

By John A. Quelch and Katherine E. Jocz
Harvard Business School

CAN CHINA MANAGE ITS IMAGE?

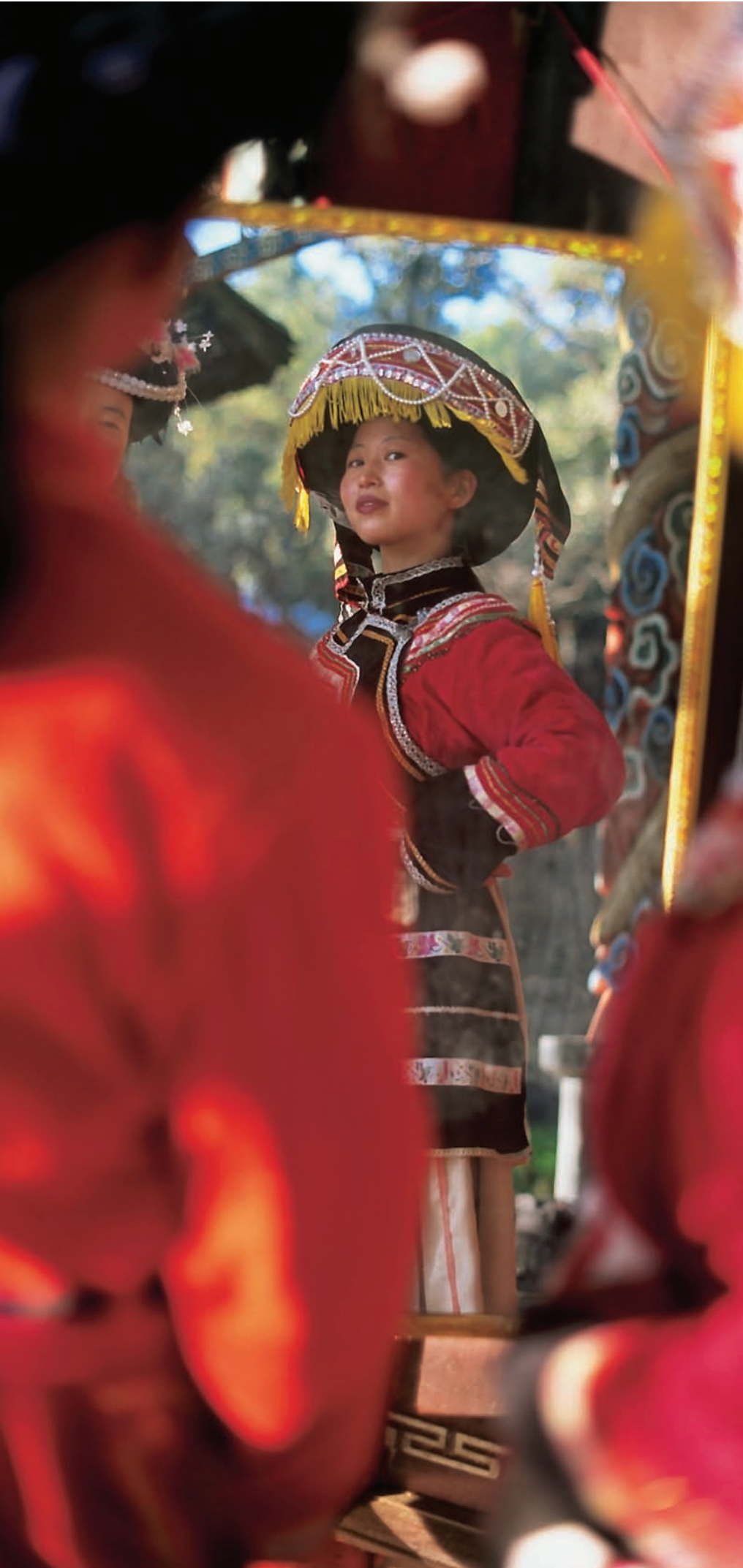
Projecting a favourable national image overseas has aided China's impressive economic growth. It has also reduced public pressure in the West to retaliate against China on trade imbalances or to call for political, environmental, or human rights reforms. But high awareness of 'Brand China' has a downside as well as an upside. Product recalls threaten to tarnish all Chinese manufactures. The 2008 Olympics have turned the world's attention to China's achievements but also to its shortcomings.

AN IMAGE IN TRANSITION

For two decades, Chinese political leaders have counted on both rapid economic growth and tacit assent from other nations to bolster social and political stability. Beijing is now closely managing its international reputation with a branding strategy that stresses China's benefits as a global economic partner, soft pedals political and military power on the world stage, and deflects attention from its citizens' human and political rights. Conveniently for the Communist Party, the Western expectation that economic growth leads inevitably to greater political freedom dampens public expressions of concern from Western politicians and business leaders over China's failings.

