



## Buying Local or Imported Goods? Profiling Non-income Consumers in Developing Countries

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### ABSTRACT

This study attempts to profile non-income consumers by examining their decisions to buy local or imported products. Hypotheses were drawn from discussions on the comparative advantages of advanced and developing countries, as well as the effects of a product's country-of-origin on customers' purchasing decisions. Data was collected on 296 university students in Malaysia and analyzed through probit regression analysis. The findings reveal that foreign products from advanced countries are preferred by male students because of the superior quality and brand image. On the other hand, family members encourage students to buy local products because they are perceived as being less expensive. Also, students who receive scholarships are more likely to buy local products than self-sponsored students. This research offers insights into ex-ante purchasing behavior in developing countries particularly among non-income consumers.

**Keywords:** Purchasing behavior, non-income consumer, comparative advantages, country-of-origin, developing countries.

**JEL Classifications:** F1, F4, Q37

### 1. INTRODUCTION

The research on a consumer's decision to purchase local or foreign products has been studied at both the country and individual level. The former has drawn interest among policy makers to promote the idea that buying products made in the home country is good for the government because it reduces dependency on imported goods. This move benefits the country in several ways such as creating demand for local industries, cutting unemployment, stimulating economic activity, and ultimately increasing the national gross domestic product. Furthermore, abundant inflows of foreign products into the country could harm the economy through trade deficits, job losses and the erosion of local expertise (Monacelli and Perotti, 2010). However, at the individual level, purchasing behavior is influenced by both intrinsic and extrinsic cues (Agrawal and Kamakura, 1999). The former refers to the physical attributes of a product such as durability, quality and performance, while the latter refers to the non-physical characteristics such as price and a "Made in ..." label (Srinivasan et al., 2004).

The marketing and strategic management literature offers two directions to explain the decision to buy local or imported products.

First, developed countries are considered superior at making high quality and innovative products, whilst manufacturers in developing countries have advantages in producing low-cost goods (Aulakh et al., 2000; Erramilli et al., 1997; Lall, 1999; Makino et al., 2004; Porter, 1990; Reinhardt, 2000). This global understanding has subsequently shaped the perceptions of customers. They often look for products from advanced countries when seeking quality and innovative features, while goods from developing countries are viewed as less expensive alternatives (Brouthers and Xu, 2002; Hulland et al., 1996; Insch, 2003; Li et al., 2009; Pappu et al., 2006). Which product customers actually buy is the result of macro (e.g. level of economic development) and micro (e.g. attributes of products and perception of the quality/price of goods based on country-of-origin [COO] evaluations) (Hamzaoui-Essoussi et al., 2011) factors.

Drawing on conceptualization at both the country and individual level, this paper attempts to further understand ex-ante purchasing decisions among non-income customers in developing countries. For the purposes of this study, non-income consumers are defined as buyers with no permanent/part time job, or a stable monthly income. In particular, this study aims to profile characteristics and

determinants for decisions regarding the purchase of local (from Malaysia; as an example for developing countries) or imported products from developed countries. The theoretical arguments are built on the comparative advantage of advanced and developing economies, as well as the effects of COO on individual purchasing decisions. The integration of knowledge across fields and scopes defines the contribution of this study.

This study focuses on university students as representatives of non-income customers because their demographic and behavior are different than those of average consumers (Usunier, 1996), thus providing empirical novelty to the literature. This unique sample allows the statistical model to include several variables that are specifically applicable to the group: Influence from family members and financial affordability.

## 2. CONCEPTUAL DEVELOPMENT

The decision to buy local or imported products can be explained from supply and demand perspectives. The former discusses heterogeneity in product features manufactured in advanced and developing countries using their respective comparative advantages, whilst the latter emphasizes personal evaluations of intrinsic and extrinsic cues of a particular product. The sum of these factors will eventually determine the actual purchase based on the country of origin of the goods (Agrawal and Kamakura, 1999).

