AS CHINA GOES, SO GOES THE WORLD

How Chinese Consumers Are Transforming Everything

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5 ★ BRANDING CONSUMER CONSCIOUSNESS

Because the Chinese certainly have more money than they did twenty years ago, there is no shortage of people ready to instruct them on how to spend it, including the Chinese state itself. When David Ogilvy, dubbed the Father of Advertising, visited China in the early 1980s, he was struck by the near-absence of advertising. Print advertisements looked like specification sheets, containing little more than detailed, technical information about a product, and no evocative images. The few commercials on Chinese television mostly featured industrial products such as electric motors rather than consumer goods. The rare big billboard proclaimed the latest in Communist propaganda. Ogilvy noted that the most important advertising medium in China was radio, "the communal speaker system reaching 75% of the population" that would broadcast ads, one right after another, twice a day. There were fewer than seventy ad agencies in all of China, with a quarter of those producing advertisements for Chinese goods overseas.

Today it is a very different story. With market reforms came advertising, and suddenly in every corner of China a wide spectrum of bright colors has replaced the unofficial colors of Maoist state socialism, the navy blue of workers' clothing and green of soldiers' uniforms.

The transformation has been both dramatic and rapid. China's ad market has grown by 40 percent a year over the past two decades and may become the second largest in the world in 2010; some reports expect China to replace the United States as the world's largest ad market as soon as 2020. In 2008, bolstered by the Beijing Olympics, advertising spending in China grew to nearly $70 billion, still under half of what the United States spends but up 17 percent over 2007. China now has more than two thousand newspapers with a total circulation above a billion, the world's ten largest general-circulation magazines, and more than a thousand satellite, cable, and broadcast television channels and three hundred radio stations. Nearly all Chinese have access to TVs and the advertising that comes with it. As China shifts its economy to a heavy reliance on markets, it is forcing these media outlets, which once relied on state subsidies, to support themselves via advertising. The results of this policy shift are visible everywhere.

It began with outdoor advertising, now a billion-dollar industry, which was the only sector to allow foreign investment before China joined the World Trade Organization in 2001. Large media companies quickly stepped in and took over, including the world's largest outdoor advertising company, Clear Media, which now manages a network of twenty-seven thousand bus stop panels in China. Clear Media introduced international "best practices," such as the use of vivid color, celebrity endorsements, catchy slogans, the frequent rotation of advertisements, and other established eye-catching techniques. China may even outdo the ad-saturated United States in finding new public places to put advertising. In addition to all the usual places—buses, bus stops, along roads, on buildings—ads have also popped up on little TV screens in taxis and on the backs of airplane seats. Even elevators now sport flat-panel screens broadcasting ads. As one woman I interviewed exclaimed, "Ads are now ubiquitous! And sometimes they don't even appear as ads but as product placements in movies and TV series."

Advertising in China is now a huge industry, including more than eighty thousand ad companies that employ over a million people, making the industry a larger employer than its counterpart in the United States. A lot of energy and money is facilitating the introduction of global advertising techniques, all designed to make Chinese consumers think about brand-specific products and identify with brand-specific lifestyles. In 2004, one cosmetics brand alone, Oil of Olay, spent 4.7 billion yuan in advertising in China. Joining the WTO required China to open its advertising industry to foreign investors and to allow wholly owned foreign firms in by 2005, accelerating the introduction of the latest advertising practices and bringing with them a globally standardized visual culture. To compete, Chinese ad agencies embraced this standard as Chinese companies such as Haier, Huawei Technologies, Lenovo, and Li Ning sportswear spend billions of dollars on advertising to build their brands against those of foreign competitors.

The purpose of such advertising, of course, is not simply to provide information about available goods and services but to help create *brands*, the fundamental building blocks of modern consumer cultures, and thereby to shape the way people develop their individual and collective identities. As expressed by one thirtysomething professional woman in Beijing, "Brand names are social status and quality of life. For example, when I was in the United States, I didn't pay much attention to brand names. Here it's a culture. Look at me now; I'm equipped with nothing but brand names, say, Gucci, Fendi, Armani, Versace, and the like." Brands are symbolic embodiments of all the associations, real or imagined, connected with a product or service—such as thinking that driving an expensive Toyota Prius makes you an environmentalist. They incorporate not only information but expectations: "Coke adds life," they would have us believe, rather than, say, an increased chance of childhood obesity and diabetes. Branding, then, of which advertising is a key component, includes not only the creation, management, and delivery of a product or service but also the formation of expectations connected with it.

And the psychic and social power of brands cannot be denied. A year or so ago, I traveled to a number of remote areas of China that I had not visited for twenty years, curious to learn if the consumer culture so visible in China's cities had also reached its hinterlands. In a remote region of southwest China, I quizzed the man running the guesthouse about whether he had heard of McDonald's and french fries and whether he desired them. He found my questions ridiculous—thanks to television, everyone knew about McDonald's and french fries. Although he expressed little interest in the food himself, his daughter was another story. Not only had she heard of every brand for which I could remember the Chinese name, but the promise of Kentucky Fried Chicken had helped her father persuade her to relocate to the provincial capital, an eight-hour bus ride away, to attend a much better school. Years of being bombarded with ads about the wondrous food and lifestyle available at KFC made his bribe effective.

Brand China

In China, branding is more overtly an issue of economic nationalism than in the United States. Most Americans associate the work of branding with companies and the marketplace, not with government officials and the state. Americans think it is Apple's job to make the iPod brand a household name, not the U.S. government's. But in China, consumerism is not simply a product of "the free market," something that developed naturally once the Chinese state got out of the way. Rather, it is a consequence of ongoing policy decisions by China's leaders, most notably the decision to join the WTO. But another decision has been to encourage the rapid development of internationally competitive Chinese-based brands even while allowing multinational companies much greater access to Chinese consumers. As Chinese marketing expert Leng Zhenxing has argued, "Banknotes are just like votes. The more the foreign brands get, the less will be left for domestic products."

A useful measure of the shift from a few to a plethora of branded products in China is visible in trademark registrations. In 1980 the Chinese government received 20,000 trademark applications, a number that by 1993 had reached 132,000. By 2004, more than half of all the 2,240,000 registered trademarks had been registered since 2000, a quarter of them just that year. Although the number of foreign applications has also expanded dramatically during the Reform Era, from only 20 countries with 5,130 trademarks to 129 countries with more than 400,000 trademarks, more than 80 percent of those applications have been made by Chinese companies.

Most consumers outside China, despite being surrounded by goods made there, would probably find it difficult to name a famous Chinese brand. But if China has its way, this will soon change dramatically. It is hard to exaggerate China's current level of national anxiety over the competitiveness of Chinese brands. Its historical analog might be the urgency in the United States to win the space race after the Soviet Union launched Sputnik in 1957. Similarly, Chinese leaders believe they need to launch national brands or gain ownership of international ones before it's too late, and survival is seen as much too important to leave to "the market." Rather, building or buying brands is considered a matter of national economic security and, of course, of national pride—China wants its *own* international brands to reflect its commercial success and its status as a first-rate power.

The success of Chinese brands depends first of all on persuading Chinese consumers to buy them, which is no easy task. The country can no longer ensure consumer loyalty by protecting its markets, banning imports, limiting access to the foreign currency needed to buy imports, or levying tariffs so high that foreign goods become prohibitively expensive. Chinese brands also have to overcome an unreliable marketplace saturated with fakes. No wonder a 2005 survey of 1,200 students in Shanghai and Beijing found that all of their favorite brands were foreign, led by Nike, Sony, Adidas, and BMW. Chinese policy makers fear that if such trends continue, China will become permanently stuck at the low end of the brand chain, doing the hard manual labor and collecting low wages but owning precious little of a brand's "value added," the difference between the cost of making and the value added through marketing, distribution, and retail sales. Moreover, foreign owners of favored brands, such as Nike, could always decide to shift production from China to countries with even lower labor costs and weaker environmental protections. This provides the logic of China's economic development strategy of urging state and private companies to spend billions building brands.

Beginning in the 1980s, Chinese government officials, business leaders, and academics began to urge domestic companies to climb the value-added chain—from simply manufacturing products for multinationals to developing technology and managing and owning globally competitive brands. These experts contend that China's massive trade surplus is misleading: Chinese exports have primarily low value added, meaning that the real value is collected not by China, which provides the physical labor, but by foreign multinationals, which manage and own the technology and brands. For example, a 30-gigabyte iPod has an export value of $150, but the value added and collected by Chinese labor amounts to only $4. According to China's Ministry of Commerce, less than 20 percent of Chinese enterprises participating in foreign trade have their own brands, and less than half of those export them abroad.

