THE QUEST
ISSN 1908-3211 (Online) | ISSN 1908-322X (Print)
Journal of Multidisciplinary Research and Development

P-ISSN: 1908-322X and E-ISSN: 1908-3211
Vol. No. (YYYY)
Received: / Revised: / Accepted:
https://neust.journalintellect.com/quest

The Impact of Political Risks on Foreign Companies' Market Entry Strategies in China

Zhou Songqui, Ma. Florisa T. Quijano
Nueva Ecija University of Science and Technology
quijanomaflorisa@gmail.com

Abstract. This study explores the challenges faced by multinational companies operating in China, focusing on political risks and entry challenges. The analysis is based on five established companies: IBM (China) Co., Maersk Logistics (China) Co., Ltd., Schneider Electric (China) Co., Ltd., 3M China Limited, and Marriott International (Greater China) Limited. The findings reveal high risks associated with government regulations, cultural differences, intellectual property protection, trade barriers, compliance requirements, and technology/cybersecurity. Political challenges during market entry include concerns about intellectual property theft, piracy, and cyber espionage. In response, a strategic plan is proposed to mitigate these challenges, emphasizing financial cooperation, cultural adaptation, intellectual property management, trade compliance, and cybersecurity readiness. The goals include enhancing corporate image, reducing disputes, increasing market share, and achieving leadership in compliance and cybersecurity. Conclusions highlight the strategic approaches adopted by the analyzed companies and the necessity for careful consideration of regulatory environments. Recommendations include building local partnerships, investing in research and development, implementing sustainability initiatives, and developing comprehensive compliance systems. The proposed strategies aim to help foreign companies navigate the complex Chinese market successfully.

Keywords: *multinational companies, political risks, entry challenges, regulatory environment, intellectual property, cybersecurity, compliance management*

P-ISSN: 1908-322X and E-ISSN: 1908-3211
Vol. No. (YYYY)
Received: / Revised: / Accepted:
https://neust.journalintellect.com/quest

1. Introduction

China's remarkable economic growth and vast consumer market have consistently attracted the interest of multinational corporations seeking new avenues for expansion and profit. With a population exceeding 1.4 billion people, China boasts one of the world's largest and most dynamic markets. However, the promise of economic opportunity in China is juxtaposed with a complex and often unpredictable political landscape, presenting formidable challenges for foreign companies aiming to establish a foothold within the nation. The interplay between economic potential and political risk has become a central consideration in the market entry strategies of foreign enterprises in China.

Political risk, encompassing uncertainties arising from potential governmental actions, policies, and regulatory shifts, significantly shapes the decisions and strategies of foreign firms. This study aims to explore the intricate relationship between political risks and market entry strategies employed by foreign companies operating in China. By delving into multifaceted dimensions of political risk, including regulatory dynamics, legal system nuances, geopolitical tensions, and government interventions, this research seeks to illuminate the hurdles and opportunities associated with navigating China's intricate political landscape.

A comprehensive assessment of potential political risks is pivotal for foreign enterprises to successfully navigate the challenges presented by China's dynamic business environment. This necessitates a thorough understanding of China's political climate, the role of the Communist Party of China (CPC) in shaping policies, and the implications of its distinct one-party system. Moreover, as international relations and diplomatic intricacies become increasingly relevant to business operations, this study also examines how such factors can exacerbate political risks for foreign companies in China.

To provide a comprehensive overview, this study draws on a range of scholarly research and literature. Notably, Ning et al. (2022) underscore the financial ramifications firms may face due to political risks, while Moehlecke and Wellhausen (2022) emphasize the challenges stemming from China's legal framework and pervasive corruption. The significance of intellectual property protection and cybersecurity in mitigating political risks is highlighted by Sun and Liu (2019). Additionally, recent developments in China-US economic and

THE QUEST
ISSN 1908-3211 (Online) | ISSN 1908-322X (Print)
Journal of Multidisciplinary Research and Development
P-ISSN: 1908-322X and E-ISSN: 1908-3211
Vol. No. (YYYY)
Received: / Revised: / Accepted:
https://neust.journalintellect.com/quest

diplomatic relations serve as a relevant case study to illustrate how political tensions can reverberate throughout the business landscape.

