

Analysis of Cross-Cultural Management in China

BUS 5612- Week 7

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Contents

Introduction.....	5
Part 1:.....	5
Competitiveness.....	5
Institutions	5
Infrastructure.....	6
Financial Market Sophistication	8
Technological Readiness.....	9
Business Sophistication	10
Innovation	11
Economic Environment	12
Macroeconomic Stability	12
Goods Market Efficiency	12
2012 GDP and Trend.....	13
Key Industries	13
Social Environment.....	14
Population Demographics.....	14
Gender	14
Ethnicity	14
Age	15
Education.....	16
Literacy Distributions	16
Health	17
Languages Spoken	17
Religious Beliefs	18
Social Norms.....	18
Labor Force.....	19
Labor Market Efficiency.....	19
Size and Demographics	20
Wage Levels	20
Political Environment	20
Form of Government.....	20
Stability of Government.....	22

Legal/Regulatory Environment.....	23
Employment Regulations: Hiring/Firing, Benefits, Time Off	23
Industrial/Union Relations	25
Immigration Policies.....	25
Cultural Environment	26
Hofstede's Dimensions.....	26
Power Distance.....	26
Individualism or Collectivism	27
Masculinity or Femininity.....	27
Uncertainty Avoidance.....	27
Long-term or Short-term Orientation	28
Indulgence vs. Restraint.....	28
Trompenaars Dimensions.....	28
Universalism vs. Particularism	28
Individualism vs. Communitarianism.....	29
Neutral vs. Emotional.....	29
Specific vs. Diffuse.....	29
Achievement vs. Ascription.....	30
Time.....	30
GLOBE's Cultural Dimensions	30
Infrastructure	Error! Bookmark not defined.
Power Distance.....	31
Collectivism I Societal Collectivism	31
Collectivism II In-group Collectivism.....	31
Gender Egalitarianism	32
Assertiveness.....	32
Future Orientation	33
Performance Orientation	33
Humane Orientation.....	33
Part II.....	35
Business and HR Challenges.....	35
Mode of Entry.....	35
Cultural Difference	39

HR Policies and Practices..... 43

 Staffing..... 43

 Performance Management 44

 Compensation..... 44

 Training..... 45

 Global Leadership Programs..... 45

References 46

Figures..... 52

Introduction

To determine the plausibility of entering the Chinese market, we will be performing a cultural and environmental scan of China. In the following analysis, we will discuss various factors that might deter or encourage a foreign company to enter China and conduct business. These factors include the competitiveness of Chinese firms, the economic, political, and social environments of China and the cultural environment of China, as determined by Hofstede and Trompenaars' dimensions. Further, we will discuss suggested modes of entry and challenges faced by a company entering the Chinese market, including cultural and HR specific challenges.

Part 1:

Competitiveness

Institutions

Institutions of a country directly or indirectly play a significant role in its economic development. Tianyu Zhang, Professor of School of Accountancy and Director of Centre for Institutions and Governance at The Chinese University of Hong Kong (CUHK) Business School, states that how exactly institutions influence the market is hard to predict or track, but companies in China know that they need to cooperate with politics (2018). The knowledge of the political climate, the government's financial planning has enabled local companies to have information advantage and perform better than foreign firms. It is quite expensive to acquire that information from local analysts; however, a company needs to know what politician holds power over which policy; it needs the right network. To be able to keep up with the changes in the political scene, businesses must maintain a cordial long-term relationship with the Chinese government. Albert Ng,

Chairman, China, and Managing Partner, Greater China of EY (2018), explains that the country's development model has been shifting its focus from speed to quality and sustainability. China alleviated restrictions and made procedures for foreign investors easier, and international businesses should take advantage of it.

Infrastructure

The Chinese government has been rapidly investing into infrastructure, as it understands its importance for the economy, as well as for strengthening their domestic and international power: it has the finances, the engineering skills, obsession with the superlatives (most significant, quickest, longest), and the land to build impressively. Beijing's very new Daxing International Airport is the biggest in the world, located strategically about 50 minutes away from Xiong'an. Xiong'an is an area ("New Area") personally initiated by the Chinese President to serve as a development hub for the Jing-Jin-Ji megalopolis area, generating 10 percent of China's GDP annually (Perrier, 2019).

China has massive infrastructure plans: it has been spending 8.5 percent of GDP (figure 1) between 1992 and 2011 on the construction of roads and railways, power, and water facilities, according to data from McKinsey (2020), which surpassed the United States and the European Union. Several accidents, like bridges collapses and the 2011 train crash, raised concerns about the quality of construction and design materials.

Cities Guangzhou, Shenzhen, and Shanghai are technological and trade hubs, so the economic activities of China are mostly there in the eastern part of the country. The government is trying to invest in infrastructure in the north and the west as well to

ensure more even development. There is another massive airport planning to open by 2030 in the city Hohhot.

The Chinese government strongly cares about the image of the country abroad, and even when some projects do not make sense economically, Chinese presidents still implement their plan because it makes sense to them politically. In 2001 the Chinese President Jiang Zemin admitted the politics in his decision to go forward with the Qinghai-Tibet railway project (Perrier, 2019). Another important logistical project Hong Kong-Zhuhai-Macau Bridge finished in October 2018 is also viewed by many as a political tool.

Another reason for active infrastructure is for the Chinese government to control its people and semi-autonomous regions. There is a gigantic development plan of the construction of overland routes and sea passageways to facilitate trade between China and the world, called The Belt and Road Initiative (BRI). This “New Silk Road” is projected to finish in 2049 to celebrate the 100th anniversary of the founding of the People’s Republic of China and will have “infrastructure corridors built through around 60 countries in Asia, Europe, Oceania and East Africa (Perrier, 2019).

China also plans to modernize the New Eurasian Land Bridge, a significant overland corridor that transports goods from China through Kazakhstan and Russia and into Europe. Export from China to Russia was the biggest in 2014, and China is planning to revive that tendency. Through the BRI, China can also supply labor and materials to the country where infrastructure is being done - they invest the money and should be able to enjoy a substantial return on investment, but mostly political and business power in those relationships with the countries. This global project with

controlling critical infrastructure gives China the potential to compete with American globalization. Chinese government spares no money to achieve their ambitious political strategy to dominate the world. It has spent over \$200bn on The Belt and Road Initiative (BRI), which is calculated to go up to over \$1.3trn by 2027 (Perrier, 2019). Some raise concerns that many countries are not able to pay China back (the idea was that they would pay with natural resources or other assets if not money), and it did happen to Pakistan and the Middle East who were not able to return what they borrowed.

On a global scale of competitiveness, China's infrastructure ranks 48th (Mckinsey, 2020). It is strong at power systems and telecommunications. By some criteria, China ranges above the average of the developing nations and close to the level of developed nations. It is not very good with the proportion of paved roads and access to improved water sources.

Financial Market Sophistication

China is a state-owned socialist market economy. They rely on an open market based on supply and demand, especially in the markets containing the massive amounts of goods produced in China that are exported to other countries. Good production encompasses most of China's market economy. In the United States alone, in 2018, according to the Office of the United States Trade Representative (2019), the United States imported \$539.5 billion of dollars' worth of Chinese goods, making China the largest supplier of products into the United States. This trend is not unique to the United States as China has large export markets in other countries as well.

“Although China is unified in the geopolitical sense, socially and economically, the picture is much more disparate and fragmented. Uneven rates of economic growth

in different parts of China over recent years have served to exacerbate many of the economic and social differences that already existed between different provinces” (Hedley, n.d.). As can be seen in Figure 2, the GDP of China is on the rise and has been for quite some time. However, this is slightly misleading simply to the size and disparity of the GDP across all regions in China. Rural regions are struggling because of the mass urban migration of rural and agricultural workers. The market has become increasingly more sophisticated in recent years but still has a long way to go before becoming a stable open market economy across the board.

Technological Readiness

Technological readiness is the ability and time it takes for a nation to use existing and next-generation technologies into their industry in an effort to increase efficiencies and output (World Economic Forum, 2018). A country that has an infrastructure ready for introduction and use of new technology would have a higher technological readiness than a country that is not outfitted or unable to sustain it. One dependent for the capacity starts with the availability and access of power, as this is a cornerstone for electrical usage in automation, communication, and essential life support. Other considerations include mobile phone capacity and coverage, internet accessibility and utilization, e-commerce and cybersecurity, and digital infrastructure to include hardware and software.

