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Cultural Awareness, a Form of Risk Management in International Business: Case Study of China

Fadun Solomon Olajide

Glasgow School for Business and Society

Glasgow Caledonian University, Glasgow United Kingdom

E-mail: sofadun@yahoo.co.uk

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Abstract

Mutual awareness of cultural references is essential in international business as levels of formality vary greatly among cultures. The emergence of capitalism into China induces international firms' investment in the country. This resulted to creation of a production base to explore the inexpensive factors of production, particularly low-cost labour. The study examines cultural awareness as a form of risk management in international business, using China as a case study. The study uses 'XYZ International', with western cultural background, as a hypothetical international business that operates in China market. The study explores international trade and global organisations; considers barriers to international business; outlines cultural awareness as a form of risk management in international business; highlights Chinese business culture; outlines the impact of culture on negotiation; appraises Chinese businessman culture and its impact in the Chinese market; and justifies reasons to support conducting trade with China. The study findings indicate that mutual awareness of cultural references is essential in international business, and levels of formality vary greatly among cultures. The implication for practice is that culture induces each country societal prevailing life-styles because culture and life-style influence patterns of consumption, manufacturing, agriculture, service, distribution and investment.

Keywords: Risk Management, International business, International organisations, Culture, Cultural awareness, International trade barriers, China

1. Introduction

Mutual awareness of cultural references is essential in international business as levels of formality vary greatly among cultures. Using China as a case study, the study examines cultural awareness as a form of risk management in international business. It uses a hypothetical international organisation (hereafter, XYZ International) that seeks to expand its business operations in China. XYZ International is an international business, with western cultural background, operating in China. The study explores international trade and global organisations; considers barriers to international business; outlines cultural awareness as a form of risk management in international business; highlights Chinese business culture; examines the impact of culture on negotiation; appraises Chinese business culture and its impact in the Chinese market; and justifies reasons to support conducting trade with China.

2. Scope and Objectives of Study

The study examines cultural awareness as a form of risk management in international business, using China as a case study. Specifically, objectives of the study include:

a) Description of international trade and global organisations;

b) Identification of barriers to international business;

c) Justification of cultural awareness as a form of risk management in international business;

d) Highlight Chinese culture and its impact on negotiation; and

e) Explore Chinese business culture and its impact in the Chinese market.

3. Methodology

Secondary data is the main source of information employed for the study. The study is a case study which explores relevant literature and international organisations data. International organisations data used for the study include: Central Intelligence Agency (CIA), Chinese Academy of Science, Science & Technology in China (CASSTC); European Union (EU); Infoplease; Internet World Stats (IWS); International Monetary Fund (IMF); National Bureau of Statistics of China (NBSC); Organisation for Economic Co-operation and Development (OECD); PricewaterhouseCoopers; United Nations Development Programme (UNDP); *United Nation Conference on Trade and Development* (UNCTAD); World Bank (WB); and World Trade Organisation (WTO). The study findings obtained from through the literature and international organisations data are deemed sufficient to establish the role of cultural awareness in the international business. Moreover, to underpin the implication of the study findings for practice, China is used as a case study.

4. Theoretical Framework and Literature Review

4.1 International Trade and Global Organisations

International trade promotes openness thereby impacting national, regional and global economic growth. International business comprises of business transactions (including exchanges of money) necessary for production, transporting, and selling of goods and services across national borders (Guest *et al*., 2007; Alder, 2008; Czinkota *et al*., 2011). It is also referred to as international trade or foreign trade. International business consists of various forms of transactions undertaken across national borders to attain individuals, household, firms and organisations objectives. Types of international business include: export–import trade, direct foreign investment (wholly owned subsidiaries and joint ventures), licensing, franchising, and management contracts. International business can be undertaken in various ways. It includes: exporting goods and services; starting a joint venture with a company; license individuals or organisations to produce goods in the host country; opening branch networks for producing and distributing goods in the host country; and provision of managerial services to companies in the host country (Emerson, 2007; Nadeau and Casselman, 2008).

Global organisations are organisations which operate and compete in more than one country - global business environment (Michie, 2011; Lechner, 2012). The global business environment is highly complex, uncertain and unpredictable. The global environment consists of forces and conditions that operate beyond an organisation's boundaries, but impact the organisational resources and operations (Ritzer, 2011; Stutz and Warf, 2011; Jones and George, 2013). The global business environment comprises of task environment and general environment. General environment consist of economic, technological, sociocultural, demographic, political, and legal forces which impact an organisation and its task environment; whilst, task environment consist of forces and conditions that originate with suppliers, distributors, customers, and competitors and affect an organisation's ability to obtain inputs and dispose of its outputs because they influence managers daily (Rath, 2012; Jones and George, 2013). Global environment has become highly competitive as a result of globalisation. Globalisation is a process driven by, and resulting from, increasing cross-border interaction and flow of goods, services, money, people, information, and culture (IMF, 2000; Guillen, 2001; Gangopadhyay and Chatterji, 2005; Lechner, 2012). Pearce and Robinson (2011:56) define 'globalisation refers to the strategy of approaching worldwide markets with standardized products' (Pearce and Robinson, 2011:56). Globalisation consists of forces which facilitate interaction of social, economic and political systems across cultures, countries and geographical regions (Michie, 2011; Lechner, 2012; Jones and George, 2013). It facilitates flow of four major forms of capital between countries: human capital, financial capital, resources capital and political capital (Ritzer, 2011; Lechner, 2012; Jones and George, 2013).

