

Journal of China Marketing

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Edited by

Robert Guang Tian, Jianhua Fan
and Yee Yin Wan

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TABLE OF CONTENTS

Editorial Commentary	vii
China's Global Trade History: A Western Perspective	1
Russell Belk	
On Socialist Market Economic System in Contemporary China.....	23
Xingang Wen, Xiaoyan Lin, Yu Liu and Kathy Tian	
<i>Guanxi</i> and Relationship Marketing: An Anthropological Case Study of China's Foreign Banks	47
Adolphus Y. Y. Wan, Marco P. L. Ip and Paul K. S. Cheng	
Spaniards and Spanish Product Image among the Chinese: Implications for Marketing Strategies	79
Maria Elena Aramendia-Muneta and Ildefonso Grande-Esteban	
Secondary Reform of Initial Public Offerings (IPO): Reasonableness of IPO Pricing	97
Xiaochen Zhang and Xin Xie	
Technology Transfer Strategies of Multi-National Companies based on Evolutionary Game Theory	115
Peihua Zhao and Yuxin Liu	
Management of International Luxury Brands.....	141
Fan Mo	
Microblog Marketing: Advantages and Disadvantages	155
Baiqi Wang, Na Gao, Liwen Zhang and Xi Chen	

EDITORIAL COMMENTARY

China: Towards Challenges of Global Sustainability

The *Journal of China Marketing and Logistics* (JCML) is to be formally published by Cambridge Scholar's Publishing (CSP) as the successor of *International Journal of China Marketing*, which was published by the North America Business Press. This is a double-blind peer reviewed academic journal that aims to establish a forum for the academic and business world to share and exchange their business insights. In this editorial commentary, celebrating the inauguration of the journal, we would like to put forward a message on China's global sustainability.

China's economic growth and policies of opening up the country to the world have become two important factors for its global sustainability. This has been facilitated by the shift of the economic concentration from the West to the East, that is, Asia, following the economic downturn of the Western countries, particularly the United States, in the 21st century. The improved consumption capacity in the consumer markets, the new model of social development, and the new idea of macroeconomic development in China are accelerating its realization of the 'China dream', and thus offering a great contribution to the global development of the world economies. Over the past decades, China's economic reforms and opening have been extremely successful. Such nationwide economic performance was well disclosed by China's GDP in 2010, which surpassed Japan's, and established it as the world's second largest economy after that of the United States (National Bureau of Statistics of China 2014). Scholars and economists estimated that, based on the development trends, China would become the largest economy by approximately 2025. However, such a prediction has turned out to be true somewhat ten years earlier. According to the announcement of the International Monetary Fund (IMF) in October 2014, China had already overtaken the United States to become the world's largest economy in terms of the purchasing power parity. The IMF predictions estimated that by the end of 2014, China would make up 16.48% of the world's purchasing-power adjusted GDP or USD17.632 trillion, and the United States would make up 16.28% or USD17.416

trillion. The IMF projected that this trend of economic growth in China will continue. China is now the world's largest economy, while the United States is in the midst of its strategic rebalancing towards Asia.

The importance of China in the global economy was a focus of the 21 nations participating in the Asia-Pacific Economic Cooperation (APEC) Summit held from 5th to 11th November, 2014 in Beijing, China. In the APEC Summit, China's President Xi Jinping announced that in the coming five years, China will import merchandise with values exceeding USD10 trillion, and its foreign investments will exceed USD500 billion. He also unveiled a series of economic initiatives, including a USD40 billion Silk Road fund for regional infrastructure, a plan for a Chinese-led free-trade framework to encompass all the Asia-Pacific partners, calling for the fulfilment of the 'Asia-Pacific dream' of common progress, development, and prosperity. For these plans, China will set up a BRIC Development Bank and the Asian Infrastructure Investment Bank. These initiatives have set clear signs for China to grow and sustain its globalization by pursuing bold ambitions at home and abroad, with an eye for setting up a new international order.

Challenges do exist when the 'China dream' realizes the great renewal of the Chinese nation. Externally, China has attempted to exert its leadership in the Asia-Pacific by actualizing the 'Asia-Pacific dream'. This requires the Asia-Pacific nations to work together for cross-border infrastructure, to support the economic integration led by China. In addition, from a global viewpoint, as the centre of world power is shifting towards the East, it is a challenge for China to signal its mission as a world champion and portray itself as a world leader. Considering this, the ways to compete and cooperate with the nations all over the world, to react towards a nation's views on a new order in respect to China as a rising superpower in Asia, and to put regional vision and global view on a path of sustainable growth will be the new challenges for China in the forthcoming decades.

The internal challenges, if not managed well, may also place China at risk in respect to its global sustainability. Among these challenges, social infrastructure is of the utmost importance. While China is now employing its economic muscle to win worldwide recognition, it should also re-engineer its social infrastructure in line with the global perspectives. The serious disparity in income between the urban and rural areas, and the uneven distribution of wealth have an adverse impact on the society. Despite obtaining the status of the world's largest economy, China's GDP per capital is currently only USD6400, which suggests that there is still a

long way to go in order to realize actual affluence. On the other hand, worker remuneration, as compared to GDP, is significantly lower than in the developed countries. There are also insufficient social protections, such as health care, social security, and pension, due to insufficient government input into social undertakings. The wealth gaps between the rich and the poor have continuously been widened. Corruption is therefore serious and calls for China's President to consolidate control quickly with an unprecedented anti-corruption campaign to rectify the deep-rooted problems in China. The corporate governance systems need to be reviewed and implemented as an urgent tactic to safeguard against non-compliance and misconduct among the governments and institutions. Finally, environmental protection is also a great challenge for China's global sustainability. In the past decades, China has not performed well in regard to environmental protection. To be in line with the global standards, China is planning an environmental makeover in keeping with the political, cultural, and market revolution by committing to cap the carbon emissions by 2030 and turning to renewable sources for 20% of the country's energy.

To summarize the above discussion, China is facing great challenges to turn its 'China dream' into a reality through continuous sustainability of globalization. China's growth plan focuses on four elements — economic growth, social infrastructure, corporate governance, and environmental protection. As the first international journal about China marketing and logistics, we should examine all aspects of China in addition to the markets and logistics. Dr. Philip Kotler, the Father of Marketing, claimed in his message 'The Importance of China Marketing' for the inaugural issue of the *International Journal of China Marketing* in 2010, that the Chinese market would need more marketing research scholars to help them market both domestically and internationally. The JCML will act as a bridge and link the marketers, researchers, and scholars across the world to make contributions to China in its dynamic market.

JCML is a referral journal in the field of international marketing with a focus on China marketing, published by CSP, which is a professional press that publishes several academic journals. The journal is proposed by a group of scholars who believe that given the rapid business growth in China, it is necessary to have a platform to share ideas and knowledge about the marketing and logistics in China. Currently, there is no academic journal designated to it. The journal is in its process of being registered with SSCI index service, and the articles published in the journal will be fully indexed by significant index service providers.

This peer reviewed international journal is published biannually for practitioners and academicians interested in marketing in China and learning about China. It provides essential readings for those who need to keep in touch with the ever-evolving facets of marketing practices and theories in China. Practitioners and scholars from various disciplines apply theories, methods, and skills to identify, study, and provide solutions to all kinds of marketing and logistics problems in China that are faced by all kinds of business organizations, ranging from the small scale family-run stores to the large multinational corporations.

The journal is dedicated to the advancement and dissemination of business and marketing knowledge by publishing, through a double-blind reviewed process, the ongoing results of research in accordance with the international scientific and scholarly standards. Articles are written by business leaders, policy analysts, and active researchers for an audience of specialists, practitioners, and students. The journal publishes:

- Practice papers: Addressing the issues confronting marketing practitioners in industry, consultancy, and government
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Issues covered in the journal include:

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- Culture change
- Competitor strategy
- Product strategy
- Pricing strategy
- Marketing communication strategy
- Distribution strategy
- Customer relationship management
- Direct marketing
- Multi-channel marketing
- Social media strategy
- Marketing education

- Legal compliance

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CHINA'S GLOBAL TRADE HISTORY: A WESTERN PERSPECTIVE

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Seen from a Western perspective, China's global trade is a long oscillating story of power, sophistication, and superiority on one hand, and humiliation, domination, and exploitation on the other. The European and American mercantilism, militarism, colonialism, and consumerism have interacted with the Chinese Confucianism, isolationism, communism, and capitalism. They share an interwoven history that includes such key events as the Opium Wars, the Treaty Port Cities, the ceding and reacquisition of Hong Kong, and China's Open Door Policy and its entry into the World Trade Organization. Besides China and the West, many Asian nations also participated in this history. However, the focus of this paper is on China and the West. By briefly considering China's history of foreign trade with the West, and its impact both at home and abroad, we may gain a deeper understanding that the current era of China's global trade is not the first to have profoundly influenced the world consumption patterns.

Early China Trade by Land

The most famous early trade route that linked China to the West was the Silk Road, the collective name given to a series of trade routes that eventually ran 4000 miles from modern day Xi'an to Rome. But, neither did the Chinese merchants set out from China and reach Rome, nor the Roman traders travel to China. Rather, a series of travelling merchants of various nationalities passed on the goods in a series of trades. According to Hansen (2012), at the height of the importance of the Silk Road, the greatest trade was between China and the Persian-controlled Samarkand in the modern Uzbekistan. She also maintains that in terms of the volume of traffic, the route was one of the least travelled one in the human history, and that the most important Chinese cargo was paper rather than silk (see

also Millward 2012). Nevertheless, the spread of ideas, technology, religion, art, languages, and culture along the route make it one of the first and most significant trade routes in the human history (Hansen 2012). Its significance is also based on the diffusion of new 'exotic' consumer luxuries, as we will discuss later. Also, as is true for all types of culture contacts, the influences were not one-sided; instead, they were two-way and multi-way: between the nations and the people involved.

Most accounts trace the origin of the Silk Road to the Han Dynasty in 130 BCE and cite the occurrence of its demise in 1453 CE, when the Ottoman Empire barred trade with the West (Mark 2014). However, the Greeks reported contact with Seres (China) around 200 BCE, and the Persian Royal Road, which forms an important part of the Silk Road, was established during the Achaemenid Empire (500-330 BCE, Mark 2014). Moreover, what appears to be Chinese silk has been found in a 1070 BCE site in Egypt (Lubec, Holaubek, Feldl, Lubec, and Strohal 1993), and mummified Caucasian remains have been found along the Silk Road in China dating to as early as 1600 BCE. The Silk Road was not continuously in use during the period between the Han Dynasty and the Ottoman Empire, and was abandoned and reopened several times. However, in spite of these interruptions, the Silk Road was a pathway of economic and cultural exchange across Eurasia for two millennia (Waugh 2002).

Besides the Chinese silk and paper, China also exported such goods as porcelain, bronze mirrors, lacquer ware, gunpowder, the crossbow, tea, and spices; and it imported items such as dates, nuts, incense, perfumes, carpets, amber, drugs, dyes, jewels, horses, silver, and glass bottles (Killion, 2006). While most of these items were consumer luxuries, the export of the crossbow, gunpowder, and horses affected the military power in both China and the West. The effects of the Chinese exports to the West were often profound. According to Pliny the Elder, 'the insatiable appetite of the Roman women for silk from the East' was a substantial drain on the wealth of the Roman Empire by the first century CE (Waugh, 2002). An illustration of the bi-directional influences of the East and the West upon one another are the blue and white pottery decorations of the Middle East that are found on the Chinese porcelain of the 13th and 14th centuries (not only the design but also the deeper cobalt blue of the Persian ceramics was adopted in order to appeal to the market there, Brook 2008), and the heavy influence of the Chinese paintings found in the Persian paintings in the 15th and 16th centuries (Waugh 2010). As we will see in a later section, exported Chinese porcelain, using the Persian blue on white motif, not only grew popular as a must-have consumer good in Europe and North

America, but also inspired further changes in design to cater to the European consumer tastes; thereby stimulating an imitated production of such porcelain in Britain, the Netherlands ('Delftware'), and the United States. So famous, sought after, and ubiquitous did the Chinese porcelain produced in the factories of Jingdezhen become that Clunas (2012) called it "the very first global 'brand'" (50).

When China Ruled the Seas

There is some evidence that a Chinese maritime Silk Route grew gradually from the first century CE (Guangqi 2000). With improvement in the navigational techniques and technologies, the full flowering of the route emerged around the time of the end of the terrestrial Silk Road, specifically between 1405 and 1433 (Levathes 1994). During this brief period, China, under Emperor Zhu Di, who also built Beijing's Forbidden City and refortified the Great Wall, assembled the largest naval fleet in the world — some 3000 ships, with the largest being the 400-foot-long nine-masted *baochuan*, or treasure ships — and sent them out to trade with the world. They were floating cities, nearly five times the size of the ships in which Columbus sailed to the Americas. On expeditions as far as Persia and Africa, they were accompanied by "nearly a hundred supply ships, water tankers, transport for cavalry horses, warships, and multi-oared patrol boats with crews numbering up to 28,000 sailors and soldiers" (Levathes 1994: 20). Levathes suggests that they may even have reached Australia 300 years before Captain Cook. Menzies (2002) goes further and suggests that they may have circumnavigated the globe a century before Magellan, and reached the Americas more than 70 years before Columbus. However, Menzies' speculative account must be taken on faith as all the records were burned by the imperial order in 1433. What is clear is that the Chinese made significant advances in navigation, astronomy, and ship building during this period, and this allowed them to leave the sight of land and travel greater distances than ever before.

Emperor Zhu Di's grand plans for geographic expansion are unusual in China's history, but the treasure ships were intent upon trade. Their cargoes of silk, porcelain, lacquerware, and art objects were exchanged for gemstones, rhinoceros horns, pearls, spices, medicines, cobalt (to improve porcelain decoration), incense, ivory, and rare woods. However, after less than 30 years of such trade and expansion, and with half the world in his grasp, Zhu Di grounded the fleet, forbid overseas travel and shipbuilding, and initiated a long period of Chinese isolationism. The reasons were several, including financial strains, the death of Zhu Di's Admiral Zheng

He, attacks by foreign fleets, various “signs from heaven”, and a long-standing distrust of merchants and traders who were placed at the bottom of the Confucian hierarchy — under gentry, peasant farmers, artisans, and craft persons (Levathes 1994). Together with the waning of the Silk Road, and the Europeans now longing for more Chinese tea, silk, and porcelain, the stage was set for European voyages to China in search of treasures of their own.

The West Comes to China

The European Age of Discovery began in the late 15th century with the Portuguese and Spanish discoveries of the sea routes to Africa, India, Indonesia, China, and the Americas (Arnold 2002). Soon the British, Dutch, and Americans became involved in plying these routes as well. While the area of greatest concern here involved the trade in sugar, slaves, and rum between China and Europe or, as Mintz (1986) demonstrated, the trade between the New World and the Old World, the flows of commodities were linked to one another and to different geographic locations, that call for a broader approach to appreciate such global linkages and their impacts. For instance, one such key circuit, involving China, traced silver mined in the Americas by the natives and African slaves being taken to China to be exchanged for silk, which was then brought to the European market (Baghdiantz McCabe 2015).

The Portuguese were the first European nation to establish sea trade with China. Although a Portuguese delegation reached Canton (Guangzhou) in 1517 and sought to petition the emperor for trade privileges in a subsequent 1520-21 visit to Peking (Beijing), they were unsuccessful. A part of the reason was that they did not fully understand China's tribute system, by which gifts were received not to initiate the wheels of trade but as acknowledgements that China was the center of the universe, and the foreigners were to kowtow and place themselves in a vassalage position (Lach, 1994). However, the Portuguese managed to conduct secret trade with China by meeting Chinese merchants on the islands in the China Sea. By 1557, their control of Macao was accepted by the Chinese, and it served as an outpost from which they could conduct trade with the mainland. They traded spices from Indonesia and lacquerware from Japan for Chinese tea, porcelain, silk, and other goods over the next 200 years. Meanwhile, the Dutch were increasingly building a global trade network, and China was the key target for acquiring the Chinese porcelain that had first come to Amsterdam in 1602 and 1603, after a fleet of Dutch ships captured two Portuguese trade ships laden with

50 tons of the distinctive blue and white Chinese porcelain as well as 1200 bales of Chinese silk (Brook, 2008). The captured pottery was called carrack porcelain after the type of Portuguese ships that had been carrying it. So sought after was this durable and aesthetically striking porcelain that buyers from all over Europe fought for a piece. The secret of Chinese silk had been learned by then, but the captured silk also sold well because Italy's silk production had failed the same year.

In 1602, the Dutch Republic compelled the many Dutch trading companies sailing at the time to Asia to merge into the VOC (*Vereenigde Oost-Indische Compagnie*), popularly known as the Dutch East India Company, which became the largest trading company in the world in the 17th Century. The Dutch conquered Taiwan as the base of operations in 1620. The VOC's success in reaching China relied largely on three Chinese inventions: the magnetic compass for navigation, the paper for recording transactions and sending correspondence, and the gunpowder for arms to protect their ships from pirates (Brook 2008).

Roughly from 1600 to 1900, the Dutch, the British, and later the Americans and a scattering of other Western countries, ruled the world sea trade and prospered enormously, not only financially but also in terms of national economies, domestic standards of living, and participation in the Enlightenment and the Industrial Revolution (Brown 2009; Dolin 2012). The Dutch East India Company and the English East India Company in particular were the products of national policies of mercantilism that viewed world riches as a zero-sum game and set up the two companies in competition with each other, both in Asia and the New World. They took it upon themselves to wage wars, conquer territories, and make treaties, acting much like the rulers of the world that they were in many respects (Brown 2009; Keay 1991; Robins 2012). Throughout the 1660s and the first half of the 1670s, the British and the Dutch fought a series of naval wars that were basically about whether the Dutch East India Company or the English East India Company would control the lucrative trade routes to Asia and the American colony. Ultimately, the Dutch gained control of most of the spice trade in Indonesia and Southeast Asia, while England gained control of most of the trade with China. The Dutch also gave control of New Amsterdam to the British, and it later became known as New York.

Pomeranz (2000) asks why, despite its enormous resources, sophistication, navigational and ship-building skills, control of the key luxuries of the era, manufacturing skills, and size, did China fail to rise on the world stage in comparison to the West. His answers are several, but primarily focus on the access to coal, the European discovery and

exploitation of key resources, especially the silver of the new world, and the Western exploitation of slavery. Stearns (2001) adds to these factors the relative poverty, of mostly rural China, resulting in a lack of demand for exotic foreign luxuries. Stearns also reports the comments of an English merchant that China seemed to already have had the best of everything: "the best food in the world, rice; the best drink, tea; and the best clothing, cotton, silk, fur" (85). In 1793, when the Chinese Emperor Chien Lung was greeted by three British ships full of objects of English manufacture, he said: "We possess all things. I set no value on objects strange or ingenious and have no use for your country's manufactures. Our ways bear no resemblance to yours." (Belk and Zhao 2012: 139)."

This indifference to the foreign goods must also be seen in light of China's relative isolationism during this period, and its distrust of foreigners. The indifference of the Chinese to the Western goods and their demand for payment in silver, the chief form of currency for them, resulted in a huge balance of payments debt for the Dutch and the English. Moreover, the Chinese also kept the foreign traders at an arm's length; restricting the British to Shamien Island, off the coast of Canton, and refusing to allow the foreigners to participate in any sales activity within China itself (Garrett 2002). Eventually, the Western goods did gain access to the company warehouses in Canton but could go no further.

The Reversal of Western Indebtedness and Trade Disadvantage

In the same year (1793) that the Emperor Zhu Di turned away the British ships and merchandise, the English East India Company gained a monopoly on opium production in India, forcing all the poppy growers to sell only to them. The Company now had control over the good (opium) that would reverse their balance of payments debt to China, although the actual opium trading was done by independent merchants from India and England. At the height of the British opium trade, as many as a million (one out of ten) Chinese smoked the drug (Adshead 1997; Dong 2000). This reversed the flow of silver bullion into China, which had grown to \$10 million per year (Fairbank 1992). Opium shipments to Canton rose from 200 chests in 1729 to 4000 in 1790, and to over 20,000 by 1838. Opium imports continued to rise rapidly from the mid-1820s to the mid-1840s. During this period, China lost one-fourth to one-half of all the silver it had accumulated in the past 120 years (Richardson, 1999). Though China officially banned the drug in 1799, due to corruption, it did little to stop the flow of opium into the country (Janin 1999).

Realizing that its power was slipping away, along with recognizing the threats that opium posed to the morals, health, and the economy, Commissioner Lin Tse-Hsu barricaded the foreigners in their warehouses and ordered the foreign companies to surrender their opium in 1839. In response, England sent gunboats and the First Opium War was fought from 1839-1842, resulting in an English victory and a Chinese agreement to give control of Hong Kong to the British, open five new free-trade treaty ports, make payments to the East India Company, and exempt the British from prosecution under the Chinese law (Lovell, 2011). After losing the Second Opium War to the British and French in 1856, China had to make further concessions, including the legalization of opium and further payments to the foreigners. A number of Western nations built foreign enclaves in Shanghai, which became the key port for trade with China as well as an on-going site of humiliation, with a park that reportedly bore the sign 'No dogs or Chinese' (Wood, 1998). By 1930, Shanghai was the fifth largest city in the world and was highly modernized with the latest technologies and consumer goods (Belk and Zhao 2012; Wei 1993). Eventually, the opium trade was disrupted by World War II and the Chinese Revolution; though its global impact continues today in the heroin trade.

With the flood of foreign goods entering China during the early 20th century, China's domestic manufacturing began to compete by producing similar products which it marketed domestically, to other parts of Asia, and to some degree to the West as well (Yeh, 1997; Zhao and Belk, 2008a). However, there was at the same time a strong nationalistic movement and many government campaigns to get the Chinese people to buy the Chinese products rather than the foreign brands (Gerth, 2003). There were also periodic boycotts of the British, American, and Japanese brands (Benson, 1999; Bergère, 1986). But, as will be discussed in the next section, these boycotts and nationalist brand movements were never entirely successful.

Very briefly, the trade between the West and China all but ceased after the formation of the People's Republic of China, until the Open Door Policy and the economic reforms were initiated by Deng Xiaoping in the late 1970s. Since then, China has emerged from what many see as nearly 500 years of economic stasis to become the world's second largest economy, with number one status in sight. Whether China really was economically stagnant during this period is, however, a matter of some debate (Wong 1997; Baghdiantz McCabe 2015).

Impacts on Consumer Lifestyles and the Image of Others

Thus far, we have looked primarily at the supply side of the global trade between China and the West. The following sections of this paper consider the demand side of these relations. In order for there to be such strong incentives to trade, there had to be consumers who were anxious to purchase these goods. Moreover, the impact of this demand is likely to have changed the consumer lifestyles as well as the ways in which Asia and the West see each other.

Impact of the West on China

China's careful restrictions on the Westerners living in China, its self-perception of being a superior civilization, and its indifference to the Western goods were able to limit the Western influence on consumption during the years of the Silk Road, and during most of the 16th and 17th centuries (Hamilton, 1977). This is not to say that other foreign goods were not important in China. Of the Tang Dynasty (618-907 CE), it has been observed that:

The Chinese taste for the exotic permeated every social class and every part of daily life: Iranian, Indian, and Turkish figures and decorations appeared on every kind of household object. The vogue for foreign clothes, foreign food, and foreign music was especially prevalent in the eighth century, but no part of the Tang era was free from it. (Schafer, 1963, 28)

Contrary to many assertions that the consumer culture, with its emphasis on fashion, self-definition through consumption, and a growing centrality of consumption in life, is a purely Western phenomenon that spread to other parts of the world, there is evidence that China had many of these elements before extensive contact with the West or Western goods. For example, in Hangzhou, over a 50-year period from 1584 to 1614, the fashion for men to wear black hats and white cotton clothing changed to multi-coloured clothing (Finnane, 2008). As Brook (2008) documents:

Its most prominent native son (and Catholic convert) Xu Guangqi complained in a letter of 1612 that Shanghai was a place of "vulgar manners". Yet Shanghai's wealthy families engaged in practices of patronage and conspicuous consumption, which included buying and showing paintings that seem rather like what the merchant elite of Delft were doing. (7-8)

As Clunas (2004) reveals, Wen Zhenheng's (1620-1627) *A Treatise on Superfluous Things* (or *Zhang Wu Zhi*) was a handbook for the aspiring merchant class regarding what status objects to acquire and their appropriate consumption in order to imitate the literati. The multi-volume handbook covered a large number of consumption areas including houses, books, paintings, chairs, beds, clothes, utensils, boats, carriages, tea, and incense. Even tasting waters from different springs became a matter of connoisseurship (Clunas, 2012). With regard to porcelain, Wen recommended that the perfect piece should be "as blue as the sky, as lustrous as a mirror, as thin as paper, and as resonant as a chime" (Brook, 2008, 70). He found contemporary porcelain vulgar and cautioned that only pieces 200 years old or older should be collected. Nevertheless, occasional pieces of carrack porcelain created for export and shaped according to the European tastes were collected as well. As Brook (2008) observes, "The upper classes at the opposite ends of the Eurasian continent were both acquiring carrack porcelain — Chinese, because they thought it embodied an exotic Western style; and Europeans, because it seemed to them quintessentially Chinese" (76). The difference was that China's consumer culture during the Ming Dynasty was not primarily fueled by the Western goods in the way that the European consumer cultures of the time were stoked by the desire for the Asian goods.

But as the West, through military might and opium trade, gained concessions from China, the influence of the Western goods on the Chinese lifestyles also grew. This was especially true of Shanghai where, after the First Opium War ended in 1842, began a 106-year period of 'semi-colonialist' foreign presence (Wood, 1998). Between 1864 and 1894, the import of foreign goods to China more than doubled, with the branded Western consumer goods leading the way (Wang, 2000). Besides foreign goods, the many foreigners who came to live in Shanghai were themselves exemplars of the Western life. Hotels, dance halls, mass retailing, advertising, automobiles, packaged foods, foreign medicines, telephones, elevators, neon lights, radio, movies, golf courses, and a horse racing track became prominent parts of Shanghai life (Belk and Zhao 2012; Gerth 2003; Dikötter 2006). Although the two largest department stores, Sincere and Wing On, were Chinese-owned, they featured foreign luxuries, including Western clothing, cosmetics, shoes, and jewelry (Chan 1998; Ching-hwang 1993). Besides European goods, American goods including tobacco and foods such as sweet potatoes, corn, peanuts, and chili peppers were also embraced (Baghdiantz McCabe 2015).

Significantly, two factors mitigated the sale of the foreign goods, though not their impact on the Chinese culture. One was the rapid

imitation of these goods by the Chinese manufacturers; a skill honed to perfection by previously modifying their goods to fit the orders of the European traders who asked for adaptations to better-fit the Western tastes (Dikötter 2006). The second factor was the government's promotion of the 'buy national' and the several organized boycotts of the British, Japanese, and American goods (Belk and Zhao 2012; Gerth 2003). In addition, the Boxer Rebellion of 1900 was an effort to end the national humiliation of the foreign presence and the foreign products by destroying these goods (Cochran 1980; Dong 2000). But these campaigns were largely unsuccessful, at least until the Chinese Civil War and the founding of the People's Republic of China (PRC) in 1949.

With the founding of the PRC, the Western brands largely disappeared from China until the economic reforms of the late 1970s, initiated by Deng Xiaoping. Early in China's transition to a market economy, there was some denigration of foreign firms (e.g., Gamble 2006) and lashing out at 'the hated capitalist roaders' (Schell, 1984). However, China has become not only a major producer of foreign-branded goods but also a major consumer of these brands, even as it strives to promote its own brands in the West and the other foreign markets (Tian and Dong 2011; Zhiyan, Borgerson, and Schroeder 2013). So momentous has China's embrace of the consumer culture and the new Chinese as well as Western goods been that the post-Mao era is commonly referred to as the Consumer Revolution (Davis 2000; Zhao and Belk 2008b; Zhou and Belk 2004). The rapid expansion of consumption has not only been facilitated by the equally rapid expansion of personal wealth, especially in urban and coastal China, but also by the one-child policy that has made more resources available to be lavished on the only children, known as the 'little emperors' (Jing 2000).

Impact of China on the West

It was Marco Polo's account of his 13th century travels in China that first fired the European imaginations with the treasures of Asia. By the end of the 13th century, Chinese silks were already in the collections of Europe's elite, including those of the popes. In 1492, when Christopher Columbus set out to find a sea route to India and China, and accidentally 'discovered' America, he had been inspired by Marco Polo's book (Baghdiantz McCabe 2015).

Just as the Dutch brought carrack Chinaware to Amsterdam in 1602, privateers, led by Sir Walter Raleigh, had brought a cargo of Eastern goods to London in 1592 after capturing a Spanish ship and seizing its

cargo (Jenkins 2013: 74). The cargo had included silks, porcelains, and other Chinese decorative ware. Similar to the frenzy that was started by the carrack in Amsterdam, there was intense interest shown in these items by the small elite who could afford them. However, at the time, they were regarded as 'mere curios' (Honour 1961: 42). They were considered curiosities, trinkets, or toys. However, by the second half of the 17th Century, as Jenkins (2013) demonstrates, the public perception of such objects had changed from regarding them as objects of wonder to revering them as objects of taste and discrimination. Chinese porcelain in particular came to be collected, displayed in 'China cabinets', and used on special occasions. Fine homes even had Chinese rooms furnished with various objects 'in the Chinese style' (Jenkins 2013), even though the objects may have been made by English companies such as Chippendale and Wedgwood. So strong was the European desire for Chinese things that, in the early 18th century, the King of Poland traded an entire infantry, complete with horses, to the King of Prussia in exchange for 15 pieces of Chinese porcelain (Jenkins 2013: 31).

Another Chinese good being imported by the English East India Company and widely adopted was tea, and serving the tea using a set of Chinese porcelain cups, saucers, teapots, and trays became a ritual in fine British homes and, eventually, the homes of the masses as well (Rose 2010). Even the poor of Amsterdam had inventories of porcelain and teaware by the 18th century (McCants 2013). Tea also started as an elite beverage (for example, a handful of tea leaves once cost fifteen gold coins in Germany — Baghdiantz McCabe 2015: 138) and was initially sold in pharmacies as a drug. Although not to the extent of opium in China, tea, coffee, sugar, tobacco, and chocolate, all coming into Europe from Asia and the New World, were 'drug foods' that brought pleasure and were regarded as little luxuries (Clarence-Smith 2008; Pomeranz 2006), just as the silk, porcelain, and lacquerware from China were regarded as 'semi-luxuries' (Baghdiantz McCabe 2015; Berg 2005). They were not, at the time, regarded as art; they were decorative arts or crafts that did not have the status of paintings (Porter 2010: 7).

Adaptations were made in China in the European traders' orders to accommodate European tastes and practicalities. A pragmatic example was the Chinese soup bowls intended for the Dutch market. Chinese soup bowls had steep vertical sides that made it easier to drink from the rim. However, European etiquette forbade lifting the bowl to the lips and, also, the big soup spoon would tip the bowl when it was left there. So, a flattened bowl shape was invented in order to accommodate the European

soup consumption (Brook 2008). Designs too were adapted to include the British coat of arms as well.

Chinese porcelain was so popular in the 17th and 18th century Europe that there were numerous attempts to create similar 'Chinoiserie'. While it were the Germans (then, part of the Hapsburg Empire), in 1710, who discovered the secret to making hard Chinese porcelain in their Meissen factory (Jenkins 2013), many others, including Mexico, the Middle East, Iberia, France, England, and the Netherlands, tried to imitate the design and appearance of the Chinese porcelain (Baghdiantz McCabe 2015; Brook 2008). Most of them failed, but Dutch Delftware succeeded in imitating the Chinese blue and white motif and became a brand of its own. While porcelain in England was known as 'china', in Ireland it was called 'delft blue' (Brook 2008: 79). The import of the Chinese tea and porcelain as well as the rise of imitations went hand in hand, stimulating one another and spurred by the mania for Chinoiserie, tea drinking, and Orientalism (Aravamudan 2012).

