

Pestel analysis of the chinese economy



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There is no doubt that nowadays globalization brings opportunities for companies to expand their business activities easily to take advantages of other country's growth through investing activities. However, before investing to overseas, a company should make a careful examination of the country they are intending to invest in especially the industry related to their investment. Examining the relationship between risks will help to measure the risks the company has to encounter and the information is actually helpful for company in decisions making. Based on factual country information and financial analysis, this assignment will point out main factors that will impact Soundtech Technology's general business activities when it starts business in China – producing low cost sound system for budget cars called “Superaudio”. This assignment will start with China background information and then six factors in PESTEL model these include political, economic, social, technology, environment, and legal will be presented. In addition, Soundtech Technology's financial overview that includes financial factors as well as sensitive analysis will be conducted based on the data given. Lastly, some recommendations will be make to help Soundtech Technology in making investment decisions.

1. China background informations

- Area: 9, 596, 961 sq. km

- Population (July, 2010): 1, 330, 141, 295. Annual growth rate: 0. 494 %

- Ethnic groups: Han Chinese is 91. 5%, ethnic minority and other nationalities are 8. 5%.

- Religions: Officially atheist, Daoist (Taoist), Buddhist, Christian is about 3%-4%, Muslim is approximately 1%-2%.

- Languages: Mandarin is also called Putonghua is the main language in China, plus many local dialects.

- Government: Communist party-led state.

- GDP is \$4. 814 trillion (2009)

- Per capita GDP is \$3, 678 (2009)

- GDP real growth rate (2009): 8. 7%

- Natural resources: mineral is plentiful including coal, petroleum, mercury, iron ore, natural gas, tin, tungsten, manganese, molybdenum, vanadium, magnetite, antimony, aluminum, lead, zinc, uranium. Moreover, China is the world's largest in hydropower potential.

- Agriculture: China is one of the world's largest producers of rice, wheat, potatoes, corn, peanuts, tea, millet, barley; commercial crops include cotton, other fibers, apples, oilseeds, pork and fish; produces variety of livestock products.

- Types of industry: China is focusing on mining, ore processing and others mineral such as iron, steel, aluminum, and other metals. Consumer product is one of the nation strongest industries. Transportation, electronics, telecommunications equipment as well as commercial space are major sectors.

- Trade: Exports (2009) \$1. 194 trillion: electrical and other machinery, including data processing equipment, apparel, textiles, iron and steel, optical and medical equipment. Main partners (2008) United States 17. 7%, Hong Kong 13. 3%, Japan 8. 1%, South Korea 5. 2%, and Germany 4. 1%. Imports (2009) \$921. 5 billion: electrical and other machinery, oil and mineral fuels, optical and medical equipment, metal ores, plastics, organic chemicals. Main partners (2008) Japan 13. 3%, South Korea 9. 9%, Taiwan 9. 2%, U. S. 7. 2%, Germany 4. 9%.

Undoubtedly, the electronics is the one of the leading industry in China's manufacturing sector. Sales revenue from China's electronics and IT industries (not including software) is estimated approximately \$772. 8 billion in 2008, reaching a growth of 28. 3% over 2007. According to a statistical report by China's Ministry of Information Industry (MII), sales revenue of China's electronic information industry from January to April 2008 increased by 20. 5% over the same period of last year. EE Times-China and ESM-China Market Research Dept predict that from 2006 to 2008, China's electronics industry will maintain a CAGR of 25. 5% (global sources. com).

2. PESTEL analysis

An analysis of China's Political, Economic, Social, Technological, Environmental, Legal factors is essential to the strategic management and implementation of the project. The positive and negative effect on the projects initiation and development will be pointed out through the analysis of the external factors.

2. 1 Political factors

2. 1. 1 General information

Currently, China Government is ongoing to promote rule of law. After the Cultural Revolution, a legal system to restrict of official authority and revolutionary excesses has been developed. In 1982, the National People's Congress issued a new state constitution that emphasized the rule of law under which even party leaders are theoretically held accountable.