4.2 Barriers to International Business

Global organisations can use their worldwide experience to compete in global markets. Similarly, national, regional and international policies impact international trade. This is because a component of a nation's trade and investment policy impact on nations, firms, and individuals in the global business market. It is necessary to describe some terms commonly used in international trade: domestic trade/transaction; international transaction, import, export, trade surplus and trade deficit. Domestic trade is the selling of goods produced in the same country; and international trade involves production, transportation, and selling of goods and services across national borders. Imports are goods or services brought in a country from another country (e.g. made in Nigeria); while, exports are products or services produced in a country (e.g. China) and sold in another country (e.g. Nigeria). Trade surplus occurs when a country exports more goods than it imports; while, trade deficit occurs when a country imports more goods than it exports. International trade is regulated and promoted by a number of trade bodies, for example, World Trade Organisation (WTO). WTO is the main international organisation that deals with the rules of trade between nations. WTO provides a forum for negotiating agreements (legal and institutional frameworks) to minimise obstacles to international trade and ensure a level playing field for participants to contribute to global economic growth and development. There are two major benefits of reducing international trade barriers: enable businesses to sell their products and services in international markets at lower prices, as additional tariffs on exported products are reduced or eliminated; and increase competition thereby motivating firms to improve quality or reduce their prices in order to effectively compete with imported goods. However, a country can adopt barriers to international trade to protect its domestic businesses and consumers. Hence, barriers to international trade may be used to: encourage starting new domestic businesses; protect an existing industry that is struggling in a competitive global environment; protect consumers from importing products with problems; and ensure that imported products and services conform to the nation's safety standards (Wen-Cheng *et al*., 2011; Rath, 2012). Trade barriers a country can impose include: tariffs or custom duties - are form of tax on certain types of imports; non-tariff barriers - setting standard or quality of imported goods so high that foreign competitors cannot enter the market; increased costs of importing and exporting; excise taxes - are taxes on manufacture, sale, or consumption of a particular product produced in the country; and currency fluctuations (Emerson, 2007; Gibson *et al*., 2012; Jones and George, 2013).

4.3 Cultural Awareness, a Form of Risk Management in International Business

The global market is dynamic; thus, risk is at the centre of international business activity. Although the degree of risk in international business varies among firms; awareness of culture of the host country is critical. Hubbard (2009:10) defines risk management process as 'the identification, assessment, and prioritisation of risks followed by coordinated and economical application of resources to minimise, monitor, and control the probability and/or impact of unfortunate events'. The study views cultural awareness in international business in the context of risk management. It perceives 'cultural awareness' as a form of risk management in international business which may impact, positive or negative, international organisations' operations (Damodaran, 2008; Hillson and Murray-Webster, 2011). Risk management does not eliminate risks, but it facilitates effective management of global organisations operations, thereby maximises opportunities and minimises threats. Basically, main stages of risk management, as shown in Figure 1, are: context analysis; risk identification; risk analysis; risk evaluation; risk treatment; monitoring and review; and communication and consulting. Furthermore, suitable risk management framework and adequate *modus operandi* are necessary to facilitate effective and efficient risk management in business enterprises (Fadun, 2013). Consequently, international businesses may undertake risk management in various ways; particularly, through mutual awareness and integration of cultural references into their strategic planning.

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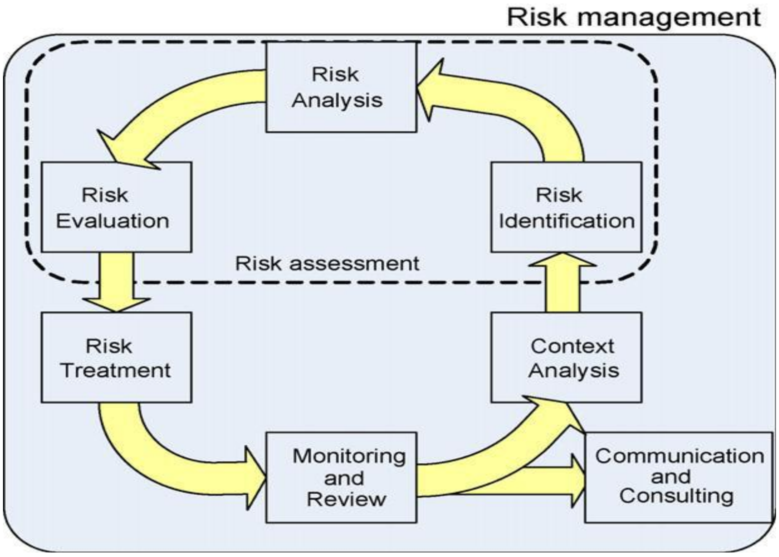

Figure 1: Stages of Risk Management

4.4 Chinese Business Culture and its Impact in the Chinese Market

The section considers some Chinese businessman customs, beliefs, culture and laws as well as their impacts on international business in Chinese market place. Knowledge and awareness of these customs, beliefs, culture and laws are critical in international trade because international organisations are undertaken across national borders. International organisations need to be awareness of host country culture to enable them use their worldwide market strategy approach and experience to compete effectively in global markets (Pearce and Robinson, 2011). Moreover, cultural outlook can be deciphered in terms of the changing global socio-economic context (Tibbs, 2011). Consequently, the culture of the host country significantly impacts international business firms' performance.