The Economist Intelligence Unit ranked 82 countries giving scores from 1-10, where higher is more capable in using newer technology. China has shown a growing technological readiness score in the past decade, where the US tied for 11th with a score of 8.59 and China tied for 36th with a score of 6.34 from 2013-2017; now US ties

for 4th with a score of 9.43 and China ties for 32 with a score of 7.18 from 2018- 2022 (Mansfield, 2018). This is important as managers would either focus on a higher number of employees for labor or fewer with specific skills that can complete the same amount of work. For instance, a textile company with a 1-5 score may rely more on human resources to produce products where 6-10 would rely more on touch screen equipment or electrical automation fabrication. In order to increase technological readiness, firms in the country need the ability to use existing technology and be able to react to new innovations, create it themselves, or have the capacity for foreign direct investment to support their operations. China is set to continue increasing its score with increased investments in tech startups, research facilities, and purchasing foreign technologies in communication, biomedicine, and space technology (Elusiji, 2018).

Business Sophistication

As a rapidly growing economy that is attempting to maintain or better the technology of its competitor, China has improved rapidly since 2010 to decrease its copy house image of theft and reproduction to move into a position of an innovator. In order to achieve this aim, Chinese businesses have begun focusing on improving industrial technology quickly with the lowest possible cost while investing in new entrepreneurship to influence an influx of new companies with more original, better products. By allowing the existing unique Chinese demographic to thrive there is an unprecedented 50% middle class by this year creating a thriving population from which to gain not only monetary support for the economy but also human capital to employee to boost the fledgling technology companies (From factory floor to innovation powerhouse: how China has changed, 2016). Under the influence of President Xi,

China has grown into a global position with the necessary technology to support improved production and independent thinking being financed by the businesses involved rather than by government support decreasing government influence while increasing success. Overall, the rise in technological standards has supported growth in business sophistication, allowing China to become an independent technological society that has produced many innovations that are being shared around the globe making Chinese regulations from before President Xi a distant memory.

Innovation

In order to compete globally, Chinese president Xi Jinping has pushed for a massive surge in technology and scientific improvement by 2030 (Amazing examples of tech innovation in China, 2019). To achieve this aim, China has increased investment within these industries attempting to draw external firms that can aid in boosting local knowledge and capability. As of last year, China has improved quantum research, supercomputers, and created a space program (Amazing examples of tech innovation in China, 2019). In addition to these significant programs, changes have been made in energy including introducing better plans for energy production, such as the newly implemented solar power plant that floats and a waste to energy plant, an elevated transit bus allowing traffic to travel underneath, a five hundred meter telescope, and 3d printed houses. With all of these changes occurring in just three years, the future of innovation in China is bright and could provide a perfect option for external firms to thrive and gain new technology.

Economic Environment

Macroeconomic Stability

Macroeconomic stability refers to the mitigations that are in place for the economy that reduce any potential to currency fluctuations. These are important because, without these mitigations, the country is at risk of unexpected inflation or economic crises. China has shown exceptional economic performance with a 6.3 percent GDP growth, signaling a strong performance in expansion in foreign trade, stable currency along with rapid growth in the industry supported by fiscal policy reform (Sheng, 2019). Additionally, China has made it a priority to work with foreign enterprises to integrate with the world economy. This effort establishes increased exposure to international trade and investments.

Goods Market Efficiency

Goods Market Efficiency is how well a country produces products and services according to supply and demand for the economy with available resources. The efficiency is influenced through foreign and local market competition, conditions on demand such as potential buyers or economic crises, and the amount of government influence on purchasing and selling (WEF, 2015). Goods Market Efficiency also refers to how well current prices for a product or service are reflected by the available information towards the actual value. An excess or shortage of resources can drive the amount of export and import, along with influencing local and international competition and pricing.

An efficient market reduces the likelihood of arbitrage, which is the buying and selling of an item in different markets to capitalize on the price differences for profits. While not illegal, arbitrage contributes to market efficiency by evening out any price discrepancies. An example of an inefficient market is when buyers can purchase at a bargain for items in China that would be at a higher cost if purchased at home nation.

2012 GDP and Trend

The Gross Domestic Product, or GDP, is the total economic output for a given year comprised of personal consumption, business investment, government spending, and net exports that occur in the country (Amadeo,2020). The growth rate of a GDP reflects contraction or expansion of the economy, where a continued decrease can indicate a recession and over-expansion can cause inflation. The GDP affects industrial growth, investing opportunities, and individual buying power. The People's Bank of China uses a similar interest rate system as the US, where changes in interest rates are used to alleviate inflation and depreciation.

As described in Figure 2, beginning with 2012 and ending in 2018, there was a consistent GDP increase each year with a minimum of a 1% increase in 2016 and a high of 12% increase in 2013 and 2018. In 2018, the GDP in China was valued at 13.608 trillion in US Dollars, representing approximately 22 percent of the world economy and is projected to continually grow (Trading Economics,2020).

Key Industries

A key industry is a critical component in the country's economy, often employs most of the area, and can have political power on exportation. Enabled through

capitalist market reforms, China has become one of the top importers and exporters in the world. China's key industries include manufacturing, agriculture, and services (Ross,2020). Upcoming industries include clean or alternative technology, biotechnology, and health care (INS, 2020).

Social Environment

Population Demographics

China is to date the largest country in the world by population, roughly 20%. According to the website Worldometers (2020), which provides an updated live view of countries population growth, as of Feb 2nd, 2020, they have a population of 1,437,148,021 and climbing. Their population overall has grown significantly since the 1950s. In 1950 the population of China sat at about a third of what it is today. According to the United Nations data set on China, they have roughly a population density of 152.7 people per kilometer of land (UNData, 2019). Much of that population, 60% is considered urban.

Gender

Gender distribution in China leans slightly towards males. At an average of 105 males to 100 females. It has a ratio of 51.29% male to 48.71% female, or 1.05 male to female (UNData, 2019).

Ethnicity

The largest ethnic group in China is 91.6 percent Han Chinese. "The Han community for years portrayed prosperity and grew both in numbers and geographical

boundaries. Within two millenniums, the ethnic group had absorbed many minority groups in China to become the dominant ethnic group” (Sawe, 2016).

The next largest group is only 1.27% of the population, the Zhuang. Despite its small numbers, they have the respect of the Han due to sharing similar cultures. The Zhuang also have their own language, but most speak multiple Chinese dialects (Sawe, 2016).

These groups are followed by the Turkish descendants, the Hui minority, 0.79%, and the Uighurs, both of which practice Islam and speak Mandarin Chinese. The Manchu, 0.78%, which practice Buddhism, make up the final percentage, (Sawe, 2016).

Age

The median age in China is 37 years old. This number has been steadily on the rise since 1970, see Figure 1, (Worldometers, 2020). The One-Child Policy and the Two-Child Policy has drastically contributed to the change in birth rates in China. Currently, the total fertility rate is 1.7, meaning roughly 1.7 children are born to each Chinese female. This number is lower than the Replacement-Level fertility of 2.1 “needed for each generation to exactly replace itself without needing international immigration” (Worldometers, 2020).

Long term effects of the One-Child and Two Child policies are that there is an increase in the dependency population ratio (Rosenberg, 2019). Currently, the ratio sits at a total of 42.2 percent of the population being dependent. It is calculated as anyone between the ages of 0-15 and anyone over 65 (Worldometers, 2020). Meaning that nearly half the population of China is dependent on its working-age population.

Education

The United Nations calculates what is known as the EI or Educational Index. The Educational Index is intended to assess what “role education plays in evaluating economic development and quality of life.” It is determined by calculating the number of expected years of schooling ranging from 0, no education, to 1, perfect education attainment. (ChinaPower, 2020). The Education Index varies significantly across China. Tibet has the lowest EI at 0.45, while the highest is Beijing at 0.85, which is on par with Iceland (ChinaPower, 2020).

Due to urbanization and the migration of individuals out of rural areas, the education system and scores of China are changing. Schools in rural areas are closing, leaving rural areas struggling due to lack of schools available, and urban regions struggling due to overcrowded classrooms from the children of migrant workers, (ChinaPower, 2020).

