Block

1

BASIC PERSPECTIVES ON INTERNATIONAL MARKETING

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COURSE INTRODUCTION

Globalization has enabled companies to become increasingly involved in business with countries other than their home country. Once a company forays into overseas markets, the focus shifts from the home country to overseas markets as they function in a highly competitive business environment. Thus, International Marketing helps businesses compete in the overseas market by differentiating their products and services, thereby creating customer interest.

International marketing refers to application of marketing principles that involve various processes, right from product planning to distribution of products and services to diversified customers located in different countries.

International marketing is different from domestic marketing. In domestic marketing, companies aim to reach the customers or clients in the home country. In international marketing, the aim is to understand the global audience, and cater to the varied set of tastes, needs, and customs. International marketing starts with the company making marketing mix decisions beyond national boundaries. Once the organization establishes itself in the foreign market, it also involves setting up manufacturing facilities overseas and coordinating marketing strategies globally. Nevertheless, risks attached are also high as legalities, rules and regulations differ from country to country.

This course, *'International Marketing'*, discusses the guiding principles to tackle and manage challenges that arise when a company goes beyond its home market and compete globally.

The course is organized into four blocks consisting of 18 units. The blocks are sequenced thus:

Block 1: *Basic Perspectives on International Marketing:* Beginning with the definition and history, this block provides insights into the concepts and the scope of international marketing via 'internationalization', i.e., localizing the product or service marketed in the overseas as per their culture. Further, students are acquainted with the PESTLE framework, a tool used by marketers, to analyze and monitor the international environment. Students learn to gauge the behavior of consumers located in different countries. The potential of Emerging Markets as destinations of internationalization is emphasized and covered in greater detail.

Block 2: *International Marketing Strategy:* This block discusses various modes of entry available for a business unit into a foreign market. The importance of marketing research, which is the key to making intelligent marketing decisions on issues relating targeting, differentiation, and product positioning, is discussed. The strategies on product pricing, promotion and distribution are also discussed besides handling competition.

Block 3: *International Marketing Mix:* This block revolves around international products mix designs, examines the international branding methodologies and places emphasis on international banking and financial services. The rest of the block covers topics like constraints involved in global pricing, distribution channels for products, services provided in international marketing and promotional mix.

Block 4: *Other Issues in International Marketing:* Block 4 reiterates the importance of management functions like leading, organizing and controlling in the domain of international marketing. The importance and role of internet in the international marketing arena is growing by the day and this trend is traced and detailed. The ethics that should be followed without violating human rights forms the crux of this block, which ends with a note on the future of international marketing, analyzing its pros and the cons.

This edition has added a large number of contemporary examples and deleted old examples and exhibits.

BLOCK 1: BASIC PERSPECTIVES ON INTERNATIONAL MARKETING

The buzz word 'globalization' has made the pursuit of competitive advantage complicated and highly challenging for firms operating outside the domestic boundary. Through the prism of 'Basics of International Marketing', the first block of this course on International Marketing, one can gain substantial information on the fundamental questions associated with the subject. The block contains four units. Unit 1 discusses the introductory perspective. Unit 2 focuses on different types of environments that should be considered while marketing at the international level. Unit 3 discusses the significance of understanding international consumer behavior. Unit 4 deals with international marketing opportunities in emerging markets.

Consumer preferences of no two countries are the same. Their perception of a product originating from another country varies widely. Governments too pose barriers to foreign firms to protect domestic firms. It is inevitable for a marketer to have a grip on basic terminologies associated with international marketing while entering a foreign market. Unit 1, Basics of International Marketing deals with the introduction of the concept of international marketing. It then delves into the importance of cooperation for the development and growth of global trade and investment. It deals with the process of internationalization, WTO, WEF, tariff and non-tariff and fiscal and non-fiscal barriers, all of which play important roles in defining international marketing of products and services. The unit ends with some examples of companies that are into international marketing.

A country's marketing environment is the real litmus test indicating a firm's establishment, survival and sustenance by doing business and making profits in the foreign land. This is brought out in Unit 2, International Marketing Environment, which discusses the economic, political, legal, social and cultural environments of different countries. The unit focuses on the need to take such environmental factors into consideration when a business unit is keen on entering international markets. The unit concludes with a note on determining country risk analysis which becomes essential when an organization considers entering a foreign market. The unit also lays stress on planning and devising strategies accordingly so that risks, while operating in a foreign land, can be minimized.

Today's consumers represent a complex mixture of traditional, millennials and Gen Yers. Their needs differ within a country and across countries. Without proper insights on their behavioral pattern, entering a foreign market could be disastrous for a firm. Unit 3, International Consumer Behavior, explores the international dimension of consumer behavior which is highly dynamic. It deals with the changes in market size based on changing consumer behavior. The unit highlights the cross-cultural influence on consumer behavior. It also deals with the process of product diffusion across countries. The unit concludes with online shopping behavior of international consumers in the digital world.

Emerging markets are attractive and promising on one hand. On the other hand, they are highly risky as various internal and external factors are capable of influencing these markets, making them turbulent. Hence, cross-border investment should be cautiously done such that it does not turn costly. Unit 4, International Marketing Opportunities in Emerging Markets, specifically throws light on the potential markets that are wide open in the emerging nations and their characteristics. It elaborates the top emerging markets in the world that offer international marketers, a mixed basket of opportunities and challenges with special reference to countries such as Brazil, Russia, India, China, South Africa, Indonesia etc., along with marketing trends prevalent in these countries. The unit focuses on the market entry strategy, key factors that determine investment and the favorable area of investments. The unit ends with a few leading examples of marketers in emerging market economies.

Unit 1

Basics of International Marketing

Structure

"Marketing has always been about the same thing - *who your customers are and where they are."*

- Noah Kagan is the Co-Founder, Chief Sumo and CEO at AppSumo, a daily deal website for software

1.1 Introduction

As the author emphasizes, in marketing, whether domestic or international, understanding customers is important. Are the same marketing efforts and strategies enough? Are there any differences? We need to go deep into this unit for better understanding.

According to the American Marketing Association, "International Marketing is the multi-national process of planning, and executing the conception, prices, promotion and distribution of ideal goods and services to create exchanges that satisfy the individual and organizational objectives".

International marketing is the application of marketing principles to satisfy the varied needs and wants of different people residing across the national borders.

International marketing is the key to providing answers to many world problems. Trade leads to peace and prosperity as it promotes mutual understanding, innovative thinking, and interdependence. Emerging economies in Europe, Asia, Africa, and Latin America provide opportunities for growth. They collectively hold promise of huge market in future. The changes that occurred in the last decade have impacted international marketing. Let us look at the following changes witnessed during the last decade in world market.

- Middle class population is growing across the world bringing new set of customers for all kinds of products and services
- The integration of technology, i.e. internet and cell phone into all aspects of operations by the companies
- The world businesses taking a global view by focusing on restructuring and reorganizing to be more competitive and profitable
- Creation of World Trade Organization
- Regional market groups such as European Union (EU), South Asian Association for Regional Cooperation (SAARC), North American Free Trade Area (NAFTA), Central American Free Trade Area (CAFTA), Association of South East Asian Nations (ASEAN), Asia-Pacific Economic Cooperation (APEC), actively perusing the agenda of global market

These changes affected the way businesses were conducted. The world has become a global village and technology has connected the market worldwide. It is therefore imperative on the part of companies to take note of the developments, examine their business practices and bring flexibility in operations to react quickly to changes in the international market.

In this unit we will discuss the concept of international marketing, internationalization and globalization processes. It provides an introductory perspective of international marketing.

1.2 Objectives

After reading through the unit, you should be able to:

- Recall the definition, and concepts of international marketing that has an influence on international marketers since evolution
- Know why there is a need for cooperation among the nations to maintain a viable global trade and investment environment
- Record the constraints in the international market which are there in the form of tariff and non-tariff barriers
- Discuss the process of internationalization by framing suitable selling techniques in the international market

- Outline the life cycle of internationalization to position the product in the foreign market
- Validate the concept of globalization that is inter-linked with international marketing
- Justify the roles of international organizations that help in striking a balance between nations while doing business

1.3 History of International Marketing

Trade among countries is not new. Historical records show us that between 4000-3000 BC, there were well-established trade routes between different parts of the world. One of the oldest routes was between China and the Middle East and silk trading resulted in the discovery of sea route in 139 BC.

However, the history of international marketing can be traced to the 1920s, when, after the World War I, nations started having liberal trade among themselves. After the Great Depression in 1930s and World War-II in 1940s, nations came together with a political will to increase international trade among the nations. Later on, World Bank (1944) and International Monetary Fund (IMF 1945) were established to monitor the activities of International Marketing.

The year 1991 saw the starting of a new era in Indian economy. India became a free market and Indian economy was opened up to world trade through structural reforms and globalization process.

1.4 Definition of International Marketing

International marketing happens when a company initiates selling of its products and services in any other nation. This may happen after they have captured the market in their base nation or otherwise also. The concept of marketing remains the same whether it is domestic or international, but the marketing strategies and the game plan changes according to the environment, policies, rules and regulations of the nation when transnational trade takes place.

In 1999, Cateora and Ghauri defined International Marketing as, *"International Marketing is the performance of business activities that direct the flow of a company's goods and services to consumers or users in more than one nation for a profit".*

Keegan, in 2002, defined International Marketing as, *"The international market that goes beyond the export marketer and becomes more involved in the marketing environment in the countries in which it is doing business".*

According to the American Marketing Association, *"International Marketing is the multi-national process of planning, and executing the conception, prices, promotion and distribution of ideal goods and services to create exchanges that satisfy the individual and organizational objectives".*

1.5 Concepts Used in International Marketing

To apply the theory learnt, one should begin with the concepts. Knowledge of certain concepts prevalent in International Marketing helps in transcending them to real life application. In other words, international marketing concepts have a profound influence on international marketers. Some basic concepts that are in vogue in International Marketing are given in Table 1.1

Table 1.1: Concepts Used in International Marketing

Domestic Marketing	Marketing of products and services in the home country
Foreign Marketing	Domestic marketing within a foreign country
Comparative Marketing	Two or more marketing systems are studied and a comparative, analytical study is done on marketing methods practised in different nations
International Marketing	Looks into the micro aspects of business. Tries to find out why a product or service wins or loses in a foreign nation and how marketing efforts influence the results of international marketing
International Trade	Concerned with flow of goods and services between the countries and study the macro effect of monetary and commercial conditions on Balance of Payments and transfer of resources.
Global Marketing	Considers the world as a single market and tries to study the degree to which the marketing plans and strategies can be extended worldwide and the degree to which they will be adopted.

Compiled from various sources by ICFAI Research Center.

Example: Agri-goods Foreign Marketing Facilitated by Government Agencies

During 2021-22, India's agricultural exports increased by about 20% notwithstanding the supply chain challenges posed by the Covid-19 pandemic. Rice exports which touched \$9.65 billion emerged as the highest foreign exchange earner amongst agricultural commodities and wheat exports touched \$2.2 billion during 2021-22.

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The growth in India's agricultural exports was made possible by the promotion efforts and initiatives of APEDA (Agricultural and Processed Food Products Exports Development Authority). Foreign Marketing of Indian agricultural products is facilitated through different Government organizations like APEDA.

Source: "Agri Exports spurt by 20% to $50 billion in FY22". Economic Times, 10/4/2022 https://economictimes.indiatimes.com/small-biz/trade/exports/insights/agri-exports-spurt-by-20-to-50-billion-in-fy22/articles Accessed on 2.09.2022

1.6 Nature and Scope of International Marketing

Globalization has brought down the boundaries of trade. Marketers across the world find that the entire world is open for them. New markets in emerging economies, i.e. India, Russia, China, Indonesia, South Africa, Mexico, Chile, Brazil, Argentina, etc., are providing opportunities for growth. However, before planning to go international, organizations must understand the nature and scope of international marketing.

Nature of International Marketing: The nature of international marketing has various facets as it has to deal with international markets and population. Some main features are as follows:

- International marketing requires marketers to deal with at least two sets of uncontrollable variables, i.e. domestic variables like local taste, home country's GDP etc. and international variables like a new culture, language, and different government policies. The international uncontrollable variables will increase if the operation expands beyond one foreign country.
- Greater managerial skills are required to operate in an international market and each market provides unique challenge.
- International marketing is highly competitive. A marketer has to compete both in domestic as well as in international markets.
- It provides big market as consumers of other countries are targeted by the marketers.
- International marketing exposes the company to many risks. Marketers have to deal with various kinds of risk, viz. political risk, economic risk, cultural and social issues, government rules and regulations, civil unrest, sectarian violence, language differences, etc.

Scope of International Marketing

International marketing addresses international issues and explains the concept and application of marketing strategies to international conditions. Its scope is wide and can be applied across various aspects of business activity. Table 1.2 exhibits the scope of international marketing.

Table 1.2: Scope of International Marketing

Exports & Imports	Helps a company promote their domestically produced goods and services in an international market. This reduces market risk and helps the company in gaining knowledge about international operations, which is helpful later on in expanding market abroad.
Contractual Agreements	There are many formalities to be undertaken before a company starts an international business. Rules, policies, guidelines, and procedures of the host nation are to be followed. Agreements regarding co-production, technical and managerial association, licenses, patents, trademarks, and brand names are to be made available in the foreign nation.
Joint Ventures	In International Marketing, two or more companies come together to accomplish a specified task and a domestic company collaborates with a foreign company. Under these circumstances, both the companies are liable for cost, profits and losses associated with the business. In countries where fully-owned firms are not allowed to operate, joint venture is an alternative.
Wholly Owned Manufacturing	When a company desires to have long-term interest in an international market and wants to sustain itself for a longer period of time, it establishes manufacturing units which are fully owned by the company itself.
Contract Manufacturing	To expand into international markets, firms sometimes enter into a contract with foreign firms to manufacture and assemble the product and the domestic firm markets the product in the foreign nation. This type of contract has many advantages ─ low risk, low cost and easy exit.
Management Contracting	A process whereby a firm legally acquires the operational control of another either as a franchisee or as the operator of the entire company's control.
Third Country Location	When transactions between two nations are difficult due to some political reasons and still the company wants to sell the product in that nation, then they operate from a third country base. For example, when the world leading company Xerox wanted to sell its product in the then USSR, they collaborated with Modi group in India and then entered the Russian market with the name Modi Xerox.

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Mergers and Acquisitions	Mergers and Acquisitions provide access to markets, distribution network, new technology, and patent rights. It also reduces the level of competition for firms which either merge or one acquires the other.
Strategic Alliances	The objective of a strategic alliance is to leverage critical capabilities, increase the flow of innovation and increase flexibility in responding to market and technological changes. Strategic alliance differs according to purpose and structure.
Counter Trade	It is a kind of barter trade between two countries wherein imports are interlinked with exports and import of goods are paid by export of goods. There are different forms of counter trades such as buy back, compensation deal, etc.

Compiled from various sources by ICFAI Research Center.

Example: Joint Venture Enables Creation of Covid Test Kit

Multinational companies entered into joint venture agreements to innovate and explore and develop capabilities to serve customers in a better way during the Covid-19 pandemic. In 2020, Mount Sinai Health System, a New York based hospital chain which also operates medical research and education centers, entered into a joint venture with RenalytixAI, a company that specializes in diagnostic testing. The combined entity named ‘Kantaro Biosciences’, saw a need for a new class of diagnostic tests to test covid positivity in patients.

‘COVID-SeroIndex’, the first COVID-19 antibody testing kit created by the joint venture received regulatory approvals in the U.S. and Europe. “COVID-SeroKlir’ that uses two viral antigens to minimize fake positives was created and used in New York city extensively when the city was the epicenter of the covid-19. The test kits developed by Kantaro Biosciences also provided deeper understanding of covid-19 to improve treatment of covid infected patients.

The above example clearly illustrates how a joint venture can help in managing a health crisis.

Source: “Mount Sinai Health System and Renalytix Form Joint Venture, Kantaro Biosciences, To Develop and Scale Production of COVID Antibody Test Kits” 19/05/2020, Newswise.

https://www.newswise.com/coronavirus/mount-sinai-health-system-and-renalytix-form-joint-venture-kantaro-biosciences-to-develop-and-scale-production-of-covid-antibody-test-kits Accessed on 2.09.2022

1.7 Constraints in International Marketing

There are certain factors that hinder the smooth functioning of marketing process in the foreign market. Such factors should be analysed by a marketer before entering the international market to ensure better decision-making process. These constrains are also referred to as barriers to international marketing. Trade barriers are of different types ─ Tariff barriers, Non-tariff barriers, Fiscal and Non-fiscal barriers.

Trade Barriers: Trade barriers are the restrictions that are imposed between the countries for trade. Most of the time, these restrictions are politically motivated. An example was on Russia by countries like the US, Australia and the European Union when the when it had fight with Ukraine in 2021. Sanctions were imposed on various economic grounds.

Objectives of Trade Barriers

Trade is not always allowed between the countries without any policy framework. Depending on political, financial and other regulatory aspects, trade takes place between the countries. Certain times trade barriers imposed by one country play an important role on its own economy and also on the economy of other trading partners. The major objectives of trade barriers are -

- To Protect Home Industries from Foreign Competition
- To Promote New Industries and Research and Development
- To Conserve Foreign Exchange Reserves
- To Maintain Favorable Balance of Payments
- To Protect Economy from Dumping
- To Curb Conspicuous Consumption
- To Make Economy Self-Reliant
- To Mobilize Public Revenue
- To Counteract Trade Barriers Imposed by Other Countries

The trade barriers can be divided into two groups:

i. Tariff and Non-Tariff Barriers

ii. Fiscal and Non-Fiscal Barriers

1.7.1 Tariff Barriers

Tariff barriers are duties imposed on the goods which can adequately create restrictions to trade. Sometimes these tariffs are also imposed to smoothen the trade activity between countries, but most of the time, these tariffs are enforced to restrict import of goods from one country to another (refer Table 1.3). Similarly, tariff barrier can be enforced on exports as well. For example, the United States of America has imposed restriction on Arms export to Iraq.

Table 1.3: Types of Tariff Barrier

Specific Duty	Specific duty is based on the physical characteristics of the goods when a fixed sum of money is levied as tariff.
Ad Valorem Duty	These duties are imposed according to the value of the goods imported. A fixed per cent of value of goods is added as a tariff.
Compound Duty	This is a combination of Ad valorem and Specific duty on a single product.
Sliding Duty	Import duties which vary according to the prices of goods are sliding duties.
Countervailing Duty	The duty imposed on goods where they are subsidized by exporting governments.
Revenue Tariff	The tariff designed to provide revenue to home government. It is imposed on consumer goods, luxury goods. etc.
Anti-dumping Duty	This is imposed on those goods which exporters sell at rock bottom prices (dumping) and the domestic producers find it difficult to sell their goods.
Protective Tariff	Imposed on imported goods to avoid stiff competition with the locally produced goods.

Compiled from various sources by ICFAI Research Center.

There are certain other tariffs that are levied on the basis of international relationships between countries. These include, single column duty, double column duty and triple column duty.

Single Column Duty: The tariff rates are fixed for various commodities and the same rates are charged for imports from all countries.

Double Column Duty: In this type of tariff, two rates of duty on all or some commodities are fixed. A lower rate is applied to a country with which bilateral trade agreement is entered into and a higher rate is applied to all other countries, i.e. countries with which such bilateral trade agreements are not made.

Triple Column Tariff: Under triple column tariff, three rates are fixed. They are:

a) General rate

b) International rate

c) Preferential rate

While the first two rates are similar to lower and higher rates, the preferential rate is substantially lower than the general rate and is applicable to countries with trade agreement or with close trade relation.

1.7.2 Non-Tariff Barriers (NTB)

Measures that are undertaken to restrict imports other than high import duties are known as Non-Tariff Barriers or NTBs.

There are two types of NTB to trade: The two main categories are (a) Direct Price Influences and (b) Quality Controls

a) **Direct Price Influences:** These measures are similar to tariffs. Under this type of NTB, prices of goods are raised to limit trade. Some of the methods followed under this type are:

   (i) ***Export Subsidies*****:** They are payments made by the government. It is done to encourage export of certain specified products or product groups. Generally, agricultural products fall under this category to help farmers' incomes.

   (ii) Government procurement ***restriction measures***, excise taxes (tax imposed on certain commodities like luxury or non-essential items), tariff rate quotas (TRQ) (multiple tariff rates applicable to the same product), and/or other taxes on exported or re-exported goods to improve the competitiveness of the local manufacturers and traders.

   (iii) ***Exchange Rate Fluctuations*****:** Exchange rate fluctuation means a change in the value of one currency against another currency on a continuous basis. A fluctuating exchange rate can have two effects, especially if a country adopts floating/flexible exchange rate[1] – either currency appreciation or currency depreciation. This impacts the prices of goods. Say for example, if a country imports raw materials for its production, a change in the prices of raw materials will affect the prices of final goods of the importing country. Hence, misalignments in exchange rates are barriers to imports but an incentive to exports.

   (iv) ***Exchange Rate Manipulations*****:** This is a monetary policy[2] measure taken by the central bank of the country in question. The central bank of the country manages the foreign exchange market by buying or selling foreign currencies which in turn will affect the interest rates. Interest rates affect aggregate demand and supply (through the inward or outflow flow of money). This affects imports, especially if the demand of imported goods is price sensitive (or elastic).

   (v) ***Methods of Customs Valuation*****:** Customs valuation refers to the set of procedures followed at the customs in determining the value of imported goods. This determines the actual incidence of duty. Though the government's aim is to check capital flight due to misclassification of

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[1] Exchange rate system is of two types: Fixed and floating. Under the fixed exchange rate, the monetary authority (or the government) officially fixes the exchange rate. Only a small deviation is possible from this fixed value. The market forces of demand and supply of rate of exchange determines the floating foreign exchange rate. There is generally no intervention by the central bank.

[2] Monetary policy is a process by which the monetary authority of the country (Central Banks of the countries or the Currency Board) controls the money supply through qualitative and quantitative methods.

goods or loss of customs revenue due to undervaluation, the determination of the value of the goods imported can be a barrier for exporters.

(vi) ***Additional Customs Duty*: ** Also known as Countervailing Duty (CVD), it is a specified percent of tax levied over and above the import duty on the good. For example, this type of duty is levied in India on goods that are similar to those produced domestically under Section 3 of Customs Tariff Act, 1975.

(vii) ***Lengthy Customs Procedures*:** In many countries the formalities for administrative clearance of imports and exports take longer duration. Costly and lengthy customs clearance procedure acts as an inhibitor to the importer.

(viii) ***Establishment of Minimum Import Price (MIP*:** To protect the domestic producers, many countries stipulate a minimum price for import of goods and commodities and adjust the import tariff accordingly. This type of pre-established import prices are adopted for agricultural products, fabric and apparel in many countries. This price is taken as the reference price by the authorities of the importing country for imports, below which imports cannot take place.

(ix) ***Quality standards*:** Expectation of certain quality standards by the importing government can be a hurdle for imports. For example, India had rejected certain agricultural products like maize imported from the US since it wanted the imported good to be free from 'ergot' (a kind of fungus that is present in agricultural goods).

