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GLOBAL MARKETING

5th Edition

Chapter 6 The political and economic environment

Learning objectives (1)

- Discuss how the political/legal environment will affect the attractiveness of a potential foreign market
- Distinguish between political factors in the home country environment and the host country environment
- Explain the steps in a political risk-analysis procedure

Learning objectives (2)

- Distinguish between tariff barriers and non-tariff barriers
- Describe the major trading blocs
- Explore why the structure of consumption is different from country to country
- Explain how managers can influence local politics

Learning objectives (3)

- Define regional economic integration and identify different levels of integration
- Discuss the benefits and drawbacks associated with regional economic integration
- Evaluate consequences of the EMU and the euro on European business

Aspects of the political/ legal environment

Home country environment

Host country environment

General international environment

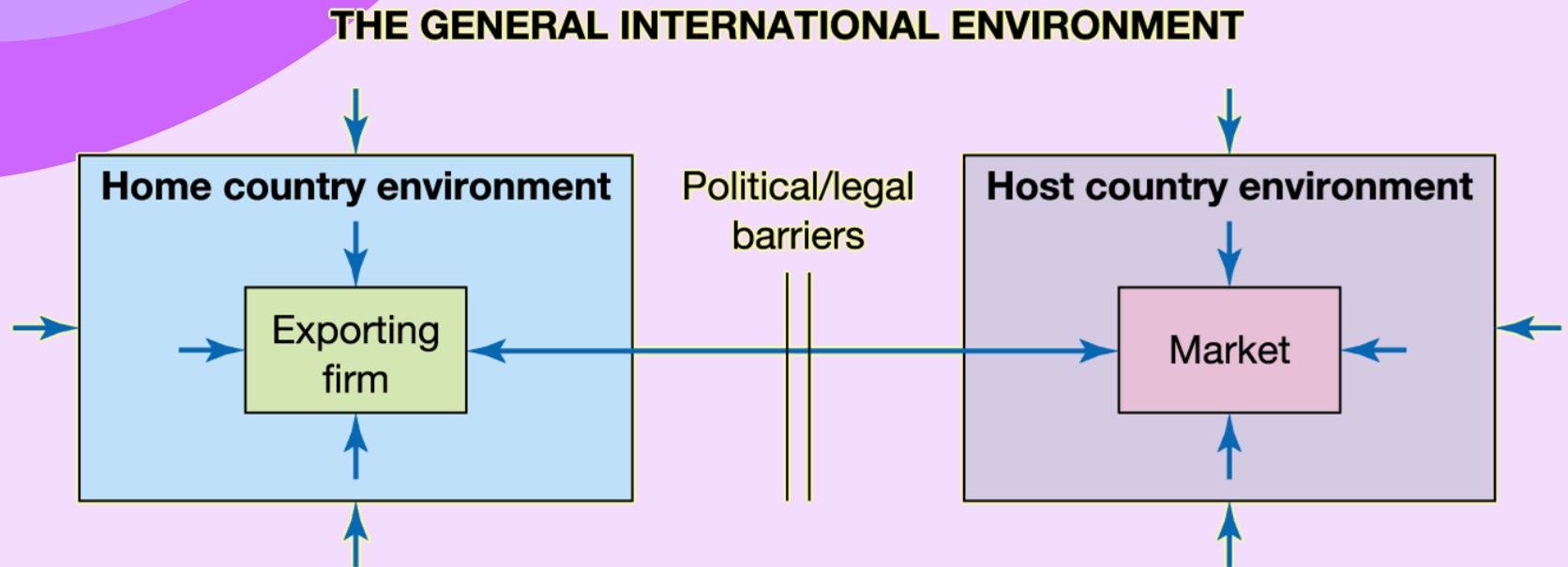


Figure 6.1 Barriers in the political /legal environment

The home country environment

- Promotional activities (sponsored by governmental organizations)
- Financial activities
- Information services
- Export-facilitating activities
- Promotion by private organizations
- State trading


