An Overview of Emerging Global Market Challenges in Case of China

Saeid Angouti, Prof. Hongbing You

Abstract—Nowadays, the emerging global market challenges have exposed the international relations such as political, financial, environmental factors, etc. It is one of the most effective points in the global market that can be improved by focusing on simplifying the government regulations for the importing and exporting rules. This makes it easier for Chinese companies operating in foreign countries in order to deal with the international cooperation. Therefore, these improvements cause saving the company time and money. In this study, we aim to overview the global market challenges by concentrating on the internal and external relations.

Index Terms— International Cooperation, Chinese Global Market, External and Internal relations. Global Market Challenges.

1 Introduction

'Emerging Markets' is a business term now but for the first time it was presented in 1981, by Antoine van Agtmael, an economist at International Finance Corporation (IFC), to represent a set of countries with promising stock-markets that can progress rapidly with investments [1]. Over last recent years, multinational companies (MNCs) have done significant efforts to achieve market share in the rapidly progressing emerging economies around the world. Using various tactics and strategies, the MNCs are customarily investing time, financial and human resources in order to obtain a stronghold in these economics [2].

As part of their expansion strategies, most companies often expand into foreign markets to exploit the various emerging global markets such as India and China. Global market penetration strategies include creation of subsidiaries in the target markets, or the simple distribution of goods and services into the target markets without establishing a physical presence. Multinational corporations often adopt the former entry model in which they develop, own, and operate subsidiaries in the target markets [2]. However, owning and operating subsidiaries in the target markets has quite a number of challenges such as cultural differences between the business' host country and foreign countries, and strict government regulations that tend to hinder multinational business operations in the foreign countries [3]. This article argues that cultural differences and strict government regulations are the two principle factors hindering the entry and survival of multinational corporations in China as an emerging global market. The paper is divided into three sections. The first section addresses China as an emerging global market and the reasons why multinational corporations look at China as an important global market for exploitation; the second section exclusively focuses on the factors that hinder these multinational corporations from either successfully making their first entry into China, or continuing their business operations in the country after a successful entry; the last section provides recommendations for recommendations for multinational corporations wishing to successfully establish and run their corporations in China.

- *Saeid Angouti is currently pursuing master's degree program in International Trade with the school of economics and management at Nanjing University of Science and Technology, Nanjing P.O. Box. 210094, China. E-mail: saeid279@outlook.com*
- *Hongbing You is a full professor with the school of economics and management at Nanjing University of Science and Technology, Nanjing P.O. Box. 210094, China. E-mail: nustyou@njust.edu*

2 China as an Emerging Global Market

Most notable factors that make China an attractive emerging market that multinational corporations should eye include the country's large population, high level of competitiveness in terms of technology and infrastructure, and political and economic stability. China's high population – representing approximately 20% of the global population provides a ready market for goods and services, as well as cheap skilled and unskilled labor, hence making multinational corporations to run to the country for investment opportunities [2]. Of the 1.3 million people in China, approximately 54% reside in urban areas. Of the 1.3 million people in China approximately 72% represents people who can actively enter the labor force (individuals aged between 15 and 60 years) [4].

However, the World Factbook provides that only 985 million people are currently actively engaged in income generating activities. Therefore, multinational corporations wishing to establish their presence in China can take advantage of the large working population which provides cheap labor. A growing economy requires a high level of infrastructure and resources so as to facilitate various business operations. China has a well-established infrastructure such as roads and railway systems that facilitate logistical operations, hence favoring business that establish their subsidiaries in the country [1-3].

Although, the country's major setback lies in the unending traffic in major cities of Beijing and Hong Kong. As of the year 2017, China has an overall infrastructural rating of 4.5 out of 7. This figure generally represents a good level of infrastructure that can aid efficient business operations. Lastly, China has experienced a high level of political and economic stability for quite long. Political stability guarantees business' physical security while economic stability guarantees businesses' financial security. Hong Kong currently ranks 29 out of 189 in terms of political stability. In terms of absolute GDP, China is the second-largest economy in the world after the United States. The country's economy, for the past few years, has undergone rapid growth. As of the year 2017, China's absolute GDP stood at $ 11199 billion, GDP per capita stood at $8123, and GDP per capita (PPP) stood at $15535. These three factors make China a very attractive market into which multinational corporations can expand their operations [5, 6].