4.4.1 Chinese Business Culture and its Impact on International Business in China

Awareness of Chinese culture and negotiating components are key elements of establishing a successful gateway into the Chinese market (Horwitz *et al*., 2008). Culture entails complex construct that embodies a people's knowledge, morals, art, beliefs, customs, laws and other capabilities gathered by a community over time (Clifton, 2004). Czinkota *et al*. (2011:141) define 'culture as an integrated system of learned behaviour patterns that are characteristic of the members of any given society'. Similarly, Hofstede (2011:3) defines culture as 'the collective programming of the mind that distinguishes the members of one group or category of people from others'. Also, Hummel (2012) describes culture as collective experience of a society and its impact on reaction and decision-making in relation to every-day facts and circumstances. Culture is dynamic, continuously developing and evolving. Hence, culture entails much more than cultural dimensions, as culture manifests itself in several levels and domains (Leung *et al*., 2005). This implies that some cultural elements are stable, while others are dynamic and changing (Leung *et al*., 2005; Tibbs, 2011). According to Morden (2007) local cultures may be categorised into three: traditional, achieving and affluent. Traditional cultures are long-established cultures rooted in the past; achieving cultures are cultures that are gradually deviating from the traditions of the past to facilitate growth and development; and affluent cultures consist of industrial societies of North America, Europe, and South East Asia which place varied emphasis on various concepts and issues to protect those who are disadvantaged by the competitive nature of such cultures (Morden, 2007).

Culture induces countries societal prevailing life-styles because lifestyle influences cultural, behavioural, and social pattern of the society. This suggests that culture and life-style influence patterns of consumption, manufacturing, agriculture, service, distribution and investment (Morden, 2007; Czinkota *et al*., 2011; Tibbs, 2011). In essence, national culture shapes personal consumption thereby influences investment (political and economic) priority in manufacturing and distribution of consumer goods; as well as provision of auxiliary services. For XYZ International to succeed in China, the Chinese cultural difference must be considered and integrated in its operations so as enhance customers' trustworthiness in the firm. Geert Hofstede (1980), a Dutch social psychologist and management scholar, develops the most widely used framework for categorising national cultures. Similarly, Hofstede (2011) highlights six model dimensions of national cultures: power distance, uncertainty avoidance, individualism/collectivism, masculinity/femininity, long/short term orientation, and indulgence/restraint. Power distance relates to different solutions to the basic problem of human inequality; uncertainty avoidance relates to the level of stress in a society in the face of an unknown future; individualism versus collectivism focus on the integration of individuals into primary groups; masculinity versus Femininity deal with the division of emotional roles between women and men; long term versus short term orientation relate to the choice of focus for people's efforts, the future or the present and past; and indulgence versus restraint relate to the gratification versus control of basic human desires related to enjoying life (Hofstede, 2011:8). Considering difference in values, attitudes, and behaviour which characterises human interaction; managers must be aware of dynamic and complex environment of operating international business (Morden, 2007). The business environment in China is unique; hence, the knowledge of China business environment is necessary to ensure effectively operation and expansion of business in the country. To be locally responsive, international business managers' must adapt to local culture and legally mandated expectations (Palk and Sohn, 2004; Wu, 2008). Lack of local responsiveness and strategic planning are some of the major challenges of international businesses in China (Fan *et al*, 2009; Rath, 2012). Consequently, XYZ International managers' in China need to be aware and understand issues such as national geography and history; local political and economic management; international trade and competition policy; knowledge and technological development; socio-cultural features; and the international context within which the country may be placed.

4.5 Chinese Business Culture

There are three major intertwined determinants of Chinese business culture and negotiating style. They are: (1) Confucianism, Taoism, and War Stratagems - the backbone of Chinese business culture; (2) Guoqing - the milieu in which Chinese business culture evolved; and (3) adoption of International Best Practices - reform of Chinese business culture (Fang, 2006; Sebenius and Qian, 2008; Wu, 2008).

