

## The Age of Soft Protectionism

The US government has famously stonewalled the expansion attempts of a number of Chinese companies over the past decade. Though Shineway's recent successful acquisition of Smithfield indicates the US government is loosening its grip on some sectors, it's certainly still true that things don't always go smoothly. The 2011 report "An American Open Door?" issued by The Center on U.S.-China Relations, Asia Society, and Kissinger Institute on China and the United States<sup>1</sup>, points out that "The United States has an effective mechanism in place for addressing [national security] concerns, but there is an ever-present risk that as investment patterns change, the issue will be politicized in ways that will deny the United States the potential benefits of these investments." Do recent obstacles faced by Chinese companies trying to expand to the US constitute a new form of protectionism?

On the flipside, the CPC has famously been using state-run media to criticize foreign multinationals. Targets have included Apple, KFC, Starbucks, and most recently, Samsung. Though the cases differ in the nature and validity of specific allegations, on the whole they present compelling evidence of a strategic campaign to take the shine off major foreign brands. Can we understand the tactics of Chinese state-run media as China's own form of neo-protectionism, either in retaliation or apart from what Chinese companies have faced abroad? If so, what are the motives behind these strikes and counterstrikes, and what do they mean for Chinese companies with their sights on US consumers, and vice versa? We examined the headline-making cases of Huawei, Apple and Fonterra in each company's attempts to do business abroad in order to shed light on bilateral government and consumer relations management in the post-WTO era. Our main focus was on how individual consumers interpret these governmental actions, which we examined with the Crimson Hexagon Foresight social media sentiment analysis tool.

Huawei, the Chinese networking and telecommunications giant, has encountered many challenges in its planned expansion to Europe and America. At the end of 2012, the House Intelligence Committee concluded an 11-month investigation of Huawei with a report concluding that Huawei posed a "security threat" to the US. Months later, on World Consumer Rights Day of this year, CCTV aired a special report criticizing Apple stores' after-sales iPhone customer service policy in China. The story quickly gained widespread attention, and Apple's lack of immediate response induced even more negative coverage from Chinese media.

Our social media analysis showed that both companies enjoyed neutral to favorable reputations in their target markets before these state-directed reports came out, and we were curious to what extent public opinion towards Huawei on Twitter and Apple on Weibo changed after these events. We were also curious to see whether consumers expressed any opinions regarding their respective governments' tactics.

Our analyses show that today's consumers are internationally aware but not particularly nationalistic, much less xenophobic, about foreign companies. While governments rattle their

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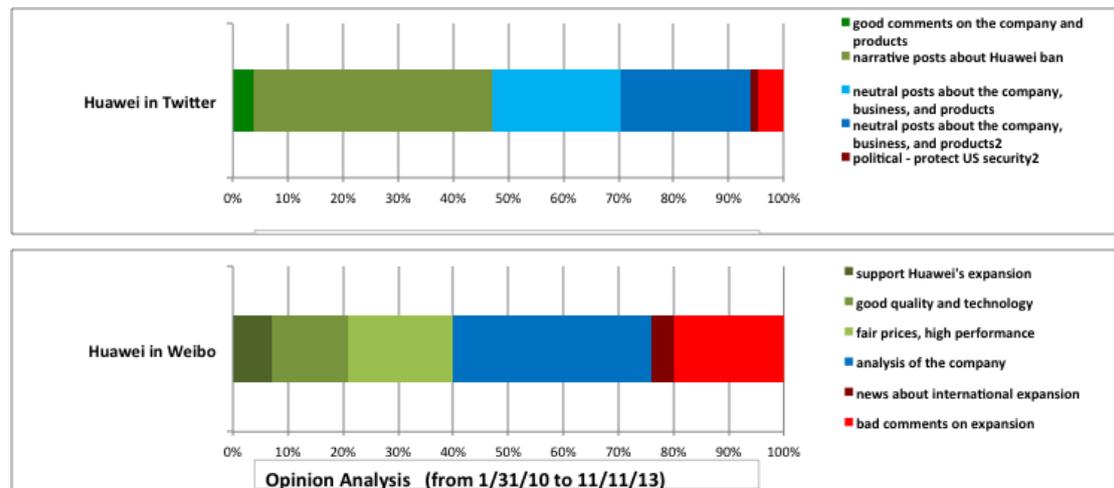
<sup>1</sup> AN AMERICAN OPEN DOOR? Maximizing the Benefits of Chinese Foreign Direct Investment, Daniel H. Rosen and Thilo Hanemann, May 2011

sabers, individuals on both sides of the Pacific appear to take a much more measured approach. Furthermore, Chinese netizens are deeply skeptical of media efforts to discredit foreign companies and suspect ulterior motives, suggesting that such efforts may be backfiring in the long term.

