Chapter 8

Developing a Global Vision through Marketing Research

CHAPTER OUTLINE

CHAPTER LEARNING OBJECTIVES

What you should learn from Chapter 8:

LO1 The importance of problem definition in international research

LO2 The problems of availability and use of secondary data

LO3 Sources of secondary data

LO4 Quantitative and qualitative research methods

LO5 Multicultural sampling and its problems in less-developed countries

LO6 Using international marketing research

Global Perspective

JAPAN—TEST MARKET FOR THE WORLD

It was 10:51 p.m. in Tokyo, and suddenly Google was hit with a two-minute spike in searches from Japanese mobile phones. "We were wondering: Was it spam? Was it a system error?" says Ken Tokusei, Google's mobile chief in Japan. A quick call to carrier KDDI revealed that it was neither. Instead, millions of cell phone users had pulled up Google's search box after a broadcaster offered free ringtone downloads of the theme song from *The Man Who Couldn't Marry*, a popular TV show, but had only briefly flashed the Web address where the tune was available.

The surge in traffic came as a big surprise to Tokusei and his team. They had assumed that a person's location was the key element of most mobile Internet searches, figuring that users were primarily interested in maps of the part of town they happened to be, timetables for the train home, or the address of the closest yakitori restaurant. The data from KDDI indicated that many Japanese were just as likely to use Google's mobile searches from the couch as from a Ginza street corner.

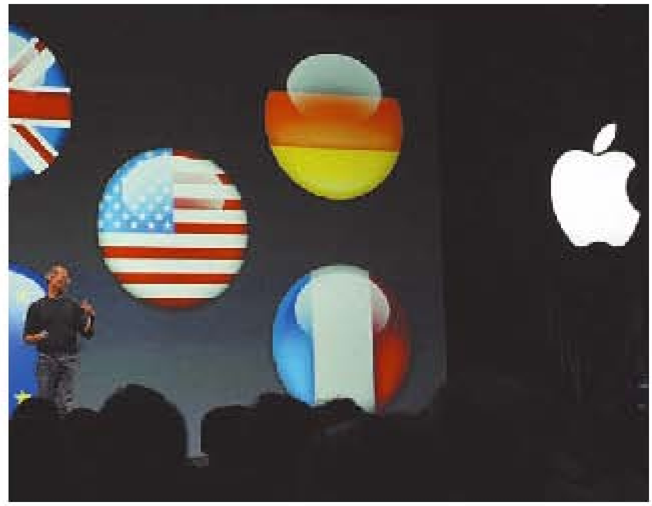
Japan's cell-phone-toting masses, it seems, have a lot to teach the Internet giant. The country has become a vast lab for Google as it tries to refine mobile search technology. That's because Japan's 100 million cell phone users represent the most diverse—and discriminating—pool of mobile subscribers on the planet. Although Google also does plenty of testing elsewhere, the Japanese are often more critical because they are as likely to tap into the Internet with a high-tech phone as a PC and can do so at speeds rivaling fixed-line broadband. And because Japanese carriers have offered such services for years, plenty of Web sites are formatted for cell phones.

Tokyo's armies of fashion-obsessed shopaholics have long made the city figure prominently on the map of Western designers. Sure, the suit and tie remain the uniform of the salaryman, but for originality, nothing rivals Tokyo teenyboppers, who cycle in and out of fads faster than a schoolgirl can change out of her uniform and into Goth-Loli gear. (Think Little Bo Peep meets Sid Vicious.) For American and European brands, these young people are a wellspring of ideas that can be recycled for consumers back home (see Crossing Borders 13.3).

But now, instead of just exporting Tokyo cool, some savvy foreign companies are starting to use Japan as a testing ground for new concepts. They're offering products in Japan before they roll them out globally, and more Western retailers are opening new outlets in Tokyo to keep an eye on trends. Ohio-based Abercrombie & Fitch and Sweden's H&M (Hennes & Mauritz) set up shop in Tokyo in 2008, and Spain's Zara is expected to double its store count to 50 over the next three years. "Twenty-five or 30 years ago, major brands tested their new products in New York," says Mitsuru Sakuraba, who spent 20 years at French fashion house Charles Jourdan. "Now Japan has established a presence as a pilot market."

Some Western companies also have signed on with local partners who can better read the Japanese market. Gola, an English brand of athletic shoes and apparel, has teamed up with EuroPacific (Japan) Ltd., a Tokyo-based retailer of fashion footwear. EuroPacific tweaks Gola's designs for the Japanese market and, a few years ago, came up with the idea of pitching shin-high boxing boots to women. They were a hit with Japanese teens and twenty-somethings, prompting Gola to try offering them in other markets. "They've sold a hell of a lot in Europe," says EuroPacific Director Steve Sneddon.

Sources: Hiroko Tashiro, "Testing What's Hot in the Cradle of Cool," *BusinessWeek*, May 7, 2007, p. 46; Kenji Hall, "Japan: Google's Real-Life Lab," *BusinessWeek*, February 25, 2008, pp. 55–57.



It's crucial for top executives to get away from their desks and spend time in the marketplace. While detailed marketing research reports are important, decisions at the very top of the largest corporations must still be informed by a sense of the market and customers, obtainable only through direct contact by top executives. Here we see Bill Gates (left) and Steven Jobs (right) going east and west talking with and learning from their customers in the most direct way. Both have heavy international travel schedules, and both find face-to-face meetings with foreign vendors, partners, customers, and regulators to be an inescapable part of trying to understand their international markets. Most recently, to mark the twentieth anniversary of Microsoft's entry into Mexico, Gates played and lost a game of Xbox 360 soccer to Mexican national player Rafael Marquez. We wonder: Did he throw the game?

Information is the key component in developing successful marketing strategies, avoiding major marketing blunders, and promoting efficient exchange systems.[1] Information needs range from the general data required to assess market opportunities to specific market information for decisions about product, promotion, distribution, and price. Sometimes the information can be bought from trusted research vendors or supplied by internal marketing research staff. But sometimes even the highest-level executives have to "get their shoes dirty" by putting in the miles, talking to key customers, and directly observing the marketplace in action.[2] As an enterprise broadens its scope of operations to include international markets, the need for current, accurate information is magnified. Indeed, some researchers maintain that entry into a fast developing, new-to-the-firm foreign market is one of the most daunting and ambiguous strategic decisions an executive can face. A marketer must find the most accurate and reliable data possible within the limits imposed by time, cost, and the present state of the art.

Marketing research is traditionally defined as the systematic gathering, recording, and analyzing of data to provide information useful to marketing decision making. Although the research processes and methods are basically the same, whether applied in Columbus, Ohio, or Colombo, Sri Lanka, **international marketing research** involves two additional complications. First, information must be communicated across cultural boundaries. That is, executives in Chicago must be able to "translate" their research questions into terms that consumers in Guangzhou, China, can understand. Then the Chinese answers must be put into terms (i.e., reports and data summaries) that American managers can comprehend.

[1]Sudita Basu, John Dickaut, Gary Hecht, Kristy Towry, and Gregory Waymire, "Record Keeping Alters Economic History by Promoting Reciprocity," *PNAS* 106, no. 4 (2009), pp. 1009–14.

[2]Peter Drucker's wisdom improves with age. In his *The Wall Street Journal* article of May 11, 1990 (p.A15), he eloquently makes the case for direct observation of the marketplace by even the most senior executives. For the most substantive argument in that same vein, see Gerald Zaltman's description of emotional aspects of managerial decision making in "Rethinking Market Research: Putting People Back In," *Journal of Marketing Research* 34 (November 1997), pp. 424–37. Executives also learn about the "big picture" of the international business environment from mass media sources. Unfortunately, the effort to collect news around the world is shrinking fast as newspapers continue to cut reporting staffs, particularly at their international bureaus.

Fortunately, there are often internal staff and research agencies that are quite experienced in these kinds of cross-cultural communication tasks.

Second, the environments within which the research tools are applied are often different in foreign markets. Rather than acquire new and exotic methods of research, the international marketing researcher must develop the capability for imaginative and deft applications of tried and tested techniques in sometimes totally strange milieus. The mechanical problems of implementing foreign marketing research often vary from country to country. Within a foreign environment, the frequently differing emphases on the kinds of information needed, the often limited variety of appropriate tools and techniques available, and the difficulty of implementing the research process constitute challenges facing most international marketing researchers.

This chapter deals with the operational problems encountered in gathering information in foreign countries for use by international marketers. The emphasis is on those elements of data generation that usually prove especially troublesome in conducting research in an environment other than the United States.

Breadth and Scope of International Marketing Research

The basic difference between domestic and foreign market research is the broader scope needed for foreign research, necessitated by higher levels of uncertainty. Research can be divided into three types on the basis of information needs: (1) general information about the country, area, and/or market; (2) information necessary to forecast future marketing requirements by anticipating social, economic, consumer, and industry trends within specific markets or countries; and (3) specific market information used to make product, promotion, distribution, and price decisions and to develop marketing plans. In domestic operations, most emphasis is placed on the third type, gathering specific market information, because the other data are often available from secondary sources.

A country's political stability, cultural attributes, and geographical characteristics are some of the kinds of information not ordinarily gathered by domestic marketing research departments, but they are required for a sound assessment of a foreign market. This broader scope of international marketing research is reflected in Unisys Corporation's planning steps, which call for collecting and assessing the following types of information:

1. **Economic and demographic.** General data on growth in the economy, inflation, business cycle trends, and the like; profitability analysis for the division's products; specific industry economic studies; analysis of overseas economies; and key economic indicators for the United States and major foreign countries, as well as population trends, such as migration, immigration, and aging.
2. **Cultural, sociological, and political climate.** A general noneconomic review of conditions affecting the division's business. In addition to the more obvious subjects, it covers ecology, safety, and leisure time and their potential impacts on the division's business.
3. **Overview of market conditions.** A detailed analysis of market conditions that the division faces, by market segment, including international.
4. **Summary of the technological environment.** A summary of the state-of-the-art technology as it relates to the division's business, carefully broken down by product segments.
5. **Competitive situation.** A review of competitors' sales revenues, methods of market segmentation, products, and apparent strategies on an international scope.[3]

[3]Apparently companies engage in corporate espionage. See Evan Ramstad, "Chip Executives Arrested in South Korea," *The Wall Street Journal*, February 3, 2010; John J. Fialka, "Hugger-Mugger in the Executive Suite," *The New York Times*, February 2, 2010, p. W10. Apparently governments also get into the industrial competitive intelligence game. Associated Press, "China Denies U.S. Trade Espionage," *The Wall Street Journal*, July 20, 2009.

Such in-depth information is necessary for sound marketing decisions. For the domestic marketer, most such information has been acquired after years of experience with a single market, but in foreign countries, this information must be gathered for each new market.

There is a basic difference between information ideally needed and that which is collectible and/or used. Many firms engaged in foreign marketing do not make decisions with the benefit of the information listed.[4] Cost, time, and human elements are critical variables. Some firms have neither the appreciation for information nor adequate time or money for the implementation of research. As a firm becomes more committed to foreign marketing and the cost of possible failure increases, greater emphasis is placed on research.

The Research Process

A marketing research study is always a compromise dictated by the limits of time, cost, and the present state of the art. A key to successful research is a systematic and orderly approach to the collection and analysis of data. Whether a research program is conducted in New York or New Delhi, the **research process** should follow these steps:

1. Define the research problem and establish research objectives.
2. Determine the sources of information to fulfill the research objectives.
3. Consider the costs and benefits of the research effort.
4. Gather the relevant data from secondary or primary sources, or both.
5. Analyze, interpret, and summarize the results.
6. Effectively communicate the results to decision makers.

Although the steps in a research program are similar for all countries, variations and problems in implementation occur because of differences in cultural and economic development. Whereas the problems of research in England or Canada may be similar to those in the United States, research in Germany, South Africa, or Mexico may offer a multitude of difficult distinctions. These distinctions become apparent with the first step in the research process—formulation of the problem. The subsequent text sections illustrate some frequently encountered difficulties facing the international marketing researcher.

Defining the Problem and Establishing Research Objectives

LO1

The importance of problem definition in international research

After examining internal sources of data, the research process should begin with a definition of the research problem and the establishment of specific research objectives.[5] The major difficulty here is converting a series of often ambiguous business problems into tightly drawn and achievable research objectives. In this initial stage, researchers often embark on the research process with only a vague grasp of the total problem. A good example of such a loosely defined problem is that of Russian airline Aeroflot. The company undertook a branding study to inform its marketing decisions regarding improving its long-standing reputation for poor safety standards and unreliable service. This goal is a tough challenge for international marketing researchers.

This first, most crucial step in research is more critical in foreign markets because an unfamiliar environment tends to cloud problem definition. Researchers either fail to anticipate the influence of the local culture on the problem or fail to identify the self-reference criterion (SRC) and therefore treat the problem definition as if it were in the researcher's home environment. In assessing some foreign business failures, it becomes apparent that research was conducted, but the questions asked were more appropriate for the U.S. market than for the foreign one. For example, all of Disney's years of research and experience in

[4]Bent Petersen, Torben Pedersen, and Marjorie A. Lyles, "Closing the Knowledge Gaps in Foreign Markets," *Journal of International Business Studies* 39, no. 7 (2008), pp. 1097–113.

[5]Scholars in the field also struggle with defining the problem. See Mike W. Peng, "Identifying the Big Question in International Business Research," *Journal of International Business Studies* 35, no. 2 (2004), pp. 99–108; Susan B. Douglas and C. Samuel Craig, "On Improving the Conceptual Foundations of International Marketing Research," *Journal of International Marketing* 14, no. 1 (2006), pp. 1–22.

keeping people happy standing in long lines could not help Disney anticipate the scope of the problems it would run into with Disneyland Paris. The firm's experience had been that the relatively homogeneous clientele at both the American parks and Tokyo Disneyland were cooperative and orderly when it came to queuing up. Actually, so are most British and Germans. But the rules about queuing in other countries such as Spain and Italy are apparently quite different, creating the potential for a new kind of intra-European "warfare" in the lines. Understanding and managing this multinational customer service problem has required new ways of thinking. Isolating the SRC and asking the right questions are crucial steps in the problem formulation stage.

Other difficulties in foreign research stem from failures to establish problem limits broad enough to include all relevant variables. Information on a far greater range of factors is necessary to offset the unfamiliar cultural background of the foreign market. Consider proposed research about consumption patterns and attitudes toward hot milk-based drinks. In the United Kingdom, hot milk-based drinks are considered to have sleep-inducing, restful, and relaxing properties and are traditionally consumed prior to bedtime. People in Thailand, however, drink the same hot milk-based drinks in the morning on the way to work and see them as invigorating, energy-giving, and stimulating. If one's only experience is the United States, the picture is further clouded, because hot milk-based drinks are frequently associated with cold weather, either in the morning or the evening, and for different reasons each time of day. The market researcher must be certain the problem definition is sufficiently broad to cover the whole range of response possibilities and not be clouded by his or her self-reference criterion.

Indeed, this clouding is a problem that Mattel Inc. ran into headlong. The company conducted a coordinated global research program using focus groups of children in several countries. Based on these findings, the firm cut back on customization and ignored local managers' advice by selling an unmodified Barbie globally. Not only was it dangerous to ignore the advice of local managers; it was also dangerous to ignore parents' opinions involving toys. Kids may like a blonde Barbie, but parents may not. Unfortunately, our predictions about Barbie in a previous edition of this book proved correct: As we mentioned in previous chapters, sales of blonde Barbie dramatically declined in several foreign markets following the marketing research error.

Once the problem is adequately defined and research objectives established, the researcher must determine the availability of the information needed. If the data are available—that is, if they have been collected already by some other agency—the researcher should then consult these **secondary data** sources.

Problems of Availability and Use of Secondary Data

LO2

The problems of availability and use of secondary data

The U.S. government provides comprehensive statistics for the United States; periodic censuses of U.S. population, housing, business, and agriculture are conducted and, in some cases, have been taken for over 100 years. Commercial sources, trade associations, management groups, and state and local governments provide the researcher with additional sources of detailed U.S. market information. Often the problem for American marketing researchers is sorting through too much data!

Availability of Data

While the quantity and quality of marketing-related data available in the United States is unmatched in other countries, things are improving.[6] The data available on and in Japan is a close second, and several European countries do a good job of collecting and reporting data. Indeed, on some dimensions, the quality of data collected in these latter countries can actually exceed that in the United States. However, in many countries, substantial data collection has been initiated only recently.[7] Through the continuing efforts of organizations

[6] "The Government and the Geeks," *The Economist*, February 6, 2010, pp. 65–66.

[7] See GIS analyses based on the 2000 Census in China at http://www.geodemo.com, Demographic Consulting, Inc.

CROSSING BORDERS 8.1 Headache? Take Two Aspirin and Lie Down

Such advice goes pretty far in countries such as Germany, where Bayer invented aspirin more than 100 years ago, and the United States. But people in many places around the world don't share such Western views about medicine and the causes of disease. Many Asians, including Chinese, Filipinos, Koreans, Japanese, and Southeast Asians, believe illnesses such as headaches are the result of the imbalance between yin and yang. Yin is the feminine, passive principle that is typified by darkness, cold, or wetness. Alternatively, yang is the masculine, active principle associated with light, heat, or dryness. All things result from their combination, and bad things like headaches result from too much of one or the other. Acupuncture and moxibustion (heating crushed wormwood or other herbs on the skin) are common cures. Many Laotians believe pain can be caused by one of the body's 32 souls being lost or by sorcerers' spells. The exact cause is often determined by examining the yolk of a freshly broken egg. In other parts of the world, such as Mexico and Puerto Rico, illness is believed to be caused by an imbalance of one of the four body humors: "blood—hot and wet; yellow bile—hot and dry; phlegm—cold and wet; and black bile—cold and dry." Even in the high-tech United States, many people believe that pain is often a "reminder from God" to behave properly.

Now Bayer is marketing aspirin as a preventive drug for other ailments, such as intestinal cancer and heart attack. But in many foreign markets for companies such as Bayer, a key question to be addressed in marketing research is how and to what extent aspirin can be marketed as a supplement to the traditional remedies. That is, will little white pills mix well with phlegm and black bile?

Sources: Larry A. Samovar, Richard E. Porter, and Lisa A. Stefani, *Communication between Cultures*, 3rd ed. (Belmont, CA: Wadsworth Publishing, 1998), pp. 224–25; the direct quote is from N. Dresser, *Multicultural Manners: New Rules for Etiquette for a Changing Society* (New York: John Wiley & Sons, 1996), p. 236; see also "Aspirin Truly Merits Consideration as One of the Wonders of World," *Star-Ledger*, September 18, 2007, p. 67.

such as the United Nations and the Organization for Economic Cooperation and Development (OECD), improvements are being made worldwide.

In addition, with the emergence of eastern European countries as potentially viable markets, a number of private and public groups are funding the collection of information to offset a lack of comprehensive market data. Several Japanese consumer goods manufacturers are coordinating market research on a corporate level and have funded dozens of research centers throughout eastern Europe. As market activity continues in eastern Europe and elsewhere, market information will improve in quantity and quality. To build a database on Russian consumers, one Denver, Colorado, firm used a novel approach to conduct a survey: It ran a questionnaire in Moscow's *Komsomolskaya Pravda* newspaper asking for replies to be sent to the company. The 350,000 replies received (3,000 by registered mail) attested to the willingness of Russian consumers to respond to marketing inquiries. The problems of availability, reliability, and comparability of data and of validating secondary data are described in the following sections.

Another problem relating to the availability of data is researchers' language skills. For example, though data are often copious regarding the Japanese market, being able to read Japanese is a requisite for accessing them, either online or in text. This problem may seem rather innocuous, but only those who have tried to maneuver through foreign data can appreciate the value of having a native speaker of the appropriate language on the research team.

Reliability of Data

Available data may not have the level of reliability necessary for confident decision making for many reasons. Official statistics are sometimes too optimistic, reflecting national pride rather than practical reality, while tax structures and fear of the tax collector often adversely affect data.

Although not unique to them, less developed countries are particularly prone to being both overly optimistic and unreliable in reporting relevant economic data about their countries. China's National Statistics Enforcement Office recently acknowledged that it had uncovered about 60,000 instances of false statistical reports since beginning a crackdown on false data reporting several months earlier.[8] More recently the head of China's National Bureau of Statistics was fired for his involvement in an unfolding corruption scandal.[9] Seeking advantages or hiding failures, local officials, factory managers, rural enterprises, and others file fake numbers on everything from production levels to birthrates. For example, a petrochemical plant reported one year's output to be $20 million, 50 percent higher than its actual output of $13.4 million. Finally, if you believe the statistics, until 2000, the Chinese in Hong Kong were the world-champion consumers of fresh oranges—64 pounds per year per person, twice as much as Americans. However, apparently about half of all the oranges imported into Hong Kong, or some $30 million worth, were actually finding their way into the rest of China, where U.S. oranges were illegal.

Willful errors in the reporting of marketing data are not uncommon in the most industrialized countries either. Often print media circulation figures are purposely overestimated even in OECD countries. The European Union (EU) tax policies can affect the accuracy of reported data also. Production statistics are frequently inaccurate because these countries collect taxes on domestic sales. Thus, some companies shave their production statistics a bit to match the sales reported to tax authorities. Conversely, foreign trade statistics may be blown up slightly because each country in the European Union grants some form of export subsidy. Knowledge of such "adjusted reporting" is critical for a marketer who relies on secondary data for forecasting or estimating market demand.

Comparability of Data

LO3

Sources of secondary data

Comparability of available data is the third shortcoming faced by foreign marketers. In the United States, current sources of reliable and valid estimates of socioeconomic factors and business indicators are readily available. In other countries, especially those less developed, data can be many years out of date as well as having been collected on an infrequent and unpredictable schedule. Naturally, the rapid change in socioeconomic features being experienced in many of these countries makes the problem of currency a vital one. Furthermore, even though many countries are now gathering reliable data, there are generally no historical series with which to compare the current information. Comparability of data can even be a problem when the best commercial research firms collect data across countries, and managers are well advised to query their vendors about this problem.

A related problem is the manner in which data are collected and reported. Too frequently, data are reported in different categories or in categories much too broad to be of specific value. The term *supermarket,* for example, has a variety of meanings around the world. In Japan a supermarket is quite different from its American counterpart. Japanese supermarkets usually occupy two- or three-story structures; they sell foodstuffs, daily necessities, and clothing on respective floors. Some even sell furniture, electric home appliances, stationery, and sporting goods; some have a restaurant. General merchandise stores, shopping centers, and department stores are different from stores of the same name in the United States.

Validating Secondary Data

The shortcomings discussed here should be considered when using any source of information. Many countries have similarly high standards for the collection and preparation of data as those generally found in the United States, but secondary data from any source, including the United States, must be checked and interpreted carefully. As a practical matter, the following questions should be asked to effectively judge the reliability of secondary data sources:

1. Who collected the data? Would there be any reason for purposely misrepresenting the facts?
2. For what purposes were the data collected?
3. How (by what methodology) were the data collected?
4. Are the data internally consistent and logical in light of known data sources or market factors?

[8]Mark L. Clifford, "How Fast Is China Really Growing?" *BusinessWeek*, March 10, 2003, p. 65; "The Art of the Chinese Massage," *The Economist*, May 23, 2009, p. 82.

[9]"Chinese Statistics Chief Fired in Scandal Inquiry," *International Herald Tribune*, October 20, 2006, p. 3.

Checking the consistency of one set of secondary data with other data of known validity is an effective and often-used way of judging validity. For example, a researcher might check the sale of baby products with the number of women of childbearing age and birthrates, or the number of patient beds in hospitals with the sale of related hospital equipment. Such correlations can also be useful in estimating demand and forecasting sales. As is the case with many data sets, Hofstede's well-worn data sets described in Chapters 4 and 5 have proven valid vis-à-vis a variety of dependent variables, and it is still worthwhile to compare his measures of cultural values to other measures of the same variables.[10]

In general, the availability and accuracy of recorded secondary data increase as the level of economic development increases. There are exceptions; India is at a lower level of economic development than many countries but has accurate and relatively complete government-collected data.

Fortunately, interest in collecting high-quality statistical data rises as countries realize the value of extensive and accurate national statistics for orderly economic growth. This interest in improving the quality of national statistics has resulted in remarkable improvement in the availability of data over the last 25 years. However, when no data are available or the secondary data sources are inadequate, it is necessary to begin the collection of primary data.

The appendix to this chapter includes a comprehensive listing of secondary data sources, including Web sites on a variety of international marketing topics. Indeed, almost all secondary data available on international markets can now be discovered or acquired via the Internet. For example, the most comprehensive statistics regarding international finances, demographics, consumption, exports, and imports are accessible through a single source, the U.S. Department of Commerce at www.stat-usa.gov. Many other governmental, institutional, and commercial sources of data can be tapped into on the Internet as well. You can find supplementary information about this text at www.mhhe.com/cateora15e.

Gathering Primary Data: Quantitative and Qualitative Research

LO4

Quantitative and qualitative research methods

If, after seeking all reasonable secondary data sources, research questions are still not adequately answered, the market researcher must collect **primary data**—that is, data collected specifically for the particular research project at hand. The researcher may question the firm's sales representatives, distributors, middlemen, and/or customers to get appropriate market information. Marketing research methods can be grouped into two basic types: quantitative and qualitative research. In both methods, the marketer is interested in gaining knowledge about the market.

In *quantitative research*, usually a large number of respondents are asked to reply either verbally or in writing to structured questions using a specific response format (such as yes/no) or to select a response from a set of choices. Questions are designed to obtain specific responses regarding aspects of the respondents' behavior, intentions, attitudes, motives, and demographic characteristics. Quantitative research provides the marketer with responses that can be presented with precise estimations. The structured responses received in a survey can be summarized in percentages, averages, or other statistics. For example, 76 percent of the respondents prefer product A over product B, and so on. Survey research is generally associated with quantitative research, and the typical instrument used is a questionnaire administered by personal interview, mail, telephone, and, most recently, over the Internet.

Scientific studies, including tightly designed experiments, often are conducted by engineers and chemists in product-testing laboratories around the world. There, product designs and formulas are developed and tested in consumer usage situations. Often those results are integrated with consumer opinions gathered in concurrent survey studies. One of the best

[10]Linhui Tang and Peter E. Koveos, "A Framework to Update Hofstede's Cultural Values Indices: Economic Dynamics and Institutional Stability," *Journal of International Business Studies* 39, no. 6 (2008), pp. 1045–64; Robbert Maseland and Andre van Hoorn, "Explaining the Negative Correlation between Values and Practices: A Note on the Hofstede-GLOBE Debate," *Journal of International Business Studies* 40, no. 3 (2009), pp. 527–32.

examples of this kind of marketing research comes from Tokyo. You may not know it, but the Japanese are the world champions of bathroom and toilet technology. Japan's biggest company in that industry, Toto, has spent millions of dollars developing and testing consumer products. Thousands of people have collected data (using survey techniques) about the best features of a toilet, and at the company's "human engineering laboratory," volunteers sit in a Toto bathtub with electrodes strapped to their skulls to measure brain waves and "the effects of bathing on the human body." Toto is now introducing one of its high-tech (actually low-tech compared with what it offers in Japan) toilets in the U.S. market. It's a $600 seat, lid, and control panel that attaches to the regular American bowl. It features a heated seat and deodorizing fan.

In *qualitative research*, if questions are asked, they are almost always open-ended or in-depth, and unstructured responses that reflect the person's thoughts and feelings on the subject are sought. Consumers' first impressions about products may be useful. Direct observation of consumers in choice or product usage situations is another important qualitative approach to marketing research. One researcher spent two months observing birthing practices in American and Japanese hospitals to gain insights into the export of healthcare services. Nissan Motors sent a researcher to live with an American family (renting a room in their house for six weeks) to directly observe how Americans use their cars. Most recently the British retailer TESCO sent teams to live with American families to observe their shopping behaviors in advance of its new entry in the U.S. supermarket battleground with Walmart and others.[11] Anderson Worldwide, Nynex, and Texas Commerce Bank have all employed anthropologists who specialize in observational and in-depth interviews in their marketing research. Qualitative research seeks to interpret what the people in the sample are like—their outlooks, their feelings, the dynamic interplay of their feelings and ideas, their attitudes and opinions, and their resulting actions. The most often used form of qualitative questioning is the focus group interview. However, oftentimes, in-depth interviewing of individuals can be just as effective while consuming far fewer resources.

Qualitative research is used in international marketing research to formulate and define a problem more clearly and to determine relevant questions to be examined in subsequent research. It is also used to stimulate ad message ideas and where interest centers on gaining an understanding of a market rather than quantifying relevant aspects. For example, a small group of key executives at Solar Turbines International, a division of Caterpillar Tractor Company, called on key customers at their offices around the world. They discussed in great depth, with both financial managers and production engineers, potential applications and the demand for a new size of gas-turbine engine the company was considering developing. The data and insights gained during the interviews to a large degree confirmed the validity of the positive demand forecasts produced internally through macroeconomic modeling. The multimillion-dollar project was then implemented. During the discussions, new product features were suggested by the customer personnel that proved most useful in the development efforts.

Qualitative research is also helpful in revealing the impact of sociocultural factors on behavior patterns and in developing research hypotheses that can be tested in subsequent studies designed to quantify the concepts and relevant relationships uncovered in qualitative data collection. Procter & Gamble has been one of the pioneers of this type of research—the company has systematically gathered consumer feedback for some 70 years. It was the first company to conduct in-depth consumer research in China. In the mid-1990s, P&G began working with the Chinese Ministry of Health to develop dental hygiene programs that have now reached millions there.

Oftentimes the combination of qualitative and quantitative research proves quite useful in consumer markets and business-to-business marketing settings as well. In one study, the number of personal referrals used in buying financial services in Japan was found to be much greater than that in the United States.[12] The various comments made by the executives during interviews in both countries proved invaluable in interpreting the quantitative

[11]Cecillie Rohwedder, "Tesco Studies Hard for U.S. Debut," *The Wall Street Journal*, June 28, 2007, pp. B1, B2.

[12]R. Bruce Money, "Word-of-Mouth Referral Sources for Buyers of International Corporate Financial Services," *Journal of World Business* 35, no. 3 (Fall 2000), pp. 314–29.

results, suggesting implications for managers and providing ideas for further research. Likewise, the comments of sales managers in Tokyo during in-depth interviews helped researchers understand why individual financial incentives did not work with Japanese sales representatives.[13]

As we shall see later in this chapter, using either research method in international marketing research is subject to a number of difficulties brought about by the diversity of cultures and languages encountered.

Problems of Gathering Primary Data

The problems of collecting primary data in foreign countries are different only in degree from those encountered in the United States. Assuming the research problem is well defined and the objectives are properly formulated, the success of primary research hinges on the ability of the researcher to get correct and truthful information that addresses the research objectives. Most problems in collecting primary data in international marketing research stem from cultural differences among countries and range from the inability or unwillingness[14] of respondents to communicate their opinions to inadequacies in questionnaire translation.

Ability to Communicate Opinions

The ability to express attitudes and opinions about a product or concept depends on the respondent's ability to recognize the usefulness and value of such a product or concept. It is difficult for a person to formulate needs, attitudes, and opinions about goods whose use may not be understood, that are not in common use within the community, or that have never been available. For example, someone who has never had the benefits of an office computer will be unable to express accurate feelings or provide any reasonable information about purchase intentions, likes, or dislikes concerning a new computer software package. The more complex the concept, the more difficult it is to design research that will help the respondent communicate meaningful opinions and reactions. Under these circumstances, the creative capabilities of the international marketing researcher are challenged.

No company has had more experience in trying to understand consumers with communication limitations than Gerber. Babies may be their business, but babies often can't talk, much less fill out a questionnaire. Over the years, Gerber has found that talking to and observing both infants and their mothers are important in marketing research. In one study, Gerber found that breast-fed babies adapted to solid food more quickly than bottle-fed babies because breast milk changes flavor depending on what the mother has eaten. For example, infants were found to suck longer and harder if their mother had recently eaten garlic. In another study, weaning practices were studied around the world. Indian babies were offered lentils served on a finger. Some Nigerian children got fermented sorghum, fed by the grandmother through the funnel of her hand. In some parts of tropical Asia, mothers "food-kissed" prechewed vegetables into their babies' mouths. Hispanic mothers in the United States tend to introduce baby food much earlier than non-Hispanic mothers and continue it well beyond the first year. All this research helps the company decide which products are appropriate for which markets. For example, the Vegetable and Rabbit Meat and the Freeze-Dried Sardines and Rice flavors popular in Poland and Japan, respectively, most likely won't make it to American store shelves.

Willingness to Respond

Cultural differences offer the best explanation for the unwillingness or the inability of many to respond to research surveys. The role of the male, the suitability of personal gender-based inquiries, and other gender-related issues can affect willingness to respond.

In some countries, the husband not only earns the money but also dictates exactly how it is to be spent. Because the husband controls the spending, it is he, not the wife, who should

[13]R. Bruce Money and John L. Graham, "Sales Person Performance, Pay, and Job Satisfaction: Tests of a Model Using Data Collected in the U.S. and Japan," *Journal of International Business Studies* 30, no. 1 (1999), pp. 149–72.

[14]Fang Wu, Rudolf R. Sinkovics, S. Tamer Cavusgil, and Anthony S. Roath, "Overcoming Export Manufacturers' Dilemma in International Expansion," *Journal of International Business Studies* 38 (2007), pp. 283–302.

be questioned to determine preferences and demand for many consumer goods. In some countries, women would never consent to be interviewed by a man or a stranger. A French Canadian woman does not like to be questioned and is likely to be reticent in her responses. In some societies, a man would certainly consider it beneath his dignity to discuss shaving habits or brand preference in personal clothing with anyone—most emphatically not a female interviewer.

Anyone asking questions about any topic from which tax assessment could be inferred is immediately suspected of being a tax agent. Citizens of many countries do not feel the same legal and moral obligations to pay their taxes as do U.S. citizens. Tax evasion is thus an accepted practice for many and a source of pride for the more adept. Where such an attitude exists, taxes are often seemingly arbitrarily assessed by the government, which results in much incomplete or misleading information being reported. One of the problems revealed by the government of India in a recent population census was the underreporting of tenants by landlords trying to hide the actual number of people living in houses and flats. The landlords had been subletting accommodations illegally and were concealing their activities from the tax department.

In the United States, publicly held corporations are compelled by the Securities and Exchange Commission (SEC) to disclose certain operating figures on a periodic basis. In many European countries, however, such information is seldom if ever released and then most reluctantly. For example, in Germany attempts to enlist the cooperation of merchants in setting up an in-store study of shelf inventory and sales information ran into strong resistance because of suspicions and a tradition of competitive secrecy. The resistance was overcome by the researcher's willingness to approach the problem step by step. As the retailer gained confidence in the researcher and realized the value of the data gathered, more and more requested information was provided. Besides the reluctance of businesses to respond to surveys, local politicians in underdeveloped countries may interfere with studies in the belief that they could be subversive and must be stopped or hindered. A few moments with local politicians can prevent days of delay.

Although such cultural differences may make survey research more difficult to conduct, it is possible. In some communities, locally prominent people could open otherwise closed doors; in other situations, professional people and local students have been used as interviewers because of their knowledge of the market. Less direct measurement techniques and nontraditional data analysis methods may also be more appropriate. In one study, Japanese supermarket buyers rated the nationality of brands (foreign or domestic) as relatively unimportant in making stocking decisions when asked directly; however, when an indirect,

Midnight in New Delhi—both customer service and telephone survey research are being outsourced to lower-wage English-speaking countries. Cost savings of such outsourcing must be balanced with consumer reluctance in cross-cultural communication settings, particularly those involving voluntary responses to marketing research.

paired-comparison questioning technique was used, brand nationality proved to be the most important factor.[15]

Sampling in Field Surveys

LO5

Multicultural sampling and its problems in less-developed countries

The greatest problem in sampling stems from the lack of adequate demographic data and available lists from which to draw meaningful samples. If current, reliable lists are not available, sampling becomes more complex and generally less reliable. In many countries, telephone directories, cross-index street directories, census tract and block data, and detailed social and economic characteristics of the population being studied are not available on a current basis, if at all. The researcher has to estimate characteristics and population parameters, sometimes with little basic data on which to build an accurate estimate.

To add to the confusion, in some South American, Mexican, and Asian cities, street maps are unavailable, and in some Asian metropolitan areas, streets are not identified and houses are not numbered. In contrast, one of the positive aspects of research in Japan and Taiwan is the availability and accuracy of census data on individuals. In these countries, when a household moves, it is required to submit up-to-date information to a centralized government agency before it can use communal services such as water, gas, electricity, and education.

The effectiveness of various methods of communication (mail, telephone, personal interview, and Internet) in surveys is limited. In many countries, telephone ownership is extremely low, making telephone surveys virtually worthless unless the survey is intended to cover only the wealthy. In Sri Lanka, fewer than 19 percent of the residents have landline telephones and less than 7 percent Internet access—that is, only the wealthy.

The adequacy of sampling techniques is also affected by a lack of detailed social and economic information. Without an age breakdown of the total population, for example, the researcher can never be certain of a representative sample requiring an age criterion, because there is no basis of comparison for the age distribution in the sample. A lack of detailed information, however, does not prevent the use of sampling; it simply makes it more difficult. In place of probability techniques, many researchers in such situations rely on convenience samples taken in marketplaces and other public gathering places.

McDonald's got into trouble over sampling issues. The company was involved in a dispute in South Africa over the rights to its valuable brand name in that fast emerging market. Part of the company's claim revolved around the recall of the McDonald's name among South Africans. In the two surveys the company conducted and provided as proof in the proceedings, the majority of those sampled had heard the company name and could recognize the logo. However, the Supreme Court judge hearing the case took a dim view of the evidence because the surveys were conducted in "posh, white" suburbs, whereas 79 percent of the South African population is black. Based in part on these sampling errors, the judge threw out McDonald's case.

Inadequate mailing lists and poor postal service can be problems for the market researcher using mail to conduct research. For example, in Nicaragua, delays of weeks in delivery are not unusual, and expected returns are lowered considerably because a letter can be mailed only at a post office. In addition to the potentially poor mail service within countries, the extended length of time required for delivery and return when a mail survey is conducted from another country further hampers the use of mail surveys. Although airmail reduces this time drastically, it also increases costs considerably.

Language and Comprehension

The most universal survey research problem in foreign countries is the language barrier. Differences in idiom and the difficulty of exact translation create problems in eliciting the specific information desired and in interpreting the respondents' answers.[16] Types of scales appropriate in some cultures, such as reverse-worded items, are problematic in other cultures.[17] Equivalent

[15]Frank Alpert, Michael Kamins, Tomoaki Sakano, Naoto Onzo, and John L. Graham, "Retail Buyer Beliefs, Attitudes, and Behaviors toward Pioneer and Me-Too Follower Brands: A Comparative Study of Japan and the United States," *International Marketing Review* 18, no. 2 (2001), pp. 160–87.

[16]Shi Zhang and Bernd H. Schmitt, "Creating Local Brands in Multilingual International Markets," *Journal of Marketing Research* 38 (August 2001), pp. 313–25.

[17]Nancy Wong, Aric Rindfleisch, and James E. Burroughs, "Do Reverse-Worded Items Confound Measures in Cross-Cultural Research? The Case of the Material Values Scale," *Journal of Consumer Research* 30, no. 1 (June 2003), pp. 72–91.

CROSSING BORDERS 8.2 French Is Special

The word on the table that morning was "cloud computing."

To translate the English term for computing resources that can be accessed on demand on the Internet, a group of French experts had spent 18 months coming up with informatique en nuage, which literally means "computing in cloud." France's General Commission of Terminology and Neology—a 17-member group of professors, linguists, scientists, and a former ambassador—had gathered in a building overlooking the Louvre to approve the term.

Keeping the French language relevant isn't easy in the Internet age. For years, French bureaucrats have worked hard to keep French up to date by diligently coming up with equivalents for English terms. Although most French people say "le weekend" and "un surfer," the correct translations of the terms are fin de semaine ("end of the week") and aquaplanchiste ("water boarder"—which makes one wonder what term they use for that kind of torture). A start-up company is referred to as jeune pousse, or young shoot (the term pousse refers to vegetable sprouts), and the World Wide Web is translated as toile d'araignée mondiale (literally, global spider web).

But technological advancements mean new Anglicisms are spreading over the Internet at warp speed, leaving the French scratching their heads. Before a word such as "cloud computing" or "podcasting" (diffusion pour baladeur) receives a certified French equivalent, it needs to be approved by three organizations and get a government minister's seal of approval, according to rules laid out by the state's General Delegation for the French Language and the Languages of France. The process can be a linguistic odyssey taking years. "Rigor cannot be compromised," said Xavier North, the 57-year-old civil servant who heads the General Delegation.

On its Web site, the General Delegation for the French Language reminds French citizens that the terms beach volleyball, beach tennis, and beach hockey are not always correct. As these sports are becoming more popular, "they are often taking place . . . in arenas," the General Delegation states. As these sports don't necessarily take place on beaches, the word beach should be replaced with "on sand (sur sable). Hence, the terms hockey sur sable, tennis sur sable, and volley sur sable are recommended by the General Commission of Terminology and Neology.

The French have achieved some success in their efforts. A recent study of language selection policies of the International Electrotechnical Commission (IEC) members reports, "Results show that the English and French languages are moderately used for technical work while the English language is purely used for communication." Of course, we are not sure what the sentence quoted actually means, so we do not know how heartily to congratulate the French officials!

Source: Max Colchester, "The French Get Lost in the Clouds over a New Term in the Internet Age," The Wall Street Journal, October 14, 2009; Hans Teichmann, "Language Selection Policies in International Standardization: Perceptions of the IEC Member Countries," International Journal of IT Standards & Standardization Research 7, no. 2 (2009), pp. 23–42.

concepts may not exist in all languages. Family, for example, has different connotations in different countries. In the United States, it generally means only the parents and children. In Italy and many Latin countries, it could mean the parents, children, grandparents, uncles, aunts, cousins, and so forth. The meaning of names for family members can differ too, depending on the context within which they are used. In the Italian culture, the words for aunt and uncle are different for the maternal and paternal sides of the family. The concept of affection is a universal idea, but the manner in which it is manifested in each culture may differ. Kissing, an expression of affection in the West, is alien to many Eastern cultures and even taboo in some.

Literacy poses yet another problem. In some less developed countries with low literacy rates, written questionnaires are completely useless. Within countries, too, the problem of dialects and different languages can make a national questionnaire survey impractical. In India, there are 14 official languages and considerably more unofficial ones. One researcher has used pictures of products as stimuli and pictures of faces as response criteria in a study of eastern German brand preferences to avoid some of the difficulties associated with language differences and literacy in international research. Still others have used other nonverbal kinds of response elicitation techniques, such as pictures and collages.[18]

[18]Gerald Zaltman, "Rethinking Marketing Research: Putting the People Back In," *Journal of Marketing Research* 34 (November 1997), pp. 424–37.

Marketing researchers in India have to consider the problems of language diversity. Here the primary 13 languages (besides English) are listed on a 20-rupee note.

Furthermore, a researcher cannot assume that a translation into one language will suffice in all areas where that language is spoken. For example, a researcher in Mexico requested a translation of the word *outlet*, as in *retail outlet*, to be used in Venezuela. It was read by Venezuelans to mean an electrical outlet, an outlet of a river into an ocean, and the passageway into a patio. Of course the responses were useless—though interesting. Thus, it will always be necessary for a native speaker of the target country's language to take the "final cut" of any translated material.

In all countries all marketing communications, including research questionnaires, must be written *perfectly*. If not, consumers and customers will not respond with accuracy, or even at all. The obvious solution of having questionnaires prepared or reviewed by a native speaker of the language of the country is frequently overlooked. Even excellent companies such as American Airlines bring errors into their measurement of customer satisfaction by using the same questionnaire in Spanish for their surveys of passengers on routes to Spain and Mexico. A question regarding meal preferences, for example, may cause confusion because to a Spaniard, orange juice is *zumo de naranja*, while a Mexican would order *jugo de naranja*. These apparently subtle differences are no such things to Spanish speakers. Marketers use three different techniques, back translation, parallel translation, and decentering, to help ferret out translation errors ahead of time.

