

A Critical Exploration of How China's Regional Markets Differences Influence MNCs' Strategy

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ABSTRACT

Not all MNCs can make a profit in China despite the massive market opportunities. MNCs which believe China is a homogenous market have failed to benefit from China. The evidence gathered in this research paper shows that China has many submarkets. These submarkets show differences in region, culture, incomes, and lifestyles. The goal of this research paper is to examine the differences among the different region's consumers in China as a way to determine the opportunities and risks for businesses to enter the Chinese market. The research applies secondary data from a consumer market survey in China. Analysis of Variance (ANOVA) analysis is used to determine the statistical significance of the various regional markets in China, and the information obtained from the analysis indicates that the regional markets were considerably different in various aspects, such as the incomes of the consumers. Various studies have attempted to explain specific groups of consumers in the Chinese market, but they were restricted in the validity of the sample and geographical coverage. This research attempted to explore the regional variations in the characteristics of consumers and their implications for the marketing techniques employed by companies and examine how China's regional markets differences influence MNCs' strategy to develop regional consumer markets in the key urban areas in China.

Keywords: *Multinational corporations (MNCs), Analysis of Variance (ANOVA), Chinese market, regional market.*

1. INTRODUCTION

China is among the big emerging markets in work, and the growth of the consumer society has seen the entry of many MNCs into the country. At least 400 of the top 500 global businesses have a presence in China [1]. MNCs from different sectors have taken a position in the nation to serve the rising consumer demand and to gain an advantage before competitors who yet to realize the potential of the market. Some global enterprises have attained significant success and expanded to various regions within the Chinese market.

While some MNCs have established their presence throughout China, others have suffered slow growth and continued poor performance [2]. MNCs see the attractiveness of the size and growth of the consumer markets in China, but they overlook the differences among diversification consumers in consumption capacity [3]. Managers of MNCs sometimes hold the wrong conception that consumer markets in China are a huge market comprising of homogeneous consumers [4]. The reality is that China has large geographic regions with significant disparities in terms of the social,

economic, and cultural status. As multinational corporations converge in the markets and expand the size of their operations these MNCs begin to fail because they did not realize the regional differences in culture, economic development and consumer purchasing power [5]. The smoothness of growth and efficiency of operations have encountered considerable barriers. Therefore, knowledge of the differences among diversification in consumer consumption capacity is critical for the success of MNCs in China. The present analysis explores the regional market of China based on the characteristics of the consumers and their consumption patterns and draws the implications for the marketing strategies used by MNCs.

2. LITERATURE REVIEW

At the macro-economic level, the country's Nominal GDP in 2020 reached US\$ 14.72, making it among the largest economies in the world [6]. The country has also welcomed considerable foreign participation in the retail industry. A rapid growth in the purchasing power of consumers and changes in the spending patterns of the

Chinese have increased sales of most consumer goods in the country. Due to such exponential increase of the market size, MNCs have continued to enter the Chinese market with the goal of making everyone in the country a customer. As a result, FDI flows into the country have continued to rise.

Yet, one of the biggest problems for MNCs entering big emerging markets is the assumption they make that these countries have a huge, single market [3]. Evidence suggests that the evolution of modern big emerging markets is less likely to follow the same development process as the one in developed countries [5]. As a modern big emerging market, most of the consumers in China are characterized by significant economic disparities depending on regional. In China, metropolitan areas such as Shanghai have been used as the basis for understanding Chinese markets, but there are plenty of sub-markets in China at the same time [7]. There will be some differences between the sub-market and Shanghai, so metropolises such as Shanghai cannot represent China's sub-market. The income and expenditure potentials have the most significant influence on the consumption patterns of consumers in the Chinese market [8]. Thus, the regional differences in consumer purchasing power, economic infrastructure and supply chains often pose as barriers for multinationals to adopt the same strategies in the entire market. The hedonic shopping styles of Chinese consumers in the coastal and inland parts of China differ considerably [9]. For MNCs

to compete effectively, they need a proper understanding of the consumers in the market. Thus, knowledge of the regional diversity in China can aid enterprises to assess the opportunities and challenges in the market to implement effective techniques.

The significance of the regional disparities in China has been identified for a long time. The differences in the markets in China were named *The Twelve "Nations" of China* which means these twelve areas of China have different characteristic behavioral traits and favors [10]. In recent years, researchers have agreed with the geographic segmentation of the market in China based on a variety of factors, such as economic development, local culture and location [11]. The geographical segmentation of the market has considerable implications for comprehending the Chinese consumers and enhancing the marketing strategies, but studies on the geographic segmentation of China that rely on empirical evidence and representative samples of the consumers in China remains limited. Based on the level of economic development in China and the purchasing power of consumers, the following analysis proposes an examination of the various markets in China. Several provinces (Fig 1) will be used to designate the different markets in China in modern times (Fig 2). Different groups of China will be used to designate the various parts of China in modern times. The regions are close to one another when considered from a physical proximity perspective and the similarity of the cultures.



