are various issues in negotiating the FTA, but the RoO has the greatest impact on utilization by the company. In other words, RoO is the factor in the FTA that has the largest effect. Consequently, studies regarding RoO have been actively progressing. Korean scholar Kim Han-Sung (2008) defined the RoO as criteria, process, international regulation, law, and rule to determine the country of origin. Cho Mi-Jin (2008) defined the RoO as the criteria and process to stipulate the effect of preferential and non-preferential measures, with the key factor being Product Specific Rules (PSR), while it can be classified into Wholly obtained or entirely produced (WO), and Substantial transformation (ST), and can be supplemented by supplemental clause.

Foreign scholar Lazaro and Medalla (2006) defined the RoO as a set of rules determining the nationality of the trade goods, and said it is a rule that is technical and difficult, due to the complexity of the RoO. Such a RoO determines the country of origin and is the various criteria and processes to stipulate the preferential and non-preferential trade measures. Also, it exists in the form of international agreements, regulations, precedents, administrative decisions, etc., and consists of decision criteria to determine the country of origin, substantive rule for display method, and procedural rules for preparing and submitting country of origin proof documents and confirmation process by the customs authority.

The 'Paris Convention for the Protection of Industrial Property (1883)' is the first international law related to the RoO. Clause 10 stipulates that imported goods that falsely indicate their country of origin or production area shall be confiscated. Later, the RoO was legalized in the US, Europe, and elsewhere. When the Korea–Chile FTA took effect in 2004, Korea implemented the main points, such as the origin decision criteria, issuing Certificate of Origin (C/O), origin verification, etc., and details required for execution by Korea Customs Service announcement. According to the expansion of the FTA, the 'Act on Special Cases of the Customs Act for the Implementation of Free Trade Agreements' has been enforced since 2010.

GATT placed an origin marking provision (1947) in Clause 9, and the Kyoto Convention

(1973) stipulated the origin criteria and the general principle of original display as an annex. The WTO stipulated the RoO and pushed to enact the Harmonized Rules of Origin.

The RoO in the WTO means the criterion used to determine where the goods are made. This means the Product Specific Rule (PSR), which is an area from various rules that determines the country of origin. The RoO in the FTA means the entire rules, including general rules, PSR, etc. Generally, the country of origin means the region where the goods are developed, produced, or processed, and is distinct from the simple assembly country, transit country, consignment country, capital investment country, and brand-holding country.

Nagai Munehiko (2010) defined the country of origin as the country where the corresponding good is actually produced and the nationality of the goods, but said that since the RoO does not have a unified detail or form as it is decided through negotiation, it is determined differently by each agreement according to the competitiveness of each industry of the country, production method, etc. However, the basic principles are mostly the same, and the country of origin is decided by WO and ST criteria. The RoO decides this, and rules are becoming complex, due to the globalization of the manufacturing process. As the RoO is a criterion that applies differential treatment to on-offshore goods, and is determined by negotiation considering active investment and trade between the countries, importing circumvention prevention, sensitive sector protection, etc., the RoO is composed differently, because the industry structure, tariff rate structure, trade characteristics, etc. are reflected for each FTA. Through this, each country seeks to achieve the goals of customer manufacturer protection, industry and trade policies, trade barriers, health hygiene and natural environment protection, etc. As agreements increase, FTAs are being signed simultaneously with multiple countries. Bhagwati (1995/2003), Bhagwati, Greenaway and Panagariya (1998) stated that the Spaghetti Bowl Effect appeared to reduce the originally expected transaction cost saving effect, due to the increased time and manpower during the trade process, due to different RoOs. Thus, inefficiency occurs due to the complexity of the rule.

According to study impacting FTA utilization level, FTA utilization level has been found to be largely affected by FTA preferential margin rate, origin verification method, FTA utilization support system, etc. The reason by FTA utilization level is low in ASEAN was analyzed that companies have low interest in FTA utilization due to slow tariff concession speed, complexity of the rule of origin. Kawai and Wignaraja (2009) also presented similar investigation results. According to this study, major factors for low FTA utilization level by major Asian countries consist of additional cost due to FTA utilization, low preferential tariff level, concern about leaking company secret, and the rule of origin.

**Table 1.** FTA Utilization Hindering Factor

Category	Japan	Korea	Singapore	Thailand	Philippines
Lack of information	5	41	5		94
Using EPZ* more advantageous					36
Additional costs in FTA utilization	8	13	12	8	41
Low preferential tariff level	5	43	12	6	18
Excess exception items				9	20
Rule of origin/item classification					31
Non-tariff barrier		5		13	12
Concern of leaking company information	4		6		17

**Note:** \*Export Processing Zone (EPZ).

**Source:** Kawai and Wignaraja (2009).

## 2.2. Requirement of FTA Utilization

Each FTA RoO has different forms and details. The RoO is different in each agreement, but the basic principles are mostly similar. It determines the rules for the process and conditions to receive FTA benefits. Each FTA calls for fulfilling the same condition, and five basic conditions, those of originating products, country of origin proof, direct consignment, tariff item, and transaction between transacting parties, have to be fulfilled.

The originating products mean goods where the FTA-signing country is the country of origin. The country of origin needs to be recognized according to the FTA RoO between the two countries. Nagai Munehiko (2010) applied Wholly obtained or entirely produced (WO) and Substantial transformation (ST) as criteria to decide originating products. The WO recognized the country that produced, processed, or manufactured the entire corresponding good as the country of origin. Commodities such as agricultural and fishing products, mineral goods, etc. correspond to such. They are in general developed, produced, and acquired from a single country, without processing. From the decision of the country of origin for products produced, processed, and manufactured across two or more countries, the ST recognizes the country of origin as the country where the final transformation is executed, where substantial characteristic is granted. This is applied in the case where imported raw materials and domestic raw materials are processed, as well as industrial products. When the country of origin status is acquired, the benefits of FTA can apply. One of the most basic forms of FTA utilization is Originating products.

The country of origin proof condition has to provide documentary proof that it is a country of origin product from import-export between FTA signing countries. In order to receive benefits, the country of origin product has to be proved according to the process and method determined by the agreement. Issue of the method of evidence document is divided into authorized certification and self-certification, and it is defined differently by each agreement. Documents created from Contracts for the International Sale of Goods can serve as a basis for issuing evidence documents or used as actual proof documents. In particular for the case of origin verification, documents issued according to the flow of trade such as trade contract are important.