In the literature on international trade, for example, the Heckscher-Ohlin model argues that comparative advantages of a nation are acquired when the goods are manufactured using its abundant, cheap and resource-surplus factors of production (Leamer, 1984; applied in Lall, 1999; Singh, 2009 studies). Some later studies defined how comparative advantages of developed nations are different than those of developing countries. Rich countries are associated with innovative and high-quality goods produced using the advantage of cutting-edge technologies. Several factors give firms in developed countries a greater ability to offer products with distinctive features (Porter, 1990). Additionally, these countries have a huge supply of white-collar labor with expertise in entrepreneurial, managerial, and technical skills, especially in technologically intense activities (Erramilli et al., 1997; Huo and McKinley, 1992). As a result, high value products from developed countries have long sustained a strong international reputation, although such goods are sold at a premium price (Rosenbusch et al., 2011).

On the other hand, sources of advantage for firms in developing countries rely heavily on access to natural resources, the low cost of raw materials, and cheap labor (Coxhead, 2007; Erramilli et al., 1997; Lall, 1999; Reinhardt, 2000). Therefore, many of the products are concentrated in labor-intensive and diversified resource-based segment such as simple furniture, electrical appliances, and electronic components (Coxhead, 2007). These undifferentiated goods with limited innovative features have eventually penetrated international markets using a low price strategy (Makino et al., 2004). In short, it is reasonable to believe that products from developed countries provide unique characteristics and high value for customers, whilst products from

developing countries are typically lower in quality and cheaper in price.

With regard to demand, it is argued that purchasing behavior is defined by a customer's evaluations of many cues (Agrawal and Kamakura, 1999); most relevant to this study is perception of the COO. Discussion on COO was initiated by Dichter (1962), followed by empirical works by Schooler (1965) which demonstrated that customers would have idiosyncratic judgment on two identical products with different "Made in ..." labels. Since then, COO has emerged as a significant factor that influences the customer's acceptance of a product and eventual purchasing behavior (Roth and Diamantopoulos, 2009; Verlegh and Steenkamp, 1999). In other words, COO impacts a country's equity because customers put either favorable or unfavorable value on the country's producers (Pappu and Quester, 2010). This study holds that the effects of COO take place in a form of mental representation of a country's standard products, national symbols and cultural stereotypes (Askegaard and Ger, 1998).

Prior empirical evidence suggests a general consensus that customers associate products from developed countries with a strong brand image and quality that will raise the status of buyers, in comparison with products from developing countries. For example, products from Germany and Switzerland are favored over products from Surinam and Myanmar (Kotler and Gertner, 2002); US products are considered higher quality than Mexican products (Chao, 1998; Thakor and Katsanis, 1997); Japanese products are perceived as superior to those from Poland and Hungary (Nebenzahl and Jaffe, 1996); and automotive products from Japan are evaluated higher than those from Korea, Mexico, or the Philippines (Johansson and Nebenzahl, 1986).

From the above discussion, this paper holds a strong assumption that buyers in developing countries will buy locally made products when they look for non-exclusive cheap goods and will buy imported products from developed countries when they seek quality goods regardless of price.

### 2.1. Demographic

Although it has not been explicitly discussed, some studies have found that demographic characteristics have direct or moderating effects on buying behavior on several dimensions. Often, stereotypes of gender traits draw an explanation as to why men and women behave differently when making a purchase. The general supposition associates men with aggressiveness, rationality, and independence; while women are more considerate, sensitive, and caring. Therefore, the latter is found to be more emotional and psychologically rooted when choosing a product than the former (Coley and Burgess, 2003). Other studies have also found similar findings. For example, women are more conscious of brand, design, and price (Barber et al., 2006; Seock and Bailey, 2008); while men are less aware of price and are willing to pay more in the case of online auctions (Yeh et al., 2012). Also, women, compared to men, perceive online shopping as risky and have low trust in it (Rield et al., 2010). Hence, buying products through e-commerce is perceived as more difficult to women than men (Hansen and Jensen, 2008).

Another demographic characteristic often studied is the age of customers. However, the effect on purchasing behavior remains ambiguous. While some studies have found age to be significant (Barber et al., 2006); others have not (Hernandez et al., 2011). Therefore, any attempt to examine age as *ex-ante* requires a vigilant observation of the context of the study.

