

# An Analysis of How to Keep the Environmental Standards of Products for Domestic Sales Produced in the Post-Crisis Era

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**Abstract:** Ever since the breakout of the global financial crisis, a good many export-oriented Chinese enterprises<sup>①</sup> have turned to the domestic market beyond their international domains. As the crisis is easing up and the export environment is improving, it is crucial to keep the same environmental standards for products targeted at home and abroad. This article has stated that given the characteristics of the consumer demand and the nature of environmental protection as “public goods”, enterprises should increase the proportion of goods for domestic sales and adhere strictly to the environmental standards through the policy support and consumption guide of the government.

**Keywords:** post-crisis era, consumer demand, government management, products sold domestically, environmental standards

## 1. Introduction

In a world of economic globalization, China, whose degree of dependence on foreign trade reaches as much as 70%, has inevitably been affected by the crisis. Faced with the export pressure and the encouragement of the national government to increase the domestic demand, many export-oriented undertakings have begun to pay attention to the national market, with a view to weathering the crisis through the expansion in the home market. However, the international market demand has witnessed a revival in the post-crisis era. Export rejects with high environmental standards, if launched into the competitive domestic market, will probably be affected by such factors as weaker awareness of environmental protection and lower income level. As a result, the high environmental standards may not be strictly kept. In a broad sense, this may have a negative effect on the environmental protection campaign at home, on the physical health of our people, and even on the transition of our economic growth mode. Will it?

## 2. Demand, Government Management and the Adherence to the Environmental Standards of Products for Domestic Sales

In his noted “diamond” theory, Doctor Porter has stated that demand—domestic demand in particular—is a critical factor affecting the competitiveness of an enterprise. He has also pointed out that domestic market is the driving force of the development of any industry. Customer pressure in the domestic market is the most direct stress facing the manufacturers, and it is also one of the strongest stimuli that make one’s competitive advantages sustained. Domestic demand is important and here are the reasons: firstly, the domestic market mainly exerts its influence through different forms and features of customer demand, which will work on how to perceive, interpret and respond to the latter; secondly, domestic demand may equip manufacturers with new product information and market trend. When there is high demand, manufacturers will endeavor to improve, innovate and upgrade their products so as to increase the competitiveness in an ever-changing market. This set of production and marketing method, developed on the basis of demand at home, provides manufacturers with strategic instructions which they can apply to the international market.

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① Mainly located in developed markets.

It seems that many enterprises have reached the consensus that they should attach greater importance to the domestic market in the aftermath of the financial crisis. Now that the government has taken measures to stimulate the domestic demand, export-oriented enterprises make adjustments accordingly. However, this is a tortuous journey. Many exports, originally targeted at the mid-range and high-end European and American markets, adhere rigorously to the environmental and technical standards so as to gain access to the local market of the developed world. As is shown by the Ministry of Commerce, the top ten export markets of China are mainly such developed countries and areas as the EU, the US and Japan where the environmental standards are relatively high and the awareness of environmental protection are stronger. To gain a foothold in such markets, enterprises must pay additional cost for environmental protection. For instance, enterprises must bear indirect expenses for testing, evaluation and purchase of advanced equipment as well as direct expenses including application fees and fees for the use of the signs.

Meanwhile, the environment belongs to the “public goods”, the consumption of which is not exclusive; enterprises, on the other hand, act as the rational “economic men”. Due to their strong motive for profit and sense of opportunism, they can not stick to the same environmental standards for products intended for the home market, especially in the post-crisis era. Though internationally there have indeed emerged signs of resurrection, nationally the competition remains cutting-throat, all of which makes it hard to impose high environmental standards on goods for domestic sales.

This is when the function of the government stands out. Should the local government think much of the environmental protection, there would be rules and regulations forcing the enterprises to execute the same standards. In this case, enterprises would have more self-discipline, which may further influence the consumer demand at home.