Going forward, Chinese officials hope to emulate the Japanese model of moving up the value-added chain, routinely pointing out that while products "Made in Japan" were considered inferior forty years ago, they are now viewed as standards of excellence. According to Li Guangdou, a Chinese marketing expert, domestic enterprises can also learn from the success of South Korean firms: "South Korean products used to be synonymous with low-grade products. But when we look at the current situation, Samsung has become one of the world's 100 most valuable brands." For the Chinese, matching these countries' success is a matter not only of national economic well-being but of national pride.

That this government-directed movement has had some success in weaning Chinese consumers from a preference for international brands can be seen in the growing popular indignation of Chinese consumers toward foreign companies. China's aspiring and middle-class consumers increasingly declare that multinationals selling in China take market access for granted, cut corners on safety and quality, ignore Chinese laws, and dump their low-end products there. A sentiment popularly held about Japanese companies, for instance, is that they sell their highest-quality products in European and American markets, their second best domestically, and their lowest grade in developing markets such as China. One woman I interviewed, for instance, insisted that Japan "sends us mobile phones that couldn't make it in Japan, and their cosmetics often contain different ingredients."

The Chinese media, sensitive to such slights and feelings, inevitably highlight the foreignness of a company when any consumer scandal related to imported goods breaks out. In 2005, quality problems and recalls undermined the reputation of several major international brands: KFC and Heinz were exposed for including the banned carcinogenic dye Sudan 1 in their food, Nikon had to recall defective batteries, Sony had to suspend distribution of six digital camera models with defects, and the level of iodine in Nestlé's Golden Growing 3 Plus Baby Formula was found to exceed national standards. In 2005, General Mills's high-end ice-cream brand Häagen-Dazs (widely known for its Chinese advertising slogan, "If you love her, treat her to Häagen-Dazs") was castigated for operating an "underground" ice-cream-cake factory in Shenzhen without proper permits. In contrast, powerful domestic brands are sometimes protected from similar consumer scandals. For instance, in 1997, the head of the *Beijing Youth Daily* was fired after publishing a report claiming that yogurt drinks manufactured by the state-owned Hangzhou Wahaha Group had fatally poisoned several children.

For their part, Chinese consumers demonstrate a deep ambivalence toward domestic brands, as reflected in consumers' demands that the government protect Chinese brands against international rivals even as those consumers simultaneously buy foreign products. Photographs of anti-Japanese protests in the spring of 2005, for instance, ironically show many protesters holding Japanese cell phones and cameras. That same year China's biggest private pollster found that despite popular anti-Japanese sentiments and protests, almost half of those surveyed said they would buy a Japanese car. Such mixed feelings were expressed by Lin Li, a thirty-five-year-old woman shopping in Beijing's Japanese-owned Ito Yokado Shopping Center, who, while putting a tube of Korean conglomerate LG's toothpaste into her basket, observed that "I like foreign brands because they ensure stable quality and good service. Of course, I hope there will be a day when I can no longer tell the difference between domestic and foreign brands."

This ongoing tension over the seductive power of foreign names has led to some official policies to resist it. Paris of the East Plaza, French Gardens, and the Ginza Office Tower are a few of the real estate developments forced to change their names by authorities in the southwestern city of Kunming. The city decided that the trend of attracting China's new middle class by giving new developments foreign-sounding names served to debase traditional culture and "is a loss to native culture and reflects poor taste." Officials sometimes also take action against advertising that they find disrespectful. In 2004, the government banned a Nike commercial featuring U.S. basketball superstar LeBron James outwitting a kung fu master, citing the ad campaign's disrespectful use of the traditional symbol of dragons. Likewise, in 2003, Toyota created a controversy with an ad for a new Land Cruiser by showing stone lions, traditional symbols of authority, bowing to the vehicle. According to one ad industry executive, "The government sees itself as a guardian of people's dignity and, every so often, it picks a victim to attack in the interests of nationalism."

Chinese companies sometimes take advantage of these sentiments to boost business, killing two birds with one stone as they build bigger businesses and create nationalistic-minded consumers at the same time. The Beijing-based company Huaqi markets a line of domestically developed and manufactured digital cameras by naming them after significant events in China's war against Japan. The Patriot V (Aigo V) series included models such as the V815, named after the date of the end of World War II (August 15). The company's president, Feng Jun, while claiming his products were selling well, took the next obvious step and suggested that business competition with Japan was simply war by other means: "We're determined to take the offensive against Japan until its digital cameras, which the country considers Japanese brands' last stronghold in the electronic products market, fall to the ground."

Economic Nationalism in China since 1900

China's aspirations to create competitive brands have reintroduced a central theme in Chinese consumerism that traces back to the arrival of mass-produced branded imports in the late nineteenth century. By the early twentieth century, the rapid increase in imports and the desires they stimulated threatened powerful domestic interest groups. Chinese politicians worried about trade deficits and the new consumer lifestyles; educated elites feared the loss of sovereignty implicit in the growing foreign dominance of the economy; domestic manufacturers struggled to compete against new imports. No one believed that the average Chinese housewife would, for patriotic reasons, choose what were called Chinese "national products"; indeed, it was assumed she would intentionally choose foreign products, whether for price, perceived quality, or simple fashion. These anxieties over consumers choosing price and quality over patriotism ultimately produced a multifaceted "Buy Chinese" campaign in which advocates developed countless ways to exhort fellow Chinese to consume China-made products.

The formation of the People's Republic of China in 1949 soon ended the ease with which consumers could choose foreign products. Mao Zedong's regime aimed to turn cities known for their consumption into centers of production instead, emulating the Soviet Union's economic model with its emphasis on state-owned heavy industry over consumer goods. Foreign multinationals were gradually forced to leave China, and most foreign products were eliminated from store shelves. After some initial hesitation, which allowed consumer lifestyles to persist into the mid-1950s, the state appropriated all private enterprises and consumer culture was virtually outlawed. Thirty years later, after the death of Chairman Mao in 1976, China dramatically changed course. With the start of Deng Xiaoping's economic reforms and the policy known as "opening to the outside world," or simply the Open Door Policy, China slowly began to permit the import of consumer goods. Policy makers reckoned that allowing imports was a small price to pay to gain access to foreign consumer markets for their own products. But over the past three decades, as the range and volume of imports has grown, the tension between "Chinese products" and "foreign products" has periodically reemerged. One reason for this is that China's WTO commitments have rendered countless village-owned and state-owned enterprises uncompetitive and created millions of unemployed and angry workers. Chinese students continue to invoke the language of economic nationalism when calling for boycotts of foreign goods, as in the widespread boycott of the French retailing giant Carrefour in retaliation for the disruption of the 2008 Olympic torch relay in Paris.

A hundred years ago, China struggled to catch up as a global *manufacturing* superpower. Mission accomplished. Now the Chinese recognize that in the "post-industrial" reign of service economies, their country needs to become a *branding* superpower. Chinese government and business leaders view domestic ownership of global brands and intellectual property as symbolic of national wealth and power, the economic equivalent of hosting the Olympics, but much more permanent. China wants its own domestic companies to join the list of prominent global brands associated with powerful countries such as the United States (McDonald's, Microsoft, Boeing, Google), Germany (BMW), Japan (Honda, Nintendo, Sony), and Korea (LG, Samsung). Moreover, the government wants to develop competitive brands across the spectrum of consumer products and services, including high-tech consumer electronics (such as Midea, headquartered in Shunde, near Hong Kong), and to revive "established brands" such as Tongrentang, the traditional medicine company. This push to create Chinese-owned brands also applies to the service sector, where the Ministry of Commerce has set ambitious targets that include developing one hundred restaurant brands, fifty hotel brands, and prominent brands in the beauty industry. To help reach these goals, state policies have promoted the creation of large-scale, horizontally integrated multinational corporations to compete against foreign multinationals. In the 1990s, the state selected a "national team" of 120 industrial groups to receive state assistance, and it promoted 925 top domestic brands.

In 2002 the Chinese state further strengthened its control over large companies by creating the very powerful if infelicitously named State-owned Assets Supervision and Administration Commission (SASAC) (pronounced *sah-sack*). This acronym is worth remembering; it may prove to be the most important one in China after PLA (People's Liberation Army). SASAC owns and runs more than 150 enormous corporations, including 8 of the 14 mainland Chinese enterprises listed on the Fortune 500. Where China's Open Door Policy once invited foreign investors in, since the early 1990s the government has also been laying the groundwork for these new Chinese conglomerates to take their products out that door. For instance, the Chinese government has used SASAC to entice the conglomerates to "go global" with favorable policies, including the abolition of foreign currency restrictions for overseas investment. China intends to remake the perception of Chinese brands, and hence of China itself, around the globe through these new, internationally prominent brands.

