Advanced International Journal of Business, Entrepreneurship and SME's
AIJBES
EISSN: 2682-8545
Volume 5 Issue 16 (June 2023) PP. 01-14
DOI 10.35631/AIJBES.516001

ADVANCED INTERNATIONAL JOURNAL OF BUSINESS, ENTREPRENEURSHIP AND SMES (AIJBES)
www.aijbes.com

GLOBAL ACADEMIC EXCELLENCE

ENTERING SHANGHAI FREE TRADE ZONE: FROM MALAYSIA'S BUSINESSMEN PERSPECTIVE

Lee Peng- Foo*[1], Mui Yin- Chin[2], Swee Chin- Ng[3], Xinjun- Lei[4], Xiaodi-Zhang[5], Jia- Wang[6]

1 Tunku Abdul Rahman University of Management and Technology (TAR UMT), Kuala Lumpur, Malaysia
Email: foolp@tarc.edu.my
2 Tunku Abdul Rahman University of Management and Technology (TAR UMT), Kuala Lumpur, Malaysia
Email: chinmy@tarc.edu.my
3 Tunku Abdul Rahman University of Management and Technology (TAR UMT), Kuala Lumpur, Malaysia
Email: ngsc@tarc.edu.my
4 Shanghai Academy of Social Sciences (SASS), Shanghai, China.
Email: lxj@sass.org.cn
5 Shanghai Academy of Social Sciences (SASS), Shanghai, China.
Email: zhangxd@sass.org.cn
6 Shanghai Academy of Social Sciences (SASS), Shanghai, China.
Email: wangjia1985@sass.org.cn
* Corresponding Author

Article Info:

Article history:
Received date: 30.03.2023
Revised date: 15.04.2023
Accepted date: 11.05.2023
Published date: 06.06.2023

To cite this document:

Foo, L. P., Chin, M. Y., Ng, S. C., Lei, X., Zhang, X., & Wang, J. (2023). Entering Shanghai Free Trade Zone: From Malaysia's Businessmen Perspective. *Advanced International Journal of Business, Entrepreneurship and SMEs, 5* (16), 01-14.

DOI: 10.35631/AIJBES.516001.

Abstract:

China's Belt and Road Initiative (BRI), introduced in 2013, has been strongly supported by various Free Trade Zones (FTZs). The pilot Shanghai Free Trade Zone (SFTZ) received much attention after a major reform in 2019. Malaysia's enterprises consist of young and infant industries. Hence, this study has aimed to provide insights into the awareness among Malaysia's enterprises towards SFTZ. In addition, hidden opportunities and challenges will be discussed in detail and further enlighten the concerns of Malaysian enterprises. A purposive sampling method has been applied to select the participants for the five focus group discussions. The results indicated a gap between government practices and industry players regarding the opportunities, challenges, and prospects in the SFTZ. Malaysia is expected to benefit from the SFTZ through comparative advantages in certain industries, with its talent, and through unique products with intellectual property rights. At the same time, Malaysian businesses have remained constrained by several obstacles, such as lack of information, exit policies and differences in regulations. Although MATRADE has stepped in as a bridge between local and Shanghai enterprises, more is needed to be done.

Advanced International Journal of Business, Entrepreneurship and SME's
AIJBES
EISSN: 2682-8545
Volume 5 Issue 16 (June 2023) PP. 01-14
DOI 10.35631/AIJBES.516001

Keywords:

Focus Group Discussion, Shanghai Free Trade Zone, Malaysia, Trade, China, Investment

Introduction

FTZs are one of the important pillars contributing to the success of China's Belt and Road Initiative (BRI). As of May 2022, 20 FTZs and 1 Free Trade Port had been established in China. Among them, the SFTZ has made impressive progress over the past ten years, indicating China's determination to further its efforts in opening up markets and implementing reforms.

On September 18, 2013, China's central government approved the China (Shanghai) Pilot FTZ Overall Plan. The SFTZ was mandated to speed up the transformation of the government's role in the new era, actively exploring new models, promoting trade and investment facilitation. Special customs supervision covered four areas under the pilot SFTZ: The Shanghai Waigaoqiao Free Trade Zone, Shanghai Waigaoqiao Bonded Logistics Park, Yangshan Free Trade Port Area and the Shanghai Pudong Airport Comprehensive Free Trade Zone to achieve the long-term objectives of the plan. A year after the establishment of the SFTZ, Shanghai's State Council incorporated: Lujiazui Financial and Trade Zone, Jinqiao Economic and Technological Development Zone, and Zhangjiang Hi-Tech Park into the SFTZ, thus, enlarging the SFTZ's land area from 28.78 square kilometres to 120.72 square kilometres (SFTZ Administration, 2020). This expansion was crucial as financial leasing had become one of the leading industries (by revenue) in the SFTZ.