For example, *Packaging Act* launched in 1991, Germany, demanded that manufacturers be responsible for recycling and reusing packages. Apparently, this directly restricted the producers. Actually, this process required cooperation on the consumers’ part as well. In the short term, policies and public opinions, as soft restriction and motivation, are non-compulsory means of persuasion. But in the longer term, those soft measures can help enhance product quantity and quality through dynamic adjustment and innovation. A case in point is the ISO14000 certification system. Non-compulsory as it is, it works as a “green pass” to the international market. Similarly, the development of our green purchase system is the most direct incentive for manufacturers. Undeniably, it will also affect the consumer demand. This has shed light upon how to keep the same standards for products targeted at home and abroad. The best approach is to combine consumer demand with government management and promote “ecological consumption” in the meantime. In this way, the export-oriented enterprises will be able to ease up their pressure through domestic sales and enhance their competitiveness.

### **3. Characteristics of Consumer Demand in the Post-crisis era and Adherence to the Same Environmental Standards for Goods Sold at Home and Abroad**

Marx has once pointed out that production equals to consumption and vice versa. No production, no consumption; no consumption, no aim of production. Post-crisis era as it is, nations do not stop taking measures to stimulate consumer demand, which shall be considered as a strategic opportunity to impose the same standards on products at home and abroad. On the other hand, thanks to the reform and opening policy, our economy has seen rapid growth in the last thirty years. Social productivity, represented by science and technology, has improved by leaps and bounds, all of which accelerates product upgrading and updating. What’s more, the consumption concept has experienced profound transformation. As a result, the structure, content and form of the consumer demand have changed as well. For products of high quality and high price made by export-oriented enterprises, this is a good sign.

#### **3.1 Consumer per capita income disparity makes it possible to sell at home**

In fact, the demand level of one nation depends upon its per capita income. The higher is the latter, the more will people require of the quality of products and services. Since in no nation is income equally distributed, the demand for the same kind of products may differ and diversify, which in turn reflects income disparity.

China has been successfully transformed from a society at subsistence level to a well-off society and the income of certain group of consumers has reached a critical level. One survey by Yan Xianfu from National Bureau of Statistics has indicated that there are at present approximately 45 million people whose income level is at the top of the income pyramid. This group of people makes up 10% of the urban population and 3% of the total. Their per capita disposable income hits 20,000 RMB—the level of developed countries. Owing to their high level of income, they have no trouble with housing, health care and social security and the slump macro economy has virtually little impact on them. As to their mode of consumption, “personalized consumption” instead of “standardized consumption” has become the mainstream. They pursue products and services that help display their individuality. Sensitive to their own surroundings, they pay more attention to safe and healthy consumption. On the other hand, in the middle of the income pyramid is a population of 450 million people whose net income per head rests at 6,000 to 7,000 RMB. One report made by Chinese Academy of Social Sciences in the first half of 2006 has shown that people with medium income occupy 19% of the whole population and this figure is expected to reach 40% by 2020.

Consumer per capita income disparity makes it possible to sell at home. Specifically, the high-end and middle range products originally targeted abroad should be channeled towards consumers with high and medium income at home; products planned to export to other developing countries can be sold to the majority at home. As long as the atmosphere of environmentally friendly consumption is formed—through the influence of high-income people and the conformist mentality of other consumers, the competitive advantage of goods with high environmental standards for domestic sales will gradually become visible.

### **3.2 Increase of per capita income leads to stronger consumption power to buy products for domestic sales**

Most of the products sold abroad must go through complex authentication process and therefore tend to be more expensive. Besides, different consumption levels and habits make products sold at home and abroad diversify in features and performances.

However, with the rapid development of the economy in the past few years, the consumption power of the general public as well as their quality, taste, and ability to discern what is good has improved. As a result, they take more initiative and have a more definite objective in their choice and purchase of products.