Kinds of information typically available

- Economic, social, political data on individual countries
- Summary and detailed information on aggregate global market transactions
- Individual reports on foreign firms
- Specific export opportunities
- Lists of potential overseas buyers, distributors and agents for various products in different countries
- Information on relevant government regulations
- Foreign credit information

Major types of political risk in the host country environment



**Ownership
risk**



**Operating
risk**



**Transfer
risk**

Effects of political risk

- Import restrictions
- Local-content laws
- Exchange controls
- Market control
- Price controls
- Tax controls
- Labour restrictions
- Change of government party
- Nationalization
- Domestication

What is this?

What term is used to describe the takeover of foreign companies by the host government?

Nationalization

What is this?

What term is used to describe trade laws that favour local firms and discriminate against foreign ones?

Trade barriers

Categories of trade barriers

Tariff barriers:

- Specific
- Ad valorem
- Discriminatory

Non-tariff barriers:

- Quotas
- Embargoes
- Administrative delays
- Local-content requirements

What is this?

_____ are tools used by governments to protect local companies from outside competition. They are direct taxes and charges imposed on imports.

Tariffs

Why do countries levy tariffs?

To protect domestic producers

To generate revenue

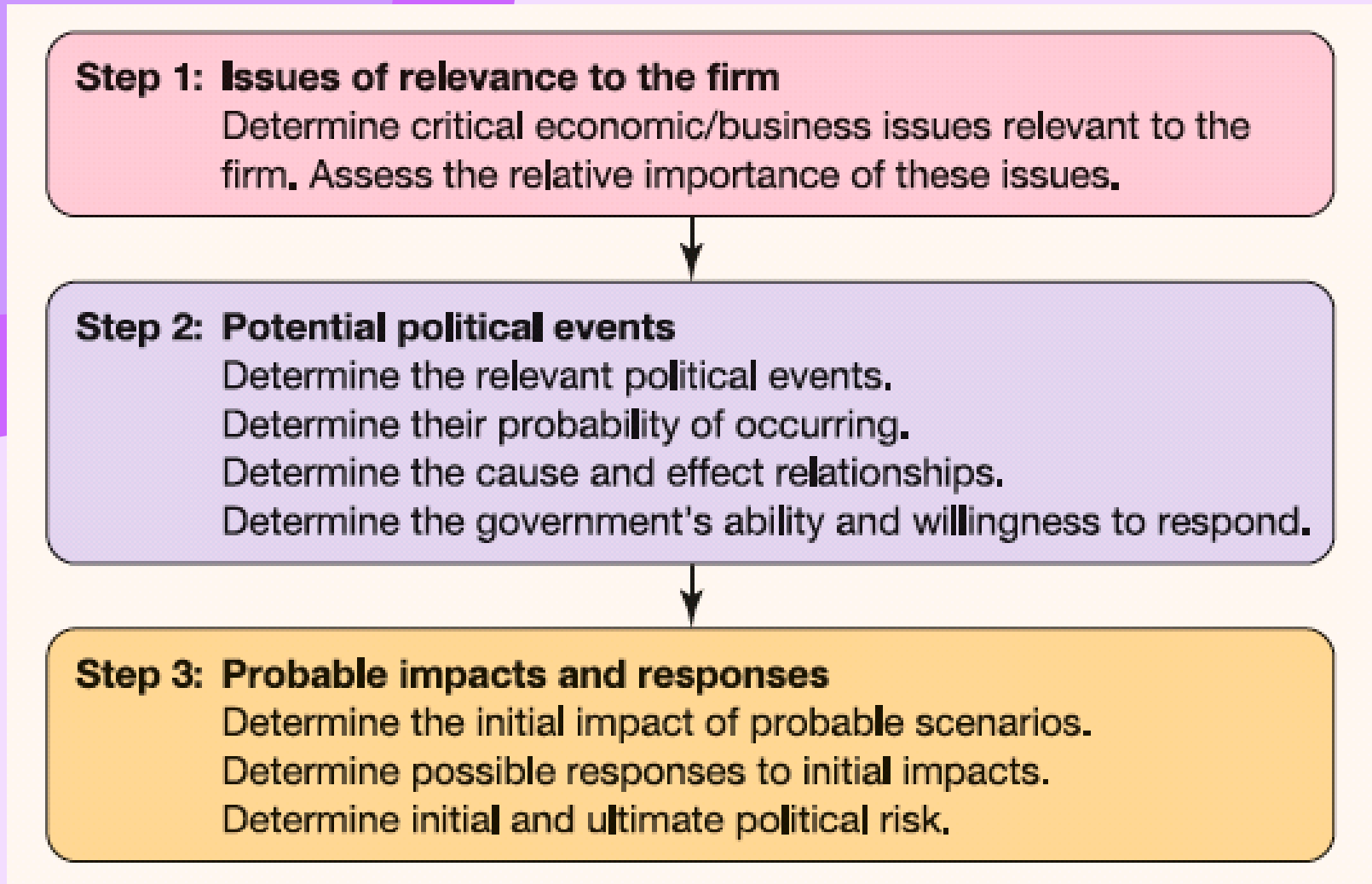


Figure 6.2 Three-step process of political risk analysis

Relationship building

Build relationships with government

Build relationships with customers

Build relationships with employees

Build relationships with local community

How does the threat of terrorism affect business?

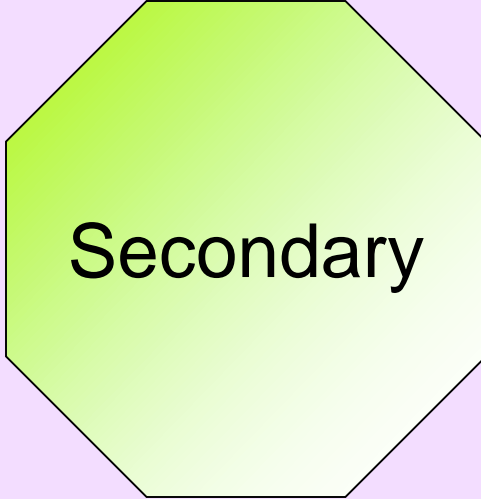
- Short and long-term decline of customer demand
- Unpredictable shifts in the supply chain
- Government policies and laws
- Macroeconomic effects such as falling stock market values
- Deteriorating relations among countries

Types of economic activity



Primary

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Secondary

A yellow-green octagonal shape with a black outline, containing the word 'Secondary' in black text.



Tertiary

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What is this?

The _____ states that an identical product must have an identical price in all countries when price is expressed in a common-denominator currency.

Law of one price

Classifying countries by income

- Less developed countries (LDCs)
- Newly industrialized countries (NICs)
- Advanced industrialized countries

Table 6.1

The hamburger standard (based on 4 February 2009 Big Mac prices)

