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Honors Thesis

High and Low BESC Consumers' Response to Brands using FTZs

Introduction

To keep prices low and revenue high, many businesses outsource product manufacturing by using free trade zones, FTZs. FTZs are able to help companies save money on operational expenses and let product costs not be influenced by high priced, overseas taxes. This is seemingly a win-win scenario for both the business and the consumer. On the other hand, while FTZs are cost beneficial, they do come at an ethical price. FTZs do bring financial benefits with its deferred and low-price taxes, but they also have been known to look beyond the implications of social, labor, environmental, and other controversial rights. Knowing this about FTZs, we have yet to examine the relationship between FTZ and the self. In terms of self, brands are now strategizing to connect with consumers beyond materialistic means, which means making brands a part of consumers' lifestyle and identity. Products are becoming much more than items we purchase for need or want, but are evolving to be a part of one's self. This is the ultimate goal for businesses: to have consumers become brand loyalists, so much so that the product is a channel they use to identify themselves with. This leads to the idea of brand engagement in self-concept, BESC. BESC is the degree to which consumers include brands into their identity. If brands do well in engaging consumers with its products and giving self-meaning to its material items, then they will be able to expound on consumer BESC. Evidently, when it comes to price, both consumers and businesses can agree that they want to pay the cheapest dollar and get the best

deal. However, are consumers concerned about the development of the product and the brand's ethical behavior? This paper will examine FTZs and BESC through research between the two concepts and seek to discover whether or not they are positively related. The research question is this: how do consumers with high and low BESC respond to brands using FTZs?

Free Trade Zones

This paper will examine the relationship between of Free Trade Zones, FTZs, and brand engagement in self-concept, BESC. Research has been conducted to better define FTZs and how they could influence consumers' self-perception, BESC. FTZs are "fenced, geographic enclaves" that are outside of U.S. territory (Tansuhaj & Jackson 1989). FTZs are used for numerous business operations such as "warehousing, packaging, inspection, labeling, exhibition, assembly, fabrication, or transshipment of imports without paying duty until the product is brought into the domestic area of the country" (Tansuhaj & Jackson 1989). Many FTZs are located close to harbors and airports because that is where a bulk of commercial activity takes place. China is a hotspot for several large FTZs including cities like Shanghai, Chongqing, Tianjin, and many others (Sohlberg 2019). Specifically, the Shanghai FTZ is over 121 square kilometers and is divided into four areas (Sohlberg 2019). The FTZ hosts more than 50,000 member companies (Jaye 2018). FTZs were also created to help build and enhance foreign economies by increasing industrial development and employment opportunities (Tansuhaj & Jackson 1989). To businesses, FTZs are beneficial in terms of its ability to delay the payment of duties and taxes on imported products that are brought into the FTZ (Tansuhaj & Jackson 1989). These duties and taxes are not due for payment until the products leave the FTZ and re-enter the domestic economy (Tansuhaj & Jackson 1989). Businesses are able to save money in that sense as they can utilize the offshore service and not have to pay tax on their own product, which was

manufactured by another country, until it makes it back into its home country. FTZs also have inverted tariffs, which are the taxes and duties on finished products (Tansuhaj & Jackson 1989). These prices are typically lower than the duty on the parts and components of the product (Tansuhaj & Jackson 1989). With all of this to say, the product as a whole is cheaper if the parts are imported and assembled into finished products at the FTZ (Tansuhaj & Jackson 1989). Some firms will even establish a “network of FTZs while postponing payment of duty throughout a large part of the product pipeline” (Tansuhaj & Jackson 1989). The central reason businesses use FTZs is because of the possibilities to cut costs in manufacturing. These reduced costs come from several attractive FTZ benefits including: duty exemption, duty deferral, and merchandise processing fee reduction (FTZ Basics & Benefits 2020). All of which have reduced to no taxes owed until the end of the manufacturing process (FTZ Basics & Benefits 2020). Looking at the history of FTZs, “the oldest known free port established expressly to promote trade was the Roman free port on the Aegian island of Delos, which acted as a customs free center promoting trade between Egypt, Greece, Syria, North Africa, Asia and Rome,” (Jayawardena). The true ancestor of the FTZ was the port of Hamburg in 1888 as it was allowed to manufacture as long as it was not competing with the hinterland industry and was operating only on exports (Jayawardena). FTZs were not established in the U.S. until the Foreign Trade Zones Act of 1934 (Jayawardena). The act was created to “expedite and encourage foreign commerce”, which is what the tariff and tax relief is designed to do: “lower the costs of U.S.-based operations” (Trade Zone History). The act also helped give relief to the Smoot-Hawley tariffs, which, at the time, taxed most of company imports (Abrahamian 2018). Over the years, FTZs have grown both in number and in controversy (Tansuhaj & Jackson 1989). Some consumers have a negative attitude toward FTZs because of these controversial issues, which include: “liberalizing measures