Figure 1 Provinces of China [12]



Figure 1 China's seven regional markets [4]

Regional markets in the East and South parts of China represent the growth markets. They are considered more advanced from an economic development viewpoint and have a higher number of affluent consumers compared to the hinterlands. The south part of the country is represented by Fujian, Guangdong, and Hainan provinces, as shown in Fig 1. The region has attracted considerable amounts of FDI due to the creation of economic zones by the Chinese government, and it has become the most outwardly focused. In recent years, the regional market in the south has continued to transform itself from the labor-intensive operations that characterized production and provision of goods and services to adopt technology as a means of production. Furthermore, the market has become more integrated with other regions of China. The government of Hong Kong is cooperating with other provinces such as Guangdong to realize greater technological advancement and economic growth [13]. On the other hand, Fujian has attracted many investors from Taiwan, and it has improved relations with the region. Fujian represents the culture of the southern part of China, that is, the Min-Yue culture. The regional market has considerable contact with the outside world and gives considerable emphasis to mercantile entrepreneurship. The consumers in Fujian are close to both Taiwan and Hong Kong, which has exposed them to foreign goods, and they tend to stress conspicuous consumption.

On the other hand, the East China regional market, which occupies the region surrounding the Yangtze River comprises Shanghai as well as the provinces of Jiangsu and Zhejiang, as shown in Fig 1. The regional market has

a dense population and is considered highly urbanized. The territory is productive due to its agricultural and industrial economies [14]. In recent years, Shanghai and the region surrounding it has risen to become the economic powerhouse in China. Shanghai contributed about 30% of China's GDP [15]. The regional market has also played a significant role in enabling the development of China's industrial and financial sectors. Consumers on the east part of China surrounding the Yangtze River are the most cosmopolitan and innovative, and they establish the trends in lifestyles and fashion.

MNCs entering the Chinese market must gain knowledge of the overall potential of the market as well as the differences in the regional markets. As MNCs keep investing in the country, knowledge of the regional differences among the consumers in China, their purchasing power and lifestyles are essential for MNCs to evaluate the demand in the local market accurately and to develop and execute effective marketing strategies. Various studies have attempted to explain specific groups of consumers in the Chinese market, but they were restricted in the validity of the sample and geographical coverage [16]. Minimal research has attempted to explore the regional variations in the characteristics of consumers and their implications for the marketing techniques employed by companies. Despite the acknowledgement of the diversity of the Chinese market, scholars have not covered the opportunities and barriers to the development of regional consumer markets in China. In this regard, the following research intends to address this issue. The goal is to examine how China's regional markets differences

influence MNCs' strategy to develop regional consumer markets in the key urban areas in China.

3. METHOD

3.1 Secondary Research

The analysis of the opportunities and barriers to the development of regional consumer markets in major cities in China will be based on secondary research. In this case, the investigator aims to analyze information obtained from a previous investigation of consumer markets in China, specifically a research report by the McKinsey & Company which has a long history of publishing market information from various countries such as China. The secondary data will come from a 2016 national survey titled The Modernization of the Chinese Consumer which examined the modern Chinese consumer [17].

3.2 Type of Data

The report provides critical information for this research. The study employed an interview approach using 10,000 individuals aged 18 to 65 years in 44 cities, representing the major regional markets in China [17]. McKinsey's professional workers conducted interviews that lasted at least one hour with each interview comprising of more than 50 questions from a structured questionnaire. The design sample and the coverage of the entire country in the survey make it nationally representative for different demographic groups and regions. The data from the report comprises the demographic information of the household, including their incomes, gender, age, location, and spending patterns. Therefore, the survey provides an extensive analysis of the market in China, offering an accurate depiction of urban consumers.

The nature of data used in the analysis is essential for a variety of reasons. Demographic information such as incomes can help in the discovery of opportunities in the market. For example, it can explain the consumer purchasing power because high incomes indicate the potential of people being able to afford goods and services and vice versa. Information concerning the incomes of people can also indicate the possible risks in the market. Stagnant or declining incomes can signify the likelihood of MNCs losing customers due to a reduction in their purchasing power. On the other hand, gender and age information can help to determine the size of the

market, and it can signify the risks involved in the market, particularly the potential of MNCs having a substantial core market in China that will allow the companies to cover their operational costs in the market. In this regard, the demographic data from the report will play a critical role in the current analysis.