(x) ***Inspection procedures*:** Inspection and testing of samples (eg. Plant and animal inspections) and the procedures involved may delay clearance of goods; pre-shipment inspections (eg. in India, Electronic items and textiles have to conform to certain standards before shipment) may inhibit easy exports of such items.

b) Quality Controls: The most common methods adopted are:

(i) ***Import quotas*** that put a check on the quantity of imports.

(ii) ***Voluntary Export Restraints* (VER)** wherein the exporting country 'voluntarily' restricts its exports. This puts a ceiling on the imports of the domestic or importing country in question.

c) Other Methods

(i) ***Import Licensing* -** Restricting the license that is granted to a business organization to import a certain type of good.

(ii) ***Import Ban* -** Embargoes imposed specifically on technologies and products, which are sensitive in nature.

(iii) ***Local Content Requirement*:** The government's policy of the importing country of a certain percentage of a good to be made domestically.

Thus, non-tariff barriers result from prohibitions, conditions or specific market requirements that make export of product difficult or costly. The following Table 1.4 provide the different types of non-tariff barriers.

Table 1.4: Types of Non-Tariff Barriers

Quota System	**Limit of import quantity of a product is fixed in advance by the countries during a given period.**
Import Quota	Specific amount of import is allowed duty free or at a reduced rate of import duty. Additional imports are permitted at an increased rate of duty.
Unilateral Quota	The total import quantity is fixed without prior consultations with the exporting countries.
Bilateral Quota	The quotas are fixed after negotiations between the importing and the exporting countries.
Multilateral Quota	A group of countries come together to fix quotas for imports and exports for each country.
Product Standards	Countries fix the standard for the imported items. If the items do not match the standard, imports are not allowed.
Domestic Content Requirements	Governments impose domestic content requirement to boost home production.
Product Labelling	Labelling standards are fixed which include language, ingredients, content, dates, batches, manufacturing license number etc.
Packaging requirements	Packaging standards are also fixed. In most of the cases, it is recyclable packaging materials.
Consular Formalities	Countries demand that the shipping documents should include consular invoice certified by the Consulate in the exporting country.
State Trading	Certain items are imported through canalizing agencies and individual importers and exporters are not allowed to import canalized items directly on their own.
Preferential Arrangements	Some nations form trading groups and prefer to trade amongst themselves. Preferences are given to such groups in various tariffs and other regulations.
Foreign Exchange Regulations	The importer has to ensure that adequate foreign exchange is available for import of goods by obtaining a clearance from exchange control authorities prior to concluding of a contract with the supplier.
Other non-tariff barriers	Tariffs on health, safety regulations, technical formalities, environmental regulations, embargoes etc.

Compiled from various sources by ICFAI Research Center

Other than the above, NTBs also include Non-Tariff Measures (NTM) such as –

(a) Sanitary and Phyto-Sanitary (SPS) Measures:

It is concerned with the application of rules and regulations entered into force with the establishment of World Trade Organization on 1st January, 1995 on food safety and animal and plant health.

(b) Other Technical Barriers (OTB):

These are restrictions imposed by countries to protect their consumers. These barriers are technical in nature and sets out specific characteristics, feature or standard of a product, i.e. product's size, shape, design, functions, and operational performance. It also includes how the products are labeled or packaged before it goes on sale.

In short, NTBs emerge from various decisions taken by the governments and authorities in the form of –

- Government laws
- Rules and regulations
- Policies
- Conditions
- Restrictions or Specific Requirements
- Private sector business practices
- Prohibitions that protect the domestic industries from foreign competition

At times, Non-Tariff Barriers imposed by different countries may not fall in line with guidelines suggested by WTO, but nevertheless they are important for trade by an exporting country while trading with various other countries.

Example: How Trade Constraints Impacted Chinese Exports during Covid-Pandemic Period

During January and February of 2020, when mainland China was primarily affected by the covid-19 pandemic, China's total export value declined by 17.2% and the export value of its agricultural products declined by 11.6% in comparison with that of the same period during the previous year. In the case of agricultural products, establishment of tightened border controls was cited as the primary reason for fall in exports. Many countries imposed higher tariffs on Chinese exports to reduce exports from China.

Indonesia, Korea and Russia prohibited animal-derived products from China and prohibited imports of agricultural products like garlic, carrots and green ginger from China. Increase in tariff on imports also contributed to the fall in the value of Chinese exports.

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Due to fear and widespread perceptions on the origin of the virus, many countries, imposed tariff and non-tariff barriers on Chinese exports. The Chinese Government viewed these as constraints on international marketing.

Source: Kevin Z.Chen & Rui Mao, "Fire lines as fault lines: increased trade barriers during the COVID-19 pandemic further shatter the global food system" Springer, 8/07/2020, https://link.springer.com/article/10.1007/s12571-020-01075-2 Accessed on 2.09.2022

1.7.3 Fiscal and Non-Fiscal Barriers

These are barriers related to monetary and non-monetary aspects. They are listed in the below Table 1.5

Table 1.5: Fiscal and Non-Fiscal Barriers

Fiscal Barriers in International Marketing	Non-Fiscal Barriers in International Marketing
Government induced restrictions through fiscal policy – eg. Value Added Tax (VAT) in countries like UK(17.5%) and France (2.1%-33.33%), GST in India	Customers are not interested in the product or the business idea
	Non-stable economy
	Quantitative Restrictions (QR) on imports and all Measures having Equivalent effect to a QR (MEQRs)
	Physical (eg. poor infrastructure) and technical barriers to trade

Source: ICFAI Research Center.

1.8 Phenomenon affecting International Marketing Scenario

International marketing has affected the global markets and influenced the life of people living across different geographical regions. Following are some of the facts that had affected the international marketing scenario during 2010-2014:

- Increase in competition among the market players
- Increase in technological knowledge and its application in the product/services marketing
- Increase in marketing opportunities
- Increase in investment by organizations across the world
- Increase in procurement and outsourcing activities
- Economic development of nations

- Increase in choice of locations to operate businesses
- Circulation and availability of information
- Increase in mergers and joint venture operations by global players
- Globalization of markets

The relevance of international marketing in global markets cannot be understated as it has its impact on every business. While globalization helped marketers come closer, technology aided them to be at the door-steps of consumers placed anywhere in the world.

A thorough analysis of the pros and cons would help the international marketers to strategize their action plans.

Example: Novelis Inc's Investment in a Recycling Center for Automotive

World leader in aluminium rolling and recycling Novelis Inc., announced on January 2022 that it would invest $365 million to construct an advanced recycling centre near its existing automotive plant in Kentucky, USA. The new facility would reduce carbon emissions by more than a million tons each year and would also help grow the company's closed-loop-recycling program with more customers from the automotive industry.

The new recycling facility will help reduce carbon emissions by more than one million tons each year. Closed-loop-recycling programs collects automotive parts, stamps them into sheets and reproduces them into products and spare parts, which are in turn used for vehicle production. Since recycled aluminium requires just 5% of energy as compared to primary aluminium, the recycling facility helps reduce carbon emissions.

Novelis' investment in recycling facility illustrates the trend of MNC's investing in sustainable energy. Global brands are taking the lead in adopting sustainable practices.

Source: "Novelis to Build $365 Million Recycling Center to Support North American Automotive Customers and Reduce Carbon Emissions by More Than One Million Tons a Year, PR News Wire, 11/01/2022
https://www.prnewswire.com/news-releases/novelis-to-build-365-million-recycling-center-to-support-north-american-automotive-customers-and-reduce-carbon-emissions-by-more-than-one-million-tons-a-year-301458466.html#:~:text=ATLANTA%2C%20Jan.,for%20automotive%20in%20North%20America. Accessed on 2.09.2022

1.9 Internationalization

Internationalization forces businesses to operate in a dynamic market situation with a higher degree of competition**.** It also gives companies opportunities to explore foreign markets and reap economies of scale. To quote, Michael E. Porter in 1985 said that, "continuous relationship of individuals, companies and nations through globalization has caused firms to move out of their domestic market on to the international stage to gain sustainable competitive advantage”[3]. Internationalization was historically perceived to be the strategy of large firms. Small firms’ internationalization is more often combined with threat than with opportunities and for this reason they are often considered to be home-market oriented[4].

However, with increasing modes of communication, successful companies no longer want to stay within the boundary of their domestic nation. Many small firms are growing as a result of the advantages they derive from expansion of the market. Indian movies that are released worldwide can be quoted as examples. Film distributors of movies like *KICK*, *Chennai Express*, *Baahubali etc.* have taken the rights of distributing films worldwide. The collections from theatres crossed ` 200 crore and more per movie. This is a result of internationalization of the motion pictures. Had the producers been selling their movies in India only, they would not have been able to collect such huge amounts and reaching the figure of ` 200 crore per movie would have been a distant dream.

Definition of Internationalization

Internationalization is a process of planning for selling goods and services in a foreign nation so that it can be easily adapted by the language, culture and the nationals of the foreign country.

Example: India an Attractive Option for Internationalization for MNCs

In the post-Covid market scenario, top manufacturing companies that faced massive supply chain disruptions planned to partially shift their manufacturing ecosystem out of China. The large domestic market, low labor and real estate costs and the cut in corporate taxes (September 2019) have made India an attractive option for these MNCs.

The ’Make in India’ push of the Indian Government lured South Korean firms like Posco and Hyundai Steel to consider India as an FDI destination. Geographic proximity and success of Hyundai Motors could be another reason for the internationalization initiative. Winstron Corporation, Apple’s manufacturing partner and Pegatron, the company that assembles iPhones are also considering moving to India.

Source: Remya Nair “There is new hope for ‘Make in India’ as new MNCs look to spread out from virus hit China”, The Print, 23/04/2020.
https://theprint.in/economy/theres-new-hope-for-make-in-india-as-mncs-look-to-spread-out-from-virus-hit-china/407107/. Accessed on 3.09.2022

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3 Porter, M. E., “The Competitive Advantage: Creating and Sustaining Superior Performance”, NY: Free Press, 1985.

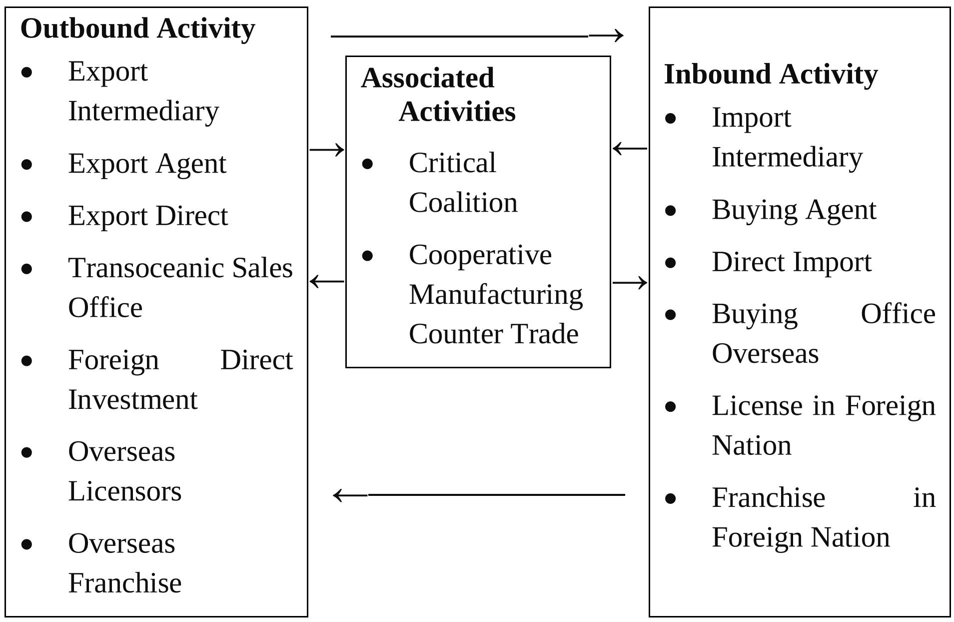
4 Laine, A. and S. A. Kock, “Process Model of Internationalization — New Times Demands New Patterns”, Swedish School of Economics, 2001.

1.10 Basic Activities of Internationalization

Internationalization involves marketers working across international cultures and international skills. Hence it is necessary to understand certain basic activities that are involved in internationalization. There are three basic types of activities involved in internationalization:

- Outbound activity
- Inbound activity
- Associated activity

Figure 1.1: Basic Activities of Internationalization



Source: ICFAI Research Center

Outbound activities include all export activities. Inbound activities include all import activities along with licenses required in foreign nations to set up a business. In between, there are several associated activities such as critical alliances, trade and counter trade to be taken care of (refer Figure 1.1 above).

Example: How Services EPC (Export Promotion Council) Promotes Internationalization

The basic activities that facilitate internalization are Inbound activities, Associated activities and Outbound Activities. Let us understand how 'Services EPC' (set up by Ministry of Commerce and Industry) helped India's services sector companies to internationalize.

Contd....

Services EPC provided overseas business opportunities for aspiring companies in services sector. It not only identified business opportunities but also helped design effective market oriented promotional activities to gain visibility.

It served as a platform between the Government and the Services sector companies by highlighting and taking up issues on behalf of the industry and provided policy inputs to the Government.

Services EPC thus helped services sector companies in internationalization by helping them in performing certain outbound activities such as identification of business opportunities and promotion of Indian services to enter new markets.

Source: India Services, https://www.servicesepc.org.

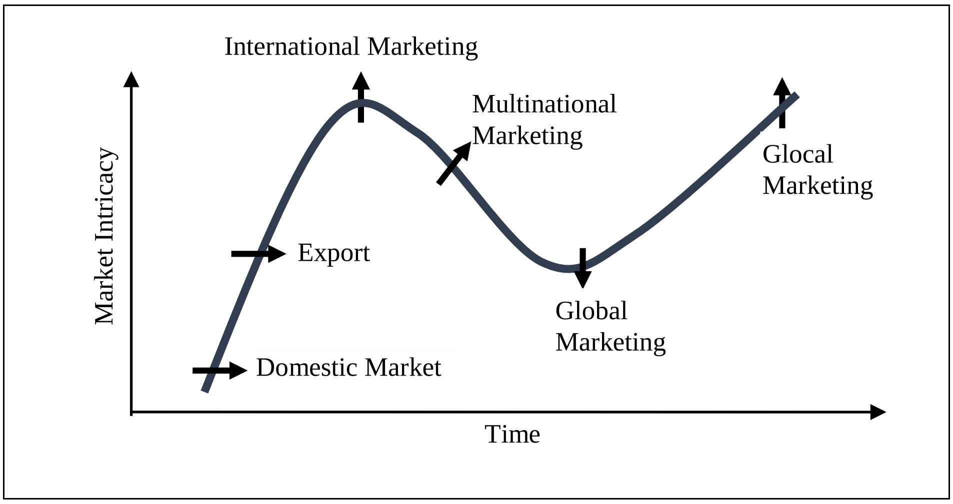
https://www.newswise.com/coronavirus/mount-sinai-health-system-and-renalytix-form-joint-venture-kantaro-biosciences-to-develop-and-scale-production-of-covid-antibody-test-kits

Accessed on 3.09.2022

1.11 Process of Internationalization

Any company first sells its products in its domestic market. After being successful in their own nation, they try to expand their base and sell their products in other countries. It is a "planned process for increasing penetration" into the targeted international market. The process of internationalization is based on two basic parameters – time and market intricacy. Both time and market intricacies are proportionately interrelated to each other. The more the market intricacy, the more is the time required to enter the international market. Figure 1.2 below shows the basic process of internationalization followed by Table 1.6 which highlights the different phases of internationalization.

Figure 1.2: Basic Process of Internationalization



Source: The ICFAI Research Center

Figure 1.2 shows the different stages a company goes through in the different phases of internationalization; i.e. during the process of getting into a different country or multiple countries to expand business.

A company starts selling its products in the domestic markets. When it is able to capture the domestic market, the company starts exporting its excess products. At times, a separate line of products is created to export goods to the international market. For example, many tanneries in the state of Uttar Pradesh in India produce leather for garments, shoes, accessories, etc. However, after 1990, with the opening up of the Indian economy, the demand for processed meat increased from the Middle East and Western countries. These leather manufacturing companies then started a separate line in meat and animal food to export meat items.

Table 1.6: The Phases of Internationalization

Phase	**Factors Influencing the Process of Internationalization**
Domestic	Domestic multi-culturalism making an impact.
Export	Ability required to negotiate and do business with foreign distributors.
International	Must adopt an approach such that its products and services cater to local cultures. Global cultural diversity strongly affects external relationships, especially with potential buyers and foreign workers.
Multinational	Localized structure reduces need for cross-cultural awareness.
Global	The entire organization needs to be ready to face cultural diversity as the employees too may be from another country where the company operates. The organization as a whole has to possess maximum flexibility to adapt to the cultures of various countries.
Glocal Marketing	This is a practice of offering an international product after altering it to suit the local conditions in a different country other than the manufacturer's own country.

Source: ICFAI Research Centre

Once the product is successful in one country, the company starts selling the product in other nearby countries, and then in the international market. Once the company is established in the international market, it starts moving ahead and establishes manufacturing units in foreign nations to cater to the needs of multinational market and reduce logistic cost.

Large multinational companies have started selling products with globally acceptable standards that are made up of latest technology and high quality. These products have greater flexibility and local sensitivity.

Three steps in internationalization process: There are three broad steps that are involved in internationalization process. They are as follows:

The first step is defining or identifying the international opportunity. This process will increase the market size for the company which is planning internationalization. This will facilitate optimization of economies of scale and creation of locational advantage and help to increase return on investment. Defining international opportunity covers the following issues.

- Increased Market Size
- Return on Investment
- Economies of Scale
- Locational Advantage

The second step is to decide upon the entry mode. Since internationalization process involves uncertainty and risk, the appropriate mode of entry plays a major role in the strategic planning of a firm to gain a hold in the foreign land. Market knowledge of the country will help firms in choosing the right entry mode to go abroad. The three aspects that need to be considered while deciding on the entry mode are (a) which foreign market (b) when to enter (timing of entry) and (iii) scale of entry (whether with rapid investment on a large scale or smaller steps with gradual exposure to the market). Deciding upon the mode of entry into a different country has the following options:

- Exports
- Licenses
- Strategic Alliances
- Mergers and Acquisitions
- Establishing new units/offices

The third step involves optimizing implementation process. When a company decides to operate in the foreign market, it should implement a standardized strategy that would create strong competitive advantages. This requires a well-articulated control and co-ordination between the headquarters and the subsidiaries/franchises abroad. Implementation of internationalization process involves the following factors to consider:

- Risk and feedback in earlier days
- Innovation
- Higher expected returns

Example: Internationalization Process of Born-Digital Firms

Born-digital firms are those firms that create value for customers only through digitalization. For instance, Amazon’s core business of online ordering and delivery is not possible if there is no digitization and support digital infrastructure.

Contd….

All social media sites like Facebook or Twitter, streaming services like You Tube and Netflix and distribution platforms are all born-digital firms.

These born-digital firms expanded globally at a faster pace and rewrote the process of internationalization. For born-digital firms, internationalization is not a gradual and step-by-step process as in the case of offline companies that commit resources in a few countries first and then expand. Born-digital firms can instantly access and globally distribute the resources for rapid global expansion. Customers located in any part of the world can access their services with just a few clicks. Without making foreign direct investments and taking ownership of assets, digital firms operate their services and their entire value chains online and provide their services to customers. These firms internationalize by acquiring users worldwide regardless of their geographic location.

Source: Noman Ahmad Saheer, "Reappraising-international-business-in-a-digital-arena-barriers-strategies-and-context-for-digital-internationalization" AIB Insights, 2020,

https://insights.aib.world/article/17849-reappraising-international-business-in-a-digital-arena-barriers-strategies-and-context-for-digital-internationalization

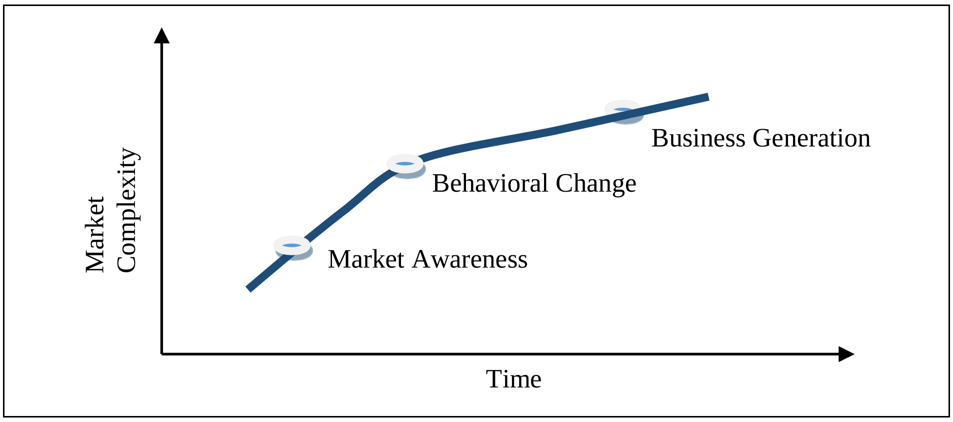
Accessed on 3.09.2022

1.12 Life Cycle of Internationalization

To establish suitability of strategies and the competitive position of a firm, it is inevitable for a marketer to understand the internationalization life cycle of his product. Internationalization imbibes in itself some important factors namely (i) entry decisions and strategies (ii) decisions on localization of the product and (iii) recognizing and adapting to local social expectations. Based on these factors, there are three stages in the life cycle of Internationalization (Figure 1.3):

- Market Awareness
- Behavior Change
- Business Generation

Figure 1.3: Life Cycle of Internationalization



Source: ICFAI Research Center

Market Awareness

Market awareness means spreading information about the product in the foreign nation where the product is about to be launched. The main questions which the marketer has to ask himself before entering into a new market are:

- ✓ Which are the best markets and opportunities to export products?
- ✓ Which are the best markets and opportunities to expand business in international operations?
- ✓ Which are the best markets and opportunities to boost international sales?

Behavior Change

One of the primary activities of the marketer is to spread awareness about the product so that it brings change in the consumers' behavior and they start accepting the product in the foreign nation. Gumptions guidance highlights certain factors which are as follows.

Gumptions Guidance

- ✓ Learn to prepare the company to expand international operations
- ✓ Learn to prepare the company to boost international sales
- ✓ Learn to prepare the company to start export

Internationalization Strategies

A marketer has to consider certain basic questions while working on internationalization strategies. Some of them are:

- ✓ Which is the best strategy to expand international operations in the selected market?
- ✓ Which is the best strategy to boost international sales in the selected market?
- ✓ Which is the best strategy to start exporting to the selected market?

Analyzing these questions will help the company to launch the product/service in the foreign market and plan accordingly with precision.

Business Generation

The main aim of internationalization of the products for any company is to run business and generate profits. There are two main areas of business generation. They are:

Business and Image Promotion

- ✓ How to secure more business deals based on the expansion of international operations?
- ✓ How to distinctively position the product in the selected market?
- ✓ How to access potential buyers in order to boost international sales?
- ✓ How to access potential buyers to launch exporting operations?

