

**REMAINING COMPETITIVE IN CHINA: A CASE STUDY OF ACIC'S BUSINESS
MODEL ON WORK-INTEGRATED-LEARNING**

by

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Abstract

This case study explores the strategy engaged by Australia China Investment Corporation (ACIC), taking into account the effects of globalization and the emerging-economy environment of the People's Republic of China (PRC). ACIC's business model is based on Work-Integrated-Learning. The Company's flagship programme, Study Abroad Internship Programme, is chosen as the study object. This case study aims to confirm if the current strategy employed by the company is applicable to remain competitive in the PRC market and further find out the effects of these strategies. The country analysis conducted is PESTLE, based on the framework of Global Competitive Index. SWOT analysis, TOWS matrix with attributes of Balanced Scorecard, and Quality Function Deployment (QFD) concepts together with Sun Tzu Art of Strategy are employed as analysis techniques. It is found that ACIC is employing a combination of strategies and has managed to remain competitive in PRC with an increasing revenue trend. The company focuses on learning and growth as well as its internal processes. Intelligence and information is its utmost priority while positioning, targeting, strength and weakness estimation are also regarded as important. The case study results, while answering the research questions, have also encourage a paradigm shift on defining global business strategy, especially in the dynamic emerging economy of PRC.

Abstrak

Kes kajian ini menerokai strategi yang digunakan oleh *Australia China Investment Corporation* (ACIC), dengan mengambil kira kesan-kesan globalisasi and persekitaran ekonomi baru Republik Rakyat China (PRC). Model perniagaan ACIC adalah berdasarkan Berkerja-Berintegrasi-Pembelajaran. Program utama syarikat tersebut, iaitu Program Belajar and Latihan Amali ke Luar Negara telah terpilih sebagai bahan kajian. Kes kajian ini bertujuan untuk mengesahkan sama ada strategi kini yang digunakan oleh syarikat tersebut bersesuaian untuk mengekalkan daya persaingan di pasaran PRC dan selanjutnya mendapat tahu kesan-kesan strategi-strategi ini. Analisis Negara yang dijalani ialah PESTLE, berdasarkan rangka kerja oleh Index Daya Persaingan Global. Analisis SWOT, Matriks TOWS dengan sifat-sifat Balanced Scorecard, dan konsep Quality Function Deployment (QFD) bersama dengan Seni Strategi Sun Tzu digunakan sebagai teknik analisis. Kajian ini mendapati bahawa ACIC sedang menggunakan pelbagai strategi dan telah berjaya mengekalkan daya persaingan di PRC dengan tren peningkatan hasil. Perisikan dan maklumat merupakan keutamaan muktamad syarikat itu manakala penempatan, sasaran, penganggaran kekuatan dan kelemahan juga dianggap penting. Sementara menjawab soalan-soalan penyelidikan, keputusan kes kajian ini juga menggalakkan anjakan paradigma dalam menentukan strategi perniagaan global, terutamanya dalam ekonomi baru PRC yang dinamik.

CHAPTER 1

INTRODUCTION

In this chapter, the background and issues examined in this study are explained. In addition, problem statement and research questions are identified. The chapter begins with an introduction to the concept of Work Integrated Learning (henceforth WIL), its social relevance and more so its implication as a business model that transcends geographical borders. The relevant globalisation climates in the People's Republic of China (henceforth PRC) and Australia are briefly explored. A study on the implication of WIL as a business model is subsequently treated as the subject of this case study. The problem statement and research questions are outlined around the business strategy in a globalised environment and the effects of the strategy on the business model.

1.1 Background of the Study

1.1.1 Work Integrated Learning

For the last two decades, WIL has been growingly recognized as a practicum activity in Higher Education (henceforth HE) (Brennan, 2005). The usefulness of work as a rich tool for learning has been widely recognized in this age of knowledge economy (Furnham, 2005). A typical feature of WIL is a partnership between an external organization and an educational institution in an effort to increase employability as well as practical learning exposure for the student, a potential employee in the making (Boud & Solomon, 2001). The major stakeholders in WIL programs are the students, universities, employers and the community (Cutt & Loken, 1995).

The benefits of WIL to employers include the reduction of cost in recruiting and training their human capital (Braunstein, 1999). Besides, WIL has been proven to enhance

retention rate which subsequently translates into better productivity and efficient empowerment (Hurd & Hendy, 1997). WIL has also equipped the students with strong employability potentials.

1.1.2 The Globalisation Weather

Since the global economic crisis in 2009, PRC has started to focus more on the service industry and nurturing innovations to improve productivity (Crookes, 2009). For foreigners, doing business in PRC remains challenging due to cultural and social differences as well as growing competition in this market place (Charles, 2008). In addition, building worthy *Guanxi* is regarded as the fundamental to remaining competitive in PRC (Hutchings and Mier, 2006). Moreover, in order to survive in PRC, it is essential for companies to respond to the extensive level of intervention from the government (Menzies & Orr, 2010). Wu et al. (2010) observed abundant opportunities in PRC since there is an increasing urge to create new information and innovation. The market is viewed as inefficient due to information asymmetry and the shifting reactions in relation to the benefits of alternative resources (Kirzner, 1997; Charles, 2008).

