

Editorial Commentary **China's Future in the World Marketplace**

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China. A land of mystery. Exotic. One of the world's first civilizations. These are some of the things you would hear said about China in the United States of America (U.S.). Where does China stand in the world marketplace today and where is it going? Those are the questions addressed in this paper.

LAND AREA

China is a large country, the third or fourth largest in the world (Wikipedia 2011). (See Table 1 for a listing of the largest countries by land area.) It is just about the same size as the United States of America (U.S.). Yet, in the U.S., it is perceived as much bigger or more important than can be accounted for by its size alone. Evidence of concern about China is evident in all U.S. media. Articles on China are printed almost every day in the *Wall Street Journal*. *Fortune* and *Bloomberg's Business Week* have articles on China in almost every issue. One Superbowl advertisement created by Citizens Against Government Waste (www.cagw.org) even featured China as a potential threat because it owns so much U.S. debt (http://www.youtube.com/watch?v=TYKAbRK_wKA).

TABLE 1
COUNTRIES OF THE WORLD ORDERED BY LAND AREA

#	Country	Land area
1	Russia	16,995,800
2	Antarctica	14,000,000
3	China	9,326,410
4	United States	9,161,923
5	Canada	9,093,507

Source: <http://www.listofcountriesoftheworld.com/area-land.html>

POPULATION

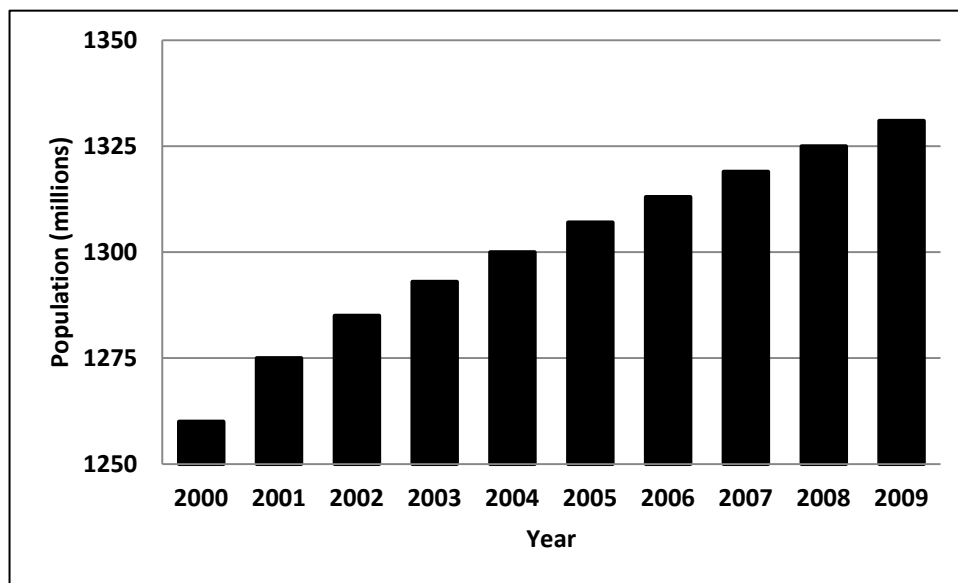
Why is China seen as such a large presence in the U.S.? One reason is China's population size. China had an estimated population of 1,336,718,015 people in July 2011 (Central Intelligence Agency 2011). Her population is nearly five times that of the U.S. (See Table 2 for a listing of the largest countries by population.) While China's population continues to grow, its population growth rate has slowed significantly in recent years with its one-child-per-family policy. (See Graph 1 for China's population trend.)

TABLE 2
COUNTRIES OF THE WORLD ORDERED BY POPULATION

#	Country	Population size
1	China	1,321,851,888
2	India	1,129,866,154
3	United States	301,139,947
4	Indonesia	234,693,997
5	Brazil	190,010,647