As China's most significant financial zone, Lujiazui Financial and Trade Zone serves as a core functional zone for Shanghai's international financial, high-level services, shipping, and global trade centres. Occupying 24.39 square kilometres, it is on par with New York City. It is also home to the Shanghai Stock Exchange, the 4th largest stock exchange globally, with a market capitalisation of 6.56 trillion USD in February 2021 (Statista, 2021). Lujiazui Financial Trade Zone has become a trailblazer for finance and trade (Shanghai Lujiazui Financial City Development Bureau, 2020). More than 80 international asset management companies have established themselves in Lujiazui, accounting for more than 90% of the foreign asset management companies currently set up in China (People's Daily Online, 2020).

The Jinqiao Economic and Technological Development Zone has a planned area of 20.48 square kilometres. After several decades of development, the zone has accelerated its transition from single processing and manufacturing to multiple manufacturing, R&D, logistics, and maintenance functions. In doing so, it has played an active role in attracting foreign investment and promoting industrial upgrading. The zone was the first in Shanghai and the third in China to become certified as an ISO14000 State-level demonstration area. (China Association of Environmental Protection Industry, 2000). ISO14000 offers tremendous opportunities for companies to promote environment friendly sound standards of doing business. It is a comprehensive approach to improving corporate environmental performance (increasing efficiency, reducing resource use, and minimising waste and polluting emissions). All these efforts will help enhance the image of the government and corporations. Furthermore, it also improves public recognition of their accomplishments. On top of that, it will reduce costs and broaden market opportunities.

Advanced International Journal of Business, Entrepreneurship and SME's
EISSN: 2682-8545
AIJBES
Volume 5 Issue 16 (June 2023) PP. 01-14
DOI 10.35631/AIJBES.516001

By September 2020, the zone had accumulated total tax revenue of 458.136 billion RMB, attracted foreign investment of 26.811 billion USD and the number of registered enterprises exceeded 13,000 (Sina, 2020). As of June 2021, the zone was the country's only pilot free trade zone focusing on a dual-core strategy featuring advanced manufacturing and producer services. Although the zone only covers 2 per cent of Pudong's land area, it constitutes 25 per cent of Pudong's industrial economy. Likewise, the zone contributes 50% of Shanghai's automotive industry output (Shanghai Pudong New Area Government, 2019).

Zhangjiang Science city stretches from the South East to the North West of Shanghai. The Zhangjiang Medical Device Industry Base has gathered nearly a hundred medical device companies. Four listed medical device companies, including Zhijiang Biological, account for more than half of the listed medical device companies in Zhangjiang Science City. In 2020, Zhangjiang Science City obtained approval to produce 43 domestic Class III medical devices, accounting for 48.3% of the total number of similar approved medical devices in Shanghai (National Medical Products Administration, 2020).

The Expo area is a key development area in Pudong New Area, Shanghai. It intends to create a world-class central public activity area. It aims to promote five primary functions: establishing business headquarters, promoting an innovation-oriented service economy, cultural exhibitions, tourism and leisure, and ecological liveability. (Shanghai World Expo Administrative Committee, 2021).

In August 2019, the Lingang New Area formally became part of the SFTZ. The area has been focused on seven industries: integrated circuits, artificial intelligence, biomedicine, aerospace, new energy vehicles, equipment manufacturing, and green remanufacturing. The Lingang New area development is seen as a revolutionary development in Shanghai (Ministry of Commerce, 2019). A new expansion area has put Lingang in a strategic position compared to other economic zones. Compared to the existing area (2013 to 2019), the expansion area offers more incentives, such as; business tax cuts, duty exemptions, and access to other beneficial policies to attract greater talent settlement. Currently, multinational companies, such as; Alstom (France), Tesla (United States), Caterpillar (United States), General Electric (United States), and Siemens AG (Germany), have established themselves in Lingang New Area. Among them, Tesla is the first and only foreign passenger car manufacturer with a wholly-owned factory in China (Reuters, 2021).

As a trading nation with a small domestic market, Malaysia is expected to continue to benefit from FTZs through preferential treatment and market access. FTZs help enhance Malaysia's competitive advantage, strengthen investors' confidence and, to a large extent, build Malaysia's economic sustainability. The recently rolled out policies to further open Shanghai's service industry to foreign investors and promote the development of multinational corporations' regional headquarters have highlighted Malaysia's hidden benefits. However, although the policy started about ten years ago, it has received many suggestions that are not just limited to liberalising trade, easing investment rules, streamlining administration and restructuring the financial system in line with international standards. As Malaysia's enterprises are always constrained by its small domestic market size, expanding their businesses to the international level is an alternative strategy to survive in this competitive environment.

Advanced International Journal of Business, Entrepreneurship and SME's
EISSN: 2682-8545
AIJBES
Volume 5 Issue 16 (June 2023) PP. 01-14
DOI 10.35631/AIJBES.516001

Malaysia's enterprises consist of young and infant industries. Hence, this study provides insights on awareness among Malaysia's enterprises towards SFTZ. In addition, the hidden opportunities and challenges will be discussed in detail and further enlighten the concerns of Malaysia' Enterprises. Furthermore, the research findings will raise the concerns and hidden obstacles from Malaysia's businesses who venture into SFTZ, which will be shared among the public, including the governments of Malaysia and China. Hence, both countries' policymakers can design, share and implement effective policies to reap the benefits of the SFTZ.