This study benefits from a unique sample of non-income students, and aims to introduce financial groups and study fields as explanatory variables. To simplify, financial groups are somewhat similar to level of income studied among mass consumers; whilst some studies have found it to be significant (Anderson and Nevin, 1975), others do not (Kollat and Willett, 1967). Here, financial groups are classified into three categories: Scholarship, loan, and self-sponsor. However, it is difficult to stipulate which group has more spending power compared to the others. Although it is reasonable to assume that scholarship students have more purchasing power than loan students because the amount they receive is often higher and does not require repayment, it is quite a challenge to position self-sponsored students. On one hand, this group may represent students from wealthy families that have the highest level of spending power, but they may also be from lower- or middle-income tiers and need to wisely spend their own savings or family's money. Secondly, this study anticipates that pure science students would behave differently than social science students. Although there is insufficient evidence to support this argument, the former is classified as more systematic, objective-oriented, and less ambiguous than the latter (Boutellier et al., 2011); that could subsequently influence their purchasing behavior.

H1a: Decisions to buy local or imported products are different between men and women.

H1b: Decisions to buy local or imported products are different across age.

H1c: Decisions to buy local or imported products are different between scholarship, loan and self-sponsored students.

H1d: Decisions to buy local or imported products are different between pure science and social science students.

## 2.2. Price

This study hypothesizes that customers who are conscious of high prices (are price sensitive) are more likely to buy local products instead of imported products from developed countries, as they perceive the former as cheaper. Prior works contribute substantially to this argument. First, the movement of goods in international trade explains that local products have a cost advantage over imported ones because they are excluded from cross-border expenses such as distance logistics and tariffs, which subsequently would lower the price (Ayob et al., 2015). Second, in comparison, research has revealed that cost advantage is more apparent for products from developing than developed countries because certain factors of production, such as labor and raw materials, are lower (Aulakh et al., 2000). Additionally, studies have found that because customers perceive products from advanced countries as

scarce, they are willing to pay a premium price (Hulland et al., 1996; Li et al., 2009).

H2: Price conscious consumers are more likely to buy local products.

## 2.3. Quality

From a business strategy perspective, price and quality maximization often lie on opposite sides of the plane (Lechner and Gudmundsson, 2014), although in some cases they might complement each other (Kim et al., 2004; Spanos et al., 2004). In other words, consumers need to pay a premium price when buying quality products, whilst lower quality products are usually sold at a cheaper price. At the international level, products from developed countries are perceived to be of the highest quality because of advancements in production technology and the availability of highly skilled labor (Li et al., 2009; Porter, 1990). In contrast, goods from developing countries suffer a bad reputation from lower quality and performance, often causing dissatisfaction among consumers (Cordell, 1992; Verlegh and Steenkamp, 1999; Pappu et al., 2006).

For consumers in developing countries, the COO effect makes them believe that foreign products are superior in quality to local products (Li et al., 2009). Local manufacturers are accused of selling low quality products in the market, while producing high quality products for export (Hulland et al., 1996). As a result, products from developed countries yield great success in capturing the demand of quality-conscious consumers in developing countries (Li et al., 2009).

H3: Quality conscious consumers are more likely to buy imported products.

## 2.4. Brand Image, Status and Advertisement

COO does not only affect the perceived quality, but also the prestige, exclusivity, and status of a product (Roth and Romeo, 1992). Brand image is defined as consumer product evaluation by associating the brand with certain physical and intangible characteristics (Dobni and Zinkhan, 1990), possibly based on the COO (Bashkaran and Sukumaran, 2007). Research in marketing ascertains that perceptions of brand image have an effect on purchasing behavior because they generate trust and reduce risk when buying products (Keller, 2008). In the same vein, preference for products also reflects on the status of consumers, thus filling their social needs (Godey et al., 2012). COO is often used to associate products with status, authenticity, and exoticness (Alden et al., 1999). In other words, consumers would have a poor evaluation of products that come from countries which they perceive to be low status, usually in economic terms (Koubaa, 2008).

Empirical evidence has found that consumers give a positive evaluation to products from developed countries based on brand image (reputation). Electronics and cars from countries like Japan, Germany, the US, and Italy are rated higher than electronics and cars from China and Malaysia (Pappu et al., 2006). For a similar reason as discussed earlier, consumers in developing countries who

are very conscious of brand image are most likely to buy imported goods from advanced nations. Subsequently, because foreign products are considered superior in reputation, purchasing them will alleviate the social status concerns of consumers. A favorable perception of imported products among local people has created an element of exclusivity for those who are consuming them (Hulland et al., 1996). For countries like Malaysia, where the power distance is almost absolute, preserving social status is extremely important for certain people (Fontaine and Richardson, 2003), either to impress others or for their own pleasure (Godey et al., 2012).