Source: <http://www.listofcountriesoftheworld.com/population.html>

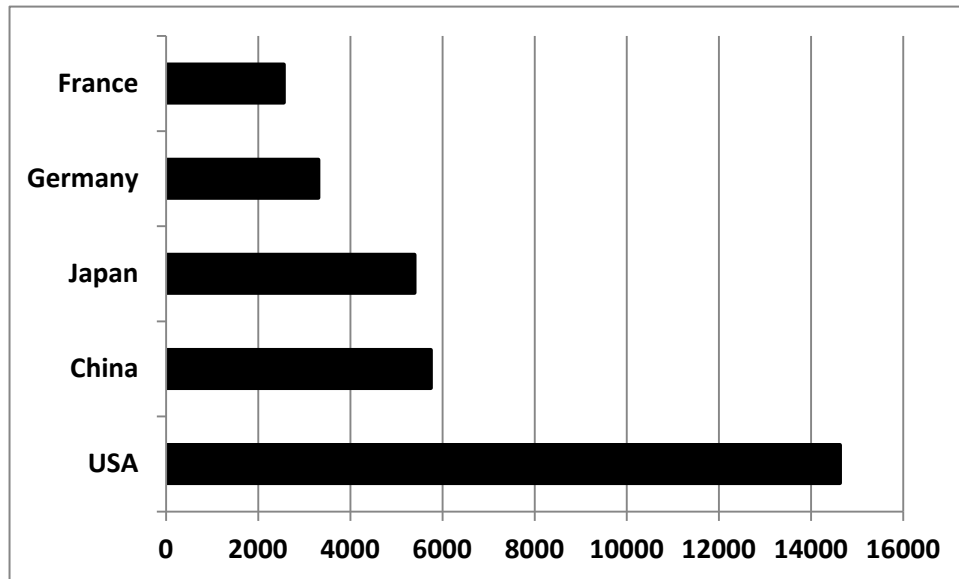
GRAPH 1
CHINA'S POPULATION (2000-2009)



ECONOMY

Economically, China is a superpower. China is the world's second largest economy, behind the U.S. (Bloomberg News 2010) and is expected to overtake Japan as the second wealthiest country in the world by 2015 (Daily Times 2010). See Graph 2 for a comparison of countries by size of economies.

GRAPH 2
COUNTRIES OF THE WORLD ORDERED BY SIZE OF ECONOMY



Source: IMF as quoted on Wikipedia. http://en.wikipedia.org/wiki/People's_Republic_of_China#Economy

Another reason China is seen as such a large presence is the high number of products sold in the U.S. that are “Made in China.” However, these are not seen as Chinese products. The perception of consumers in the U.S. is that China doesn't create products itself. The belief is that the Chinese provide "cheap labor" to foreign companies to produce their products.

China is a major country in terms of both land area and population. Where does it stand in regards to international trade?

INTERNATIONAL TRADE

International trade is very important to China accounting for between 60 and 100% of China's gross national product (GNP). In 2007, China's imports were \$956 billion and her exports were \$1218 billion (Starmass Dream Company 2011).

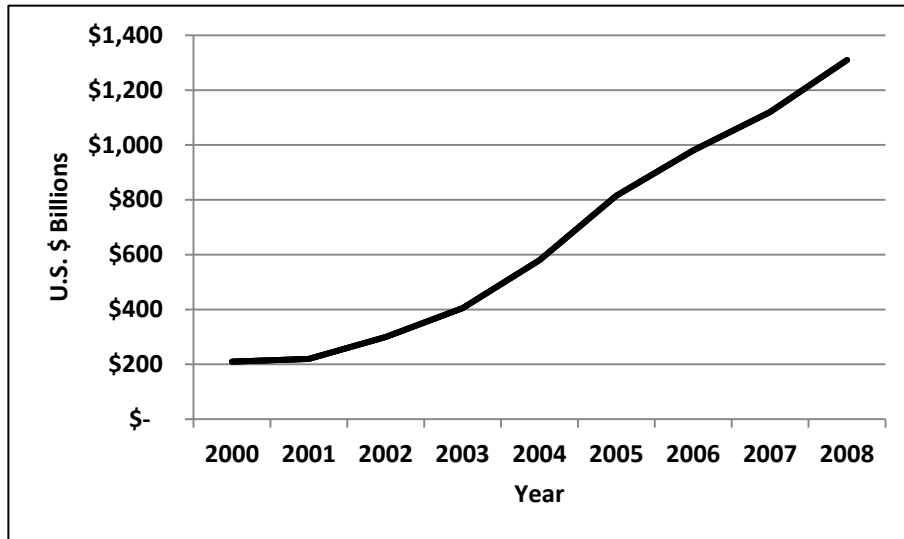
China's top 5 trade partners are the European Union (EU), the U.S., Japan, the ASEAN countries, and Hong Kong (World Trade Organization 2011; Hong Kong not included as part of China in this listing). China's trade with the EU increased beginning in 2004 due at least in part to the addition of countries to the EU. Trade with Japan and Hong Kong decreased from 2001. US China trade dipped in 2006 due to the downturn in the economy but was almost back to its higher levels in 2007 (Starmass Dream Company, 2011).