Direct consignment is 'where [a] good departs from the exporting country and is transported directly to the importing country without passing through another country in the middle.' In the exceptional case where the good passes through a non-FTA country, each FTA recognizes the exception under the condition that there is no other action of changing the country of origin other than necessary tasks required for transport, such as transshipment.

The item condition, which is one of the basic conditions for applying the FTA agreement, is called a concession item between FTA signing countries. Benefits are applied to specific concession items determined by the agreement, and the applied tariff rate is different, according to the agreement, country, and year. Even if it is an originating product, FTA benefits are not applied in the case of a non-concession item.

## 2.3. Studies on FTA Utilization & Export Performance

Related to the measurement of FTA utilization, Takahashi and Urata (2008) identify the number of countries on origin certificates issued required for applying for FTA preferential tariff by the FTA utilizing company and measured the actual level of utilization of FTA by Japanese companies. Economic performance according to the company's FTA utilization is measured by categories of 'sales increase', 'sales increased but no profit', etc. Twenty percent of the research subject companies reported increased sales, but most of the companies

experienced no sales change or unclear effect. This study seems to show that the FTA has a positive effect on the company's business but stated that it is premature to come to a conclusion.

Katsikeas, Leonidou and Morgan (2000) divided criteria to measure export performance into three categories. The methods are economic measures, non-economic measures, and generic measures. Economic measures are sales relative to export amount ratio, sales relative to export growth rate, sales relative to export volume, sales relative to export profit rate, sales relative to export increase rate, etc. Non-economic measures are the number of export countries or markets, export market penetration rate, new market entry, etc.; and generic measures are export success level, export goal achievement level, export performance satisfaction level, overall export performance satisfaction level, etc.

Sousa (2008) divided the export performance measurement method into objective measurement and subjective measurement. Since each method has its strengths and weaknesses, it was recommended to use both together. The objective measurement method is subdivided into sales, profit, and market related areas, while sales are measured through export intensity, export sales growth, export sales volume, export profit margin, and export profitability. The subjective measurement method mentioned export profit margin, export sales growth rate, overall export performance, export market share growth, strategic export performance, export success, export profit margin, etc.

Venkatran and Ramanujam (1986) stated that the objective performance measurement method is appropriate for measuring short-term performance, while the subjective performance measurement method is effective in evaluating export performance from a long-term perspective.

The export performance of companies utilizing the FTA corresponds to export sales growth and export profitability, which are objective measurement methods shown in existing previous studies. This means that export increasing through FTA utilization and increased profit through benefit of FTA preferential tariff can be seen as export performance according to FTA utilization. This study defines increased export performance as increase in economic profit and new transactions, according to previous studies.

### 3. Hypotheses Development

#### 3.1. Determination of Variables

##### 3.1.1. *Determination of the Variables: FTA Utilization & Export Performance*

FTA utilization consists of import utilization and export utilization. Import utilization means the portion of import amount actually receiving preferential tariff benefit from the total import amount of imported goods that can receive preferential tariff benefit during a certain period. Export utilization is the portion of how much preferential tariff benefit Korea's export is receiving from the FTA partner country. This study seeks to identify the export performance according to the level of the company's FTA export utilization.

##### 3.1.2. *Determination of Variables: External Factors*

An external variable is a system or rule that acts separately from the company's internal capability. The FTA RoO acts as a trade barrier, and tariff details determining the FTA preferential tariff level are selected as major influencing factors.

External factors are the external environment that cannot be controlled by the company. Regarding this, Robbins (1984) stated that the company's external factors affect the work

performance of the company and cannot be controlled with the company's internal resources. Hart and Saunders (1997) stated that the relationship of trading partners is impacted greater by persuasive power than coercive power. Iacovou et al. (1995) stated that competitive pressure and demand by a trade transaction partner causes effects as external factors, while competitive pressure and coercion by a transacting company affect the utilization of new systems of small- to mid-sized companies. MacMillan and Day (1987) and Zahra (1993) said that hostility has a correlation with company performance. Related studies have been actively performed in capability, trust, relationship commitment, related rule, related investment, open communication, cooperation, dependency, etc. In studies regarding the impact of a company's external factors on company performance, the external factors are external pressure, standards, influence of transacting company, government aid, trust and cooperation between transacting companies, etc. occurring outside the company, where regulation cannot control through capability possessed by the company.

In study related to the FTA and the company's external environment, Krueger (1999) defined the RoO causing trade transition effect as serving a role of 'hidden trade barrier.' Using NAFTA as an example, to fulfill NAFTA's RoO, NAFTA member's expensive intermediary goods are used, which in turn protects the industry of the NAFTA member country. This is a measure to fulfill the RoO. Regarding this, Estevadeoardal (2007) analyzed NAFTA's RoO, and proposed the Restrictiveness Index (RI), where the RoO is a variable that cannot be controlled by the company and emphasized that it can be intentionally used in trade policy. Isono (2008) pointed out that Japanese companies do not utilize FTA well, due to not being knowledgeable about the FTA, with small and mid-sized companies especially having low FTA utilization rate, because of lack of information of the FTA, and complex, difficult RoOs, while mid-sized enterprise was analyzed to have a low utilization rate due to the increase in fixed cost. Therefore, the most basic external factor of FTA is the FTA RoO.

From the RoO, originating products, which is the prerequisite for applying FTA preferential tariff, direct consignment, country of origin proof, and preferential tariff level are selected as variables.

The first consideration is the condition for originating products. The condition for originating products is one of the basic conditions for applying the FTA preferential tariff, and the goods subject to agreement application have to be products with country of origin from a contracting party. The second is direct consignment. Transport of export-import goods is through areas other than the agreement country's territory, so it is out of the control of the concerned party. Regarding this, each FTA defines the recognition range diversely. However, it is not easy to prove rule compliance. The effect of the direct consignment principle on FTA utilization is investigated. The third consideration is the condition of country of origin proof. The condition of country of origin proof proves whether the application subject is fulfilled. Companies face difficulties in securing related documents and verification of the country of origin. The effect of such condition on utilization level and performance is investigated. The fourth is the FTA preferential tariff level. The benefit that the company receives when utilizing the FTA is tariff reduction of the corresponding item. According to the difference in tariff rate by item, there is a difference in will to utilize by the companies. The effect of the FTA preferential tariff level company's FTA utilization level and performance is analyzed.

