

Managing the concerns of increasing global production by reconceptualising 'country of origin'

- By Elise Sterback

Question: Goods and services are increasingly produced transnationally (in several locations) often by multinational corporations and dispersed through global supply chains. Given this, what is the meaning of 'Made in New Zealand' or 'Made in China', and should we be concerned that more and more goods have their (rule of) origin in China?

Abstract: Progressively, more New Zealand companies are partly or wholly producing offshore, namely in China, goods which were once considered purely New Zealand made. New Zealand businesses, individuals (as workers and consumers), and the New Zealand Government can all offer different perspectives on the concerns generated by this phenomenon. Whether it can be concluded generally that this phenomenon generates real concern, depends on whether the notion of 'country of origin' or 'made in New Zealand' can be successfully reconceptualised to embody the sense of New Zealand as a producer in a more symbolic way, rendering the country of manufacture as less relevant. Studies have shown that country of origin can be used as part of the brand image of a product to increase its appeal to and recognition by consumers. This country image approach can be used on a broader scale as part of a national strategy to increase sustainable competitive advantage.

Thesis: The concerns of New Zealand businesses, individuals and the government or nation as a whole can to some extent be answered if the concept of 'made in New Zealand' or country of origin is adapted to the modern context of the increasingly global marketplace.

- The concept of country of origin will be examined to show how its traditional use has become outdated - to the disadvantage of those of the nation's enterprises wishing to become globally competitive.
- The perspectives of New Zealand businesses will show that there are more gains to be had from adapting to the global market structure, despite the concerns of facing increased competition.
- Consumers stand to gain access to an increased variety of products at more affordable prices, while workers could benefit from education and training focused towards a higher skilled labour force. However, these benefits need to be weighed against the difficulty of setting product quality standards and the costs of transition in the workforce.
- The government perspective will tend to support a degree of protection which inhibits this globally-focused approach, but even a concern for young industry can be reconstructed to allow for the reconceptualising of country of origin. The government's role can instead become one of promotion and managing the country's image.
- The new concept of 'country of origin' as one of 'country of brand' permits firms to become increasingly competitive by producing globally, while still benefiting from association with a positive country image and reputation.
- The active promotion and fostering of a country brand and reputation enhances the nation's competitive advantage by adding a value to exports that is unique.

Introduction

Liberal reforms throughout the world's economies have opened up the global political economy and allowed for the increasingly easy flow of capital and trade between states. Technological progression and advancement in communications has contributed to this opening up and enhanced the growth of globalisation and the declining economic relevance of the national border. National frontiers are less restricted than in any time in history, facilitating the rise of transnational corporations (TNCs) who produce goods in more than one country.¹

This notion of global production faces restrictions from concepts which have not caught up with the changing international context, such as that of the "Made in..." label which excludes global producers from identifying their product with where they might consider their home country or 'country of origin'. This concept still receives much support, especially from those people who could be identified as ethnocentric, who have concerns about the impact of globalisation on their national economy and wellbeing. These concerns will be examined, alongside theories of the global political economy which they can naturally be coupled with, such as: business and neoliberal perspectives; individual (consumer and worker) and radical views; and government and economic nationalist concerns. The concerns can be mitigated somewhat by opportunities that the global marketplace has to offer and the necessity to take up these opportunities in order to maintain a position in the international community and avoid isolation. A strategy is required for pursuing these opportunities; one which embraces increasing globalisation and updates the "Made in..." concept. This involves extending "Made in..." to incorporate global producers that continue to identify themselves with their home country.

With regards to concerns of increasing production in China specifically, many other issues could be raised; but within the scope of this essay it is more

¹ O'Brien, R. and M. Williams (2007). Global Political Economy. New York, Palgrave Macmillan. p. 137

salient to examine concerns of New Zealanders for their own economy, as opposed to concerns associated with the rise of China and its treatment of labour standards and human rights. The focus will be on New Zealand TNC's producing in China, rather than the rise in production by Chinese owned or foreign owned businesses of purely Chinese goods which are being imported to New Zealand.