Investment Attraction

✓ How to prepare the company to be more attractive for investors?

Pondering over the above factors will help in calculating the ROI (Return on Investment) with a reasonable profit margin or atleast minimize risks and losses of the business organization.

Thus before entering into a foreign land to expand business, a marketer has to consider a lot of factors to make his product acceptable among a set of new customers. Even after such preliminary tasks, the market is forced to follow up on a regular basis in order to ensure that business succeeds among the competitors in a new market.

Example: Ford Quits India Due to Lackluster Performance in Business Generation Stage

On September 9, 2021, Ford India announced it would stop selling all Ford Model cars that it used to sell in India and further it is shutting all its manufacturing plants in Tamil Nadu and Gujarat. Ford, which commenced operations in India in 1995, made huge investments to build a sustainable and profitable business in India. Industry experts opine that Ford did not customize their cars to meet Indian customer needs. Looking at the Indian market through the global prism, the company did not pay attention to product benefits like fuel efficiency that was important to Indian customers. Ford's sudden exit from the Indian market has left dealers, employees and other stakeholders devastated.

Ford's internationalization process started with 'Market Awareness' phase moving slowly and steadily to Behavioral Change and Business Generation stages. Due to several reasons such as lack of varieties in models, failure to localize, etc. Ford's lackluster performance in the business generation stage led to its exit.

Source: "Ford's India Exit: What went wrong and who would benefit from it", Hindustan Times 12/92021,

https://auto.hindustantimes.com/auto/cars/fords-india-exit-what-went-wrong-and-who-would-benefit-from-it-41631422159635.html Accessed on 3.09.2022

Check Your Progress - 1

1. ITO stands for
   a. Internal Trade Organization
   b. International Trade Organization
   c. Indian Trade Organization
   d. Italian Trade Organization
   e. International Tariff Organization

2. Which of the following is an essential requirement of international marketing?
   a. Political stability
   b. Business-friendly environment
   c. Political stability and buying capacity
   d. Infrastructure and Business-friendly environment
   e. Political stability, business-friendly environment, buying capacity and infrastructure
3. Which of the following are the three basic activities of Internationalization?
   a. Outbound activity, Inbound activity and Associated activity
   b. Exbound activity, Domestic activity and Associated activity
   c. Regional activity, National activity and International activity
   d. Internal activity, External activity and Ancillary activity
   e. Associated activity, Ancillary activity and Miscellaneous activity
4. Match the following:

1.	Market awareness	A.	Spread information
2.	Behavioral change	B.	Investment attraction
3.	Business generation	C.	Internationalization strategies

   a. 1 & 2–A, 3 – B
   b. 1-A, 2-C, 3-B
   c. 1-A, 2-B, 3-C
   d. 1-B, 2-A, 3-C
   e. 1-C, S-B, 3-A
5. The process of internationalization is based on two basic things. What are they?
   a. Market Intricacy and Time
   b. Market Intricacy and Market Awareness
   c. Market Awareness and Time
   d. Time and Internationalization Strategies
   e. Market Awareness and Internationalization Strategies

1.13 Impact of Globalization on International Marketing and Business

Globalization is a phenomenon. It has modified business planning, strategies and marketing processes to suit the needs and standards of consumers spread beyond national boundaries. This phenomenon has affected business, society, lifestyle, culture and economies to a very large extent. There is a convergence of economies in the types of goods and services produced or made available in a country.

This convergence also creates pressure via competitive forces. So, before attempting to know the impact of globalization on International Marketing, let us first understand what this concept is all about.

Globalization: Globalization means countries and people trade among themselves where the costs are low and trade of goods, services and knowledge is fluent across the borders. Global marketing is more than mere selling of products and services in multiple countries. It is a more comprehensive process which includes planning, producing, placing and promoting a company's goods and services across the world for better target audience coverage. Large business units have their corporate offices in many countries of operations. With the growing internet usage, smaller and medium sized organizations are also vying for marketing opportunities globally.

According to Joseph Stiglitz, former chief economist, World Bank, 'Globalization is an umbrella term for a complex series of economic, social, technological, cultural and political changes seen as increasing inter-dependence, integration and interaction between people and companies in disparate locations'.

International Marketing: International Marketing means trading of goods, services and knowledge among different nations.

Globalization today is the key factor of international marketing. There are horizons of marketing opportunities, considerations and challenges. Today, countries can benefit from cheap labor, new technologies, cultural exchange, and strategic specialization while the customers are benefitted from a wide variety of products at lower prices. Businesses are evolving in new ways of thinking and strategizing.

Key Trends of Globalization: As globalization is increasing day by day, businesses, governments and academics are facing both opportunities and challenges in international markets and managers have to make international strategic decisions in managing international operations. Nevertheless, international marketing provides ample opportunities for organizations to not only enter and tap the potential market abroad but also help them in improving their (a) products and services (b) strategies (c) systems and operations to meet the demand of the consumers. Table 1.7 furnishes the major influences which globalization has on the marketing spectrum.

Table 1.7: Major Impact of Global Marketing

1.	Opportunity for the marketers to expand to the rest of the world and for the consumers to enjoy products of other countries
2.	Generation of employment opportunities through setting up of plants in different countries, outsourcing of different phases of production etc.

Contd….

3.	Increase in Foreign Direct Investments in many sectors
4.	Rise in healthy competition which leads to availability of quality products and services
5.	Spread of technological know-how
6.	Economical as large scale production leads to economies of scale
7.	Global supplier relationship

Source: ICFAI Research Center

Activity 1.1

Write four bullet points about the key technological impact of globalization on India.

Globalization is effecting the following aspects of international marketing and business:

i. **Industrial** – When the firms are exposed to international markets, broad ranges of products are available both in domestic and international markets.

ii. **Financial** – The companies have access to domestic and international financial markets.

iii. **Economic** – Capital flow from one country to another country becomes easier subject to regulations of the respective countries.

iv. **Political** – Political stability and instability are playing a crucial role in setting up regulations and guarantees arising from social and economic globalization.

v. **Information Technology** – With the rapid development in IT and ITeS, flow of information/communication create symmetry/asymmetry in the markets and is impacting how companies operate in the international markets.

vi. **Cultural** – Cultural and cross-cultural diffusion in new market, new technology and practices, development of cross-cultural identities are impacting the companies.

vii. **Ecological** – Environmental challenges and climate control issues vary from country to country in spite of some common issues.

viii. **Social** – Free movement of people across the world.

Along with marketing strategies, globalization has also resulted in enhanced customer experience not only in the product segment but also in the services segment. Customers today have a lifetime experience of shopping of goods and are able to get better deals. Transport and distribution systems have also changed, making it easier for the customers to get cheaper and faster delivery of products. Electronic transfers have enabled receiving international payments faster and secure.

Example: Samsung: A Highly Competitive Global Company

While technology has changed the way companies operate and do business, globalization has expedited adoption of technology worldwide by both businesses and people. Let us take the case of Samsung Electronics, a South Korean multinational company. Globalization and technology have impacted business decisions and business strategies of the company. As a global company, it faced severe competition. To be more competitive, Samsung shifted production facilities out of Korea. The company enjoyed cost advantage as compared to some of its competitors from the USA and European nations. Samsung had been quick to adopt state of the art technology. Globalization thus turned Samsung into a low-cost business and a global innovator. The company came out with breakthrough and winning products to compete with the top players in the world.

Source: Radu Magdin, "Business Internationalization in Emerging Markets", Forbes.com, 21/05/2021
https://www.forbes.com/sites/forbesbusinesscouncil/2021/05/21/business-internationalization-in-emerging-markets/?sh=632c288d15b8 Accessed on 4.09.2022

1.14 Role of World Organizations (WTO, WEF) in International Marketing

International Organizations like WTO and WEF have a high value in international marketing landscape. They act as neutral forums to aid mutual co-operation between countries. Let us see in brief, the activities and goals of the above mentioned international organizations in bringing equality between countries during business dealings and decisions.

1.14.1 World Trade Organization (WTO)

World Trade Organization is a global organization that deals with rules of trade between nations. WTO deals with agreements, negotiations and signing of treaties between nations. It came into existence on 1st January 1995.

The main aim of WTO is to help producers, exporters and importers to conduct their business smoothly in foreign nations. These agreements are the legal ground rules for international commerce which bind governments to keep their trade policies within agreed limits. WTO works to make the world economically more booming, amicable and answerable. All the decisions in WTO are taken by the member countries and ratified by their respective parliaments.

WTO also deals in dispute settlement between nations and ensures that countries' trade practices are in line with the rules and procedures. This way, WTO also works in reducing barriers between people and nations and improves the welfare of the people of the member countries.

WTO also helps the nations in joining Free Trade Agreements (FTA). FTAs are most popular preferential trade agreements following WTO rules. These agreements also improve competitiveness through access to inputs with lower costs and encourage domestic producers to remain competitive against imports.

WTO has a major impact on international marketing as it is the only global organization which sets the rules and regulates the conduct of the member countries, and is therefore the most powerful international body in the world.

Example: WTO Director Urges Countries to Solve the Food Crisis Through Trade

Addressing a press conference on trade outcomes in Davos in May 2022, the WTO Director-General, Ngozi Okonjo Iweala said that international trade would be a part of the solution to the mindboggling challenges faced by the world on account of covid-19 pandemic, the Russia-Ukraine war, and the resultant food crisis.

Expressing her worries on the severe food grains crisis that the world is facing on account of war, she said that trade would play a key role in resolving the crisis. She urged countries to lift export controls and export bans to ensure that food grains move from countries that have surplus foodgrains to those countries where it is needed. She further urged countries to not hoard food grains stating that free trade in a transparent way can solve the temporary food grains crisis.

The ardent appeal of the Director-General of WTO illustrates how WTO not just regulates member countries through multi-lateral agreements, but also appeals to nations (members and non-members of WTO) to support free trade to solve crisis situations faced by the world.

Source: "Trade key part of solution to food crisis, other challenges before world: WTO chief", Economic Times, 26/05/2022 https://economictimes.indiatimes.com/small-biz/trade/exports/insights/trade-key-part-of-solution-to-food-crisis-other-challenges-before-world-wto-chief/articleshow/91803419.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst Accessed on 4.09.2022

Activity 1.2

Make a list of three economic activities which WTO initiated for solving food crisis.

Role of WTO

World Trade Organization has the following roles to play in regularizing the trade activities among the member countries -

- To cut living cost and increase living standard
- To settle dispute and reduce trade tensions
- To stimulate economic growth and employment
- To cut the cost of doing international business
- To encourage good governance
- To help countries develop
- To give the weak country a stronger voice
- To support environment and health
- To contribute to peace and stability among member nations.

Thus, on one hand, while WTO facilitates trading activities, on the other, it also has surveillance on the trade policies of the member countries.

1.14.2 World Economic Forum (WEF)

World Economic Forum is an international institution committed to continuous improvement of the state of international business through public-private cooperation. It is based in Geneva, Switzerland and was established in 1971. WEF enables various trade initiatives to reduce the practical barriers of trade between nations.

Role of World Economic Forum (WEF)

WEF encourages public private cooperation to improve the state of the world economies by engaging businessmen, political leaders, academicians, and other leaders of society to shape global, regional and industrial agenda.

It organizes high level of ministerial workshops which are focused on practical steps to be taken by the country to boost trade. These workshops are conducted at various locations in Latin America and East Asia. Two more annual meetings are held in China and the United Arab Emirates.

WEF also trains and helps the nations in building Annual Index Report. This report assesses the competitiveness of countries giving insights into the drivers of their productivity and prosperity.

This Annual Index Report helps the countries to integrate themselves with the global economy. Further, this integration helps the nations to attract foreign investors to their countries. These indexes are also used as a foundation for trade dialogues between various nations.

WEF conducts their annual winter meetings at Davos, in the eastern Alps region of Switzerland, where around 2,500 top business leaders, international political leaders, selected intellectuals, and journalists of the world gather to discuss the most critical issues of the world, health and environment.

WEF activities include Winter Meeting at Davos; Summer Annual Meeting in China; Annual Regional Meetings in Africa, East Asia, the Middle East, and Latin America; and selection of young global leaders, social entrepreneurs and global shapers.

WEF also publishes a series of research reports in various sectors. Some such reports are: Global Competitiveness Report, Global Gender Gap Report, Global Travel and Tourism Report, Global Trade Report, etc. WEF has also undertaken various initiatives such as dialogue on climate change, greenhouse gas emissions, and water initiatives, etc. WEF also awards companies every year in their technology pioneers program.

Check Your Progress - 2

6. State **True** or **False**.

   i. Low wage workers lead to lower profit.
   ii. Strong growth leads to high inflation.
   iii. Globalization leads to decrease in FDI.
   iv. Globalization leads to strong economic growth.

   a. i-False, ii-False, iii-True, iv-True
   b. i-True, ii-False, iii-True, iv-False
   c. i-False, ii-False, iii-False, iv-True
   d. i-False, ii-True, iii-True, iv-True
   e. i-True, ii-True, iii-True, iv-True

7. At which of the following cities, WEF annual winter meeting is held?

   a. Geneva
   b. Zurich
   c. Davos
   d. Tokyo
   e. New Delhi

8. Which of the following that WTO does not deal with?

   a. Agreements
   b. Negotiations
   c. Signing of treaties
   d. Agreements and signing of treaties
   e. Agreements, negotiations and signing of treaties

9. State **True** or **False**.

   WTO

   i. Can increase living cost and decrease living standard
   ii. Cannot settle dispute and reduce trade tensions
   iii. Can stimulate economic growth and employment
   iv. Can cut the cost of doing international business
   v. Can encourage good governance

   a. i – True, ii-True, iii-True, iv-True, v-True
   b. i –False, ii-False, iii-True, iv-False, v-True
   c. i – True, ii-False, iii-True, iv-False, v-False
   d. i – True, ii-False, iii-True, iv-True, v-True
   e. i –False, ii-False, iii-True, iv-False, v-True

10. Exports from India jumped 34.5 per cent to USD 669.65 billion in April-March 2021-22as against 2020-21. Which impact of international marketing is discussed here?

    a. Political
    b. Economic
    c. Social
    d. Cultural
    e. Ecological

1.15 Summary

- International marketing is a process where the basic principles of marketing are applied for business or trade between two nations.
- Global events and competition affect all firms — large or small. There are many communities and groups that monitor and promote trade.
- Tariffs, taxes, duties, foreign exchange reserves, quotas, trade agreements, and trading blocks are the measures used for restricting free movement of goods from one country to the other. International economic communities are reducing trade barriers and promoting regional economic cooperation.
  – Free-trade area: Members trade freely among themselves without tariffs or trade restrictions.
  – Customs union: Uniform tariff structure with members and non-members.
  – Common market: All trade rules and members are brought into agreement.

- If we look from an international arena, international marketing and globalization must continue. In doing so, trade and investment policy can take either a multilateral or bilateral approach.
  - Bilateral negotiations are between two nations.
  - Multilateral negotiations are done among (a number of) member nations.
- It is a common practice in many countries to use non-tariff barriers to control the entry of imports. For example —
  - Philippine mangoes and bananas have to meet strict phyto-sanitary requirements from the US and Australia.
  - The 28-member European Union temporarily banned Alphonso mangoes, eggplant, taro plant, bitter gourd and snake gourd. It prohibited the import of these products from India to tackle the "significant shortcomings in the sanitary certification system of such products exported to the EU in 2014.
  - McDonalds France refuses to buy American beef; instead uses only French, to "guarantee maximum hygienic conditions".
- The tariffs have significantly reduced over the last 20 years in global trade. But bigger concern that arises is removal of non-tariff barriers that restrict trade from lesser developed countries.
- WTO (World Trade Organization) acts as a big facilitator to member-countries in trade activities.
- WEF (World Economic Forum) is an institution that strives for the improvement of businesses at the international arena.

1.16 Glossary

Ad Valorem duty: This duty is imposed according to the value of the product traded rather than its size, quantity or weight. A fixed per cent on value of goods is added as a tariff.

FTA: Free Trade Agreements (FTAs) refers to agreements involving co-operation between two or more nations to reduce trade barriers.

Glocalization: This is the final stage of internationalization process wherein the marketer not only markets his product in a foreign country but also tries to localize it to suit the taste and preferences of the local consumers.

Internationalization: Internationalization is a term which refers to the activities of a marketer who phases his tasks in such a way that his product is properly launched in the right international market among the ideal target audience.

NTB: Non-Tariff Barriers (NTBs) are restrictions to trade through mechanisms other than imposition of tariffs.

SPS Measures: Sanitary and Phyto-Sanitary (SPS) Measures came into force on 1 January, 1995. It sets out specific measures on food safety, animal and plant health standards.

Trade Barriers: Trade barriers are government-induced restrictions on international trade. Trade barriers have a check on free trade among countries.

WTO: The World Trade Organization (WTO) is a global organization that deals with rules of trade between nations. WTO deals with agreements, negotiations and signing of treaties between nations.

WEF: World Economic Forum (WEF), based in Geneva, Switzerland, is an international institution committed to continuous improvement of international business through public-private cooperation.

1.17 Self-Assessment Test

1. What is internationalization? Explain the process of internationalization with examples.
2. What do you understand by non-tariff barriers?
3. What are the objectives behind international trade? Explain the barriers to international trade.
4. "WTO acts as a facilitator for international trade to grow" – Elucidate

1.18 Suggested Readings / Reference Material

1. J. Daniels, L. Radebaugh, and D. Sullivan, "*International Business: Environment and Operations"*, 17th Edition, Pearson, 2021.
2. Masaaki (Mike) Kotabe, Kristiaan Helsen and Prateek Maheshwari, "International Marketing 8e (An Indian Adaptation)", Wiley India Pvt Ltd, 2021.
3. Cateora, P.R., Money, R. B., Gilly, M.C. and Graham, J.L., "International Marketing", McGraw-Hill, 18th Edition, 2019.
4. Keegan, W.J., "Global Marketing Management", Pearson Education; Eighth edition, 2017.

1.19 Answers to Check your Progress Questions

1. (b) International Trade Organization

ITO stands for International Trade Organization.

2. (e) Political stability, business-friendly environment, buying capacity and infrastructure

Political stability, infrastructure, buying power, and business friendly environment help in international marketing growth.

3. (a) **Outbound activity, Inbound activity and Associated activity**

   There are three basic activities of internationalization: outbound activity, inbound activity and associated activity. Without these activities, the process of internationalization cannot be initiated.

4. (b) **1-A, 2-C, 3-B**

   The question is related to lifecycle of internationalization. Market awareness, behavioral change and business generation are the three stages of internationalization. Market awareness spreads information about the product, behavioral change leads to internationalization of strategies and business generation leads to investment attraction.

5. (a) **Market Intricacy and Time**

   The basic process of internationalization is based on two basic parameters — market intricacy and time.

6. (c) **i-True, ii-False, iii-True, iv-False**

   - The question is based upon the key trends of globalization
   - Low wages of workers lead to higher profits, that is why the US have opened large number of BPOs in India and South East countries where they can hire lower wage workers
   - Low inflation and low interest rates despite strong growth
   - Strong economic growth
   - Increase in Foreign Direct Investment (FDI)

7. (c) **Davos**

   The World Economic Forum, whose headquarters is at Geneva, holds an annual meeting every year. Around 100 top businessmen and companies participate in the event.

8. (e) **Agreements, negotiations and signing of treaties**

   World Trade Organization deals in all the three options:

   - Agreements of trade between different countries
   - Negotiations for trade — both basic and strategic
   - Signing of trade treaties between various countries

9. (d) **i – True, ii-False, iii-True, iv-True, v-True**

   In this question, we analyze what WTO can do for International Trade. So, WTO can

   1. Cut living cost and increase living standard
   2. Settle dispute and reduce trade tensions
   3. Stimulate economic growth and employment
   4. Cut the cost of doing international business
   5. Encourage good governance

10. (b) Economic

The Indian economy has registered a surge in its exports which reflected in the inflow of money from the importing countries which is a result of internationalization or globalization. It is due to the economic impact of globalization.

Unit 2

International Marketing Environment

Structure

"The impact of this pandemic has spread to reach the global economy, financial markets, trade, and global supply chains, hampering growth and development, and reversing the gains accomplished in the previous years. This human crisis requires a global response. The world counts on us to come together and cooperate to face this challenge."

- King Mohammad Bin Salman of Saudi Arabia

2.1 Introduction

The king of Saudi Arabia describes how the Covid pandemic negatively impacted the international marketing environment. He further reiterates the need for collective efforts to face the challenges

The previous unit discussed the concept of globalization and how it has lubricated international trading. With more countries opting to expand their market for goods and services, globalization has become a buzzword in recent times. The move towards globalization has facilitated free flow of goods, services, labor, and capital between various nations of the world. This has necessitated the understanding of the international marketing environment by the marketer.

According to Philip Kotler, marketing environment refers to "external factors and forces that affect the company's ability to develop and maintain successful transactions and relationships with its target customers". Going further, international marketing environment means assessing the opportunities and challenges of marketing the products and services internationally. It also means being vigilant on the changes in the global environment that will affect the demand of products. In the words of Kotler, marketers should develop an 'outside-in' perspective "an ability to work on external cues and stimuli to the profit of the whole organisation". Globalization, in a way, is facilitating the integration of global economic systems and nations are becoming interdependent. On the negative side, economic slowdown in one part of the world affects another part of the world.

World trade is expected to grow at a faster pace than the world's output. Nations are travelling the extra mile to reform and create a conducive economic environment to attract Foreign Direct Investment (FDI) and Foreign Institutional Investment (FII). The erstwhile socialist economies are opening up their markets to global players as a result of the decline of communism and socialism. Countries opting for free market economies are privatizing state-owned enterprises, deregulating markets, increasing competition, and welcoming foreign investment.

The expansion of social, cultural and economic ties between nations through business outside national borders has resulted in the shrinking of the world. The major significance of globalization is that it allows countries to benefit from economic synergy and collaboration in addressing the political, social and economic variances in them. Thus, globalization facilitates reaching out to buyers and sellers for government and countries.

2.2 Objectives

After reading through the unit, you should be able to:

- Underline the role of economic environment prevailing in a country that impacts international business
- Recognize the role of political environment of a nation that determines the trading aspects involved in international marketing
- Respond to the legal factors that controls the functioning of a business unit
- Evaluate the social and cultural environments for a business to be successful
- Assess the prevailing technological environment in a country to expand business through product innovations
- Analyze country risk to test the vulnerability of business functioning

2.3 Economic Environment

The economic environment of the target country impacts business decisions of a firm that is into international marketing. The economic environment of the target country includes factors like income levels (GDP, which is better known as national income) per capita income, size of the market, costs, price levels, investment climate, level of development, and infrastructural facilities. Since a country's level of economic development affects its attractiveness as a possible market, developed countries like the USA, Japan, Germany, and France receive the bulk of the foreign direct investment. During the last two decades, India and China have been witnessing high growth rates, and have emerged as hot destinations of FDI and FII.

The international economic framework (also referred to as the political economy of international trade) refers to the regulatory framework that allows or restricts free trade between countries. Most nations, many apparently committed to free trade, intervene to guard the interests of politically important groups.

