

Challenges of doing business in China and Vietnam

Global Market Potential:

The development of different countries greatly depends on how the economic production gets distributed. The compactness and space has a major role to play in the global prospects. It is relevant to understand that distance may impact the rate of business between different countries and is expected to increase with the gross domestic product (GDP) of the countries. Hence, it is usual to find countries trading more with neighboring having larger GDP than with countries that are far off with lower GDP (World Bank, 2009, p.108). Global marketing has become an essential requirement for businesses in the modern world with increasing globalization prevailing in the market. The global marketplace that has no borders takes into consideration the participation of all countries. Several changes are occurring in the global scenario, more with the enhancement of communications and technology (Understanding the Global Marketing Environment, n.d., pp.4-8).

Several political, social, economic and technological implications arise owing to the changes and developments in the modern business world. These factors play a major role in the international marketing. The changes and developments are eventually encountered by all marketers who face the challenges in their operations in the “global business environment” (Understanding the Global Marketing Environment, n.d., p.8). Changes in the international market reveal the emergence of newer sources of power in Brazil, China, India and Russia. The economic development seems to be shifting towards a restricted and impartial direction engaging itself in global businesses. New customers are also emerging with higher needs and demands with increasing competition among businesses. Indistinct boundaries of industries are causing deregulation in the business world. There are frequent changes in the use of technology accompanied by the emergence of greater service sectors than manufacturing as well as

increasing transparency of business practices (Understanding the Global Marketing Environment, n.d., pp.8-9). *Considering all the business benefits and obstacles, this report would primarily focus on the challenges of doing business in China and Vietnam.*

Entering a Global Market: Key Areas of Concern:

The essential issues needed to be taken into consideration before entering a global market include Culture, Government, Economy, Infrastructure, and Relationships. As the report focuses on the businesses in China and Vietnam, these key areas are discussed in the context of China and Vietnam.

Culture:

The exchange of goods and services and other expertise among different countries tend to increase globalization reflecting increasing interdependence in the economy. Universal culture arises from particular groups of individuals in the different countries involved in different businesses. These cultural issues include the values and practices followed in a business (Leung, Bhagat, Buchan, Erez & Gibson, 2005, pp.358-359). Culture in China is known for its “orderly, hierarchical and control-based society” with the Chinese people being “patient, eager to learn, respectful and accepting of authority” (McKern & Denend, 2004). If the culture practices in China are studied, it can be observed that China has its own “unique business culture and etiquette” (Chinese Culture, n.d.). Business relationships in China mostly involve a social relationship that tends to remain for a longer period of time. They give high importance to designations. Giving appropriate respect is a very important notion followed by the Chinese

companies. Gifts and presents are always esteemed and accepted as adding value to the relationships. Moreover, business discussions in China generally include a lunch or a dinner that are highly focused in China (Chinese Culture, n.d.).

The Chinese business can be found to maintain corporate social responsibility that is particularly focused on the human issues, scientific development, and harmony in the society (Tateisi, n.d., p.1). In Vietnam, the business relationships are comparatively more formal than in China and Vietnamese intend to know their business partners well before they involve themselves into businesses. English is the language in which Vietnam companies conduct global businesses. A common practice is to use business cards. The negotiations in Vietnam business discussions generally take long time since Vietnamese take time to think before making responses. Accepting and giving gifts is a common practice with that of China. Business etiquettes are also given high value by the Vietnamese businessmen (Doing Business in Vietnam | Vietnamese Social and Business Culture, 2009).

Government:

If the Chinese government is considered, lots of state-owned enterprises (SOE) are available that are found to control a lot of the market. With the establishment of SASAC or the State Assets Supervision and Administration Commission, the unresolved problems of SOEs are being dealt with. SASAC has introduced several processes to refine the affiliation between the SOEs and the central government. The government has chosen the major SOEs intending to create the fundamentals from which high level companies for China's future global businesses would be formed. With the association of SASAC and introduction of state capital management

budgeting system, the Chinese government has a strong control over the expenditure and income of the SOEs (Mattlin, n.d., pp.7-22). Regarding the separation of powers, the People's Republic in China discards both the vertical and horizontal separation of powers between different governmental branches that eventually increases the level of corruption (Clarke, 2005).