“Made in New Zealand” and Country of Origin

New Zealand has a strong history of patriotism surrounding its manufacturing industry. This has been encouraged by the government and appears in the form of the 'Buy New Zealand Made' organisation and brand which has been established for twenty years to date.² Recently, a campaign has been launched by the government in support of this brand and to encourage domestic consumers to purchase New Zealand made products. The 'Buy Kiwi Made' campaign has adopted the organisation's definition of a New Zealand made product which is set out in the Fair Trading Act:³

“A place of origin can be defined as the country or region where the product was created in its final form from its raw materials or constituent parts. In other words, it is the country or region where the product's 'essential quality' was created. It is not necessarily the place where the most money was spent on a product - and it is not the place where only final assembly or packaging was done.”

This definition is narrow in scope and includes only companies that manufacture in New Zealand. It also equates the concept of place or country of origin with that of “made in...”. In this way, country of origin is the country of manufacture and domestic consumers are urged to be ethnocentric and favour New Zealand made goods over foreign imports in their purchasing

² Buy New Zealand Made. "About Us." Retrieved 15 January, 2008, from <http://www.buynz.org.nz/85164/html/page.html>.

³ Buy New Zealand Made. "Who can use the logo." Retrieved 15 February, 2008, from <http://www.buynz.org.nz/85513/html/page.html>.

decisions. Similarly, images of 'Kiwiness' are propagated to describe businesses which are 100% New Zealand owned and operated.⁴

The traditional definition of "Made in New Zealand" as a product being produced in its entirety within New Zealand borders, from its extraction as a raw material to its manufacture into a finished product, may seem like a concept which is so intuitively accurate and generally accepted, that there is no room or need for redefinition. This way of thinking could be attributed in part to the nature of trade in the past – where goods are produced by a country and traded and exchanged with another country. In this scenario, the good is a finished product with an identifiable nationality and origin and it is merely transported in this finished state, ready to be sold outside of its producer's borders. This nature of trade is based on a certain nature of production – where all parts of the production process which contribute to the making of the final product can be found in close proximity to each other; all the input, labour, land and capital, is grouped together, collaborating within one country. But with the increasing globalisation of the planet there has come a splitting up and spreading out of these production elements that transcends national boundaries; to conduct a global commodity chain (GCC) analysis⁵ of a modern good, one would find oneself flying all over the world. It is in this new context that old concepts come up for debate, to be extended and adapted to more accurately reflect the needs of those they could potentially apply to. If this reconceptualisation is not undertaken then it has the power to exclude essential businesses who wish to retain their Kiwi identity while engaging with the global political economy and acting as a link for the whole nation to the international arena. The possible forms that this reconceptualisation could take will be discussed once the perspectives of the groups of actors involved have been examined.

⁴ Slade, M. (2008). Mixed views as new members sign up. [The New Zealand Herald](#). Auckland.

⁵ O'Brien and Williams, op. cit. p. 176.

The Perspectives and Concerns of Businesses

The business sector is made up of diverse members and therefore a single, cohesive viewpoint cannot possibly be extracted which is representative of all. Several key concerns generated by increasing globalisation and production in China can nonetheless be highlighted, or rather, the presiding view from business would most likely be one which recognises the opportunities brought about by this occurrence. Business and industry stand to gain the most from the increasing liberalisation of the market and easing of trade restrictions. They are therefore likely to support the arguments of neoliberals that free trade is a positive-sum gain and benefits everyone, by increasing efficiency and raising productivity.⁶ If trade barriers are reduced between China and New Zealand (for example, through a Free Trade Agreement), then New Zealand businesses will find it increasingly easy to take advantage, as other nations are, of China's cheaper resources and labour. By producing in China, businesses can achieve better economies of scale in order to compete with foreign suppliers in the global market that are doing the same. Neoliberals would also argue that this is important because the export sector can act as a stimulus to the economy as a whole, encouraging foreign investment.⁷

The flipside of increasing liberalisation, is the presence of greater competition within the now more open market. This competition may be useful in forcing businesses to become more efficient, as liberals argue; but they may also fail in their attempt to become more competitive, and for this they would have the increased pressure of the open market to blame. This issue is evident in the context of a New Zealand-Chinese trade relationship: the immense production of Chinese goods invading the market is often able to undercut the prices of wholly New Zealand made goods from businesses that are yet too small to use global production to their advantage. On the other hand, most liberals accept the argument that protection of infant industry is necessary until those businesses reach the level of global competition.⁸

⁶ Ibid. p. 139.

