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# The Key Factors of Successful Foreign Direct Investment (FDI) in China

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## Abstract

**Purpose:** China's economy has changed considerably in recent decades. By delivering a comprehensive knowledge of the elements that support successful foreign direct investment (FDI) in China and practical insights for multinational firms operating in this dynamic environment, this research offers a new perspective and sets itself apart from previous studies. **Research design, data and methodology:** It is necessary to give a thorough overview of the body of information on successful FDI in China, which justifies the adoption of a systematic literature review. The study may use a wide range of studies because of this methodology, which guarantees that inferences have a solid and supported basis in data. **Results:** The findings in the present study have clarified how China's government policies and regulatory framework affect foreign direct investment (FDI). Previous studies have indicated that regulatory changes can significantly impact FDI. For instance, more foreign direct investment (FDI) has been drawn to liberalized industries such as technology and finance. **Conclusions:** In conclusion, for foreign direct investment (FDI) to be successful in China, it is essential to consider these four factors: local partnerships and cultural adaptation, market research and entry strategy, regulatory environment and policy support, and risk management and contingency planning.

**Keywords :** Foreign Direct Investment (FDI), Corporate Strategy, International Relationship, Economy of the China

**JEL Classification Code:** B17, F02, F65, L10

## 1. Introduction

Amidst a complex and rapidly changing global business landscape, Foreign Direct Investment (FDI) has emerged as a pivotal catalyst for driving worldwide economic growth and transformation in business operations. In this era of expanding international business activities and the pervasive influence of globalization, it is unequivocal that China has ascended as a dominant force in attracting FDI (Kang & Martínez-Vázquez, 2021). China's growing middle class, consumer demand, cheap labor, and dynamic business climate attract global companies (Yu et al., 2020). China's economy has transformed in recent decades. The country went from a rural to a global economic powerhouse after these reforms.

China's economy has changed considerably in recent decades. This transformed the country from a rural country to a worldwide economic powerhouse. FDI, which drives China's economic growth and modernization, may be responsible for this transformation. FDI drives China's economic growth and modernization. Foreign investors have had many new chances since the country's economy was liberalized, and it joined the WTO in 2001 (Amiti et al., 2020). However, investing in China requires navigating a complex legal structure, cultural differences, and risk management. These issues are regulatory, cultural, and operational.

This research study examines the key factors that drive foreign direct investment (FDI) in China to help multinational corporations navigate this difficult market.

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This study illuminates the nuances of this dynamic environment. It emphasizes the necessity of scholars and practitioners to understand the complexity of FDI in China within the global economy.

China's economic revolution in recent decades is unquestionable. FDI helped the country grow from an agricultural civilization to a worldwide economic powerhouse. China's 2001 liberalization and WTO membership opened new doors for overseas investment (Amiti et al., 2020). China's growing middle class and consumer base make it an attractive FDI destination (Khan et al., 2021). However, investing in China requires negotiating a complex legal structure, understanding cultural nuances, and mitigating risks (Lin-Jing & Zhao, 2020). Understanding the reasons that drive FDI in China is crucial for academics and businesspeople.

This study's primary goal is to pinpoint and examine the critical elements that contribute to FDI success in China. The study will address the following research questions to fulfill this goal: (A) What are the main elements that make foreign direct investment in China successful? (B) What differences exist between these factors in various sectors and industries? (C) What are the best ways international companies can take advantage of these factors?

Seven chapters cover the study aims and questions in this including introduction, literature review, methodology, findings, implications to practitioners, limitations and conclusion each in separate chapters. Each chapter will help readers understand FDI in China and contribute to the research study. A quick summary of the significant elements supporting the success of foreign direct investment (FDI) in China is as follows: Local partnerships and cultural adaptation, Regulatory environment and policy support, Risk management and contingency planning, and Market research and entry strategy.