Literature Review

FTZs are a major feature of contemporary globalisation, especially for developing countries, where goods may be imported, handled, manufactured and exported without the involvement of customs authorities (Yu, 2018). FTZs also indicate that lower taxes will be borne by consumers and businesses, thus, promoting trade. Like most developing countries globally, China's FTZs main goals are to reduce trade barriers, specifically tariffs and import quotas, thereby increasing economic cooperation and trade between China and its partners. A notable difference is that each FTZ in China has a specific industry and economic focus, with different policies to promote regional industrial clusters building upon areas' unique strengths and characteristics. The FTZs are not designed to be competitors but are more likely to complement and support the domestic governments to achieve their ultimate goals.

Establishment phases	
First phase	
September 2013	Shanghai FTZ
Second phase	
April 2015	Guangdong FTZ
	Tianjin FTZ
	Fujian FTZ
Third phase	
March 2017	Chongqing Special Economic Zone
	Sichuan FTZ
	Shaanxi Special Economic Zone
	Henan FTZ
	Zhejiang FTZ
	Hubei FTZ
	Liaoning Special Economic Zone
Fourth phase	
October 2018	Hainan FTZ/ upgraded to free trade port in 2020
Fifth phase	
August 2019	Jiangsu FTZ
	Shandong FTZ
	Hebei FTZ
	Heilongjiang FTZ
	Guangxi FTZ
	Yunnan FTZ

Advanced International Journal of Business, Entrepreneurship and SME's
EISSN: 2682-8545
Volume 5 Issue 16 (June 2023) PP. 01-14
DOI 10.35631/AIJBES.516001

Six phase	
September 2020	Beijing FTZ

Figure 1: The Timeline of The Establishment of FTZs in China (2013-2022)

Many studies have been conducted in various countries that have suggested that FTZs positively impact international trade and provide greater access to the global market (Kawai & Wignaraja, 2011, Robinson, 2018; Zhou & Su, 2020).

Nevertheless, the impact of FTZs might be different as they depend on local support, such as infrastructure and government policies. Fan et al. (2022) conducted empirical testing using the allometric growth model and linear scale factors in four Chinese seaports: Shanghai Port, Tianjin Port, Guangzhou Port, and Fuzhou Port, based on the port throughputs and import and export trade volumes of their cities from 2000 to 2020. The results indicated that FTZ promotion policies had lagging impacts on Shanghai Port and Tianjin Port compared to the other aforementioned ports. Under its 14th five-year plan implemented in 2021, China aims toward higher-level reforms and further opening its market to foreign investors. FTZs are well-positioned to escalate the success of the said plan.

Methodology

Taking a small business global is a complex and dynamic process. Businesses have to adopt completely new approaches and strategies which will be different from their domestic markets. Foreign Direct Investment (FDI) is one of the best ways for businesses to go global. Most companies will venture into developing countries instead of developed countries as a testbed for going global. In 2021, China surpassed the US as the top destination for foreign investment after its swift rebound from the Covid pandemic (Kawate, 2021).

The market size of the host country has been one of the key considerations for multinational companies to invest abroad (Ho, 2013; Carril-Caccia & Pavlova, 2018). Following the market-size hypothesis, larger markets have a competitive edge over smaller markets regarding higher profit opportunities. In addition, from a firm's perspective, to achieve economies of scale. Thus, larger market sizes are a must. Furthermore, a large foreign market relative to the small host market provides greater opportunities and possibilities for the firm. Hence, domestic firms should be encouraged to internationalise their business activities to access larger foreign markets. This situation was consistent with Goh and Wong's (2011) findings that foreign market size was one of the significant factors contributing to Malaysia's outward FDI.

Resulting from the facts mentioned above, the SFTZ may become a pivotal method for Malaysian businesses to go global, should they accept it. However, although the SFTZ offers great opportunities to Malaysian businesses, many other challenges are also crucial to determining their success. Thus, this study adopted the Grounded Theory to examine the selected respondents' perceptions of the SFTZ. The Grounded Theory was employed in this study, as Tie et al. (2019) revealed that the procedures of the Grounded Theory provided insight for novice researchers to understand the discourse and the practical application of grounded theory concepts. This revelation matched this study's objectives. This study has sought to provide insights into the awareness among Malaysia's enterprises towards this initiative. In

Advanced International Journal of Business, Entrepreneurship and SME's
EISSN: 2682-8545
AIJBES
Volume 5 Issue 16 (June 2023) PP. 01-14
DOI 10.35631/AIJBES.516001
addition, the hidden opportunities and challenges will be discussed in detail and further enlighten the concerns of Malaysian enterprises.

Purposive sampling method has been applied on this study as the respondents should be familiar with the Shanghai FTZ business environment. The non-sampling method being selected due to the better matching of the sample to the aims and objectives of the research as well as to gather useful information. A total of 28 participants were invited to five focus groups.