Back Translation. In **back translation**, the questionnaire is translated from one language to another, and then a second party translates it back into the original, and the two original language versions are compared. This process often pinpoints misinterpretations and misunderstandings before they reach the public. In one study regarding advertising themes, a soft-drink company wanted to use a very successful Australian advertising theme, "Baby, it's cold inside," in Hong Kong. It had the theme translated from English into Cantonese by one translator and then retranslated by another from Cantonese into English, in which the statement came out as "Small mosquito, on the inside it is very cold." Although "small mosquito" is the colloquial expression for "small child" in Hong Kong, the intended meaning was lost in translation.

Parallel Translation. Back translations may not always ensure an accurate translation because of commonly used idioms in both languages. **Parallel translation** is used to overcome this problem. In this process, more than two translators are used for the back translation; the results are compared, differences discussed, and the most appropriate translation selected. Most recently, researchers have suggested augmenting this process by integrating pretesting steps and iteratively adapting the translations.[19]

Decentering. A third alternative, known as **decentering**, is a hybrid of back translation. It is a successive process of translation and retranslation of a questionnaire, each time

[19]Susan P. Douglas and C. Samuel Craig, "Collaborative and Iterative Translation: An Alternative Approach to Back Translation," *Journal of International Marketing* 15, no. 1 (2007), pp. 30–43.

The complexities of the Japanese language confront second graders in Kyoto, where students write some of the 200-plus characters for the sound shou. The language commonly uses 15,000 kanji characters, which are borrowed from Chinese. The differences in the structure of the language from English make translation of questionnaires a most daunting task.

by a different translator. For example, an English version is translated into French and then translated back to English by a different translator. The two English versions are compared, and where there are differences, the original English version is modified and the process is repeated. If there are still differences between the two English versions, the original English version of the second iteration is modified, and the process of translation and back translation is repeated. The process continues to be repeated until an English version can be translated into French and back translated, by a different translator, into the same English. In this process, the wording of the original instrument undergoes a change, and the version that is finally used and its translation have equally comprehensive and equivalent terminologies in both languages.

Regardless of the procedure used, proper translation and the *perfect* use of the local language in a questionnaire are of critical importance to successful research design. Because of cultural and national differences, confusion can just as well be the problem of the researcher as of the respondent. The question itself may not be properly worded in the English version, or English slang or abbreviated words may be translated with a different or ambiguous meaning. Such was the case mentioned earlier with the word *outlet* for *retail outlet*. The problem was not with the translation as much as with the term used in the question to be translated. In writing questions for translation, it is important that precise terms, not colloquialisms or slang, be used in the original to be translated. One classic misunderstanding that occurred in a *Reader's Digest* study of consumer behavior in western Europe resulted in a report that France and Germany consumed more spaghetti than did Italy. This rather curious and erroneous finding resulted from questions that asked about purchases of "packaged and branded spaghetti." Italians buy their spaghetti in bulk; the French and Germans buy branded and packaged spaghetti. Because of this crucial difference, the results underreported spaghetti purchases by Italians. Had the goal of the research been to determine how much branded and packaged spaghetti was purchased, the results would have been correct. However, because the goal was to know about total spaghetti consumption, the data were incorrect. Researchers must always verify that they are asking the right question.

Some of the problems of cross-cultural marketing research can be addressed after data have been collected. For example, we know that consumers in some countries such as Japan tend to respond to rating scales more conservatively than Americans. That is, on a 1 to 7 scale anchored by "extremely satisfied" and "extremely dissatisfied," Japanese tend to answer more toward the middle (more 3s and 5s), whereas Americans' responses tend toward the extremes (more 1s and 7s). Such a response bias can be managed through statistical standardization procedures to maximize comparability.[20] Some translation problems can be detected and mitigated post hoc through other statistical approaches as well.[21]

[20]Hans Baumgartner and Jan-Benedict E. M. Steenkamp, "Response Styles in Marketing Research: A Cross-National Investigation," *Journal of Marketing Research* 38 (May 2001), pp. 143–56; Martijin G. De Jong, Jan-Benedict E. M. Steenkamp, Jean-Paul Fox, and Hans Baumgartner, "Using Item Response Theory to Measure Extreme Response Style in Marketing Research: A Global Investigation," *Journal of Marketing Research* 45, no. 1 (2008), pp. 260–78.

[21]S. Durvasula, R. G. Netemeyer, J. C. Andrews, and S. Lysonski, "Examining the Cross-National Applicability of Multi-Item, Multi-Dimensional Measures Using Generalizability Theory," *Journal of International Business Studies* 37 (2006), pp. 469–83; Martijin G. De Jong, Jan-Benedict E. M. Steenkamp, and Jean-Paul Fox, "Relaxing Measurement Invariance in Cross-National Consumer Research Using a Hierarchical IRT Model," *Journal of Consumer Research* 34 (2007), pp. 260–72; Yi He, Michael A. Merz, and Dana L. Alden, "Diffusion of Measurement Invariance Assessment in Cross-National Empirical Marketing Research: Perspectives from the Literature and a Survey of Researchers," *Journal of International Marketing* 16, no. 2 (2008), pp. 64–83; Martijn G. de Jong, Jan-Benedict E. M. Steenkamp, and Bernard P. Veldkamp, "A Model for the Construction of Country-Specific Yet Internationally Comparable Short-Form Marketing Scales," *Marketing Science* 29, no. 4 (2009), pp. 674–89.

Multicultural Research: A Special Problem

As companies become global marketers and seek to standardize various parts of the marketing mix across several countries, multicultural studies become more important. A company needs to determine to what extent adaptation of the marketing mix is appropriate.[22] Thus, market characteristics across diverse cultures must be compared for similarities and differences before a company proceeds with standardization on any aspect of marketing strategy. The research difficulties discussed thus far have addressed problems of conducting research within a culture. When engaging in multicultural studies, many of these same problems further complicate the difficulty of cross-cultural comparisons.[23]

Multicultural research involves countries that have different languages, economies, social structures, behavior, and attitude patterns. When designing multicultural studies, it is essential that these differences be taken into account.[24] An important point to keep in mind when designing research to be applied across cultures is to ensure comparability and equivalency of results. Different methods may have varying reliabilities in different countries. Such differences may mean that different research methods should be applied in individual countries.

In some cases, the entire research design may have to be different between countries to maximize the comparability of the results. For example, in Latin American countries, it may be difficult to attract consumers to participate in either focus groups or in-depth interviews because of different views about commercial research and the value of their time. And Japanese, compared with American businesspeople, tend not to respond to mail surveys. The latter problem was handled in two recent studies by using alternative methods of questionnaire distribution and collection in Japan. In one study, attitudes of retail buyers regarding pioneer brands were sought. In the U.S. setting, a sample was drawn from a national list of supermarket buyers, and questionnaires were distributed and collected by mail. Alternatively, in Japan, the questionnaires were distributed through contact people at 16 major supermarket chains and then returned by mail directly to the Japanese researchers. The second study sought to compare the job satisfaction of American and Japanese sales representatives. The questionnaires were delivered and collected via the company mail system for the U.S. firm. For the Japanese firm, participants in a sales training program were asked to complete the questionnaires during the program. Although the authors of both studies suggest that the use of different methods of data collection in comparative studies threatens the quality of the results, the approaches taken were the best (only) practical methods of conducting the research.

The adaptations necessary to complete these cross-national studies serve as examples of the need for resourcefulness in international marketing research. However, they also raise serious questions about the reliability of data gathered in cross-national research. Evidence suggests that often insufficient attention is given not only to nonsampling errors and other problems that can exist in improperly conducted multicultural studies but also to the appropriateness of research measures that have not been tested in multicultural contexts.

Research on the Internet: A Growing Opportunity

To keep up with the worldwide growth in Internet use is literally impossible. We know that at this writing, there are more than 1.8 billion users in more than 200 countries. About one-sixth of the users are in the United States, but more than half of the hosts are there. The fastest growing market for the Internet is now China, with 375 million users at last count.[25] International Internet use is growing almost

[22]Amanda J. Broderick, Gordon E. Greenley, and Rene Dentiste Mueller, "The Behavioral Homogeneity Evaluation Framework: Multi-Level Evaluations of Consumer Involvement in International Segmentation," *Journal of International Business Studies* 38 (2007), pp. 746–63.

[23]Masaski Kotabe, "Contemporary Research Trends in International Marketing," in *Oxford Handbook of International Business*, 2nd edition, ed. Alan Rugman (Oxford: Oxford University Press, 2009), Chapter 17.

[24]James Reardon, Chip Miller, Bram Foubert, Irena Vida, and Liza Rybina, "Antismoking Messages for the International Teenage Segment: The Effectiveness of Message Valence and Intensity across Different Cultures," *Journal of International Marketing* 14, no. 3 (2006), pp. 114–36.

[25]Euromonitor.com, 2010.

twice as fast as American use. Growth in countries such as Costa Rica was dramatically spurred by the local government's decision to reclassify computers as "educational tools," thus eliminating all import tariffs on the hardware. The demographics of users worldwide are as follows: 60 percent male and 40 percent female; average age about 32 years; about 60 percent college educated; median income of about $60,000; usage time about 2.5 hours per week; and main activities of e-mail and finding information. The percentage of home pages by language is as follows: English, 80 percent; Japanese, 4 percent; German, 3 percent; French, 2 percent; Spanish, 1 percent; and all others less than 1 percent each.

For many companies, the Internet provides a new and increasingly important medium for conducting a variety of international marketing research. Indeed, a survey of marketing research professionals suggests that the most important influences on the industry are the Internet and globalization. New product concepts and advertising copy can be tested over the Internet for immediate feedback. Worldwide consumer panels[26] have been created to help test marketing programs across international samples. It has been suggested that there are at least eight different uses for the Internet in international research:

1. **Online surveys and buyer panels.** These can include incentives for participation, and they have better "branching" capabilities (asking different questions based on previous answers) than more expensive mail and phone surveys.
2. **Online focus groups.** Bulletin boards can be used for this purpose.
3. **Web visitor tracking.** Servers automatically track and time visitors' travel through Web sites.
4. **Advertising measurement.** Servers track links to other sites, and their usefulness can therefore be assessed.
5. **Customer identification systems.** Many companies are installing registration procedures that allow them to track visits and purchases over time, creating a "virtual panel."
6. **E-mail marketing lists.** Customers can be asked to sign up on e-mail lists to receive future direct marketing efforts via the Internet.
7. **Embedded research.** The Internet continues to automate traditional economic roles of customers, such as searching for information about products and services, comparison shopping among alternatives, interacting with service providers, and maintaining the customer–brand relationship. More and more of these Internet processes look and feel like research processes themselves. The methods are often embedded directly into the actual purchase and use situations and therefore are more closely tied to actual economic behavior than traditional research methods. Some firms even provide the option of custom designing products online—the ultimate in applying research for product development purposes.
8. **Observational research (also known as netnography).** Chat rooms, blogs, and personal Web sites can all be systematically monitored to assess consumers' opinions about products and services.

Clearly, as the Internet continues to grow, even more types of research will become feasible, and the extent to which new translation software has an impact on marketing communications and research over the Internet will be quite interesting to watch. Some companies now provide translation services for questionnaires, including commonly used phrases such as "rate your satisfaction level."[27] Surveys in multiple languages can be produced quickly, given the translation libraries now available from some application service providers. Finally, as is the case in so many international marketing contexts, privacy is and will continue to be a matter of personal and legal considerations. A vexing challenge facing international marketers will be the cross-cultural concerns about privacy and the enlistment of cooperative consumer and customer groups.

[26]Information regarding worldwide Internet panels is available at http://www.decisionanalyst.com.

[27]See, for example, http://www.markettools.com.

The ability to conduct primary research is one of the exciting aspects about the Internet. However, the potential bias of a sample universe composed solely of Internet respondents presents some severe limitations, and firms vary substantially in their abilities to turn data collected into competitive advantages.[28] Nevertheless, as more of the general population in countries gain access to the Internet, this tool will be all the more powerful and accurate for conducting primary research. Also, the Internet can be used as one of several methods of collecting data, offering more flexibility across countries.

Today the real power of the Internet for international marketing research is the ability to easily access volumes of secondary data. These data have been available in print form for years, but now they are much easier to access and, in many cases, are more current. Instead of leafing through reference books to find two- or three-year-old data, as is the case with most printed sources, you can often find up-to-date data on the Internet. Such Internet sites as www.stat-usa.gov provide almost all data that are published by the U.S. government. If you want to know the quantity of a specific product being shipped to a country, the import duties on a product, and whether an export license is required, it's all there, via your computer. A variety of private firms also provide international marketing information online. See the Appendix of this chapter for more detail.

Estimating Market Demand

The unprecedented events of the crash in world trade during 2009 have yielded a scary variety of headlines facing international forecasters—"What Went Wrong with Economics?" "Managing in the Fog," and "Strategic Plans Lose Favor" to name just a few.[29] In assessing current product demand and forecasting future demand, reliable historical data are required.[30] As previously noted, the quality and availability of secondary data frequently are inadequate; nevertheless, estimates of market size must be attempted to plan effectively. Despite limitations, some approaches to demand estimation are usable with minimum information. The success of these approaches relies on the ability of the researcher to find meaningful substitutes or approximations for the needed economic, geographic, and demographic relationships.

When the desired statistics are not available, a close approximation can be made using local production figures plus imports, with adjustments for exports and current inventory levels. These data are more readily available because they are commonly reported by the United Nations and other international agencies. Once approximations for sales trends are established, historical series can be used as the basis for projections of growth. In any straight extrapolation however, the estimator assumes that the trends of the immediate past will continue into the future. This assumption can be problematic when the pertinent past has included a major unique event, positive or negative, such as the 2009 crash in world trade.[31] In a rapidly developing economy, extrapolated figures may not reflect rapid growth and must be adjusted accordingly. Given the greater uncertainties and data limitations associated with foreign markets, two methods of forecasting demand are particularly suitable for international marketers: expert opinion and analogy.

Expert Opinion

For many market estimation problems, particularly in foreign countries that are new to the marketer, **expert opinion** is advisable. In this method, experts are polled for their opinions about market size and growth rates. Such experts may be the companies' own sales managers or outside consultants and government officials. The key in using expert opinion to

[28]Tho D. Nguyen and Nigel J. Barrett, "The Knowledge-Creating Role of the Internet in International Business: Evidence from Vietnam," *Journal of International Marketing* 14, no. 2 (2006), pp. 116–47.

[29]"What Went Wrong with Economics?" *The Economist*, July 18, 2009, pp. 11–12; "Managing in the Fog," *The Economist*, February 28, 2009, pp. 67–68; Joann S. Lublin and Dana Mattioli, "Strategic Plans Lose Favor," *The New York Times*, January 25, 2010, p. B7.

[30]Although more than 20 years old, still the best summary of forecasting methods and their advantages, disadvantages, and appropriate applications is David M. Georgoff and Robert G. Murdick, "Manager's Guide to Forecasting," *Harvard Business Review*, January–February 1986, pp. 110–20.

[31]Don E. Schultz, "Is This the Death of Data," *Marketing News*, September 15, 2009, p. 19.

help forecast demand is **triangulation**, that is, comparing estimates produced by different sources. One of the tricky parts is how best to combine the different opinions.

Developing scenarios is useful in the most ambiguous forecasting situations, such as predicting demand for accounting services in emerging markets such as China and Russia or trying to predict the impact of SARS on tourism to Hong Kong. Moreover, statistical analyses of past data are fundamentally weak, because they cannot capture the potential impacts of extreme events[32] such as SARS. Experts with broad perspectives and long experience in markets will be better able to anticipate such major threats to stability and/or growth of market demand.

Analogy

Another technique is to estimate by **analogy**. This method assumes that demand for a product develops in much the same way in all countries, as comparable economic development occurs in each country.[33] First, a relationship must be established between the item to be estimated and a measurable variable[34] in a country that is to serve as the basis for the analogy. Once a known relationship is established, the estimator attempts to draw an analogy between the known situation and the country in question. For example, suppose a company wanted to estimate the market growth potential for a beverage in country X, for which it had inadequate sales figures, but the company had excellent beverage data for neighboring country Y. In country Y, per capita consumption is known to increase at a predictable ratio as per capita gross domestic product (GDP) increases. If per capita GDP is known for country X, per capita consumption for the beverage can be estimated using the relationships established in country Y.

Caution must be used with analogy though because the method assumes that factors other than the variable used (in the preceding example, GDP) are similar in both countries, such as the same tastes, taxes, prices, selling methods, availability of products, consumption patterns,[35] and so forth. For example, the 13 million WAP (Wireless Access Protocol) users in Japan led to a serious overestimation of WAP adoptions in Europe—the actual figure of 2 million was less than the 10 million forecasted. Or consider the relevance of the adoption rate of personal computers or cell phones in the Unites States as they help predict adoption rates in the other four countries listed in Exhibit 8.1. How might Apple Computer use the American data to help predict demand in Japan? Despite the apparent drawbacks to analogy, it can be useful when data are limited.

All the methods for market demand estimation described in this section are no substitute for original market research when it is economically feasible and time permits. Indeed, the best approach to forecasting is almost always a *combination* of macroeconomic database approaches and interviews with potential and current customers. Triangulation of alternative approaches is always best, and the discussion of discrepancies across sources and methods can raise important questions about current and future forecasting efforts.[36] As adequate data sources become available, as would be the situation in most of the economically

[32]Pierpaolo Andriani and Bill McKelvey, "Beyond Gaussian Averages: Redirecting International Business and Management Research toward Extreme Events and Power Laws," *Journal of International Business Studies* 38 (2007), pp. 1212–30.

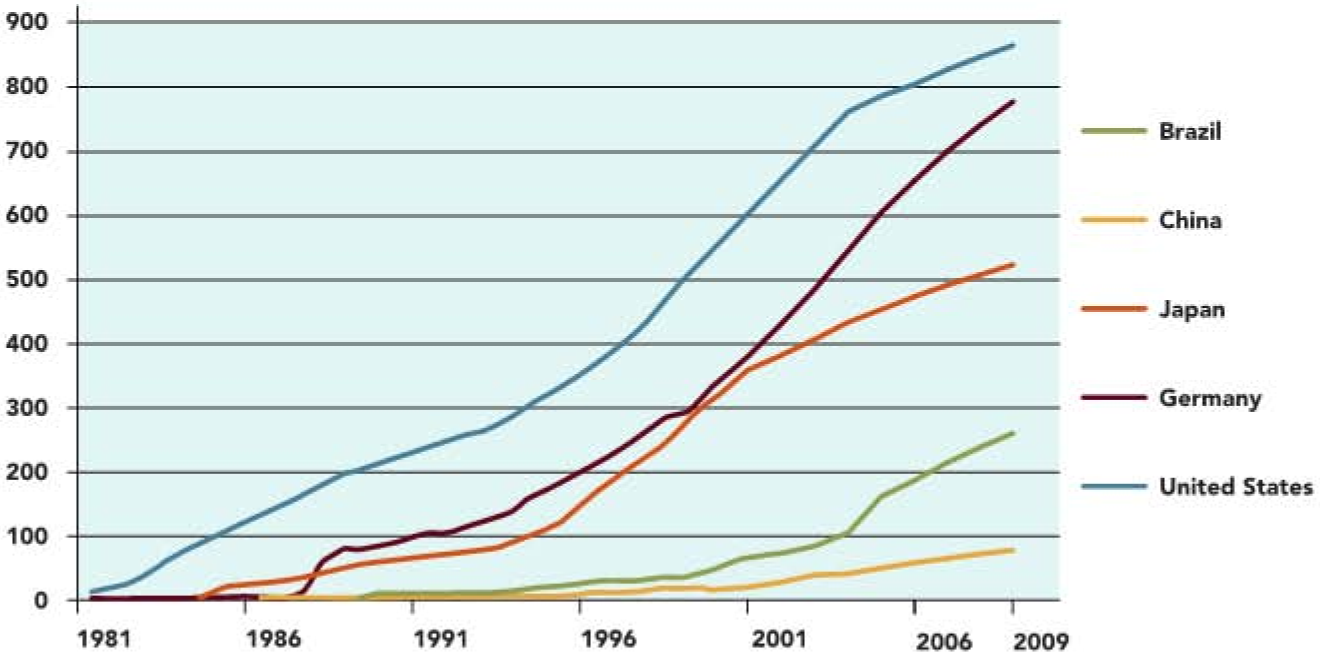
[33]Such an approach is now being used to predict the depth of the housing market decline in the United States and other markets by making comparisons to the housing boom–bust cycle experienced by Japan in the 1980s and 1990s. See Robert J. Shiller, "Things that Go Boom," *The Wall Street Journal*, February 8, 2007, p. A15.

[34]These variables may include population and other demographics or usage rates or estimates, and so forth. Using combinations of such variables is also referred to as a *chain-ratio* approach to forecasting.

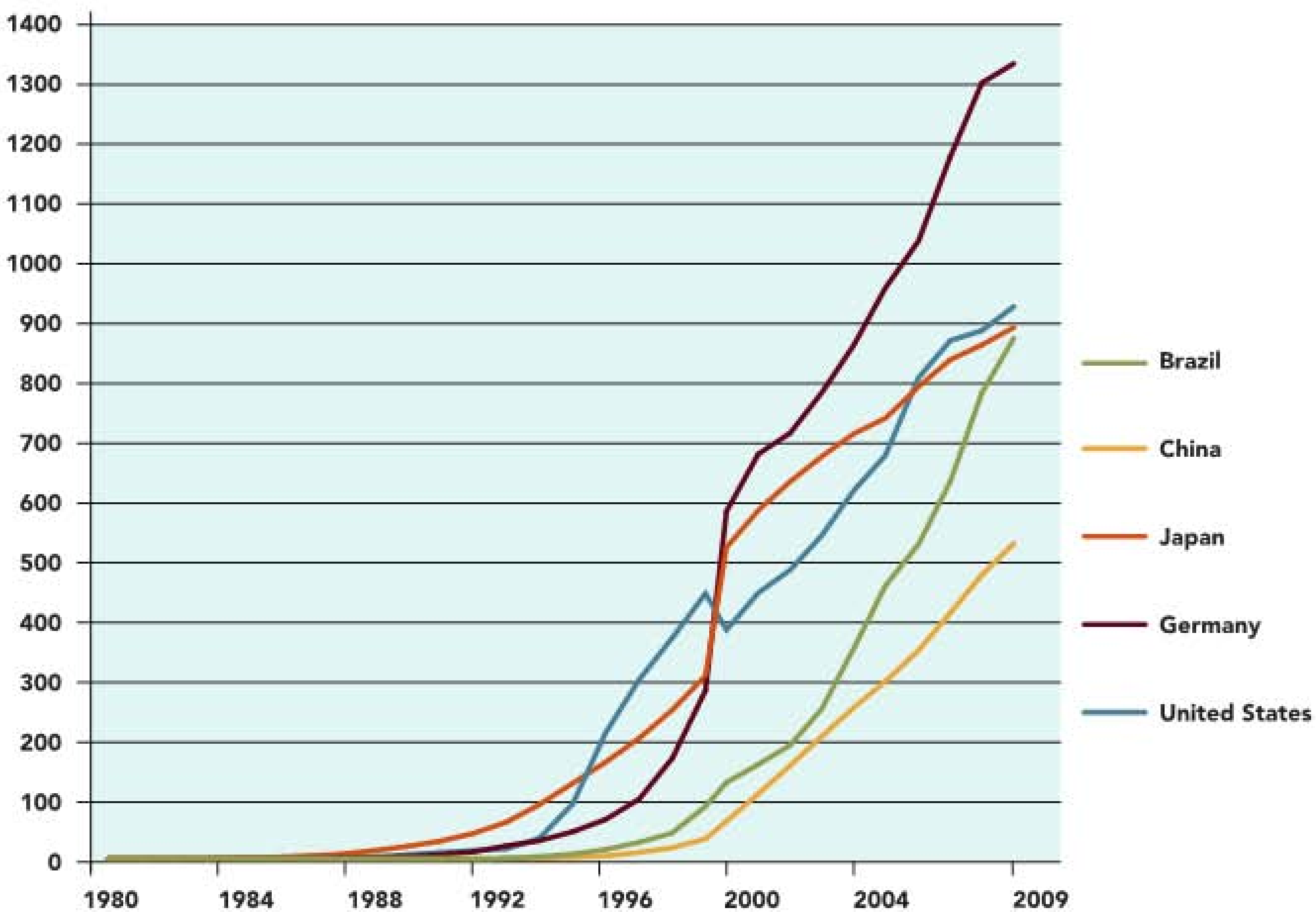
[35]Gerard J. Tellis, Stefan Stremerch, and Eden Yin, "The International Takeoff of New Products: The Role of Economics, Culture, and Country Innovativeness," *Marketing Science* 22, no. 2 (2003), pp. 188–208; Sean Dwyer, Hani Mesak, and Maxwell Hsu, "An Exploratory Examination of the Influence of National Culture on Cross-National Product Diffusion," *Journal of International Marketing* 13, no. 2 (2005), pp. 1–27; Roger J. Calantone, David A. Griffith, and Goksel Yalcinkaya, "An Empirical Examination of a Technology Adoption Model for the Context of China," *Journal of International Marketing* 14, no. 4 (2006), pp. 1–27.

[36]A.N.M. Waheeduzzaman, "Market Potential Estimation in International Markets: A Comparison of Methods," *Journal of Global Marketing* 21, no. 4 (2008), pp. 307–20.

Exhibit 8.1
(a) Personal Computer and (b) Mobile Phone Diffusion Rate (per 1,000 people)



(a)



(b)

Source: World Bank, World Development Indicators 2010 (Washington, DC: World Bank, 2010); Euromonitor.com, 2010.

CROSSING BORDERS 8.3 Forecasting the Global Healthcare Market

In 2000, Johns Hopkins Hospital in Baltimore treated more than 7,500 patients from foreign countries. That's up from just 600 in 1994. And there were no hassles with insurance companies and HMOs. In fact, many of these patients paid cash—even for $30,000 surgical procedures! The Mayo Clinic in Rochester, Minnesota, has been serving foreigners for decades. The number there has jumped by about 15 percent in five years to more than 1,000 per year. Similar growth is happening in places such as Mount Sinai Hospital in Miami, the University of Texas Cancer Center, and the UCLA Medical Center. The Mayo Clinic has even set up a Muslim prayer room to make patients and their families feel more comfortable. Fast growth, yes (some say exponential), but will it continue? Forecasting this demand so that decisions can be made about staffing and numbers of beds is a daunting project indeed.

Demand in Mexico and Latin America seems to be coming primarily for treatment of infectious and digestive diseases and cancer. Demand from the Middle East stems more from genetic diseases, heart diseases, cancer, and asthma. From Asia, wealthy patients are coming mainly to California for treatment of cancer and coronary diseases. Europeans travel to the United States for mental illness services, cancer and heart disease, and AIDS treatments. Given that Japan has the world's best success rate for treating stomach cancer, one would forecast that to be a growth sector in the future.

But perhaps the strangest market to forecast is that for prostheses for the global war wounded. Johns Hopkins contracted to replace limbs for soldiers involved in a border clash between Ecuador and Peru at $35,000 per patient. The description in The Wall Street Journal article might have been a bit overzealous: "There are wars all over the world, bombs all over the world. Casualty patients are a new and enriching market niche." Forecasting demand for prostheses is in some ways easy—all researchers have to do is track the data on wars worldwide, as listed in Exhibit 6.4 in Chapter 6. Fortunately the demand was falling before 2010. However, the sad reality of the Haitian earthquake means an estimate of over 40,000 prostheses needed for the survivors of that tragedy.

Sources: "U.S. Hospitals Attracting Patients from Abroad," USA Today, July 22, 1997, p. 1A; Ron Hammerle, "Healthcare Becoming a Lot Less Local," Modern Healthcare, March 20, 2000, p. 40; Tom Philips, "Haiti Earthquake Creating a Generation of Amputees, Doctors Warn," Manchester Guardian, January 21, 2010.

developed countries, more technically advanced techniques such as multiple regression analysis or input–output analysis can be used.

Finally, it should go without saying that forecasting demand is one of the most difficult and important business activities. All business plans depend entirely on forecasts of a future that no one can see. Even the best companies make big mistakes.

Problems in Analyzing and Interpreting Research Information

Once data have been collected, the final steps in the research process are the analysis and interpretation of findings in light of the stated marketing problem. Both secondary and primary data collected by the market researcher are subject to the many limitations just discussed. In any final analysis, the researcher must take into consideration these factors and, despite their limitations, produce meaningful guides for management decisions.

Accepting information at face value in foreign markets is imprudent. The meanings of words, the consumer's attitude toward a product, the interviewer's attitude, or the interview situation can distort research findings. Just as culture and tradition influence the willingness to give information, so they influence the information given. Newspaper circulation figures, readership and listenership studies, retail outlet figures, and sales volume can all be distorted through local business practices. To cope with such disparities, the foreign market researcher must possess three talents to generate meaningful marketing information.

First, the researcher must possess a high degree of cultural understanding of the market in which research is being conducted. To analyze research findings, the social customs, semantics, current attitudes, and business customs of a society or a subsegment of a society must be clearly understood. At some level, it will be absolutely necessary to have a native of the target country involved in the interpretation of the results of any research conducted in a foreign market.

Second, a creative talent for adapting research methods is necessary. A researcher in foreign markets often is called on to produce results under the most difficult circumstances and short deadlines. Ingenuity and resourcefulness, willingness to use "catch as catch can" methods to get facts, patience (even a sense of humor about the work), and a willingness to be guided by original research findings even when they conflict with popular opinion or prior assumptions are all considered prime assets in foreign marketing research.

Third, a skeptical attitude in handling both primary and secondary data is helpful. For example, it might be necessary to check a newspaper pressrun over a period of time to get accurate circulation figures or to deflate or inflate reported consumer income in some areas by 25 to 50 percent on the basis of observable socioeconomic characteristics. Indeed, where data are suspect, such triangulation through the use of multiple research methods will be crucial.

These essential traits suggest that a foreign marketing researcher should be a foreign national or should be advised by a foreign national who can accurately appraise the data collected in light of the local environment, thus validating secondary as well as primary data. Moreover, regardless of the sophistication of a research technique or analysis, there is no substitute for decision makers themselves getting into the field for personal observation.

Responsibility for Conducting Marketing Research

Depending on the size and degree of involvement in foreign marketing, a company in need of foreign market research can rely on an outside, foreign-based agency or on a domestic company with a branch within the country in question. It can conduct research using its own facilities or employ a combination of its own research force with the assistance of an outside agency.

A trend toward decentralization of the research function is apparent. In terms of efficiency, local analysts appear able to provide information more rapidly and accurately than a staff research department. The obvious advantage to decentralization of the research function is that control rests in hands closer to the market. Field personnel, resident managers, and customers generally have more intimate knowledge of the subtleties of the market and an appreciation of the diversity that characterizes most foreign markets. One disadvantage of decentralized research management is possible ineffective communications with home-office executives. Another is the potential unwarranted dominance of large-market studies in decisions about global standardization. That is to say, larger markets, particularly the United States, justify more sophisticated research procedures and larger sample sizes, and

Both Ford and Philips keep track of European technology and consumers and develop products for global markets at their research centers in Aachen, Germany. Some of the best technical universities are close by in Belgium, the Netherlands, and Germany.

results derived via simpler approaches that are appropriate in smaller countries are often erroneously discounted.

A comprehensive review of the different approaches to multicountry research suggests that the ideal approach is to have local researchers in each country, with close coordination between the client company and the local research companies. This cooperation is important at all stages of the research project, from research design to data collection to final analysis. Furthermore, two stages of analysis are necessary. At the individual-country level, all issues involved in each country must be identified, and at the multicountry level, the information must be distilled into a format that addresses the client's objectives. Such recommendations are supported on the grounds that two heads are better than one and that multicultural input is essential to any understanding of multicultural data. With just one interpreter of multicultural data, there is the danger of one's self-reference criterion resulting in data being interpreted in terms of one's own cultural biases. Self-reference bias can affect the research design, questionnaire design, and interpretation of the data.

If a company wants to use a professional marketing research firm, many are available. Most major advertising agencies and many research firms have established branch offices worldwide. Moreover, foreign-based research and consulting firms have seen healthy growth. Of the 10 largest marketing research firms in the world (based on revenues), 4 are based in the United States, including the largest; 3 are in the United Kingdom; 1 is in France; 1 is in Germany; and 1 is in the Netherlands. The latest count of marketing research firms in China is more than 400 and growing fast. In Japan, where understanding the unique culture is essential, the quality of professional marketing research firms is among the best. A recent study reports that research methods applied by Japanese firms and American firms are generally similar, but with notable differences in the greater emphasis of the Japanese on forecasting, distribution channels, and sales research. A listing of international marketing research firms is printed annually in April as an advertising supplement in *Marketing News*.

An increasingly important issue related to international marketing research is the growing potential for governmental controls on the activity. In many countries, consumer privacy issues are being given new scrutiny as the Internet expands companies' capabilities to gather data on consumers' behaviors.

Communicating with Decision Makers

LO6

Using international marketing research

Most of the discussion in this chapter has pertained to getting information from or about consumers, customers, and competitors. It should be clearly recognized, however, that getting the information is only half the job. Analyses and interpretation of that information must also be provided to decision makers in a timely manner.[37] High-quality international information systems design will be an increasingly important competitive tool as commerce continues to globalize, and resources must be invested accordingly.[38]

Decision makers, often top executives, should be directly involved not only in problem definition and question formulation but also in the fieldwork of seeing the market and hearing the voice of the customers in the most direct ways when the occasion warrants (as in new foreign markets). Top managers should have a "feel" for their markets that even the best marketing reports cannot provide.

Finally, international marketers face an additional obstacle to obtaining the best information about customers. At the most basic level, marketing research is mostly a matter of interaction with customers. Marketing decision makers have questions about how best to serve

[37]Anne L. Souchon, Adamantios Diamantopoulos, Hartmut H. Holzmuller, Catherine N. Axxin, James M. Sinkula, Heike Simmet, and Geoffrey R. Durden, "Export Information Use: A Five-Country Investigation of Key Determinants," *Journal of International Marketing* 11, no. 3 (2003), pp. 106–27.

[38]Nicoli Juul Foss and Torben Pedersen, "Organizing Knowledge Processes in the Multinational Corporation: An Introduction," *Journal of International Business Studies* 35, no. 5 (2004), pp. 340–49; Ram Mudambi and Pietro Navarra, "Is Knowledge Power? Knowledge Flows, Subsidiary Power and Rent-Seeking within MNCs," *Journal of International Business Studies* 35, no. 5 (2004), pp. 385–406.

customers, and those questions are posed and answered often through the media of questionnaires and research agencies. Even when both managers and customers speak the same language and are from the same culture, communication can become garbled in either direction. That is, customers misunderstand the questions and/or managers misunderstand the answers. Throw in a language/cultural barrier, and the chances of misinformation expand dramatically.

There is no better (or worse) case of such communication problems than the Toyota accelerator problems of 2010. Even great companies can make big mistakes. By not correcting flaws in Toyota product accelerators in the United States soon enough, the world's best automaker did billions of dollars of damage to its annual performance and perhaps its brand equity in the United States. The fundamental communication problem within Toyota was well described at the time:

> There is a cultural element to this penchant for mismanaging crisis. The shame and embarrassment of owning up to product defects in a nation obsessed with craftsmanship and quality raises the bar on disclosure and assuming responsibility. And a high-status company like Toyota has much to lose since its corporate face is at stake. The shame of producing defective cars is supposed to be other firms' problems, not Toyota's, and the ongoing PR disaster reveals just how unprepared the company is for crisis management and how embarrassed it is. In addition, employees' identities are closely tied to their company's image, and loyalty to the firm overrides concerns about consumers.
>
> There is also a culture of deference inside corporations that makes it hard for those lower in the hierarchy to question their superiors or inform them about problems. The focus on consensus and group is an asset in building teamwork, but also can make it hard to challenge what has been decided or designed. Such cultural inclinations are not unknown elsewhere around the world, but they are exceptionally powerful within Japanese corporate culture and constitute significant impediments to averting and responding to a crisis.[39]

We would add an additional culture-based explanation: the Japanese penchant for avoiding bad news. Indeed, the Japanese have two words for truth, *tatemae* and *honne*. *Tatemae* is the public, face-saving truth, whereas *honne* is the factual truth, irrespective of the damage it might do to the all-important social relationships within and between Japanese companies.[40] Such internal communication problems have also manifested themselves in other hierarchical, relationship-based cultures such as South Korea and Vietnam.[41] Researchers have identified a number of factors that are associated with better communication within such multinational companies, including frequency of communication instances, face-to-face communication opportunities,[42] employee incentives for sharing information,[43] and cultural similarities.[44] Another study offered "global environmental turbulence"[45] as a communication-inhibiting factor as well, and certainly Toyota was facing the extreme version of this problem: the precipitous decline in world trade and its own sales contemporaneously with its product quality problems.

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[39]See the excellent article by Jeff Kinston, "A Crisis Made in Japan," *The Wall Street Journal*, February 6–7, 2010, pp. W1–2.

[40]James Day Hodgson, Yoshihiro Sano, John L. Graham, *Doing Business in the New Japan* (Boulder, CO: Rowman & Littlfield, 2008).

[41]Malcolm Gladwell, *Outliers* (New York: Little Brown, 2008); John U. Farley, Scott Hoenig, Donald R. Lehmann, and Hoang Thuy Nguyen, "Marketing Metrics Use in a Transitional Economy: The Case of Vietnam," *Journal of Global Marketing* 21, no. 3 (2008), pp. 179–90.

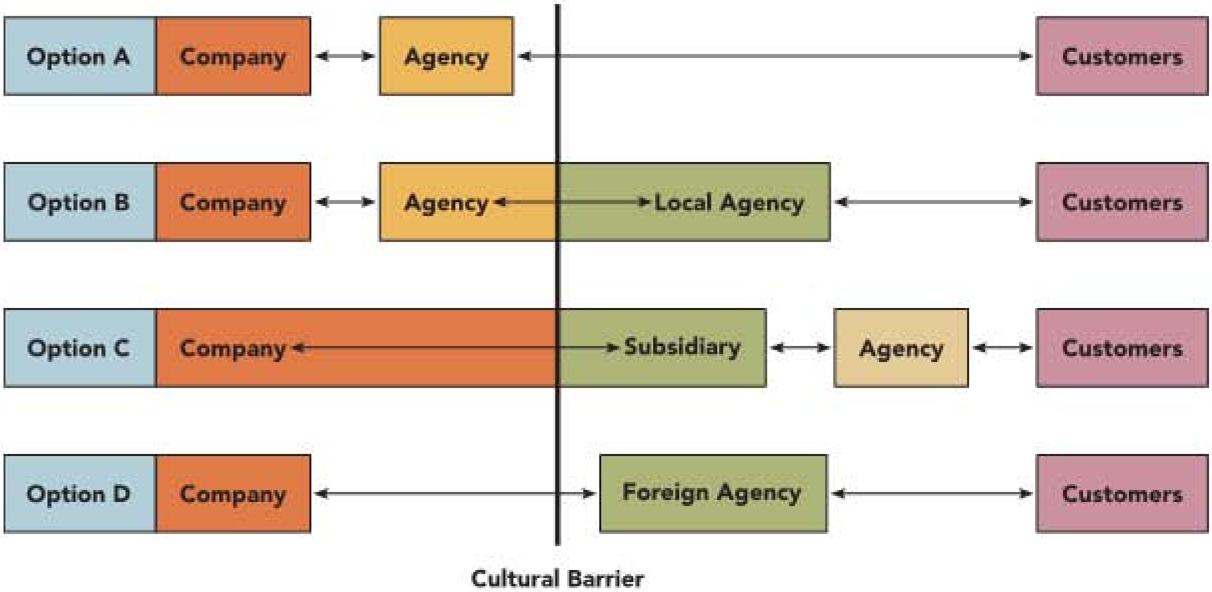
[42]Niels Noorderhaven and Anne-Wil Harzing, "Knowledge-Sharing and Social Interaction within MNEs," *Journal of International Business Studies* 40, no. 5 (2009), pp. 719–41.

[43]Gary Oddou, Joyce S. Osland, and Roger N. Blakeney, "Repatriating Knowledge: Variables Influencing the 'Transfer' Process," *Journal of International Business Studies* 40, no. 2 (2009), pp. 181–99.

[44]Martin S. Roth, Satish Jayachandran, Mourad Dakhli, and Deborah A. Colton, "Subsidiary Use of Foreign Marketing Knowledge," *Journal of International Marketing* 17, no. 1 (2009), pp. 1–29.

[45]Ruby P. Lee, Qimei Chen, Daikwan Kim, and Jean L. Johnson, "Knowledge Transfer between MNCs' Headquarters and Their Subsidiaries: Influences on and Implications for New Product Outcomes," *Journal of International Marketing* 16, no. 2 (2008), pp. 1–31.

Exhibit 8.2
Managing the Cultural Barrier in International Marketing Research



Such problems can be exacerbated when research agencies are also involved. The four kinds of company–agency–customer relationships possible are presented in Exhibit 8.2. Options B and C are better suited for managing the cultural barrier across the chain of communication. That is, in both cases, the cultural barrier is bridged *within* a company wherein people that have a common corporate culture and work together on an everyday basis. In B the translation (in the broadest sense of the term—that is, of both questionnaires and reports) is worked out between employees of the international marketing research agency. In C the translation is managed within the company itself. In cases A and D, both cultural and organizational barriers are being crossed simultaneously, thus maximizing the chances for miscommunication. Indeed, these same company–agency–customer considerations are pertinent to other kinds of communications between companies and customers, such as advertising and distribution channel control, and this unique international topic will be addressed again in subsequent chapters.

Summary

The basic objective of the market research function is providing management with information for more accurate decision making. This objective is the same for domestic and international marketing. In foreign marketing research, however, achieving that objective presents some problems not encountered on the domestic front.

Customer attitudes about providing information to a researcher are culturally conditioned. Foreign market information surveys must be carefully designed to elicit the desired data and at the same time not offend the respondent's sense of privacy. Besides the cultural and managerial constraints involved in gathering information for primary data, many foreign markets have inadequate or unreliable bases of secondary information. Such challenges suggest three keys to successful international marketing research: (1) the inclusion of natives of the foreign culture on research teams; (2) the use of multiple methods and triangulation; and (3) the inclusion of decision makers, even top executives, who must on occasion talk directly to or directly observe customers in foreign markets.

Key Terms

Marketing research
International marketing research
Research process
Secondary data
Primary data
Back translation
Parallel translation
Decentering
Multicultural research
Expert opinion
Triangulation
Analogy

Questions

1. Define the key terms listed on the previous page.
2. Discuss how the shift from making "market entry" decisions to "continuous operations" decisions creates a need for different types of information and data.
3. Discuss the breadth and scope of international marketing research. Why is international marketing research generally broader in scope than domestic marketing research?
4. The measure of a competent researcher is the ability to utilize the most sophisticated and adequate techniques and methods available within the limits of time, cost, and the present state of the art. Comment.
5. What is the task of the international marketing researcher? How is it complicated by the foreign environment?
6. Discuss the stages of the research process in relation to the problems encountered. Give examples.
7. Why is the formulation of the research problem difficult in foreign market research?
8. Discuss the problems of gathering secondary data in foreign markets.
9. "In many cultures, personal information is inviolably private and absolutely not to be discussed with strangers." Discuss.
10. What are some problems created by language and the ability to comprehend the questions in collecting primary data? How can a foreign market researcher overcome these difficulties?
11. Discuss how decentering is used to get an accurate translation of a questionnaire.
12. Discuss when qualitative research may be more effective than quantitative research.
13. Sampling presents some major problems in market research. Discuss.
14. Select a country. From secondary sources found on the Internet, compile the following information for at least a five-year period prior to the present:

principal imports	principal exports
gross national product	chief of state
major cities and population	principal agricultural crop

15. "The foreign market researcher must possess three essential capabilities to generate meaningful marketing information." What are they? Discuss.

Appendix: Sources of Secondary Data

For almost any marketing research project, an analysis of available secondary information is a useful and inexpensive first step. Although there are information gaps, particularly for detailed market information, the situation on data availability and reliability is improving. The principal agencies that collect and publish information useful in international business are presented here, with some notations regarding selected publications.

A. Web Sites for International Marketing

1. www.stat-usa.gov STAT-USA/Internet is clearly the single most important source of data on the Internet. STAT-USA, a part of the U.S. Department of Commerce's Economics and Statistics Administration, produces and distributes at a nominal subscription fee the most extensive government-sponsored business, economic, and trade information databases in the world today, including the National Trade Data Bank, Economic Bulletin Board, and Global Business Procurement Opportunities.