Country	Big Mac price in local currency	In US dollars	Implied PPP of the US\$ (local price divided by price in US)	Actual exchange rate 1 USD =	Over(+)/ Under(-) valuation against the dollar, %
United States	\$3.54	3.54	–	1.00	–
Argentina	Peso 11.50	3.30	3.25	3.49	–7
Australia	A\$3.45	2.19	0.97	1.57	–38
Brazil	Real 8.02	3.45	2.27	2.32	–2
Britain	£2.29	3.30	1.55*	1.44*	–7
Canada	C\$4.16	3.36	1.18	1.24	–5
Chile	Peso 1,550	2.51	438	617	–29
China	Yuan 12.50	1.83	3.53	6.84	–48
Czech Republic	Koruna 65.94	3.02	18.6	21.9	–15
Denmark	DK29.50	5.07	8.33	5.82	43
Egypt	Pound 13.0	2.34	3.67	5.57	–34
Euro area	€3.42	4.38	1.04	1.28	24
Hong Kong	HK\$13.30	1.72	3.76	7.75	–52
Hungary	Forint 680	2.92	192	233	–18
Indonesia	Rupiah 19,800	1.74	5,593	11,380	–51
Israel	Shekel 15.0	3.69	4.24	4.07	4
Japan	¥250	3.23	81.9	89.8	–9
Malaysia	Ringgit 5.50	1.52	1.55	3.61	–57
Mexico	Peso 33.0	2.30	9.32	14.40	–35
New Zealand	NZ\$4.90	2.48	1.38	1.97	–30
Norway	Kroner 40.0	5.79	11.3	6.91	–63
Peru	Sol 8.06	2.54	2.28	3.18	–28
Philippines	Peso 98.0	2.07	27.7	47.4	–42
Poland	Zloty 7.00	2.01	1.98	3.48	–43
Russia	Rouble 62.00	1.73	17.5	35.70	–51
Saudi Arabia	Riyal 10.0	2.66	2.82	3.75	–25
Singapore	S\$3.95	2.61	1.12	1.51	–26
South Africa	Rand 16.95	1.66	4.79	10.02	–53
South Korea	Won 3,300	2.39	932	1,380	–32
Sweden	Skr 38.0	4.58	10.7	8.30	29
Switzerland	SFr 6.50	5.60	1.84	1.16	58
Taiwan	NT\$75.00	2.23	21.2	33.60	–37
Thailand	Baht 62.0	1.77	17.50	35.0	–50
Turkey	Lire 5.15	3.13	1.45	1.64	–12

* Dollars per pound.

Source: *The Economist*, 4 February 2009 © The Economist Newspaper Limited, London (4.2.09).

What is this?

What term refers to the value of all goods and services produced by the domestic economy over a one-year period, including income generated by the company's international activities?

Gross national product (GNP)