China's effective position as 'factory to the world' is supported by solid execution. The global business community knows that Beijing has made sustained investments in infrastructure, taken steps to make state-owned businesses more competitive, and unleashed the pent-up desire of many Chinese to start their own businesses. In the past twenty years, Chinese manufacturers have developed a worldwide reputation for quickly making and shipping low-cost, reliable products.

Along with these positive associations, China's image has dramatically decoupled from significant negatives equated with the politics of Chairman Mao and the Communist Party, the Cultural Revolution and Tian'anmen Square. Recent leaders have disavowed a cult



THE NETWORK
OF LEADERS

CRITICALEYE

of personality and publicly supported anti-corruption and other reforms. In spite of the Party not wanting to loosen its political control, and local officials' seeming imperviousness to corruption reforms, Beijing enjoys a more benign international image than twenty years ago.

China clearly aspires to be a significant global player economically, politically and, indeed, culturally. But Beijing has astutely chosen to maintain a low profile, with the possible exception of Taiwan, in foreign relations. It has been in little hurry, for instance, to brag about the enormous positive balance of trade or to move foreign currency holdings out of U.S. Treasury funds.

However, with its increasing clout, China cannot help but command growing attention. It can rely on other global powers' desire for stability within the world's most populous nation – and their increasing dependence upon China to sustain inflows of cheap consumer goods – as a buffer against pressures to liberalise and reform political and business practices. Even so, China can hardly afford not to manage its image. For one thing, the country now has more to lose economically. And Beijing knows that if it wishes to wield increasing political and economic leverage, it must meet or appear to meet the expectations of better behaviour set by institutions such as the United Nations, the World Trade Organisation, and the Organisation for Economic Co-operation and Development.

Also, a series of recent setbacks threaten China's improving image. Widely publicised safety issues involving food, children's toys, and other consumer exports tar Chinese products with the brush of poor quality. The country faces renewed criticism about aggressive trade practices, human rights violations, and environmental pollution. Indeed, concerns over the Chinese government's role in Tibet and Sudan threatened to spoil the Olympics as China's coming out party. Frequent reports of sweatshops, counterfeiting, theft of intellectual property and industrial espionage are deterrents to doing business in China. The effect is that China looks like a country that loves world markets but does not play by the world's rules.

China clearly aspires to be a significant global player and can hardly afford not to manage its image.

WHAT CAN CHINA DO?

China's image makeover is only twenty years old. There simply is not enough pre-existing brand equity among overseas investors and businesspeople, consumers and tourists, politicians and public officials to inoculate Brand China against a flood of negative publicity.

Beijing must refresh and shore up China's image on multiple dimensions. Necessary steps include bolstering its positioning as pre-eminent manufacturer and trusted trading partner and advancing its status as a responsible emerging superpower. Not least as shown by the opening ceremony, Beijing is using the Olympics to showcase the modernisation of China. Intentionally or not, political exhortations directed at Chinese citizens also rub off onto external perceptions.

MADE IN CHINA

It does not matter that overseas consumers' fears about the safety of Chinese-produced products may be overblown relative to the quantity of products China manufactures and exports. These consumers need convincing reasons – other than the absence of non-Chinese alternatives – to continue buying Chinese-made products. Nor does it matter that private companies bear the lion's share of responsibility. It is largely up to the central government to earn back consumers' trust.

After initial denials from low-level officials failed to quell the tide of concern, the Chinese government finally recognised the damage posed by the string of product defects to the 'Made in China' label. In response, it cracked down on violators – closing factories, prohibiting exports from certain suppliers, arresting business owners and managers, and punishing government officials. Although executing the top commissioner of the food

and drug administration did not help China's human rights image, it sent a strong signal to Chinese officials and manufacturers to comply with existing laws.

The tough part will be ongoing compliance. Without far-reaching changes, including inspection and enforcement of production standards beyond the capital, the reforms will be insufficient to prevent future recurrences of quality problems. De facto administrative decentralisation is an immense barrier to progress; the central government lacks strong authority to oversee the safety of goods produced by private businesses or to require provincial and local governments to enforce regulations. Corrupt local officials will continue to conspire with business people to circumvent standards.

Furthermore, the government appears concerned primarily with the safety of products destined for Western markets. If it turns a blind eye to safety for cheaper products meant for the internal or emerging economies, defective products will continue to be made, and inevitably, seep into Western export markets, fanning further negative publicity.

Enforcement difficulties are exacerbated by complex supply and production chains involving multiple layers of subcontractors. This makes it difficult for Chinese regulators or exporters or multinational buyers to trace every step in the manufacturing process. Combine the difficulty of detection with unrelenting pressure to be the low-cost supplier and there are strong incentives to cut corners. Even generally trustworthy suppliers may deliver fluctuating product quality, depending on the performance of their subcontractors.