The body of research on foreign direct investment in China is quite informative. Nonetheless, there needs to be an apparent research vacuum when thoroughly examining the critical success elements and how they apply to international enterprises. The objective of this research is to close this gap by exploring the essential elements of success and offering valuable suggestions for professionals. By doing this, it hopes to add to the corpus of information on FDI in China and worldwide business strategy. By delivering a comprehensive knowledge of the elements that support successful foreign direct investment (FDI) in China and practical insights for multinational firms operating in this dynamic environment, this research offers a new perspective and sets itself apart from previous studies.

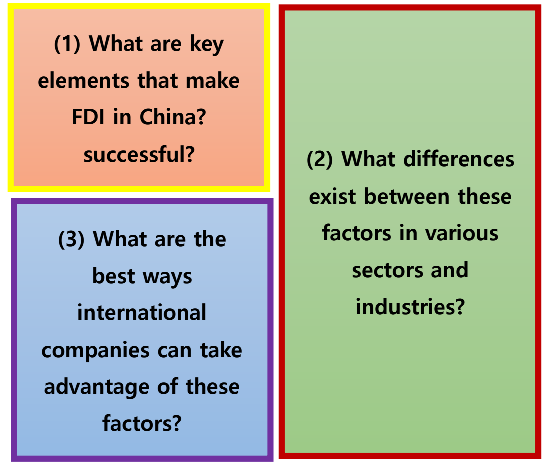


**Figure 1:** The Research Questions

## 2. Literature Review

Foreign Direct Investment (FDI) refers to capital invested by a person or company in a foreign country. A study conducted by Khalid and Marasco (2019) found that FDI drives economic growth, job creation, and technology dissemination, making it vital to the global economy. Connecting to other countries' economies boosts international trade. Foreign direct investment has become a significant means of capital transfer between nations, highlighting its importance. In recent years, international agencies like UNCTAD have seen a rise in foreign direct investment (FDI) entering and departing countries (Dinh et al., 2019). This shows how FDI affects global economic dynamics.

China has been a major foreign direct investor for decades. China's FDI journey is exciting and changing. It opened its economy to foreign investment in the late 1970s through economic reforms (Zheng, 2019). Before these reforms, China had a highly concentrated economy. Deng Xiaoping, who introduced "reform and opening up," sparked this change (Kołodko, 2021). Special Economic Zones (SEZs) like Shenzhen and Zhuhai attract foreign investment by offering better tax incentives and a more business-friendly environment (Lin et al., 2022).

China's massive consumer market, cheap labor, and growing infrastructure attracted foreign investors. This increased foreign direct investment (FDI) into China, mainly by multinational companies seeking industrial bases and market access. Therefore, China is one of the world's largest FDI recipients. According to Morrison (2019), the Chinese economy's openness to global finance and technology helped it become an economic superpower. This historical perspective illuminates the role of foreign direct investment in China's economic growth and helps explain its dynamics now.

It is essential to use a theoretical framework that considers the complex interplay of economic, political, and social elements while studying FDI in China. John Dunning proposed the eclectic paradigm, which is one popular theoretical framework. Understanding the reasons behind FDI decisions has been made easier by this paradigm, especially when considering China (Wagner, 2019; Nantharath & Kang, 2019). The eclectic paradigm, sometimes referred to as the OLI (Ownership, Location, and Internalization) framework, asserts that three main elements have an impact on FDI decisions:

According to Da Cruz et al. (2020), ownership advantages are the unique qualities, advantages over competitors, or other assets that a company has that attract foreign investment. These ownership benefits may include access to distribution networks, brand recognition, superior technology, and exclusive intellectual property in the context of foreign direct investment (FDI) in China. These resources encourage foreign companies (MNCs) to enter China by offering them a competitive advantage in the international market.

A host country must accord foreign investors some benefits for investing in their country. These benefits include market size, natural resources, infrastructure, trained labor, and a business-friendly regulatory climate. China's business climate is favorable. Due to its vast consumer market, plentiful natural resources, and investor-friendly laws, China has always drawn FDI. It is a regional hub for foreign direct investment due to its strategic location in Asia and the Belt and Road Initiative (BRI) (Paul & Feliciano-Cestero, 2021).