China was the top international trade partner of Japan, South Korea, Australia, Russia, South Africa, and India in 2009 (Wessel & Prada 2011). It was the second largest trading partner of the United States, Canada, Indonesia, Mexico, and Brazil that same year. In 2000, China was a top trading power only for Japan (second largest), South Korea (third), and Australia (third). "China's growth is felt in nearly every corner of the globe..." (Wessel & Prada 2011, A2).

China's imports grew dramatically between 1990 and 2007 (Starmass Dream Company 2011) as shown in Graph 3. Some possible reasons for this growth are rising prices in the international

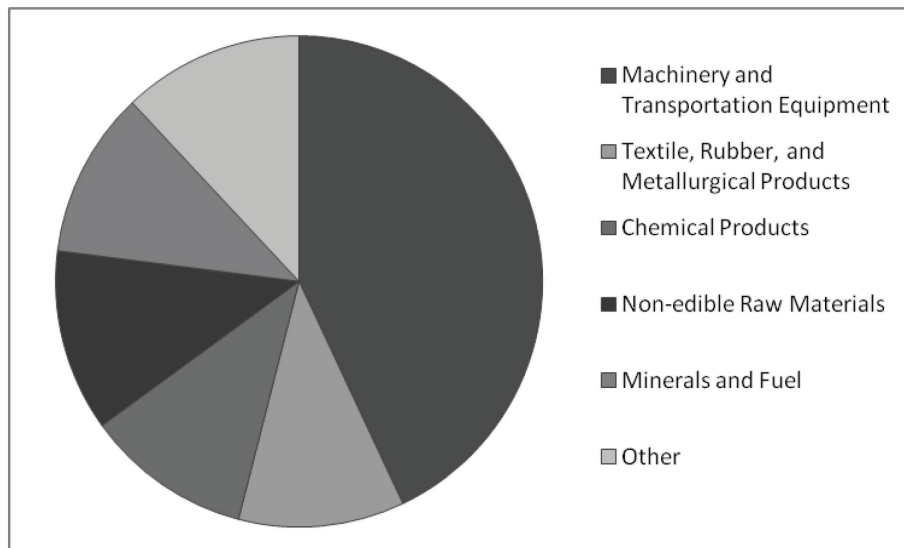
marketplace, the increase in Chinese personal income levels, and reductions in import tax levels (Starmass Dream Company 2011). The largest portion of China's imports are from the category of machinery and transportation equipment (Starmass Dream Company 2011) as can be seen in Graph 4.

GRAPH 3
CHINA'S IMPORTS BY YEAR, 2000 TO 2008



Source: Starmass Dream Company 2011

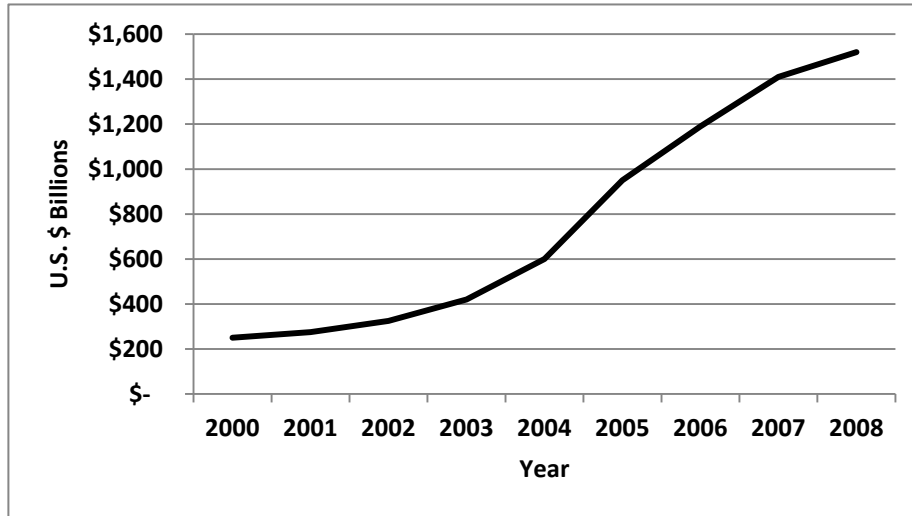
GRAPH 4
CHINA'S IMPORTS BY CATEGORY



Source: Starmass Dream Company 2011

China's total exports grew even more dramatically between 1990 and 2007 with an average annual increase of 26% between 2000 and 2007 (Starmass Dream Company 2011). A graph of China's export trends from year 1990 - 2007 is provided in Graph 5.