In conclusion, this paper seeks to contribute to a deeper understanding of how political risks intricately influence the strategic decisions of foreign companies pursuing market entry in China. By examining the interplay between economic potential and political complexities, this research underscores the necessity of a nuanced approach to risk assessment and management. As the global business landscape continues to evolve, the ability to discern and adeptly navigate the political risks inherent in China's market becomes an indispensable skill for multinational corporations aiming not just to enter, but to thrive within this intricate environment.

2. Methodology

This study utilized a descriptive research design as an appropriate approach to investigate the impact of political risks on foreign companies' market entry strategies in China. This method is aimed at characterizing and documenting key aspects of the phenomenon without manipulating variables. The approach involves defining the research objectives, collecting data that encompasses factors affecting political risks and market entry strategies in the Chinese market, selecting a sample of foreign-companies in diverse industries in Guangdong Province where the cities of Shenzhen and Guangzhou are the areas of concentration of the industry, conducting statistical analyses and visualizations, interpreting the findings, acknowledging the study's limitations and implications, and summarizing the results in a structured report.

2.1. Sampling Procedure

Purposive sampling was used in selecting the respondents of the study. This is employed to determine the sample population needed for the purpose of the research. A purposive sample is a non-probability sample that is selected based on the characteristics of a population and the objective of the study (Crossman, 2018). This sampling technique is used to select 50 CEOs and other executives as respondents from 5 foreign-owned companies in the cities of Shenzhen and Guangzhou, China.

P-ISSN: 1908-322X and E-ISSN: 1908-3211
Vol. No. (YYYY)
Received: / Revised: / Accepted:
https://neust.journalintellect.com/quest

2.2. Respondents

The respondents of the study were the 50 CEOs and other executives as from 5 foreign-owned companies in the cities of Shenzhen and Guangzhou, China.

The table below shows the distribution of respondents coming from the identified firms.

Table 1

Manufacturing Firms Sample

MANUFACTURING FIRMS	SAMPLE
IBM (China) Co.	10
Maersk Logistics (China) Co., Ltd.	10
Schneider Electric (China) Co., Ltd.	10
3M China Limited	10
Marriott International, Inc.	10
TOTAL	**50**

The involvement of CEOs and other executives as respondents in this study is essential for several reasons:

1. Strategic decision-making: CEOs and top executives are responsible for shaping and implementing the overall business strategy, including market entry decisions. Their insights into the factors influencing these decisions, particularly in relation to political risks, can provide valuable data for the study.
2. Risk assessment and management: Executives are often tasked with assessing and managing risks associated with market entry. Their perspectives on how political risks influence these assessments can help identify key factors that determine the success or failure of a foreign company's entry into the Chinese market.

THE QUEST ISSN 1908-3211 (Online) | ISSN 1908-322X (Print)
Journal of Multidisciplinary Research and Development
P-ISSN: 1908-322X and E-ISSN: 1908-3211
Vol. No. (YYYY)
Received: / Revised: / Accepted:
https://neust.journalintellect.com/quest

3. Experience and expertise: As seasoned business leaders, CEOs and executives have likely navigated various political environments and market conditions throughout their careers. Their experiences can offer unique insights into how political risks have affected their companies' market entry strategies in China and other countries.
4. Network and connections: CEOs and executives often have extensive networks within their industries and may have access to information from other companies that have entered or are considering entering the Chinese market. This information can provide a broader perspective on the impact of political risks on market entry strategies.
5. Representation of the company: By participating in the study, CEOs and executives demonstrate their commitment to understanding and addressing the challenges faced by their companies in the Chinese market. Their involvement can also help build credibility for the study's findings and recommendations among stakeholders.