4.5.1 Confucianism, Taoism, and War Stratagems: Cores of Chinese Business Culture

4.5.1.1 Confucianism

Confucianism is an ethical belief system, rather than a religion, which deals with human relationships based on the teachings and writing of the philosopher Confucious. From Chinese business culture and negotiating style perspective, confucianism entails six core values: moral cultivation; importance of interpersonal relationships; family orientation; respect for seniority and hierarchy; pursuit of harmony and avoidance of conflict; and the concept of face (Fang, 1999; Fang, 2006; Sebenius and Qian, 2008). In essence, Confucianism emphasises the need for people to trust each other, to avoid conflict and to promote harmonious co-existence (Ghauri and Fang, 2001). Confucianism places great value on interpersonal relationships (Fang, 1999); and encourages respect for hierarchy and status (Miles, 2003). Operations in China where Confucianism advocates for individual connections rather than the rule of law have been problematic. Business ethics have not been adhered to, making the firm lose out on opportunities for lack of connections, referred to as Guanxi (Goodrich, 2005). In individualistic societies, competition for resources is the norm where each person tends to focus on his or her own self-interest; hence, such societies preferred individualism over group conformity (Emerson, 2007). Due to the influence of Confusion, Chinese would rather trust people more than any other contracts during the business transactions (Dunfee and Warrant, 2001). Hence, to successfully expand in the Chinese market, XYZ International must adopt people oriented approach and maintain high level of trust relationship with Chinese partners and customers (Ghauri and Fang 2001; Graham and Lam, 2003: Wu, 2008).

4.5.1.2 Taoism

Taoism deals with creativity of life and harmony with nature (Fang, 2001). Tao (pronounced ‘Dow’) simply implies the path or the way; meaning the general law of nature between two changing forces, the negative and the positive, of the same phenomenon (Fang, 1999). Hence, Chinese believe that Tao regulates natural occurrences and nourishes balance in the Universe. It embodies the harmony of opposites; and encompasses the power which envelops, surrounds and flows through all things, living and non-living (Tian, 2007). It indicates that people’s fortune and business performance are impacted by their environment; and more importantly, the position of building relative to its physical environment, interior layout and arrangement of furniture can influence events occur to the occupants of the building (Tsang 2004). Consequently, Taoism philosophy traditions would influence business behaviour and decision-making of XYZ International in the Chinese market (Wu, 2008).

4.5.1.3 Stratagems

The third backbone of Chinese business culture is Chinese Stratagems, or *Ji* (Fang, 1999; Von Senger, 2006). The Chinese stratagems is a strategic component of Chinese culture and thinking which characterised the strategic patterns of Chinese negotiating style and Chinese negotiating tactics (Mun, 1990; Chu, 1991; Tung, 1994; Chen, 1995; Faure, 1998; Fang, 1999: Von Senger, 2006). The Chinese belief that business is a marketplace and the marketplace is a battlefield (Chu, 1991). Sun Tzu, a Chinese military strategist in the period of warring state (c.

300 BC), in his book *The Art of War* critically examines Chinese thinking about stratagems (Sun, 1982). Furthermore, Von Senger explores the Thirty-Six Stratagems principles which underlined the Chinese wisdom in dealing with enemies, and overcoming difficult and dangerous situations (Von Senger, 1991). Moreover, Guari and Fang (2001) emphasise that Chinese stratagems (*ji*) is more than a list of strategies, tricks and ploys; rather is a collection of Chinese wisdom and a framework through which challenging situations can be assessed and addressed. In other words, Chinese stratagems advocate the application of human wisdom to handle situations and to gain advantage over the opponent rather engaging in physical battle. For example, the Chinese businessmen will typically not force international business partners to accept their terms, instead persuade partners by signal that competitors are ready to offer better terms. Consequently, XYZ International managers should be aware that Chinese businessmen are more likely to apply stratagems when dealing with people they do not trust.

4.6 Guoqing-The Milieu in Which Chinese Business Culture Evolved

Guoqing refers to distinctive and dynamic elements of contemporary socio political system and conditions of the People's Republic of China (PRC) after opening up its economy to the rest of the world in 1978 (Ghuari and Fang, 2001; Fang, 2006; Sebenius and Qian, 2008). China is a socialist state and Chinese politics influence every aspects of Chinese life, including business. Guoqing comprises eight variables: (1) Chinese politics; (2) China's socialist planned (centralised) economic system; (3) legal framework - China's legal system is influenced greatly by human factors and ideology; (4) technology advancement; (5) great size - world largest population; (6) China backwardness and uneven development; (7) rapid change; and (8) Chinese bureaucracy (Ghuari and Fang, 2001: Fang, 2006). These guoqing variables immensely influenced Chinese business culture; hence, XYZ International managers' must be aware of these variables and how they impact on business activities in the Chinese market place.

4.7 Adoption of International Best Practices - Reform of Chinese Business Culture

Following Deng Xiaoping's open door policy, China has increasingly integrated into the world economy and international politics. From December 1978 China gradually abandon planning system and adopted a more market oriented economy; thus, gradually relaxed its social and ideological controls. The major reasons for China market oriented reform include: unpopularity of the cultural Revolution of 1966-1976; challenges and economically inefficient of planning system; and rapid economic growth and development in more market-oriented neighbouring economies, including Hong Kong, Taiwan, South Korea and Singapore (Chow, 2004). Moreover, China's economic reform success can be measured partly by its rapid economic growth in real GDP (about 9.6 percent) in three decades after 1978 (World Bank, 2013). Furthermore, three basic factors accounted for the success: first, Chinese citizens' freedom and opportunity to make money by hard working and ingenuity in a healthy competitive environment; second, large amount of human capital imbedded in the Chinese culture; and third, political will and competence of Chinese leaders in carrying out economic reform (Chow, 2004). The western exposures have impacted Chinese business culture in that western technology, lifestyle, value and business rules are gradually influencing the mentality and behaviour of the Chinese (Sebenius and Qian, 2008; Tisdell, 2009).