Traditionally, brand image is shaped by different sources, especially information gathered from advertisements, word-of-mouth, or articles in the popular press (Verlegh et al., 2005). Therefore, the power of advertisement is found to significantly influence purchasing behavior (Goldberg and Hartwick, 1990; Rossiter and Percy, 1997). Advanced countries like the US, UK, and Japan are predominantly listed as the biggest spenders on advertising worldwide (O'Connor, 2004: 136) for brands such as P and G, Unilever, Coca-Cola and Toyota, as compared with brands from developing nations. Aggressive publicity gradually creates strong brand power to attract those consumers who are conscious of the advertisements and buy the products.

H4a: Image conscious consumers are more likely to buy imported products.

H4b: Status conscious consumers are more likely to buy imported products.

H4c: Advertisement conscious consumers are more likely to buy imported products.

### 2.5. Influence from Family Members

Students are a unique group because most of them are young and immature (Usunier, 1996), thus their purchasing behavior could (financially) be controlled by external influences, especially their parents. Studies in fields like sociology and education have recognized that students' behavior in many respects is influenced by other parties such as school environment, peers, and family (e.g. Papanastasiou, 2002; Sheldon and Epstein, 2002). This study examines to what extent close family members are able to encourage/discourage and eventually determine students' purchasing decisions. Due to a dearth in the literature, reinforcement to buy local or imported products can take both directions. The former could be due to a family's aspiration to support the domestic economy and it is considered a moral action (Verlegh and Steenkamp, 1999), while the latter could be the result of a family's preference for the above-mentioned criteria: Quality, image, and status.

H5: Decisions to buy local or imported products are determined by influence from family members.

## 3. DATA

Data for this study was collected from a 3-stage self-administered survey. First, respondents were asked to provide demographic

details: Age, gender, field of study, and financial group: Scholarship, loan, or self-sponsored. Each questionnaire was assigned a unique ID hidden at the back of the survey book. Once collected, a follow-up questionnaire with the same ID for each respondent was distributed, asking them to either agree or disagree if the statement significantly describes their purchasing decisions: (1) Most often, I buy a product because it is cheaper, (2) Most often, I buy a product because of its excellent quality and unique features, (3) Most often, I buy a product because it has a strong brand image, (4) Most often, I buy a product because it reflects my social status, (5) Most often, I buy a product because of its appealing advertisement, (6) Most often, I buy a product because my close family encourages me to buy it. Lastly, respondents were asked if they more often buy local Malaysian products or imported products specifically from developed countries.

Respondents were selected using a probability simple random sampling technique among students enrolled at five universities in Malaysia to represent non-income consumers in an emerging country. To ensure the homogeneity of the sample, only those students without part-time or permanent jobs were qualified to answer the survey. A description of the sample is presented in Table 1, whilst the results of the bivariate correlation between variables are shown in Table 2.

## 4. RESULTS

Logistic regression is used to model the relationship between exogenous variables and the consumer's preference for buying local or imported products in Table 3. Model 1 includes only demographic characteristics, Model 2 includes only explanatory variables and Model 3 adds them both together as the full model estimation.

Hypothesis 1a, 1b, 1c and 1d predict the effects of demographics on purchasing decisions. Model 3 provides evidence that only

**Table 1: Summary statistics for variables used in model estimations (n=296 respondents)**

Variable	Mean/ Percentage	SD	Description
Preferred product	0.34		0=Local, 1=Import
Gender	0.24		0=Female, 1=Male
Age	21.42	2.15	
Financial group	10.8% 29.7% 59.5%		1=Self-sponsored 2=Scholarship 3=Loan
Field of study	0.58		0=Science, 1=Social science
Price	0.80		0=Not price conscious, 1=Price conscious
Quality	0.89		0=Not quality conscious, 1=Quality conscious
Image	0.81		0=Not image conscious, 1=Image conscious
Status	0.53		0=Not status conscious, 1=Status conscious
Advertisement	0.66		0=Not advertisement conscious, 1=Advertisement conscious
Family influence	0.68		0=No family influence, 1=Family influence

