

# **CHAPTER I**

## **INTRODUCTION**

### **1.1 Background of Study**

Globalization has brought significant changes in various aspects of life, including the international trade sector (Mantondang et.al., 2024). With the increasing openness of global market access, products from various countries can easily enter domestic markets. This presents opportunities for producers to expand their market reach but also poses challenges for local businesses that must compete with imported goods. As competition intensifies, quality, price, and innovation become key factors in determining a product's competitiveness in the global market. Additionally, international trade policies such as trade agreements and tariff regulations also play a role in influencing a country's trade flow.

One of the products heavily imported by Indonesia is apparel. The increasing import of apparel products can have an impact on the development of the domestic textile and garment industry (Kemendagri, 2023). Local producers often face difficulties in competing due to differences in production costs, access to raw materials, and smaller production scales compared to foreign apparel companies that already have extensive production and distribution networks. (Saptana & Rahman, 2022). In addition, free trade policies implemented by the government also influence market dynamics, as low import tariffs further facilitate the entry of foreign apparel products. As a

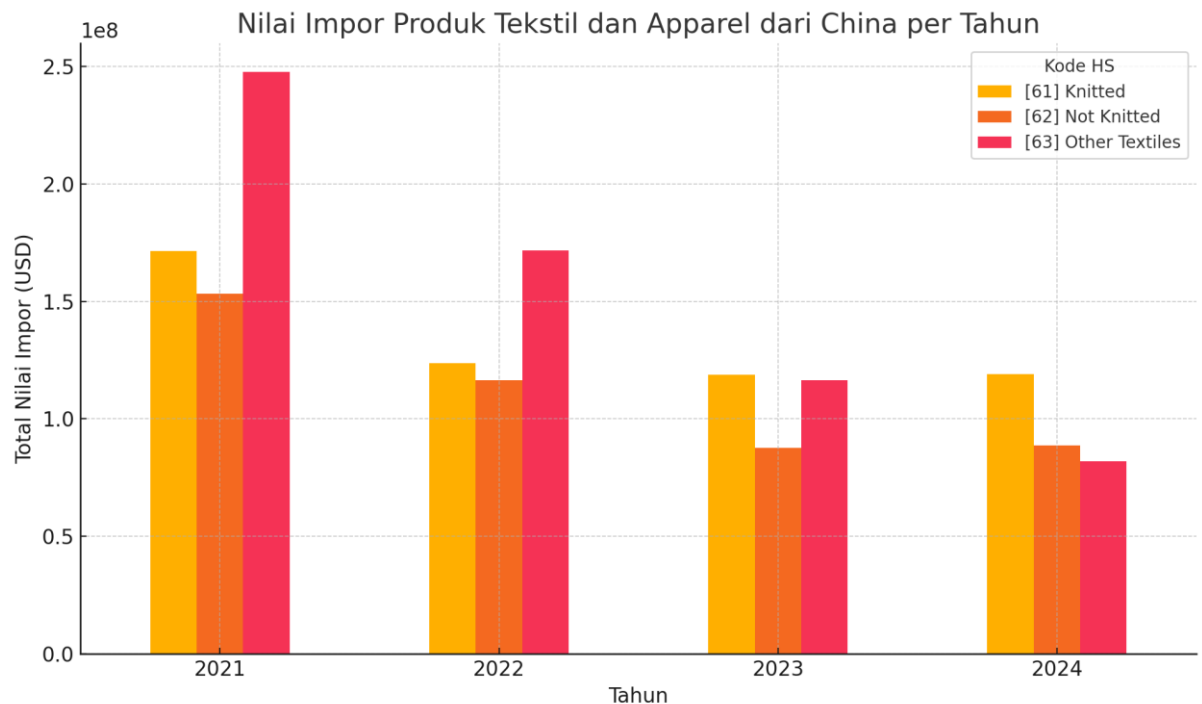
result, many small and medium enterprises (SMEs) in this sector experience a decline in demand and face difficulties in sustaining their businesses.

This condition underscores the need for policies that support the competitiveness of local products, such as incentives for domestic producers, strengthening of local brands, and improvement of product quality to compete in an increasingly competitive global market (Putri et.al., 2025). One of the sectors significantly affected by globalization is the apparel or ready-made clothing industry. Imported apparel products from various countries especially those with low production costs such as China, Bangladesh, and Vietnam are increasingly flooding the domestic market. This phenomenon not only offers consumers a wider variety of products but also poses challenges for the local apparel industry, which must compete with cheaper imported goods.