The main instruments of trade policy are:

- **Tariffs:** These are taxes levied on imports and they result in increasing the price of imported products, thus rendering them uncompetitive vis-à-vis the domestically produced goods. Tariffs increase tax revenues of governments and simultaneously protects domestic industries.
- **Subsidies:** These are the payments made by governments to producers. They help producers to compete against low-cost imported goods or gain export markets. Domestic agricultural products in the US are subsidized to help them compete against low-cost imported goods. The Chinese Government gives subsidies to domestic manufacturers to help them sell products at low price and gain export markets.
- **Import Quotas:** Governments often impose upper limits on import of goods. This is done to help the domestic industry. Sometimes import quotas are used to counter an adverse balance of payment situation.
- **Local Content Requirements:** This restriction benefits domestic industries because it demands that certain parts or fraction of the goods should be produced locally.
- **Administrative Polices:** Under this instrument of trade policy, the bureaucratic rules and procedures for import are made stringent. While Japan has low tariffs, the stringent quality control checks and other procedures for imports frustrate importers.
- **Anti-Dumping Policies:** Dumping refers to selling goods in a foreign market either below their costs of production or the price charged in their home market. Anti-dumping duties are levied to protect domestic industries from dumping.

Nations cite both political and economic reasons for restricting free trade. The most common political reasons cited ─ protecting jobs and protecting industries ─ are deemed important for national security, retaliating to unfair foreign competition, protecting consumers from "dangerous" products, furthering the goals of foreign policy, and protecting the human rights of individuals in exporting countries. The most common economic reasons for restricting free trade are protection of infant industries, boosting the overall wealth of a nation (to the benefit of all, both producers and consumers) and correcting adverse balance of payment situation.

Example: Agri-goods Foreign Marketing Facilitated by Government Agencies

India's neighbor, Sri Lanka, was facing the worst economic crisis since its independence in 1948. Shortage of fuel and food led to public unrest and rebellion and the Sri Lankan Prime Minister Mahinda Rajapaksa resigned his post.

The twenty-six-year-long civil war (between LTTE and the Sri Lankan Government) that ended in 2009 impacted the domestic economy of the country. The other events that led to the economic crisis are given below:

- The sudden shift to organic farming led to acute food grains shortage in a country where food grains were exported.
- The Covid-19 pandemic hurt the tourism industry. An increase in the welfare measures to provide relief to pandemic affected people increased the government expenditure.
- The tax cuts initiated by the government in 2019 to keep up the promises made to people during elections decreased the government revenue.

In addition to the above stated reasons, economic mismanagement by successive governments resulted in soaring debts and BOP (Balance of Payment) deficits. The GDP of the pandemic hit economy fell from 8.01% in 2010 to -3.56%. Plummeting foreign exchange reserves, falling revenue, and soaring debts led to the government defaulting on debt payments. The economic environment of Sri Lanka deteriorated rapidly impacting international trade and foreign investment.

Source: Soumya Bhoumick, "Understanding the economic issues in Sri Lanka's current debacle", Observer Research Foundation, 21/06/2022

https://www.orfonline.org/research/understanding-the-economic-issues-in-sri-lankas/, Accessed on 04.09.22

2.4 Political Environment

Any business operating in a global platform, should understand the political environment existing in the nation it operates. Political environment influences the economic setting. The economic setting impacts business operations. Hence it is essential for any global marketer to analyse the political environment they are working in. The political environment includes dynamics of government, their activities and specific laws and regulations that affect trade. Following are the factors which influence political climate.

2.4.1 The Sovereign Right of a Nation

The sovereign right of a nation is to allow or deny permission to foreign companies to operate and simultaneously permit domestic companies to operate beyond borders. The government's decisions on such matters are influenced by the following factors:

a. National interest: A policy of protectionism.

b. Protecting jobs: A policy to provide employment opportunities to the citizens. For example, outsourcing and off-shoring of IT work is reducing job opportunities for an average American and is a matter of concern for the US.

c. Shielding industries deemed important for national security. Defense, in almost all countries, is a public sector body.

d. Defending domestic industries from unfair foreign competition.

e. Protecting consumers from "dangerous" products. Example: Certain toys originating from China are banned in Western countries because they have been deemed unsafe for children. Certain medicines are banned in many countries because of the harmful side effects.

f. Promoting the goals of foreign policy: Encouraging favorable balance of trade and balance of payments position.

g. Showing concern for the human rights of individuals in exporting countries. Time to time, crackers, textiles and certain other products from India are banned in Western countries apparently because manufacturers employ child labor.

h. Conserving scarce resources: Non-renewable resources such as fuels and minerals are subject to depletion and hence, governments would prefer to have them under their control.

i. Vote bank politics: Any government in a democracy pays attention to the demands of various groups which could be vote banks. Countries like India and Mexico subsidize agricultural products because agriculturists constitute the vote bank. But developed nations may not consider this favorable. Government funding to religious pilgrimages in India is another example.

2.4.2 The System and Form of Government in a Nation

The political philosophy of a nation can be judged by the degree to which it emphasizes collectivism as opposed to individualism. However, the systems of government that are commonly practiced are:

a. **Collectivism:** This political philosophy underlines the importance of collective goals over individual goals.

b. **Individualism:** This philosophy stresses the primacy of individual freedom.

   Governments can be assessed by the degree to which the system is democratic or totalitarian.

c. **Democracy:** A government system where people elect their representatives to govern and legislate.

d. **Totalitarianism:** One individual or political party exercises absolute control over all areas and there is no opposing political outfit as in the case of democracy.

2.4.3. The Various Forms of Government

What are the different forms of governments across the globe? The following points discuss about the form in which the government ascends to power and rules the nation.

a. **Monarchy:** A form of government where the king (the heir apparent) rules the nation. In the United Kingdom and Saudi Arabia, monarchy exists.

b. **Communism:** It is a kind of totalitarian form of government. Absolute power is exercised by the government for collective good. Example: China, Vietnam and Cuba.

c. **Democracy:** Democracy gives primacy to individual freedom. Example: USA, India, Canada, etc.

d. **Dictatorship:** An individual or political party turns totalitarian in this form of government. Example: Myanmar Congo, Sudan, Belarus, Libya, North Korea.

The political climate can be favorable for global investors in democratic countries as against Communist countries or countries that have dictatorships. However, most of the erstwhile communist countries have begun to adopt both democracy and capitalism. The decline of communism and socialism has thus given a fillip to globalization. Political parties and governments may have left (socialist) or right (capitalist) leanings depending on their economic philosophy. During the industrial revolution, the Socialists supported and patronized trade unions. During the twentieth century, the Socialists were associated with economic policies that advocated government intervention. In the present twenty-first century, the Socialists continue to oppose free trade and are perceived as supporters of anti-globalization.

The impact of globalization was felt across all continents as business started moving to these countries to derive maximum advantage. Today, every country irrespective of its political philosophy is looking for foreign investment for its economic development.

PESTEL (i.e. Political, Economic, Social, Technological, Environmental, Legal) factors influences business in every country. Let us consider the example of China to discuss some of the mentioned environments under PESTEL. In China, political governance can be categorized as collectivist (because, like democracy, it does not give primacy to individual freedom). However, China opened up its economy in the year 1978 (almost a decade before India initiated reforms) and since then many MNCs have set up production facilities there and the country is a hot destination for FDI. Following the Chinese Government's 'Go Out Policy' initiated in 1999, that 'Chinese companies should go global', companies like Lenovo, Haier Appliances, Air China, Bank of China, Sinopec, China Mobile, and Huawei technologies entered international markets aggressively. The growing clout of China as a leading player in the global arena is apparent. The 'Go Out Policy' was initiated to assist domestic companies to develop global strategies to utilize the opportunities in expanding local and international markets.

Economic factors: (Economic Growth, Interest Rates, Exchange Rates, and Inflation rate): India has emerged as the fastest growing economy as per the annual Economic Survey. As per IMF's latest World Economic Outlook projections, India's real GDP projected to grow at 9 percent in 2021-22 and 2022-23 and at 7.1 percent in 2023-2024, which would make India the fastest growing major economy in the world. Government initiatives like relaxing FDI norms and 'Make in India' has made India an attractive investment destination.

Social and Cultural factors: (Health Consciousness, Population Growth Rate, Age Distribution, Career attitudes, and emphasis on Hygiene and Safety): China has the world's highest population. China has developed many smart cities and a majority of Chinese population has migrated from villages to cities in search of employment. China has been evolving to bring societal and cultural reforms that has been supportive to international business functioning in this country. Increased government-initiated public welfare programmes and the awareness about corporate social responsibility by private business entities has given a positive effect.

Technological and Environmental factors: (R&D activities, Automation, Technology Incentives, the Rate of Technological Change, and Ecological Environment): China's transportation infrastructure (Railways - third largest in terms of total length of railways and Roadways - second largest in the world ;) and communication infrastructure (Telecom and Telephone) are rated good. China frequently faces natural disasters like floods and earthquakes. Such calamities can destroy 'tangible assets such as buildings and equipments, as well as human capital, and thereby deteriorate production capacity'.

Example: Political Instability Threatens Pakistan's Unstable Economy

Pakistan's turbulent political history that impacted the domestic economy was marked by infighting among provinces, military rule and the short stints of democratically elected government dominated by the military command. A long stand-off with India over the Kashmir issue meant that only a small budget was allotted for public health, education, welfare, and economic development. The country was blacklisted for the terrorist activities in its soil by the FATF ('Financial-Action-Task-Force', an intergovernmental organization to combat money laundering and terrorism financing and proliferation). The withdrawal of American troops from Afghanistan and the subsequent takeover of Afghanistan by Taliban negatively impacted Pakistan's political scenario. Frequent attacks by Taliban in Pakistan created further insecurity.

The political uncertainty of the country has not ended even after the ouster of the Imran Khan Government in April 2022. The present coalition government headed by Prime Minister Shahbaz Sharif passed an ordinance in July 2022 to bypass all procedures to sell government assets to foreign countries. This move was perceived as a temporary move to prevent the country from defaulting on payment of debts leading to economic collapse.

Sources: i) Menaka Guruswamy "The long history of political instability in Pakistan", Indian Express, 16/04/2022
https://indianexpress.com/article/opinion/columns/the-long-history-of-political-instability-in-pakistan-7871284/
ii) Manoj Gupta, "Pakistan nearing economic collapse? Political Instability pushing the country closer to the redline", News18, 26/07/2022
https://www.news18.com/news/world/pakistan-nearing-economic-collapse-political-instability-pushing-country-closer-to-the-red-line-5630053.html, Accessed on 04.09.22

2.5 Legal Environment

The political, economic and legal environments are closely related because governments legislate and decide on the economic policies. Legal business environment is important because it decides the level of regulation and control on businesses. Legal environment affects international businesses in the following ways.

- Laws regulate the conduct of foreign businesses and also the level of foreign investment allowed in various industries.
- Laws protect consumer rights and interests. Implementation of these laws is getting more and more stringent in nations.
- If a product or service made in one country is found harmful or hazardous, it could be banned in another country as in the case of the US where certain drugs are banned considering their side effects and ill consequences.

- There are laws to protect the environment and ecological balance. Businesses should take cognizance of these and ensure that they do not violate the environmental laws.
- MNCs have to adhere to the quality and other standards stipulated in the country of business.
- Most countries regulate promotional and advertising activities in the media. In India for instance, advertising of alcohol is prohibited. Also cigarette advertisements need to include a statutory warning that 'cigarette smoking is injurious to health'. Many European countries do not permit use of children in advertisements.
- Competition Act (formerly known as MRTP Act - Monopolies and Restrictive Trade Practices Act) in India promotes fair competition and prevents activities that restrict competition.

A foreign company entering into a nation should also consider the tax laws. Laws relating to convertibility of foreign exchange, repatriation of profits, raising of funds, auditing requirements, etc., are the other areas that need to be studied. The Patents Act, 1970, in India that provides protection for Intellectual Property Rights is another important area that needs to be studied by international marketers.

Example: Assets Expropriation Fear in War Torn Ukraine and Russia

Russia launched a full-scale war on Ukraine in February 2022, which led to civilian casualties and property loss and destruction in various parts of Ukraine. In response, Ukraine introduced legislation to compensate and support Ukrainians for the property loss. The Parliament of Ukraine passed the Law of Expropriation (The Main Principles of Forcible Expropriation of Property of the Russian Federation and its Residents), which came into force on 7th March, 2022. Further, in April, the scope of the expropriation law was expanded by introducing various amendments and the Ukrainian President promulgated the law. The law stated that the Ukrainian State would seize assets belonging to Russian Federation and Russian citizens within the Ukrainian territory.

Foreign companies operating in Russia too fear expropriation of assets. North American and European Companies fear that Russia may retaliate by seizing assets of foreign companies to counter the tough sanctions imposed by the USA, Europe and Canada on Russia.

Source: https://www.loc.gov/item/global-legal-monitor/2022-03-03/ukraine-martial-law-introduced-in-response-to-russian-invasion/, Accessed on 04.09.22

Activity 2.1

In the current global environment, most countries adopt a policy of pragmatic nationalism. Pragmatic nationalism is a policy wherein governments allow free trade when it is favorable to the country and block free trade when the terms and conditions or consequences of free trade are likely to be unfavorable to the country. Cite examples of two nations who follow this policy. Also, critically analyze this type of policy quoting its merits and demerits.

Answer:

2.6 Social, Cultural and Technological Environment

The social and cultural environment refers to the influence of family, social systems and cultural aspects like beliefs, values, art, laws, customs, and habits on international business environment. Culture shapes markets and the marketing environment by influencing what people consume, how much they spend and their buying habits. The history of a nation, geography and social institutions like religion, educational institutions, family, media, government, and society shape the social and cultural environment. Marketers who ignore cultural differences between countries do it at their own risks. A number of cultural differences like language, color preferences, customs and taboos, values, aesthetics, business norms, religion, and social structures need to be considered in international marketing.

2.6.1 Culture and its Characteristics

E.B.Tylor (1881)[5] defines culture as “that complex whole which includes knowledge, belief, art, morals, law, custom and any other capabilities and habits acquired by man as a member of society”. Culture depicts the following characteristics.

- **Culture facilitates communication:** Communication between persons originating from same culture is a lot easier because they share habits, thoughts and feelings. Culture could become a barrier when communication happens between persons belonging to different cultures.
- **Culture is shared and regulatory:** Culture does not exist in isolation. It is commonly shared and it is the outcome of shared social interaction over a

[5] Edward Burnett Tylor, “Anthropology: An introduction to the study of man and civilization”, Macmillan & Co., 1881.

period of time. Shared culture gets reinforced over a period of time and it becomes prescriptive and regulatory. For example, Japanese do not like to buy products from strangers and they are also embarrassed selling used products to others. It is not surprising therefore that e-Bay is not doing very well in Japan.

- **Culture is prescriptive:** Every culture has its own norm that prescribes the kind of behavior that are acceptable and unacceptable. From a marketing perspective, culture influences decision making. Only products that are acceptable in a particular culture will find a place in the purchase consideration set of consumers belonging to that culture.
- **Enculturation and acculturation:** Culture is learned and not inherited. Enculturation occurs when a child gradually absorbs the culture of the society to which he belongs. When an individual learns a foreign culture, the learning process is known as acculturation. Indians who have been exposed to western culture (through TV channels, travel, western education system) are gradually getting acculturated to Western lifestyle and are buying western brands in western retail formats.
- **Culture is enduring:** Old habits die hard and hence culture is relatively stable and enduring. McDonalds, KFC and many other food chains had to customize their offerings in India to suit the tastes and preferences of the Indian consumers.
- **Culture is cumulative:** Culture evolves over a period of time. Every generation contributes to change in culture and passes the culture to the next generation.
- **Culture is dynamic:** Culture is not static. It continuously evolves adapting to new situations, problems and sources of knowledge. Advancement in technology is helping people to communicate online, buy products online and socialize online.

The culture of a society manifests in different ways and understanding this is important to a marketer. The role played by social institutions like educational institutions, family, subcultures in shaping the culture should be understood to envision buying behavior. The propensity to consume and save and level of sophistication of demand and related aspects also influence purchase decisions. Thus, culture is a very important factor that needs to be researched and studied in international marketing before commencing marketing operations in another country.

2.6.2 Technological Environment

The level of penetration of technology, comfort level in understanding and use of technology and related aspects influence marketing decisions. Majority of people in western countries are technology savvy and this is not the case with the people belonging to emerging economies like India. Some important aspects an international marketer should bear in mind while assessing the technological environment are as follows:

- Technological factors could sometimes be obstacles, if the differing technological environment of countries is not reckoned. For instance, many household appliances in the USA are designed for 110 volts and this needs to be converted into 240 volts for use in India and certain other countries. Advances in packaging technology have increased the shelf life of packed products in retail outlets.
- Technology has changed the way services are offered and consumed in banks, hotels, airlines, railways, etc. in developed countries. The developing economies may be lagging behind in the adoption and use of technology. Thus, marketers need to understand the differences in technological environment between nations. Selling tractors to Indian farmers was a huge challenge in the past, because the average farmer in India owned less than two hectares of land which did not necessitate mechanized farming and was not economical too. But the tractor industry has overcome this problem by adapting the product to suit market requirements. Mahindra tractors has come out with one of the smallest tractors (15hp), named Yuvraj 215. The product which is suitable for small farms is easy to maintain and can be used as a transportation vehicle as well. The demand for tractors in India is growing at a high rate and now foreign tractor companies are also present in the Indian market.
- Innovations in technology and advances in telecommunications impact business strategy. The technologies in farming and irrigation have made the life of the small scale farmers simple and broke the clichéd thought that one had to own large lands to prove efficiency. This development can be a setback for countries like China which have huge factories. Also, state-of-the-art technology and developments in Information Technology have eliminated the need to be vertically integrated (to keep costs low). Firms are now able to outsource and keep costs low. This development that was possible because of the advancements in communication and technology has helped Indian IT firms acquire outsourcing contracts.

Example: UPI: India's Digital Payment Revolution

UPI (Unified Payment Interface), an instant real-time payment system, developed by NPCI (The National Payments Corporation of India) and regulated by the Reserve Bank of India was launched on 11^{th} April, 2016. As of August 2022, from a rickshaw-puller to a high-end retail showroom, a large section of the Indian population utilizes this payment system for seamless payments.

Contd….

According to the data released by the NPCI, total UPI transactions crossed over 6.28 billion transactions in July 2022 and an average of 22 million transactions were recorded each day in July 2022. For most of us it is difficult to believe that such a transformation was possible in a robust cash-based economy like India. This payment instrument was so easy to use that the user just needed to scan the code and enter his pin. The widespread usage and popularity of this instrument connected millions of Indians on an inclusive and well designed and structured digital platform.

NIPL (The NPCI International Payments Limited), the international arm of NPCI, partnered with many foreign companies belonging to Bhutan, Singapore, and Nepal to give a global push to UPI. This global initiative enabled Indians to use UPI when they travel to foreign countries.

Source: Sourabh Jain, "Over 22 million transactions were done each day in July 2022", Business Insider, 3/08/2022
https://www.businessinsider.in/finance/news/upi-transactions-reach-a-new-high-cross-the-6-billion-mark-in-july-2022/articleshow/93297345.cms#:~:text=According%20to%20the%20data%20released,was%20launched%20in%20July%202016. Accessed on 04.09.22

<u>Check Your Progress - 1</u>

1. Which of the following stresses that an explicit fraction of a product or commodity be produced domestically.
   a. Subsidy
   b. Quota rent
   c. Voluntary export requirement
   d. Local content requirement
   e. Quota
2. Which of the following is not a political argument for government intervention?
   a. Protecting consumers from products that cause health hazards
   b. Protecting infant industries
   c. Protecting industries deemed important for national security
   d. Protecting jobs
   e. Protecting minority groups
3. Which of the following is a cause for stamping anti-dumping duties?
   a. Conserving foreign exchange
   b. Protecting domestic industries from cheap imported goods
   c. Protecting jobs
   d. Protecting consumers
   e. Protecting foreign companies that have invested in domestic country.

4. "The developed countries dominate the global FDI outflows, although not to the same extent as FDI inflows" — State (a) True or (b) False

5. Which of the following about the definition of a political economy is untrue?
   a. A country's political economy refers to the political, legal and economic systems.
   b. Political, legal and economic systems are interdependent and interact with each other.
   c. A country's political system has major implications for international business.
   d. Differences in political economy between nations are a negligent factor in inflow of FDIs to countries.
   e. None of the above.

2.7 Country Risk Analysis

Uncertainty in international business cannot be eliminated but can be managed by transforming it into a planned uncertainty. This can be done by gauging an economy's risk-return matrix when making investments[6]. Country risks refer to the set of risks associated with investing in a foreign country. Just as corporations receive credit ratings, countries also receive ratings from rating organizations like Moody's and Standard and Poor's and other large rating agencies. This rating is computed after considering the political and economic risks associated with doing business in a country. The various factors that could cause political and economic instability are discussed here.

2.7.1 Political Instability and Risks

Causes of Instability:

Businesses can do well only when the political environment is stable. Not many businesses are interested in doing business in Pakistan, Iraq or Afghanistan because of the internal turmoil and unrest there.

The following are the main reasons for political instability:

- **Certain forms of government** like dictatorship seem to be inherently unstable. Pakistan which has been ruled by dictators most of the time since independence has periodical trysts with democracy. Since democracy is not deep rooted in the country, the threat to democratically elected governments looms large and political instability persists in the country. Changes in government also results in political instability. In the year 1977, post emergency, when the Janata Government came to power in India, there was political instability because the ruling coalition did not have a majority in Parliament.

[6] David Conklin, "Analyzing and Managing Country Risks", IVEY Business Journal, January/February 2002 Issue.

- **Extreme nationalism:** The late 1970s (the period during which the Janata Government was in power) in India is considered as a period of extreme nationalism (Be Indian Buy Indian) and foreign companies like IBM, Coco Cola and Quaker Oats were forced to leave India.
- **Animosity towards specific countries:** In the past, US attack on Iraq led to countries like Saudi Arabia and France adopting an anti-US attitude. The uneasy relationship between India and China (Arunachal Pradesh border issue) and India and Pakistan (Kashmir issue) is a matter of concern for investors.
- **Trade disputes:** Trade disputes relate to disputes on agreements relating to trade. Developing countries view countries like the US and the UK as unyielding and stubborn on the issue of agricultural subsidies. Most of the developing countries have been slow to legislate and enact patent laws providing for product patent. Pharma majors like Novartis and Pfizer are apprehensive about getting into patent disputes in countries which do not have stringent patent laws in place.

Political instability is a major risk for investors. Sudden changes in governments leading to change in laws, etc., could lead to business losses for investors. Certain adverse decisions taken by host government could result in closure of businesses. Understanding the impact of political decisions on business in a global economy is vital to the commercial viability of a company. Given below is a list of such decisions.