**Table 2: Correlations among variables used in model estimations**

Variable name	1	2	3	4	5	6	7	8	9	10	11
Preferred product	1.00										
Gender	0.33	1.00									
Age	0.05		1.00								
Field of study	0.09	-0.09	0.00	1.00							
Financial group	-0.17	-0.04	0.17	0.20	1.00						
Price	-0.14	-0.03	0.00	0.05	-0.04	1.00					
Quality	0.07	-0.21	-0.11	0.23	-0.20	0.37	1.00				
Brand image	0.20	0.11	-0.08	0.22	-0.01	0.19	0.39	1.00			
Status	0.05	-0.03	0.00	0.24	-0.04	0.26	0.19	0.10	1.00		
Advertisement	0.07	-0.01	-0.08	0.00	-0.18	0.08	0.13	-0.04	0.21	1.00	
Family influence	-0.05	-0.01	-0.01	0.17	-0.27	0.01	0.32	0.18	0.10	-0.17	1.00

**Table 3: Coefficients from logistic regression models of non-income consumers**

Variable	Model 1	Model 2	Model 3
Gender	1.665*** (0.317)		1.947*** (0.379)
Age	-0.010 (0.065)		0.018 (0.088)
Field of study	0.835** (0.308)		0.749 (0.357)
Scholarship	2.174*** (0.488)		2.710*** (0.562)
Loan	-0.218 (0.336)		-0.450 (0.414)
Price		-1.237** (0.362)	-1.996*** (0.439)
Quality		0.615 (0.566)	1.373* (0.668)
Image		1.479** (0.435)	1.830** (0.550)
Status		0.321 (0.278)	0.208 (0.331)
Advertisement		0.194 (0.290)	0.088 (0.350)
Family influence		-0.529 (0.301)	-1.060** (0.373)
Model $\chi^2$	62.528***	29.434***	103.483***
-2 Log Likelihood	316.110	349.203	275.155
Nagelkerke R <sup>2</sup>	0.264	0.131	0.409
Number of obstructions	296	296	296

Reference category for financial group variable is "self-sponsored". \*\*\*P<0.001, \*\*P<0.01, \*P<0.05 (2-tailed tests)

gender and financial groups significantly distinguish a consumer’s product preference, fully supporting Hypothesis 1a and partially supporting 1c. Specifically, female students are more likely to buy local products whilst male students are more likely to buy imported ones ( $P < 0.001$ ). Moreover, students who receive scholarships are more likely to buy foreign products than self-sponsored students ( $P < 0.001$ ). The findings are consistent when estimated applying only demographic variables (Model 1) and in the full model (Model 3).

Hypothesis 2 also receives support from Model 3 in that price conscious consumers prefer buying local instead of foreign products ( $P < 0.001$ ). Contrarily, consumers who are sensitive to quality are more likely to buy foreign instead of local products ( $P < 0.05$ ), thus supporting Hypothesis 3.

Model 3 also shows evidence in favor of Hypothesis 4a ( $P < 0.01$ ), that consumers who are conscious of brand image are more likely to buy foreign products. Lastly, although no significant effect is shown in Model 2, Model 3 demonstrates that families have a strong influence on students, encouraging the purchase of local products, thus supporting Hypothesis 5 ( $P < 0.01$ ).

The summary of the findings is illustrated in Figure 1.

Because there are strong significant differences in product preference by gender, *ad-hoc* analysis is performed by splitting the sample into female and male subsamples to examine if similar

**Figure 1: Profile of non-income consumers based on their purchasing decisions**

Who buys local products?	Who buys imported products?
Female	Male
Scholarship*	
Price conscious	Non-price conscious
Non-quality conscious	Quality conscious
Non-image conscious	Image conscious
Influenced by families	Not influenced by families

\*In comparison to self-sponsored students

findings hold. Results are shown in Table 4, where Model 1 represents female respondents and Model 2 represents male respondents. There are several findings worth highlighting. First, two variables show contrary effects on female and male consumers. While female students with a scholarship are more likely to buy foreign products than self-sponsored students, male students with a scholarship are more likely to buy local products than self-sponsored students. Similarly, female students who are influenced by advertising are more likely to purchase foreign goods while male students prefer to buy local products. Second, age, image consciousness, and status consciousness are only significant among male students in a strong positive direction. The only difference is that female students in the social sciences prefer foreign products; no such effect was seen among male students. Lastly, students of both genders who have taken loans were found to be more likely to buy local goods than self-sponsored students. Above all, the *ad-hoc* analysis is presented with caution due to sample imbalance where