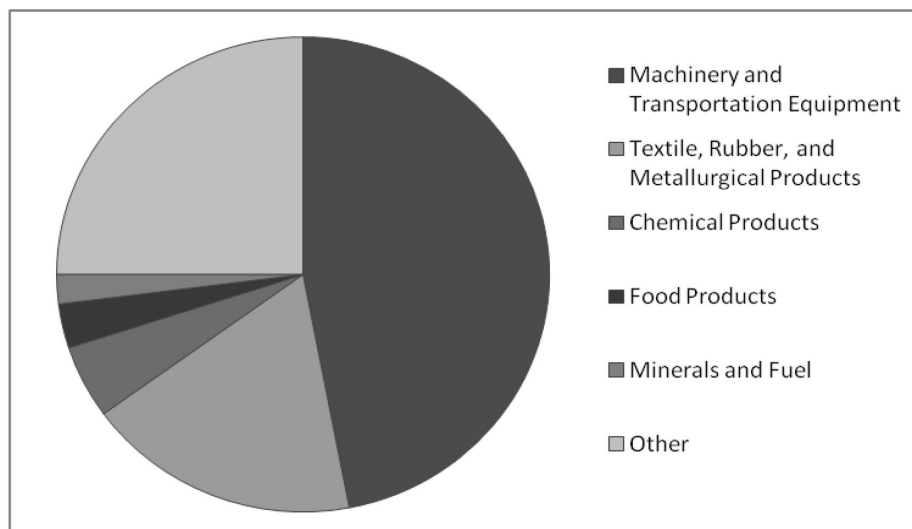
GRAPH 5
CHINA'S EXPORTS BY CATEGORY, 2000 TO 2008



Source: Starmass Dream Company 2011

Almost half of China's exports are machinery and transport equipment (Starmass Dream Company 2011). Another major export category is textile, rubber and metallurgical products. Chemical products, food, mineral and fuel materials made up 10% of the total exports. Exports by category are shown in Graph 6.