The technique a company uses to enter international markets and make the most of its ownership, and geographic advantages is known as internalization advantages. This may include factors about the mode of entrance, such as joint ventures, wholly-owned subsidiaries, or strategic partnerships for multinational corporations operating in China (Chemsripong, 2023). The degree of control required, the requirement for local knowledge, and the degree of market integration in the host nation can all impact internalization decisions.

## 2.1. Key Success Factors for FDI

1. Regulatory Environment: A critical factor in determining the success of FDI in China is the regulatory environment. Marjanović and Domazet (2021) have underscored the need to comprehend China's intricate legal and administrative prerequisites. For international investors, a more seamless entrance and operation might be facilitated by a favorable regulatory framework. MNCs must be informed and quickly adjust due to the frequent changes in laws and regulations.

2. Market Research and Entry Strategies: In China, thorough market research is essential for success. MNCs can assess regional variances, local competitiveness, and consumer preferences by conducting thorough market research (Yang et al., 2020). Joint ventures and wholly-owned subsidiaries are examples of entry tactics that need to be in line with long-term goals and market conditions. Gaining a competitive edge requires tailored tactics based on market knowledge.

3. Local Partnerships: Local alliances are frequently thought necessary for negotiating China's complex economic environment. Working with regional businesses gives you access to essential networks, distribution channels, and local expertise. However, because it can have a significant impact on an FDI venture's success, choosing a qualified local partner requires careful thought.

4. Cultural Adaptation: Beyond language proficiency, cultural adaptation is a complex success factor. It includes awareness of Chinese cultural norms, beliefs, and business etiquette. Building solid relationships and trust are essential for effective commercial operations in China, and they can only be achieved via cultural awareness and adaptability.

5. Risk Management: Investing in China carries some risk. The literature emphasizes how crucial it is to implement efficient risk management techniques. This covers risk analysis, backup plans, and flexibility in unforeseen events. Proactive risk reduction strategies are necessary in light of China's changing political, economic, and social environment.

China has attracted significant foreign direct investment despite its economic decline and rising competition. Foreign direct investment changes reflect China's move from production to consumption and innovation. Foreign investments are increasingly drawn to innovative technology, renewable energy, and service industries (Yang et al., 2020). China's appeal as a foreign direct investment destination has also increased due to the Belt and Road Initiative (BRI).

## 2.2. Research gap identification and justification for the study

Despite a wealth of research on foreign direct investment (FDI) in China, there is a crucial research vacuum that requires additional study. A need for more thorough studies has identified the interplay and relative relevance of these determinants for successful FDI. However, prior studies have frequently examined each factor affecting FDI in China separately. Furthermore, the dynamic economic environment and regulatory modifications in China necessitate a reexamination of the success elements that correspond with the current circumstances. By providing a comprehensive analysis of the critical elements that successfully facilitate foreign direct investment in China, this study seeks to close this gap.

**Table 1:** Identification of the Gap in the Literature Review

| Relevant Previous Literature | Research Gap Identification |
|---|---|
| Khalid and Marasco (2019), Dinh et al. (2019), Zheng (2019). Kołodko (2021), Lin et al. (2022), Morrison (2019), Wagner (2019), Nantharath and Kang (2019), Da Cruz et al. (2020), Paul and Feliciano-Cestero (2021). Chemsripong (2023), Marjanović and Domazet (2021), Yang et al. (2020) | Based on the evidence in the relevant prior literature, A need for more thorough studies has identified the interplay and relative relevance of these determinants for successful FDI. However, prior studies have frequently examined each factor affecting FDI in China separately. |

## 3. Research Design

Various This chapter will describe the research methodology used, including the study approach, data collection and analysis techniques, the rationale for the methodology selection, and ethical considerations.