Since 1979, when the drive to establish a functioning legal system began, more than 300 laws and regulations concerned about economic areas have been promulgated. In the 1990s Legal reform became a government priority. Legislation designed to modernize and professionalize the nation's lawyers, judges, and prisons was issued. The Chinese constitution and laws provide for fundamental human rights, including due process, however in practice these are often ignored. In addition to other judicial reforms, the Constitution was modified in 2004 that include the protection of individual human rights as well as the legally-obtained private property, but it does not clear about how some of these provisions will be implemented. Since this modification, there have been new promulgations in bankruptcy law and anti-monopoly law, and modifications for both company and labor law. Although additional safeguards to citizens have been provided in new criminal and civil laws, previously debated political reforms, including expanding elections to the township level beyond the current trial basis, have been put on hold.

2. 1. 2 Recent political events

Since Tiananmen, 13 rounds of human rights dialogue between the U. S and China has been conducted. In May 2010, the most recent round was taken <https://assignbuster.com/pestel-analysis-of-the-chinese-economy/>

placed; topics were turned around religious freedom, the rights of labor, freedom of expression, rule of law, the discrimination of race, and multilateral cooperation as well. A foundation to continue these rounds in the future was adopted by The U. S. and China leading to unanimous approval for the next round of dialogue in China in 2011.

The meetings in Lhasa on March 10th 2008, marking the 49th anniversary of the Tibetan uprising turned violent, and led to protests and unsecure state throughout Tibetan areas and others surrounding provinces. The army and police force monitored strictly Tibetan areas for the safety of the 50th anniversary in 2009 and 51st in 2010 and security was tightened in the border with Nepal.

Armed uprising was ongoing when ethnic violence broke out in Urumqi in Xinjiang Uighur Autonomous Region on July 5, 2009. Security control significantly increased in Urumqi and its surrounding areas and as the result some mosques in Xinjiang were closed. As of early 2010, Urumqi was still under a heavy police control and most Internet and international phone communication were totally cut off.

In recent years, riots have been happened in China that has created the unstable condition for foreign companies' investment in China. However, China Government has taken strict measures to prevent and stop this situation that creates safe environment for foreign investors.

2. 2 Economic factors

China's economy has been reformed and opened since 1978. A more pragmatic thinking on many political and socio - economic problems has

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been approved by the Chinese leadership and therefore the role of ideology in economic policy has been partly reduced. China has transformed its economic into the market-oriented that positively impact not only on China but also on the world. These economic reforms China has implemented over the past 2 decades have profoundly affected both individual initiative and entrepreneurship. As the result the poverty has been significantly reduced and the average income has reached to highest level ever seen. At the beginning of 2010 China is ranked as the second-largest economy in the world after overtaking Japan to capture this position. An average economic growth has been sustained over 9.5% for the past 26 years. In 2009, its economy reached to \$4.814 trillion was about one-third the size of the U. S. economy. The high economic growth along with higher national income growth may boost demand for Soundtech Technology's products – this is big opportunity for the firm to develop its business.

In the 1980s, the combination of central planning with market-oriented reforms were tried to implement in order to increase productivity, living standards, and technological quality but not lead to negative effect on inflation, unemployment, and budget deficits

In addition, Chinese Government pursued agricultural reforms, dismantling the commune system and introducing a household-based system that provided peasants greater decision-making in agricultural activities. Besides that nonagricultural activities like village enterprises in rural areas were also encouraged. Similarly, the government promoted more self-management for state-owned enterprises in order to increased competition in the

marketplace, and create opportunities for China's domestic enterprise directly contact with the foreign ones.

On 20th June 2010, China's central bank set the Yuan exchange rate at higher level after committing to increase the flexibility of exchange rate of its currency. Reference exchange rate of the day was set at 6.7980 Yuan on USD 1 – its strongest level since September 2008, up 0.43% compared with the level of 6.8275 Yuan on 21st June 2010. A stronger Yuan would make Chinese exports more expensive, help redress trade balances and bring some reliefs to foreign manufactures struggling to complete. The increase of Yuan exchange rate creates disadvantages for Soundtech Technology when they export their products to overseas markets because it raises the price in term of foreign currency.

Especially, in recent years the cooperative relationship between China and Singapore have been improved within related global and regional organizations such as the ASEAN plus China, Japan and South Korea, the Asia Pacific Economic Cooperation Forum (APEC) and the World Trade Organization (WTO). At the same time, both China and Singapore have conducted beneficial cooperation and put efforts to offer training sessions to a third country and to help their companies or enterprises explore and exploit the world market.

