IS THERE A CHANCE FOR PRODUCTS MADE IN DEVELOPED COUNTRIES IN DEVELOPING COUNTRIES? – AN INVESTIGATION OF “MADE IN AMERICA” PRODUCTS IN CHINA

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1. ABSTRACT

In 2013, developing countries continued to run a combined goods and services trade surplus of $177.6 billion, while developed countries still had a trade deficit of $65.3 billion [2]. This trade pattern between developed and developing countries have last for many years. The U.S. has the world's largest trade deficit, and has run a trade deficit since 1975. In 2013, the U.S. trade deficit in goods alone was $703 billion, and the record deficit in goods alone reached $828 billion in 2006 [1]. Labor cost is seen as one of the major reasons for the on-going trade deficit for developed countries including the U.S. The high production cost has lowered the competitive advantage of “made in America” products in the global market. In developed countries, it is getting more and more difficult to find domestically-made products. Even there are, business believes that consumers will prefer the cheap products made in developing countries to the more expensive ones domestically made.

The purpose of this study is (1) to examine Chinese consumers’ perception of “made in America” products and purchase intention to “made in America” products when they are presented with same products “made in China” and carrying same American brands; and (2) to investigate whether China is a big potential market for “made in America” products; if it is, this will be an effective approach to address the on-going US trade deficit. The significance of this study is three-fold. First, the findings can further enrich the academic literature on the relationship among country of origin, brand equity, perceived product quality, perceived price, and purchase intention. Second, the results can be of great interest to U.S. business practitioners who want to save their production and gain their production capacity back. Third, this study can shed light on policy making in terms of how to bring
A new approach to position American manufacturing sector in China and address the trade imbalance between the two countries. Furthermore, it will bring valuable insights to other developed countries by investigating the possibilities of marketing products made in developed countries in developing countries.

A survey was conducted in China in the summer of 2015 among college students. The variables measured include country equity, brand equity, perceived quality, perceived price, purchase intention, and demographics. Five hundred questionnaires were sent out, and four hundred and forth-five questionnaires were returned.

After the examination of validity and reliability of the scales and data, paired-sample t-test was conducted to test the hypotheses. The results show that for Chinese consumers, country equity of China is significantly higher than country equity of the U.S. However, that does not mean Chinese consumers prefer “made in China” products to “made in America” products. When brand equity comes in the picture, a popular brand with average price point holds much higher brand equity than a luxury brand and an unknown brand. Next, Chinese consumers hold significantly higher perceived quality of product and perceived price of product “made in America” than “made in China” among different American brands. But when purchase intention is visited, Chinese consumers have significantly higher purchase intention for products “made in America” than “made in China” for popular American brands with average price points. In contrast, Chinese consumers have significantly higher purchase intention for products “made in China” than “made in America” for unknown American brands. For luxury brands, there is no significant difference between their purchase intention for “made in America” and “made in China”.

For an American luxury brand, the difference of perceived quality of product between “made in America” and “made in China” is much greater than other kinds of brands. This means that for the same product carrying the same luxury brand, “made in America” can significantly contribute to Chinese perceived quality of the product when compared to “made in China”. However, they do not show much difference when it comes to the final purchase intention. Instead, the brand itself matters more to Chinese consumers than country of origin. It might be because the high-priced luxury brand is already pretty pricy for Chinese consumers. Once they can afford the luxury brand, they do not really care whether the product itself is “made in America” or “made in China” as long as the product carries the luxury brand. This conclusion shows a clear out-sourcing direction to American luxury brands. For the products they want to sell in China’s market, American luxury brands should keep the production in China by using less-expensive labor and keeping production location close to the final market as long as the quality is guaranteed because this is a more profitable strategy than manufacturing the products in the U.S.

For an American brand which is very popular in China and marketed with average price point in China, the direction is very different. For this group of American brands, higher price is not an issue for Chinese consumers. When a product carries an American brand and is “made in America”, Chinese consumers attach better quality to the product, expect
higher price, and more importantly, are willing to pay more, and are more likely to make a purchase than the same product carries the same American brand, but “made in China”. Therefore, even though it’s more expensive to manufacture the products in the U.S., the potential to set up higher price points in China may offset the cost. More importantly, Chinese consumers have higher demand for this kind of products “made in America” than “made in China”. This may offer a new approach to the U.S. textile/apparel sector which has been suffering from trade deficit with China for years.

What about unknown American brands? If Chinese consumers have not heard of a brand, but knowing it is an American brand, are they willing to pay more if it’s “made in America” rather than “made in China”? The results show that for any American brands which are not popular and easily-recognizable yet in China, Chinese consumers have higher purchase intention for products “made in China” than “made in America”. Paying more money for a product carrying an American brand and “made in America” than the same product but “made in China” is not worth it for Chinese consumers since nobody knows this American brand. So American companies who own this kind of brands would have two options if they want to target the China’s market. The first option is to keep the production in China by utilizing its low labor cost and geographic proximity. But the final retail price will have to be relatively low. The second option is to promote the brand in China’s market intensively in order to reach a certain degree of popularity, followed by moving the production back to the U.S. When their products are “made in America”, they can sell them in China with significantly higher price points than option one.

Among all American brands which are sold in China, most of them are popular brands with affordable prices to Chinese consumers, which means back-sourcing with “made in America” label will bring huge business potential to American textiles/apparel/fashion industries. While the U.S. market has been dominated by products “made in China”, a new potential business direction (back-sourcing in the U.S.) might provide a new future to the U.S. manufacturing industries. There might be a possibility of switching from “made in China and sold in the U.S” to “made in the U.S. and sold in China”. Generalization of the findings from this study to other developed countries and other industries will be needed.

2. REFERENCES