3 Challenges to Global Expansion: A Focus on China

While most businesses consider expanding the scope of their operations beyond the confines of their host country borders, there are underlying challenges concerning expansion into the global market. The main challenges experienced by businesses include differences in culture and government regulation between home country and foreign country. This leads to many corporations either adopting local adaptation startegies or global integration. Local adaptation refers to the abandonment of the business approaches used in the host country and adoption of business approaches that seem to blend well with the local environment into which an expansion has been made [3]. On the other hand, global integration refers to the standardization of business approaches across all subsidiaries regardless of the existing differences between local cultures and government regulations. In what follows, we describe these factores.

3.1 Cultural Differences

Culture is simply a pattern of various assumptions regarding how a group of people sharing similar interests should feel, think, and act in their private daily affairs, and in their relationships with each other. First, multinational corporations expanding into the booming Chinese market because they fail to conduct effective cross-cultural management of a power distance deficit that exists between their host country's culture and the local Chinese culture. Power distance is one of Hoftede's five dimensions of power [7], which refers to the extent to which people in the lower power ranking accept and expect that power is well distributed. In a high-power distance society, persons in the lower ranking of power are expected to be subordinate and submissive to the authorities above them. They are expected to follow orders given without questioning their credibility and essence. This leads to a decision-making system which is centralized at the top. In an organization which exhibits a high-power distance, there is a high degree of bureaucracy and formality in communication between the lower ranking and the top-ranking persons in terms of power. In short, high power distance societies are characterized by power concentration at the top. Low power distance, on the other hand, is characterized by a high degree of autonomy and inclusivity of the people in the lower rankings of power. These people have a very free association with the ones ranking higher on the power ladder. Consequently, decision-making in such societies is greatly decentralized. From a broader perspective, power distance presents the degree of power distribution on a continuum with a high-power distance representing zero distribution of power while a low power distribution representing maximum power distribution [7, 8].

Multinational corporations often fail to achieve the projected dreams in China due to a difference in power distribution. In the Western world, power distance is very low while in China, power distance is very high. When multinational corporations from the Western world enter the Chinese market, they tend to encounter a very high-power distance. This creates a power distance clash [7] which must be managed effectively through local adaptation strategies to curb business failure. The power distance issue becomes evident especially in employee sourcing and management for multinational corporations that source establishes their permanent subsidiaries in China. In an employee management perspective, for instance, Chinese employees are always subordinate [8]. Their society has taught them to always go by the decision of those in authority since questioning authority is treated as disrespect. This is the exact opposite of the Western society where the degree of formality between the senior-most executives and the subordinate staff is greatly diminished, particularly in this era where the millennial generation forms the largest percentage of the global labor force. Other than power distance, social cohesion also plays a critical role in the success of multinational corporations in China [9]. Essentially, multinational corporations fail to achieve their success in China due to a relatively higher level of social cohesion in the country, which mostly results into the Chinese society turning against them for slightest mistakes which the society deems portraying neg-

ISSN 2229-5518

ative attitudes towards it. According to [3], the Chinese population generally looks at the Western world as purely imperialistic hence any deed by MCNs – especially from the Western world – that unintentionally turns out to demean the Chinese society always translates into huge local market losses to the corporation.

Multinational corporations which have come from countries where social cohesion is relatively lower, or what Hofstede refers to as a high level of individualism, fail to take note of the smaller things that are likely to anger the entire Chinese society and make it turn against them. In the recent past, MCNs such as Toyota Motor Corporations (TMC) and Toshiba have faced negative reactions from the Chinese population just because of simple marketing advertisement misdeeds. In the past few years, for instance, McDonalds – the global fast foods giant – failed miserably in China due to a simple TV advisement which appeared to the local viewers as highly offensive to the local Chinese population. In the advertisement, a Chinese man was displayed kneeling and begging for a small discount from a McDonalds sales agent [3]. While the marketers' original intention was to portray a message about their new discount rates in a much humorous manner, approximately 80% of the local population considered the advertisement as highly offensive. In a survey conducted by [10], a majority of the viewers said that the advertisement portrayed the Chinese people as poor and always begging for assistance from the Westerners. A similar issue was encountered by TMC in its bid to advertise the newly made Prado GX and Land cruiser vehicle models. In their advertisements, TMC initially depicted a Chinese man saluting a Prado GX accompanied by the slogan "PAY RESPECT TO IT." In another advertisement, a Toyota Land cruiser was depicted trying to pull a Chinese truck stuck in mud. The two advertisements were viewed as indicative of the Chinese people as having very low dignity, and of the Chinese products as being of poor quality as compared to products from the West. The high social cohesion in the Chinese society made the people to rise up in defense of their own dignity as well as their own locally-made products. Consequently, boycotts against all TMC products followed, even after TMC made a public press release apologizing for the misdeed [3]. The two cases illustrate how the high level of social cohesion – and hence low level of individualism – in China contributes to failure of MCNs in the country. However, the mistake principally lies in the MCNs that failed on the grounds of such unintended provocations because they tend to transfer the values of individualism from the West into a socially-compacted China. Making an advertisement to spark humor might not be wrong, but the advertisers must consider the kind of emotional reactions that the advertisement might trigger in the recipients of the message. In the United States, for instance, individualism is high and people and less sensitive to issues of social cohesion.