Literacy Distributions

Literacy is generally considered the indicator of a region’s educational success. It also indicates the availability of educational resources in a community. The fewer resources, the more likely that area will have a more significant percentage of illiterate people. In China, literacy, like the Education Index, varies wildly depending on where you are in the country. Again, Tibet ranks the lowest with a literacy rate of roughly 60 percent, while in Beijing and Shanghai, nearly all people are literate with a rate of 98 percent (ChinaPower, 2020).

Health

Health in China is a hot topic right now due to the Covid virus outbreak. This is not the first time that the public health agencies in China had to deal with an outbreak of this magnitude. Both times they have scrambled to build temporary hospitals to deal with the fallout from so many sick people.

According to the World Health Organization (2018), “The current system of health-care delivery in China is fragmented, hospital-centered and treatment-dominated, with little effective collaboration among institutions in different tiers of the system.”

To combat this in 2017, China instituted a new approach to healthcare with a focus on integrated care, especially in rural areas. They call this new approach, the Luohu model. It implements actions like instilling the primary care physician as the first point of contact for patients. In hospitals, it created multidisciplinary teams with both horizontal and vertical integration. It also focused on measurement and feedback from patients and doctors. On top of this, it created an eHealth branch that provided patients with information and advocacy as well as patient documents via online interactions.

China has also instituted national health insurance that covers nearly all people within their country, according to the World Health Organization Director-General, Dr. Tedros Adhanom (2017).

Languages Spoken

According to Soren Egerod of the Encyclopedia Britannica, the Chinese language or Sinitic language comes in a variety of dialects that are unintelligible to one another. They are as different from one another as Spanish is to French. Though interestingly enough, they all share a standard literary language called wenyan.

However, wenyan is falling out of favor, and the more modern baihua literary language is becoming more common (Egerod, 2013).

The creation of Modern Standard Chinese is the result of an early 1900s program that called for the unification of all Chinese dialects. Its goal was to create a common national language that could be used in all diplomatic relations. It is now the primary dialect in China.

Religious Beliefs

According to the Elenor Albert of the Council on Foreign Relations (2018), “The state recognizes five religions: Buddhism, Catholicism, Daoism, Islam, and Protestantism. The practice of any other faith is formally prohibited, although often tolerated, especially in the case of traditional Chinese beliefs.” Religious believers are expected to register their beliefs with one of “five state-sanctioned patriotic religious associations.” This requirement is primarily due to a recent change in regulations that allowed religious organizations to own property, collect donations, and produce literature. Because of this, the government is looking more closely than before at faith-based organizations.

While there are only five state religions recognized, only about a tenth of the country is registered believers. The rest is comprised of those who practice folk religions and banned religions or consider themselves as non-believers.

Social Norms

Chinese people place a significant value on lineage and family. In China, carrying on the family name and honor is essential. This contributed to the infanticide of female children during the One-Child policy era. An extension of this value on lineage, women

in China are placed beneath men in the social hierarchy. Though in recent years, China has progressed in its views on women's rights. Women now can hold jobs typically reserved for men and can own property (Hitton, 2019).

Another norm seen in China is the value of the group over a single individual. It is seen as disgraceful in Chinese culture to fail at a given duty. For instance, failure to do one's job reflects poorly on the company or group within the company, and thus the group self regulates negative performers.

Labor Force

Labor Market Efficiency

Efficient labor markets work towards connecting employees with the most suitable jobs in the market for their skill sets, experience, and education. It also "incentivize[s] both employees and employers to act in ways that promote the productivity of human capital: workers to work as efficiently as possible and employers to provide the right incentives," (World Economic Forum, 2020). In China, one would think that due to a communistic government, labor market efficiency would be high. However, according to Junsen Zhang and Jia Wu (2018), inequality between rural workers who are migrating to the urban portions of the country are causing significant issues on labor efficiency. Often rural migrants are forced into jobs with low job satisfaction and low pay.

Governmental policy on rural and urban workers is contributing to this in that the government breaks down rural and urban workers into two tiers. Within these rural migrants earn less than their urban counterparts, even if working in the same position.

They also have increased unemployment rates and are not eligible to receive the same social benefits that urban workers do.

Size and Demographics

According to the World Bank (2019), the labor force in China as of 2019 equaled 783,194,000. As can be seen in Figure 3, China now has a declining labor force. In 2015 the One Child Policy was increased to a Two-Child Policy, and results of those policies are becoming apparent. The result of the One-Child Policy on the workforce was an aging workforce with few workers to replace those who can no longer work due to age. With the increase to the population via the Two-Child Policy, this issue should see some relief in the next 10-15 years, as population numbers will still decline, however, there will be more people to replace those lost in the job market.

Wage Levels

The average yearly wages from 1970 to the early 2000s remained relatively even. However, from 2010 forward, China has seen a significant increase in average annual salaries (Figure 4). China has seen nearly 50,000 in growth for yearly wages in the last eight years (Figure 5). Also, on the rise are minimum wages. With 42 regions increasing their minimum wages during the previous three years.

Political Environment

Form of Government

Originally founded in 1921, the Chinese Communist Party or CCP is the ruling political party for the People's Republic of China since its founding in 1949 (Chinese Communist Party, 2016). As the name suggests, members of this party follow the ideals

of communist ideologist Marx and have built many of the party guidelines on these principles. The CCP rules in four distinct branches in China, legislative, executive, judiciary, and military.

The legislative branch of the CCP is the National People's Congress in which members are open to discuss and debate policy changes. With a large group of almost 3000 people, representatives must come to a two-thirds vote for approval before any policy proposal can be passed, causing any change to be significant and hard-won (What Type of Government does China Have? n.d.). The true seat of power in China, no other branch of government, has close to the same level of power or influence over the Chinese people and economy.

The executive branch holds the State Council, the Premier, and President (What Type of Government does China Have? n.d.). This branch of government is mostly ceremonial, with even the president holding little power over the country he oversees. The Premier, the Chinese Prime Minister, has some control, overseeing a council of other members of the government; however, he too must answer to the members of the National People's Congress.

The third branch, the judiciary branch, hosts the legal minds of the party, including the Supreme People's Court and Supreme People's Procuratorate. These members are also selected by the power base in China, the National People's Congress, and are put in the position to oversee all legal case types and investigations. While this branch is responsible for legal standards, the need to be elected by Congress creates an apparent conflict of interest relating to the wish to be re-elected for future terms.

The final branch of the government, the military department, is also the smallest with just 11 members on its council, the Central Military Commission (What Type of Government does China Have? n.d.). This small group is responsible for all military groups and police groups in China, as well as the creation of policy, military budget, deployment, and recall of armed troops. As with other branches of the government, the members of this commission are recommended by Congress, with the chairman being elected directly by congressional vote.

Stability of Government

Historically China has been a very private country with assumed stability due to the entire country being led by one political party. In this case, the assumption has been proven wrong multiple times, with the government averaging a negative governance score for more than twenty years. In 2010 the Chinese governance score hit its lowest point since 1996 with a -.66 score (World Governance Indicators, 2019). The governance score, between -2.5 and 2.5, is based on how possible it is for the government to become unstable, have politically motivated violence, or a terroristic act occur. This score, in addition to the governance score, shows the control of corruption level has also averaged low overall when compared to similar nations. However, with the introduction of changes in political standards, this score can waver, and with the changes implemented by President Xi score is likely to drop.

With a form of government that has been in existence for more than seventy years, the People's Republic of China is currently considered to be more unstable following a powerful move by a member of the currently elected party to change political standards that were written in stone since the beginning. The current Chinese President

Xi Jinping has made several strategic moves to place himself in a unique position as the first to hold the leadership position in three of the four governmental branches (Xi's historic power grab has cost China a great deal of stability, 2019). As president Xi removed term limits allowing for his third term to be president, party leader, and chairman of the military commission, making him the most influential person in China. Many members of the party are concerned about this outcome as it has stalled the Chinese economy and has destabilized a long successful political model. While the hoped-for goal with these actions is additional stability and longevity for the People's Republic, the chance of failure due to overreaching by one man is dangerously high.