**Huawei: consumers at home are more opinionated than those in the US**

When we compared Huawei’s reputation inside China with its reputation in the US, we found that Twitter conversations tended to be more neutral and descriptive while Weibo conversations were more strongly opinionated (mostly positive). Though this can be partly explained by the more limiting nature of 140 characters in English, we also saw that most conversations about Huawei on Twitter were simply retweets of news.

*Graph 1: Category mix comparison between Twitter and Weibo*



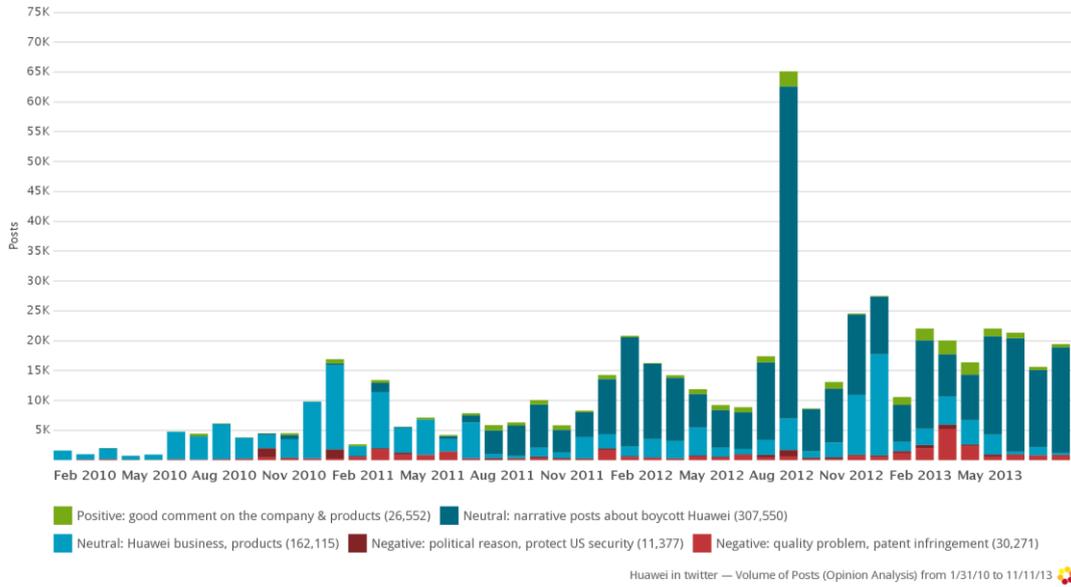
*Graph 2: Net sentiment comparison between Twitter and Weibo*