2.2.1 Research Site

This study was conducted in Guangdong Province particularly in the cities of Shenzhen and Guangzhou which serves as an apt locale for investigating the impact of political risks on foreign companies' market entry strategies in China. The rapid economic growth and modernization of China have been nothing short of astounding. Among the cities that have played pivotal roles in this transformation, Shenzhen and Guangzhou stand out as exemplars of China's global economic integration and innovation. These cities have attracted an influx of foreign companies, which have not only contributed to their economic development but have also acted as catalysts for technological advancement, cultural exchange, and urban evolution. (Chen, et al. 2019).

The presence of foreign companies in Shenzhen and Guangzhou has been instrumental in their transformation into economic powerhouses. Shenzhen's evolution from a fishing village to a global tech hub showcases the impact of foreign investment and collaboration on innovation and industrial growth. Guangzhou's historical significance as a trading port, combined with its modern infrastructure, has attracted foreign companies that contribute not only to economic prosperity but also to cultural diversity and technological advancement. (Breslin, 2019)

P-ISSN: 1908-322X and E-ISSN: 1908-3211
Vol. No. (YYYY)
Received: / Revised: / Accepted:
https://neust.journalintellect.com/quest

3. Results and Discussion

3.1 Profile of Enterprises

The five multinational companies analyzed in this report, IBM (China) Co., Maersk Logistics (China) Co., Ltd., Schneider Electric (China) Co., Ltd., 3M China Limited, and Marriott International (Greater China) Limited, have been operating in China for over 25 to 40 years. They provide a wide range of products and services to their customers in various industries, including technology solutions, logistics solutions, energy management and automation solutions, consumer goods, industrial products, healthcare products, safety and graphics solutions, hotels and resorts, vacation clubs, travel programs, food and beverage, and meetings and events. They have a nationwide network of offices across China, with over 50 offices for IBM (China) Co., over 70 offices for Maersk Logistics (China) Co., Ltd., over 200 branches for Schneider Electric (China) Co., Ltd., over 660 offices for 3M China Limited, and over 300 properties for Marriott International (Greater China) Limited. They have also implemented various strategies to enter the Chinese market, such as building strong partnerships with local businesses, leveraging their global networks, investing heavily in research and development, implementing sustainability initiatives, and expanding their footprint through strategic acquisitions and partnerships. As of the latest available information, they have over 8,000 to 60,000 employees working across their operations in China.

3.2 Political Risk Factors that Affect the Foreign Companies in China

3.2.1 Government Regulations or Policies

The weighted mean scores in based on the results indicate that the five government regulations or policies served as indicators pose significant risks for businesses operating in China, with an overall mean score of 3.46 classified as high risk. These regulatory environments can have a significant impact on business operations and financial performance. The Chinese government's control over the banking system, restrictions on foreign access to credit, subsidies and support for domestic enterprises, ownership and control over key resources, restrictions on foreign ownership in certain sectors, and changes in government policies and regulations all pose high levels of risk for foreign companies operating in China. (Sharma, 2020) Businesses should carefully consider these regulatory environments when developing their strategies and

P-ISSN: 1908-322X and E-ISSN: 1908-3211
Vol. No. (YYYY)
Received: / Revised: / Accepted:
https://neust.journalintellect.com/quest

mitigation plans to manage risks associated with these regulatory environments. Staying informed about any changes in government policies and regulations and adapting strategies accordingly is essential to minimize risks and maximize opportunities in the Chinese market

3.2.2 Cultural Differences

Cultural differences pose risks for foreign companies operating in China, with a medium overall mean score of 3.03. The presence of a language barrier, hierarchical and collectivist culture, the importance of guanxi (relationships) in Chinese culture, cultural differences in business practices and etiquette, and the importance of social responsibility and sustainability in Chinese culture all pose medium to high levels of risk. Foreign companies should be aware of these cultural differences and adapt their strategies and practices to fit local expectations and minimize risks associated with these cultural differences. Building strong relationships through guanxi, adapting management and communication styles to fit local culture, and being aware of cultural differences in business practices and etiquette are essential to succeed in the Chinese market. Additionally, foreign companies should prioritize social responsibility and sustainability to meet local expectations and minimize risks associated with these cultural differences.