Legal/Regulatory Environment

Employment Regulations: Hiring/Firing, Benefits, Time Off

Employment regulations in China are detailed but straight forward allowing employees and employers to understand the relationship before forming bonds. In China, a typical employment relationship is a fixed-term contract, creating a defined timeline for both employee and employer that can be re-negotiated when almost completed. In addition to a fixed-term contract, part-time and open-ended contracts are available but less frequent. Two main events are the only typical reason these contracts would be terminated outside of poor performance, the transfer of the business to another employer as this does not guarantee the employees will transfer as well, or the employer is closed due to bankruptcy, forced closure due to government interference, or as a result of the company being dissolved by the investors (Boggs & Wang, China: Employee Rights, n.d.). One aspect of the contract that must be defined prior to employment is pay. While there is a minimum wage in China, there is an established

expectation of equal pay for equal work making the average pay higher than the expected minimum wage (Boggs & Wang, China: Pay and Benefits, n.d.).

Once employed the work expectation in China is eight hours a day, forty days a week, however, unlike many other countries there are no required work breaks, employees are expected to take breaks as needed as long as their work is completed (Boggs & Wang, China: Employee Rights, n.d.). Employees are provided vacation time based upon their time of service with the company. However, the amount of time off offered in this country is less than most established countries with three weeks of vacation being earned after twenty years of service (Kanani, 2017). Additionally, while many other countries get most yearly holidays off and paid, in China, employees are given off three unpaid holidays and are typically required to work the other seventeen at premium pay. In addition to vacation and holiday time, employees are entitled to sick time; however, taking the time can reduce the amount of vacation time the employee earns, creating a delay in their progression in vacation entitlement.

In China, terminating an employee must also follow the standard guidelines put into law. Removing an employee can occur with or without notice. However, notice is the most typical. Terminating an employee in China in a situation that requires notice, a minimum of thirty days, to allow the employee to look for other employment. While employers can terminate employees for specific reasons, it is less typical than in other nations to avoid severance payments or labor dispute arbitration that could cost the employer more than finishing out the contract (Boggs & Wang, n.d.). To avoid this situation, the reasons for termination are apparent and include events such as severe misconduct, criminal acts, coercion, incompetence, or employee death.

Industrial/Union Relations

Union relations in China are scripted to follow the Trade Union Law legislation that was created in April of 1992 (Trade Union Law of the People's Republic of China, n.d.). This regulation outlines all standards that unions and industry must follow to operate in China. The regulation allows employee groups of twenty-five or more to create an enterprise trade union. Once this union has been formed the employer must provide two percent of their wages to the All-China Federation of Trade Unions to provide education and training, protection of property of the enterprise and state, as well as technical proposals for renovations (Trade Union Law and Collective Bargaining in China, 2017). The Unions in China do not include any protection from strikes as it is expected that employees will not strike as unions are run by the involved industries and government rather than by the employees involved. The Union relations in China are more likely to cause employee discontent as they feel unprotected by their employer-funded union that is run according to government standards. This current standard reinforces the government oversight expected in all aspects of the industry in China as the purpose of a union is being twisted to support the employer rather than the employee.

Immigration Policies

Historically a very closed country, in recent years China has created new exit-entry measures to open more options for international talent to enter the employment pool (2019 China Immigration Policy More Relaxed to Attract Overseas Talents, 2019). These changes are made to push a continued improvement in social and economic growth that has begun to flourish. Under the new rules, there are twelve sets of rules

depending upon the individual applying. The overarching concepts covered by all of the rule sets fit into three groups (Relocation, 2019). First, High-level talent and urgent need employees are offered permanent residence along with their immediate families to include spouses and underage children. Second for those who have worked in China for more than four years consecutively at a rate of more a half a year at a time in residence that make more than six times the local salary are also offered to apply for permanent residence. Finally, foreign Chinese nationals with a Ph.D. or worked with the state for developing China for more than four years with the same six or more months residence standards are available to apply. While this is a far cry from many immigration policies, it is much more open than previous years in China, allowing a small glimpse of the changes to come as China becomes more accessible and interested in external talent.

Cultural Environment

Hofstede's framework helps to demonstrate the effect of cultural values on people's behavior at work (China's dimensions - Figure 6).

Hofstede's Dimensions

Power Distance

This dimension reflects how acceptable inequalities are for a country's society. How much a person shows respect to the authorities comes from the culture they were raised in. China is a very high power distance country; it ranks at 80 (for example, versus the US that is at 40) (Hofstede, 2019) People are not supposed to aspire for something beyond their rank and position in the society. There is no protection from power abuse. The boss is right, even when he is wrong. The reason a high power distance culture in China exists goes back to the beliefs that Confucianism has been

teaching: humanity will be in harmony with the surroundings once everybody knows their place in the society and obeys the structure of the interdependent relationships (Meyers, 2014).

Individualism or Collectivism

Being a highly collectivistic society, the Chinese take care of the interests of the group and often give preferential treatment to family, which is reflected in hiring, and promotion practices. They can even get hostile to the out-groups (Hofstede, 2019). As people in China focus on their personal and business relationships foremost. Their loyalty usually lies low with the organization itself; connections play a more important role than a task itself.

Masculinity or Femininity

Competition, achievement, and success are the dominant motifs in masculine countries, like China. Feminine, on the opposite, is characterized by being in harmony with what you do and enjoying it (Hofstede, 2019). It is a well-known fact that the Chinese will sacrifice their family over work. Workers would travel to a faraway location in order to make more money, leaving their family waiting. Leisure time is deeply neglected, and workers would work very long hours without rest. Chinese students try to get the best scores in tests as high competition exists in every aspect of their culture, and this is what can get them a better job and better pay in the future.

Uncertainty Avoidance

Fatalistic views prevail in China as they let things happen, rather than let anxiety about the unknown to set in. China scores low in this dimension, as the Chinese people are comfortable with ambiguity. In business, they are entrepreneurial and

adaptable to the circumstances (Hofstede, 2019) The Chinese language is full of metaphors and vague meanings. Truth is relative, and rules and laws can be bent depending on a situation – the people of China are pragmatic to a fault, which leads to scoring high in the next dimension – long term orientation.

Long-term or Short-term Orientation

Hofstede (2019) points out that the Chinese have a very different perception of time from the westerners. They always think ahead and need to weigh options and analyze the long-term impact of a decision, including a business one. That is why other cultures need to have a lot of patience to wait for the Chinese to move forward with a project. They are very future-oriented and are never in a hurry to accomplish something without thorough consideration.

Indulgence vs. Restraint

Indulgent cultures have people that did not grow up with suppressed impulses, and in restrained cultures like China giving in to one's desire or motivation is viewed and feels as socially wrong (Hofstede. 2019). China is very low on indulgence, which is also directly correlated to being long term oriented and not putting much value on free-time activities. Chinese are patient people with little need for instant gratification.

Trompenaars Dimensions

Universalism vs. Particularism

Universalism holds anybody accountable to the same rules, but particularism means that some people are treated differently than others. China has high particularism, and government bureaucracy is a massive hurdle for businesses. One needs friends and relationships to move things along faster.

Individualism vs. Communitarianism

This dimension is basically the same as individualism and collectivism in Hofstede's framework, but Trompenaar uses the term "communitarianism" (Luthans, 2015) Chinese people deal best in a group setting and in a business setting it is always more effective to address the interests of the group, rather than an individual employee.

Neutral vs. Emotional

Chinese, having a neutral culture, do their best to conceal their emotions in order not to lose face; in business, it is called "keeping a poker face," which benefits them in negotiations. Body language is used in high moderation not to reveal the person's reaction to what is being said and offered.

Specific vs. Diffuse

China is a diffuse society, which means life and work overlap, and there is not much privacy. It is highly essential to build personal relationships in business. Chinese hosts that invited their business partner home will share anything they have with their guests. Even little, seemingly irrelevant information needs to be shared before a business deal can take place (Hoffman, 1999). That is why in contrast to the American "hire and fire," an employee in a Chinese business setting is always first motivated and helped out of his bad performance as relationships are valued, and no decisions are made with haste.

Achievement vs. Ascription

Status can be achieved/earned or a given/ assumed with birth depending on the position of your family in the society. China respects older employees with more years of service, better skills, and/or education. The status of a person comes with their birthright, caste, age, interpersonal relationship, and position in society. There has been a slight trend towards achievement orientation in China nowadays (Hoffman, 1999).