of deregulation, the reduction of public spending, privatization, and the loosening of labor regulations,” (Coha 2019). “These zones are known to encourage corruption and allow for the relaxation of environmental and labor regulations, including prohibition and discouragement of labor organizing,” (Coha 2019). While using FTZs can be a cost-effective business decision, its controversial tension may have a negative impact on some consumers, especially those with a high or low BESC.

Brand Engagement in Self-Concept

Before assigning consumers with a high or low BESC in relation to FTZs, we must also define and understand BESC. BESC is the degree to which consumers include brands as a part of their self-perception (Flynn 2011). It is “an individual difference variable reflecting consumers’ self-construal in terms of important (often multiple) brands” (Liu, Sprott, Spangenberg, & Voss 2017). Such brands have the ability to give consumers a “self-schemata—structures of self-knowledge” and each may differ in their “tendency to build such a brand-related schemata,” (Razmus, Jaroszyńska, & Pałęga 2016). This is because consumers will determine and see brands as having an impact on their own lives (Flynn 2011). Since each person has different experiences and perceptions, this self-determined brand relevancy, a measure based off of a high and low scale, will vary for each consumer. Over time, this relevancy becomes a bond that grows between the consumer and the brand (Flynn 2011). The measure of brand engagement is important because it can show the significance that brands have on forming consumer identity and expression (Flynn 2011). Thus, it can indicate motivations for why consumers are acquiring such branded products (Flynn 2011). The construct of BESC is internally driven rather than just behavioral (Flynn 2011). BESC can also help predict consumer attention to favored and

unfavored brands (Liu, Sprott, Spangenberg, & Voss 2017). When looking at BESC in terms of a business's point of view, it is critical to those making branded products and branding researchers because it explains a key motivator for brand purchase and loyalty (Flynn 2011). BESC has even been shown to influence reactions to brand-specific marketing (Liu, Sprott, Spangenberg, & Voss 2017). Such information about the consumer's engagement with the brand can help empower a business to make important marketing decisions. On the other hand, knowing the power that BESC can have on a brand can be translated into how high and low level BESC consumers could react to any negative brand knowledge. In terms of FTZs, while they do have numerous cost benefits for both the consumer and businesses, it is has been an argued upon method due to its loose labor and environmental regulations. With that being said, FTZs can be an issue that brings about negative feelings toward a brand. In context of BESC, the levels to which consumers feel toward, engage, and identify with brands is foundational for both businesses in making branding decisions and consumers in their commercial journey of self-discovery. Knowing the power of BESC creates better insight into the hypothesized idea of how consumers will react toward brands using FTZs.

Free Trade Zones and Brand Engagement in Self-Concept

Putting the two concepts together, analyzing how free trade zone and BESC are associated, there has been limited research regarding the direct relationship between the two subjects. I have found several cases that identify aspects and qualities of both topics in some capacity. I will discuss how these articles are related to these subjects and extrapolate what its findings could suggest about the relationship between free trade zones and BESC.