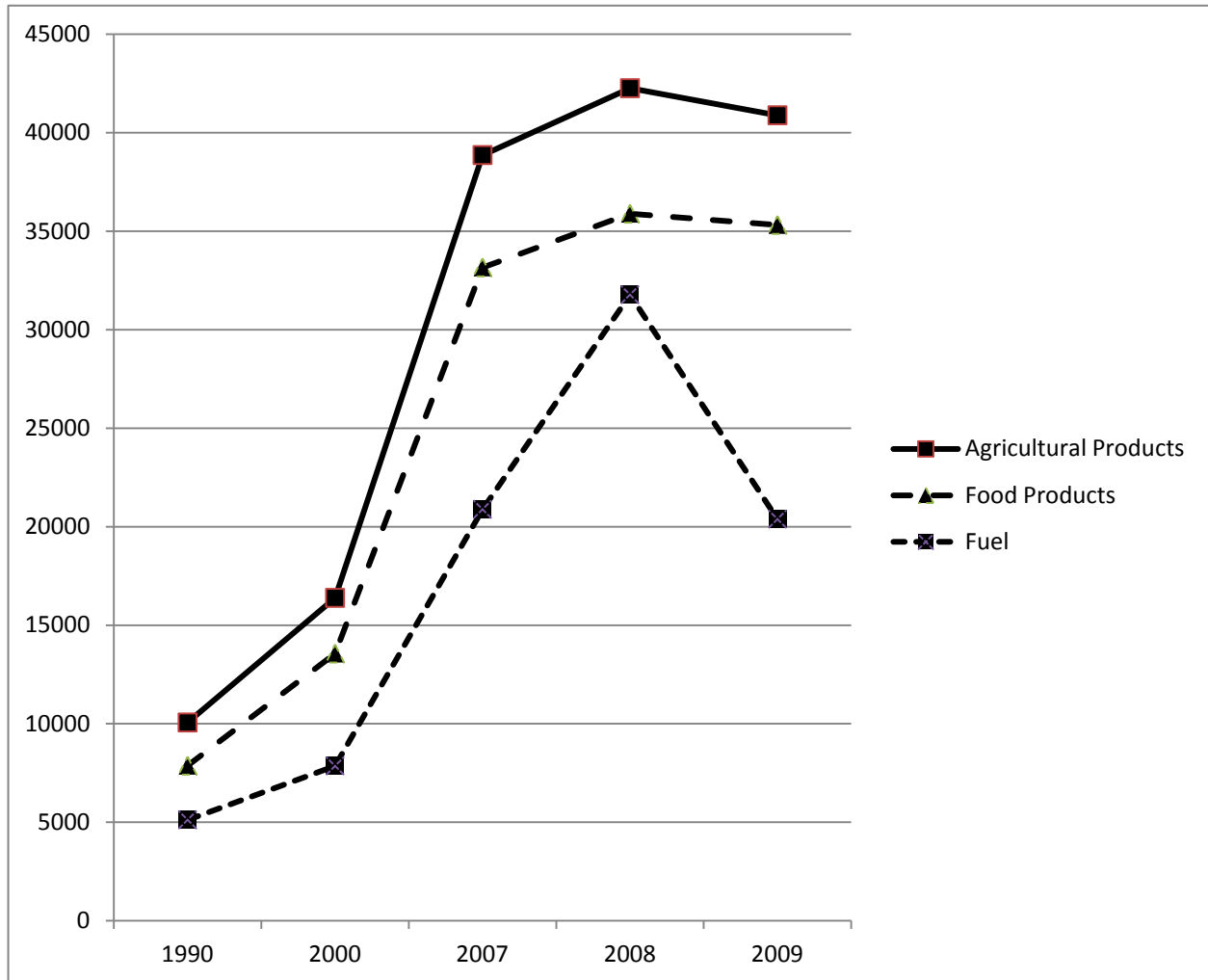
GRAPH 6
CHINA'S EXPORTS BY CATEGORY



Source: Starmass Dream Company 2011

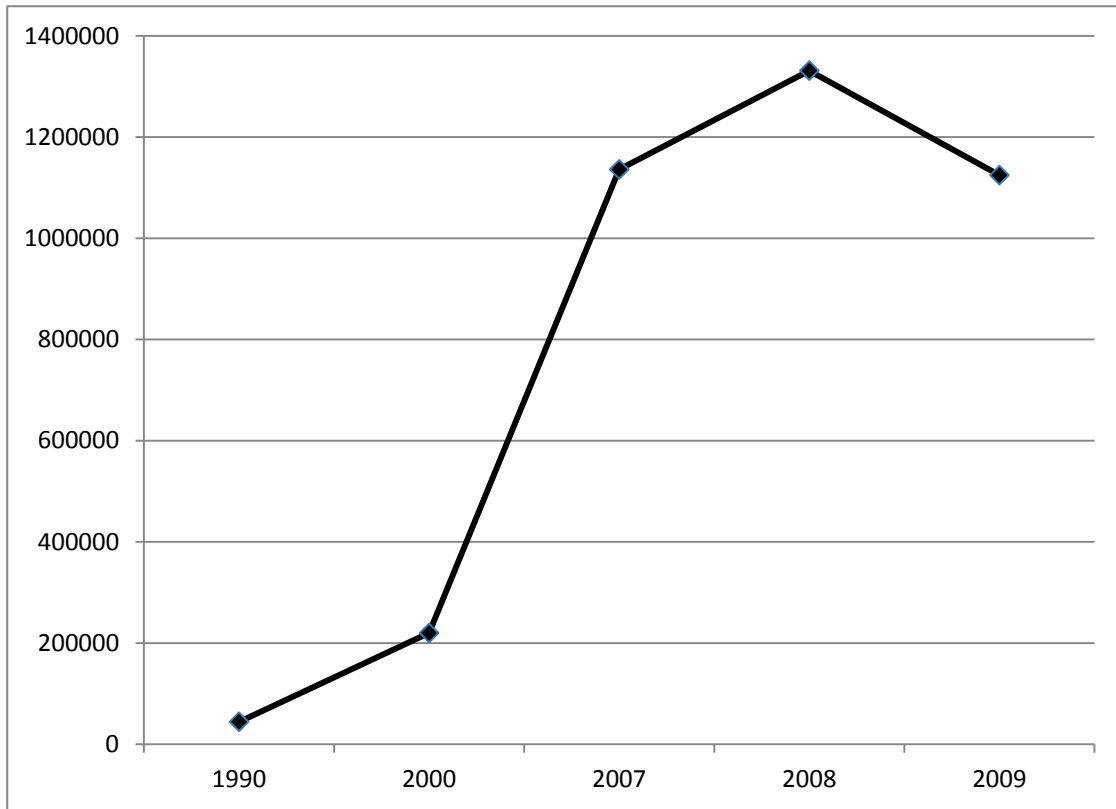
Exports in all categories showed tremendous growth between 2000 and 2008 as can be seen in Graphs 7 and 8. The machinery and transportation equipment category showed the greatest growth (Starmass Dream Company 2011).

