



Covered in Gold: Examining gold consumption by middle class consumers in emerging markets



Jingting Liu

J. Mack Robinson College of Business, Georgia State University, United States

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ABSTRACT

As wealth and status rise for middle class (MC) consumers in emerging markets (EMs), they increasingly acquire gold for both consumption and investment. The authors delineate a conceptual map for gold consumption drawing insights from the context of MC in EMs. Perceived benefits of gold and disposable income directly determine the attractiveness and availability of gold for individual consumers. Cultural, institutional and economic factors account for country variations in gold consumption. Based on theoretical considerations and empirical evidence, we contend that gold consumption and disposable income have a curvilinear relationship: as EMs mature and MC consumers' shopping baskets become more diverse and sophisticated, their gold consumption decreases and eventually stabilizes.

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“China's gold fever rises, showing no signs of abating.” (Rудараканчана, 2013).

“China's rising middle class will sustain demand for bullion after the nation overtook India as the world's largest gold buyer in 2013.” (Bloomberg News, 2014).

1. Introduction

1.1. Research background

In the last several years, major media outlets have publicized the so-called “Chinese gold fever.” Although gold has been valued since trade first began, little is known about its consumption characteristics: the identities of buyers, their reasons for purchasing gold, and the quantities they desire. The social sciences have produced only limited studies about gold, mostly from macroeconomics or financial market perspectives (e.g., Capie, Mills, & Wood, 2005) rather than from consumers' perspectives. One study that attempted to understand consumer demand for gold (jewelry, bars, coins, and medallions) examined only macro level indicators rather than individual purchasing behavior, and concluded that “no previous economic research has explored the socio-cultural factors accounting for cross-country variations of gold demand” (Starr & Tran, 2008).

The extant literature also lacks cross-cultural comparative international studies regarding gold consumption. Some studies

have focused on specific demand trends and determinants in India (Kannan & Dhal, 2008; Vaidyanathan, 1999) or have surveyed consumers to ascertain gold purchasing behavior in Thailand (Napomech, Tanpipat, & Ueatrakunkamol, 2010). International studies need to be consolidated to examine gold consumption from an etic approach.

1.2. Gold consumption and middle class status in emerging markets

Gold is an especially important financial asset in emerging markets (EMs) where economic institutions are less developed. In the past two decades, EMs such as China, India, Vietnam, and Thailand exhibited increasing gold consumption as opposed to the stable world demand. Gold has long been viewed as an essential hedge against economic risks, especially inflation. Emerging market (EM) consumers have little trust in the few available financial institutions that offer limited investment options and are still at early stages of development. Consequently, gold is an ideal asset for retaining value in times of uncertainly, outside financial institutions (Starr & Tran, 2008). In addition, consumers in EMs have relatively low educational levels, have little financial sophistication, and have limited ability to borrow because local credit markets are immature. Thus consumers desire gold for precautionary wealth that retains its value and can be liquidated quickly as needed (Starr & Tran, 2008).

EM consumers who have recently achieved middle class (MC) status are especially attracted to gold. With rising disposable income, they spend more on discretionary consumption such as recreational products and services, transportation, communication, health care, and education (Farrell, Gersch, & Stephenson,

E-mail address: jingting.a.liu@gmail.com (J. Liu).

2006). Among discretionary expenditures, gold is unique for both consumption and investment. Gold is hard to abrade or tarnish and it can be resized and reshaped without losing its intrinsic value (Moors, 2013). Gold is easily accessible and requires little maintenance in contrast with stock market investments that require financial expertise, time, and energy to manage assets. These attributes are particularly important to MC consumers in EMs who still have relatively low income and education levels in comparison with those from advanced economies. Gold is a conservative investment option, considering its inflation-adjusted long-term zero-return ratio (Erb & Harvey, 2013). MC consumers may prioritize competing expenditures such as education and medical service, but undoubtedly gold is an indispensable component in their consideration set, especially in the context of EMs.