On the other hand, globalization also brings positive impacts for consumers and industry players who are able to adapt. Consumers benefit from a greater variety of products at more competitive prices, while producers who can align with global trends have the opportunity to expand their market reach. Some local companies have even begun adopting new strategies, such as improving product quality, strengthening their brand, and developing more effective distribution systems to remain competitive in the global market. However, not all local producers possess the ability to adapt quickly, resulting in a decline in competitiveness for many, some even going out of business.

In this era of globalization, it is inevitable as every country becomes increasingly interconnected and interacts on a global scale, particularly in the cultural and economic sectors. The expansion of the international market makes it easier for consumers to become familiar with various product sectors, especially in the apparel industry. These changes present both opportunities and challenges for the market to capture consumer attention in an increasingly broad and competitive arena.

China is known as one of the largest apparel producers in the world, with advantages in mass production, relatively low labor costs, and supply chain efficiency (Chen et.al., 2023). This has made Chinese apparel products competitively priced and capable of dominating the global market, including in various developing countries. The entry of Chinese apparel into international markets has brought positive impacts in the form of more diverse product choices at affordable prices. However, it has also posed challenges for local industries, which must compete in terms of quality, innovation, and production efficiency. This competition requires domestic apparel industry players to enhance their competitiveness through product differentiation strategies, quality improvement, and the use of technology in the production process in order to survive amid the dominance of imported products.



**Figure 1.1 Textile and Apparel Product Import Chart from China 2021-2024**

**Source : (BPS, 2024)**

The presented graph illustrates the development of import values of textile and apparel products from China to Indonesia during the period from 2021 to 2024, divided into three main categories based on HS Code classification: [61] knitted products, [62] non-knitted products, and [63] other made-up textile articles. In general, there has been a declining trend in the import values of all three categories over the past four years, indicating a shift in the dynamics of textile trade between Indonesia and China. This decline may reflect various factors such as increased domestic production, changes in consumer preferences, and government policies aimed at reducing dependence on imported goods.

In 2021, category [63], which includes other made-up textile articles, recorded the highest import value at over USD 247 million, but experienced a sharp decline each year, reaching only around USD 81 million by 2024. This significant decrease suggests a possible shift in consumption toward local products or more economical alternatives, as well as the tangible impact of the government's ongoing import substitution policies. Meanwhile, category [61], which includes knitted products such as t-shirts and sweaters, showed a relatively stable trend. After declining from USD 171 million in 2021 to USD 118 million in 2023, its import value slightly increased to USD 119 million in 2024, indicating that knitted apparel from China still maintains a fairly consistent demand in the Indonesian market.

Category [62], which includes non-knitted apparel products, experienced more significant fluctuations. Starting at USD 153 million in 2021, there was a sharp decline to USD 87 million in 2023, followed by a slight increase to USD 88 million in 2024. This pattern suggests that the non-knitted product segment is more vulnerable to market dynamics or trade policies and may also reflect changes in consumer preferences or lifestyle trends. When compared across the three categories, knitted products appear to be the most stable and in demand, likely due to their flexibility and affordability for various segments of the population.

Although the downward trend is clearly visible in the graph, the reality is that the import value of apparel from China remains high, indicating that these products are still a primary choice for Indonesian consumers. This persists

despite the government's implementation of various protective policies, such as the imposition of import duties under the Most Favoured Nation (MFN) scheme and the application of safeguard duties (BMTP) aimed at protecting the domestic industry. The purpose of these policies is to slow the influx of low-cost foreign products and create space for the growth of local goods. However, the continued high consumption of Chinese apparel suggests that local products have yet to fully match the competitiveness of imports in the minds of consumers.

This phenomenon is particularly interesting to examine more deeply, as it indicates the presence of other, stronger factors influencing Indonesian consumers' purchasing decisions. The choice to buy apparel products from China is not solely driven by price or availability, but also by complex psychological and social factors. In this context, it becomes important to further investigate what influences consumers' purchase intention toward imported apparel products from China, especially amid the government's efforts to strengthen the domestic industry.

Consumers have access to a wide range of products from various countries, each with its own characteristics and brand image. Public perception of imported products is often influenced by the country of origin (COO). Apparel products from countries such as China are frequently faced with certain stigmas related to quality and reliability. In contrast, products from countries like Japan or those in Europe tend to be more highly valued, as they are perceived to adhere to higher standards. These differences in perception can

influence consumer purchase intention and serve as a crucial factor in marketing strategy.