### 3.1. Research Approach and Design

Since this study aims to synthesize and analyze previous research on the critical elements influencing successful Foreign Direct Investment (FDI) in China, a systematic literature review methodology was predominantly used in its research. Because they are known for their meticulousness in compiling and evaluating previous research, systematic literature reviews are a good fit for our investigation (Kraus et al., 2020). This methodology guarantees a comprehensive analysis of the current knowledge base by methodically reviewing a wide range of academic articles, reports, and studies (Mengist et al., 2020). This allows us to make significant findings and inferences about the crucial success factors in the context of FDI in China.

### 3.2. Data Collection Methods

The researcher will gather previous research using the qualitative content method. To methodically find, choose, and screen pertinent research articles, this process is a well-known and structured technique. In the literature review process, it guarantees reproducibility and transparency (Selçuk, 2019; Kang, 2022). It has several phases that need to be followed, such as establishing research questions, discovering pertinent literature, vetting and choosing studies, extracting data, and summarizing the results.

### 3.3. Data Analysis Methods

A qualitative synthesis of the chosen studies will be the main component of the data analysis in this study. This will entail sorting and combining data from every selected source, highlighting significant discoveries, and spotting recurring themes or patterns in the literature (Tomaszewski et al., 2020; Woo & Kang, 2020). The aim is to determine the critical elements impacting foreign direct investment (FDI) success in China by thoroughly examining extant literature.

### 3.4. Justification for the Methodology

It is necessary to give a thorough overview of the body of information on successful FDI in China, which justifies the adoption of a systematic literature review. The study may use a wide range of studies because of this methodology, which guarantees that inferences have a solid and supported basis in data. Utilizing the PRISMA methodology aims to reduce prejudice and improve the process's transparency while choosing books.

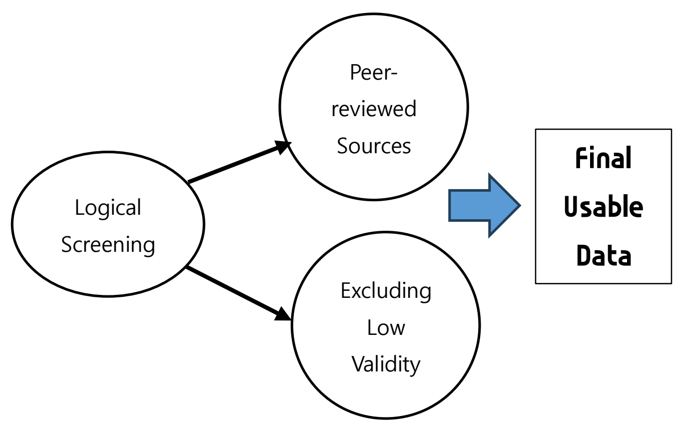


**Figure 2:** How to Obtain High Level Qualitative Textual Dataset in the Literature

# 4. Findings

Chinese regulation shapes Foreign Direct Investment (FDI) frameworks. Foreign investors interested in entering the Chinese market must comprehend its significance (Yin et al., 2021). The complex laws, norms, and government policies in China affect foreign direct investment (FDI). The following instances demonstrate this factor's importance. According to study by Lu et al. (2019), when China's regulatory environment favors foreign direct investment, it can stimulate economic growth. Policies and rules from the government may foster an atmosphere that draws in foreign investors, resulting in a rise in capital inflow, the transfer of technologies, and the creation of jobs.

The ease with which foreign investors can access the market is frequently determined by the regulatory environment. While unfavorable regulations might result in market barriers and impede investment, precise and advantageous regulations can expedite entry procedures. It is imperative to acknowledge that regulatory components encompass risk mitigation strategies. These can include the enforcement of intellectual property rights, legal safeguards, and dispute resolution procedures, all of which are crucial for the safety of foreign investments. The following research has clarified how China's government policies and regulatory framework affect foreign direct investment (FDI):

Studies have indicated that regulatory changes can significantly impact FDI. For instance, more foreign direct investment (FDI) has been drawn to liberalized industries such as technology and finance. Notable regulations include the creation of free trade zones, which have loosened limitations on foreign investment in such regions (Ma et al., 2021). Furthermore, it has been discovered that laws protecting intellectual property rights and the rights of foreign investors promote FDI.

