

ABSTRACT

The present research reports an exploratory study that explores the effects of the US-China Trade War on consumer behavior. Adopting an identity-consumption perspective, this research argues that a trade war may threaten individuals' sense of national identity, promoting consumption behavior that reflects in-group favoritism (e.g., nationalism, ethnocentrism) and out-group prejudice (e.g., animosity). Given this premise, several research questions become clear: 1) What does a trade war do to perceptions of products from the countries involved? 2) What is the impact of de-escalation or escalation by one country or the other? 3) How should brands communicate their local/global position within the context of a trade war? Answering these questions will provide implications for theory and practice in the fields of global marketing and identity-based consumer behavior.

## CONCEPTUAL DEVELOPMENT

### Identity-Based Consumer Behavior

Consumer identity has a profound impact as a driver of consumption behavior (Belk, 1988; Oyserman, 2009; Reed et al., 2012). Individuals' consumption behavior often aligns with any number of their multitude of identities, such as gender identity (Mercurio & Forehand, 2011), ethnic identity (Forehand & Deshpande, 2001), cultural identity (Benet-Martinez et al., 2002) or national identity (Cross & Gilly, 2014; Dong & Tian, 2009). For example, consumers cued with their American identity may behave more individualistically and prefer products and services more expressive of individuality (Mok & Morris, 2013). Consumers may even identify as 'global citizens' and therefore prefer global brands over local brands (Zhang & Khare, 2009).

Consumers may also experience threat to these identities, where identities might be considered de-valued or low-status (Angle & Forehand, 2016; Dimofte et al., 2015; White et al., 2014), or consumers might feel that they are not sufficiently expressing their identity – perhaps they are not “Chinese” enough (Dalton & Huang, 2014; Mok & Morris, 2013; Saint Clair & Forehand, 2020; Ward & Dahl, 2014). Consumers respond to such threats using compensatory consumption behavior that protects the consumer self-concept, often by reinforcing the threatened identity (Mandel et al., 2017; Saint Clair, 2018). We refer to this type of response as a needs-based model of coping. We propose that a trade war, such as the US-China trade war, may be a source of threat to consumer national identity, leading to downstream consequences for identity-based consumption behavior.

An interesting question arises about the nature of the specific threat. Guimond and Dambrun (Guimond & Dambrun, 2002) find evidence that when competition in the job market is high, individuals may have more prejudice toward outgroups such as individuals from other countries regardless of whether their ingroup is perceived to be winning or losing the competition. It should be noted that an important aspect of this finding was the presence of a status differential between groups. Additionally, the outgroup prejudice was extended to groups that had nothing to do with the competition, suggesting a general aversion toward outgroups. Does a trade war imply a potential threat to relative economic status of the “warring” nations? In the context of imports, findings of Sharma et al. (Sharma et al., 1994) suggest that when competition from foreign firms are perceived as an economic threat, either to an individual’s job or to the domestic economic market, attitudes towards imports decrease. Taken together, these findings allow us to propose that a trade war may be perceived by consumers as a threat to economic status, thereby leading to increased ethnocentrism, increased outgroup prejudice, and decreased attitudes toward imported goods.

Interestingly, Sharma et al. (1994) also found evidence that individuals with more conservative ideologies were more likely to engage in ethnocentrism and thereby had decreased attitudes toward imports. In a separate study, McCann (McCann, 2009) used archival data that included a measure of societal threat (e.g., poor economic conditions) from the years 1946 to 1992. He found that increases in societal threat predicted increases in conservatism as indicated by the voting patterns for congressional elections. These findings suggest that political ideology (e.g., conservatism) may play an important role in response to a trade war.

Country-of-Origin, Brand Positioning, and Consumer Expectations

Given the above context, it is unclear how local and multinational corporations should signal country-of-origin (COO). Consumers may have their own expectations of price, quality, and supply that are impacted by the trade war, as well as by brand communications about COO or local/global focus (Cheah et al., 2016; Melnyk et al., 2012). Many brands may be headquartered in one country but outsource aspects of the manufacturing process to other countries. This type of hybrid or binational brand may offer the option of identifying both the country-of-design (COD) and country-of-manufacturing (COM). For example, the back of the iPhone declares that the product is “designed by Apple in California. Assembled in China.” Multi-national organizations could also position their brand as serving local or global consumers, which may offer another route to align with consumer identities (Krishna & Ahluwalia, 2008; Zhang & Khare, 2009).