Time concept

The concept of time in China is interesting because they consider past, present, and future not to overlap. As Chinese are very long term oriented, they can wait for 10-20 years for the return on their investment, however, as they always plan well and see the bigger picture, that return on investment is usually impressive. With this high future orientation, there is some lack of near-future planning for companies, as well as the present (Hoffman, 1999). Trompenaars has described two approaches to time: sequential and synchronous – the latter being characteristic of China where schedules are more fluid and a person in the office will stop what they are doing if a visitor randomly comes into their office (Luthans, 2015).

GLOBE's Cultural Dimensions

The Globe (Global Leadership and Organizational Behavior Effectiveness) research program, founded in 1991, develops and integrates the previous analyses done by Hofstede and Trompenaars and has nine cultural dimensions at its core. Its ultimate goal is to “develop an empirically based theory to describe, understand, and predict the impact of specific cultural variables on leadership and organizational

processes and the effectiveness of these processes.” (Luthans, 2015). Three stages were implemented, with the first and second ones using middle managers from 62

Uncertainty Avoidance

“The extent to which a society, organization, or group relies on social norms, rules, and procedures to alleviate unpredictability of future events” (the Globe, 2020) China highly relies on bureaucratic practices and social norms to diffuse the burden of the unpredictability of the future – according to the Globe it has a middle-range score (figure 7).

Power Distance

Power is spread unequally in the country, and it is commonly expected and accepted as seen as providing order and stability (the Globe, 2020)

Collectivism I Societal Collectivism

This dimension is relatively high in China, but a little lower than Collectivism II, and it is showing that this society promotes collective distribution of resources and collective thought and action.

Collectivism II In-group Collectivism

This is where China stands out, scoring very high on in-group collectivism: “the degree to which individuals express pride, loyalty, and cohesiveness in their organizations or families.” (The Globe, 2020).

Gender Egalitarianism

Even though the country wants more gender egalitarianism, it still scores 103rd much lower than average (the US being 51st). China is still extremely males oriented, and the two of the many issues hindering gender equality in China still hold firm: large wage gaps and imbalanced political representation. It is not to say that China has not made any progress – women there did enjoy many improvements. However, the rest of the world has still outperformed China. There are 87 girls born to every 100 boys, which is more imbalanced than in any other country.

According to the Ministry of Education, women comprised 52.5 percent of undergraduate students in China's colleges and universities in 2017 (China Power, 2019). World Economic Forum (2018) reports that about 56 percent of Chinese women participate in tertiary education. To compare, around the world, only 40 percent of women go to college. WEF also found that in 2017, Chinese women made approximately \$6,000 less per year than their male colleagues did.

Even though women have better access to education now, and China's economic growth has improved the overall prosperity of the population, Chinese women still do not benefit from it like men. Economic participation and opportunity show China at only 86th versus the US in 19th place. A little less than 70 percent of women participate in the workforce, which is almost the same as in the US.

Assertiveness

Luthans (2015) describes "assertiveness" as "the degree to which individuals in organizations or societies are assertive, confrontational, and aggressive in social relationships."

In modern history, since World War II, China has been striving to be a superpower. Turcsanyi (2017) defines being “assertive” is when a country “pursues its interests and acts boldly toward achieving its goals, even if they contradict the interests of other actors.” He is writing about three levels of power (international, state, and domestic). China’s influence has been on the rise, especially when it comes to economic and military sources of power.

Future Orientation

The societal culture dimensions of Future Orientation are rated in the middle range but slightly higher than others. “To avoid uncertainty in future events, Confucian Asia desires slightly higher levels of established norms, rituals, and bureaucratic practices” (the Globe, 2020).

Performance Orientation

The scores on Performance Orientation for China could be described as high-medium, but it is significant because it is among the top of all culture clusters scores. Leadership in China is Autonomous and Self-Protected (“engaging in status-conscious, face-saving, and self-protective behaviors,” according to the Globe, 2020). An outstanding leader for the Confucian Asian would be performance-oriented, charismatic, and only slightly team-oriented, however, not but not pronouncedly participative in their leadership style (figure 8).

Humane Orientation

It shows how much individuals in organizations or society incentivizes people for being kind and selfless. For the humane orientation of societal value, China's overall

ranking among countries was moderate-high, which is based on the country's collectivist traditions.

Part II

Business and HR Challenges

The greatest resource for businesses is not the product or service that it is selling and providing to the market but the humans that make up the decisions and operations towards a common goal. Along with the business challenges of procurement, marketing, selling, and improving products, employees, managers, subordinates, and colleagues must harmonize human resources in order to maintain an environment that is conducive to workplace safety, both physically and ethically, and maximizing potential. Organizational policies can help support continued growth in both areas while reducing the likelihood of losing employees or businesses.

Common business challenges that U. S. multinational firms must evaluate and act upon in regards to the local market include cash flow, growth, competition, and changes in the environment. Additionally, laws and regulations guide the business in operations and managers on employment. This can be increasingly challenging when clarifying between local, state, and government laws and variations to international law. Adapting to changes in the supply of materials and demand for a product can lead to improving efficiencies and engaging new customers (Atlas Staffing, 2019). Next, another challenge is to innovate against disruptive technologies and maintaining proprietary technology against competition who may mimic and destabilize an organization's product or service.

Human resource challenges would include performance management, compensation and training, leadership development, and aligning the right expertise to the correct position. A more significant problem for companies is the changes in

management and leadership development for replacements. Organizations must also look for variations in emerging skills and refocus efforts from legacy problem-solving. A standard solution is retaining employees through continual training while providing a structured onboarding process to new talent (Atlas Staffing, 2019). This has become increasingly difficult due to the current low employment, which has created new competition for members who have vital skills and experiences. On the other hand, building upon the organization's culture builds loyalty and engagement. Another key solution is building a foundation of skills for future positions that may include outside of the US. With the increased capability of online opportunities and research, organizations can cross-train through broadening assignments (Mitchell & Odeland, 2019)

When entering China, US management must be aware of the local business and HR challenges that come with the new local market. First and foremost are the governmental laws and regulations that must be assessed and implemented prior to initiating a new venture, specifically import and export tariffs of materials required for use that would otherwise strengthen the country's economy. The next challenges include the cultural understanding and interpretation through discerning what works in the United States and China in motivation and negotiations while maintaining respect. This is very important as the Chinese government has a significant role in business oversight and negotiations with foreign investors. One example in the Government's bargaining power is that approximately 21 percent of its GDP production and 76% of assets are owned by the People's Republic of China (Martinez, 2019). Concurrently, the

next challenge is adequate preparations against any corruption, including corrupt practices such as bribery or abuse of power that can hurt the business.

With the increasing penetration into the Chinese market, multinational companies are sending expatriates of their firms they believe are qualified and have the experience for positions that were similar back in the US. Beside passport or naturalization requirements when working in China, this can create a human resource challenge when pulling from expatriate US talent in a leadership position if there are no trained replacements. A viable solution is by hiring host country nationals with similar skills. When attracting employees from home country nationals in China, companies have found that critically skilled and top-performing members are hard to find and increasingly harder to maintain due to the 19% average turnover rate (TMF Group, 2020).

Another business challenge is the assumption that costs will be lower when working in China. Since 2010, operating costs have continued to rise with the implementation of plans that require businesses to pay for education, maintenance, and construction taxes. Next, companies must abide by the Social Insurance Law of 2011, contributing a percentage of the payroll to China's insurance system overseen by the government (Nelson, 2016). Additionally, with increased labor costs through the years, managers are spending a significant amount of time sorting through applications due to lack of qualifications or resume data that have discrepancies (Infographics, 2017).

Maintaining bargaining power over China by continually researching and improving proprietary concepts is also a significant challenge that the firm should not under evaluate. As China is increasing its Technological readiness, there is more

opportunity for local competition to create a viable alternative. Lastly, the language barrier requires trilingual training in order to communicate effectively to domestic and governmental business partners, increasing the costs of doing business through language training, translation services, or hiring interpreters.