3.3 Data Analysis

The regional differences will enable the identification of the opportunities and barriers of the development of the regional market in major cities in China. In this case, the researcher will create tables to explain the information regarding the various dimensions in the report [17]. The goal is to demonstrate the various dimensions that were tested using the analysis of variance procedure (ANOVA). Secondary data sources are useful in providing data and reducing the need for researchers to gather information. However, researchers can generate new meanings from information through the analysis of existing data. One of the ways to achieve this goal is to employ the ANOVA approach. ANOVA permits researchers to determine if divergences in the mean values of two or more three groups are significant or have occurred by chance [18]. ANOVA is particularly significant when assessing multi-item scales that are common in market research. For instance, the present research aims to determine the opportunities and barriers in the regional market in major cities in China. In this case, the paper will examine a variety of factors, such as the incomes of the consumers, their age, location and spending patterns. Therefore, the researcher can employ ANOVA to assess if the variance in these aspects of the consumers is statistically significant. Thus, the details will allow the MNCs to understand whether these factors have a considerable impact on the marketing strategies they choose to reach consumers in the market. For the ANOVA test to work in the secondary data, the researcher made some assumptions such as the normal distribution of the information, the independence of the cases and equality in each group's variance [17].

4. RESULT

Based on the expected increase in the average annual household income, the regional markets can be categorized into three distinctive stages of market development. South China and East China, with the highest annual household incomes of more than 30,000 yuan represent the growth markets (as shown in Table 1).

Table 1 The Seven Regional Markets of China.

Location	South China	East China	North China	Central China	Southwest	Northeast	Northwest
Sample size	1600	1400	1600	1300	1400	1400	1300
Income	33481	30659	18993	19831	20008	14683	13770
Age	41	43	40	39	42	42	38

Gender	Male	33.3	30.7	37.2	30.5	43.8	31	53.7
	Female	66.7	69.3	62.8	69.5	56.2	69.0	46.3
Spending Pattern	Increase	56	57	54	54	52	55	35
	Decrease	44	43	46	46	48	45	65

In the next three regions (North China, Central China and Southwest China), the annual average income is above 15,000 yuan. Lastly, the annual household income in the Northwest and Northeast regional markets still remains below 15,000 yuan.

The outcomes evidently show considerable differences among the consumers of the different regions in a variety of aspects that are statistically significant mainly at the 0.001 level. First, from a gender perspective, most of the households have a higher number of females compared to males (Table 1). However, East China, Central China and North-East China have the highest number of females with 69.3%, 69.5% and 69% respectively. The rest of the regional markets also have a substantial female population compared to the male, including South China (66.7%), North China (62.8%) and Southwest China (56.2%). The only region with a higher percentage of males to females is the Northwest part that has a male population of 46.3%. As for the spending of the households, the majority of the consumers noted that they expected their spending to increase with the only exception being the Northwest section. Table 1 shows that spending patterns of the regional markets where an increase in expenditure will rise to include South China (44%), East China (57%), North China (54%), Central China (54%), Southwest (52%) and Northeast (55%). From the information, it can be determined that the regions that will increase the highest rise in consumer spending are South China and East China.

Comparisons of consumption patterns demonstrate notable differences across the regions (Table 2). Most of the regions suggest that food, apparel, and healthcare products will comprise the highest spending items. Over 70% of the consumers in each of the regional markets state that food will take the highest percentage of their spending. However, the percentage of people in South China and East China who feel the same way is smaller compared to the other regions. Since these are the most affluent regions, the information shows that the wealthier regions have other priorities apart from food that will take a considerable share of their incomes. People in the poorest parts of China, specifically the Northeast and Northwest parts have the greatest spending on food. Another aspect of spending for the seven regions is apparel. In this case, the report reveals that more than 35% of the consumers in every region state that apparel will be the second-highest spending item. However, the