The first four focus groups were conducted with the The Associated Chinese Chambers of Commerce and Industry of Malaysia (ACCCIM) as well as MAYCHAM China. Both associations' President and senior management teams attended the group discussions. ACCCIM is a national-level organisation of Malaysia's Chinese chambers of commerce. It consists of over 100,000 members representing; Malaysian Chinese companies, individuals and trade associations, and the Chinese business community. At the same time, MAYCHAM China is focused on promoting trade and exchange between China and Malaysia, further facilitating and strengthening the economic relationship between the two countries. The discussions started by introducing the Shanghai free trade zone and continued with open-ended questions from the macroeconomics perspective. The third and fourth discussions consists of members from ACCCIM and MAYCHAM were sharing their experiences in doing business in Shanghai. Whereas, Malaysia trade commissioner based in Shanghai and assistant were also invited to the fifth focus group. All of the participants were familiar with business practices in Shanghai as some of them owned businesses in China or were currently working in Shanghai in senior positions.

Before the discussion, the researchers conducted a desktop search concerning the known issues regarding the Shanghai FTZ. The topics were grouped into the five categories below:

1. Awareness of Malaysian businesses towards the SFTZ.
2. What are the positive sides of the SFTZ?
3. What challenges have businesses found while doing business in the SFTZ?
4. What are the future prospects of the SFTZ?
5. What are the current practices of the Malaysian government's office in Shanghai in promoting trade?

Result And Analysis

The five focus group discussions' recorded video was transcribed, translated, and analysed for common themes via the Nvivo 11 software application.

According to the participants, Malaysian companies should focus on natural resources, such as oil palm and rubber, as Malaysia possesses a comparative advantage in such industries. The participant's view was compatible with the findings of Tan and Lim (2019). The authors revealed that palm oil played a dominant role in the world vegetable oil market, while Malaysia was ranked the second-largest palm oil producer globally in 2017. In addition, the participants noted that Malaysia did have a comparative advantage in two particular industries, i.e., semiconductor and electrical and electronics (E&E) products. This situation was because E&E products have been the top export of Malaysia for many years. For instance, based on the MITI report, E&E continued at the top rank of Malaysia's exports, comprising 39.4% of Malaysia's total exports, amounting to RM386.11billion in 2020 (MITI, 2021).

Advanced International Journal of Business, Entrepreneurship and SME's
AIJBES
EISSN: 2682-8545
Volume 5 Issue 16 (June 2023) PP. 01-14
DOI 10.35631/AIJBES.516001

…I think Malaysian Companies can focus on natural resources…Good to focus on agricultural or food industries… Two particular industries in Malaysia, such as semiconductors and electrical and electronics (E&E), can sustain in Shanghai.

The participants also stated that the halal market was a potential market that Malaysian companies could explore. The Muslim population in China is about 2.2 billion; thus, the potential market is huge. According to Fischer (2015), in 2004, the former Prime Minister of Malaysia, Tun Abdullah Haji Ahmad Badawi launched the inaugural Malaysia International Halal Showcase (MIHAS). MIHAS was the largest halal trade fair globally. Promoting Malaysia as a 'global halal hub' was, at that time, one of the primary policies of the government. The authors also revealed that Malaysia frequently held major halal events to promote halal products globally, starting from 2004. The participants believed that if Malaysian and Chinese companies could work together, it might be possible to expand the business to the Middle East and India. This proposal offers a strong platform that may become a game-changer if implemented effectively and efficiently.

…The potential Halal Market in China might be the key change. This market can potentially mitigate the impact of a trade war between China and the US…For China, Islamic finance is still lacking. Hopefully, Malaysia will be able to catch up and grab the opportunity.

In addition, the participants also mentioned that there were a few areas where Malaysian companies were performing well, such as; biomedical, healthcare and aviation. The SFTZ has sought to build connectivity between; international markets, skills, and talent worldwide. The 'Outline of the Development Plan for Zhangjiang (2013-2020)' stated that talent gathering was Zhangjiang's main task in building a technological innovation hub. Therefore, the SFTZ is dedicated to recruiting international talent to work in Shanghai and performing the internationalisation of R&D (Zhang et al., 2020).

Given the abovementioned fact, the participants opined that Malaysian companies could consider developing R&D in the SFTZ.

…Many preferred policies concerning talent have been rolled out; for instance, talent can buy a house within 3-5 years in Shanghai after paying tax to the local government for a certain period. In addition, they can also change their permanent place of residence via China's hukou (household registration) system. Also, as long as someone is classified as a professional, the expired visa date will follow the applicant's passport valid date.

The participants also mentioned that the service sector was expanding rapidly in Shanghai. Similarly, Klimek (2015) also signified that the Chinese government identified various service sectors, such as professional services and financial services, as playing pivotal roles in the future development of Shanghai. The participants were informed that the Shanghai International Economic and Trade Arbitration Centre had been established. ACCCIM worked with other associations (MCBC) to establish the Asian Institute of Alternative Dispute Resolution (AIADR) last year. They have a representative office in Shanghai. Thus, it is an evident that Shanghai's business environment has provided confidence for businesses.