It is estimated that by the 1880s, 500 million people drank tea versus the 200 million who preferred coffee, and 50 million drank chocolate, not a solid till then (Clarence-Smith, 2008). During the 1770s, Britain alone imported 12 million pounds of tea. However, because of the high excise duties on tea, about seven million of these pounds were smuggled into the country (MacGregor 2012). By the 1770s, the Americans had also become avid tea drinkers, importing about six million pounds an year, or enough for 1.4 cups per day for every man, woman, and child (Dolan 2012). At the time, the British East India Company was the sole importer. Because of a weakening British East India Company, the British government imposed an additional tax in America through the Tea Act of 1773. In response, the dumping of tea into the Boston harbor that year was one of the key acts of rebellion that prompted the American War of Independence and a number of other acts boycotting the British imports (Breen 1988; Witkowski 1989). After their independence in 1776, there emerged a boom in the industry, with the American ships sailing to China and importing tea directly. At the time, America even became involved in the opium trade (Dolan 2012).

The global growth in tea consumption had made it the primary good exported from China while the Chinese porcelain and silk were eclipsed, as the Western countries increasingly produced their own imitations of these originally Chinese goods (Dolan, 2012). But the explosion of tea consumption was also due to several other factors. In the face of more and more smuggled tea coming into Britain, the government slashed the duty on tea in 1785. Greater affordability greatly expanded the number of tea

drinkers in England. Another key factor was the addition of other ingredients to tea, as MacGregor (2012) explains:

The price of tea dropped sharply. It could now become a truly popular drink. But cheapness was only one factor in the nation's growing taste for tea. At some point early in the eighteenth century, people had started adding milk and sugar, which transformed bitter refinement into sustaining sweetness. Consumption rocketed. Unlike coffee, tea was positively marketed as a respectable drink for both sexes – with women particularly targeted (520).

The sugar that provided energy to the newly enrolled factory workers of Britain was obtained at a terrible price and after many cruelties to the slaves, as Mintz (1986) had effectively shown. And, as MacGregor (2012) observed, the Opium Wars in China were as much about being able to continue to buy the tea as they were about being able to continue to sell the opium.

During the first half of the 20th century, China became more open to the Western tourists and expatriates than ever before. Hong Kong was a thriving English Colony; Macau, a thriving Portuguese colony; and Shanghai, a semi-colony with as many as 100,000 foreigners living there. With so many expatriates in these enclaves, they did much to bring their culture with them and to help ensure that these cities had all the latest conveniences — street lights, air conditioning, neon lights, Western-style hotels, Western-style restaurants, elevators, and much more (Cochran 1999; Kuo 2007; Lee 1999). Many Chinese also welcomed such conveniences, but it oversimplifies to characterize all this as Westernization. As Yeh (2007) argues in the context of Shanghai:

Past scholarship has often debated whether Shanghai was more Chinese or more Western. From the perspectives of those who lived there, Shanghai seemed above all a place of tension and contradictions. It was hardly a Westernized or Westernizing enclave existing against a passive backdrop of continental China. From the waves of migrant workers to the throngs of Nanjing Road shoppers, from occupying Nationalist soldiers to underground Communist cadres, the country seeped into the city in myriad ways. The foreign concessions, despite (or because) of their constantly expanding boundaries, were never capable of keeping 'China' out of Shanghai, nor the Chinese out of concession affairs (5).

Similarly, rather than the growing consumer culture eradicating the difference between Western-ness and Chinese-ness, Dikötter (2007) echoes a point often made in the other material culture studies (e.g., Foster 2008; Miller 1997; Watson 1997):

The idea that a global economy inevitably leads to the destruction of local identities, as a homogenized consumer culture ruthlessly displaces previously autonomous cultural experiences in its subjugation of the world, has great appeal for those who equate globalization with Westernization. But local peoples have always creatively incorporated products and social forms for purposes other than those intended by their producers (7).

The Western consumer research on this period has focused almost exclusively on the Western influence on China and its reception by the Chinese, rather than the Chinese influence on the West and its reception by the expatriate Westerners. Quite likely, as China increasingly imitated the Western brands and retailing, and campaigned for Nationalist products (Gerth 2003), expatriate Westerners in China largely remained loyal to the Western products. But such analyses are missing from the existing literature, aside from a few anecdotal accounts.

Since the opening of China in the late 1970s, the Westerners have increasingly bought Western goods made in China. This is so much the case that it is difficult for the Westerners to live without the goods made in China (Bonjiorni 2008). However, those goods that were distinctly Chinese were only celebrated for a short time after the re-opening of China and were adapted to the Western market by companies like Bloomingdale's (Silverman 1986). And, while the Chinese brands are growing in the international market, they have yet to make a big impact in the West (Tian and Dong 2011; Zhiyan, Borgerson, and Schroeder 2013).

Chinese Goods and the English Imagination

As a more specific instance of the impact of China on the West, we can briefly consider what the imported objects did to the way the English saw their own nation, as well as China and Asia generally. Many novels, stage plays, and social commentaries addressed how the deluge of the Chinese goods was interpreted, and what it meant to the identity of the English people and to the nation. So great was the English fascination with China that a 1669 essay by John Webb speculated that Noah's Ark had landed in China, and that Chinese was the original language, which should, therefore, become universal (Aravamudan 2012: 13). Chinese goods were a form of communication as well, but they required some translation to be rendered meaningful in England (Jenkins 2013). Some of this was done through adaptations of Chinese aesthetics to Westernized Chinoiserie designs that "reduced the complexity of Chinese visual culture, and met

demands for styles conveying a creative imagining of China” (Berg 2005: 52). As in America, during the early years of trade, imaginations of China:

...came partly from imports – the porcelain, paintings, silks, fans, and decorated furniture, which offered only idealized depictions of China, including exotically beautiful landscapes with waterfalls, majestic trees, verdant mountains, architecturally spectacular building, and people – the poor peasants intentionally excluded – going about their daily activities (Dolan 2012: 194).

There is some of Said’s (1978/1979) notion of Orientalism here, portraying the other as totally different, strange, and exotic. But this is a relatively positive use of Orientalist imagery that Aravamudan (2012) has dubbed “Enlightenment Orientalism”. It continued in novels about the East past the Enlightenment and into the Romantic period in the 19th century as well. It often treated the Orient as superior to the Occident. By most objective standards, such as diet, infant mortality, life expectancies, and equality of wages between women and men, China was indeed better off than Europe (Markley 2006). Both culturally and economically, prior to the 19th century, Europe was disadvantaged compared to Asia (Jenkins 2013; Pomeranz 2000). As a result, the Chinese goods became coveted luxuries that conveyed status and brought aesthetic pleasure, both directly and through the Orientalized imaginings of an exotic empire in the East.

Nevertheless, by the 19th century, outside of literature, there was a distinct shift towards portraying Europe as superior to China by displaying what Porter (2010) terms ‘instrumental amnesia’. In this view, the presence of the Chinese things in the British culture was taken as a sign of England’s cosmopolitanism (Jenkins 2013). Jenkins (2013) and Porter (2010) maintain that during the 18th Century the Chinese things underwent a transformation in the eyes of the English from positive to negative. Porcelains that were once regarded as marvels that provoked awe and wonder and, later, considered as status-laden aesthetic treasures, were increasingly disparaged as being feminine and infantile. Rather than acknowledge “the economic supremacy of the Far East, the Chinese empire [was] reimagined as fragile, superficial, and faintly absurd” (Porter 2010: 6-7). Likewise, England’s trade disadvantage in dealing with China and its heavy-handed control of the opium trade were transformed into a myth of English triumph in world trade. British colonialist exploits were seen as bringing “civilization” to Asia and its other colonies (Markey 2006). Imperial envy reframed what was once quaint and exotic as grotesque and monstrous (Porter 2010: 2-3, 6).

During the 30 years from 1949 to 1979, the Westerners imagined China, largely through the lens of the Cold War, as a backward and dangerous bastion of frightening communism. With the reopening of China to the West, along with the subsequent collapse of the USSR and Eastern European communism, there was a triumphalist celebration of Western capitalism and consumerism having won the Cold War (Barber 1995; Schell 1988). Despite an initial flurry of interest in “things Chinese” (Silverman 1986), another instrumental materialism now seems to be taking place, in which China's 5000-year-old culture is being ignored and only its uneasy adoption of the Western brands in both production and consumption are seen.

Conclusions

As this brief history of the Chinese trade from a Western perspective has shown, the current period of wildly successful global trade between the West and China is hardly the first. No doubt the cultural baggage of this reciprocal trade and culture contact continues to echo in contemporary trade as well as in international relations, and I leave comparisons to the reader. While, for much of this history, China has had the upper hand economically, this has not been the case always, and from the mid-19th to the mid-20th century, China suffered a number of indignities, setbacks, and humiliations at the hands of both the West and Japan. The current era of rapid economic growth might be thought of as China's peaceful revenge, even though the nation still longs to develop its own global brands (Tian and Dong 2011; Wang 2008; Zhiyan, Borgerson, and Schroeder 2013).

It is also clear that the simple exchange of goods seldom involves a corresponding veridical transmission of cultural meanings. Rather, both the Chinese goods in the West and the Western goods in China require “translation” into the local culture, and often take on quite a different meaning as well as dynamic and changing interpretations in the process. Furthermore, the adaptations start before the consumers receive the foreign goods, as they are modified according to the trends in consumer demand. Thus, Chinese and Western art and design influenced each other, for example, both in the 18th and 19th centuries (Brook 2008; Porter 2010), and in the 20th and 21st centuries (Bosker 2013; Hendry 2000). In an era of instant global communication, rapid international travel, and alleged computer hacking of trade secrets, such influences today take place much more quickly. But it is also evident that we are not moving toward anything like a global culture of homogeneity. As in the case of food cuisines, despite the existence of fusion foods, we still prefer to go to

restaurants that specialize in a particular national or ethnic cuisine, even if these restaurants also adapt their “ethnic” foods to the local tastes (Wu and Cheung 2002). The increased two-directional flow of tourists between China and the West is further evidence that the uniqueness of both the regions and peoples continues to fascinate the Westerners as well as the newly economically empowered Chinese.

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ON SOCIALIST MARKET ECONOMIC SYSTEM IN CONTEMPORARY CHINA

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China began to implement the new policy of reform and opening up in the early 1980s with an aim to establish a socialist market economic system, and build a strong and powerful nation. Since the process of establishing a socialist market economy with Chinese characteristics is a pioneering work, unprecedented in history, the imbalance in the economic and social development is inevitable. The Chinese leadership, along with the Chinese people, should act in accordance with the laws of the market economy to enhance the socialist construction. The reform should be conducted under the guidance of the people's willingness, and follow the direction of the market economy reform to structure a full market economic system and raise the people's standard of living.

Introduction

In contemporary China, it is widely recognized among scholars that the report of the 13th Congress of the Communist Party of China was an epoch-making event. It was a major harvest in the field of political thought and ideology, leading to the formation of the theory of the primary stage of socialism. The report released by the Congress showed that the

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development of the economic system with public ownership playing a dominant role, and diverse forms of ownership developing side by side, would be a basic characteristic of the socialist economic system at its preliminary stage. This is determined by the quality of socialism and the national situation in the preliminary stage, and has been proven by practice (Tian & Dai 2012).

According to the instruction of the political and ideological line, and the socio-economic development ideas established in the 13th Congress of the Communist Party of China, the guiding principle of development should be comprehensive and balanced socio-economic development and not simply pursuing business profits and market efficiency. The political reports published during the 13th and 17th Congress of the Communist Party of China formed a coherent and consistent political consensus in conceiving the primary stage of socialism as basic to China's national condition for any reforms. The reports also helped lay a theoretical foundation for holding the banner of socialism with Chinese characteristics, thereby building an innovative country with reform and opening up policies (Tian, Hu, Lin, & Dai 2013).

Twists and Turns of Reviving China's Economy

In the report of the 17th Congress, the General Secretary of the Central Committee of the Communist Party of China, Hu Jintao, pointed out that after years of unremitting efforts since the founding of the New China, especially since the reform and opening up, China had made remarkable achievements in the development of the productive forces and relations of production, and that the economic base and the superstructure had experienced far-reaching changes. However, China is still in the primary stage of socialism and will remain so for a long time to come. The basic national conditions of China have not changed. The one principal contradiction in the Chinese society is still between the ever-growing material and cultural needs of the people, and the backwardness of the social production. Recognizing the basic national conditions in the primary stage of socialism is not to belittle ourselves or to be divorced from reality, but to regard it as the fundamental basis of pushing forward reform and the plan for development (Hu 2007).

Before 1978, China had a planned economy, which was due to the historical conditions of that particular era; China was learning from the development mode of the Soviet Union. In the early stage of building the

New China, the planned economy gave full play to concentrating the human, financial, and material resources to build a number of urgent economic projects for national economic development in a short period of time. With the assistance of the Communist Party of the Soviet Union led by Stalin, and the Soviet Union's people, China established 156 major infrastructure projects of its own for economic development during the period of the First Five-Year Plan.

However, with the continuously expanding economy, the planned economic system exposed some serious flaws. Especially, the Cultural Revolution, though theoretically aimed to consolidate the socialist system, proved to be exactly the opposite in its results. Under the guidance of opportunism, China's planned economic system gradually showed low efficiency and failed to promote production. The entire national economy was on the brink of collapse. So, what was the way to build socialism? There has been only one answer — follow and satisfy the needs of the people, and focus on national development. China needed to follow the objective law to determine the major policies of socialist construction. Engels insisted that a socialist society is not a final or a static state of being, but a society that has to be continually changed and reformed (Engels 1962). So, in 1978, under the guidance of the second generation of the collective leadership of the Communist Party of China led by Deng Xiaoping, China began to implement the new policy of reform and opening up, with an aim to establish a socialist market economic system, and build a powerful nation by learning and introducing the market economic system of the industrialized countries.

Establishment of the Socialist Market Economic System

The Third Plenary Session of the 11th Central Committee of the Chinese Communist Party developed a correct ideological and political line, and a series of principles and policies, to launch a great economic and social reform in the history of China, and to guide the people embarking on the new path of socialist development. In 1984, Deng Xiaoping concluded that the nation had made great progress in five years and pointed out that, overall, this was the way to build socialism with Chinese characteristics. For Deng Xiaoping, the main task in the socialist stage was to develop the productive forces, and economy is the core of nation building. For economic construction, the reform and opening up policy helped China use the market-based instruments to develop production and

improve efficiency (Tian & Dai 2012).

In his famous Southern Tour Talk of 1992, Deng Xiaoping noted that more planning or more marketing is not the substantial distinction between socialism and capitalism. A planned economy is not equal to socialism, as capitalism also has plans; similarly, a market economy is not equal to capitalism, because socialism also has a market. This important argument fundamentally pointed out the direction for developing the socialist market economy theory and establishing the socialist market economic system. On June 9, 1992, in a speech for the Central Party School, Jiang Zemin affirmed the 'socialist market economy' for the first time. After that, on October 12, 1992, the report of the 14th Party Congress formally proposed that the goal of China's economic reform was to establish a socialist market economic system (Chen 2012).

After the Opium War in 1840, China was invaded and humiliated for more than a century. Thereafter, the Chinese people adopted Marxism to conduct a new democratic revolution and establish a new China. The practice told the Chinese people the truth that only socialism could save China, as was also profoundly summarized by Deng Xiaoping when he stated that capitalism does not work in China, and that China must establish socialism. For Deng Xiaoping, if China adopted capitalism instead of socialism, the confusion in China would not end, and poverty could not be removed (Deng 1993). Shifting from the socialist planning economy to the socialist market economy has complied well with China's national conditions, the will of the people, and the development trend of the era. The practice of Marxism in some countries has proved that socialism is not naturally established and developed, and it can only succeed with the protection of the people's regime. China's socialist economic construction needs to be guided by the right strategies and policies, and macro-controlled by the national authorities. At the same time, the market should play the basic role of resource allocation. Only in this way, the economic development and the social construction can be fruitful and fulfil the goal of building a well-off society.

Since China's economic system was transferred from a single planning system to a socialist market economic system, the national economy has developed outstandingly. Especially during the Eleventh Five-Year Plan period (2006-2010), China's originally irrational economic structure was increasingly optimized, and the total economic output increased steadily. During the Eleventh Five-Year Plan period, the primary, secondary, and tertiary industries maintained a rapid development trend. During this period, the average annual growth of the primary industry was 4.5%, the

average annual increase of the secondary industry was 12.1%, and the average annual growth of the tertiary industry was 11.9%. As for the industrial structure, the proportion of the primary industry decreased from 12.1% in 2005 to 10.2% in 2010; the proportion of the secondary industry decreased slightly, from 47.4 % in 2005 to 46.8 % in 2010; and the proportion of the tertiary industry increased from 40.5% to 43.0%. Due to a larger national investment in the rural areas and the urgent requirement for sustainable development, the proportion of the primary industry decreased significantly. The decrease in the proportion of the secondary industry was because of the rapid industrialization in the national economy.

The three industrial employment structures underwent significant changes too. Between 2005 and 2009, the total employment proportion of the primary industry decreased from 44.8% to 38.1%; the total employment proportion of the secondary industry increased from 23.8% to 27.8%; and the total employment proportion of the tertiary industry increased from 31.4% to 34.1% (State Statistics Bureau, 2011). The direct effect of modernization in the economy structure was that the industries represented by the information and heavy chemistry replaced the traditional industries, and became the pillar of economic development. With the deepening of reform, the economic sector diversified increasingly and a large number of new service industries emerged, and the rise in the proportion of the tertiary industry became a development trend.

China's population is mainly an agricultural population. The affluence of the farmers is the most important symbol of a country's prosperity. Transferring the agricultural labor to the industrial sectors and optimizing the proportion of the industrial structure are important ways of helping the farmers become rich. During the Eleventh Five-Year Plan period, the Chinese government's ability to control the market economy was constantly enhanced; the policies for the urban and rural development achieved remarkable success and the various targets of macroeconomic regulation were realized smoothly. As more and more farmers worked in the cities, the income of the rural population improved greatly. According to the result of the Second National Agricultural Census released by the Agricultural Census Office and the National Bureau of Statistics on February 21, 2008, the employment ratio of the three industries was 70.8%, 15.6%, and 13.6%. 130 million rural laborers left the rural areas to work in cities. Among them, the men accounted for 64%; the people aged 40 and under accounted for 82.1%; the people with junior middle school education background and above accounted for 80.1%; and the laborers

who worked outside their home-county accounted for 80.8% (Yuan 2008). China has a large population, and the size of the rural laborers transferring to the urban areas is very big. In the wake of such a situation, the Chinese government should create opportunities to solve the employment problem. As more than 20 million new laborers join the labor force every year, it is not an easy thing to create jobs for so many people (Tian 2008).

The achievement of the socialist market economic system reform is not only enjoyed by the domestic people but also appreciated by the world. 'China Rising' is one of the hot topics for the world's major media. The peaceful rise of China has become a basic fact and a major trend; one cannot deny or ignore it. An article titled 'How China Runs the World Economy: Global wages, profits, prices and interest rates are being increasingly influenced by events in China' was the cover story of the British magazine *The Economist* on July 28, 2005. It can be proudly said that China's reform and opening up has had a profound impact not only on China but also on the entire world. This achievement is a victory of adhering to the socialist direction and uniting reform — also dubbed 'second revolution' — as a means for self-improvement of the socialist system.

Twists and Turns of Economic and Social Development

Although the market economic reform has achieved a particularly evident progress in terms of the volume and structure of China's economy, the national development has not reached the desired level yet. A major downside is that the rapid growth of the material wealth does not benefit all the people equally. The gaps between the regions, and between the urban and rural areas, with regard to their economic development, are becoming larger. There obviously exists an uneven distribution of the national income. However, since the establishment of the socialist market economy with Chinese characteristics is a pioneering work, unprecedented in history, the imbalance in the economic and social development is inevitable (Tian & Dai 2012).

Now, how should the contradictions in the society be solved? Firstly, we should understand these contradictions so as to identify the major contradiction from the complicated social environment. The founder of the People's Republic of China, Mao Zedong, said in his famous book *On Contradiction*: 'There are many contradictions in the process of development of complex things, and one of them is necessarily the

principal contradiction whose existence and development will regulate or affect the existence and development of the other contradictions.’ People need to re-study Mao’s opinion to correctly understand contradictions and, then, resolve the contradictions. If the judgement of the principal contradiction is wrong, then the loss in the actual work will be very painful. Recalling the history of the Communist Party of China in the economic construction is very necessary for solving the real-world conflicts.

During the period between September 15, 1956 and September 27, 1956, the Eighth National People's Congress of the Communist Party of China was held in Beijing, and the famous political report given by Liu Shaoqi on behalf of the Central Committee of the Communist Party of China was passed. This report determined that the principal contradiction of the Chinese society had changed, and the focus of the work of the Communist Party should strategically shift from liberating the productive forces to protecting and developing them. In the preceding months, using the Soviet Union’s experience of socialist construction, Chairman Mao Zedong and the other leading comrades of the Central Committee of the Communist Party of China summed up the exploratory experience of the Chinese socialist transformation and made a preliminarily strategic plan of how to develop socialism in China. Accordingly, Mao Zedong wrote his glorious speech titled *On the Ten Major Relationships*. As Liu Shaoqi pointed out in the report of the Second Session of the Eighth National People’s Congress, the work report of the First Session of the Eighth National People's Congress was based on Mao Zedong's principles and policies of dealing with the Ten Major Relationships.

The political reports and resolutions of the Eighth National People's Congress of the Communist Party of China pointed out that after the basic completion of the socialist transformation of private ownership, the contradiction between the proletariat and the bourgeoisie had been basically solved and, at present, the main contradiction of China was the contradiction between the people's requirement of establishing an advanced industrial country and the reality of a backward agricultural country, and the contradiction between the people’s requirement for rapid economic and cultural development and the current economic and cultural situation which could not meet the people’s need (Liu 1998). This conference pointed out the direction for China’s socialist economic development and the building of the Chinese Communist Party. Deng Xiaoping thus summed up the task of the Congress: ‘The task of the Eighth National People's Congress is to mobilize all positive factors and all forces to build China into a great socialist industrial country’ (Deng

1994). It indicated that the work focus of the Chinese Communist Party should be shifted too, with the change of the main social contradictions.

In the eleventh Supreme State Conference, Mao Zedong made an important speech, clearly pointing out that the large-scale class struggle during the revolutionary period had basically ended, and the theme of China's political life was to correctly handle the contradictions among the Chinese people. This was a continuation and development of the principles laid out in the Eighth National People's Congress, and had a great theoretical and practical significance. But, soon, a nationwide anti-rightist movement began. This movement affected the people from every walk of the Chinese society, especially the intellectuals who appeared to favor capitalism and were against collectivization. On June 19 of the same year, 'On the Correct Handling of Contradictions among the People' was published in People's Daily. Seriously overestimating the domestic situation, the author added some arguments which were incongruous with the spirit of the original speech, such as the emphasis on the class struggle and the misjudgment of the contradiction between socialism and capitalism in China (Mao 1999).

In October of the same year, the Third Plenary Session of the Chinese Communist Party discussed the contradictions between the proletariat and the bourgeoisie, and between the socialist road and the capitalist road; saw the struggles between the two classes and between the two roads as the society's principal contradiction; and wrongly changed the principles of the Eighth National People's Congress. Since 1957, the fundamental guiding principle of the Chinese Communist Party for China's development was 'taking class struggle as the key link' and, later, during the Cultural Revolution, 'continuing the revolution under the dictatorship of the proletariat'.

Prior to 1978, the social production activities of China were interfered with and repressed by the class struggle, and the Chinese people did not have enough to eat and wear (Tian & Dai 2012). China had not announced the poverty line before 1978, but we can calculate the poverty line in accordance with the standards of nutritional knowledge. The usual standard specified by the nutritionists requires that the calorie intake should not be less than 2150 calories per person per day. The food in the diet should provide 90% of the calories to a person per day, which implies that per person per day consumption of food grain should be at least 540.5 grams; per kilogram of food generally contains 3580 kilocalorie. Considering this, at least 197 kilograms of grain should be consumed per person per year, which is the minimum food consumption standard of the

World Bank. Based on the Chinese residents' need of normal physiological function, the Chinese Society of Nutrition thinks that the calorie intake should not be less than 2400 kcal per person per day, and the National Bureau of Statistics of China stipulates that the minimum food consumption is 220 kg per person per year (Zhu & Jiang 1994).

Therefore, if we take 220 kilograms of grain per person per year as the standard to measure the poverty line in China before 1978, the extreme poverty line was 197 kg. According to the data on average per capita per year consumption of food of the urban and rural residents before 1978 (units: kilograms) provided by the Chinese Ministry of Agriculture, we can draw the following results about the per person per year food consumption in China: in 1952, 241 kg in the urban areas and 192 kg in the rural areas; in 1957, 196 kg in the urban areas and 205 kg in the rural areas; in 1960, 193 kg in the urban areas and 156 kg in the rural areas; in 1965, 211 kg in the urban areas and 177 kg in the rural areas; in 1970, 202 kg in the urban areas and 185 kg in the rural areas; in 1975, 210 kg in the urban areas and 187 kg in the rural areas; in 1977, 211 kg in the urban areas and 189 kg in the rural areas; in 1979, 211 kg in the urban areas and 206 kg in the rural areas; in 1981, 216 kg in the urban areas and 220 kg in the rural areas; in 1984, 240 kg in the urban areas and 250 kg in the rural areas; and, in 1986, 245 kg in the urban areas and 260 kg in the rural areas (Agriculture Ministry Planning Department, 1987). The data showed that before 1978 the food consumption of the Chinese urban and rural residents was below the poverty line of 220 kg and, for many years, it was even below the extreme poverty line of 197 kg. According to the estimation of the World Bank, in 1978, there were 270 million absolutely poor people in China, accounting for about 1/3 of the China's population (World Bank 1993).

As some of the Chinese scholars have pointed out, during the commune period, almost half of the farmers lacked sufficient nutrition, and among them, those who lived facing a serious shortage of food accounted for almost one third. Under conditions of a bad harvest, this proportion was close to 60% (Xia 1995). Because of the misjudgment of the social contradictions and the implementation of the wrong policies, the Chinese society fell into severe poverty and experienced a great national catastrophe, and the national economy slid and was on the brink of collapse.

After the Cultural Revolution, the biggest problem of China's society was the shortage of the material goods. Social instability caused by poverty was spreading over the entire society. China's most urgent task was to shift the center of the government policy to economic development

and forge stimulation for the development of social productivity. As many people were still constrained by the 'Two Whatever' ('We will resolutely uphold whatever policy decisions Chairman Mao made and unswervingly follow whatever instructions Chairman Mao gave.'), and the shadow of the 'Leftist' had not disappeared, some brave Communists adhered to the principle of seeking truth from the facts and tried to bring order out of the chaos. A branch of the Chinese Communist Party at Xiaogang Village in Anhui Province went through great risks to secretly carry out a land contract reform, showing to the Communists their strong determination to insist upon Marxism. Later, the Anhui Provincial Committee of the Chinese Communist Party, with Wan Li as the secretary, supported the reform of Xiaogang village and seized the opportunity to promote the reform experience in Anhui Province when the land contract reform got initial success. A German expert on China, named Garth Le Pere, evaluated the reform as an experiment against hunger without the discussion and approval of the central committee (Li 1994).

After summarizing the reform experience in Anhui, Sichuan, and other provinces, in December 1978, the Communist Party of China held the Third Plenary Session of the 11th Central Committee of the Chinese Communist Party. This meeting re-established the principal contradiction in the Chinese society as 'the contradiction between people's growing material and cultural demands, and the undeveloped social productivity', and took a strategic decision on economic construction as the central task. It inherited and went beyond the spirit of the Eighth National People's Congress. In order to guide the Chinese people to get rid of the poverty, in 1986, the State Council established a specific group to lead the economic development in the poor areas, and then published the criteria and the number of state-level poverty-stricken counties (Tian & Dai 2012).

In 1993, the central government formulated the '8-7 National Poverty Reduction Plan', with an aim to increase the efforts towards poverty-alleviation. In October 1996, the CPC Central Committee and the State Council formally introduced the 'Decision on Solving the Problems of Food and Clothing for Poverty-Stricken People in Rural Areas as Soon as Possible'. The central government offered greater financial support to help the rural residents get rid of poverty. By the end of 2000, China had basically solved the food and clothing problem. This was the greatest achievement of China since the formation of the Chinese nation. The world widely expected that the 21st century would be the century of China's peaceful rise (Tian, Lin, Dai, & Hu 2013).

We should not forget the historical experiences and lessons. Recognizing the principal contradiction of the society and correctly identifying the general direction are directly related to the national development and people's life. As Mao Zedong said, "Once this principal contradiction is grasped, all problems can be readily solved" (Mao, 1968). Failing to seize the principal contradiction may cause confusions and even disasters.

Correctly Understanding the Objectives and Orientation of the Reform

The ultimate goal of China's market economy reform is the revival of the Chinese nation, so there is a need to act in accordance with the objective laws of a market economy and socialist construction. It is clearly wrong if radical marketization practice is operated regardless of the principles and ideals of socialism.

Reform under the Guidance of People's Willingness

China's reform started from the crisis caused by the 'Cultural Revolution', and the most urgent task was to increase the production of the food and industrial products to meet the people's living needs. In other words, high-speed economic development and increase in the total supply of products were the most important tasks. The mechanism of a market economy pursuing maximum economic benefits was basically mature in China. At the end of the 20th century, the powerful role of the market economy in China was observed in its rapid development of the national economy. During the first few years of the 21st century, China's GDP growth rate was in the front ranks of the world economies. The analysis of China's National Statistics Bureau showed that China's economy had maintained a growth rate of about 10% for five consecutive years since 2003. The economic growth rates in 2005, 2006, and 2007 were 10.4%, 10.7%, and 11.4% respectively. Even after the Wenchuan earthquake and the global financial crisis in 2008, it was a miracle that China still maintained an economic growth rate of 9% and 8.7% in 2008 and 2009 respectively. In 2010, the economy gradually recovered, and the economic growth rate returned to a high position of 10.3%. Summarily, during the period of the Eleventh Five-Year Plan, China's economy showed a steady growth with a good start and rapid recovery. Although during China's

Eleventh Five-Year Plan period, the economic and social development plans were fulfilled, the national social conflict was also quietly changing during the time.

Things are always changing and developing, and the emergence of contradictions is a normal objective phenomenon; so, people need to constantly re-understand the contradictions. Mao Zedong even said that in a certain process or a certain stage of development, the primary and the secondary contradictions may exchange positions because of the increase and decrease in their respective strength (Mao 1968). What is the contradiction in the Chinese society today? How should the principal contradiction be identified? How many aspects does the principal contradiction have? An important indicator of measuring the conflicts is the change in people's willingness; the desire of the people is the most important factor in social development.

Adhering to the Socialist Principles of Economic Reform

Before 1949, China had never met its people's need for food. But, through its socialist construction and the practice of economic reform, China's GDP has achieved rapid growth for many years. At the end of the last century, the GDP statistics showed that the country's production had grown substantially, generating huge material wealth. The food and clothing problems that had plagued China for thousands of years were basically solved for the first time under the socialist system. However, when one primary contradiction is basically solved, a new contradiction appears. After attaining satisfaction of the material needs, the people may complain about the work environment, education, medical fees, living conditions, and so on. All these complaints are related to social equity.

Equity and efficiency have been the two fundamental issues of the economic research for a long time. Fairness and efficiency have dialectical interaction and interrelation. There is no real efficiency without equity, and true equity is not egalitarian. Giving priority to efficiency with due consideration to fairness, the development policy has a certain positive effect on particular economic activities. However, in the political and ethical aspect, it is difficult to rank equity and efficiency successively. Regarding the principle of fair competition, the correct implementation method is that we should hold a positive attitude toward the practice as long as it is able to stimulate the upward development of all walks of life and not lead to unbearable competition. However, once the competition

exceeds a certain limit or deviates from the original intention of the Chinese people, it will eventually lead to bad results. At this point, the government should not hesitate to interfere with it, and the people should have the power to reject it.