GRAPH 7
TRENDS IN CHINA'S EXPORTS BY CATEGORY



Source: Starmass Dream Company 2011

GRAPH 8
TRENDS IN CHINA'S EXPORTS OF MACHINERY AND TRANSPORTATION EQUIPMENT

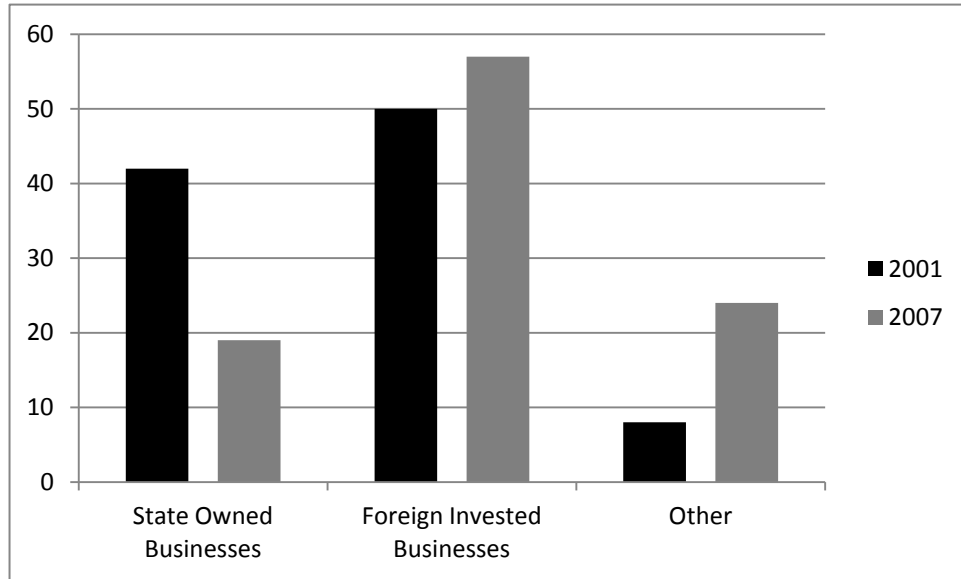


Source: Starmass Dream Company 2011

All of this looks quite good. China's international trade is growing and it is a major player in the marketplace. China is a very significant trade partner of many countries globally. Let's look at China's trade data by type of company involved.

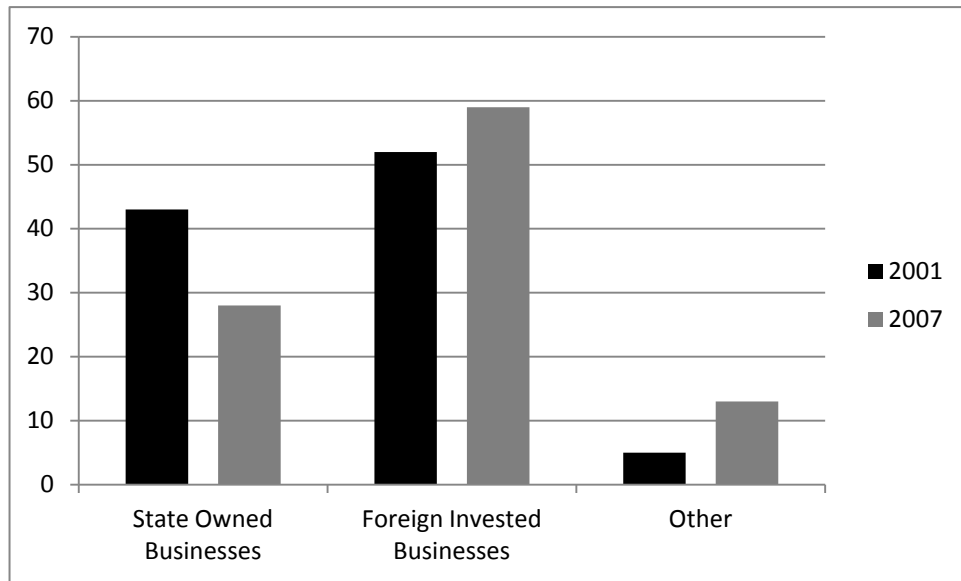
Over half of China's exports (57%) are from foreign invested enterprises (Starmass Dream Company 2011). Exports from foreign invested businesses have shown some growth while exports from state-owned enterprises have declined since 2000. (See Graph 9.) The proportion of exports coming from foreign invested enterprises increased from 50% in 2001 to 57% in 2007. In contrast, exports from state-owned enterprises fell from 43% in 2001 to 19% in 2007. The largest percentage growth is for the "other" company type, more than tripling over the same period from 7% in 2001 to 24% in 2007 (Starmass Dream Company 2011). This group presumably includes privately-owned corporations. The private sector grew rapidly (Kotler, P., 2010), accounting for the growth in the "other" category.