The 20th anniversary of the establishment of diplomatic corporation between China and Singapore is marked in year 2010 as well as the event of China's participation in the ASEAN Free Trade Area (FTA). By taking advantages of all the opportunity from the partners, China is ready to work with Singapore to

lift bilateral relations to a “ new level” and bring more substantial benefits to the citizens of both countries. For this reason, China Government always makes the best condition to welcome Soundtech Technology to invest in China.

2. 3 Social factors

With a population officially over 1. 3 billion and an estimated growth rate of 0. 494%, China is very concerned about its population growth and has attempted with mixed results to implement a strict birth limitation policy. The government’s goal is to stabilize the population in the first half of the 21st century, and 2009 projections from the U. S. Census Bureau are that the Chinese population will peak at around 1. 4 billion by 2026. It can be said that China has huge population that supply to the market a profuse workforce which is an opportunity for Sountech Technology to expand its business in China.

Another affecting factor that can be considered is the trend of employment with relation to the unemployment level. The current unemployment rate in China in January 2010 is 4. 3% which demonstrates that this project would help the society and in turn the economy by creating positive job opportunities.

Source: tradingeconomic. com

Recently, China Government has increased the minimum wages. On 1st April Guangdong increased the province’s minimum wages by an average 13%. Moreover, the southern China province produces about 13% of China’s economic output, the most among the country’s 32 provinces. Minimum

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wages in the capital city Guangzhou reached to 860 yuan increased \$120 per month from 780 yuan, Wages of other cities in the province would also get a boost, with those in some inland cities up nearly 18%. China Government has increased the minimum wages that is a challenge for Sountech Technology because they have to paid more for labor costs that will decrease business profit.

2. 4 Technological factors

Chinese science strategists realize China's greatest opportunities in technology fields such as computers and biotechnology, where creates a chance for China to make innovation in these areas. It cannot be denied that a dense network of trans-Pacific contact have been built by most overseas Chinese students that will boost the cooperation between U. S. and China scientific in coming years. The U. S. space program is regarded as the standard of scientific modernity in China is held annually. China's small but growing space program is national pride of China when its third manned orbit was totally successful in September 2008.

Technology Agreement is the model for bilateral cooperation between The U. S and China in science field. In April 2006 the Science and Technology Agreement was extended by a 5-year agreement was signed. The agreement which includes approximately 60 protocols, memoranda of understanding, agreements, and annexes, is considered as the longest-standing between U. S.-China accords. The agreement encompasses cooperation between U. S. and China in variety fields like marine conservation, renewable energy, and health. Besides the U. S China also has close relationship with Japan and the European Union in science and technology cooperation.

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Based on the data supplied by the State Development Planning Commission, during the Ninth Five-year Plan period from 1996 to 2000, China has significant technological development. 50, 000 projects have been set up under the “ Spark Plan”. Started in 1986, these projects were actually a technological program in order to enhance the IT level in rural areas.

Since 1996 a total of CNY192. 9 billion has been invested in the “ Spark Plan” in which CNY3. 5 billion was from the Government’s Funds, CNY41. 9 billion were from loans of banks and CNY147. 5 billion from private and other social sectors. Since 1996 the Chinese government has invested CNY3. 19 billion in the industrial sector to develop technical innovation projects. In addition, since 1999 the government has been focusing on technological innovation of State-owned enterprises by spending CNY19. 5 billion worth of treasury bonds

A number of districts for high-tech development have been established for researching and developing technological purpose. For example in 1996 the Silicon Valley was built with an CNY101. 5 billion investment in the infrastructure construction. Up to now there have been approximately 17, 000 high-tech enterprises operating in those districts, with the employees more than 2. 2 million.

2. 5 Environmental factors

Undoubtedly, along with China’s rapid industrial development are the serious negative impacts on environment these include increasing pollution and decreasing natural resources as well. In 2007, China became the world’s largest emitter of carbon dioxide and other gases leading to greenhouse. WTO conducted a report on the quality of air in 272 cities worldwide, pointed

out seven out of the ten cities that are the most polluted in the world were in China. In addition based on China's own evaluation, two-thirds of the 402 cities which have been air polluted two-thirds of them moderately or severely so. According to environmental report, there is water polluted in almost all of the nation's rivers to some degree and half of the population is lack of clean water for daily life. By some estimates, there are approximately 300 million people have to use contaminated water for drinking every day.