The effects of the Chinese government's pressure on the nation's biggest companies to sell more branded products abroad is most visible in developing markets, where the Chinese already sell branded appliances, consumer electronics, and even automobiles. One can find Chinese-made Geely cars even on the streets of Havana, where there are reports that Cuban Communist Party officials have switched their allegiance from their old, solidly built Russian Ladas to new-model Geelys.

These initiatives are simply a dry run for entering developed markets. China's biggest appliance maker, Haier, already sells small refrigerators under its own name in the United States and plans to popularize its full-size refrigerators next. It's also aggressively trying to acquire established brands, including a failed attempt to buy Maytag in 2005 and a subsequent effort to buy GE's electric home appliances division. In a country where after-sales service had disappeared under Mao, Haier has attempted to brand itself as a leader in customer service, differentiating itself from its rivals with its slogan "Phone up for immediate repairs, twenty-four hours a day," and has tried to extend this branding abroad.

Although international pressure and its entry into the WTO forced China to remove formal barriers to foreign products, this hasn't stopped China's leaders from playing both a direct and an indirect role in promoting brand nationalism. For instance, in 2003 the former chief negotiator in China's efforts to join the WTO, Long Yongtu, claimed that encouraging Chinese consumers to purchase Chinese products "will violate neither the WTO rules nor the market economic rules." Chinese entrepreneurs routinely express a similar sentiment. According to underwear manufacturer Zhou Xiaoning of the Zhongke Group, domestic brand consciousness is critical to Chinese economic development: "Without the recognition of domestic consumers, how can China brands grow and mature?" In the summer of 2008 the national government even incorporated the establishment, protection, and management of national brands into its National Strategy.

Although accepting WTO restrictions ostensibly promises a level playing field for foreign products in China, Chinese leaders continue to use government policies to create non-tariff barriers to foreign trade. For example, the China National Tobacco Corporation (CNTC), a government monopoly, still controls 90 percent of the domestic cigarette market, helped by non-tariff barriers such as the regulations governing new cigarette factories, limits on the number of sales offices, and provincial-level quotas to preserve its market share. Successful foreign brands, most notably Philip Morris's Marlboro, are allowed to enter the market only by producing their branded cigarettes at

CNTC-affiliated factories. These "partnerships" allow CNTC to limit competition, acquire new technology, leverage a high-profile international brand, and gain access to overseas markets. And these barriers can be erected at the local and provincial level, too. One county in China made international news for trying to raise revenue by requiring its officials to smoke only local brands or face fines.

Government-sponsored promotion of Chinese brand consciousness has included setting up new mechanisms to help domestic consumers identify Chinese products among the torrent of brands now available. In anticipation of stiff foreign competition after entry to the WTO, the State General Administration of Quality Supervision, Inspection, and Quarantine, China's watchdog for product quality, set up a "China Brand Name Strategy Promotion Commission" and awarded fifty-seven brands from forty-five enterprises the title of "China's Top Brand," in an effort to alert Chinese consumers to high-quality domestic brands. In a move reminiscent of China's anti-imperialist economic nationalist campaigns of the early twentieth century, the government now organizes exhibitions for "established brands" to increase national brand awareness.

Another advantage Chinese companies have over their international competitors is that China's highly competitive domestic market forces multinationals to adapt international brands to local tastes—what some have called "glocalization." This has become ever more essential as Chinese consumers, now confronting choice rather than scarcity, become pickier about what they buy. For international brands, one of the earliest and most basic localization efforts has been selecting a Chinese-language brand name that sounds felicitous and invokes the right image. Unlike alphabets based solely on sounds, most Chinese characters also have evocative meanings, making essentially meaningless brand names such as Xerox or Intel impossible in Chinese. Laurent Philippe, the head of Procter & Gamble in China, recognized the importance of selecting Chinese names that "trigger meaningful visuals or associations with benefits," and thus it is no accident that the Chinese characters used for Pampers, the disposable baby diaper brand, carry much the same meaning as the English name: "helping baby's comfort." The product's phenomenal success in China has become international marketing history.

Companies have learned that they cannot target "the Chinese" as a homogenous market of largely identical consumers. The resulting move toward market segmentation—the recognition that subgroups within a market share common characteristics that set them apart—is forcing companies to expand their product offerings to accommodate regional, generational, class, and other preferences. To meet regional taste preferences, for instance, KFC sells "Old Peking Style Chicken Rolls" with sweet bean sauce and mushroom chicken porridge. At the same time, the consumption of branded products makes those segmentations possible. Consuming segment-specific branded products has become a way for Chinese consumers to manifest differences in wealth, education, and regional identity. If you are what you consume (say, a BMW), you are also what you do not consume (a Red Flag, Brilliance, or other Chinese-brand car).

Now that China's biggest cities have become major markets for both Chinese and international brands, marketers are increasingly turning their attention to capturing the brand loyalties and purchasing power of Chinese consumers outside the 100 million-plus Chinese living in a handful of big cities. After all, China has more than 150 cities with populations of more than 1 million (compared to the United States, which has around 10 such cities). On the one hand, by creating nationally recognized chains and brands, companies are standardizing the shopping experience so that the majority of the population now recognizes hundreds, even thousands of brands. But while producing brands intended for mass or even universal consumption, companies are also segmenting the market and expanding product offerings to accommodate varying preferences. For instance, in 2000, GM offered a limited number of car models in China, primarily large, high-end Buicks costing around $40,000. Private ownership of cars had just begun, and GM's primary customers were government officials and entrepreneurs who wanted large sedans to transport top cadres. Just five years later, GM was marketing $75,000-plus Cadillac SRX SUVs to the very rich; the popular $30,000 Buick Regal to cost-conscious entrepreneurs looking for a high-status car; the $15,000 to $20,000 Buick Excelle to mid-level managers; the $19,000 Chevrolet Epica sedan, the $10,000 to $12,000 Aveo hatchback, and the $5,700 Spark minicar to younger urbanites buying their first cars; and $4,000 to $6,500 minivans, designed to carry seven passengers and their cargo, to buyers in the countryside. To reach this broader market, it also expanded its distribution network to more than a thousand outlets, up from just nine in 1998.

If You Can't Build Them, Buy Them

A century ago, Chinese leaders and media conducted a nationalist economic campaign that urged the Chinese to buy Chinese products. Today Lenovo offers the Chinese a story of a homegrown company that's so successful it could buy the most famous international computer brand, a corporate rags-to-riches tale. Founded in 1984 with $24,000, Lenovo, a state-owned enterprise (SOE) that originated in the Chinese Academy of Sciences, began as a distributor of other computer brands, including IBM. In 1990 it began manufacturing its own computers, profiting from state commissions and little competition. By 1997 it controlled over a quarter of the Chinese market, making it the country's largest-selling brand of PCs. In 2000 it followed the government edict to "go global" and began selling overseas. In April 2003, because of copyright conflicts in other countries where the company's original English name, Legend, was already registered, the company renamed itself Lenovo. (In Chinese, it's still called Lianxiang.) It became the world's third largest producer of computers in December 2004 by spending $1.25 billion to acquire the PC arm of IBM, which was then three times its size and, with its Thinkpad brand, much more recognizable. Now Lenovo sells billions of dollars' worth of computers worldwide under its own global brand. Even so evident a success story, however, carries ambiguities: nearly all of the Chinese people with whom I have discussed the takeover think, as one friend put it, "that Lenovo hurt IBM's brand value" rather than helping Lenovo's.

No matter. This purchase proved a harbinger of what was to come, as a stronger yuan made it possible, and even strategically necessary, for Chinese companies to buy iconic foreign assets. The decade and a half since has brought many such acquisitions, particularly of established but struggling international brands, such as Nanjing Auto's purchase of MG Rover and Dongxiang's acquisition and successful marketing of the Kappa brand, most closely associated with British football hooligans but now a leading fashion brand in China. Li Ning, China's top domestic sports brand, entered into an alliance with Lotto Sport Italia, and Peace Mark, Asia's biggest watch retailer, bought Swiss watch brand Milus. Within Chinese pop culture, fueled by endless media coverage of these acquisitions, these branding efforts represent heroic David-versus-Goliath sagas for the era of global capitalism, tales driven by nationalism that reinforce Chinese national identity.