consumers in East China and South China have a higher percentage of 38% and 39%. The high expenditure on apparel in these regional markets can be attributed to the higher incomes in these regions. Another aspect of spending that took a considerable amount of spending is health care products. The consumer report indicates that at least 17% of the consumers in the regional markets planned to increase expenditure on health care products. The seven regional markets indicate that the consumers will increase their spending, but the level of the increment will differ considerably. As indicated in Table 2, the spending on apparel in the regional markets will rise in South China (20%), East China (19%), North China (19%), Central China (18%), Southwest (18.4%), Northeast (17%) and Northwest (17%). Based on the information, the regions with the highest level of spending on health care products are South China and East China. As noted, these regional markets have the highest levels of incomes, and the high salaries allow individuals to have a high disposable income that permits the consumption of different products. Apart from products, Chinese consumers are also spending their money on services. The main services that individuals in China consume include leisure and entertainment, travel, and personal care services (such as spas and massages). Table 3 shows the spending intentions of consumers if salaries increase. From the information, it can be determined that the South China and East China regions are the main markets that will be spending money on these elements. Table 3 shows that the spending on leisure and entertainment in the regions will be as follows South China (78%), East China (75%), North China (72%), Central China (68%) Southwest (68%), Northeast (52%) and Northwest (49%). Similarly, the increment in spending on travel shows that consumers in the South China and East Chinese markets will be the primary areas where there will be a significant increase in spending. In this case, the regions are rated as follows South China (86%), East China (82%), North China (70%), Central China (72%), Southwest (70%), Northeast (63%) and Northwest (54%). Lastly, personal care services also indicate that the South China and East Chinese markets will be the regional markets with the highest increase in spending. In this case, the information gathered from the McKinsey & Company report suggests that East China and North China will be the markets with the highest rise in spending. The percentage increase in the expenditure on personal care services will be as follows South China (67%), East China (72%), North China (73%), Central

China (66%), Southwest (63%), Northeast (61%) and Northwest (59%).

Table 2 Consumption Patterns for Various Commodities.

Location	South China	East China	North China	Central China	Southwest	Northeast	Northwest
Food	72	71	74	73	72	77	76
Apparel	39	38	36	37	36.2	35	35.3
Healthcare	41	43	40	39	42	42	38

Table 3 Consumption Pattern for Selected Services.

Location	South China	East China	North China	Central China	Southwest	Northeast	Northwest
Leisure & Entertainment	78	75	72	68	68	52	49
Travel	86	82	70	72	70	63	54
Personal Care Services	67	72	73	66	63	61	59

Brand loyalty is also becoming an increasingly common aspect of Chinese consumers in the regional markets. However, the loyalty towards certain brands is mainly experienced in the South China and East China regional markets compared to the rest of the markets. Thus, the number of individuals willing to shift to new

brands has fallen considerably. In apparel particularly, consumers unwilling to consider other brands outside of what they have been using in the past. Table 4 below shows the data related to the willingness of individuals in the regional markets to change the brands they usually purchase.

Table 4 Consumer Willingness to Change Brands.

Location	South China	East China	North China	Central China	Southwest	Northeast	Northwest
Consumer Willingness	26	23	35	37	40	43	47

Income appears to have the greatest impact on the willingness of consumers to change the brands that consumers in Chinese regional markets use. In the regional markets where people have a low purchasing power (Northeast and Northwest), the willingness of consumers to change to other brands is higher. Thus, the income of consumers has a significant impact on their decisions. One can argue that the cost of the product is the main criterion for choosing the brands that individuals will use. For consumers with a high purchasing power, loyalty to brands is enabled by the ability to continue affording the products despite their pricing in the market. Nevertheless, consumer loyalty to a particular brand remains high in the seven regional markets because all the willingness of customers to shift to other brands remains below 50%.

5. DISCUSSION

The results of this research paper suggests that statistically significant differences exist across the various regional markets of China in almost all the dimensions examined from the McKinsey and Company survey. Consumers from South China and East China are generally considered to be financially superior. In China,

the metropolitan areas such as Shanghai have been used as the basis for understanding the Chinese market, but the country comprises of smaller sub-markets that are uniquely different due to the culture and level of economic development [7]. The level of economic development has led to significant income differences among the various regions, leading to higher consumption power in East China. Accordingly, the demand for products such as apparel is higher in this region.

Consumers in the less developed markets such as Northeast and Northwest China are generally more conservative compared to those in the South China and East China regions. As the regions have remained behind in terms of the development of the economies, the consumers in these regions have mostly retained a traditional approach to spending. For example, their primary area of spending remains as essential commodities such as foods. The issue can be blamed on the slow growth that has been experienced in this region that has led to low incomes. Evidence from the literature review shows that the southwest part of China has continued to capture the interest of foreign companies establishing or have an established presence in China [19]. The number of people and the development of its

industries has led to MNCs viewing the market as a high potential region. However, it has been marked by sluggish growth in the consumer market [20]. In this regard, the demand for goods and services has remained low. A variety of issues indicate the slow growth of the region. First, the growth of spending on apparel remains low compared to the other regions. Furthermore, the spending on luxuries such as leisure & entertainment, travel and personal care services is considerably low when compared to the other parts, especially East China and South China.