The study of the Vietnam government reflects that the limits of foreign investments are being relaxed by the government. Several challenges are encountered by the government in maintenance of its growth and development. Being an associate of a group of agreements related to trade, the Vietnamese government several negotiations with Australia as well as seven other countries that include Chile, New Zealand, Singapore and others. The Vietnam government intends to formulate long-term goals in regard to global financial amalgamation through its participation in Asia Pacific Economic Cooperation, the Association of South East Asia Nations Free Trade Area, the Trans Pacific Partnership and the World Trade Organization (Vietnam Country Brief, 2011).

Economy:

China's economy shows the sign of the enormous market potential of the country. Much interest has been given to the country owing to its improving performance of the economy. The country has been able to sustain its position even at the face of the recent global financial crisis. However, according to analysts China's economy has certain negative aspects as well that are particularly related to the problems encountered by the SOEs, the rates of unemployment, differences in the levels of income, weak governance, corruption, and deprivation of the environmental issues. These negative features of China's economy may be expected to hinder the

growth and development of the country in a highly competitive world of business (Tseng & Rodlauer, 2003, p.1).

The improvement of China in its foreign trade and growth in the economy can be associated with the increase in Foreign Direct Investment (FDI). However, concerns regarding FDI fetching unfavorable effects to the economy of China also arise since it is assumed that negative impacts may occur as a result of “foreign capital inflows” as well as increasing competitions and substitute for “domestic savings” (Heshmati, 2007, pp.42-43). In comparison to the China economy, if the Vietnam economy is studied, then it can be realized that although the country had been performing well, yet in the recent times, external forces led the country’s economy to fall. The recession, as well as the economic status of the Asian and Japanese countries impacted Vietnam to combine with the global economy. China too may have factors concerning the growth of its economy yet Vietnam was hindered owing to several internal factors. A major weakness has been the lack of necessary banking and legal procedures (Alpert, 2005, p.32). However, economists believe that the annual growth rate in the Chinese economy is expected to lower to the range of 6-7 percent (Pettis, 2011).

Infrastructure:

The Chinese government has been time and again focusing on the development of infrastructure of the country. The growth in economy of the country has been found to get enhanced by the infrastructure development through roads, railway, airports, water, energy and rural projects. Sufficient investments are being made on these areas. China provides several prospects for investors, contractors, operators, and equipment companies. An incentive package

of \$ 585 billion was announced by China to that has been highly responsible for China achieving a satisfactory GDP growth rate. China has its focus on the road system and several new constructions on demand following a structured highway plan. Also, the railway system is given significant importance by the China infrastructure facilities. However, construction and manufacturing capacity may pose challenges for the expansion plans of the rail system in China. China also expects its metro and light rail systems to develop in the next few years, equally focusing on the water, wind and energy infrastructure systems (Infrastructure in China: Foundation for growth, 2009, pp.1-9).

With improvement in the economy of the country, Vietnam unlike China has several challenges to encounter in formulating the infrastructure strategies. Some of the challenges include adopting new financial resources, bring alterations in planning techniques, addressing issues related to urbanization, as well as developing the competence of the infrastructure services. The different changes in the economy require the Vietnam infrastructure systems to modify. However, one of the weaknesses of the infrastructure policies in Vietnam is that although the major stress of the country has been on the level of latest infrastructure, providing right of entry to new consumers, yet this has not been accomplished as yet. The investment in infrastructure is mainly focused on providing customers with the fundamental services accompanied by expansion plans (Infrastructure Strategy Cross-sectoral issues, n.d., pp.6-39).

Relationships:

Business relationships in China occur before transaction occurs. A personal relationship in the form of trust is followed by business processes. The personalities of the businessmen are studied well by the Chinese partners because they believe that sufficient research is necessary before forming business relationships with foreign countries. The Chinese businessmen believe in face to face meetings, greetings, having lunch or dinner together that intends to enhance the relationships (Cypress Recruiting Group, Inc., 2007). The policies of creating informal relationships are involved in the culture of the Chinese businesses. With intentions to form long term relationships, Chinese businessmen take time to earn the friendship which is then maintained for a longer period of time.