On the other hand, in Australia, since the recession in the 1980s, churning skillful workforce has been the main agenda in productivity improvement to increase long-term global competitiveness (Smith, 2000). The government's policies were steered towards improving the participation rate in higher education and to expand structured training opportunities for the younger generation of graduates (Dawkins, 1990). Towards the end of the millennium, with globalised economy, it is observed that this trend of reforming education and training provisions, first attempted by United Kingdom and Australia is making its way to the developing economies (Smith & Smith, 1999).

With a foresight that 75% of the world economies will be coming from the Asian region in the next decade, Australia is advancing towards Asian literacy. Australia's

geographical position and influence in the Asia Pacific region offers the nation the attributes to make Asian literacy mainstream into a global future (Asian Education Foundation, 2009). Australian companies doing business in PRC need to understand and engage a great deal with the PRC government. Menzies and Orr (2010) suggested that companies orientate through Chinese culture training and assign local staffs to contribute the relevant knowledge. Moreover, the Australian government has been playing a constructive role in enhancing understanding, and in the political and regulatory scenes.

1.1.3 Business Strategies

It is not exaggerative to describe the evolution of business strategies as being colourful, especially in the last few decades of rapid globalization as well as digitalization (Recklies, 2001). From post war to current era, perceptions of business strategy have taken leaps of changes from early classical where strategies are based on functionalism, to the current patterns of complex adaptive systems (French, 2009a).

The early business-strategy concepts of classical schools are based on linearity, equilibrium and predictability (Morgan, 1986; Wheatley, 1992; Dixon et al., 2004). During the classical schools, business strategies were in the forms of design, planning and positioning (French, 2009a). Business strategies progressed from being simple designs of concepts and informal ideas to sophisticated, deliberate and highly formalized planning processes. This is when ideas such as formalising vision and mission, objective setting and control systems are introduced (Ginter et al., 1985; Hill & Jones, 1998), along which came the strategic management tools such as the Balanced Score Cards. Dynamic changes in the business world catalysed the emergence of the positioning schools. Industrial Organization economists advanced the ideas of letting the market manage the strategy job (Porter 1991,1997; McKiernan, 1996; Harfield, 1998). Strategies are viewed as generic and remedial sets of strategies were applied in accordance to the situation. Mintzberg et al. (1998)

even equated this scenario to military strategies such as Sun Tzu. Although popular, ideas of positioning schools are still questioned for not including the ‘human’ factor, governments’ intervention and de-regulation (Kouzmin, 2007). In order to acquire dynamic capabilities (Prahalad and Hamel, 1990), resource-based schools suggested viewing the company as a collection of resources (Valentine, 2001). Meanwhile, the contingency schools addressed uncertainties. Strategies were made adaptive to dynamic changes (Chaffee, 1985).

The learning schools provide innovative perspectives outside the cybernetic mindset of the above mentioned classical schools of thoughts (French, 2009a). Ideas of intellectual capital and knowledge management came into play and strategy innovation was regarded as the key to business successes (Hamel, 1998). Intelligence accumulation is crucial to enhance innovation, efficiency, ability to adapt and thus competitive advantages (Huysman, 1999). The rule of the game is no more beating the competition but to work with others to compete with oneself (Deming, 1986). The concept of complex adaptive system brought the faculty of business strategy to a totally different paradigm leap. Firms are regarded as complex and self-adaptive systems where collective individuals will exhibit synergetic performances without central control (Holland, 2000).

Some authors ventured out of the box and suggested paradigm shift from the conventional views (Downes, 2000; Recklies, 2001; Wong & Chang, 2009). Business purpose, climate, location, organization and most importantly, the leadership quality were alternatives suggested instead of the Porter’s Five Forces (Wong & Chang, 2009). Li (2003) added the government as a significant force. Meanwhile, Downes (2000) listed digitalization, globalisation and deregulation are the driving forces of business strategy nowadays, as these factors are highly responsive to the dynamic business environment. However, Recklies (2001) emphasize that the emergence of new ideas are not denying the earlier ones but instead, offering a more comprehensive perspective for business strategy processes.

1.2 Problem Statement

The market for English as Second Language (henceforth ESL) preschool teachers in PRC is growing tremendously in PRC. The supply of the ESL preschool teachers are from western countries such as the United States, United Kingdom or Australia where English is a native language. However, due to the issues of overwhelming demands, rapid urbanization, ethnocentrism and social perceptions, more and more employers have started to neglect the very essential criteria of an ESL teacher. They would employ anyone as long as the person has the appearance of a westerner (Li, 2010 website). Hence, the quality and employability of ESL preschool teachers are becoming seriously questionable in PRC.

