

Business ethics assignment

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Due to lack of reinsurance and corruption the *guanxi* or the social network with people from the communist party can help western businesses avoid red tape and bureaucracy. Unlike in the west, where building relationships has less importance due to the strict laws and a culture that supports contractual obligations, in China, one relies on one's *guanxi*. Without *guanxi* a westerner entering China is like entering an abyss, which is also exemplified by the famous Chinese saying "turning at the temple door without a pig's head" [5].

Understanding *guanxi* is a challenging process for a westerner and building a *guanxi* is often a time consuming process, so it is prudent for a western company to recruit the right people with the appropriate *guanxi* to overcome these challenges. Legal Challenges Strict laws and patents in economies of the west protect domestic and foreign businesses, whereas in China, the legal system is loosely defined, giving rise to various loopholes in the law.

China's accession to the WTO has brought with it the inclusion of International business laws and patent rights amendments, but even today it is common to see technology being stolen either by the employees of the outsourced firm in China or by a Chinese competitor in the country. "Shanghai" or the copycat culture is an integral part of the Chinese society; the society is predominantly Confucian and the Confucian tradition promotes individuals sharing what they create with the society to promote greater harmony. Hence anything from shoes to cell phones are copied and sold openly in markets across the country.

China today is the world's largest producer of counterfeit products [5]. The wordings of the Chinese laws are often vague and can be interpreted in many ways. Laws on trade, intellectual property rights, labor and taxation are often refined which adds to complexity in interpretation of the laws. This also leaves room for manipulating the law further by the local lawyers against western businesses [6]. Even though there are stated laws against IP infringement in the Chinese Law, certain provincial governments can block these laws. Popular Chinese saying “shank change our Khan change”. Chinese competitors compete aggressively against western businesses and are known to apply strategies from the “Being FAA” or the art of war [7]. The Confucian ideology promotes the “rule of man” over the “rule of law” and hence some of these patent violators, especially the ones from the drug industry see copying and patent violations as part of the greater good for the Country as they copy western drugs and sell them at affordable prices to the Chinese people.

Hence western companies that plan to outsource manufacturing to China should be aware of these legal challenges. One way of preventing these issues is to have a strong Guanxi with the locals or to make sure that sensitive technology is not outsourced to China. China's economy is the second-largest in the world and continues to grow at an astonishing rate. Just recently, in fact, the Asian Development Bank forecasted that China's economy will grow by 8.2% this year.

However, while economic growth brings business opportunities to all investors, continued widespread corruption in China has affected its government's legitimacy in maintaining prosperity in the region and can

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bring a multitude of risks to financial services companies that are doing business there. Economic risks There are numerous of economic risks involved with dealing in China. Well to start China's economy is growing expediently, with the government doing all it can to help slow the economy down to avoid possible inflation, which would ultimately lead to

China reevaluating their currency. China is experiencing a high amount of difficulties with their loan administration, issuing non performing loans as the overall banking system itself is a risk. For example in 2002, China claimed that 25% of the loans issued by state-owned banks were non-performing, as mentioned later by Standard and Poor this percentage was 50% or higher, that China was altering its public facts. Non performing loans have decreased immensely, averaging 12% (2005).

This is considered a risk to the people of China as well; these loans are probably being paid off slowly, affecting the money supply and demand. The value of the Chinese currency is a major issue in China, as China keeps seeing trading surpluses over the last dozen years causing discomfort with its trading partners. The value of the Yuan is considerably low to other countries currencies, have an advantage over the importers with the undervalued Chinese currency. These countries alongside many others have made requests for Beijing to raise the value of the Yuan.

Some reflect that the currency could increase 40% to meet its full potential. The U. S sees this undervalued currency as a risk to their manufacturing centre, ultimately effecting Canada's. The United States is going to go as far as charging excessive tariffs on Chinese manufactured goods if they do not

raise the value. Though the currency does not typically fluctuate sincerely, as the exchange rate is a fixed rate, which the government believes it helps to stabilize the growth and current stature of the economy.

From 1994 until now, the government has set the exchange rate to the dollar at 8. 4%, though the Central Bank of China has just passed an exchange rate policy in July 21, 2006, to help peg the Yuan against numerous currencies instead of just the dollar. The unemployment rate in China has steadily decreased, though it is relatively still high. China provides the largest workforce all at little expense. In between the years of 1998-2002 China's urban unemployment rate decreased from 4%-3%, from 10 million to 6 million.

