

Rising nationalism spurs Chinese consumers to go local

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Nationalism is on the rise in China. This wave of patriotism could endure and create new opportunities and revenue streams for an array of Chinese corporations ranging from those in the consumer sector, notably cosmetics makers, to industrial segment companies such as medical devices and construction equipment firms.

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Chinese consumers express patriotism with their wallets

With the recent rise of nationalism in China, many foreign brands operating in the world's second largest economy are now treading very carefully in their marketing campaigns and public communiqué, lest they touch a raw nerve with the increasing patriotic Chinese consumers and trigger misunderstandings and uproars.

Often making their voices heard with their wallets, Chinese consumers—numbering over a billion strong—could quickly turn against a foreign brand if they feel that China is being denigrated and subject to what they see as bigoted criticism from a foreign corporate entity or a sovereign state.

A case in point is the recent backlash faced by global brands over cotton produced in China's Xinjiang region. The products of companies such as H&M, Burberry, Nike and Adidas were promptly boycotted by many livid Chinese consumers and removed from Chinese e-commerce platforms after these companies expressed concerns about alleged forced labour and human rights abuses among Xinjiang's Uighur minority involved in the cotton industry.

Even celebrities in China—in a public display of patriotism and a show of solidarity with their fellow countrymen—got into the act. Boy band member Jackson Wang and actors Wang Yibo and Huang Xuan, in addition to many other famous influencers, severed ties and ended contracts with Adidas, Nike and H&M in support for cotton products from Xinjiang. For younger Chinese celebrities, many of whom are now ambassadors of local brands, representing foreign brands as a spokesperson may no longer seem as appealing as it once was because of rising nationalism.

As the saying goes, one's misfortune is another's gain. And that was the case for Chinese sportswear companies Li Ning and Anta Sports. Their share prices have surged after the Xinjiang cotton saga erupted in March 2021, with investors anticipating higher revenues for the local sportswear manufacturers after Nike and Adidas stumbled out of favour with Chinese consumers.

Without a doubt, there will be many more Chinese companies that will benefit from the strong nationalistic wave in China, where consumers are increasingly "going local" with their purchases. This patriotic psyche imbedded in the mindset of many Chinese consumers could be long lasting, in our view, spurring new opportunities for an array of homegrown companies, ranging from cosmetics producers to construction equipment manufacturers.

The turning point for Chinese nationalism

In the past, heightened nationalism in China tended to be fanned by fleeting regional events or country-specific incidents. These included the China-Japan dispute in 2012-2013, when the two nations wrangled over sovereign

rights to some uninhabited islands in the East China Sea, and the China-South Korea spat in late 2016 and 2017, when Seoul proceeded with the deployment of a US-made missile defence system despite adamant protests from Beijing, which insisted that the missile system's powerful radar could be used to spy on China.

During these two episodes involving China and its North Asian neighbours, boycotts against Japanese and South Korean goods and services by Chinese consumers only lasted momentarily and did not trigger large scale buying of homemade products.

Moreover, the Chinese government at the time seemed to be careful about not alienating foreign brands on concerns that these multinational companies (MNCs) might pull their operations and investments out of China, and as a result, negatively impact local employment. Back then, the Chinese government had often struggled to create enough jobs. But these days, with a vibrant domestic economy creating employment, the Chinese government appears less hesitant towards taking a tough stance with foreign companies.

The turning point for Chinese nationalism began in 2018, when the then-US president Donald Trump and his administration subjected China and its companies with widespread trade tariffs, sanctions and technology-product embargoes. These punitive measures were akin to coercion, bullying and unfair treatment by the US in the eyes of many Chinese.

Since 2018, Chinese consumers by and large have transformed themselves into a patriotic group, preferring to buy goods from Chinese companies. The trend has been aided by the significant improvement in the quality of Chinese products in recent years. The decisive handling of the COVID-19 pandemic by the Chinese authorities, which has thus far successfully stemmed the spread of the virus in the world's most populous nation, has also increased the sense of national pride among Chinese, spurring more to "go local" with their purchases.

This nationalistic spending pattern is not likely to be transient; instead, it will be enduring, in our view. We believe that nationalism in China will persist because it is no longer simply a government-directed movement but what can now be seen as a broad-based, citizen-led undertaking, with strong support across a whole spectrum of advocates including the local media, consumers, influencers and the general public, all of whom are showing signs of becoming increasingly patriotic.

Stronger loyalty being shown towards Chinese goods as quality improves

Historically, Chinese products did not enjoy strong loyalty from local consumers. This was because many Chinese perceived local goods to be of inferior quality. But with an influx of foreign capital, knowledge transfer from MNCs, an advancement in technology and higher emphasis on research and developments (R&D), the quality of products produced in China has improved tremendously in recent years. This has provided the opportunity for many Chinese manufacturers to showcase to potential customers that their products are just as good or even better than those produced by foreign brands.

Having learned from MNCs that have set up manufacturing bases in China, local Chinese manufacturers, which have also invested considerable funds in R&D, have become better at producing higher-quality goods while selling them at competitive prices.

Nonetheless, local brands were not the preferred choices of Chinese consumers, many of whom used to have a mindset that foreign brands were better. It was only recently that local consumers, amid the spike in nationalism, began turning their attention to goods produced by domestic manufacturers.

Realising that the quality of products manufactured by local companies is actually comparable to those of foreign brands, Chinese consumers in recent times have indeed gained more confidence in local brands. They have also shown more loyalty to local brands, which have been able to further finetune the quality of their products thanks to higher revenues and greater economies of scale. All in all, a virtuous cycle and a distinct transformation—spurred by rising nationalism and higher quality of local products—is taking place in China.