Prior research on the topic is mixed, suggesting that this is beneficial in some scenarios but is not advantageous in others (Chao, 1998; Cheah et al., 2016; Genc & Wang, 2017; Hamzaoui & Merunka, 2006). In one study (Cheah et al., 2016), high animosity between China and Japan made consumers avoid *any* product remotely related to the foreign country, and having ties to the local market via hybrid COO did not help. However, the authors did acknowledge that it was done in an area with particularly high animosity toward Japan, Nanjing China, where the Japanese government during World War 2 is said to have killed some 300,000 civilians in what is known as the Nanjing Massacre. Thus, that study may have had effects that were idiosyncratic to that area or generalize to areas with extreme animosity.

In another study (Guo et al., 2019), localization of global brands (e.g., hybrid local + international brand strategy) did increase attitudes for Chinese consumers. This study used a

representative sample from eight well-developed and lesser-developed Chinese cities, Beijing and Shanghai among them. Thus, perhaps there is some reason to believe that the type of threat and a needs-based model of coping could together help explain these divergent findings. Extreme animosity in response to outgroup violence may lead consumers to totally avoid any affiliation with the foreign country (and thereby its products). This may be a different type of threat as compared to economic competition with an outgroup, which might lead consumers to see hybrid COO as an acceptable consumption behavior.

Lastly, this idea of *why* the trade war is happening seems like it may play a role given the above discussion. If the headline says the U.S. is being aggressive, versus China is being aggressive, does that matter? De Dreu et al. (2016) suggest that being on the defensive leads to greater in group effects (i.e., ethnocentrism). This might be consistent with the data from Nanjing, where individuals may still have held negative feelings toward Japan given the perception of Japan as the aggressor. To date, research on these topics in the context of international animosity (e.g., a trade war) is limited, and it remains unclear which strategies work when and for whom.

## STUDY OVERVIEW

Research objectives of interest include: 1) Establishing the link between trade wars and identity threat, 2) Understanding the nature and type of threat that a trade war represents, 3) Exploring consumer response to trade war escalation by one side or the other, as well as de-escalation, 4) Exploring the role of political ideology in response to trade wars, and 5) Exploring the effect of COO on consumer response to trade wars.

One concern with planning experiments was the consideration of demand effects: how could we present information about trade wars and then ask consumer response without participants feeling they are supposed to respond in a certain way? Thus, we sought to begin this investigation into effects of trade wars with a broad exploratory study intended to lay the groundwork for further studies on the subject of trade wars. This exploratory study seeks to investigate research objectives 1-3.

## Method

*Participants.* One hundred forty-four respondents from the United States responded to our Qualtrics questionnaire via the online Mechanical Turk platform in exchange for compensation (36% female,  $M_{\text{age}} = 36$ , Age Range = 21-70).

*Design.* We employed a 4-cell between-subjects design with random assignment. In each of the four conditions, participants read instructions to please review an excerpt from an article and answer a few questions about it. Participants in all four conditions saw a screenshot of an article from the NPR news website with a headline that varied by condition (edited via Photoshop). The headlines for the four conditions read: 1) China Increasingly Aggressive in US-China Trade War; 2) US Increasingly Aggressive in US-China Trade War; 3) US-China Trade War Coming to a Close; 4) Archaeologists Uncover New Evidence Frozen in Time. The first two conditions are intended to represent trade war escalation but varied by who the aggressor is (China vs. U.S.). The third condition is intended to represent trade war de-escalation. The fourth condition is intended as a control condition and was taken from an actual NPR news headline.

*Measures.* After reading the headlines, we employed a brief funnel procedure that started with a broad question and then followed up with two more specific questions that were presented in randomized order. All questions were open ended. The first question was: Think about the news you just read, how do you think it will affect your purchase habits, if at all? The second two questions were presented in randomized order: 1) Given the news you just read, what are your thoughts regarding products made in China? 2) Given the news you just read, what are your thoughts regarding products made in United States? Participants then responded to demographics questions as well as a 3-item political ideology measure anchored by 1-Very Liberal and 7-Very Conservative with a Neutral midpoint: 1) Which best describes your political ideology? 2) In terms of social and cultural issues, where would you place yourself on the following scale? 3) In terms of economic issues, where would you place yourself on the following scale?