Australia China Investment Corporation (ACIC) sees the business opportunity of bridging the gaps. ACIC is a company established by an Australian-incorporated entity in Beijing. The company specializes in bringing undergraduate students from western universities, especially from Australia and United Kingdom, to place them in appropriate workplace in PRC for practicum. This case study focuses on one of their programmes, SAIP (Study Abroad Internship Programme). Their working partners or suppliers of intellectual resources are the institutions and universities. These institutions such as Leeds Metropolitan University, RMIT and Griffith University where WIL is well-embedded in their syllabus, entrust ACIC as their placement agent in PRC, so that their undergraduate students are able to fulfill their WIL requirements. On the other hand, ACIC's customers are the preschools in PRC. By bridging this supply chain, ACIC has the competitive advantage by ensuring quality as these internship students who will be placed in as preschool teachers are native English speakers, well trained and technically qualified preschool teachers. The business model of ACIC is viewed as a new and innovated business model in PRC. While bringing the needed supply to answer the demand, a business case is created and customers' success enhanced.

1.3 Research Objectives and Questions

This case study aims to explore the strategy engaged by ACIC, taking into account the effects of globalization and the emerging-economy environment of PRC. In doing so, this case study explores and eventually conceptualise the ways for this business model to remain competitive in PRC. Hence, the research objectives are outlined as follows:

1. To study whether the current strategy is applicable for the company to sustain its business performance;
2. To study the effects of current strategy on this business model (WIL).

The research questions that led this case study are:

1. Is the current strategy applicable for the company to sustain its business performance?
2. What are the effects of employing current strategy on this business model?

1.4 Significance of the Study

In general, this study looks at the implications of globalization on business strategy process. WIL has been an old practice in the higher education industry of the western world but it is comparatively new to emerging economies like PRC. As discussed in Chapter 3 of Literature Reviews, WIL carries profound relevance to the issues of employability and social relevance (Hurd & Hendy, 1997; Santomero, 2005). The significance of this case study is the showcase of how a well-received model in the west is being introduced to a developing country of vibrant economic growth. It highlights the challenges and business potential created when a business model is introduced to a new environment across cultures and geographic borders. While doing so, the evolution of global business strategy and the effects is observed and discussed

1.5 Organisation of the Chapters

This study intends to present a business case based on Work-Integrated-Learning in PRC. It aims to answer the research questions as discussed in the earlier section 1.3. This dissertation is organized into seven chapters. Chapter 1 provides an overview of this case study, while Chapter 2 presents the country profile of this case study, namely PRC. Chapter 3 contains the literature review of WIL, Australian agenda and strategic business processes. Chapter 4 includes methodology of this study. It focuses on qualitative analysis, conceptual framework, data collection, interview protocols, and types of analysis. Chapter 5 presents the case write up and Chapter 6 conducts the case analysis. Lastly, Chapter 7 discusses the conclusion, limitation, suggestion, and contribution.

CHAPTER 2

COUNTRY PROFILE

2.1 Country Background

The People's Republic of China (henceforth PRC) has been the house to one of the oldest civilizations for centuries, abounds with rich colors of arts, sciences and history. However, the nineteenth and twentieth centuries had witnessed the country gloomed with civil unrest, major famines, military defeats, and foreign occupation (Jiang, 2005). The 1st of October 1949 marks the revolutionary establishment of the 'People's Republic of China' (中华人民共和国). Since then, the communist leader, Chairman Mao ZeDong had established an autocratic socialist system, or communist state, which imposed strict controls and disciplines. When the country's foundations were firmed and ready to open its door in late 1970s, Mao's successor Deng Xiaoping and other leaders such as Zhou EnLai and Jiang ZeMin started to focus on market-oriented economic development. Consequently by 2000, economic output had quadrupled (CIA, 2010). This reform has turned PRC into the most vibrant economy in the world. For much of the population, living standards have improved tremendously with individualism being broaden extensively, but political controls remain tight (Ambler & Witzel, 2000).

At the geographic coordinate of 35 00 N, 105 00 E, PRC is located in Eastern Asia (Figure 2.1). With an eastern coastline stretching 14,500 km, PRC is surrounded by the East and South China Seas, Korea Bay and Yellow Sea. PRC shares a total of 22,117 km of land boundaries with fourteen other countries namely Afghanistan, Bhutan, Burma, India, Kazakhstan, North Korea, Kyrgyzstan, Laos, Mongolia, Nepal, Pakistan, Russia, Tajikistan and Vietnam. In term of area, PRC is the fourth largest country in the world, after Russia,

Canada and United States. However, there are only 14.86 percent of arable lands in PRC (CIA, 2009).



Figure 2.1. Map of PRC (CIA, 2009).

There are twenty three provinces, five autonomous regions (ie. GuangXi, Inner Mongolia, NingXia, Xinjiang-Uygur and Tibet), four municipalities namely Beijing (ie. the Capital), Shanghai, ChongQing and TianJin. Meanwhile, Hong Kong and Macau are considered the special administrative regions (SARs) of PRC (CIA, 2010).