This study is based on the rapid growth and dominance of Chinese apparel products entering the Indonesian market over the past few years. Import data shows that although there has been a gradual decline in import value from 2021 to 2024, the total import value remains highly significant, reaching over USD 1.59 billion within the four-year period (BPS, 2024). In 2021, the import value of apparel from China reached its peak at over USD 572 million, while by 2024, although it decreased, the value still reached USD 289 million (BPS, 2024). This indicates that apparel products from China remain one of the primary choices for Indonesian consumers in fulfilling their clothing needs.

This situation creates strategic considerations in purchasing decisions, particularly when consumers are faced with a choice between local products and imported products from China. In this context, one of the key variables being studied is purchase intention, which is defined as an individual's intention or desire to buy a product in the future (Agustina, 2021). Purchase intention is considered an important indicator in understanding consumer behavior, as purchase intention often serves as a direct predictor of actual buying behavior (Sari et.al., 2024). In this study, purchase intention towards imported apparel products from China is influenced by several psychological and social factors, which are explored through the research model.



One important factor that influences purchase intention is ethnocentrism (Larasati et.al., 2021). This refers to the belief that purchasing foreign products is considered unpatriotic or even harmful to the national economy. Consumers with a high level of ethnocentrism tend to reject foreign products and prefer domestic products, even if the quality or price may be lower (Nguyen et.al., 2023). In the context of Indonesia, this ethnocentric attitude manifests as a preference for local products as a form of support for the domestic industry. Therefore, it is important to understand the extent to which ethnocentrism influences purchase intention towards imported products, especially from countries like China, which often face negative stigma related to quality.

The country of origin (COO) factor, or the perception of the product's country of origin, is also an important determinant in shaping purchase intention (Gangulga & Ganbold, 2022). COO reflects the extent to which the reputation or image of a country can influence consumer perceptions of products from that country. If China is perceived as a country with mass production capabilities but low quality, this will affect consumers' perceptions of apparel products originating from there (Meutia et.al., 2022). However, COO does not always work directly; in many cases, the effect of COO is mediated by perceptions of the product's image or the product's quality itself.

On the other hand, social influence is an external factor that plays a significant role in shaping consumer purchase intention (Nurizky & Nefianto, 2023). Social influence includes opinions, encouragement, or pressure from others in the social environment, such as friends, family, or public figures (Shah



& Asghar, 2023). In today's digital age, social influence not only comes from direct interactions but also from social media and e-WOM (electronic word-of-mouth). Consumers are often influenced by reviews, trends, or recommendations that emerge within online communities or through influencers, which can strengthen purchase intention towards certain products, including imported products.

In the modern marketing world, purchase intention is an important indicator in understanding consumer behaviours. Purchase intention reflects the likelihood that a consumer will buy a product after undergoing an evaluation and consideration process. Factors such as product quality, brand perception, price, and perceived value significantly influence the formation of purchase intention. In the context of imported products, especially fashion products like apparel from abroad, purchase intention is also influenced by consumer perceptions of the country of origin, as well as the social and cultural values held by individuals.

External factors such as social influence also play a crucial role in consumer purchase decisions. Emerging fashion trends, endorsements from influencers, and reviews from other users on social media can either encourage or hinder purchase intention toward imported apparel products. Influencers and celebrities promoting specific products can enhance the positive image of these products, while negative reviews can reinforce existing stigmas. Therefore, marketing strategies that involve influencers and fashion trends are becoming increasingly relevant in the apparel industry, particularly for imported products.

By understanding how ethnocentrism, COO, and social influence affect consumer purchase intention toward imported apparel products, particularly from China, companies can design more effective marketing strategies. These strategies may include educating consumers about product quality, enhancing brand image, and leveraging social media to build trust. Additionally, marketers can develop more personalized approaches tailored to the target market segments, thereby reducing the psychological barriers that consumers have toward imported products.

One factor that may hinder consumer purchase intention toward apparel products from China is ethnocentrism. Consumer ethnocentrism refers to an individual's tendency to prefer domestic products over foreign ones, due to a sense of national pride or the perception that local products are superior. This attitude can lead to resistance against imported products, especially if consumers perceive that purchasing foreign products could threaten the domestic industry. In the context of Indonesia, where the 'Proudly Made in Indonesia' campaign is becoming increasingly prominent, ethnocentrism can pose a challenge for Chinese apparel products in attracting consumer interest.