Research has indicated how modifications to the regulatory landscape have impacted enterprises operating abroad. For example, more stringent environmental laws have forced certain businesses to minimize pollution and implement sustainable practices, which has affected their operations and investments in China (Kottaridi et al., 2019).

## 4.1. Market Research and Entry Strategy

Essential factors in the decision-making process for Foreign Direct Investment (FDI) in China are market research and choosing the best entrance plan. It is impossible to exaggerate the significance of these elements for businesses hoping to thrive in a market as dynamic and intricate as China. Market research is vital since it gives international investors vital knowledge about the Chinese market. Understanding the target market, consumer behavior, industry trends, and possible rivals is part of this (Haudi et al., 2020; Nantharath & Kang, 2019). Companies may make well-informed judgments about their pricing, products, services, and marketing tactics by conducting thorough market research. FDI can be a dangerous venture that results in expensive errors if one needs a thorough understanding of the market (Nantharath et al., 2020).

## 4.2. Relevant Research Findings

The results highlight how important market research is to China's success stories with FDI. According to Parfenov (2021), organizations that allocate resources toward comprehensive market research have a higher probability of customizing their offerings, services, and promotional tactics to suit regional tastes. This frequently leads to increased market share and customer contentment.

Additionally, studies highlight the necessity of carefully assessing various entry techniques. For example, when international investors find reliable and compatible local partners, joint ventures are linked to successful market entry (Zhang, 2022). When an acquisition fits in with a company's primary business and strategy, it has proven effective. Greenfield investments, on the other hand, have been successful in sectors where complete control and innovation are necessary due to technology (Sindze et al., 2021).

In China, there are many examples of both successful and unsuccessful market entry tactics. Notable accomplishments include Tesla opening a Gigafactory in Shanghai and Walmart purchasing the Chinese e-commerce startup Yihaodian. These businesses choose the best entry strategy after thoroughly analyzing the market and comprehending local dynamics (Capone et al., 2021). On the other hand, legislative obstacles and cultural disparities posed severe problems for businesses such as Google and Uber, making their attempts to enter new markets less effective.

## 4.3. Local Partnerships and Cultural Adaptation

Establishing local relationships is essential to the success of foreign direct investment (FDI) in the Chinese market. These kinds of relationships are essential because of China's intricate corporate landscape (Ji-Yao et al., 2019). Local partners frequently give access to crucial networks, assist in navigating regulatory obstacles, and provide priceless industry insights (Wei & Nguyen, 2019). These collaborations support long-term sustainability in addition to improving market access (Nantharath et al., 2023).

Cultural sensitivity is also essential. Foreign investors face particular obstacles in China because of the country's distinctive social norms and vast cultural variety (Li & Shen, 2022). Respecting and valuing the market is demonstrated by adjusting to local traditions and practices. However, it can be difficult for foreign businesses to comprehend and uphold local conventions and values like mianzi (face) and guanxi (developing relationships).

### 4.4. Relevant Research Findings

Many international corporations have established successful alliances with local Chinese companies. In the automobile industry, for example, General Motors' joint venture with SAIC Motor Corporation exemplifies a long-standing and successful cooperation. Through this relationship, General Motors has been able to negotiate China's regulatory structure and leverage local experience efficiently. The literature has a wealth of information about the cultural barriers experienced by foreign businesses. Numerous studies emphasize the early difficulties Western businesses had comprehending and adjusting to the subtleties of Chinese culture (He et al., 2018). These difficulties frequently result in misconceptions and errors.