2. www.trade.gov/index.asp The Web site of the Commerce Department's International Trade Administration provides export assistance, including information about trade events, trade statistics, tariffs and taxes, marketing research, and so forth.

3. www.usatradeonline.gov Provides import and export information on more than 18,000 commodities, but the user must subscribe.

4. www.census.gov/foreign-trade/www/ The U.S. Census Bureau provides a variety of international trade statistics.

5. www.cia.gov/library/publications/the-world-factbook/ Find the CIA *World Factbook* here, as well as other pertinent trade information.

6. www.customs.ustreas.gov The U.S. Customs Service provides information regarding customs procedures and regulations.

7. www.opic.gov The Overseas Private Investment Corporation (OPIC) provides information regarding its services.

8. www.exim.gov The Export-Import Bank of the United States (Ex-Im Bank) provides information related to trade financing services provided by the U.S. government.

9. www.imf.org The International Monetary Fund (IMF) provides information about the IMF and international banking and finance.

10. www.wto.org The World Trade Organization (WTO) provides information regarding its operations.

11. www.oecd.org The Organization of Economic Cooperation and Development (OECD) provides information regarding OECD policies and associated data for 29 member countries.

12. www.jetro.go.jp The Japan External Trade Organization (JETRO) is the best source for data on the Japanese market.

13. www.euromonitor.com Euromonitor is a company providing a variety of data and reports on international trade and marketing.

14. publications.worldbank.org *World Development Indicators (WDI) Online* offers the World Bank's comprehensive database on development data, covering more than 600 indicators, 208 economies, and 18 regional income groups.

15. **University-based Web sites.** The best such site is Michigan State University's Center for International Business Education and Research (http://globaledge.msu.edu/resourceDesk/).

16. www.worldchambers.com The World Network of Chambers of Commerce and Industry provides data and addresses regarding chambers of commerce around the world.

17. http://world.wtca.org The World Trade Centers Association provides information about services provided by the World Trade Centers in the United States, including export assistance, trade leads, training programs, and trade missions.

18. www.worldtrademag.com *World Trade* magazine provides its annual Resource Guide to products, goods, and services for international trade.

19. www.mhhe.com/gilly15e The online learning center that accompanies this text provides supplementary support materials for both instructors and students.

B. U.S. Government Sources

The U.S. government actively promotes the expansion of U.S. business into international trade. In the process of keeping U.S. businesses informed of foreign opportunities, the U.S. government generates a considerable amount of general and specific market data for use by international market analysts. The principal source of information from the U.S. government is the Department of Commerce, which makes its services available to U.S. businesses in a variety of ways. First, information and assistance are available either through personal consultation in Washington, DC, or through any of the US&FCS (U.S. and Foreign Commercial Service) district offices of the International Trade Administration of the Department of Commerce located in key cities in the United States. Second, the Department of Commerce works closely with trade associations, chambers of commerce, and other interested associations in providing information, consultation, and assistance in developing international commerce. Third, the department publishes a wide range of information available to interested persons at nominal cost.

1. **National Trade Data Bank (NTDB).** The Commerce Department provides a number of the data sources mentioned previously, plus others in its computerized information system in the National Trade Data Bank. The NTDB is a one-step source for export promotion and international trade data collected by 17 U.S. government agencies. Updated each month and released on the Internet, the NTDB enables the reader to access more than 100,000 trade-related documents. The NTDB contains the latest census data on U.S. imports and exports by commodity and country; the complete CIA (Central Intelligence Agency) *World Factbook*; current market research reports compiled by the U.S. and Foreign Commercial Service; the complete *Foreign Traders Index*, which contains over 55,000 names and addresses of individuals and firms abroad that are interested in importing U.S. products; State Department country reports on economic policy and trade practices; the publications *Export Yellow Pages, A Basic Guide to Exporting* and the *National Trade Estimates Report on Foreign Trade Barriers*; the *Export Promotion Calendar*; and many other data series. The NTDB is also available at over 900 federal depository libraries nationwide.

In addition, the Department of Commerce provides a host of other information services. Beyond the material available through the Department of Commerce, consultation and information are available from a variety of other U.S. agencies. For example, the Department of State, Bureau of the Census, and Department of Agriculture can provide valuable assistance in the form of services and information for an American business interested in international operations.

2. www.export.gov/tradeleads/index.asp This Web site connects you to the Export.gov Trade Leads Database, which contains prescreened, time-sensitive leads and Government Tenders gathered through U.S. Commercial Service offices around the world. You can search leads and receive notification when new leads are posted.

3. buyusa.gov Provides details about the services offered by the U.S. Commercial Service.

C. Other Sources

1. Directories

a. Directory of American Firms Operating in Foreign Countries. New York: World Trade Academy Press. Alphabetically lists U.S. firms with foreign subsidiaries and affiliates operating in over 125 countries; also lists the foreign operations grouped by countries.

b. Directory of United States Importers and United States Exporters. New York: Journal of Commerce. Annual. (Also on CD-ROM.) Contain verified business profiles on a total of 60,000 active trading companies. These annual guides also include a product index with the Harmonized Commodity Code numbers, customs information, foreign consulates, embassies, and international banks.

c. Encyclopedia of Global Industries. Detroit: Gale. Alphabetically covers 125 vital international industries, providing in-depth information including statistics, graphs, tables, charts, and market share.

d. Export Yellow Pages. Washington, DC: Venture Publishing–North America; produced in cooperation with the Office of Export Trading Company Affairs and International Trade Administration. Annual. Provides detailed information on over 12,000 export service providers and trading companies, agents, distributors, and companies outside the United States; also includes a product/service index and an alphabetical index.

e. World Directory of Trade and Business Associations. London: Euromonitor, 1995. (Also on CD-ROM.) Contains entries from a broad range of sectors, giving details of publications produced, aims and objectives of the association, and whether they provide assistance in further research.

2. Marketing Guides

a. Exporters Encyclopaedia. Wilton, CT: Dun & Bradstreet. Annual. Comprehensive world marketing guide, in five sections; section two, "Export Markets," gives important market information on 220 countries (import and exchange regulations, shipping services, communications data, postal information, currency, banks, and embassies); other sections contain general export information. Also available are regional guides for Asia-Pacific, Europe, and Latin America and export guides for single countries.

b. U.S. Custom House Guide. Hightstown, NJ: K-III Directory Co. Annual. Provides a comprehensive guide to importing, including seven main sections: import how-to, ports sections, directory of services, tariff schedules (Harmonized Tariff Schedules of the United States), special and administrative provisions, custom regulations, and samples of import documents.

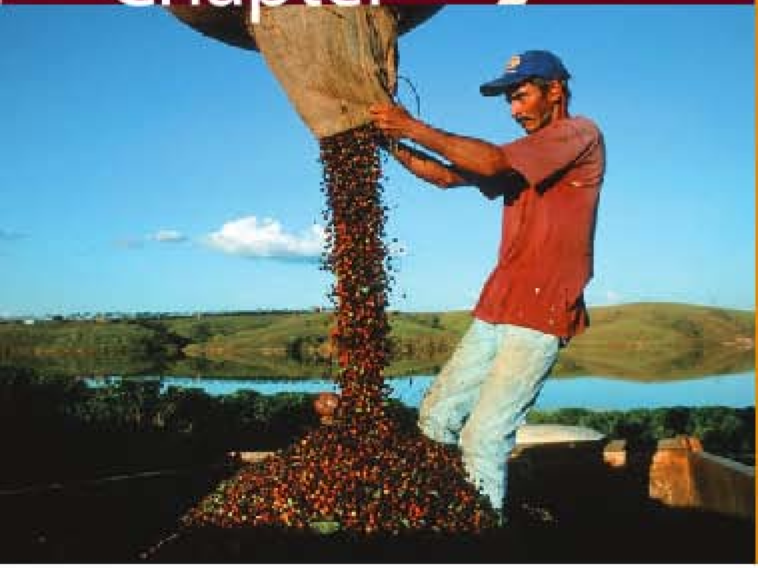
3. General sources of international business and economic data and customized reports. These exemplary Web sites are generally accessible for corporations with substantial research needs and budgets:

a. Economist Intelligence Unit www.eiu.com The Economist Intelligence Unit (EIU) describes itself as providing "a constant flow of analysis and forecasts on more than 200 countries and eight key industries." It helps "executives make informed business decisions through dependable intelligence delivered online, in print, in customized research as well as through conferences and peer interchange." The EIU represents a very high level of analysis. Its products are for sale (an annual subscription runs in the four figures), it facilitates the initial aggregation of information, and it undertakes preliminary analyses. At an intermediate level, within the industries it targets, we have found EIU to be very helpful.

b. Oxford Analytica www.oxan.org Oxford Analytica is self-described as "an international, independent consulting firm drawing on a network of over 1,000 senior faculty members at Oxford and other major universities and research institutions around the world." If the CIA Factbook is a Chevy sort of resource and the EIU is a Cadillac, then Oxan is a Lamborghini. Fees run to the five figures, depending on what you order. Among the publicly accessible sources, Oxford Analytica is one of the very best. Its reputation rests "on its ability to harness the expertise of pre-eminent scholar experts to provide business and government leaders with timely and authoritative analysis of world events. It is a unique bridge between the world of ideas and the world of enterprise." A review of its clients clearly indicates the level of professionalism the firm strives for and apparently attains.

Chapter 9

Economic Development and the Americas



CHAPTER OUTLINE

CHAPTER LEARNING OBJECTIVES

What you should learn from Chapter 9:

LO1 The importance of time zones for trade relationships and marketing operations

LO2 The political and economic changes affecting global marketing

LO3 The connection between the economic level of a country and the marketing task

LO4 The variety of stages of economic development among American nations

LO5 Growth factors and their role in economic development

LO6 Marketing's contribution to the growth and development of a country's economy

LO7 The foundational market metrics of American nations

LO8 The growing importance of trading associations among American nations

Global Perspective

DESYNCHRONOSIS? SOMETHING GEORGE CLOONEY CAUGHT UP IN THE AIR?

The medical term sounds much more ominous than mere jet lag. But whatever you call it, it's still a powerful force. The *Encyclopedia Britannica* tells us:

> Physiological desynchronization is caused by transmeridian (east-west) travel between different time zones. The severity and extent of jet lag vary according to the number of time zones crossed as well as the direction of travel—most people find it difficult to travel eastward (i.e., to adapt a shorter day as opposed to a longer one). The resulting symptoms include extreme fatigue, sleep disturbances, loss of concentration, disorientation, malaise, sluggishness, gastrointestinal upset, and loss of appetite.[1]

Some international executives seem to handle it well though.

Raj Subramaniam, the Senior Vice President of International Marketing at FedEx has spent almost as much time overseas as he has at the company's Memphis headquarters in the 18 years he has worked there. True, that includes two long-term postings in Hong Kong and Toronto. But even since Subramaniam returned to Tennessee in 2006, he has been logging major miles, visiting FedEx's far-flung offices to oversee global marketing plans and customer service. It's a schedule that suits him, and he takes the opportunity to drop in on old haunts and discover new cities. "The worst thing you can possibly do is stay in the hotel, drink the bottled water, and just look out the window," says the seasoned traveler, who offers a few of his secrets for travelling successfully.

1. Days on the road? I'd say 125 or so, out of which about 100 are outside the U.S.
2. Way to fly? Typically I fly on Cathay Pacific, Emirates, and British Airways. They offer direct flights, and the service is excellent. I'm looking for a reasonable meal and then to read a book and go to sleep. These airlines do a great job of allowing those simple pleasures to happen.
3. Airtime? It's the best time to unplug your electronic leash and read. Right now I'm catching up on a few issues of *Foreign Affairs* magazine.
4. Trip tip? Pack light, and pack running shoes. Travel equals jet lag, so when I get to my destination, I try to hit the gym as quickly as I possibly can.
5. Favorite hotel? The Conrad in Hong Kong. Typically the flight from L.A. lands by 5:30 a.m. I'm at the hotel by 6:30, and I head to the gym. By 7:30, I'm having breakfast on the 59th floor overlooking Victoria Harbor, and by 9:00 I'm in the office. It works beautifully.

Some have a tougher time. Benjamin Southan, correspondent for Businesstraveller.com recounts his story:

> In Sydney . . . I'd woken at four in the morning with extreme jet lag and figured I may as well run it off, but I'd packed in a daze—no socks, and no shorts. Well, I could do without socks, I thought, and I had a pair of normal shorts. I could run in those. Big mistake. The loose fit I preferred when lounging around worked less well when running around; my sockless feet rubbed, particularly once I'd warmed up; and it was very warm, even at five in the morning. And because it was going to be a short run, I hadn't bothered to grab a map, or work out where I was going. I kept the harbour to one side, and turned around after 15 minutes or so, taking what I thought was a shortcut as my feet were beginning to hurt. Second big mistake.
>
> An hour later, exhausted, I half-jogged, half-shuffled through the less than salubrious Kings Cross area. No socks, sweat-stained through T-shirt, one hand holding up my shorts, and wondering why no one would meet my eye so I could ask them the way back to the harbour…. When I finally found my way back to the hotel, the receptionist alternated between professional concern and person disgust, with the latter claiming victory. I fell into the lift as the first businessmen were coming down for breakfast, and once in my room pressed the "do not disturb" button and collapsed into bed. I'd allowed myself a day to acclimatize in Sydney before my appointments started, and it was the last trouble I had with jet lag that trip, sleeping for 20 hours and waking only to empty the minibar of chocolate and soft drinks. So much for the weight management.

Sources: Benjamin Southan, "Fit to Drop," *Business Traveller* (UK/Europe Edition), October 2009, p. 82; Eugenia Levenson, "Road Warrior," *Fortune*, April 27, 2009, p. 24.

[1]http://www.Britannica.com, 2010.

Exhibit 9.1
Three Regional Trading Areas Roughly Defined by Time Zones

Source: World Bank, 2010.

Region	Population	GDP
The Americas	.91 billion	$19.1 trillion
Europe, Africa, Middle East	1.9 billion	$19.6 trillion
Asia Pacific	3.5 billion	$12.5 trillion

LO1

The importance of time zones for trade relationships and marketing operations

Time zones make a difference. Jet lag is an important problem. Virtual meetings across time zones are more than just inconvenient; they can disrupt sleep and family life. Indeed, our own studies have demonstrated that among three kinds of distances that international marketers must traverse—miles, time zones, and cultural distances—time zones have the greatest influence on the success of their commercial efforts abroad.[2] Moreover, most countries also maintain good trade relationships with contiguous countries. Thus, we can also see an associated pattern of economic growth and global trade that will extend well into the 21st century. It consists of three multinational market regions that comprise major trading blocs: the Americas, Europe, and Asia. Further, the common time zones give the Europeans advantages in both Africa and the Middle East. Within each trading bloc are fully industrialized countries, as typified by the United States, Germany, and Japan; rapidly industrializing countries such as Brazil, Russia, and China that are close on the heels of the fully industrialized; and other countries that are achieving economic development but at more modest rates. See Exhibit 9.1 for the grossest metrics for each trading bloc.

Many American companies have organized their international operations according to these geographic or temporal, if you like, constraints. For example, Quiksilver manages its global operations from three bases: Huntington Beach, California, for the Americas (and corporate headquarters); St. Jean De Luz, France, for Europe; and Avalon, New South Wales, Australia, for the Asia/Pacific region. Among its $2 billion in global revenues in 2009, approximately 47 percent came from the Americas, 40 percent from Europe, and 13 percent from the Asia/Pacific.

Our presentation of regional market metrics is likewise organized in Chapters 9–11. In this chapter, we first discuss economic development and marketing, then focus on the character of and opportunities for commerce in the Americas. While the United States and Canada are affluent, industrialized countries, most of the countries in the American region better fit the descriptor "developing," and some are doing so very fast indeed. In Chapter 10, we focus on the European Union, as it represents the benchmark for regional commercial and political cooperation, and then we turn to the broader opportunities among its time zone neighbors—the rest of Europe, Africa, and the Middle East. In Chapter 11 we characterize the opportunities in the bustling Asia/Pacific region that includes the majority of people on the planet.

Marketing and Economic Development

LO2

The political and economic changes affecting global marketing

Not many years ago, large parts of the developing world were hostile to foreign investment and imposed severe regulatory barriers to foreign trade.[3] But few nations are content with the economic status quo; now, more than ever, they seek economic growth, improved standards of living, and an opportunity for the good life as part of the global consumer world.[4] Latin American and other emerging markets throughout the world will account for 75 percent of the world's total growth in the next two decades and beyond, according to U.S. Department of Commerce estimates. The transition from socialist to market-driven economies, the liberalization of trade and investment policies in developing countries, the transfer of public-sector enterprises to the private sector,

[2]Jennifer D. Chandler and John L. Graham, "Relationship-Oriented Cultures, Corruption, and International Marketing Success," *Journal of Business Ethics* 92(2) (2010), pp. 251–67.

[3]James C. McKinley Jr., "For U.S. Exporters in Cuba, Business Trumps Politics," *The New York Times*, November 12, 2007, p. A3.

[4]Stephen Kotkin, "First World, Third World (Maybe Not in That Order)," *The New York Times*, May 6, 2007, p. 7.

and the rapid development of regional market alliances are changing the way countries will trade and prosper in the 21st century.

Argentina, Brazil, Mexico, China, South Korea, Poland, Turkey, India, and Vietnam[5] are some of the countries undergoing impressive changes in their economies and are emerging as vast markets. These and other countries have an ever-expanding and changing demand for goods and services. As countries prosper and their people are exposed to new ideas and behavior patterns via global communications networks, old stereotypes, traditions, and habits are cast aside or tempered, and new patterns of consumer behavior emerge. Luxury cars in China;[6] Avon cosmetics in South Korea; Walmart discount stores in Argentina, Brazil, Mexico, China, and Thailand; McDonald's beefless Big Macs in India; Whirlpool washers and refrigerators in eastern Europe; Sara Lee food products in Indonesia; and Amway products in the Czech Republic represent opportunities in emerging markets.

LO3

The connection between the economic level of a country and the marketing task

The economic level of a country is the single most important environmental element to which the foreign marketer must adjust the marketing task. The stage of economic growth within a country affects the attitudes toward foreign business activity,[7] the demand for goods, the distribution systems found within a country, and the entire marketing process.[8] In static economies, consumption patterns become rigid, and marketing is typically nothing more than a supply effort. In a dynamic economy, consumption patterns change rapidly.[9] Marketing constantly faces the challenge of detecting and providing for new levels of consumption, and marketing efforts must be matched with ever-changing market needs and wants. The current level of economic development dictates the kind and degree of market potential that exists, while knowledge of the dynamism of the economy allows the marketer to prepare for economic shifts and emerging markets.[10]

Economic development is generally understood to mean an increase in national production reflected by an increase in the average per capita gross domestic product (GDP) or gross national income (GNI).[11] Besides an increase in average per capita GNI or GDP, most interpretations of the concept also imply a widespread distribution of the increased income. Economic development, as commonly defined today, tends to mean rapid economic growth and increases in consumer demand—improvements achieved "in decades rather than centuries."

Stages of Economic Development

The United Nations classifies a country's stage of economic development on the basis of its level of industrialization. It groups countries into three categories:

MDCs (more-developed countries). Industrialized countries with high per capita incomes, such as Canada, England, France, Germany, Japan, and the United States. Exhibit 9.2 summarizes data regarding the standards of living in the most populous American countries that evince a spectrum of development despite their similar sizes. The reader will notice that those at the lowest levels of development often do not

[5]"WTO—Landmark of Vietnam's 20-Year Renewal Process," *Asia Pulse*, January 2, 2008.

[6]Jason Leow and Gordon Fairclough, "Rich Chinese Fancy Luxury Cars," *The Wall Street Journal*, April 12, 2007, pp. B1, B6.

[7]Terrance H. Witkowski, "Antiglobal Challenges to Marketing in Developing Countries: Exploring the Ideological Divide," *Journal of Public Policy & Marketing* 24, no. 1 (2005), pp. 7–23.

[8]Ramarao Desiraju, Harikesh Nair, and Pradeep Chintagunta, "Diffusion of New Pharmaceutical Drugs in Developing and Developed Nations," *International Journal of Research in Marketing* 21, no. 4 (2004), pp. 341–57.

[9]Seung Ho Park, Shaomin Li, and David K. Tse, "Market Liberalization and Firm Performance During China's Economic Transition," *Journal of International Business Studies* 37 (2006), pp. 127–47.

[10]Kevin Zheng Zhou, David K. Tse, and Julie Juan Li, "Organizational Changes in Emerging Economies: Drivers and Consequences," *Journal of International Business Studies* 37 (2006), pp. 248–63.

[11]Gross domestic product (GDP) and gross national income (GNI) are two measures of a country's economic activity. GDP is a measure of the market value of all goods and services produced within the boundaries of a nation, regardless of asset ownership. Unlike GNI, GDP excludes receipts from that nation's business operations in foreign countries, as well as the share of reinvested earnings in foreign affiliates of domestic corporations. In most cases and for most applications, the differences between the two are insubstantial. For example, the World Bank reports GDP for China in 2008 as $4.33 trillion and GNI as $4.37 trillion.

Exhibit 9.2
Standards of Living in the Eight Most Populous American Countries

Country	Population (millions)	GDI/Capita	Medical Resources per 1000 Persons		Household Ownership %		
			Doctors	Hospital Beds	Color TV	Refrigerator	Shower
United States	307	$46662	2.4	3.1	99	100	99
Brazil	194	$ 7627	2.0	—	96	93	81
Mexico	109	$ 9805	2.0	1.6	95	85	81
Colombia	46	$ 4063	1.5	1.3	81	71	99
Argentina	41	$ 7492	3.2	2.0	96	92	96
Canada	34	$39401	2.2	3.3	99	100	99
Peru	29	$ 4120	1.3	1.4	56	39	70
Venezuela	29	$12438	1.3	—	92	97	74

Source: Euromonitor International 2010.

collect or report data suitable for international resources such as Euromonitor International or the World Bank.

LDCs (less-developed countries). Industrially developing countries just entering world trade, many of which are in Asia and Latin America, with relatively low per capita incomes.

LLDCs (least-developed countries). Industrially underdeveloped, agrarian, subsistence societies with rural populations, extremely low per capita income levels, and little world trade involvement. Such LLDCs are found in Central Africa and parts of Asia. Violence and the potential for violence are often associated with LLDCs.

The UN classification has been criticized because it no longer seems relevant in the rapidly industrializing world. In addition, many countries that are classified as LDCs are industrializing at a very rapid rate, whereas others are advancing at more traditional rates of economic development. It is interesting to note in Exhibit 9.2 the differences in income and consumer possessions across the eight most populous American nations.

Countries that are experiencing rapid economic expansion and industrialization and do not exactly fit as LDCs or MDCs are more typically referred to as **newly industrialized countries (NICs)**. These countries have shown rapid industrialization of targeted industries and have per capita incomes that exceed other developing countries. They have moved away from restrictive trade practices and instituted significant free market reforms; as a result, they attract both trade and foreign direct investment. Chile, Brazil, Mexico, South Korea, Singapore, and Taiwan are some of the countries that fit this description. These NICs have become formidable exporters of many products, including steel, automobiles, machine tools, clothing, and electronics, as well as vast markets for imported products.

LO4

The variety of stages of economic development among American nations

Brazil provides an example of the growing importance of NICs in world trade, exporting everything from alcohol-based fuels to carbon steel. Brazilian orange juice, poultry, soybeans, and weapons (Brazil is the world's sixth-largest weapons exporter) compete with U.S. products for foreign markets. Embraer, a Brazilian aircraft manufacturer, has sold planes to more than 60 countries and provides a substantial portion of the commuter aircraft used in the United States and elsewhere. Even in automobile production, Brazil is a world player; it ships more than 200,000 cars, trucks, and buses to Third World countries annually. Volkswagen has produced more than 3 million VW Beetles in Brazil and has invested more than $500 million in a project to produce the Golf and Passat automobiles. The firm also recently announced a deal to sell $500 million worth of auto parts to a Chinese partner. General Motors invested $600 million to create what it calls "an industrial complex"—a collection of 17 plants occupied by suppliers such as Delphi, Lear, and Goodyear to deliver preassembled modules to GM's line workers. All in all, auto and auto parts makers are

Brazilian production of coffee (on left) has almost always determined world prices for the brew. Now this commercial dominance is being challenged in two ways. First, Vietnam's burgeoning new production (on right) caused world coffee prices to crash in recent years, from a high of $1.85 per pound in 1997 to about $.50 in 2001. And Starbuck's is changing the global game in retail coffee distribution—including in its store in the heart of São Paulo, the historical center of coffee production in Brazil and the world.

investing more than $2.8 billion aimed at the 200 million people in the Mercosur market, the free trade group formed by Argentina, Brazil, Paraguay, and Uruguay.

Economic Growth Factors

LO5

Growth factors and their role in economic development

Why have some countries grown so rapidly and successfully while others with similar or more plentiful resources languished? Some analysts attribute the faster growth of some to cultural values, others to cheap labor, and still others to an educated and literate population. Certainly all of these factors have contributed to growth, but other important factors are present in all the rapidly growing economies, many of which seem to be absent in those nations that have not enjoyed comparable economic growth.

The factors that existed to some extent during the economic growth of NICs were as follows:

- Political stability in policies affecting their development.
- Economic and legal reforms. Poorly defined and/or weakly enforced contract and property rights are features the poorest countries have in common.
- Entrepreneurship. In all of these nations, free enterprise in the hands of the self-employed was the seed of the new economic growth.
- Planning. A central plan with observable and measurable development goals linked to specific policies was in place.
- Outward orientation. Production for the domestic market and export markets with increases in efficiencies and continual differentiation of exports from competition was the focus.

- Factors of production. If deficient in the factors of production—land (raw materials), labor, capital, management, and technology—an environment existed where these factors could easily come from outside the country and be directed to development objectives.
- Industries targeted for growth. Strategically directed industrial and international trade policies were created to identify those sectors where opportunity existed. Key industries were encouraged to achieve better positions in world markets by directing resources into promising target sectors.
- Incentives to force a high domestic rate of savings and direct capital to update the infrastructure, transportation, housing, education, and training.
- Privatization of state-owned enterprises (SOEs) that had placed a drain on national budgets. Privatization released immediate capital to invest in strategic areas and gave relief from a continuing drain on future national resources. Often when industries are privatized, the new investors modernize, thus creating new economic growth.

The final factors that have been present are large, accessible markets with low tariffs. During the early growth of many countries, the first large open market was the United States, later joined by Europe and now, as the fundamental principles of the World Trade Organization (WTO) are put into place, by much of the rest of the world.

Although it is customary to think such growth factors as applying only to industrial growth, the example of Chile shows that economic growth can occur with agricultural development as its economic engine. Chile's economy has expanded at an average rate of 7.2 percent since 1987 and is considered one of the least risky Latin American economies for foreign investment. However, since 1976 when Chile opened up trade, the relative size of its manufacturing sector declined from 27.3 percent of GDP in 1973 to less than half that in 2010.[12] Agriculture, in contrast, has not declined. Exports of agricultural products have been the star performers. Chile went from being a small player in the global fruit market, exporting only apples in the 1960s, to one of the world's largest fruit exporters by 2000. Sophisticated production technology and management methods were applied to the production of table grapes, wine, salmon from fish farms, and a variety of other processed and semiprocessed agricultural products. Salmon farming, begun in the early 1980s, has made salmon a major export item. Salmon exports to the United States are 40,000 tons annually, whereas U.S. annual production of farm-raised salmon is only 31,000 tons. Chile is also a major exporter of the fishmeal that is fed to hatchery-raised salmon.

Chile's production technology has resulted in productivity increases and higher incomes. Its experience indicates that manufacturing is not the only way for countries to grow economically. The process is to continually adapt to changing tastes, constantly improve technology, and find new ways to prosper from natural resources. Contrast Chile today with the traditional agriculturally based economies that are dependent on one crop (e.g., bananas) today and will still be dependent on that same crop 20 years from now. This type of economic narrowness was the case with Chile a few decades ago when it depended heavily on copper. To expand its economy beyond dependency on copper, Chile began with what it did best—exporting apples. As the economy grew, the country invested in better education and infrastructure and improved technology to provide the bases to develop other economic sectors, such as grapes, wine, salmon, and tomato paste.

Regional cooperation and open markets are also crucial for economic growth. As will be discussed in detail in Chapter 10, being a member of a multinational market region is essential if a country is to have preferential access to regional trade groups. As steps in that direction, in 2003 Chile and in 2005 Central American countries (including banana producers) signed free trade agreements with the United States.[13]

[12]World Bank, "World Development Indicators," 2010.

[13]"Chile and U.S. Sign Accord on Free Trade," *The New York Times*, June 7, 2003, p. 3; David Armstrong, "CAFTA Signed into Law," *San Francisco Chronicle*, August 3, 2005, p. C1.

Information Technology, the Internet, and Economic Development

In addition to the growth factors previously discussed, a country's investment in information technology (IT) is an important key to economic growth. The cellular phone,[14] the Internet, and other advances in IT open opportunities for emerging economies to catch up with richer ones.[15] New, innovative electronic technologies can be the key to a sustainable future for developed and developing nations alike.

Because the Internet cuts transaction costs and reduces economies of scale from vertical integration, some argue that it reduces the economically optimal size for firms. Lower transaction costs enable small firms in Asia or Latin America to work together to develop a global reach. Smaller firms in emerging economies can now sell into a global market. It is now easier, for instance, for a tailor in Hong Kong to make a suit by hand for an executive in Memphis. One of the big advantages that rich economies have is their closeness to wealthy consumers, and this advantage will erode as transaction costs fall.

The Internet accelerates the process of economic growth by speeding up the diffusion of new technologies to emerging economies. Unlike the decades required for many developing countries to benefit from railways, telephones, or electricity, the Internet is spreading rapidly throughout Latin America and the rest of the world. Information technology can jump-start national economies and allow them to leapfrog from high levels of illiteracy to computer literacy.

Mobile phones and other wireless technologies greatly reduce the need to lay a costly telecom infrastructure to bring telephone service to areas not served.[16] In Caracas, Venezuela, for example, where half of the city's 5 million people lives in nonwired slums, cell phones with pay-as-you-go cards have provided service to many residents for the first time. The Internet allows for innovative services at a relatively inexpensive cost. Telecenters in many developing countries provide public telephone, fax, computer, and Internet services where students can read online books and local entrepreneurs can seek potential business partners. Medical specialists from Belgium help train local doctors and surgeons in Senegal via video linkups between classrooms and operating centers and provide them with Internet access to medical journals and databases. Traveling there to teach would be prohibitively expensive; via Internet technology, it costs practically nothing.

Objectives of Developing Countries

A thorough assessment of economic development and marketing should begin with a brief review of the basic facts and objectives of economic development.

Industrialization is the fundamental objective of most developing countries.[17] Most countries see in economic growth the achievement of social as well as economic goals. Better education, better and more effective government, the elimination of many social inequities, and improvements in moral and ethical responsibilities are some of the expectations of developing countries. Thus, economic growth is measured not solely in economic goals but also in social achievements. Regarding the last, consider for a moment the tremendous efforts Brazil has undertaken in preparing for the 2012 Olympics.

Because foreign businesses are outsiders, they often are feared as having goals in conflict with those of the host country. Considered exploiters of resources, many multinational firms were expropriated in the 1950s and 1960s. Others faced excessively high tariffs and quotas, and foreign investment was forbidden or discouraged. Today, foreign investors are seen as vital partners in economic development. Experience with state-owned businesses proved to be a disappointment to most governments. Instead of being engines for accelerated economic growth, state-owned enterprises were mismanaged, inefficient drains on state treasuries. Many countries have deregulated industry, opened their doors to foreign investment, lowered trade barriers, and begun privatizing SOEs. The trend toward privatization is currently a major economic phenomenon in industrialized as well as in developing countries.

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[14] Nandini Lakshman, "Nokia: Lessons Learned, Reward Reaped," *BusinessWeek*, July 30, 2007, p. 32.

[15] Simon Cox, "High-Tech Hopefuls, A Special Report on Technology in India and China," *The Economist*, November 10, 2007, pp. 1–25.

[16] Jack Ewing and Edel Rodriguez, "Upwardly Mobile in Africa," *BusinessWeek*, September 4, 2007, pp. 64–71.

[17] "Chocolate, Thinking out of the Box," *The Economist*, April 7, 2007, p. 65.

Exhibit 9.3

Infrastructure of Most Populous American Countries

Country	Travel by Rail (passenger-km per capita	Passenger Cars/1000 People	Energy Consumption (tonnes oil equivalent per capita)	Computers in Use per 1000	Mobile Phones in Use per 1000	Literacy Rate (%)	University Students (per 1000)
United States	27	430	7.5	867	929	100	47
Brazil	93	105	1.2	260	876	92	29
Mexico	—	147	1.6	163	767	93	23
Colombia	0.2	42	0.7	111	1005	94	25
Argentina	198	138	1.9	105	1217	98	38
Canada	43	555	9.9	1085	673	100	34
Peru	5.3	24	0.6	154	809	93	22
Venezuela	—	78	2.9	130	1053	95	40

Source: Euromonitor International, 2010.

Infrastructure and Development

One indicator of economic development is the extent of social overhead capital, or infrastructure, within the economy. **Infrastructure** represents those types of capital goods that serve the activities of many industries. Included in a country's infrastructure are paved roads, railroads, seaports, communication networks, financial networks, and energy supplies[18] and distribution[19]—all necessary to support production and marketing. The quality of an infrastructure directly affects a country's economic growth potential and the ability of an enterprise to engage effectively in business. See Exhibit 9.3 for some comparisons of infrastructure among the eight largest American countries.

Infrastructure is a crucial component of the uncontrollable elements facing marketers. Without adequate transportation facilities, for example, distribution costs can increase substantially, and the ability to reach certain segments of the market is impaired. The lack of readily available educational assets hampers not only the ability to communicate to residents (literacy) but also firms' ability to find qualified local marketing managers. To a marketer, the key issue is the impact of a country's infrastructure on a firm's ability to market effectively. Business efficiency is affected by the presence or absence of financial and commercial service infrastructure found within a country—such as advertising agencies, warehousing storage facilities, credit and banking facilities, marketing research agencies, and satisfactory specialized middlemen. Generally speaking, the less developed a country is, the less adequate the infrastructure is for conducting business. Companies do market in less-developed countries, but often they must modify their offerings and augment existing levels of infrastructure.

Countries begin to lose economic development ground when their infrastructure cannot support an expanding population and economy. A country that has the ability to produce commodities for export may be unable to export them because of an inadequate infrastructure. For example, Mexico's economy has been throttled by its archaic transport system. Roads and seaports are inadequate, and the railroad system has seen little modernization since the 1910 Revolution. Please see Exhibit 9.3 for some of the numbers associated with this problem. If it were not for Mexico's highway system (though it, too, is in poor condition), the economy would have come to a halt; Mexico's highways have consistently carried more freight than its railroads. Conditions in other Latin American countries are no better. Shallow harbors and inadequate port equipment in part make a container filled with computers about $1,000 more expensive to ship from Miami to San Antonio, Chile (about 3,900 miles), than the same container shipped from Yokohama, Japan, to Miami (8,900 miles).

[18]"Chavez Declares an 'Electricity Emergency' in Venezuela," *Reuters*, February 9, 2010, online.

[19]Chris Kraul and Marcelo Soares, "Brazil's Frayed Wires Finally Short Out," *Los Angeles Times*, November 12, 2009, p. A22.

Marketing's Contributions

LO6

Marketing's contribution to the growth and development of a country's economy

How important is marketing to the achievement of a nation's goals? Unfortunately, marketing (or distribution) is not always considered meaningful to those responsible for planning. Economic planners frequently are more production oriented than marketing oriented and tend to ignore or regard distribution as an inferior economic activity. Given such attitudes, economic planners generally are more concerned with the problems of production, investment, and finance than the problems of efficiency of distribution.

Marketing is an economy's arbitrator between productive capacity and consumer demand. The marketing process is the critical element in effectively utilizing production resulting from economic growth; it can create a balance between higher production and higher consumption. An efficient distribution and channel system and all the attendant liaisons match production capacity and resources with consumer needs, wants, and purchasing power.

Marketing in a Developing Country

A marketer cannot superimpose a sophisticated marketing strategy on an underdeveloped economy.[20] Marketing efforts must be keyed to each situation, custom tailored for each set of circumstances. A promotional program for a population that is 50 percent illiterate is vastly different from a program for a population that is 95 percent literate. Pricing in a subsistence market poses different problems from pricing in an affluent society. In evaluating the potential in a developing country, the marketer must make an assessment of the existing level of market development and receptiveness within the country, as well as the firm's own capabilities and circumstances.[21]

Level of Market Development

The level of market development roughly parallels the stages of economic development. Exhibit 9.4 illustrates various stages of the marketing process as it evolves in a growing economy. The table is a static model representing an idealized evolutionary process. As discussed previously, economic cooperation and assistance, technological change, and political, social, and cultural factors can and do cause significant deviations in this evolutionary process. However, the table focuses on the logic and interdependence of marketing and economic development. The more developed an economy, the greater the variety of marketing functions demanded, and the more sophisticated and specialized the institutions become to perform marketing functions.

As countries develop, the distribution channel systems develop. In the retail sector, specialty stores, supermarkets, and hypermarkets emerge, and mom-and-pop stores and local brands often give way to larger establishments. In short, the number of retail stores declines, and the volume of sales per store increases. Additionally, a defined channel structure from manufacturer to wholesaler to retailer develops and replaces the import agent that traditionally assumed all the functions between importing and retailing.

Advertising agencies, facilities for marketing research, repair services,[22] specialized consumer-financing agencies,[23] and storage and warehousing facilities are facilitating agencies created to serve the particular needs of expanded markets and economies. These institutions do not come about automatically, and the necessary marketing structure does not simply appear. Part of the marketer's task when studying an economy is to determine what in the foreign environment will be useful and how much adjustment will be necessary to carry out stated objectives. In some developing countries, it may be up to the marketer to institute the foundations of a modern market system.

[20] Y. Luo, "Market-Seeking MNEs in an Emerging Market: How Parent–Subsidiary Links Shape Overseas Success," *Journal of International Business Studies* 35, no. 4 (2003), pp. 290–309.

[21] Donna L. Paul and Rossitza B. Wooster, "Strategic Investments by US Firms in Transition Economies," *Journal of International Business Studies* 39 (March 2008), pp. 249–66; "Indian Retailing, Getting Cheaper and Better," *The Economist*, February 3, 2007, pp. 64–65.

[22] Ian Alum, "New Service Development Process: Emerging versus Developed Markets," *Journal of Global Marketing* 20, no. 2/3 (2007), pp. 43–56.

[23] Katrijn Gielens and Marnik G. Dekimpe, "The Entry Strategy of Retail Firms into Transition Economies," *Journal of Marketing* 71 (2007), pp. 196–212.

Exhibit 9.4
Evolution of the Marketing Process

Stage	Substage	Example	Marketing Functions	Marketing Institutions	Channel Control	Primary Orientation	Resources Employed	Comments
Agricultural and raw materials	Self-sufficient	Nomadic or hunting tribes	None	None	Traditional authority	Subsistence	Labor Land	Labor intensive No organized markets
	Surplus commodity product	Agricultural economy, such as coffee, bananas	Exchange	Small-scale merchants, traders, fairs, export-import	Traditional authority	Entrepreneurial Commercial	Labor Land	Labor and land intensive Product specialization Local markets Import oriented
Manufacturing	Small scale	Cottage industry	Exchange Physical distribution	Merchants, wholesalers, export-import	Middlemen	Entrepreneurial Financial	Labor Land Technology Transportation	Labor intensive Product standardization and grading Regional and export markets Import oriented
	Mass production	U.S. economy, 1885–1914	Demand creation Physical distribution	Merchants, wholesalers, traders, and specialized institutions	Producer	Production and finance	Labor Land Technology Transportation Capital	Capital intensive Product differentiation National, regional, and export markets
Marketing	Commercial-transition	U.S. economy, 1915–1929	Demand creation Physical distribution Market information	Large-scale and chain retailers	Producer	Entrepreneurial Commercial	Labor Land Technology Transportation Capital Communication	Capital intensive Changes in structure of distribution National, regional, and export markets
	Mass distribution	U.S. economy, 1950 to present	Demand creation Physical distribution Market information Market and product planning, development	Integrated channels of distribution Increase in specialized middlemen	Producer Retailer	Marketing	Labor Land Technology Transportation Capital Communication	Capital and land intensive Rapid product innovation National, regional, and export markets

CROSSING BORDERS 9.1

Marketing in the Third World: Teaching, Pricing, and Community Usage

Much of the marketing challenge in the developing world, which is not accustomed to consumer products, is to get consumers to use the product and to offer it in the right sizes. For example, because many Latin American consumers can't afford a seven-ounce bottle of shampoo, Gillette sells it in half-ounce plastic bottles. And in Brazil, the company sells Right Guard in plastic squeeze bottles instead of metal cans.

But the toughest task for Gillette is convincing Third World men to shave. Portable theaters called mobile propaganda units are sent into villages to show movies and commercials that tout daily shaving. In South African and Indonesian versions, a bewildered bearded man enters a locker room where clean-shaven friends show him how to shave. In the Mexican film, a handsome sheriff is tracking bandits who have kidnapped a woman. He pauses on the trail, snaps a double-edged blade into his razor, and lathers his face to shave. In the end, of course, the smooth-faced sheriff gets the woman. From packaging blades so that they can be sold one at a time to educating the unshaven about the joys of a smooth face, Gillette is pursuing a growth strategy in the developing world.

What Gillette does for shaving, Colgate-Palmolive does for oral hygiene. Video vans sent into rural India show an infomercial designed to teach the benefits of toothpaste and the proper method of brushing one's teeth. "If they saw the toothpaste tube, they wouldn't know what to do with it," says the company's Indian marketing manager. The people need to be educated about the need for toothpaste and then how to use the product. Toothpaste consumption has doubled in rural Brazil in a six-year period.

Sources: David Wessel, "Gillette Keys Sales to Third World Taste," The Wall Street Journal, January 23, 1986, p. 30; "Selling to India," The Economist, May 1, 2000; Raja Ramachandran, "Understanding the Market Environment of India," Business Horizons, January/February 2000, p. 44; Euromonitor International, 2010.

The limitation of Exhibit 9.4 in evaluating the market system of a particular country is that the system is in a constant state of flux. To expect a neat, precise progression through each successive growth stage, as in the geological sciences, is to oversimplify the dynamic nature of marketing development. So some ventures will not succeed no matter how well planned. A significant factor in the acceleration of market development is that countries or areas of countries have been propelled from the 18th to the 21st century in the span of two decades via borrowed technology.

Marketing structures of many developing countries are simultaneously at many stages. It is not unusual to find traditional small retail outlets functioning side by side with advanced, modern markets. This situation is especially true in food retailing, where a large segment of the population buys food from small produce stalls, while the same economy supports modern supermarkets equal to any found in the United States.

Demand in Developing Countries

The data in Exhibit 9.5 represent the diversity of consumption patterns across types of countries. Notice the higher percentages of expenditures for food in developing countries, whereas the costs of housing are more important in affluent countries. Also note the high costs of health goods and medical services associated with the mostly private-sector healthcare system of the United States. You may recall from Chapter 4 that the government-based, tax-dollar supported systems in many other affluent countries deliver equal or better longevity to their citizens, particularly in Japan. Affluence also allows higher proportions to be spent on leisure activities than is the case in developing countries.

Estimating market potential in less-developed countries involves additional challenges. Most of the difficulty arises from the coexistence of three distinct kinds markets in each country: (1) the traditional rural/agricultural sector, (2) the modern urban/high-income sector, and (3) the often very large transitional sector usually represented by low-income urban slums. The modern sector is centered in the capital city and has jet airports, international hotels, new factories, and an expanding Westernized middle class. The traditional rural sector tends to work in the countryside, as it has for centuries. Directly juxtaposed to the modern sector, the transitional sector contains those moving from the country to the large cities. Production and consumption patterns vary across the three sectors. Latin America

Exhibit 9.5

Consumption Patterns in Most Populous American Countries

		Household Expenditures ($/capita)									
Country	**Occupants per household**	**Food**	**Alcohol, Tobacco**	**Clothing**	**Housing**	**Health Goods, Medical Services**	**Transportation**	**Communications**	**Leisure**	**Education**
United States	2.6	2174	618	1159	5998	5956	3332	720	2959	701
Brazil	3.6	1257	96	168	758	224	226	279	173	365
Mexico	3.9	1277	130	154	726	260	939	95	136	212
Colombia	3.8	871	150	130	447	376	318	109	161	154
Argentina	3.7	820	135	292	621	153	517	149	356	47
Canada	2.6	2082	890	937	5064	1343	3287	500	2173	372
Peru	4.1	809	55	159	274	170	255	85	66	207
Venezuela	4.5	2206	228	310	913	363	719	383	293	475

Source: Euromonitor International, 2010.