Currently, the population of PRC stands at 1,330,141,295 (ie. 1.33 billion) with a growth rate of 0.49 percent, making it the world's most populated nation (CIA, 2010), consisting of 12.50 percent elderly above 60 years old, 60.50 percent working-age group at 20-59 years old and 27.00 percent children at 0-19 years old (Figure 5.1) (Heilig, 2010). Interestingly, PRC is one of the few countries where male population exceeds female. The ratio is 1.06 : 1. Han Chinese (汉) is the main ethnic group representing 91.50 percent of the total Chinese population while there are fifty five other officially recognised minorities that made up 8.50 percent of the population (CIA, 2010).

PRC is the second largest economy on the planet, after United States, based on GDP Purchasing Power Parity (Harcourt, 2008). Its GDP per capita exceeded US\$1,000 for the first time in 2003. After a mere four-year period, its GDP per capita doubled to US\$2,455, recording a 13.00 percent growth rate in 2007 (CIA, 2009). In the following years of 2008 and 2009, despite the global economic crisis, GDP growth was 9 and 8.7 percent, corresponding to US\$8.086 trillion and US\$8.789 trillion in GDP (Purchasing Power Parity) (CIA, 2010). Although this figure was still far behind the world's developed countries, it was a respectable achievement for a nation with a huge population, especially one where the majority of its people lived below the poverty line three decades ago. Currently, PRC's GDP capita is reported as US\$6,600 (CIA, 2010).

On the other hand, PRC's foreign reserve which was estimated as US\$1.953 trillion and US\$2.422 trillion at the end of 2008 and 2009 respectively, has made it the richest nation in the world. Meanwhile, PRC was also ranked the wealthiest nation in its current account with surpluses of US\$426.1 billion in 2008 and US\$ 297.1 billion in 2009. Exports in 2009 amounted to US\$1.204 trillion, making it the second highest after the European Union (CIA, 2010). Despite the decline in export by 16.40 percent from 2008 to US\$1.204 trillion in 2009, PRC has maintained a US\$273 billion surplus in the current account (Workman, 2010).

The PRC government faces numerous development challenges. These include strengthening its social safety net such as pension and health system reform, to counteract a high domestic savings rate and correspondingly low domestic demand, sustaining adequate job growth for tens of millions of migrants, new entrants to the work force, and workers laid off from state-owned enterprises, reduce corruption and other economic crimes and mitigate environmental damage and social strife related to the economy's rapid transformation (CIA,2010). Nevertheless, the government vowed to continuously reform the economy and emphasized on the need to increase domestic consumption and innovation development in

order to make China less dependent on foreign exports for GDP growth in the future (Crookes, 2009).

2.2 PESTLE of PRC

2.2.1 Politics

PRC is being seen as the world's most exciting economy, but it is also inevitably complex and difficult (The Economist, 2004). The late Deng XiaoPing braved the open-door policy of PRC in the 1978 which has propelled the rapid growth of PRC's economy in the global arena. PRC has since then become the strategic economic import to many Western organizations and eventually many have relocated or expanded their operations to PRC (Child & Tse, 2001). While being a Communist military with Politburo, former President Jiang ZeMin had consolidated the even more complete conversion to market economy in the early 1990s (Blackman, 2000). Eventually, PRC's acceptance into the World Trade Organisation (henceforth WTO), Beijing's success in hosting the 2008 Olympics and two years later the World Expo in Shanghai have elevated PRC's position as a major player on the international stage.

Today, PRC's President Hu JinTao and Premier Wen Jiabao, the fourth generation of party leadership in PRC, are focusing on the economic development without compromising on the ideals of an equitable development of the society. Since 1949, the Communist Party of China (CPC) has been the ruling party of PRC (CIA, 2010). With over 70 million official members, the party has been responsible for formulating government policies right down to the provincial levels. The state has sought to pursue an 'open door' policy in 1986. Since then, China has emerged as one of the fastest growing economies in the world, with the current regime promoting various reform measures in economic, social, foreign and defense policies (Jiang, 2005).

In recent years, PRC has prosecuted many corrupted individuals and government officials as its efforts to minimise corruption (MIEPA, 2009). However in 2009, Transparency International (2010) has rated PRC with a Corruption Perception Index (CPI) of 3.6, ranked 79 out of 180 countries.

Protecting territorial integrity has been one of PRC's top priority while recognizing its pivotal role in promoting world peace. Efforts are never spared to strengthen its military power. PRC's military expenditure in 2005 accounted for 1.35 percent of its GDP, which is relatively low compared to United States' 4.03 percent. In the following year, expenditure was risen to 4.3 percent of GDP. During the fifth session of the 10th National Peoples' Congress in 2007, it was announced that the military budget would be increased 17.8 percent to US\$ 6.8 billion (MIEPA, 2009).

