

GuoChao: Do Chinese Consumers Still Want to Buy British?

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-  Chinese domestic brands are becoming increasingly popular in China. Consumers no longer presume that a foreign good must be better than its domestic rival
-  Chinese consumers are more likely to prefer goods produced by domestic brands in some sectors more than others
-  Chinese consumers can begin to consider a Chinese brand to be too *Chinese*, meaning that Chinese brands face the same pitfalls as foreign ones when selling into their local market

Summary

Do Chinese consumers still want to buy British?

The question has become more pressing, after leading Chinese e-commerce platforms began de-listing popular Western brands such as H&M and Zara last month. Their moves came after the Communist Youth League unearthed a statement issued by the Swedish retailer a year earlier, stating that it wouldn't source cotton from Xinjiang.¹ Chinese netizens threatened to boycott H&M products, while its stores hurried to cover their shop signs. Is this evidence that Chinese consumers no longer want to buy from foreign brands, British ones included?

Thankfully for foreign companies trading in China, it's not that simple. There is, as yet, no blanket preference for Chinese brands amongst local consumers; foreign brands are thriving here, too. But events in geo-politics -- particularly the opposing stances taken by China and the West over conditions in Xinjiang Province -- are beginning to have a greater impact on consumer goods brands sold in the China market.

Xinjiang plays a key role in the supply chains of companies across a wide range of sectors. This is resulting in governments and consumer groups becoming increasingly polarised by the presence of 'Made in China' labels on products. In the UK, for example, such labels are increasingly being treated with caution by retailers and consumers; national newspapers now regularly run stories on how to be a conscientious consumer in relation to China.² In China the reverse is true: Consumers and brand ambassadors see a 'Made in China' label as a badge of honour.³

This phenomenon is part of a broader trend known in Chinese as *GuoChao* 国朝, which can be translated as 'the rise of the national brands', and refers to a situation in which political or socio-economic undercurrents promote the rise of Chinese domestic brands.

This briefing will explain why and how *GuoChao* is taking hold again in China and what UK companies can do about it.

¹ <https://www.reuters.com/article/us-china-xinjiang-cotton/old-hm-comment-on-forced-labour-in-chinas-xinjiang-raises-online-storm-idUSKBN2BG1G4>.

² <https://www.telegraph.co.uk/fashion/brands/ensure-clothes-havent-made-using-ughur-labour/>.

³ <https://www.reuters.com/article/us-china-xinjiang-fashion-week/xinjiang-cotton-is-my-love-patriots-on-show-at-china-fashion-week-idUSKBN2BO48B>.

Background

Western and Chinese brands alike have been aware of *GuoChao* for decades. However, events in geo-politics over the last couple of years have made it a more pressing concern than ever before.

GuoChao was last a major issue for foreign companies selling into the China market during the late 1990s and early 2000s. At that time, foreign companies were predominantly competing with socio-economic forces that were promoting the rise of Chinese brands: Chinese companies had access to cheaper labour and could manufacture substitute goods at a fraction of the cost faced by their foreign rivals.

The new forces pushing *GuoChao* are far more complicated to navigate, with the two most pressing being millennials' consumer preferences and rising nationalist sentiment.⁴ Foreign firms need to be particularly wary of these two factors because they can easily lead to a boycott of their goods, as Western brands found out recently. While there are a whole host of other factors pushing *GuoChao*, these are the only two with the potential to alienate foreign brands from the China market.

Another important factor driving a rise in the popularity of domestic brands is that Chinese companies are now offering consumers a far stronger product than before, which they have also become better at packaging and advertising. Consumer goods companies selling into the market are aware that Chinese consumers have a clear preference for localised advertising and packaging, but this needn't be an alienating factor because foreign brands have proven themselves to be highly adept at this too. Foreign brands also shouldn't fear not being Chinese in origin, for Chinese companies are walking a tightrope with regard to consumers driving *GuoChao* too: Chinese companies seen by consumers to be relying too heavily on cultural tropes identifying them as Chinese can be perceived as insincere.⁵

The effect of *GuoChao* can be seen in consumers' search histories – China's digital eco-system plays a key role in persuading Chinese consumers to buy a particular product and spend the contents of their e-wallets. In 2009, Chinese brands accounted for just 38% of searches on Baidu; this number had increased to 70% by 2019.⁶ Consumer search histories appear to closely track consumer preferences: 68% of Chinese consumers say they now prefer to buy from Chinese brands, according to a survey conducted by Nielsen.⁷

⁴ <https://daxueconsulting.com/guochao-cultural-confidence-in-china/>.

⁵ Chen Luo, 'Globalisation to Localisation,' 27.

⁶ Ibid, 4.

⁷ <https://www.nielsen.com/cn/en/insights/article/2019/nielsen-china-consumer-trend-index-remains-at-115-points-in-q2-2019/>.