History tells us that solving the contradiction between private ownership and socialized production relies on class struggle, violent revolution, and the establishment of the people's regime. In the process of implementing China's economic reform, the government should play the role of a resource allocator to solve the contradiction between the people's growing demand for the public goods and its insufficient supply. Moreover, the government can adopt the compensation mechanism to redistribute the wealth and narrow the income gap, so as to ensure the legitimate rights and interests of the different sectors of the society. This is not only an expression of the superiority of the socialist system but also an important measurement to maintain social stability and security. The traditional culture of China attaches great importance to equity and common prosperity. In the initial stage of China's reform and opening up, Deng Xiaoping explicitly pointed out that the fundamental principle of socialism 'adheres to make the public ownership in a dominant position and sticks to the road of common prosperity', and that China should resolutely implement and realize these principles of socialism (Deng, 1993). When emphasizing the efficiency of the market economy, we should not discard these unique properties of socialism.

Against the Tendency of Money Worship

After the market-oriented reforms and the sustained economic growth for decades, although the phenomenon of shortage of the personal goods still exists in some regions of China, it can be said that extreme scarcity of the private goods has ended. Market economy, free competition, and globalization have helped solve the social contradictions in the initial and intermediate stages of reform and opening up. China, once a country with rampant poverty, has successfully achieved a well-off state. The traditional agricultural society is being transformed into an industrial society. As the Chinese society is in the historical stage of rapid transformation, the frictions between the old and the new institutions become fiercer and fiercer, and the pan-marketization economic thought also takes the opportunity to sweep across the society. This thought advocates the Western economic theories blindly, regardless of the real situation in

China.

In the recent years, some negative phenomena have appeared in the Chinese society, such as the widening social gap between the rich and the poor, the excessive consumption of the limited resources, the lack of innovative technologies in the manufacturing industries, and the increasing dependence on the overseas markets. These phenomena which damage the interests of the citizens show the fact that if we blindly rely on the 'economic man' assumptions of the Western economic theories, the sustainable and stable development of China's economy will be impeded. At the same time, some people are obsessed with money and unscrupulously pursue their personal interests. The media are flooding with articles preaching the supreme benefits of market economy only, and the good traditional culture of China that has lasted for thousands of years has been invaded and abandoned.

In the initial stage of the new China, the country's economy was in a mess. There was no industrial production. Food shortages and inflation were very serious concerns. Also, during that period, there was not enough supply of goods, and the people could not get generous profits from working. But after just a few years of construction, the national economy recovered rapidly and made excellent progress. Speaking about what China relied on to work a miracle, Deng Xiaoping summarized that it was commitment to Marxism and socialism. He said that people may wonder why China engages in socialism; but they know that capitalism is not feasible in China, and China must build socialism (Deng 1993). Material incentive cannot substitute the ideal of communism. The reform in the economic system introduced the market economy, implemented free competition, took in the private property rights, and opened the domestic market to foreign capital. However, these practices are not to copy the economic and social model of capitalism.

The classic Marxist writer, Marx, once took capitalist society as an example to profoundly analyze the causes of community poverty in the modern history. For Marx, capitalist ownership and capital accumulation are the root cause for the poverty of the proletariats. Property ownership is the ultimate factor to determine the class, the economic status, as well as the political status. The proletariats without property ownership have no choice but to become employees, contributing their 'surplus labor' as a condition of employment. With the increasing organic composition of capital and capital accumulation, the proletariats fall into poverty (Marx 1975).

Of course, in the development history of capitalism, the poverty of the

proletariats does not occur at any time and under any circumstances. The actual situation of the workers in the major contemporary industrialized countries is very different from the situation of the workers during Marx's period. The living standard of the general public in major industrialized countries is indeed higher than that in many other countries. However, we absolutely should not think that the capitalist system is the paradise on earth, nor copy the social system of capitalism blindly. As some people deny capitalism as the cause of poverty, in 1902, Lenin indicated that it was very necessary to recognize the poverty of the masses under capitalism, although it did not mean the absolute increase of poverty (Lenin 1986). This indicates that in the different capitalist countries and in the different historical development stages of the same capitalist country, the poverty of the people has had different patterns of manifestation. The poverty in a capitalist country is relative poverty.

The private property tenure system of the semi-feudal and semi-colonial societies had led to China's long-term poverty and backwardness. The capitalist property tenure system has led to the poverty of the proletariats in many countries of the world. Though the external manifestation of poverty is different, it is mixed with absolute poverty and relative poverty. Therefore, the property tenure system of the exploiting class is the root cause of the poverty of the masses. To eliminate poverty, the property tenure system of the exploiting classes must be overthrown. In the celebration of the 40-year anniversary of the People's Republic of China, on behalf of the Communist Party and the government, Jiang Zemin delivered an important speech. He said that if we did not adhere to socialism, but went back to take the capitalist road, as some people advocated, many people would fall back to poverty (Jiang 1989). Only the socialist system can help China gradually fulfil its people's aspiration for common prosperity.

Adhering to the Direction of Socialist Civilization

In order to eliminate the wrong arguments in the society, the government should effectively solve the social problems that have confused people, and educate the young people who regard money and economic interests as everything. We should vigorously strengthen the socialist ideological and moral construction, and consolidate the guiding position of Marxism in the ideological field. Moreover, the government should promote the thought of national unity and inherit the revolutionary

spirit of the Red Army, so as to form a positive and healthy social climate. Spirit is a magic weapon to defeat the enemy. During the revolutionary war years, the army led by the Communist Party faced an extreme situation of material shortage. In the famous Liaoning-Shenyang Campaign, hundreds of thousands of People's Liberation Army gathered in Jinzhou, which abounded with apples. It was autumn when the Western Liaoning Battle took place, and the people had a lot of apples at home. But the soldiers of the People's Liberation Army did not eat the apples. The masses were acutely aware that it was an army which served the people wholeheartedly (Tian & Dai 2012).

Mao Zedong said that we had to advocate hard work and plain living as our political nature (Mao 1999). Because of the noble political behavior, the Liberation Army got the people's support and successfully defeated the foreign reactionaries. Although today China has a stable and harmonious environment for development, this spirit should be passed on from generation to generation. There is still a long way to build a powerful modern country. On the eve of building the new China, Mao Zedong warned the party that this victory was only the first step toward building a communist society, and the future revolution and construction work would be more arduous. He stressed that our comrades must be taught to remain modest and prudent, and abstain from arrogance and rashness in style; they must be taught to preserve the style of hard struggle (Mao 1968). The 'Two Musts' proposed in the war years is a very valuable spiritual wealth for the contemporary people also.

Pan-marketization is an Anti-culture Countercurrent

It is widely recognized by the Chinese scholars that, in the economic field, the best way to inherit the 'Two Musts' spirit is to find out the reform direction by correctly understanding the economic situation in contemporary China. China's current economy is a mixed economy. Due to the impact of the planned economy, the feudal ideology lasted for thousands of years; China is still in the state of a semi-marketized economy compared with the level of marketization achieved by the economically advanced countries. Naturally, when a developing country transforms from a planned system to a market economic system, there is a period with dual systems. During this period, the old constrained system collapses, and the new constrained mechanism is not perfect; thus, there are loopholes in the market management and moral constraints (Tian &

Dai 2012).

As people's profit-seeking desire has been suppressed for many years under the planned economic system, once the constraint is relaxed, it is easy for some predatory operations in the market and corruption in the government to breed. These phenomena are somehow related to the pan-marketization thoughts. Analyzed from the historical perspective, this is a countercurrent and is anti-culture. Some people get rich first by taking advantage of the loopholes in the market system. For example, as China adopted the double-track price system in the middle and the later periods of the 1980s, some people purchased commodities in the planned system and then sold those goods in the market system. As a result, the prices of the commodities soared.

Of course, as more and more people get rich, there are some serious problems emerging in China's society, such as the employment pressure, the spread of corruption, the environmental degradation, the ethnic separatism, and other issues. Unemployment is one of the most urgent and serious problems. The priority mission of the government is to create employment opportunities. There are 900 million agricultural people in the mainland China. With the pace of industrialization speeding up, more and more farmlands will become non-agricultural lands, so there will be more and more agricultural people moving to the cities for jobs. At the same time, there will be a large number of working-age people and laid-off workers because of the economic structural adjustment in the cities, and the number of work force will be even huger. The unemployment problem is closely related with the people's lives, and has a great impact on social stability. Faced with these problems, the governmental departments should do historical research and solve them. In dealing with these complex economic and social problems, we must always grasp the direction of socialism and avoid the influence of the pan-marketization ideology (Tian, Liu, Lin, & Tian 2014).

Criticizing the pan-marketization argument definitely does not mean to totally exclude the Western economic system and economic theories. China needs to learn and absorb the essence of the different systems so as to master all human wisdom. China should learn the capitalist management systems and knowledge of the United States, Britain, and other developed countries. Now, the world has entered into an information age with the computer technology and the Internet as its most distinctive feature. Through the Internet, people can get a panoramic view of the world. Dialectical materialism and historical materialism tell the Chinese people that a more advanced civilization can only be generated on the

basis of capitalist civilization, not on the basis of denying or eliminating it. The growth of a new socialist civilization must inherit the results of all the civilizations instead of completely breaking with the old ones. This is also the far-reaching significance of the 'Three Represents' thought (Tian, Hu, Lin, & Dai 2013).

Querying the Subjectivity Theory of Market Economy

In order to meet the needs of China's reform and opening up, economics gradually became a famous social doctrine over the years, during which a lot of good scholars and some systematic economic theories emerged. However, some self-proclaimed 'elites' ignore the independent study and academic demonstration of economics, and try to please the public with claptrap. For example, they simply attribute the employment problems to the necessary cost of building a market economic system. However, the economists have debated on the employment problems for years. Keynes wrote a book titled *The General Theory of Employment, Interest and Money*, creating 'Keynesianism', which even became popular for some time (Ma 2002). China is in the historical stage of transforming from an agricultural country into an industrialized country, where the employment issue is very complicated. So, the reasons for the employment problems in China are complex; if the scholars have done an in-depth theoretical study on the socialist economy on the basis of Marxism, they will not simply regard the employment problems as a necessary cost of building a market economic system. The rapid economic development impelled by China's reform and opening up does not produce high quality scientific theories. The researchers in China need to think about this phenomenon deeply.

Grasping the Direction of Market Economy Reform

The practice shows that in the process of establishing China's socialist market economic system, the ambiguous theories lead to economic and social contradictions, and chaos. For example, some theories have demonstrated the reasonability of economic optimization and reorganization. However, in fact, a large number of state-owned assets flow into the private property. Some theories keep talking about the benefits of 'high salary for a clean government', but, in reality, there are many cases where the officials embezzle the nation's wealth. These phenomena are definitely

not the inevitable cost of establishing a market economic system. The essence of the 'cost' arguments is based on one idea — the subjectivity theory of the market economy. The logic of this theory is that because China's economic reform goal is to establish a socialist market economy with Chinese characteristics, all problems in the process of establishing a market economic system are acceptable. In fact, the error of the subjectivity theory is that it loses the two key principles — 'socialism' and 'Chinese characteristics'.

Extreme Subjectivity Theory of Market Economy

After losing the two key principles, the subjectivity theory of market economy becomes an extreme argument. Market economy is the main subject of social and economic operation. It is necessary to let the market play its basic role. The subjectivity theory simply argues that the socialist economy, after China's reform and opening up, established a market economy, and this market economy can develop systematically under the socialist system. In other words, the market which develops in a planned way is a market economy. After the economic reform achieves this goal, the combination of the market economy and the planned economy will no longer exist in China's socialist economy. There will only be the socialist market economy developing in a planned way. These are the most basic and important thoughts and points of the subjectivity theory, which seems to advocate socialism but, in practice, only follows the law of a market economy. However, without a social base, the laws will be unable to play a role.

The subjectivity theory of market economy even declares that for an oriental power like China, the market economy has an important practical significance. Because of China's large population, if we do not mobilize all the social forces to develop the economy, but depend on the arrangement of the government, the future will be gloomy for the Chinese people. Market economy is particularly important to China; it mobilizes all the social forces to develop the economy, so it is in line with the socialist spirit. On the contrary, it is difficult for public ownership to have sufficient strength to solve the existential problems of the Chinese people, so it violates the socialist spirit.

In economics, market is a mechanism that combines the producer and the consumer of a commodity through exchange (Parkin & Bade 2000). This mechanism consists of two basic aspects, namely, the way of

exchange and the place of exchange. Contemporary Western marketing defines the market as the consumer groups who have the purchasing desire and the purchasing power for the same product. Therefore, the market is both abstract and concrete; it is a specific embodiment of and reaction to the human beings' social and economic activities since the emergence of the commodity. That is to say, all the connotations of market are conferred by the human beings. Without human beings, a market cannot exist. From the perspective of the human society, the market economy is a part of the human economy rather than all of the social economy.

Admittedly, though vigorously developing the market economy is just one aspect of the socio-economic development, it is an important aspect. However, a market economy cannot replace the other contents and patterns of a social economy. The development and progress of the human society make it essential to develop the social economy comprehensively. The thoughts that over-emphasize the market economy while ignoring the other aspects of a social economy obviously do not conform to the comprehensive development of the human society.

The subjectivity theory of market economy emphasized that the market economy is the main subject of social economy. In fact, it is tantamount to denying the importance of the other non-market economies in socio-economic development. The subjectivity theory of market economy advocates that we should let the market play the most basic and decisive role in the process of socio-economic development. Though the people who support the subjectivity theory, on the one hand admit the function of the regulatory plans, on the other they regard the market discipline as the premise of controlling a social economy. In fact, they think that the human society and the economy should unconditionally obey the so-called 'objective' laws of the market.

It is undeniable that the market economy is the main economic operation mode in most countries, including China. The subjectivity theory of market economy has gone through several stages: the exclusion theory, the negative combination theory, the positive combination theory, and finally, the subjectivity theory. In fact, instead of transformation and innovation, the subjectivity theory only deprives the market mechanism of 'socialism' and 'Chinese characteristics', and then puts it into China's economic system; it completely does not allow the disadvantaged and vulnerable groups to have the right to speak. It is gratifying that some economic viewpoints appear these days to correct the error of the subjectivity theory and get the initial recognition of people (Tian, Liu, Lin, & Tian 2014).

Conclusion

In the early 1980s, China's economy was still in the planned economic system. State-owned enterprises occupied a vast majority of the total social production. The economic reform and opening up had just begun, and the foreign investment and goods were not free to enter the Chinese market. Within the framework of a planned economy, along with the opening up policy and the introduction of the competition mechanism, some enterprises in China achieved good economic profits and social effects. During this period, due to the constraints of the planned economy framework, the positive role of the market was obvious and the negative effects were hard to appear.

At this point, the main argument of the market economy also began to appear, resulting in some negative effects. The subjectivity theory of market economy spread through a number of channels, to some extent leading to a blind faith in market mechanism. The apotheosis of the 'market economy' theory is not only inconsistent with the reality of China but also contrary to the original intention of establishing a socialist market economic system. The actual situation has also confirmed that. For example, some places over-opened their markets and implemented a dual pricing system, resulting in violent inflation between 1988 and early 1989.

Market disorder and confusion aroused strong resentment among the people; foreign hostile forces and national representatives of the bourgeois liberalization took the opportunity to stir up trouble, and then induced a severe political unrest. The consequences of the market disorder did not disappear. It was the root cause of the chain debt in the 1990s. Further analysis can find that the essence of the chain debt was China's first economic crisis of overproduction. How should one get rid of overproduction? A correct solution is to narrow the urban-rural wealth gap, improve the purchasing power of the farmers, develop the rural market, expand the domestic demand, and digest the overproduction capacity. This reality shows that the negative effects of the market economy had already appeared.

In short, China's reform and opening up is market-economy oriented, which can be developed systematically under the socialist system. However, the new policy of reform and opening up, along with the establishment of the socialist market economy with Chinese characteristics, is a pioneering work, unprecedented in history. So, the imbalance in the economic and social development is inevitable. It is suggested that the reform must be conducted under the guidance of people's willingness. The

Chinese government's claimed aim to establish a socialist market economic system is to build a strong and powerful nation. The Chinese government should act in accordance with the objective laws of the market economy and socialist construction, as well as grasp the direction of the market economy reform and opening up to build a perfect market economic system.

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GUANXI AND RELATIONSHIP MARKETING: AN ANTHROPOLOGICAL CASE STUDY OF CHINA'S FOREIGN BANKS

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The purpose of this paper is to record and discuss the research design and methodology for a research (the Research) conducted by Wan and Ng (2013) in relation to the use of guanxi in Relationship Marketing (RM) of China's Foreign Banks (CFBs). The Research is further extended to: (1) formulate a conceptual framework of guanxi for the CFBs (Wan et al. 2014); and (2) investigate the relationship between marketing research in the subject area and business anthropology (Wan and Ip 2014). Its contribution is twofold. First, it serves as a pioneering attempt to provide the CFBs with a theoretical research model as a sample for future studies on the subject. Second, it practically gives insights into the RM of banks in China, particularly the CFBs, to establish platforms for further research on a conceptual framework of guanxi for improving their business performance in China.

Introduction

In the previous paper of Wan and Ng (2012) on 'The Role of *Guanxi* in China's Foreign Banks: A Review of the Literature', it was found that there was no extant literature on *guanxi* in Relationship Marketing (RM) of China's Foreign Banks (CFBs). The finding called for a subsequent survey on the subject area (the Research) by Wan and Ng (2013) and formulation of a conceptual framework of *guanxi* for use by the CFBs (Conceptual Framework, Wan et al. 2014). Another study on the relationship between the marketing research of *guanxi* in the CFBs and business anthropology was conducted by Wan and Ip (2014). This was an

important cross-disciplinary breakthrough to integrate the marketing research on *guanxi* with business anthropology on the basis of the vital concepts of some anthropologists. The authors of these papers (the Researchers) also benefited from the anthropologists in their development of concepts in two areas for the Research and their papers: (1) cultural difference management (Tian 2013) and organizational cultural change (Tian and Wang 2014); and (2) research methodology (Tian 2012; and Tian et al. 2014). Cultural difference occurred when the Researchers intended to integrate the Chinese concept of *guanxi* into the Western RM practiced by the CFBs. The Researchers also tried to identify such cultural difference when studying *guanxi* in the CFBs by means of a qualitative research methodology, typically used in anthropological research, that is, face-to-face in-depth interview. Meanwhile, the joint research efforts of the Researchers aroused the interest of some scholars to study *guanxi* in China's banking industry, particularly in the areas of the cultural values and culture-related issues (Tian and Dai 2013a), and the localization of management research in China (Tian and Dai 2013b). To facilitate further studies in this subject area, the Researchers intend to base this paper on the Research, to work out a model to be used as a reference by the Relationship Managers of the banks in China, particularly the CFBs, in order to help them establish a conceptual framework of *guanxi* in their RM for improving their business performance. This paper specifically records and discusses the research design and methodology used to collect and analyze the data, and investigate the research questions and propositions developed in the papers mentioned previously and summarized as follows.

Research Question 1: What is *guanxi* and what is its role in the CFBs?

P1: The reforms in China over the past two decades have not eroded the important role of *guanxi* in China's banking sector.

Research Question 2: What is the relationship between the constructs of *guanxi* and those of RM, and what is their significance?

P2: Understanding the *guanxi* and RM constructs, and their interactive effects, can ensure good practices by the Relationship Managers of the CFBs.

Research Question 3: How does *guanxi* affect the marketing activities and operations of the CFBs?

P3a: Different views of *guanxi* in association with RM affect the marketing activities and operations of the banks in China, particularly the

CFBs.

P3b: Can *guanxi* be efficiently practiced and operationalized, and if so, will it affect the RM activities and operations of the CFBs?

Research Question 4: How does *guanxi*-based RM affect the strategies and tactics of the CFBs?

P4: Business and operational strategies and tactics of the CFBs require redefining of RM in terms of *guanxi* with constituencies of internal and external partnerships.

Research Question 5: Does *guanxi* affect the business performance of the CFBs?

P5: The domestic Chinese banks with high *guanxi* outperform the CFBs with low *guanxi*, and the lack of *guanxi* is a reason that undermines the business performance of the CFBs.

Research Paradigms and Methodologies

Researchers decide how the research should be conducted and what the research results should accomplish by using the selected research paradigms and methodologies. A paradigm is “an overall conceptual framework within which a researcher may work” (Sobh and Perry 2006, p.1194). Guba and Lincoln (1994, p.105) also regarded paradigms as the “basic belief system or worldview that guides the investigator”. There are four types of paradigms: positivism, realism, critical theory, and constructivism (Sobh and Perry 2006). Realism is the focus of this paper as it is the paradigm applied in the Research.

Unlike positivism, which is widely used in business research to deal with quantitative data (Cavana et al. 2001), realism research concentrates on the understanding of “the common reality of an economic system in which many people operate inter-dependently” (Sobh and Perry 2006, p.1200), and aims to discover the real external world despite the fact that it is imperfectly understandable (Guba and Lincoln 1994; Tsoukas 1989). The realists see the real world and have their own particular views, and try to construct different views of the reality (Riege 2003).

The research strategies can be divided into two broad categories: quantitative and qualitative. Quantitative research is associated with positivism (Cavana et al. 2001; Hill and McGowan 1999) and is used to test theories by means of numbers and large samples, while qualitative

research is based on the paradigms of realism, critical theories, and constructivism (Healy and Perry 2000), and qualitative researchers build theories by using words and meanings in smaller samples (Sobh and Perry 2006). A quantitative approach is deductive and a qualitative approach is inductive. Qualitative research uses methods of interviews, focus groups, and observations. It is a research strategy that emphasises words rather than quantifying the collection and analysis of data. It tends to use an inductive approach to determine the universal explanations of phenomena as well as to extend or develop theories (Bryman 2004). It aims at understanding the human behavior, and its role is to understand “the rich, complex, idiosyncratic nature of human phenomena” (Cavana et al. 2001, p.12).

A qualitative approach can enable the researchers to look at the processes over time, understand the people’s perceptions, contribute to new theories, adjust to the new issues and ideas, and gather the data naturally rather than artificially. Also, in the qualitative research, careful and detailed descriptions of the social practices are emphasised in order to understand how the participants experience and explain their own world (Jackson 1995). However, it is quite time-consuming to collect the data, and there may be difficulties with data analysis and interpretation. Easterby-Smith et al. (1991) pointed out that another problem with the qualitative approach is low credibility of such studies because of a phenomenological application. In addition, the qualitative approach is less structured and weak in terms of correlations between the theory and research, and its validity is thus queried (Eldabi et al. 2002). Moreover, bias can also be caused if the perspectives of the subjects are not fully interpreted by the researcher (Eldabi et al. 2002).

Academics and researchers have tried to identify the distinction between quantitative and qualitative methods in order to select the best method for research, but there is no hard and fast rule (Bryman 2004). There is also no perfect research methodology (Eldabi et al. 2002). From a practical viewpoint, the choice of methodology depends on the specific topic, nature, strategy, and design of the research, as in the Research on *guanxi*.

The aim of the Research is to study the topic of *guanxi* in RM activities of the CFBs by defining the role of *guanxi* and proposing a Conceptual Framework for their practical use. A realism paradigm and a qualitative research strategy are selected for the Research because *guanxi* falls within the scope of social research. With *guanxi* as a reality existing in the external world (that is, China’s banking sector), the Research attempts to

discover (or investigate) what *guanxi* means for the CFBs, and what it offers to them.

The realism of *guanxi* is something abstract in the minds of the Relationship Managers of the banks, but the idea of *guanxi* is socially constructed. The Research does not gather facts and measure how often *guanxi* occurs in RM, nor does it test the theories of *guanxi*. Instead, an attempt is made to understand the different constructions and meanings of *guanxi* that the Relationship Managers have, based upon their experience in performing their marketing responsibilities, in order to improve business performance by implementing the Conceptual Framework to be formulated. Thus, it is human interest that drives the Research. The Research tends to “focus on meanings”, tries to “understand what is happening”, looks at the “totality of each situation”, and develops ideas through “induction from data” (Easterby-Smith et al. 1991, p.27).

On the other hand, Shaw (1999) linked research within the qualitative approach with social phenomena and understanding of the participants’ experiences of the social phenomenon under investigation. His view supported the Research that *guanxi* is an experience of the Relationship Managers in China’s banking sector. Finally, Gilmore and Carson (1996) viewed the qualitative approach as a dynamic, experiential, open, and flexible way to study the complexity of a fluid and fast-changing environment. *Guanxi* exists within the complex and fast-changing environment of China’s banking sector. It is a service and cannot be addressed through any quantitative measure. In these circumstances, a realism paradigm and a qualitative approach are more appropriate.

Research Designs and Approach

Cavana et al. (2001) viewed research design as part of the business research process involving information gathering and literature survey, problem identification, framework development, setting research objectives, data collection and analysis, interpretation of findings, report preparation, and presentation and management action. There are five different types of research designs: experimental design; cross-sectional or survey design; longitudinal design; case study design; and comparative design (Bryman 2004).

Experimental design includes laboratory experiments and field experiments, usually for social psychology. Exploratory study is similar to the field study undertaken in organisations with little knowledge about the

situation at hand. Cross-sectional study is of a ‘one-shot’ nature, which is different from the longitudinal study that enables the researchers to study the people or phenomena at more than one point in time to meet the research objective. Case study is usually found in business research. Comparative study is not discussed in this section, as this research design has no relevance to the Research.

Figure 1(a): Inductive Reasoning in Business Research

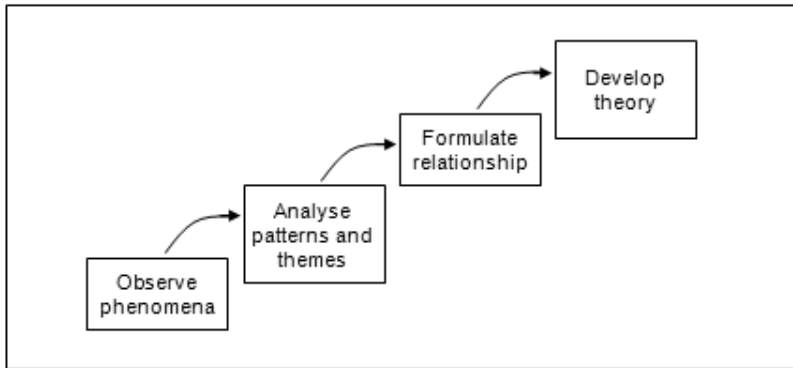
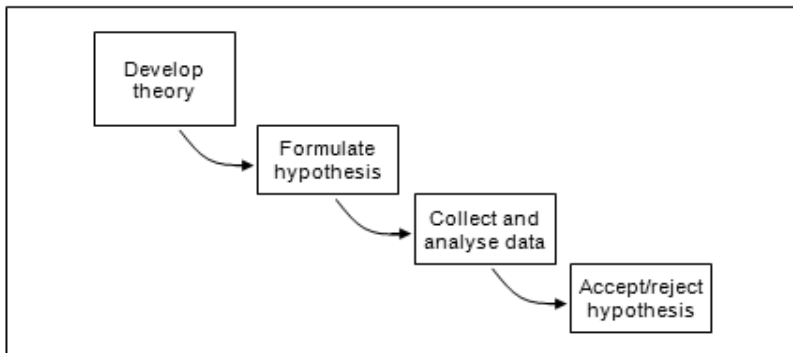


Figure 1(b): Deductive Reasoning in Business Research



Source: Adapted from Cavana et al. (2001, p.36).

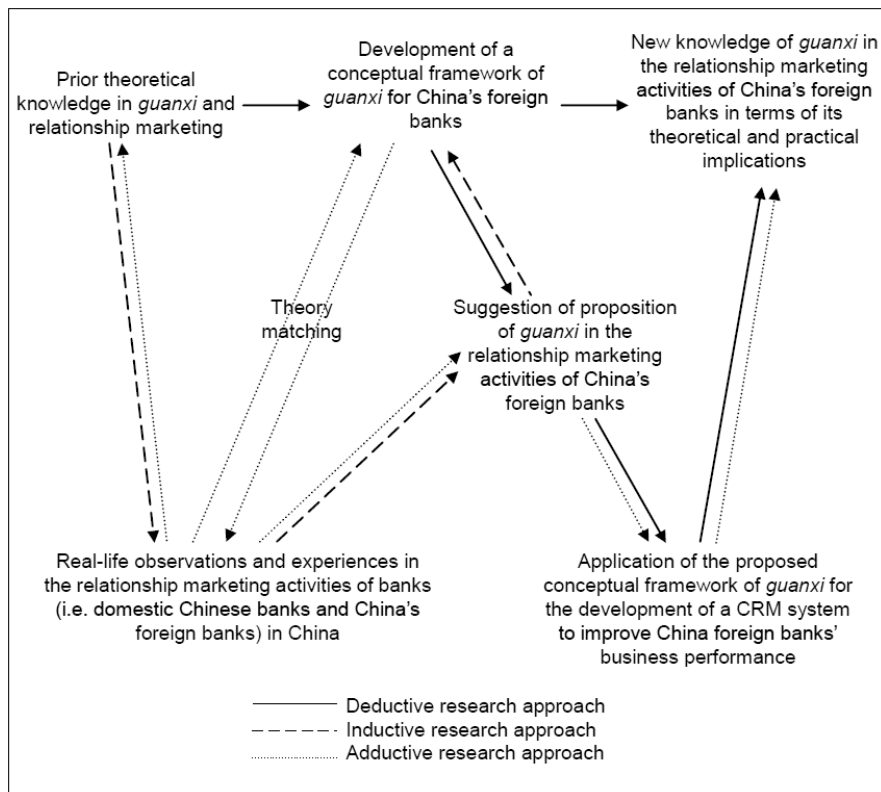
There are three categories of research approaches: inductive, deductive, and adductive. An inductive approach is defined by Cavana et al. (2001, p.35-36) as “a process by which we observe certain phenomena and arrive at certain conclusions” [See **Figure 1(a)**], and a deductive

approach as “the process by which the researcher begins with a theoretical proposition and then moves towards concrete empirical evidence” [See **Figure1 (b)**]. An adductive approach, which is less known, originates from an insight for the research and does not follow the pattern of pure induction or deduction (Kirkeby 1990; Taylor et al. 2002; cited in Spens and Kovacs 2006).

The objective of the Research is to study *guanxi* and propose a Conceptual Framework for the CFBs to improve their business performance. This is a social research project and, therefore, “experimental” (or “exploratory”) design meets the research criteria. In the Research, no information was available on whether *guanxi* could be incorporated in the RM activities of the CFBs by implementing the Conceptual Framework. Therefore, an exploratory study was undertaken to better comprehend this problem and understand what was occurring. Finally, a cross-sectional study was carried out and the data was gathered just once over a period of one week, through interviews with the Relationship Managers of the selected banks in Shanghai, in order to meet the research objective. This study exhibited a ‘one-shot’ characteristic; a longitudinal study could not be conducted due to time and cost constraints.

In the Research, the three different research approaches — inductive, deductive, and adductive — were used simultaneously (See **Figure 2**), as required by the structure of its research process (See the next section). In the deductive research process, the Researchers scanned the prior theoretical knowledge of *guanxi* and RM for the development of the Conceptual Framework. This framework also represented the real-life observations (facts) of the principal author’s past banking experience in China’s RM activities, together with discussions with some well-experienced bankers. Theory matching via inductive and adductive research processes took place, and propositions were suggested. These propositions took into account the proposed Conceptual Framework and its application via the generation of new knowledge in terms of theoretical and practical implications of *guanxi*. In summary, the Research used a deductive approach that commenced with the prior theoretical knowledge (as indicated by the arrows with solid lines in **Figure 2**), developed a Conceptual Framework, suggested propositions and applications by using the inductive, deductive, and adductive approaches, and concluded with new knowledge (Spens and Kovacs, 2006). The Conceptual Framework also contributed to the new knowledge development on an inductive basis.