- **Confiscation:** Confiscation amounts to seizure of property, assets and organizations without giving compensation. After Fidel Castro came to power in Cuba, properties of foreign nationals and assets of foreign companies were seized and no compensation was given in return.
- **Expropriation:** Under expropriation, host government nationalizes foreign companies and seizes assets but compensates either fully or partially. During the whole of 1970s, India saw a number of private and foreign companies being nationalized. Between 1974 and 1976, the Government of India acquired the assets of Burmah Shell, ESSO and Caltex. This acquisition resulted in the institution of Hindustan Petroleum Corporation Ltd. and Bharat Petroleum Corporation and the entire oil industry in India was brought under government control.
- **Dilution of equity control:** Through this mode, a host government may fix an upper limit on foreign equity participation. In the 1970s, the Indian Government through Foreign Exchange Regulation Act (FERA) put a cap on foreign equity participation to 40%. As a result of this equity control, IBM had to leave India, ITC diversified its business and increased equity base and Colgate Palmolive became an Indian company by reducing foreign equity to less than 40%. However, since 2016, many flexibility has been provided to

foreign investors. As per the modifications to FEMA (Foreign Exchange Management Act) made by the Reserve Bank of India in 2016, 100% foreign investment is permitted under the eligible ‘automatic route’[7].

Example: Country Risk Analysis -China

Multinational companies from the Western World invested heavily in China to take advantage of the huge Chinese market and the country’s manufacturing prowess. While these companies reaped the benefits from Chinese investment, they were cognizant of the potential business risks on account of intellectual property theft, corruption, and other ethical issues.

The country risk factors that international businesses faced primarily originate from China not being a democracy. As the country grew richer, the ruling CCP (Chinese Communist Party), instead of becoming more democratic, became more aggressive to assert itself politically. United States and other European countries perceived an aggressive China as a threat as it is yet to embrace the liberal international order advocated by these countries. The growing influence of the CCP over businesses and certain other regressive policies posed ethical risks to MNCs who were very careful in projecting a liberal, all-inclusive image. China’s evolving banking system, business regulations, and weak judicial system made it too difficult for businesses to enforce contracts. To sum up, international businesses felt that China’s business environment in the Covid and post-covid era was getting more complex and challenging.

Sources: Seth D Kaplan, “How to Navigate the Ethical Risks of Doing Business in China”, 26/01/2022

i) https://hbr.org/2022/01/how-to-navigate-the-ethical-risks-of-doing-business-in-china

ii) https://asialinkbusiness.com.au/china/conducting-business-in-china/risks-of-doing-business-in-china?doNothing=1, Accessed on 04.09.22

Activity 2.2

Make a list of any 5 countries that are politically unstable. What are the reasons for political instability in these countries? Also state whether the instability is of a short term or long term nature. Check the ratings given by international rating organizations like Moody’s and Standard and Poor’s to these countries.

[7] FDI can enter India without prior approval from the Government of India or Reserve Bank of India.

2.7.2 Economic Risks

Economic risks are more in a country that is mismanaged. Economic risks can be precipitated by host governments when restraints are imposed on business activities to protect infant industries, conserve foreign exchange or to retaliate against unfair trade practices. The following are the economic risks faced by foreign businesses.

- **Fluctuation in rate of foreign exchange:** Unpredictable changes in the foreign exchange rates may lead to financial losses in the case of transactions for which commitments have already been made. Three types of risks can be faced on account of fluctuations in foreign exchange rates.
    a. **Transaction exposure:** Sale and purchase of goods at previously agreed foreign exchange rates (when exchange rates change unfavorably) can lead to financial losses in that particular transaction.
    b. **Translation exposure:** When currency fluctuations occur and are persistent, the company may report losses and thus the impact is reflected in the financial statements (profit and loss) of the company. The total quantity of goods sold may be the same, but because of volatility of exchange rates, higher profits or losses may be reflected in the financial statement.
    c. **Economic exposure:** If the exchange rate fluctuations are considerable and the decline in exchange rate is persistent and of long term nature, even the country's earning power can get affected.
- **Controls on capital movement** stamped by the host government due to adverse balance of payment situation.
- **Restricting imports:** Quotas on imports or increase in tariffs could make imported goods uncompetitive.
- **Tax issues:** Changes in tax rates, uncertain and ambiguous tax laws could also pose risks to foreign companies. Vodafone was involved in a tax dispute with the Indian Government because of retroactive changing of the tax laws. It was felt that changing rules retroactively is not conducive to profitable business because it reduces the predictability of transactions.
- **Price controls:** Pharmaceutical companies and oil companies face this problem. Certain medicines and drugs may be subject to price control and thus these companies may suffer financial losses.
- **Labor problems:** It is difficult to do business in countries which have leftist inclinations because of the support labor groups get from political parties. In India, foreign companies like Suzuki, Toyota, Mittal Steel and Wal-Mart have faced labor problems in the past.

2.8 Minimizing Environmental Risk

From the previous section (Country Risk Analysis) you would have understood how vulnerable businesses are to various political and economic risks. Weighing the risks involved while doing business globally by a firm is essential for determining the potential returns. It also helps the marketer strategize his expansion plans. Political risks can range from widespread destruction to those of a more financial nature such as change of laws (tax laws, investment laws, foreign exchange restrictions, etc.). There are two types of political risks: macro risks and micro risks. Macro risk refers to adverse actions like confiscation or expropriation (almost all foreign companies got affected due to action taken by Fidel Castro in Cuba) that affect all organizations. Micro risks affect individual companies (e.g. Vodafone tax dispute in India).

2.8.1 Minimizing Political Risks and Vulnerability

All organizations interested in doing business in international markets need to research and assess the risk associated with doing business in a country. The country ratings given by neutral rating agencies could be useful in this regard. A company can take certain pre-emptive measures and other damage control measures after the crisis strikes. Some of them could be thus:

- Businesses need to act in a socially responsible way and avoid negative publicity. Being non-controversial would ensure that political vote banks or other strong local groups do not feel threatened. In addition, it is important that MNCs communicate to the host government and public regarding the contributions made by them to economic, social and human development of the host country.
- MNCs that have production facilities should increase exports from their production base in the host country and also reduce imports. The foreign exchange earned in this process would keep them in the good books of local governments (BOP benefit).
- MNCs should reduce imports and use locally produced resources (localization) to minimize outflow of foreign exchange for the host government.
- Emerging economies that welcome FDI also expect certain other benefits like transfer of technology and skills, creation of jobs, tax contributions, etc.
- Corporate philanthropy (like CSR activities) is yet another way to enter the hearts of the local population. Cisco runs networking academies to train students in computer networks, globally. Unilever runs Missionaries of Charity in Bangladesh.
- Joint ventures with a local partner help foreign businesses to overcome political, legal and economic challenges and risks.

- Expansion of investment base through public offer of shares or having several investors, including banks, helps spread financial risks.
- MNCs and foreign companies should also look at localization in a planned and phased manner. MNCs like Hindustan Lever, Colgate Palmolive have become household names in India and are perceived as Indian companies.

Example: China: How Businesses can Minimize Political and Ethical Risks

China, as a country, posed greater challenges and risks (political, legal, and ethical) in the covid and post-covid era for international businesses. China's human rights record on violation of Uighur Muslims was a matter of concern for businesses that value human rights. China's evolving banking and taxation and legal system need to be understood well. Given these risks, international businesses took certain precautionary measures and considered certain strategies for adoption.

Country Risk Minimization Strategies

Companies that face ethical and political risks in China followed one of the following strategies: Withdraw, Continue and Contain, Operate with Opposition and Support China's Standards.

Companies like Google, Yahoo that value freedom of expression, withdrew from the country. When the Chinese Government introduced a new set of data management rules, Yahoo, Microsoft's LinkedIn left the country because of greater compliance requirements and challenging operating environment.

Companies like Disney, which are bullish about China, continued to operate by minimizing their risk exposure and by avoiding the attention of Western media and activists and the Chinese Government.

There are other companies that support Chinese Standards to be in the good books of the Chinese Government.

Chinese banking system, legal system and tax laws were difficult to understand for foreign businesses. Businesses must therefore improve due diligence Chinese investments. Various alternatives were considered and those projects that have minimum exposure to risk were chosen. International businesses minimized risks by choosing the right partners and having local experts to give advice on legal, insurance and taxation matters.

Source: Seth D Kaplan, "How to Navigate the Ethical Risks of Doing Business in China", 26/01/2022

i) https://hbr.org/2022/01/how-to-navigate-the-ethical-risks-of-doing-business-in-china

ii) https://asialinkbusiness.com.au/china/conducting-business-in-china/risks-of-doing-business-in-china?doNothing=1, Accessed on 04.09.22

2.8.2 Overcoming Foreign Exchange Risks

Companies can resort to the following measures to overcome foreign exchange risks and problems:

- **Hedging:** A firm that insures against foreign exchange risks is hedging.
- **Forward Exchange Rate:** Two parties agree to enter into transaction at a specific rate on a future date. Thus, the risks on account of fluctuations of currency rates are avoided.
- **Swapping:** It refers to simultaneous purchase and sale of a given amount of foreign exchange for two different values. Here, any increase or decrease in the value of currency is offset.
- **Voluntary Export Restraint:** Here, the exporting country voluntarily restricts the exports to avoid action by the local government. In the 1980s, Japan started restricting its automobile exports to the US as the local automobile industry in the US was reeling from Japanese competition.
- **Strategic tie-ups with influential agents:** In India, it is common for foreign companies to use agents to get defense contracts and infrastructure projects.

Check Your Progress - 2

6. Which of the following is **not true** about emerging economies?
   a. The average size of the family has been consistently falling.
   b. Population may increase but the birth rate is falling.
   c. Emerging economies are also hot destinations of FDI.
   d. Emerging economies like India are also dominant sources of FDI.
   e. All of the above.
7. Which of the following affects consistency in policies leading to political and economic instability?
   a. Pressure from nationalist and self-interest groups
   b. Changes in government/coalition dynamics
   c. Ambiguity in interpretation of laws
   d. Conflict between central planners and pro-reform polity in bureaucracy
   e. a, b, c, and d

8 Which of these is a characteristic of extreme nationalism that could be an obstacle to free trade?
   a. Anti-foreign business bias
   b. Be Indian buy Indian
   c. Restrictions on participation of foreign equity
   d. a, b and c
   e. b and c only

9. Which of the following purposes serve Microsoft's $100 million investment in technology/training in Mexico to put government services online?
   a. Microsoft wants to increase its investment in Mexico
   b. Microsoft's gesture of corporate philanthropy is to reduce political vulnerability in a foreign country
   c. Microsoft wants to compete with other companies in Mexico
   d. Microsoft sets aside some money to help governments in foreign countries
   e. Microsoft wants to increase its investment in Mexico and compete with domestic companies in Mexico
10. Economies are ranked on their ease of doing business, from 1–190. India's position for 2020 is 63 from 130 in 2016. Which of the following is a reason for India's improvement?
   a. Difficulty faced in starting a business
   b. Enhanced overall competitiveness
   c. Getting electricity
   d. Enforcing contracts
   e. Tax laws and the uncertainty associated with it

2.9 Summary

- International Business Environment can be described as the business landscape in a country due to the differences in the economic, political, legal, social, cultural, and technological environment.
- Economic environment determines the country's attractiveness for foreign businesses. The GDP, per capita income, economic growth rate, the demand level, investment climate, productivity, economic efficiency, and economic policies determine the business attractiveness of a country.
- Countries like China, India and other emerging economies are hot destinations for FDI and FII because of their economic growth potential.
- Political environment in countries needs to be stable and free of uncertainties to be attractive for foreign businesses. The legislation, rules and regulations under which a foreign firm has to operate constitute the political climate.
- The influence of social systems like family, religion and cultural aspects like beliefs, values, morals, laws, customs, and habits shape markets and the marketing environment by influencing what people consume, how much they spend and their buying habits.
- The world is getting more interconnected and cultural imagery flows freely across borders. Notwithstanding all these developments, companies that ignore cultural differences do so at their own peril.

- Business environment as represented by the economic, political, legal, technological, social, and cultural environment differs from country to country. Business environment is dynamic. The changes in the environment throw up opportunities, but at the same time create uncertainty and risks.
- Political instability and economic uncertainty and sudden unexpected developments in the environment result in financial losses for the organization doing business overseas.
- Rating agencies help assess the risk (country risk) associated with doing business in a specific country. A firm can take pre-emptive measures to avert risk or minimize risks.

2.10 Glossary

Common Market: A group of countries that agree to have a common external trade policy.

Economic Risks: The likelihood of financial losses due to drastic changes in the economic environment including mismanagement of the economy by the local government.

Floating Exchange Rate: A system under which the exchange rate for converting one currency with that of another is determined based on the market laws of demand and supply.

Free Trade Area: A designated geographic region wherein goods move freely without any trade restrictions due to agreements entered into by member countries.

Free Trade: Absence of barriers like high tariffs and quotas, facilitating free flow of goods and services.

Import Quota: A direct restriction on the maximum limit of imports of a specific commodity from foreign countries.

Infant Industry Argument: The argument purported by developing economies that new industries need to be protected from competition till such time they reach a position to compete with their counterparts in developed countries.

Local Content Requirement: A requirement because of which a foreign company or MNC needs to produce a fraction of a good domestically.

Subsidy: Financial assistance provided by the government to a domestic producer.

Transaction Exposure: The risk of facing financial losses in a transaction (export/import or borrowings) due to fluctuations in foreign exchange rates.

Translation Exposure: The impact of fluctuations in foreign exchange rates on the financial statements of a company: profit and loss statement and balance sheet.

Voluntary Export Restraint: The exporting country voluntarily restricts the exports to avoid action by local government.

2.11 Self-Assessment Test

1. Enumerate the various types of political systems prevalent in nations and which one do you think best promotes free trade. Identify at least two nations which have dictatorship, but have promoted free trade.
2. How can joint ventures with local companies reduce political vulnerability? Give two examples in the Indian context.
3. An Indian textile company wants to sell its products in Ceylon. Do a PESTLE study for Ceylon to assess Ceylon as an attractive destination for doing business.
4. China has a Communist (political system) form of government. It has been much more successful than India (which has democracy) in promoting reforms and free market economy. What are the reasons? Do you think democracy is a stumbling block in promoting reforms?
5. India is a transition economy, which means India is in the process of positioning itself as a free market economy that is open to Foreign Direct Investment. What do you think are the advantages for India and foreign businesses because of India's changed economic policy?

2.12 Suggested Readings / Reference Material

1. J. Daniels, L. Radebaugh, and D. Sullivan, "*International Business: Environment and Operations"*, 17th Edition, Pearson, 2021.
2. Masaaki (Mike) Kotabe, Kristiaan Helsen and Prateek Maheshwari, "International Marketing 8e (An Indian Adaptation)", Wiley India Pvt Ltd, 2021.
3. Cateora, P.R., Money, R. B., Gilly, M.C. and Graham, J.L., "International Marketing", McGraw-Hill, 18th Edition, 2019.
4. Keegan, W.J., "Global Marketing Management", Pearson Education; Eighth edition, 2017.

2.13 Answers to Check Your Progress Questions

1. (d) Local content requirement

A requirement because of which a foreign company or MNC needs to produce a fraction of a good domestically.

2. (b) Protecting infant industries

The option b, 'Protecting infant industries' is an economic argument. All other reasons stated are political reasons.

3. (b) Protecting domestic industries from cheap imported goods

Dumping is where an exporting country sells goods at prices below cost of production or the domestic price. From the imported country's perspective, this is a matter of concern because the products of domestic industries would become uncompetitive and they would lose out. Hence, all over the world, countries oppose dumping by levying anti-dumping duties. This action increases the price of imported goods. There is a grievance that China sells its products cheap in other countries to gain export markets.

4. (b) False

Yes, the developed countries are both sources of FDI and also destinations of FDI. However, in recent times, emerging economies like India and China are hot destinations of FDI because of their high growth rates and high growth potential. Thus, the dominance of developed economies as recipients of FDI is correct, but the magnitude of dominance is coming down. On the other hand, the dominance of developed countries as sources of FDI is absolute.

5. (d) Differences in political economy between nations are a negligent factor in inflow of FDIs to countries

Option d is the right answer. Options a, b and c are true and they fit into the definition of political economy. Option d, which states that differences in political economy is a negligent factor in determining international marketing decisions is untrue.

6. (d) Emerging economies like India are also dominant sources of FDI

Option d is the right answer. All other statements, a, b and c are true. However, emerging economies are not dominant sources of FDI. They are, in recent times, hot destinations of FDI.

7. (e) a, b, c, and d

All the four options (pressure from nationalist and self-interest groups, changes in government/coalition dynamics, ambiguity in interpretation of laws, and conflict between central planners and pro-reform polity in bureaucracy) could affect continuity in economic and political policies and lead to instability.

8. (d) a, b and c

Militant nationalism is that political philosophy where a national government is biased towards foreign businesses, because it believes in patronizing only domestic businesses (Be Indian Buy Indian) and therefore restricts entry of foreign businesses (upper limit on foreign equity participation).

9. (b) Microsoft's gesture of corporate philanthropy is to reduce political vulnerability in a foreign country

Microsoft's $100 million investment is a gesture of corporate philanthropy to reduce political vulnerability.

10. (b) Enhanced overall competitiveness

All the other options (difficulty in starting business, getting electricity connection, enforcing contracts, ambiguous tax laws) are reasons for India's low rank. Option b, enhancing competitiveness, is a valid reason for the improved rank.

Unit 3

International Consumer Behavior

Structure

"We are witnessing a seismic change in consumer behaviour. That change is being brought about by technology and the access people have to information."

- Howard Schultz, Former CEO of Starbucks (1986-2000, 2008-17)

3.1 Introduction

Howard Schultz through this quote indicates how technology has empowered customers by giving them unlimited access to information. Information has increased customer expectations and has given them greater control.

Consumer Behavior can be defined as the process and activities people engage in when searching for, selecting, purchasing, using, evaluating, and disposing of products and services so as to satisfy their needs and wants. The world has become a consumers' world due to the free flow of goods and services across countries. Multinational companies are showing greater interest in understanding consumer behavior across countries. The changes in consumer behavior are also driving massive growth in market size across industries and countries. It is not only the businesses that grow as a result of changing consumer behavior but also the global economy. International consumer behavior tries to answer a fundamental question, i.e. what do changes in consumer behavior mean for the global economy as a whole, and can higher growth be stimulated by greater understanding of these changes?

"How is consumer behavior changing?" Consider just a few examples: the professor in Stockholm who checks her email before bed and, when she finds an invitation to a conference in London, immediately goes online to buy airline tickets from a travel site; the young tech worker who gets his first job in Silicon Valley, sells his beat-up old car and then signs up for a car-sharing service for those times when he needs personal wheels; or the mother in São Paulo who chooses a particular brand of paper products for her family because they were produced with sustainable methods.

International consumer behavior examines how consumers cope with different socioeconomic and cultural conditions and how that affects the way they participate in the global marketplace. It examines the changes needed in market practices in response to a changing global and digital marketplace.

3.2 Objectives

After reading through this unit, you should be able to:

- Recall the concept and characteristics that shape Consumer Behavior while handling international consumers
- Compare and contrast the trends in consumer behaviour in different countries to penetrate and establish the firm and product in the foreign market
- Cite examples to describe the importance of cross-culture in influencing consumer behavior
- Examine the process of product diffusion across countries to tap a wider customer base
- Analyze the online shopping behavior of consumers in the digital era to cater to the needs of tech-savvy generation.

3.3 Assessing Consumer Behavior

Multinational companies spend huge amount of money on market research to assess consumer behavior across countries. Consumer behavior is more dynamic because demographic and economic shifts across countries are changing radically. On the one hand the ageing consumers look for stabilized global brands while on the other the younger and tech-savvy younger consumers feel comfortable operating online.

3.3.1 Forces Influencing Consumer Behavior

Successful companies comprehend the attitude and behavior of consumers better than the competitors using their own R & D or engaging third party industry observers which go a long way in enabling them succeed in business. They look at consumer behavior from a different perspective. They go beyond an understanding of 'who' is consuming and 'where' they are consuming. These companies focus not only on 'who and where' but also on 'how and why' of consumption. The two additional forces such as digital technology and attitudinal changes have influenced the consumers of yesteryears to consume in a different way. Those consumers were influenced by the onset of digital marketing attempts by the emerging marketers. The consumers have taken a new avatar after the digital revolution and there are changes in consumer motivations for consumption.

Today's consumers are well-informed than in the past, with unprecedented access to products and services through new methods of consumption. At the same time, today's consumers differ from their predecessors in their motivation to consume. They make buying choices not only to improve their material welfare but also their physical and mental well-being, and they are more interconnected with the lives of others. Consumers may exhibit different buying behaviors across countries based on the impact of digital connectivity and attitude towards product and service usage. Table 3.1 displays various forces that influence consumer behavior.

Table 3.1: Forces Influencing Consumer Behavior

Economic	Increase in the growth of the middle class	Change in 'who' are consuming and 'where' consumption is taking place
	Eastern and Southern countries consuming more	
Demographic	Population in Western and European countries aging	
	Young population below 15 are more in Asia	
Technology	Digital connectivity	Change in 'how' we consume and 'why' we consume
	Well-informed, better-informed customers	
Ideology	Change in customer attitude	
	Looking for meaning in consumption	
	Motivation for consumption	

Today's consumer behavior is shaped by 'how' and 'why' of consumption

Source: The ICFAI Research Center

Example: Ideology-Centered Viewership of (YouTube) Video-Based Political News

An increasing section of the population are turning to News-based-YouTube channels to know more about what is going on in the nation and the world.

YouTube was rated as the largest and one of the most engaging video-based online media consumption platforms in the world. Over 2 billion users (2021) all over the world rely on YouTube channels for news consumption. Based on ideology, YouTube News Channel subscribers of the Western countries were classified as “far-right”, “Left”, “Woke”, Anti-Woke” etc.

In India too, user preference of channels depended on their affiliation to various political ideologies. Ideologies such as “Nationalism”, “Secularism” and affiliation to political parties were the factors that impacted user preference.

Every news-based channel claimed to be objective in reporting and analyzing news. However, the tilt towards a particular ideology and user preference based on such ideological leanings cannot be denied.

Source: Homa Hosseinmardi, Amir Ghasemian, Aaron Clauset, Duncan J Watts. “Examining the consumption of radical content on YouTube”, PNAS (Proceedings of the National Academy of Sciences of the United States of America), Volume 118/No.32, 2/08/2021

https://www.pnas.org/doi/10.1073/pnas.2101967118 Accessed on 6/9/2022.

3.3.2 Types of Consumer Behavior Based on Consumer Attitude

Global companies find a greater opportunity in today’s consumption patterns across the world. Companies across the globe have to understand the changing patterns of consumption across countries to better exploit the emerging opportunities. The consumers across countries display ten types of behaviors while making buying decisions. The ten types of attitudinal changes in consumer behavior at global level are explained in Table 3.2.

Table 3.2: Types of Consumer Behavior

Individual Consumer	They constitute 40% and buy products which express their individual personality.
Experiential Consumer	They constitute 38% and seek unique experiences by adventurous events and share with friends.
Resourceful Consumer	About 35% consumers are resourceful and very shrewd with money. They work hard to get ahead in life.
Disconnected consumer	They constitute 20% of the total consumers who switch off from the noise of modern life.
Connected Consumer	Nearly 73% consumers are connected consumers who use internet to research or purchase products and services.