⁷ Ibid. p. 143.

⁸ Ibid. p. 145.

The Perspectives and Concerns of Individuals

The structure of the global political economy and its increasing globalisation in trade and production affects deeply the lives of individuals, both in their capacity as consumers and as workers in the nation's labour force. Globalisation does present potential gains to consumers in that they will have a greater selection of products to choose from as well as lower and more competitive prices which allow their income to stretch further.⁹ However, with parts of the production process being located overseas in places such as China, it becomes more difficult for the consumer to rely on standards of quality and safety; especially when a product is composed of parts sourced from a complex chain of production, making it harder to make informed and reliable buying decisions. In addition, because of the increased distance between the consumer and the source of the supplier, it may cause problems for the consumer who wishes to claim a guarantee or complain about the product's failure, as it is possible for the retailer to pass the buck to the manufacturer and rely on this distance.

As more and more New Zealand businesses attempt to become globally competitive by engaging in offshore manufacturing, it is inevitable that job losses will occur in the domestic manufacturing sector. Even if the transition away from a manufacturing economy is gradual, there will be a considerable amount of workers in the short term that will be unable to retrain and find new employment. In the long term, education and a shift to high value industries and high skilled workers will hopefully create new job opportunities within the economy. This transition to a higher skilled economy will be discussed more ahead in the concluding statements on competitive advantage. Finally, Green critics of the liberalisation of the global market argue that free trade has negative external effects that will impact on the quality of life of individuals and the wellbeing of the planet. They assert that current trade practices are unsustainable and will lead to environmental degradation.¹⁰

⁹ Ibid. p. 143.

¹⁰ Ibid. p. 147.

The Perspective and Concerns of the Government

As a democracy, the government of New Zealand must, by definition, represent the views of its citizens and thus the preceding perspectives of businesses and individuals are relevant when considering the government's standpoint. However, it can also be observed that there is a typical tension in the global political economy when considering the perspectives of states, in that they wish to engage with the process of increasing liberalisation while still maintaining the pursuit of their own interests through some form of protection. Therefore, it is useful to examine the arguments that economic nationalist theory has to offer in the context of state action. Nationalists believe that the protection of local production increases national economic welfare.¹¹ They argue that free trade can undermine national economies and create uneven development.¹² They would point to the concerns already discussed above: businesses would face life-threatening competition and workers would encounter unemployment as a result. This government position is evidenced by the existence of campaigns such as "Buy Kiwi Made", whose creators have been quoted stating that New Zealand manufacturers need to be 'looked after' as much as possible in order to foster economic growth.¹³

However, the effects of globalisation may not be so easily managed. Having ceded some of their sovereign power already to engage with the liberalisation phenomenon, governments may find it very difficult to then jump on the other foot and try to constrain its progress. This can be seen in some of the reactions to the "Buy Kiwi Made" campaign: Bruce Goldworthy from the Engineers and Manufacturers Association doubted the impact that the campaign would have on the behaviour of consumers. He and other sceptics suggest that because of the now dominant presence of the global market, consumers were much more used to a variety of products and may not be

¹¹ Ibid. p. 144.

¹² Ibid. p. 139.

¹³ Slade, M. (2008). 'Buy Kiwi Made' labelled Green Party sop. [The New Zealand Herald](#). Auckland.

prepared to pay a premium because of patriotic sentiments, if they had these sentiments at all.¹⁴

‘Country of Origin’ as ‘Country of Brand’

Because of its exclusive nature and beliefs in its ineffectiveness at promoting national wealth, there have been actions in response to the “Buy Kiwi Made” campaign and the definition of a New Zealand made product that it espouses. David Skilling, chief executive of think tank the New Zealand Institute, is one of these, saying that: ‘Increasingly we should be supporting New Zealand companies that are going global, and not sending a message that somehow they’re less than fully New Zealand.’¹⁵ Similar views are endorsed by “Made from New Zealand”, a business network which seeks to expand the definition of a New Zealand made product to include the notion that anything New Zealanders do anywhere in the world can be attributed to their national origins as a result of their Kiwi experience.¹⁶ The network includes members that many citizens would recognise as essential New Zealand businesses, such as: Icebreaker, Fisher and Paykel, Coastlines, Huffer, Macpac and Swanndri. They are all manufacturers who have chosen to become global producers whilst maintaining their headquarters and brand image inside New Zealand realms.