## Results

*Qualitative Analysis.* We examined the data primarily using axial coding (Corbin & Strauss, 1990), with the aim of identifying themes in the data and relating these themes to one another. Five core themes arose.

In response to the questions, almost half of the participants reported expecting some change in their purchase behavior. Regardless of whether they expected some change, they also reported various thoughts about products from United States and China. Some simply stated they expected general change without adding specifics. Others added specifics with regard to price, quality, distribution, regulation, trust, and safety. Interestingly, some of these thoughts were

based on country of origin, and so we refer to them as country of origin stereotypes (Theme 5). Some exemplary quotes for each theme are below.

Theme 1: General Expectations of Change. “This is a trade war. One that could become the largest in world history. It’s [my consumption habits] a little bit affected” –Female participant, age 48.

Theme 2: Price. “I think it [the trade war] might result in higher prices and I might purchase less” –Male, age 38

Theme 3: Scarcity. “It may be harder to find things because they were made in China. Already seeing shortages in things like bath towels and bed sheets.” –Male, age 35

Theme 4: Nationalism & Animosity. “I will try to buy more products made in the USA” –Female, age 26; “I might avoid buying Chinese products.” –Male, age 31

Theme 5: Country of Origin Stereotypes. “I believe products made in China are lower quality since they are made in bulks and sold at cheap prices” –Male, age 35; “These products [made in the United States] are higher quality but they are also going to likely stretch my budget unnecessarily.” –Female, age 38; “I feel more safer with products made in the United States given the FDA and other regulations.” –Female, age 44.

*Quantitative Analysis.* We were particularly interested in the whether the different trade war headline conditions affected how participants responded in terms of their ingroup and outgroup evaluations. We went through participants’ open-ended responses and coded two dependent measures for two types of responses. The first, “outgroup bias,” is coded a 1 if the participant expressed any form of negative bias toward the outgroup products (i.e., Chinese products), such as referring to them as low quality, or expressing avoidance of Chinese products,



and coded a 0 otherwise. The second, “ingroup bias,” is coded a 1 if the participant expressed any form of positive bias toward ingroup products (i.e., U.S. Products), such as referring to them as high quality, or expressing preference for American-made products, and coded a 0 otherwise.

Some participants did not respond to some of the questions (we did not force responses). The resulting dataset included 106 responses about outgroup (Chinese) products and 93 responses about ingroup (U.S.) products. We report the descriptive statistics below in Tables 1 and 2.

Table 1: Outgroup Bias by War Condition

		War Condition					
			China-Agg	USA-Agg	De-Escal.	Control	Total
Outgroup Bias	0	Count	10	18	15	16	59
			41.70%	64.30%	55.60%	59.30%	55.70%
	1	Count	14	10	12	11	47
			58.30%	35.70%	44.40%	40.70%	44.30%
Total		Count	24	28	27	27	106
			100.00%	100.00%	100.00%	100.00%	100.00%

Table 2: Ingroup Bias by War Condition

		War Condition					
			China-Agg	USA-Agg	De-Escal.	Control	Total
Ingroup Bias	0	Count	5	9	12	10	36
			21.70%	40.90%	46.20%	45.50%	38.70%
	1	Count	18	13	14	12	57
			78.30%	59.10%	53.80%	54.50%	61.30%
Total		Count	23	22	26	22	93
			100.00%	100.00%	100.00%	100.00%	100.00%

The overall correlation between ingroup and outgroup bias was statistically significant:  $r(91) = .368; p < .0001$ . Overall, ingroup bias (61.3%) was marginally more prevalent than outgroup bias (44.3%):  $z = 1.671, p = .095$ .