3.2.3 Intellectual Property Protection

Intellectual property protection poses high risks for foreign companies operating in China, with an overall mean score of 3.50. The widespread issue of counterfeiting and piracy, inconsistency in intellectual property law enforcement, potential favoritism towards domestic companies in legal proceedings, and a focus on promoting domestic innovation and technology development all pose high levels of risk. Foreign companies should be aware of these challenges and risks and take appropriate measures to protect their intellectual property rights in the country, such as registering their intellectual property, working with local partners to monitor and prevent infringement, and seeking legal remedies if necessary. Additionally, foreign companies should consider the potential impact of the Chinese government's emphasis on independent innovation and indigenous technology development on their intellectual property rights and strategies for protecting them.

3.2.4 Trade Barriers

THE QUEST
ISSN 1908-3211 (Online) | ISSN 1908-322X (Print)
Journal of Multidisciplinary Research and Development
P-ISSN: 1908-322X and E-ISSN: 1908-3211
Vol. No. (YYYY)
Received: / Revised: / Accepted:
https://neust.journalintellect.com/quest

Trade barriers pose high risks for foreign companies operating in China, with an overall weighted mean score of 3.42. The Chinese government's use of non-tariff barriers, emphasis on domestic products and enterprises, and complex regulatory environment all pose high levels of risk. Additionally, China's imposition of tariffs on some imports and censorship and Internet restrictions pose significant challenges for foreign businesses. Foreign companies should be aware of these risks and take proactive measures to mitigate them, such as working closely with local partners and legal advisors, staying up-to-date with changes in trade policies and requirements, and exploring alternative markets or supply chains where possible.

3.2.5 Compliance Requirements

Compliance requirements pose high risks for foreign companies operating in China, with an overall weighted mean score of 3.46. The Chinese government's shift in position on compliance, lack of transparency and interpretation in policies and requirements, heavy bureaucracy and complex administrative procedures, potential corruption and bribery, and limitations on judicial independence all pose significant challenges for foreign businesses. Foreign companies should be aware of these risks and take proactive measures to mitigate them, such as working closely with local partners and legal advisors, staying up-to-date with changes in policies and requirements, implementing robust compliance programs and controls, and being prepared to address any corruption or bribery concerns that may arise.

3.2.6 Technology and Cyber Security Risks

Technology and cybersecurity risks pose high risks for foreign companies operating in China, with an overall weighted mean score of 3.61. The use of technology for social management, strict internet censorship and content management, extensive surveillance infrastructure including advanced facial recognition technology systems, cyber espionage and intellectual property theft by Chinese hackers, and Chinese authorities accessing employee and user data all pose significant challenges for foreign businesses. Foreign companies should be aware of these risks and take proactive measures to mitigate them, such as implementing robust cybersecurity programs and controls, being aware of restrictions on internet access and content, and working closely with local partners and legal advisors to navigate the complex regulatory landscape related to technology and cybersecurity in the country.

THE QUEST
ISSN 1908-3211 (Online) | ISSN 1908-322X (Print)
Journal of Multidisciplinary Research and Development
P-ISSN: 1908-322X and E-ISSN: 1908-3211
Vol. No. (YYYY)
Received: / Revised: / Accepted:
https://neust.journalintellect.com/quest

3.3 Political Challenges Foreign Companies faced as they enter the Chinese Market

Foreign companies may face political challenges when entering the Chinese market. The highest mean scores, ranging from strongly agree (3.58) to strongly agree (3.40), relate to intellectual property protection, piracy, and cyber espionage, indicating significant concerns among foreign businesses operating in China regarding intellectual property theft and cybersecurity risks. Other factors, with mean scores ranging from agree (2.74) to strongly agree (3.30), also indicate that foreign companies operating in China face a range of political challenges, including regulatory barriers, licensing and certification requirements, language barriers, cultural differences, and compliance burdens associated with operating in China's complex regulatory environment. The overall mean score is 3.12, indicating that foreign companies generally agree that political challenges exist when entering the Chinese market. To mitigate risks and maximize opportunities in the Chinese market, foreign businesses operating in China should develop careful consideration and management strategies to address these challenges.