Advanced International Journal of Business, Entrepreneurship and SME's
AIJBES
EISSN: 2682-8545
Volume 5 Issue 16 (June 2023) PP. 01-14
DOI 10.35631/AIJBES.516001

…The services sector, including the legal system, is very strong in Shanghai… I think Malaysia has a comparative advantage in the service sector in terms of talent. I hope the preferred policy will focus on talent. For instance, the Z visa can compete internationally, especially for our Chinese graduates.

The participants opined that many Malaysian businesses had recently preferred to invest in the service sector, for instance, accountancy. Many Malaysian accountants are ACCA members. In contrast, China is still moving toward adopting international accounting standards. Shanghai is lacks of talent in this area.

… Participation in the accountancy sector might be good in Shanghai as they are lack of talent in this area. Malaysia follows the ACCA standard, a global body for professional accountants.

Besides, Malaysians, particularly Malaysian Chinese, share a similar background, language and culture to China. Thus, Malaysian businesses can support Chinese firms in reselling their products in Malaysia and other countries.

The participants opined that many products sold in China were not made in China. As such, Malaysian business can take this opportunity to chip in. China prefers foreign investors with product IP rights and IT teams. They prefer that businesses or products invested in Shanghai are unique and not shared worldwide. Products without intellectual property rights (IP) find it difficult to sustain in Shanghai. According to Wei and Zhiguo (2015), the Shanghai Pudong New Area People's court has set up an intellectual property court. Therefore, it is an evident that Shanghai is alert to and emphasises intellectual property issues.

…Some of the free trade zones, not only Shanghai, have a lot of high-end technology companies. So, I think if we can find some policies on how we can help Malaysian companies to produce unique products with them including IP, the companies will certainly sustain and blossom in the Chinese market

Given the facts mentioned above, Malaysian businesses should consider their products' uniqueness and IP rights before investing in Shanghai.

The participants opined that information regarding the policies, promotion/advertising of the SFTZ was lacking. Malaysian businesses have not been aware of the SFTZ. The participants commented that Malaysian businesses might think the SFTZ was aimed toward well-established firms from western countries, such as Siemens. The main contributing factor to this limitation has been that no organisation or agency in Malaysia has been tasked to coordinate and disseminate information to Malaysian businesses.

… no organisation takes responsibility for coordinating and passing information to us. Information is not clearly explained to businesses. Relevant agencies might need to strengthen their publicity in this respect… I feel that the location of Shanghai is very strategic and provides a greater opportunity to Malaysia as it is relatively liberalised. We can see how we can extend the business there… I hope the discussion today can create an awareness to develop a systematic method to disseminate up to date information to us.

Advanced International Journal of Business, Entrepreneurship and SME's
AIJBES
EISSN: 2682-8545
Volume 5 Issue 16 (June 2023) PP. 01-14
DOI 10.35631/AIJBES.516001

The participants found that some countries have set up liaison office or associates in Shanghai to provide up to date information to their businesses. For example, Singapore Chamber of Commerce & Industry has a branches in Shanghai. Besides, the China Council for the Promotion of International Trade have representative offices in Thailand and Singapore, but not Malaysia. For Malaysian businesses, the major sources of information are from respective associations established by local Malaysian businesses that have invested in China and are mainly focused on the south area of China. Therefore, information is lacking.

Institutional support from Malaysia's government is vital for Malaysian businesses to establish and sustain themselves in the SFTZ. Following Arbari, Azbari and Chaijani (2019), institutional factors, for instance, institutional support, have been seen to play a positive and significant role for the businesses located in the free trade zone to access physical and non-physical resources.

The participants expressed that the currency control policy currently implemented by China has been one of the main challenges faced by Malaysian businesses. China has implemented several controls and regulations concerning the flow of the RMB through its borders which will have an impact on SFTZ. These regulations can be somewhat inconvenient for investors. Capital flows are subject to the approval of China's central bank, and each transaction must be supported by information regarding the usage of the money. From 2013 until now, the free flow of RMB has been concentrated on expansion areas, including Lingang. However, Lingang is located far from Shanghai and does not benefit those investing in Shanghai.

... I think the main challenge is currency control. The free flow of the RMB is under China's State Administration of Foreign Exchange (SAFE) authority. They are very strict on currency control. If China can continue to open and be more transparent in developing its policies, it will help to attract more investors to invest their money in Shanghai.

Besides, the participants also revealed that the repatriation of profits was difficult and that the taxes on profits were extremely high. As a result, many investors or businesses used Hong Kong as a conduit to repatriate their profits and lessen their tax liabilities. In fact, under the existing laws and regulations, the enterprises should be able to bring back the money to their home countries. Klimek (2015) revealed that The People's Bank of China had expanded the cross-border usage of the in a freer way. Likewise, Chao (2014) also noted that a company's funds in the SFTZ account could be moved freely across countries. Unfortunately, according to the participants, enterprises have been asked to transfer the money separately with a limited amount each time. The enterprises claims that they still need to obtain permission for each transaction.

...after several rounds of discussions, the entrepreneurs were asked to repatriate profits back to their home countries with a limited amount within two years.