The irony of Parker Brothers' introduction of Monopoly to Ecuador in 2009 is rather amusing, given President Rafael Correa's announcement of new anti-monopoly laws just the year before. He was reacting to Carlos Slim's giant Mexican Telmex takeover of Ecuador Telecom.

currently has a population of about 600 million, about two-thirds of which would be classified as middle class by one definition—that is, within the income per capita band of $5,000 to $20,000 at purchase price parity.[24] The modern sector demands products and services similar to those available in any industrialized country; the remaining 200 million in the transitional and rural sectors, however, demand items more indigenous and basic to subsistence. As one authority on developing markets observed, "A rural consumer can live a sound life without many products. Toothpaste, sugar, coffee, washing soap, bathing soap, kerosene are all bare necessities of life to those who live in semi-urban and urban areas." One of the greatest challenges of the 21st century is to manage and market to the transitional sector in developing countries. The large-city slums perhaps present the greatest problems for smooth economic development.

Increasingly marketing research efforts are being focused on the lowest income segments in Latin America. For example, McCann Worldgroup's office in Bogota, Colombia (owned by the global advertising conglomerate Interpublic Group), developed a new division called "Barrio." The launch of the new division is based on a two-year, $2.5 million research project in which McCann sent employees across Latin America to live for a week with families earning between $350 to $700 per month. The agency amassed 700 hours of video recordings and thousands of questionnaires to develop a clearer picture of how consumers behave in the region's poorer districts. A problem discovered for one of their major clients was a misperception that Nido Rindes Diario, a powdered milk product of Nestle SA, was viewed narrowly as formula appropriate for babies only. A new product positioning was developed, based on the finding that for the poorest families in Latin America, food means survival. One executive explained, "The study found that the meaning of food is energy and strength to work, to carry through the day, to not get sick." To communicate the product's usefulness for the whole family, a radio advertisement was designed using a trumpet and bongo-drum jingle whose verses are a play on the Spanish word *rinde*, which means both long-lasting and productiveness. The jingle suggested that both the consumers of the product and their money would "produce more."[25]

The companies that will benefit in the future from emerging markets in Latin America and elsewhere are the ones that invest when it is difficult and initially unprofitable. In some

[24]There are many ways to define "middle class." See "Who's in the Middle," *The Economist Special Report on the New Middle Class,* February 14, 2009, p. 4.

[25]Antonio Regalado, "McCann Offers Peek at Latin America's Poor," *The Wall Street Journal,* December 8, 2008, p. B6.

of the less-developed countries, the marketer will institute the very foundations of a modern market system, thereby gaining a foothold in an economy that will someday be highly profitable. The price paid for entering in the early stages of development may be a lower initial return on investment, but the price paid for waiting until the market becomes profitable may be a blocked market with no opportunity for entry.

Big Emerging Markets (BEMs)

As mentioned previously, the U.S. Department of Commerce estimates that over 75 percent of the expected growth in world trade over the next two decades will come from the more than 130 developing countries; a small core of these countries will account for more than half of that growth.[26] Commerce researchers also predict that imports to the countries identified as **big emerging markets (BEMs)**, with half the world's population and accounting for 25 percent of the industrialized world's GDP today, will by 2010 be 50 percent of that of the industrialized world. With a combined GDP of over $2 trillion, BEMs already account for as large a share of world output as Germany and the United Kingdom combined, and exports to the BEMs exceed exports to Europe and Japan combined.[27]

Big emerging markets share a number of important traits. They

- Are all geographically large.
- Have significant populations.
- Represent sizable markets for a wide range of products.
- Have strong rates of growth or the potential for significant growth.
- Have undertaken significant programs of economic reform.
- Are of major political importance within their regions.
- Are "regional economic drivers."
- Will engender further expansion in neighboring markets as they grow.

Although these criteria are general and each country does not meet all of them, India, China, Brazil, Mexico, Poland, Turkey, and South Africa are prominent examples of countries the Department of Commerce has identified as BEMs.[28] Other countries such as Egypt, Venezuela, and Colombia may warrant inclusion in the near future. The list is fluid, because some countries will drop off while others will be added as economic conditions change. Inducements for those doing business in BEMs include export–import bank loans and political risk insurance channeled into these areas.

The BEMs differ from other developing countries in that they import more than smaller markets and more than economies of similar size. As they embark on economic development, demand increases for capital goods to build their manufacturing base and develop infrastructure. Increased economic activity means more jobs and more income to spend on products not yet produced locally. Thus, as their economies expand, there is accelerated growth in demand for goods and services, much of which must be imported. Thus, BEM merchandise imports are expected to be nearly $1 trillion higher than they were in 1990; if services are added, the amount jumps beyond the trillion-dollar mark.

Because many of these countries lack modern infrastructure, much of the expected growth will be in industrial sectors such as information technology, environmental technology, transportation, energy technology, healthcare technology, and financial services. What is occurring in the BEMs is analogous to the situation after World War II when tremendous demand was created during the reconstruction of Europe. As Europe rebuilt

[26]Debabrata Talukdar, Sumila Gulyani, and Lawrence F. Salmen, "Customer-Orientation in the Context of Development Projects: Insights from the World Bank," *Journal of Public Policy & Marketing* 24, no. 1 (2005), pp. 100–11.

[27]C. K. Prahalad and Allen Hammond, "Serving the World's Poor, Profitably," *Harvard Business Review* 80, no. 9 (September 2002), pp. 24–32.

[28]William J. Holstein, "Emerging Markets, Emerging Giants," *The New York Times*, April 22, 2007, p. 4.

its infrastructure and industrial base, demand for capital goods exploded; as more money was infused into its economies, consumer demand also increased rapidly. For more than a decade, Europe could not supply its increasing demand for industrial and consumer goods. During that period, the United States was the principal supplier because most of the rest of the world was rebuilding or had underdeveloped economies. Meeting this demand produced one of the largest economic booms the United States had ever experienced. As we shall see later in the chapter, consumer markets and market segments in the BEMs are already booming. Unlike the situation after World War II, however, the competition will be fierce as Japan, China, Europe, the NICs, and the United States vie for these big emerging markets.

The Americas[29]

Within the Americas, the United States, Canada, Central America, and South America have been natural if sometimes contentious trading partners. As in Europe, the Americas are engaged in all sorts of economic cooperative agreements, with NAFTA being the most significant and Mercosur and DR-CAFTA gaining in importance.

North American Free Trade Agreement (NAFTA)

Preceding the creation of the North American Free Trade Agreement (NAFTA), the United States and Canada had the world's largest bilateral trade agreement; each was the other's largest trading partner. Despite this unique commercial relationship, tariff and other trade barriers hindered even greater commercial activity. To further support trade activity, the two countries established the United States–Canada Free Trade Area (CFTA), designed to eliminate all trade barriers between the two countries. The CFTA created a single, continental commercial market for all goods and most services. The agreement between the United States and Canada was not a customs union like the European Community; no economic or political union of any kind was involved. It provided only for the elimination of tariffs and other trade barriers.

Shortly after both countries had ratified the CFTA, Mexico announced that it would seek free trade with the United States. Mexico's overtures were answered positively by the United States, and talks on a U.S.–Mexico free trade area began. Mexico and the United States had been strong trading partners for decades, but Mexico had never officially expressed an interest in a free trade agreement until the president of Mexico, Carlos Salinas de Gortari, announced that Mexico would seek such an agreement with the United States and Canada.

[29]For a comprehensive list of all trade agreements in the Americas, with links to specific documents, visit http://www.sice.oas.org and select Trade Agreements.

Geographic proximity allows Mexicans from Baja, California, to attend Padres baseball games in close-by San Diego. The team maintains this successful store just across the border in Plaza Rio shopping center in Tijuana. And of course, historically, Padre Junipero Serra had visited both places in the late 1700s while establishing the chain of missions in old Spanish California. NAFTA also has given Taco Bell a second shot at making it in Mexico; this store is in Monterrey. The company's 1992, pre-NAFTA incursion failed.

CROSSING BORDERS 9.2 Taco Bell Tries Again

It sounds like a fast-food grudge match: Taco Bell is taking on the homeland of its namesake by reopening for the first time in 15 years in Mexico. Defenders of Mexican culture see the chain's reentry as a crowning insult to a society already overrun by U.S. chains, from Starbucks and Subway to KFC. "It's like bringing ice to the Arctic," complained pop culture historian Carlos Monsivais.

In Mexico, the company is projecting a more "American" fast-food image by adding French fries—some topped with cheese, sour cream, ground meat, and tomatoes—to the menu of its first store, which opened in late September 2007 in the northern city of Monterrey. Other than the fries and sales of soft-serve ice cream, "our menu comes almost directly from the U.S. menu," said Managing Director Steven Pepper.

Some of the names have been changed to protect the sacred: The hard-shelled items sold as "tacos" in the United States have been renamed "tacostadas." This made-up word is a play on "tostada," which for Mexicans is a hard, fried disk of cornmeal that is always served flat, with toppings. But while Mexicans eagerly buy many American brands, the taco holds a place of honor in the national cuisine. Mexicans eat them everywhere, any time of day, buying them from basket-toting street vendors in the morning or slathering them in salsa at brightly lit taquerias to wrap up a night on the town.

Taco Bell has taken pains to say that it's not trying to masquerade as a Mexican tradition. "One look alone is enough to tell that Taco Bell is not a 'taqueria,'" the company said in a half-page newspaper ad. "It is a new fast-food alternative that does not pretend to be Mexican food." It's still a mixed message for Mexicans like Marco Fragoso, a 39-year-old office worker sitting down for lunch at a traditional taqueria in Mexico City, because the U.S. chain uses traditional Mexican names for its burritos, gorditas, and chalupas. "They're not tacos," Fragoso said. "They're folded tostadas. They're very ugly."

Taco Bell failed with an earlier, highly publicized launch in Mexico City in 1992, when it opened a few outlets next to KFC restaurants. Now Taco Bell, KFC, and Pizza Hut are owned by Yum! Brands. But Mexicans were less familiar with foreign chains back then, the economy was on the verge of a crisis, and NAFTA had yet to be signed. The restaurants didn't even last two years. Since then, free trade and growing migration have made U.S. brands ubiquitous in Mexico, influencing everything from how people dress to how they talk.

Graham Allan, president of Yum! Brands, says two years of market research have convinced him that the firm will succeed this time. The company is building its second store in another Monterrey suburb and is opening between 8 and 10 more locations in its first year, with plans to eventually reach 300 stores. The first stores will be company-owned, and franchise opportunities will open up in later years.

Sources: Michael Arndt, "Tacos without Borders," BusinessWeek, September 3, 2007, p. 12; Mark Stevenson, "Another Run for the Border," Los Angeles Times, October 15, 2007, p. C4.

Despite the disparity between Mexico's economy and the economies of the other two countries, there were sound reasons for such an alliance. Canada is a sophisticated industrial economy, resource rich, but with a small population and domestic market. Mexico desperately needs investment, technology, exports, and other economic reinforcement to spur its economy. Even though Mexico has an abundance of oil and a rapidly growing population, the number of new workers is increasing faster than its economy can create new jobs. The United States needs resources (especially oil) and, of course, markets. The three need one another to compete more effectively in world markets, and they need mutual assurances that their already dominant trading positions in the others' markets are safe from protection pressures. When NAFTA was ratified and became effective in 1994, a single market of 360 million people with a $6 trillion GNP emerged.

NAFTA required the three countries to remove all tariffs and barriers to trade over 15 years, and beginning in 2008, all tariff barriers were officially dropped.[30] Some nagging disagreements still persist, such as allowing Mexican trucks and truckers free access to U.S. roads. But for the most part, NAFTA is a comprehensive trade agreement that

[30]Jenalia Moreno, "Trade Tariffs End, Marking a NAFTA Milestone: U.S., Mexico Tout New Growth, but Some Farmers Feel Squeezed Out," *Houston Chronicle*, January 2, 2008.

Exhibit 9.6
Key Provisions of NAFTA

Market access
Within 10 years of implementation, all tariffs will be eliminated on North American industrial products traded among Canada, Mexico, and the United States. All trade between Canada and the United States not already duty free will be duty free as provided for in CFTA. Mexico will immediately eliminate tariffs on nearly 50 percent of all industrial goods imported from the United States, and remaining tariffs will be phased out entirely within 15 years.

Nontariff barriers
In addition to the elimination of tariffs, Mexico will eliminate nontariff barriers and other trade-distorting restrictions. The U.S. exporters will benefit immediately from the removal of most import licenses that have acted as quotas, essentially limiting the importation of products into the Mexican market. NAFTA also eliminates a host of other Mexican barriers, such as local-content, local-production, and export-performance requirements that have limited U.S. exports.

Rules of origin
NAFTA reduces tariffs only for goods made in North America. Tough rules of origin will determine whether goods qualify for preferential tariff treatment under NAFTA. Rules of origin are designed to prevent free riders from benefiting through minor processing or transshipment of non-NAFTA goods. For example, Japan could not assemble autos in Mexico and avoid U.S. or Canadian tariffs and quotas unless the auto had a specific percentage of Mexican (i.e., North American) content. For goods to be traded duty free, they must contain substantial (62.5 percent) North American content. Because NAFTA rules of origin have been strengthened, clarified, and simplified over those contained in the U.S.–Canada Free Trade Agreement, they supersede the CFTA rules.

Customs administration
Under NAFTA, Canada, Mexico, and the United States have agreed to implement uniform customs procedures and regulations. Uniform procedures ensure that exporters who market their products in more than one NAFTA country will not have to adapt to multiple customs procedures. Most procedures governing rules-of-origin documentation, record keeping, and verification will be the same for all three NAFTA countries. In addition, the three will issue advanced rulings, on request, about whether or not a product qualifies for tariff preference under the NAFTA rules of origin.

Investment
NAFTA will eliminate investment conditions that restrict the trade of goods and services to Mexico. Among the conditions eliminated are the requirements that foreign investors export a given level or percentage of goods or services, use domestic goods or services, transfer technology to competitors, or limit imports to a certain percentage of exports.

Services
NAFTA establishes the first comprehensive set of principles governing services trade. Both U.S. and Canadian financial institutions are permitted to open wholly owned subsidiaries in Mexico, and all restrictions on the services they offer will be lifted. NAFTA opens Mexico's market for international truck, bus, and rail transport and eliminates the requirement to hand off cargo to a Mexican vehicle upon entry into Mexico, saving U.S. industry both time and money. Also, U.S. truck and bus companies will have the right to use their own drivers and equipment for cross-border cargo shipment and passenger service with Mexico.

Intellectual property
NAFTA will provide the highest standards of protection of intellectual property available in any bilateral or international agreement. The agreement covers patents, trademarks, copyrights, trade secrets, semiconductor integrated circuits, and copyrights for North American movies, computer software, and records.

Government procurement
NAFTA guarantees businesses fair and open competition for procurement in North America through transparent and predictable procurement procedures. In Mexico, PEMEX (the national oil company), CFE (the national electric company), and other government-owned enterprises will be open to U.S. and Canadian suppliers.

Standards
NAFTA prohibits the use of standards and technical regulations used as obstacles to trade. However, NAFTA provisions do not require the United States or Canada to lower existing health, environmental, or safety regulations, nor does NAFTA require the importation of products that fail to meet each country's health and safety standards.

addresses, and in most cases improves, all aspects of doing business within North America. See Exhibit 9.6 for some of the key provisions of the trade agreement. The elimination of trade and investment barriers among Canada, Mexico, and the United States creates one of the largest and richest markets in the world. Cross-border cooperation seems to ameliorate other long-standing areas of conflict such as legal and illegal immigration. NAFTA also has paved the way for Walmart to move into Mexico and the Mexican supermarket giant Gigante to move into the United States. Other cross-border services are also thriving, including entertainment and healthcare.

CROSSING BORDERS 9.3 In Quebec, They Prefer Pepsi

Up until the 1980s, Coke was king in Quebec. Then the local advertising executives at J. Walter Thompson took a risk. Standard practice for both Coke and Pepsi had been to simply translate U.S. campaigns into French. But being second in the market forced creativity, and based on qualitative research, the ad execs recommended a new selling point: comedy.

It was risky, because while Pepsi had been adopted as a self-effacing term by some Quebecers, it was also a derogatory slur used by non-francophones to describe them. If the marketing plan was seen as offensive, Pepsi could become a pariah.

"Young Quebecers in the 1980s . . . were crowning their own celebrities and creating their own made-in-Quebec lifestyle," wrote the J. Walter Thompson company in a submission to the Cassies, the Canadian Advertising Awards. "Research revealed an inner confidence among Quebec target groups. . . . Since Quebec was culturally unique, it had developed its own entertainment system complete with its own stars," especially in the comedy milieu. "It was a style of comedy that used typical Quebecois stereotypes to redefine the emerging new 'street-smart' culture of young, urban Quebecers."

Claude Meunier, famous for his absurdist humor on Ding et Dong television skits, was chosen. The theme of Meunier's ads remained an intractable joie de vivre and an undying love of Pepsi. His brief, 30-second spots debuted in 1985 and featured a variety of characters and a humor only Quebecers could appreciate; they became an instant hit.

Pepsi came almost neck-and-neck with Coke the same year. By 1986, David had surpassed Goliath and continued to thrive, even though Coke fought back, outspending Pepsi two-to-one on six media campaigns between 1985 and 1993.

"Quebecers had the sentiment that a multinational corporation finally took the trouble to try and understand them, using the same language, with the same accents," says Luc Dupont, a Canadian marketing professor. A nation moored in a sea of English could empathize with company fighting for purchase in an ocean of Coke. "Subconsciously, Quebecers identify with products that are No. 2," Dupont said. "In addition to the absurd humour and joy of life, they like to say, 'We're different here. We changed things.'"

The Meunier campaign would last 18 years, aided by the fact Meunier became the star of La Petite Vie, an early 1990s Quebec sitcom watched by 4 million out of a possible 6 million viewers every Monday night. The Meunier Pepsi campaign won the 1993 CASSIE Best of Show advertising award.

Today, Coke dominates the global market with 51 percent of total sales, compared with Pepsi's 22 percent. But in Quebec, the Pepsi stable of soft drinks owns 61 percent of the market against Coke's 20. It is a dominance unseen anywhere else in North America. "Pepsi's ad campaign allowed us to feed that image of ourselves as different," Dupont said. "Even though in fact, we are not so different." The Pepsi Meunier campaign is taught in textbooks now, Dupont said, as a lesson in how to adapt to your market and change with the times.

The latest TV spot may be the best yet: A Scandinavian-sounding tourist, with the insouciance of Mr. Bean, walks into a casse-croute somewhere in Quebec's hinterland and makes the mistake of ordering a Coke. The snack bar falls silent. Wildlife stops in the forest. Traffic grinds to a halt in Old Quebec. People stick their heads out of windows. When the waiter finally pops open a can of the blue and red in front of him, the tourist clues in: "Ah! Ici, c'est Pepsi."

Pepsi is celebrating its 75th anniversary in Quebec this year, honoring the opening of the Montreal plant in 1934 (its first outside the United States). It's rolling out a new logo and ad campaign. It's also putting $40 million into its Montreal bottling facilities, one of several plants in the province employing a total of 1,200 people. That investment, along with large amounts of money spent sponsoring sports and culture (among them the Colisée Pepsi arena in Quebec City and the Pepsi Forum in Montreal) is another key to its success.

We also note that the Quebec province flag is blue and white. while the Canadian flag is red and white. As we will see in Chapter 16, colors often make such a difference.

Sources: Konrad Yakabuski, "How Pepsi Won Quebec," The Globe and Mail, August 28, 2008, p. B1-2; Rene Bremmer, The Gazette, July 11, 2009, online.

Furthermore, U.S. and foreign investors with apparel and footwear factories in Asia have been encouraged to relocate their production operations to Mexico. For example, Victoria's Secret lingerie chain opened a new manufacturing plant near Mexico City. The company previously had used contractors in Asia for its lingerie line. Even with wages in Mexico three times the monthly wages in Sri Lanka, the company will still come out ahead because moving goods from Mexico City to the United States is cheaper and faster than moving them from Colombo—the time needed to make a sample can be cut from weeks to days. Mexican goods have no tariffs, whereas Sri Lankan goods carry a 19 percent duty.

Total foreign direct investment in Mexico has averaged $11 billion a year since 1995 as companies from all over the world poured money into auto and electronics plants, telecommunications, petrochemicals, and a host of other areas. A large chunk of investment is earmarked for factories that will use Mexico as an export platform for the rest of North America, and increasingly the rest of Latin America.

Job losses have not been as drastic as once feared, in part because companies such as Lucent Technologies have established *maquiladora* plants in anticipation of the benefits from NAFTA. The plants have been buying more components from U.S. suppliers, while cutting back on Asian sources. Miles Press, a $2 million maker of directory cards, saw orders from Lucent grow 20 percent in just a few months. Berg Electronics, a $700 million component maker, expects to triple sales to Lucent's Guadalajara plant next year. This ripple effect has generated U.S. service-sector jobs as well. Fisher-Price shifted toy production for the U.S. market from Hong Kong to a plant in Monterrey. Celadon Trucking Services, which moves goods produced for Fisher-Price from Mexico to the United States, has added 800 new U.S. drivers to the payroll.

During the protracted economic slump following the dot-com bust in the United States, *maquiladora* plants were closing at an uncomfortable rate. Manufacturing migrated to other low-paying countries such as China, Guatemala, and Vietnam. Most recently, in the depths of the unemployment environment in all three countries, new immigration rules have limited Mexican farm workers from coming north.[31] Even so, the bleak predictions by the critics of NAFTA[32] have not been borne out. By the broadest measure of consumer benefits, the per capita income levels at purchase price parity have steadily increased in all three countries: from $7,110 in 1994 to $14,270 in 2008 in Mexico; $21,050 to $36,220 in Canada; and $26,230 to $46,970 in the United States during the same time period.[33]

NAFTA is a work in progress. It is still too early to pass judgment; after all, the European Union has been in existence for more than 50 years and has had its ups and downs. NAFTA is a mere babe in arms in comparison. What is happening is that economic relationships among the three countries are becoming more intense each day, for the most part quietly and profitably. In short, at least 20 years are needed for an objective evaluation of NAFTA to be possible.

United States–Central American Free Trade Agreement–Dominican Republic Free Trade Agreement (DR-CAFTA)

LO7

The foundational market metrics of American nations

In August 2005, President George Bush signed into law a comprehensive free trade agreement among Costa Rica, the Dominican Republic, El Salvador, Guatemala, Honduras, Nicaragua, and the United States.[34] The agreement includes a wide array of tariff reductions aimed at increasing trade and employment among the seven signatories. Thus, DR-CAFTA represents another important step toward the ultimate goal of a free trade agreement encompassing all the Americas. See Exhibit 9.7 for a listing of American countries involved in trade associations. The statistics included there reflect fundamental measures of their attractiveness to international marketers. Perhaps most useful will be the data reported in

[31] P. J. Huffstutter, "Hiring Foreign Farmworkers Gets Tougher under New Rule," *Los Angeles Times*, February 12, 2010, p. B2.

[32] Eduardo Porter, "NAFTA Is a Sweet Deal, So Why Are They So Sour?" *The New York Times*, February 11, 2008, p. A24.

[33] World Bank, 2010.

[34] Beyond NAFTA and DR-CAFTA, the United States has free trade agreements approved for 10 other countries: Australia, Bahrain, Chile, Israel, Jordan, Morocco, Oman, Peru, and Singapore. Agreements with Colombia, South Korea, and Panama await Congressional approval.

Exhibit 9.7
American Market Regions Fundamental Market Metrics

(in parentheses) = average annual growth rate, 2004–2009 as a percentage

Association	Country	Population (millions)	GNI* (billions $)	Exports* of Goods (billions $)	Imports* of Goods (billions $)	Ease of Doing Business Index	GNI/ capita* ($)	Internet Users (per 1000 people)
North American Free Trade Agreement (NAFTA)								
	United States	306.6 (0.9)	14306.6 (4.0)	1068.3 (5.6)	1566.1 (1.3)	3	46662 (3.1)	741(2.3)
	Mexico	108.6 (1.1)	1068.8	299.3 (4.1)	233.9 (3.5)	55	9805	230 (6.5)
	Canada	33.7 (1.0)	1325.9 (6.3)	313.3 (−0.4)	319.6 (3.1)	8	39401 (5.2)	769 (3.1)
Dominican Republic–Central American Free Trade Agreement (DR-CAFTA)								
	Guatemala	14.0 (2.5)	37.6 (9.7)	2.4 (−4.2)	10.7 (6.4)	117	2678 (7.0)	184 (24.6)
	Costa Rica	4.6 (1.5)	28.3 (9.7)	8.7 (6.6)	11.3 (6.4)	120	6172 (8.1)	398 (13.8)
	El Salvador	6.6 (0.4)	21.5 (7.0)	3.8 (3.6)	6.9 (1.7)	81	3489 (6.6)	175 (12.5)
	Nicaragua	5.7 (1.3)	5.8 (6.3)	1.4 (13.6)	3.5 (9.4)	113	1008 (4.9)	48 (15.7)
	Honduras	7.5 (2.0)	14.5 (11.6)	2.7 (10.2)	6.3 (8.5)	136	1948 (9.4)	112 (27.7)
	Dominican Republic	10.1 (1.4)	43.5 (17.1)	6.6 (2.2)	18.1 (15.9)	102	4309 (15.4)	296 (27.3)
	United States	as above						
Caribbean Community and Common Market (CARICOM)								
	Antigua and Barbuda	.09 (1.2)	(7.4)	.08 (7.4)	.8 (12.1)	44	12595 (6.1)	811 (27.2)
	Bahamas	.34 (1.2)	7.4 (3.8)	.54 (2.6)	2.3 (4.0)	59	21503 (2.5)	462 (9.8)
	Barbados	.26 (0.3)	2.9	.3 (3.8)	1.5 (1.2)	—	11154	801 (6.2)
	Belize	.31 (2.1)	1.3 (6.1)	.3 (9.0)	.9 (11.0)	75	4091 (3.9)	151 (21.2)
	Dominica	.07 (−0.3)	.4 (6.9)	.04 (0.1)	.2 (10.0)	76	5254 (7.2)	829 (22.4)
	Grenada	.10 (0.3)	.6 (8.3)	.06 (9.5)	.4 (8.6)	88	5926 (8.0)	240 (4.2)
	Guyana	.76 (0.0)	1.1	.8 (7.2)	1.4 (16.2)	98	1447	293 (9.1)
	Haiti	10.0 (1.6)	7.0	.6 (10.6)	1.7 (5.9)	154	700	112 (25.0)
	Jamaica	2.7 (0.5)	11.3 (3.3)	1.4 (−0.4)	4.5 (3.5)	67	4143 (2.8)	663 (10.5)
	St. Kitts-Nevis	.05 (1.3)	.5 (7.6)	.04 (−3.2)	.3 (9.7)	70	10062 (6.2)	327 (5.7)
	St. Lucia	.17 (1.0)	1.0 (5.5)	.1 (11.8)	.7 (9.7)	34	5530 (4.5)	618 (23.6)
	St. Vincent and the Grenadines	.11 (0.1)	.6 (8.6)	.05 (5.5)	.4 (10.6)	62	5423 (8.5)	663 (55.2)
	Surinam	.52 (1.0)	2.7	1.9 (16.0)	1.4 (13.2)	148	5192	112 (12.9)
	Trinidad-Tobago	1.3 (0.4)	20.6 (9.9)	18.1 (23.2)	7.7 (9.8)	78	15404 (9.4)	183 (8.4)
Latin American Integration Association (LAIA, aka ALADI)								
	Argentina	40.3 (1.0)	302.2 (15.9)	55.7 (10.0)	38.9 (11.6)	112	7492 (14.8)	811 (14.0)
	Bolivia	9.8 (1.8)	15.6 (13.2)	4.7 (17.2)	4.2 (18.2)	158	1582 (11.2)	143 (26.3)
	Brazil	193.7 (1.1)	1477 (18.1)	151.1 (9.3)	127.5 (15.2)	127	7627 (16.9)	452 (18.8)
	Chile	17.0 (1.0)	138.0 (9.5)	51.9 (9.8)	41.1 (10.6)	40	8129 (8.3)	342 (12.1)
	Colombia	45.7 (1.5)	185.5 (14.6)	33.3 (15.4)	35.6 (16.3)	49	4063 (12.9)	475 (39.1)
	Cuba	11.2 (0.0)	—	3.3 (9.1)	13.4 (22.8)	—	—	143 (11.2)
	Ecuador	13.6 (1.1)	38.5 (10.4)	13.3 (11.4)	14.7 (12.4)	133	2824 (9.2)	109 (17.6)
	Mexico	as above						
	Paraguay	6.3 (1.8)	16.3	3.4 (15.7)	8.7 (23.0)	122	2587	112 (26.5)
	Peru	29.0 (1.4)	119.5	25.1 (14.4)	20.2 (11.4)	65	4120	269 (17.7)
	Uruguay	3.4 (0.2)	30.5 (19.3)	5.8 (14.5)	7.4 (18.8)	109	9079 (19.1)	448 (21.3)
	Venezuela	28.6 (1.7)	355.5 (26.7)	95.4 (22.9)	38.6 (18.3)	178	12438 (24.5)	313 (30.0)

*Current U.S. dollars

Sources: Euromonitor International, 2010; World Bank, 2010 the last four columns: the size of the import market, the ease of doing business, and the resources available to consumers, including both money and communication infrastructure. The Ease of Doing Business Index[35] is a ranking based on a combination of 10 different measures, such as ease of . . . "starting a business," "registering property," and "enforcing a contract." For details, see www.doingbusiness.org.

Southern Cone Free Trade Area (Mercosur)[36]

LO8

The growing importance of trading associations among American nations

Mercosur (including Argentina, Bolivia, Brazil, Chile, Paraguay, and Uruguay) is the second-largest common-market agreement in the Americas after NAFTA. The Treaty of Asunción, which provided the legal basis for Mercosur, was signed in 1991 and formally inaugurated in 1995. The treaty calls for a common market that would eventually allow for the free movement of goods, capital, labor, and services among the member countries, with a uniform external tariff. Because Mercosur members were concerned about sacrificing sovereign control over taxes and other policy matters, the agreement envisioned no central institutions similar to those of the European Union institutions.

Since its inception, Mercosur has become the most influential and successful free trade area in South America. With the addition of Bolivia and Chile in 1996, Mercosur became a market of 220 million people with a combined GDP of nearly $1 trillion and the third largest free trade area in the world. More recently Colombia and Ecuador have become associate members, with Venezuela to follow shortly; Mexico has observer status as well. Mercosur has demonstrated greater success than many observers expected. The success can be attributed to the willingness of the region's governments to confront some very tough issues caused by dissimilar economic policies related to the automobile and textile trade and to modify antiquated border customs procedures that initially created a bottleneck to smooth border crossings. The lack of surface and transportation infrastructure to facilitate trade and communications is a lingering problem that is being addressed at the highest levels.

Mercosur has pursued agreements aggressively with other countries and trading groups. For example, there are concrete negotiations under way to create a free trade program with Mexico, talks with Canada regarding a free trade agreement, and talks between Chile and Mercosur aimed at gradual and reciprocal trade liberalization.

In addition, negotiations have been under way since 1999 for a free trade agreement between the European Union and Mercosur, the first region-to-region free trade accord. A framework agreement was signed in 1995, and the long-term objective is to reach convergence in all areas—cooperation, trade, market access, intellectual property, and political dialogue. The two blocs propose the largest free trade area in the world. The advantages of the accord to Mercosur will mainly come from lifting trade barriers on agricultural and agro-industrial products, which account for the lion's share of Mercosur exports to Europe. However, that point will also be a major stumbling block if the European Union is unwilling to open its highly protected agricultural sector to Brazilian and Argentine imports. Nevertheless, one official of the European Union indicated that the European Union was already in the process of reforming its Common Agricultural Policy. Although negotiations will not be easy, Mercosur and the European Union should be able to reach an accord. As we shall see in the next section, Mercosur has assumed the leadership in setting the agenda for the creation of a free trade area of the Americas or, more likely, a South American Free Trade Area (SAFTA).

Latin American Progress

A political and economic revolution has been taking place in Latin America over the past three decades. Most of the countries have moved from military dictatorships to democratically elected governments, and sweeping economic and trade liberalization is replacing the economic model most Latin American countries followed for decades. We make this claim despite the recent backsliding of a few countries in the region, such as Venezuela. Privatization of state-owned enterprises and other economic, monetary, and trade policy reforms show a broad shift away from the inward-looking policies of import substitution

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[35]Euromonitor International, 2010.

[36]See http://www.mercosur.org.uy/.

(that is, manufacturing products at home rather than importing them) and protectionism so prevalent in the past. The trend toward privatization of SOEs in the Americas followed a period in which governments dominated economic life for most of the 20th century. State ownership was once considered the ideal engine for economic growth. Instead of economic growth, however, they ended up with inflated public-sector bureaucracies, complicated and unpredictable regulatory environments, the outright exclusion of foreign and domestic private ownership, and inefficient public companies. Fresh hope for trade and political reforms is now being directed even to communist Cuba.[37]

Today many Latin American countries are at roughly the same stage of liberalization that launched the dynamic growth in Asia during the 1980s and 1990s. In a positive response to these reforms, investors have invested billions of dollars in manufacturing plants, airlines, banks, public works, and telecommunications systems. Because of its size and resource base, the Latin American market has always been considered to have great economic and market possibilities. The population of nearly 600 million is nearly twice that of the United States and 100 million more than the European Community.

The strength of these reforms was tested during the last two decades, a turbulent period both economically and politically for some countries. Argentina, Brazil, and Mexico were affected by the economic meltdown in Asia in 1997 and the continuing financial crisis in Russia. The Russian devaluation and debt default caused a rapid deterioration in Brazil's financial situation; capital began to flee the country, and Brazil devalued its currency. Economic recession in Brazil—coupled with the sharp devaluation of the real—reduced Argentine exports, and Argentina's economic growth slowed. Mexico was able to weather the Russian debt default partly because of debt restructuring and other changes after the major devaluation and recession in the early 1990s. However, competition with Chinese manufacturing has yielded slower growth than predicted at the time of passage of the North American Free Trade Agreement (NAFTA). Other Latin American countries suffered economic downturns that led to devaluations and, in some cases, political instability. Nevertheless, Latin America is still working toward economic reform. Finally, not reflected in the data in Exhibit 9.7 is the surprising resilience in the developing countries vis-à-vis the United States and Canada to the lingering economic malaise following the recession of 2008–2009.[38]

Latin American Economic Cooperation

Besides the better-known NAFTA and Mercosur, other Latin American market groups (Exhibit 9.7) have had varying degrees of success. Plagued with tremendous foreign debt, protectionist economic systems, triple-digit inflation, state ownership of basic industries, and overregulation of industry, most Latin American countries were in a perpetual state of economic chaos. In such conditions, trade or integration among member countries stagnated. But as discussed previously, sparked by the success of Mercosur and NAFTA, Latin America has seen a wave of genuine optimism about the economic miracle under way, spurred by political and economic reforms from the tip of Argentina to the Rio Grande. Coupled with these market-oriented reforms is a desire to improve trade among neighboring countries by reviving older agreements or forming new ones. Many of the trade groups are seeking ties to Mercosur, the European Union, or both.

Latin American Integration Association. The long-term goal of the LAIA, better known by its Spanish acronym, ALADI,[39] is a gradual and progressive establishment of a Latin American common market. One of the more important aspects of LAIA that differs from LAFTA, its predecessor, is the differential treatment of member countries according to their level of economic development. Over the years, negotiations among member countries have lowered duties on selected products and eased trade tensions over quotas, local-content requirements, import licenses, and other trade barriers. An important

[37]Katherine Yung, "When Cuba Opens Up . . . " *Dallas Morning News*, March 11, 2007, pp. D1, D6.

[38]"Counting Their Blessings," *The Economist*, January 2, 2010, pp. 25–28; Jack Ewing, Vikas Bajaj, and Keith Bradsher, "An Uneven World of Debt," *The New York Times*, February 8, 2010, pp. B1, B3, B6.

[39]http://www.aladi.org, 2008.

People queued for a Chinese-made bus at city center in Havana. China is making major sales and investments in the infrastructures of the developing world, including in Cuba, a member country of LAIA and a fellow "communist" country.

feature of LAIA is the provision that permits members to establish bilateral trade agreements among member countries. It is under this proviso that trade agreements have been developed among LAIA members.

Caribbean Community and Common Market (CARICOM).[40] The success of the Caribbean Free Trade Association led to the creation of the Caribbean Community and Common Market. CARICOM member countries continue in their efforts to achieve true regional integration. The group has worked toward a single-market economy and in 2000 established the CSME (CARICOM Single Market and Economy) with the goal of a common currency for all members. The introduction of a common external tariff structure was a major step toward that goal. CARICOM continues to seek stronger ties with other groups in Latin America and has signed a trade agreement with Cuba.

NAFTA to FTAA or SAFTA?

Initially NAFTA was envisioned as the blueprint for a free trade area extending from Alaska to Argentina. The first new country to enter the NAFTA fold was to be Chile, then membership was to extend south until there was a Free Trade Area of the Americas (FTAA) by 2005. The question now is whether there will be an FTAA or whether there will be a tri-country NAFTA in the north and a South American Free Trade Area (SAFTA) led by Brazil and the other member states of Mercosur in the south. The answer to this question rests in part with the issue of fast-track legislation and the policies of President Obama.

Strategic Implications for Marketing

Surfacing in the emerging markets in the Americas and around the world is a vast population whose expanding incomes are propelling them beyond a subsistence level to being viable consumers. As a country develops, incomes change, population concentrations shift, expectations for a better life adjust to higher standards, new infrastructures evolve, and social capital investments are made. Market behavior changes, and eventually groups of consumers with common tastes and needs (i.e., market segments) arise.[41]

When incomes rise, new demand is generated at all income levels for everything from soap to automobiles. Furthermore, large households can translate into higher disposable incomes. Young working people in Latin America and Asia usually live at home until they marry. With no rent to pay, they have more discretionary income and can contribute to

[40] http://www.caricom.org, 2008.

[41] Peter G. P. Walters and Saeed Samiee, "Marketing Strategy in Emerging Markets: The Case of China," *Journal of International Marketing* 11, no. 1 (2003), pp. 97–106.

household purchasing power. Countries with low per capita incomes are potential markets for a large variety of goods; consumers show remarkable resourcefulness in finding ways to buy what really matters to them. In the United States, the first satellite dishes sprang up in the poorest parts of Appalachia. Similarly, in Mexico, homes with color televisions outnumber those with showers.

As incomes rise to middle-class range, demand for more costly goods increases for everything from disposable diapers to automobiles. Incomes for the middle class in emerging markets are less than those in the United States, but spending patterns are different, so the middle class has more to spend than comparable income levels in the United States would indicate. For example, members of the middle class in emerging markets do not own two automobiles and suburban homes, and healthcare and housing in some cases are subsidized, freeing income to spend on refrigerators, TVs, radios, better clothing, and special treats. Exhibit 9.5 illustrates the percentage of household income spent on various classes of goods and services. More household money goes for food in emerging markets than in developed markets, but the next category of high expenditures for emerging and developed countries alike is appliances and other durable goods. Spending by the new rich, however, is a different story. The new rich want to display their wealth; they want to display status symbols such as Rolex watches, Louis Vuitton purses, and Mercedes-Benz automobiles.

One analyst suggests that as a country passes the $5,000 per capita GNP level, people become more brand conscious and forgo many local brands to seek out foreign brands they recognize. At $10,000, they join those with similar incomes who are exposed to the same global information sources. They join the "$10,000 Club" of consumers with homogeneous demands who share a common knowledge of products and brands. They become global consumers. If a company fails to appreciate the strategic implications of the $10,000 Club, it will miss the opportunity to participate in the world's fastest growing global consumer segment. More than 1 billion people in the world now have incomes of $10,000 or better. Companies that look for commonalties among these 1 billion consumers will find growing markets for global brands.

Markets are changing rapidly, and identifiable market segments with similar consumption patterns are found across many countries. Emerging markets will be the growth areas of the 21st century.

Summary

The ever-expanding involvement in world trade of more and more people with varying needs and wants will test old trading patterns and alliances. The global marketer of today and tomorrow must be able to react to market changes rapidly and to anticipate new trends within constantly evolving market segments that may not have existed as recently as last year. Many of today's market facts will likely be tomorrow's historical myths.

Along with dramatic shifts in global politics, the increasing scope and level of technical and economic growth have enabled many nations to advance their standards of living by as much as two centuries in a matter of decades. As nations develop their productive capacity, all segments of their economies will feel the pressure to improve. The impact of these political, social, and economic trends will continue to be felt throughout the world, resulting in significant changes in marketing practices. Furthermore, the impact of information technology will speed up the economic growth in every country. Marketers must focus on devising marketing plans designed to respond fully to each level of economic development.

Brazil and the rest of Latin America continue to undergo rapid political and economic changes that have brought about the opening of most countries in the region to foreign direct investments and international trade. And though emerging markets present special problems, they are promising markets for a broad range of products now and in the future. Emerging markets create new marketing opportunities for MNCs as new market segments evolve. The economic advantages of geography and trade continue to favor market integration and cooperation among American countries on both continents.

Key Terms

Economic development

Newly industrialized countries (NICs)

Infrastructure

Big emerging markets (BEMs)

Questions

1. Define the key terms listed on the previous page.
2. Is it possible for an economy to experience economic growth as measured by total GNP without a commensurate rise in the standard of living? Discuss fully.
3. Why do technical assistance programs by more affluent nations typically ignore the distribution problem or relegate it to a minor role in development planning? Explain.
4. Discuss each of the stages of evolution in the marketing process. Illustrate each stage with a particular country.
5. As a country progresses from one economic stage to another, what in general are the marketing effects?
6. Select a country in the agricultural and raw materials stage of economic development and discuss what changes will occur in marketing when it passes to a manufacturing stage.
7. What are the consequences of each stage of marketing development on the potential for industrial goods within a country? For consumer goods?
8. Discuss the significance of economic development to international marketing. Why is the knowledge of economic development of importance in assessing the world marketing environment? Discuss.
9. The Internet accelerates the process of economic growth. Discuss.
10. Discuss the impact of the IT revolution on the poorest countries.
11. Select one country in each of the three stages of economic development. For each country, outline the basic existing marketing institutions and show how their stages of development differ. Explain why.
12. Why should a foreign marketer study economic development? Discuss.
13. The infrastructure is important to the economic growth of an economy. Comment.
14. What are the objectives of economically developing countries? How do these objectives relate to marketing? Comment.
15. Using the list growth factors, evaluate Mexico and Brazil as to their prospects for rapid growth. Which factors will be problems for Mexico or Brazil?
16. What is marketing's role in economic development? Discuss marketing's contributions to economic development.
17. Discuss the economic and trade importance of the big emerging markets.
18. One of the ramifications of emerging markets is the creation of a middle class. Discuss.
19. The needs and wants of a market and the ability to satisfy them are the result of the three-way interaction of the economy, culture, and the marketing efforts of businesses. Comment.
20. Discuss the strategic implications of marketing in Mexico.
21. Discuss the consequences to the United States of not being a part of SAFTA.
22. Discuss the strategic marketing implications of NAFTA.
23. Visit the Web pages for NAFTA and Mercosur and locate each group's rules of origin. Which group has the most liberal rules of origin? Why is there a difference?
24. NAFTA has been in existence for several years—how has it done? Review Exhibit 9.6, which discusses the initial provisions of the agreement, and, using the Internet, evaluate how well the provisions have been met.

