

# The domestic business environment of china



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Introduction China has already experienced a substantial growth in the field of international business because aside from its local companies going international, many international companies from different countries have already started to dominate the Chinese market.

As a result, it was perceived that the Chinese economy will continue to grow at a relative pace and would be stable enough to be derailed easily by sudden crises. But even though the Chinese economy is now getting popular in the international market, the country is not taking its domestic business environment for granted because no matter how the country's economy was fueled by the growing presence of international companies, the country remained adherent and makes its domestic businesses still a priority. China has been known for being culturally embedded reason why when it comes in prioritizing business environment, its domestic business always come in first followed by its international counterpart. Consequently, it is quite inevitable that international companies experience some difficulties staying active and competitive in the Chinese market. On the other hand, being a target for various international companies domination does not necessarily mean that China has a very accessible business environment because as a matter of fact, its huge market is driven by various demands coming from culturally-embedded consumers. Meaning, it is quite difficult for foreign culture to get Chinese consumers' consideration for certain products and services.

In order to determine the challenge and opportunity of doing business in China, this paper will explore the country's domestic business environment, paying attention on its political, socio-cultural, and economic aspects. In addition, the effects of the country's domestic business environment to

international companies would be tackled as well. The Context of Domestic Business Environment Over the years, China has demonstrated rapid transition from being a closed-cultured business economy to international through wide implementation of institutional change that made way for practicing international business practices (Child & Tse, 2001). However, this increasing attention being paid for international business endeavors did not diverted the country's priority for improving its domestic business environment because the country is still committed in doing so. And this is evident in Chinese government's actions in order to protect its own business environment, such as the increasing use of intellectual property protection that not only improves domestic but international enterprises as well, as explained by Frederick (2007).

Just like any other country, the business climate and environment of China is influenced by several factors which, according to Han and Baumgarte (2000), can favor or negatively affect the development of entrepreneurship and business career in the country. And one example for this was the the issue of domestication of policies which, according to Newell (2008), is about translating policy commitments contained in international agreement into a workable national policy. As a result, the domestic environment of business in this Asian country is even unstable and quite difficult to predict, especially by foreign companies. However since not all parts of China are infested by instability and issues of business environment, such as corruption and bribery in Guanxi according to Dunfee and Warren (2001), it is best to determine the movement in the domestic business environment of China by exploring the important aspects affecting the business climate.

And among the important are the political, economic, and socio-cultural aspects. Political Environment For the past several years, the domestic business environment of China has been bombarded by various challenges because of the widening entrance of foreign companies. With reference to Gilboy (2004), even though China continues to experience economic boom as it continue to controls more of the exports of the world, it has a lesser respond to protectionism reason why its market has been easily dominated by foreign companies, particularly the high-return high-tech industries. In other words, the political environment of Chinese domestic business is quite weak and can be easily outshined by the increasing numbers of foreign companies that are using its worldwide strategies to enter the huge market of China. But in contrary, Ritter (2007) wrote that the country has always been committed in improving the development of its domestic business environment and always adhere to the objective of prioritizing quality over quantity of foreign investments, especially after the government learned from the increasing monopoly of foreign-invested companies that do not pose threats to economic security of the country only but most especially, to the capacity of domestic Chinese enterprises to begin independent innovation. Moreover, since China can no longer deny the fact that foreign investors and companies are a big help in economic booming, the national government has developed some measures in order to ensure that both domestic and foreign companies would work harmoniously, such as the nexus between the private entrepreneurs and Chinese party-state which, according to Jorgen and Xiaoqing (2008), has been developed in response to both globalization and reforms despite issues that this kind of political dynamics would create tension between the parties involved.

Economic Environment The economic environment of Chinese domestic business does not totally blocks the intervention of foreign investments because with reference to Qi and Li (2008), these play a positive role in the country's knowledge creation and management in a certain period, particularly in labor mobility that serves as a channel in order to yield advantageous results and lessen the occurrences of undesirable impact. However, foreign investments have varying impacts depending on which level the domestic companies operate. According to Zhou, Li, and Tse (2002), foreign investments tend to exert different impact on firm at the regional level and firms on the industrial level. But in either way, the domestic environment surely experience both advantageous and disadvantageous outcomes, particularly in economic growth, interest rates, and inflation. China has already been engaged in many trade liberalization actions that positively and negatively affects the cycle of its domestic businesses. However, the country's accession to the World Trade Organization (WTO) has brought the wide-ranging economic reform in China, particularly on the area of import duties and export sectors (Lanchovichina & Martin, 2001).