Chinese consumers embrace new brands and trends

Many up-and-coming brands in China did not have a market presence as recently as five years ago: they were either too small or did not even exist. For example, in the past the odds were stacked against many local cosmetics brands when they tried to compete against their more established foreign peers with their superior marketing efforts and greater brand presence. But times have changed and currently a significant number of Chinese cosmetics

companies have gained a considerable share of the domestic market by leveraging their deep knowledge of Chinese culture. To be sure, cosmetics are among the consumer sectors in China that have benefited most from the recent surge in nationalism.

Of late, many of the Chinese cosmetics companies are going big on the “natural feel and look” trend, incorporating the essence of Traditional Chinese Medicine (TCM) into their products and marketing campaigns, all of which seem to resonate with local consumers.

Over the years, the perception of TCM in the eyes of China’s younger generations has changed for the better and many are now embracing the 5,000-year-old traditional medical practice, which used to be labelled as old-fashioned. When Chinese nationalism began surging, marketers from Chinese cosmetics companies took full advantage of the trend by assimilating TCM into their marketing campaigns, while drumming up a sense of patriotism among users of their products. These marketing drives were very successful for the Chinese cosmetics producers, which managed to capture a huge portion of market share from their foreign rivals. Foreign cosmetics products used to command a price premium of 100-150% over locally made goods. However, while products made by Chinese cosmetics brands are still 30-40% cheaper relative to those of foreign labels, the premium gap is rapidly narrowing.

Elsewhere, foreign brands such as Colgate or Oral B are no longer premium toothpaste names in China. Instead, a local company called Yunan Baiyao, which uses TCM extracts in its products, has established itself as a leading toothpaste brand, which Chinese consumers are willing to pay a premium for.

Consumers are showing solidarity with local brands perceived to be unfairly treated

Another example of a local company whose products are well regarded and admired domestically is China’s telecommunications giant Huawei. The company has been banned by the Trump administration from doing business with any US corporate entity since May 2019, when Trump’s “America First” policies were in full swing. Back then, Washington accused Beijing of using Huawei’s telecom equipment for spying and stealing trade secrets from US tech firms, a claim that infuriated many Chinese.

Due to the ban, Huawei could not work and collaborate with big US technology firms such as Google, Qualcomm and Intel. As a result, new Huawei smartphones were barred from having any pre-installed Google-owned applications (apps).

In China, however, having such smartphones is not considered a setback as Google apps and services have traditionally been blocked in the country, and people have used local apps instead. That was partly the reason Huawei remained the leader in the Chinese smartphone market in the trying period of 2019 and 2020. During this period its market share exceeded 40% on average, according to data of industry analysis firm Counterpoint Research.

A surge in nationalism in China post 2018 also likely helped Huawei maintain its dominance in the Chinese smartphone market. Perceiving Huawei to be a victim of bullying by the Trump administration, many Chinese consumers over the past couple of years are seen to have continuously opted to buy Huawei smartphones as a show of solidarity with the telecom giant.

Opportunities beyond consumer goods

Galvanised by the ongoing wave of nationalism, consumers in the world’s most populous nation are taking patriotism to another level, shunning Western products en masse and buying home-made goods—not only consumer items but also industrial products.

For example, in the construction equipment sector, US firm Caterpillar Inc used to have a huge market share in China. Since 2018, however, Caterpillar’s market share in China has fallen to single digit levels, owing to rising demand for construction equipment and machinery produced by Chinese firms. We remain sanguine on the Chinese construction equipment sector amid the rising demand for locally produced machinery.

Likewise, the Chinese semiconductor-integrated circuit producers have experienced a business boom in recent years. China’s electronics and smartphone manufacturers, which could not get components from Western suppliers due to US-imposed sanctions, had to turn to local chip makers for parts. Listed Chinese chipmakers such as Hua

Hong Semiconductor and others, for instance, have seen their profits boom and stock prices surge over the past two years on robust demand for China-made chips.

The Chinese medical device sector is another area that we view favourably. It is one of the niche industries of China where the dominance of foreign companies is diminishing, in part due to rising nationalism and growing local demand for homemade medical equipment spurred by China's successful fight against the COVID-19 pandemic.

Industrial sectors aside, we remain positive on certain consumer subsectors, especially those that could profit from China's ongoing transformation of its distribution networks. Unlike in the past when consumer brands needed to be in the top 30 Chinese cities in order to have a meaningful presence, more and more innovative Chinese companies of today are using online platforms to reach out to end customers. Having an online distribution network, where engagement with consumers are paramount, favours the local Chinese companies, which have in-depth knowledge of Chinese culture and local consumption preferences. While some foreign companies in China have been fairly successful in their online sales campaigns, many still lag their local rivals in terms of online sales and market penetration.

To be sure, Chinese consumers still have a penchant for certain foreign goods, especially luxury items, for which global brands such as Louis Vuitton, Gucci and Chanel remain a dominant market presence. But in most other consumer subsectors in China, where both local and foreign brands are all currently facing intense competition, we believe that the tide is turning in favour of local companies amid rising nationalism. In addition, due to the premium that Chinese consumers have to pay for foreign products, many are now opting to buy local goods, which now offer comparable quality at a cheaper price.

To conclude, we believe that rising nationalism in China is an enduring trend that could take many Chinese companies to greater heights. Indeed, with cheering local crowds on their side and competing on familiar home turf, many Chinese companies are no longer underdogs against their foreign competitors.

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