### *3.1.3. Determination of Variables: Internal Factors*

A company's internal factors related to FTA utilization are the resource and capability that can be controlled by the company acting separately from the company's external systematic and regulatory factors.

Internal factors impacting FTA utilization are the company capabilities required in the FTA environment. Tangible and intangible assets, such as capital, capability, attitude of management, information, knowledge, immersion of management, etc., are the company's resources, and owning such gives the company competitive advantage.

Carmeli and Tishler (2004) divided internal factors into resource, ability, and capability. Baum (1994) stated that the capability of the CEO has a positive effect on company performance. He classified executive's capability into general capability and special capability. General capability is the ability required to operate a company, while special capability is the expert knowledge of the executive. Zou and Stan (1998) saw resources controllable by the company and its capability, such as capital, attitude of management, information, knowledge, export experience, immersion of management, etc. as important decision factors of company performance. Kaleka (2004) largely divides resource factor into two types: resource and capability. Resource is an asset controlled by the company. Capability is resource utilization skill to create the company's competitive advantage. Dhanaraji and Beamish (2003) classified resource into 3 types: organizational resource, corporate resource, and technical resource. Organizational resource is mainly at the company scale. It means the company's financial and physical resources. Corporate resource is related to the management's risk burden level and driving force. Technical resource means the company's tangible and intangible assets. Barney and Hesterly (2006) divide resources into 2 types: resource, and capability. Resource is tangible and intangible assets that are controlled by the company to be utilized for executing the company's strategy. Capability is a part of the resource and is tangible and intangible assets that can be used as the company's resources to develop or execute its strategy.

Meanwhile, the FTA's new export environment allows the company to generate new capability and resource. It also requires the transformation of existing resource. Through this, capability and resource required by the FTA can be possessed, and performance achieved. Kawai and Wignaraja (2009) mentioned that the FTA utilization rate is decreasing in major Asian countries, due to the lack of FTA information, additional costs in FTA utilization, low preferential tariff level, excess exception items, RoO, item classification, concern about leaking company information, non-tariff barrier, etc. In regard to this, the company's tangible and intangible assets were analyzed through the country of origin management capability possessed by the company, export immersion of the management, acquisition of FTA-related information, experience, and ability regarding the international sale of goods possessed by the company, etc.

Internal factors are the resource and capability possessed by the company. This study selected the following internal factors as variables. The first factor is the FTA country of origin management capability. The second factor is export immersion. The third factor is FTA information acquisition capability. The fourth factor is trade contract management capability.

### 3.2. Determination of Hypotheses

*H1: Originating products will have a negative (-) effect on FTA utilization.*

This hypothesis is between the complexity of the FTA RoO, PSR strictness, and FTA utilization. In the FTA, the RoO is used as a trade policy method affecting the product market approach through PSR. The RoO acts as a trade barrier. The FTA RoO can be a main factor negatively affecting the company's FTA utilization. If future FTA increases quantitatively, it may become more difficult to comply with the originating products.

Therefore, the following hypothesis was created to verify whether complex RoO according



to PSR strictness and increase in agreement has a negative effect on FTA utilization.

*H2: Direct consignment will have a negative (-) effect on FTA utilization.*

This hypothesis is between direct consignment and FTA utilization. If the company has originating products but cannot comply with the transport condition when utilizing the FTA, regardless of being a country of origin product, they will be considered as non-originating products that cannot be applicable to the agreement. The study seeks to check the negative effect of consignment transport, which is one of the basic conditions of FTA utilization, on such FTA utilization.

*H3: Country of origin proof condition will have a negative (-) effect on FTA utilization.*

This hypothesis is between country of origin proof condition and FTA utilization. We seek to check the negative effect of the country of origin proof condition on the FTA utilization level. Even if the company complied with the originating products and transport condition when utilizing the FTA, if it cannot be proven, it is excluded from application by agreement. Therefore, we seek to verify the effect of understanding of the country of origin proof process, management burden level of country of origin proof document, burden level of obtaining country of origin proof document, etc. on the company's FTA utilization.

*H4: FTA preferential level will have a positive (+) effect on FTA utilization.*

This hypothesis is between FTA preferential tariff level and utilization. The company's FTA utilization may be determined according to tariff benefit. If the difference is large between the FTA tariff rate and the Most Favored Nation (MFN) tariff rate, there is value in paying the additional costs incurred by utilizing the FTA. Kohpaiboon (2008), using data from Thai manufacturers, confirmed that there is significant effect in increasing the FTA utilization rate when the tariff rate difference is higher. Cho Mi-Jin (2011) stated that FTA utilization was affected by the FTA preferential margin rate. So the hypothesis was established stating that FTA preferential tariff level has a positive effect on FTA utilization.

*H5: Country of origin management capability will have a positive (+) effect on FTA utilization*

This hypothesis is between country of origin management capability and FTA utilization. Nam Poong-Woo and Choi Jun-Ho (2007) pointed out that loss can be suffered if there is unawareness, as the criteria and process for receiving FTA benefit are complex and strict. Kim Moo-Han (2010) stated that Korean companies have very low FTA utilization, because of lack of FTA information, and the complexity and difficulty of the RoO, while the levels of country of origin proof and country of origin management have to be increased to secure a company's competitive advantage. Kawai and Wignaraja (2009) stated that the RoO becomes more complex and more difficult to utilize as the company is larger, which makes export destinations more diverse, and country of origin management capability to derive actual results is important. Na Do-Sung and Yoon Young-Ho (2011) stated that the company's FTA country of origin utilization capability is a type of the company's resource or capability and securing country of origin utilization capability is an important factor in determining export performance.

The company's country of origin utilization capability has been analyzed in affecting export performance in the FTA, and the country of origin management capability includes understanding of the RoO, country of origin determination ability, etc. This is defined as

'country of origin management capability' and is selected as one of the internal factor variables affecting FTA utilization and export performance.