2.2.2 Economy

The reforms implemented by PRC over the past two decades have greatly impacted the country, allowing it to evolve from a highly regulated and regimented marketplace to an open and liberalized market. China's economy grew at an average rate of 10.30 percent during the period 2002 to 2007 (Ireland Enterprise, 2009) and its total trade in 2006 surpassed \$1.7 trillion, making it the world's third-largest trading nation, after the US and Germany. In 2007, PRC's economy is largely dependent on its industrial sector, which accounted for 46% of GDP; services and agriculture accounted for 43 percent and 11 percent, respectively (CIA, 2009).

In recent development, according to Country Report on March 2009 by the Economist Intelligence Unit (EIU) , the PRC economy was forecasted to slow down sharply, from 9 percent in 2008 to just 6 percent in 2009, which would be the slowest rate of growth since 1990 (as cited in Ireland Enterprise, 2009). A key reason for this is the gloomy outlook for global demand, which will significantly curb export prospects between 2009 and 2010 and

also reduce investment by businesses in export-oriented coastal provinces. In addition to the weakening global demand, the domestic economy has been hit by a slowdown linked to developments in the real estate sector, thus dampen investment growth and reducing demand for heavy-industrial goods, such as steel and cement. The estimated GDP growth is 7 percent by 2010 (Ireland Enterprise, 2009).

On the contrary, according to an article dated Friday 20, March 2009 from Ministry of Commerce, PRC (MOFCOM), the government has set an 8 percent GDP growth target for 2009. In addition, Zhang HanYa, an economist with the National Development and Reform Commission, the country's top economic planner, forecast GDP would grow 10 percent in 2009 if the government's economic stimulus measures paid off (Ireland Enterprise, 2009). Apparently, the stimulus measures prove to be almost efficient when CIA (2010) reported that PRC has achieved GDP growths of 9 percent in 2008 and 8.7 percent in 2009.

PRC revalued its currency in 2005 by 2.1 percent against the US dollar and have since then subscribed to the exchange rate system of reference to a basket of currencies. However, currency remained pegged since the global financial crisis (CIA, 2010).

After more than three decades of market liberalization, since 1979, PRC's markets are still vibrantly evolving from a centrally controlled system (ie. state intervention) to a condition where transactions are made at market prices. Its tremendous transitional economy constitutes a major business opportunity (Luo & Peng, 1999). As a consequence of liberalization, from a baseline of US\$19 billion, PRC has accumulated US\$300 billions of Foreign Direct Investment (henceforth FDI) in the first decade. PRC's FDI was around \$40.7 billion in 2000 and it increased to \$72.4 billion in 2005 (China-Profile, 2009). PRC has attracted over US\$60 billions of FDI in 2003 and has turned its economy the second largest in the world in terms of PPP (The Economist, 2003 & 2004). In 2006, FDI in PRC was \$69.5

billion and figures in the following years have surpassed the previous years. In 2009, FDI in PRC hit US\$90.03 billion (Xinhua, 2010).

It is also interesting to note that State-Owned Enterprises (henceforth SOEs) are playing important parts in the economy with pricing anomalies which has given cost advantage to local enterprises. Choi and Nailer (2005) related these SOEs issues to the declining of PRC's GDP though membership with World Trade Organisation (henceforth WTO) required transparent government purchasing. PRC joined the WTO in December 2001 and this has driven down the price of imports when tariffs were reduced. Under the agreement, PRC reduce barriers to imported goods and eliminate preferential arrangements for SOEs. Hence, PRC has lowered average tariffs reasonably from 1992 to 1998 while preparing for the membership in WTO and committed to further tariff cuts through 2006. This has apparently imposed downward pressure on prices in PRC (Choi & Nailer, 2005).

2.2.3 Social

In PRC, 43 percent of the total population of 1.33 billion resides in urban areas that are undergoing an annual rate of urbanization of 2.7 percent. Population below poverty line was estimated as 8 percent in 2006 while unemployment rate was estimated as 4 percent for urban areas and may reach 9 percent if migrants from rural areas are included (CIA, 2009).

The total expenditure on health per capita is US\$342 which is equivalent to 4.5 percent of GDP (WHO, 2010). In 2005, there are 1.94 millions physicians and 3.07 millions beds available, which translate into 1.5 physician and 2.4 beds for every one thousand patients (China Health Care Association, 2010). The healthcare services are dominated by government-run hospitals that function more like for-profit entities. These government hospitals are widely criticized on their expensive medical treatments and high levels of corruption. As of 2005, privately-run hospitals accounted for only 10.8% of the country's 8,700 major hospitals. Gaps in rural and urban development especially in the healthcare

sector are significantly visible. To rub salt into wound, only 29% of the PRC population has health insurance (Blumenthal and Hsiao, 2005). Furthermore, instances such as the poisoned milk powder case in early 2009 (BBC, 2009) has showcased the setbacks of PRC in safeguarding public food safety.