China's Branding Challenges

Despite government investments and policies that favor China's own products, Chinese companies face a number of challenges as they make the transition from the country's earlier fragmented, state-run, and production-oriented economy to one driven by creating consumer desires and meeting consumer demands. The first of these is one China initially faced a century ago, when Japan surpassed it as the world's largest exporter of silk and the British in India took a commanding share of the global tea trade: the mass production of consistency. Chinese products have real and perceived problems with consistency—that is, with producing large quantities of identical high-quality goods. This is especially true in the food industry, where foreign brands provide nearly identical products regardless of time or place. Consumers at a McDonald's or KFC anywhere in the world can expect their food to look and taste the same wherever they buy it. In contrast, the well-known Chinese fast food Yangzhou Fried Rice tastes different from restaurant to restaurant and even from chef to chef.

Under the productivist paradigm of the Maoist era, consistency was much less important than supply. Demand was assumed and, thanks to shortages, ensured. But with the country's reintegration into global capitalist markets, China's political and business leaders want to consolidate and standardize domestic products before foreign companies do. Take the tea industry, where one would assume China had a competitive advantage. China has more than a thousand varieties of tea, many of which are renowned throughout the world. However, there are no national tea brands, not to mention international ones. Thanks to climate and soil conditions as well as traditional preferences, most Chinese tea brands are regional. Southern Chinese tend to prefer green tea and northerners prefer jasmine-flavored tea. Moreover, many teas are still produced by families, making it nearly impossible to ensure their quality. These problems, combined with a growing Chinese appetite for trustworthy branded products, have confirmed government fears: aggressive foreign expansion. The Anglo-Dutch Unilever Group has bought out a Chinese tea brand, Jinghua tea, and expanded its offerings from Lipton black tea to Lipton green and jasmine tea. If Chinese companies can't create competitive tea brands, what hope is there for other products?

As noted, Chinese companies and officials trying to build Chinese brands also battle a legacy of the socialist economy's emphasis on managing shortages on the supply side rather than appealing to consumers on the demand side. That is, the Mao regime emphasized quantity, not quality, much less the product differentiation that is the foundation of branding. Another legacy of the socialist era is the near absence of prominent domestic brands. Before the reforms, watches were one of the "three luxuries" for most Chinese, and China had several prominent domestic watch brands, such as Shanghai, Seagull, and Five Star. In the early 1970s, when there were almost no imported rivals, the Chinese willingly waited in long lines whenever supplies of watches such as the Shanghai appeared, despite their costing the equivalent of four or five months' salary for most people. But this began to change in the early 1980s, when domestic brands began to lose the mid-level and high-end watch market first to Citizen and Seiko and then to Rolex, Omega, and Cartier. Chinese watchmakers have attempted but failed to develop luxury watch brands and seem unable to overcome the public perception that domestic watches are inexpensive but inferior.

Other Chinese companies have had similar difficulties. Take Maotai, the famous Chinese liquor distilled from fermented sorghum and manufactured exclusively in the southwest province of Guizhou. (Like Champagne, Maotai is trademarked by place.) Maotai was a favorite liquor of Chinese leaders Deng Xiaoping, Zhou Enlai, and Mao Zedong and was used for toasts at important state occasions, including ceremonies marking major events from the founding of the People's Republic of China to its entry into the WTO. With its high profile and paucity of competition, Maotai never needed to advertise. Although it is now affordable, available, and heavily advertised, intense competition in the liquor industry has undermined its status and therefore the value of the brand. Cognac is the liquor of choice today, thanks to its position as a status symbol among China's newly rich. Savvy producers have reinforced this image. In 1994, Seagram introduced a mid-priced cognac, Martell Noblige, aimed at middle-class Chinese consumers anxious to emulate elite lifestyles. At home and abroad, the Chinese now consume a fourth of the global cognac supply.

Despite government efforts to help established Chinese brands compete, the companies behind these brands still often make basic mistakes of brand management based on socialist-era assumptions. In 1990 the former Ministry of Commerce awarded the title "old and famous brands" to sixteen hundred shops and enterprises in the clothing, medicine, and food and beverage industries. It hasn't helped. Twenty percent of these designated famous brands have been operating at a loss for years and are nearly bankrupt, while another 70 percent are barely profitable. Thus these former pillars of Chinese consumer consciousness have begun to disappear. In January 2003, for instance, Wangmazi Scissors, a Beijing institution founded in 1651, sparked a national debate on traditional brands by announcing its bankruptcy.

Beyond the problem of profitability, established companies sometimes lost out to opportunistic newcomers in the race to register established brand names. The names of a famous Hunan provincial stuffed steamed bun, Deyuan Baozi, and the famous Jinhua ham, for instance, were both registered by new companies. (Imagine if a Pittsburgh-based company owned the rights to Philly cheesesteak.) It took the original company nearly twenty years to recover the rights. In other cases, foreign companies have registered the names of long-established Chinese brands in their own countries. By 2005, 180 Chinese brands were registered by foreign companies in Australia and at least 100 Chinese brands in Japan; a full 15 percent of Chinese brands that applied for registration abroad were embarrassed to learn that others had already beaten them to it.

But perhaps the biggest hurdle for Chinese brand development is the fact that China often resembles a collection of diverse markets rather than a single, integrated one. There are, for instance, four hundred brands of cigarettes in China, the world's largest consumer, where about 60 percent of men smoke. Given regional tastes, China more closely resembles the historically fragmented European market than the relatively homogeneous North American market. Because of a lack of distribution infrastructure, national brands must rely on local partnerships or acquisitions. In the 1990s, Tsingtao Brewery, for example, successfully built a national network by acquiring twenty-two local breweries stretching from Shenzhen in the far south to Beijing in the north, as did the less expensive Beijing-based Yanjing Beer Company, China's largest brewer. In contrast, foreign breweries such as Anheuser-Busch, after an expensive misstep with enormous centralized production facilities, ultimately had to buy a fourth of Tsingtao to gain access to the Chinese beer market, now the world's largest.

China's leaders, along with many throughout the developed world, have wanted China to embrace consumerism, which has meant embracing branded products. In the world created by the WTO, Chinese brand loyalty cannot be easily ensured, and consumption cannot be controlled the way it was in the Mao era. What the world has gotten, then, is a Chinese government obsessed with shaping consumption not only within China but also globally by creating global brands that will challenge the rest of the world's, or at the very least give multinationals within China a run for their money. For China, this is part of a longer and larger project. Since the late nineteenth century, China's leadership (if not necessarily its on-the-street consumers) has developed a strong sense of economic nationalism and demonstrated a willingness to make any sacrifice to develop world-class industries in the name of "national survival," including sacrificing the well-being of the country's workers and the health of its environment. In the current postindustrial world, Chinese leaders see ownership and control over world-class brands as the key to continued economic development. As a result, Chinese consumers may have less power to consume whatever brands they want.

6 ★ LIVING IN A WORLD OF FAKES

Even as retailing and branding have been encouraging much more consumption in China, consumer confidence (both nationally and internationally) has been undermined by the massive production of Chinese counterfeits. I have firsthand experience. In preparation for a recent research trip to China, I bought a sleek new netbook, reassuring myself that I needed an ultra-portable computer because my two-year-old laptop was too heavy to lug around the world. Shortly after the purchase, I decided to double the machine's memory but opted to wait until I got to China, where I assumed I'd find a lower price. On my arrival, I went to the electronic district in Shanghai and found a vendor who sold and installed the new memory card. The price was not as good as I'd hoped, in part because the vendor assured me the card was authentic. When the computer crashed for the first time a few days later, even though I'm no stranger to such crashes and have no idea what causes them (nor, apparently, does Microsoft), I instantly suspected the new memory card: Had I been cheated?

My experience captures a reality of everyday life in China, a country rife with low-quality and counterfeit products, so much so that consumers there have learned to live in a world of uncertainty. Many

Chinese have shared horror stories of trying to be vigilant when shopping to avoid inadvertently buying substandard or fake products and of failing time and again. Even supposedly reliable brands often provide unreliable performance. Exhausted by the confusion, one cabdriver told me he had simply surrendered and learned to live with uncertainty, saying, "Who knows what's real and what's fake?" China's rapid shift to a deregulated market economy, where price and profits are paramount without a parallel commitment to consumer protection, has created a consumer culture permeated with omnipresent consumer anxiety.

At the heart of the problem is the integrity of brands. Brands, as we've seen, are the building blocks of consumerism. A brand is a name, an idea, and, above all, a monopoly on manufacturing an easily imitated product. Most of all, brands are a promise to consumers that they are buying what they think they are. Protecting as well as creating brand identities is critical to modern consumer culture. If consumers regularly got sick after drinking Evian water, an imported premium brand in China, few would continue to buy that brand. If there were frequent stories of brakes malfunctioning on $80,000 BMW sports cars, nobody would want one. Likewise, if your friends couldn't tell the difference between your real Rolex watch and a fake, would you be willing to pay thousands of dollars more to own the genuine article? In China, however, weak protections and a massive manufacturing capacity create an unusually unstable brand environment. But the history and role of counterfeits in China raise not just arcane issues of business practices in a faraway country but concern for consumers everywhere.