In order for the company to utilize the FTA and enjoy preferential tariff benefits, the capability to determine and prove whether the product being exported to an FTA country of origin partner country fulfills the country of origin decision criteria is required. Therefore, we will verify the FTA utilization relationship and country of origin management capability, such as understanding the country of origin decision criteria, and proving the method for FTA preferential tariff benefits, post country of origin verification preparation, etc.

*H6: Management FTA export immersion will have a positive (+) effect on FTA utilization*

This hypothesis is between export immersion and utilization. Daily, Certo and Dalton (2000) stated that the company's CEO is a company's special resource. Deligonul and Cavusgil (1997) and Zou and Stan (1998) stated that management immersion is an important decision factor for company strategy and business performance. Previous studies widely support that export immersion by management has a positive effect on the company's export performance (Ali, 2004; Cavusgil and Zou, 1994; Gomez-Mejia, 1988; Madsen, 1994; Seifert and Ford, 1989). A CEO willing to allocate more company resources to an export-related department is an important precondition for successful export activity (Shamsuddoha and Ali, 2006). Na Do-Sung and Yoon Young-Ho (2011) stated that small and mid-sized company executives under the FTA environment who actively utilize this and have the will to improve business performance constitute a very important factor.

The FTA does not automatically grant preferential tariff to originating products. Due to the fact that it is granted only to products where country of origin is proven by the FTA utilizing entity, export immersion is required by management that utilizes FTA to improve export performance. Management's FTA export immersion in the FTA environment can consist of concern and will to pioneer new markets and increase exports, by utilizing the fact that the FTA country's company has relatively lower cost and competitive cost advantage over the non-FTA country's company for export-import. Management's attitude and action to improve export performance through active response in the FTA environment should act as a positive factor in FTA utilization.

*H7: Trade contract management capability will have a positive (+) effect on FTA utilization*

This hypothesis is between trade contract management capability and FTA utilization. Köksal and Özgül (2010) stated that the knowledge of an export company is a key resource of the company's export success and failure. Yeoh (2005) stated that the lack of suitable foreign market information makes the company's strategic decision-making difficult. Also, the company's foreign market information acquisition capability is the process of internalizing external information and stated that this information can be utilized to seize opportunity and recognize threat of the foreign market and improve export performance. Also, information asymmetry and uncertainty exist in the international market, and wrong decision-making can be made. To overcome the uncertainty of the environment, the company should put in effort to explore a lot of information more accurately.

Each company has different levels of information and knowledge for utilization, and this was seen as the company's information acquisition capability. FTA information acquisition capability is selected as a research variable, as it can have an important effect on decision-making to start, maintain, or expand export utilizing the FTA.

Moon Chang-Gwon (2011) stated that the administrative cost of an export-import company, the main subject of FTA utilization, is part of the trade cost, and the trade cost

includes all costs, such as transaction cost, policy cost, trade execution cost, and facilitation cost. Trade cost related to the company's FTA utilization can include transaction cost, policy cost, trade execution cost, and facilitation cost, but this study saw capability related to facilitation cost incurred by legal-regulatory policy and contract execution cost used to execute and manage signed contracts as the management capability of Contracts for the International Sale of Goods, and selected it as a variable.

*H8: FTA information acquisition capability will have a positive (+) effect on FTA utilization*

This hypothesis is between information acquisition capability and FTA utilization. Internal capability to manage the international sale of goods and contracts can be examined in connection with study regarding FTA utilization cost. The company's internal capability to sign and manage Contracts for the International Sale of Goods can cause a difference in FTA utilization cost. When each company utilizes FTA, the incurred input cost, utilization cost, and incurred follow-up cost show differences depending on the company's capability, and such is collected as FTA utilization cost. Eventually, the effect on the utilization level and performance may appear differently according to the FTA utilization cost. The company's FTA utilization basically begins as international transaction, and transaction occurs from the international sale of goods. So, the FTA utilization cost is mostly the actual general trade cost. Therefore, the company's internal capability regarding Contracts for the International Sale of Goods, which is the starting point of export–import transaction subject to FTA application, will affect the company performance in FTA utilization.

*H9: Company's FTA utilization performance will have a positive (+) effect on FTA utilization*

This hypothesis is between FTA utilization and export performance. FTA utilization performance is the practice effect obtained by FTA utilization by the company, so FTA utilization level can be seen as affecting FTA performance. When FTA utilization level increases, a trading partner's cost competitiveness improves due to FTA preferential tariff benefit, which can improve export performance, such as increase in export sales of FTA preferential product, increase in export profit rate, etc. This study seeks to verify the effect of FTA utilization by subject companies on export performance.

### 3.3. Composition of Survey Questions

Based on the preceding research considered above, this study classified measured categories into external factors, which are the company's environmental situation, and internal factors, which are the organizational situation, through operant definition of the used variables. The study model and hypothesis were established centered on variables derived from the preceding literature study, and survey questions were composed through the operant definition of variables.

### 3.4. Composition of Survey Questions

Certified companies according to exporter certification system enforced from April 2010 were selected as research sample for empirical analysis of this study. Selection scope of sample company was categorized by company and item from certified export companies. Also, in order to obtain meaningful investigation results from subject companies of the survey, prerequisite of basic understanding of FTA concept, country of origin decision criteria, and item classification by subject companies was considered and research samples' directory,