3.4 Proposed Strategic Plan

The focus areas covered of the proposed strategic plan include government regulations and policies, cultural differences, intellectual property protection, trade barriers, compliance requirement, and technology and cybersecurity risks. The strategies proposed involve working with local partners, hiring cultural experts, registering intellectual property, conducting market research, seeking legal guidance, implementing strict procedures, and appointing dedicated experts or teams to oversee specific areas. The expected results include meeting regulatory requirements, achieving sustainable growth in the Chinese market, reducing risks associated with political factors, and demonstrating commitment to addressing these issues. The timeframes for implementing these strategies range from one to three years.

4. Conclusions

The following conclusions were derived based on the findings of this study:

1. The five multinational companies analyzed in this report have been operating in China for over 25 to 40 years and provide a wide range of products and services to their customers in various industries. They have implemented various

P-ISSN: 1908-322X and E-ISSN: 1908-3211
Vol. No. (YYYY)
Received: / Revised: / Accepted:
https://neust.journalintellect.com/quest

strategies to enter the Chinese market, such as building strong partnerships with local businesses, leveraging their global networks, investing heavily in research and development, implementing sustainability initiatives, and expanding their footprint through strategic acquisitions and partnerships.

2. The regulatory environments in China pose significant risks for foreign companies operating in the country, with high levels of risk associated with government regulations or policies, cultural differences, intellectual property protection, trade barriers, and compliance requirements. Foreign companies should carefully consider these regulatory environments when developing their strategies and mitigation plans to manage risks associated with these regulatory environments.

3. Foreign firms operating in China encounter various political challenges, such as regulatory barriers, licensing/certification requirements, language barriers, cultural differences, and compliance obligations in the intricate regulatory landscape. To minimize risks and capitalize on opportunities in the Chinese market, foreign enterprises must devise well-considered and managed strategies to overcome these challenges.

4. The strategic plan for foreign companies in China focuses on enhancing cooperation, cultural awareness, IP protection, trade barrier resolution, compliance requirements, and cybersecurity risk management. Objectives include establishing sound systems for IP, trade, legal, and cybersecurity management. Expected results include a good corporate image, reduced IP disputes, increased sales, perfect legal teams, improved cybersecurity defenses, compliance management leadership, reduced non-compliance costs, localized marketing strategies, and technical network security leadership within 1-3 year.

References

Breslin, J. (2019). Shenzhen: The story of China's Silicon Valley. TechNode. Retrieved from https://technode.com/2019/03/08/shenzhen-the-story-of-chinas-silicon-valley/

Chen, Y., & Ma, Y. (2019). The impact of political risk on foreign direct investment in China. Journal of International Money and Finance, 83, 252-270.

P-ISSN: 1908-322X and E-ISSN: 1908-3211
Vol. No. (YYYY)
Received: / Revised: / Accepted:
https://neust.journalintellect.com/quest

Crossman, A. (2018). Different Types of Sampling Designs in Sociology and How to Use Them: An Overview of Probability and Non-Probability Techniques. ThoughtCo.

Moehlecke, C., & Wellhausen, R. L. (2022). Political risk and international investment law. Annual Review of Political Science, 25, 485-507.

Ning, L., Zhang, J., Xu, Y., & Xu, X. (2022). Political risk and corporate investment efficiency. Review of Quantitative Finance and Accounting, 58(1), 1-24.

Sharma, P., Cheng, L. T., & Leung, T. Y. (2020). The Impact of Political Relationships on the Performance of Chinese Export Firms - Implications for Other Emerging Markets. Journal of Business Research, 106, 24-34.

Sun, Y., & Liu, H. (2019). Intellectual property protection and innovation in emerging markets: The role of organizational integration. Journal of International Business Studies, 50(9), 1544-1573.