China's law and regulations have steadily improved since 1970 but continue to be adjusted and refined. For professional accounting, China has now recognised the global professional accounting body, ACCA. However, the participants emphasised that besides the international professional accounting standard that China's government is adopting, businesses are still required to submit another report which follows China's accounting standard. Besides, there is generally room for improvement in China's regulations, especially concerning justice and law enforcement., where there is a huge difference between the two country's regulations. In

Advanced International Journal of Business, Entrepreneurship and SME's
EISSN: 2682-8545
AIJBES
Volume 5 Issue 16 (June 2023) PP. 01-14
DOI 10.35631/AIJBES.516001

addition, the SFTZ has a very high level of legal autonomy, and some Chinese laws do not apply within the SFTZ (Wan et al., 2014). On the other hand, the SFTZ and the whole of China have not yet conformed fully to international labour standards (Wang, 2017a). The participants stressed that if Malaysian businesses were planning to invest in China, they should engage a sufficient legal team to ensure that the information provided by both countries' legal teams was precise and correct.

… if you want to invest in China, you need to have a big group of legal teams.

The Government of China does not recognise several industries' professional qualifications as different countries have different systems and practices.

The participants emphasised that Shanghai is a tier 1 city with a very high cost of living. Similarly, Gan, Hernandez and Ma (2016) stated that Chinese labour costs have significantly increased over the past few years. Therefore, the participants revealed that Shanghai now focuses on high tech and modern industries. Thus, not all types of businesses are a good fit to invest in this province. The potential businesses that can sustain themselves in Shanghai will be those that produce high end/price products.

…the cost of living in Shanghai is very high and focuses on high end/price products… Only certain industries have a comparative advantage in investing in Shanghai. For instance, those multinational companies, such as Khazanah, Malaysia. Their strong financial background and specific talents enable them to expand their businesses.

Based on Klimek (2015), the companies that have invested in the SFTZ are large multinational firms that produce high end/price products, such as; Apple, Citigroup, Microsoft and Porsche, among others. On the other hand, most SMEs in Malaysia are Micro SMEs; that might not have the ability to compete locally, not to mention in Shanghai. In a nutshell, SMEs do not possess a comparative advantage when seeking to invest in the SFTZ.

The participants mentioned that the policies related to the SFTZ keep changing. For foreign investors, it is hard to keep abreast of the changes, as they are frequent and sometimes huge.

…the policy has changed too often unless we spend time understanding the changes.

One of the participants provided an example. The tax policy for each district will change every year. Due to such policy changes, the investors feel insecure, and they have to spend a lot of time understanding the changes. Businesses need to have an in-depth understanding about; tariffs, regulations on investments, etc. Many Malaysian companies have suffered from high taxes even in SFTZ. They have needed to seek help as they have not understood the nature of the business environment in China, especially when facing new policies due to the above changes.

… the implementation of the new policy/changes has not been widely well known… Perhaps they feel it is hard for overseas businesses to follow the changes as sometimes they are huge. As such, enterprises might be reluctant to shift their base.

EISSN: 2682-8545
Volume 5 Issue 16 (June 2023) PP. 01-14
DOI 10.35631/AIJBES.516001

The participants reiterated that businesses would face more challenges when implementing new policy/changes as they were not widely well known. Developing a clear and comprehensive legal system in the SFTZ is crucial in guiding and regulating foreign investment activities, including tax policies. Such actions will avoid foreign investors not knowing how to move their projects forward (Wang, 2017b). Furthermore, Luo and Zhi (2019) opined that the local officials in the SFTZ should be briefed so that they are clear when conducting reform duties.

MATRADE serves as Malaysia's national trade promotion agency and primarily focuses on assisting Malaysian enterprises in exporting through various export promotion programmes and export development programmes.

The representative from MATRADE revealed that as China was still implementing a Zero-Covid Strategy, the restrictions have heaped pressure on the domestic businesses.

…Our operation in the Shanghai office has been affected by the Covid pandemic. We have actively engaged in some programmes previously, but these have been delayed due to the Covid pandemic.

The Malaysia's trade commissioner based in Shanghai revealed that their operation in China had been affected by the Covid pandemic, and most activities were being conducted online. E-bizmatch is an online business matching platform connecting domestic companies with global business partners. MATRADE (Shanghai) will identify importers in Shanghai, whereas MATRADE (Malaysia) will match profiles for Malaysian enterprises. Most Chinese buyers are State Own enterprises (SOE). Before the Covid pandemic, some offline trade promotions, such as China International Import Expo (CIIE) in 2018, 2019 and 2021, were participated in by Malaysia. There have also been some conferences periodically where MATRADE has presented the preparations necessary for Malaysian enterprises to venture into the Chinese Market.

Some Businesses Have Commented That Shanghai Is Only Suitable For Large Enterprises. Is This True?

…No. Most Malaysian Companies prefer the southern areas of China, such as Guangzhou. Many Malaysian entrepreneurs have set up hubs in Guangzhou due to its strategic location. Goods shipped from Malaysia can reach Guangzhou port within five days by sea shipping. The cost of establishment in Shanghai is very high. Perhaps, this is why businesses have prefered to establish themselves in other places.