**Table 2.** Operant Defining and Survey

Variable	Criteria	Operant Definition and Survey
Originating products	7-point Likert scale	<ul style="list-style-type: none"> <li>- Difficulty in being recognized as originating product</li> <li>- Strictness of country of origin decision criteria by item</li> <li>- Effect of country of origin decision criteria on FTA utilization</li> <li>- Spaghetti effect of RoO (complexity)</li> </ul>
Direct consignment	7-point Likert scale	<ul style="list-style-type: none"> <li>- Effect of transport condition on FTA preferential application</li> <li>- Effect of transport condition on bonded warehouse transaction</li> <li>- Effect of direct consignment principle on FTA utilization</li> </ul>
Country of origin Proof	7-point Likert scale	<ul style="list-style-type: none"> <li>- Effect of country of origin proof on FTA preferential application</li> <li>- Effect of country of origin proof process on FTA utilization</li> <li>- Burden level of administrative costs of country of origin proof and documentary evidence</li> </ul>
FTA preferential level	7-point Likert scale	<ul style="list-style-type: none"> <li>- Effect of FTA preferential tariff on overseas entry opportunity</li> <li>- Effect of FTA preferential tariff on export increase</li> <li>- Expectation of export increase due to tariff decrease by partner country</li> </ul>
Country of origin management	7-point Likert scale	<ul style="list-style-type: none"> <li>- Country of origin determination capability including country of origin management system, management manual, etc.</li> <li>- Understanding level of RoO including FTA country of origin process</li> <li>- Response ability regarding origin verification by partner country customs</li> </ul>
Export Immersion	7-point Likert scale	<ul style="list-style-type: none"> <li>- Interest and will to pioneer overseas market utilizing the FTA</li> <li>- Budget allocation to secure personnel, establish system, etc. for FTA utilization</li> <li>- Provide HR and financial incentives to FTA personnel</li> <li>- Will to increase export revenue utilizing the FTA</li> </ul>
Information acquisition capability	7-point Likert scale	<ul style="list-style-type: none"> <li>- Capability to acquire information regarding partner country's FTA tariff decrease and abolition</li> <li>- Capability to acquire information regarding partner country's FTA country of origin</li> <li>- Capability to acquire information for competitive structure of the FTA partner country's market</li> </ul>
Trade contract management	7-point Likert scale	<ul style="list-style-type: none"> <li>- Understanding of trade contract duty</li> <li>- Response ability regarding trade contract dispute</li> <li>- Ability to handle costs to secure trade contract exports</li> </ul>
FTA utilization	7-point Likert scale	<ul style="list-style-type: none"> <li>- FTA utilization level of export goods</li> <li>- FTA utilization level of import goods</li> </ul>
Export performance	7-point Likert scale	<ul style="list-style-type: none"> <li>- Profit increase through company's export increase</li> <li>- Profit increase through company's import increase</li> <li>- Increase level of new trade accounts due to improved cost competitiveness</li> <li>- Cost decrease due to FTA utilization: increase in company profits</li> </ul>

contact, and email addresses used internal data of Korea's only country of origin management research institute which is in charge of certified exporter duties.

From acquired certified exporter directory, companies with relatively accurate company name, address, department in charge, person in charge, etc. were selected as survey population and 1,000 companies from such companies were randomly sampled to be chosen as sample subject companies. Survey method consisted of gathering data by visits, phone, and email in parallel. This study was conducted in the 1st and 2nd quarters of 2016 and responses from 336 companies which corresponds to 34% of the total subject companies were collected and used in this study.

Based on collected questionnaire, surveyed companies' general characteristics including responding company's regional distribution, responding company's industry type, employee size, revenue, export performance, FTA agreement being used or planning to be used when exporting, FTA country of origin proof document (country of origin proof and country of origin verification) issue ratio from export amount, ratio of receiving FTA preferential tariff from import amount, etc. were reviewed. Regional distribution was somewhat evenly distributed across the country but Gyeonggi-do was relatively high at 36.9%. As a result of reviewing revenue, most responding companies were small and mid-sized companies with less than 100 billion won in annual revenue. Also, 91% of total had less than 300 employees. Industry distribution consisted of about 15% for electric/electronics, about 15% for precision machinery, about 13% for textile and clothing, 13% for steel and metal, and about 13% for chemical industry. Export performance was about 60% of total with less than 5 million dollars and about 3% of companies with more than 50 million dollars. Import performance was about 66% of total with less than 5 million dollars and about 25% with more than 50 million dollars.

## 4. Research Design and Methodology

### 4.1. Research Model

This study sets external factor categories and internal factors covering the external environment where the company belongs as independent variables, and the main research subject is the causal relationship analysis examining the effect on FTA utilization and export performance. Various and specific factors affecting the company's FTA utilization and performance are deduced, and they are divided into external factors beyond the company's control, and internal factors controllable by the company itself, where the model below is utilized to perform the study.

### 4.2. Evaluation of Research Model

#### 4.2.1. Reliability Analysis

Based on internal consistency, Cronbach's  $\alpha$  reliability correlation coefficient was used to analyze the reliability of the survey question. For reliability testing of the survey, Cronbach's  $\alpha$  value, which is the output coefficient of the internal consistency law, was used. Regarding a variable measurement category for reliability testing, Cronbach's  $\alpha$  coefficient was calculated. The number of measurement categories between variables and Cronbach's  $\alpha$  values were between (0.770 and 0.956), which fulfills all criteria, so all factors had a relatively high internal consistency. Since criteria greater than 0.6 was used for measurement category of  $\alpha$  value, and the actual value was above 0.7, the reliability has been secured.

Fig. 1. Research Model

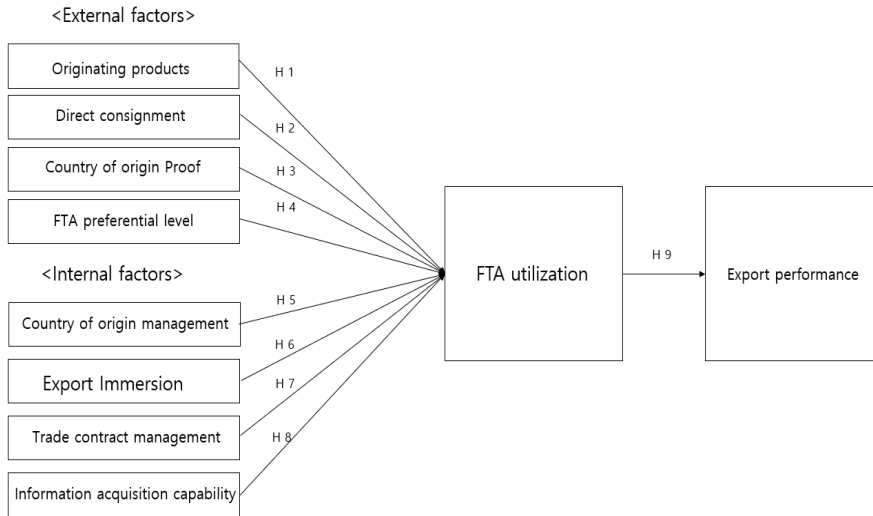


Table 3. Reliability Analysis.