Net Sentiment Comparison from 5/23/08 to 9/24/13

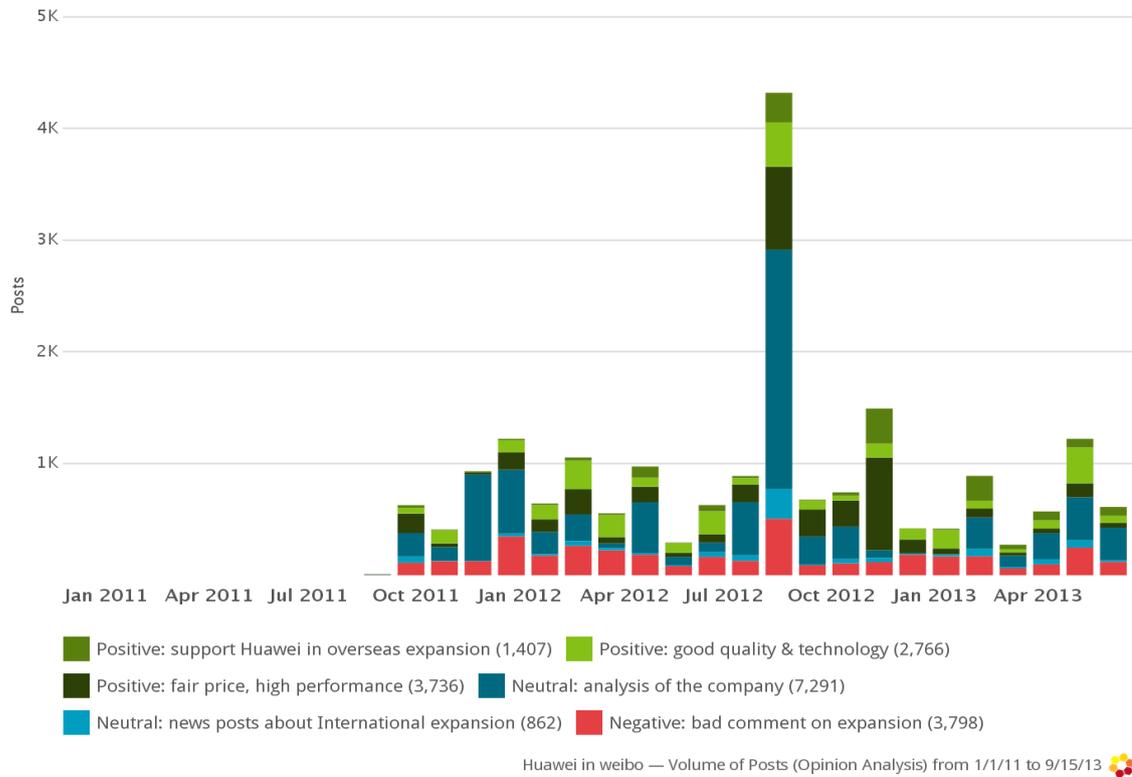
Neutral posts are nevertheless illustrative: while most neutral posts before news of the House report were about Huawei’s products and business, the report itself generated a large volume of posts. Americans may not have had too much to say about the event, but they were certainly paying attention.

*Graph 3: Monthly Opinion analysis trend & ratio from 2008-05-23 to 2013-09-24 on Twitter*



Similarly, on **Weibo**, there was a spike in “informational” posts in September of 2012.

Graph 4: Monthly Opinion analysis trend & ratio from 2011-01-01 to 2013-09-15 in Weibo



Not surprisingly, Chinese people’s reactions to the House report were largely negative:

政治无处不在，即使市场经济高度发达的**美国**。政治本来就是一个婊子，只为实现自己利息最大化，别指

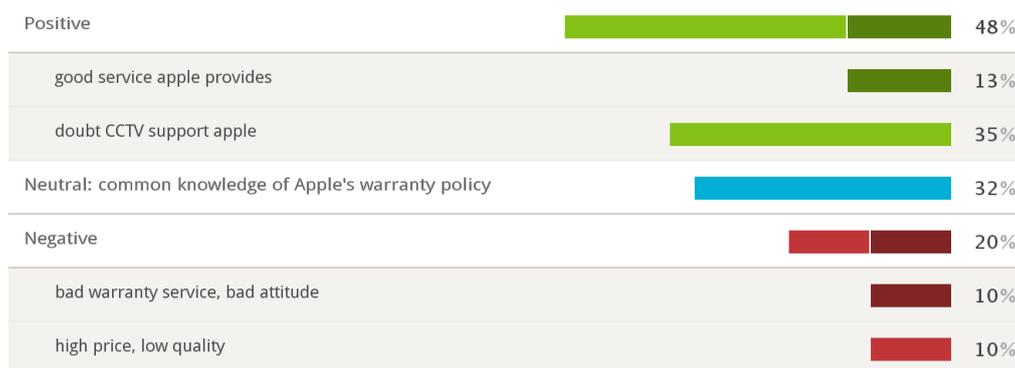
望任何政治团体代表自由，民主。Politics is everywhere, even in the US where the market economy is highly developed. Politics has always been a bitch, only exist to realize their maximum interest, never expect any political organization to represent freedom and democracy.