In the regional markets where significant economic development has been experienced, particularly South China and East China, the family focus has declined substantially, but there is still a considerable number of people who include family issues in their consumption behaviors. However, the less developed regions in Northwest and Northeast China have continued to pay attention to family matters when making consumption decisions. In this case, the issue can be explained by the low income that has driven people in the regional markets to become more dependent on each other. Thus, the influence of the family plays a major role in the way individuals make decisions on the type and nature of goods they can consume. The low incomes in these regions have also motivated a situation where consumers are less likely to become loyal to brands. In this case, the issue arises from the need of customers to find cheap goods and services, which makes them unwilling to continue using the same products. However, the consumers in the East China and South China regional markets who have high incomes have a higher level of loyalty to various brands because they have the ability to continue affording them regardless of their price. Thus, the information shows that there is a statistically significant difference in the willingness of consumers to form loyalty to brands across the various regional markets in China.

The findings suggest that the idea of China as a single market is inadequate and can lead to misleading conclusions concerning the opportunities and risks in the market. The rising disparities in the regions and the heterogeneity of the consumers present significant problems for MNCs that employ a uniform approach to the local markets in China. On the other hand, the regional characteristics of the markets offer a meaningful basis for businesses to choose target markets, develop an expansion agenda and enhance the marketing effectiveness of the strategies by considering the conditions of the local markets. The differences among the people across the seven regional markets may influence the operations of MNCs in other parts such as media planning, product introduction, advertising appeal and the intensity of distribution.

6. CONCLUSIONS

China's continued opening and gradual integration of its economy into the world market over the past 3 decades has been undeniable. However, despite government attempts to reduce differences in regional economies, significant market disparities still remains. Differences in incomes, lifestyles, local cultures and dissimilarities in consumption patterns have led to divergences in the level of consumer readiness and responsiveness to the marketing efforts of a business. Therefore, the unique characteristics of Chinese consumers in the various regional markets can aid firms in determining the appropriate target audience. Depending on the nature of the products and their pricing, MNCs should assess the real size of their target market and employ a proper marketing mix to achieve better performance in the market. Systematic evaluations of the regional markets can help to understand the appropriate introduction of products and the expansion strategies that can be employed in the market.

The South and East Chinese markets remain the most prominent markets in China, and these markets have significant consumption level and are often targeted by most MNCs. However, they do not represent the overall consumption power of other markets in China, hence to operate successfully in other regions of China, different marketing strategies should be implemented with these differences acknowledged. As multinational corporations try to gain a foothold in China and increase their competitiveness in the country, it is recommended that they should consider the additional markets apart from South and East China. North, Central and Southwest China offers new areas where MNCs can attract consumers and grow their presence in the Chinese market. Nevertheless, firms that attempt to move from the urban regions into the inland areas should explore the regional markets through accurate forecasting of demand, customer needs and preferences to attain a larger market share. As MNCs try to achieve growth and increase their competitiveness, they must remember that income has a considerable impact on the demand for goods and services. In this regard, companies need to fully acknowledge regional differences and take a longer time to penetrate the regional markets and obtain a return on their investments in these areas. Moreover, discrepancies among customers, particularly the differences in their incomes, will pose considerable challenges in the ability of the businesses to achieve significant growth in these markets. For the companies that choose to enter these markets, meaningful approaches to advertise, promote and distribute goods and services are necessary to enable them to capture the attention of consumers and convince them to purchase their products and services.

As China's regional consumption power continues to evolve at different rates, consumer differences will

remain a main aspect of the market in China in the upcoming years. Accordingly, companies must understand the consumers who are more likely to use their products and services and determine ways to reach customers. In this regard, the targeted markets are essential for businesses to reach consumers who are more likely to purchase their goods and services. Targeted marketing is also essential for businesses to reach individuals who are more accepting of foreign goods.

Based on the analysis, it is recommended that MNCs entering the Chinese market should understand that the market is not a homogenous market. As a result, MNCs should develop marketing strategies that are based on the characteristics of the consumers based on regional differences. People in the wealthy coastal cities and the main metropolitan areas are considered to establish trends in China. The location can assist MNCs to recognize consumers' needs and respond to them cost-effectively and rapidly. The researcher recommends that businesses should regularly monitor their progress, assess and justify the expansion strategies they employ in the Chinese market. Furthermore, it is recommended that they should consider the additional markets apart from South and East China. North, Central and Southwest China offers new areas where MNCs can attract consumers and grow their presence in the Chinese market. Finally, China is increasingly adopting foreign cultures, and consumers are becoming increasingly conscious of the products and services they use. MNCs should consider ways to benefit from the market by using the markets that have a major influence on trends in the country to continue growing their markets.

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