4.8 The impact of Culture on Negotiation

Western and Chinese negotiation approaches often appear incompatible and these differences stem from their cultural backgrounds. The westerners (e.g. American) perceive Chinese negotiators as inefficient, indirect, and dishonest; while the Chinese perceive American negotiators as aggressive, impersonal, and excitable (Graham and Lam, 2003). Meanwhile, Salacuse (2004) identifies ten most important cultural factors which influence business negotiations, as indicated below.

The Impact of Culture on Negotiation

Negotiation Factors		
Goal	Contract	Relationship
Attitudes	Win/Lose	Win/Win
Personal Styles	Informal	Formal
Communications	Direct	Indirect
Time Sensitivity	High	Low
Emotionalism	High	Low
Agreement Form	Specific	General
Agreement Building	Bottom Up	Top Down
Team Organization	One Leader	Consensus
Risk Taking	High	Low

Source: Salacuse (2004)

Similarly, Graham and Lam (2003) present negotiating view from both sides (American and Chinese), as summarised below.

AMERICAN	CHINESE
THEIR BASIC CULTURAL VALUE AND WAYS OF THINKING	
Individualist	Collectivist
Egalitarian	Hierarchical
Information oriented	Relationship oriented
Reductionist	Holistic
Sequential	Circular
Seeks the truth	Seeks the way
The argument culture	The haggling culture
HOW THEY APPROACH THE NEGOTIATION PROCESS	
Non-task Sounding	
Quick meetings	Long courting process

Informal	Formal
Make cold calls	Draw on intermediaries
Information Exchange	
Full authority	Limited authority
Direct	Indirect
Proposals first	Explanations first
Means of Persuasion	
Aggressive	Questioning
Impatient	Enduring
Terms of Agreement	
Forging a 'good deal'	Forging a long-term relationship

Adapted from: Graham and Lam (2003)

4.9 Arguments to Support Conducting Trade with China

China's deepening reform and opening up are induced by the country's growing wealth, ageing population, rising environmental awareness, changing consumer attitudes, greater mobility, urbanisation, and decreasing household sizes (PricewaterhouseCoopers, 2013). We now proceed to identify and discuss reasons or arguments for conducting trade with China.

4.9.1 China Modernisation and Technology Advancement

China modernisation and technology advancement are good reasons for conducting trade with China. Innovative technological development has gradually become essential part of modernisation (Irrgang, 2007); and China scientists pay great attention to development trends of science and technology in the world (Jin, 2012). Advanced technology induces highest degree of automation and rationalisation. Technological advancement has transformed China into one of the largest high-tech exporting country in the world (UNDP, 2001). Similarly, technology advancement contributed greatly to China business advancement and modernisation (CASSTC, 2009). China is the leader in the world in both importing and exporting of information and communication technology (ICT) products, including: computers, smart phones and tablets (UNCTAD, 2012). *China imported more than $280 billion and exported more than $459 billion of ICT goods in 2010 (Tables 1 and 2), ahead of the United States* (UNCTAD, 2012).

Table 1. Top 20 exporters and importers of ICT goods, 2009 and 2010
(Millions of dollars and percentage)

Exporter	ICT goods exports in 2009	ICT goods exports in 2010	Share of world ICT goods exports 2010	Importer	ICT goods imports 2009	ICT goods imports 2010	Share of world ICT goods imports 2010
China	356'301	459'522	26.70%	China	220'214	284'783	15.30%
Hong Kong, China	141'881	176'964	10.30%	United States	230'627	280'074	15.00%
United States	113'157	134'549	7.80%	Hong Kong, China	149'537	188'736	10.10%
Singapore	91'442	120'806	7.00%	Germany	78'522	97'728	5.30%
Republic of Korea	79'508	99'884	5.80%	Singapore	66'033	86'561	4.70%
Taiwan, Province of China	67'054	94'702	5.50%	Japan	62'726	83'132	4.50%
Japan	70'164	82'141	4.80%	Netherlands	52'201	63'968	3.40%
Malaysia	57'318	67'600	3.90%	Mexico	45'938	57'961	3.10%
Germany	54'743	64'652	3.80%	United Kingdom	47'902	51'766	2.80%
Netherlands	53'342	61'367	3.60%	Republic of Korea	41'855	50'462	2.70%
Mexico	49'764	60'159	3.50%	Taiwan, Province of China	36'339	49'164	2.60%
Thailand	30'164	36'974	2.10%	Malaysia	37'212	49'052	2.60%
Hungary	21'465	24'218	1.40%	France	38'233	43'940	2.40%
United Kingdom	23'400	23'987	1.40%	Italy	25'131	35'979	1.90%
France	19'762	22'584	1.30%	Canada	27'018	32'968	1.80%
Czech Republic	16'305	19'835	1.20%	Thailand	21'008	25'867	1.40%
Philippines	13'997	18'334	1.10%	Czech Republic	16'458	22'357	1.20%
Sweden	11'788	15'477	0.90%	Spain	18'567	21'085	1.10%
Poland	12'808	15'172	0.90%	Australia	16'699	20'087	1.10%
World ICT exports	**1'409'523**	**1'721'606**	**100.00%**	**World ICT imports**	**1'505'442**	**1'861'229**	**100.00%**

Source: UNCTADSTAT, http://unctadstat.unctad.org/ReportFolders/reportFolders.aspx .