In this case, the Chinese public largely aligned with their government in viewing Huawei as a victim of American nationalism and free market hypocrisy. Posts about the company itself remained generally positive, focusing on Huawei’s good quality, fair prices, and good overseas performance. Thus, we can conclude that average Twitter users in the US don’t have a strong opinion on Huawei and are ambivalent about the national security implications, whereas Chinese people have a favorable view of the company’s products and background, but not much faith in the company’s ability to overcome political obstacles overseas.

### Apple’s media war in China

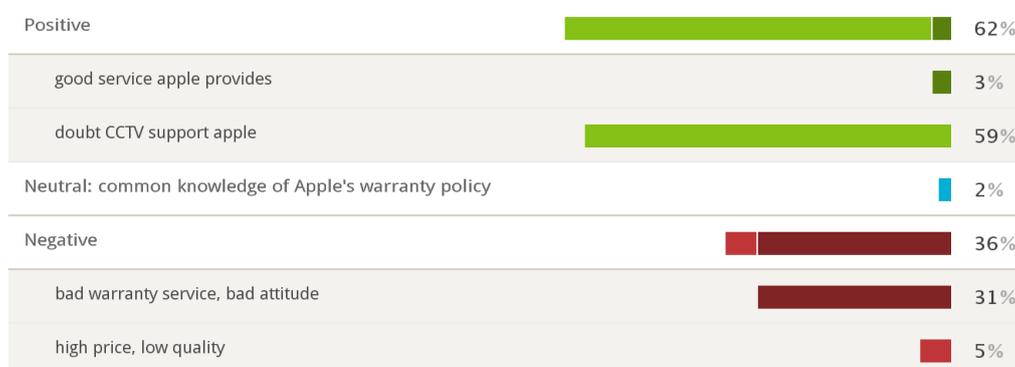
Apple’s warranty policy and overall quality came under the spotlight after CCTV’s March broadcast. Below are two graphs comparing sentiments about Apple on Weibo before and after this event. Interestingly, the overall point is that both positive and negative sentiments increased due to the coverage. In other words, Apple became more controversial.

Graph 5: Opinion analysis from 2011-01-01 to 2013-03-01 (before CCTV report)



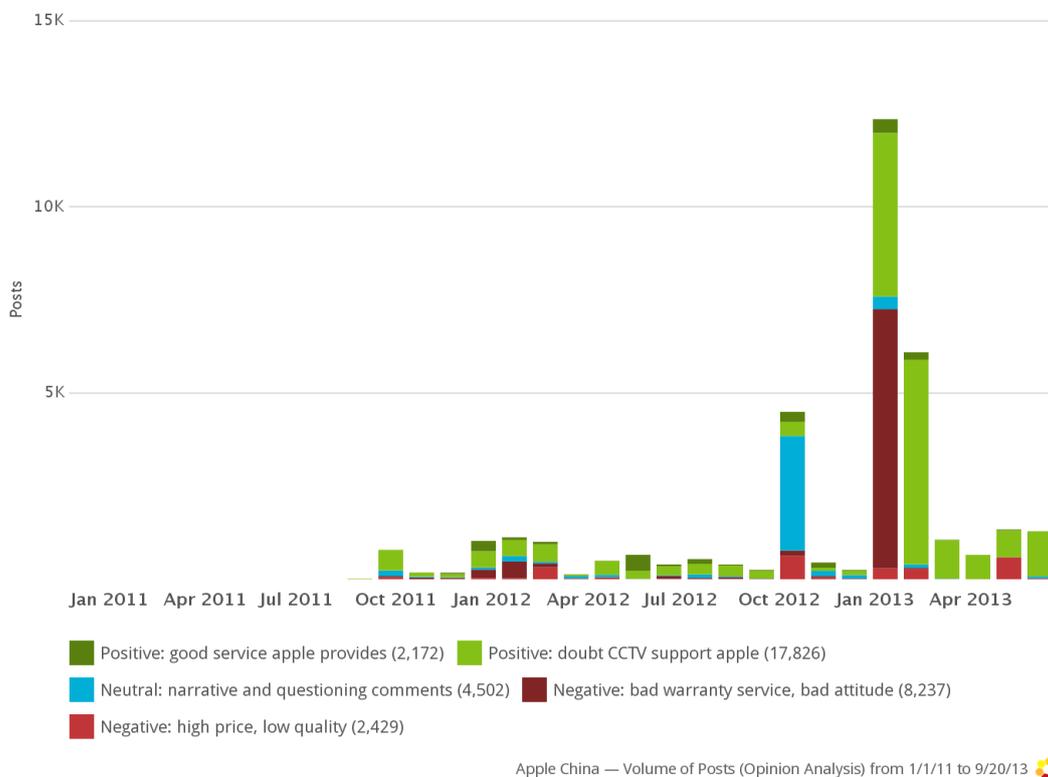
Apple China — Opinion Analysis from 1/1/11 to 3/1/13