Literacy rate is 91.6% in PRC (CIA, 2009). Higher education has played an important role in facilitating economic, scientific and social developments. By the end of 2007, PRC had about 2,250 institutes of higher learning with over 20 millions registered students, and as many as 6.3 millions university graduates hit the market in 2010 (Jin, 2010).

2.2.4 Technology

PRC intends to increase its research and development (henceforth R&D) investment substantially in the future to leverage the contribution of technology in its economic development and reduce its dependence on imported technologies. Since its entry into the WTO and its agreement on Trade Related Aspects on Intellectual Property Rights (TRIPS), the trade policy of the country has been liberalized, and the number of patents received has been increasing year-on-year. With respect to R&D, PRC has been focusing on the areas of information and communication technologies, energy, health and life sciences, biotechnology, and agriculture.

The global economic downturn that peaked in 2009 has triggered the PRC leaders and people to prioritise innovation as an attempt to improve its productive capacities. Numerous initiatives are taken simultaneously in the country as well as abroad to reform innovation, science and technology and research (Crookes, 2009).

3G-network and internet development have influenced the people of PRC greatly from personal daily usage to e-commerce and business activities. PRC's Ministry of Industry and Information Technology (MII) announced in July 2010 that the country had 25.2 million users of 3G mobile services (Information Policy, 2010). And currently, there are 420 millions

internet users, equivalent to 31.6 percent of the total population (Internet World Stats, 2010), a great leap from the 22.5 million users a decade ago.

2.2.5 Legality

According to the Doing Business survey by World Bank, the processes of doing business in PRC have improved substantially. The country had an overall improvement in rankings. The 2008 indicator shows that the number of days required to start a business in PRC is 35, compared to the Asian average of 47 days, which indicates an improvement in efficiency and hassle-free business environment (World Bank, 2009). The government is intending to free the market further and streamline investment processes to make the investment climate more attractive.

In the front of intellectual property rights, the problem of getting patent granted is often difficult as the law in this respect is not given much attention. In fact, PRC did not enact its first patent laws until 1984. Items such as computer software, consumables, atomic energy related innovations, chemicals, pharmaceuticals are not included in the patent law. Moreover, the process of filing for patent is adopting the First-to-File system, where patents sometimes do not honor founders of innovation. In addition, patent publication takes eighteen months to materialise.

Internet censorship in PRC has been engaged as a major part of the government's effort to neutralize critical online opinions. Well known as the Great Firewall of China or the Golden Shield Project, these policing activities have so far limited certain search engine such as Google from penetrating the massive users of PRC. Leading foreign social networking sites such as Youtube, Twitter and Facebook are inaccessible in PRC (Forbes, 2010).

2.2.6 Environment

PRC was ranked 133 among 146 in the environmental sustainability rating in 2005 (Environmental Sustainability Index, 2005). In order to balance the stress on natural

resources caused by its rapid growth, development and urbanization, the state has implemented a 'green strategy'. However, in reality, PRC is now burdened by environmental problems such as air pollution, diminishing biodiversity, land degradation, soil erosion and water pollution, All are long-term problems that require urgent attention by the government as a matter of priority (Liu, 2010). PRC continues to lose arable lands because of erosion and economic development. In 2007 government intensified efforts to improve environmental conditions, tying the evaluation of local officials to environmental targets, publishing a national climate change policy, and establishing a high level leading group on climate change, headed by Premier Wen JiaBao. Meanwhile, PRC's government also seeks to add energy production capacity from sources other than coal and oil.

There are some encouraging signs though. The nature reserve system now occupies 15.1 percent of PRC, a percentage that exceeds world average (MEP, 2009) while Natural Forest Conservation Program have succeeded in mitigating logging and deforestation which have caused soil erosion in the late 1990s. PRC recognizes the Human Environment chapter of the United Nations Conference and the National Climate Change Program was created with the aim to lower energy consumption per unit of GDP by 20 percent between 2006 and 2010 (NDRC, 2007). Additionally, PRC also plans to reduce its carbon dioxide emissions per unit GDP by 40 percent from the 2005 level in order to develop low carbon economy (Xinhua, 2009).

In the agenda of relief and rescue efforts, the PRC government has displayed efficiency and effectiveness, which have received high recognition from World Health Organisation (MIEPA, 2009). From the Sichuan WenChuan Earthquake to recent ZhouQu Mudslide Disaster, rescue actions were efficient and transparent.

2.3 The Globalization Agenda of PRC

2.3.1 An Emerging Economy

The tremendous growth of PRC's economy has seen it being named the seventh largest consumer goods market with an unprecedentedly rising middle class expected to impact significantly on the economy (Farrell et al, 2006). The potential for the next decade is apparently huge. However, penetrating the PRC's markets remains challenging to foreigners. The most common mistake was neglecting the difference in cultural norms and generalization of strategies. Wu et al., were inspired by the concept of Drucker (1985, cited by Wu et al., 2010), in their study to understand how entrepreneurial opportunities are identified and exploited in PRC. Three types of entrepreneurial opportunities were categorized: (i) the creation of new information; (ii) the exploitation of market inefficiencies that result from information asymmetry; and (iii) the reaction to shifts in the relative costs and benefits of alternative uses for resources. These opportunities emerged primarily due to the difference in business and society of the parties involved as they subscribe to differing beliefs about the value of resources (Kirzner,1997).