Self-Perceptions of Free Trade Zone Migrant Female Garment Factory Workers of Sri Lanka

Research was conducted into what free trade zone migrant workers in Sri Lanka, specifically women, think about themselves and what they think those outside of the FTZ think of them. The data discovered that most of the women described themselves as “good” and “strong” women who are mainly there to work for a transient period of time (Diyadawagamage 2012). Their reasoning for work in such areas and conditions are mainly financial and family based (Diyadawagamage 2012). While these women believed that they were doing good for themselves and their family, they acknowledged that “they live outside of societal norms” and described themselves as “overworked” and “orphans,” (Diyadawagamage 2012). This aligns with the negative comments they believe outsiders think of them (Diyadawagamage 2012). They think that as FTZ workers, society has a “negative image, lacks understanding and interest” in them (Diyadawagamage 2012). Overall, the reasoning for the study was to compare the women’s thoughts of themselves to their thoughts of how others viewed them. The results concluded that these women “are aware of the society’s negative perspectives about them, but do not agree with them,” (Diyadawagamage 2012). This juxtaposition of beliefs in regard to self and work in FTZs can be related back to how the consumer views and responds to FTZs. In this study, research shows that these migrant FTZ workers believe that outsiders, consumers, have negative associations of them and FTZs. To an extent, this demonstrates that consumers are aware of FTZs and what is happening in them. This study does not conclude the effect of FTZs and the consumer, but rather people believing negative ideas about FTZs. This study proves that consumers are aware and do have feelings toward FTZs, but in terms of BESC, there is no specific brand or company identified with the FTZ. With that, it is difficult to draw a conclusion on BESC and FTZs in this case.

No Sweat: Fashion, Free Trade, and the Rights of Garment Workers.

This next article comments on how numerous companies, specifically in the textile industry, have taken advantage of FTZs and how many activist coalitions have risen from such controversy. “It is the counterstrategy of public exposure that has fired the energies of labor and human rights activists,” (Ross 1999). “Media interest has been kindled by the spectacle of blue-chip names in retail and design being embarrassed by revelations about the exploited labor behind their labels,” (Ross 1999). It appears that when larger brands, campaigns and companies’ FTZs are brought to light, consumers place more attention and concern on their purchasing habits with that business. It also seems that the public opinion on FTZs is unanimously negative, which has led to the increase in FTZ boycotts. How this relates back to consumers’ responses to FTZs is that it is clear consumers have more recognition about their self and actions when FTZ practices are brought to attention by the media. Ultimately, the understanding of self is able to be met with the assistance of the media’s attention to FTZs. Relating this to BESC, it can be assumed that consumers with a high BESC are going to be the ones who, as stated, “place more attention and concern on their purchasing habits with that business,” and feel a higher sense of betrayal by the company.

Self-Aware Cities

This article describes how major technology firms have redefined, in their narrative, the space and definition of a city and FTZ. These corporations have come up with their own model of a FTZ that is “transformed from a mid-20th century export processing area” to an economy booster and “formula” for creating new cities in developing countries (Roberts 2016). These tech companies have supposedly created their own version of a FTZ that “emulates the appearance of

established global cities” (Roberts 2016). The concept is to create a new city that has “absence of domestic tax and labor laws of the host country,” which “allows the free-trade zone city to be built at greater speed, and more easily engage global markets” (Roberts 2016). By doing so, global corporations would be “incentivized” to maintain headquarters in its created city. The benefits of this would be that the company’s labor would be connected, in terms of location, to the company’s leadership and strategy team and ultimately create economic benefits for the local economy (Roberts 2016). This redefined FTZ space and city are deemed as a “self-aware city,” which is the company’s responsiveness to “distinguish themselves in ways that extend beyond the quality of their products and services” that would “appear more attractive the population of highly mobile knowledge workers” (Roberts 2016). The irony is that this perfect city cannot result in success as it will “eventually become self-immolation” (Roberts 2016). These theoretical ideas of a redefined FTZ, through the narrative of major tech corporations, could have derived from society’s negative connotation of FTZs. By attempting to recreate a new city run by the corporation itself, people, specifically employees in this case, will be more attracted to the business. How this relates to FTZ and BESC is that those who run large corporations are aware that its reputation is being affected by the use of FTZ. People, employees and consumers have identified negative emotions toward companies that partake in FTZs, so much so that companies are attempting to redefine the FTZ space to accommodate such conflict.