3.2. Political Factors and Government Regulation

China has essentially been a communist country, though the communism idea is gradually fading away to give more room for international investment. The government, for instance, places more restrictions on foreign companies as compared to local corporations hence inducing stiff competition from the local investors. Since China is basically a communist country, placement of deeper restrictions on foreign corporations serves to protect local companies from foreign competition. For instance, the placement of heavy taxes on foreign corporations reduces their capability to compete favorably in the local market, hence giving local corporations an advantage over foreign corporations. For multinational corporations and foreign companies which introduce a completely new product in the hopes of tapping into the Chinese market, stiff competition is also induced by virtue of heavy taxation. In such a case, competition is induced when the members of the local Chinese population literally 'copy' the design and development of the newly-introduced product, and develops their own model, with exact qualities and features, but cheaper than the original model. Foreign corporations are unable to reduce prices to match the ones of local producers because, the Government levies relatively heavier taxes on them as compared to the local producers [11, 12].

A similar problem was experienced by IKEA in its expansion into the Chinese market. IKEA is a Spanish multinational corporation which specializes in the production and sale of furniture products. Its basic global market entry strategies include cost leadership and product differentiation [13]. IKEA's products are uniquely designed to meet various customer needs. However, in its bid to expand into the seemingly lucrative Chinese market, the company failed to gunner the number of sales it had projected in China. The main reason behind its failure was attributed to the local Chinese producers of furniture who copied IKEA's model and produced similar furniture products at relatively lower costs, hence killing IKEA's presence in the country [14]. However, Ivarsson & Alvstam (2010) argue that only products which are easy to design and whose necessary construction materials are readily available can easily be copied not only in the Chinese market but any other market in the world [15]. Arguably, IKEA's presence in other countries such as the United States was not welcomed in such a manner, hence portraying the Chinese market as highly risky due to intense competition from local investors [14].

Multinational corporations also fail in China because they

ISSN 2229-5518

fail to effectively interpret, understand, and follow the local regulations in China [13]. This leads to a majority of them settling huge fines that literally strip them of their profits. Other than settling huge fines, a majority of these multinational corporations also suffer loss of brand image due to disobedience to simple laws and regulations. Many MNCs undermine their local credibility with their ignorance of regulations. Some of these regulations are quite unique and without some background research, a multinational corporation is likely to face frequent cases of breaking the law [16]. For instance, the Chinese government law does not allow companies operating in China to exhibit monopolistic conduct. Under the Chinese monopolistic law, monopolistic behavior includes preparation and execution of mergers and acquisition agreements with the main aim of reducing/getting rid of competition [10]. In the Western world, however, companies are allowed to engage in mergers and acquisitions freely. When Western multinational corporations go to China, they often find themselves unable to bear with these kinds of regulations, hence fall prey to the regulatory environment or quit altogether [13]. The law of competition in China is so strict that it even goes to the extent of defining a set of regulations regarding anti-monopolistic marketing strategies. For instance, corporations are not expected to market themselves with slogans such as 'Number one best', 'biggest', 'leading' etc. Use of such terms is likely to attract huge penalties which can greatly affect the profitability of a multinational corporation operating in China [17]. Samsung corporations, for instance, fell prey to the strict Chinese anti-monopolistic regulations in the year 2004. The South Korea electronics company had been ranked as the best consumer brand in terms of brand equity. Samsung saw this as one of the best-selling points that it could use in its Chinese local marketing strategies. Local distributors of Samsung electronics products quickly included this information in their promotional marketing mix only to attract huge penalties from the Chinese government which looked at such marketing strategies as monopolistic [3]. While these are just some of the regulatory challenges that multinational corporations experience in China, succeeding in the country requires careful consideration of the law [10]. There are many more regulatory requirements which typically do not match with those from many other countries. Corporations wishing to expand into the lucrative Chinese market really need to take their time and study and understand the Chinese regulatory environment before making any investment moves into the country.