Figure 2: Three Different Research Approaches



Source: Adapted from Spens and Koracs (2006, p.376) and modified by the Researchers for the application of this Research.

Research Process

Research process is important whether researchers use a qualitative or a quantitative approach. The Research follows a business research process, as suggested by Cavana et al. (2001), which involves eleven steps (See **Figure 3**). The trigger for the Research was when the Researchers observed that the business of some Domestic Chinese banks (DCBs) seemed to outperform that of the CFBs due to the practice of *guanxi* in their RM activities, and sensed that the *guanxi* element might have potentially important consequences.

Driven by this motivation for the Research, the principal author of this paper gathered the preliminary information by reviewing his past work experience in the marketing departments of some foreign banks in China, by observing the phenomenon, by talking informally to the relationship managers in the work setting and to his previous clients in China, and also by conducting a literature survey. Through this process, he shared his idea with the co-authors who gained a 'feel' for what was happening with respect to *guanxi* in China's banking sector.

Based on the information collected through the previous-mentioned channels, the Researchers established a tentative problem definition and developed a Conceptual Framework. The Researchers also integrated the information in a logical order to allow the research problem to be conceptualised and investigated further.

Research objectives can be formulated after the problem has been conceptualised. In the Research, the objectives were framed in the form of research questions due to their qualitative nature. In so doing, the research directions were identified and the boundaries of the Research were defined. Once the research objectives were defined, the Researchers adopted a qualitative approach and selected face-to-face interview as the instrument. Various aspects regarding the interviews, for example, interview methods, samples, and population, were considered. The Research design included the formulation of basic questions on the subject matter and ensured that "the research is conducted within the accepted parameters of the particular research method used" (Cavana et al. 2001, p.40).

The Researchers adopted a qualitative method, that is, interviewing, to collect the data. The data was analyzed mainly through qualitative approaches, such as inductive data analysis, categorisation, interpretation, quotations, and narrative forms. Together with the deductive and adductive approaches, the Researchers used subject analysis methods to investigate whether the research questions were supported and the research objectives were substantiated. In other words, they used the data to understand whether the incorporation of *guanxi* elements into the RM activities of the CFBs would be workable.

In the interpretation stage, the findings from the data analysis were interpreted and recommendations made on how *guanxi* could be put into practice by the CFBs through the implementation of the proposed Conceptual Framework. After the interpretation of the findings, a written research report was prepared to describe the research purpose, provide the background information, list the research objectives and the research

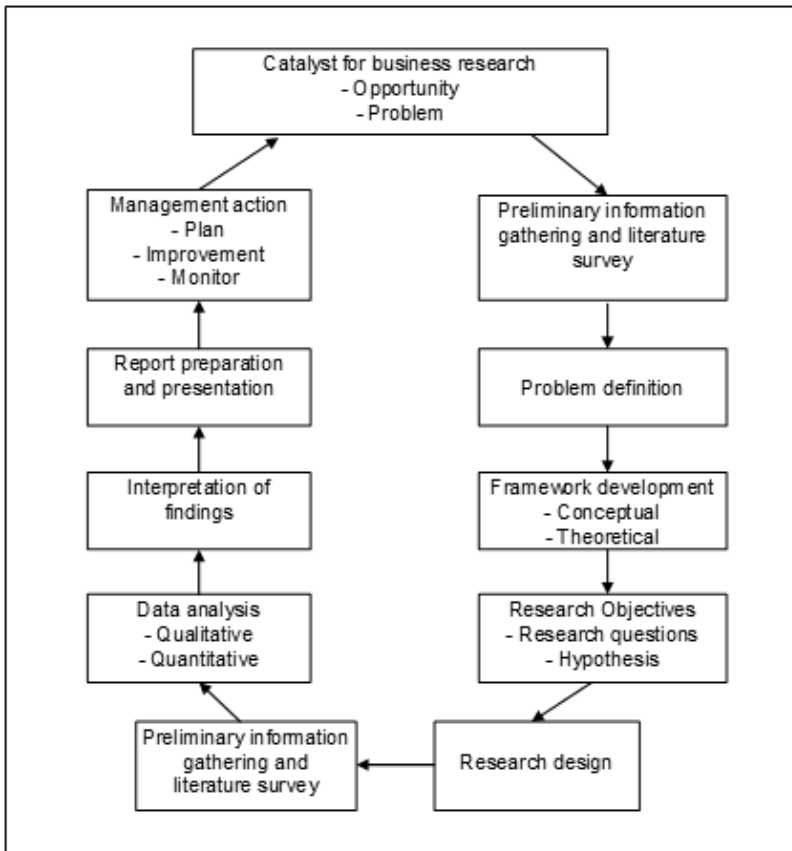
questions, explain and justify the research design, analyse the data, and present and justify the findings and recommendations. The final phase stated action by the management to plan, recommend, improve, and monitor the Research.

As discussed, the ultimate aimed result of the Research was to develop a Conceptual Framework for the CFBs. The process of its development was critical. Cavana et al. (2001, p.78) defined Conceptual Framework as “a logically developed, described, and elaborated network of associations among concepts or variables deemed relevant to the problem situation”. The Conceptual Framework developed in the Research was to facilitate the practice of *guanxi* by the CFBs through the Researchers’ gathering of preliminary information, literature search, and practical experience and intuition in the field of bank marketing. It also provided a logical base for developing the objectives of the Research. In presenting this Conceptual Framework, the Researchers acknowledged that the description of each concept, such as *guanxi*, RM, and *guanxi* marketing, might not be complete due to their nature being obscure and difficult to understand. There might also be other concepts that had not yet been discovered. The requirement of subsequent research projects was therefore guaranteed.

The process of development of the Conceptual Framework is depicted in **Figure 4**. As the first step, the Researchers did a clear descriptive study of *guanxi* and RM in terms of the definitions, development, and differences. The Researchers also reviewed China’s economic, financial, and banking reforms, as such factors affect the concepts and applications of *guanxi*, and relate to the topic under research. These general reviews were followed by an exploration of the different roles of *guanxi* in RM in the different industries in China, particularly the domestic and foreign banks, in terms of their conceptualisation and practices. Following these reviews, a Conceptual Framework for the CFBs was proposed. Because the proposed Conceptual Framework was structured as a concept, the Researchers aimed to convert this concept into a practice through an ‘input–process–output’ system. This involved the application of the identified *guanxi* constructs and their integration into the relationship activities of the CFBs through the formation of strategies and tactics, with output to develop a *guanxi*-based customer relationship management (CRM) system, for use by the CFBs to improve their business performance. The Researchers also attempted to validate the Conceptual Framework through findings obtained from the interviews with the Relationship Managers in banks.

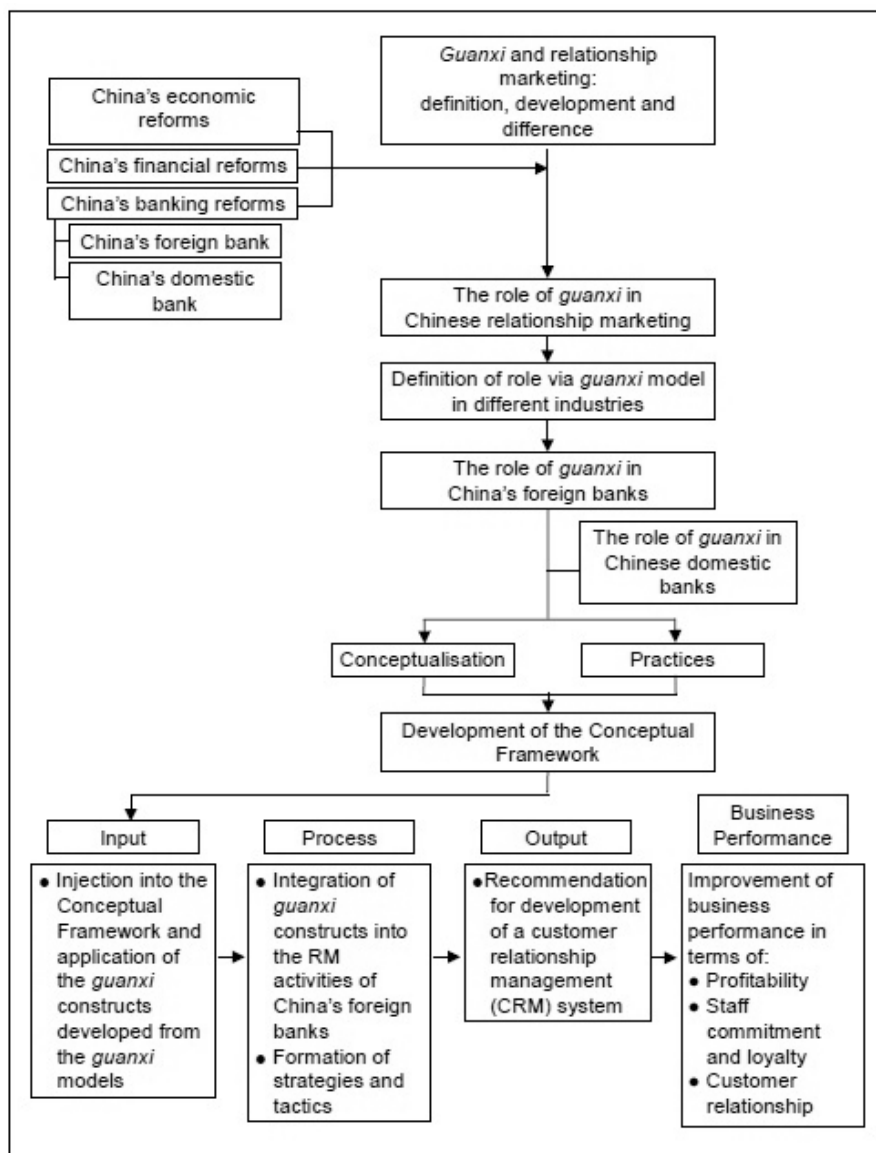
The Researchers divided the process into two parts: (a) proposing a Conceptual Framework for implementation of the *guanxi* concepts in the RM activities of the CFBs; and (b) reviewing this Conceptual Framework in the light of the research findings, for the purpose of putting it into practical use by the CFBs, with the ultimate objective of helping the CFBs improve their business performance.

Figure 3: The Business Research Process



Source: Adapted from Cavana et al. (2001, p.38).

Figure 4: Process for the Development of the Conceptual Framework



Source: Self-developed for this Research.

A research method employing secondary data and content analysis was used to develop the Conceptual Framework on the basis of the Geddie et al. (2002 and 2005) model. For the second part of the Research, primary data was collected through an interview survey of 15 bank marketing executives, to validate this Conceptual Framework to be used by the CFBs. Details of this research process are discussed next, with regard to: Sample and Sampling Techniques, Data Collection Methods, and Data Analysis.

Sample and Sampling Techniques

A sample is a sub-group or a sub-set of a population. By studying and understanding a sample, the researchers can draw conclusions “that are generalisable to the population of interest” (Cavana et al. 2001, p.253). Sampling is defined as a selection process for “a portion, piece, or segment that is representative of a whole”. It is practically impossible to collect the data from, or test or examine, every element from the entire population. Even if possible, it is not justifiable in terms of time, cost, and human resources that are involved.

There are two types of sampling techniques: probability sampling and non-probability sampling. Probability sampling (or ‘representative sampling’) is used “when elements in the population have a known chance of being chosen as subjects in the sample” (Cavana et al. 2001, p.257). The chance of being selected is equal, as claimed by Saunders et al. (2003). In non-probability sampling designs, samples are not selected in terms of the principles of probability sampling (Bryman 2004). It is “essentially an umbrella term” (Bryman 2004, p.100) for all forms of sampling that cannot be conducted by probability sampling.

Non-probability sampling designs fall into two broad categories, namely, convenience sampling and purposive sampling. Convenience sampling involves samples available to the researcher who can collect the information conveniently from the members of the population (Cavana et al. 2001). Purposive sampling is used to obtain the information from specific target groups or types of people who can provide the desired information due to their possession of such information or some criteria set by the researcher (Cavana et al., 2001).

Of the above-mentioned two broad categories, purposive sampling matched the sampling design of the Research because the Researchers needed to obtain information about the role of *guanxi* and its practice from

specific target groups, and “enhance understanding of selected individuals or groups’ experience(s)...” (Devers and Frankel 2000, p.264), that is, enhance the understanding of *guanxi* in the mindsets of the relationship managers/officers and/or heads of the marketing departments of the two banking groups. Besides, the nature of the Research on *guanxi* was social, behavioral, and descriptive of human characteristics. Non-probability and purposive sampling was considered appropriate as the findings from the study of the sample could not be generalised to the population. Also, no probability could be attached to the chosen sample subjects due to the nature of the Research, as mentioned previously. It was impossible to obtain probability samples. In the Research, the sample banks included ten CFBs and five DCBs (as reference banks), making a total of 15 banks as samples. The CFBs are defined as foreign banks with registered headquarters outside China. The DCBs are domestic Chinese banks with registered headquarters in the People’s Republic of China. The selected CFBs and DCBs were purely commercial banks. Samples of the CFBs were all located in Shanghai. The city of Shanghai was chosen because it is the major city of China where many foreign banks have established their China headquarters.

The selected CFBs were listed in the ‘China Financial Service Directory’, which is in the public domain. They were also listed in the ‘Bankers’ Almanac’. These listings suggested the importance of the CFBs in terms of the bank size, significant exposure, and business experience in China as well as the international capital markets. The Researchers also considered wider national diversity of the CFBs in an attempt to study cross-cultural issues relating to *guanxi*. In addition, it was considered that the countries represented by the sample banks should have significant investments and a long-time business commitment (that is, 10 years or more) in China. The DCBs were selected by the size, in terms of staff, branch networks, and business volumes. They were the top-tier banks in China in terms of assets and loan quality, with wide exposure and experience in the domestic and international capital, and syndication markets.

The ‘China Financial Services Directory’ had approximately 30 foreign commercial banks with branch status in China, the number having increased in the last few years. The ten targeted foreign banks represented 33% (10/30) of the bank population. There were approximately 130 DCBs in the above-mentioned directory, and all were commercial banks. However, the commercial banks with a significant size and business exposure in domestic and international capital, and syndication markets

were approximately 20. The selected five DCBs fell within this category. Therefore, the sample represented 25% (5/20) of the total population, and the sample sizes of the two banking groups were justifiable for the Research to use the qualitative approach.

The participants were selected from these sample banks. One participant from each bank was invited to attend the interview. Therefore, the total number of participants was 15 from the 15 sample banks in the two banking groups. They were marketing executives, in their capacities of relationship managers/officers or heads of marketing departments (that is, Corporate Banking, Business Banking, Private Banking, Retail Banking, Personal Banking, Trade Finance, Financial Institutions, or Customer Services), who had direct and face-to-face contact with the customers in their daily marketing activities. This sampling was confined to those specific people who could provide the desired information on *guanxi*/RM; they were the only ones who possessed, and were in the best position to provide, such information because they knew the subject area well. Therefore, their professional opinions, views, and knowledge constituted a rich data source and provided great insights into the research questions.

The sample size was also justifiable for the Research in terms of “wanting to interview people relevant to the research questions” (Bryman, 2004, p.334), in this case topics related to *guanxi*. It was also considered justifiable because “the purposive sampling is not concerned about how much data is collected and from how many sources, but whether the data collected is sufficiently rich to clarify and understand the experience of the participants” (Polkinghorne, 2005).

Data Collection Methods

Bryman (2004) described data collection as a research process to gather information from the participants. Researchers may use either a qualitative (for example, focus groups, interview) or quantitative (for example, questionnaires) method to collect the data. The methods of data collection for the Research were both secondary data collection and interviewing. These are the two commonly used data collection methods for qualitative research.

Secondary data is defined as any data that was collected by someone for some other purpose, but is being used by the researcher. The sources of secondary data may be the government agencies, the internal records of the organisations, the private sector, the libraries, the electronic sources,

previous surveys, or/and previously published research. A major advantage in the use of secondary data is that it is quite economical, as the cost and time spent on collecting the original data has been incurred by someone else. When the researcher becomes familiar with such data, the deficiencies and gaps become known and, therefore, it helps make primary data collection more specific and more relevant. The researcher's earlier ideas may also undergo a change when there is availability of secondary data. The major disadvantage of the secondary data is that it may not fit perfectly into the framework of the research, and the researcher may not always know how accurate the secondary data is. Also, the secondary data may be outdated due to a long lapse in time since its collection, processing, tabulation, and publishing.

Interviewing is defined by Cavana et al. (2001, p.458) as "a data collection method in which the researcher asks for information verbally from the respondents". It is a face-to-face discussion, to be conducted in a group or individually, to elicit information from the participants about the research setting. Its purpose is to determine what is in the participant's mind and to discover what cannot be directly observed (Patton, 1990). It is viewed as the most widely used method in qualitative research. Bryman (2004) classified interviews into structured (standardised) interviews, unstructured interviews, semi-structured interviews, and in-depth interviews. As the semi-structured interview and in-depth interview were used in the Research, the focus of discussion is on these data collection methods.

A semi-structured interview is commonly used in qualitative research. It is defined by Bryman (2004, p.113) as "a context in which the interviewer has a series of questions that are in the general form of an interview schedule but is able to vary the sequence of questions". In a semi-structured interview, the interviewer usually asks further questions if the responses from the participants are seen as significant. The other typical interview is called in-depth interview, which is a qualitative interview referring to both unstructured and semi-structured interviewing. An in-depth interview focuses on gathering rich and complex information.

The advantages of an interview are its ability to provide rich data, offer the opportunity to establish rapport with the participants, and help explore and understand complex issues. An interview is an effective way of obtaining uniquely relevant information from the participants, which cannot be found by using observation and questionnaires as data collection methods (Hannabuss 1996). However, there are disadvantages also in interviewing — the researchers' bias and subjectivity being two typical

disadvantages. Bias and subjectivity may diminish the findings and the research results, and cause great challenges to interviewing (Hannabuss 1996). In addition, interviewing is a costly and time-consuming research method compared to the other data collection methods.

The selection of a data collection method depends on the objectives of the research, the target groups and their geographic distributions, the types of questions to be asked, and the availability of resources for the research (Synodinos 2003). It is important to determine an appropriate data collection method as it influences the reliability and validity of the test for the research (Pedhazur and Schmelkin 1991).

For the first part of the Research, secondary data and content analysis were used. The purpose of using these methods was to become familiar with the *guanxi* models through the search of literature and data.

The second part of the Research required primary data collection from semi-structured, open-ended, individual, in-depth, and face-to-face interviewing. *Guanxi* is a complex issue that involves social, behavioral, and human elements. Hence, the data collection involved a large amount of prompting, probing, collecting additional data, asking additional questions, establishing rapport, and motivating the participants during the data collection process. It then followed that “interviews are good ways of eliciting opinions on complex and sensitive issues” (Hannabuss 1996, p.23). Semi-structured interviews were considered more appropriate because *guanxi* is a very complicated topic in terms of its various meanings and implications. Unstructured interviews did not guarantee good collection of data, and structured interviews were too rigid to elicit the opinions of the participants. It was felt that the semi-structured interviews might fill the gap between the two categories of interviews. It was thought that by using this method, the Researchers might understand each participant’s opinions and belief in *guanxi*, and might ask questions by ‘picking up’ on things said by the participants. To ensure an efficient collection of data through the semi-structured interviews, the Researchers, by and large, asked all the questions based on the Interview Guide and used similar wordings for each participant. They controlled the interview if the discussion strayed off the topics or the response to the question was worth pursuing.

Qualitative researchers generally rely on face-to-face interviewing when conducting semi-structured and in-depth interviews (Sturges and Hanrahan 2004). Face-to-face interviewing guarantees a higher response and completion rate with the best and highest quality data (Janes 2001), since more questions, including more specific ones, can be asked in the

interviews, and the understanding of the participants is ensured. When interviewing the Relationship Managers, verbal cues, such as hesitation and sighs from them, indicated that a follow-up question or probe was in order (Sturges and Hanrahan 2004).

Individual in-depth interviews were conducted for the Research because they allowed the Researchers to use “extensive probing to get a single respondent to talk freely and express detailed beliefs and feelings on a topic” (Webb 1995, p.121, cited in Stokes and Bergin, 2006) on a one-to-one basis, in order to elicit how the participant felt about the role of *guanxi* and its practice in his or her work environment.

Finally, the participants were not confined to close-ended questions. The majority of the questions presented in the Interview Guide were open-ended, that is, they could not be answered with a simple ‘yes’ or ‘no’ response, which suited the Research on *guanxi*.

To proceed with the interviews, the principal author of this paper acted as the main Researcher, approaching the managements (for example, General Manager, Deputy General Manager) of the selected banks by sending each of them an Interview Request Letter to request nomination of one of their Relationship Managers/Department Heads to participate in the interview. Included in this Interview Request Letter were the following documents, to be distributed by the management to their nominated Relationship Managers: (1) Information Statement for the Research; (2) Consent Form for the Research; and (3) Interview Guide.

The Information Statement clearly provided an introduction of the Researcher and his organisation, purpose of the Research, and benefits of the bank’s participation in the Research, including the Researcher’s provision of a summary of the results and findings upon completion of the Research, approximately twelve months after the data collection. In this Interview Request Letter, confidentiality and voluntary participation in the interview were assured. The potential participants were also assured of what they could expect to be involved in during the interview. These included (1) attending a 2-hour, face-to-face interview to be conducted in their office; (2) giving consent to field note-taking or voice recording during the interview; (3) validating the draft transcripts prepared from the field notes or voice recording; and (4) completing the Consent Form and returning it to the Researcher prior to the interview.

The potential participant of the selected bank was requested to execute a Consent Form, which served as a written document to signify an understanding of voluntary participation and obligations of participation. By signing and returning the copy of this Consent Form to the Researcher,

items (1) to (3), mentioned above, were confirmed. In addition, the Consent Form provided the potential participant with a guarantee of confidentiality of the personal information, and it assured that the participant could withdraw from the Research at any time without providing any reason for withdrawing.

To facilitate the interview process, as well as to control the collection of useful and needed information within two hours, an Interview Guide was also prepared and forwarded to the potential participant, together with the Interview Request Letter, prior to the interview being held. (See section 'Design of Interview Guide' for details.)

Managements of the selected banks were not required to set up interviews with their staff on behalf of the Researcher. They were requested only to approve the participation by their staff, as any direct involvement from the management might be considered by the employees as coercion to participate. The above procedures were also applied to the five DCBs selected for the interviews.

Upon receipt of the Consent Forms from the participants, the Researcher arranged a two-hour face-to-face, individual in-depth interview with each participant in their office, in accordance with an interview schedule. The main operating offices of the selected banks in China were the interview sites.

Bankers in both the CFBs and the DCBs had a working knowledge of English. However, not all participants working in the DCBs were proficient in the English language, so bilingual interviews in both Putonghua and English were conducted. Cantonese was also used in case of those participants who knew Cantonese and preferred to use it in the interviews. As the Researcher could speak English, Cantonese, and Putonghua, there was no need to recruit an interpreter. However, the Interview Guide, Information Statement, Consent Form, and Interview Request Letter were translated into Chinese by a professional in both languages to facilitate the research process. Finally, despite the suggestion by Polkinghorne (2005) for multiple sessions with the participants, which are usually included for qualitative research using interview as a data collection method, the Researchers opted not to conduct any follow-up interviews due to constraints of time and location. However, telephonic follow-ups were conducted to clarify and expand the participant responses during the analytical process.

Data Analysis

Qualitative data analysis is different from quantitative data analysis as it is not undertaken in the form of numerical measurements. In the qualitative analysis, the data tells the story, and the analysis takes place through the research process, guiding further investigation, and is not simply an analysis of the end results. Also, the analysis of the qualitative data may require cross-checking with the participants before a report is compiled. The Research typically fitted into the paradigm of qualitative data analysis and the Researchers were the primary instruments for the data collection and analysis (Malhotra and Peterson 2001).

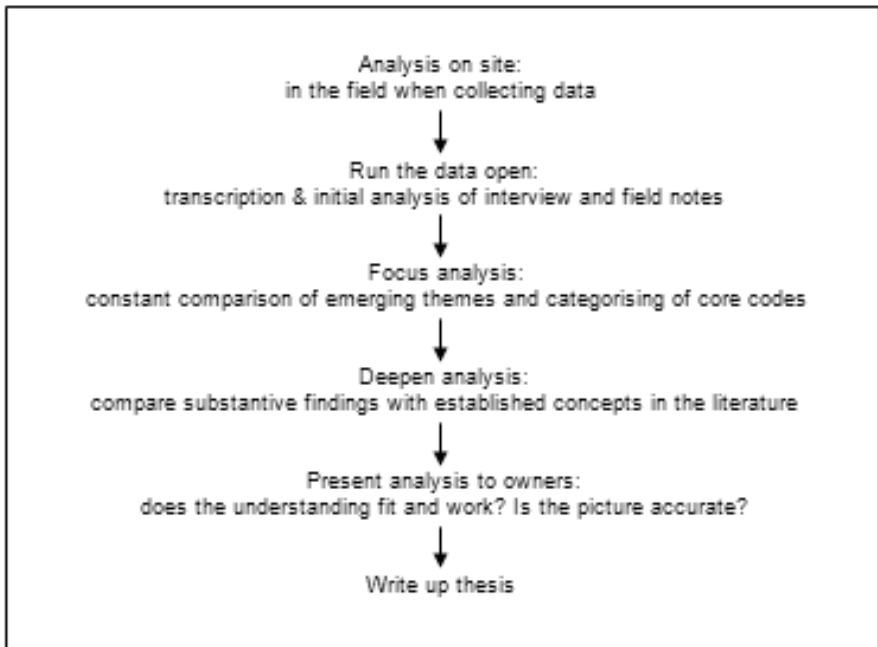
For the first part of the Research, the secondary data analysis and content analysis methods were used. The Researchers analyzed the data regarding the *guanxi* models gathered by other people and previous surveys, and referred to the published research as the secondary data for the purpose of proposing the Conceptual Framework. This process required re-analysis of the existing data and the Researchers' knowledge of how the data was collected and by whom. They obtained complete documentation for the data and also details of the source of the data. Finally, the Researchers supplemented the secondary data with primary data, or judgments obtained through interviewing the Relationship Managers, to fully address the research problems. The purpose of this procedure was to ensure data availability, relevance, accuracy, and sufficiency for the secondary data analysis. Throughout the secondary data analysis process, the content analysis method was used. Content analysis, an approach used for text documents, is the process of identifying, coding, and categorising the patterns in text (Patton, 1990). In the Research, content analysis was used to analyse both the secondary data collected in the first part of the Research and the primary data collected through interviews in the second part of the Research. Content analysis was appropriate for the Research, as it is "a dynamic form of analysis of verbal and visual data that is oriented toward summarising the informational contents of that data" (Altheide 1987; Morgan 1993, cited in Sandelowski, 2000, p.338). It was also suitable as it covers a broad area of research, including thematic analysis of text such as field notes, technical papers, newspaper articles, and organizational memos.

The second part of the Research was a review of the Conceptual Framework. This review was undertaken through the collection and analysis of the data from the interviews. Apart from the content analysis,

other qualitative analysis methods, as discussed below, were also used for the Research.

Inductive Data Analysis: The inductive data analysis method requires the researcher to begin with the processing of the collected data while engaging in observing, analyzing, and interpreting each participant being interviewed. To do this, the Researchers adopted the process of inductive analysis to collect and analyse the data for the Research. (See **Figure 5**)

Figure 5: The Process of Inductive Analysis



Source: Adapted from Shaw, E. (1999, pp.59-70).

The first phase occurred while the Researchers were in the field. They commenced the collection of the data on the basis of their pre-understanding of the *guanxi* constructs, models, and frameworks for the development of the Conceptual Framework for the CFBs. Then, the Researchers oriented the interviews to collect the data for validation of the Conceptual Framework. In the data analysis process, the Researchers undertook an initial (open) analysis of the interviews and the field notes. The Researchers then ran the data open to “take the data apart and then

piece them together in a number of ways” for an understanding of the research problem (Shaw 1999, p.65). This was followed by a constant comparison of the emerging themes and categorization of the core codes into five pre-planned units: (a) the role of *guanxi* in China’s banking industry; (b) the constructs of RM versus the constructs of *guanxi*; (c) *Guanxi* in practice; (d) *Guanxi* as strategy and tactics; and (e) *Guanxi* outcomes. The Researchers then deepened their analysis by comparing their findings with the established concepts of *guanxi* and the models in the literature that they had researched. Finally, the analysis was written and compiled.

Narrative Analysis: This is an approach where the collected qualitative data is an account of events. It is created through a variety of research methods, notably semi-structured and unstructured interviewing. In the Interview Guide, the Researchers had structured three events in the form of an incident analysis for “the construction of the story for the interviewee” (Bryman 2004, p.413). In fact, the events were familiar to the Relationship Managers of the banks. The Relationship Managers had many stories to tell as they were appropriately led in this kind of “narrative interview in which the researcher sets out to elicit stories” (Bryman 2004, p.413). Other interview questions, which were mainly open-ended in nature, also served as a good guide to encourage more stories and events from the participants, which helped to stimulate the flow of details and impressions of the Relationship Managers, and their views on the practice of *guanxi* in their RM activities.

Interpretation: Similar to data analysis, interpretation is a part of making sense of the data. Gummesson (2005) associates ‘analysis’ with techniques and research designs explicitly for the quantitative research, while ‘interpretation’ is linked more with the qualitative approaches. Interpretation is a central theme of the qualitative research when it comes to interpreting the complex behavior, conditions, forces, and messages of an event (Cavana, 2001) such as *guanxi*. During the analysis process, the Researchers very often interpreted a participant’s views by directly quoting or using the actual words in order to safeguard the accuracy and avoid any distortion that might arise from the abstract quality and complication of the research topics related to *guanxi* (Cavana, 2001).

Data Display: Data collection and analysis determine how the displays are constructed. In the Research, the data was displayed in accordance with the three methods suggested by Sobh and Perry (2006). First, in spite of some numerical frequencies of empirical experiences obtained from the participants, the data in the research should eschew numbers and should

concentrate on the qualitative approaches of interpretation, narrative analysis, content analysis, and secondary analysis of the qualitative data. Second, every observation from the interviews must have an explanation of why the observation occurred. This explanation was frequently linked to what the participant had said, and was supported by representative quotations in the data analysis section, thus providing the in-depth understanding that the Researchers sought. Finally, data analysis by computer software was not used because the sample size of this research was small. This exemption also took into account the cost and time factors.

Measurement

Due to the on-going concern regarding implementation of the Conceptual Framework, it is not practical to draw conclusions on the result of the measurement of the Research at the present stage. However, the Research is based on a qualitative approach that raises the following concerns with respect to the measurement criteria of its validity and reliability, as suggested by LeCompte and Goetz (1982), Kirk and Miller (1986), and Lincoln and Guba (1985).

In terms of the measurement validity (or construct validity), it is impossible to establish scientific methods to measure *guanxi*. On the other hand, for internal validity, the Researchers had difficulties in applying any quantitative method to survey the causal relationships between two or more variables, and determine whether the effect of *guanxi* is responsible for the variation in the business performance of the banks in China. The variables are difficult to be quantified.

The external validity of whether the results of the Research can be generalised beyond the specific research context depends on whether the data collected from the ten CFBs and the five DCBs is representative or not. In other words, the Researchers are concerned about whether the findings of the *guanxi* practices can be generalised beyond these 15 sample banks. If the Research is not externally valid, it would apply to these 15 sample banks only and to no other banks. This relates to the crucial issue of how the sample banks were selected to participate in the Research.