Table 2. Top destination of the world's 10 largest ICT goods exporters, 2010
(Millions of dollars and percentage)

Exporter	Top destination	Exports to top destination ($ million)	Total exports ($ million)	Exports to top destination as a share of total exports (%)
China	Hong Kong, China	110'772	459'522	24%
Hong Kong, China	China	111'861	176'964	63%
United States	Mexico	26'405	134'549	20%
Singapore	Hong Kong, China	23'757	120'806	20%
Republic of Korea	China	26'937	99'884	27%
Taiwan, Province of China	Hong Kong, China	21'120	94'702	22%
Japan	China	18'930	82'141	23%
Malaysia	China	12'036	67'600	18%
Germany	Italy	6'045	64'652	9%
Netherlands	Germany	13'318	61'367	22%

Source: UNCTADSTAT, http://unctadstat.unctad.org/ReportFolders/reportFolders.aspx .

4.9.2 China is the Most Dynamic Trading Economy in the World

China is the most dynamic trading economy in the world (PWC, 2008). Jacques (2009) describes China as a growing economic power and central player in the twenty-first century. Although, China operates a centralised economic system, its international trade openness has increased considerably and the importance of state-owned enterprises has also reduced remarkably (Yang and Zheng 2005; Wen 2005; Tinsdale, 2009). From 1978 when China economic reforms began, the nation has witnessed substantial and steady growth (Table 3). The nation's international trade openness also grown remarkably (Tables 4 and 5), and over 40% of China's GDP is contributed by privately owned enterprises (Tisdell 2007; Qian and Wu, 2008; World Bank, 2013). China rapid economic development and dynamic trading economy are tenable reasons for conducting trade with China.

Table 3: China's Average Annual Real GDP Growth: 1979-2012

Year	Real Growth Rate (%)	Year	Real Growth Rate (%)
1979	7.6	1996	10
1980	7.9	1997	9.3
1981	5.3	1998	7.8
1982	9.0	1999	7.6
1983	10.9	2000	8.4
1984	15.2	2001	8.3
1985	13.5	2002	9.1
1986	8.9	2003	10.0
1987	11.6	2004	10.1
1988	11.3	2005	11.3
1989	4.1	2006	12.7
1990	3.8	2007	14.2
1991	9.2	2008	9.6
1992	14.2	2009	9.2
1993	13.9	2010	10.4
1994	13.1	2011	8.1
1995	10.9	2012 - First Quarter	9.2

Source: Economist Intelligence Unit, based on official Chinese government data. *2012 data are year-on-year

Table 4: China's Trade with the World, 2001-2010 ($ billion)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Exports	266.1	325.6	438.2	593.3	762.0	968.9	1,217.8	1,430.7	1,201.6	1,577.9
% change*	6.8	22.4	34.6	35.4	28.4	27.2	25.7	17.5	-16.0	31.3
Imports	243.6	295.2	412.8	561.2	660.0	791.5	956.0	1,132.6	1,005.9	1,394.8
% change*	8.2	21.2	39.8	35.9	17.6	19.9	20.8	18.5	-11.2	38.7

Total	509.7	620.8	851.0	1,154.6	1,421.9	1,760.4	2,173.7	2,563.3	2,207.5	2,972.8
% change*	7.5	21.8	37.1	35.7	23.2	23.8	23.5	17.9	-13.9	34.7
Balance	22.6	30.4	25.5	32.1	102.0	177.5	261.8	298.1	195.7	183.1

Source: National Bureau of Statistics of China, 2012

NOTES: *Calculated by US-China Business Council (USCBC).

Table 5: China's Top Trade Partners, 2010 ($ billion)

Rank	Country/Region	Volume	% change over 2009
1	United States	385.3	29.2
2	Japan	297.8	30.2
3	Hong Kong	230.6	31.8
4	South Korea	207.2	32.6
5	Taiwan	145.4	36.9
6	Germany	142.4	34.8
7	Australia	88.1	46.5
8	Malaysia	74.2	42.8
9	Brazil	62.5	47.5
10	India	61.8	42.4

Source: PRC General Administration of Customs, China's Customs Statistics

4.9.3 China Business and Economic Growth

China business and economic growth have improved considerably; hence it offers immersed opportunities for foreign investors, including XYZ International. China is one of the world's largest and fastest growing marketplaces. It is a home for the world's emerging global companies (PWC, 2008). Whilst the global foreign direct investment (FDI) flows continued declining in the third quarter of 2012; China remained the first FDI destination for third consecutive quarter in 2012 (OECD, 2013). China attracted the largest share of global FDI flows with USD 170 billion (Table 6) during the period January – September 2012 (OECD, 2013).