Chapter 10

Europe, Africa, and the Middle East

CHAPTER OUTLINE

CHAPTER LEARNING OBJECTIVES

What you should learn from Chapter 10:

LO1 The reasons for economic union

LO2 Patterns of international cooperation

LO3 The evolution of the European Union

LO4 Evolving patterns of trade as eastern Europe and the former Soviet states embrace free-market systems

LO5 Strategic implications for marketing in the region

LO6 The size and nature of marketing opportunities in the European/African/Middle East regions

Global Perspective

MIGHT FREE TRADE BRING PEACE TO THE MIDDLE EAST?

The nearly complete destruction of the continental European economies by World War II seriously endangered the stability of Europe's social and political institutions. Europe's leaders knew that to rebuild from the ruins, it was essential to form new kinds of international institutions to ensure prosperity, stability, and peace in the region. The first of these institutions was the European Coal and Steel Community, established in 1952 to integrate the coal and steel industries of France, West Germany, Italy, Belgium, the Netherlands, and Luxembourg. Fifty years later, based on the success of this first small experiment in economic interdependence, we now see the European Union with 27 member nations and 3 candidate countries set to join during the next few years. The economies have burgeoned, but more important, peace has persisted.

Might such an approach work in the war-torn Middle East? Let's consider the possibilities and potential of a Middle Eastern Union. The crux of the problem is Jerusalem. The holy Old City is a matter of faith to so many. For Christians it is sacred because of its associations with Christ. For Jews it has served as the center for their people—not only in a national way but, more important, in a religious sense. For Muslims only Mecca and Medina are more important spiritual places. And the fighting over the real estate that represents its spiritual events appears perpetual.

Jerusalem can be a primary part of the solution. But we must look beyond the rockets and bombs of the day. We must imagine a safe, prosperous, and peaceful place. Imagine an international shrine. Perhaps the Old City would be administered by Buddhists or Norwegians or the United Nations. Israel would have its grand capital to the west, in the New City, and the Palestinians to the east a bit.

Religious tourism would feed the economies in both countries, as well as the surrounding area. Imagine the possibilities! In 2000, before the most recent insanity of violence, tourism brought in $3.2 billion in revenues for Israel. Compare that with Disneyland in Orange County, California. That park's yearly 10 million visitors spend about $100 each on tickets, food, and souvenirs. Add in the transportation, hotel, and restaurant revenues appreciated in the neighborhood, and that's more than a couple of billion dollars a year coming to the Anaheim environs.

The Church of the Holy Sepulcher (built over the tomb of Jesus) would draw Christians. The Wailing Wall is the most holy place for Jews. Muslims would flock to the Dome of the Rock (Mohammed was carried by the angel Gabriel for a visit to Heaven after praying at the Rock). The most enlightened tourists would visit all three. Disney might consult on the queuing problems. Staying open 24/7 would expand capacity by allowing jet-lagged pilgrims access to the more popular places. And outside the Old City are Bethlehem, Hebron, Nazareth, Jericho, the Sea of Galilee, the Dead Sea, and the Red Sea, to name only the more obvious attractions. We're talking $10 billion to $20 billion in annual revenues if things are done right—that's about 10 to 15 percent of the current GDP of Israel.

To the east, the new Hijaz Railway Corp. is already working on a line connecting Iran and Jordan via Syria and is talking about lines connecting Iraq, Turkey, and Europe as well—all for the sake of religious tourism. Indeed, the line's original purpose was taking pilgrims to Medina from Damascus—that was, before Lawrence of Arabia severed it for carrying arms and troops during World War I. The current company executives reckon the two-day trip from Tehran to Amman will cost only about $100 and the Shiite Muslims of Iran will flock to their holy sites in the area. Why not run the line all the way to east Jerusalem?

How about Jerusalem as the site for the 2020 Olympic games? That's another $5 billion in revenues. And ignoring the dollars for a moment, please consider the sentiments associated with "the 2020 Jerusalem Games" juxtaposed with the disaster of Munich in 1972. And ignoring the dollars for another moment, imagine the spiritual splendor for so many millions visiting the sources of their faith, treading some of the original paths of David, Jesus, and Mohammed.

This little fantasy presumes a peaceful political division of Israel and Palestine along the lines reaffirmed in the Oslo Accords. It presumes a dropping of all commercial boycotts in the region. It presumes that Palestinians won't have to risk being shot while "hopping the fence" to work in Israel. It presumes that companies like Nestlé will be able to integrate the operations of their complementary plants in the area. It presumes that the United States and other countries will send to the region legions of tourists rather than boatloads of weapons. It presumes an open, international, and, most important, a whole Old City of Jerusalem. And it presumes free trade and travel among all nations in the region allowing all to prosper in new ways.

Finally, as Pulitzer Prize–winner Jared Diamond points out, the Middle East, historically referred to as the

Within a short walk of one another in the Old City of Jerusalem are three of the most important holy sites for Muslims (the Dome of the Rock), Jews (the Wailing Wall), and Christians (the Church of the Holy Sepulchre). Peace in the region would yield a bonanza of religious tourism.

Fertile Crescent, was the cradle of civilization. It became so long ago because of innovation and trade in the region. One can only imagine what free trade in the area would produce now.

Sources: John L. Graham, "Trade Brings Peace," paper delivered at the Global Ethics and Religion Forum; Clare Hall, Cambridge University conference, *War and Reconciliation: Perspectives of the World Religions,* May 26, 2003, Cambridge, England; Jared Diamond, *Collapse: How Societies Choose to Fail or Succeed* (New York: Viking, 2005).

Following the success of aforementioned European Steel and Coal Community, a global economic revolution began in 1958 when the European Economic Community was ratified and Europe took the step that would ultimately lead to the present-day European Union (EU). Until then, skeptics predicted that the experiment would never work and that the alliance would fall apart quickly. It was not until the single market was established that the United States, Japan, and other countries gave serious thought to creating other alliances. The establishment of common markets, coupled with the trend away from planned economies to the free market system in Latin America, Asia, and eventually the former Soviet Union, created fertile ground that sparked the drive to form trade alliances and free markets the world over. Nation after nation embraced the free market system, implementing reforms in their economic and political systems with the desire to be part of a multinational market region in the evolving global marketplace. Traditions that are centuries old are being altered, issues that cannot be resolved by decree are being negotiated to acceptable solutions, governments and financial systems are restructuring, and companies are being reshaped to meet new competition and trade patterns.

The evolution and growth of **multinational market regions**—those groups of countries that seek mutual economic benefit from reducing interregional trade and tariff barriers—are the most important global trends today. Organizational form varies widely among market regions, but the universal goals of multinational cooperation are economic benefits for the participants and the associated peace between[1] and within countries.[2] The world

[1]By far the strongest evidence for the "trade causes peace" notion is that provided by Solomon W. Polachek, "Why Democracies Cooperate More and Fight Less: The Relationship between International Trade and Cooperation," *Review of International Economics* 5, no. 3 (1997), pp. 295–309; additional evidence is supplied at http://www.cpbp.org, click on Peace Monitor, then Countries; Jonathan Schell, *The Unconquerable World* (New York: Metropolitan Books, 2003); Thomas Friedman, *The World Is Flat* (New York: Farrar, Straus, and Giroux, 2005).

[2]Studies of the causes of civil wars supports their belief; see Paul Collier, "The Market for Civil War," *Foreign Policy,* May/June 2003, pp. 38–45.

is awash in economic cooperative agreements as countries look for economic alliances to expand access to free markets. Indeed, part of the efforts of the 192 member countries in the United Nations include mutual economic development; the World Trade Organization, with its 153 members and 30 observers, is wholly dedicated to making trade among nations more efficient.

Regional economic cooperative agreements have been around since the end of World War II. The most successful one is the European Union (EU), the world's largest multinational market region and foremost example of economic cooperation. Multinational market groups form large markets that provide potentially significant opportunities for international business. As it became apparent in the late 1980s that the European Union was to achieve its long-term goal of a single European market, a renewed interest in economic cooperation followed, with the creation of several new alliances. The North American Free Trade Agreement (NAFTA) and the Latin American Integration Association (LAIA) in the Americas and the Association of Southeast Asian Nations (ASEAN) and Asia-Pacific Economic Cooperation (APEC) in the Asian-Pacific Rim are all relatively new or reenergized associations that are gaining strength and importance as multinational market regions.

Along with the growing trend of economic cooperation, concerns about the effect of such cooperation on global competition are emerging. Governments and businesses worry that the European Union, NAFTA, and other cooperative trade groups will become regional trading blocs without trade restrictions internally but with borders protected from outsiders. But as each of these trade groups continues to create new agreements with other countries and groups, the networked global economy and free trade are clearly on the ascendance. The benefits are clear for consumers; however, global companies face richer and more intense competitive environments.

La Raison d'Etre

LO1

The reasons for economic union

Successful economic union requires favorable economic, political, cultural, and geographic factors as a basis for success. Major flaws in any one factor can destroy a union unless the other factors provide sufficient strength to overcome the weaknesses. In general, the advantages of economic union must be clear-cut and significant, and the benefits must greatly outweigh the disadvantages before nations forgo any part of their sovereignty. Many of the associations formed in Africa and Latin America have had little impact because perceived benefits were not sufficient to offset the partial loss of sovereignty.

Economic Factors

Every type of economic union shares the development and enlargement of market opportunities as a basic orientation; usually, markets are enlarged through preferential tariff treatment for participating members, common tariff barriers against outsiders, or both. Enlarged, protected markets stimulate internal economic development by providing assured outlets and preferential treatment for goods produced within the customs union, and consumers benefit from lower internal tariff barriers among the participating countries. In many, but not all cases, external and internal barriers are reduced because of the greater economic security afforded domestic producers by the enlarged market.[3]

Nations with complementary economic bases are least likely to encounter frictions in the development and operation of a common market unit. However, for an economic union to survive, it must have agreements and mechanisms in place to settle economic disputes. In addition, the total benefit of economic integration must outweigh individual differences that are sure to arise as member countries adjust to new trade relationships. The European Union includes countries with diverse economies, distinctive monetary systems, developed agricultural bases, and different natural resources. It is significant that most of the problems encountered by the European Union have arisen over agriculture

[3]Michele Fratianni and Chan Hoon Oh, "Expanding RTAs, Trade Flows, and the Multinational Enterprise," *Journal of International Business Studies* 40, no. 7 (2009), pp. 1206–27.

and monetary policy. In the early days of the European Community (now the European Union), agricultural disputes were common. The British attempted to keep French poultry out of the British market, France banned Italian wine, and the Irish banned eggs and poultry from other member countries. In all cases, the reason given was health and safety, but the stronger motives were the continuation of the age-old policies of market protection. Such skirmishes are not unusual, but they do test the strength of the economic union. In the case of the European Union, the European Commission was the agency used to settle disputes and charge the countries that violated EU regulations.

Political Factors

Political amenability among countries is another basic requisite for the development of a supranational market arrangement. Participating countries must have comparable aspirations and general compatibility before surrendering any part of their national sovereignty. State sovereignty is one of the most cherished possessions of any nation and is relinquished only for a promise of significant improvement of the national position through cooperation.

Economic considerations are the basic catalyst for the formation of a customs union group, but political elements are equally important. The uniting of the original European Union countries was partially a response to the outside threat of the Soviet Union's great political and economic power; the countries of western Europe were willing to settle their "family squabbles" to present a unified front to the Russian bear. The communist threat no longer exists, but the importance of political unity to fully achieve all the benefits of economic integration has driven European countries to form the Union (EU).

Geographic and Temporal Proximity

Although geographic and temporal proximity are not absolutely imperative for cooperating members of a customs union, such closeness does facilitate the functioning of a common market. Indeed, the most recent research demonstrates that more important than physical distance are differences across time zones.[4] That is, trade tends to travel more easily in north–south directions than it did in ancient times. However, transportation networks (basic to any marketing system) are likely to be interrelated and well developed when countries are close together. Issues of immigration, legal and illegal, also promote closer economic integration between close neighbors. One of the first major strengths of the European Union was its transportation network; the opening of the tunnel between England and France further bound this common market. Countries that are widely separated geographically have major barriers to overcome in attempting economic fusion. However, with increasing efficiencies in communication and transportation, the importance of such factors appears to be waning.

Cultural Factors

As mentioned in the last chapter, the United States has bilateral free trade agreements in progress and approved with several nations in addition to multilateral agreements such as NAFTA and DR-CAFTA (Dominican Republic, Central American Countries, and the U.S.). But generally, cultural similarity eases the shock of economic cooperation with other countries. The more similar the culture, the more likely an agreement is to succeed, because members understand the outlook and viewpoints of their colleagues. Although there is great cultural diversity in the European Union, key members share a long-established Christian heritage and are commonly aware of being European. However, even this aspect of diversity may be unimportant as negotiations proceed with Turkey about EU membership. Language, as a part of culture, has not created as much a barrier for EU countries as was expected. Nearly every educated European can do business in at least two or three languages, so the linguistic diversity of several major languages did not much impede trade.

[4]Contrast Jared Diamond's *Guns, Germs, and Steel* (New York: W. W. Norton, 1999) and Jennifer Chandler and John L. Graham, "Relationship-Oriented Cultures, Corruption, and International Marketing Success," *Journal of Business Ethics*, 92 (2010), pp. 251–67.

Patterns of Multinational Cooperation

LO2

Patterns of international cooperation

Of course, at the most general level, the World Trade Organization represents the most important and comprehensive trade agreement in history. At this writing, it appears that Russia will soon be invited to join the WTO.[5] However, beyond the WTO, multinational market groups take several other forms, varying significantly in the degree of cooperation, dependence, and interrelationship among participating nations. There are five fundamental groupings for regional economic integration, ranging from regional cooperation for development, which requires the least amount of integration, to the ultimate integration of political union.

Regional Cooperation Groups. The most basic economic integration and cooperation is the *regional cooperation for development (RCD)*. In the RCD arrangement, governments agree to participate jointly to develop basic industries beneficial to each economy. Each country makes an advance commitment to participate in the financing of a new joint venture and to purchase a specified share of the output of the venture. An example is the project between Colombia and Venezuela to build a hydroelectric generating plant on the Orinoco River. They shared jointly in construction costs, and they share the electricity produced.

Free Trade Area. A **free trade area (FTA)** requires more cooperation and integration than the RCD. It is an agreement between two or more countries to reduce or eliminate customs duties and nontariff trade barriers among partner countries while members maintain individual tariff schedules for external countries. Essentially, an FTA provides its members with a mass market without barriers to impede the flow of goods and services.[6]

Customs Union. A **customs union** represents the next stage in economic cooperation. It enjoys the free trade area's reduced or eliminated internal tariffs and adds a common external tariff on products imported from countries outside the union. The customs union is a logical stage of cooperation in the transition from an FTA to a common market. The European Union was a customs union before becoming a common market. Customs unions exist between France and Monaco, Italy and San Marino, and Switzerland and Liechtenstein, to name some examples.

Common Market. A **common market** agreement eliminates all tariffs and other restrictions on internal trade, adopts a set of common external tariffs, and removes all restrictions on the free flow of capital and labor among member nations. Thus, a common market is a common marketplace for goods as well as for services (including labor) and for capital. It is a unified economy and lacks only political unity to become a political union. The Treaty of Rome, which established the European Economic Community (EEC) in 1957, called for common external tariffs and the gradual elimination of intramarket tariffs, quotas, and other trade barriers. The treaty also called for the elimination of restrictions on the movement of services, labor, and capital; prohibition of cartels; coordinated monetary and fiscal policies; common agricultural policies; use of common investment funds for regional industrial development; and similar rules for wage and welfare payments. The EEC existed until the Maastricht Treaty created the European Union, an extension of the EEC into a political union.

Political Union. **Political union** is the most fully integrated form of regional cooperation. It involves complete political and economic integration, either voluntary or enforced. The most notable enforced political union was the Council for Mutual Economic Assistance (COMECON), a centrally controlled group of countries organized by the Soviet Union. With the dissolution of the Soviet Union and the independence of the Eastern European bloc, COMECON was disbanded.

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[5]Stephen Castle, "EU to Fast-Track Russia on WTO," *International Herald Tribune*, January 26–27, 2008, p. 13.

[6]The European Free Trade Area is a good example. See http://www.efta.int/, 2010.

A *commonwealth* of nations is a voluntary organization providing for the loosest possible relationship that can be classified as economic integration. The British Commonwealth includes Britain and countries formerly part of the British Empire. Some of its members still recognize the British monarch as their symbolic head, though Britain has no political authority over any commonwealth country. Its member states had received preferential tariffs when trading with Great Britain, but when Britain joined the European Community, all preferential tariffs were abandoned. A commonwealth can best be described as the weakest of political unions and is mostly based on economic history and a sense of tradition. Heads of state meet every three years to discuss trade and political issues they jointly face, and compliance with any decisions or directives issued is voluntary.

Two new political unions came into existence in the 1990s: the Commonwealth of Independent States (CIS), made up of the republics of the former Soviet Union, and the European Union (EU). The European Union was created when the 12 nations of the European Community ratified the **Maastricht Treaty**. The members committed themselves to economic and political integration. The treaty allows for the free movement of goods, persons, services, and capital throughout the member states; a common currency; common foreign and security policies, including defense; a common justice system; and cooperation between police and other authorities on crime, terrorism, and immigration issues. Although not all the provisions of the treaty have been universally accepted, each year the EU members become more closely tied economically and politically. Now that the Economic and Monetary Union is put in place and all participating members share a common currency, the European Union is headed toward political union as well.

Global Markets and Multinational Market Groups

The globalization of markets, the restructuring of the eastern European bloc into independent market-driven economies, the dissolution of the Soviet Union into independent states, the worldwide trend toward economic cooperation, and enhanced global competition make it important that market potential be viewed in the context of regions of the world rather than country by country.

This section presents basic information and data on markets and market groups in Europe, Africa, and the Middle East. Existing economic cooperation agreements within each of these regions are reviewed. The reader must appreciate that the status of cooperative agreements and alliances among nations has been extremely fluid in some parts of the world. Many are fragile and may cease to exist or may restructure into a totally different form. Several decades will probably be needed for many of the new trading alliances that are now forming to stabilize into semipermanent groups.

Europe

Within Europe, every type of multinational market grouping exists. The European Union, European Economic Area, and the European Free Trade Area are the most established cooperative groups (see Exhibits 10.1 and 10.2). Of escalating economic importance are the fledgling capitalist economies of eastern Europe and the three Baltic states that gained independence from the Soviet Union just prior to its breakup. Key issues center on their economic development and economic alliance with the European Union. Also within the European region is the Commonwealth of Independent States. New and untested, this coalition of 12 former USSR republics may or may not survive in its present form to take its place among the other multinational market groups.

European Integration

LO3

The evolution of the European Union

Of all the multinational market groups, none is more secure in its cooperation or more important economically than the European Union (Exhibit 10.3). From its beginning, it has made progress toward achieving the goal of complete economic integration and, ultimately, political union. However, many people, including Europeans, had little hope for the success of the European Economic Community, or the European Common Market as it is often called, because of the problems created by integration and the level of national sovereignty that would have to be conceded to the community. After all, 1,000 years of

Exhibit 10.1

European Market Regions Fundamental Market Metrics

(in parentheses) = average annual growth rate 2004–2009 as a percentage

Association	Country (year entered union)	Population (millions)	GNI* (billions $)	Exports* of Goods (billions $)	Imports* of Goods (billions $)	Ease of Doing Business Index	GNI/ capita* ($)	Internet Users (per 1000 people)
European Union (EU)								
	Belgium (founder)[e]	10.6 (0.5)	469.8 (5.3)	381.5 (4.5)	356.9 (4.6)	20	44068 (4.8)	735 (6.5)
	Denmark (1973)	5.5 (0.4)	319.5 (5.4)	93.3 (4.3)	84.1 (4.7)	5	57968 (4.9)	868 (2.6)
	Germany (founder)[e]	82.0 (−0.1)	3322.8 (3.7)	1137.8 (4.6)	950.5 (5.8)	27	40521 (3.8)	785 (5.2)
	Greece (1981)[e]	11.3 (0.4)	326.4 (7.3)	20.2 (5.8)	60.0 (2.7)	100	29010 (6.9)	359 (12.3)
	Spain (1986)[e]	45.5 (1.5)	1368.9 (6.9)	217.2 (3.8)	295.8 (2.8)	51	30072 (5.4)	627 (9.3)
	France (founder)[e]	62.4 (1.6)	2691.4 (5.3)	474.9 (2.4)	534.3 (4.6)	31	43089 (4.6)	591 (8.5)
	Ireland (1973)[e]	4.4 (2.0)	197.2 (4.5)	116.6 (2.1)	61.2 (−0.8)	7	44327 (2.4)	703 (15.3)
	Italy (founder)[e]	60.1 (1.7)	2085.4 (3.9)	408.2 (3.0)	415.7 (4.0)	74	34726 (3.2)	518 (2.0)
	Luxembourg (founder)[e]	0.5 (1.2)	43.2 (7.7)	12.5 (0.5)	15.3 (−1.9)	53	99970 (6.4)	844 (5.3)
	Netherlands (founder)[e]	16.4 (0.2)	799.2 (5.0)	435.2 (6.5)	383.5 (6.2)	28	48700 (4.8)	530 (4.5)
	Austria (1995)[e]	8.4 (0.6)	374.6 (5.5)	132.2 (3.4)	138.8 (4.1)	26	44682 (4.8)	633 (3.4)
	Portugal (1986)[e]	10.7 (0.4)	232.3	44.0 (5.9)	69.8 (7.2)	48	21682	444 (8.9)
	Finland (1995)[e]	5.4 (0.4)	245.8 (5.2)	60.4 (−0.2)	61.3 (3.9)	14	46167 (4.8)	847 (3.8)
	Sweden (1995)	9.2 (0.5)	413.5 (3.0)	131.6 (1.3)	148.6 (3.6)	17	44939 (2.5)	839 (0.4)
	United Kingdom (1973)	6.16 (0.6)	2231.3 (0.0)	358.0 (0.5)	485.6 (1.0)	6	36215 (−0.7)	836 (5.9)
	Czech Republic (2004)	10.3 (0.2)	44.7 (11.5)	114.7 (11.3)	105.5 (9.1)	66	17269 (11.2)	578 (12.5)
	Estonia (2004)	1.3 (−0.3)	17.7 (9.2)	9.0 (8.8)	10,2 (4.1)	22	13317 (9.5)	724 (7.9)
	Cyprus (2004)[e]	0.9 (1.1)	22.4	1.5 (6.0)	10.0 (12.2)	36	25732 (7.0)	434 (6.3)
	Latvia (2004)	2.6 (−0.6)	25.2 (13.4)	7.2 (12.6)	9.1 (5.3)	29	11194 (14.0)	641 (14.2)
	Lithuania (2004)	3.3 (−0.6)	35.4 (9.9)	16.5 (12.1)	18.4 (8.3)	25	10582 (10.6)	569 (14.4)
	Hungary (2004)	10.0 (−0.2)	142.3	84.6 (9.0)	77.9 (5.5)	41	14230	592 (16.1)
	Malta (2004)[e]	0.4 (0.4)	2.3 (6.2)	2.6 (−0.3)	4.2 (2.0)	—	5741 (5.8)	530 (8.9)
	Poland (2004)	38.0 (−0.1)	517.4	140.0 (1.13)	146.5 (10.9)	72	13605	550 (13.4)
	Slovenia (2004)[e]	2.0 (0.3)	45.8 (7.3)	22.9 (7.6)	23.7 (6.1)	57	22635 (7.0)	524 (7.5)
	Slovak Republic (2004)	5.4 (0.1)	91.6	56.2 (8.9)	54.0 (6.8)	35	16963	559 (15.7)
	Bulgaria (2007)	7.5 (−0.7)	44.7 (12.4)	17.1 (21.3)	23.8 (10.5)	42	5950 (13.1)	337 (16.1)
	Romania (2007)	21.4 (−0.3)	192.0	41.2 (11.9)	54.6 (10.8)	45	8971	312 (21.0)
EU Candidate Countries								
	Croatia	4.4 (−0.1)	66.9	9.7 (3.9)	21.3 (5.1)	110	15636	557 (12.5)
	Macedonia, FYR	2.0 (0.1)	9.4	2.8 (11.1)	5.1 (11.6)	69	4673	452 (16.4)
	Turkey	71.5 (1.3)	785.5	103.9 (10.5)	138.2 (7.2)	63	10910	388 (22.7)
European Free Trade Area (EFTA)								
	Iceland	0.3 (2.0)	11.4(−2.1)	3.8 (5.8)	3.3 (−2.8)	11	35386 (−4.1)	675 (3.2)
	Liechtenstein	.04 (0.9)	—	—	—	—	—	662 (0.6)
	Norway	4.8 (1.0)	382.5 (8.1)	120.6 (7.9)	69.8 (7.4)	10	79709 (7.1)	869 (2.9)
	Switzerland	7.6 (0.5)	533.5	169.1 (7.5)	148.6 (6.1)	19	64015	796 (3.5)

*Current U.S. $.

[e]Eurozone.

Source: Euromonitor International, 2010; World Bank, 2010.

Some in Warsaw suggest the picture includes two icons of imperialism. Soviet dictator Joseph Stalin "gave" the people of Poland his 1950s version of great architecture. The Poles have now turned his infamous Palace of Culture and Science into a movie theater (Kinoteka) and office tower. Others see Coca-Cola and its ever-present, powerful advertising as a new kind of control. The argument about globalization goes on.

economic separatism had to be overcome, and the European Common Market is quite heterogeneous. There are language and cultural differences, individual national interests, political differences, and centuries-old restrictions designed to protect local national markets.

Historically, standards have been used to effectively limit market access. Germany protected its beer market from the rest of Europe with a purity law requiring beer sold in Germany to be brewed only from water, hops, malt, and yeast. Italy protected its pasta market by requiring that pasta be made only from durum wheat. Incidentally, the European Court of Justice has struck down both the beer and pasta regulations as trade violations. Such restrictive standards kept competing products, whether from other European countries or elsewhere, out of their respective markets. Skeptics, doubtful that such cultural, legal, and social differences could ever be overcome, held little hope for a unified Europe. Their skepticism has proved wrong. Today, many marvel at how far the European Union has come. Although complete integration has not been fully achieved, a review of the structure of the European Union, its authority over member states, the Single European Act, the European Economic Area, the Maastricht Treaty, and the Amsterdam Treaty will show why the final outcome of full economic and political integration now seems more certain.

Exhibit 10.2

The European Economic Area: EU, EFTA, and Associates

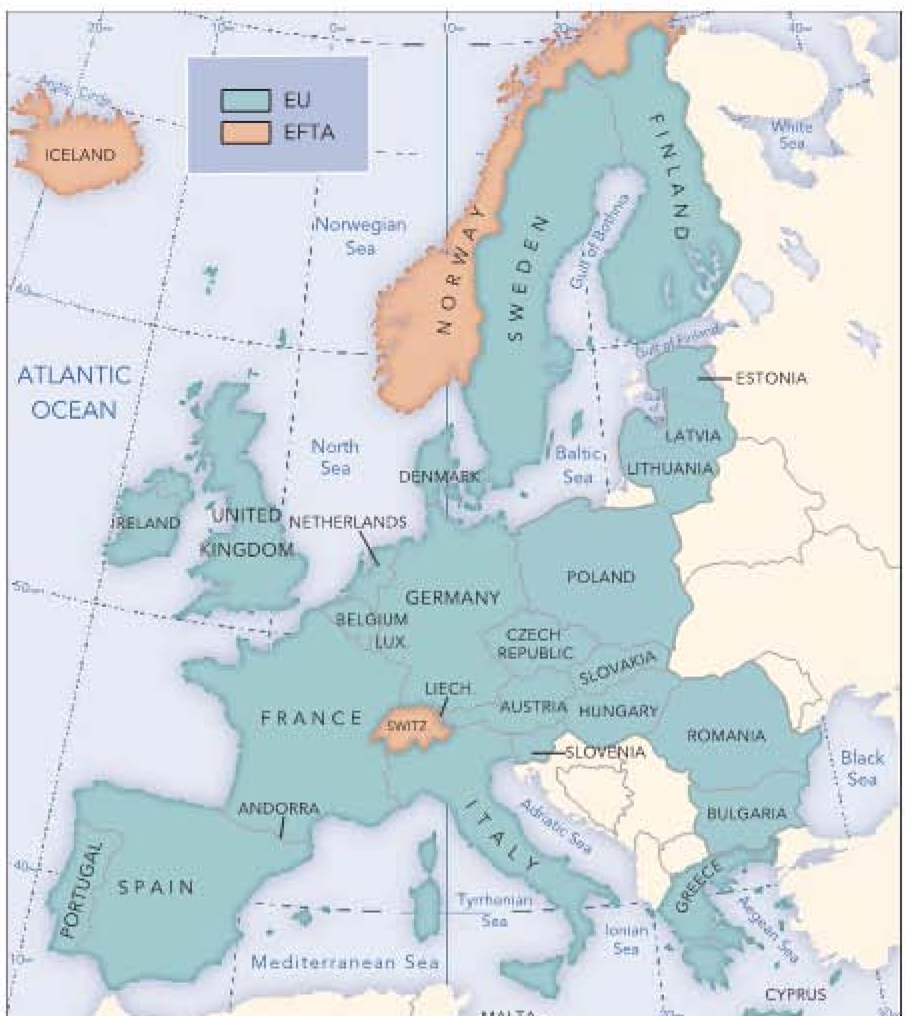


Exhibit 10.3
From the European Coal and Steel Community to Monetary Union

Source: "Chronology of the EU," http://www.europa.eu.int/ (select Abc). Reprinted with permission from the European Communities.

1951	Treaty of Paris	European Coal and Steel Community (ECSC) (founding members are Belgium, France, Germany, Italy, Luxembourg, and the Netherlands).
1957	Treaty of Rome	Blueprint, European Economic Community (EEC).
1958	European Economic Community	Ratified by ECSC founding members. Common market is established.
1960	European Free Trade Association	Established by Austria, Denmark, Norway, Portugal, Sweden, Switzerland, and United Kingdom.
1973	Expansion	Denmark, Ireland, and United Kingdom join EEC.
1979	European monetary system	The European Currency Unit (ECU) is created. All members except the UK agree to maintain their exchange rates within specific margins.
1981	Expansion	Greece joins EEC.
1985	1992 Single Market Program	White paper for action introduced to European Parliament.
1986	Expansion	Spain and Portugal join EEC.
1987	**Single European Act**	Ratified, with full implementation by 1992.
1992	Treaty on European Union	Also known as **Maastricht Treaty**. Blueprint for Economic and Monetary Union (EMU).
1993	Europe 1992	Single European Act in force (January 1, 1992).
1993	European Union	Treaty on European Union (Maastricht Treaty) in force, with monetary union by 1999.
1994	European Economic Area	The EEA was formed with EU members and Norway and Iceland.
1995	Expansion	Austria, Finland, and Sweden join EU. Established procedures for expansion to Central and Eastern Europe.
1997	**Amsterdam Treaty**	
1999	Monetary union	Conversion rates are fixed, and euro used by banking and finance industry. Consumer prices are quoted in local currency and in euros.
2002	Banknotes and coins	Circulation of euro banknotes and coins begins January 1, and legal status of national banknotes and coins canceled July 1, 2002.
2004	Expansion	Ten new countries join EU.
2007	Expansion	Bulgaria and Romania join.

Even though several member states are not fully implementing all the measures, they are making progress. The proportion of directives not yet implemented in all 27 member states has fallen dramatically. Taxation has been one of the areas where implementation lags and reform continues to be necessary. Value-added and registration taxes for automobiles, for example, at one time ranged from 15 percent in Luxembourg to 218 percent in Denmark. Then a midsized Mercedes in Haderslev, Denmark, cost $90,000, nearly triple the amount you would have paid in Flensburg, Germany, just 30 miles south. A Honda Civic cost the British consumer 89 percent more than it cost continental customers. Scotch in Sweden had an $18 tax, nine times the amount levied in Italy. The EU finance ministers have addressed these issues and made some progress, even though tax-raising ability is a sacred power of the nation-state. The full implementation of the legislation is expected to

Each month the European Parliament meets for three weeks here in Brussels, Belgium, and then moves for one week to meet in Strasbourg, France. The inconvenience of the fourth week move was a concession to French pride—or perhaps the cheese is better there?

take several years. Although all proposals have not been met, the program for unification has built up a pace that cannot be reversed.

European Union[7]

EU Institutions. The European Union's institutions form a federal pattern with executive, parliamentary, and judicial branches: the European Commission, the Council of Ministers, the European Parliament, and the Court of Justice, respectively. Their decision-making processes have legal status and extensive powers in fields covered by common policies. The European Union uses three legal instruments: (1) regulations binding the member states directly and having the same strength as national laws; (2) directives also binding the member states but allowing them to choose the means of execution; and (3) decisions addressed to a government, an enterprise, or an individual, binding the parties named. Over the years, the Union has gained an increasing amount of authority over its member states.

The European Commission initiates policy and supervises its observance by member states, and it proposes and supervises execution of laws and policies. Commission members act only in the interest of the European Union, and their responsibilities are to ensure that the EU rules and the principles of the common market are respected. For example, in separate actions, the Commission recently approved the sale of Sun Microsystems to Oracle,[8] but it has pushed Google and others to shorten the time they store consumer data.[9]

The Council of Ministers is the decision-making body of the European Union; it is the Council's responsibility to debate and decide which proposals of the **Single European Act** to accept as binding on EU members. The Council can enact into law all proposals by majority vote except for changes in tax rates on products and services, which require unanimous vote. The Council, for example, drafted the Maastricht Treaty, which was presented to member states for ratification.

The **European Parliament** originally had only a consultative role that passed on most Union legislation. It can now amend and adopt legislation, though it does not have the

[7]http://europa.eu.int, 2008.

[8]Matthew Saltmarsh, "Sale of Sun Micro to Oracle Wins Approval of Europeans," *The New York Times*, January 22, 2010, p. B2.

[9]Eric Pfanner, "In Europe, Challenges for Google," *The New York Times*, February 2, 2010, pp. B1, B5.

CROSSING BORDERS 10.1 Lost in Translation

There are any number of things that Europeans don't like about the European Union—including its very declaration. Sharp-eyed professors have spotted what they say is evidence of the "political translation" of the EU's Berlin Declaration. Specifically, both the Danish and English versions downplay the emotional language of the original German, they claim. Instead of stating that the EU member states are united in "happiness," the translation notes they have united "for the better" or "for the common good."

An EU spokesman argues the texts had been agreed by the national governments. The German-language version of the declaration reads: "We, the citizens in the European Union, are united zu unserem Gluck." The controversy stems from that final phrase, which might be rendered in English as "united in our fortune/happiness." Instead, the English-language version reads: "We, the citizens of the European Union, have united for the better."

In the Danish version, the word "Gluck" has been replaced with "vor faelles bedste," meaning "for the common good." Professor Henning Koch from Copenhagen University told the Danish paper Politiken that the low-key translation could be no coincidence. "It would come as a big surprise to me if the translators are bad at German. So then it's a political translation," he said. Gushing added that emotional terms were something Danes feared.

Professor Rudinger Gorner, head of the German department at University of London, echoed Koch's point, looking at the English version of the Declaration. He told the BBC that the German phrase used in the declaration implies that it is "really a fortunate thing we have united." Instead, he said, "The English rendering certainly downplays the meaning. There's no doubt that if one wanted to express the German sentiment, one could do so." He also noted a subtle difference, in that the English version "suggests something happening in the future."

Mats Persson of the Eurosceptic thinktank Open Europe, which focuses on EU reform, concedes the clear struggle over the translation of the declaration: "It is quite common that people use the maximum room available to accommodate shades of meaning." He also noted, "The Swedish version . . . reads quite awkwardly. The Berlin Declaration is a reflection of a political compromise, and this is reflected in the translations."

Finally, a spokesman for the EU Council said all the translations of the declaration were "official" and had been agreed to by the national delegations of the member states.

Sources: "EU Effusion 'Lost in Translation,'" BBC News, March 27, 2007; D. Cooper, "Berlin Declaration Bypasses EU's Citizens," Financial Times, June 23, 2007, p. 8.

power to initiate legislation. It also has extensive budgetary powers that allow it to be involved in major EU expenditures.

The European Court of Justice (ECJ) is the European Union's Supreme Court. It is responsible for challenging any measures incompatible with the Treaty of Rome and for passing judgment, at the request of a national court, on the interpretation or validity of points of EU law. The court's decisions are final and cannot be appealed in national courts. For example, Estée Lauder Companies appealed to the ECJ to overrule a German court's decision to prohibit it from selling its Clinique product. The German court had ruled that the name could mislead German consumers by implying medical treatment. The ECJ pointed out that Clinique is sold in other member states without confusing the consumer and ruled in favor of Estée Lauder. This decision marked a landmark case, because many member countries had similar laws that were in essence nontariff trade barriers designed to protect their individual markets. If the German court ruling against Estée Lauder had been upheld, it would have made it difficult for companies to market their products across borders in an identical manner. This case is but one example of the ECJ's power in the European Union and its role in eliminating nontariff trade barriers.

Economic and Monetary Union (EMU). The EMU, a provision of the Maastricht Treaty, established the parameters of the creation of a common currency for the European Union, the *euro*, and established a timetable for its implementation. In 2002, a central bank was established, conversion rates were fixed, circulation of euro banknotes and

Exhibit 10.4
The Euro

Source: Euro, http://www.europa.eu.int/euro. Reprinted with permission from the European Communities.

Notes. There are seven euro notes in different colors and sizes, denominated in 500, 200, 100, 50, 20, 10 and 5 euros. The designs symbolize Europe's architectural heritage, with windows and gateways on the front side as symbols of the spirit of openness and cooperation in the European Union. The reverse side features a bridge from a particular age, a metaphor for communication among the people of Europe and the rest of the world.

Coins. There are eight euro coins, denominated in 2 and 1 euros, then 50, 20, 10, 5, 2, and 1 cent. Every coin will carry a common European face—a map of the European Union against a background of transverse lines to which are attached the stars of the European flag. On the obverse, each member state will decorate the coins with their own motifs, for example, the King of Spain or some national hero. Regardless of the motif, every coin can be used and will have the same value in all the member states.

Sign. The graphic symbol for the euro was inspired by the Greek letter epsilon, in reference to the cradle of European civilization and to the first letter of the word Europe. It looks like an E with two clearly marked, horizontal parallel lines across it. The parallel lines are meant to symbolize the stability of the euro. The official abbreviation is "EUR."

It took some selling for the Greeks to adopt the euro instead of the 2,500-year-old drachma. The truck seen here in Athens's Syntagma Square was equipped with video projectors and euro information stands and traveled to 40 Greek towns, informing folks about the new currency.

coins was completed (see Exhibit 10.4), and the legal tender status of participating members' banknotes and coins was canceled. To participate, members must meet strict limits on several financial and economic criteria, including national deficit, debt, and inflation. The 12 member states employing the euro beginning in January 1, 2001, were Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, and Spain. Denmark voted in 2000 not to join the monetary union, leaving Britain and Sweden still undecided. Denmark's rejection of the euro caused a broader debate about the EU's future. Anti-euro advocates exploited fears of a "European superstate" and local interference from Brussels rather than relying on economic arguments when pushing for rejection. However, in 2007 Slovenia and in 2008 both Malta and Cyprus switched their currencies to the euro. Others may choose to follow[10] or not[11] depending, it seems, on the relative strength of the euro versus the U.S. dollar.

The original 40-year-old operating rules of the EC were proving to be inadequate in dealing with the problems that confront the European Union today. Expansion beyond its present 27 members (see Exhibit 10.1), managing the conversion to the euro and EMU, and speaking with one voice on foreign policy that directly affects the European continent are all issues that require greater agreement among members and thus more responsibility and authority for the institutions of the European Union. The **Amsterdam Treaty** increases the authority of the institutions of the European Union and is designed to accommodate the changes brought about by the monetary union and the admission of new members.

Expansion of the European Union. The process of enlargement has been the most important item on the EU's agenda. Ten new countries were added in 2004, some ahead of schedule. Bulgaria and Romania entered as planned in 2007, and talks with Turkey, Macedonia, and Croatia are continuing. Negotiations with Turkey have had their

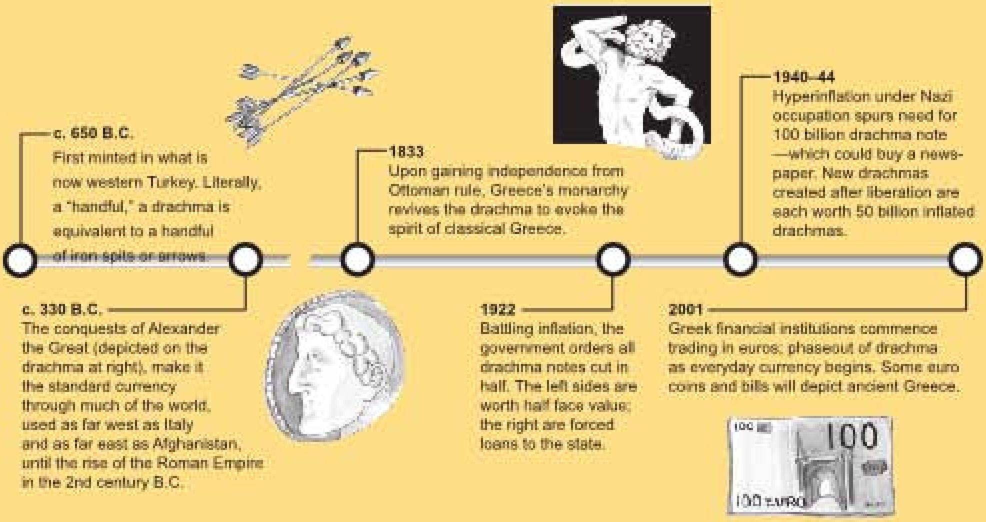
[10] "Cyprus, Malta Change to the Euro," *The Wall Street Journal* (online), January 2, 2008.

[11] Andrew E. Kramer, "Seeing Trouble in Greece, Baltic States Rethink Euro Plans," *The New York Times*, February 12, 2010, pp. B1, B6.

CROSSING BORDERS 10.2 The Death of the Drachma

Having officially joined the European Union on January 1, 2001, Greece began phasing out the -drachma, Europe's oldest currency and the survivor of some 2,500 years of war and economic turmoil. Below, highlights from its storied history. —MEGAN JOHNSTON

Source: March 2001 Money. Used by permission of Money magazine.



ups and downs, but the Muslim majority nation has economically benefited from its new openness.[12] A broader preoccupation for the European Union is the prospect of illegal immigrants from former Soviet states surging across poorly guarded borders of the newer and/or candidate states and making their way farther west within the EU. The European Union is demanding that borders be sealed, but the new and candidate states are reluctant to jeopardize relations with neighboring communities. Furthermore, the European Union fears a flood of cheap labor even if the borders are closed; it wants a long transition period before freedom of movement of labor, whereas the applicants say their citizens should be allowed to work anywhere in the EU once they are members.

In 2007 the European Union celebrated its golden anniversary. Most would agree that it has been a tremendous success, delivering peace and prosperity to hundreds of millions of people that previously had lived with frequent wars and accompanying economic and social hardships. The 2008–2009 global recession has posed daunting short-term challenges to the integrity of the Union though; an early recovery[13] stalled in late 2009,[14] and Ireland, Portugal, Spain, and particularly Greece[15] are experiencing continuing problems. The long-term challenges facing the Union in the next 50 years appear to fall into three categories: (1) improving the Union's economic performance, (2) deciding how to limit the political aspects of union, and (3) deciding about further enlargement. The last

[12]Stanley Reed, "Turkey Turns Outward," *BusinessWeek*, October 12, 2009, pp. 40–41.

[13]Marcus Walker and David Gauthier-Villars, "Europe Recovers as U.S. Lags," *The Wall Street Journal*, August 14, 2009, pp. A1–2.

[14]Paul Hannon, "Euro-Zone Economy Stumbles," *The Wall Street Journal*, February 12, 2010, online.

[15]Nicholas Kulish, "Germany, Forced to Buoy Greece, Rues Euro Shift," *The Wall Street Journal*, February 11, 2010, pp. A1, A3.

problem may well disappear as both multilateral and bilateral agreements continue to multiply around the world and as the WTO continues to gain influence and traction in trade barrier reduction.