For ecological validity, the Researchers are concerned whether the findings of the *guanxi* practices are applicable to the Relationship Managers' daily marketing activities and natural social settings. If the research findings are ecologically invalid, artefacts occur.

Trustworthiness in terms of credibility, transferability, dependability, and confirmability is a very practical approach for the Research to measure validity and reliability.

Credibility refers to the significance of the research on multiple accounts of social reality. To use this as a validity measure, the Researchers may determine the acceptability of the Research by submitting the findings to the participating banks and their Relationship Managers, to obtain their comments and confirmation on the usefulness of the research findings, and the correct understanding of the *guanxi* practices within the banks in China.

Transferability refers to whether the findings “hold in some other context, or even in the same context at some other time, [which] is an empirical issue” (Lincoln and Guba 1985, p.316; cited in Bryman, 2004, p.275). This validity measure enables the Researchers to observe whether the incorporation of *guanxi* into the marketing activities of the CFBs is an empirical issue.

An auditing approach is adopted for dependability; the researcher ensures that the complete records, including the problem formulation, the selection of the research participants, the field notes, the interview transcripts, and the data analysis decisions are retained during the research process. Validity of dependability in the Research is ensured through the Researchers’ confirmation of the above procedures being followed.

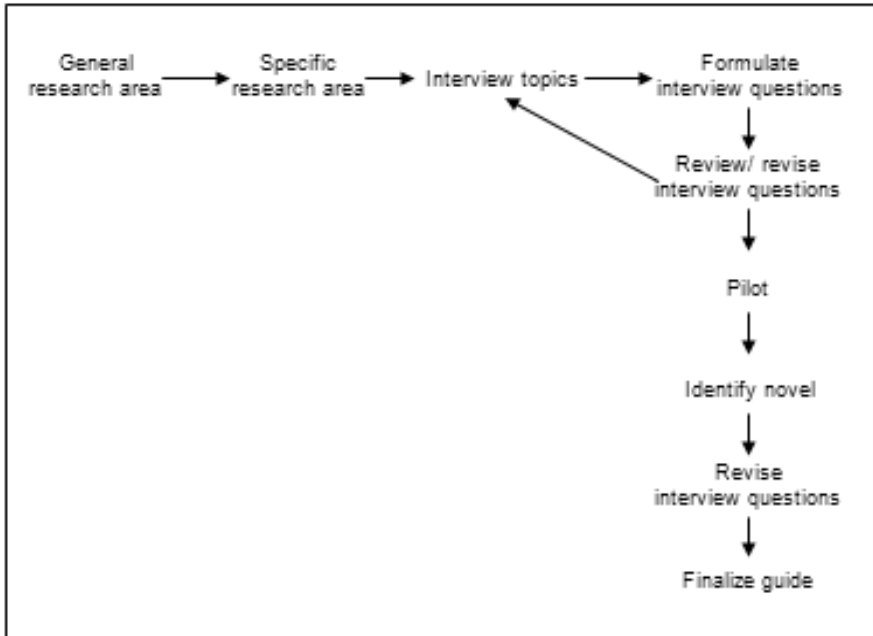
Confirmability requires the researcher to show that the research was conducted in good faith, and no personal values or theoretical inclinations influenced the research and its findings. The purpose for doing this is the impossibility in social research to have complete objectivity of the research and the findings derived from it. In the Research, confirmability is also ensured by means of the above-mentioned procedures.

Design of the Interview Guide

The Interview Guide refers to the structured list of the issues to be addressed, often used in the unstructured or the semi-structured interviews. In the Research, an Interview Guide, in the form of a list of pre-planned questions, was prepared to facilitate the interviews, and to ensure that certain specific topics related to the role and practices of *guanxi* in the two banking groups were discussed, and not overlooked in the interview. It was in both English and Chinese with many open-ended questions covering the five areas relating to *guanxi*, outlined in the following

paragraph. To formulate the Interview Guide, the steps depicted in **Figure 6** were followed.

Figure 6: Formulating Questions for an Interview Guide



Source: Adapted From Bryman (2004, p.526).

As a first step, the Researchers determined the general research area, that is, the role of *guanxi* in the CFBs. Next, the specific research questions in relation to the general research area were formulated. Then, the Researchers used these specific research questions to construct five interview topics related to (a) the definitions and role of *guanxi*; (b) the constructs of *guanxi* and RM; (c) the *guanxi* practices; (d) the incorporation of *guanxi* in the business strategies and tactics of the CFBs; and (e) the contribution of *guanxi* to the performance of the CFBs. The next step was to formulate the questions for each interview topic in a way that helped the Researchers to answer the research questions. These interview questions constituted a review and revision process, and identification of the novel issues. Pre-testing, in the form of content

validity rather than a pilot study, was conducted before the Interview Guide was finalised.

To pre-test the content validity, the Researchers had located four expert persons as respondents to answer some pre-set questions. This ensured that the wording of the questions was clear, understandable, and unambiguous. These persons were: (a) two relationship managers from the Hong Kong branches of a foreign bank and a Chinese bank; (b) a professor of a university in Hong Kong teaching China Business; (c) an honorary career advisor in China marketing; and (d) a principal partner of a firm with active business engagements in China. The Researchers requested these experts to examine and assess whether the questions measured the Conceptual Framework.

Ethical Considerations

Ethics for business research or social science research refers to adherence to a code of conduct or expected societal norms of behavior when the research is conducted. It is reflected in the actions of the researchers, the participants, the analysts, and the entire research team that is engaged in the research, and also in the interpretation of the results and suggestion of the solutions. Research ethics in qualitative methods has a higher standing because the qualitative researchers are “more sympathetic and sensitive to human feelings and responsibilities” (Easterby-Smith et al. 1991, p.65). As the Research adopted a qualitative approach, the ethical considerations in its research methodologies were particularly important. Therefore, because the Research employed the secondary data collection where sensitive data was involved, the sources of the secondary data were clearly quoted when they were used.

In face-to-face, individual in-depth interviews, the required interview procedures were followed. These procedures included the organisational consents and informed consents from the participants, the issuance of the Information Statement and the Interview Guide, the details of how and where the Research would be conducted, the time required for the interview, and how the information would be collected. These procedures, established prior to the interviews, ensured the fulfilment of the crucial issues relating to ethics in qualitative research.

Conclusion

This paper records and discusses the various aspects of research methodology and design, with justifications of their applications for the Research conducted in 2013 by the Researchers. It concludes that the realism paradigm and qualitative research strategy were appropriate. Experimental design was the basis of the Research on *guanxi*, together with exploratory and cross-sectional studies. Inductive, deductive, and adductive approaches were used simultaneously. A conceptual outline of *guanxi*, titled Conceptual Framework, was developed and proposed for the CFBs through secondary data collection and content analysis based on the concepts of prior theories. The Researchers attempted to validate this proposed Conceptual Framework by the data collected from the 15 selected CFBs and DCBs, using face-to-face, in-depth interviewing with the Relationship Managers, with a semi-structured format and a pre-planned Interview Guide to lead the interviews. The banks were selected by means of purposive sampling via a non-probability sampling design. The data collected was analyzed through different methods suitable for qualitative research. Reliability and validity of the Research could not be measured at the present stage without the results of the implementation of the proposed Conceptual Framework by the CFBs. Ethical issues were also addressed. Most importantly, this paper provides the theoretical and practical contributions by working out a sample model and a Conceptual Framework for use by the CFBs. It also represents a breakthrough attempt to discuss *guanxi* in the RM of the CFBs by means of an anthropological case study. Finally, the Researchers stress that this paper is only part of the Research and in no way presents the entire process of the Research, pending the finalisation of the research findings, which will provide further contributions to the studies of *guanxi* in China's banking industry.

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SPANIARDS AND SPANISH PRODUCT IMAGE AMONG THE CHINESE: IMPLICATIONS FOR MARKETING STRATEGIES

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This article reports the results of an exploratory study among the Chinese about General Country Attributes (GCA) and General Product Attributes (GPA) in Spain. The objective of the research is to measure the images of the people and the products. Country and product image are important variables that help explain, and can also affect, the consumers' readiness to buy. Having lived in or having visited the target country has a negative influence on the country-of-origin image. Women and young Chinese people share more leniency than men when judging the people and the products.

Introduction

The success of an enterprise in an international environment depends not only on the product or service they manufacture but also on the country of origin itself. The concept of country of origin (COO) started and gained relevance in the early 1960s (Lu & Heslop 2008; Roth & Diamantopoulos 2009). Since then, more than 1000 works have been published about this topic (Papadopoulos 2004) because COO is a large attraction to the researchers (Trotter & Wang 2012).

A specific example of how the COO strategies can be applied is shown in the case of the Spanish brand Flamenco Chic, which sells clothing and accessories for women. When they started to export to the USA, their importer asked them to always include the 'Made in Spain' or 'Designed in Spain' labels in their products because the USA market looks favorably on the Spanish fashion. Other examples have been reviewed in several

studies (Roth & Diamantopoulos 2009). Hence, COO seems to be an important informational cue to enhance marketing success abroad.

With globalization, and thanks to the mass media and the Internet, countries, no matter how far apart they may be, are present in the lives of the people. So people have their own view and image of a country through external influences (D'Astous & Boujbel 2006). It must also be highlighted that COO has an influence on the quality perception of a product (Bilkey & Ness 1982) as well as on the image of the country. The consumers tend to evaluate the products depending on that image or perception (Liu & Johnson 2005).

So far there is no consensus in the different studies carried out regarding the importance of COO (Bhaskaran & Sukumuran 2007). Some of these studies conclude that COO has an influence on the consumers and represents a sustainable competitive advantage (Baker & Ballington 2002), while others seem to confirm that it does not (Bhaskaran & Sukumuran 2007).

Among the skeptics of COO, some have concluded that several other factors influence the consumers more strongly than the COO cues (Bhaskaran & Sukumuran 2007). However, not taking into consideration the effect of COO, due to the fact that some researchers have denied its effect, may represent a strategic failure (Baker & Ballington 2002).

Other researchers explain the effects of COO as part of a psychological process, likening it to a halo model (Han 1989). This psychological process has an influence on the consumers, especially in the case of those with no direct personal experience of having lived in or visited a foreign country.

Although we live in the age of globalization, this does not necessarily lead to homogenizing consumer behavior (De Mooj & Hofstede 2002). Thus, the consumer behavior turns cross-cultural, and becomes more and more heterogeneous (Wang 2012). From a management perspective, it is important for the companies to realize that the markets today are worldwide and cross-cultural. To be aware of and sensitive to the cultural differences is a significant factor for success in the world marketplace. Failure to put marketing strategy in a cross-cultural context of the countries where a company is doing business will work to the detriment of the brands and the business relationships (Tian & Trotter 2012).

Research Objectives

COO is not only an important informational cue for businesses but also for public policy (Lampers & Jaffe 1997; Roth & Diamantopoulos 2009).

Governments should promote the image of the domestic made products as well as that of the people in particular, when one of the main sources of revenue of the country rests on tourism. Place image is the main goal for the countries that desire to be positioned well in international relations, more so in the case of the new emerging markets (Papadopoulos 2004). The COO traits in a country turn it into a brand name (Lu & Heslop 2008).

Accordingly, Spain spent about 42 million euros in 2010 on COO promotion, plus 7.5 million euros on launching a campaign to create its identity logo. The aim of this campaign was not only to consolidate its image as a traditional tourist destination, already well established in some European countries, but also to attract new potential markets, such as China.

In this case, Spain was trying to sell the country of origin as a brand name and thus influence other Spanish brands as well. When a country promotes some stereotypes, these stereotypes yield an automatic influence on COO, which may be positive or negative (Ishii 2009; Liu & Johnson 2005). Consequently, the consumers collate all this information to react positively or negatively when choosing a brand.

A recent study of the image of Spain in China (Laso & Justo 2008) has highlighted that Spain is relatively unknown in China, even though it is seen in a favorable light when it comes to its perceived image. Most of this work focuses on identifying the spontaneous stereotypes about Spain among the Chinese; for example, the soccer celebrities, the renowned Spanish brands, the bulls, and the flamenco.

With the advent of globalization, there is a new trend in workforce mobility, and people are more likely to move to another country for long periods of time. The countries, in general, do not see that this may bring about a cross-national effect on the consumers' view of the host countries as well as the countries of origin, and its potential to spread the COO image. This may even lead to establishing a new model stemming from the foreign consumers living in another country.

The article focuses on the influence of COO on the Spanish products and Spanish people among the Chinese. Although the figures for the Chinese immigrants to Spain are not high (a 2007 survey on immigration carried out by Instituto Nacional de Estadística (INE) showed that Chinese immigration to Spain represented only 1.2% of the total, as compared to 39% of immigrants from Central and South America, mainly due to historical and language differences), the potential of that country as a market makes a study of that target population really worth its while. Moreover, there are more and more Chinese students who are pursuing their studies abroad (Kotler 2010; Lantos 2011; Yang 2012).

Although it is acknowledged that COO plays an important role, literature has not taken into account the different perceptions the consumers have due to their direct contact with a country. The present study addresses this gap and tries to identify the influence of COO, not only on the foreign countries and the people but also on those groups who have had an exposure to the COO. Thus, the studied groups are broken into four categories: those living in the country at present, those who have lived in or visited Spain, those with no direct contact with Spain, and an additional group of second-generation Chinese.

Second-generation Chinese is an experimental group, added to this paper after interviews with a focus group of four people, where the differences between China and Spain were examined. In the course of our work in this focus group, we realized that the second-generation Chinese are seen as foreigners by the Spaniards as well as by the Chinese. Moreover, the second-generation Chinese have had an upbringing based on strict Chinese traditions, although they have lived all their lives in Spain and have received the same education as any other Spanish student. Thus, this group could provide valuable insight into the features of image creation of a country based on the family environment, as opposed to the culture of the country they grew up in. This study tries to find out whether the second-generation Chinese behave differently as an out-group member and similarly within an ascribed in-group (Sun, *et al.* 2004).

Among the five cultural dimensions of Hofstede (2001), we place special emphasis on Individualism (IDV) and Uncertainty Avoidance Index (UAI). People from collectivist cultures tend to evaluate the other countries better than those from individualist cultures, and people from uncertainty accepting cultures are more tolerant. In fact, the Chinese have the lowest ranking in IDV and also a rather low ranking in UAI. Therefore, it is expected that the results will show an IDV and a UAI dimension that would correlate with the trend in the Chinese culture. These traits should also be noticeable in the second-generation Chinese, and their opinion should reflect a trend equal to that of their family, as they come from a collectivist culture.

Methodology Issues

Measures

This study is divided into two facets: General Country Attributes (GCA) and General Product Attributes (GPA), based on Parameswaran & Pisharodi (1994), and also tested by Pereira, *et al.* (2002). GCA measures

a person's attitude toward the people of another country in which a product has been produced, while GPA measures a person's evaluation of some positive aspects of the products made in another country.

All the variables were measured on a 5-point scale, ranging from 1 (Strongly disagree) to 5 (Strongly agree). Both GCA and GPA were measured using eight items each. GCA has a standardized alpha of 0.811, and GPA has an alpha of 0.862. The Cronbach alphas obtained from this study indicate good reliability for all the scales used. Thus, this confirmed again the validity of the facets addressed by Parameswaran & Pisharodi (1994).

Demographic Variables

According to Bilkey & Ness (1982), women, older people, and people with higher education rated the foreign products more highly than the males, younger people, and people with limited education. This article takes into consideration these demographic variables.

Data Collection

The data were collected in two countries: Spain (Navarre, Aragon, Catalonia) and China (Beijing, Wuhan, Shanghai, Qintian, Tianjin). The whole sample includes 158 usable responses, divided into four groups: those living in the country at present, those who have lived in or visited Spain, those with no direct contact with Spain, and an additional group of second-generation Chinese.

The sample population composed 65.8 percent female and 34.2 percent male. As far as age is concerned, 70.3 percent were under 25, and 29.7 percent between 25 and 44. In terms of the education level, 5.1 percent had received a junior high education or below, 8.9 percent had graduated from senior high school, and 86.1 percent had graduated from the university.

Questionnaire

The questionnaire based on the scales of Parameswaran & Pisharodi (1994) was originally drafted in Spanish and then translated into Mandarin. A pre-test was conducted in Pamplona by the Chinese teachers to determine whether the questionnaire items in Mandarin were conceptually equivalent to the questionnaire items in Spanish, and to confirm the understandability of the questionnaire.

Methodology

The collected data are metric. Identifiers are nominal information. The appropriate statistical method in this case is factor analysis, projecting on the axes the variables identifying the elements of the sample. This method is technically sound, and it will provide the relevant variables, if found, used for measuring the image of the Spaniards and their products, linking them with the sample characteristics. Computer output is shown in the next paragraphs: the eigenvalues, the variable-factor correlations, and the test values of the characterizing variables, such as age, gender, reason to visit Spain, and knowledge of the country.

Data Analysis

The results are as follows:

Table 1 summarizes the descriptive statistics of the variables taken into consideration for measuring the image of the Spaniards in the Chinese sample group. It also displays some basic statistics. The variable ‘Friendly’ scores the highest and ‘Hard-working’ the lowest. Friendliness was a spontaneous stereotype that was very relevant and showed a high score (Laso & Justo 2009). The other better evaluated dimensions are ‘High life level’ and ‘Artistic’. Attributes such as ‘Technical skills’, ‘Creative’, and ‘Raised standard of living’ are rated lower.

Table 1: Summary Statistics of Continuous Variables

Label variable	Count	Weight	Mean	Standard Deviation	Minimum	Maximum
Friendly	158	158.00	3.981	0.791	2.000	5.000
Artistic	158	158.00	3.576	0.798	1.000	5.000
Creative	158	158.00	3.184	0.753	2.000	5.000
Polite	158	158.00	3.367	0.903	1.000	5.000
Hard-working	158	158.00	2.772	0.913	1.000	5.000
High life level	158	158.00	3.728	0.952	1.000	5.000
Raised standard of living	158	158.00	3.196	0.958	1.000	5.000
Technical skills	158	158.00	3.108	0.760	1.000	5.000

The principal component analysis provides the following results. **Table 2** displays the calculated eigenvalues. Only the first and the second values are high enough to draw relevant conclusions because their

magnitudes are over one. Both the axes explain roughly 60 % of the information provided by the sample.

Table 2: Control Panel of Eigenvalues (Trace of matrix: 8.00000)

Number	Eigenvalue	Percentage	Cumulated Percentage
1	35.551	44.44	44.44
2	12.310	15.39	59.83
3	0.7598	9.50	69.32
4	0.6269	7.84	77.16
5	0.5561	6.95	84.11
6	0.5288	6.61	90.72
7	0.3821	4.78	95.50
8	0.3603	4.50	100.00

Table 3 that follows displays the correlation coefficients between the axes and the variables on the five obtained axes. The first one is remarkably informative because the correlations are relevant, and all of them have the same signs — positive; so all the variables are located and projected on the right side of Axis 1.

This must be understood as showing that some groups in the sample rate the Spaniards as above average, as such groups are located on the positive side of the axis. If they were not, that would have meant that they rated the Spaniards lower than the average. The observer must only draw conclusions in the cases when the test-values (p-values) are over 1.96. In other words, if the test-values are over 1.96, the confidence of the variables as regards their relevance is over 95 %.

An analysis of **Table 3** and **Table 4** leads us to conclude that the Chinese men, those who know Spain and those who have visited the country for study reasons, have a worse image of the Spaniards than the women and those who have never visited the country. Other variables depicting the respondents are irrelevant. This means that their valuations do not differ from the average of the values provided by the whole sample.

The second axis reflects the artistic and creative capabilities of the Spaniards. Those who do not know Spain, score these two variables higher than average; there are no differences between the gender values. Those who know Spain rate these two variables below the average value estimated, considering the whole sample of respondents.

Table 3: Active Variable-Factor Correlation

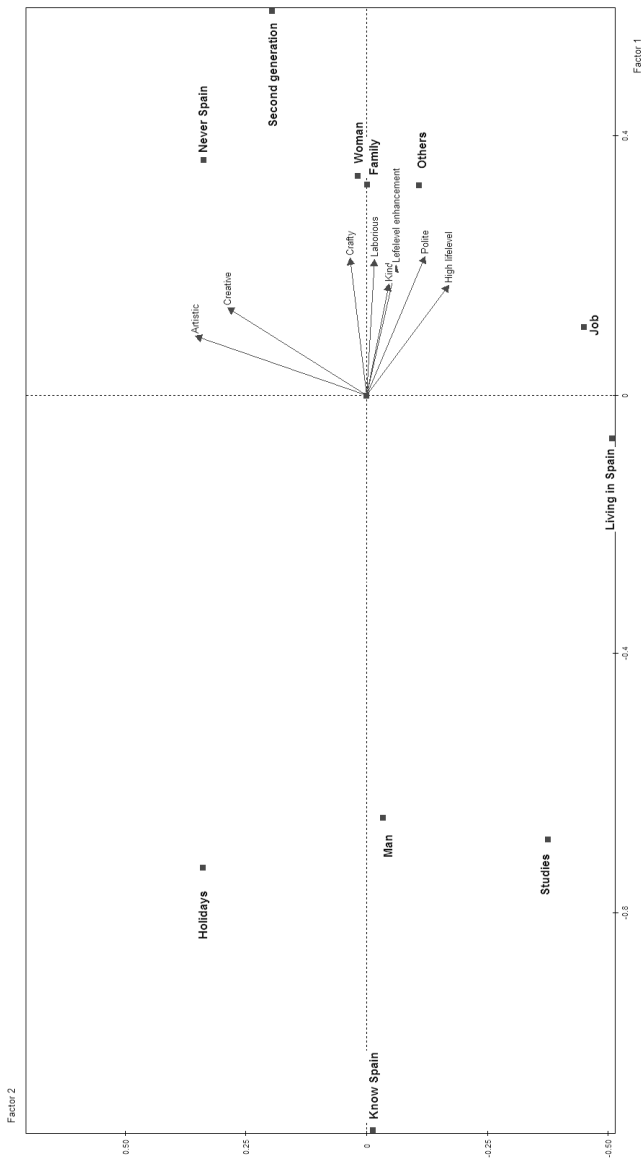
Label variable	Axis 1	Axis 2	Axis 3	Axis 4	Axis 5
Friendly	0.64	-0.10	-0.67	0.04	-0.28
Artistic	0.34	0.77	-0.26	0.12	0.43
Creative	0.50	0.63	0.29	0.22	-0.41
Polite	0.79	-0.26	-0.16	0.00	0.11
Hard-working	0.78	-0.04	0.13	-0.24	-0.04
High life level	0.63	-0.37	0.18	0.61	0.07
Raised standard of living	0.74	-0.13	0.24	-0.14	0.30
Technical skills	0.78	0.07	0.14	-0.35	-0.11

Table 4 Test-values of Supplementary Categories

Label	Count	Axis 1	Axis 2	Axis 3	Axis 4	Axis 5
Group						
Living in Spain	50	-0.30	-3.92	-3.99	-1.29	1.07
Second generation	13	1.18	0.66	0.45	1.17	-1.70
Know Spain	26	-3.35	-0.07	-0.33	0.50	-0.66
Never Spain	69	2.13	3.36	3.74	0.19	0.43
Gender						
Man	54	-3.13	-0.28	0.32	0.15	-0.39
Woman	104	3.13	0.28	-0.32	-0.15	0.39
Reasons						
Studies	46	-2.92	-2.72	-2.62	1.52	0.65
Job	15	0.23	-1.65	-1.39	-2.09	0.45
Family	19	0.80	-0.01	-0.82	0.55	-1.24
Holidays	4	-0.78	0.62	1.04	-1.04	-1.35
Others	5	0.39	-0.22	-0.89	-1.06	-0.13

The following **Chart 1** displays the results. Respondent identifiers, such as second-generation in Spain, or reasons to visit the country (holidays or other), appear in the chart because they have a computed coordinate, but their test-values (p-values) are negligible to draw any relevant

Chart 1: Factors 1 and 2 in Spaniards Valuation



relevant conclusion or practical consequences. Remember that the test values below 1.96 (95 % of confidence) mean that the corresponding identifier is irrelevant in such analyses.

Product image can be different among the members of a sample. **Table 5** displays some basic statistics. The attributes of the better valued Spanish products are prestige, appeal, and quality. In the study of Laso & Justo (2009), the first brand in spontaneous stereotypes was Zara, the most famous fashion retail Spanish company in the world. The strategy of this company in China is to sell Zara as a prestigious company. The worst valued attribute is price, but there are hardly any differences among the other attributes.

Table 5: Summary Statistics of Continuous Variables

Label variable	Count	Weight	Mean	Standard Deviation	Minimum	Maximum
Well made	158	158.00	3.633	0.678	2.000	5.000
Long lasting	158	158.00	3.551	0.680	2.000	5.000
Prestigious	158	158.00	3.867	0.908	2.000	5.000
Quality	158	158.00	3.715	0.721	2.000	5.000
High technology	158	158.00	3.487	0.847	1.000	5.000
Appealing	158	158.00	3.709	0.821	2.000	5.000
Performance	158	158.00	3.462	0.869	1.000	5.000
Good price	158	158.00	3.171	0.781	1.000	5.000

The routine in understanding the results provided by the principal component analysis leads one to conclude that Axis 1 collects 52% of the information; the other axes reveal little information because of their negligible eigenvalues. (See **Table 6**)

As depicted previously, the variable-factor correlations are high only on Axis 1, and they show positive signs. The variables rating the products are located on the right side of Axis 1. (See **Table 7**)

Table 6: Control Panel of Eigenvalues (Trace of matrix: 8.00000)

Number	Eigenvalue	Percentage	Cumulated Percentage
1	41.625	52.03	52.03
2	0.9857	12.32	64.35
3	0.7371	9.21	73.57
4	0.6059	7.57	81.14
5	0.4851	6.06	87.20
6	0.4144	5.18	92.38
7	0.3187	3.98	96.37
8	0.2906	3.63	100.00

Table 7: Active Variable-Factor Correlation

Label variable	Axis 1	Axis 2	Axis 3	Axis 4	Axis 5
Well made	0.78	0.27	-0.24	-0.13	0.21
Long lasting	0.72	0.48	-0.25	-0.18	0.11
Prestigious	0.79	-0.32	-0.19	-0.06	-0.25
Quality	0.80	0.17	-0.10	0.12	-0.11
High technology	0.63	-0.53	0.22	-0.19	0.46
Appealing	0.76	-0.33	0.05	-0.19	-0.35
Performance	0.70	-0.10	0.02	0.68	0.09
Good price	0.55	0.38	0.72	-0.05	-0.09

Table 8 that follows displays the test values for the identifiers. In this case, the results change. Education level is a relevant variable in product valuation. The Chinese with university level studies and people up to 25 years of age value the Spanish products higher than average. (See **Chart 2**) The demographic variable representing the people with higher education and the females, confirms those groups as the ones who rate the foreign products more highly (Bilkey & Ness 1982). However, and contrary to what was expected, people over 25 years of age value the Spanish products lower than the average. Men showed the expected results.

Table 8 Test-values of Supplementary Categories

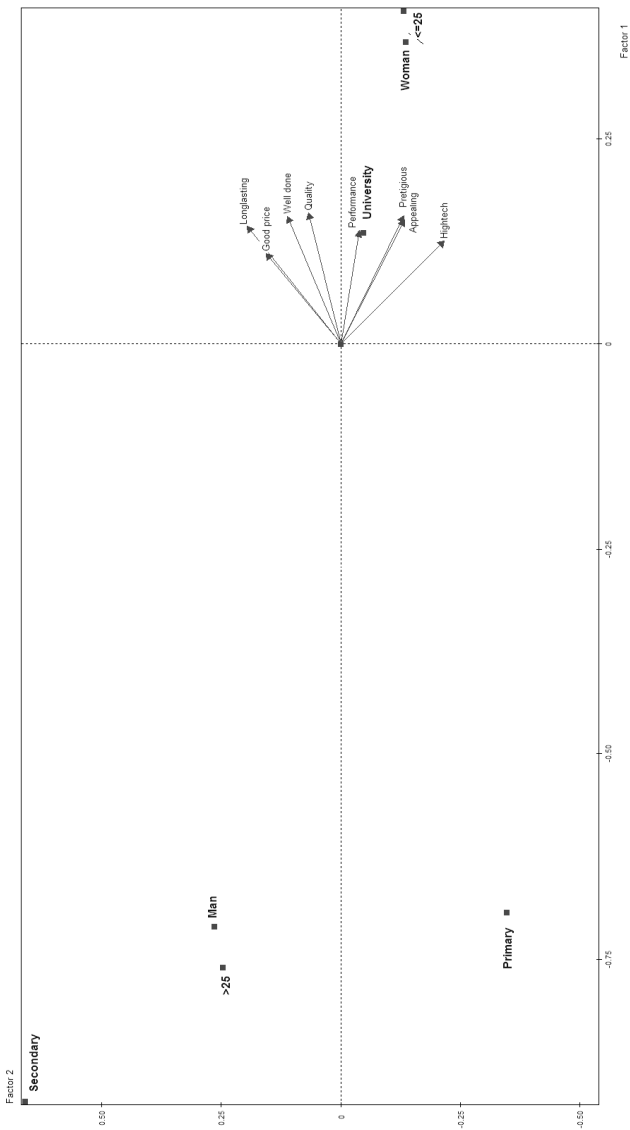
Label	Count	Axis 1	Axis 2	Axis 3	Axis 4	Axis 5
Age interval						
<=25	103	3.41	-2.27	-1.99	0.91	1.05
>25	55	-3.41	2.27	1.99	-0.91	-1.05
Gender						
Man	54	-3.14	2.40	0.26	1.48	1.91
Woman	104	3.14	-2.40	-0.26	-1.48	-1.91
Education level						
Primary	8	-0.98	-1.02	-0.49	0.66	-0.15
Secondary	14	-1.77	2.60	-0.09	1.66	-0.57
University	136	2.07	-1.49	0.38	-1.77	0.56

Managerial Insights

Our research gives the managers and the governments a comprehensive view of what the market orientation for COO should be like, ways to achieve it, and its likely consequences. COO should represent a competitive advantage in the economies that depend on external revenue, such as from tourism, or those that want to open new markets or want to attract foreign investments in their own country.

The findings mentioned above suggest that a halo effect is to be taken into account. There may be a positive prejudice in favor of Spain and its products, apparently due to the collectivist culture of China. However, after visiting the country, this positive image decreases in value as it seems that COO does not live up to the expectations. This feeling is not beneficial for Spain and its products. This disappointing experience can have a negative impact on the willingness to import the Spanish products. It can also affect the prospects of opening new businesses in Spain and, as a consequence, on the employment of the local workers. Besides, a decrease in the number of Chinese tourists choosing Spain as their holiday destination can also be expected.

Chart 2: Factors 1 and 2 in Product Valuation



Politicians and economic groups interested in maintaining economic relationships with China should do their best to build a better image of Spain, not only outside but also inside the same country. Not only the politicians and the economic groups but also the organizations need to align their brands with the culture of their target markets (Handley, *et al.* 2013). Emotional advertisements could be a good way to promote the image of Spain (Chaoying, *et al.* 2011); they are more effective in the case of the Chinese.

The promotion of COO has to be a cooperative effort between the public and the private sectors, and must show an awareness of the cultural differences (Tian & Borges 2011). It should foster a common agreement to find a marketing policy that takes into account the internal and external factors. Emery & Tian (2010) advised that the effectiveness of advertising appeals can be affected by factors such as age, societal trends, product usage, and political-legal environment.

In order to achieve this goal, we suggest launching product fairs and exhibitions, advertising to promote the high standards of quality of the Spanish products, and creating awareness of consumer rights, regulations, and safety. As changing the COO image takes a long time and takes place in small steps, remedial action should be taken as soon as possible.

Final Conclusion

This research has measured the image of the Spanish products and the Spaniards among the Chinese people. Despite the small sample size, some relevant conclusions can be drawn. The results present the evidence that the women, the younger Chinese, and those who have never visited Spain value the Spanish products and Spaniards better.