The Impacts of China's New Free-Trade Zones on Hong Kong Tourism

Research was conducted in identifying if China’s Shanghai FTZ is successful enough in economic impact and tourism rates for Hong Kong to model after. Results showed that Shanghai has “progressively upgraded” its FTZs to “attract greater foreign investment” (Ji, Li, & King

2015). Tourism is considered a “micro-level” factor that impacts the “macro-context of FTZ development,” (Ji, Li, & King 2015). The study summarizes that FTZs, specifically proven in Shanghai, offers “potential business opportunities” for tourism, in which Hong Kong can model after. The increase in tourism means that consumers are willingly spending money on activities like shopping, lodging and entertainment. What this means for the relationship between FTZs and BESC is that consumption responses, in terms of tourism, are high with FTZ, as shown by the economic successes of Shanghai’s FTZ. This study is unique as it rejects the proposed hypotheses of this paper, and that BESC does not have an effect on consumers’ purchasing behavior.

Consumers and Brands across the Globe: Research Synthesis and New Directions.

This article is a literature review summary that mentions how self, related to the notion of BESC, can be a key factor in consumer responses to globalized branding practices. Because of globalization, markets have been “more integrated than ever” (Gürhan-Canli, Sarial-Abi, & Hayran 2018). In terms of the consumer, they expect brands to be “more transparent and to do more good, and they punish brands that do wrong. These issues may influence consumers’ relationship with brands differently across cultures. Consumers may differ in their expectations and level of tolerance toward brand practices at home or abroad. Because companies operate across a much broader geographic phase, we need a better understanding of the cross-cultural differences and similarities that underlie consumers’ new sensitivities,” (Gürhan-Canli, Sarial-Abi, & Hayran 2018). The article does not specifically mention FTZs, but it can be inferred that consumers want transparency from brands and those brands who engage in wrong behavior, such as exposed unethical practices of FTZs, will receive negative repercussions from consumers.

Specifically, it can be inferred that those with a higher BESC will respond more harshly to brands using FTZs, which directly aligns with this paper's proposed hypotheses.

In summary of the above articles, there needs to be more research done to clearly identify the relation between FTZs and BESC. As each of them have some relation to both FTZs and BESC, specific studies need to be conducted to be able to determine a conclusive analysis between the two concepts. This research paper attempts to explore if there is a direct relationship between FTZs and BESC. Hypotheses are given in terms of this construct.

Hypotheses

Hypothesis 1:

People who have a higher BESC, brand engagement in self-concept, will respond with strong negative attitudes toward businesses that utilize FTZs, free trade zones. This is because those who are more engaged with the brand have a higher sense of connection and attachment to the brand. This connection can be physical, psychological and/or emotional. Regardless, those with a high BESC have subconsciously become linked to the brand. The brand ends up taking part in the identity of the individual whether they are aware of it or not. Because of the individual's high BESC, he/she ultimately takes ownership and responsibility of the brand's actions. This can be positive or negative behaviors that the brand exhibits in which the individual, who has a high BESC, will then take on these behaviors as their own, since the brand is a part of who they are. The unique relationship between brand and consumer is the ultimate goal for any business as individuals are now brand advocates, which is much more powerful than any paid advertising could do. Extending this relationship to FTZs, the various negative conduct of these

establishments has been overlooked by many businesses because of the desire of profit maximization. For example, Foxconn, an electronics contract manufacturer for many big brands including Apple, was exposed in utilizing China's FTZs that have been known for its poor working conditions, wages, and worker suicides (Bruns 2010). Consumers did not take this news lightly. In this instance, Foxconn reacted quickly to the backlash, as the technology giant, Apple, was negatively affected by the press (Bruns 2010). The idea of cutting costs was attractive until the company lost its most valuable asset, consumer trust. Where this differs with the consumer is that ethical implications are not overlooked as they are not the ones who are wanting to capitalize on revenue. In terms of businesses that use FTZs, high BESC consumers of that brand will react adversely because the brand, now in bad light, is now a reflection of who they are as the consumer. With the Foxconn example, high BESC Apple consumers reacted negatively toward the FTZ support because it made them feel as if they also support the unethical FTZ conditions. Additionally, high BESC consumers will feel a sense of betrayal as they have connected with the brand to a degree beyond basic consumption standards. Again, with the Foxconn exposure, those high BESC Apple consumers may have felt that Apple deceived them and all that it has promised as a trusted brand. This can lead to negative effects for the consumer such as, but not limited to: retracted brand loyalty, unfavorable word-of-mouth, decreased spending with the business, etc. In turn, those businesses will most likely have negative results in profits, reputation, customer loyalty, and/or collapse of the business. The implications of highly involved consumers and business practices, in such case being the use and exposure of FTZs, are not beneficial for either party.