Eastern Europe and the Baltic States

LO4

Evolving patterns of trade as eastern Europe and the former Soviet states embrace free-market systems

Eastern Europe and the Baltic states, satellite nations of the former Soviet Union, have moved steadily toward establishing postcommunist market reforms. New business opportunities are emerging almost daily, and the region is described as anywhere from chaotic with big risks to an exciting place with untold opportunities. Both descriptions fit as countries continue to adjust to the political, social, and economic realities of changing from the restrictions of a Marxist–socialist system to some version of free markets and capitalism. However, these countries have neither all made the same progress nor had the same success in economic reform and growth.[16]

Eastern Europe. It is dangerous to generalize beyond a few points about eastern Europe, because each of the countries has its own economic problems and is at a different stage in its evolution from a socialist to a market-driven economy. Most eastern European countries are privatizing state-owned enterprises, establishing free market pricing systems, relaxing import controls, and wrestling with inflation. The very different paths taken toward market economies have resulted in different levels of progress. Countries such as the Czech Republic,[17] which moved quickly to introduce major changes, seem to have fared better than countries such as Hungary, Poland, and Romania, which held off privatizing until the government restructured internally. Moving quickly allows the transformation to be guided mainly by the spontaneity of innovative market forces rather than by government planners or technocrats. Those countries that took the slow road permitted the bureaucrats from communist days to organize effectively to delay and even derail the transition to a market economy.

As demand for tobacco declines in more-developed countries, manufacturers direct more marketing efforts in the direction of emerging economies. Indeed, recently Philip Morris published a report estimating the cost savings for the Czech government at $1,227 every time a smoker dies. Apparently, the company did not think through the public relations implications of this grisly bit of research.

Yugoslavia has been plagued with internal strife over ethnic divisions, and four of its republics (Croatia, Slovenia, Macedonia, and Bosnia/Herzegovina) seceded from the federation, leaving Serbia and Montenegro in the reduced Federal Republic of Yugoslavia. Soon after seceding, a devastating ethnic war broke out in Croatia and Bosnia/Herzegovina that decimated their economies. A tentative peace maintained by United Nations peacekeepers now exists, but for all practical purposes, the economies of Croatia and Bosnia are worse now than ever before. Most recently, the Kosovo region of Serbia also declared its independence, and political tension remains.[18]

Nevertheless, most countries in the region continue to make progress in building market-oriented institutions and adopting legislation that conforms to that of advanced market economies. The Czech Republic, Hungary, the Slovak Republic, and Poland have become members of the OECD.[19] Joining the OECD means they accept the obligations of the OECD to modernize their economies and to maintain sound macroeconomic policies and market-oriented structural reforms. The four also became members of the European Union in 2004, along with Bulgaria and Romania in 2007. And they are eager to stabilize their developing democracies and their westward tilt in foreign and security policies.

[16] Clifford J. Schultz II, Timothy J. Burkink, Bruno Grbac, and Natasa Renko, "When Policies and Marketing Systems Explode: An Assessment of Food Marketing in the War-Ravaged Balkans and Implications for Recovery, Sustainable Peace, and Prosperity," *Journal of Public Policy & Marketing* 24, no. 1 (2005), pp. 24–37.

[17] Judy Dempsey, "In a Car, a Lesson in Russian-European Trade," *The New York Times*, January 1, 2008.

[18] Tracy Wilkinson, "Kosovo Takes a Big Leap of Faith," *Los Angeles Times*, February 18, 2008, pp. A1, A6.

[19] http://www.oecd.org.

The Baltic States. The Baltic states—Estonia, Latvia, and Lithuania—are a good example of the difference that the right policies can make. All three countries started off with roughly the same legacy of inefficient industry and Soviet-style command economies. Estonia quickly seized the lead by dropping the ruble, privatizing companies and land, letting struggling banks fail, and adopting the freest trading regime of the three countries. Its economic growth has handily outpaced Latvia's and Lithuania's. Since regaining independence in 1991, Estonia's economic reform policy has led to a liberalized, nearly tariff-free, open-market economy.

Although Latvia and Lithuania have made steady progress, government bureaucracy, corruption, and organized crime—common problems found in the countries of the former Soviet Union—continue. These issues represent the most significant hurdles to U.S. trade and investment. The governments and all major political parties support a free market system, yet traces of the Soviet methodology and regulatory traditions at the lower levels of bureaucracy remain visible. All three Baltic countries are WTO members and, as of 2004, EU members.

The Commonwealth of Independent States

Europe (and Asia) has one other trade group that has emerged and persisted since the dissolution of the Soviet Union: the Commonwealth of Independent States (CIS).[20] The series of events after the aborted coup against Mikhail Gorbachev led to the complete dissolution of the USSR. The first Soviet republics to declare independence were the Baltic states, which quickly gained recognition by several Western nations. The remaining 12 republics of the former USSR, collectively known as the Newly Independent States (NIS), regrouped into the Commonwealth of Independent States (see Exhibit 10.5).

The CIS is a loose economic and political alliance with open borders but no central government. The main provisions of the commonwealth agreement are to repeal all Soviet laws and assume the powers of the old regimes; launch radical economic reforms, including freeing most prices; keep the ruble but allow new currencies; establish a European

[20] http://www.cisstat.com, 2008.

Exhibit 10.5
Commonwealth of Independent States (CIS) Fundamental Market Metrics

(in parentheses) = average annual growth rate 2004–2009 as a percentage

Country	Population (millions)	GNI* (billions $)	Exports* of Goods (billions $)	Imports* of Goods (billions $)	Ease of Doing Business Index	GNI/capita* ($)	Internet Users (per 1000 people)
Russia	141.9 (−0.3)	1557.2	300.8 (11.9)	190.3 (14.3)	118	10966	285 (17.3)
Ukraine	45.9 (−0.7)	116.1 (12.6)	40.3 (4.3)	44.7 (9.1)	145	2527 (13.3)	232 (17.1)
Belarus	9.7 (−0.4)	50.0 (16.7)	21.5 (9.3)	27.1 (10.5)	82	5169 (17.1)	317 (4.8)
Armenia	3.0 (0.1)	12.4	0.6 (−3.3)	3.2 (18.5)	50	3873	81 (10.5)
Moldova	3.6 (−1.2)	5.4 (12.6)	1.3 (5.3)	3.1 (11.9)	108	1485 (13.9)	391 (29.8)
Azerbaijan	8.7 (1.1)	41.0	27.3 (48.8)	5.3 (8.6)	38	5330	132 (21.7)
Uzbekistan	27.5 (1.1)	27.9	10.6 (29.8)	8.3 (18.8)	146	1022	108 (33.1)
Turkmenistan (associate member, withdrew 2005)	5.1 (1.4)	17.1	9.0 (20.7)	4.8 (12.4)	—	3633	20 (21.2)
Tajikistan	7.0 (1.5)	5.0	1.3 (6.9)	2.9 (19.8)	164	751	97 (62.7)
Kazakhstan	15.8 (1.1)	83.2 (15.6)	43.5 (16.7)	29.4 (18.2)	64	5276 (14.4)	23 (46.2)
Kyrgyzstan	5.5 (1.2)	4.6 (16.6)	1.1 (9.2)	3.0 (25.9)	80	832 (15.3)	181 (28.9)
Georgia (outside defense pact, withdrew 2006)	4.4 (0.3)	12.6	1.2 (13.0)	4.5 (19.3)	16	2931	95 (18.6)

*Current U.S. $.

Source: Euromonitor International, 2010; World Bank, 2010.

CROSSING BORDERS 10.3 Refusing to Pass along the Gas

Russia and Ukraine have escalated their dispute over natural gas supplies, raising the possibility that supplies of Russian fuel to Europe could be threatened if the tensions drag out. Seeking to force Kiev to sign new contracts and pay what it says are $600 million in debts, the Russian natural gas giant OAO Gazprom slashed gas supplies to Ukraine twice in two days and warned that further reductions could follow. Ukrainian state energy company NAK Naftogaz in turn threatened to dip into transit shipments of Russian natural gas to European customers to make up for the cuts. At least initially, those supplies weren't affected.

European Energy Commissioner Andris Piebalgs and Andrej Vizjak, the economy minister of EU president Slovenia, insisted that supplies to the European Union must remain uninterrupted. Despite Gazprom's supply cuts, Naftogaz said the combination of warm weather and ample natural gas in storage prevented the need for cutbacks to consumers in Ukraine or export flows—for now. Nonetheless, the latest ultimatum raised fears of a repeat of the January 2006 crisis in which European supplies were interrupted when Gazprom cut shipments to Ukraine in a price dispute. Gazprom quickly resumed pumping, but the episode sparked concerns across Europe about the company's reliability as a supplier. Europe gets about one-fourth of its gas from Russia, and the bulk of that is carried by pipeline across Ukraine.

Russian officials insist the current tensions are purely economic and blame Kiev for failing to fulfill a compromise deal on the debts. Critics denounced the Kremlin for using gas supplies as a political weapon, noting that Gazprom's threats came amid rising political tension in Kiev. Yet the leaders of two countries, Vladimir Putin and Viktor Yuschenko, claimed their differences had been resolved.

Sources: Gregory L. White, "Gas-Supply Battle Escalates between Russia, Ukraine," The Wall Street Journal (online), March 4, 2008; "Heading into 2010: Key Risks to Watch," Emerging Europe Monitor: Russian and CIS, January (2010), pp. 4–5.

The hammer and sickle logo of the old USSR has been replaced by signs of free enterprise in Russia. Here in the main shopping district of St. Petersburg, Nike Sport is prominent, along with Coca-Cola red umbrellas.

Union–style free trade association; create joint control of nuclear weapons; and fulfill all Soviet foreign treaties and debt obligations.

The 12 members of the CIS share a common history of central planning, and their close cooperation could make the change to a market economy less painful, but differences over economic policy, currency reform, and control of the military may break them apart. How the CIS will be organized and what its ultimate importance will be is anyone's guess.

The three Slavic republics of Russia, Ukraine, and Belarus have interests and history in common, as do the five Central Asian republics. But the ties between these two core groups of the CIS are tenuous and stem mainly from their former Soviet membership. At this writing, Russia and Ukraine are involved in a nasty dispute over the price and payments of gas shipped by the former to the latter.[21] The CIS is by no means coming apart, though it has not solidified to the point of having a stable membership and purpose.[22] Under Vladimir Putin, Russia showed renewed interest in the CIS, and a free trade zone, which Russia had blocked since the CIS was created, may become a reality.

Of all the former republics, Azerbaijan, Georgia, and Armenia have been the most economically successful since leaving the former USSR. After the USSR collapsed, their economies had all imploded to less than half their peak size during Soviet days. Now, however, they are showing sustained signs of commercial renewal—and multinational icons

[21] Andrew Osborne, "Ukraine Natural-Gas Dispute Intensifies," , March 4, 2008, online.

[22] The Economist Intelligence Unit, "Kazakhstan: Transport and Communications," , September 1, 2005, p. 15.

like Intel have made investments in the area. Although initially Russia experienced serious economic problems, it now has returned to more robust growth in large part due to the successful marketing of its vast energy resources.[23] Even the Disney Channel is headed there in the near future.[24] All members of the CIS have had economic growth, and inflation has been held between a high of 5.9 percent for Tajikistan and a low of 0.2 percent for Kazakhstan.

Africa

Africa's multinational market development activities can be characterized as a great deal of activity but little progress. All the countries on the continent (save Morocco) have joined a loosely defined African Union,[25] and they are listed in Exhibit 10.6. Including bilateral agreements,[26] an estimated 200 other economic arrangements exist among African countries. Despite the large number and assortment of paper organizations, there has been little actual economic integration because of the political instability[27] that has characterized Africa in recent decades and the unstable economic base on which Africa has had to build. The United Nations Economic Commission for Africa (ECA) has held numerous conferences but has been hampered by governmental inexperience, undeveloped resources, labor problems, and chronic product shortages.

The Economic Community of West African States (ECOWAS), the Southern African Development Community (SADC), and the East African Community (EAC)[28] are the three most active regional cooperative groups. A 15-nation group, ECOWAS has an aggregate gross domestic product of more than $60 billion and is striving to achieve full economic integration. The 20th ECOWAS summit in 1997 approved a plan to accelerate subregional economic integration and development, with emphasis on a full commitment to regional monetary integration and the eventual adoption of a single West African currency. Unfortunately, ECOWAS continues to be plagued with financial problems, conflict within the group, and inactivity on the part of some members. After 30 years, the ECOWAS treaty and its many defined objectives and the way they are to be achieved over a 15-year period in three stages languishes; nothing has been achieved, and free trade remains a deferred dream.

The Southern African Development Community is the most advanced and viable of Africa's regional organizations. Its 14 members encompass a landmass of 6.6 million square kilometers containing abundant natural resources and a population of over 200 million. South Africa, the region's dominant economy, has a GDP of over $160 billion and accounts for 76.8 percent of SADC market share. After years of negotiations, 11 members of SADC approved a free trade agreement aimed at phasing out a minimum of 85 percent of tariffs within eight years and all tariffs by the end of 2012.

South Africa's economic growth has increased significantly now that apartheid is officially over and the United Nations has lifted the economic embargo that isolated that nation from much of the industrialized world. Unlike Vietnam, South Africa has an industrial base that will help propel it into rapid economic growth, with the possibility of doubling its GNP in as few as 10 years. The South African market also has a developed infrastructure—airports, railways, highways, telecommunications—that makes it

Cell phone service is available even in African countries with per capita incomes among the lowest in the world.

[23] "Gazprom Eyes 10% of French Gas Market in 4–5 Years," *Dow Jones International News*, January 3, 2008.

[24] Dawn Chmielewski, "Russia Next Frontier for Disney Channel," *Los Angeles Times*, December 17, 2008, p. C3.

[25] "Get Still More Serious," *The Economist*, February 6, 2010, p. 14.

[26] Isaya Muriwo Sithole, "Zimbabwe, SA in Perspective," *All Africa*, September 2, 2005, p. 16.

[27] Adam Nossiter, "Nigeria Fills Void with Acting Leader," *The New York Times*, February 10, 2010, p. A4.

[28] "It May Really Happen," *The Economist*, January 2, 2010, p. 36.

Exhibit 10.6
African Union Countries and Other Market Groups Fundamental Market Metrics

(in parentheses) = average annual growth rate 2004–2009 as a percentage

Country	Population (millions)	GNI* (billions $)	Exports* of Goods (billions $)	Imports* of Goods (billions $)	Ease of Doing Business Index	GNI/capita* ($)	Internet Users (per 1000 people)
Algeria	34.9 (1.5)	171.9	67.1 (15.8)	34.5 (14.0)	134	5060	110 (19.0)
Angola[3]	18.5 (2.8)	71.0	40.8 (25.8)	15.9 (19.1)	170	4627	39 (52.8)
Benin[2]	8.9 (3.3)	6.7	0.6 (15.8)	11.2 (17.9)	172	771	21 (12.2)
Botswana[3]	1.9 (1.4)	12.7	3.8 (1.4)	4.3 (6.0)	39	6808	46 (6.9)
Burkina Faso[2]	15.8 (3.5)	7.9 (9.9)	0.6 (3.7)	1.7 (6.2)	155	500	11 (2.3)
Burundi[4]	8.3 (3.0)	1.3 (15.2)	0.06 (4.9)	0.4 (18.7)	177	158 (11.8)	9 (21.4)
Cameroon	19.5 (2.3)	23.1	4.4 (12.0)	4.3 (12.4)	167	1238	49 (37.9)
Cape Verde[2]	0.5 (1.5)	1.7	0.03 (16.5)	0.8 (14.0)	147	3468	291 (40.5)
Central African Republic	4.4 (1.9)	2.0 (9.2)	0.2 (6.6)	0.3 (15.2)	183	250 (7.2)	52 (18.3)
Chad	11.2 (2.9)	6.7	2.8 (20.4)	0.7 (11.4)	176	755	16 (34.3)
Comoros	0.7 (2.3)	0.5	0.01 (−5.3)	0.2 (17.8)	153	824	42 (26.0)
Congo, DR[3]	66.0 (2.9)	10.2 (10.4)	3.5 (13.8)	4.0 (14.9)	182	154 (7.3)	7 (29.0)
Congo, B	3.7 (2.0)	7.7 (18.5)	7.3 (16.6)	2.4 (21.2)	179	2084 (16.2)	62 (42.1)
Cote d'Ivoire[2]	21.1 (2.3)	22.4	9.4 (6.2)	6.7 (9.2)	163	1137	44 (39.0)
Djibouti	0.9 (1.8)	1.0	0.08 (14.6)	0.7 (21.7)	157	1032	22 (13.9)
Egypt	76.7 (1.9)	164.2	22.2 (23.6)	45.1 (28.5)	116	2133	190 (27.7)
Equatorial Guinea	0.7 (2.7)	11.9	11.0 (19.2)	1.8 (3.1)	169	11668	21 (19.4)
Eritrea	5.1 (3.3)	1.6	—	—	175	331	39 (27.2)
Ethiopia	82.8 (2.6)	26.5	1.7 (20.9)	9.3 (24.8)	111	320	6 (30.0)
Gabon	1.5 (1.9)	6.0	6.3 (11.6)	1.9 (9.5)	151	4490	76 (20.6)
Gambia[2]	1.7 (2.9)	0.7	0.01 (−5.2)	0.3 (4.7)	135	471	88 (21.6)
Ghana[2]	23.8 (11.2)	15.9	5.1 (15.6)	9.5 (18.4)	87	690	53 (25.4)
Guinea Bissau[2]	1.6 (2.3)	0.4	0.1 (1.9)	0.2 (9.7)	181	273	25 (6.9)
Guinea[2]	10.1 (2.2)	4.2	1.3 (11.8)	1.6 (18.9)	171	434	11 (16.6)
Iran	74.2 (1.2)	336.9 (16.0)	113.5 (22.2)	52.7 (10.5)	142	4540 (14.7)	360 (18.9)
Iraq	30.7 (2.2)	—	64.8 (32.1)	20.1 (14.6)	158	—	9 (48.2)
Israel	7.4 (1.7)	187.5 (8.9)	41.6 (4.2)	46.8 (3.0)	30	25322 (7.0)	306 (6.8)
Jordan	6.3 (3.2)	22.9 (14.6)	6.0 (8.8)	15.3 (13.4)	104	3627 (11.1)	289 (20.0)
Kenya[4]	39.8 (2.7)	31.4 (14.3)	5.0 (13.1)	11.6 (20.6)	104	790 (11.3)	95 (25.6)
Kuwait	2.4 (2.6)	112.5 (11.7)	62.4 (16.9)	17.1 (6.2)	52	46033 (8.9)	442 (9.6)
Lesotho[3]	2.1 (0.9)	2.0	0.9 (5.1)	2.0 (6.6)	128	946	40 (12.7)
Liberia[2]	4.0 (4.2)	0.7	0.7 (−5.2)	12.4 (20.5)	159	229	11 (104.0)
Libya	6.4 (2.0)	101.4	41.6 (15.3)	7.7 (4.1)	—	15920	57 (9.9)
Madagascar[3]	19.6 (2.8)	8.8	1.2 (4.6)	4.0 (19.1)	144	469	18 (27.5)
Malawi[3]	15.3 (2.8)	2.9 (9.3)	0.9 (14.0)	1.9 (15.4)	131	190 (6.3)	23 (45.6)
Mali[2]	13.0 (2.4)	8.5	1.6 (10.5)	2.5 (13.2)	162	688	12 (23.3)
Mauritania	3.3 (2.5)	2.8	2.1 (23.3)	1.7 (11.4)	161	893	26 (39.6)
Mauritius[3]	1.3 (0.7)	8.9 (6.9)	2.4 (3.8)	4.9 (12.0)	24	6869 (6.1)	315 (10.3)
Morocco[1]	32.0 (1.2)	91.4 (8.5)	15.4 (9.2)	34.4 (14.0)	130	2858 (7.2)	388 (27.3)
Mozambique[3]	22.9 (2.4)	8.7	24 (10.6)	3.6 (1.4)	140	447	18 (21.6)
Namibia[3]	2.2 (2.0)	8.1 (7.0)	3.1 (10.9)	4.9 (15.0)	54	3742 (5.0)	59 (9.0)
Niger[2]	15.3 (3.9)	5.3	0.8 (30.0)	1.4 (14.3)	174	365	7 (29.2)
Nigeria[2]	154.7 (2.4)	197.3	68.6 (17.1)	35.6 (20.2)	174	1273	89 (47.2)
Oman	2.8 (2.1)	51.1 (16.1)	24.7 (13.1)	18.3 (15.7)	37	17970 (13.7)	113 (45.4)
Rwanda[4]	10.0 (2.5)	4.4	0.3 (24.7)	1.3 (35.0)	143	458	13 (25.2)
Sao Tome and Principe	0.2 (1.6)	0.2	0.01 (13.8)	0.1 (22.1)	180	1085	160 (3.8)
Saudi Arabia	25.7 (2.2)	379.0 (8.5)	271.4 (16.6)	94.3 (16.1)	15	14735 (6.1)	321 (25.7)
Senegal[2]	12.5 (2.7)	8.4	2.1 (7.1)	5.3 (13.2)	152	768	100 (17.9)
Seychelles[3]	.09 (0.6)	0.8	0.3 (2.4)	0.8 (11.2)	105	9649	384 (10.3)

Exhibit 10.6 (continued)

Country	Population (millions)	GNI* (billions $)	Exports* of Goods (billions $)	Imports* of Goods (billions $)	Ease of Doing Business Index	GNI/capita* ($)	Internet Users (per 1000 people)
Sierra Leone[2]	5.7 (2.9)	1.9	0.2 (8.3)	0.6 (15.0)	156	351	3 (5.2)
Somalia	9.1 (2.3)	0.6	—	—	—	—	13 (3.4)
South Africa[3]	50.1 (1.1)	270.4 (5.0)	62.6 (6.3)	66.6 (6.9)	32	5396 (3.9)	88 (3.4)
Sudan	42.3 (2.2)	52.4	12.1 (26.2)	7.9 (14.1)	149	1413	97 (65.1)
Swaziland[3]	1.2 (1.2)	2.7	1.7 (−2.5)	2.2 (2.2)	114	224	45 (7.0)
Syria	21.9 (3.4)	54.1	13.3 (12.5)	17.1 (15.2)	138	2601	197 (35.4)
Tanzania[3,4]	43.7 (2.9)	19.9	2.5 (11.1)	6.1 (17.5)	126	321	14 (9.2)
Togo[2]	6.6 (2.5)	2.8	0.7 (42)	1.5 (10.4)	166	437	56 (8.1)
Tunisia	10.3 (1.0)	37.6 (6.8)	13.7 (7.3)	17.9 (6.9)	73	3659 (5.8)	389 (31.8)
Uganda[4]	32.7 (3.3)	14.2	1.9 (24.4)	5.1 (24.0)	106	459	100 (69.2)
United Arab Emirates	4.6 (3.2)	103.9	205.3 (17.7)	139.5 (14.1)	47	38463	888 (24.2)
Yemen	23.6 (2.9)	26.2 (14.9)	8.6 (13.0)	9.3 (18.4)	103	1110 (11.6)	20 (1.6)
Zambia[3]	12.9 (2.4)	13.0	4.2 (21.9)	4.2 (15.9)	99	893 (15.0)	64 (25.9)
Zimbabwe[3]	12.5 (0.0)	3.2	1.7 (−1.9)	2.2 (0.4)	160	274	130 (14.7)

*Current U.S. $.
[1]Morocco withdrew from the predecessor of the African Union in 1984.
[2]Member of Economic Community of West African States (ECOWAS).
[3]Member of Southern African Development Community (SADC).
[4]Member of East African Community.

Source: Euromonitor International, 2010; World Bank, 2010.

important as a base for serving nearby African markets too small to be considered individually but viable when coupled with South Africa.

Upbeat economic predictions, a stable sociopolitical environment, and the reinforced vigor of the South African government in addressing the issues of privatization and deregulation while maintaining the long-term goal of making the country more investor friendly bode well for U.S. businesses seeking trading, investment, and joint venture opportunities in South Africa. The country has a fair-sized domestic market of nearly $300 billion with significant growth potential and is increasingly becoming free market oriented. It has yet to develop to its full potential, however, because of years of isolation, former inward-looking trade and investment policies, a low savings rate, and a largely unskilled labor force with attendant low productivity.

South Africa has the potential to become the newest big emerging market (BEM), but its development will depend on government action and external investment by other governments and multinational firms. In varying degrees, foreign investors are leading the way by making sizable investments.

One of the paradoxes of Africa is that its people are for the most part desperately poor, while its land is extraordinarily rich.[29] East Asia is the opposite: It is a region mostly poor in resources that over the last few decades has enjoyed an enormous economic boom. When several African countries in the 1950s (for example, Congo, the former Zaire) were at the same income level as many East Asian countries (for example, South Korea) and were blessed with far more natural resources, it might have seemed reasonable for the African countries to have prospered more than their Asian counterparts. Although there is no doubt that East Asia enjoyed some significant cultural and historical advantages, its economic boom relied on other factors that have been replicated elsewhere but are absent in Africa. The formula for success in East Asia was an outward-oriented, market-based economic policy coupled with an emphasis on education and healthcare. Most newly industrialized countries have followed this model in one form or another.

The Internet also facilitates education, a fundamental underpinning for economic development. The African Virtual University, which links 24 underfunded and ill-equipped

[29]"Kenya, Going Up or Down?" *The Economist*, June 9, 2007, pp. 49–50.

African campuses to classrooms and libraries worldwide, grants degrees in computer science, computer engineering, and electrical engineering. South Africa's School Net program links 1,035 schools to the Internet, and the government's Distance Education program brings multimedia teaching to rural schools. Google[30] and other companies are also investing there to build content in Swahili, for example.

Middle East

The Middle East has been less aggressive in the formation of successfully functioning multinational market groups. The Arab Common Market has set goals for free internal trade but has not succeeded. The aim is to integrate the economies of the 22 Arab countries, but before that will be feasible, a long history of border disputes and persisting ideological differences will have to be overcome. The idea is still alive, however, and is a topic of discussion whenever Arab foreign ministers meet. The Arab Gulf states, Egypt, and Morocco have worked out an agreement on an Arab Free Trade Area, sometimes called the Greater Arab Free Trade Area (GAFTA). This 2005 agreement is still in its early stages of implementation, and its success is thus uncertain.

Iran, Pakistan, and Turkey, formerly the Regional Cooperation for Development (RCD), have renamed their regional group the Economic Cooperation Organization (ECO). Since reorganizing, Afghanistan and six of the newly independent states were accepted into the ECO. Impressive strides in developing basic industrial production were being made when the RCD was first organized, but the revolution in Iran ended any economic activity. ECO has as its primary goal the development of its infrastructure to pave the way for regional cooperation. Unfortunately, trade volume among ECO members constitutes only 7 percent of their total trade. However, a recent announcement from ECO indicated that there has been an agreement to reduce tariff and nontariff barriers to boost trade.

The other activity in the region, led by Iran, is the creation of the Organization of the Islamic Conference (OIC), a common market composed of Islamic countries. A preferential tariff system among the member states of the OIC and the expansion of commercial services in insurance, transport, and transit shipping are among the issues to be debated at the next conference of Islamic countries. The OIC represents 60 countries and over 650 million Muslims worldwide. The member countries' vast natural resources, substantial capital, and cheap labor force are seen as the strengths of the OIC.

Of course, the continuing turmoil in Iran and the wars in Iraq and Afghanistan remain troubling influences on political and economic relations in the region. Like China, the government of Iran has disrupted Internet communications to head off political

[30] Noam Cohen, "Hungry for Content, Google Tries to Grow Its Own in Africa," *The New York Times*, January 25, 2010, p. B3.

Old meets new in two big emerging markets. The Grand Bazaar in Istanbul is the oldest and largest covered marketplace in the world, dating back to the 15th century. In modern Istanbul, it competes for customers with the ubiquitous McDonald's. Faint in the background is the Blue Mosque, built in 1616. Of course, the pyramids at Giza near Cairo are much older. But new construction methods and development are competing for the skyline there as well.

CROSSING BORDERS 10.4 The U.S. to Dubai to Iran, Illegally

The ship's captain asks if I'm looking to smuggle something. We're standing alongside a busy stretch of Port Saeed, on Dubai Creek, which is not actually a creek but a mucky Palmolive-green waterway, trash-strewn and oily, that stretches about eight miles through a thicket of shiny skyscrapers before draining into the Persian Gulf. It's March, the sun is blasting down; the air is redolent of diesel fuel. The captain's name is Khaled, and he's headed to Bandar Abbas, Iran—about 100 miles northeast, nine hours by sea. "We're leaving in a week," he says.

The question of smuggling isn't so far-fetched. It comes up a lot as I walk around and talk to the sailors. There are rumors of captains moving weapons, cigarettes, drugs, even nuclear equipment. Khaled, an Iranian former taxi driver with a mashed nose and tobacco-stained teeth, points at his 60-foot dhow. It's flat-bottomed and has a swooping bow, a glassed-in wheelhouse, and a bashed-up hull that gives it the appearance of having done battle. Dozens of others are moored four and five feet deep, mostly destined for Iran. The scene is chaotic, with swinging cranes, fast-moving cargo trucks, and hundreds of dockworkers handling mountains of boxes and household appliances.

Khaled moves in close and then makes a confession: "I have many American products on my boat," he says. Of the dozens of boxes rising above the gunwales, he calculates, about half hold American goods—and all are headed to Iran, despite a firm U.S. trade embargo meant to choke the life out of the so-called rogue state.

Khaled's cargo, however, is either unmarked or simply reads "u.a.e." His boss had the American goods repackaged when they arrived at the Dubai shipping terminals Jebel Ali and Port Rashid "to keep things quiet." Other portside captains are less discreet. I see boxes of Carrier air-conditioning units and cartons of Crest toothpaste, and farther down the row are boxes labeled Black & Decker and Coca-Cola, along with stacks of Goodyear tires. I also spy a pallet of new Hewlett-Packard All-in-One printers, probably 200 of them, and another of Xerox copiers. When I ask a different Iranian captain about all these things going to America's enemy, he responds, "It's business, but please don't tell your president."

Despite sanctions aimed at stemming the sales of U.S. products to Iran, the goods are still getting there. U.S. sanctions were first imposed against Iran in 1979, during the hostage crisis. The current embargo dates back to 1987, though it has since been tightened, and U.N. sanctions have been added. U.S. companies are forbidden to sell goods to Iran or knowingly provide them to a company that will sell them to Iran, with a few exceptions, including medical supplies. The rules are enforced by the U.S. Treasury and Commerce Departments, and violations carry civil as well as criminal penalties. Although American companies aren't allowed to send goods directly to Iran, the U.A.E. does not impose the same limitations on its local distributors. Over time, that loophole has spawned what many agree is a decidedly murky trade, operating mainly under the public's radar. The business is estimated to be worth billions of dollars annually, much of which goes directly to the bottom line of American companies. Each year, the U.S. sends more goods to Dubai, and Dubai, in turn, sends more goods to Iran . . .

Source: Christopher S. Stewart, "Axis of Commerce," Conde Nast Portfolio, September 2008, pp. 112–19.

demonstrations.[31] Despite the U.S. embargo on Iran and the associated punishment of involved firms and executives,[32] American goods are still being smuggled into the country. The 100 miles by sea from Port Saeed of Dubai to Bandar Abbas in southern Iran seems to be a popular smuggling route.[33] Dubai itself, one of the United Arab Emirates (U.A.E.), has been a prominent center for international investment in the Middle East.[34] However, the Emirate suffered substantially as its aggressive commercial real estate activities collapsed during the 2008–2009 global economic downturn. There are signs of hope that trade can bring peace to the region. For example, a group of Iranian executives are intent on building a modern business school for their country.[35]

[31]Nazila Fathi, "Iran Disrupts Internet Communications," *The New York Times*, February 11, 2010, p. A6.

[32]Mark Landler, "U.S. Penalizes Companies Tied to Iran Corps," *The New York Times*, February 11, 2010, p. A6.

[33]Christopher S. Stewart, "Axis of Commerce," *Conde Nast Portfolio*, September 2008, pp. 112–19.

[34]Stanley Reed, "Why Dubai Matters," *Bloomberg BusinessWeek*, December 14, 2009, pp. 34–40.

[35]Stanley Reed, "Reading Keynes in Tehran," *Bloomberg BusinessWeek*, February 15, 2010, p. 31.

You may think Dubai is an odd place—an ostentatious and architecturally spectacular member of the United Arab Emirates that has teetered on the brink of a real estate collapse. So perhaps a change in perspective is in order, say, from outer space. Here's the Dubai coast, seen from the International Space Station. At left are the man-made Palm Jumeirah islands. At right is a development of 300, private, man-made islands shaped like a global map.

Implications of Market Integration

The degree of differences across regions in economic integration is manifest. The European Union continues to be the global pacesetter and therefore serves as the best model for understanding and predicting the processes of change in the other regions described previously. We can expect lessons learned there to be useful for international marketers contemplating entry and operations in the other regions in earlier stages of integration.

Strategic Implications

LO5

Strategic implications for marketing in the region

The complexion of the entire world marketplace has been changed significantly by the coalition of nations into multinational market groups. To international business firms, multinational groups spell opportunity in bold letters through access to greatly enlarged markets with reduced or abolished country-by-country tariff barriers and restrictions. Production, financing, labor, and marketing decisions are affected by the remapping of the world into market groups.[36]

World competition will continue to intensify as businesses become stronger and more experienced in dealing with large market groups. For example, in an integrated Europe, U.S. multinationals had an initial advantage over expanded European firms because U.S. businesses were more experienced in marketing to large, diverse markets and are accustomed to looking at Europe as one market. These U.S. firms did not carry the cumbersome baggage of multiple national organizations dealing in many currencies, with differentiated pricing and administration, with which most EU firms had to contend. The advantage, however, was only temporary as mergers, acquisitions, and joint ventures consolidated operations of European firms in anticipation of the benefits of a single European market. Individual national markets still confront international managers with the same problems of language, customs, and instability, even though they are packaged under the umbrella of a common market. However, as barriers come down and multicountry markets are treated as one common market, a global market will be one notch closer to reality.

Regulation of business activities has been intensified throughout multinational market groups; each group now has management and administrative bodies specifically concerned with business. In the process of structuring markets, rules and regulations common to the

[36]Fratinanni and Oh, "Expanding RTAs."

group are often more sophisticated than those of the individual countries.[37] Despite the problems and complexities of dealing with the new markets, the overriding message to the astute international marketer continues to be opportunity and profit potential.

Opportunities. Economic integration creates large mass markets. Many national markets, too small to bother with individually, take on new dimensions and significance when combined with markets from cooperating countries. Large markets are particularly important to businesses accustomed to mass production and mass distribution because of the economies of scale and marketing efficiencies that can be achieved. In highly competitive markets, the benefits derived from enhanced efficiencies are often passed along as lower prices that lead to increased purchasing power.

Most multinational groups have coordinated programs to foster economic growth as part of their cooperative efforts. Such programs work to the advantage of marketers by increasing purchasing power, improving regional infrastructure, and fostering economic development. Despite the problems that are sure to occur because of integration, the economic benefits from free trade can be enormous.

Major savings will result from the billions of dollars now spent in developing different versions of products to meet a hodgepodge of national standards.[38] Philips and other European companies invested a total of $20 billion to develop a common switching system for Europe's several different telephone networks. This figure compares with the $3 billion spent in the United States for a common system and $1.5 billion in Japan for a single system.

Market Barriers. The initial aim of a multinational market is to protect businesses that operate within its borders. An expressed goal is to give an advantage to the companies within the market in their dealings with other countries of the market group. Analysis of the interregional and international trade patterns of the market groups indicates that such goals have been achieved.

Companies willing to invest in production facilities in multinational markets may benefit from protectionist measures because these companies become a part of the market. Exporters, however, are in a considerably weaker position. This prospect confronts many U.S. exporters who face the possible need to invest in Europe to protect their export markets in the European Union. The major problem for small companies may be adjusting to the EU standards. A company selling in one or two EU member countries and meeting standards there may find itself in a situation of having to change standards or be closed out when an EU-wide standard is adopted.

A manufacturer of the hoses used to hook up deep-fat fryers and other gas appliances to gas outlets faced such a problem when one of its largest customers informed the company that McDonald's was told it could no longer use that manufacturer's hoses in its British restaurants. The same thing happened at EuroDisney. Unfortunately, when the common standards were written, only large MNCs and European firms participated, so they had the advantage of setting standards to their benefit. The small company had only two choices: Change or leave. In this particular case, it appears that competitors were working to keep the company out of the market. There are, however, enough questions about threaded fittings and compatibility that the company worked with individual countries to gain entrance to their markets—just as it had before a single market existed.

Market Metrics

LO6

The size and nature of marketing opportunities in the European/African/Middle East regions

In this section, we present three tables with fundamental metrics reflecting the size and character of markets in the eight most populous countries in the greater region. Looking across these tables, we see the widest disparity in standards of living, infrastructures, and consumer purchases. As in the Americas, the disparity appears to correlate with latitude,

[37]Kevin J. O'Brien, "EU Considers a Telecommunications 'Superregulator,'" *International Herald Tribune*, August 13, 2007, p. 10.

[38]John W. Miller, "EU Food-Safety Agency Backs Products from Cloned Animals," *The Wall Street Journal*, January 12, 2008, online.

Exhibit 10.7

Standard of Living in the Eight Most Populous Countries in the Europe/Africa/Middle East Region

Country	Population (millions)	GNI per Capita	Medical Resources Per 1000 persons		Household Ownership %		
			Doctors	Hospital Beds	Color TV	Refrigerator	Shower
Nigeria	155	$ 1,273	0.4	—	34	23	63
Russia	142	10,966	4.4	9.6	97	97	63
Ethiopia	83	320	—	—	—	—	—
Germany	82	40,521	3.6	8.2	98	99	99
Egypt	77	2,133	0.6	2.4	87	93	78
Iran	74	4,540	0.9	—	—	—	—
Turkey	72	10,910	1.6	2.9	93	98	80
Congo, DR	66	154	—	—	—	—	—

Source: Euromonitor International, 2010.

with greater economic development associated with distance from the equator. We also see the lack of data for the least developed countries in Africa and the Middle East. And we have not included in these data direct measures of political instability and other risks—those can be found in other chapters, such as Chapters 5 and 17.

Exhibit 10.7 presents standards of living across the eight countries. The range of GNI per capita is astonishing, with Germany at more than $40,000 and the Democratic Republic of Congo at less than $200. Russia, Turkey, and Iran (as best as we can tell) are moving up the development ladder relatively fast.

Exhibit 10.8 compares the infrastructures of the countries. Again we see the wide disparities north to south. Perhaps the most interesting data involve the relative strength of Iran, particularly with regard to the numbers of university students. It is these university students that have been the catalyst for political protests in the country of late. But when it comes to opportunities for development and hiring good marketers in the future, these last numbers provide some hope.

Exhibit 10.9 briefly enumerates consumption patterns. For Ethiopia and the Democratic Republic of Congo, we can only guess, and it is quite difficult to imagine conducting systematic primary consumer research in either country. The dollars spent on education in Turkey are promising. Of course, the German statistics jump off the page across the columns. Indeed, perhaps the most shocking datum in this book is the German

Exhibit 10.8

Infrastructures of the Eight Most Populous Countries of the Europe/Africa/Middle East Region

Country	Travel by Rail (passenger-km per capita)	Passenger Cars/1000	Energy Consumption (tones oil equivalent)	Computers in Use per 1000 people	Mobile Phones in Use per 1000 people	Literacy Rate %	University Students per 1000 people
Nigeria	1	12	—	16	500	74%	5
Russia	1262	194	4.9	166	1434	100	56
Ethiopia	0.4	1	—	9	50	41	3
Germany	944	491	3.8	779	1336	100	28
Egypt	768	30	1.0	60	649	73	34
Iran	200	24	2.7	111	753	87	27
Turkey	75	93	1.5	76	983	90	26
Congo, DR	—	2	—	—	184	79	1

Source: Euromonitor International, 2010.

Exhibit 10.9

Consumption Patterns in the Eight Most Populous Countries in Europe/Africa/Middle East Region

		Household Expenditures ($/capita)								
Country	**People per Household**	**Food**	**Alcohol, Tobacco**	**Clothing**	**Housing**	**Health Goods, Services**	**Transportation**	**Communication**	**Leisure**	**Education**
Nigeria	4.9	1779	15	43	113	28	45	13	13	24
Russia	2.7	1068	87	431	489	142	999	161	327	75
Ethiopia	5.3	—	—	—	—	—	—	—	—	—
Germany	2.8	2628	819	1153	5757	1117	3074	703	2165	159
Egypt	4.1	716	42	120	391	85	62	43	47	72
Iran	3.8	656	13	125	761	180	129	88	106	44
Turkey	3.9	1466	242	347	1630	130	838	262	129	116
Congo, DR	3.6	—	—	—	—	—	—	—	—	—

Source: Euromonitor International, 2010

per capita expenditure on alcohol and tobacco, at some $819/year, more than double the entire annual per capita income in Ethiopia and more than four times that in the Democratic Republic of Congo! Of course, we do not blame the Germans, and recall that Canadians spend even more on the psychoactive substances (see Exhibit 9.5 in the previous chapter). Such contrasts in standards of living among human beings are simply incomprehensible.

Marketing Mix Implications

Companies are adjusting their marketing mix strategies to reflect anticipated market changes in the single European market. In the past, companies often charged different prices in different European markets. Nontariff barriers between member states supported price differentials and kept lower-priced products from entering those markets where higher prices were charged. For example, Colgate-Palmolive Company adapted its Colgate toothpaste into a single formula for sale across Europe at one price. Before changing its pricing practices, Colgate sold its toothpaste at different prices in different markets.

Beddedas Shower Gel is priced in the middle of the market in Germany and as a high-priced product in the United Kingdom. As long as products from lower-priced markets could not move to higher-priced markets, such differential price schemes worked. Now, however, under the EU rules, companies cannot prevent the free movement of goods, and parallel imports from lower-priced markets to higher-priced markets are more likely to occur. Price standardization among country markets will be one of the necessary changes to avoid the problem of parallel imports. With the adoption of the euro, price differentials are much easier to spot, and the consumer can search for the best bargains in brand-name products more easily. Furthermore, the euro is making marketing on the Internet a much simpler task for European firms. On balance, a single currency will make competition in Europe a lot fairer and also a lot tougher.

In addition to initiating uniform pricing policies, companies are reducing the number of brands they produce to focus on advertising and promotion efforts. For example, Nestlé's several brands of yogurt in the European Union were reduced to a single brand. Unilever winnowed its 1,600 brands down to focus on 400 core brands. It plans to develop master brands in certain markets such as the European Union and to market others globally. A major benefit from an integrated Europe is competition at the retail level. Europe lacks an integrated and competitive distribution system that would support small and midsized outlets. The elimination of borders could result in increased competition among retailers and the creation of Europewide distribution channels.

Finally, all international marketers should see market integration around the world in a positive light. Trade among close neighbors will always be important—distance does make a difference. But overall, local integration ultimately serves globalization and harmonization of the world trading system, thus reducing the costs of business and delivering greater choice to consumers and greater opportunities to marketers.

Summary

The experiences of the multinational market groups developed since World War II point up both the successes and the hazards such groups encounter. The various attempts at economic cooperation represent varying degrees of success and failure, but almost without regard to their degree of success, the economic market groups have created great excitement among marketers. In the near future, these regional groupings will continue to form trade agreement ties with other nations and regions, thus paving the way for truly globalized markets where consumers dominate.

For companies, the economic benefits possible through cooperation relate to more efficient marketing and production. Marketing efficiency is effected through the development of mass markets, encouragement of competition, improvement of personal income, and various psychological market factors. Production efficiency derives from specialization, mass production for mass markets, and the free movement of the factors of production. Economic integration also tends to foster political harmony among the countries involved; such harmony leads to stability and peace, which are beneficial to the marketer as well as the countries' citizens.

The marketing implications of multinational market groups may be studied from the viewpoint of firms located inside the market or of firms located outside, which wish to sell to the markets. For each viewpoint the problems and opportunities are somewhat different; regardless of the location of the marketer, however, multinational market groups provide great opportunity for the creative marketer who wishes to expand volume. Market groupings make it economically feasible to enter new markets and to employ new marketing strategies that could not be applied to the smaller markets represented by individual countries. At the same time, market groupings intensify competition by protectionism within a market group but may foster greater protectionism between regional markets. Mercosur and ASEAN+3 (to be discussed in the next chapter), for example, suggest the growing importance of economic cooperation and integration. Such developments will continue to confront the international marketer by providing continually growing market opportunities and challenges.