4 Recommendations for Multinational Corporations Eying the Chinese Lucrative Market

For Multinational Corporations wishing to make their initial investment moves into China, there are a set of recommendations that could be of utmost help. First, MCNs in China should institute people management strategies that take care of the power distance deficit that exists between China and many other countries. The power distance issue is particularly manifested in employee management. MCNs operating in China have two options regarding employee sourcing; either source employees from the local Chinese population or import expatriates into China. The former is advantageous due to cheap Chinese labor. Since there is a high likelihood of sourcing employees from the local Chinese population, consideration of the large power distance will help the MCNs develop appropriate employee motivation strategies e.g. recognition by the top management [18].

Second, MCNs should pay attention to social cohesion while operating in China. The Chinese society is founded on a strong social fabric which great cohesion. As Hofstede puts, there is a relatively higher degree of collectivism than individualism in China. Therefore, corporations, especially from the Western world, must shun away from mistakes that tend to demean the Chinese society. A mistake may be committed against a single Chinese person but it would have far-reaching consequences to the company with regards to employee productivity and brand image. For instance, instead of doing marketing strategies that portray the Chinese people as inferior to the Westerners the way McDonalds and Toyota did, advertisements that portray them as superior would be the most effective way of using the Chinese social cohesion to one's advantage [3]. Third, corporations wishing to conduct their business in China must conduct an initial research about the country and understand its legal environment before making any investment moves. This should assist these corporations to successfully navigate the challenging legal environment and shun away from frequent lawsuits and fines that not only negatively affect productivity but also tarnish the corporations' brand image [13].

References

[1] PiyushSharma, Sherriff T.K. Luk, SilvioCardinali, Mario Henrique, Ogasavara, "Challenges and opportunities for marketers in the emerging markets", Journal of Business Research, Vol. 86, pp. 210-216, May.2018.

[2] Kumar, V., Sharma, A., Shah, R., & Rajan, B., "Establishing profitable customer loyalty for multinational companies in the emerging economies: a conceptual framework," *Journal of International Marketing, 21(1), 57-80, 2013.*

[3] Seung, H.P., and Wilfried, R. V., The Challenge for Multinational Corporations in China: Think Local, Act Global, MIT Sloan Management Review, Vol.48. No.4. 2007.

[4] Cui, G., & Liu, Q. "Emerging market segments in a transitional economy: a study of urban consumers in China", Journal of International Marketing, 9(1), 84-106, 2001.

[5] China GDP , 1960-2018 , https://tradingeconomics.com/china/gdp

[6] National Economy Maintained the Momentum of Stable and Sound Development and Exceeded the Expectation, National Bureau of Statistics of China, 2018-01-18 , http://www.stats.gov.cn/english/pressrelease/201801/t20180118_1574943.html

[7] Hofstede. G, Cultural dimensions in management and planning. Asia Pacific journal of management, 1(2), 81-99. 1984.

[8] Spencer-Oatey, H. "Unequal relationships in high and low power distance societies: A comparative study of ibtor-student role relations in Britain and China", Journal of Cross-Cultural Psychology, 28(3), 284-302. 1997.

[9] Brewer, M. B., & Chen, Y. R., "Where (who) are collectives in collectivism? Toward conceptual clarification of individualism and collectivism", Psychological review, 114(1), 133, 2007.

[10] Wang, X. "Highlights of China's new anti-monopoly law", Antitrust Law Journal, 75(1), 133-150. 2008.

[11] Luo, Y. Shifts of Chinese government policies on inbound foreign direct investment. In International Business and Government Relations in the 21st Century. Cambridge University Press, 2005.

[12] Rui, H., & Yip, G. S. (2008), Foreign acquisitions by Chinese firms: A strategic intent perspective, Journal of World Business, 43(2), 213-226.

[13] Luo, Y. From foreign investors to strategic insiders: Shifting parameters, prescriptions and paradigms for MNCs in China. Journal of world Business, 42(1), 14-34, 2007.

[14] Wei, L. Q., & Zou, X, IKEA in China: facing dilemmas in an emerging economy. Asian Case Research Journal, 11(01), 1-21, 2007.

[15] Ivarsson, I., & Alvstam, C. G. (2010). Upgrading in global value-chains: a case study of technology-learning among IKEA-suppliers in China and Southeast Asia. Journal of Economic Geography, 11(4), 731-752.

[16] Harris Jr, H. S. The Making of an Antitrust Law: The Pending Anti-Monopoly Law of the People's Republic of China. Chi. J. Int'l L., 7, 169, 2006.

[17] Ip, P. K. (2009). The challenge of developing a business ethics in China. Journal of Business Ethics, 88(1), 211-224.

[18] Farh, J. L., Hackett, R. D., & Liang, J. Individual-level cultural values as moderators of perceived organizational support–employee outcome relationships in China: Comparing the effects of power distance and traditionality. Academy of Management Journal, 50(3), 715-729, 2007.