**Figure 2:** Profile of non-income consumers based on their purchasing decisions, subsample by gender

Female		Male	
Who buys local products?	Who buys imported products?	Who buys local products?	Who buys imported products?
Science	Social science	Younger	Older
Loan*	Scholarship*	Scholarship and loan*	
Price conscious	Non-price conscious	Price conscious	Non-price conscious
Non-advertisement conscious	Advertisement conscious	Advertisement conscious	Non-advertisement conscious
		Non-image conscious	Image conscious
		Non-status conscious	Status conscious

\*In comparison to self-sponsored students

**Table 4: Coefficients from logistic regression models of non-income consumers, subsample of female (Model 1) and male (Model 2) respondents**

Variable	Model 1	Model 2
Age	-0.043 (0.078)	0.348*** (0.068)
Field of study	1.838*** (0.525)	0.078 (0.085)
Scholarship	2.174*** (0.602)	-0.464*** (0.111)
Loan	-1.469* (0.582)	-0.738*** (0.122)
Price	-2.281*** (0.521)	-1.015*** (0.174)
Quality	20.635 (9003.597)	-0.084 (0.142)
Image	0.791 (0.608)	1.872*** (0.210)
Status	-0.656 (0.404)	0.569*** (0.076)
Advertisement	1.027* (0.470)	-0.427*** (0.080)
Family influence	-0.282 (0.464)	-0.135 (0.089)
Model $\chi^2$	69.034***	131.792***
-2 Log Likelihood	182.893	137.576
Nagelkerke R <sup>2</sup>	0.393	0.613
Number of obstructions	224	72

Reference category for financial group variable is "self-sponsored." \*\*\*P<0.001, \*P<0.05 (two-tailed tests)

female respondents composed three-quarters of the total sample.

The summary of the findings is illustrated in Figure 2.

## 5. DISCUSSION AND CONCLUSION

The operationalization of comparative advantages and country of origin concepts in prior research has provided insights into the effects on individuals, industries, and countries. This study advances the literature by conceptualizing them with the purpose of investigating the determinants of decisions to buy local or imported (from developed countries) products among non-income consumers in a developing country, as suggested by Pappu et al. (2006). Hypotheses were drawn from discussions on both the supply and demand side. The former argues that products from developed countries are superior in quality, whilst goods from developing countries are often sold cheaper and with minimum quality. Similarly, the latter holds that consumers will buy products from advanced countries when they are conscious about quality and opt for alternatives from emerging countries when they are sensitive about price.

Hypotheses were tested using survey data from students with no full- or part-time job. The novelty of this study is highlighted by adding two variables specifically relevant to the sample: Financial groups and influence from family. The results show that local products are preferred by female students, those who are price conscious, influenced by family and received a scholarship. On

the other hand, students who are conscious of image and quality are more likely to buy foreign products from developed countries.

The findings suggest that buying decisions of non-income consumers are largely explained by perceptions of heterogeneity in product attributes based on the country of origin. This study extends prior research on the effect of purchase intention among mass consumers among whom it was found to be less significant (Verlegh and Steenkamp, 1999). Further analysis also reveals differences in purchasing behavior between female and male students.

From the marketers' point of view, this study provides an understanding of consumer behavior in the local context to better promote their products in the right foreign market. The findings hold true on the effects of country equity (advantages or liabilities) on consumers' judgment when choosing which products to purchase. Although globalization has closed many gaps between advanced and developing countries, consumers' buying decisions are still largely influenced by evaluations based on country of origin. Therefore, the performance of marketing strategy is largely affected by customer reception towards imported goods (Sakarya et al., 2007).

Nonetheless, several caveats in this study warrant mentioning. First, the sample size is rather limited with a sole focus on students while other groups of non-income consumers, such as pensioners, have been disregarded. Second, a longitudinal study can remedy common biases in cross-sectional survey data with more comprehensive controls.

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