Mode of Entry

Prior to entering a country, it is crucial to understand the requirements set by the governing body to operate. This is particularly important in China, where the governing bodies create regulations regarding most aspects of life, including business actions for both internal and international companies. In order to maintain a level of control over all business transactions within the borders of the country, the Chinese government has required new companies hoping to establish buildings or offices to create a joint venture (Smith, 2019). A joint venture is an agreement that provides multiple partners in control of a business (Luthans & Doh, 2015). While this is not the best choice as it gives proprietary information to a Chinese based firm, refusing to follow this standard would result in being barred from entry. Although a joint venture is a requirement in China, it would also be the suggested mode of entry for any incoming business in order to minimize cultural misunderstandings and business loss. Established companies in China are more likely to gain market share when compared to inbound companies creating a lost opportunity. By utilizing a joint venture, external companies can use assets already in place, like factories and manpower, while also gaining a quick customer base with decreased implementation costs.

With counterfeiting being a common practice in China, it is a common concern from incoming businesses forced into joint ventures that they will be unable to protect

their investment, making it necessary to prepare for involved political risks by utilizing relative bargaining power. Relative bargaining power puts the foreign company in a position of control over the host country by maintaining the necessary technology outside of the country in order to minimize theft of intellectual knowledge. In addition, it is necessary for the controlling interest to remain with the non-Chinese company to lessen the risk of technology loss by a takeover. Finally, it is recommended that the contract be written in Chinese to attempt to gain additional support in the Chinese courts upon trying to dissolve the joint venture.

Although there is a considerable risk in attempting a joint venture, either equal or cooperative, in China, the benefits provided outweigh the potential for failure. By properly researching and outlining the expectations of the venture, the involved businesses are more likely to succeed in the Chinese market without losing their individual business model, creating a successful expansion into a sizeable untapped economy.

Cultural Difference

Not respecting cultural differences of the host country and local population can cause an immediate loss of business. It is crucial to remember how to deal correctly with the Chinese business partners in China and to be sensitive to the local culture in order to be successful there. Several American big companies did not make it because of failure to localize. An excellent example of the mistake that management made in neglecting the specifics of the local market is Home Depot. It had not researched the cultural environment thoroughly and had not learned that the Chinese are not a “do it yourself” nation; or E-bay had to shut its operations in China down after two years

because it failed to understand the importance of making social connections and the market was overtaken by its local competitor (Carlson, 2013).

American businesspersons have to be careful with spending enough time to build relationships with their Chinese partners and colleagues, not take contracts literally (Chinese are particularistic versus Americans – first place in universalism), as many times the Chinese would be switching terms later on. China is a high context culture in contrast to the US being a low context one where communication flows freely verbally, and people act fast and expect the negotiations to resolve quickly as well. One has to be very patient and earn an opportunity to move forward with the Chinese business partner. Because in China, information is often exchanged in private settings and not just at work, it is common that the work meeting itself is considered a “ceremony,” and the decision has already been made previously. Americans make decisions during the meeting itself after presenting all the facts and relevant information without ambiguity. It is important to remember that the Chinese partners will be reserved in order to “keep the face” (diffuse and neutral culture) versus American affective culture: American businesspersons need to learn to control the display of their emotions and feelings in order not to offend the other side.

The USA is much more egalitarian than China, which can create a problem between the two cultures that are in one team or where the subordinates and their bosses come from the two different cultures. Chinese people view their superiors as the ultimate authority, but in American businesses, the boss can be viewed as “one of the guys” and can be challenged. China is a high power distance country with strictly followed hierarchy in contrast to the US, which is a low power distance country. It is also

of utmost importance to be respectful to people's age, status, and education, as Chinese culture is ascriptive, unlike achievement US culture where status and position in the society is earned and achieved.

When doing business in China, it is highly recommended to appoint male figures because, in old fashioned China, females are still not equated with males, and even when a woman has the same or higher education, they still won't hold a managerial position. It is better to appoint a man to carry out negotiations or manage workers in China, as important business-relevant information will not even be shared with a woman (Tompensaars, 1998). Sino-American interaction is changing this tendency, but there is still a long way to achieve any visible improvement.

Americans score less than the Chinese do on uncertainty avoidance, but both nations are entrepreneurial, with the exceptions that the latter have more impediments to it.

Collectivist society in China often find American individualism cold and unsupportive, so American business needs to take this into consideration when motivating employees and setting their corporate culture to make sure that the staff and their partners get a positive experience. Here again, comes into play "losing face" – disagreeing with somebody in public is out of the question. Harmony and loyalty within a company are vital. (Hofstede, 1994) Thus, American culture is more assertive (4.55) than China (3.76) due to the latter striving for harmony that is characteristic of femininity.

Finally, yet importantly, a cultural dimension to remember when entering the Chinese market is their long-term orientation in business. They will wait for a long time

to make a decision or for gratification for a more significant return on investment.

Americans are focused on short-term choices influenced by the fast-changing markets.

They cannot be in a hurry when dealing with Chinese colleagues, even though it hinders innovation and the flow of business. Patience is a virtue in China.

An important takeaway from the analysis of GLOBE Model and Hofstede Model applicable to US and China (figures 6,7 and 9) would be that both models show that China has a higher score than the US in long term orientation and future orientation; China is extreme on collectivism and US - on individualism; China has a higher power distance score than that of US. Nevertheless, differences in power distance score and individualism vs. collectivism in GLOBE Model do not have such high contrast as in the Hofstede Model. In uncertainty avoidance, the two models came to the contrary conclusion about the cultural distance between China and the US. In GLOBE Model, China has a higher rate than the US in uncertainty avoidance, whereas, in the Hofstede Model, the US ranks higher than China in the same cultural dimension (Xiumei, 2011).

The documentary “American Factory” that came out in 2019 demonstrates the Sino-American culture clash when a Chinese billionaire opens a factory in Ohio in place of the abandoned General Motors plant. Both nations had a culture shock and were not receptive to the differences. Chinese workers were making fun of how unproductive Americans were – not working overtime, through lunch and weekends. Their American colleagues were astounded by the Chinese who were not following rules (pouring chemicals down the drain where it would go into drinking water somewhere, etc.), ignoring the safety measures astounded their American colleagues – several workers hurt themselves on the job.

In team meetings with just the Chinese workers, the collectivistic mindset is evident, when management emphasizes doing good for the group and to better the American perception of the Chinese people and businesses. On a positive note, some stereotypes were shattered, and some strong international friendships were made – a Chinese worker was telling in his interview that all Americans live a comfortable rich life and never make sacrifices, but now he knows it is not true and he admired hard-working Americans working two jobs to make ends meet.

HR Policies and Practices

Several factors must be considered when determining appropriate human resources policies and practices in China. Due to the impact of the cultural environment, legal ramifications, and typical recruiting difficulties, HR policies in China for MNC's must be carefully prepared.

Staffing

Recruitment of talent is vital to any firm, but those in China say they have had more difficulty finding qualified and top-performing talent. The location of the business, what its international or regional focus is, and the nature of the business factor into HR function and concentration (Sheedy, 2018). According to a McKinsey study, “only 10% of Chinese candidates for jobs in key areas such as finance, accounting, and engineering are qualified to work for a foreign company,” (Sheedy, 2018). Due to a sense of patriotism, companies are pressured to hire more employees than needed.

Policies that provide incentives that would be expected in western countries to increase interest in critical positions like pay increases, commission bonuses, and other benefits

will not work in China as effectively as they do in western countries. Instead, hiring managers should consider policies that focus on onboarding and training benefits, fringe benefits that include benefits for family members, and job security.

Performance Management

Performance management is probably one of the biggest challenges that HR representatives face when managing employees in China. Chinese employees are slow to accept change and often leave the decision making to those higher in the chain of command. Chinese employees often have a view that job security is a given once a job has been acquired. They expect even if they perform poorly, they will not lose their job. Primarily this is due to the legal environment for labor in China. For instance, unions are in the majority of Chinese businesses. Another issue is that Chinese employees have an increased value to vertical and horizontal relationships. There is more loyalty to coworkers than their boss and more loyalty given to the boss than the company.

In order to combat these difficulties, performance standards should be concisely communicated during the hiring process and when the employment contract is created. HR should monitor performance via standardized reports from management and employees. Requiring this process as part of the contract puts the employee in a position that they should do well or risk breaking their contract, causing them to lose face.

Compensation

Over the past decade, China has seen an increase in labor costs. Salaries in China also include large amounts of allowances, and these costs can end up being up

to 65% of the compensation package (EUSME Center, n.d.). Thus it is essential for HR managers to consider how benefits packages are offered to employees and adjust pay accordingly.