While strategizing for PRC, it is important to take into account that the consumer vastly-diversified population that can be categorized into four distinct sectors comprising of the first, second and third tier cities and the rural areas. Organizing in such manner conveniently accounts for the variations in income, education, profession and lifestyle. Disparity exists especially in demand of popular products, effective marketing tools and logistic costs (Charles, 2008). Cui and Liu (2000) suggested the seven regional markets located in North China, Northwest China, Northeast China Central China, East China, Southwest China and South China. Figure 2.2 depicts the main cities stratified in these seven regional markets.



Note: The regional boundaries are simplified, thus do not reflect the actual demarkations

Figure 2.2. PRC's Seven Regional Markets

Source: (Cui & Liu, 2000)

2.3.2 Key Success Factors of Doing Business in PRC

Ambler, Witzel and Xi (2009) advanced the concepts of five pillars to the success of doing business in China, namely (i) *GuanXi* (i.e. network of contacts), (ii) harmony with continuity, (iii) knowing the market, (iv) *Ren* (i.e. obligation of a leader's responsibility to all subordinates and organizations and (v) sensitivity to obstacles. These suggestions is further echoed through the study by Kalafsky (2009) where he concluded that no particular niche seemed to excel in the market as a wide range of firms were succeeding in PRC. Hence he saw the importance of exploring product mix, market entry and market intelligence, so to accentuate on the aspects of accurate market information, local representation and face to face contacts are very important.

Table 2.1. Distribution of Economic and Social Status among the Seven Regions of PRC
(Cui & Liu, 2000).

Region	South China	East China	North China	Central China	South- west	North- east	North- west
Sample size	12	39	398	226	553	226	70
Demographics							
Household income*	27,481	24,659	12,993	13,831	14,008	8,683	7,770
Age*	41	43	40	39	42	42	38
Education*							
Elementary/less (%)	16.6	7.7	10.7	12.2	28.1	19.0	41.7
High school (%)	66.7	69.3	62.8	69.5	56.2	69.0	46.3
College and beyond (%)	16.6	23.1	26.4	18.3	14.8	12.0	2.8
Occupation*							
Professionals (%)	18.2	12.5	9.3	12.8	12.0	4.8	2.9
Factory workers (%)	18.2	27.5	27.8	34.8	15.2	20.2	5.7
Office workers	9.1	10.0	3.3	3.2	8.4	2.6	1.4
Government officials	0.0	10.0	23.8	6.4	6.3	9.7	0.0
Service	9.1	5.0	2.3	4.8	2.9	5.3	0.0
Other large group	9.1	5.0	3.8	4.8	8.0	15.4	70.0
	(Student)	(Retail)	(Retail)	(Retail)	(Agri- business)	(Home- maker)	(Agri- business)

Note: * Significant at 0.001

2.3.3 Guanxi

The western analysis of networks and interpretations of business or social relationships are usually linked to cost analysis, social exchange or interaction dimensions, in the studies by institutional theorists (North, 1990; Scott, 1995) or cultural theorists (Hofstede, 2001; Triandis, 2002) alike. However, in the eastern context, the analyses expand beyond the dimensions of social and economy (Hutchings & Michailova, 2006). Boisot and Child (1996), Peng and Luo (2000) suggested that social networks prevail beyond institutional structures.

Buttery and Wang (1999) traced this back to the premise of Confucianism, noting that the relationships are nurtured on a cultural basis which indicates the way in developing relationship is different in the western and eastern context. The word *Guanxi* literally means relations, but in reality, it encompasses a vast extent of personal connections that include the offering of favours among individuals on a dyadic basis (Yang, 2002). It is regarded as the fundamental to doing business in PRC and describes the strong ties built on familiarity or intimacy (Bian & Ang, 1997) based on locality, dialects, kinship, work place, social attachments and friendship. This has led to the notion of building trust among business partners, which is regarded as the integral success factor to doing business in PRC (Hutchings & Mier, 2006). When trust is built, business transactions can be dealt by one's word.