COO (Country of Origin) also plays an important role in shaping consumer perceptions of a product. Consumers tend to associate the quality of a product with its country of origin (Kussudyarsana, 2019). Products from countries with a high reputation in the fashion industry, such as Italy or France, are often perceived as more exclusive and of higher quality (Nurchaliza et.al., 2023). On the other hand, apparel products from China sometimes still face

stereotypes as lower-quality products, even though many major brands manufacture their goods there (Meutia et.al., 2022). This perception can influence consumer trust levels and affect their purchasing decisions. Imported apparel products from China, for example, have become an interesting phenomenon to study due to the diverse responses they receive from consumers. Some consumers may be drawn to them because of competitive prices and trendy designs, but on the other hand, sentiments such as ethnocentrism, the belief that domestic products are better, can reduce purchase intention toward imported products. Furthermore, perceptions of the country of origin (COO), such as China, which is often associated with mass-produced products, as well as social influence from one's environment, also play a significant role in shaping purchase intention. Therefore, understanding how these three factors affect purchase intention toward imported apparel products from China is relevant for developing effective marketing strategies.

Based on this background, this study aims to analyse the impact of ethnocentrism, Country of Origin, and social influence on consumer purchase intention toward apparel products from China. By understanding the factors that influence purchasing decisions, the results of this research are expected to provide insights for business practitioners in developing more effective marketing strategies that align with consumer preferences in the Indonesian market.

## **1.2 Research Problem**

Based on the data above, apparel products from China remain the primary choice for a large portion of Indonesian consumers, even though the government has implemented various policies to hinder imports. This indicates the presence of other factors that are more dominant in influencing purchasing decisions. Therefore, it is interesting to investigate these factors, including ethnocentrism, country of origin (COO), social influence, and purchase intention toward apparel from China. Thus, the research questions of this study are:

1. Is there a positive influence of Country of Origin (COO) on Indonesian consumers' purchase intention toward imported products from China?
2. Is there a positive influence of social influence on consumers' purchase intention toward imported products from China?
3. Is there a negative influence of ethnocentrism on consumers' purchase intention toward imported products from China?
4. Is there a mediating role of product image in the relationship between Country of Origin (COO) and consumers' purchase intention toward imported products from China?
5. Is there a mediating role of product quality in the relationship between ethnocentrism and consumers' purchase intention toward imported products from China?

### **1.3 Objective of the Study**

Based on the research questions, the objectives of this study are determined as follows:

1. To examine the positive influence of Country of Origin (COO) on Indonesian consumers' purchase intention toward imported products from China.
2. To examine the positive influence of social influence on consumers' purchase intention toward imported products from China.
3. To examine the negative influence of ethnocentrism on consumers' purchase intention toward imported products from China.
4. To examine the mediating role of product image in the relationship between Country of Origin (COO) and consumers' purchase intention toward imported products from China.
5. To examine the mediating role of product quality in the relationship between ethnocentrism and consumers' purchase intention toward imported products from China.

#### **1.4 Research Contribution**

From the perspective and aspect of business management with a concentration in international business, this study is expected to provide both academic and practical benefits.

##### **1.4.1 Academic Benefits**

It is expected that the results of this study will contribute and provide information, insights, and references for further research development related to purchase intention, ethnocentrism, country of origin, social influence, product image, and quality image.

#### **1.4.2 Practical Benefits**

It is expected that the results of this study will provide benefits for companies on an international scale, especially for companies operating in the fashion industry.

### **1.5 Research Outline**

This study consists of five chapters in a systematic framework. The content of each chapter in this study is as follows:

#### **Chapter I: Introduction**

This chapter covers and explains the background of the study, problem formulation, research questions, research objectives, research contributions, and the research outline.

#### **Chapter II: Literature Review**

This chapter covers and explains the theories related to the research variables, the relationship between hypotheses and variables, as well as previous studies from journals, other research, and books.

#### **Chapter III: Research Methodology**

This chapter explains the methodology used in the study to answer the research questions, as well as providing a deeper understanding of the research. Overall, this chapter covers the research objects, measurement, research paradigm, unit of analysis, design and sample size, data collection methods, and data analysis methods.

#### **Chapter IV: Data Analysis and Discussion**

This chapter covers the interaction between variables in the study, the results of the data obtained, statistical tests, as well as further discussion to formulate the overall research conclusions.

#### **Chapter V: Conclusion and Recommendations**

This chapter is a summary of the research findings after all hypotheses have been tested. In addition, this chapter also includes the implications of the study and recommendations for future research.