Training

Chinese employees value education, knowledge, and continued training. They see these as opportunities to increase their prestige and further their careers. One of the primary reasons that employees in China will terminate a job willingly to move to another company is “better training and development opportunities” (EUSME Center, n.d.) It is vital that HR implement training and education programs that incentivize employees as well as increase their ability to do their jobs.

Global Leadership Programs

Global Leadership Programs that focus on the training and education of top executives and leaders within an MNC have been shown to provide success for companies entering the Chinese market. One such model taught at Harvard, in both Boston and Shanghai, provides leadership training with intensive learning modules. These models focus on “faculty presentations, case discussions, guest speakers, professional coaching, skill-building exercises, and field-based learning,” (Senior Executive Leadership Program-China - Curriculum - Executive Education - Harvard Business School. n.d.). Programs modeled after those like the one taught at Harvard will benefit MNCs. If such a program cannot be implemented in house, companies should promote tuition reimbursement to encourage employees to enroll in global leadership programs.

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Figures

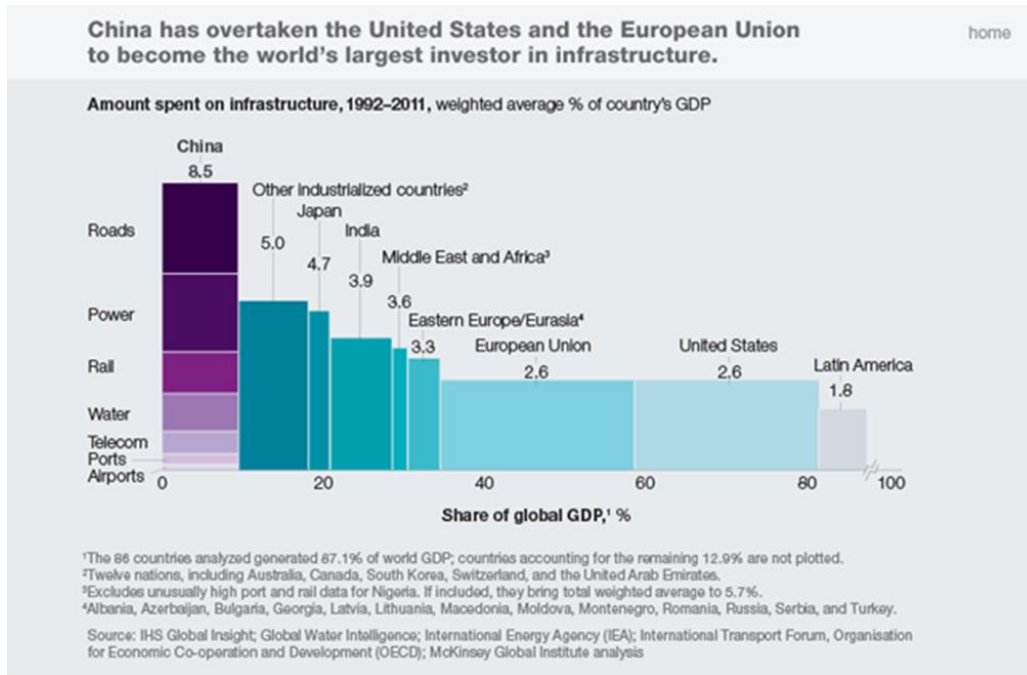


Figure 1. Share of Global GDP spent in on infrastructure, 1992-2011

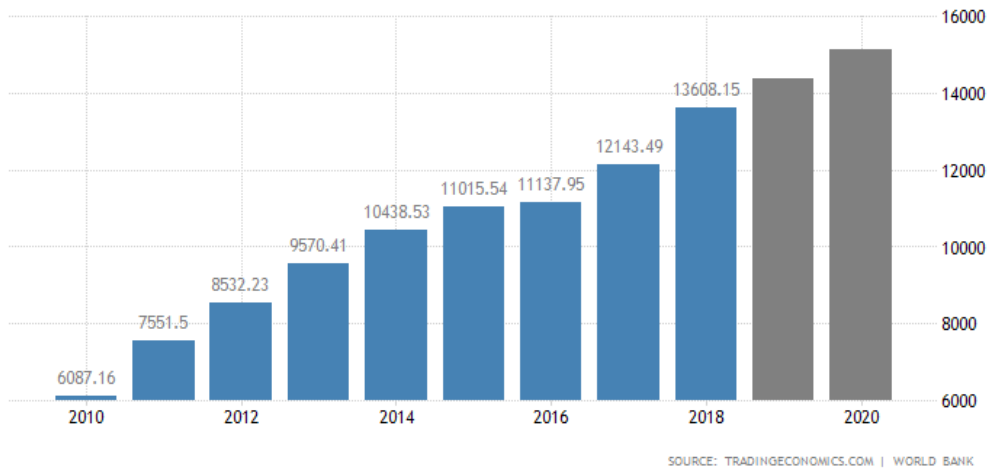


Figure 2. GDP per year 2010-2020 with 2019 and 2020 estimated.