Thus, the central government in Beijing must enlist both multinationals and Chinese producers in a concerted and highly-

publicised drive to tighten and enforce manufacturing quality standards and health and safety laws nationwide. Policies encouraging multinationals to become more vertically integrated in China would facilitate stronger oversight and quality control. Such expansion of foreign ownership may be conceivable in 'non-strategic' industries such as toys and clothing; though not in automotive or machine tools. In turn, multinationals would have to trade off the flexibility of outsourcing production against ownership control.

Simultaneously, Beijing should encourage industry self-regulation. Government officials cannot possibly monitor all private-sector activity. In the West, respected industry associations help prevent problems from reaching the marketplace, and seals of approval increase the value of good reputation as a business asset. Likewise, informed consumers and consumer organisations within China should be encouraged to demand the same standards as their Western counterparts.

That said, as long as China competes as a low-cost supplier, it lacks strong leverage in the face of multinationals' unrelenting pressure for rock-bottom costs. Production will shift to wherever costs and oversight are lower. Ultimately, China must emulate Japan and Korea in its move to an economy based on invention rather than imitation.

A handful of cutting-edge Chinese brands, including Lenovo and Haier, already have a strong presence in global markets. The Ministry of Commerce has pushed other Chinese companies to follow their example. Soon, China will be exporting cars, a benchmark product that worldwide consumers use to assess national production quality. So if 'Made in China' is to carry a positive rather than negative connotation, the quality of those cars will have to approach that of Hyundais and Toyotas. In addition to cultivating home-grown brands, Chinese state-owned companies have demonstrated interest in moving up the brand-value chain by acquiring well-known Western brand names, which would provide access to global distribution networks and product development capabilities.

GENTLE GIANT

Publicly, China has consistently downplayed its aspirations for global power. The goal is to reassure nervous central bankers, government representatives, and citizens that it will flex its power gently. Beijing is mindful that unfavourable public perceptions or uncertainty about intentions can trigger the type of public outrage and resulting opposition from the U.S. Congress that forced a Chinese state-owned energy company to retreat from a bid to buy Unocal.

As Beijing adopts a more aggressive overseas investment strategy, how well it calibrates communications about its intent will be critical. The purchase by a Chinese state-owned investment company of \$3 billion worth of shares in a U.S. private equity firm raised hackles among American politicians and the investment community. To forestall U.S. retaliation, including increased pressure to revalue the Yuan, China has offered reassurances that it does not intend to disrupt the stability of financial markets and will largely act as a passive investor. But the investment community is calling for still greater transparency in investment goals.

Similarly, in dealing with Africa, Beijing accomplishes more by projecting a low-key image. In the past, foreign aid in the form of infrastructure projects financed with cheap loans and built by Chinese labour, in return for access to mineral resources, attracted charges of neo-colonialism. Chinese diplomats now emphasise that China is in Africa for straightforward business reasons. By downplaying political interests, China also hopes to sidestep the sort of sensitive entanglements they have with the Sudanese government.

Simultaneously, to achieve the not-so-long-term diplomatic goal of taking its place among leading nations, China requires public kudos for giving foreign aid. Recent promises to participate with the World Bank as a donor nation, in contrast to its previous status as recipient, symbolise an important shift.

OLYMPIC ASPIRATIONS

The Beijing Olympics have showcased a refurbished host city to the international business community, hundreds of thousands of tourists, and a global television and Internet audience of millions. Much as the 1992 Barcelona Olympics helped Spain unveil a new image as a modern, up-and-coming member of the European Union, the 2008 Beijing Olympics presented an opportunity to update popular perceptions of China.

China would gain most from the Olympics if it viewed them not solely as a Beijing-building event, but as an action-forcing occasion for national progress. It has been an opportunity to demonstrate that the country can satisfactorily cooperate with Western corporate sponsors (for example, rooting out counterfeits of official merchandise); to showcase Chinese brands unfamiliar to global consumers; and to present its citizens as people who have much in common with the rest of the world. Equally important is the opportunity to renew Chinese self-pride.

Construction of the world's largest air terminal, a bold stadium design, new hotels, roads, and rail lines reinforce the image of a country that knows how to build and manufacture. By holding a 'green' Olympics, China hopes to erase the widespread perceptions of a country that has sacrificed air quality and natural resources to rapid economic growth.

An energy-efficient Olympic Village and improved air quality during the Games aside, the issue is whether improvements will be more than temporary or cosmetic. International business executives and tourists will be impressed if they experience clean air on subsequent visits, but, in raising expectations, China runs the danger of harsher criticism in the future if promises are not met.

Persuading U.S. President George W. Bush to attend the Olympic opening ceremonies was a diplomatic coup. Bush's presence signals respect for China. It may even offset human rights activists' efforts to leverage the Olympics to force change in Chinese policies.