The sample size was relatively small in each condition for conducting analyses of statistical significance between conditions. However, three additional trends in the data may be worth noting. The first is that the occurrence of biases in the de-escalation condition was not too dissimilar from that of the control condition (differences  $< 5\%$ ), suggesting that de-escalation may indeed signal a return to “normal” – or at least, the normal level of trade war salience that was naturally occurring in our survey. Second, biases in USA-Aggressive condition were also within 5% of the control condition for both types of biases, suggesting that economic aggression by USA may also be generally seen as the norm. Third, all of the noticeable movement in the data seems to be occurring in the China-Aggressive condition. Specifically, the occurrence of outgroup bias was about 18% higher in this condition than in the control condition. The occurrence of ingroup bias was about 23% higher in the China-aggressive condition than in the control condition.

## DISCUSSION

This research seeks to explore the effect of trade war on identity-based consumer behavior: Does trade war (de)escalation impact consumer preference for domestic vs. imported goods? Qualitative results from an exploratory study suggest that a trade war may prompt expectations of general change in personal consumption habits, as well as an increase the salience of price and scarcity in product evaluations. Moreover, trade war salience in our

research prompted thoughts of stereotypes about domestic and imported goods, as well as product preferences reflective of nationalism (i.e., ingroup/domestic favoritism) and animosity (i.e., outgroup/import avoidance).

Quantitative analysis of the study revealed an interesting pattern of effects regarding ingroup and outgroup biases. Ingroup bias appeared to be more prevalent in the data, although ingroup bias (positive evaluation, favoritism) and outgroup bias (negative evaluation, avoidance) were positively correlated with one another. We utilized news headlines to state that either the domestic or foreign nation was escalating the trade war, that the trade war was ending, or to state an innocuous headline that had nothing to do with the trade war and therefore served as a control condition. The primary movement in the data was all in the condition where the foreign nation, in this case China, was the aggressor in trade war escalation. Results suggested that this condition may lead to greater ingroup and outgroup bias as compared to the other three conditions. This is consistent with the data from De Dreu et al., (2016) which suggested that intergroup biases may be strongest when the group under study is on the defensive.

It should be noted that the data in our exploratory study were limited. First, the participants were all from the United States. Second, the sample skewed more liberal in terms of their political ideology. Lastly, the sample sizes were too small to conduct rigorous statistical tests of between-condition effects. Future studies may address these limitations by exploring the other side of the trade war with Chinese participants, as well as bolstering the sample size and seeking a more politically diverse set of respondents.

Taken together, the data suggest that trade wars may indeed signal a form of psychological threat, particularly when the foreign nation is seen as the aggressor. This may lead to heightened country-of-origin stereotyping (e.g., perceptions that U.S. products are high quality

and more expensive), as well as both ingroup favoritism for domestic products (i.e., nationalism) and outgroup derogation of imported products (i.e., animosity). Our data suggest that the mere mention of trade war de-escalation in a news headline may be sufficient to return to business-as-usual regarding these evaluations and preferences, although we should caution that persistent animosity from a trade war may be dependent on how deeply a specific segment was affected (e.g., Cheah et al., 2016). Each of these are novel contributions to theory in research on international business.

Key managerial implications are that U.S. companies targeting ex-pats, U.S. citizens abroad, or other individuals who may identify with U.S. culture may want to heighten the prominence of made-in-America branding during periods of trade war escalation, especially when the foreign nation is seen as the aggressor. The United States state department estimates about 10 million U.S. citizens are living abroad (Dorger, 2020). This includes a 40% increase from 2007 to 2017 in the number of retirees drawing social security from outside of the U.S. (Picchi, 2019). Data from National Travel and Tourism Office also estimates over 90 million Americans traveled abroad in 2018 (Sampson et al., 2019). These sizeable customer segments may be prudent for multinational U.S. brands to focus on in international markets to bolster sales during periods of trade war escalation.

Additionally, given the foregoing literature review, our study results hint that it may be the case that some trade wars (including the US-China trade war) may be relatively low-animosity situations for the average individual. Thus, hybrid COO brand strategies may help maintain interest in U.S. exports, consistent with what the findings of Guo et al., (2019) might suggest. However, this specific question remains to be stringently tested in the trade war context with an international sample.

Further research questions remain regarding this topic. Specifically, how effective are hybrid COO strategies in reducing effects of psychological threat stemming from a trade war depending on who the aggressor is? What role might political ideology play in consumer response? Exploring these questions will provide more specific managerial implications with regard to COO branding as well as adapting the brand position when segmenting markets based on political ideology or its correlates.

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