Table 6: China's Foreign Direct Investment Inflows (Units: USD Billion)

Annual					Quarterly		
2007	2008	2009	2010	2011	Q1 2012	Q2 2012	Q3 2012
160.1	175.1	114.2	185	228.6	63.3	54.4	52.2

Source: OECD (2013)

4.9.4 China is the Second Largest Economy and Biggest Exporter in the World

China growth in 2011 was above 9.3% (World Bank, 2013) and is the biggest exporter in the world (CIA, 2012). China WTO membership in 2001 provided China a platform to entrenched itself as a world's biggest exporter (Tables 7, 8 and 9) and second largest economy in the world (EU, 2012). Table 4 shows the breakdown of items exported by China in 2010.

Table 7: Country comparison – Export ($) in Billion as at 2011

Rank	Country	Exports
1	China	2,050.00
2	United States	1,612.00
3	Germany	1,492.00
4	Japan	792.90
5	France	567.50
6	Netherland	556.50
7	South Korea	552.60
8	Russia	530.70
9	Italy	483.30
10	Canada	481.70

Source: CIA, 2012

Table 8: China's Top Exports, 2010 ($ billion)

HS	Commodity description	Volume	% change over 2009
85	Electrical machinery and equipment	388.8	29.1
84	Power generation equipment	309.8	31.4
61, 62	Apparel	121.1*	20.5*
72, 73	Iron and steel	68.1*	44.1*
90	Optics and medical equipment	52.1	34.0
94	Furniture	50.6	30.0
28, 29	Inorganic and organic chemicals	43.2*	34.9*
89	Ships and boats	40.3	42.1
87	Vehicles, excluding rail	38.4	37.5
64	Footwear	35.6	27.1

Source: PRC General Administration of Customs, China's Customs Statistics

Calculated by USCBC

Table 9: China's Top Export Destinations, 2010 ($ billion)

Rank	Country/region	Volume	% change over 2009
1	United States	283.3	28.3
2	Hong Kong	218.3	31.3

3	Japan	121.1	23.7
4	South Korea	68.8	28.1
5	Germany	68.0	36.3
6	The Netherlands	49.7	35.5
7	India	40.9	38.0
8	United Kingdom	38.8	24.0
9	Singapore	32.3	7.6
10	Italy	31.1	53.8

Source: PRC General Administration of Customs, *China's Customs Statistics*

4.9.5 Importance of Foreign Owned and Private Firms in China

Although several industries are largely state-owned, foreign owned and private companies are rapidly gaining importance in the Chinese economy. Chinese transnational corporations (TNCs) play active role in a number of industries and the wide spread of their FDI projects over a large number of host economies have raised awareness of their home country as a source of investment. The United Nations Conference on Trade and Development (UNCTAD) World Investment Prospects Survey 2012-2014 provides an outlook on future trends in foreign direct investment (FDI) by the largest TNCs. China led the list with 62 per cent of respondents selecting it (Table 10). Essentially, this is largely due to the rapid increase of its outward FDI in recent years - 41 and 57 per cent in 2009 and 2010 respectively (UNCTAD, 2009; 2010).

Table 10: TNCs' top prospective host economies, 2012-2014

(Percentage of respondents selecting economy as a top destination)

Country	% of Responses	Ranking
China	62	1
United States	61	2
Germany	41	3
United Kingdom	40	4
France	27	5
Japan	22	6
India	21	7
Spain	17	8
Canada	17	9
United Arab Emirates	11	10
Brazil	11	11

Source: UNCTAD Survey World Investment Prospects 2012-2014

4.9.6. Chinese Government Incentives to Attract International Investors

The Chinese government encourages and attracts international investors to invest in China. Notwithstanding considerable bureaucracy, the Chinese government is making efforts to promote foreign investment. The Chinese government has been proactive in removing tariff and non-tariff barriers for trade in goods through the negotiation and implementation of regional free trade agreements (PWC, 2008). Furthermore, China has passed an Anti-Monopoly Law (AML) which regulate competition effective August 2008 (Tian, 2010; Chin, 2012). China's Anti-Monopoly Law (AML) is the first anti-monopoly law in China. The AML has been described as an economic constitution and milestone of China's efforts in promoting a fair competition market and cracking down on monopoly activities (Tian, 2010). However, foreign businesses in China, including XYZ International, need to consider the immediate impact of the new law on their businesses.

4.9.7 China Huge Population

China's huge population provides international firms with a great pool of low-wage workers, enabling mass-market factories and lower-cost production platforms to produce for both the export market and the growing Chinese market (Meredith, 2007, Wu, 2008; Czinkota *et al*., 2011). With its population of 1.3 billion, China has low production costs and a higher supply of cheap labour. China has the highest labour force of about 795.4 million by the end of 2012 (CIA, 2012). Its labour force by occupation in 2012 was: agriculture – 34.8%; industry – 29.5%; and services – 35.7% (CIA, 2012). This is one of the major reasons for supporting trade with China, as reduced cost of production (particularly low-cost labour) enhances profitability. This is beneficial to international investors as China's huge population, together with the nation's export-friendly infrastructures, facilitates lower-cost production platforms. However, it has been observed that China's labour force may have already reached its peak in 2011 (Rozelle *et al*., 2008). Furthermore, most rural youth in the 16–20 age brackets are already working off the farm; hence, China's rural-to-urban migration may reduce because the rural young people are highly Mobile (Hongbin *et al*., 2012).