Figure 3. Labor force totals in 2019

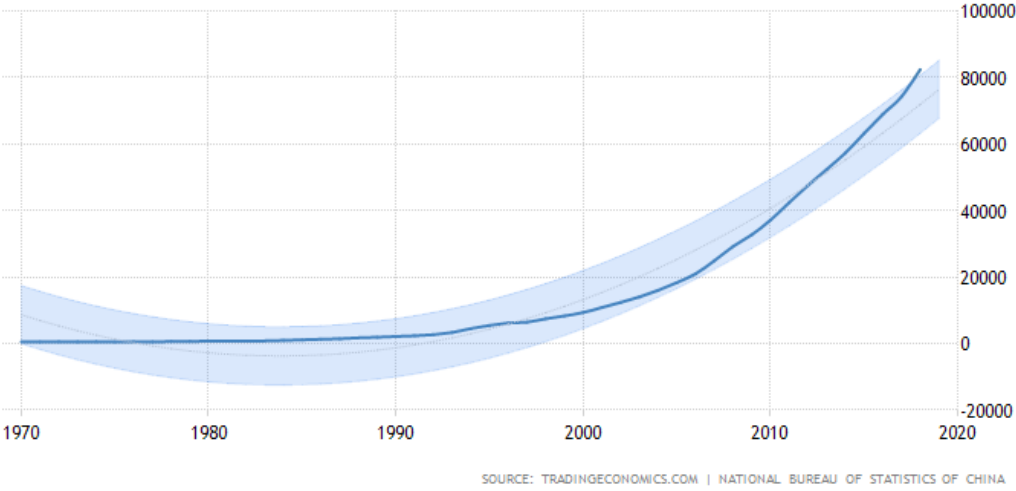


Figure 4. Labor wage changes

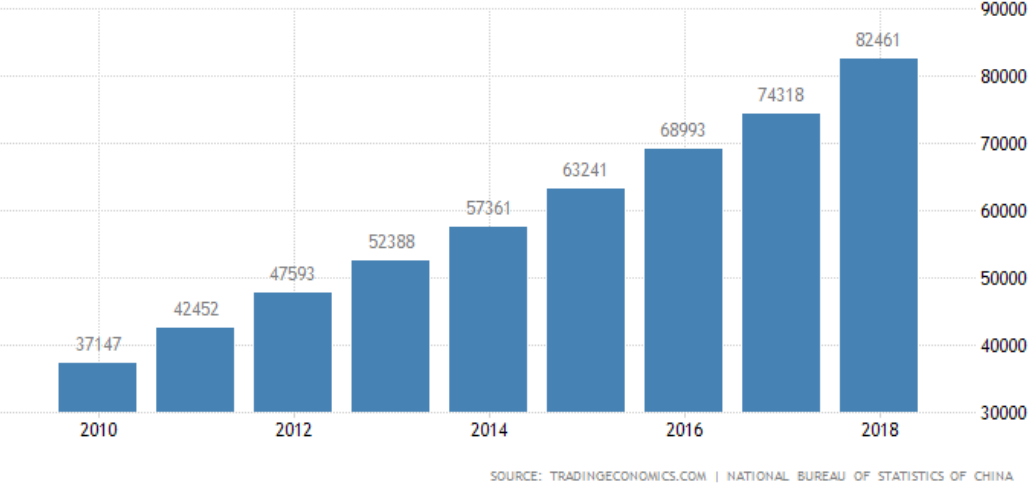


Figure 5. Annual wage growth

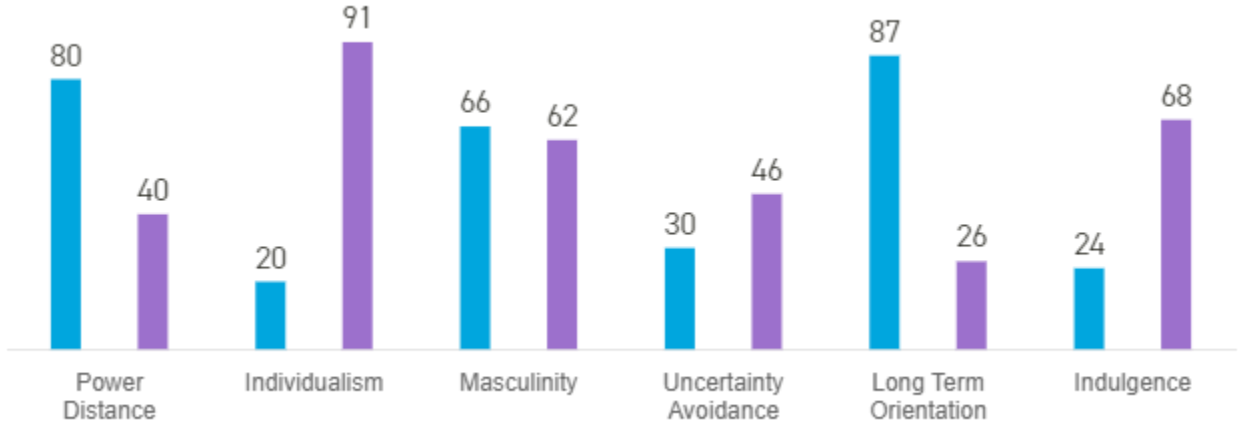


Figure 6. Hofstede's framework - China (blue), USA (purple)

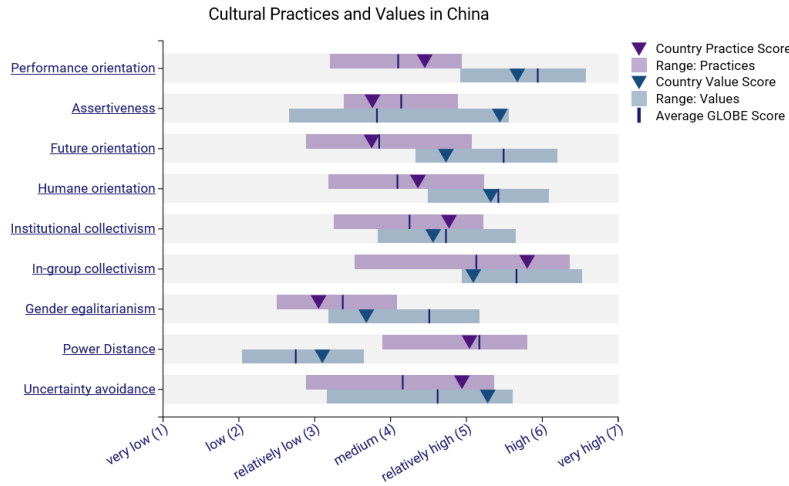


Figure 7. GLOBE dimensions China

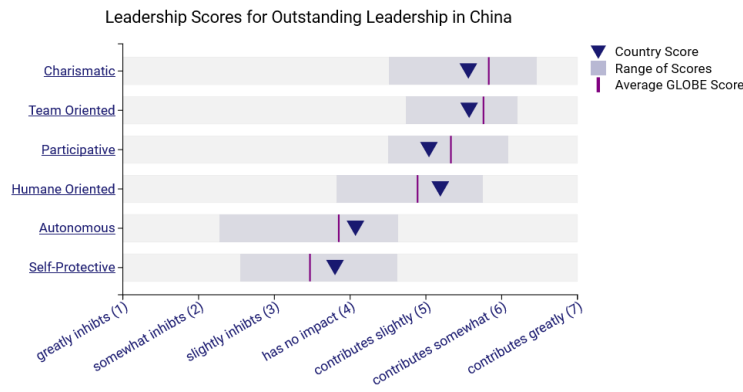
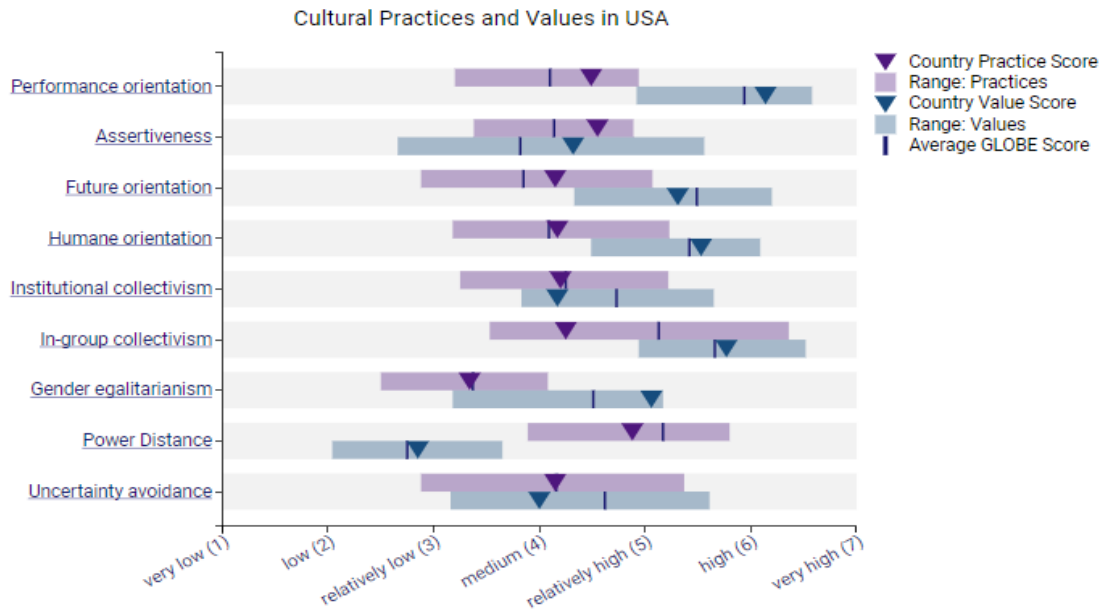


Figure 8. Leadership Scores for Outstanding Leadership in China (GLOBE)

Culture Visualization



Leadership Visualization

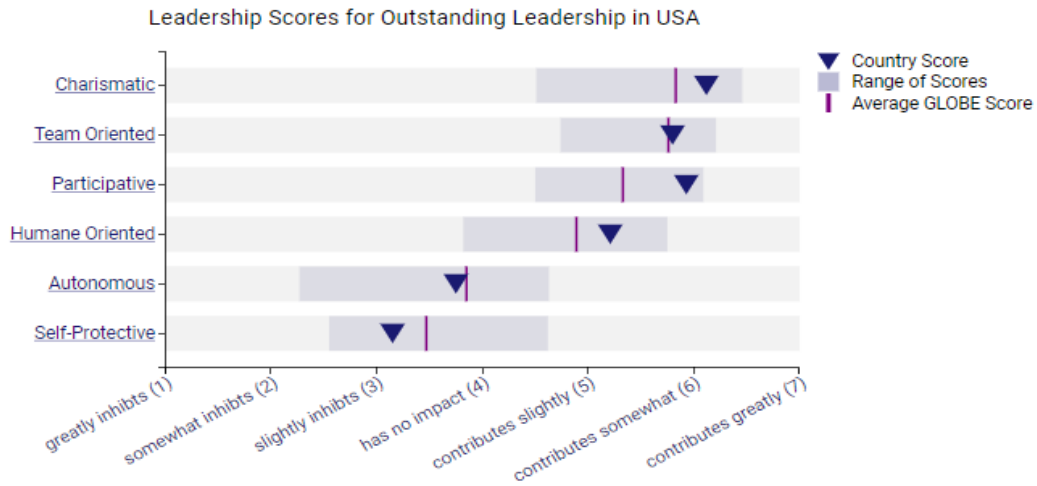


Figure 9. Globe Dimensions USA