Graph 6: Opinion analysis from 2013-03-01 to 2013-09-25 (after CCTV report)



Apple China — Opinion Analysis from 3/1/13 to 9/25/13

Graph 7: Monthly Opinion analysis trend from 2011-01-01 to 2013-09-20



A telltale Weibo post ending with the words “send at 8:20pm” revealed that CCTV had actually paid several Weibo users with large followings (online celebrities known as ‘Big V’ users) to criticize Apple after the broadcast. Below is a post from one such user, Liu Jishou, that was also proven to have been arranged by CCTV.

@LiuJishou: # 315 in action # apple, you have pocketed enough money in China. But your computer warranty period in US is two years, in China, it is one year; the warranty period of your cell phone in the US is recalculated after repairs but in China is not. US companies promote fair and equitable dealings, why are you playing this double standard in China? You made a big mistake.<sup>2</sup>

CCTV had already been losing public trust after the veracity of several previous company exposes was questioned: a CCTV reporter was charged with extorting money from Da Vinci, a furniture company revealed by CCTV to be selling fake products, in exchange for silencing the reports.<sup>3</sup> When CCTV reported in July that KFC and McDonald’s ice cubes were “twelve times dirtier than toilet water,”<sup>4</sup> some experts claimed CCTV’s investigation was unscientific, and Weibo users joked they would eat KFC ice cubes if CCTV reporters drank toilet water. CCTV’s Apple

<sup>2</sup>留几手: #315 在行动# 苹果, 你在中国赚足了钱。可你的电脑在美国保修期是两年, 在中国却是一年; 你的手机在美国维修后保修期重新计算, 在中国却不是。提倡公平公正的美国企业, 为什么要在中国玩这套双重标准呢? 你摊上大事了。