Finally, the European/African/Middle East regions include perhaps the greatest diversity in income levels and cultures possible, providing daunting challenges for international marketing managers with responsibilities in the area.

Key Terms

Multinational market regions	Common market	Maastricht Treaty	European Parliament
Free trade area (FTA)	Political union	Single European Act	Amsterdam Treaty
Customs union			

Questions

1. Define the key terms listed above.
2. Elaborate on the problems and benefits that multinational market groups represent for international marketers.
3. Explain the political role of multinational market groups.
4. Identify the factors on which one may judge the potential success or failure of a multinational market group.
5. Explain the marketing implications of the factors contributing to the successful development of a multinational market group.
6. Imagine that the United States was composed of many separate countries with individual trade barriers. What marketing effects might be visualized?
7. Discuss the possible types of arrangements for regional economic integration.
8. Differentiate between a free trade area and a common market. Explain the marketing implications of the differences.
9. It seems obvious that the founders of the European Union intended it to be a truly common market, so much so that economic integration must be supplemented by political integration to accomplish these objectives. Discuss.
10. The European Commission, the Council of Ministers, and the Court of Justice of the European Union have gained power in the last decade. Comment.

11. Select any three countries that might have some logical basis for establishing a multinational market organization and illustrate their compatibility as a regional trade group. Identify the various problems that would be encountered in forming multinational market groups of such countries.
12. U.S. exports to the European Union are expected by some to decline in future years. What marketing actions might a company take to counteract such changes?
13. "Because they are dynamic and because they have great growth possibilities, the multinational markets are likely to be especially rough-and-tumble for the external business." Discuss.
14. Differentiate between a customs union and a political union.
15. Why have African nations had such difficulty in forming effective economic unions?
16. Discuss the implications of the European Union's decision to admit eastern European nations to the group.

Chapter 11

The Asia Pacific Region

CHAPTER OUTLINE

CHAPTER LEARNING OBJECTIVES

What you should learn about in Chapter 11:

LO1 The dynamic growth in the region

LO2 The importance and slow growth of Japan

LO3 The importance of the Bottom-of-the-Pyramid Markets

LO4 The diversity across the region

LO5 The interrelationships among countries in the region

LO6 The diversity within China

Global Perspective

WALMART, TIDE, AND THREE-SNAKE WINE

Developing markets are experiencing rapid industrialization, growing industrial and consumer markets, and new opportunities for foreign investment. Consider the following illustration: In China, it is just a few shopping days before the Lunar New Year, and the aisles at the local Walmart Supercenter are jammed with bargain hunters pushing carts loaded high with food, kitchen appliances, and clothing. It could be the preholiday shopping rush in any Walmart in Middle America, but the shoppers here are China's nouveau riche. Superstores have proven popular with Chinese consumers, who devote a large part of their spending to food and daily necessities. Walmart has been able to tap into the Chinese sense of social status by offering membership cards that confer not only eligibility for special discounts but social status as well.

Alongside Campbell's soup and Bounty paper towels are racks of dried fish and preserved plums. One shelf is stacked high with multiple brands of *congee*, a popular southern Chinese breakfast dish, and another has *nam yue* peanuts and packets of bamboo shoots. In the liquor section in the back of the store is three-snake rice wine, complete with the dead serpents' bodies coiled together in the potent liquid. About 95 percent of what Walmart sells in China is sourced locally. Gone are the efforts to sell big extension ladders or a year's supply of soy sauce to customers living in tiny apartments.

At present Walmart operates over 8,000 units in 15 foreign countries, including almost 150 in China. Revenues and profits are growing nicely for its international operations, and overseas expansion is set to continue particularly in China since its entry into the World Trade Organization. As one executive commented, "It boggles the mind to think if everybody washed their hair every day, how much shampoo you would sell [in China]."

The Chinese market can be difficult to tap and may not be profitable for many years for many companies. Most foreign retailers are in a learning mode about the ways and tastes of Asia, which are very different from those on Main Street U.S.A. For example, Pricesmart designed its Beijing store with two huge loading docks to accommodate full-sized diesel trucks in anticipation of the big deliveries needed to keep shelves well packed. What the company found was Chinese distributors arriving with goods in car trunks, on three-wheel pedicabs, or strapped to the backs of bicycles.

Procter & Gamble offered powdered Tide detergent in large quantities, but China's oppressive summer humidity turned it into unwieldy clumps. Stocking large quantities of paper towels and disposable diapers didn't work well either—most customers didn't know what a paper towel was, and disposable diapers were too expensive a luxury for most. Package sizes also posed a problem—small Chinese apartments could not handle the large American-sized packages.

Sources: Keith B. Richburg, "Attention Shenzen Shoppers! U.S. Retail Giants Are Moving into China, and Finding the Learning Curve Formidable," *Washington Post*, February 12, 1997; David Barboza, "The Bold Struggle for China's Belly," *The New York Times*, March 6, 2003, p. C1; http://www.walmartstores.com, 2010.

LO1

The dynamic growth in the region

As the 21st century continues to unfold, so does the dynamism of the Asia Pacific Region. While economic growth rates in the Americas, Europe, and Africa remain at single-digit levels, double-digit annual growth rates are common in the Asia Pacific region. The economic miracle begun by Japan in the 1970s and carried on by the Four Asian Tigers in the 1980s has now been embraced by Greater China and the region as a whole. Indeed, marketers in the area are developing strong, new Asian brands,[1] reacting to and creating "a transnational, imagined Asian world" based on the common "globalization, hyper-urban and multicultural experience." As evinced in Chapter 3, the Asia Pacific Region lagged for the last 500 years. But now opportunities abound, brought about by the combination of fast economic growth and half the population of the world.

Dynamic Growth in the Asia Pacific Region

Asia has been the fastest growing area in the world for the past three decades, and the prospects for continued economic growth over the long run are excellent. Beginning in 1996, the leading economies of Asia (Japan, Hong Kong, South Korea, Singapore, and Taiwan) experienced a serious financial crisis, which culminated in the meltdown of the Asian stock market. A tight monetary policy, an appreciating dollar, and a deceleration of exports all contributed to the downturn. Despite this economic adjustment, the 1993 estimates by the International Monetary Fund (IMF) that Asian economies would have 29 percent of the global output by the year 2000 were on target. Both as sources of new products and technology and as vast consumer markets, the countries of Asia—particularly those along the Pacific Rim—are just beginning to gain their stride.

The Greater China

The term "**The Greater China**" refers to both the People's Republic of China (PRC) and the Republic of China (ROC) or Taiwan. The two separate political units divided in 1949, and each government claimed the other as its territory. The dispute has persisted to this day. Although the ROC was one of the founding members of the United Nations in 1945, the PRC government was officially recognized with a seat on the U.N. Security Council in 1971. Over the years, the relationship between the disputants has been both politically difficult and militarily dangerous. But in the 21st century, direct trade between the formerly hostile neighbors has increased dramatically, easing much of the historical tension in all of East Asia.

The People's Republic of China (PRC)

Aside from the United States and Japan, there is no more important single national market than the People's Republic of China (PRC).[2] The economic and social changes occurring in China since it began actively seeking economic ties with the industrialized world have been dramatic. China's dual economic system, embracing socialism along with many tenets of capitalism, produced an economic boom with expanded opportunity for foreign investment that has resulted in annual GNP growth averaging nearly 10 percent since 1970. Most analysts predict that an 8 to 10 percent average for the next 10 to 15 years is possible. At that rate, China's GNP should equal that of the United States by 2015. All of this growth is dependent on China's ability to deregulate industry, import modern technology, privatize overstaffed and inefficient state owned enterprises (SOEs), and continue to attract foreign investment. So far in the 21st century, China's successes have been astonishing; in 2009, China became the world's biggest exporter ahead of Germany,[3] and its aggressive marketing through infrastructure development, particularly in developing countries around the world,[4] impresses as well.

[1]Julien Cayla and Giana M. Eckhardt, "Asian Brands and the Shaping of a Transnational Imagined Community," *Journal of Consumer Research* 35 (2008), pp. 216–30.

[2]"How China Runs the World Economy," *The Economist*, July 30, 2005, pp. 11, 61–63; Keith Bardsher, "China's Trade Surplus Near Record Last Month," *The New York Times*, March 13, 2007, p. C3.

[3]Judy Dempsey, "China Passes Germany as World's Top Exporter," *The New York Times*, February 10, 2010, p. B9.

[4]Vikas Bajaj, "China Builds, India Frets," *The New York Times*, February 16, 2010, pp. B1, B2; Stanley Reed and Dexter Roberts, "Red Star over Iraq," *Bloomberg BusinessWeek*, February 1 & 8, 2010, pp. 44–47.

Two major events that occurred in 2000 are having a profound effect on China's economy: admission to the World Trade Organization and the United States's granting normal trade relations (NTR) to China on a permanent basis (PNTR). The PNTR status and China's entry to the WTO cut import barriers previously imposed on American products and services. The United States is obligated to maintain the market access policies that it already applies to China, and has for over 30 years, and to make its normal trade relation status permanent. After years of procrastination, China has begun to comply with WTO provisions and made a wholehearted and irrevocable commitment to creating a market economy that is tied to the world at large.

An issue that concerns many is whether China will follow WTO rules as it has to lower its formidable barriers to imported goods. Enforcement of the agreement will not just happen. Experience with many past agreements has shown that gaining compliance on some issues is often next to impossible. Some of China's concessions are repeats of unfulfilled agreements extending back to 1979. The United States has learned from its experience with Japan that the toughest work is yet to come. A promise to open markets to U.S. exports can be just the beginning of a long effort at ensuring compliance.

Because of China's size, diversity,[5] and political organization, it can be more conveniently thought of as a group of regions rather than a single country. There is no one-growth strategy for China. Each region is at a different stage economically and has its own link to other regions, as well as links to other parts of the world. Each has its own investment patterns, is taxed differently, and has substantial autonomy in how it is governed. But while each region is separate enough to be considered individually, each is linked at the top to the central government in Beijing. We discuss the diversity within China at the end of this chapter.

China has two important steps to take if the road to economic growth is to be smooth: improving human rights and reforming the legal system. The human rights issue has been a sticking point with the United States because of the lack of religious freedom, the Tiananmen Square massacre in 1989, the jailing of dissidents, and China's treatment of Tibet. The U.S. government's decision to award PNTR reflected, in part, the growing importance of China in the global marketplace and the perception that trade with China was too valuable to be jeopardized over a single issue. However, the issue remains delicate both within the United States and between the United States and China.

Despite some positive changes, the American embassy in China has seen a big jump in complaints from disgruntled U.S. companies fed up with their lack of protection under China's legal system. Outside the major urban areas of Beijing, Shanghai, and Guangzhou, companies are discovering that local protectionism and cronyism make business tough even when they have local partners. Many are finding that Chinese partners with local political clout can rip off their foreign partner and, when complaints are taken to court, influence courts to rule in their favor.

Actually there are two Chinas—one a maddening, bureaucratic, bottomless money pit, the other an enormous emerging market. There is the old China, where holdovers of the Communist Party's planning apparatus heap demands on multinational corporations, especially in politically important sectors such as autos, chemicals, and telecom equipment. Companies are shaken down by local officials, whipsawed by policy swings, railroaded into bad partnerships, and squeezed for technology. But there is also a new, market-driven China that is fast emerging. Consumer areas, from fast food to shampoo, are now wide open. Even in tightly guarded sectors, the barriers to entry are eroding as provincial authorities, rival ministries, and even the military challenge the power of Beijing's technocrats.

No industry better illustrates the changing rules than information technology. Chinese planners once limited imports of PCs and software to promote homegrown industries, but the Chinese preferred smuggled imports to the local manufacturers. Beijing eventually

[5]Diversity across regions also provides other dimensions suitable for market segmentation. See Kineta H. Hung, Flora Fang Gu, and Chi Kin (Bennett) Yim, "A Social Institutional Approach to Identifying Generation Cohorts in China with a Comparison with American Consumers," *Journal of International Business Studies* 38 (2007), pp. 836–53.

loosened the restraints, and Microsoft is now the dominant PC operating system. The market's modernization plan calls for imports of equipment and technology of over $100 billion per year for the foreseeable future. Indeed, China is now the second biggest market for personal computers, following only the United States.

After nearly a decade of frustration in trying to effectively market and service its products in China, IBM took a bold step[6] and entered a venture with the Railways Ministry that allowed IBM to set up IBM service centers dubbed the "Blue Express." The agreement created a national network of service centers in railway stations that has enabled IBM to ship computer parts via the railroad around the country within 24 hours; competitors must book cargo space weeks in advance. In addition, the ministry's staff of more than 300 computer engineers helps out by providing customer services on IBM products.

Such innovative thinking by IBM and other marketers often accelerates the development of a more efficient market system.[7] IBM's service centers set an example of effective service before and after sales—important marketing activities. Management training for the thousands of employees of franchises such as Pizza Hut, McDonald's, and KFC has spread expertise throughout the marketing system as the trainees move on to more advanced positions and other companies. Other important markets in China are in the healthcare[8] and environmental areas.[9]

In the long run, the economic strength of China will not be as an exporting machine but as a vast market,[10] particularly if consumers there can overcome the cultural hurdles of thrift[11] and xenophobia.[12] The economic strength of the United States comes from its resources, productivity, and vast internal market that drives its economy. China's future potential might better be compared with America's economy, which is driven by domestic demand, than with Japan's, driven by exports. China is neither an economic paradise nor an economic wasteland, but a relatively poor nation going through a painfully awkward transformation from a socialist market system to a hybrid socialist–free market system, not yet complete and with the rules of the game still being written. Of course, the biggest threat for China is the economic volatility that seems to accompany fast growth[13]—let us hope that the government manages the problem well.

Hong Kong. After 155 years of British rule, Hong Kong reverted to China in 1997 when it became a special administrative region (SAR) of the People's Republic of China. The Basic Law of the Hong Kong SAR forms the legal basis for China's "one country, two systems" agreement that guarantees Hong Kong a high degree of autonomy. The social and economic systems, lifestyle, and rights and freedoms enjoyed by the people of Hong Kong prior to the turnover were to remain unchanged for at least 50 years. The Hong Kong government negotiates bilateral agreements (which are then "confirmed" by Beijing) and makes major economic decisions on its own. The central government in Beijing is responsible only for foreign affairs and defense of the SAR.

[6]MNCs are becoming more creative in their approaches to investment and operations in developing countries. See Ravi Ramamurti, "Developing Countries and MNEs: Extending and Enriching the Research Agenda," *Journal of International Business Studies* 35, no. 4 (2004), pp. 277–83.

[7]Klaus E. Meyer, "Perspectives on Multinational Enterprises in Emerging Economies," *Journal of International Business Studies* 35, no. 4 (2004), pp. 259–76.

[8]David Pierson, "Waiting for Care in China," *Los Angeles Times*, February 11, 2010, pp. A1, A10.

[9]Jonathan Ansfield with Keith Bradsher, "China Gives Fuller View of Pollution in Its Waters," *The New York Times*, February 10, 2010, p. A9; Keith Bradsher, "China Leading Race to Make Clean Energy," *The New York Times*, January 31, 2010, pp. 1, 8.

[10]Patricia Jiayi Ho and J. R. Ho, "GM's China Sales Surge," *The Wall Street Journal*, January 4, 2010, online; Todd Woody, "Pasadena Firm Lands, Solar Deal in China," *Los Angeles Times*, January 10, 2010, pp. B1, B4.

[11]David Pierson and Barbara Demick, "Thrifty Chinese Resist Enticements to Spend," *Los Angeles Times*, February 13, 2010, pp. B1, B5.

[12]Ian Buruma, "Battling the Information Barbarians," *The Wall Street Journal*, January 30–31, 2010, pp. W1, W2.

[13]Michael Forsythe and Kevin Hamlin, "The Building Bubble in China," *Bloomberg BusinessWeek*, March 1, 2010, pp. 18–19.

The Hong Kong dollar continues to be freely convertible, and foreign exchange, gold, and securities markets continue to operate as before. Hong Kong is a free society with legally protected rights. The Hong Kong SAR government continues to pursue a generally noninterventionist approach to economic policy that stresses the predominant role of the private sector. The first test came when the Hong Kong financial markets had a meltdown in 1997 that reverberated around the financial world and directly threatened the mainland's interests. Beijing's officials kept silent; when they said anything, they expressed confidence in the ability of Hong Kong authorities to solve their own problems.

The decision to let Hong Kong handle the crisis on its own is considered strong evidence that the relationship is working for the best for both sides, considering that China has so much riding on Hong Kong. Among other things, Hong Kong is the largest investor in the mainland, investing more than $100 billion over the last few years for factories and infrastructure. The Hong Kong stock market is the primary source of capital for some of China's largest state-owned enterprises. China Telcom, for example, raised $4 billion in an initial public offering there.

Most business problems that have arisen stem from fundamental concepts such as clear rules and transparent dealings that are not understood the same way on the mainland as they are in Hong Kong. Many thought the territory's laissez-faire ways, exuberant capitalism, and gung-ho spirit would prove unbearable for Beijing's heavy-handed communist leaders. But except for changes in tone and emphasis, even opponents of communist rule concede that Beijing is honoring the "one country, two systems" arrangement.

Taiwan, The Republic of China (ROC). Mainland–Taiwanese economic relations continue to improve as both have entered the World Trade Organization. As both sides implement WTO provisions, they are ending many restrictions and now implement direct trade—not that they have not been trading. Taiwanese companies have invested over $50 billion in China, and about 250,000 Taiwanese-run factories are responsible for about 12 percent of China's exports. Estimates of real trade are even higher if activities conducted through Hong Kong front companies are taken into consideration.

It is best to wrap future talks on the One China debate inside a bundle of more concrete issues, such as establishing the "three direct links"—transportation, trade, and communications. The three direct links issue must be faced because each country has joined the WTO, and the rules insist that members communicate about trade disputes and other issues. Trade

Two giant pandas, four-year-old male Le Le and two-year-old female Ya Ye, are being loaded onto the Panda Express, a FedEx plane, that is airlifting them from China to the Memphis, Tennessee, zoo for a ten-year visit. Whether it is pandas, time-sensitive deliveries, or cost-saving solutions, FedEx delivers high-value shipments door-to-door to as many as 210 countries. Also, notice the white arrow embedded in the FedEx logo (between the E and the x) that connotes motion. Not only does China use pandas as rewards for trade, it also uses them as enticements. Indeed, it has used "Panda Diplomacy" for some 1400 years! Two Pandas were offered to Taiwan in 2006, but were rejected—at the time they were called the "Trojan Pandas" by those arguing for refusal. A new government on the island accepted the pair in 2008, and they now reside in the Taipei Zoo.

fits well with both countries' needs. Taiwanese companies face rising costs at home; China offers a nearly limitless pool of cheap labor and engineering talent. Taiwan's tech powerhouses also crave access to China's market.

For Beijing, the Taiwanese companies provide plentiful jobs at a time when bloated SOEs are laying off millions. They also bring the latest technology and management systems, which China needs as a member of the WTO. In any case, Taiwan continues to stand tall in the East Asian economy.[14]

Japan

LO2

The importance and slow growth of Japan

Japan's fast growth in the 1970s and 1980s amazed the world. Then came the early 1990s, and Japan's economy produced a stunning surprise. Almost abruptly, it slowed, sputtered, and stalled. Stagnation set in and tenaciously persisted. Four explanatory themes have emerged, each with a basis in observable fact, namely, Japan's (1) faulty economic policies, (2) inept political apparatus, (3) disadvantages due to global circumstances, and (4) cultural inhibitions.

Each of these four has their proponents, each their own rationale. So let's examine each separately.

Faulty Economic Policies. A wealth of facts describe Japan's economic pain during the 1990s, but none more so than its stock market collapse. In the early 1990s, its Nikkei index level plummeted from over 35,000 to under 13,000. At this writing, it hovers at about 10,000. Japan's woefully inflated real estate values similarly hit the skids. Its once huge (and to some Americans, alarming) flow of investment into this country simply dried up. The end result found Japan with an economy once accustomed to nearly double-digit annual growth rates struggling, at first just to stay above no-growth levels, and then crashing to "minus growth," that is, a recession, in 1998.

Economic recessions are not, of course, unknown. But the peculiar feature of Japan's 1990's version was its decade-long persistence. Unsurprisingly, most economists sought to convince us that faulty economic policies both triggered the onset and the persistence of Japan's troubles. They explained with commendable brevity: "The bubble burst." But why the bubble, and why did it burst? The most common answer went somewhat as follows: Decades of galloping economic recovery success had bred a prideful national overconfidence. Growing willingness to take exaggerated risks followed. Heavy borrowing soon drove up levels of marginal investment. Eventually, lending agencies began to edge away from confidence toward caution. With the caution flag up, almost suddenly the whole inflated structure collapsed. Caution also filtered down to consumer levels. Spending habits were curtailed. With a fall in product demand, industry was forced to cut back both output and hiring. Unemployment soared to unheard of levels for that nation. The main casualty, however, was the widespread deterioration of national confidence.

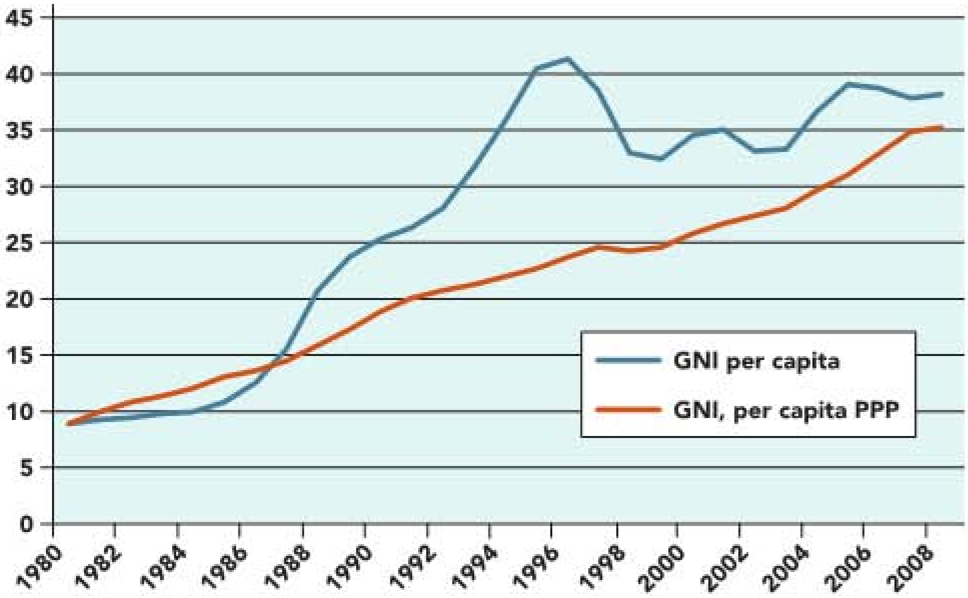
No sector was hit harder than Japan's lending institutions, especially its huge, world-class banks. With the crash, the banks looked at loan portfolios splashed with red ink. Lending had to be restricted, a practice that dried up sources of capital needed for financing economic recovery. And so it went, one discouraging development following another, until a verifiable national crisis existed.

Seeing all this, American authorities and economists could not resist the temptation to offer remedies. "Draconian measures are needed," they chanted from across the Pacific. Understandable advice from on high, no doubt, but it reflected ignorance of the Japanese society's cultural prejudice against any action that might call for bold or rapid change. Always remember, Japan values stability above all else. Part of the problem is that most economists focused on overall economic performance and the dramatic slowdown in Japan's growth, tax revenues, and the potential disaster of deflation. And therefore, most economists have missed the real miracle of Japan's economic prowess. Please see Exhibit 11.1.

[14]Alex Frangos, "Thailand, Taiwan Post Strong GDP Growth," *The Wall Street Journal*, February 22, 2010, online.

Exhibit 11.1
Japan's GNI per Capita (current international $)

Source: World Bank, 2010.



If we control for **purchase price parity (PPP)** in the per capita GDP calculations, Japanese growth simply wavered during the 1990s. That is, the PPP calculation takes into account deflation and best reflects the average well-being of the Japanese people. Per capita income fell, but so did prices. You can see that Japan pretty much avoided the Asian financial crisis that resulted in a precipitous economic decline in neighboring South Korea. Indeed, using this metric, the stability of the Japanese economy is miraculous, particularly given the troubles its close neighbors experienced in 1997 and the dimensions of both its stock and property market declines in the early 1990s. It is hard to imagine how the United States's economic performance might respond to simultaneous 60 percent declines in both the NYSE and the housing markets.

The Political Explanation. Views of economists on Japan's crisis have not been the only ones heard. Political pundits also rose to the challenge. They found two major villains:

Villain #1: The Country's Long Entrenched Liberal Democratic Political Party.

Villain #2: The Hidebound Japanese Bureaucracy.

Back in the 1970s, an authority on just about everything Japanese, one Frank Gibney, had written a seminal book on the nation. He called it His insight into the possible future of Japan's then surging economy was confirmed when the 1990s brought on crisis conditions. "Fragile" proved to be an apt tag.

In a new appraisal, Gibney has written that Japan became the victim of "one-party sickness," an ailment brought on by a 40-year hardening of political arteries. Meanwhile, many observers thought politicians had to share blame with Japan's powerful bureaucracy. Many observers, both inside and outside Japan, had long since come to believe that the bureaucracy actually controlled its elected politicians. Of course, in a consensus-type society, it is not easy, particularly for outsiders, to tell where one institution's power leaves off and another's begins. In any event, to those who championed a political explanation of Japan's woes, these two national institutions were viewed as joint culprits. Meanwhile, other observers, particularly within Japan, were dissatisfied with either the economic or political explanations they were hearing. They felt compelled to look for deeper roots.

Global Circumstances Have Hurt. The third explanation for Japan's end-of-the-century economic problems has more to do with three circumstances beyond their control.

First, the Japanese population, like the western European population, is shrinking faster than the American. While American baby-boomers circa 2005 were at their peak of productivity, both the Japanese and Europeans were about 10 years ahead in adjusting their economic, political, and cultural systems and institutions to population declines and graying hair. And this adjustment is costly—just wait until 2015 in the United States to see how costly.

Second, Japan has a serious disadvantage in the information age: its complex language. Not only did its three alphabet systems hinder software innovations appropriate for world markets, but the fundamental indirectness of the Japanese linguistic system hinders electronic information flows in general. So Japan has been late to participate in the information technology explosion that drove the American economy to precarious heights in the late 1990s. We would be the first to argue that Japan is now catching up, particularly as software advances have made the structure of the Japanese language less a hindrance in the digital age. Also, 9/11 caused a slowdown in international travel that pushed Japanese businesspeople to become more adept with e-mail and other electronic communication media.

Third, with American baby boomer households operating at peak consumption levels and oil at historically low real prices, sports utility vehicles (SUVs) became the rage in the United States during 1990–2007. Japanese auto firms, which drove the 1980s boom in Japan, came quite late to the American SUV market. Honda was the last entrant, which in the short run was a huge national economic disadvantage for Japan. But the reluctance to bet so much on big car designs has proven much to the advantage of Japanese car makers. A good argument can be made that they are leading Japan toward a new resurgence; that is, assuming Toyota can regain its former prowess.

The Cultural Explanation. In the mid-nineties, we became aware of what might be called "The Cultural Causation" theory. This theory went something as follows: Immediately after World War II, a shattered Japanese nation arrived at a consensus goal for national recovery. That consensual goal provided the incentive for its spectacular progress, decade after decade. Then during the late 1980s, the Japanese people stepped back and looked around at their manifest achievement. It was easy to conclude they had reached their coveted goal. So the question for them became, "all right, what's next?"

Perhaps more than any other society, the Japanese have an affinity for united effort. They seem inspired by common striving toward a common goal. Lack of one can present a problem.

Others who champion a cultural explanation of Japan's 1990s woes did not limit their reasoning to an absence of a national goal. During most of the 20th century, building a strong enterprise structure provided the key to continuing success. Then with the advent of globalized competition, this inflexible structure became a hindrance. Agility, not structure, became the prime need. As has been pointed out, American corporate enterprise has met this need through wholesale restructuring and a blizzard of mergers, acquisitions, and consolidations. Standard Japanese practices, such as lifetime employment, job promotion based not on merit but on length of service, reciprocal contractor/subcontractor loyalties, and dozens of others have inhibited adaptive corporate measures. To put it simply, the U.S. enterprise scene handled its adjustment to the new economic era better than did the Japanese.

Japan is expected to continue its slow-growth economy during the second decade of the 21st century. Even as large companies have ambitious new growth plans,[15] economic crosscurrents continue to roil with unemployment,[16] and Toyota's 2010 quality problems have disrupted that crucial company's contributions to the economy. However, economists and governments all over the world are using Japan as a model for policymaking, as Japan was the first to manage a big recession and its fast-graying population by strategically growing its government debt.[17]

[15]Mariko Sanchanta, "High-Speed Rail Approaches Station," *The Wall Street Journal*, January 26, 2010, online.

[16]David McNeill, "In Bleak Economy, Japanese Students Grow Frustrated with Endless Job Hunt," *Chronicle of Higher Education*, February 7, 2010, online.

[17]Tomoyuki Tachikawa, "Exports Boost Japan's GDP Growth," *The Wall Street Journal*, February 15, 2010, online.

India

The wave of change that has been washing away restricted trade, controlled economies, closed markets, and hostility to foreign investment in most developing countries has finally reached India. Since its independence in 1950, the world's largest democracy had set a poor example as a model for economic growth for other developing countries and was among the last of the economically important developing nations to throw off traditional insular policies. As a consequence, India's growth had been constrained and shaped by policies of import substitution and an aversion to free markets. While other Asian countries were wooing foreign capital, India was doing its best to keep it out. Multinationals, seen as vanguards of a new colonialism, were shunned. Aside from textiles, Indian industrial products found few markets abroad other than in the former Soviet Union and eastern Europe.

Despite world-class scientists, the Indian pharmaceutical industry (with its ownership restrictions, price controls, and weak intellectual property restrictions) does not benefit from innovations and international investments compared with more open emerging economies such as China.

Now however, times have changed, and India has embarked on the most profound transformation since it won political independence from Britain. A five-point agenda that includes improving the investment climate; developing a comprehensive WTO strategy; reforming agriculture, food processing, and small-scale industry; eliminating red tape; and instituting better corporate governance has been announced. Steps already taken include the following:

- Privatizing state-owned companies as opposed to merely selling shares in them. The government is now willing to reduce its take below 51 percent and to give management control to so-called strategic investors.
- Recasting the telecom sector's regulatory authority and demolishing the monopolies enjoyed by SOEs.
- Signing a trade agreement with the United States to lift all quantitative restrictions on imports.
- Maintaining momentum in the reform of the petroleum sector.
- Planning the opening of domestic long-distance phone services, housing, and real estate and retail trading sectors to foreign direct investment.

Leaders have quietly distanced themselves from campaign rhetoric that advocated "computer chips and not potato chips" in foreign investment and a *swadeshi* (made-in-India) economy. The new direction promises to adjust the philosophy of self-sufficiency that had been taken to extremes and to open India to world markets. India now has the look and feel of the next China or Latin America.

Foreign investors[18] and Indian reformers still face problems, however. Although India has overthrown the restrictions of earlier governments, reforms meet resistance from bureaucrats, union members, and farmers, as well as from some industrialists who have lived comfortably behind protective tariff walls that excluded competition. Socialism is not dead in the minds of many in India, and religious, ethnic, and other political passions flare easily.

For a number of reasons, India still presents a difficult business environment.[19] Tariffs are well above those of developing world norms, though they have been slashed to a maximum of 65 percent from 400 percent. Inadequate protection of intellectual property rights remains a serious concern. The anti-business attitudes of India's federal and state bureaucracies continue to hinder potential investors and plague their routine operations. Policymakers have dragged their feet on selling money-losing SOEs, making labor laws flexible, and deregulating banking.

[18]Matthew Dolan and Eric Bellman, "Ford Makes Push to Boost Asian Presence," *The Wall Street Journal*, September 23, 2009, pp. A1–2.

[19]Mehul Srivastava, "What's Holding India Back," *BusinessWeek*, October 19, 2009, pp. 38–44.

CROSSING BORDERS 11.1 Infrastructure: India

Animals in India provide 30,000 megawatts (MW) of power, more than the 29,000 MW provided by electricity.

Because of the religious ban on the slaughter of cattle in almost all states in the country, India has the highest cattle population in the world—perhaps as many as 360 million head. Bullocks are used for plowing fields, turning waterwheels, working crushers and threshers, and above all for hauling carts. The number of bullock carts has doubled to 15 million since India's independence in 1947. Bullocks haul more tonnage than the entire railway system (though over a much shorter distance); in many parts of rural India, they are the only practical means of moving things about.

As a bonus, India's cattle produce enormous quantities of dung, which is used both as farmyard manure and, when dried in cakes, as household fuel. Each animal produces an estimated average of 3 kilograms of dung per day. Some studies suggest that these forms of energy are the equivalent of another 10,000 MW.

Although Indian farmers prefer machines for plowing and hauling carts, bullocks and other draft animals are still in demand. Because it will take a long time for farmers to replace these draft animals with machines and there is concern that the better breeds may degenerate or become extinct, the government has developed an artificial insemination program to preserve the best breeds.

Sources: "Bullock Manure," The Economist, October 17, 1981, p. 88; S. Rajendran, "India: Scheme to Preserve Local Cattle Breed on Anvil," The Hindu, August 9, 1997; "Not Enough Bulls to Till the Land," Times of India, May 9, 2000; Randeep Ramesh, "India's Drivers Feel the Need for Speed," The Guardian, December 6, 2007, p. 29.

baksheesh

The Wall Street Journal

Bloomberg BusinessWeek

The Four "Asian Tigers"

The most rapidly growing economies in this region during the 1980s and 1990s were the group sometimes referred to as the **Four Asian Tigers** (or Four Dragons): Hong Kong, South Korea, Singapore, and Taiwan. Often described as the "East Asian miracle," they were the first countries in Asia, after Japan, to move from a status of developing countries to newly industrialized countries. In addition, each has become a major influence in trade and development in the economies of the other countries within their spheres of influence. The rapid economic growth and regional influence of the member countries of the Association of Southeast Nations (ASEAN) over the last decade has prompted the U.S. Trade Representative to pursue free-trade agreements—Singapore has already signed up. They are vast markets for industrial goods and, as will be discussed later, important emerging consumer markets.

The Four Tigers are rapidly industrializing and extending their trading activity to other parts of Asia. Japan was once the dominant investment leader in the area and was a key player in the economic development of China, Taiwan, Hong Kong, South Korea, and other countries of the region. But as the economies of other Asian countries have strengthened and industrialized, they are becoming more important as economic leaders. For example, South Korea is the center of trade links with north China and the Asian republics of the former Soviet Union. South Korea's sphere of influence and trade extends to Guangdong and Fujian, two of the most productive Chinese Special Economic Zones, and is becoming more important in interregional investment as well.

South Korea exports such high-tech goods as petrochemicals, electronics, machinery, and steel, all of which are in direct competition with Japanese and U.S.-made products. In consumer products, Hyundai, Kia, Samsung, and Lucky-Goldstar (LG) are among the familiar Korean-made brand names in automobiles, microwaves, and televisions sold in the United States. Korea is also making sizable investments outside its borders. A Korean company purchased 58 percent of Zenith, the last remaining TV manufacturer in the United States. At the same time, Korea is dependent on Japan and the United States for much of the capital equipment and components needed to run its factories.

Vietnam

Vietnam's economy and infrastructure were in shambles after 20 years of socialism and war, but this country of more than 88 million is poised for significant growth. A bilateral trade agreement between the United States and Vietnam led to NTR status for Vietnam and will lower tariffs on Vietnamese exports to the United States from an average of 40 percent to less than 3 percent. For example, Vietnamese coffee is now in almost every pantry in

Vietnam has almost no cars; motorbikes deliver almost everything, including moon cakes, in Hanoi.

CROSSING BORDERS 11.2 The Benefits of Information Technology in Village Life

Delora Begum's home office is a corrugated metal and straw hut in Bangladesh with a mud floor, no toilet, and no running water. Yet in this humble setting, she reigns as the "phone lady," a successful entrepreneur and a person of standing in her community. It's all due to a sleek Nokia cell phone. Begum acquired the handset in 1999. Her telephone "booth" is mobile: During the day, it's the stall on the village's main dirt road; at night, callers drop by her family hut to use the cell phone.

Once the phone hookup was made, incomes and quality of life improved almost immediately for many villagers. For as long as he can remember, a brick factory manager had to take a two-and-a half-hour bus ride to Dhaka to order furnace oil and coal for the brick factory. Now, he avoids the biweekly trip: "I can just call if I need anything, or if I have any problems." The local carpenter uses the cell phone to check the current market price of wood, so he ensures a higher profit for the furniture he makes.

The only public telecom link to the outside world, this unit allows villagers to learn the fair value of their rice and vegetables, cutting out middlemen notorious for exploiting them. They can arrange bank transfers or consult doctors in distant cities and, in a nation where only 45 percent of the population can read and write, the cell phone allows people to dispense with a scribe to compose a letter. It also earns some $1,100 a year for its owner—twice the annual per capita income in Bangladesh.

When members of the Grand Coast Fishing Operators cooperative salt and smoke the day's catch to prepare it for market, it may seem light years away from cyberspace, but for these women, the Internet is a boon. The cooperative has set up a Web site that enables its 7,350 members to promote their produce, monitor export markets, and negotiate prices with overseas buyers before they arrive at markets in Senegal. Information technology has thus improved their economic position.

Sources: Miriam Jordan, "It Takes a Cell Phone," The Wall Street Journal, June 25, 1999, pp. B1; 7; World Bank, "World Development Indicators," 2010

Bottom-of-the-Pyramid Markets (BOPMs)

LO3

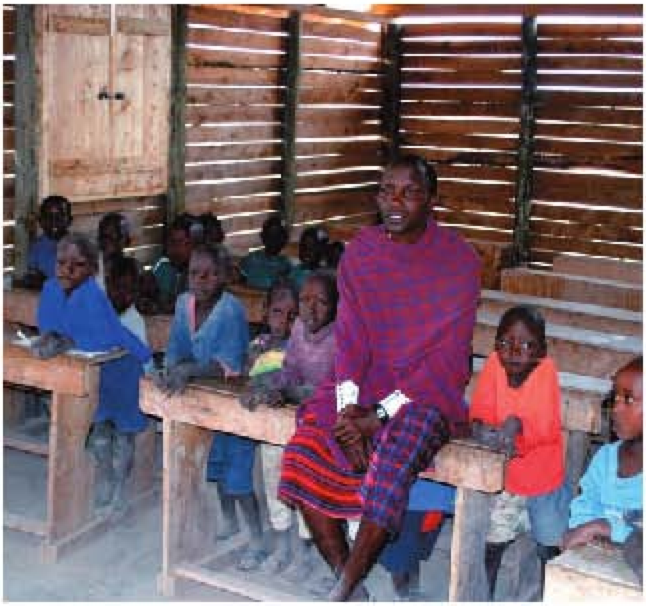
The importance of the Bottom-of-the-Pyramid Markets

bottom-of-the-

pyramid markets (BOPMs)

The New York Times

The Fortune at the Bottom of the Pyramid



Here we see the start of economic development. As rough as conditions are in this rural school in Lahtora, India, they're even more difficult in Tanzania. But in both places, students are eager to learn.

for more affluent consumers. Three cases demonstrate the commercial viability of such markets and their long-term potential. CEMEX, a Mexican cement company with global operations, pioneered an often[24] profitable program to build better housing for the poor that includes innovative design, financing, and distribution systems. Similarly, Aravind Eye Care System in India began with the problem of blindness among the poor and developed an innovative organization of workflow—from patient identification to postoperative care—that has yielded better vision for consumers and profits for the company. Finally, in her wonderful book about the global economy, Pietra Rivoli[25] tells the story of how small entrepreneurs clothe East Africa with old American t-shirts. All three operations include combinations of products, services, research, and promotions that are appropriate for the lowest-income neighborhoods in the world.

A comprehensive study of the development of the leather-working industry in West Africa presents a new model for creating industries and markets in BOPMs.[26] The authors describe how industry clusters evolve and can be supported by outside investments from commercial and governmental concerns. Exhibit 11.2 represents the ingredients and processes involved in establishing a viable industry cluster in a LLDC. Craftspeople must network and collaborate with one another, vendors, customers, and family[27] to attain efficiencies in production, domestic and international distribution,[28] and other marketing activities. Key to the vibrancy of the industry cluster will be a series of cluster characteristics, external inputs, and macroenvironment factors. The scheme presented might serve as a checklist for stimulating economic development through marketing in BOPMs. Entrepreneurial activities that are networked appear to be perhaps the best way to stimulate economic development and growth from within developing countries. And marketing is key.

[24]Geri Smith, "Hard Times Ease for a Cement King," *BusinessWeek*, November 9, 2009, p. 28.

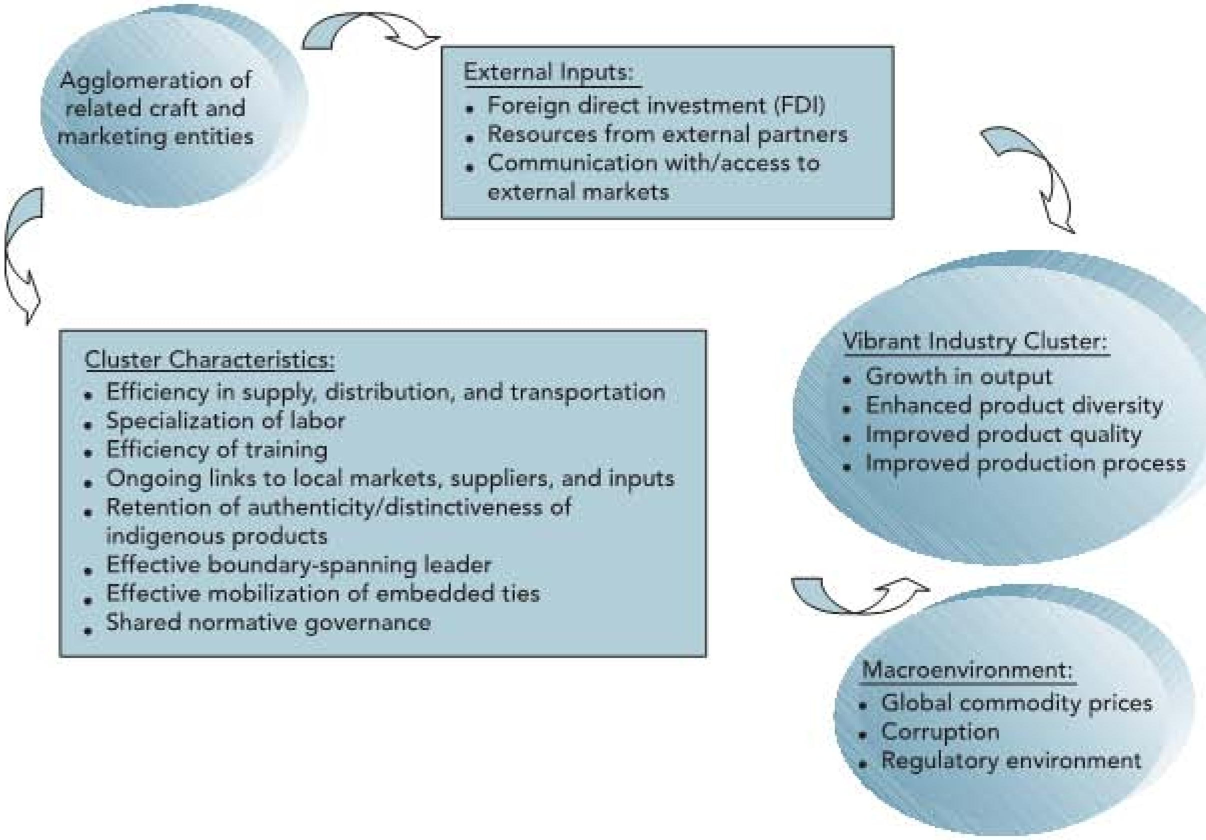
[25]Pietra Rivoli, *The Travels of a T-Shirt in the Global Economy* (New York: Wiley, 2005).