Variable	Number of questions	Cronbach's $\alpha$
Originating products	4	0.818
Direct consignment	3	0.770
Country of origin Proof	3	0.859
FTA preferential level	3	0.816
Country of origin management	3	0.922
Export Immersion	4	0.935
Trade contract management	3	0.842
Information acquisition capability	3	0.864
FTA utilization	2	0.914
Export performance	4	0.956

#### 4.2.2. Construct Validity

Validity analysis was performed to confirm whether the abstract concept to be measured has been properly measured by an actual measurement tool. The generally used factor analytic technique was used to test the composition validity, which evaluates whether the measurement index of measurement results corresponds to the theoretical concept. First, the convergent validity was tested; and to evaluate the convergent validity and discriminant validity of the measurement criteria, analysis was performed through confirmatory factor analysis and correlation analysis.

As a result of confirmatory factor analysis, as shown in Table 4, appropriate suitability can be seen by  $\chi^2=814.106$ , degree of freedom (df)=419, RMSEA=0.053, NFI=0.863, CFI=0.950, AGFI=0.832, etc.

**Table 4.** Goodness-of-fit Indices of the Confirmatory Factor Analysis

$\chi^2$	df	RMSEA	NFI	CFI	AGFI
814.106	419	0.053	0.863	0.950	0.832

The relationship between variable and category is corresponding. All observed variable categories show good factor loading regarding potential variables ( $\lambda > 0.60$ ). This means that the observed variable explaining the potential variable also reflects it well. Also, all t values are greater than 1.965, which shows significance. As a result of performing correlation analysis to see relationship between each factor, direction is coinciding.

**Table 5.** Confirmatory Factor Analysis

Variable	Estimate	Standard error	t-value	Factor loading	P
Originating products	1.000			0.810	
	0.996	0.064	15.617	0.851	*
	0.823	0.061	13.515	0.725	*
	0.632	0.068	9.253	0.518	*
Direct consignment	1.000			0.596	
	1.388	0.128	10.877	0.883	*
	1.149	0.111	10.378	0.758	*
Country of origin Proof	1.000			0.884	
	1.061	0.06	17.779	0.856	*
	0.799	0.054	14.816	0.726	*
FTA preferential level	1.000			0.602	
	1.633	0.143	11.382	0.895	*
	1.435	0.126	11.347	0.847	*
Country of origin management	1.000			0.893	
	1.045	0.044	23.795	0.899	*
	0.99	0.042	23.337	0.889	*
Export Immersion	1.000			0.834	
	1.162	0.053	21.861	0.912	*
	1.154	0.052	22.267	0.922	*
	1.077	0.053	20.347	0.874	*
Trade contract management	1.000			0.718	
	1.313	0.093	14.138	0.844	*
	1.308	0.092	14.15	0.845	*
Information acquisition capability	1.000			0.829	
	0.92	0.055	16.656	0.839	*
	1.007	0.063	16.096	0.810	*
FTA utilization	1.000			0.984	
	0.887	0.044	20.276	0.855	*
Export performance	1.000			0.918	
	0.947	0.032	29.52	0.923	*
	0.995	0.031	32.119	0.948	*
	0.969	0.037	26.408	0.889	*

**Note:** \* stands for  $p < 0.05$ .

### 4.2.3. Verification of the Suitability of the Research Model

In order to determine the causal relationship between various independent and subordinate variables, structural equation modeling (SEM) analysis was performed. There were 336 valid samples used to test the model and hypothesis, while maximum likelihood (ML) was used for coefficient estimation, and analysis was performed through SPSS and Amos 18.0.

Suitability regarding the study model was analyzed through  $\chi^2$ , RMSEA, NFI, CFI, and AGFI measures. The overall analysis results showed  $\chi^2=900.497$ , degree of freedom (df)=427, RMSEA=0.058, NFI=0.892, CFI=0.940, and AGFI=0.823. The RMSEA value was 0.058, which is similar to the standard value of 0.05, with other numbers being NFI 0.892, CFI 0.940, GFI 0.940, and AGFI 0.823. This study model is considered to be suitable in testing the hypothesis, as the numbers are greater than 0.9, or show acceptable numbers.

**Table 7.** Goodness-of-fit Indices of the Model

$\chi^2$	df	RMSEA	NFI	CFI	AGFI
900.497	427	0.058	0.892	0.940	0.823

## 5. Results

### 5.1. Results of Verification and Analysis of Hypotheses

#### 5.1.1. Verification of Hypotheses

Hypothesis testing regarding independent variables affecting FTA utilization was performed. First, external factors, such as originating products, consignment condition, country of origin proof condition, and FTA tariff level, have effects on FTA utilization.

**Table 8.** Outcomes of Research Hypotheses

Path		Standardized coefficient $\beta$	Unstandardized Coefficients	Standard error	t -value	p -value	Result
Originating products	→	-0.142	-0.156	0.072	-2.176	0.030	Adopted
Direct consignment	→	0.013	0.020	0.120	0.169	0.866	Rejected
Country of origin Proof	→	-0.061	-0.071	0.074	-0.965	0.334	Rejected
FTA preferential level	→	0.197	0.314	0.102	3.078	0.002	Adopted
Country of origin management	→	0.325	0.361	0.079	4.604	0.000	Adopted
Export Immersion	→	0.075	0.099	0.098	1.001	0.317	Rejected
Trade contract management	→	0.323	0.446	0.119	3.737	0.000	Adopted
Information acquisition capability	→	-0.058	-0.079	0.098	-0.805	0.421	Rejected
FTA utilization	→	0.718	0.688	0.046	14.871	0.000	Adopted



Hypothesis 1 showed  $\beta = -.142$ ,  $t = -2.176$  ( $P < 0.05$ ). Hypothesis 2 showed  $\beta = .013$ ,  $t = 0.169$  ( $P < 0.05$ ). H3 showed  $\beta = -.061$ ,  $t = -.965$  ( $P < 0.05$ ). H4 showed  $\beta = .197$ ,  $t = 3.078$  ( $P < 0.05$ ). As a result of testing, hypotheses 1 and 4 were selected, while hypotheses 2 and 3 were rejected. Hypothesis testing was performed for internal factors, including country of origin management capability, information acquisition capability, trade contract management capability, and export immersion. H5 showed  $\beta = .325$ ,  $t = 4.604$  ( $P < 0.05$ ). H6 showed  $\beta = -.058$ ,  $t = -.805$  ( $P < 0.05$ ). H7 showed  $\beta = .323$ ,  $t = 3.737$  ( $P < 0.05$ ). H8 showed  $\beta = .075$ ,  $t = .317$  ( $P < 0.05$ ). Hypotheses 5 and 7 were selected, while hypotheses 6 and 8 were rejected. H9 stated that FTA utilization will have a positive (+) effect on the company's export performance, and showed  $\beta = .718$ ,  $t = 14.871$  ( $P < 0.05$ ), so it was selected.