Regarding forming relationships, it has been obtained that the Vietnamese also take sufficient time to know their business partners. However unlike China, they do not form an informal relation even after business transactions start to follow in between them. Relationships are maintained quite formally as the Vietnamese generally have suspicions on the businessmen of foreign countries, hence giving a lot of time to unlearn the intentions as well as practices of the other partners (Doing Business in Vietnam | Vietnamese Social and Business Culture, 2009).

Corporate Visits:

Baidu Inc.: To discuss few of the corporate visits, one company that can be discussed is of Baidu that provides “a full service, Chinese language search engine” allowing the access to internet facilities in China. The company promotes innovation and has a different power distance

structure than Chinese corporate culture. It has been highly thriving in increasing the level of capital from external to China (Zhang & Alon, 2011, pp.17-18). As Kaiser Kuo, the speaker at the China Speakers Bureau, has been found to say that “In an effort to resolve a high-profile spat with Chinese authors on piracy, the country’s leading search engine Baidu removed 2.8 million files from the Literary Works section of the site” (Baidu removes 2.8 million literary works- Kaiser Kuo, 2011). This implies the circumstances and the actions thereby required in the company.

Hong Kong Trade Development Council: This Company was incorporated to encourage business between Hong Kong and other countries. It provided information and free advises to traders thus increasing opportunities for enhanced businesses (Dale & Nieuwenhuize, 2011, p.1). Ms Cherry Lee who is the Project Manager at the Federation of Hong Business Associations Worldwide and the Hong Kong Forum, had given a presentation where she mentioned that the Forum “provides an excellent venue for networking with prominent business leaders and for exchanging information and idea on business opportunities and strategies” (Chinese New Year celebration, 2011).

Coca Cola Vietnam: Coca Cola Beverages Vietnam Limited is a manufacture, sales and distribution company that “markets the products & brands” of the Coca Cola Company. Its operations reflect its orientation towards its customers (Coca Cola Sabco, n.d.). Mr. Quyet who is the supply chain manager in his corporate views had reflected that manufacturer companies

“can easily transport cargo from the logistic centre to the capital city, Noi Bai international airport and seaports in Haiphong City” (Northern logistics woes to ease up in Vietnam, 2010).

U.S. Commercial Service Vietnam: With the US-Vietnam Bilateral Trade Agreement opening new markets for goods and services at the US, the market at Vietnam “represents the next great opportunity” for companies in America as Vietnam fulfills its commitments to WTO (The U.S. Commercial Service in Vietnam, 2011). As Mr. James Mayfield, Principal Commercial Officer gave his views in support of the AFE or Asian Funeral Expo, saying that “I have never seen a more impressive list of prestigious international buyer delegations from around the world in a single event – an incredible opportunity for U.S. exhibitors to reach new export markets” (AFE 2009 – Asia Funeral Expo, 2009).

Challenges facing businesses in China and Vietnam: A Final Overview and

Conclusion:

After a detailed study on the businesses, economies, culture, and relationships in China and Vietnam it can be realized that China is rapidly developing to become the major supplier of a majority of industrial products, such as Machinery, Power Transmission & Distribution Equipment, Telecom Equipment, Oil & Gas industry equipment, Pipelines, Automotive products, etc. China seems to be more capable of manufacturing goods at cheaper prices. Moreover the infrastructure advances in China are greater than that in Vietnam. However, in order to keep up its position in the market, China needs to maintain its positive aspects that are related to the relationships the country maintains with its business partners, the culture that is followed in the companies in China, the governmental regulations, as well as the infrastructure

facilities. Vietnam to that extent would require focusing a little more in regard to its maintaining relationships, where the country seems to follow very rigid and formal policies towards its business partners.

The challenges in regard to doing business with China or Vietnam primarily arise owing to the changing economy that has severe impacts on the business results. Although studies reflect that both China and Vietnam have been taking measures to cope up with the economic changes occurring in the business world, yet this may require serious concerns while entering new markets. Besides the other factors in regard to the cultural issues within organizations, the maintenance of relationships, the governmental regulations and the infrastructure play major roles in the decision making in partnering with new business partners. As can be observed from the studies on China and Vietnam, these five factors are the most important issues that need to be taken into consideration before entering new markets. At the same time, these are the areas that may pose threats or challenges for the business partnerships. Hence, focusing on these factors would be preferable for any company willing to enter a new market.

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