CHINESE TAKE-AWAYS FOR THE GLOBAL LEADER

- Don't delegate product safety and quality to third parties. Outsourced manufacturing in China requires even more stringent oversight than in-house production.
- Watch out for emerging Chinese competitors who are using the Olympics as a launch pad for new global brands.
- Just as Japanese products moved from cheap and low quality to excellent value and high quality, the 'Made in China' label will transition to signify high product quality.
- Most consumers buy based on perceptions of product value, independent of political issues. Don't overreact if you're a sponsor of the Olympic Games.

The recent slogan, ‘a harmonious society,’ serves to reinforce China’s international positioning as a peaceful and disciplined country.

THE ‘HARMONIOUS SOCIETY’

Chinese citizens have grown up under national campaigns promoting obedience, patriotism, and the Communist Party slogan of the moment. These communications also rub off onto external perceptions of the national image. The most recent slogan, ‘a harmonious society,’ although directed primarily at the Chinese themselves, serves to reinforce China’s international positioning as a peaceful and disciplined country with which to do business.

With its echoes of traditional Confucianist values, ‘harmony’ reminds outsiders of China’s distinguished history and culture. Moreover, Beijing’s drive to achieve harmony by reducing growing income inequalities and the increasing gap between rural and urban economies appeals to Western egalitarian instincts. At the same time, the ideal of harmony leaves scant room for internal dissent or multiparty democracy.

IMAGE AND REALITY

China’s branding strategy plays on economic positives and deflects attention from social and political negatives. To remain effective, however, the image makeover must be not only aspirational, but also grounded in reality. For this reason, Beijing is compelled to assure the safety and reliability of Chinese-made products. Olympic-related achievements such as improved air quality must not be a one-off.

Signalling that China intends to play by all the rules of the global free-market system fits the strategy for economic growth. On the other hand, China’s leaders should be forewarned that if they seek to appeal to Western nations by promising to be more democratic, they will be held to standards that they may prove unwilling to meet. No amount of image-polishing can gloss over an absence of genuine political reforms.

Greater personal liberties and the spread of technology will make it increasingly difficult for Chinese leadership to impose a unified vision of society. The government continues to exert strong control over social policies, but no longer has a stranglehold on every aspect of personal life.

And, increased visibility carries risks, as with Western activists linking the Olympics to

human rights and Darfur, and Tibetan monks igniting anti-government protests. Such negative associations may also temporarily taint multinational Olympic sponsors in the eyes of Western consumers. On the other side of the coin, nationalistic Chinese citizens have reacted to pro-Tibetan, anti-Chinese demonstrations during the Olympic torch relay in Paris by calling for boycotts against Carrefour and other French brands. Alarmed by the prospect of a series of tit-for-tat retaliations, both the Chinese and French governments have moved to smooth over tensions.

Critics may view China’s attempts to improve its image as whitewashing. However, the West should greet these efforts with encouragement rather than cynicism or disparagement. The more China invests in enhancing its national image, the more it has to lose from failing to live up to the image. In particular, as a business partner, its aspirations to develop a positive image raise the bar for expected performance and nudge the society toward greater openness.

Executives of multinational corporations should expect that, just as Japanese products moved from cheap and low quality to excellent value and high quality, the ‘Made in China’ label will transition to signify high product quality. The process is underway: watch out for emerging Chinese competitors using the Olympics as a launching pad for new global brands. Around the world, most consumers buy based on perceptions of product value, independent of political issues – one reason for sponsors of the Olympic Games not to overreact. Meanwhile, because product safety and quality are paramount, multinationals outsourcing production in China cannot afford to delegate responsibility to third parties. Outsourced manufacturing requires even more stringent oversight than in-house production.

© Criticaleye 2008

John A. Quelch

Senior Associate Dean and Lincoln Filene Professor of Business Administration
Harvard Business School

In addition to his role at Harvard Business School, John serves as a non-executive director of WPP Group PLC. His newest book is *Greater Good: How Good Marketing Makes for Better Democracy*. He blogs at www.quelchblog.com

Katherine E. Jocz

Research Associate
Harvard Business School

Prior to her role at Harvard, Katherine was Vice President, Research Operations at Marketing Science Institute. She is the co-author, with John Quelch, of *Greater Good: How Good Marketing Makes for Better Democracy*, Harvard Business Press, 2008.

Contact the authors through [My Criticaleye](http://MyCriticaleye.net).

For related content please visit www.criticaleye.net for the following titles:

- *The New China: Transforming a Business Society, Adapting to Good Governance*
- *How Western Multinationals Can Learn From Their Emerging Market Counterparts*
- *Taming the Dragon – Mastering China’s Growth Dynamics*