Over the course of the last three decades of economic reforms, China has become both the largest producer and the largest consumer of fake products. By 2001, for instance, the government estimated that the country was flooded with $19 to $24 billion in counterfeit goods. Brand owners in China estimate that 15 to 20 percent of all prominent branded goods in China are actually counterfeit, with much higher rates for expensive but easily reproduced products such as computer software and movies, whose piracy rates are over 90 percent. DVDs loaded with software or movies usually sell for a dollar or two, anywhere from a hundredth to a fourth of the legitimate product's price.

The counterfeit market pulls in consumers by offering them not only better prices but also better selection. American hit movies are available within days of their theatrical release, which allows Chinese consumers to buy them on DVD even before they appear in domestic theaters, and months before their counterparts in America can. It also allows Chinese movie fans to view movies, such as *Memoirs of a Geisha*, that the government has banned. Even banned books are pirated. After *A Survey of Chinese Peasants*, a heartbreaking exposé of the plight of China's farmers, became a bestseller, it was banned in 2004. But some thirty book pirates kept it in print, selling an estimated eight million copies. High profits motivate pirates, who don't pay licensing fees or royalties to the book's publisher or author. The pirating of music and computer software similarly allows consumers access to technology that might otherwise be prohibitively expensive, with many sellers minimizing the risk to consumers by allowing them to try out or swap defective DVDs on the spot with no questions asked.

The variety of fakes for sale in China has long moved beyond the stereotypical Gucci handbags and Rolex watches. Along with Hollywood movies and Microsoft software, every imaginable product in China is counterfeited, including such top-selling products as Oral-B toothbrushes, Gillette razor blades, Zippo lighters, and Duracell batteries. Unilever Group claims that knockoffs of its shampoos, soaps, and teas are growing by 30 percent annually. A fake battery or cheaply constructed knockoff lighter poses one sort of risk; of far greater concern, given the scale of possible consequences, are counterfeit versions of products such as powdered milk, alcohol, fertilizer, pesticides, and even aircraft components that don't contain the ingredients or parts promised.

Conventional wisdom holds that as China's manufacturers move up the value-added chain and China has brands of its own to protect, it will do a better job of protecting intellectual property. So far, however, what is clear is that as China moves from inexpensive and easy-to-manufacture goods to producing more complex things such as electronics, its counterfeiters do the same. Very few consumables prove immune, from technologically sophisticated products such as DVD players to, more alarmingly, pharmaceuticals made from inert or dangerous compounds. Bogus antibiotics and toxic fake drugs have been known to kill hundreds of thousands in China in a single year and to contribute to a worldwide epidemic of fakes estimated by the World Health Organization at 8 percent of all manufactured drugs. Chinese counterfeits of lifesaving drugs for illnesses such as malaria are increasingly showing up around the developing world, discovered only after they fail to work.

The quality of Chinese counterfeits ranges broadly. Gone are the days when imitations were comically imprecise and easy to spot with misspelled names such as "Reebek" shoes. Now counterfeits may be so accurately reproduced that they are indistinguishable from the originals. Given increased efficiencies on the part of counterfeiters, fakes can also appear nearly simultaneously with the launch of an original. Knockoffs of new models of golf clubs, for instance, appear within a week. According to Stu Herrington, who supervises brand protection for Callaway Golf, "back-engineering a golf club is a piece of cake." Not surprisingly, then, as much as 5 to 7 percent of all global trade, or about $500 billion a year, is estimated to involve counterfeit goods, a total expected to reach $2 trillion by 2025. This suggests, among other things, that there are going to be a lot more people uncertain about why their computer just crashed or wondering whether their medicine might kill them.

Becoming the World's Biggest Faker

The incentives for anyone anywhere to produce fake products are obvious, chief among them the promise of huge profits. Fake Marlboros that are sold for more than seven dollars a pack in Manhattan cost only a few pennies to make in China. No wonder, then, to give but one example, that in 2003 six men were arrested in New York for importing thirty-five million counterfeit cigarettes from China. Similarly, while it costs between $11 and $24 to make a pair of genuine New Balance shoes that retail for $120, the fakes cost around just $8 a pair to make and can fetch ten times that much in Australia.

Producers of fakes can reap such huge profit margins because they avoid costs that the manufacturers of the genuine article cannot. Reverse engineering is much less expensive than original research and development, particularly if the goal is imitating appearance rather than performance. Counterfeiters also profit from free marketing: by aping established brands, they have a preexisting market for their products and benefit from someone else's brand building. They may also avoid paying taxes, an especially large incentive for manufacturers of knockoff cigarettes and alcohol and other heavily taxed luxury goods. They are also subject to few or no environmental restrictions; manufacturers of counterfeits by definition are eluding regulation and needn't worry about consumer backlash if they are caught dumping toxic waste. Nor are they bound by labor laws and government oversight. And because they are not concerned with the maintenance of a brand, they can cut corners by using low-grade raw materials and equipment.

China has become the global leader in both the production and the consumption of counterfeits simply because it can: unlike many developing countries, it has the manufacturing and technological ability. Ironically, foreign companies seeking cheaper labor costs have inadvertently contributed to the counterfeit problem. Hundreds of billions of dollars have been poured into China to build countless factories, transfer innumerable production lines, and import all levels of manufacturing technology. In some cases, making knockoffs is as simple as keeping a factory running even after it has fulfilled its licensed orders. During these "ghost shifts," a factory runs extra shifts using cheaper material, unofficial labor, and safety shortcuts.

Perhaps the most significant reason for China's emergence as a global superpower in the production and consumption of fakes is an ongoing and irresolvable tension between national and local interests. Simply put, despite international pressures on the national government to enforce intellectual property rights, localities have a greater interest in producing fakes than the national government has in stopping them. (The same conflict between local and national interests, incidentally, calls into question assumptions about Beijing's power to enforce limits on greenhouse gases.) Even as economic reforms provided greater local autonomy, the national government decreased subsidies for state-owned enterprises, forcing local officials to find new ways to finance local industries and in effect offering them new ways to support and enrich themselves through illicit payoffs. But money isn't the only consideration. Local officials are often more frightened by the prospect of large numbers of dislocated, unemployed workers than they are by the specter of multinational companies and their lawyers, chastisement from Beijing, or even lost tax revenue. For local officials, looking the other way or even promoting the production of counterfeit goods often solves very real and immediate problems. Indeed, at times desperate local authorities have actually sanctioned counterfeiting as a valuable source of cash to help keep legitimate state-owned enterprises from going under. Entire cities and counties have become regional counterfeiting centers and are now completely dependent on their expertise in producing fakes. Wenzhou specializes in fake car parts, Yuxiao County in cigarettes, and Jintan in pesticides.

Until the relatively recent development of Chinese brands, enforcing intellectual property rights (IPR) meant protecting the interests of multinational companies. This made the problem a national rather than local issue, and one that few leaders worked to change. Even at the national level, Chinese officials have tended to view IPR infringement as a victimless crime, especially when the victim is a company and even more so when it's a foreign company. Even with recent new laws, fines and conviction rates remain low, especially in areas where official complicity is at play. The national government can get tough when people get hurt or killed—a man found guilty of selling adulterated baby formula, for example, was sentenced to eight years in prison. But compare this with the Guangdong businessman convicted of producing fifteen different brands of fake windshields, some falsely labeled as manufactured by GM and Mitsubishi Motors, who was only fined $97,000 and given a suspended sentence.

Even national officials appear complicit in some trademark violations. For instance, the manufacturers of the BlackBerry email device sought entry into the Chinese market for years, struggling to overcome one hurdle after another thrown in their way by the government. On the very eve of its eventual entry into the Chinese market, a competing "RedBerry" was rolled out by two different Chinese companies selling a BlackBerry-like service on a non-BlackBerry mobile device. One of the companies was a private start-up, but the other, China Unicom, is largely owned by the Chinese government. It is hard not to conclude that BlackBerry was excluded from the potentially lucrative domestic market until a domestic equivalent backed by powerful Chinese interests could be produced, which also neatly exploited BlackBerry's brand recognition by using a very similar name.