How *GuoChao* has evolved

<i>GuoChao</i> Phase 1 (1990s-2000s) was driven by:	<i>GuoChao</i> Phase 2 (very recently) has been driven by:
Low manufacturing & labour costs	Nationalism
Supply side reform	Improved local product offerings that are as good as what foreign companies have to offer
Chinese companies had better distribution channels compared to their foreign competitors	Product design and packaging has become more important to Chinese manufacturers
Products were typically at a more affordable price point	Deeper consumer interaction than foreign companies can manage; better use of social media
	Seen to be better value for more than foreign product offerings
	Chinese companies are typically faster to change their product offering and able to offer something new more often
	Dual Circulation Strategy

The sectors most susceptible to *GuoChao*

The sectors most susceptible to *GuoChao* are those in which China developed manufacturing capability during the late 1990s and early 2000s. Chinese companies have managed to successfully reverse engineer products that they used to manufacture cheaply for foreign brands twenty years ago and are now launching their own versions that are often more innovative than the original.

China's millennials have cottoned on to this, and are increasingly likely to buy from Chinese brands as a result. Millennials also tend to have higher levels of disposable income than previous generations and are more inclined to believe in local manufacturing capabilities.⁸ To this generation, a product that is 'Made in China' isn't cheap and tacky – rather, it is seen as likely to be innovative and therefore cheaper.

Sectors where domestic brands perform significantly better (measured by market share)	Sectors where foreign brands perform significantly better (measured by market share)
Consumer electronics	Cosmetics
Highstreet fashion, apparel & sportswear	Packaged Food & Beverages
Alcohol for consumption (rather than gifting)	Automobile

China's technology sector provides a good example. Whereas Chinese consumers used to flock to buy Apple iPhones bearing 'Made in China, Designed in California' stickers, they are now choosing to buy Huawei phones that were both designed and made in China. In 2015, Apple and Huawei held 14% of the smartphone market in China apiece, but today Huawei enjoys 39% market share, while Apple holds just 8%.⁹

⁸ <https://focus.cbbc.org/what-do-chinese-millennials-want/#.YHAWjyORpao>.

⁹ <https://www.canalys.com/newsroom/canalys-huawei-takes-record-38-share-in-china-as-market-softens-before-5g-launch>.

To counter such risks, some foreign companies have acquired Chinese brands to front their sales into the local market, putting a barrier between their shareholders and Chinese consumers who might react negatively to broader political currents.

A number of American breweries, for example, have acquired Chinese provincial beer brands, with US brands having become increasingly unpopular in the world's largest beer market thanks to the broader political climate.¹⁰

Sectors that appear less susceptible to *Guo Chao* include the automobile, packaged food & beverages (particularly milk and products consumed by infants) and cosmetics industries. L'Oréal, Lancôme, Olay and SKII remain the biggest selling cosmetic brands in China, for example.¹¹

Technological factors driving *GuoChao*

The role of Baidu and China's e-commerce platforms in driving the *GuoChao* phenomenon cannot be overstated, thanks to the role the search engines and their algorithms play in directing consumers to products.

During *GuoChao Phase One*, consumers were mainly influenced by a product's price, its packaging, and analogue advertising when considering making a purchase. Now, products are predominantly advertised online on news sites or on pages maintained by celebrity key opinion leaders (KOLs).

KOLs and popular user responses on sites such as *XiaoHongShu* play a key role in driving Chinese consumers to buy, and make it far harder for foreign brands to control the environment for their product. Furthermore, millennials form the consumer group most likely to be engaging with content relating to politics and China's tensions with the wider world. 63% of users searching for information around terms such as "trade war" are under 30 and otherwise browsing the internet and e-commerce platforms, according to Baidu.¹² This is an unhelpful situation for foreign brands, considering that millennials also constitute the most active consumer group in China.¹³

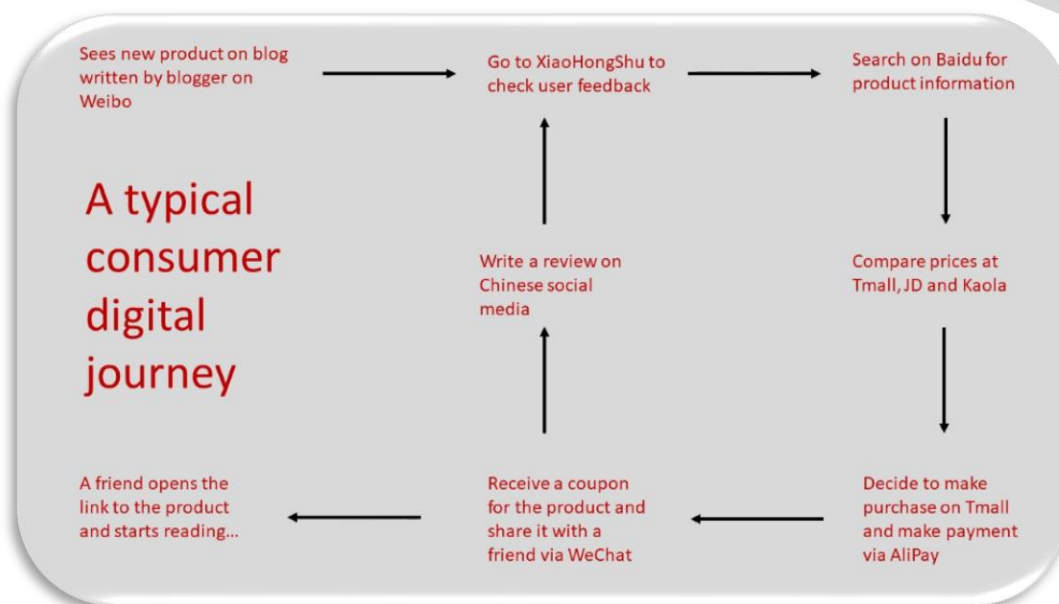
¹⁰ <https://www.cnbc.com/2019/10/07/budweiser-seeks-growth-in-china-vietnam-india-south-korea-beer-markets.html>.