<sup>3</sup> <http://english.caixin.com/2012-01-04/100345676.html>

<sup>4</sup> <http://english.peopledaily.com.cn/90778/8341967.html>

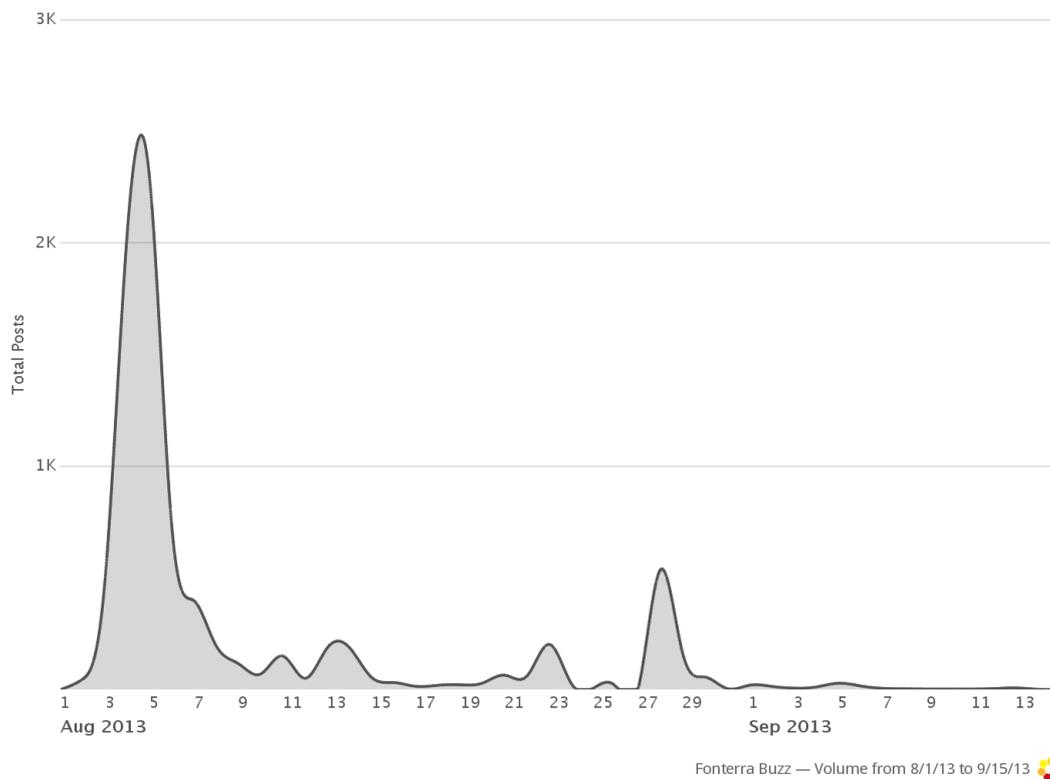
broadcast was another backfire, as Apple's share price actually increased by 2.1% the next day. Through this dramatic reversal, Apple won the public opinion war.

Even after the Weibo fix was revealed, CCTV and other government aligned media sources continued criticizing Apple. For many Chinese netizens, the incident read as an unfair fight between the Chinese government and the American company. Given how such attacks seem to backfire, just how effective are they as a form of soft protectionism?

### Unbalanced coverage of Fonterra

Another case, Fonterra, sheds more light on this question. When Fonterra's dairy products were found to possibly contain a type of bacteria that could cause botulism, China immediately suspended imports of all whey protein and milk-based powder sourced from the New Zealand company. On 14 August 2013, Fonterra's head of its milk products business, Gary Romano, resigned over the scandal. In late August 2013, laboratory test results revealed that the bacteria found in the whey protein concentrate manufactured by Fonterra was clostridium sporogenes rather than botulism-causing Clostridium botulinum. Chinese customers could breathe a sign of relief – that is, those who knew about the test results. News of the contamination swept Chinese social media, but news of the false alarm hardly made a blip.

Graph 8: Daily volume of Weibo posts about Fonterra from 8/1/2013 to 9/15/2013

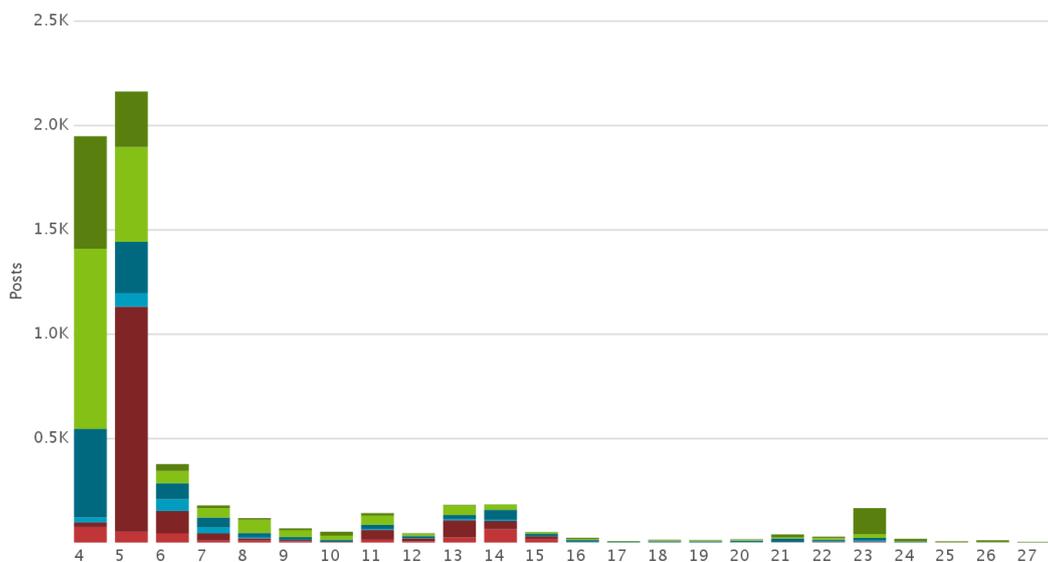


Interestingly, right after the New Zealand government announced Fonterra products were contaminated, negative posts about Fonterra began growing on Weibo, *but so did positive ones*.