With the counterfeit industry accounting for approximately 8 percent of China's GDP and employing three to five million people, Chinese authorities have a difficult time investigating and correcting lax enforcement practices in places notorious for protecting their counterfeiters. That is, except when local officials have their own reasons for working to prevent the sale of fakes. Local governments with manufacturers of the original products in their jurisdictions often work hard to crack down on fakes, but the legal system makes intraregional police and judicial cooperation time-consuming and ineffective, and sometimes even dangerous. On August 3, 2005, for instance, hundreds of employees of a clothing company, Yanglaoda, who objected to a ruling on its disputed trademark, surrounded the local court in the northern city of Yulin and beat up a dozen judges. Conflicts of interest don't help. Wholesale markets throughout China, in which many counterfeits are distributed, are regulated by the local Administration for Industry and Commerce (AIC). This branch of local government is also responsible for enforcing IPR, thereby policing the same markets in which their local governments have extensive investments and financial interests. Even further down the supply chain, local officials themselves sometimes make money operating stores selling counterfeits; in more than one case, police were found profiting from counterfeit shops located in or adjacent to their headquarters.

Chinese legal culture also plays a role in lax enforcement. For thirty years following the Communist Revolution, the state had sole ownership of all property, so personal, much less intellectual, property is still a relatively novel concept in China. The government has gradually introduced a legal system that protects property rights, though the earliest patent and trademark laws were not enacted until the start of the 1980s, and not until 2001, and under foreign pressure, did China began revising these laws in preparation to join the World Trade Organization. But tension between the national interest in complying with WTO obligations and local interests remain: closing a factory changes a national problem (WTO compliance) into a local one (unemployment and lost revenue). And because China's three thousand county courts are under the control of local governments, half-hearted enforcement, prosecution, and punishment continue to ensure the production of counterfeits.

Ironically, Chinese companies have begun to use international law to harass foreign brand owners. Nowadays, Chinese companies rush to file patents and claim trademarks for products that copy foreign patents or make only minor changes to them, thereby becoming the legal owners of a specific type of product within China. Rather than hiding from the law by moving a factory from village to village, in other words, such companies protect themselves with a Great Wall of patents, sometimes even turning the tables and suing foreign companies for infringing upon their rights. In IPR legal culture, "first to file" patents and trademarks are more important than claims of invention, so if Chinese companies can gain possession of the IPR first, they can even stop the original brands from entering China or can sue the foreign manufacturer once it arrives. When foreign companies countersue, the Chinese companies simply outlast them in China's notoriously lengthy legal appeals process. And even if the foreign companies prevail, local officials usually pressure the courts to award only compensatory and not punitive damages.

Complicity of Foreign Consumers

Although there is a booming domestic market for faked goods in China, it could not flourish without the greed and complicity of foreign businesses and consumers. In fact, the initial impetus for the counterfeit market was to cater to the foreign visitors—businesspeople, students, tourists, and even government representatives—who traveled to China in ever-increasing numbers following the country's reopening to the world. Since the late 1980s, major tourist cities in China have offered marketplaces specializing in selling fakes to foreign tourists. The history of these "must visit" places reflects the history of China's response first to foreign demand for bargain versions of luxury goods and then to foreign pressure to respect the intellectual property rights and brands of international companies.

The first of these counterfeit markets was Beijing's Silk Alley, a market of open-air stalls conveniently near the district in which most of the foreign embassies are located. The market was installed there in 1982, when economic reforms made it legal for local Beijingers to sell clothes, fruit, and vegetables from tricycle carts, mostly to fellow Chinese. Suddenly, fashion was in, Maoist-era clothing was out, and in Beijing and across the country, small-scale shops and streets with stalls emerged that specialized in selling fashionable clothing made in backroom factories. But in 1985, vendors began to focus on foreigners interested in buying higher-quality traditional Chinese silk products and crafts. By 1987, the hundreds of stalls crammed into the Alley were attracting foreign tourist groups on package tours and wholesalers from foreign countries.

The market shifted again in the mid-1990s, as Chinese clothing production techniques improved and international brand manufacturers themselves relocated to China. In response, Alley vendors began instead to meet foreign demand for high-quality fake international brands by buying factory seconds and unlicensed surplus goods from manufacturers licensed to make them. By specializing in higher-quality counterfeit apparel, Silk Alley set the standard for marketplaces popular with foreign tourists. As a shop clerk selling bogus Louis Vuitton bags at a similar market noted, "Even fakes have many grades of quality, and these fakes are really, really good." Rather than selling a clunky replica Rolex that broke quickly (like the one I bought in the early 1990s), the Silk Alley sold fakes that were virtually indistinguishable from the genuine articles. Indeed, actual and fake often came from the same factory, meaning that foreign tourists could return home to boast of buying a quality fake for less or simply of owning, say, five Gucci bags.

Because of the Silk Alley's notoriety, foreign business and governments attempting to pressure China to enforce IPR would cite it as a prime example of lax enforcement and rampant piracy, even though most of its millions of customers came from those countries doing the complaining, the United States and EU member states. By 2005 the pressure to crack down on Silk Alley merchants led to periodic high-profile raids. In the spring of that year, for instance, plainclothes inspectors posing as consumers seized more than three hundred items with Prada, Gucci, Chanel, and other luxury brand logos. International luxury brands also began using China's legal system to try to protect their intellectual property. Five luxury brand owners filed lawsuits against the owner of the shopping emporium, demanding 2.5 million yuan in damages for permitting vendors to infringe upon their trademarks. A year later the courts agreed and ordered the operators of the Alley to pay each company 20,000 yuan, considerably less than the 500,000 each had sought.

Although city officials wanted to demolish the market, it was, after the Great Wall and Forbidden City, the best-known tourist attraction in the city, drawing 100,000 shoppers a day and generating over 100 million yuan in sales and 10 million yuan in taxes annually. Finally, at the end of 2004, stall owners were given two weeks' notice that the Alley was closing, and in March 2005, the New Silk Alley Market opened in a new five-floor mall with 1,500 stalls selling clothes, shoes, bags, and other goods. Opening day attracted 50,000 shoppers. Although vendors were required to take an oath not to sell fakes, and a huge red banner over the main entrance proclaimed, "Protect Intellectual Property Rights and Promote Innovation and Development," visitors can still find counterfeits for sale there (and elsewhere) without much difficulty. Perhaps it's a fitting tribute to the history of Silk Alley that its name remains so popular that some enterprising Chinese entrepreneurs even came out with a Silk Alley clothing line in time to take advantage of the millions of Olympic visitors. It would be supremely ironic if the brand became successful enough for others to counterfeit its products.

Although open-air marketplaces overtly selling fakes to foreign tourists are now gone from cities such as Beijing and Shanghai, closing them simply forced merchants to relocate and wholesalers to find new ways to distribute their products. In Shanghai, for instance, some moved to Qipu Road, and the city government arranged for others to move to a cavernous subway station in Pudong, although a merchant told me during a 2009 visit that the move from the main tourist area had hurt his business. Major tourist thoroughfares such as Nanjing Road in Shanghai and Wangfujing in Beijing are crawling with young women stopping foreigners to show them photo album catalogs of pirated goods. Interested shoppers will have products brought to them or are led to nearby safe houses. In Shanghai in 2006, I followed one hawker from Nanjing Road down back alleyways to a living room piled high with handbags. Finally, Internet sites such as eBay and Taobao allow customers from around the world to shop, knowingly or not, for fakes from the comfort of their own homes.

The Market in Substandard Goods

A lack of regulation and enforcement has allowed Chinese suppliers to produce products much more cheaply than in developed market economies, contributing to China's remarkable economic boom. Yet the consequences are now making themselves felt worldwide, and nowhere with as tragic results as in China itself. A substandard computer part is more likely to be a hassle than a life-or-death issue. But Chinese markets buy and sell fakes of every conceivable type, even life-threatening ones. In the spring of 2004, China faced what became its biggest consumer scandal of the new millennium. The "big-head baby" scandal broke with revelations that nationwide sales of substandard milk powder had contributed to disproportionately swollen heads and severe malnutrition in Chinese babies. The scandal centered around the city of Fuyang and the surrounding countryside in the eastern province of Anhui, where thirteen infants, mostly between three and five months old, died after consuming poor-quality milk powder purchased in rural markets. But the scandal was not limited to a single province. An investigative team identified fifty-five low-quality milk powder brands sold in ten provinces and Beijing and Shanghai. More than two hundred infants across China suffered some of the symptoms, including high fever, diarrhea, and nutritional deficiencies.