### 5.1.2. Results of Verification

*H1: Originating products will have a negative (-) effect on FTA utilization.*

Hypothesis 1 stating that "originating products will have a negative (-) effect on FTA utilization" has been selected. This can be interpreted as originating products having a function of hindering FTA utilization by the company. FTA originating products are becoming a burden on the company's FTA utilization.

*H2: Direct consignment will have a negative (-) effect on FTA utilization.*

Hypothesis 2 stating that "direct consignment will have a negative (-) effect on FTA utilization" has been rejected. This can be interpreted as not having a function of hindering the company's FTA utilization. The hypothesis that it causes a burden on the company's FTA utilization is not significant.

*H3: Country of origin proof condition will have a negative (-) effect on FTA utilization.*

H3 stating that "country of origin proof condition will have a negative (-) effect on FTA utilization" has been rejected. This can be interpreted as country of origin proof not having the function of hindering FTA utilization by the company.

*H4: FTA preferential level will have a positive (+) effect on FTA utilization.*

The hypothesis stating that "FTA tariff level will have a positive (+) effect on FTA utilization" has been selected. This can be interpreted as the FTA tariff level having the function of promoting the company's FTA utilization. According to the benefits of utilizing the FTA, the company is viewed as being more active in FTA utilization.

*H5: Country of origin management capability will have a positive (+) effect on FTA utilization.*

H5 stating that "country of origin management capability will have a positive (+) effect on FTA utilization" has been selected. This can be interpreted as the country of origin management capability having the function of promoting the company's FTA utilization. This means that the country of origin management capability possessed by the company has a positive effect on FTA utilization.

*H6: Management FTA export immersion will have a positive (+) effect on FTA utilization.*

H6 stating that "management FTA export immersion will have a positive (+) effect on FTA

utilization” has been rejected. This can be interpreted as export immersion not having the function of promoting FTA utilization by the company. This may be because companies receiving benefits by utilizing the FTA are importers, rather than exporters.

*H7: Trade contract management capability will have a positive (+) effect on FTA utilization.*

H7 stating that “trade contract management capability will have a positive (+) effect on FTA utilization” has been selected. This can be interpreted as trade contract management capability having a function of promoting the company’s FTA utilization. Trade contract management capability possessed by the company has a positive effect on FTA utilization.

*H8: Information acquisition capability will have a positive (+) effect on FTA utilization.*

H8 stating that “information acquisition capability will have a positive (+) effect on FTA utilization” has been rejected. This can be interpreted as information acquisition capability not having the function of promoting FTA utilization by the company.

*H9: FTA utilization will have a positive (+) effect on the company’s business performance.*

H9 stating that “FTA utilization will have a positive (+) effect on the company’s business performance” has been selected. This can be interpreted as the company’s FTA utilization having the function of increasing export performance. This means that the level of utilizing the company’s signed contract has a positive effect on the business performance.

## 5.2. Analysis Outcomes

Through the company’s external factors and internal factors, the study was able to check that such factors affect FTA utilization, and lead to export performance. Also, we were able to check the awareness regarding the company’s internal and external factors.

First, the originating products and FTA tariff level selected as external factor variables have effects on FTA utilization. The hypothesis that originating products will have a negative (-) effect on FTA utilization has been selected. Unlike the general country of origin concept, originating products mean being recognized as country of origin by the FTA. Test results showed that fulfilling difficult, complex originating products by agreement becomes a hindrance and burden on the company’s FTA utilization. Various agreements have different PSRs, which have an effect on FTA utilization. This can be interpreted as the strictness of RoO and complexity of PSR having an effect. Meaning, due to the spaghetti bowl effect also mentioned in preceding research, it shows as having an adverse effect, and acting as a trade barrier.

The hypothesis that FTA preferential tariff level will have a positive (+) effect on FTA utilization was also selected. This is the same result as shown in the preceding research. It is interpreted that high preferential level has a positive effect on the company’s FTA utilization, while low preferential level leads to passive or low interest in FTA utilization, with the understanding that the FTA expected profit is low. In order to increase the company’s FTA utilization, agreement needs to be pursued while including a high level of openness.

Second, hypotheses of direct consignment and country of origin proof selected as external factor variables having effect on FTA utilization are not significant.

The hypothesis that direct consignment will have a negative (-) effect on FTA utilization has been rejected. Being recognized as country of origin by the FTA is difficult and complex by each agreement and becomes a hindrance and burden on the company’s FTA utilization;

but in the case of direct consignment, it is interpreted as not acting as a hindering factor in FTA utilization. During the design phase of the study, since the transport condition is different for each agreement, it was viewed that FTA utilization may be forfeited if FTA utilizing companies found it difficult to cope with. Test results rejected this hypothesis, and the transport condition was actually shown to have a low effect as a hindering factor in FTA utilization by FTA utilizing companies.

This is because direct consignment is not actually managed by the FTA utilizing company, but instead by the transport company or subcontractor that acts as an agency for transport, and unlike originating products, the product itself is not complying with the FTA preferential tariff application condition, and this seems to be because it is a secondary problem occurring during transaction. This means that the transport contract is a subordinate contract according to Contracts for the International Sale of Goods that is signed to subcontract transport. There can be some trial and error during the initial stages of FTA execution, but in repeated application of the agreement, the transport condition does not act as a trade barrier to hinder FTA utilization.