People were scared, but negative sentiments began decreasing on the 4<sup>th</sup> of August, when Fonterra started the recall. Positive comments, on the other hand, kept growing. Part of the reason may be netizens' well-established mistrust of their government and state-run media.

*@ Huang Qian Hebbe: Firstly, Fonterra daring expose itself shows this enterprise's responsibility. Secondly, domestic milk like Dumex can be assured to drink safe, because they do seem to be imported from New Zealand. Thirdly, the development of domestic milk powder market can't depend on some authorities' grabbing errors of foreign milk powder. Fourth: why not apply this inquisitive spirit to melamine event. Fifth: you reported to yourself, I drink by myself. Forward microblogging @ CCTV News: # New Zealand milk powder detected botulinum # [Summary: Stakeholder "poisonous" List] dairy Botox can damage the nervous system, severe potentially lethal. Currently According to the briefing, problem brands of whey protein concentrate powder and raw milk involving New Zealand Fonterra, dairy products brand: Cow & Gate, Nutricia West Ruikang, Dumex overpayment home, excellent shellfish protection order formula, Wahaha cool crooked crooked, Minute Maid milk excellent pineapple flavored drinks, product details, please poke following figure!<sup>5</sup>*

Graph 9: Daily Opinion analysis trend after the recalling (from 2013-08-04 to 2013-08-27)



Chinese media seized the opportunity to cast doubt on foreign brands, running headlines like "Could the worship of foreign milk powder be coming to an end?" and "The myth of foreign milk powder is collapsing," but Chinese netizens reacted to the coverage somewhat differently. Below is

<sup>5</sup> @黄茜 Hebbe:第一: 恒天然敢自曝说明这个企业有担当负责任 第二: 国产奶粉以后可以放心喝多美滋, 因为他们的奶源看来确实是从新西兰进口的 第三: 国内奶粉市场不是某些部门揪着洋奶粉的差错不放就能扶持起来的 第四: 三聚氰安事件时怎么不发扬这种刨根问底的精神 第五: 你报你的、我喝我的。转发微博@央视新闻: #新西兰奶粉检出肉毒杆菌#【汇总: 涉“毒”乳品一览】肉毒杆菌可破坏人的神经系统, 严重可能致死。目前据通报, 涉及新西兰恒天然问题浓缩乳清蛋白粉及原料的乳粉、乳品品牌有: 牛栏牌、纽迪西亚可瑞康、多美滋多领家、优阶贝护配方奶粉, 娃哈哈爽歪歪、美汁源果粒奶优菠萝味饮料, 产品详情请戳下图!

a popular post from Xinhua News criticizing foreign milk. Many people who reposted it expressed doubt about Xinhua's motives and praised foreign companies' responsibility in dealing with the incident.

*This time the media has something to say, don't criticize me, your food is also contaminated. Wait a minute, they took active detection, timely open to the world, which is essentially different from your tainted milk companies who intended to conceal for many years, resulting in nearly 300,000 infants poisoned and five killed. // @ Falling in the Southern Hemisphere: food security problem is all over the world, the difference is that the Chinese poison deliberately. Forward microblogging @ Phoenix Finance: [Xinhua News Agency: Western food should not be overly superstitious] New Zealand dairy giant Fonterra announced on the 4th, three batches of whey protein concentrate were detected of botulinum. This undoubtedly splashed a pot of cold water to these who believed in the "foreign milk powder". The myth of "100% Pure" "foreign milk powder" was broken. This once again shows that food safety issues exist everywhere and we should take objective look and act calmly, which should be a rational move. <http://t.cn/zQoiw5T><sup>6</sup>*

In contrast to the reporting bonanza surrounding the recall, Chinese traditional media barely covered the false alarm: there are some 395,000 hits on Baidu News for 恒天然, Fonterra's Chinese name, between August 1<sup>st</sup> and August 8<sup>th</sup>, and just 93,600 from August 28<sup>th</sup>, the day of the recall's reversal, through November 4<sup>th</sup>.