The scandal shocked the nation, and not just the families of babies who receive breast milk substitutes. At over a billion tons a year, China is the world's largest consumer of powdered (dehydrated) milk. Chinese desire for milk, cheese, yogurt, and ice cream is propelling skyrocketing global demand for dairy products. Milk, not a part of traditional diets in East Asia, was introduced by Westerners in the early twentieth century. At the founding of the PRC, China had only 120,000 dairy cows, a herd that increased to only half a million by 1978. But dairy consumption has exploded since the mid-1990s, despite periodic tainted-milk scandals, becoming one of the fastest developing industries in China. The country now has 12 million dairy cows producing billions of dollars' worth of fresh milk each year.

In recent decades, the consumption of milk and milk products (like so many other consumer products) has spread quickly across the entire social hierarchy. Middle-class consumers associate milk with healthy and tall children, while poor female migrant laborers, forced to leave millions of children behind with grandparents, turn to powdered milk out of necessity. And the dairy industry expects continued rapid expansion. China raised its consumption of milk from under 5 kilograms per person daily in the mid-1990s to 11 kilograms per person in a decade, still well below the rate in leading economies of 258 kilograms and the global average of 93 kilograms. With government support, the Chinese are rapidly catching up.

The big-head-baby formula scandal hurt the credibility and sales of domestic baby milk powder manufacturers and reinforced a bias for foreign brands, which Chinese presume to be of better, more reliable quality. A sales assistant at Beijing's Wumart Supermarket estimated that sales of leading international brands such as U.S.-based Abbott Similac, Denmark-based Dumex, and the Swiss brand Nestlé have more than doubled since the scandal. As one anxious father buying Similac infant milk powder explained, "My five-month-old son drinks four to five jars of milk powder a month, which costs at least six hundred yuan, and that is a lot of money for me. But I have to buy it because my wife doesn't trust any domestic brands after the fake milk powder scandal." It is a measure of Chinese consumers' mistrust of domestic regulations that although both domestic and international brands are subject to the same state standards, Chinese believe that the imports, which cost two to five times more, are somehow more nutritious. In reaction, domestic companies often select names such as "Australian Excellence" to suggest the brand is in fact imported.

The Chinese government responded to consumer outrage with a high-profile crackdown, emphasizing the state's role as the consumer protector of last resort. During a rash of well-publicized raids, police confiscated one hundred thousand bags of milk powder and arrested nearly fifty people for manufacturing or retailing the adulterated powder. In Beijing, officials launched a ten-day campaign to eliminate low-quality and fake dairy products from store shelves, seizing more than six thousand bags in just a few days, some of which contained less than a tenth of the required protein. A store owner in Fuyang, Li Xindao, was sentenced to eight years' imprisonment for peddling shoddy powder, the court concluding that its unusually low price should have alerted him that something was not right. Sha Changban, an unlicensed milk producer, was fined 50,000 yuan and sentenced to seven years for producing and selling unhygienic food, and his distributors got sentences ranging from four to eight years. Two hundred officials were punished for dereliction of duty.

Such dramatic crackdowns, however, miss larger forces at work. As Chinese society pushes people to rely on commercial products to fill new needs, consumer anxiety has increased. In this case, powdered milk fills a need created by women working outside the home for longer hours and farther away. Many of the new for-profit hospitals in big cities such as Beijing, Shanghai, and Guangzhou allow formula milk producers to market directly to new mothers. High-pressure marketing even occurs in what the Ministry of Health has designated as "baby-friendly hospitals," which are supposed to provide better service but are also increasingly financially dependent on baby food companies. A reporter for the Nanjing-based *Jiangnan Times* who posed as a would-be mother reported that doctors and nurses gave her leaflets and advised her on what brand of milk to use and found that doctors promoting a particular brand earned as much as ten to thirty yuan for each tin of milk powder sold. All this even though China is a signatory to the World Health Organization's international code banning all advertising and promotion of breast milk substitutes, and despite a 1995 regulation mandating that doctors promote breast-feeding. In other words, sensible laws are in place but not enforced, except after a scandal breaks, and then only publicly and briefly.

In the end, the number of children affected by the big-head-baby scandal is inestimable. In addition to those who died, many will suffer from deformities and other health problems that may not manifest themselves for years or decades. Perhaps even sadder, it is unclear whether anything has actually changed. Many of the precipitating problems are deeply woven into China's new society. Formula advertisements continue to undermine breast-feeding, migrant women workers continue to cut short their breast-feeding and leave their babies in the care of grandmothers, pseudoscience continues to promote the health benefits of milk substitutes, poor rural families continue to dilute costly formula with unclean water and remain reluctant to take sick babies to hospitals they cannot afford, and greedy companies and merchants continue to try to make a quick buck by taking advantage of a weak regulatory structure staffed with corrupt local officials.

Shortly after the scandal, a CCTV network investigation found thirty-three of the blacklisted brands still available in the local markets, as there is no mechanism in place to enforce a recall or ensure quality standards. Not surprisingly, within a year another outbreak of big-head babies occurred in Hunan province. And in 2008, an even bigger milk and milk formula scandal occurred. This time the culprit was not the absence of protein but the presence of a dangerous chemical, melamine, which was added to poor-quality milk to make it appear to have more protein. The adulterated products poisoned an estimated three hundred thousand Chinese, hospitalized nearly a thousand infants, and killed six.

Response to Poorly Made Products and Counterfeits

To restore domestic and international confidence in Chinese goods, the government has engaged in a number of high-profile reforms and crackdowns. In response to U.S. and EU pressure, it periodically gets tough on counterfeiters by seizing millions of CDs, DVDs, and VCDs—often theatrically steamrolling the massive piles of contraband. Between 2001 and 2005, for example, the national government claims to have seized 500 million pirated discs and to have dispatched thousands of agents to check CD and software dealers nationwide. In the summer of 2004 alone, Chinese authorities made 555,000 inspections of audio-video businesses, confiscating 154 million DVDs and VCDs and impounding some 6.5 million fake foreign trademark labels and 10,000 machines for counterfeiting such labels. The government also established a hotline number—12315—for the public to report trademark violations.

In the mid-1990s, with its WTO application hanging in the balance, China adopted another way to demonstrate that it was aggressively countering counterfeits and cracking down on intellectual property rights violations: officially encouraging consumers to defend their "rights" through a quasi-governmental organization, the China Consumers' Association (CCA). Founded in 1984, CCA was viewed by the Communist Party as an opportunity to align itself and its image as "the defender of consumers" even as it sought to help Chinese companies survive foreign competition at home and maintain markets abroad by ensuring quality. In the 1990s important consumer protection laws were adopted by individual provinces—with penalties imposed for consumer fraud, contracts provided to renters, and exchange and refund policies ensured for consumers—followed by national laws regarding product quality (1993), unfair competition (1993), consumer protection (1994), and advertising (1995). *Consumer* is now a term that permeates the Chinese political vocabulary.

The banner of consumer activism has allowed disgruntled Chinese to voice a much wider variety of social complaints as aggrieved "consumers" than they can as aggrieved "citizens." State-sponsored organizations such as CCA work to direct consumer interest away from politics and into learning about products. In consumer cultures such as the one emerging in China, a country is populated by "consumers" focused on their own private choices and individual gains, such as what car to buy, rather than "citizens" concerned about the public good, such as whether creating a car culture and economy is better than investing in trains and public transportation. In this way, China is creating not only a consumer culture but consumer politics similar to America's.

The CCA began modestly—just fifteen people and a tiny office without its own labs, lawyers, or large budget—but it quickly emerged as a national consumer protection organization of more than 3,000 county-level consumer associations and 156,000 branches in villages, small towns, and cities, with some 27,000 full-time employees, 102,000 council members, and 93,000 volunteers. CCA members come from government departments, social organizations, press circles, local and regional affiliates, and consumer representatives. Its responsibilities include providing consumer information, mediating consumer complaints, helping consumers file suits, and exposing and publicizing consumer fraud.

In its first few years alone, the organization received some twenty thousand letters from angry consumers, which were often resolved by confronting manufacturers. Nearly two thirds of these complaints concerned electrical appliances, not surprising given the huge demand but uneven availability of television sets, refrigerators, and washing machines in the 1980s. By the end of 1996, the CCA had investigated nearly three million cases in a variety of areas, including poor quality goods, dishonest advertising, false labeling, overcharging, food poisoning, wrongful body searches by store guards, and breaches of contract, and had recovered 1.29 billion yuan for consumers. The number of cases has grown exponentially; according to CCA statistics, by the end of 2004, the CCA had accepted more than eight million cases, settling 96 percent and recovering over 6 billion yuan.