The research results highlight how crucial relationship- and trust-building are in Chinese corporate culture. International investors who devote time and energy to cultivating mutual respect and guanxi in China typically enjoy more fruitful and long-lasting collaborations (Berger et al., 2022). In commercial partnerships, trust is frequently the differentiator, and building it is viewed as an investment in long-term success.

### 4.5. Risk Management and Contingency Planning

Risk management is an essential component of projects involving foreign direct investment (FDI) in China is risk management. The importance of risk management is found in its capacity to recognize, evaluate, and lessen the risks and difficulties that could arise from investing in overseas markets (King et al., 2021). There are several unpredictably occurring factors that international investors may run against when investing in China. These could include operational risks like supply chain disruptions and cultural differences, political risks like changes in laws and regulations, and economic risks like currency fluctuations and market volatility.

Because it enables foreign investors to react to unforeseen situations with effectiveness, contingency planning is crucial. It entails creating substitute plans of action and tactics to lessen the effects of risks and guarantee the viability of FDI investments.

### 4.6. Relevant Research Findings

Studies have indicated that foreign investors in China frequently encounter a variety of hazards. Regulations that affect the judicial system or market access are examples of political risks. Market volatility and changes in the value of the Chinese yuan (RMB) are examples of economic hazards (Charpin et al., 2020). Misunderstandings about culture or interruptions in the supply chain could lead to operational hazards. Businesses that have found success have used techniques including diversifying their investment portfolios, forming solid local alliances, and carrying out extensive due diligence to control and reduce these risks (Feng et al., 2022). To ensure the sustainability of their FDI initiatives, they have also used contingency planning, which entails creating response plans and keeping adaptable operating structures to meet unforeseen obstacles.

**Table 2:** Prior Studies to Fill out the Research Purpose and Gap in the Literature Reivew

| Solutions | Previous Resource (Total 18 studies found) |
|---|---|
| The findings in the present study have clarified how China's government policies and regulatory framework affect foreign direct investment (FDI). | Yin et al. (2021). Lu et al. (2019), Ma et al. (2021), Kottaridi et al. (2019), Haudi et al. (2020), Nantharath and Kang (2019), Nantharath et al. (2020). Parfenov (2021), Zhang (2022), Sindze et al. (2021), Capone et al. (2021), Ji-Yao et al. (2019), Wei and Nguyen (2019). Nantharath et al. (2023), Li and Shen (2022), He et al. (2018), Berger et al. (2022), King et al. (2021), Charpin et al. (2020), Feng et al. (2022) |

## 5. Discussions

### 5.1. Implications

#### 5.1.1. Navigating the Regulatory Environment

Foreign direct investment (FDI) success in China is significantly impacted by the constantly changing regulatory environment, which multinational firms seeking to establish a foothold in China must acknowledge. Gaining a firm footing in the Chinese market requires understanding and following local regulations. Please do so to avoid expensive legal complications and harm to one's reputation. Practitioners are encouraged to invest in gaining a thorough understanding of China's legislation to handle this. Ensuring compliance requires collaborating with local legal experts or consultants who understand the nuances of the Chinese legal system. Keeping an active interaction with pertinent government agencies is also essential. Navigating the regulatory environment effectively requires keeping up with policy changes, foreseeing possible adjustments, and adjusting plans accordingly.

#### 5.2.2. Effective Market Research and Entry Strategies

Key elements significantly affecting the success of FDI initiatives in China include market research and entry strategy. Market trends, client behavior, and competition must be understood. Due to China's broad and dynamic consumer base, a one-size-fits-all strategy will likely fail. Thus, making a significant investment in thorough market research is essential. Entry strategy development should be guided by the unique findings of this research and customized accordingly. One effective way to meet the specific demands and preferences of Chinese consumers is through localizing goods and services. By integrating these insights into their tactics, practitioners can attain a competitive advantage and pave the way for triumph in the Chinese market.