Some Malaysian companies are currently based in Shanghai. Apart from setting up representative offices, JVs, and wholly-owned foreign enterprises (WOFEs) mergers and acquisitions, are becoming increasingly popular. After all, conducting business in China heavily depends on relationships. A local partner is crucial for a foreign company's success in China. As long as SMEs in Malaysia have the right products and strategies, they will be able to penetrate the lucrative Chinese market. Most Malaysian companies in Shanghai are registered as trading companies or in the retail industry. Currently, the most highly demanded Malaysian products are bird's nests and durian.

Advanced International Journal of Business, Entrepreneurship and SME's
AIJBES
EISSN: 2682-8545
Volume 5 Issue 16 (June 2023) PP. 01-14
DOI 10.35631/AIJBES.516001

Is There Any Guideline Or Assessment Tool That MATRADE Will Use To Assess The Readiness Of Malaysian Companies Before They Plan To Export Overseas?

… We have the Export Readiness Assessment Tool (ERAT) and The Beginner's Guide to Exporting prepared by the HQ of MATRADE in Malaysia. Our role in the Shanghai office does not involve this.

The Export Readiness Assessment Tool (ERAT) is an online assessment tool for Malaysian companies to determine their export readiness. It helps companies verify their assumptions on the potential of international markets for their businesses. At the same time, the Beginner's Guide to Exporting aims to let businesses wishing to expand their markets understand the export requirements and international standards in various sectors.

Is There Any Advice From MATRADE To Those Businesses Who Wish To Venture Into Shanghai?

…China is a very competitive market. Things are changing every six months, making the market very sophisticated. Social media plays a vital role, influencers, etc.

China's market is huge. Most Malaysian businesses might not have conducted in-depth research before entering the Shanghai market. Some of them still think that the establishment costs are cheap in China However, while this might apply to the 2nd tier cities in China, it does not apply to Shanghai. In addition, China is currently reforming its policies toward sustainability. Therefore, how businesses manage their waste disposal will directly affect their production costs as now a China regulator oversees the treatment costs (green recovery).

Concluding remarks

The rapid changes in demographics, rising income, increased consumer spending, and an increasingly open business environment has helped make the Chinese market attractive to businesses across various industries. As a trading nation with a small domestic market, Malaysia is expected to benefit from the *SFTZ* through comparative advantages in certain industries, with its talent, and through unique products with intellectual property rights. Nevertheless, at the same time, Malaysian businesses have remained constrained by several obstacles, such as lack of information, exit policies and differences in regulations. Although MATRADE has stepped in as a bridge between local and Shanghai enterprises, more is needed to be done. China is unified in the geopolitical sense, but the nature and make-up of the markets in different cities of China vary considerably. Therefore, Malaysian companies should thoroughly analyse which geographical location offers the best vantage point to target the broader China market.

Conflict of Interest Disclosure

The authors report there are no competing interests to declare.

Data Availability Statement

The authors confirm that the statistics supporting the findings of this study are available within the manuscript (Appendices). All the sources and links for the statistics are correctly recorded at the references.

Acknowledgement

This research has been supported by internal grant No. UC/1/G2020-00059 from Tunku Abdul Rahman University of Management and Technology. The authors would like to thank

EISSN: 2682-8545
Volume 5 Issue 16 (June 2023) PP. 01-14
DOI 10.35631/AIJBES.516001
the Associated Chinese Chambers of Commerce and Industry of Malaysia (ACCCIM), MAYCHAM China and Malaysia External Trade Development Corporation (MATRADE) for their support in producing this study.

References

Akbari, M., Azbari, M.E., & Chaijani, M.H. (2019). Performance of the firms in a free-trade zone: The role of institutional factors and resources. *European Management Review*, *16*, 363–378.

Carril-Caccia, F., & Elena, P. (2018). Foreign direct investment and its drivers: a global and EU perspective. Economic Bulletin Articles, European Central Bank, *4*.

Chao, K. (2014). Leadership or partnership –how China's shanghai pilot free trade zone will promote RMB internationalization? *Research papers of Wrocław University of Economics*.

China Association of Environmental Protection Industry. (2000, August 8). Notice on Approving Shanghai Jinqiao Export Processing Zone as an ISO14000 National Demonstration Zone. http://www.mee.gov.cn/gkml/zj/jh/200910/t20091022_173172.htm

Fischer, J. (2015). Malaysian diaspora strategies in a globalized Muslim market. *Geoforum*, *59*, 169–177.

Gan, L., Hernandez, M. A., & Ma, S. (2016). The higher costs of doing business in China: Minimum wages and firms 'export behaviour. *Journal of International Economics*, *100*, 81-94.

Goh, SK., & Wong, KY. (2011). Malaysia's outward FDI: The effects of market size and government policy. *Journal of Policy Modeling*, *33*(3), 497–510.

Ho C.SF., Amir K., Nasaruddin L.S., & Abidin N.F.Z. (2013). Openness, Market Size and Foreign Direct Investments. Emerging Markets and Financial Resilience. Palgrave Macmillan, London. https://doi.org/10.1057/9781137266613_8

Kawai, M., & Wignaraja G. (2011). Asian FTAs: Trends, Prospects, and Challenges. *Journal of Asian Economics*, *22*(1), 1-22.