But recently it's believed that the Chinese unemployment rate has been less than 4%, with speculation that the unemployment rate is really disguised, that the real unemployment rate is 20%. The biggest economic risk that must be considered when dealing with China, is the problem of its overall growth, causing "over heating". The government has been seeking new cooling assures, implementing new reforms to help slow the economy's substantial increases down. China has been subject to increase bank reserve ratios, and increase short-term interest rates.

As well China will temporarily cut off credit lines with industrial sectors including real estate and the auto sectors. The overheating is caused from the increased amount of FAD, the growth in domestic demand, and the industrial sectors substantial output. Since October 2004, The Bank of China has increased bank reserve ratios for loans, twice for those exchanged in

domestic currency and once for those exchanged in international currencies. They have raised the interest rates on loans from October's hike from 5.85% to August's hike to 12%.

Political risks of doing business in China Being a Communist driven government, China's major sectors are under strict control, centralized control, though some policies have changed over the last twenty years enabling more public hold in privately owned sectors, which will lead to more FDI. The CPC has a tight control on all government institutions, policies, tighter in government offices, as well in urban economic, industry areas. The government seems to be most restrictive in urban areas than rural areas, as most of the population dwells within the rural land.

The highest power employed by the CPC is they make the policies on what they think is best for the country. The country has been witnessed to revolutionary behavior of many younger men and women over the past dozen years. The country is implementing up to date revolutionary acts, new strict punishment, though the chance of the Tiananmen square incident reoccurring is slim, the CPC wants to prevent any chance of this event reoccurring. In 2005, there was an estimated 85,000 small demonstrations throughout China, with little force needed to restrain the demonstrators.

Some believe China's legal system is underdeveloped. The legal system itself is considered improving, but during the time of the Cultural Revolution, extreme measures were taken on behalf of the law system, for instance the Tiananmen Square incident. China since Tiananmen Square has been seen as a country with poor human rights. Human rights in China are currently

undergoing some great changes, but still problems arise when in fact dealing with human rights I. E. Iranians, prisoners, the way they obtain confessions by torture. Freedom of speech and control over the public press has seen substantial “ black days”. Another major pitfall in dealing with political risks in China is the persons religious practice. China only recognizes five different religions, Buddhism, Taoism, Islam, Catholicism and Protestants, anything else the government tries to regulate worship of other religions, some who practice other religions are subject to intimidation, detainment and harassment.

China over the years has been seeing a fair share of discomfort by Taiwan. Some believe that a war between the two lands is highly possible. If there was to be a military conflict between mainland China and Taiwan, it would cost the government an estimated, 1. 0-1. % growth annually, not so much of a burden, but can still cause a risky situation dealing financially with China. China does utilize its power to confiscate person’s property relocating the proprietors of the land somewhere else.

The government usually does this to redevelop land and its resources. The Three Gorges Dam caused a lot of discontent, removing over millions of people from their homes somewhere else provided by the government. The government to ease discontent, constructed village’s miles or so away from the confiscated land, to compensate. A major risk of this is that people who refused to move were beaten ritually by employees of the company developing the land; as well their crops were discontinued, as thousands of people were not reimbursed.

Some common risk issues include: ; Compliance & integrity issues: internal fraud (kickbacks and conflicts of ; Corruption & Graft: recognized by the government interest are most common) in Beijing as a serious issue in China. ; And now an increasingly serious issue in the counterfeiting, internal theft of critical information, and the protection of your trade ; Business partners: Who really is your prospective JP secrets are major issues partner? How did they accumulate their wealth? Does your partner or key staff have undeclared family or business connections to a competitor or supplier?

Political and regulatory risks this is largely more of a strategic, ; big picture; issue, but companies who lose touch with the prevailing political pressures affecting their industry can find themselves exposed to problems or shifts that they were; t ; Supply Chain risks lack of transparency and controls along the expecting. Chain ; Natural Disasters typhoon, flood, earthquake ; Business disputes the concept of ; illegal detention; by business partners as a means to settle a spite over payments due; threats by disgruntled former employees.

Restructuring & labor disputes closing a factory, or dealing with the disgruntled employee who seeks revenge on a manager ; HER risks associated with the new HER law and the complexity of hiring & firing staff. China has made many improvements in its laws for the protection of intellectual property. However, enforcement of these laws remains a problem. U. S. Companies doing business in China need to structure their transactions and draft agreements with their Chinese counterparts with an eye toward minimizing the risk of intellectual property rights locations ; China often lacks predictability in its business environment.