Women give higher value than men in surveys that deal with quality, satisfaction, or image. (It may be that their judgments are more accurate.) Hence, women as a demographic variable are again confirmed as a group who rate the foreign products more highly (Bilkey & Ness 1982). However, another demographic variable, the group of younger Chinese, who theoretically were supposed to be more critical of COO, appears more enthusiastic than the older people. This new variable should be taken into consideration for future research. It is also worth studying whether the so-called 'young people group' has developed other perceptions, different from the ones shown in the first studies on COO carried out some years ago, and confirm the results of our survey.

The second-generation Chinese seem to be a group not influenced by the family environment of the group living in Spain, because collectivism

as a variable of influence has no relevance according to the results of the survey. However, further studies are considered necessary to confirm these results, given that the sample study group was small.

But what really matters is that the image of Spain for those who never have been to Spain is better than that of those who know the country. The findings of this study prove that personal experience, no matter the reason (holidays, studies, family), has a negative impact on the people. The Chinese who have never been to Spain have an opinion influenced by affective components. This affective dimension (emotions), after a direct contact with the country, turns into a cognitive dimension (beliefs) which prevails and has a negative impact on the COO image. This two-component view of attitudes was developed in different studies like Roth & Diamantopoulos (2009) and seems to enhance the need for a framework for different models.

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SECONDARY REFORM OF INITIAL PUBLIC OFFERINGS (IPO): REASONABLENESS OF IPO PRICING

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The reasonableness of IPO pricing is greatly significant to maintain price stability for the stock market. This paper selects 145 IPO stocks as samples from November 1st, 2010 to July 1st, 2011 in the mainland China A-share Market. The multi-factor model of IPO pricing is constructed by stepwise regression method to judge the factors of the IPO pricing in China. Empirical results show that the IPO pricing is significantly influenced by factors such as the financial conditions and the results of operations. It can be seen that China's IPO pricing reflects the intrinsic value of the company, while valuable deviation phenomenon exists in the secondary market.

Introduction

With the listing of BYD (002594) and SL shares (601058) on June 30 in 2011, the Initial Public Offering (IPO) of the A-share market in the first half of the year finally ended. A total of 167 companies had logged in the secondary market through IPO till June 30, 2011, and a total of 172.621 billion Yuan were raised, which had shrunk by 25 percent when compared with the corresponding period of 2010. The current share price of 102 companies listed in the break position. The ‘unbeaten myth’ of shares was broken. IPO is a process based on finding a reasonable offering price or the price of the first assets for sale by a firm to the public (Coons 2011; Givoly & Shi 2008; Group 2010; Lowry & Murphy 2007). As a primary market in the stock market, the IPO is the source of the securities market, and it has an important impact on the development of the securities

markets (Alavi & Pham 2008; Ball & Shivakumar 2008; Certo, et al. 2007). The issue price of the stock should be able to reflect the company value in terms of the company's profitability, results of operations, and levels of management. Since the new issue of shares has no trade history, and no price movements can be referred to, it is difficult to determine the IPO price accurately and reasonably. Shares of the listed companies are still a scarce resource in China. Thus, the IPO pricing is very arbitrary.

Secondary IPO reform started on November 1, 2010. Compared to the primary IPO reform launched in June 2009, the secondary reform focuses on issues such as how to further improve the IPO offer subscription and placement constraint mechanism, as well as how to enhance the information transparency of IPO pricing (Kish, et al. 2012), which is expected to reduce the 'two high and one ultra' phenomenon (high issue price, high price-earnings ratio, and excess fund raising) of IPO, shaped since the IPO reform. Growth rates were implied in the offer prices (Cogliati, et al. 2011; Ghosh, et al. 2012; Jenkinson & Jones 2009; Kim, et al. 2008). The transparency in the IPO mechanism, which allows the investors to observe prior investors' participation, leads to demand, which is concentrated at either one or two points of the offer price range (Le & Varaiya 2007; Neupane & Poshakwale 2012).

Secondary IPO reform positively improves the market degree of shares inquiry. The most direct phenomenon is that the 'unbeaten myth' of shares is broken: the break proportion of the secondary market increases substantially more than before; the average IPO first-day gain reduces significantly; and, the risk awareness of the market participants increases generally. The integration of the primary and the secondary market is basically achieved (Shih, et al. 2008; Wonglimpiyarat 2009). Providing liquidity is important to the secondary market (Altaieb & Brodsky 2013; Oraopoulos, et al. 2012; Romar 2009). It is consistent with the view that the higher secondary market returns accrue to IPOs with more information asymmetries, possibly due to the price and aggregate demand uncertainty (Bradley, et al. 2009). These are important results for the market in China, which lends support to the conditional risk pricing hypotheses originally developed in the US, implying that the conditional risk pricing is applicable not only in the US market but also in the markets all over the world (Ho, et al. 2013).

IPO issue price is affected by many factors, including the company's asset position, results of operations, levels of management, and competitiveness in the industry (Brau, et al. 2007; Chahine & Goergen 2013; Klein & Li 2009; Sur & Martens 2013). The companies take

advantage of the control of the pre-IPO investment and dividend policies to influence the judgment of the investors at the time of the initial public offering, in order to affect the initial return rate. This paper selects the stock data of the A-share market between November 1, 2010 and July 1, 2011 as a study sample to verify the reasonable IPO price. In other words, this paper examines whether the issue price of the new shares reflects the intrinsic value of the company or not. In addition, this paper discusses the effect of the market-oriented reforms on the issue market.

Overview of the IPO Market

Figure 1 shows that the earnings of the new shares are between 20 and 50, which is a reasonable range in the China market.

Figure 2 shows that the turnover rate of IPO on the first day is generally high, indicating that the trade of shares is very active. However, in the case of falling shares, the turnover rate is low.

Figure 3 shows the relationship between the issue price and the closing price on the first day. It can be seen from **Figure 3** that the proportion of the first day closing price below the issue price is very high.

Figure 1: Share Earnings



Figure 2: Turnover Rate

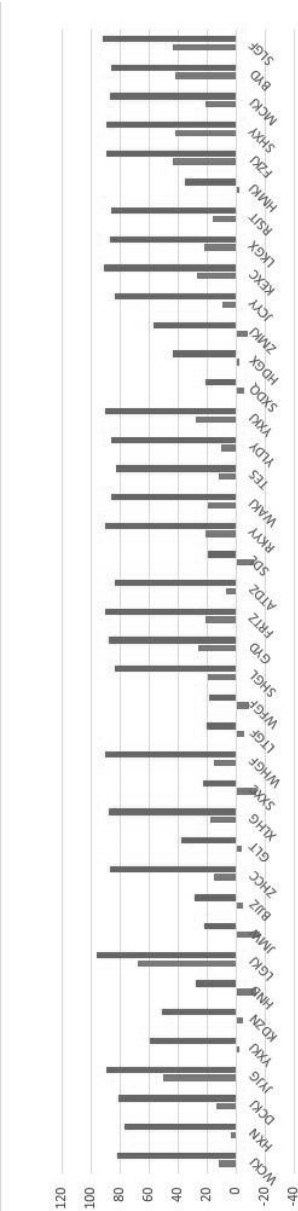
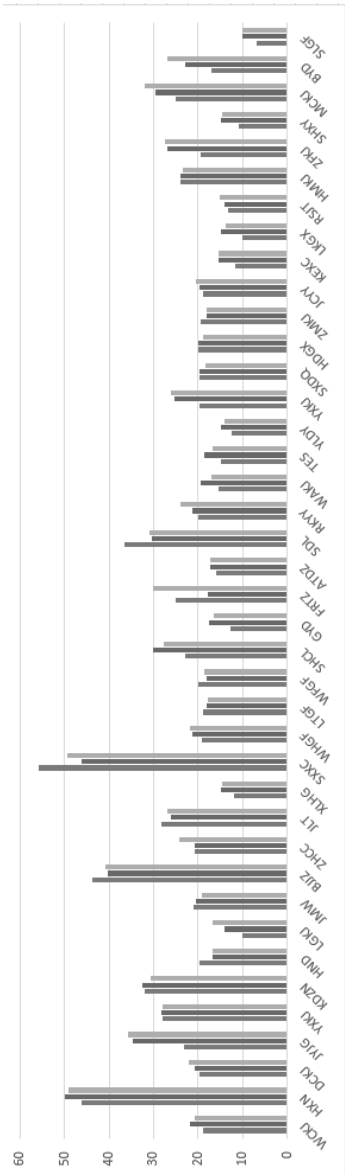


Figure 3: Issue Price and the Closing Price on the First Day



Methodology

Sample Selection

145 IPO stocks from November 1, 2010 to July 1, 2011 were selected as samples. Empirical data came in from several channels, such as China Securities Network, Hexun networks, and Eastern wealth network. SPSS software was used for the statistical analysis.

Variables Selection

The IPO pricing is directly influenced by the value of the company (Alpalhão, et al. 2014; Bhaskar 2014). Certain external factors are selected to set up a dynamic IPO pricing model (An & Chan 2008). Considering this, this paper selects indicators to comprehensively describe the intrinsic value of the company. The indicators consist of the profit structure, the terms profitability, the management ability, the solvency, the capital structure, as well as the developments. Due to the special relationship between the equities and corporate finance, this paper selects the growth rate instead of the main income or profit. The variable names and meanings are shown in **Table 1**.

Table 1: Variable Names and Meanings

Variable names	Variable meaning	Variable names	Variable meaning
V01	IPO issue price	V07	cash flow per share
V02	latest price (as of July 3, 2011)	V08	ROE%
V03	first day closing price	V09	main revenue growth%
V04	earnings release	V10	principal profit growth%
V05	earnings per share	V11	main gross margin%
V06	net assets per share		

Empirical Analysis and Results

IPO influences the stock market, and the effects are different when the market is in a different environment. This paper analyses the data by a correlation test and principal component analysis, followed by regression analysis.

Correlation Test

A KMO test is used to test whether the partial correlation coefficients between the variables are too small. Bartlett's test of Sphericity is used to test whether the correlation matrix is the identity matrix (Kammer & Krattiger 2012). The results of the KMO test and the Bartlett's test of Sphericity are shown in **Table 2**. The KMO is equal to 0.729, and the p value of the Bartlett's test is less than 0.001. Thus, the data can be used for the principal component analysis rather than for the master component analysis.

Table 2: KMO and Bartlett's Test Results

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		0.729
Bartlett's Test of Sphericity	Approx. Chi-Square	985.076
	Df	55
	Sig.	0.000

Principal Component Analysis

The issue cost of an IPO is affected by the company size, pre-IPO ownership structure, and financial risk. These changes of issue price mechanism significantly affect the direct issue cost; however, they do not significantly influence the indirect issue cost and the total cost (Junior, et al. 2014). The results of the principal component analysis are shown in **Table 3**. The characteristic values of the four factors are greater than 1, 2.531, 1.460, 1.254, and 1.020 respectively. The cumulative contribution rate of these four factors is 78.310%, indicating that these principal components contain the most information of the whole indicators.

Table 3: Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	2.531	31.638	31.638	2.531	31.638	31.638
2	1.460	18.245	49.884	1.460	18.245	49.884
3	1.254	15.678	65.561	1.254	15.678	65.561
4	1.020	12.748	78.310	1.020	12.748	78.310
5	0.649	8.108	86.417			
6	0.474	5.920	92.337			
7	0.434	5.427	97.764			
8	0.179	2.236	100.000			
Extraction Method: Principal Component Analysis.						

Regression Analysis

Regression analysis is applied by using the IPO issue price, the first-day closing price, and the latest price as the dependent variables, and the four factors as independent variables. The relationship between the size strength, ownership structure, price, earnings growth capacity, and operational capability, and the direct issue cost is negative; the relationship between the price factors and the indirect issue cost is also negative (Tinoco & Wilson 2013).

Firstly, the results of the regression analysis using the IPO issue price as a dependent variable are shown in **Table 4**. The p value is less than 0.001, the beta value is positive and significant, and the R Square value is 0.849, indicating that the fitness of the regression equation is good. The IPO issue price can basically reflect the financial situation of the company. **Table 5** shows the model summary for the regression analysis results of the IPO price.

Table 5: Model Summary for Regression Analysis Results of IPO Price

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.843 ^a	0.711	0.709	8.087
2	0.903 ^b	0.815	0.812	6.501
3	0.915 ^c	0.838	0.834	6.105
4	0.921 ^d	0.849	0.844	5.920
a. Predictors: (Constant) earnings per share				
b. Predictors: (Constant) earnings per share, earnings release				
c. Predictors: (Constant) earnings per share, earnings release, main gross margin				
d. Predictors: (Constant) earnings per share, earnings release, main gross margin, net assets per share				

Secondly, the regression analysis results, using the first-day closing price as the dependent variable, are shown in **Table 6**. The beta value is positive and significant, the p value is less than 0.001, and the R Square value is 0.806, indicating that the fitness of the regression equation is good. **Table 7** shows the model summary for the regression analysis results of the first-day closing price.

Table 6: Regression Analysis Results of First-day Closing Price

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std0. Error	Beta		
1	(Constant)	22.800	1.676		13.602	0.000
	net assets per share	2.833	0.235	0.711	12.059	0.000
2	(Constant)	5.128	2.120		2.419	0.017
	net assets per share	2.052	0.193	0.515	10.653	0.000
	earnings per share	24.438	2.351	0.503	10.394	0.000
3	(Constant)	-8.165	2.762		-2.956	0.004
	net assets per share	1.653	0.180	0.415	9.182	0.000
	earnings per share	24.595	2.067	0.506	11.899	0.000
	earnings release	0.238	.036	0.274	6.518	0.000
4	(Constant)	-11.438	2.772		-4.127	0.000
	net assets per share	1.675	0.172	0.421	9.740	0.000
	earnings per share	23.414	1.997	0.482	11.727	0.000
	earnings release	0.217	0.035	0.251	6.181	0.000
	main gross margin	0.150	0.039	0.147	3.832	0.000

Dependent Variable: First-day closing price

Table 7: Model Summary for Regression Analysis Results of First-day Closing Price

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.711 ^a	0.506	0.502	12.478
2	0.849 ^b	0.720	0.716	9.423
3	0.886 ^c	0.785	0.781	8.283
4	0.898 ^d	0.806	0.800	7.906
a. Predictors: (Constant) net assets per share				
b. Predictors: (Constant) net assets per share, earnings per share				
c. Predictors: (Constant) net assets per share, earnings per share, earnings release				
d. Predictors: (Constant) net assets per share, earnings per share, earnings release, main gross margin				

Finally, the regression analysis results, using the latest price (as of July 3, 2011) as the dependent variable, are shown in **Table 8**. The beta value is positive and significant, and the R Square value is 0.470, indicating that the fitness of the regression equation is good, though it is worse than the IPO issue price and the closing price on the first day. **Table 9** shows the model summary for the regression analysis results of the latest price.

Table 8: Regression Analysis Results of the Latest Price

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	9.701	1.775		5.466	0.000
	earnings per share	17.144	1.826	0.619	9.391	0.000
2	(Constant)	5.872	2.034		2.887	0.005
	earnings per share	16.080	1.785	0.581	9.009	0.000
	main gross margin	0.130	0.037	0.224	3.474	0.001
3	(Constant)	2.400	2.619		0.916	0.361
	earnings per share	15.693	1.774	0.567	8.845	0.000
	main gross margin	0.119	0.037	0.204	3.172	0.002
	earnings release	0.065	0.032	0.132	2.068	0.040
4	(Constant)	1.436	2.610		0.550	0.583
	earnings per share	17.333	1.881	0.626	9.216	0.000
	main gross margin	0.116	0.037	0.199	3.145	0.002
	earnings release	0.092	0.033	0.186	2.776	0.006
	net assets per share	-0.380	0.162	-0.168	-2.349	0.020

Dependent Variable: the latest price

Table 9: Regression Analysis Results of the Latest Price

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.619 ^a	0.383	0.379	7.945
2	0.657 ^b	0.432	0.424	7.653
3	0.670 ^c	0.449	0.437	7.565
4	0.685 ^d	0.470	0.454	7.446
a. Predictors: (Constant) earnings per share				
b. Predictors: (Constant) earnings per share, main gross margin				
c. Predictors: (Constant) earnings per share, main gross margins, earnings release				
d. Predictors: (Constant) earnings per share, main gross margins, earnings release, net assets per share				

The coefficients are significant in the above analysis. The regression analysis results show that the four factors are significantly correlated with the issue price and the first-day closing price. The extracted principal component variables include factors such as the company operating capacity and the financial status. It proves that these factors impact the issue price. Also, it indicates that the issue price can reflect the company's value. Meanwhile, when the IPO price is used as the dependent variable, the R Square value is 0.849; when the first-day closing price is used as the dependent variable, the R Square is 0.806 - these two coefficients are substantially equal. This means that the effect of the first-day closing price on the IPO price in the secondary market is the same as on the listed companies, indicating there exist some other factors in the secondary market that deviate the share prices from the enterprise value.

Conclusion

Empirical results show that some factors that significantly influence the IPO pricing are the financial condition and the results of operations. It can be seen that China's IPO pricing reflects the intrinsic value of the company. In other words, in addition to marketization, the stock market needs to be reasonable too. There still exist some problems that disturb the

market reasonableness. For example, IPO oversubscription is serious at the GEM, small and medium-sized board stock market; and the earnings release and price-earnings ratio in the secondary market is too high. This might have two reasons: a) the current market is not completely market-oriented; b) it is only partly market-oriented, which is still in the stage of inquiry. This leads to an unreasonable IPO pricing. On the other hand, even if the marketization is realized, unreasonable results may still appear. If the regime is not complete, the rational individuals will still lead to irrational collective results, even though the game process is fully market-oriented. Only rational institutional arrangements can ensure the unity of the individual rational and the collective rational.

In fact, the IPO inquiry faces a monopoly similar to the game process. The current market is actually a seller's market as new shares are still in short supply. The buyer is in a completely vulnerable position. Free game cannot run up in practice, so the market-based mechanisms have basically failed. In such a case, the power of government should be used to break the monopoly. When a balance is achieved among all the partners, then marketization can be implemented.

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TECHNOLOGY TRANSFER STRATEGIES OF MULTI-NATIONAL COMPANIES BASED ON EVOLUTIONARY GAME THEORY

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By applying the Evolutionary Game Theory, this paper discusses whether the multi-national companies (MNCs) will transfer their advanced technologies to the Chinese enterprises, and which type of MNCs – strong profit-making MNCs or weak profit-making MNCs – are more prone to transfer the technologies. It analyzes the dynamic evolutionary process of the MNCs that choose technology transfer strategies. The findings demonstrate that among the MNCs that plan to enter China's market, those with low costs in technology transfer are more willing to transfer their technologies to the local companies in China; among the MNCs that already have factories set up in China, those with weak profit-making capabilities are more willing to transfer their technology.

Introduction

Will multi-national companies (MNCs) transfer their advanced technologies to the Chinese enterprises? If they do, which type of MNCs, strong profit-making MNCs or weak profit-making MNCs, are more likely to transfer their technologies to China? The answers to these questions help narrow the technology gap between China and the developed countries, and also carry out China's strategies of technological leapfrogging and technological catch-up. Therefore, these problems have become hot topics in the Chinese industry communities and academic circles. Scholars such as Jefferson (2001), Zheng (2000), and Jiang (2002) have conducted studies concerning these issues from different perspectives. They used the empirical approach to analyze the influence of the foreign

investment on promoting technological advancements in China. Hu (2000) and Yue (2005) applied the cooperative game theory and duopoly game theory respectively to analyze the factors that affect the decision of the MNCs to whether transfer their technologies to the host countries or not. The MNCs are not completely rational in making technology-transferring decisions, so the application of the traditional game theory to the analysis of this issue inevitably has its limitations.

Based on the assumption that the gamers are of limited rationality, the evolutionary game theory studies the changing trend and stability of the proportion of the specific strategies adopted by the group members. It has achieved great success in analyzing the social institutional change, the trend of industry development, the formation of social customs, and so on. In the recent years, the evolutionary game theory has been applied to studying the imitating behavior of the electricity market producers (Daniele & Nicola 2008), the bidding of the power companies (Sheng 2007), the pollution control (Lu 2007), the competitiveness of the retail enterprises (Yao, Di and Ding 2007), the reverse supply chain of manufacturers (Wang 2008), and the investment of information security (Sun 2008). This paper attempts to introduce the evolutionary game theory to the field of technology transferring, and analyzes the factors and conditions that affect the MNCs' decision in transferring their technologies to China. It is hoped that through an analysis of which type of companies, strong profit-making or weak profit-making, are more likely to transfer technologies to China, this paper can provide a theoretical basis and suggestions for the local enterprises in China to obtain the advanced technologies from the Western MNCs.

Evolutionary Game Theory

The evolutionary game theory is a theory that combines the classical game theory analysis with the dynamic evolutionary procedure analysis. For one thing, it replaces the perfect rationality assumption for subjects in the traditional game theory with the bounded rationality and learning capacities assumption, in order to be more aligned with the reality; for another, it uses a dynamic framework to analyze the system equilibrium and the process of reaching it, which can describe the systematic evolution and development more accurately.

The evolutionary game is a model of the game theory concerning the interaction of the behavior strategies and the iteration process. Its basic

principle is ‘the survival of the fittest’ principle of the evolutionary theory in biology. In the evolutionary game, each kind of individual participant can choose a different behavior strategy, and then gain the corresponding ‘reward’ or ‘fitness’. After iteration for some time, the adoption of certain behavior strategies will lead to an increase or decrease of fitness, thereby making behavior of a certain type of individuals evolve according to the principle of the survival of the fittest.

The most essential concept of the evolutionary game theory is the evolutionary stable strategy (ESS), which has broad application and which keeps improving. Evolutionary stable strategy means that if the majority of the individuals choose ESS, the small mutant group will not be able to invade that bigger group. In other words, under the pressure of natural selection, the mutants can either choose ESS, or exit and disappear from the evolution.

For K populations that game with one another, each population $k (k=1, \dots, K)$ has N strategies, denoted by subscript $i=1, \dots, N$. Population K corresponds N dimensional vector set $S^k = \{x = (x_1, \dots, x_N) : x_i \geq 0, \sum x_i = 1\}$. Any vector r^k with this form denotes the mixed strategies of an individual in the population k , and vector s^k with this form denotes the proportion of individuals who adopt a certain strategy in the population k . Therefore, for K , such N dimensional space defined by the Cartesian product $S = S^1 \times \dots \times S^K$ represents not only the strategy sets but also the state space.

The evolutionary game theory takes the fitness of the individuals in each population as payment to describe the game strategy, and the individual fitness is the individual strategy and the function of the current state. Fitness function is a mapping $f^k : S^k \times S \rightarrow R$, in which, $k=1, \dots, K$. It assumes that this function is the linear function of the first variable (its strategy) $r^k \in S^k$ and is continuously derivable for the second variable (population status) $s \in S$. Fitness function can also be marked as $f : S \times S \rightarrow R^K$, or $f(r, s) = (f^1(r, s), \dots, f^K(r, s))$. The fitness function concerning the linear hypothesis of variable $x = r^k$ can be seen as a ‘large number’ hypothesis: for a large population, the fitness of a mixed strategy is the expectant fitness of all the pure strategies that constitute it.

The final basic model of the evolutionary game is a dynamic structure that describes how the status S evolves with time. Under the situation of continuous time, the derivative of time corresponding to the status is defined as: $\dot{s} = (\dot{s}^1, \dots, \dot{s}^K)$, in which,

$\dot{s}^k = (\dot{s}_1^k, \dots, \dot{s}_N^k) = (ds_1^k/dt, \dots, ds_N^k/dt)$, ($k = 1, \dots, K$). Thus, it can be showed with function $F: S \rightarrow R^{NK}$, that is, $s = F(s)$. This is an autonomous system of differential equations in which, given the initial condition $s(0) \in S$, the curved line corresponding the answers to the system of differential equation $s = F(s)$ describes the process of evolution of all population (Friedman 1991).

The Hypotheses of Evolutionary Game Model

When the MNCs transfer their technologies to the Chinese enterprises, the strategies of technology transfer that the MNCs choose are of uncertainty and limited rationality. It is a process of learning and a dynamic game system that changes along with time. This paper analyzes the spontaneous evolutionary process and the evolutionary stable strategy (ESS) of the two types of MNCs — those strong in profit-making and those weak in profit-making. To study and analyze, the following hypotheses are made regarding the evolutionary model:

Hypothesis 1: Pairwise game. Although one individual of either group (strong and weak profit-making MNCs) will face all the other enterprises in the other group when it makes a decision, we can assume that the game is taking place between the paired enterprises.

Hypothesis 2: Homogeneity of two types of populations. For ease of analysis, this paper assumes that the two types of MNCs are the same in technologies and all other aspects, with the only difference being that one type of MNC has strong profit-making capability while the other one has weak profit-making ability.

Hypothesis 3: Approximate eye. When one of the MNCs changes its strategy, it always takes the distribution of the current strategy as a known condition and, then, transfers to the best strategies corresponding to the current strategy. This will happen even if large numbers of MNCs change strategies; the strategy space and payoff function will be different from the original ones.

Hypothesis 4: Cooperative condition. In order to facilitate the following theoretical analysis, this paper assumes that technology transfer is the prerequisite of the cooperation between the Chinese enterprises and the MNCs. That is, if the MNCs want to cooperate with the Chinese enterprises, they must transfer their technology to China.

Hypothesis 5: Complete homogeneity of the same types of technologies. This paper assumes that the same types of technologies

developed by the different MNCs are exactly the same, despite the fact that the same type of technology developed by different MNCs is not completely the same.

The Evolutionary Stable Strategy of the MNCs in Technology Transfer

This paper discusses the technology transfer issue. It divides the MNCs into two types (that is, $k=2$): for the MNCs that have strong profit-making capability, $k=1$; and, for the MNCs that are weak, $k=2$. Both of them have two strategies (that is, $N=2$) on the issue of technology transfer — Strategy 1: The MNCs transfer their technologies to the Chinese local enterprises; Strategy 2: The MNCs do not transfer their technologies to the Chinese local enterprises. When the foreign MNCs choose to transfer their technologies to China, this paper assumes that:

- The gross profit obtained by the technology transfer is R , so the profit gained by the MNCs with strong profit-making capability is αR ($\alpha > 1/2$) and by the MNCs with weak profit-making capability is $(1-\alpha)R$
- The gross loss caused by technology spillovers in transfer is L , so the loss of the MNCs with strong profit-making capability is αL , and by the MNCs with weak profit-making capability is $(1-\alpha)L$
- The cost of technology transfer is C , so the cost of the MNCs is C_1 and C_2

MNCs that Are Ready to Enter China

At a time when not all the MNCs have entered China but are ready to do so — the MNCs cannot enter China in a sole proprietorship form of business organization - strategy analysis can be done as follows: the MNCs enter China selecting transfer technology or do not enter China selecting non-transfer technology. The payoff matrix of random pair-up and repeated game between the MNCs that choose to transfer technology to China's local enterprises and the MNCs that choose not to transfer is shown in **Table 1**.

Table 1: The Game Payoff Matrix of Two Types of MNCs Ready to Enter China in Technology Transfer

MNCs	MNCs□	
	Transfer	Non-transfer
Transfer	$\alpha R - \alpha L - C_1$, $(1 - \alpha)R - (1 - \alpha)L - C_2$	$R - L - C_1$, 0
Non-transfer	0 , $R - L - C_2$	0 , 0

p denotes the proportion of the MNCs with strong profit-making capability that choose Strategy 1 (transfer), and q denotes the proportion of the MNCs with weak profit-making capability that choose Strategy 1 (transfer). Therefore, one point (p, q) in the area of $S = [0, 1] \times [0, 1]$ is used to describe the state $s = \{(s_1^1, s_2^1), (s_1^2, s_2^2)\} = \{(p, 1-p), (q, 1-q)\}$, in which $s_1^1 = p, s_1^2 = q$; thus, $s_2^1 = 1-p, s_2^2 = 1-q$. $r^1 = (1, 0)$ denotes Strategy 1 (transfer) that the MNCs choose with probability 1, and $r^2 = (0, 1)$ denotes Strategy 2 (non-transfer) that the MNCs choose with probability 1. So, we know the following from **Table 1**:

The fitness of the MNCs with strong profit-making capability that choose Strategy 1 (transfer) is

$$f^1(r^1, s) = q(\alpha R - \alpha L - C_1) + (1 - q)(R - L - C_1)$$

The fitness of the MNCs adopting Strategy 2 (non-transfer) is

$$f^1(r^2, s) = q \times 0 + (1 - q) \times 0 = 0$$

The average fitness is

$$\begin{aligned} f^1(p, s) &= pf^1(r^1, s) + (1 - p)f^1(r^2, s) \\ &= p[q(\alpha R - \alpha L - C_1) + (1 - q)(R - L - C_1)] \end{aligned}$$

Similarly, we can know that the fitness of the MNCs with weak

profit-making capability that choose Strategy 1 (transfer) is

$$f^2(r^1, s) = p[(1 - \alpha)R - (1 - \alpha)L - C_2] + (1 - p)(R - L - C_2)$$

The fitness of those adopting Strategy 2 (non-transfer) is

$$f^2(r^2, s) = p \times 0 + (1 - p) \times 0 = 0$$

The average fitness is

$$\begin{aligned} f^2(q, s) &= qf^2(r^1, s) + (1 - q)f^2(r^2, s) \\ &= q[p[(1 - \alpha)R - (1 - \alpha)L - C_2] + (1 - p)(R - L - C_2)] \end{aligned}$$

In the evolutionary game theory, the duplicators of populations dynamically assumed are: the growth rate of one strategy depends on its fitness, and the strategies that produce higher profits have higher growth rate. Therefore, according to the Malthusian equation, the growth rate \dot{p}/p of the MNCs with strong profit-making capability choosing Strategy 1 (transfer) equals fitness $f^1(r^1, s)$ minus the average fitness $f^1(p, s)$, that is,

$$\dot{p}/p = f^1(r^1, s) - f^1(p, s)$$

Thus,

$$\dot{p} = p(1 - p)[q(\alpha R - \alpha L - C_1) + (1 - q)(R - L - C_1)] \quad (1)$$

Similarly, we can know that the growth rate \dot{q}/q of the MNCs with weak profit-making capability choosing Strategy 1 (transfer) is

$$\dot{q}/q = f^2(r^1, s) - f^2(q, s)$$

Thus,

$$\dot{q} = q(1 - q)\{p[(1 - \alpha)R - (1 - \alpha)L - C_2] + (1 - p)(R - L - C_2)\} \quad (2)$$

A two-dimensional, dynamic, and autonomous (not containing time t) system is made up of (1) and (2).

According to the theory of differential equations, if (p_0, q_0) makes the right side of (1), and (2) be zero, then the equations are:

$$\begin{cases} p_0(1-p_0)[q_0(\alpha R - \alpha L - C_1) + (1-q_0)(R - L - C_1)] = 0 \\ q_0(1-q_0)\{p_0[(1-\alpha)R - (1-\alpha)L - C_2] + (1-p_0)(R - L - C_2)\} = 0 \end{cases}$$

Then, is (p_0, q_0) the equilibrium point or the singular point?