According to some media sources,<sup>7</sup> sales of New Zealand milk powder fell by 50 percent in half a month. Danone is also seeking 270 million dollars' compensation from Fonterra for its losses due to the WPC (whey protein concentrate) botulism scare. There is no question the recall was very costly, but whether any of the players will suffer (or enjoy) long-term reputational effects remains to be seen. Fonterra's stock suffered a dip in the early days of the recall but has since mostly recovered; any gains made by Chinese dairy companies were similarly fleeting. What's more, in late October, Fonterra announced it would be introducing its first baby formula in Chinese markets.<sup>8</sup>

## Conclusion

We believe Huawei's and Apple's problems were likely variants of the same neo-protectionist mindset, and Fonterra's case illustrates the opportunistic coverage of events that fall within that same agenda. In the US, national security is the perpetually valid and perpetually inscrutable rationale given in all sorts of controversial policy decisions. In fact, it's the only allowable reason for blocking foreign direct investment (FDI). In China, the government rarely blocks investments

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<sup>6</sup> 这下媒体有话说了，还说我，你的食品照样有毒。且慢，人家是主动检测、主动并及时向全世界公开，跟你的毒奶粉有意隐瞒多年、造成近 30 万婴幼儿中毒、其中死亡五人有着本质区别。 // @ 飘落在南半球: 全球食品安全都有问题，中外不一样的是中国是故意下毒。转发微博@凤凰财经:【新华社：不应过度迷信洋食品】新西兰乳制品巨头恒天然集团 4 日发布消息，在三批次浓缩乳清蛋白中检出肉毒杆菌。这无疑给信奉“洋奶粉”的人当头泼了一盆冷水，“洋奶粉”“百分百纯净”的神话被打破。这也再次表明，食品安全问题中外皆有，客观看待，冷静应对，方乃理性之举

<sup>7</sup> <http://finance.sina.com.cn/china/20130824/071916550413.shtml>

<sup>8</sup> [http://www.bloomberg.com/news/2013-10-28/fonterra-to-sell-its-first-china-baby-formula-in-expansion-drive.htm](http://www.bloomberg.com/news/2013-10-28/fonterra-to-sell-its-first-china-baby-formula-in-expansion-drive.html)  
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altogether, but is always able to unleash state media to sink economic fortunes while maintaining plausible deniability. In both cases, true motives are opaque.

As China seeks ways to transition toward mature growth and avoid the middle-income trap, the CPC has reason to want a level playing field for Chinese companies. But protectionist tactics are at best unnecessary and at worst, backward. Chinese firms such as Shineway, Wanda, Tencent, and Xiaomi have all been making waves overseas, and Chinese consumers actually have a lot of pride in Chinese companies – just look at Huawei.

The events surrounding Huawei, Apple, and Fonterra have long ceased to be hot topics on social media. Though each company still enjoys overall favorable sentiments netizens, there's no question each company has suffered, to varying degrees, from government-erected obstacles tactics. Even Apple, whose direct financial losses were minor, had to give a rare public apology about the whole affair, with CEO Tim Cook promising to revamp customer service policies in China.

As is the case with traditional protectionism, each government's tactics not only degrade the ease of doing business in their home countries and discourage FDI, but in addition they may also make it harder for domestic companies to expand abroad. If governments aren't transparent in their actions, they may be inviting payment in kind. Furthermore, politicizing business deals also has the unintended effect of alienating consumers on both sides. Americans seem ambivalent about national security concerns while Chinese netizens decry meddling both from the US government and their own. Chinese consumers, poised to become the most important group of consumers in the entire world, simply want to play ball: they want Chinese companies to succeed abroad just as much as they want access to gold iPhones and imported milk powder at home. Neither government can risk losing them.