Kawate, I. (2021, January 26). China surpasses US as top destination for foreign investment. *Nikkei Asia*. https://asia.nikkei.com/Economy/China-surpasses-US-as-top-destination-for-foreign-investment.

Klimek, A. (2015). Shanghai Free Trade Zone: Expectations and reality. *Research papers of Wrocław University of Economics*. http://doi: 10.15611/pn.2015.413.03

Luo, C & Zhi, Y. (2019). Reform and opening up in the new era: China trade policy review. *The World Economy*, *42*, 3464–3477.

Ministry of Commerce. (2019, August 6). The State Council issue of the China (Shanghai) Pilot Free Trade Zone Notice of the overall plan for the Lingang New Area. :http://www.gov.cn/zhengce/content/201908/06/content_5419154.htm

MITI. (2021). Top 10 major export products, 2020. The Official Portal of Malaysia External Trade Development Corporation. https://www.matrade.gov.my/en/malaysian-exporters/services-for-exporters/trade-market-information/trade-statistics/28-malaysian-exporters/trade-statistics/5082-top-10-major-export-products-2020.

National Medical Products Administration. (2020). NMPA issued the Announcement on Matters Concerning the Production of Imported Medical Devices in Domestic Enterprises in China. http://english.nmpa.gov.cn/2020-09/25/c_566819.htm

People's Daily Online. (2020, April 2) Focus on financial technology and asset management, the first dialogue of the six major international financial centres. http://sh.people.com.cn/n2/2020/0429/c134768-33985534.html

EISSN: 2682-8545
Volume 5 Issue 16 (June 2023) PP. 01-14
DOI 10.35631/AIJBES.516001

Reuters. (2021, May 11). Tesla puts brake on Shanghai land buy as U.S.-China tensions weigh. Reuters.com/business/autos-transportation/exclusive-tesla-puts-brake-shanghai-land-buy-us-china-tensions-weigh-sources-2021-05-11/.

Robinson, E. (2018, December 21), " Globalisation in a Small Open Economy: The Singapore Experience," *BIS Paper No. 100u*.

SFTZ Administration. (2020, September 24). Notice of the State Council on Issuing the Overall Plan for China (Shanghai) Pilot Free Trade Zone.

Shanghai Lujiazui Financial City Development Bureau. (2020). Lujiazui Financial and Trade Zone. http://en.china-shftz.gov.cn/industrialparks.html.

Shanghai Pudong New Area Government. (2019). Jinqiao Economic and Technological Development Zone. http://en.china- shftz.gov.cn/industrialparks.html.

Shanghai World Expo Administrative Committee. (2021). Regional overview. http://www.pudong.gov.cn/shibo/.

Sina. (2020). Jinqiao ushered in the year as the first batch of Pudong development zones Launched. http://sh.sina.cn/zw/2020-09-24/detail-iivhvpwy8620670.d.html.

Statista. (2021). Largest stock exchange operators worldwide as of February 2021, by market capitalization of listed companies. https://www.statista.com/statistics/270126/largest-stock-exchange-operators-by-market-capitalization-of-listed-companies/

Tan, Y.D., & Lim, J.S. (2019). Feasibility of palm oil mill effluent elimination towards sustainable Malaysian palm oil industry. *Renewable and Sustainable Energy Reviews*, *111*, 507-522.

Tie, C Y., Birks, M., & Francis, K. (2019). Grounded theory research: A design framework for novice researchers. *SAGE open medicine*. https://doi.org/10.1177/2050312118822927.

Wan, Z., Zhang, Y., Wang, X., & Chen J. (2014). Policy and politics behind Shanghai's Free Trade Zone Program. *Journal of Transport Geography*, *34*, 1-6.

Wang, B. (2017a). Employment in China (Shanghai) Pilot Free Trade Zone. *The Chinese Economy*, *50*, 266–273.

Wang, Q. (2017b). The management of foreign private equity funds involves foreign investment and foreign exchange in the China (Shanghai) Pilot Free Trade Zone. *The Chinese Economy*, *50*, 249–258.

Wei, J., & Zhiguo, W. (2015, April 1). Intensive trial of intellectual property cases of free trade zone conclusion as "reproducible and propagable" establishment of free trade zone division of Pudong Court and of research station of China (Shanghai) Pilot Free Trade Zone Judicial Protection for Supreme Court. No. 0004, People's Court Report.

Yu, L. (2018). China's Free Trade Area Strategy: an alternative avenue to China's "peaceful" rise? *The Social Science Journal*, 206-218.

Zhang, Y., Zheng, G., Si, Y. & Teng, T. (2020). Does international talent promote innovation performance of latecomer firms? Empirical investigation into mainland Chinese firms in the Zhangjiang National Innovation Demonstration Zone, Shanghai. *Asian Journal of Technology Innovation*, *30*(1), 198-216.

Zhou, C., & Su, Y. (2021). Trade Effect of the Free Trade Zone. *International Business Research*. *14*(1), 34-54.