According to the international statistics, consumption will focus more on personal development and enjoyment once the per capita GDP exceeds \$ 1000. Our per capita GDP has already topped this number in as early as 2003. Actually, purchase is no longer for the basic survival but for the satisfaction of emotional needs, or for the pursuit of products in line with the self-concept of the buyers. People are more concerned with products which can identify with their psychological needs and which are closer to their life. For instance, with adequate money and leisure time, the middle class has become more concerned with their physical health and life quality. They prefer high-tech and healthy products of fine quality. They eat for the sake of keeping fit instead of stuffing the stomach, and they wear uniquely-designed clothes made of environmentally friendly material.

The number of middle class increases by millions one year. Besides, considering their health and safety, high-income people are inclined to choosing environmentally friendly products, which will gradually have an influence on the consumption motives of the low-income group. This influence tends to spread more easily as the income level of the general public is on the increase. Consequently, the consumption power of products for domestic sales is becoming stronger, and the notion of sustainable consumption is developing.

### **3.3 Stronger modern consumption awareness determines the sales of the products targeted at home market**

Higher living standards have brought about stronger awareness of public welfare and deeper consciousness of equality and self-protection. People care more about their living environment and life quality. Against predatory exploitation and utilization of resources and for sustainable consumption, they have never so prized the living environment as now.

Currently, it is in vogue to become one “green consumer.” To demonstrate their awareness of environmental protection, some consumers are willing to change their spending habits and purchase “green products” instead which as a result are taking the fancy of the public. However, only consumers who value the environment tend to contribute through, for example, “refusing to buy” and voluntarily reducing or avoiding the use of certain products.

The consciousness of equality means that consumers demand they have the equal rights as their counterparts in the developed countries. The popularity of the internet makes it convenient to know the rights and interests of the foreign consumers as well as the content and actual implementation of green standards abroad.

The consciousness of self-protection impels consumers to gather and exchange such product information as its production, consumption, waste treatment and factors affecting the health. They expect to diminish and finally eliminate the difference between the actual standards of products for domestic sales and the international ones.

Once the modern consumption ideology is established and become prevalent among most consumers, the latter may sympathize with the notion of environmental protection and gradually form the habit of rational consumption. When all is said, consumers will have more confidence in the enterprises which have recognized the importance of environmental protection, and high-quality and environmentally friendly products will naturally see an increase in their sales.

## **4. Approaches to Keep the Environmental Standards of Products for Domestic Sales Produced by Export-oriented Enterprises**

As suggested by the analysis above, the form and content of the consumption notion and consumer demand have experienced remarkable transformation, which has laid the foundation for export-oriented enterprises to increase the proportion of products for domestic sales. However, in the post crisis era, our national economy is still to be developed, the gap between the rich and the poor is by no means a small one and the consumption notion is yet to change. Government policies have therefore become even more important. The authorities need to support the industry in line with consumer demand and increase consumers’ capacity to pay for products for domestic sales; they should also guide enterprises to develop and produce “emotional products” that have the same environmental standards as the products targeted abroad; last but not least, they should spare no efforts to create the atmosphere of environmentally friendly consumption and adhere to the same environmental standards so as to finally alter our economic growth pattern.

### **4.1 Apply tax rebate policies to products targeted at home and abroad; increase the capacity to pay for products for domestic sales**

In order to fight against the financial crisis, the government has increased the tax rebate rate of many products. However, this action can not coordinate the different environment and technology standards of products sold at home and abroad. Therefore, if the government exerts similar support policies on the environmentally friendly products for domestic sales, the export-oriented enterprises will have more space to develop in the home market. In view of this, it is feasible to temporarily extend the export tax rebate policy to the domestic products. Given certain transitional period, enterprises can accumulate experience in domestic sales, expand production scale and reduce cost so as to decrease product price

and gain competitiveness in the home market.

With the development of the environmental protection campaign, green consumption, as a kind of high level rational consumption, gradually becomes popular. As a brand new concept, it is firstly accepted by the “new generation” of people who closely relate to the green campaign, who have relatively high level of education and strong sense of social responsibility and morality and who are provided with enough economic strength.