On the other hand, the China's GDP statistics was said to be suffering from numerous inconsistencies, particularly on the part of employment factor, because there is an allegation that there has been major exaggerations, especially on the said area that affects the real output growth of the country in the beginning of 1998 in particular (Rawski, 2001). Moreover, major economic reform was said to be having a major impact on labor mobility and was responsible for the emergence of floating population in China which,

according to Seeborg, Jing, and Zhu (2000), transforms the urban labor force. On the other hand, the employment condition in domestic China is considerably surviving because according to the study carried out by Zhao (2001), foreign investments have helped in increasing relative wages of skilled labor even without the intervention of skill-based technologies. Socio-cultural Environment Business management in China is fueled by some sort of management system because most Chinese employees adhere to certain social-cultural value system that corresponds to the political-legal structure of the country (Park, Kim, & Lim, 2002) to ensure that both socio-cultural environment and political-legal environment of the business are well in place.

And in order to cope with this value system valued by domestic employees in China, international companies are advised to build management strategies just like what Korean firms have done to their branches in China (Park, Kim, & Lim). China has already undergone great societal changes due to the continuous perseverance for a developed domestic and foreign market and with reference to Sangwan and Pau (2005), these successful societal changes have been obtained due to the establishment of a favorable business environment for both local and international organizations, operators, and service providers. And this only means that albeit China has been known for being a close-culture country, domestic employees have already been influenced by major societal changes that made them more competitive and open-minded, especially for the intervention of foreign investments and international companies in their business environment. And one example for this was the openness that employees have developed

towards Western expatriates who, according to a study carried out by Selmer (1999), use problem-focused strategies in order to adjust better as they work on the Chinese mainland. Impact to International Firms Prioritizing domestic business environment in China has been a challenge for international companies because they are the ones who have to adjust, particularly on their operations in order to get the consideration not only of the consumers but of the whole country as well. And with reference to Christmann and Taylor (2001), this perception has been generated because the country accounts the possible increase in environmental risks to foreign companies whose operations may pollute the country despite of the active environmental and economic regulations.

In addition, the authors wrote that among the popular international companies that have experienced this kind of challenge are the General Motors, Volvo, and Toyota which are all operating under a polluting industry category. Starbucks has also experience the challenge of the domestic business environment of China, particularly by the socio-cultural value system implemented in the country. According to the OECD (2008), cultural acceptance in countries varies and unfortunately, cultural acceptance in China by the time Starbucks have established itself in the Chinese market is quite undesirable, and its undesirable impact has been evident by the failure of the first Starbucks store in the Forbidden City in China. Starbucks, Volvo, Toyota, and General Motors are not the only ones that experienced the impacts of business cycle on Chinese domestic business environment because other huge international companies like the General Electric (GE) was challenged but then managed to cope with economic system domestic

China and even came up with an expectation and goal of reaching \$5 billion profits to walk next to the achievement of Philips that did \$9 billion in 2004 (Gu, 2005).

On the other hand, the domestic business environment in China has demonstrated significant changes in some sectors, particularly in electronic industries. According to Wong & El-Abd (2003), the changes in the domestic environment has brought significant changes not only in Chinese economy but in international companies as well because aside from the fact that it attracted many electronic companies that given these companies a chance to be dominant in one of the largest consumer market in the world, these changes enables the country to develop job opportunities domestically.

Conclusion Domestic business environment of a particular country tends to be unstable and quite challenging especially for foreign companies because the country is just restricting the access in order to protect its domestic firm from being threatened while the country is trying to profit from the increasing presence of foreign investments. As discussed from the previous mentioned, foreign companies huge or not are not exempted from the limited access provided by the Chinese market. This is evident on the challenges faced by the operation of GE, General Motors, and Toyota as well as the failure of Starbucks on the Forbidden City.

Thus, it appears that the only thing that foreign companies can do is to correspond on the national regulations of China for its domestic business environment. Though China has always been known for being culturally-embedded, it does not mean that it is one of a kind because presumably, any country would not want to put its domestic business environment at stake

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just to welcome foreign investments. And even though this country has been careful in keeping the balance between domestic and foreign business cycle, the country still encounters challenges that needs economic reforms.

Fortunately, the discussion of China's economic, political, and socio-cultural environment for domestic business likely indicates that the country is equipped with basic regulations and strategies that could help in improving the chance of the country to legally profit from the growing presence of foreign investments without hurting or harming the domestic firms And as for foreign companies, the impact of the movement in domestic business environment of the country should not be seen as a challenge because just like any other countries, China is just being protective of its own business.

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