#### 5.1.3. Forming Local Partnerships and Cultural Adaptation

Long-term success in China requires fostering local ties and adjusting to Chinese culture. Building relationships based on trust with nearby companies and clients is crucial for sustainability and short-term success. Practitioners should look for regional partners who can offer insightful information about the Chinese market and culture to address this. Partnerships with regional organizations can accelerate market penetration and streamline operations. The aspect of cultural adaptation is equally significant. Being aware of and courteous of Chinese traditions, customs, and etiquette demonstrates dedication to and respect for the community's culture. Exhibiting this flexibility increases the likelihood of long-term success by building connections, trust, and goodwill with the Chinese audience.

#### 5.1.4. Risk Management and Contingency Planning

Since there will always be unknowns in international corporate operations, successful risk management and backup plans are essential. Practitioners must build all-encompassing risk management plans that address risks associated with finances, politics, operations, and markets. It takes time to recognize such dangers and put mitigation strategies in place. Moreover, it is crucial to create backup plans for various eventualities, including supply chain disruptions, political upheaval, and market downturns. This proactive strategy guarantees that businesses are equipped to handle unanticipated circumstances. Multinational firms can reduce disruptions and preserve business continuity in the event of difficulty by managing risks well and having robust backup plans.

### 5.2. Limitations of the Research

It is critical to recognize and deal with any research project's limits to preserve the validity and generalizability of the results. This chapter addresses the limitations, potential biases, and research design limitations of this study.

Since the study primarily draws from previously published works and research, its quality and availability of sources may need to be revised. The caliber of the sources that were used affects the caliber of the conclusions. As a result, the robustness of the results may differ depending on the rigor, methodology, and academic depth of various sources.

It is imperative to consider biases and restrictions in every research project. Even with PRISMA, bias might arise during study selection and evaluation. Selection bias may occur due to an unintended preference for studies that support a particular viewpoint or an accidental omission of studies. Publication bias may also affect the review's comprehensiveness.

Moreover, assessing the findings' generalizability is crucial. Chinese foreign direct investment (FDI) determinants are changeable and rely on context. It is required to determine whether this study's findings may be extrapolated to other periods or regions due to chronological and geographical factors. It is crucial to note that this study's conclusions may need to be more generalizable and should be understood within the research goals.

Overall, this research seeks to illuminate China's successful FDI factors, although their limits must be acknowledged. The research methodology, bias, and generalizability of the findings are the main drawbacks. The research is essential, but these limitations underline the need to evaluate results cautiously and assess the context in which they are used. Future studies may overcome these limitations to explain Chinese FDI success better.

### 5.3. Conclusion

The research methodology, key findings, and their theoretical and practical implications are covered in this final chapter, along with suggestions for further research and closing remarks regarding the relevance of foreign direct investment (FDI) in China. The research's contribution to the body of knowledge is also emphasized.

Finding the four Essential Components of a Successful Foreign Direct Investment (FDI) in China was the goal of our research to provide helpful advice to international companies looking to enter this dynamic market. Through our thorough literature analysis and methodological methodology, we have illuminated these vital elements.

For foreign direct investment (FDI) to be successful in China, it is essential to consider these four factors: local partnerships and cultural adaptation, market research and entry strategy, regulatory environment and policy support, and risk management and contingency planning. These results have ramifications for theory and practice alike. They aid practitioners in making defensible decisions while deepening our grasp of the Chinese market.

Our research has theoretical ramifications that pertain to the improvement and verification of current frameworks and ideas. Our study fills a vacuum in the literature by combining the knowledge from earlier research and providing a comprehensive analysis of FDI success variables. This advances the theories of international business as they continue to develop.

From a pragmatic standpoint, our results offer practitioners in global businesses helpful direction. To succeed in the Chinese market, we advise taking a proactive stance while negotiating the regulatory environment, conducting in-depth market research, utilizing local alliances, and creating efficient risk management plans.

Further investigation into each of the factors that have been discovered is necessary, with a focus on particular sectors and locations in China. Furthermore, these critical success elements must be continuously monitored and updated due to the dynamic nature of global commerce.

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