GRAPH 9
CHANGES IN CHINESE EXPORTS BY BUSINESS TYPE



Source: Starmass Dream Company 2011

GRAPH 10
CHANGES IN CHINESE IMPORTS BY BUSINESS TYPE



Source: Starmass Dream Company 2011

China's imports are also dominated by foreign invested enterprises (Starmass Dream Company 2011). (See Graph 10.) Again, this type of enterprise has seen some growth while exports from state-owned organizations have declined. The proportion of Chinese imports accounted for by foreign invested firms increased from 52% in 2001 to 59% in 2007. Imports by

state-owned businesses decreased during the same period from 43% to 28%. While the remaining types of firms only accounted for 13% of imports in 2007, this "other" group again showed the greatest percentage growth since 2001 when it accounted for only 5% of imports (Starmass Dream Company 2011). What does this pattern of international trade mean for China? Foreign investment in China increased to \$74.8 billion in 2007 (Starmass Dream Company 2011). Since the majority of import and exports are conducted by foreign invested organizations, a proportion of the profits from this international trade probably goes to other countries, leaving fewer profits for China.

While China's economy is strong in 2011, many articles indicate concerns about the future. Sales of automobiles decreased in 2011 (Zhang 2011). Underemployment among Chinese college graduates has been growing for years (Roberts 2011). Others warn of signs of a real-estate downturn (Davis 2011) that may indicate a slowing of the Chinese economy. World Bank economists warned that a downturn in real-estate was among the biggest risks China faces (Davis 2011). Some fear that China may be "the new dot-com" with an investment bubble that will burst in the future (O'Keefe, Ng, & Stein 2011).

In contrast to these negative views, Milton Kotler (2010) indicated that China has made great strides in technology and transformation of technology into industrial products. He noted that China's investments in research and development have expanded rapidly over the past decade and at the current rate, will match the U.S. by 2022. In 2010, China was the leading solar exporter in the world and was the largest manufacturer of wind turbines, for examples.

What can China do to increase profits that stay in China, continue her economic growth, and expand her presence in the international marketplace even more? China must create brands that are in demand around the globe.

BRANDING

The term branding comes from branding cattle to make sure they are identified with you and can't be stolen easily. What is branding for products and services? Branding includes the name, symbol, logo, image, and slogan that identifies your brand and distinguishes it from all other brands. Branding creates a perception in people's minds of what the brand is like, its qualities. This perception will be created by a person's experience with the brand but can be influenced by the manufacturer using marketing techniques such as advertising.

Branding takes on a value to the firm in many ways. Branding makes promoting the product more efficient. Once your brand identity is established, all you have to do is show the logo for consumers to remember it. Distribution into stores becomes easier and cheaper because consumers ask for the product by name. Finally, a well-established brand name can be extended to many other products, developing a product line. A good example of this is L'Oreal cosmetics.

Internationally, a number of brand names are recognized. Interbrand (2011) reported that the best global brands in 2010 were Coca-Cola, IBM, Microsoft, Google, GE, McDonalds, Intel, Nokia, Disney, and Hewlett Packard, in that order. Only one of those brands comes from outside the U.S., Nokia from Finland. In Interbrand's top 25, no brands from China were included. The Financial Times Special Report (2011) included China Mobile among its top ten brands, alone among companies from the U.S. Interbrand listed the top five brands as Apple, Google, IBM, McDonalds, and Microsoft. While the two lists differ, China's shortage of top international brands is evident.