Water scarcity also is considered as an issue; taking severe water scarcity in Northern China as an example that is actually a serious threat to sustained economic growth. Thus, the government has been working on a project for delivering a large-scale of water from the Yangtze River to northern cities, including Beijing and Tianjin. Some research estimate pollution costs hold the Chinese economy from 7% to 10% of GDP per year.

Currently, like any Government, China's leaders are increasingly paying attention to environmental problems in the country. Realizing the important of environmental protection, The State Environmental Protection Administration was officially upgraded to a ministry-level agency, the Ministry of Environmental Protection in 1998. Recently, China's environmental legislation has been strengthened and some progress in stemming environmental deterioration has also been made. China took part the Asia Pacific Partnership on Clean Development in 2005, which unites industries and government to implement common strategies together that reduce pollution and global climate change. Campaign about pollution control was great invested that a factor contributing to a successful Olympic Beijing 2008, though some of the benefits were just temporary in nature.

Thanks to these campaigns the quality of air in some cities has been improved recently.

It can be said that China is participating actively in climate change talks as well as other multilateral environmental negotiations, especially discussions about how developed countries deal with serious environmental issues that help developing countries to a greater extent. China has signed the Basel Convention about transporting and treating hazardous waste; the Montreal Protocol about the Ozone Layer Protection and other major environmental agreements.

As long as China is huge country thus water scarcity is regarded as a big issue that also is the project's disadvantage. Besides that, climate change is considered as one of the major systematic risks for Soundtech Technology because climate change is affecting how companies operate and the products they offer.

2. 6 Legal factors

2. 6. 1 Laws support foreign investors

In order to encourage foreign companies to invest in China, China Government has gradually set up a relative complete law system. In 1979, The Law of the People's Republic of China on Chinese-Foreign Equity Joint Ventures was published. 20 years later, the Chinese government has promulgated and issued a series of laws and statutes about the establishment, operation, termination and liquidation of foreign-invested enterprises. The main laws and regulations include the three basic laws • The law on Chinese-Foreign Equity Joint Ventures, The Law on Chinese-

Foreign Contractual Joint Ventures, and The Law on Wholly Foreign-Owned Enterprises; detailed rules for the implementation of the three basic laws; The Company Law of the People’s Republic of China; The Income Tax Law of the People’s Republic of China for Enterprises with Foreign Investment and Foreign Enterprises; Interim Provisions for Guiding Foreign Investment; Industrial Catalogue for Foreign Investment; Interim Provisions Concerning the Investment within China of Foreign-invested Enterprises, Provisions Regarding the Merger and Separation of Foreign-invested Enterprises, and Liquidation Measures for Enterprises with Foreign Investment. These provide legal bases from which to guarantee the independent operation rights of foreign-funded enterprises and to protect the legitimate rights and interest of both domestic and overseas investors.

Currently, the China’s government is considering its existing laws and statutes in accordance with the model of the WTO. It has abolished certain obsolete laws and regulations, and will gradually revise the laws and regulations that are incompatible with the rules of the WTO.

2. 6. 2 China Tax Regime

Tax law is one of the most important issues that SoundTech Technology needs to understand as the tax regulations have a direct impact on ST’s business activities. China is known as one of the most attractive incentives packages in Asia. Tax incentives and other facilities for the manufacturing sector are provided for in the Promotion of Investment.

The data below demonstrates the tax that a medium-size company must pay or be withheld in a given year, as well as measures of the administrative

burden in paying taxes. These measures include the number of payments an entrepreneur must make; the number of hours spent preparing, filing, and paying; and the percentage of their profits they must pay in taxes.

2. 6. 3 Procedures to starting new business in Malaysia

When foreign investors want to set up business in China, they have to wait for approval from the Government for a long time. The challenges of launching a business are shown below which include the number of steps entrepreneurs can expect to go through to launch, the time it takes on average, and the cost and minimum capital required as a percentage of gross national income (GNI) per capita.