This autonomous system has five equilibrium points (singular points):

$$E_1(0,0), E_2(0,1), E_3(1,0), E_4(1,1),$$

$$E_5\left[\frac{R-L-C_2}{\alpha(R-L)}, \frac{R-L-C_1}{(1-\alpha)(R-L)}\right]$$

According to the method proposed by Friedman (Friedman 1998), if there is a population dynamic systematically described by the differential equation, its stability at the equilibrium point is obtained through a local stability analysis of the Jacobian matrix, where the Jacobian matrix is gained by this system. The system is composed of equations (1) and (2), whose Jacobian matrix is

$$J = \begin{bmatrix} \frac{\partial \dot{p}}{\partial p} & \frac{\partial \dot{p}}{\partial q} \\ \frac{\partial \dot{q}}{\partial p} & \frac{\partial \dot{q}}{\partial q} \end{bmatrix} = \begin{bmatrix} (1-2p)\{[(\alpha-1)R + (1-\alpha)L]q + R - L - C_1\} & p(1-p)[(\alpha-1)R - (\alpha-1)L] \\ q(1-q)(-\alpha R + \alpha L) & (1-2q)[(-\alpha R + \alpha L)p + R - L - C_2] \end{bmatrix}$$

The determinant of the Jacobian matrix is

$$\det J = (1-2p)\{[(\alpha-1)R + (1-\alpha)L]q + R - L - C_1\}$$

$$(1-2q)[(-\alpha R + \alpha L)p + R - L - C_2] \\ - p(1-p)[(\alpha-1)R - (\alpha-1)L] q(1-q)(-\alpha R + \alpha L).$$

The trace of the Jacobian matrix is

$$trJ = (1-2p)\{[(\alpha-1)R + (1-\alpha)L]q + R - L - C_1\} \\ + (1-2q)[(-\alpha R + \alpha L)p + R - L - C_2].$$

The determinant $\det J$ and the trace trJ in the five equilibrium points of the Jacobian matrix are shown in **Table 2**.

Table 2: Local Stability Analysis of the Equilibrium Point

Equilibrium point	Determinant of Jacobian matrix: $\det J$	Trace of Jacobian matrix: $tr J$
$E_1(0,0)$	$(R - L - C_1)(R - L - C_2)$	$2(R - L) - (C_1 + C_2)$
$E_2(0,1)$	$-(\alpha R - \alpha L - C_1)(R - L - C_2)$	$-(1 - \alpha)R - (1 - \alpha)L - (C_1 + C_2)$
$E_3(1,0)$	$-(R - L - C_1)[(1 - \alpha)R - (1 - \alpha)L - C_2]$	$-(\alpha R - \alpha L - C_1) - C_2$
$E_4(1,1)$	$(\alpha R - \alpha L - C_1)[(1 - \alpha)R - (1 - \alpha)L - C_2]$	$-(R - L) + (C_1 + C_2)$
$E_5(p_0, q_0)$	$-p(1 - p)q(1 - q)\alpha(1 - \alpha)(R - L)^2$	0

Proposition 1: When $R < L + C_{\min}$ (C_{\min} denotes the smaller one of C_1 , C_2), $E_1(0,0)$ is a locally and asymptotically stable point, and its evolutionary stable strategy (ESS) is (non-transfer, non-transfer).

Proof: When $R < L + C_{\min}$, $(R - L - C_1)(R - L - C_2) > 0$, and $2(R - L) - (C_1 + C_2) < 0$, that is, $\det J > 0$, $trJ < 0$ in the equilibrium point $E_1(0,0)$, we can know from an analysis of **Table 3** the stability of the equilibrium point. Now, the point $E_1(0,0)$ is the evolutionary stable strategy (ESS) of the system. And, when $R < L + C_{\min}$, we can know from **Table 2** that $E_4(1,1)$ is an unstable point of the system, and $E_2(0,1)$, $E_3(1,0)$, and $E_5(p_0, q_0)$ are the saddle points of the system (**Table 3**). Thus, $E_1(0,0)$ is the only evolutionary stable strategy (ESS) of the system. (Completion of proof)

Table 3: Local Stability Analysis' Result Showing the Equilibrium Point of Proposition 1

Equilibrium point	$\det J$'s sign	trJ 's sign	Local stability
$E_1(0,0)$	+	—	ESS
$E_2(0,1)$	—	—	saddle point
$E_3(1,0)$	—	—	saddle point
$E_4(1,1)$	+	+	unstable point
$E_5(p_0, q_0)$	—	0	saddle point

The proposition shows that when the profits obtained by the technology transfer are not high enough ($R < L + C_{\min}$), both the MNCs, those with a strong profit-making capability and those with weak profit-making capability (all prepared to enter China), will gradually become rational in choosing strategies; neither will they transfer the technology nor cooperate with the Chinese enterprises.

Proposition 2: When $L + C_2 < R < L + \frac{C_1}{C_2}$ ($C_2 < \frac{C_1}{C_2}$ is essential), $E_2(0,1)$ is locally and asymptotically the stable point, and the evolutionary stable strategy (ESS) of the system is (non-transfer, transfer).

Proof: When $L + C_2 < R < L + \frac{C_1}{\alpha}$ ($C_2 < \frac{C_1}{\alpha}$),
 $-(\alpha R - \alpha L - C_1)(R - L - C_2) > 0$ and $-(1 - \alpha)R - (1 - \alpha)L - (C_1 + C_2) < 0$, that is, $\det J > 0$, $trJ < 0$ in
the equilibrium point $E_2(0,1)$, we can know from an analysis of **Table 2**
the stability of the equilibrium point, and the point $E_2(0,1)$ is the
evolutionary stable strategy (ESS) of the system. (Completion of proof)

The proposition shows that when the profits R , obtained by the
technology transfer, exceed the sum of the gross loss L , caused by the
technology spillovers, and the cost C_2 for the technology transfer, the
MNCs with weak profit-making capability will gradually choose to
transfer their technology and cooperate with the Chinese enterprises, and
the MNCs with strong profit-making capability will choose to neither
transfer their technology nor cooperate with the Chinese enterprises.

Proposition 3: When $L + C_1 < R < L + \frac{C_2}{1-\alpha}$ ($C_1 < \frac{C_2}{1-\alpha}$ is
essential), $E_3(1,0)$ is a locally and asymptotically stable point, so the
evolutionary stable strategy (ESS) of the system is (transfer, non-transfer).

Proof: When $L + C_1 < R < L + \frac{C_2}{1-\alpha}$ ($C_1 < \frac{C_2}{1-\alpha}$),
 $-(R - L - C_1)[(1 - \alpha)R - (1 - \alpha)L - C_2] > 0$ and $-(\alpha R - \alpha L - C_1) - C_2 < 0$, that is, $\det J > 0$, $trJ < 0$ in the
equilibrium point $E_3(1,0)$, we can know from an analysis of **Table 2** the
stability point of the equilibrium, and the point $E_3(1,0)$ is the
evolutionary stable strategy (ESS) of the system. (Completion of proof)

The proposition shows that when the profits R , obtained by the
technology transfer, exceed the sum of the gross loss L , caused by the
technology spillovers, and the cost C_1 for the technology transfer, the
MNCs with strong profit-making capability will gradually choose to
transfer their technology and cooperate with the Chinese enterprises, and
the MNCs with weak profit-making capability will choose to neither
transfer their technology nor cooperate with the Chinese enterprises.

Proposition 4: When $R > \max(L + \frac{C_1}{\alpha}, L + \frac{C_2}{1-\alpha})$, $E_4(1,1)$ is
locally and asymptotically the stable point, so the evolutionary stable
strategy (ESS) of the system is (transfer, transfer).

Proof: When $R > \max(L + \frac{C_1}{\alpha}, L + \frac{C_2}{1-\alpha})$,
 $(\alpha R - \alpha L - C_1)[(1 - \alpha)R - (1 - \alpha)L - C_2] > 0$ and $-(R - L) + (C_1 + C_2) < 0$, that is, $\det J > 0$, $trJ < 0$ in the
equilibrium point $E_4(1,1)$, we can know from an analysis of **Table 2** the

stability point of the equilibrium, and the point $E_4(1,1)$ is the evolutionary stable strategy (ESS) of the system. (Completion of proof)

The proposition shows that when the profits obtained by the technology transfer are high enough, both the MNCs — those with strong profit-making capability and those with weak profit-making capability (when they enter the Chinese market) — will gradually become rational to select the strategies, that is, transfer the technology and cooperate with the Chinese enterprises.

MNCs that Have Factories Set Up in China

When the MNCs have factories set up in China or the MNCs can enter China in a sole proprietorship form of a business organization, we will discuss accordingly whether the MNCs choose transfer technology (cooperate with the Chinese enterprises) or choose non-transfer technology (not cooperate with the Chinese enterprises). The pay-off matrix of their random pair-up and repeated game is shown in **Table 4**. We assume that the profits gained by the MNCs I, that choose non-transfer technology, is R_{01} and for the MNCs II, it is R_{02} . Other hypotheses remain the same as the 2.1 situation: two types of MNCs that do not enter China.

Table 4: The Game Payoff Matrix of the Two Types of MNCs that Set Up Factories in China, Transferring Technology

MNCs	MNCs	
	Transfer	Non-transfer
Transfer	$R_{01} + \alpha R - \alpha L - C_1$, $R_{02} + (1 - \alpha)R - (1 - \alpha)L - C_2$	$R_{01} + R - \alpha L - C_1$ $, R_{02} - (1 - \alpha)L$
Non-transfer	$R_{01} - \alpha L$, $R_{02} + R - (1 - \alpha)L - C_2$	R_{01} , R_{02}

Just as in 2.1, we can know the Malthusian equations of the two types of MNCs (those with strong and those with weak profit-making capability) that have set up factories in China, are as follows:

$$\left\{ \begin{array}{l} p = p(1-p)\{[-(1-\alpha)R + \alpha L]q + R - \alpha L - C_1\} \quad (3) \\ q = q(1-q)\{[-\alpha R + (1-\alpha)L]p + [R - (1-\alpha)L - C_2]\} \quad (4) \end{array} \right.$$

So, there are five equilibrium points (singular point) in the automatic system that is made up of (3) and (4):

$$E_1(0,0), E_2(0,1), E_3(1,0), E_4(1,1),$$

$$E_5 \left[\frac{R - (1-\alpha)L - C_2}{-\alpha R + (1-\alpha)L}, \frac{R - \alpha L - C_1}{-(1-\alpha)R + \alpha L} \right].$$

And, the corresponding Jacobian matrix is

$$J = \begin{bmatrix} (1-2p)\{[-(1-\alpha)R + \alpha L]q + (R - \alpha L - C_1)\} & p(1-p)\{-(1-\alpha)R + \alpha L\} \\ q(1-q)\{-\alpha R + (1-\alpha)L\} & (1-2q)\{[-\alpha R + (1-\alpha)L]p + [R - (1-\alpha)L - C_2]\} \end{bmatrix}$$

The determinant of the Jacobian matrix is

$$\begin{aligned} \det J &= (1-2p)\{[-(1-\alpha)R + \alpha L]q + (R - \alpha L - C_1)\} \\ &\quad (1-2q)\{[-\alpha R + (1-\alpha)L]p + [R - (1-\alpha)L - C_2]\} \\ &\quad - p(1-p)\{-(1-\alpha)R + \alpha L\} q(1-q)\{-\alpha R + (1-\alpha)L\}. \end{aligned}$$

The trace of the Jacobian matrix is

$$\begin{aligned} \text{tr} J &= (1-2p)\{[-(1-\alpha)R + \alpha L]q + (R - \alpha L - C_1)\} \\ &\quad + (1-2q)\{[-\alpha R + (1-\alpha)L]p + [R - (1-\alpha)L - C_2]\}. \end{aligned}$$

The determinant $\det J$ and the trace $\text{tr} J$ in the five equilibrium points of the Jacobian matrix are shown in **Table 5**.

Table 5: Local Stability Analysis of the Equilibrium Point

Equilibrium point	Determinant of Jacobian matrix: $\det J$	Trace of Jacobian matrix: trJ
$E_1(0,0)$	$(R - \alpha L - C_1)$ $[R - (1 - \alpha)L - C_2]$	$2R - L - (C_1 + C_2)$
$E_2(0,1)$	$-(\alpha R - C_1)[R - (1 - \alpha)L - C_2]$	$-(1 - \alpha)(R - L) + C_1$
$E_3(1,0)$	$-(R - \alpha L - C_1)[(1 - \alpha)R - C_2]$	$-(\alpha R - \alpha L - C_1 + C_2)$
$E_4(1,1)$	$(\alpha R - C_1)[(1 - \alpha)R - C_2]$	$-[R - (C_1 + C_2)]$
$E_5(p_0, q)$	$-p(1 - p)[-(1 - \alpha)R + \alpha L]$ $q(1 - q)[- \alpha R + (1 - \alpha)L]$	0

Proposition 5: When $R < (1 - \alpha)L + C_{\min}$, $E_1(0,0)$ is locally and asymptotically the stable point, and its evolutionary stable strategy (ESS) is (non-transfer, non-transfer).

Proof.

When $R < (1 - \alpha)L + C_{\min}$, $(R - \alpha L - C_1)$
 $[R - (1 - \alpha)L - C_2] > 0$, and $2R - L - (C_1 + C_2) < 0$, that is,
 $\det J > 0$, $trJ < 0$ in the equilibrium point $E_1(0,0)$, we can know
from an analysis of **Table 5** the stability point of the equilibrium, and the
point $E_1(0,0)$ is the evolutionary stable strategy (ESS) of the system.
And, now, we can know from **Table 5** that $E_4(1,1)$ is an unstable point

of the system, and $E_2(0,1)$ 、 $E_3(1,0)$ 、and $E_5(p_0, q_0)$ are the saddle points of the system (**Table 6**). Thus, $E_1(0,0)$ is the only evolutionary stable strategy (ESS) of the system. (Completion of proof)

Table 6: The Local Stability Analysis' Result Showing the Equilibrium Point of Proposition 5

Equilibrium point	$\det J$'s sign	trJ 's sign	Local stability
$E_1(0,0)$	+	—	ESS
$E_2(0,1)$	—	—	saddle point
$E_3(1,0)$	—	—	saddle point
$E_4(1,1)$	+	+	unstable point
$E_5(p_0, q_0)$	—	0	saddle point

The proposition shows that when the profits obtained by the technology transfer are not high enough ($R < (1 - \alpha)L + C_{\min}$), both the MNCs, those with strong profit-making capability and those with weak profit-making capability (all have factories set up in China), will gradually become rational in choosing strategies: they will neither transfer the technology nor cooperate with the Chinese enterprises.

Proposition 6: When $(1 - \alpha)L + C_2 < R < \frac{C_1}{\alpha}$ ($(1 - \alpha)L + C_2 < \frac{C_1}{\alpha}$ is essential), $E_2(0,1)$ is locally and asymptotically the stable point, and the evolutionary stable strategy (ESS) of the system is (non-transfer, transfer).

Proof. When $(1 - \alpha)L + C_2 < R < \frac{C_1}{\alpha}$ ($(1 - \alpha)L + C_2 < \frac{C_1}{\alpha}$),
 $-(\alpha R - C_1)[R - (1 - \alpha)L - C_2] > 0$ and
 $-[(1 - \alpha)(R - L) + C_1 - C_2] < 0$, that is, $\det J > 0$, $trJ < 0$ in the equilibrium point $E_2(0,1)$, we can know from an analysis of **Table 5** the stability point of the equilibrium, and the point $E_2(0,1)$ is the evolutionary stable strategy (ESS) of the system. (Completion of proof)

The proposition shows that when the profits R , obtained by the technology transfer, exceed the sum of $(1 - \alpha)$ times of the gross loss

L , caused by the technology spillovers, and the cost C_2 for the technology transfer, the MNCs with weak profit-making capability will gradually choose to transfer their technology and cooperate with the Chinese enterprises, and the ones with strong profit-making capability will choose to neither transfer their technology nor cooperate with the Chinese enterprises.

Proposition 7: When $\alpha L + C_1 < R < \frac{C_2}{1-\alpha}$ ($\alpha L + C_1 < \frac{C_2}{1-\alpha}$ is essential), $E_3(1,0)$ is locally and asymptotically the stable point, and the evolutionary stable strategy (ESS) of the system is (transfer, non-transfer).

Proof: When $\alpha L + C_1 < R < \frac{C_2}{1-\alpha}$ ($\alpha L + C_1 < \frac{C_2}{1-\alpha}$), $-(R - \alpha L - C_1)[(1-\alpha)R - C_2] > 0$ and $1-\alpha(\alpha R - \alpha L - C_1 + \frac{C_2}{1-\alpha}) < 0$, that is, $\det J > 0$, $tr J < 0$ in the equilibrium point $E_3(1,0)$, we can know from an analysis of **Table 5** the stability point of the equilibrium, and the point $E_3(1,0)$ is the evolutionary stable strategy (ESS) of the system. (Completion of proof)

The proposition shows that when the profits R , obtained by the technology transfer, exceed the sum of α times of the gross loss L , caused by the technology spillovers, and the cost C_1 for the technology transfer, the MNCs with strong profit-making capability will gradually choose to transfer their technology and cooperate with the Chinese enterprises, and the ones with weak profit-making capability will choose to neither transfer their technology nor cooperate with the Chinese enterprises.

Proposition 8: When $R > C_1 + C_2$, $E_4(1,1)$ is locally and asymptotically the stable point, and the evolutionary stable strategy (ESS) of the system is (transfer, transfer).

Proof: When $R > C_1 + C_2$, $(\alpha R - C_1)[(1-\alpha)R - C_2] > 0$ and $-[R - (C_1 + C_2)] < 0$, that is, $\det J > 0$, $tr J < 0$ in the equilibrium point $E_4(1,1)$, we can know from an analysis of **Table 7** the stability point of the equilibrium, and the point $E_4(1,1)$ is the evolutionary stable strategy (ESS) of the system. And, when $R > C_1 + C_2$, we can know from **Table 7** that $E_1(0,0)$ is an unstable point of the system, and $E_2(0,1)$, $E_3(1,0)$, and $E_5(p_0, q_0)$ are the saddle points of the system (**Table 7**). Thus, $E_4(1,1)$ is the only evolutionary stable strategy (ESS) of the system. (Completion of proof)

Table 7: Local Stability Analysis' Result Showing the Equilibrium Point of Proposition 8

Equilibrium point	$\det J$'s sign	trJ 's sign	Local stability
$E_1(0,0)$	+	+	unstable point
$E_2(0,1)$	—	—	saddle point
$E_3(1,0)$	—	—	saddle point
$E_4(1,1)$	+	—	ESS
$E_5(p_0, q_0)$	uncertainty	0	saddle point

The proposition shows that if the profits obtained by the technology transfer exceed the sum of the transfer costs of the two types of MNCs, and have nothing to do with the loss L caused by the technology spillovers, both the MNCs, those with strong profit-making capability and those with weak profit-making capability, that have factories set up in China, will gradually become rational in choosing strategies, and choose to transfer the technology and cooperate with the Chinese enterprises.

The Dynamic and Evolutionary Game Diagram of Numerical Simulation

The following is to further confirm the equilibrium point which has been confirmed and to show the evolutionary track from the different initial value point to the equilibrium point, with the method of numerical simulation. This paper uses the MATLAB 7.0 software to make a numerical simulation analysis. The initial value is taken from $[0.2, 0.8]$, $[0.4, 0.6]$, $[0.3, 0.3]$, $[0.7, 0.4]$, and $[0.9, 0.2]$, time quantum is $[0, 100]$, lateral axis and longitudinal axis separately represent p and q , and in the space of $[0, 1] \times [0, 1]$, the dynamic evolutionary process is described from five different initial points to each equilibrium point.

Figure 1: Dynamic Evolutionary Game Figure of Proposition 1
 $(R < L + C_{\min})$

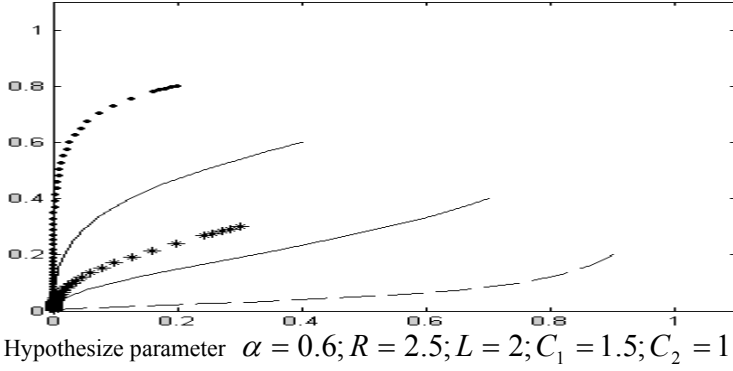


Figure 2: Dynamic Evolutionary Game Figure of Proposition 2
 $(L + C_2 < R < L + \frac{C_1}{\alpha})$

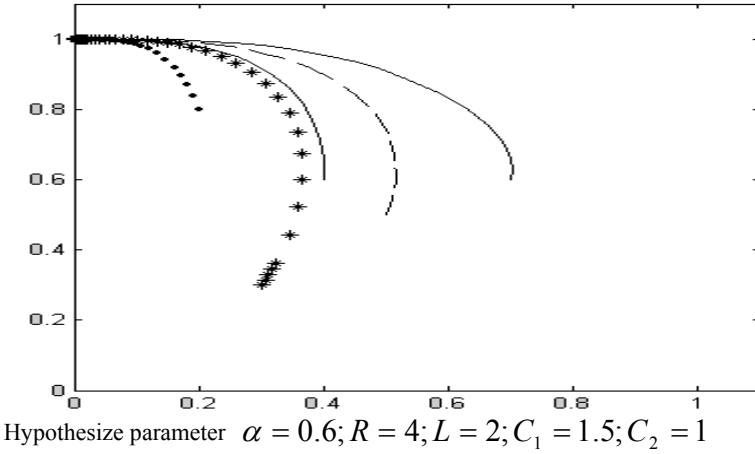
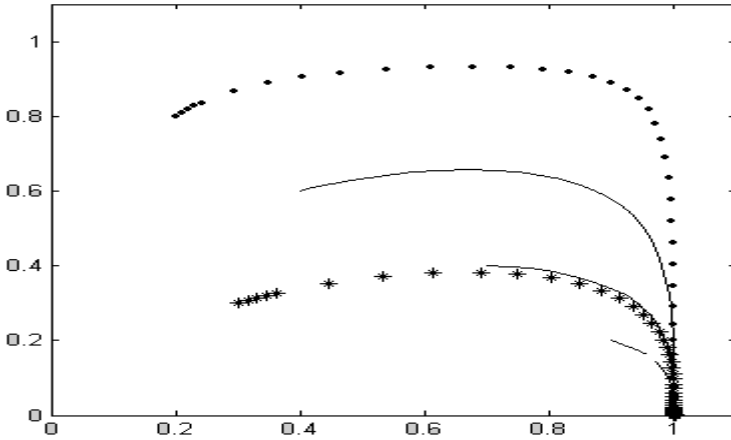
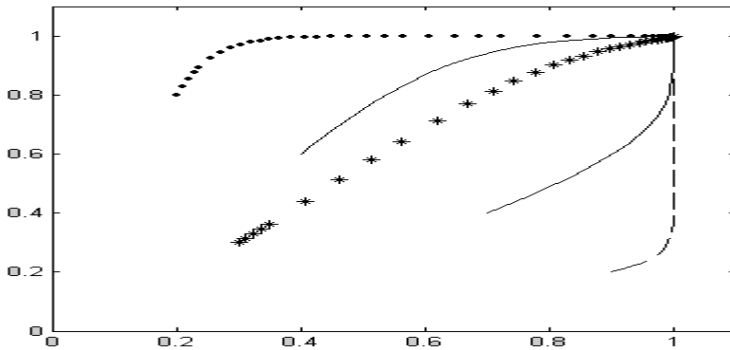


Figure 3: Dynamic Evolutionary Game Figure of Proposition 3
 $(L + C_1 < R < L + \frac{C_2}{1-\alpha})$



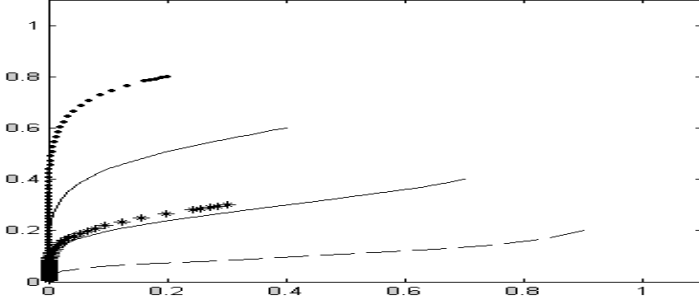
Hypothesize parameter $\alpha = 0.6; R = 4.5; L = 2; C_1 = 1; C_2 = 1.5$

Figure 4: Dynamic Evolutionary Game Figure of Proposition 4
 $(R > \max(L + \frac{C_1}{\alpha}, L + \frac{C_2}{1-\alpha}))$



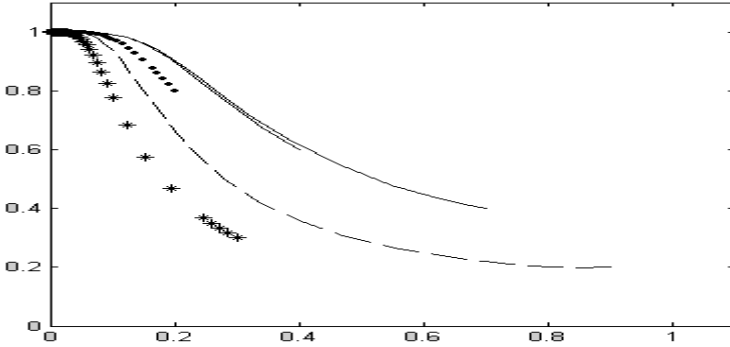
Hypothesize parameter $\alpha = 0.6; R = 5; L = 2; C_1 = 1.5; C_2 = 1$

Figure 5: Dynamic Evolutionary Game Figure of Proposition 5
 $(R < (1 - \alpha)L + C_{\min})$



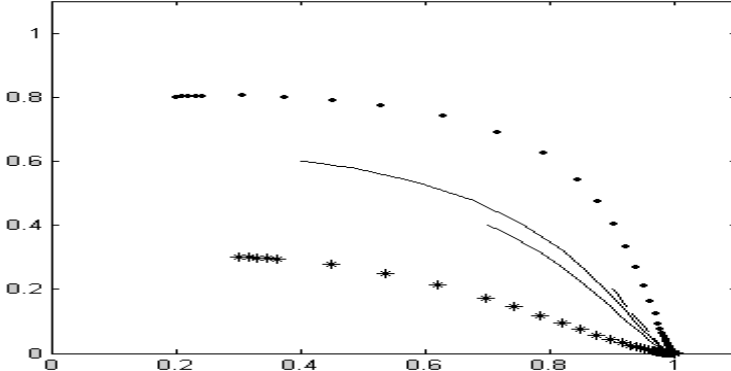
Hypothesize parameter $\alpha = 0.6; R = 1.5; L = 2; C_1 = 1.5; C_2 = 1$

Figure 6: Dynamic Evolutionary Game Figure of Proposition 6
 $((1 - \alpha)L + C_2 < R < \frac{C_1}{\alpha})$



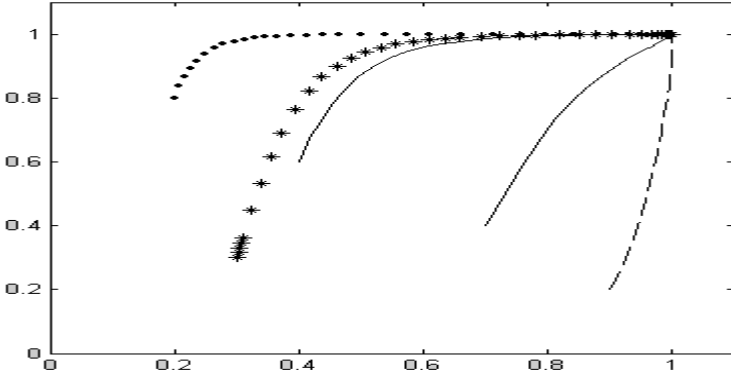
Hypothesize parameter $\alpha = 0.6; R = 2.3; L = 2; C_1 = 1.5; C_2 = 1$

Figure 7: Dynamic Evolutionary Game Figure of Proposition 7
 $(\alpha L + C_1 < R < \frac{C_2}{1-\alpha})$



Hypothesize parameter $\alpha = 0.6; R = 2.5; L = 2; C_1 = 1; C_2 = 1.5$

Figure 8: Dynamic Evolutionary Game Figure of Proposition 8
 $(R > C_1 + C_2)$



Hypothesize parameter $\alpha = 0.6; R = 2.5; L = 2; C_1 = 1; C_2 = 1.5$

Conclusion and Analysis

1. When the profits obtained from the technology transfer are too small (Proposition 1 and Proposition 5), the MNCs, no matter whether they have entered China or not, will not transfer their technologies. When the profits

obtained by the technology transfer are high enough (Proposition 4 and Proposition 8), the MNCs will eventually choose to transfer their technologies to China's local enterprises.

2. The MNCs that plan to enter China's market are more reluctant to transfer technologies and cooperate with the Chinese companies than those that have already entered China's market ($R < L + C_{\min}$, non-transfer); unwillingness to transfer technologies is lower for those MNCs that have already entered China's market ($R < (1 - \alpha)L + C_{\min}$, non-transfer).

3. For the MNCs that have already entered China, as long as the profits obtained by the technology transfer exceed the sum of the costs of transfer, they will choose to transfer the technologies, and the choice has nothing to do with the loss L caused by the technology spillovers. Compared with the MNCs that plan to enter China, when $R > \max(L + \frac{C_1}{1-\alpha}, L + \frac{C_2}{1-\alpha})$, the MNCs that have already entered China are more willing to transfer technologies to the Chinese enterprises.

4. We can find from Proposition 2 and Proposition 3 that for the MNCs that plan to enter China, their profitability has nothing to do with their capabilities in profit-making, but the decision is greatly affected by the costs of the technology transfer. The MNCs with a low cost in technology transfer are more willing to transfer technologies to the Chinese enterprises. For example, if $C_2 < C_1$, then $L + C_2 < L + C_1$; thus, Proposition 2 stands, that is, the MNCs with weak profit-making capability will eventually choose to transfer their technology and cooperate with the Chinese enterprises. If $C_1 < C_2$, then $L + C_1 < L + C_2$; thus, Proposition 3 stands, that is, the MNCs with strong profit-making capability will eventually choose to transfer their technology and cooperate with the Chinese enterprises.

5. We can draw conclusions from Proposition 6 and Proposition 7 that, after the corresponding conditions are satisfied, as in most cases $(1 - \alpha)L + C_2 < \alpha L + C_1$, the MNCs with weak profit-making capability that have already set up factories in China are more willing to transfer their technology and cooperate with the Chinese enterprises.

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MANAGEMENT OF INTERNATIONAL LUXURY BRANDS

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With China's fast economic development and the increase of disposable personal income, more and more international luxury brands have entered into the Chinese market, which means the potential in China for luxury industry is enormous. The value of the luxury goods is different from that of the common items, and its target consumers are also different from that of the common goods. Therefore, this feature determines that the common marketing strategies cannot be applied to the luxury items. Using the successful examples of international luxury brands, including Giorgio Armani, which is an Italian clothing brand, Cartier, which is a French jewelry brand, and Patek Philippe, which is a Swiss watch brand, this paper describes the development rules of how to occupy the international market for the development of the Chinese local luxury brands.

Introduction

China's social and economic prosperity has attracted more and more international luxury brands to come into the Chinese market. Meanwhile, the development of the luxury brands is changing the people's traditional consuming and living ideas. Statements such as "Chinese will pay for the rising price of luxury" can be easily heard (Tian, et al. 2014); many reports have clearly pointed out that China has become one of the fastest developing consuming markets in the world, and China has also entered the list of luxury markets. However, though the luxury market in China is still in an initial stage, it may develop in the way of Japan as more and more international luxury brands gradually occupy the Chinese market.

Luxury consumption can be traced back to the birth of the history of mankind. However, the goods that are usually regarded as luxuries are those pertaining to things that are beyond the range of the human beings'

living and development needs due to their special and unique features. Scholars at home and abroad have various opinions about the luxury goods. Until now, there has been no widely-accepted definition. Adam Smith only gave the definition of necessities, and classified the other goods that did not belong to the category of necessities as the luxury goods. Christopher Bailey believes that the luxury goods are those exquisite things with certain qualities that can be easily replaced and that satisfy some certain universal requirements. Pamela Danziger defines luxury as a kind of feeling or experience.