Contd….

Social Consumer	Around 53% consumers who use social media to interact with friends and family and consult them to make purchase decision.
Co-productive consumer	Consumers who participate in product-design and offer data to companies in product development. They constitute 30%.
Minimalist consumer	Consumers who buy second hand products or rented products. They are 25% of total consumers.
Communal Consumer	About 47% consumers prefer responsible production and consumption. They participate in society and improve their health.
Conscientious Consumer	Consumers who buy environmental-friendly products and prefer local goods. They are 51% of total consumers.

*Compiled from various sources by ICFAI Research Cente**r***

Activity 3.1
Present a few brands that you have bought so far which you think reflected your personality as a consumer. Also explain how those brands matched with your lifestyle.

3.3.3 International Consumer Behavior Trends

During Wall Street Journal CFO summit in 2021, McKinsey & Company partner Kelsey Robinson spoke with WSJ's advertising editor Suzanne Vranica about the tectonic shifts reshaping the consumer landscape. Major shifts in consumer bahavior were found[8]:

1. Consumer spending revving up: There is an acceleration in discretionary spending, particularly on home furnishings.
2. E-commerce accelerates to a next horizon: Credit and debit card data revealed a nearly 20 percent increase in online spending since January 2020. The digital future is here to stay. E-commerce also redefined convenience, with even traditionally tactile shopping experiences such as grocery shopping enjoying a notable surge.

[8] https://www.mckinsey.com/capabilities/growth-marketing-and-sales/our-insights/emerging-consumer-trends-in-a-post-covid-19-world, 2021 (Acessed on December 7th 2022)

3. The shattering of brand loyalty: The pandemic ushered in an unprecedented level of channel switching and brand loyalty disruption. A whopping 75 percent of consumers tried new shopping behaviors, with many of them citing convenience and value. Fully 39 percent of them, mainly Gen Z and millennials, deserted trusted brands for new ones. That restlessness is reflected in the fact that many younger consumers say that they are still searching for brands that reflect their values.

The growth in market size is different across various consumer behavior groups. For example, the ten different types of consumers create a different market size based on their consumption habits.

3.3.4 Consumer Behavior Trends in Emerging Markets

Companies that are operating in emerging markets such as BRICS (Brazil, Russia, India, China, South Africa), and other emerging nations of Indonesia, and Turkey are positive about their market growth and expansion based on changes in consumer behavior. Companies have been investing more in emerging markets in the areas of technology and research to understand customers, customer-facing activities, etc. Executives find greater opportunity in emerging markets in terms of market size compared to the developed markets such as United States, United Kingdom, Japan, Germany, France, etc., with the changes in consumer behavior. Consumers in emerging markets exhibit different consumption patterns when compared to the consumers in developed markets. Consumers in emerging markets are becoming more individualistic, social, communal, and conscientious. The consumers in BRICS and in Indonesian and Turkey markets are becoming more sensitive to the environment. They have become conscientious in purchasing environmental-friendly products. They are also displaying an adjustable behavior to accommodate other’s priorities. The emerging market consumers are also exhibiting individualistic behavior while purchasing products to express their distinct personality. The consumers have also become more social by using internet and social media while interacting with companies, friends and family members.

3.3.5 Consumer Behavior Trends in Developed Markets

Developed markets are experiencing a slower market growth due to recession and financial meltdown. Studies on global consumer behavior suggest that consumers in developed markets exhibit different types of behavior while purchasing products and services. These consumers are more connected, resourceful and conscientious. The consumers in developed markets are more ‘connected’ because they are technically advanced and use internet to research products and services. The consumers in developed markets are more ‘resourceful’ because they choose to repair, refurbish, resell, and exchange products very frequently. The consumers in developed markets also exhibit ‘conscientious’ consumer behavior. The consumers in developed countries are more concerned about local products and wanted to buy from local producers.

Companies can be successful in both emerging and developed markets if they understand multicultural influence on consumer behavior. Companies need to have an adaptive mindset to meet the ever-changing consumer expectations across countries.

3.4 Cross-Cultural Consumer Behavior

International marketers need to understand that, to satisfy the needs of consumers effectively, they must learn to understand the differences and similarities between the peoples of the countries they are targeting (Schiffman and Kanuk, 2007). Any product introduced in a foreign market has to be made to fit the preferences of specific attitudes of the foreign consumer (Schiffman and Kanuk, 2007). Cross-cultural marketing is defined as the effort to determine - to what extent the consumers of two or more nations are similar or different. This will facilitate marketers to understand the psychological, social and cultural aspects of foreign consumers they wish to target, so as to design effective marketing strategies for each of the specific national markets involved.

3.4.1 Country-of-Origin Effects

For many years, Chevrolet has promoted its vehicles by using the slogan “see the USA in your Chevrolet” indicating that the brand is associated with the USA. Consumers associate a brand with its country of origin; therefore, Volkswagen is associated with Germany, Coca Cola with the USA, Land-Rover with the UK, and so on. Consumers tend to have a preference towards a product based on the country of its origin when it comes to making purchase decisions. In one study, it was found that country-of-origin has three forms: Country-of-Design (COD), Country-of-Assembly (COA) and Country-of-Parts (COP). When the consumer evaluates the product for making purchase decisions, it was found that, of all the three, Countries-of-Parts (COP) had the strongest influence.

3.4.2 Global Versus Local Multinational Strategies

National or international players use either global or local marketing strategies to reach the consumers across different cultures. Different companies use different ways to reach the consumers across countries.

In a similar manner, symbols are a part of cross-cultural communication and they signify many aspects in many countries. In many Western countries green connotes nature and luck while in Indonesia, green is forbidden. In India red symbolizes danger while the western world looks upon it as a color of passion and energy. Carlsberg beer marketer has two elephants as its symbol in the rest of the world, but two elephants are a symbol of bad luck in many parts of Africa. This forced Carlsberg to add a third elephant to its label for Elephant Beer. A moon appears frequently in Chinese ads because it is a traditional symbol of good luck in that country.

― Americans prefer sweeter ketchup, Europeans a spicier variety, and Central Europe and Sweden prefer curry-flavored ketchup.

Example: Understanding Consumer Behavior in India

India was one of the top destinations for FDI because of the country's huge market potential, political stability, skilled workforce, and policy reforms of the Government. Multinational and foreign companies that plan to enter India need to understand the Indian customer to succeed.

Indians, who were known for their high level of savings, began to increase their spending levels gradually. Over 50% of the households belonged to the middle-income as of 2020. The middle-income households which were likely to increase to 80% of the total households by 2030, was expected to drive consumer spending.

Access to credit was high but household debt continued to be low for an emerging market. While Indian millennials valued home ownership and investments, their spending priorities as compared to the previous generation held promise for MNCs. 62% of Indian millennials go on holidays 2.5 times a year, even if they need to finance their trips through borrowing.

Value for money was an important factor that impacted purchase decisions. Indian consumers were well informed, and they looked for a good deal on all purchases including purchase of luxury products.

With 29 states and seven union territories, India was home to many languages, traditions, and cultures and hence defining the target audience and marketing in diverse regions can be daunting for MNCs.

Source: "Understanding Consumer Behaviour in India", World Bank Report

https://www.wordbank.com/us/blog/market-insights/consumer-behavior-in-india/#:~ :text=India%20is%20known%20as%20a,buying%20more%20and%20buying%20better., January 2020 Accessed on 6/09/2022

Check Your Progress - 1

1. Today's consumer behavior is shaped by which of the following?
   i. Who (are consuming)
   ii. Where (consumption is taking place)
   iii. How (are we consuming)
   iv. Why (are we consuming)
   a. i, iii
   b. ii, iii
   c. i, iv
   d. ii, iv
   e. iii, iv

2. Which of the following type of consumers consume second hand or rented products?
   a. Social consumer
   b. Minimalist consumer
   c. Communal consumer
   d. Conscientious consumer
   e. Connected consumer
3. A conscientious consumer displays which of the following consumption behavior?
   a. Buys products that express individual personality
   b. Seeks unique experiences from products
   c. Uses internet to research or purchase products
   d. Buys environmental-friendly products
   e. Buys second hand or rented products
4. Indian companies have to understand American cultural values while developing products for American consumers. Which of the following describe American consumers?
   a. Individual achievement
   b. Group decision
   c. Physical modesty
   d. Slow response
   e. Living each day as it comes
5. Why was Pepsodent toothpaste a failure in Southeast Asian countries?
   a. Product was priced very high
   b. Packaging was not attractive
   c. Stained teeth is a sign of social prestige
   d. Promised whiteness of teeth that never happened
   e. Southeast Asian countries banned Pepsodent for unethical practices

3.5 Consumer and Diffusion of Innovation

Diffusion of Innovation explains how an innovation reaches the consumer and reasons for its acceptance or rejection by them. There is a strong relationship between diffusion of innovation and consumer values. Investigating such relationships helps a marketer in estimating the adoption of an innovative product by global consumers[9]. Diffusion is 'the process by which an innovation is

[9] Adapted from Vaccaro, Valerie L. et al., "Diffusion of innovation, marketing strategies and global customer values for high technology products", International Journal of Business Strategy, published by International Academy of Business and Economics, Vol. 10, Issue 3, 2010.

communicated through certain channels over time among members of a social system'. The diffusion process, therefore, explains the ways in which an innovation reaches a wide consumer base.

3.5.1 How Does Diffusion of an Innovation Take Place?

The Diffusion of Innovation refers to the rate at which new products, practices, or ideas spread among people. Usually, when new products or ideas come about, they are only adopted by a small group of people initially; later, the innovative ideas present in the product or the service spread to other people. Seeking opinion physically or virtually through digital media could be either from a friend or a family member or from peer group. For instance, when a family decides that they need a new microwave oven for their home, they enquire with the neighbors regarding the brands and usage. Another way of gaining opinion is when a person shows a few photographs of his recent function at home and one of his cousins suggests that using a different film would give better pictures. During a coffee break, a co-worker talks about the Big Boss series she saw the previous night and recommends watching it.

Word-of-mouth (WOM)/Opinion Leadership process is the best way for diffusion of innovation. With technology doing the rounds through various social media websites, information on purchase decisions through word-of-mouth has gathered momentum. The report also hinted at the growing importance of mobile advertisements that triggered purchase information.

As stated earlier, there are four basic elements of diffusion process:

1. Innovation
2. Channels of Communication
3. Social System
4. Time

Innovation

Sales, to a large extent, are increasingly dependent on new products. Customers are more interested in new products and companies are responding with more new products in the market. New products can be new in several ways. Some conventional notions about a new product are as follows:

a) **Firm-oriented definitions:** When the product is new to the firm it is considered to be new. For example, IBM did not invent the personal computer, but entered after other firms showed the market to have a high potential.

b) **Product-oriented definitions:** Product-oriented approach focuses on the features inherent in the product itself and on the effects these features are likely to have on consumers' established usage patterns. Two types of product innovations could be: i) Discontinuous innovations requiring consumers to adopt new behavior patterns, e.g. TV, fax machines, internet; and ii) Continuous innovation having the least disruptive influence on established patterns involving the introduction of a modified product rather than a totally new product. For example, Band-Aid is an example for continuous innovation.

c) **Market-oriented definitions:**

i. A product is considered new if it has been purchased by a relatively small (fixed) percentage of the potential market.

ii. A product is considered new if it has been on the market for a relatively short (specified) period of time.

d) **Consumer-oriented definitions:** A new product is a product that a potential consumer judges to be new.

Activity 3.2

Comment on any 2 product innovations which, as a consumer, you found to be user- friendly. Also suggest a continuous innovation in any of the products that you are currently using.

The Channels of Communication

How quickly an innovation spreads through a market depends to a great extent on communication between the marketer and consumers, as well as communication among consumers, i.e. word-of-mouth communication.

Consumer information sources fall into four categories:

- **Personal sources:** Family, friends, neighbors, and acquaintances.
- **Commercial sources:** Sales people, advertising, sales promotion techniques.
- **Public sources:** Mass media, consumer rating organizations.
- **Experimental sources:** Demonstration, handling samples.

Depending on the innovation or completely new product, and the prospective customers, the firms try to adopt a cost-effective way of communicating with the customers. Companies communicate the benefits of new products to their customers in different ways. A few of the communications by companies with their customers are given below in Table 3.3.

Table 3.3: Communicating Product Benefits

New Product	Benefit Communicated
1. Vacuum Cleaner (Eureka Forbes)	Compact, easy to use vacuum cleaner to keep home clean and tidy, unique demonstration of the product to seek appointment from the potential consumer
2. Fire Extinguisher (Real Value)	Portable piece of safety equipment ─ fire extinguisher
3. Plastic Water Tank (Sintex)	A convenient low cost alternative to the traditional metal or concrete water tank
4. Utensil Cleaner Cake (Rin cake)	Premixed scouring solution in the form of bar instead of waste prone powder
5. Mosquito Repellent Mat (Good Knight)	A mosquito repellent which has no smoke, no fumes, no ash, no cream, and of course, no mosquitoes
6. Diaper (Huggies)	Drier, more comfortable than cloth, disposable diaper for babies

Compiled from various sources by ICFAI Research Center.

The Social System

The diffusion of a new product usually takes place in a social setting frequently referred to as a social system. For example, shifting towards healthy food habits can happen better with the support of social system. There are two dimensions to influence the social system in the process of new product diffusion: Time and Product characteristics

Time

Time has multiple dimensions in influencing diffusion process. The three important dimensions of time with respect to diffusion are as follows:

a) The amount of purchase time
b) The identification of adopter categories
c) The rate of adoption

Table 3.4 explains the dimension of time in the diffusion process.

Table 3.4: Time and Diffusion

Type of Time	Meaning	Examples
Purchase Time	Time between awareness and purchase	If you look at your car's fuel meter and it reads ─ Empty ─ you stop at the next petrol station you come to

Contd….

Adopter Categories	A classification scheme that indicates where a consumer stands in relation to others when adopting a new product	If you are shopping for your second car, you may take a while to make a purchase, as long as your present car is working fine. Innovators are the first to adopt a new product and laggards are the last
Rate of Adoption	How long it takes a new product or service to be adopted by members of a social system	Black-and-White TVs were adopted by consumers much more quickly than their manufacturers had envisioned; in contrast, trash compactors have never been widely adopted

Compiled from various sources by ICFAI Research Center.

Product Characteristics:

The influence of product characteristics on diffusion is explained as:

1. **Type of group:** The young, affluent and highly educated accept changes faster than the old, traditional and poor groups.
2. **Perceived risk:** The more the risk associated with changing to new innovation, the slower is the rate of diffusion.
3. **Type of decision:** Individual decisions lead to faster diffusion than collective ones.
4. **Marketing effort:** More aggressive marketing effort, consisting of high and continuous advertising expenditure, diffuses faster than otherwise.
5. **Triability:** How easy it is to try the product before making a purchase?
6. **Fulfilment of felt need:** The faster a need is satisfied or fulfilled by a product, the greater is the rate of its diffusion.
7. **Compatibility:** The more the product is compatible with the beliefs, attitudes and values of the individual or group, the faster the diffusion ─ example, Ready-to-Eat vegetable soup for vegetarians.
8. **Relevant advantage:** The advantage could be of price, quality, ease of handling, product quality. Washing machine is expensive, but a labor saving device.
9. **Complexity:** If the product is complex (difficult to understand and use), the diffusion is slower.
10. **Observability:** The more the positive effects of the products can be observed, the more the discussion and faster the diffusion process, e.g. cell phones.

3.5.2 Classification of Adopters

Customers adopt new product at different times. The new product adopters can be classified into five groups based on the time when they adopt.

Innovators: The first 2.5 percent are the innovators and they are considered to be venturesome risk takers. They are more socially mobile, young and educated.

Early Adopters: The next 13.5 per cent take a calculated risk before adopting any new innovation. They are not only opinion leaders but are also concerned about failure along with providing first-hand information about the product.

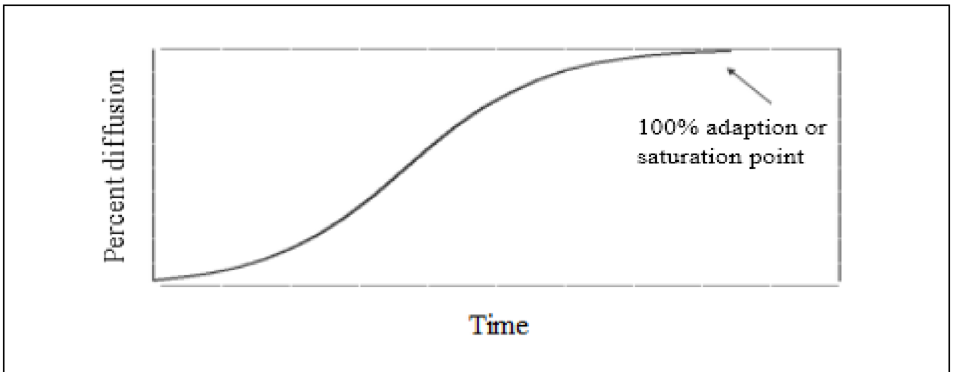
Early Majority: The next 34 per cent are well-educated elders with less social mobility. While taking decisions to purchase, they rely heavily on inter-personal source of information.

Late Majority: The next 34 per cent are very doubtful and skeptical about the innovation of new products before using. In case of late majority, the product usage is not so much because of innovation, but because of social pressures or non-availability of other products.

Laggards: The final 16 per cent are the more traditional. These not only have limited social interaction but accept the innovations with great reluctance and are oriented to the past.

The rate of adoption of a new product is represented by the bell shaped curve, whereas cumulative adoptions are reflected by the S-shaped curve as shown in figure 3.1. The saturation point is the maximum proportion of consumers likely to adopt a product.

Figure 3.1: S-Shaped Curve



Source: The ICFAI Research Center

The rate of adoption of new product is different for different product categories. For example, comparing the adoption of ATM cards with credit cards, it was easy for customers to adopt ATM cards than credit cards. Since the usage of the cards was convenient and was visible to others, adoption was easy. Although some people were concerned about security, the convenience factors seemed to be a decisive factor in the "tug-of-war" for and against adoption. The usage of credit cards was a bit more complicated and involved a "chicken-and-egg" paradox. Both retailers and customers took a long time to understand the importance of credit card. Accepting credit cards was not an attractive option for retailers until they were carried by a large enough number of consumers.

3.5.3 New Product Adoption and Diffusion across Countries

In international marketing, one of the important questions is how fast a new product is likely to be adopted and diffused in various countries. Multinational Corporations (MNCs) are interested in understanding the speed at which the new product is adopted and the rate at which diffusion takes place among various countries in order to develop marketing strategies. The speed of adoption and diffusion also help marketers to forecast sales growth and expected rate of return over the years.

The adoption and diffusion of new products across countries are mostly culture-specific and companies have to understand the cultural background of the nation before introducing new products into a particular country. The same product is adopted differently in different countries and diffusion processes also vary greatly among countries for the same product. The diffusion process also differs among various states or regions in a country; hence, understanding consumer behavior is indispensable for companies in formulating appropriate country-specific strategies to influence customers across countries.

Companies follow various strategies to go international and to make the diffusion faster. For example, companies rely on sprinkler (diffusion) strategy and waterfall strategy to enter into various countries and speed up the diffusion process. They are explained below.

- **Waterfall Strategy:** Waterfall strategy is a market entry strategy where a company spreads its business in international markets sequentially. First, the company focuses on a single country and establishes an identity in that country before moving into another country. For example, Swedish companies focus on waterfall strategy to diffuse their products into various countries sequentially.
- **Sprinkler (Diffusion) Strategy:** Sprinkler is a market entry strategy where a company enters into as many markets as possible in a short span of time. It is a rapid expansion strategy to enter into multiple markets simultaneously.

Example: Diffusion of Innovation of UPI

UPI (United Payment Interface), India's instant real-time payment system, developed by NPCI (National Payment Corporation of India) and launched in 2017, was improving financial inclusion in India at a CAGR (Cumulative annual average growth rate) of over 5%. India's flagship digital payment platform, UPI recorded 6 billion transactions in July 2022.

Contd….

India's Prime Minister Narendra Modi lauded this achievement and attributed it to the collective resolve of the people to embrace new technologies.

The following factors were seen as the driving force behind the speedy diffusion and phenomenal adoption of this innovative product:

- UPI was a game-changer because it enabled users to send and receive money instantly using their mobile phones.
- The trust that UPI created in digital transactions pan-India, both in individuals and in small merchants who are the primary users, was another factor that triggered its adoption.
- The quick response (QR) code, a key feature of this system, better established the authenticity of the payee and addressed security concerns and in the process promoted trust in users.
- Effectiveness and agility were the distinguishing features of UPI that led to its widespread adoption.

The potential and the significance of UPI technology made UPI a defining force of payment-systems in India.

Sources: Sourabh Thukral, Saloni Sachdev, "Protecting UPI, a Jewel among Indian Fintech innovations", Business Line, 8/04/2022,

i) https://www.thehindubusinessline.com/opinion/protecting-upi-a-jewel-among-indian-fintech-innovations/article65302406.ece

ii) https://www.entrepreneur.com/en-in/news-and-trends/upi-transactions-record-6-billion-mark-in-july/432540#:~:text=The%20transactions%20on%20the%20unified,payments%20platform%20since%20its%20inception. Accessed on 6/09/2022

3.6 Consumer Online Shopping Behavior

Internet has changed the way consumers purchase goods. It is imperative for a global marketer to understand consumers' online shopping behavior because they influence the marketing strategy of B2C e-businesses. A consumer displays a distinct type of shopping behavior while purchasing a product or service online when compared to offline. The consumer buying decision follows a series of steps, both online and offline. A basic conceptual model of consumer shopping process follows five steps such as problem recognition, information search, alternative evaluation, purchase decision, and post-purchase evaluation. The five steps can also be grouped into three stages such as:

- Pre-purchase
- Purchase
- Post-purchase

The online shopping behavior of a consumer is discussed below based on the above three stages.

3.6.1 Pre-Purchase

Information is flooded to an online shopper as the marketer understands that customers search for information as a part of pre-purchase process. An online shopper goes through a few steps before making the choice of purchase and these steps include: problem recognition, information search and evaluation of alternatives.

Problem Recognition:

Any external or internal stimulus might trigger the need to make a purchase. The trigger for internal stimuli is similar to an online or offline shopper; however, it differs when it comes to external stimulus. Offline and online advertisements both serve to help stimulate problem recognition or help educate the online shopper regarding the features of the product or service. The online banner advertisement is really good to make the customer realize a latent deprivation which otherwise the consumer will not feel.

When an online shopper is stimulated with a banner advertisement, there is a possibility that this not only triggers primary demand but also secondary demand. For example, a mother of a new born baby wants to have a particular diet which is very nutritious and at the same time low in fat and she finds one such banner advertisement. When she clicks on it to find out how to manage her diet and maintain her health, other websites of marketers of exercising equipment also pop-up. Bizrate.com or Coupons or Slick Deals are a few of the comparison sites which generate secondary demand. Comparison sites are a good source of information not only for comparing two brands but also for reducing risk of trying a new website.