The CCA has promoted numerous activities to inculcate the notions of both consumer rights and responsibilities. Every March 15 since 1986, the CCA has organized China's annual participation in World

Consumer Rights Day with street performances, exhibitions, and symposia. Like the mass mobilizations of earlier decades, these annual events are organized at national, regional, and local levels. For example, the CCA organizes educational events at companies and schools, setting up workshops to educate consumers on consumption-related issues. Each year, the CCA selects a consumer-related theme, such as the use of credit, rural consumption, consumer safety, or green consumerism. In 1991, consumer rights organizations in two thousand Chinese cities held activities designed to encourage consumers to join in efforts to improve product quality. As a result of these yearly campaigns, the date March 15 has been incorporated into the organization's emblem and is now a symbol for consumer protection; since 2000, it appears on product packaging as a guarantee of product and service quality. The CCA also has other outreach activities, such as *China Consumer Reports* magazine, which began as a monthly in 1994; modeled on the U.S. *Consumer Reports* and the UK *Which?*, it does not accept advertising and it conducts comparative product testing and investigations and issues consumer warnings. The organization also fields hundreds of thousands of calls on a consumer hotline established in 1999.

Government efforts to protect consumers have been joined by similar efforts by private individuals and groups. Perhaps the most notable of these is Wang Hai, whose crusade against counterfeits has earned him considerable media attention and accolades as a "fake-fighting hero." In 1995, Wang, a high school dropout and salesman who had taken a legal correspondence course, used a little-known section of China's new consumer protection law, Clause 49, to demand compensation for fake products. The clause stated that businesses committing fraud must compensate consumers with double the purchase price. Buying a pair of Sony earphones at a local department store that he knew were fakes, Wang sued and won. For the next two years, he traveled the country buying fakes in bulk from retailers and manufacturers. Rarely seen or photographed without his trademark dark sunglasses, which he claimed were to mask his identity from vindictive merchants, in 1997 he formed Beijing Dahai Consultants, which included a network of some two hundred undercover investigators across China. Wang's much-publicized exploits have proven useful to Chinese and foreigners alike. The Chinese government and the official media, keen to demonstrate China's efforts to crack down on piracy, honored Wang as emblematic of its own periodic campaigns. Foreign governments, including the United States, have found applauding the efforts of Wang Hai and other activists a convenient means of urging greater protection of IPR throughout China; in 1998, Wang even met the visiting president Bill Clinton in Shanghai.

Wang is, of course, the best brand for Dahai Consultants, which is just one of an increasing number of similar firms. Frustrated international and Chinese brand owners unwilling to wait for local authorities to get around to enforcing their rights have turned to private investigators. At least twenty counterfeit-busting detective companies now comb the Shanghai streets looking for pirated products. After identifying culprits and collecting evidence, they call the Administration for Industry and Commerce to shut the business down. International owners of IPR have also formed a trade association to promote their common interests and help the Chinese government enforce the law. The first was the Anti-Counterfeiting Coalition (ACC), founded in 1998 and reorganized and expanded to more than 120 companies in 2000 as the Quality Brand Protection Committee (QBPC), which is a unit of the China Association of Enterprises with Foreign Investment (CAEFI).

Shanzhai Culture

A recent manifestation of this hybrid consumer culture permeated with fakes is a cultural phenomenon known as *shanzhai*, from a term originally referring to a remote mountain stronghold beyond the reach of the government, where bandits (or, in this case, underground factories) could hide from the authorities. First applied to counterfeit consumer electronics such as cell phones and laptops with names nearly identical to their originals (Sumsung for Samsung and Nckia or Nokir for Nokia), the term has become a popular way to describe anything that is unofficial and unregulated, even celebrity look-alikes. There are, for instance, professional imitators for nearly every Chinese pop star, including three shanzhai Jackie Chans, and instant parodies of successful TV series, including *Ugly Wudi* (for *Ugly Betty*) and *Number One Prison of the Orient* (for *Prison Break*).

Although shanzhai products resemble their well-known counterparts in appearance and name, they are not passed off as fakes but offered as imitations of famous brands that provide significantly lower prices and sometimes more features. In many cases, shanzhai products are sold openly, even through late-night television ads promising equivalent quality at a third to a tenth of the original's cost. Some ads go a step further and suggest that buying Chinese shanzhai products is patriotic—consumers may gain the benefits and pleasures of foreign brands without providing profits to foreign companies. Take cell phones, perhaps the most commonly sold shanzhai product. The Apple King brand shanzhai cell phone imitates the appearance and performance of the Apple iPhone but costs 499 yuan rather than 4,000. Although shanzhai cell phones have been around for only a few years, they have already captured an estimated fifth of the Chinese market and are quickly spreading abroad. Such products therefore are providing the growing consumer base of less affluent Chinese with access to otherwise unattainable luxury products. As a twenty-five-year-old salesman from Shanghai said of his purchases of a shanzhai phone, MP3 player, and watch, "They were usable and cheap. They look exactly like real ones and make me cool. That's enough for me."

The shanzhai phenomenon also enables smaller Chinese manufacturers to experiment with branding products higher up the value-added chain without having to pay value-added taxes or comply with costly regulations, thereby creating an intermediary zone between simply producing licensed products for a brand owner (such as a Chinese manufacturer making Nokia phones) and developing their own brands (as with the regulated Chinese cell phone maker Bird). In the case of cell phones, a Taiwanese chip manufacturer, MediaTek, made the small-scale production of customized phones easier, allowing nimble underground factories to imitate stylish brands and even respond to the market by adding features, blurring the line between imitating and originating. They have also benefited from policy changes such as the deregulation of phone manufacturing by discontinuing requiring a license to manufacture them. In any case, these products are eating into the profitability of established brands and forcing them to lower their prices and profits, especially the mid-tier Chinese brands aimed at those who cannot afford the more expensive foreign brands.

Considering these benefits for many Chinese producers and consumers, it is little wonder that shanzhai culture has gained a level of social acceptance not accorded outright counterfeits. Many see it as a creative appropriation of technology in response to "grassroots culture," especially when it involves tinkering with the original to add features demanded by Chinese consumers, such as dual-mode SIM cards to allow two phone numbers, firewalls to block incoming calls from anyone on your blacklist, analog TV-watching capabilities, theft deterrent, and solar batteries. Such localization, and the fact that shanzhai products sometimes outperform the originals, makes civic-minded consumers more comfortable with violating the intellectual property rights of multinationals. As in English, the Chinese terms for "pirated" (*daoban*) and "counterfeited" (*jiahuo*) have negative connotations, implying stealing and inauthenticity. As one twentysomething female friend explained to me, "I feel 'counterfeit' is a negative word and so buying 'counterfeits' is shameful. But shanzhai to me sounds cute, creative, and interesting." Some go so far as to see shanzhai products as a form of popular consumer resistance to elite culture and elite monopolization of expensive brands enjoyed by a small fraction of the population.

At the same time, many things about shanzhai make the government, business leaders, and consumers nervous. According to a survey by the Shenzhen Mobile Communication Association, by 2008 there were at least ten thousand shanzhai companies in China churning out more than ninety million electronic products. As with the counterfeit industry, shanzhai manufacturers have become a huge vested interest of their own, employing 2 to 3 million people. There are also safety concerns with shanzhai products, which the Chinese Consumers' Association calls "three withouts" because they lack a production date, certification, or named manufacturer, making it impossible to monitor or enforce compliance with safety regulations. In the case of cell phones, the CCA warns of dangers such as inferior batteries that may fail or even explode and the difficulty of identifying the responsible defect or culprit. But judging by market share, clearly many consumers are willing to take such risks to have access to more stylish products.

If global consumers are concerned about the safety of such Chinese imports as toys, paint, and drywall, imagine what it's like to be a consumer in China, where the authenticity and quality of everything in your life is suspect: the food you eat, the water you drink, the pills you put in your body, the building you live in, the computer you use, the airplane you fly in—right down to the "Mont Blanc" pen you may use, say, to write a book manuscript. The uncertainty created by Chinese counterfeits is making consumer life in China unpredictable and tainting the "Made in China" label or "Brand China," even for international brands manufactured in China. At the same time, counterfeits and imitations are allowing more Chinese consumers to enjoy the fruits of industrialization without the expense of high-end brands, further consolidating the creation and spread of a consumer culture in the world's most populous nation. The standard line among international interests with the most to gain from access to that burgeoning market is that as China comes to own more IPR of its own, it will have a greater vested interest in protecting everyone's IPR. That explanation, however, assumes a massive state capacity to protect IPR that China may not have, doubly so if production technology is sufficiently diffused and if local governments have an economic and therefore political stake in unregulated production. In the end, consumer desire and local unemployment may pose a more serious threat to Chinese leaders than New York lawyers.