In China, Zhu & Zhou (2008) regard the luxury goods as a kind of experience and they point out that the certain expectation of the consumers concerning the goods can bring the value of experience much higher than its value-in-use. Thus, the function of these special goods is to function as a satisfaction of a certain experience and psychological requirement, instead of only realizing its value-in-use. Wu (2010), together with the other scholars, defines the nature of luxury goods as the goods which, after a fine process of manufacturing, become unique and less common, acting as a symbol of showing off one's social status, and consequently, their fundamental feature is high quality with a high price. Meanwhile, each luxury good has its special origin area, which can reflect its unique culture and history. To sum up, the scholars, both at home and abroad, have no widely-accepted definition of luxury, and different subjects have different opinions. The current definitions mainly deal with only certain aspects without a universal reference.

Luxury consumption in China started in the early 1990s and has been developing rapidly in the recent years. Since the global financial crisis in 2008, the luxury consumption in China has maintained rapid growth, while the consumption of the luxury goods in the Western countries has shrunk. This has attracted more international luxury enterprises to China. The top international luxury brands in the sectors such as garments, jewelry, automobiles, and yachts have been consumed in the Chinese market. The following paragraphs will discuss how the top brands, including Giorgio Armani, Cartier, and Patek Philippe make their way into the international markets.

International Luxury Brand

Luxury clothing refers to those clothes that enjoy taste and quality in the high-end market with a world-class reputation. They are professionally made from selective fabric and are well-manufactured with excellent qualities, representing the top class of clothes in the world. Meanwhile,

clothes are the biggest part of sales in the luxury industry, and the marketing and management of Italian clothing ranks No. 1 in the world. Giorgio Armani, which was founded in 1975, has become a legend since then. This paper will discuss the monopoly position of Giorgio Armani in the world market through the analysis of its culture, brand position, and research and development.

Brand Culture: Each of the top luxury clothing brands has its own history and story, implying its own culture and spirit. The founder of Giorgio Armani said in *The Economist*, "...our fashion is not neutral, but it does focus on making male clothing gentle while empowering female clothing." The products he designs are elegant, concise, and dressy, standing for the style of the Italian market. Notably, Armani has broken the wall between the male and the female clothing, becoming the leading brand of unisex clothing. Armani has used its cultural influence — the perfect combination of men and women — to focus itself on certain consumer groups, and has a monopoly over the luxury clothing market.

Brand Positioning: The unusual high price determines that the products should stay in the high-end market. Clothing in the top class can increase its brand value through outstanding design, gorgeous material, fine workmanship, fashion style, and its brand culture. Consequently, it meets the psychological requirements of the consumers by pricing the product at a very high level. The prices of Giorgio Armani are from tens to hundreds of thousands of yuan. Apart from pursuing a high requirement of fine workmanship, the unusual high price can be attributed to the desire to show the consumers' social status. In 1980, Armani's 'power suit', which is featured with a design of broad shoulders and wide lapels, was inspired by Hollywood in its golden age; the design is also a symbol of the time of the world's economic prosperity. The movie *American Gigolo* featured clothes by Giorgio Armani and as the movie has become popular, Giorgio Armani has gained more and more recognition from the top consumers. Thus, Giorgio Armani is not only an image in the public's mind, but also the symbol of a successful career.

Research & Development: The reason why Giorgio Armani is likely to last long is that it is good at research and development. An unchanged style of fashion can hardly be widely accepted forever. At each quarterly fashion show, the designers work hard to achieve the latest fashion designs, aiming at influencing people's clothing styles. Creative ideas are vital for them, and all the new creation keeps the brand in the leading place amidst fierce competition and helps maintain the monopoly position of the brand. Having experienced the age of hippies and punks, people had gotten tired

of strange clothing styles and fashion trends. At that time, Armani's simple Italian style and elegance met the new requirement of the time.

Campus leisure clothes and sportswear were popular in the USA but were barely seen in Europe. Inspired by them, Giorgio Armani has designed leisure suits that are both casual and elegant, and which illustrate exquisiteness. These suits are loved by the well-educated, tasteful, and successful people. At the same time, Armani has creatively combined the features of the men's suits with the design of the ladies' outfits. The popular style in ladies' garments is Saint Laurent's style, which features slim garments with thin lines. Giorgio Armani created a remarkable design featuring rounded-shoulders to expand the lines of the body, together with non-structural sportswear and loose leisure pants, bringing the style of leisure and nature to the fashion industry. These improved garments with broad shoulders were popular among the professional women in the 1980s, which is the so-called decade of Giorgio Armani. In the 1990s, the design of this brand became even more mature and has accomplished even more since then. Vanity is no longer the trend and even high-end evening gowns have come to express the beauty of introversion. Rather than inspiring fairy-tale dreams in people, Giorgio Armani's fashions pursue the recognition and realization of personal values. Its products motivate women's confidence and remind them of their importance. Its unique belief is that the women's clothes should not pay too much attention to the lines and angles. The most important aspect is the soft and slim lines. Elegant and simple fabric can be adopted but should be tailored exquisitely. It is widely agreed that the simple dresses demonstrate people's characteristics and tastes to the maximum, without any unnecessary decoration. Clothes designed by Giorgio Armani can produce different results by different combinations, without any fixed modes. It is a flexible creative mode that supports innovation and leads the fashion industry.

Jewelry is meant to be a luxury with its unique combination of culture, precious material, and fine art, showing status and wealth. Using the story of Cartier as an example, this paper discusses the market monopoly position of the luxury jewelry brands and their advertisement strategies.

Brand Recognition: For the jewelry industry, brand recognition takes a dominant place, since it is not only the simplest way to express the industry's marketing information to the consumer but also the symbol of its monopoly position. By wearing jewelry, people feel that the information of special attraction and value can be expressed. Thus, the jewelry products contain more meaning than the common goods in the shop. They carry their brand name, position, characteristics, and image,

which create a complex combination. Cartier has used the English in italics, with its simple and elegant letters to show its pursuit of perfection. Using the family name as the logo also shows their determination to be responsible and outstanding. The red color in the background expresses their graceful dream and the double C is actually the reverse of the surname, suggesting a romantic story of two lovers who rely on each other and spend their glorious days hand in hand.



Cartier



Cartier's Double "C"

Advertisement Strategies: In an earlier period, most advertisements of the world's top jewelry got the royal and noble families, and the stars involved. The belief was that when they wear jewelry, they also convey the information that the jewelers want to promote to the public. The jewelers prefer celebrities to advertise their products, since famous people are in a better position to do the promotion. Thus, the advertisement strategy, then, was to try to transfer the consumers' admiration of the celebrities to the products. Cartier, the world's most admired brand, plays a leading role on the worldwide stage, showing its unique attraction. In 1938, when Queen Elizabeth wore the smallest bracelet designed by Cartier in public, Cartier gained its fame overnight, all over the world. Since the noble and royal families are out of reach for the public, Cartier makes full use of it by enhancing the interaction with the royal and noble families. Consequently, it has pushed its business to the luxurious class and won the reputation as the emperor of jewelry, laying down a solid foundation for its position in the luxury industry. For nearly a century, Cartier has kept a tight tie with all kinds of stars. Gloria Swanson, the famous actress, has worn the platinum and crystal Cartier bracelets in many of her films, ranging from *Perfect Understanding* to *Sunset Boulevard*.

High-end watches are a major luxury item and their prices range from tens of thousands to millions of dollars. These watches are extremely attractive to the wealthy and to the collectors. The top brands of luxury watches belong to several large companies. Among them, Vendome,

LVMH, Swatch, and Rolex produce 90% of the worldwide luxury watches. These four companies maintain their market shares and recognition of the consumers by utilizing their major brands to manipulate mergers and acquisitions. Resources of this industry have also been accumulated by these four companies. In this section of the paper, the Swiss brand Patek Philippe has been used as an example to discuss how to keep monopolizing the market through product differentiation and brand marketing.

Product Differentiation Strategy: Patek Philippe believes that nobody can actually possess its products, and that people can only keep them for their offspring. The preciousness of Patek Philippe lies in not only its accuracy, uniqueness, and nobleness, but it is also coveted for durability, stableness, and persistency. Its value is persistent and cannot be weighed against simple monetary standards. Consumers pursue different aspects of watches, which include style, comfort, and sense of fashion. Some consumers expect uniqueness. Every watch in the history of Patek Philippe is a masterpiece. The most famous products of this brand are the Nautilus and Aquanaut series.

The most unique aspect of Nautilus is the structure of the case. The case and the bottom cover have been integrated. Thus, to maintain the mechanical movement, one has to first open the screws on both the sides and, then, open the upper cover to dispatch the movement and the dial. There are waterproof rubber rings on the upper dial and the bottom case which protect the dial from water. Another big surprise of Nautilus is the 5980/1A chronograph. It makes a great combination with the Nautilus, adding grace and vigor. This watch is armed with an advanced 28-250C column wheel. Its central chronograph can function persistently as the grand second in addition to the feature of automatic return. The unique design also consists of the combination of minute and second graphs illustrated by a concentric dial.

The Aquanaut Luce watches feature cases made from stainless steel, which is rare in the other Patek Philippe watches, demonstrating the spirit of sport. It can function 120 meters under water. It features a screw-in waterproof crown. Traditional concepts are adopted in designing the dials and the watch bands, making these watches the representatives of Patek Philippe for the noble and graceful women. All these aspects demonstrate the differentiation of the brand. The uniqueness of this brand contributes to the market share of Patek Philippe.

Brand Marketing Strategy: There is but one principle of this brand: being perfect. The practice of limiting the quantity of the product has been followed. In its history of more than 180 years, Patek Philippe has

produced a very small number of watches, and they are only available with the top sellers. It takes at least five years to design and produce a watch, including four years of research, nine months of production, and three months of assembling and quality control. Tailor-made watches take even longer to develop. The perfect brand is exactly the image that Patek Philippe pursues. On the long way to perfection, the sense of beauty can be found everywhere.

Luxury Consumption in China

According to the primary statistics of the China Brands Planning Committee, there are currently 178 million potential consumers of luxury products, forming approximately 13% of the total population. Among them, about 13 to 15 million are active consumers of the luxuries. Behind the enormous and growing need for luxury are the rapid accumulation of wealth and the increase of wealthy people. According to the statistics published by Hurun annual wealth report, the number of billionaires will continue to increase.

In terms of the ages of the luxury consumers, the consumers in China are relatively young. According to Bain's report, in China, the luxury consumers under the age 45 form 73% of the total, while the percentage in the USA is only a little larger than 50%. In China, the luxury consumers under the age 35 make up 45% of the total, while in Western Europe they only form 28%. According to the statistics of the World Luxury Association, on average, the consumers in China are 15 years younger than their counterparts in Europe, and 25 years younger than those in the USA. During 2009-2013, the minimum age of the major luxury consumers fell from age 35 to age 25 on average. It is self-evident that young luxury consumers are the mainstream in China.

Chinese consumers pay special attention to the brand, the country of origin, and to the companies which produce luxury items. According to Bain Company, the top five brands, which are Louis Vuitton, Chanel, Gucci, Prada, and Armani, occupy nearly half of the market. In China, the foreign brands prevail in the market. When it comes to luxuries, the foreign brands are always the only ones that come to the consumers' minds. Domestic brands, even the foreign brands that are made in China, are not considered much valuable by the consumers. This is related to several factors, including the consumers' concept, culture, successful management of the foreign brands, and their aggressive expansion in China.

The consumers in China are still in the primary phase of luxury consumption. In this phase, cosmetics, jewelry, perfumes, and garments are major parts of the luxury consumption. But in the Western countries, where the consumers are in an advanced phase of consumption, they focus on broader luxuries, including houses, automobiles, tourism, and also individual consumption such as china and cuisine. However, with the increasing communication between China and the West, more and more types of luxuries will enter the Chinese market. In the recent years, for example, hi-tech products, yachts, and clubs have been introduced to the Chinese consumers.

Despite the great amount of annual luxury consumption by the Chinese consumers, many of them are reluctant to consume in Mainland China. Because of high tariffs, many Chinese consumers tend to purchase the luxury products from outside Mainland China, especially in Hong Kong. According to the statistics, 56% of the consumption made by the Chinese consumers is not in Mainland China. Reports from the French Tourism Office show that the Chinese tourists in France consume much more, on average, than their counterparts in the West. They also spend about 11.6 billion dollars on luxuries abroad. It is estimated that in 2020, the population of the overseas tourists from China will be 100 million, and the luxury consumption by the Chinese people will make up for more than 44% of the total consumption. The reasons why the Chinese consumers prefer consuming overseas are twofold: one, many luxuries are sold only overseas; two, their behaviors are affected by factors including tariff, price discrimination, and country of origin.

Together with the development of the economy in China and the increase of incomes, the middle class has arisen and has gradually occupied a position to control the trend of consumption. Thus, an increasing numbers of consumers are pursuing luxury brands. However, Chinese luxury brands are hardly found. It can, therefore, be questioned why China does not have its own luxury brands and whether China needs its own luxury brands or not. Bernard Arnolt, President of LVMH France, believes that it is not possible for China to have its own worldwide-honored luxury brands. Regardless of the accuracy of this statement, the current situation concerning the development of the Chinese domestic luxury brands is worrying.

As stated above, the culture of brands can be critical to the luxury brands. The meaning of luxury brands is not completely about striving for excellence, but it also lies in giving historical and cultural treasure to the brand. The history of the brands and the era they belong to often relate to each other closely. The history of the brand marks the feature of the

relevant historical era. Thus, developing a perfect luxury brand requires the combination of both fashion and cultural aspects of the brands. China has a civilization that has lasted for a long time, but the establishment of Chinese luxury brands is nevertheless difficult. For example, Chinese spirits, which contain thousands of years of cultural wealth, carry forward the traditional history and culture, as well as the national customs. However, compared with the international brands such as Remy Martin and Martell, the brands associated with the Chinese spirits are still less developed. The main reason is the lack of understanding of the historical and cultural values, and the fashion values, and failing to combine these two aspects. The brands with Chinese spirits do have deep historical perception, but they lack the fashion aspects. Obviously, the exploration of combining the long-lasting historical and cultural aspects with fashion is yet to be done in developing the resources of the brands. That is the critical obstacle in the development of the Chinese luxury brands.

Table 1: China's Consumption Status 2013 (Source: Bain Capital)

Product category	Sales (RMB)	Increased
bags	160	5%
shoes	70	8%
men's clothes	12	-1%
lady's clothes	60	10%
cosmetics	320	10%
jewelry	80	5%
watches	27	-11%
accessory	80	8%
Total	1,160	2%

The increasingly younger consumer groups in China generally have an inappropriate attitude towards luxuries. They believe only the products originating from the West can be called luxuries, and they often feel doubtful about the domestic brands. The traditional concept of blindly believing the products from the foreign countries also affects these

consumers, leading to their ignorance of the domestic brands. They tend to trust the foreign luxuries. Thus, in this matter, the consumers' purchases are influenced by their behaviors, preferences, and concepts. Karl Marx has said that every product has its value and value-in-use. For luxuries, the former is more important than the latter. People will buy luxuries regardless of their actual value-in-use, as long as they symbolize the wealth or dignity of the consumers. In terms of this, more Chinese people trust the foreign brands. For example, wealthy people would rather spend more than 800 thousand yuan on a Lexus or more than 900 thousand yuan on an Audi A8 when they can spend much less on a Chinese brand. In fact, to some degree, the behaviors of the consumers hinder the development of the Chinese domestic luxury brands.

Many foreign universities have majors in luxury management, but there are hardly any in the Chinese universities. The population of the consumers is much larger than that of the managers in the field of luxuries. As a result, the traditional Chinese luxuries, including antiques, calligraphy and painting, and jade and jewelry have difficulty in finding opportunities in the international markets. This situation can partly be due to the economy, but the main reason is the lack of experienced management of the luxury brands in the enterprises. The weak consciousness of brand marketing and the limited levels of brand management result in the slow development of the domestic luxuries such as high-end tea, spirits, and furniture, which barely attract attention from the international market. These factors should be considered to establish and develop the domestic luxury brands, which will be beneficial for all.

Suggestions for Chinese Luxury Brands

It is probably a dream shared by many Chinese domestic enterprises to build famous luxury brands worldwide. In order to achieve that, we need to fully understand the features of marketing luxury as well as analyze what stands in the way of the development of this industry. Generally speaking, luxury marketing possesses the two features discussed below:

Targeting Wealthy People: According to Maslow's *Hierarchy of Needs Theory*, the need of self-actualization comes after the physiological, safety, love and belongingness, and self-esteem needs. The satisfaction brought by luxury is without doubt within the scope of the need of self-actualization. Apart from that, in terms of advanced mathematics, all objects generally follow the law of normal distribution. Those who consume luxury are elites of the society. A majority of them have advanced financial capacity and social status. Therefore, their preferences

need careful understanding and their attitudes towards luxury require serious consideration by the enterprises, in order to develop suitable products to satisfy their needs.

Making Selective Media Choices: Advertisements of the luxury goods barely appear in daily TV commercials. Instead, they tend to find their place in the fashion and aviation magazines. These advertisements are published in the magazines for airports and aircrafts. It is simple to explain. People who travel by air more often are generally better off, and the luxury commercials make sense to them. Also, the wealthy people never stop pursuing fashion and like to read fashion magazines in their leisure time. Thus, it makes perfect sense for the luxury commercials to be published in the high-end fashion magazines.

So how should the domestic enterprises establish luxury brands?

As stated above, brand culture is an indispensable part of the established brands. Culture, value, and uniqueness are the long-lasting features of a brand. The oriental cultures featuring exquisiteness and implicitness have now been distributed globally, as China has become internationalized. It is essential for the enterprises to utilize the historical and cultural values, and to combine the luxury brands with the Chinese traditional culture to establish a powerful brand culture, and also to express persuasion for beauty, fashion, and culture. Take the fashion in Shanghai as an example. The designs of the core products combine Western tailoring with Chinese Ruyi Button and the design of qipao to express the mixture and balance of the Western and Eastern culture. In this way, the needs of the local consumers can be satisfied and the worldwide fashion concept can also be introduced.

Uniqueness, or differentiation, is a major characteristic of luxuries. Traditional Chinese luxuries have been developed in various fields, including silk, alcohol, and china. These luxuries are developed with the traditional Chinese culture. This cultural value is exactly where the essence of developing the Chinese luxuries lies and also where comparative advantages lie. Currently, the luxury market has been occupied largely by fashion clothing, watches, wine, and automobiles. In this market, the space for development of the Chinese luxury brands is small. Thus, investment in this market may face fierce competition and low output. Focusing on the advantage of Chinese luxuries should be the mainstream of the future. That is to say, the enterprises should explore new markets rather than blindly compete in the current highly-competitive market in terms of the development, promotion, and innovation of brands. For example, in the alcohol market, Chinese brands including Maotai, Wuliangye, and Guojiao 1573 have opportunities to compete in the

international luxury market. Professor N. Zhou from the University of International Business and Economics once said, "Our goal is that one day, consumers worldwide would say that drinking Maotai is as luxurious as drinking XO." It is more than just a dream if the industry works on it.

The industry of luxuries is based on the high quality of the products. Production is the most basic pre-condition for developing luxury brands. Almost all founding fathers of successful luxury brands devote themselves to improving the qualities using the most developed production skills to produce luxuries with high qualities. Pierre Cardin, master of the luxury brand, once said, "For me, luxury means innovation; high-end products mean uniqueness, which requires creativity of the producers and designers of luxuries." People do change, thus their preferences may also change. In the current world, innovation is something that is worth a serious consideration of every enterprise. In fact, innovation is the source of competitiveness of not only the luxury industry but also the other industries. Both the ordinary products and luxuries share the same feature that only new products attract people. Creative products can speak for themselves to communicate with the consumers. In this way, the consumers can appreciate, think about, and eventually value the product.

Luxury brands in China are much less developed than their counterparts in the West. To minimize the gap, it is necessary to bring in international resources. As pioneers of the market, many well-known Western luxury enterprises are well experienced in brand development and marketing management. Thus, bringing in foreign investment to introduce their advanced management philosophy and methods through win-win cooperation, can be beneficial to improve the current situation of the domestic enterprises. It can also accelerate the development of the enterprises and increase the popularity of the brands in the domestic market. In this way, the international perspective in marketing can also be introduced to motivate the internationalization of the domestic brands. Apart from that, the top talents in designing are also required by the successful luxury brands to satisfy the needs of the target consumers in terms of functions, qualities, concept, and aesthetic perception; the top talents in brand management are also required to manipulate the systematic plans of brand management in order to achieve effective supervision of production, and accurate and efficient marketing. Therefore, recruiting experienced international talents in brand management and designing can accelerate the development of the domestic luxury brands in China.

Conclusion

The industry of luxuries is a highly monopolized industry. The owners of the luxury brands have adopted many unique strategies for the development of luxuries with just one intention: to establish the monopoly of the market. These owners of brands have ensured the monopoly of novel brands and symbols; they have built the monopoly by their unique brand culture; they have maintained their monopolies by establishing special advantages for their brands; they have occupied the market by differential strategies; and they have locked the target markets by exquisite advertisement strategies. The consumption of luxuries in China, as an emerging country, is now expanding rapidly. It is expected that there will be more domestic luxury brands originating from China in the near future.

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MICROBLOG MARKETING: ADVANTAGES AND DISADVANTAGES

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The microblog has gained increasing attention from the enterprises as a result of its rapid development. However, as a relatively new thing, little research has been done in this field. This paper analyzes the characteristics of microblog marketing and focuses on its most influential elements, such as the operational costs, the instant interactivity, the communication ability, the amount of information transferred, the information reliability, the users' media literacy, the number of followers, and the systems used to evaluate the effects of marketing. In conclusion, the paper makes several proposals on how to enhance the marketing effects.

Introduction

As a 140-character mini blog, a microblog is a user-based platform for sharing, disseminating, and obtaining information. It features both digital and media attributes, especially instantaneity, mobility, and transmissibility. Twitter, the world's first microblog, was created in 2006, and the number of its users soared to 517 million by July 2012, just after a few years of its development (Jiao 2012). The success and popularity of Twitter have led to a boom in microblogging websites worldwide. China's first microblog website, Fanfou.com, was launched in 2007 and, in 2009, Sina Weibo conducted a beta test and launched the microblog as a brand new communication platform for the public.

Since its creation, microblogging has gained favors of several marketing enterprises — thanks to its excellent social media functions in terms of interacting, sharing, selecting, assembling, and magnifying (Jin, Wang, and Chen 2011). The sea of information, which by now has become

fragmented along the rapid development of the Internet, is pulling the users' time and attention, and the enterprise marketing management has become more sophisticated. Traditional media, such as the newspapers, broadcasting, and television, is facing unprecedented challenges due to its poor performance in selecting, interacting, and retaining information. As a result, today, the enterprises turn to online marketing as their major battlefield and, there, the microblog marketing plays a significant role (Tang 2012).

The rapid development of the microblog provided infinite possibilities and a broad platform for the innovation of enterprise marketing. In an age when the marketing competition turns ruthless, no enterprise can ignore the potential impact of this new marketing model for its constant profit growth. As an innovation of traditional marketing, the microblog marketing is crucial for the enterprises that are building brand image, developing promotion, and selling products online. However, there has been little research in this field, as the microblog has come into existence only recently. Therefore, this paper attempts to address the issue by analyzing the characteristics of microblog marketing, and exploring the advantageous and disadvantageous factors in terms of the marketing effects. The analysis will offer a new understanding of the method and will provide theoretical support for microblog marketing.

The Advantageous Features of Microblog Marketing

Low-cost Marketing Channel

Microblogging allows any enterprise to release new information, its product details, and industry news, anytime and anywhere as long as it has registered its microblog account. Unlike any previous traditional medium, the microblog marketing has greatly lowered the threshold for content production and information release. In addition, the process does not take a lot of time, and it is easy to operate.

Even though the microblogs spread fast and reach a broad audience, they do not involve a high cost of maintenance. A well-known example is the Xiaomi mobile phone, in the success of which the microblog marketing has obviously played an important role. In this case, the potential consumers expressed their ideas about the phones on forums and microblogs, and Xiaomi Mobile Phone R&D and management quickly responded — the problems were delivered immediately to the decision-makers

and the product risks were addressed. Moreover, Xiaomi's fans, who had gathered through the Internet, became its loyal users, and these core users developed into opinion leaders who, by word of mouth, promoted Xiaomi's mobile phones. In fact, as confirmed by Li Wanqiang, Vice President of Xiaomi mobile phone, their marketing strategy does not spend any money on the traditional advertisements.

Instantaneity and Interactivity

As a real-time information exchange platform, the microblog boasts rapid information flow and to a broader audience. A click on the mouse enables the microblog to be read and updated in real time. A frequently updated enterprise microblog might function as a mini home page through which the enterprises can quickly grasp the attention of the potential consumers and interact with them on a regular basis to broaden their business networks, and build their brands. That is the basic form of microblog marketing (Gao, 2012). Currently, some famous brands give prominence to the constant updating of professional microblogs to maintain constant attention.

Meanwhile, by using tools such as 'Comment' and 'Repost', the microblog marketing provides the audience different levels of interaction. The real-time communication — anytime, anywhere — makes the interaction and exchange possible even with the more remote audiences, which to some extent may have an impact on the way things develop. For instance, both Barack Obama and Hillary Clinton used microblogs when running for the presidential nomination. The Obama team had designated officers to closely watch the account and interact with the followers, who believed that they were communicating with Mr. Obama himself. In the case of Clinton, she used the microblog platform only as a tool for releasing information. The different attitudes yielded different results. In the end, Obama had 25 times more followers than Hillary Clinton and, eventually, he won the presidency.

Hence, it is clearly observed that the enterprises can gain meaningful advantages by using this platform as a channel for delivering updated information and, at the same time, establish more personal ties with the consumers, thanks to the fast communication and feedback possibilities. Besides, they can also provide real-time quality service to the consumers and focus on their specific demands.

Extraordinary Communication ability

With the rising popularity of the smart mobile phones, the microblogs are not limited to personal computers anymore. Microblog readers can use the mobile phones to release, accept, retweet, and comment on the microblogs, anytime and anywhere, which increases significantly the value of microblog marketing (Li 2011). As some scholars have pointed out, when you have over 100 followers, you are an internal journal; when you have over 1000 followers, you are a bulletin board; when you have over 10,000 followers, you are a magazine; when you have over 100,000 followers, you are a metropolitan newspaper; when you have over 1 million followers, you are a national newspaper; when you have over 10 million followers, you are a TV station; and when you have 100 million followers, you are a CCTV (Yu 2013).

The microblog is like a form of mass media for public information, and every user is able to circulate information to a large audience. As a result, the microblog information might explode in a short time and construct high marketing values.

Problems in the Microblog Marketing

On the one hand, thanks to the technological development and the emergence of the social media marketing tool, the enterprises have emphasized the constantly growing importance of microblog marketing. However, on the other hand, the microblog marketing is facing many problems that need to be solved.

The Vast Amount of Information Affects the Marketing Effects

The amount of information anyone can access and absorb in a certain period of time and space is basically the same. However, as the information technology is developing rapidly, people are drowning in an astronomical amount of information. The microblog has no boundary for the amount of information released, and it provides instant interaction with the audience. For example, Sina Weibo reported 863,408 posts in the very first minute of the 2014 Spring Festival (Zhao 2012). In other words, the information that the enterprises release via the microblogs might be easily lost in the vast ocean of information, and the marketing campaigns could fail.

The Credibility of Microblog Marketing

The speed and ways in which microblog information spreads are constantly changing. So far, there has not been any effective method to control these issues. Even a trivial microblog may spread extensively beyond proportions in just one minute. Due to the low cost and fast communication capability of the microblogs, some enterprises use them for a variety of things, such as product promotions, announcements of lucky draws, attractive proposals, and prize-giving sales. However, it is known by now that some consumers find themselves cheated by well-designed frauds that can, understandably, lead to an extreme distrust or even abhorrence of microblog marketing. If such misdeeds are not eliminated and punished, the microblog marketing will pay a high price for its lack of credibility.

Users' Lack of Media Literacy

In the traditional media, the common people are the passive recipients of information, while the process of producing and disseminating information is conducted by the professional media experts. The microblog has changed the traditional pattern, and anyone can be a newsmaker, communicator, and recipient at the same time.

This new information dissemination pattern calls for adequate media literacy. However, the users' levels of media literacy vary. As a result, some may release false information, either consciously or unconsciously, which can lead to confusion among the information recipients and can interrupt the healthy development of the microblogs. It is also disadvantageous for the enterprises to promote the corporate culture or improve the product promotion via microblog marketing. For instance, a telecommunication apparatus company in Beijing published a microblog which said: "For Xiaomi mobile phone, the price is as good as that of Samsung; but its UI (operating interface) copies Apple, and its quality is worse than Shanzhai, and there is hardly any after-sale service." This post was accused of causing harm to the competitors' reputation, and the company was fined 150,000 yuan as punishment. The result may not seem as harsh as one may expect, but the company was punished for the false information it had transmitted.

However, in general, there are very few laws and regulations on microblogging supervision. The government should supervise microblogging

with respect to two aspects: the first, establish an effective information filtering mechanism to prevent the release of false information from the source; and, the second, accelerate the constitution of laws and regulations. The supervisors in charge should oversee and guide the information release. Only when proper measures are taken can the healthy development of microblog marketing be guaranteed and established to the greatest extent.

Over-emphasis on the Number of Followers

The followers play an important role in microblog marketing due to the basic functions such as following, commenting, and reposting, that the microblog supports. The more followers a microblog account has, the more likely it is to have the posts reposted and, thus, attract more followers. This way, the posts may spread more widely and reach more potential consumers. In this sense, the number of followers does represent the consumers' attention and loyalty. Therefore, the enterprises make all the efforts to attract more followers.

However, with the development of microblog marketing, some new phenomena like mutual following, follower buying, fake followers, and zombie followers have appeared. They are most likely to cause trouble. First, the enterprise cannot understand the consumers' real needs and experience due to the existence of fake followers and zombie followers. Second, it ruins the public credibility of the microblog.

Hence, the number of followers on an enterprise microblogging platform does not serve as a basis for judging the influence of the enterprise. Instead, it provides misleading information regarding the consumers' judgment and analysis of brands. For example, a certain enterprise microblog, that was reported to have 13.5 million retweets within a day, apparently had only 2100 comments. According to technological analysis, it turned out to have 9000 retweets only. Therefore, it makes no sense to judge the enterprise's influence by the number of followers on its microblog.

Lack of Evaluation System

The traditional marketing has established a perfect quantitative evaluation system along its long development. But microblog marketing has just kicked off and, hence, does not have a mature evaluation system for assessing the marketing effects. Currently, the microblog marketing is

mainly measured by simple statistics such as page views, which is obviously not persuasive enough. In addition, the existence of fake followers and zombie followers disturbs the possible evaluation of the enterprise microblog marketing effects. Scholars and institutions in the world have made progress in building models with basic statistics from Twitter to evaluate the marketing effects (Jansen, Zhang, Sobel et al. 2013). It is imperative that the Chinese government, the institutions, the colleges, and the research institutions too strengthen research on microblog marketing in order to establish an adequate evaluation system and to guide its sustainable development.

Conclusion

There is no doubt that the microblog has been developing very fast since its debut in 2006, and it attracts numerous enterprises that try to apply it to their marketing projects. The microblog marketing plays an important role in enterprise marketing, thanks to its low operating cost, real-time interactivity, and communication capacity. However, it also faces challenges in terms of its enormous amount of information and the credibility of this information, the users' lack of media literacy, an over-emphasis on the number of followers, and an imperfect evaluation system. It is recommended that the government strengthens its supervision of the release of information from both technological and legal aspects, and explores an adequate evaluation system for assessing the marketing effects.

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