However, although the products for domestic sales are environmentally friendly, they are not cheap either. As is mentioned above, the gap between the rich and the poor in our nation is widening regardless of the overall economic development. Should the products for domestic sales be sold at a lower cost, modern consumers with limited capacity to pay would be able to make a contribution, which would facilitate the upgrading of the consumption structure and furthermore bring growth and prosperity to our national economy.

#### **4.2 Directed by consumer demand, the government may make “products for domestic sales” new consumption hot spot**

The support policies of the government have distinct effect on the enterprises which as a result are stimulated to improve their competitiveness. The unappealable subsidy provisions in the *Agreement on Subsidies and Countervailing Measures* by WTO have stipulated the government support policies for the technology innovation initiatives which are aimed at environmental protection. Directed by the international rules and regulations and the domestic consumer demand data, this government can give certain financial policy support to the export-oriented enterprises in their expansion of the home market, which will undoubtedly help the latter upgrade their facilities and adapt better to the new environmental standards.

The rapid development of the internet technology has made this support a possibility. Policy-makers are able to obtain consumer information through low-cost and speedy channels. For instance, there is software designed to gather, classify and analyze the consumption data before making the conclusion---to what extent the present and potential consumers are satisfied with one product, service or enterprise and whether they are willing to pay for it or not. Under the guidance of the collected data, this government can carry out the support policies that help products for domestic sales adhere strictly to the environmental standards. As a result, “emotional” industry in line with the characteristics of the consumer demand at home will be propped up and the cost for production and environmental protection will be reduced. This kind of policy support on the basis of up-to-date consumer demand data is more typical and objective.

In the mean time, this government needs to encourage the export-oriented enterprises to apply their experience of selling abroad to the development of products sold at home. What’s more, it should offer guidance and teach enterprises how to compete without going against the rules and regulations and how to be rational “economic men”, that is, how to keep enthusiastic about adhering to the environmental standards of the products for domestic sales. Enterprises, on the other hand, should first make it clear how much the consumers at home are geared to the international market and to what degree they accept the internationalized products; the next step is to creatively design and process the products according to the environmental standards and the characteristics of the consumer demand; after that, enterprises should endeavor to make the products new market hot spot so as to change the current situation that high-end products have to be introduced from abroad.

#### **4.3 Continue to promote green consumption education and gradually form the atmosphere of green consumption**

Other than economic conditions, the value orientation and psychological effect are also among the factors that restrict the consumption activity. The actual fact is that only certain consumers with high awareness of environmental protection tend to value their living surroundings. Therefore, through promotion, government procurement and other measures, the government will be able to arouse the

“green” awareness of the consumers, to establish the atmosphere of “green” consumption, and to help consumers recognize the “green” value in the products for domestic sales and in the end stimulate them to buy those products.

With the years passing by, domestic consumers think more of the environmental protection than before. Yet, if they can not distinguish green products from the general ones, there will not be any motive to pay for the expensive ecological goods. Once the consumers recognize the strengths of “green” products, they will accept the relatively high price.

In the midst of the strong wave of green consumption internationally, it is irreversible that more consumers will recognize the importance of green products. The development of scientific productivity will definitely bring with it higher level of income. This will influence the structure of the consumer demand. Healthy and safe consumption will inevitably become the demand of most people.

Stimulated by the market demand, manufacturers of the export-oriented enterprises may increase the proportion of products for domestic sales and pay more attention to the environment protection. This can inspire the manufacturers of the home market, help establish the atmosphere of green consumption and raise the sales of the products for domestic sales.

## **5. Conclusion**

The world economy has stepped into the post-crisis era and there are signs of recovery in the international market demand. Nonetheless, nationally speaking, due to higher income level and stronger sense of environmental protection on the part of consumers, export-oriented enterprises that explore broader development space for their products sold domestically can not but adopt the same environmental standards for products sold at home and abroad and adjust the domestic standards flexibly to the international ones. What is more essential is the corresponding policy support from the national government regarding the environmentally friendly consumption.

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