Hutchings and Murray's (2002) study found that *Guanxi* has greater impact in public and state-owned sectors, compare to private sector. In addition, it is also found to be more important to small companies than the multinationals. Agreeing on this deep root of *Guanxi*, Hutchings and Murray (2002) wonder if globalization may dilute its importance as Luo (2000) observed that organizations which are comparatively larger, with better technical and organizational skills, contains very minimal *Guanxi* networks. In fact, using *Guanxi* is considered risky to larger companies (Guthrie, 1998) since PRC is actively enforcing new regulations and procedures that outlaw corrupt *Guanxi* practices. Literature has shown that previous connections that are regarded as contributing to business success will gradually diminish as transitional economies becomes more competitive (Wright et al., 2002; Tang, 2002). Hence, as PRC is progressively implementing and enforcing international standards of accounting, business laws, property rights and management, the influence of *Guanxi* will dwindle, if it is not redefined. On the same tone, Luo (2000) reasoned that the development of PRC's economy will give rise to a highly diversified organizational landscape, with rich competitive industrial environment. And consequently, only those with high quality in

technical and organizational skills will remain, there will be less need to nurture *Guanxi*. However, Redding (2002) reminded, referring to Hong Kong with clear transformation from interpersonal trust to institutionalized trust, the same process might take many years for PRC, with its background and size.

2.3.4 Foreign Companies in PRC

Aulakh et al. (2000) argued that it is inappropriate to generalize entry strategy to a developing economy such as PRC, given the fundamental differences entails between developed economy and developing economy. Chen, Griffith and Hu (2006) further observed, from the late 1970s to the early 1990s, foreign investors encountered significant liabilities of foreignness in PRC. A lot of multinational enterprises (henceforth MNEs) are faced with challenges in issues such as geographic and cultural distance. Hence, their choice of entry strategies is especially instrumental in this highly transitional economy. The contributing factors to liabilities of foreignness are mainly spatial distance, lack of root in local environment, host country and home country environments (Zaheer, 1995). MNEs with low liabilities of foreignness are found to incline to the resource seeking and labour-intensive strategies to achieve competitive advantage when entering PRC. On the contrary, those with high degree of liabilities of foreignness strategized more on market-seeking and control-oriented market entry (Chen et al., 2006).

Foreign companies, especially the multinational corporations (henceforth MNCs) in PRC, are facing intense price pressure (Martin, 2003). Choi and Nailer (2005) attributed price pressure mainly to the increasing competitiveness of the local producers as they observed repeatedly, the eroding of premium positioning of the foreign entrants in various sectors. Besides, they also reasoned the price pressure as the transitional nature of the markets as well as the deflationary economic conditions of PRC. It was found that foreign companies tend to over-estimate the durability of premium-priced market segments in PRC. Very often, local

companies are able to develop and launch low-priced entry products that boom rapidly in the volume market. Moreover, these local companies are rapidly improving their product quality, product branding and marketing strategies (Choi & Nailer, 2005).

MNCs doing business in PRC give high priorities to knowledge transfer but it is considerably difficult due to cultural dissimilarities. However, Qin, Ramburuth and Wang (2008) found that the role of a PRC-based company is determined by the resources and capacities it possesses. In addition, localized practices contribute to the success of MNCs in the PRC when more experiences are accumulated and knowledge may be duplicated to other peer subsidiaries (Li & Scullion, 2006).

Moreover, vis-à-vis the political environment, in order to remain competitive in PRC, international businesses should be able to respond to the high level of intervention from the host government. In this regard, Menzies and Orr (2010) suggested maintaining high control management techniques for a narrow institutional environment.

2.4 From One Child Policy to Early Childhood Education

It is interesting to note that the one-child policy has demographically made PRC one of the most rapidly aging countries in the world. Figure 2.3 shows the gradual overturn of the population pyramid as described by Heilig (2009). The one-child policy has created a new family structure of 4:2:1, the ratio of four grandparents to two parents to one child. This indicates that the amount of compassion and resources that parents invest on their only child is increasingly out of proportion. It is estimated that a total of ten millions of babies are born every year and the number has hit an exceptional twenty seven millions during the PRC Olympics baby-boom year in 2008 (Jin Hua, 2010). Currently these babies are fit for preschool, creating an overwhelming demand for early childhood education (henceforth ECE).

There are 130, 495 preschools in PRC. The 77,616 private preschools made up 60.1% of this number. These private preschools are catering for 8.69 millions or 36.99% of the preschool-student population (Ai Suo, 2010). At present, only 38% of PRC children, from three to six years old, are attending preschool education. The total teaching manpower as reported in 2008 is 1.032 millions, including teachers and principals. This made the ratio of teacher to student as 22.7:1, while the ideal ration according to PRC's policy is 1:6 to 1:7 (Aifu, 2010). Moreover, The National Middle to Long-term Policies for Education Reform and Development 2010-2020 (国家中长期教育改革和发展规划纲要) which was announced recently, aims at 95% enrolment of children population by 2020 (Chinaedunet, 2010). Hence, it is apparent that ECE has become an overwhelming yet essential and immediate demand. Unfortunately, there was no formal policy or system in place to cultivate ECE teachers.

The following is a break down of the types of institutes that run ECE courses in PRC.

Table 2.2. Distribution of Institutes offering ECE studies in PRC (Aifu, 2010).

Type of institutes with ECE study		
1	Normal universities	75 (including 5 private)
2	Normal professional college	8
3	Universities	15
4	Local colleges	39
5	Vocational institutes	9
6	Private ECE teachers' training school	38
7	ECE professional schools	3