China has established some strong brand names, including Lenovo, Bank of China, Air China, Haier, CCTV, Tsingtao Beer, Huawei, and Alibaba.com. These are known well within China and among groups that watch company growth, like *Fortune* magazine and the *Wall Street Journal*. In the U.S., Tsingtao Beer is probably best known; Lenovo and Alibaba.com are appearing in the U.S. press more frequently in 2011.

Concerns for establishing Chinese brands have been expressed in the press. Angelia Teo, garment expert from Worth Global Style Network, as quoted in Current Comments (2011), stated:

"When it comes to manufacturing and product, China is now one sophisticated place. The factories are well equipped and very efficient. But...styling, marketing, buzz and store experience need to come together closely for a real powerful brand. Until that happens, Chinese brands will not seem to be part of the global community of international brands."

Progress has been made in some areas. Chinese phone manufacturer ZTE grew to number two in the world in terms of phones shipped while Huawei Technologies, TCL, and Beijing Tianyu also moved up in rank, according to market researcher iSuppli (Einhorn 2010). Commercial Aircraft Corporation of China (Comac) has begun selling and producing passenger jets that compete with Airbus and Boeing (Einhorn, Lin, & Liu 2010).

Chinese companies must be keenly aware of the differences between branding in China and branding in the rest of the world. One major difference is the written language; China's language is logographic while most non-Asian countries use an alphabetic language that represents the sound of the word (Chang & Lii, 2008). Memories of English brand names tend to be tied to auditory brand identifiers rather than visual ones that are more dominant in China (Tavassoli & Han, 2001). Thus the sound of the name may be more critical in branding outside China.

NATION BRANDING

Countries also have a perceived image in the eyes of people around the world. Dr. Keith Dinnie has studied the branding of both nations and cities and published books about each (Dinnie 2011). He stated that, "Terms such as 'brand image' and 'brand identity' are increasingly used to describe the perceptions that are held of nations amongst their various 'stakeholders'" (Dinnie 2008, 52).

People expect certain types of products from a country depending on their perceptions or the image of the country. This country "brand image" can have a strong influence on purchase of products of different types from the country. For example, people expect the best wines to come from France, the best cars to come from Germany, the best electronic equipment to come from Japan, and the best watches to come from Switzerland.

China's reputation in the U.S. can be compared to that of Japan after the second World War. Japanese products were seen as cheap and low in quality because of the types of items that were exported to the U.S. The current top Chinese exports to the U.S. are low-technology electrical machinery, toys, footwear, and apparel (U.S. China Business Council 2011). Ninety percent of US imports from China are substitutes for imports from other low-wage economies, largely in East and Southeast Asia, according to the Institute for International Economics (U.S. China Business Council 2011).

Beyond the types of products that are imported from a country, another basis for image development are the things that people think of when they think of a country. Since the U.S. is the second largest of China's top export markets and is similar to the largest, the European Union, what do people in the U.S. think of when they think of China? Some frequently mentioned items are:

- Pandas
- Silk
- Tea
- Chinese food
- Traditional medical procedures
- Long cultural heritage
- Art
- The Great Wall
- Kung Fu
- Feng Shui
- The Terracotta Warriors

The big question is how China can capitalize on these current perceptions to turn its country image around. China will need to undertake a study of itself and its world image (not just its image in the U.S.) and create a campaign that will help create the image it wants to have in the world marketplace.

For this effort to be successful, it should be pursued by a branch of the government other than a tourism office. The type of imagery used for tourism is very different from the type of image desired for export markets. Portraying the country as having many historical sites and much natural beauty will not improve the image of China as place of great technological innovation and of Chinese products as technologically sophisticated and of high quality.

A number of countries have undertaken such campaigns, including Australia, Chile, Greece, India, Kenya, Korea, Malaysia, and Spain. Images that are connected to some of these campaigns can be found through a search on Google.com for nation branding/images. China should study the successes and failures of other countries to help it develop the strongest campaign possible.

China's efforts should include an integrated marketing approach where consistency of the message being conveyed is spread throughout all messages and media. Integrated marketing includes advertising, public relations, and all official communications. Externally, China faces a challenge in combining and balancing the images that people hold of the country to shape the image it wants them to hold. It must take advantage of its current image(s) in developing one that conveys its progressive technical nature. It must portray how its long heritage has led to its current position. Internally, China must continue to support its infrastructure to strengthen its capabilities in the areas it wants to emphasize. For a progressive technological image, the critical infrastructures include research and development and an increasing ability of its technical employees and future employees to speak English, the technological language of the world.

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