As a result of the analysis, the hypothesis stating that “country of origin proof condition will have a negative (-) effect on FTA utilization” was also rejected. As for the selected hypothesis of originating products and rejected hypothesis of transport condition, the country of origin proof condition, which is the basic condition of the FTA preferential tariff application, is shown not to burden the company’s FTA utilization. This is a result that does not match with existing studies. It can be understood that there was a difference in study results, because the existing studies did not analyze the country of origin proof condition as a variable, and instead measured the overall RoO as a variable. In the early stages of FTA utilization, companies lacked the knowhow for country of origin proof, but it can interpret as a result of accumulating knowhow as time passes.

Third, internal factor variables of the country of origin management capability and trade contract management capability that were selected were shown to affect FTA utilization. This can be interpreted as country of origin management capability having a function of promoting the company’s FTA utilization. It matches the results of preceding research. This can be interpreted as trade contract management capability also having the function of promoting the company’s FTA utilization. Trade contract management capability possessed by the company has a positive effect on the company’s FTA utilization. The company’s knowhow regarding international sale of goods, which is considered a fundamental of trade utilizing the FTA, has an effect on FTA utilization. Such capability reduces the cost for the company’s FTA utilization and can make economic benefits through large FTA utilization.

Fourth, as a result of analyzing the effect of internal factor variables of information acquisition capability and export immersion that were selected on FTA utilization, it was found not to be significant. FTA utilization related information capability possessed by the company does not have an effect on increasing the company’s FTA utilization. Unlike this finding, previous study presented that the company’s information acquisition capability had an important effect on FTA utilization. The reason that different results were derived by the study result compared to previous study is due to the study subjects. Export companies already with FTA utilization experience possess sufficient capability. Therefore, the result of this study has a limitation of the study subject for generalization.

Fifth, FTA utilization is shown to have significant effect on the company’s export performance. Companies utilizing the FTA were analyzed to generally have experienced usefulness and improvement. This can be interpreted as the company’s FTA utilization having the function of increasing export performance. The utilization level of the agreement by the company has a positive effect on the company’s performance.

## 6. Conclusion

### 6.1. Research Summary and Implications

Korea has continuously expanded the FTA. Accordingly, studies have been performed regarding the effect of FTA utilization. Research has been concentrated on national, industrial economic effect and small and mid-sized company support through FTA utilization. Meanwhile, studies regarding the FTA utilization method and required process and rule have been comparatively lacking. Also, even though FTA is not an entirely new trade environment and has to be approached and understood as a form that has evolved from the existing trade paradigm, studies connecting FTA and the existing trade order are not being actively pursued.

Trade is basically a transaction in the form of a document, and if the company strives for profit through trade, the document has to be prepared based on Contracts for the International Sale of Goods, and the company's obligation regarding the transacting party must be executed based on such document. In addition, the company must fulfill the country of origin decision criteria, such as the RoO, stipulated in the agreement for application of the FTA preferential tariff in the FTA environment, and prepare and prove country of origin proof document without failure.

Due to its characteristics, the RoO from the FTA can only simply present general principles, so the FTA country has to self-interpret the rules, and provide specific agreement execution plans. From such meaning, the RoO that was adopted under the pretext of preventing bypass import has the possibility of being utilized as a policy tool anytime. Generally, in the case of a developed country, tolerant interpretation is preferred to protect the rights of the trading partners; but the developing country applies conventional tariff weighing details of the procedural condition, so the FTA utilization rate ends up lower for goods exported to developing countries. However, the developed country also strictly performs country of origin verification regarding strategic industry, so careful attention is required. Also, FTA is steadily increasing by each country, but the trend of protective trade is strengthening just as much. From the company's position, risk factors will increase, due to complex processes and different rules. Despite this, in the case of Korea, even companies using conventional tariff still lack awareness regarding the RoO, and are insufficiently prepared for investigation, lacking implementation of the country of origin management system, which may lead to significant losses in the future. Basically, clear understanding is required regarding practical conditions and formal process for the application of the FTA preferential tariff, and because the FTA preferential tariff corresponds to benefit and country of origin verification can occur after commercial transaction, the export-import company has to prepare for all possible situations that can occur to provide follow-up management.

The RoO's 'practical condition' corresponds to originating products, direct consignment, etc. mentioned as external variables of the empirical analysis. The formal process is also called 'procedural condition', and corresponds to rules, such as the country of origin proof condition. This study performed theoretical research and empirical analysis regarding the above conditions and researched and sought to derive results on whether such variables affected FTA utilization and led to export performance.

As a result of performing analysis regarding the company's internal and external factors affecting FTA utilization, it was confirmed that the company's FTA utilization increased the company's export results through the company's management and response to external factors and internal factors. Also, the study checked the company's awareness regarding external factors and internal factors.

Empirical analysis of this study can be summarized as follows. First, the external factor

variables of originating products and FTA tariff level that were selected have effects on FTA utilization. Second, as a result of the analysis, the external factors of transport condition and country of origin proof condition that were selected do not have significance in affecting FTA utilization. Third, the internal factor variables of country of origin management capability and trade contract management capability that were selected have effects on FTA utilization. Fourth, the internal factor variables of information acquisition capability and export immersion that were selected do not have significance in affecting FTA utilization. Fifth, FTA utilization is shown to have significant effects on the company's export performance.

## 6.2. Limitations of Research and Future Tasks

The limitations of this study include the fact that different results were drawn for some hypotheses compared to preceding studies. This seems to be because the study subjects consisted of companies already possessing trade knowhow as export-import companies, and FTA utilization capability has been accumulated as FTA utilization increased. Meaning, as FTA becomes utilized, companies adapt to the new environment, and build capability to utilize the FTA. Therefore, this study has a limitation in study subjects to be used for generalization, and there is a need to study companies that are newly exploring exports through the FTA as subjects. Also, there is also a need to perform study on FTA utilization level, by classifying the study subjects by region and industry. By this means, it will be possible to develop a plan to effectively utilize FTA after checking the problems of FTA utilization in Korea by region and industry, and to utilize it as reference to support companies with the goal of new exports, by utilizing the FTA when the new agreements take effect.

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