This strategy of locating production offshore in order to compete on price and still maintaining a connection between the brand and the home country, is a useful strategy for businesses in the global market. By associating themselves with a country identity, they are able to leverage off its good reputation and image and provide a point of unique differentiation. To be able to do this successfully, they need the support of the government of the home country, so that both can work together to increase recognition and popularity of the brand with international and domestic consumers. Simon Anholt sees the

¹⁴ Ibid.

¹⁵ Ibid.

¹⁶ Made From New Zealand. "Why Made From New Zealand?" Retrieved 13 March, 2007, from <http://www.madefromnewzealand.com/why-made-from-new-zealand>.

building of a reputation within the global marketplace, as one of the primary aims of government in the 21st century.¹⁷ It has potential to add appeal to exports by what he calls the 'country of origin effect' and can have just as much impact on consumers, if not more, as the reputation of the country of manufacture.¹⁸ Phau and Prendergast also contend that the country of manufacture can be made irrelevant through emphasis on the home country of the brand.¹⁹ They suggest that the perceived origin of the brand need not be the same as the country shown on the 'made in' label (i.e. the manufacturer) and that the 'nationality' of a product is not necessarily eliminated just because it is produced in another country.²⁰ They propose a shift from the concept of 'country of origin' to one of 'country of brand' which if managed and promoted carefully will be used as a product evaluation tool by consumers.²¹ This means that the design, engineering and process of invention are equated with where the product was 'made in' rather than the manufacture. In this way, as part of the process of globalisation, there will be a growing acceptance by consumers of hybrid products (goods produced in more than one nation) and therefore the country of manufacture will be used less and less to evaluate product quality.²²

Conclusion

It has been argued that in order to avoid the concerns raised by the actors involved in and affected by increasing global production, a concept shift is required for the meaning of 'country of origin'; from emphasising 'country of manufacture' to promoting 'country of brand'. This approach does not easily fit into any of the theoretical perspectives that have been discussed. It may be suggested that it is an approach which seems to have more neoliberal

¹⁷ Anholt, S. (2007). Competitive Identity: The New Brand Management for Nations, Cities and Regions. New York, Palgrave Macmillan. p. 2.

¹⁸ Ibid. p. 9

¹⁹ Phau, I. and G. Prendergast (2000). "Conceptualizing the country of origin of brand." Journal of Marketing Communications 6(3): p. 166.

²⁰ Ibid. p. 164

²¹ Ibid. p. 166

²² Ibid. p. 167

tendencies, as it advocates a need to adapt to globalisation and a loosening of conceptual restrictions. However, it could also be labelled as nationalist, as it prescribes a strong role for government; government must actively pursue a strategy of building a global reputation and supporting the branding of its exports and industries.

There are undeniable concerns raised by the short term costs of the transition between these concepts. Should the manufacturing industry decrease in New Zealand it will undoubtedly have a severe impact on businesses, workers and the economy. One can only hope that if this transition is undertaken gradually the costs will be minimised. For the present, the focus could be on making room for inclusion in the national image of New Zealand businesses producing globally, while still protecting those manufacturers based in the country. Recognising hybrid products as being 'New Zealand made' in terms of their intellectual input and brand identity can form part of a long term strategy for sustainable competitive advantage for New Zealand. The conceptual transition will involve a progression for the New Zealand workforce; manufacturing labour will be found offshore while education and training will be used in New Zealand to encourage higher skilled labour. This will supply the increased demand for such workers created by the rise of Kiwi TNC's locating their home bases in New Zealand, which are engaged in the design or initial phase of production. In this context, New Zealand as a nation will be able to harness the benefits and minimise the concerns of the inevitable increase of global production, allowing it to engage with the world rather than work against it.

(3,063 words)

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