[26]Eric Arnould and Jakki J. Mohr, "Dynamic Transformation for Base-of-the-Pyramid Market Clusters," *Journal of the Academy of Marketing Science* 33, no. 3 (July 2005), pp. 254–74.

[27]Madhu Viswanathan, "Exchanges in Marketing Systems: The Cases of Subsistence Consumer-Merchants in Chennai, India," *Journal of Marketing* (2010), online.

[28]Jagdish Bhagwati, *In Defense of Globalization* (Oxford: Oxford University Press, 2004).

Exhibit 11.2
Dynamic Transformation of BOPM Clusters



Source: Eric Arnould and Jakki J. Mohr, "Dynamic Transformation for Base-of-the-Pyramid Market Clusters," Journal of the Academy of Marketing Science 33, no. 3 (July 2005). Reprinted by permission of Springer.

Note: BOPM = bottom-of-the-pyramid market.

Finally, Grameen Bank, a private commercial enterprise in Bangladesh, developed a program to supply phones to 300 villages. There are only eight land phone lines for every 1,000 people in Bangladesh, one of the lowest phone-penetration rates in the world. The new network is nationwide, endeavoring to put every villager within two kilometers of a cellular phone. Already cell phone penetration has exploded, growing from 4 per 1,000 to 63.5 per 1,000 during the last four years.[29]

Market Metrics

LO4

The diversity across the region

Exhibits 11.3–11.5 display the fundamental market metrics for the eight most populous countries of the Asia Pacific region. Notice the great diversity in the way people live across the countries, and once again the north-south disparity is clear as well. The income of the Japanese dominates the first chart, along with the dearth of data for Bangladesh. The general excellence of the Japanese healthcare system that produces the longest lifespans in the world is represented, and the emphasis communism places on health is also shown for China and Vietnam.

Exhibit 11.4 compares the infrastructures of the countries. The Japanese rail system is the best in the world, while in the Philippines, people travel by boat and bus. The Vietnamese have few cars, so most travel by motorbike. It is amazing to see families of five traveling on single motorbikes in the hectic streets of Ho Chi Minh City (Saigon). The emphases put on university training in both the Philippines and Vietnam bode well for their future growth.

[29]World Bank, "World Development Indicators," 2008.

Exhibit 11.3

Standard of Living in the Eight Most Populous Countries in the Asia Pacific Region

Country	Population (millions)	GNI per Capita*	Medical Resources per 1000 persons		Household Ownership %		
			Doctors	Hospital Beds	Color TV	Refrigerator	Shower
China	1328	3324	1.5	2.9	97	60	45
India	1169	1016	0.6	—	34	18	46
Indonesia	230	2197	0.2	—	87	25	52
Pakistan	181	925	0.8	0.6	37	39	74
Bangladesh	162	576	0.3	—	—	—	—
Japan	128	41500	2.2	13.8	99	99	100
Philippines	92	1919	0.01	1.0	90	48	87
Vietnam	88	1056	0.7	2.6	86	30	40

*Current US $.

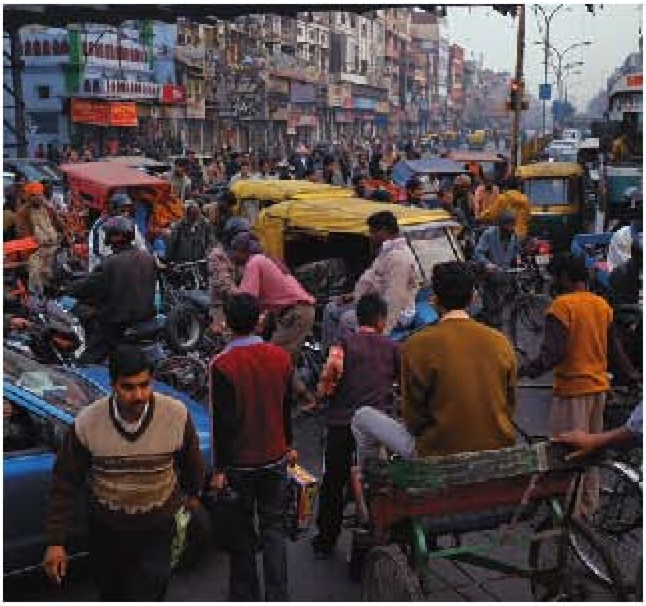
Source: Euromonitor International, 2009.

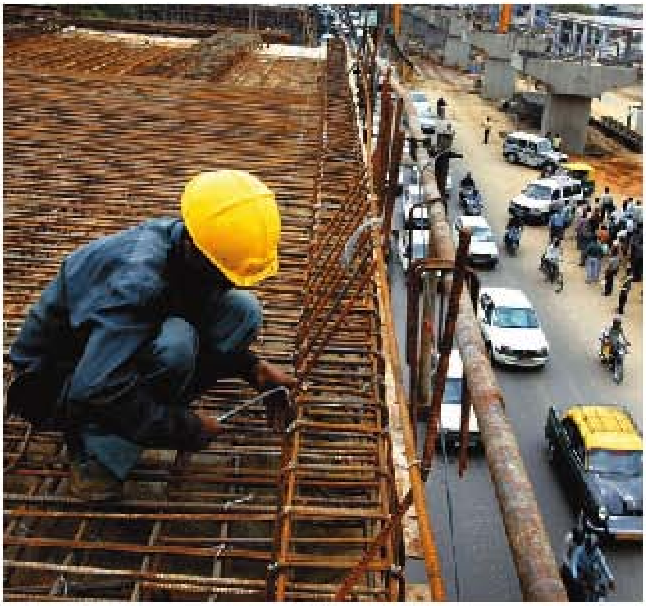
Exhibit 11.4

Infrastructures of the Eight Most Populous Countries of the Asia/Pacific Region

Country	Travel by Rail (passenger-km per capita)	Passenger Cars/1000	Energy Consumption (tonnes oil equivalent)	Computers in Use per 1000 People	Mobile Phones in Use per 1000 People	Literacy Rate (%)	University Students per 1000 People
China	525	20	1.6	77	532	95%	17
India	613	15	0.4	41	386	67	12
Indonesia	98	17	0.6	34	788	92	14
Pakistan	163	6	0.4	6	588	58	2
Bangladesh	25	1	0.1	37	352	55	6
Japan	3115	446	3.9	524	894	100	23
Philippines	1	8	0.3	121	831	94	29
Vietnam	48	2	—	157	1020	92	27

Source: Euromonitor International, 2009.





Seeing the rough weave of traffic on the streets of old Delhi, India, you likely can understand the need for the elevated expressways. The introduction of Tata Motor's new $2,500 car, the Nano, will only make congestion worse. The country just raised the national speed limit from 80 kph to 100 kph, spurred by a roads revolution, the centerpiece of which is the 3,650-mile golden Quadrilateral highway linking Delhi, Mumbai (Bombay), Chennai (Madras), and Kolkata (Calcutta), the most expensive public works project in the nation's history. However, we wonder: How will the traffic police keep the ubiquitous sacred cows off expressway on-ramps?

Exhibit 11.5

Consumption Patterns in the eight Most Populous Countries in the Asia/Pacific Region

		Household Expenditures ($/capita)								
Country	People per Household	Food	Alcohol, Tobacco	Clothing	Housing	Health Goods, Services	Transportation	Communication	Leisure	Education
China	3.4	430	34	112	157	114	46	147	37	82
India	5.3	212	18	25	73	24	90	20	12	16
Indonesia	3.4	588	75	52	230	34	48	23	28	91
Pakistan	7.2	291	16	35	133	47	32	4	1	18
Bangladesh	6.0	—	—	—	—	—	—	—	—	—
Japan	2.5	3303	743	658	5916	1034	2423	910	2694	507
Philippines	4.8	456	19	29	270	42	103	8	6	58
Vietnam	4.4	285	19	29	30	54	103	10	10	51

Source: Euromonitor International, 2009.

Exhibit 11.5 briefly enumerates consumption patterns. Of course, Japan stands out. Also, notice the difference between the Chinese and Indian emphases on education.

Asia Pacific Trade Associations

LO5

The interrelationships among countries in the region

After decades of dependence on the United States and Europe for technology and markets, countries in the Asia Pacific region are preparing for the next economic leap driven by trade, investment, and technology, aided by others in the region. Though few in number, trade agreements among some of the Asian newly industrialized countries are seen as movement toward a regionwide, intra-Asian trade area, with Japan and China[30] at the center of this activity.

In years past, the United States was Japan's single largest trading partner. However, now markets in China and Southeast Asia are increasingly more important in Japanese corporate strategy for trade and direct investment. Once a source of inexpensive labor for products shipped to Japan or to third markets, these countries are now seen as viable markets. Furthermore, Japanese investment across a number of manufacturing industries is geared toward serving local customers and building sophisticated local production and supplier networks.

Present trade agreements include one multinational trade group, the Association of Southeast Asian Nations (ASEAN), which is evolving into the ASEAN Free Trade Area (AFTA); ASEAN+3, a forum for ASEAN ministers plus ministers from China, Japan, and South Korea; and the Asia-Pacific Economic Cooperation (APEC), a forum that meets annually to discuss regional economic development and cooperation.

Association of Southeast Asian Nations (ASEAN) and ASEAN+3

The primary multinational trade group in Asia is **ASEAN**.[31] Like all multinational market groups, ASEAN has experienced problems and false starts in attempting to unify the combined economies of its member nations. Most of the early economic growth came from trade outside the ASEAN group. Similarities in the kinds of products they had to export, in their natural resources, and other national assets hampered earlier attempts at intra-ASEAN trade. The steps that the countries took to expand and diversify their industrial base to foster intraregional trade when ASEAN was first created have resulted in the fastest growing economies in the region and an increase in trade among members (see Exhibit 11.6).

Four major events account for the vigorous economic growth of the ASEAN countries and their transformation from cheap-labor havens to industrialized nations: (1) the ASEAN governments' commitment to deregulation, liberalization, and privatization of their economies; (2) the decision to shift their economies from commodity based to manufacturing based; (3) the decision to specialize in manufacturing components in which they have a

[30] Carlos H. Conde, "China and ASEAN in Services Pact," *The New York Times*, January 15, 2007, p. C2.

[31] See http://www.aseansec.org; "Ajar for Business," *The Economist*, January 9, 2010, p. 44.

Exhibit 11.6
Asia Pacific Market Group Fundamental Market Metrics

(in parentheses) = average annual growth rate 2004–2009 as a percentage

Association	Country (year entered union)	Population (millions)	GNI* (billions $)	Exports* of Goods (billions $)	Imports* of Goods (billions $)	Ease of Doing Business Index	GNI/ capita* ($)	Internet Users (per 1000 people)
ASEAN Free Trade Area (AFTA)								
	Brunei	0.4 (2.0)	11.5	10.2 (17.7)	2.6 (9.6)	94	30032	755 (15.4)
	Cambodia	14.8 (1.6)	9.2	3.9 (7.0)	6.3 (14.6)	139	651	7 (17.3)
	Indonesia	230.0 (1.2)	505.2 (15.5)	118.0 (10.8)	92.7 (11.0)	129	2197 (14.1)	154 (42.6)
	Laos	6.1 (1.8)	5.0	1.2 (26.7)	1.6 (17.3)	165	837	26 (47.9)
	Malaysia	28.1 (1.9)	195.6 (10.6)	152.6 (3.9)	120.2 (2.7)	21	6960 (8.5)	646 (9.2)
	Myanmar	50.0 (0.8)	29.7 (23.0)	4.3 (12.4)	9.2 (33.2)	—	594 (22.0)	1 (33.2)
	Philippines	92.1 (2.0)	176.8 (13.5)	38.6 (−0.5)	49.6 (3.2)	141	1919 (11.3)	73 (6.6)
	Singapore	4.7 (2.1)	166.6 (10.1)	269.2 (8.4)	244.3 (8.3)	1	35402 (7.8)	701 (2.3)
	Thailand	64.7 (0.7)	246.1 (9.2)	147.8 (9.0)	126.7 (6.1)	12	3801 (8.4)	254 (17.9)
	Vietnam	87.6 (1.3)	92.5 (15.7)	55.8 (16.)	68.2 (14.5)	91	1056 (14.2)	286 (29.9)
ASEAN +3								
	China	13280.5 (0.5)	4414.8 (18.0)	1185.8 (14.9)	986.8 (11.9)	86	3324 (17.4)	283 (31.2)
	Japan	127.6 (0.0)	5295.2 (2.4)	577.4 (0.4)	548.9 (3.8)	13	41500 (2.5)	724 (3.1)
	South Korea	48.7 (0.3)	821.7 (2.6)	372.5 (7.6)	314.3 (7.4)	23	16857 (2.3)	783 (2.4)

*Current U.S. $.

Source: Euromonitor International, 2010 and World Bank, 2010.

For products using high value and time-sensitive component parts such as manufactured in Kuala Lumpur, Malaysia, the air express services, such as provided by this DHL Worldwide Express Boeing 737, are vital.

comparative advantage (which created more diversity in their industrial output and increased opportunities for trade); and (4) Japan's emergence as a major provider of technology and capital necessary to upgrade manufacturing capability and develop new industries.[32]

Although there has never been an attempt to duplicate the supranational government of the European Union, each year the group becomes more interrelated. ASEAN Vision 2020 is the most outward-looking commitment to regional goals ever accepted by the group. Among the targets that will lead to further integration is the commitment to implementing fully and as rapidly as possible the ASEAN Free Trade Area. Toward those ends, the ten ASEAN nations have signed formal trade agreements with China, Australia, and New Zealand.

As in the European Union, businesses are drafting plans for operation within a free trade area. The ability to sell in an entire region without differing tariff and nontariff barriers is one of the important changes that will affect many parts of the marketing mix. Distribution can be centralized at the most cost-effective point rather than having distribution points dictated by tariff restrictions. Some standardization of branding will be necessary because large customers will buy at the regional level rather than bit by bit at the country level. Pricing can be more consistent, which will help reduce the smuggling and parallel importing that occur when different tariff schedules create major price differentials among countries. In essence, marketing can become more regionally and centrally managed.

[32]Shisei Kaku, "Japan Walks the Path of Peace," *The Age*, September 6, 2005, p. 13.

One result of the Asian financial crisis of 1997 to 1998 was the creation of **ASEAN+3** (ASEAN plus China, Japan, and South Korea) to deal with trade and monetary issues facing Asia. Most of East Asia felt that they were both let down and put upon by the West, which they felt created much of the problem by pulling out in the midst of the crisis. The leading financial powers seemingly either declined to take part in the rescue operations, as the United States did in Thailand, or proposed unattainable solutions. The result was the creation of ASEAN+3, consisting of the foreign and finance ministers of each country, which meets annually after ASEAN meetings. The first meeting was devoted to devising a system whereby the member countries shared foreign exchange reserves to defend their currencies against future attack. Although they were only tentative, the members of ASEAN+3 also discussed creating a common market and even a single currency or, perhaps, a new Asian entity encompassing both Northeast and Southeast Asia. Closer links between Southeast Asia and Northeast Asia are seen as a step toward strengthening Asia's role in the global economy and creating a global three-bloc configuration.

Asia-Pacific Economic Cooperation (APEC)

The other important grouping that encompasses the Asian-Pacific Rim is the Asia-Pacific Economic Cooperation.[33] Formed in 1989, **APEC** provides a formal structure for the major governments of the region, including the United States and Canada, to discuss their mutual interests in open trade and economic collaboration. APEC is a unique forum that has evolved into the primary regional vehicle for promoting trade liberalization and economic cooperation. APEC includes all the major economies around the Pacific Rim, from Russia to Chile to Australia, the most dynamic, fastest growing economies in the world. APEC has as its common goals a commitment to open trade, to increase economic collaboration, to sustain regional growth and development, to strengthen the multilateral trading system, and to reduce barriers to investment and trade without detriment to other economies.

Representatives from APEC member nations meet annually to discuss issues confronting the group, to propose solutions to problems arising from the growing interdependence among their economies, and to continue their quest for ways to lower barriers to trade. Although APEC is still far from being a free trade area, each meeting seems to advance it another step in that direction, notwithstanding the objections of some members.

A Focus on Diversity Within China

LO6

The diversity within China

We close this chapter with a section briefly describing the diversity *within* China. Certainly we might include a similar section on India; both have twice the population of the European Union and three times that of the United States. We might also consider the cultural and economic differences in other large countries such as Japan[34] or Vietnam or across the islands of Indonesia. But given our limited room here, and both the fast ascendancy and wide diversity of the Chinese economy, we have chosen to focus on The Greater China.[35]

Today's China is divided into mutually competitive, complementary economic "warring states" (as some have said), just as it was twenty-two hundred years ago, before being united in the Qin Dynasty. Among these "warring states," four regional economies stand out from the north to the south of the country, along the Pacific Coast:

- The traditional industrial heartland in Northeast China, with the coastal Dalian city as its hub among the three provinces of Liaoning, Jilin, and Heilongjiang.
- The Beijing–Tianjin information technology (IT) corridor in north China.

[33] See http://www.apec.org.

[34] Shinobu Kitayama, Keiko Ishii, Toshie Imada, Kosuke Takemura, and Jenny Ramaswamy, "Voluntary Settlement and the Spirit of Independence: Evidence form Japan's 'Northern Frontier,'" *Journal of Personality and Social Psychology* 91, no. 3 (2006), pp. 369–84.

[35] The concept of The Greater China combines the PRC and Taiwan. This combination politically is a matter of ongoing debate, but we adopt it to be comprehensive in our discussion.

- The Yangtze River Delta, known as the Greater Shanghai area, with its emerging IT manufacturing center of Suzhou.
- The Pearl River Delta, containing Hong Kong, Macau, Guangzhou, and Shenzhen, as the world's manufacturing base for the IT industry.

Today these four regions include about one-quarter of the Mainland's people (that is, over 300 million) but account for about half of the GDP of the country. The per capita income of these provinces is greater than $6000 ($12,000 at PPP), roughly twice the national average. In Exhibit 11.7, we list the economic differences across the regions, provinces, and municipalities. People in the Shanghai municipality make eight times the income of those in Guizhou in the inland south of the country. Per capita incomes in the previously separate areas of Hong Kong, Macau, and Taiwan are the highest.

Beyond the economic diversity, the people of China exhibit important ethnic and linguistic differences (see Exhibit 11.8). Han Chinese constitute more than 90 percent of the people, with substantially sized minority groups that include the Zhuang, Manchu, Hui,

Exhibit 11.7
Chinese Administrative Divisions

Major Economic Regions	Provinces and Other Divisions	Population (millions)	GDP (billions US$)	GDP/capita (U.S. $s)
Northeast China	Liaoning	43.2	204.1	4716
	Jilin	27.4	97.3	3551
	Heilongjiang	38.3	112.2	2930
Beijing–Tianjin IT corridor	Beijing[2]	17.6	160.8	9283
	Tianjin[2]	12.3	101.4	8432
Yangtze River Delta	Shanghai[2]	18.9	201.4	10654
	Jiangsu	77.2	460.8	5971
Pearl River Delta	Guangdong	96.4	528.3	5477
	Hong Kong[4]	7.0	2156	30755
	Macau[4]	0.5	14.2	40390
Others	Henan	94.9	262.2	2757
	Shandong	94.7	456.8	4811
	Sichuan	81.9	191.9	2341
	Hebei	70.4	229.7	3283
	Hunan	64.1	174.3	2729
	Anhui	61.3	136.4	2230
	Hubei	57.1	163.3	2857
	Zhejiang	51.8	308.1	5954
	Guangxi[1]	48.6	104.1	2140
	Yunnan	45.4	83.4	1844
	Jiangxi	44.3	102.7	2341
	Guizhou	37.9	52.6	1333
	Shaanxi	37.7	110.6	2934
	Fujian	36.3	160.8	4436
	Shanxi	34.3	99.5	2905
	Chongquig[2]	28.6	88.2	3084
	Gansu	26.4	45.7	1731
	Inner Mongolia[1]	24.2	131.5	5445
	Taiwan[3]	23.0	383.3	16987
	Xinjiang[1]	21.6	57.7	2671
	Hainan	8.6	22.3	2593
	Ningxia[1]	6.8	18.1	2662
	Qinghai	5.6	14.6	2607
	Tibet[1]	2.9	6.0	2068

[1]Autonomous Region.

[2]Municipality.

[3]Province of ROC.

[4]Special Administrative Region.

Source: All China Data Center (http://www.chinadataonline.org), for year 2009, accessed in 2010.

Exhibit 11.8
Map of Greater China

Source: Reprinted courtesy of Oriental Travel - offers tourist information and reservation services for worldwide travelers to the Greater China region. http://www.orientaltravel.com

Miao, Uyghur, Tujia, Yi, Monglo, Tibetan, Buyi, Dong, Yao, Korean, and others. The national language is standard Mandarin, but more than 56 dialects and other languages are spoken across the country. Of course, written Chinese can be read almost universally, but different dialects are almost always mutually indecipherable. This lack of common language causes some interesting problems for television and radio advertisers in the country that print media can usually avoid. For example, the more than 3,000 television stations around the PRC are mandated by the State Administration of Radio, Film, and Television to present programming and advertisements in Mandarin. But such directives are commonly ignored in favor of local languages and dialects that better communicate to consumers both the programming content and the commercial messages. Particularly in Guangdong province, the emphasis on the local Cantonese "language" is pervasive. Television programming in that region is predominantly in Cantonese, but most commercial messages are in Mandarin. Radio programming and commercials both tend to be presented in Cantonese. Moreover, many residents of Guangdong province pay closest attention to the Hong Kong media in Cantonese via satellite. See Crossing Borders 11.3 for some additional interesting details.

Northeast China: Longtime Industrial Heartland

Northeast China was the industrial and technological center of the country in the 1970s and 1980s. Then, large numbers of state-owned enterprises in the petrochemical, steel, and heavy industries dominated production in the old planned economy. While still hugely important, growth in the other three major regions has exceeded that in the Northeast as China moves from communism toward a more free-enterprise orientation.

The three contiguous provinces in Northeast China—Liaoning (43.2 million persons), Jilin (27.4 million), and Heilongjiang (38.3 million)—have long represented a cohesive unit in terms of culture and the political economy. Indeed, the strength of the regional interrelationship is well reflected in how they are described in other parts of the Middle Kingdom: The three are referred to as *dongbei*, meaning Northeast, or *dong*

CROSSING BORDERS 11.3 Comments on Dealing with Dialects in China

The State Administration of Radio, Film, and Television has decided that it needs to put a stop to dialect creep.

In a short news item posted to SARFT's Web site, a spokesperson reiterated the rules requiring that the dialogue in television dramas be standard Mandarin. SARFT spokesperson Zhu Hong said that the number of television shows making extensive use of dialect is on the rise, and some of the programs showed overlong and excessive uses of dialect not in accordance with the spirit of the country's strong promotion of standard Mandarin and in violation of national rules. Additionally, the practice has an effect on the audience on an aesthetic level.

Zhu Hong also said that province-level radio, film, and television administrative departments and producers needed to strictly follow the rules spelled out in SARFT document #560 (from 2005), the Notice Concerning Further Reiteration the Use of Standard Mandarin in TV Series, and more rigorously review completed shows. The use of standard Mandarin should predominate in shows going into production, under normal circumstances, he noted.

Zhu Hong also stressed that the language in television shows other than local musicals should be predominantly standard Mandarin. In normal circumstances, dialect and non-standard Mandarin should not be used. Major revolutionary and historically themed TV shows, children's series, and shows promoting educational content are to use Mandarin. Leaders portrayed in TV shows are to use Mandarin.

Local dialects can add color to dialogue that is predominantly in Mandarin, but major characters are supposed to have standard speech. This requirement presents difficulties for the accurate, lifelike portrayal of many of China's founding leaders, such as Mao Zedong (from Hunan) and Deng Xiaoping (from Sichuan).

In a more mundane circumstance, a freight carrier active in China and Taiwan once aired a commercial showing one of its competitors trying to tell an old lady that he had a package for her. She did not understand the message in Mandarin, so the hapless delivery guy was forced to stand there repeating the message a few dozen times. The company that made the commercial naturally has their delivery guy walk right up and use the right dialect.

Sources: Joel Martinsen, "Too Much Dialect on the Small Screen," Danwei.org, July 17, 2009; "Chinese Dialects and Accents," tvtroes.org, accessed 2010.

sansheng, meaning Northeastern Three Provinces, instead of identifying each province individually. Finally, perhaps the most important advantage of the region is its juxtaposition with China's most important industrial neighbors. For centuries, goods and ideas have flowed across those borders and continue to do so in the greatest quantities ever. Liaoning has the closest economic ties with Japan, Jilin with South Korea, and Heilongjiang with Russia.

Because of the economic opportunity and proximity, students in this region study Japanese or Russian in foreign language classes instead of English. Korean is also a widely spoken language, with about 2 million minority Koreans residing in this area. The Chinese dialect spoken in this region is similar to Mandarin but with a slight *dongbei* accent.

The Japanese influence in the region goes back to the 1930s, when the Japanese controlled much of northern China through the puppet emperor of Manchukuo (Manchurian State). Fifty years later, the Japanese/Chinese commercial relationship resumed and has blossomed along with China's rise. Japanese investment has flowed into the area since the 1980s, and China is now Japan's most important trading partner, even ahead of the United States.

Dalian at the southern tip of the Liaodong Peninsula is the focus of bi-national relationships. The city has one of the world's largest and most modern port facilities (managed by a Singaporean company), it is only a four-hour flight from Japan, and its high-quality workforce and inexpensive real estate attract Japanese high-tech investments. Companies such as Toshiba, Canon, and Matsushita employ tens of thousands of Chinese workers there, and thousands of Japanese managers and engineers reside there. All this interaction is made easier because some 70,000 Chinese speak fluent Japanese. Finally, Dalian has been able to clean up much of the environmental damage done by decades of industrial abuse and now has become a tree-lined host to high-tech and software companies from around the world.

Both Liaoning and Jilin provinces share borders with North Korea, and both provinces host substantial numbers of Korean minorities. Of the 2 million ethnic Koreans in the country, about 60 percent live in Jilin province. South Korea has taken advantage of this cultural bridge and focused its investments there, particularly since 2002.

China's longest border is with Russia, some 4,600 miles. The most important part of the border commercially is that near Heilongjiang. The long Russian influence in Harbin, the provincial capital—some call it "Little Moscow"— is evident in its architecture, consumption patterns (vodka and ice cream are popular), and its residents' valuable Russian language skills. Although tensions have almost always run high along the border, now the two countries are beginning to cooperate more closely around the trade of energy resources. In particular, Russian oil is flowing fast to feed the white-hot growth of *dongbei*.

Beijing–Tianjin

Central planning has made this region of 29.9 million not only the political center of the country but the R&D center as well. The Central Business District (CBD), Zhongguancun (known as China's Silicon Valley), and most recently the Olympic Village are among the consequences of the unique political and cultural background of Beijing, the Chinese capital. The 75-mile corridor between Beijing and its coastal cousin Tianjin hosts some 5,000 Chinese high-tech companies, among them Lenovo, and more than 1,000 international IT companies. Perhaps the key to this region is the quality of its higher education. Peking University and Tsinghua University are the most prominent among the 70 universities in the region. The development of the Beijing Central Business District continues with the ambitious goal of rivaling those in Manhattan, Paris, and Japan.

Tianjin is China's third largest industrial city after Shanghai and Beijing, but it is also the fastest growing one. Primary industries include automotive, electronics, metals, and

Chinese air force officers undergo a training session on the latest command center instruments at a training school in Beijing. China successfully test-fired a new type of long-range ground-to-ground missile within its territory as tensions between China and Taiwan intensified after Taiwan's president declared that relations between Taipei and Beijing should be regarded as "special state-to-state relations." Most recently, China and the United States have both shot down their own "errant" satellites with missiles.[36] Much of the electronic technology used in long-range missiles is dual-use; that is, the technology can be used for both nonmilitary and military applications. It is the exporter's responsibility to ensure that the final user of restricted dual-use products complies with export restrictions.

[36] "China Confirms Anti-Satellite Test to US, Says Not a Threat," *AFX UK Focus*, January 22, 2007; Yochi J. Dreazen, "U.S. Missile Hits Satellite–Military Strike Raised Hackles in China; Test Charges Denied," *The Wall Street Journal*, February 22, 2008, p. A9.

petrochemicals. New emphases are also being put on developing information technology, biotechnology, medicine, and green energies. Motorola's huge investments in the Tianjin Economic and Technology Development Zone have yielded perhaps the biggest mobile phone manufacturing operations in the world.

Shanghai and the Yangtze River Delta

Before World War II, Shanghai was perhaps the most important center for Asia Pacific trade and finance. Now in the 21st century, it has regained its status among several rivals, including Hong Kong, Singapore, Tokyo, and Los Angeles. Shanghai has been undergoing a major industrial renaissance during the past two decades. The traditional share of low value-added manufacturing in textiles and heavy equipment manufacturing industries has declined as many of them move west. Medium value-added industries now account for the vast majority of Shanghai's industrial employment. But new emphases are being put on developing its automobile assembly industry and other high-tech industries, such as computer, telecommunications equipment, and integrated circuit manufacturing.

A vendor delivers a Christmas tree in Beijing. Since China's reforms and loosening of controls on religion at the end of the 1970s, the number of Christians has risen from 2 million to 50 million. Although restrictions on freedom of religion continue, as economic freedom grows, so do political freedoms.

China's sustained economic growth and accession to the WTO have aided Shanghai's position as a regional trade and financial center. Half the city's GDP derives from financial services industries, such as banking, retailing, finance, trade, insurance, and real estate development. Shanghai's stock exchange appears to have the potential to overtake Hong Kong and Shenzhen. It has a much broader base of industries, complementary economic resources from the Yangtze River Delta and the entire Yangtze River Valley area that extends deep into China's hinterland, and powerful backing from Beijing. Indeed, the Commerce Department reports the fastest growth in U.S. exports among cities away from the coast has been in Ningbo, Chengdu, and Wuhan, all up the Yangtze River Valley from Shanghai.

Pudong, with an area of 200 square miles and a population of over 2 million, is located on the east bank of the Huangpu River, just across from the urban center of Shanghai. The new airport and Pudong New Area's fast green-field growth effectively represents the modernization of greater Shanghai and China's emergence as an economic power in the new millennium.

Suzhou, an hour's drive west of Shanghai, is emerging as one of China's hottest manufacturing centers. It has replaced the provincial capital Nanjing, two hours away on the Shanghai–Nanjing expressway, to become Jiangsu province's number one economy and foreign trade center. In the last ten years foreign investors, particularly tens of thousands of Taiwanese firms, have built manufacturing facilities for everything from consumer goods to high-tech products. Over 250,000 managers and engineers from Taiwan now live in the area as well. Suzhou is now ranked in the top 10 of the Chinese Cities Comprehensive Competitive Powers Ranking.

Pearl River Delta

The Greater Pearl River area includes three cities of over 5 million inhabitants (Hong Kong, Guangzhou, and Shenzhen); five cities with more than 1 million inhabitants (Zhuhai, Huizhou, Foshan, Zhongshan, and Dongguan); and a number of cities that each contain approximately half a million inhabitants, such as Macau.

Shenzhen, a boomtown bordering Hong Kong and a fishing village just 20 years ago, has replaced the provincial capital Guangzhou to lead the local economy. In 1980, Shenzhen was designated as China's first Special Economic Zone. The permanent resident population in Shenzhen in 1980 was only 300,000. Today's population has reached 7 million, reflecting the significance and attractiveness of the city as a manufacturing and transportation base. Proximity to Hong Kong, an international service center, is one of the advantages of Shenzhen. As a manufacturing base for a wide range of industries, Shenzhen can use Hong Kong as a trade platform to expand the global market. In addition, foreign enterprises can supply industrial products to Shenzhen through Hong Kong. As major foreign investors in Shenzhen, Hong Kong companies can form strategic partnerships with multinational companies. With their mainland experience, international exposure, and business acumen,

CROSSING BORDERS 11.4 Culture Changes, Celebrations Spread from the South

Philip Cheng, a 26-year-old financial analyst, has spent the past four Valentine's Days with his girlfriend, Molly Lam. Last year, they flew to Shanghai together, taking photos of the city's famous skyline and sharing a romantic meal at a cozy Italian restaurant.

This year, however, the young couple's Valentine's Day plans are under a new threat from Cheng's 50-year-old mother. For the first time in decades, Valentine's Day this year falls on the first day of the Lunar New Year, the biggest holiday on the Chinese calendar. For most Chinese families, Chinese New Year is a major family occasion filled with family visits and big meals. Mrs. Cheng has plans. Her son's choice: girlfriend or mother?

The Chinese New Year shifts each year according to the lunar cycle. Its overlap with Valentine's Day, which hasn't happened since 1953 and won't recur until 2048, is forcing time-honored Chinese and Western traditions to jockey for space with one another in Hong Kong, where both holidays are celebrated. Earlier in the week, Cheng and his two sisters got a text message from their mother, pleading with them not to miss the family Chinese New Year dinner. Says Cheng's mother, Anna, "Even though we're family, we're all so busy with our own things that we hardly ever see each other. On an occasion like this, I just think it's important for us to be able to share a meal together."

"When the message showed up on my phone, I couldn't believe it," Mr. Cheng recounts with a groan. "I had already been planning to spend the day with my girlfriend." In mainland China, one newspaper pitted the clash of dates as one between "the West's ideal of a paradise for two, and Chinese New Year's ideal of a reunited family."

The calendrical coincidence is frustrating restaurant owners and florists who look to Cupid's big day and the Chinese New Year as the biggest annual moneymakers. "It's a huge blow to the industry," says Elizabeth Tse, chairwoman of the Hong Kong Flower Retailers Association. With Valentine's Day falling on Sunday, husbands and boyfriends won't have to send flowers to their partners' offices, where "having flowers on your desk is seen as a real status symbol," she says. She figures that because of the New Year, many people will visit their relatives and perhaps go to a temple, and then if they go out for a romantic evening, "many will say, 'Forget the flowers, let's just do dinner.'"

In mainland China, celebrating Valentine's Day is a more recent phenomenon, but 5 percent of respondents to a recent poll said they would ditch the lunar holiday to spend it with their lover, and another 5 percent admitted to being torn and confused. Elsa Ma, a 34-year-old telecom marketing manager from the interior mainland city of Wuhan, is traveling to her fiancé's hometown for the long weekend to meet her future in-laws for the first time after an eight-month courtship, and to celebrate Chinese New Year. But she's not giving up Valentine's Day, which "is important to both of us," she says. "Definitely, I will see his parents when I wake up, but the whole day we are going to spend alone."

In Hong Kong, where Valentine's Day has been celebrated for much longer, some restaurants are plowing ahead with their usual romantic offerings. At the French restaurant Gaddi's in the Peninsula Hotel, the Valentine's Day prix fixe menus are available for $370 a person.

The saying in the Pearl River Delta area is, "They make the rules in Beijing, we interpret the rules here." So change in China has always flowed from the south to the north, since the former has greater exposure to foreign ideas and has for at least the last three centuries. Christmas and Valentine's Day holidays are catching on up north; however, we think it will be some time before $370 per person dinners catch on in Guizhou province, where that amount is about 25 percent of annual per capita income.

Source: N. Mark Lam and John L. Graham, China Now, Doing Business in the World's Most Dynamic Market (New York: McGraw-Hill, 2007); Jonathan Cheng, "In Hong Kong, Love's at War with Tradition," The Wall Street Journal, February 13, 2010, online.

Hong Kong companies and personnel are capable of helping foreign companies reduce their investment and management risks in Shenzhen.

The Other Billion

So far in this section, we have talked about one-forth of the population of China—the coastal, industrializing, relatively rich folks. But the rural China few Westerners ever see is the part of China that doesn't yet participate in the global economy. The central government pays it some attention, but not much. These one billion people usually receive about 10 percent of the central government budget. That amounts to less than $100 a head for rural roads, water, power supplies, schools, and hospitals.

Development in the region is focused on the large municipalities and cities such as the Chongqing municipality (28.6 million) within Sichuan province (another 81.9 million persons). China's World War II capital, this developing city is 1,500 miles up the Yangtze River from Shanghai. The average income for a Chongqing resident was about $3,000 in 2009, compared with rural neighbors at about $250. But the government actually is not spending much in the area. Instead, we find multinational companies funding development. For example, BP has built a $200 million chemical plant in the area, Volvo has begun producing its small S40 series there, and Yamaha has a motorcycle plant nearby. Much, much more work needs to be done. But as wages rise along with the recent labor shortages along the east coast, the "market" will pull development westward. "How fast?" is the question of the day. The concept of bottom-of-the-pyramid marketing applies here.

Yum! Brands is looking to expand fast in China. In 2009 it added 500 new KFC, Pizza Hut, and Taco Bell restaurants, to total 2,870 restaurants in more than 650 cities. Fast food competitor McDonald's also intends to expand at a similar pace, if from a smaller base. Location decisions are made primarily by consideration of local incomes, particularly in central China. The KFC location decisions in the area are instructive: At last count, of 10 stores in Gansu province, 9 are in the capital city; 28 of 39 restaurants in Hubei are in Wuhan, the capital; and 17 of 25 in Sichuan are located in Chengdu.

Unrest in the countryside also flares up as the economic divide widens, and new communication technologies display the gap. The problems of development for this three-fourths of the population are daunting, and the scale of the potential social frictions are truly frightening. The opportunities for American companies there are very different from those of the bustling east coast.

Although it is difficult to compete with China's low manufacturing costs, imagine marketing in a country with production but little disposable income, no storage, limited transportation that goes to the wrong markets, and no middlemen or facilitating agents to activate the flow of goods from the manufacturer to the consumer. When such conditions exist in developing markets, marketing and economic progress are retarded. To some degree, this problem faces China and many of the republics of the former Soviet Union too. In China, for example, most of the 1.3 billion potential consumers are not accessible because of a poor or nonexistent distribution network. Indeed, the true consumer market in China is probably limited to no more than 25 percent of those who live in the more affluent cities. No distribution and channel system exists to effectively distribute products, so companies must become resourceful to compensate for the poor infrastructure.

Differences in Business Negotiation Styles Within The Greater China

In Chapter 19, we discuss in some detail differences in negotiation styles across several national cultures, as well as the dangers of stereotyping. Here we briefly focus on differences in approaches in six regions of the greater China, and we hope it is obvious that people from the various regions listed will not conform exactly to the ethnic characterizations summarized next.[37] Our purpose here is simply to demonstrate the interesting breadth of behavior in Chinese business culture.

Northeastern Negotiators. Forthrightness is the stereotype of businesspeople in the Northeast, mostly held by their southern neighbors. Negotiators from the three northeastern provinces above the Yangtze are certainly industrious, competent businesspeople. They are generally honest and plainspoken. They are also not known for their risk-taking propensity or creativity.

Beijing Area. Negotiators from the Beijing area are known for their unusual (within China) bureaucratic sloth and imperialist perspective, both yielding a relative lack of creativity, that is, thinking outside the box. Because they often have defined the box in the first place, they are not used to thinking of ways to escape it. A note of caution about this

[37]See N. Mark Lam and John L. Graham, *China Now: Doing Business in the World's Most Dynamic Market* (New York: McGraw-Hill, 2007).

generalization is particularly necessary though when it comes to the growing cosmopolitanism of managers working in and around the capital city.

Shanghai Area. Negotiators from the Shanghai area are renowned in China for their shrewdness. They are outgoing, big talkers and big spenders. They try to impress you in ways and to extents you won't see anywhere else in China. For them, anything is possible—they are very creative thinkers. But more than anything else, they are successful and really the dominant business group on the Mainland.

The Pearl River Delta. Chinese in the south have always been the closest to foreign influences, which has yielded their special forms of entrepreneurship and spontaneity. Negotiators are reputed to be relatively honest and forthright. They are less calculating than folks in Shanghai. But they are excellent traders and particularly interested in making short-term gains.

Hong Kong. The business culture in Hong Kong is distinct from general descriptions in important ways. Almost all the Chinese you deal with in Hong Kong will be bilingual and speak at least English fluently. Indeed, their English may be better than yours. As Hong Kong executives have learned English, they have also absorbed British culture. However, for most, their first language is Cantonese. Among Chinese speakers around the world, Cantonese is the roughest dialect. It almost always sounds like an argument is going on. But if you get mad, face is lost on both sides of the table, and usually the deal is dead. Finally, humility and indirection are more emphasized in southern than in northern China.

Taiwan. Both the behavior and the language of the people of Taiwan are considered, by other Chinese, to be the most conservative. That is, neither Confucius's influence nor the Mandarin spoken has been mitigated by Communist philosophies and rule. Consequently, age, rank, and family play the most powerful roles. Companies tend to be managed directly from the top, and the decision-making style is autocratic. Managers are simultaneously down-to-earth and practical but on occasion daring.

Marketing Opportunities in The Greater China

Everyone knows the Chinese market is huge and growing fast. We also note that across this vast land of opportunity, there are extreme differences in economic well-being, cultures, and political structures. The rich municipalities like Beijing and Shanghai are quite comparable to Paris, New York, or Tokyo in terms of the availability of luxury products. In terms of the stages of economic development, they are large and rich enough to be thought of as "more-developed countries." As in the United States, luxury cars sell better on the coast, and trucks sell better in rural areas of the west. Some of the latter might still be labeled "least-developed countries." However, unlike the United States, in China you cannot sell the same lines of cosmetics or shampoos nationwide.

The U.S. Commerce Department lists the following commercial sectors as particularly inviting for American exporters: automotive components, cleaner coal, construction equipment, education and training services, machine tools, marine industries, healthcare, water and wastewater treatment, rail equipment, renewable energy, and green building. Marketing most of these industrial products in China requires little cultural nuance, except perhaps at the negotiation table. But selling consumer products will require both linguistic and values-based adjustments in integrated marketing communication strategies and tactics.

Finally, the influence of national government policies and regulations of marketing will often be minor compared with that of their local counterparts. The rules themselves may be different from province to province, and certainly their interpretation and enforcement will depend on local values and individual administrators at the provincial and municipal levels. Spending time learning the local differences and building good personal relationships with distribution partners and government officials will be crucial for success. This last piece of advice holds true in every market around the world, but the diversity of the Chinese market will especially challenge the patience and persistence of international marketers for decades to come.

Summary

The Asia Pacific region is the most dynamic of the three regions covered in Chapters 9–11. It includes more than half the people on the planet, and for a variety of reasons, the economies are growing quite fast. In particular, China and India both grew at double-digit rates during the last five years, and *so far* they have fared better than the United States or Europe coming out of the 2008–2009 global recession. Meanwhile economic growth in South Korea, Singapore, Taiwan, and particularly Japan has remained tepid. Still Japan remains the second most important national market, behind only the United States.

The mix of stages of economic development present a variety of opportunities for international marketers: infrastructure development, new industrial markets, and huge consumer markets. Japan and high-income consumers in many countries also represent important luxury markets. New concepts, such as marketing to the bottom of the pyramid, are also most applicable in south Asia. The countries of the Asia Pacific region are cooperating in two major trade associations, ASEAN+3 and APEC. Finally, we have addressed the diversity in markets, industries, and cultures within China.

Key Terms

"The Greater China"
Purchase price parity (PPP)
Four Asian Tigers
Bottom-of-the-pyramid markets (BOPMs)
ASEAN
ASEAN+3
APEC

Questions

1. Define the key terms listed above.
2. Explain why China's economy languished for the last 500 years but has now burgeoned in the last 20.
3. Why has Japan's economy faltered?
4. What explains the fast growth of the four "Asian Tigers?"
5. Compare the growth success and potentials of India and China. List the advantages and disadvantages of each.
6. Discuss the problems a marketer might encounter when considering the Marxist–socialist countries as markets.
7. What are the market opportunities and challenges in Greater China?
8. What are the political issues swirling around the strong trade relationship between the U.S. and the PRC?
9. Briefly describe three examples of strategies of MNC in China and in India.
10. Should the United States fear China's emergence? Why or why not?
11. Do you expect that China, then India, will follow the growth paths of Japan and South Korea? What factors are similar across the countries, and what is unique about each of these four?
12. Describe the opportunities and threats of entering the market in Bangladesh.
13. Describe the economic interaction of China and its northern neighbors.
14. How are China's marketing strategies abroad similar to and different from those of American firms?
15. What can the United States, Europe, and China learn from the experiences of Japan during the last 20 years?