Information Search:

In the 21st century, one thing every customer is really hard pressed for is, time. Because of this, the online retailers are trying very hard to make the online search and purchase extremely simple and pleasurable for customers who use the internet. Traditionally, every consumer had their own evoked set of brands while searching for information, but this is widened by the use of internet with easy availability of information. The mobile apps are very useful for the customers to search information while travelling (not driving) or even watching Television and these apps are free of cost and easy to download and use.

Word-of mouth communication is a great source of information apart from the website. The power of interpersonal influence through word-of-mouth communication has been well recognized in the consumer literature

(Arndt-1967[10]; King and Summer-1970[11]; Herr, Kardes and Kim-1991[12]). With the advent of internet, the consumer influence through word-of-mouth has all the more increased. eWOM (electronic Word-of-Mouth) communication refers to any positive or negative feedback made by potential, actual and former customers about a product or a company via internet (Hennig-Thurau et al. 2004[13]).

Recommender systems or recommendation systems (sometimes replacing ‘system’ with a synonym such as ‘platform’ or ‘engine’) are a subclass of information filtering system that seeks to predict the ‘rating’ or ‘preference’ that users would give to an item. Collaborative filtering and content-based filtering are the two classes that use different types of information sources to provide recommendation. Collaborative filtering is an online prediction of customer profile and buying patterns by collecting information on tastes and preferences of many users. Based on the collected information, prediction is done by collaborating the taste and preference patterns. Amazon.com and Google.com use this process to help the consumer in filtering and recommending the consumer better books or sites. Content-based filtering reduces the drawback of collaborative filtering; here, commendations are based on consumer preferences for product details. From the recommendation system, one thing is evident ─ cost per customer search is really low.

Evaluation of Alternatives:

In the previous section, it was evident that internet has paved the way for information in abundance, but in spite of lots of information for evaluation of alternatives, the consumer depends on electronic recommendation agents called as ‘smart bots’ or ‘shop bots’. If any consumer wishes to pay two wheeler or four wheeler insurance, he visits the Policybazaar.com and gets a real good quote and reduces his insurance cost and gets the best deals.

The Smart Agent Console, a new Console enhancement in service cloud from a tech-based company called Grazitti Interactive, gives the sales agents the tools to connect to each customer regardless of the channel. When a customer contacts an agent, the Console pushes all relevant customer information including a full case history, billing activity, and more. The sales agents are empowered to deliver personalized service in the customer's preferred channel.

[10] Johan Arndt, “Role of Product-Related Conversations in the Diffusion of a New Product”. Journal of Marketing Research, Volume 4, No. 3, 1967, pp. 291–295.

[11] C. W. King, and J. O. Summer, “Overlap of opinion leadership across product categories”. Journal of Marketing Research, 7(1), 1970, 43–50.

[12] Paul M. Herr, Frank R. Kardes, and John Kim, “Effects of word-of-mouth and product-attribute information on persuasion: An accessibility-diagnosticity perspective, Journal of Consumer Research, Volume 17, Issue 4, 1991, pp. 454-462.

[13] Hennig-Thurau, Thorsten, André Marchand, Paul Marx, and Gianfranco Walsh, “Electronic Word-of-Mouth: Consequences of and Motives for Reading Customer Articulations on the Internet., International Journal of Electronic Commerce8 (Winter), 2004, pp. 51-74.

3.6.2 Purchase

Once the customers compare the different options available for purchase, with a click of a button, he or she can straight away purchase the policy online or visit the nearest brick-and-mortar store and buy it. When information search is easy and time saving, a customer intends to buy it online if there is no risk of privacy problems. Most of the online retailers use personalization to make the purchase process more attractive to customers.

Privacy, Security and Trust in Online Purchase

As more and more consumers provide personal details on the internet daily, they are equally concerned about the privacy aspect as well. With the growing volume of internet transaction, privacy concerns of shoppers and vendors have become pronounced.

The privacy issues are not just confined to adults, but are also becoming more important with regard to children who innocently pass on their personal details like even the mobile numbers or postal addresses which are misused by the companies for marketing their products. The result of all the privacy issues is ultimately affecting the sales of websites selling online. The customers either request for removal of their personal details from the websites or provide wrong or incomplete details or avoid buying online all together.

Along with privacy issues, the second most important concern is security in the usage of credit or debit cards for payments. There is a difference in the perception about security issues with regard to gender also. Privacy concerns and prevalent fraudulent practices that are in vogue are the main impediments for inhibiting online shopping. Companies are mostly trying to tackle security issues by using email id and password for most of the online transactions, thereby enhancing the trust factor. The online consumer also has to take sufficient care in making a payment via online portal so that he does not fall a prey to cyber crime.

Browsers Converting into Buyers

Every online retailer has one common challenge, i.e. how to convert online browsers to buyers. An online buyer-conversion model is given by Wendy W. Moe and Peter S. Fader. According to these authors, a customer might not straight away buy online in the first visit but requires several visits to the website before deciding to purchase. The visits are classified as:

- **Directed purchase visits** – Customers visit the site to purchase a product or service.
- **Search-and-deliberation visits** – customers intend to purchase in future and hence are searching information for different options.
- **Hedonic-browsing visits** – Customers are not interested in buying but browse or seek information only for pleasure.
- **Knowledge-building visits** – Customers are only scanning for information and use this for future purchases.

There is another model by Moe and Fader[14] (2004) that helps the online retailers to analyze 'visit and purchase' (converting store visits into purchases) data for a customer to predict the exact visit that will lead to a purchase. With the help of these models, the online retail websites predict what actually induces every browser to make a purchase. So, if the model suggests that one browser has to be induced only through discounts, some incentive in the form of discount is provided to the browser or if the model can predict that the customer will make a purchase in the third visit, he is routed to faster servers to complete the transactions of sale.

Example: UPI: The Great Consumer Shift

McKinsey's research of US consumers in 2020 studied how the Covid pandemic profoundly changed the behavior of the US consumers. Given below were some of the changes that the authors of the study felt would become the new normal and continue to stick in the post-covid era.

- **Digital Shopping:** Due to social distancing and stay-at-home norms, customers got used to buying products online. During the covid pandemic, in 2020 itself in the USA, there was 15% increase in the number of persons who purchased most products online.
- **Millennials and high-income group category customers were leading the way in driving the online shopping trend** for both essential and non-essential products.
- **Brand Switching:** While purchasing online, consumers were exploring and switching between brands like never before.
- **Hygiene Transparency:** As hygiene became an important factor during the covid pandemic, consumers expected companies to be more transparent by publishing information on the hygiene protocols they follow.
- **Focus on essential products:** The average consumer focused on essential products and looked for value for money deals.

The McKinsey Consumer Research Study findings clearly mapped the key online shopping trends that would become the new normal in the post-covid era.

Source: By Tamara Charm, Becca Coggins, Kelsey Robinson, and Jamie Wilkie, "The great consumer shift: Ten charts that show how US shopping behaviour is changing", McKinsey.com, 4/08/2020

https://www.mckinsey.com/business-functions/growth-marketing-and-sales/our-insights/the-great-consumer-shift-ten-charts-that-show-how-us-shopping-behavior-is-changing, Accessed on 6/09/2022

[14] Wendy W. Moe and Peter S. Dader, "Dynamic Conversion Behavior at E-Commerce Sites", Management Science, Volume 50, No.3, March 2004, pp. 326-335.

3.6.3 Post-Purchase Stage

Online customers understand very well that they make a very conscious decision of not selecting one provider because it is just a click away. Thus, the impact of dissatisfying experiences is mitigated while they may feel partly responsible if the chosen service does not fully live up to their expectation. Online shoppers derive better satisfaction as compared to shopping through the offline medium which offers limited pre-consumption interactions with the service provider.

Every online retailer has return policy and many online retailers are emphasizing on this because this will make the customer feel safe and comfortable. Best Buy has gone one step ahead of others in finding a solution to this return of purchased goods by integrating the brick-and-mortar outlet so that a customer who is interested in returning it immediately need not wait for the parcel to be picked up but can go to the nearest retail outlet for the same.

As internet is a self-service channel, the customer experiences more control over the whole process. Almost all the websites have FAQs as a self-service and just by reading, the online customer can understand fundamental things. Transaction-based services are dynamic as the personal details of the consumer like order placing, email id, mobile number, contact address, financial details, and tracing purchases can be retrieved from back-end databases and supplied on request. The internet being a self-service channel, the customers like this only to a certain extent; the online retailer should understand this and adopt ‘co-production’ and should have not just self-service but also customer-service.

Check Your Progress - 2

6. Which of the following are the basic elements that facilitate diffusion?
    a. Innovation
    b. Channels of communication
    c. Social system
    d. Time
    e. a, b, c, and d
7. Who among the following adopts the new product at a later stage of product history?
    a. Innovators
    b. Early adopters
    c. Early majority
    d. Laggards
    e. Late majority

8. In which of the following, company enters into as many markets as possible simultaneously?
   a. Waterfall strategy
   b. Niche strategy
   c. Sprinkler strategy
   d. Guerrilla strategy
   e. Ambush strategy
9. Policy bazar helps the consumer in which stage of online purchase?
   a. Problem recognition
   b. Information search
   c. Evaluation of alternatives
   d. Purchase decision
   e. Post-purchase evaluation

3.7 Summary

- Consumer behavior can be defined as the process and activities people engage in when searching for, selecting, purchasing, using, evaluating, and disposing of products and services so as to satisfy their needs and wants. Multinational companies are showing greater interest in understanding consumer behavior across countries.
- The changes in consumer behavior are also driving massive growth in market size across industries and countries. International consumer behavior examines how consumers cope with different socioeconomic and cultural conditions and how that affects the way they participate in the global marketplace.
- Consumers across countries display ten types of consumption behaviors while making buying decisions. The ten types of consumer behavior — such as individual, experiential, resourceful, disconnected, connected, social, co-productive, minimalist, communal, and conscientious — can be seen across various countries.
- The consumers in emerging markets exhibit different consumption patterns when compared to the consumers in developed markets. Companies that are operating in emerging markets such as BRICSIT (Brazil, Russia, India, China, South Africa, Indonesia, and Turkey) are positive about their market growth and expansion based on changes in consumer behavior.
- Cross-cultural marketing makes an effort to understand to what extent the consumers of two or more nations are similar or different so as to offer desired products.

- International marketers are showing greater attention on innovation and diffusion to understand how an innovation reaches the consumer and reasons for its acceptance or rejection by them. They have identified four basic elements of diffusion process: innovation, channels of communication, social system, and time.
- Companies have understood that customers adopt new product at different times. The new product adopters can be classified into five groups based on the time when they adopt ─ innovators, early adopters, early majority, late majority, and laggards.
- Diffusion process also differs among various states or regions in a country as the difference continues among product categories. Marketers follow various strategies to go international and to make the diffusion faster such as sprinkler (diffusion) strategy, waterfall strategy, etc.
- Consumer displays a distinct type of shopping behavior while purchasing a product or service online when compared to offline. A basic conceptual model of consumer shopping process follows five steps such as problem recognition, information search, alternative evaluation, purchase decision, and post-purchase evaluation. The five steps can also be grouped into three stages such as pre-purchase, purchase and post-purchase.

3.8 Glossary

Conscientious Consumer: Consumers who are more concerned about the environment and others' opinions on different aspects. About 51% consumers buy environmental-friendly products and prefer local goods.

Cross-Cultural Marketing: It is defined as the effort to determine - to what extent the consumers of two or more nations are similar or different. This will facilitate marketers to understand the psychological, social and cultural aspects of foreign consumers they wish to target, so as to design effective marketing strategies for each of the specific national markets involved.

Diffusion of Innovation: Diffusion is the process by which an innovation is communicated through certain channels over time among members of a social system. It explains how an innovation reaches the consumer and reasons for its acceptance or rejection by them.

Disconnected Consumer: Consumers who wanted to move away from the noise of everyday life are termed as disconnected consumers.

Early Adopters: Consumers who take a calculated risk before using any new innovations are termed as early adopters. They collect genuine product information and make the final purchase.

Early Majority: Such consumers are well-educated elders with less social mobility. While taking decisions to purchase, they rely heavily on interpersonal source of information.

Hedonic-Browsing Visits: In hedonic-browsing visit, the customer is not interested to buy but browse or seek information only for pleasure.

Individual Consumer: Consumers who buy products that expresses their unique qualities.

Innovators: Innovators constitute 2.5 per cent of the consumers and they are considered to be venture-some risk takers. They are more socially mobile, young and educated.

Laggards: About 16 per cent consumers are the more traditional. They not only have limited social interaction but also accept the innovations with great reluctance and are oriented to the past.

Late Majority: Consumers who are very doubtful and skeptical about the innovation of new products before using fall under this category. The product usage is not so much because of innovation, but because of social pressures or non-availability of other products.

Minimalist Consumer: Consumers who have less association with the products. About 25% consumers buy second hand products or rented.

Recommender Systems: Recommender systems or recommendation systems (sometimes replacing 'system' with a synonym such as 'platform' or 'engine') are a subclass of information filtering system that seek to predict the 'rating' or 'preference' that user would give to an item.

Sprinkler Strategy: The sprinkler (diffusion) strategy is a market entry strategy where a company enters into as many markets as possible in a short span of time. It is a rapid diffusion strategy to enter into multiple markets simultaneously.

Waterfall Strategy: Waterfall strategy is a market entry strategy where a company spreads its business in international markets sequentially. First, the company focuses on a single country and establishes an identity in that country before moving into another country.

3.9 Self-Assessment Test

1. What are the influencing forces of consumer behavior across countries?
2. Explain the various types of consumer behavior that are observed around the world.
3. Distinguish between consumer behavior trends in emerging markets and developed markets.
4. What is cross-cultural marketing? Discuss any company that is successful based on its cross-cultural marketing strategies.
5. What is diffusion? Why is diffusion important in international marketing?
6. How do you classify product adopters into various groups? Discuss the features of product adopters.

7. Discuss waterfall and sprinkler (diffusion) strategies with suitable examples.
8. Discuss the various steps consumers follow while purchasing products online.

3.10 Suggested Readings / Reference Material

1. J. Daniels, L. Radebaugh, and D. Sullivan, "*International Business: Environment and Operations"*, 17th Edition, Pearson, 2021.
2. Masaaki (Mike) Kotabe, Kristiaan Helsen and Prateek Maheshwari, "International Marketing 8e (An Indian Adaptation)", Wiley India Pvt Ltd, 2021.
3. Cateora, P.R., Money, R. B., Gilly, M.C. and Graham, J.L., "International Marketing", McGraw-Hill, 18th Edition, 2019.
4. Keegan, W.J., "Global Marketing Management", Pearson Education; Eighth edition, 2017.

3.11 Answers to Check Your Progress Questions

1. (e) iii, iv

Today's consumer behavior is shaped by how (are we consuming) and why (are we consuming) questions.

2. (b) Minimalist consumer

Minimalist types of consumers consume second hand or rented products.

3. (d) Buys environmental-friendly products

Conscientious consumers buy environmental-friendly products.

4. (a) Individual achievement

Indian companies have to understand 'individual achievement' factors of American cultural values while developing products for American consumers.

5. (c) Stained teeth is a sign of social prestige

Pepsodent toothpaste was a failure in Southeast Asian countries because white teeth do not attract social prestige.

6. (e) a, b, c, and d

The four basic elements such as innovation, channels of communication, social system, and time facilitate diffusion.

7. (d) Laggards

Consumers classified as laggards adopt a new product at a later stage of product history.

8. (c) **Sprinkler strategy**

   In sprinkler market entry and diffusion strategy, the company enters into as many markets as possible simultaneously.

9. (c) **Evaluation of alternatives**

   Policy bazar helps the consumer in the ‘evaluation of alternatives’ stage of online purchase behavior.

Unit 4

International Marketing Opportunities in Emerging Markets

Structure

"We believe there is tremendous potential. The underlying strengths of India remain. It is the largest producer of milk in the world; it is one of the top three producers of wheat in the world and has the largest growing middle class."

- Mr Paul D Conway, Vice-Chairman, Cargill

4.1 Introduction

As the Vice Chairman of Cargill, a global food corporation, Paul Conway acknowledges India's market potential. The growing middle class and the rural economy (because of the flourishing agriculture and dairy industry) are key characteristics that make India an emerging economy.

Emerging markets today have the highest potential for growth. Marketers from the developed countries are fulfilling the demand in their home countries by importing goods and services from the emerging markets. International marketers are now turning towards emerging markets as these markets are becoming increasingly industrialized. Workers are looking for higher and stable income.

Thus, working or implementing on the current strategy is not sufficient. It is important that businesses and the governments start thinking about the opportunities and hazards in the emerging markets.

4.2 Objectives

After reading through this unit, you should be able to:

- Identify the characteristics of emerging markets with potential customers for international marketers to embark on
- Compare emerging markets of various degrees as attractive investment destinations
- Describe the market structure for the probable challenges and opportunities in such emerging markets
- Evaluate the role of emerging market multinationals as a threat to investment decisions
- Recall the various market entry strategies to be successful in emerging economies

4.3 Emerging Markets

Companies are turning to emerging markets for business expansion. A large and vibrant middle class that marks consumer spending creates opportunities, especially for non-essential consumer goods industries. Gaining first-mover advantage and winning loyal customer base in these markets will be a winning strategy in the long run for companies[15]. In this perspective, EMs become potential markets for firms to invest.

Antoine W. Van Agtmael of International Finance Corporation (a member of the World Bank group), was the first person to use the term “Emerging Market” in 1981. Though there is no agreement on a common definition of ‘Emerging Market’, experts agree that the emerging market refers to countries undergoing rapid economic growth. GDP and per capita income are the two indicators generally used to determine which countries fall in the category of an emerging market. These markets constitute 80% of the global population and 20% of total world economy. It includes those countries that are undergoing developments and reforms, irrespective of their size. For example, both China and India belong to this category as both the countries focus on development and reformative programs. These emerging markets, along with similar other nations like Indonesia, Malaysia, Brazil, Mexico etc., are considered as the fastest growing economies of the world. The highlight of these nations falling under the category of ‘emerging economies’ is the rise in purchasing power of consumers located in these countries.

[15] Adapted from Sarah Boumphrey, Head of Strategic, Economic and Consumer Insight, Euromonitor International, “Succeed in Emerging Markets: Selection, Strategy and First Steps”, Insights Association, August 3, 2015.

Before entering the emerging markets, marketers should understand that:

- The emerging market is operating on an economic platform that will lead to a high level of transparency and adaptability in the capital market;
- The emerging market will also reform its exchange rate because a stable local currency leads to higher confidence of marketers in the economy especially for FDI;
- A stable and strong exchange rate also increases the desire of local investors to invest in local economy rather than investing abroad; and
- Emerging markets also receive large funds, aid and guidance from large donor countries and monetary organizations such as World Bank and IMF.

Example: India, a Prominent Emerging Market

India was reckoned as an important emerging market because of its large population, its diversity and significant GDP growth rate. The emerging middle class and growing consumer purchasing power were other factors that make India a suitable destination for investment.

Mint, a leading Indian financial newspaper (daily), tracked emerging markets through its 'Mint Emerging Markets Tracker", which was updated every month. This index which was calculated based on seven high-frequency indicators placed India at the top of the EM (emerging markets) League Table for the months of November and December 2022. The superior manufacturing activity and robust exports catapulted India to the top position notwithstanding the disruptions and resultant challenges posed by the Omicron variant of corona virus.

Both manufacturing and services activities in India witnessed growth in December 2022 and this augurs well for the post-covid economic recovery. Indian goods were in high demand in the international market, and this pushed outbound shipments to an all-time-high of $37.8 billion, enabling India to achieve its exports target for 2021-22.

The Indian economy was expected to witness a GDP growth of 8.3% for the fiscal year 2022 and 8.7% and 6.8% growth for the following years.

Source: Niti Kiran, "India retains top slot in emerging markets table in December", Mint, 8/09/2022
https://www.livemint.com/economy/india-retains-top-slot-in-emerging-markets-table-in-dec-11642620587227.html Accessed on 8/09/2022

4.4 Key Factors to Identify Potential Emerging Markets

In emerging markets, risks may outweigh rewards. These untested markets pose the risk of economic stability that can be thorny for doing business. Hence it is important for firms to identify the right and the potential emerging market before making investments.

Some common features witnessed in majority of EMs are listed below.

- **Population and Population Growth:** This is an important characteristic that will be witnessed generally in the emerging markets. For example, population of India and China combined is huge. They offer big domestic markets. When the question of how developed is the infrastructure in these countries arise, it can be noticed that they have poor infrastructure. This provides scope for FDI in infrastructure development.
- **Income and Spending Pattern:** In emerging markets, majority of wealth lies with few people, thus, it is important to calculate median wealth rather than average wealth.
- **Spending and Consumption Behavior:** Marketers need to find out where the family is spending – is it on food and grocery, or is there enough left to spend on luxury items?
- **Investment Culture:** Do people save first and then spend to improve their standard of living? This is one important factor that differentiates a developed market from an emerging market. Their investment culture is highly surrounded by long-term ones within the boundaries of their country with limited investment overseas.

However, emerging economies are no more in their primitive stage and have evolved of late.

Example: The IMF Identifies 20 Emerging Markets

The IMF World Economic Outlook classified 20 economies as emerging based on various parameters like strong growth and growth potential, economic stability (that enabled production of high-value goods), GDP-level and participation in global trade and financial market integration.

The size of the country's economy as measured by the nominal GDP, its share of exports in the world trade and population level, define the systemic presence and its impact on the global economy. Market access was another key factor, and it was defined by parameters like ratings given by leading global indices and investors, the share of the country's external debt and the frequency and amount of international bonds issues by the country. The income of the people as measured by the per-capita-GDP was another important measure.

Based on the assessment approach as defined above, the IMF identified 20 countries (China, India, Mexico, Russia, South Africa, Thailand, Colombia, Egypt, Argentina, Hungary, Indonesia, Iran, UAE, Turkey, Saudi Arabia, Poland, Philippines, Brazil, Chile, Malaysia) as emerging economies. These 20 countries accounted for 34% of the world's nominal GDP in US dollars.

Contd….

Leading investing organizations like JP Morgan, Morgan Stanley Capital International, and Bloomberg included these countries in their indices for emerging markets.

Source: "What is an emerging market?", (contributed by FRANCISCO ARIZALA, Economist and DI YANG, Research Analyst in the IMF's Strategy, Review and Policy Department) in Page 7 of the book "Finance and Development",

By International Monetary Fund, Communication Department, June 2021, Accessed on 8/09/2022

4.5 Characteristics of Emerging Markets

Following are the characteristics of emerging market:

a. Increase in domestic and foreign investment

b. Increase in confidence in local economy by investors

c. Increased foreign investments in the market

d. Inflow of foreign investment to a country's
   - Stock market
   - Infrastructure projects

e. For the Marketers of the developed countries, emerging markets come as an opportunity to:
   - Expand the business
   - Generate new source of revenue
   - Open new factory locations at a cheaper price
   - Get cheap skilled and semi-skilled labor

f. For the recipient country, emerging markets offer opportunities for:
   - Employment
   - Refinement of labor and managerial skills
   - High use of new technology
   - Increase in GDP

As the emerging markets are in progression stage, they are not stable and so, there is a huge opportunity for businesses who dare to take a business risk of investing in an unstable emerging market. Previously, most of these markets have been in war zones, militant affected areas, terrorist area or came into inception after collapse of Big Nations. Doing business in emerging markets was considered risky. Nevertheless, while entering emerging markets, the investors must analyze local, political and social factors very closely.

