

Pest analysis of china

Business



China is among the most attractive locations in the world. It has also grown to become one of the strongest powers. This rise boosted international business. The legal system too has been improved. Foreign investors seek business in China mainly because of 3 things. They are:

- Size of the market
- The very low cost of labor
- China's growth potential together

I can say that China has become increasingly integrated with other parts of the world. It opened itself to an array of cross- border economic activities. It is not easy to manage international business in China. You will read about some of the factors which impact China as I conduct a detailed PEST analysis of China below.

PEST analysis is an essential management tool which assesses the macro-environmental factors. It is generally conducted for businesses and projects. The analysis helps decision-making and other management processes. It studies many elements under the following factors:

- Political Factors
- Economic Factors
- Social Factors
- Technological Factors

The main challenges for businesses in China are:

- Attaining strategic objectives of cost reduction
- Local differentiation

- The strengthening of core competencies in certain areas and business activities

You are perhaps aware that China is a formal member of WTO. While China's entry into the world market benefits its national economy, it also boosts global economic growth.

Political Factors

Political factors which impact China are:

- Government regulations

Both formal and informal rules, which firms must abide by, impact the country. Many people claim that the political force is the most unsettled force. Over the past few years, the government focused on the development of e-commerce.

- Legal issues

The legal framework for e-commerce is still in its early stage. China has little experience for drafting e-commerce legislation for topics like intellectual property rights protection and tax. There aren't any regulations supporting the privacy, recognition of digital signatures, consumer rights and validation of electronic contracts yet.

Economic Factors

Over the past five years, China's economy experienced significant GDP growth rate. Reports suggest that if China continues to excel at this rate, it will surpass US GDP soon. Some factors which might help are:

- High rate of savings
- Abundant and skilled labor
- More export business
- Potential urban growth

Any economic development could have a major impact on the SMEs and their actions. China's GDP rate suggests that each citizen is adding more and more values to the society. This is in turn increasing consumers' purchasing power. The labor cost in China is extremely low. This is why leading companies like Apple are inclined to hire workers from the country.

The growth rate is impressive, but it can slow down. Some of the worrying trends in China are:

- High inflation rate
- High property prices

The People's Bank of China has increased interest rates. The reserve requirement for commercial banks is also nine times higher now. Moreover, the central bank is urging banks to lend less and impose limits on home purchases.

Social Factors

The social and cultural aspect of China plays an important role as the demographics constantly change. For example, population growth and age distribution fluctuate. These can alter social trends and cultural values.

Family size and social behaviors often impact how decisions are taken. Other

social factors are consumer lifestyles, education, religion, and emigration. China is a collectivistic culture, based on Geert Hofstede's value dimensions.

The literacy rate in China is over 90%. China emphasizes on education and majority of the nation are literate.

There are 420 million Internet users in the country. As there is internet access, Chinese people often shop online. Taobao is the largest local e-commerce website, and many people spend a lot of their things from the site. Boston Consulting Group predicts that the volume will increase in near future.

E-commerce has changed how local consumers see shopping. However, there is still a group who wish to avoid the perceived risk associated with online shopping. They prefer physical shopping and like the face to face contact.

Technological Factors

Some common technological factors studied in PEST are:

- New products being developed
- New purchasing mechanisms such as the intranet and extranet
- New production technology
- New distribution mechanisms like Internet
- New methods of working like mobile telecommunications

A major technological problem in China is that the development of the B2C industry does not have a safe and stable online payment system. As Chinese

buyers are on high Uncertainty Avoidance level and Long-Term Orientation, the problem is strengthened.

What is more, based on the perspective of Ortolani (2005) there had been only 1 percent credit card penetration in China suggesting that the most widely used payment method had low acceptance in China and the payment system to support online credit card transaction is also facing low usage. And the lack of safe online credit card payment system is one of the key reasons for this low usage and penetration.

Other factors which can be assessed are Environmental and Legal factors. These are covered in an extended version of the PEST called PESTLE analysis. Other variations of this analysis are STEP, STEEP, STEEPLE and STEEPLED. One major factor which impacts China is the increasing awareness of environment protection. This promotes how e-commerce causes less pollution and restricts the damage to the environment.

In conclusion, I can say based on this PEST analysis, that China is a flourishing market with the need for some small changes. Companies will benefit if they can understand the external macro-environment in which they function and will operate in the future. The rapid economic growth and stable political conditions make the e-commerce industry lucrative to investors. There are risks like lack of trust. Other risks include lack of stable and secure online payment systems. Also, there isn't proper legal protection. All of these create uncertainties and challenges to the market players.

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