¹¹ Chen Luo, 'Globalisation to Localisation.' 12.

¹² Chen Luo, 'Globalisation to Localisation.'

¹³ <https://www.business.hsbc.com/navigator/made-for-china/six-things-you-may-not-know-about-chinese-millennials>.

Article Two: A typical consumer digital journey in China



Adapted from Bank of America, *Globalisation & Localisation*

Does this mean that British brands are at a disadvantage when selling in China?

While there is no doubt that the *GuoChao* phenomenon has a powerful effect, Chinese and British brands alike are susceptible to falling foul of netizens. Chinese brands that aim to grab the attention of Chinese consumers by being overly reliant on being Chinese risk being perceived as clichéd or insincere.

British brands can also take steps to appear more Chinese and benefit from the *GuoChao* wave. Using popular Chinese brand ambassadors or key opinion leaders (KOLs) to engage with the customer base is one example. A recent CBBC livestream session advertising British brands with Ji Jie – a popular KOL in Beijing – attracted an audience of 2.6 million.¹⁴

UK companies could also take the further step of acquiring or rebranding an existing presence in the market as a Chinese brand. For example, *Wusu*, a popular Chinese lager branded as originating from Xinjiang Province, is in fact owned by Carlsberg.¹⁵

Should British brands be worried about Dual Circulation Strategy?

GuoChao could mean that the ongoing trade tensions involving China and the promotion of the Dual Circulation Strategy make it less beneficial to be foreign branded when selling into China. This is because Chinese consumers are typically more driven by emotions when considering a purchase.¹⁶ This not only manifests itself in adherence to the opinions of KOLs, but also issues such as trade tensions and comments made by the Party on the country's economic performance. The 14th Five-Year Plan sets out clearly how the

¹⁴ https://mp.weixin.qq.com/s/VCNuPa3KLSa_9jfJogHcoQ.

¹⁵ Chen, *Globalisation to localisation*, 21.

¹⁶ <https://www.lowyinstitute.org/the-interpreter/balancing-act-china-nationalist-consumer-boycotts>

Party expects China to become less reliant on foreign goods and services providers, and that manufacturing to meet domestic demand should be the priority.¹⁷ It is easy to see how Chinese consumers could misconstrue this messaging as “buy BYD rather than Mercedes Benz”, particularly if it is couched against anti-Western rhetoric stating that China is in a state of trade war.

CBBC View

Chinese consumers still want to buy British, but consumers only prefer to buy foreign goods in certain sectors. In sectors where quality or safety are important, such as cosmetics, food & beverages for infants, and the automotive industry, foreign brands retain a significant lead in market share.

British brands should be mindful of the fact that Chinese companies learnt from the first phase of *GuoChao*, and have made great strides in terms of product quality, packaging and perception – the technology industry provides a good example.

Carlsberg’s acquisition of Wusu beer demonstrates that there are also instances where Chinese consumers want to buy foreign but don’t realise that they are doing so. China’s Wusu drinkers are not alone in this regard, there are lots of examples of Chinese brands that famous for their quality but are owned by - and manufacture to the standards of - foreign brands.

Adaptability is the name of the game: As long as a brand can swiftly adapt to trends, they should be able to survive and thrive in China, regardless of brand origin.

CBBC is paying close attention to the development of China’s consumer market. If you like to know more about the latest trends, please sign up to our **UK-China Consumer Week 2021** which will shine a spotlight on China’s consumer market recovery and call attention to opportunities for UK brands to re-engage with China. This unique programme will take place online between the **19th and 23rd April 2021**. Sessions will be held over five consecutive days, allowing attendees access to the full event programme. For more information: <https://www.cbcc.org/uk-china-consumer-week-2021> 英中

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¹⁷ <https://assets.kpmg/content/dam/kpmg/cn/pdf/en/2021/01/14th-five-year-plan-industry-impact-outlook.pdf>, p.6.