4.9.8 China Political Stability and Rapid Economic Growth

Political stability and rapid economic growth are other considerations for conducting trade with China. China's political and social landscape is stable after the nation's three decades of reform and opening-up. China's economy, largely closed to international trade before December 1978, has changed from a centrally planned system to a more market-oriented that has a rapidly growing private sector (Tisdell, 2009). This is obvious form the chronology of events and the implication of the events associated with the formulation of China's development policies in the last three decades (Table 11).

Table 11: **C**hronological events of China's development policies in the last three decades

Time	**Event**
Jan 1976	Premier Zhou Enlai dies.
Sept 1977	Chairman Mao Zedong dies. Hua Guafeng becomes Chairman of the CCP and subsequently Deng

	Xiaoping returns from political exile.
Dec. 1978	Increasing CCP support for Deng Xiaoping's reformist agenda culminates in its basic acceptance by the 11th Central Committee of the CCP. It was argued that the reforms should begin with agriculture.
1979	Deng Xiaoping becomes Chairman of the Military Commission. He criticises dogmatic approaches to policy and favours a pragmatic approach.
1980	Hua Guofeng steps down as Chairman of CCP.
Mid-1981	Under the influence of Deng Xiaoping, the CPC stresses that China's policies for modernisation must be realistically based, systematic and staged, and take account of Chinese conditions.
1984	The CCP decides that the economic reforms commenced in agriculture should be extended to the whole economy. An end to the privileged position of state enterprises is signalled. Increasing emphasis occurs on greater economic openness as an instrument of development policy.
1989	Chairman Jiang Zemin confirms the direction of China's development policies, such as extension of the market system and greater economic openness as well as measures to limit population growth. He saw the need for China to improve its science and technology policy because as China catches up with the rest of the world's technology; it will need to do more to advance its own scientific and technological improvements.
2002	Jiang Zemin in his report to the 16th Congress of the CCP re-affirms China's policies for economic development but expressed concern about growing economic inequality in China. Given changed economic conditions in China, it seemed that Deng Xiaoping's principle of payment according to work (expounded in 1978) was going to be modified. China's rise as a major global economy was boosted by its WTO membership in 2001, which made it reform and open up its economy. This provided a platform for the nation to establish itself as a major global trader and exporter.
2007	Chairman Hu Jintao in his report to the 17th Congress of the CCP then confirmed support for continuing earlier economic reforms but also indicated that policy must pay more attention to income inequality, approaching technological (and similar) barriers to China's continuing development, and environmental and energy issues.
2008	China faced the challenge of the global economic crises and formulated policies to weather the economic storm. This has been described as 'China's greatest [economic] crisis since its reforms 30 years ago'.
2009 To 2011	Signs of recovery of economic activity in China as a result of Government intervention. China is the second largest economy and biggest exporter in the world. it growth in 2011 was above 9%, and international estimates predict China may be on track to become the world's biggest economy within the next 5-10 years, with an internal market of 1.39 billion potential consumers by the end of 2015 (EU, 2012). This provided a platform for China to establish itself as a major global trader and the world's biggest exporter. About half of China's exports are produced by foreign invested companies. China attracted the largest share of global FDI flows with USD 170 billion between January and September 2012 (OECD, 2013). Similarly, the UNCTAD Survey World Investment Prospects 2012-2014 provides an outlook on future trends in foreign direct investment (FDI) by the largest TNCs; China led the list with 62 per cent of respondents selecting it.

China's Development Policies in the Last 30 Years - Adapted from: Tisdell 2009

5. Conclusion

The emergence of capitalism into China enhanced international firms' investment in the country. This resulted to creation of a production base to explore the inexpensive factors of production, particularly low-cost labour. Hence, the Chinese production flourished through improvements in production facilities, access to ports, skilled labour, and export friendly infrastructure (Czinkota *et al*., 2011). Mutual awareness of cultural references is essential in international business as levels of formality vary greatly among cultures. The study has examined cultural awareness as a form of risk management in international business, using China as a case study. The study used 'XYZ International' as a hypothetical international business, with western cultural background, which operates in China market. The study explored international trade and global organisations; considered barriers to international business; justified cultural awareness as a form of risk management in international business; highlighted Chinese business culture; outlined the impact of culture on negotiation; appraised Chinese business culture and its impact in the Chinese market; and presented arguments to support conducting trade with China. The study has shown that mutual awareness of cultural references is essential in international business, and levels of formality vary greatly among cultures. The implication for practice is that culture induces each country societal prevailing life-styles because culture and life-style influence patterns of consumption, manufacturing, agriculture, service, distribution and investment.

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