Hypothesis 2:

People who have a lower BESC will respond with mild attitude or have no feelings at all toward businesses that utilize FTZs. This is because those who are less engaged with the brand have a lower sense of connection and attachment to the brand. The lack of physical, psychological and/or emotional connection does not allow for the brand to link with the individual's identity. The connection that the brand makes with the consumer is critical in terms of having repeat purchases, brand loyalty, brand advocates, etc. Without this brand-to-consumer connection, there is no valuable relationship that would cause consumers to feel as if the brand is their own—a meaningful part of who they are in some capacity. Relating back to the Foxconn example, those consumers who are not prominent Apple users may not have had a strong reaction, or a reaction at all about the news. This is because they do not have a direct relationship with Apple being a low BESC consumer. With a low BESC, consumers will not have as much care for the brand's actions and behaviors, whether it is positive or negative, if any at all. Again, extending this relationship to FTZs, businesses that use FTZs want to maximize profit and reduce costs as they take advantage of the low cost benefits that FTZs have to offer, regardless of the unethical social implications. For the businesses that use FTZs, low BESC consumers of that brand will have little to no reaction at all because of their apathetic sentiments. If there are any reactions at all toward businesses using FTZs, then it is because the consumer has some degree of self-awareness of the unethical implications of FTZs that is outside of the care for the brand itself. In terms of Foxconn, the low BESC Apple consumers may have had negative reactions toward the company mainly due to their own lack of support of the unethical implications of FTZs rather than a sense of betrayal from the brand itself. There will be fewer ramifications caused by the low BESC consumers regarding those businesses that use FTZs. Because low BESC consumers

are not brand loyalists, they will have different repercussions upon finding out the use of FTZs, if any at all, which could include: a negative formed opinion of the brand, a compounded disinterest in purchasing the brand's products, more advocacy for humane labor practices, etc. These attitudes and behaviors of lower BESC consumers will be less dramatic as they are not as connected to the brand to begin with. In turn, this will not have as drastic of an effect compared to the results of high BESC consumers of businesses that use FTZs.

General Discussion

This paper introduced the idea of the possible relationship between high and low BESC consumers and their response to brands using FTZs. It gave background information on FTZs, BESC, and both concepts combined. In terms of FTZs, businesses use them in its best interest to be cost effective, but there are a variety of ethical implications associated with them. With BESC, it is the degree to which consumers incorporate brands as a part of their identity and is based on a scaled measure from high to low. For both FTZ and BESC, there has not been much research conducted to conclusively define a connection concerning the two concepts. The purpose of this paper is to investigate the possible relationship between FTZs and BESC. There are two hypotheses proposed: people who have a higher BESC, brand engagement in self-concept, will respond with strong negative attitudes toward businesses that utilize FTZs, free trade zones; people who have a lower BESC will respond with mild attitude or have no feelings at all toward businesses that utilize FTZs. Both hypotheses will need to be tested to bring about a definitive conclusion on the relationship between FTZs and BESC.

Theoretical Implications

This paper contributes to both FTZ and self-concept literature by introducing the notion of the possible connection between the two concepts. It will give an understanding to what effect FTZs have on a brand's image from the consumer's perspective. Also, it will determine how much consumers care about a product's development and the true influence that BESC has on the consumer's beliefs about a brand's ethical behavior, in terms of using FTZs. There has not been previous research to support this idea, so this paper attempts to achieve that. It will give a new light to research in both FTZs and BESC.

Managerial Implications

For marketing managers, this research study will help to identify if FTZs have an effect on high or low BESC consumers. If it does have an effect, then managers will need to re-evaluate other low cost manufacturing alternatives. Doing so will save the brand's reputation, future successes, and risk of lowering consumers' BESC. If it does not have an effect, then managers should continue going forward with their best judgement in weighing matters ethically and cost effectively in choosing the brand's manufacturing operations.

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