In 1997, when the Asian economy was in crisis, investment flows into the Asian countries started decreasing. This shows how investments in emerging markets can be risky.

Today, emerging markets work as a growth engine for the world economy. They are expected to drive the world economy in the coming years. There are risks but the opportunities are far more lucrative.

Example: Key Characteristics that make Thailand an Emerging Market

Thailand's development success story was widely cited for other underdeveloped economies to follow. Some of the key characteristics that make it an emerging market are listed below:

GDP Growth: Between 1960 and 1996, Thailand's GDP recorded an average annual growth rate of 7.5%. The country which was caught up in the Asian Crisis (1997-2003) recovered in the following years and was again hit by the global financial crisis of 2008. The economy's annual GDP growth was around 5% since 2008.

Education and Health: The prolonged economic growth lifted millions of people out of poverty. The entire population was covered by health insurance and education level of people had significantly increased.

Agriculture dominated economy to industrial economy: Thailand's government in the past invested in the development of heavy industry and energy to enable the economy to progress from an agrarian economy to industrial economy.

Per-capita GDP growth: In 2022, Thailand aimed to become a high-income nation, remove inequalities in income and promote sustainable growth.

Economic Reforms: Economic policies and reforms aimed to transform the economy to attract FDI in hi-tech manufacturing and services.

Thailand's GDP shrunk by 6.2% in 2020 due to the covid pandemic. Thailand, South Asia's second largest economy and an emerging economy, was taking steps to bring about post-covid economic recovery.

Source: "The World Bank in Thailand: Overview", March 2022
https://www.worldbank.org/en/country/thailand/overview Accessed on 8/09/2022

Activity 4.1

COVID Pandemic had its impact on the Indian economy in various spheres. Give your observations on:

(i) Impact on consumption pattern aftermath pandemic

(ii) The projections of GDP growth due to the shock created by pandemic.

4.6 Global Trends Defining the Global Power of Emerging Markets

Emerging markets are increasing their potential by adopting universally acceptable operational processes. Some of the aspects which are being actively focused upon are:

- Clean technology to ensure that it becomes a dominant differentiator
- Improvement in Global banking through transformation and reforms
- Government's reinforcements of ties with the private sector to partner in development
- Create a smart, networked, mobile world
- Demographic shifts particularly in urban areas which is revolutionizing the global workforce

Example: India's increasing influence on the global economy

India, an emerging economy, was in threshold of evolving as a power center of the global economy. India's rapid progress, the churn in the international order and India's evolving role in the new order was expected to make India a power center in the global economy.

Post-Covid economic growth: The NSO (National Statistics Office) stated in August 2022 that the Indian economy fully recovered the pre-pandemic real-GDP level of 2019-20. On 2nd September, 2022, India became the 5th largest economy (in terms of nominal GDP) moving past the United Kingdom. India's GDP by PPP (Purchasing Power Parity) was expected to surpass the US by reaching a high $43 trillion to emerge as the second largest economy in the world after China.

Geo-Political Shifts: Even prior to the covid pandemic, the churn in the international order was apparent and in the post-covid dispensation, there was an indisputable trend towards a multi-polar world. Supply-chain disruptions faced during covid, fuel and food-grains shortage on account of the Russia-Ukraine war and high demand for medicines and vaccinations and various other crisis situations were experienced and in this state of flux, emerging economies like India took center stage to help the world.

Focus on Sustainability: In the new multipolar world, India was prioritizing economic growth and sustainability. In the UN Climate Change Conference (COP26) held in Glasgow, India's Prime Minister committed India to an ambitious 'Pachamrit Pledge' to reduce green house gas emissions in five key areas.

Going forward, India's influence on the global economy was bound to increase.

Sources: Borge Brende, "India's future and role in the post-covid-19 world", World Economic Forum, 10/10/2022
i) https://www.weforum.org/agenda/2021/11/india-s-future-and-role-in-the-post-covid-19-world/
ii) https://www.hindustantimes.com/india-news/india-becoming-world-s-5th-largest-economy-no-ordinary-feat-pm-modi-101662661736471.html#:~:text=On%20September%202%2C%20the%20International,the%20period%20ending%20December%202021. Accessed on 10/09/2022

4.7 Three Key Drivers that are going to Change the Market Scenario

“Focus is crucial—and that can be a challenge. The bigger the business, the more diverse the customer base” – Forbes, 2016[16]. That is why a marketer should be vigilant in identifying the key drivers that would change the market and marketing scenario.

Three important factors are important that could change the market scenario for an international marketer. They are:

a. **Demographic Shift:** According to statistics, millennial form a dominant percentage of 50% of workforce across the world. This is the outcome of the increase in population and a boost in urbanization across the world.

b. **Reshaped Global Power Structure:** The balance of power is moving towards the emerging markets. The developing countries are growing fast and are now opening their markets to the world. There is a positive relationship emerging from public and private enterprises in the form of alliances and partnerships to provide better products and services to the consumers.

c. **Disruptive Innovation:** Technological innovations have large effects on trade. Emerging markets are becoming the hub of innovation.

Example: China’s Innovation Advantage

In 2020, China was ranked 14th in the Global Innovation Index.

Let us understand how China benefits through innovation, which was a key driver of economic growth for an emerging market.

China’s innovation-eco-system was bound to flourish because of its hyper-adoptive and hyper-adaptive customers. This was apparent from the way how the Chinese quickly changed to smartphones and digital payments in 2015.

Chinese companies also focussed on offering different value propositions to their customers. For instance, ‘WeChat’, the market leader in social media shopping space offered features of Amazon, ebay and Facebook Messenger. A user can send money to online social friends and do online shopping. These innovative features were offered way back in 2014 to Chinese customers.

Chinese industry also developed innovative products and launched them at a rate much faster than in developed markets. As Chinese customers were quick to adopt innovative products, the Chinese entrepreneurs have a clear advantage here.

Another aspect observed was that the Chinese innovations target mass markets rather than small-sized niche markets. This strategy keeps costs low and affordable prices drive rapid diffusion of innovation.

Source: Zak Dychtwald, “China’s New Innovation Advantage”, Harvard Business Review, May-June 2021 https://hbr.org/2021/05/chinas-new-innovation-advantage Accessed on 10/09/2022

[16] Daniel Newman, “The Top Ten Trends Driving Marketing in 2017”, Forbes, October 18, 2016.

Check Your Progress - 1

1. Which of the following is correct with respect to the share of emerging markets in global population and total world economy?
   a. 20, 80
   b. 80, 20
   c. 75, 25
   d. 50, 50
   e. 25, 75
2. Which of the following is **not** a key factor to identify the potential emerging market?
   a. Population
   b. Income
   c. Spending pattern
   d. Selling
   e. Consumption
3. Which of the following countries is not an emerging market country?
   a. Brazil
   b. Russia
   c. Morocco
   d. India
   e. China
4. State True or False
   i. Emerging markets are increasing their universal potential.
   ii. Clean tech becomes a passive dominance.
   iii. Global banking seeks improvement through reform.
   iv. Governments do not reinforce ties with the private sector.
   v. Emerging markets are focused on creating a smart, mobile world.
   a. i -True, ii – False, iii – True, iv – False, v- True
   b. i –True, ii –True, iii – True, iv – False, v- True
   c. i -False, ii – False, iii – True, iv – False, v- False
   d. i -True, ii – False, iii –False iv –True, v- True
   e. i -True, ii –True, iii – True, iv –True, v- True

4.8 Why to Invest in Emerging Markets?

The rapid growth of emerging markets gives millions of consumers new spending power. Companies need to harness their potential. Many countries come within the ambit of 'Emerging Markets'. As per MSCI[17] Market Classification, a research-based indexes and analytics global service provider, emerging markets are grouped into three: (i) the Americas that includes Brazil, Chile, Colombia, Mexico, Peru; (ii) Europe, Middle-East and Africa – Czech Republic, Egypt, Greece, Hungary, Poland, Qatar, Russia, South Africa, Turkey and United Arab Emirates; and (iii) Asian are China, India, Indonesia, Korea, Malaysia, the Philippines, Taiwan and Thailand. However, there has been 'in and out' status of nations belonging to the category of 'emerging markets' and variation in classification between research analytics firms and/or analysts.

In future, some of the brightest spots for FDI will be:

- South Africa
- Brazil
- Russia
- India
- China
- Indonesia
- Poland
- Turkey
- Malaysia
- Colombia
- Kenya

At this juncture, BRICS nations needs a special mention as excepting Russia, the remaining countries has leapfrogged in terms of growth and development.

BRICS: The coherent economic group since 2009, BRICS (Brazil, Russia, India, China and South Africa), represent roughly 41% of the world population and contribute approximately to 24% of world GDP. These five nations are also expected to contribute more than 50% of world growth, as per IMF estimates.

Why are Emerging Markets (EMs) so attractive? What makes investor world-wide focus on these developing nations? Some of the leading findings that make emerging markets attractive will give a better understanding.

The interest by the investors in emerging market is based on sound fundamentals. These markets are young and show stronger growth compared to developed west.

[17] MSCI (Morgan Stanley Capital International) is an independent provider of research driven insights and tools for institutional investors. With more than four decades in this field, they have been providing their customers with business models for their investments.

They have performed decisively over the last few years. Apart from the economic performance, these markets also have the advantage of young population who not only contribute to the economy but also consume and become a big market for investors resulting in expansion of the economy. For example, companies, like Ford, Hyundai have invested heavily in India looking at the domestic market potential for their products.

A BRICS countries' contribution to world trade has risen to 50% in the wake of global financial crisis. These indicators reflect the prowess of these economies and potential to outsmart the countries of G7.

Apart from the sound economic and demographic indicators, these markets also have certain characteristics and traits which facilitate economic activity. These traits are:

a. Significantly large geographical area and population.
b. Strong rate of growth associated with sizeable market for range of products.
c. Major economic and political forces in the region with scope to expand in neighboring countries.
d. Initiated major economic reforms.
e. Good governance with strong leadership.

The data on FDI and GDP shows that, while India and China are the fastest growing (BRICS) nations, it is China and Russia which attracted the highest FDI in year 2008-13. The economic indicators reflect the strong position of these economies. BRICS have emerged as the most favored investment destination. They are likely to be the growth engine of the world economy.

The Other Fast Emerging Economies

Some of the other developing economies which are emerging as vibrant and robust performers are Mexico, Indonesia, Poland, and Turkey. This list of emerging economies is fluid. Names of other countries may get added or deleted depending on their performance and change in economic conditions.

- **Indonesia**: Its young workforce, improving household consumption and purchasing power and strong currency (rupiah) are expected to be the economy's levers.
- **Mexico and Turkey** Despite being smaller than BRICS nations, these countries had shown similar levels of purchasing power (in terms of per capita income)
- The African country of **Nigeria** is a potential emerging market that is showing spurt due to the higher oil production.
- Among the emerging market economies within the European countries, **Poland** is a bright spot.

- **MENA** (Middle East and North Africa) nations. Among the MENA nations, Iran shows promise of higher growth rate, due to the positive impact of the rise in oil prices.

However, Mexico, Indonesia, Poland, and Turkey lack modern infrastructure. Hence, they are low on industrialization, and lack modern facilities for its citizens. Therefore, majority of investment is expected to come in infrastructure, industrial sector, IT/ITES, clean energy, health-care & sanitation, and financial services.

Apparently, the above countries which are showing promise with their strong economic performance are likely to enlarge the emerging market groups.

A deeper investigation into some such emerging nations that has become highly prominent to international marketers are as follows:

Mexico

Mexico started strong reformation process after President Enrique Pena Nieto took over in 2012. These reforms have brought changes in the labor market, telecom sector, educational system, and government fiscal policies. There is great need to develop and improve infrastructure in the country. Therefore, short-term opportunities in construction, highways, ports, and other areas are likely to attract maximum investment. The improvement in US economy is also likely to affect Mexico, as Mexican workers in USA shall be remitting bigger amount back home, and tourists from USA are likely to flock the countryside in Mexico. It is likely to contribute in strong economic performance and result in better returns for investors.

Indonesia

Indonesia is another fresh face in emerging economies. A strong political leadership mandated for better governance and economic prosperity is spearheading the economic agenda for a better future.

Turkey

Turkey is poised to emerge as the 12th largest economy in the world by 2060. The improved public services have ensured that the economic development trickle down and builds a strong middle class. The process of urbanization and high growth in job market from industry and services sectors has opened new opportunities for rural population. Turkey has worked towards inclusive development.

Poland

Poland gained great influence in Europe. Good governance is likely to help Poland grow as a promising emerging economy.

Activity 4.2 Observe the GDP growth rates / fluctuations that India had witnessed in the last five years. Present your views in three bullet points about their impact upon the Indian retail segment.

Emerging Markets: The Dual Role: When the financial crisis of 2007-2009 (caused by the sub-prime crisis in the US) affected many developed economies and thereby trade and commerce, it was emerging markets that kept the engine of trade moving. However, the learning has been fast by the emerging markets. These economies are now performing the dual role: (i) creating business opportunities for foreign firms operating in their countries (ii) emerging market multinationals: creation of new markets in other countries. These are covered below in brief:

Business Opportunities in Emerging Markets: Business opportunities lure large for firms functioning in emerging markets. They are revenue generators for the exporting countries who can take advantage of being suppliers of merchandise to these countries.

Strategies to be adopted in Emerging Markets by Businesses: Some emerging markets like the nations grouped as E7 economies (Brazil, India, China, Indonesia, Mexico, Russia and Turkey), on an average, is projected to grow at the rate of 3.7% p.a by 2050 when compared to G7 nations (Canada, France, Germany, Italy, Japan, the UK and the US). Development of emerging markets will create ample business opportunities to flourish. However, it requires an in-depth understanding of the fluctuations in the emerging market dynamics and formulate strategies. PwC came out with the certain core capabilities that should be developed by business firms while entering or operating in the emerging markets. The three elements that should be taken care are:

1. **Operational efficiency:** Differentiating the controllable internal costs like wages, raw materials, suppliers from external costs like interest payments and regulatory compliance. This will help in identifying the cost drivers and improve cost efficiencies while serving the profitable customers in emerging markets.
2. **Innovation:** Innovation is the key to sustainable success in emerging markets. This could be done by adapting the product to local preferences, acquiring new capabilities and new cross-sector business relationships.

3. **Go to market excellence:** The purchasing power of people in emerging markets is growing but these markets are still price sensitive. By taking advantage of the rapid growth of technology (eg. the internet usage) in these countries and adopting an integrated internet and in-store experience will help business firms tackle this problem. Establishing partnerships with local firms will help new entrants establish their products. Also, consumer preferences and buying habits change quickly in such markets. Therefore, agile business models through appropriate R&D will stabilize their market share.

In order to ground the company in emerging market, companies need to:

a. Identify consumers who have similar needs across the market

b. Localize the product and shape the market

c. Target premium consumers in product niches

The other factors that they have to take into consideration while investing in EMs, especially ASEAN markets are:

- To invest in intelligence updates about the market. This will be helpful specially in ASEAN emerging markets (popularly termed as the AEC-Asean Economic Community), as many countires are yet to mature in terms of market sustainability but with high international exposure
- To invest in business models that will suit local conditions. Prices to be adjusted to target the customers
- To invest in market analysis that will help in assessing the opportunities in selecting the location of investment
- To invest in local partnerships to give an entry into the market
- To invest in developing local infrastructural facilities to run the operations
- To invest with a long-term in vision

An analysis and insight into the above points by investing community will help them to make judicious investment.

- **Emerging Market Multinationals:** The expansion of ‘emerging markets’ has given an edge to internationalization. Emerging market multinationals are expanding at a higher speed and scale. China Mobile, Reliance Industries Limited, Embraer are examples of some multinational companies, originating from the emerging markets, which were perhaps unfamiliar a decade ago, are now well-known across the globe.

The growth of emerging market multinationals has created a level playing field for the firms operating from the developed countries. It has increased the competitive landscape both in emerging markets and in developed markets alike.

Example: Indian Multinational Companies in the USA

As per the CII (Confederation of Indian Industries) report of the study entitled "Indian Roots, American Soil 2020", over 155 India-based companies invested $22 billion in the USA. This state-by-state breakdown of tangible investments made by Indian companies stated that these 155 companies created 1,25,000 jobs.

The report observed that the highest level of Foreign Direct Investments made by Indian companies were in the States of Texas ($9.5 billion), New Jersey ($2.4 billion), New York ($1.8 billion), Florida ($915 million) and Massachusetts ($873 million). In the same order, the maximum jobs generated was reported in Texas (17,587 jobs), followed by California (8,721), New Jersey (8.057), New York (6,175) and Florida (5,454).

About 83% of the Indian companies surveyed stated that they plan to hire employees locally in the following five years.

Source: PTI Report, "155 Companies create nearly 1,25,000 jobs in US: CII Report", Economic Times, 16/06/2020

https://economictimes.indiatimes.com/news/company/corporate-trends/155-indian-companies-create-nearly-125000-jobs-in-us-cii-report/articleshow/76396893.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst Accessed on 12/09/2020

Some Challenges posed by emerging market multinationals: The growth of emerging market multinationals has posed some threats to developed nations; some of them are quoted as examples below:

- China became the third largest investor in the world.
- Emerging economies are gaining local market shares in the supply of services. Republic of Korea, Singapore, Mexico, China, Hong Kong (China), India, United Arab Emirates and Saudi Arabia collectively gained services by foreign affiliates in the US.
- Bangladesh became an emerging exporter of information and communication services.

The New Challenge: The new avatar of family-owned businesses in emerging markets could be a threat to foreign establishments in these countries.

Requirement for a new partnership- IMF: Due to slowing down of many emerging economies like China, India, Russia, Brazil etc. due to various economic factors, the success story of these markets have also slowed down in the recent past. These economies must be prepared for a new global partnership, according to IMF. The necessity for this is due to the spillover and spill back effects. Such effects or counter effects require concerted efforts by both developed and emerging economies in the form of

- Removal of barriers to competition

- Greater sharing of technology
- Completion and implementation of the global regulatory reform agenda

The above can be achieved with the support of IMF that would facilitate

- Safer capital flows
- Adequate and safe global financial safety net
- Respond to members' needs quickly
- Enhance the representation of dynamic emerging and developing economies in the IMF's governance structure.

Check Your Progress - 2

5. Which of the following is true for China?
   a. Democratic
   b. Central Republic
   c. Monarchy
   d. Communist
   e. Free Economy
6. Which of the following is not a potential emerging economy?
   a. Colombia
   b. Kenya
   c. Indonesia
   d. Mexico
   e. North Korea
7. Which of the following is/are the fast-emerging economy/economies of the world?
   a. Turkey
   b. Poland
   c. Mexico
   d. Indonesia
   e. Turkey, Poland, Mexico and Indonesia
8. Which of the following is a nation with strong economic potential?
   a. Malaysia
   b. Colombia
   c. Kenya
   d. Malaysia, Kenya, and Columbia
   e. Malaysia and Columbia

4.9 Summary

- Emerging markets look forward to brighter spectrum of opportunities and offer new areas of investment for foreign and developed economies; however, local officials in emerging markets need to consider the effects of an open economy on citizens.
- Investors also need to determine the risks when considering investing in an emerging market. The process of emergence can be difficult, slow, and often stagnant at times.
- Even though emerging markets have survived global and local challenges in the past, they have to overcome some large obstacles in coming times as well.
- Of all the emerging market countries discussed above, there are few things in common. All of them have a large population with growing middle-income and upper middle income segments.
- Apart from India and China which are considered as big markets among emerging economies, there are other emerging countries as well that show a bright spot. Indonesia, Poland, Turkey, Kenya, the Philippines are few such examples.
- While these emerging economies provide market for multinational companies, the trend has been changing of late.
- These emerging markets are no longer the importers of products and services only. They have transformed their position as exporters too. Multinational companies of China, India, Korea, Poland etc. flourishing well in other countries stands testimony to this.
- Thus, there is a level-playing field between the developed nations and emerging nations.
- However, the scope for markets in emerging economies still remains a bright spot for foreign organizations. A well-designed strategy will help them reap this scope.
- With developed and emerging markets playing equal role, the IMF has opined that there should be a co-ordination among these nations, transpiring into a partnership that would remove the existing hassles of trade barriers.

4.10 Glossary

CII: Confederation of Indian Industry. The organization builds and bolsters an environment helpful to the expansion of industry in India.

EU: European Union is a politico-economic union of 28 European countries. EU has a single market and a standard system of law that apply in all member countries.

G8: Group of Eight leading industrialized countries, France, Germany, Italy, Japan, United Kingdom, United States, Canada, and Russia. G8 meetings are held with the purpose of discussing global issues such as economic growth, crisis management, global security, energy, and terrorism.

Market Bubble: It is believed that in market bubble phase the value of the products are much higher than their original value, and this condition continues to exist till the prices go into a free fall when the bubble bursts.

4.11 Self-Assessment Test

1. Define emerging markets and state how they are affecting the global economy.
2. Define key drivers of emerging economy in relationship to global trends with examples.
3. In spite of unstable African economies, why is South Africa still lucrative to invest? Explain with examples.
4. Compare the BRICS economies.
5. Why is the world economy looking towards emerging economies? Explain the key indicators supporting growth and performance of emerging economies in 2015-2025.

4.12 Suggested Readings/Reference Material

1. J. Daniels, L. Radebaugh, and D. Sullivan, "*International Business: Environment and Operations"*, 17th Edition, Pearson, 2021.
2. Masaaki (Mike) Kotabe, Kristiaan Helsen and Prateek Maheshwari, "International Marketing 8e (An Indian Adaptation)", Wiley India Pvt Ltd, 2021.
3. Cateora, P.R., Money, R. B., Gilly, M.C. and Graham, J.L., "International Marketing", McGraw-Hill, 18th Edition, 2019.
4. Keegan, W.J., "Global Marketing Management", Pearson Education; Eighth edition, 2017.

4.13 Answers to Check Your Progress Questions

1. (b) 80, 20

Emerging Markets constitute 80% of global population and 20% of total world economy.

2. (d) Selling

Key factors to identify emerging markets include, population and population growth, infrastructure, services provided by the local market are easy and cost effective. We also calculate income pattern, spending pattern and consumption behavior. Selling is not a part of the key factors.

3. (c) Morocco

Morocco is not an emerging economy. However, with stable growth and development witnessed during the past 15 years. It is expected to emerge as an emerging economy by 2025.

4. (a) i -True, ii – False, iii – True, iv – False, v- True

5. (d) Communist

China is a Communist country.

6. (e) North Korea

North Korea is not a potential emerging economy.

7. (e) Mexico, Indonesia, Poland, and Turkey

All the countries are the fast-emerging economies.

8. (d) Malaysia, Kenya, and Columbia

Kenya, Colombia, and Malaysia are nations with strong economic potential.

International Marketing

Course Structure

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