1.3. Contributions to extant literature

First, this manuscript contributes to knowledge regarding the growing MC phenomenon in EMs, which has become an important topic of academic investigation because of the magnitude of changes it has brought across the globe (Cavusgil & Buckley, 2014). The emergence of the new middle class, especially in large markets such as China and India, is reshaping international business perspectives and practices (Sheth, 2011). Our close examination of gold consumption helps to delineate the multifaceted phenomenon in greater depth. Second, this article contributes to international business research by providing insights into international/cross-cultural consumer behavior from a cross-disciplinary perspective. The conceptual framework incorporates both economic and sociocultural considerations for examining cross-country gold consumption variations. The current study is also the first to compare gold consumption from multiple EMs providing statistical evidence and ethnographic insights from the literature.

We offer three propositions in this conceptual study. First, we identify psychological motivators driving gold consumption. Second, we discuss environmental factors including cultural, institutional, and economic influences that affect gold consumption in the context of EMs. Third, we propose an inverted U-shaped relationship between disposable income and gold consumption, suggesting that newly achieved MC status elevates gold consumption. An integrated conceptual framework illustrates the propositions graphically.

Next, we provide theoretical reasoning and empirical evidence for the three propositions. The article concludes with a discussion of the contribution, limitations, and managerial implications of this study, as well as future research topics.

2. Conceptual underpinnings of MC gold consumption in EMs

In this section, we delineate a conceptual framework of gold consumption by MC consumers in EMs, introducing key constructs and relationships. We offer three propositions based on theoretical insights from multiple disciplines including anthropology (e.g., Moors, 2013), sociology (e.g., Jorgensen, 2012), marketing (e.g., Ertimur & Sandikci, 2005), and economics (e.g., Veblen, 1899). Empirical data for gold consumption in multiple countries are analyzed in support of the arguments.

2.1. An integrated conceptual framework

First we provide an overview of the conceptual framework. As Fig. 1 shows, two antecedents directly motivate gold consumption: (1) psychological perceptions regarding the value of gold, and (2) disposable income. Cultural, institutional, and economic environmental factors affect gold consumption indirectly through the two antecedents. Next we provide the rationale for proposing the conceptual model.

2.2. Perceived value of gold—psychological drivers of gold consumption

“What other ‘stuff’ has been proven to be as attractive to people as gold?” (Etnofoor, 2012).

Indeed, anthropologists and sociologists have pondered the forces underlying the allure of gold and the motivations to possess it in various contexts (e.g. Jacobson, 1971; Jorgensen, 2012; Kolenda, 1984; Moors, 2013). Putting together the scattered pieces of evidence from literature, we propose a logical set of underlying psychological motivators for gold consumption.

Proposition 1. Utilitarian, hedonic, and symbolic values motivate MC consumers to buy gold.

According to our framework, gold consumption brings utilitarian, hedonic, and symbolic benefits. Each benefit drives desires for gold but each has distinctive attributes that have different impacts on gold purchasing behavior.

2.2.1. Utilitarian value

Throughout human history, gold has played a significant role. Although modern consumers are less likely to use gold for exchange purposes, coins and bullions are still widely accepted as savings and investments. Gold is considered to be a durable consumer good and a liquid, risk-free asset (Vaidyanathan, 1999).

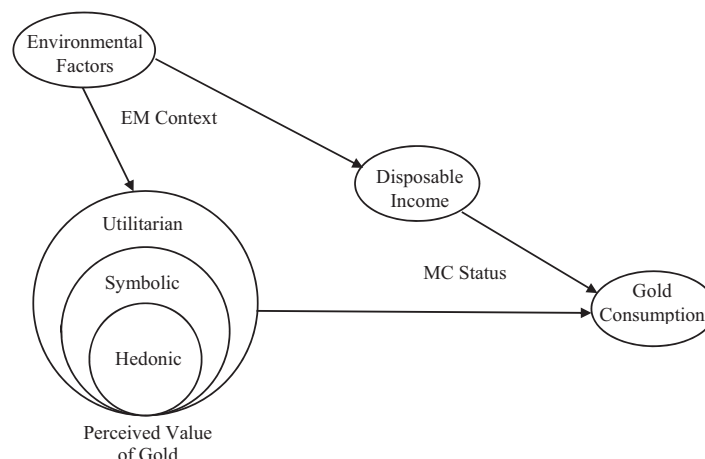


Fig. 1. Conceptualization of gold consumption by MC consumers in emerging markets.

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