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China's current legal and regulatory system can be opaque, inconsistent, and often arbitrary. Implementation of the law is inconsistent. Lack of effective protection of intellectual property rights is a particularly damaging issue for many American companies. Both those that already operate in China and those that have not yet entered are well advised to assess their IP risk exposure and develop a plan to mitigate that risk. Guidance is available at [www. Stoppages. Gob.](http://www.Stoppages.Gob.) ; China has made significant progress toward a market-oriented economy, yet it continues to rely heavily on an export-led growth model.

For this reason, parts of its bureaucracy still seek to protect local firms, especially state-owned enterprises, from imports, while encouraging exports. ; China retains many characteristics of a planned economy, with five-year plans setting economic goals, strategies, and targets. Provincial and local officials are accountable for delivering on the APP and their priorities reflect that mandate. In addition, the State and the Communist Party directly manage the only legal labor union. ; The scale and complexities of China can stress a firm's capabilities, resources and patience.

Well-targeted and informed efforts and a network of contacts at various levels across a broad range of organizations are often linked closely with market success and ability to resolve problems. China's value-added industrial output rose 10. 1 per cent year on year in November, up from 9. 6 per cent in October and 9. 2 per cent in September. Retail sales increased by 14. 9 per cent and loan growth was more than 15 per cent, which is still high, and inflation remained low at 2 per cent in November. All these factors illustrate that China's economy is improving.

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Also, the Asian Development Bank recently predicted that China's GAP would expand by 7.7 per cent in 2012 and 8.1 per cent in 2013. However, the economic risk for 2013 is the growth of exports in view of the sovereign debt crisis in the Euro zone and the economic slowdown in the United States.

China's political transition is not expected to affect policy continuity because it has a long-term, five-year political plan. Xi Jigging, the incoming president, has stated that China is ready to launch its economic stimulus policy.

The government will also focus on exports by implementing an economic-reform logic that will be formally announced in the second half of this year. This policy will cover foreign-exchange systems, industrial productivity systems, urban development and basic life insurance. Not only will it be implemented by the central government, but it will also be decentralized to local governments. Investment risks in China are expected to decline because economic growth has started its recovery, inflation remains low and the leadership transition is smooth.

In fact, 2013 is the best opportunity for investment in China, since its economy is estimated to have already bottomed out. Meanwhile, foreign fund flows, especially from the US and Europe, continue to course into the Asian market. Besides, the US Federal Reserve System has beefed up its third round of quantitative easing to US\$85 billion (6 trillion) per month by adding \$45 billion in Treasury bill purchases to \$40 billion in mortgage-backed-securities subscriptions.

Consequently, global liquidity will remain high, which will benefit the Chinese stock markets. H-shares – shares of companies incorporated on the Chinese

mainland that are listed on the Hong Kong Stock Exchange or foreign exchanges – in the Hang Seen China Enterprise Index command a price-to-earnings ratio of 9.3 times, lower than the average PIE ratio of the past five years of 13.2. Drive the PIE of the Hong Kong Stock Exchange upwards over the next 12 months. In short, this is good timing for investment in Chinese stock markets.

Four industries in China are likely to grow this year, and the following investments are recommended: I Commercial banking, which will benefit from credit growth and economic activity; I Insurance, which will benefit from compulsory welfare enhancement, broader investment opportunities and an increase in insurance demand from expanded urban areas; I Telecommunications, which will benefit from economic growth and expansion of new technology, such as the application of third-generation cellular service, smart phones and the Internet; I Retailing, which will benefit from economic recovery, arbitration and an increase in retail sales.

For those with little time to study but a wish to invest in Chinese stocks, there are mutual funds with a policy to invest in Chinese stocks, especially trigger funds with target returns within a given time frame. That way, the opportunity to get a higher return will be increased with the expansion of the Chinese economy and Asia. Investment contains risk. Fund prospectuses should be carefully studied before making an investment decision KOREA Risks of heightened tension with North Korea After the artillery attack by North Korea on the South Korean island of Honeymoon in November 2010, disputes sharply worsened in the Korean peninsula.

Moreover the death of Kim Jong Il and the ascendancy of his son, Kim Jong Il-JNI, open up an uncertain transition period. In this context, tensions could remain intense in 2012. Resumption of the six-nation negotiations on the North Koreans nuclear programme with North Korea, President Lee Myung-bae is credited with effective management of the economic crisis and will likely remain in power in Seoul through December 2012.

Despite gains made by the Democratic Party in the April 2012 legislative elections, the Scenario Party (in power since 2008) succeeded in keeping a parliamentary majority. This sets the stage for the presidential election in December and the voting in of a new incumbent with Lee Myung-bae barred from running again. Although economic policy continuity is expected to remain on track, this electoral year will nonetheless be marked by increased welfare spending to counter the growth of inequality that has become more pronounced these past ten years.