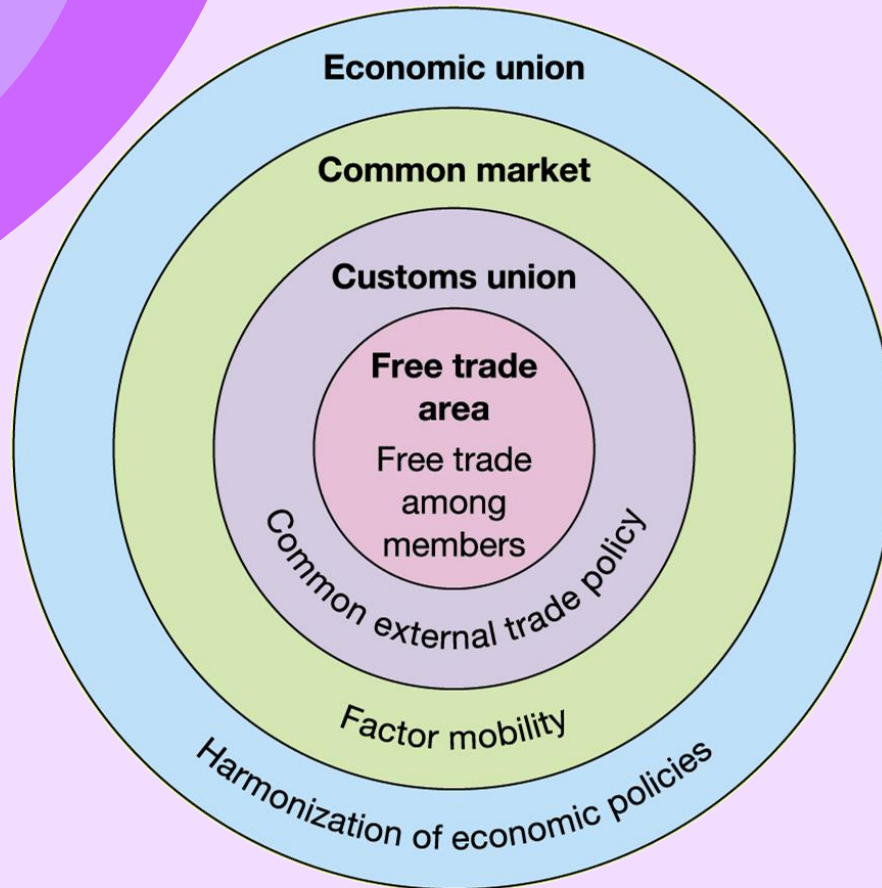


Figure 6.3 Forms of economic integration in regional markets

Source: from Czinkota/Ronkainen. *Global Marketing*, 1E. © 1996 South-Western, a part of Cengage Learning, Inc. Reproduced by permission. www.cengage.com/permissions

Benefits of regional integration

Trade creation

Greater consensus

Political cooperation

Drawbacks of regional integration

Trade diversion

Shifts in employment

Loss of national sovereignty

Major trading blocs

European Union

Association of
South East Asian
Nations (ASEAN)

Asia Pacific
Economic
Cooperation (APEC)

North American
Free Trade Area
(NAFTA)

Table 6.2

Major trading blocs as of 1 January 2008

Organization	Type	Members	Population (million)	GNI (US\$bn)	GNI per capita (US\$)
European Union	Political and economic union	Belgium	10.7	374.5	44,330
		Luxembourg	0.5	41.4	84,890
		Denmark	5.5	325.1	59,130
		France	62.0	2,702.2	42,250
		Germany	82.1	3,485.7	42,440
		Ireland	4.5	221.2	49,590
		Italy	59.9	2,109.9	35,240
		UK	61.4	2,787.2	45,390
		Netherlands	16.4	824.6	50,150
		Greece	11.2	322.0	28,650
		Portugal	10.6	218.4	20,560
		Spain	45.6	1,456.5	31,960
		Sweden	9.2	469.7	50,940
		Austria	8.3	386.0	46,260
		Finland	5.3	255.7	48,120
		Bulgaria	7.6	41.8	5,490
		Cyprus	0.9	19.6	22,950
		Czech Republic	10.4	173.2	16,600
		Estonia	1.3	19.1	14,270
		Latvia	2.3	26.9	11,860
Lithuania	3.4	39.9	11,870		
Hungary	10.0	128.6	12,810		
Malta	0.4	6.8	16,680		
Poland	38.1	453.0	11,880		
Romania	21.5	170.6	7,930		
Slovakia	5.4	78.6	14,540		
Slovenia	2.0	49.0	24,010		
Total		496.5	17,187.2	34,617	
Association of South East Asian Nations (ASEAN)	Limited trade and cooperation agreement	Indonesia	228.2	458.2	2,010
		Brunei	0.4	10.2	26,740
		Vietnam	86.3	77.0	890
		Malaysia	27.0	188.1	6,970
		Singapore	4.8	168.2	34,760
		Philippines	90.3	170.4	1,890
		Thailand	67.4	191.7	2,840
		Laos	6.2	4.7	750
		Myanmar	49.2	n.a.	n.a.
		Cambodia	14.7	8.9	600
Total		574.5	1,277.4	2,223	
Asia Pacific Economic Cooperation (APEC, excl. ASEAN, USA and Canada)	Formal institution	China	1,325.6	3,678.5	2,770
		Japan	127.7	4,879.2	38,210
		South Korea	48.6	1,046.3	21,530
		Taiwan*	23.0	724.5	31,500
		Australia	21.4	862.5	40,350
		New Zealand	4.3	119.2	27,940
Total		1,550.6	11,310.2	7,294	
North American Free Trade Area (NAFTA)	Free trade area	US	304.1	14,466.1	47,580
		Canada	33.3	1,390.0	41,730
		Mexico	106.4	1,061.4	9,980
		Total	443.8	16,917.5	99,290

* According to the *CIA World Factbook* as Taiwan is not in the World Bank Statistics.
Source: based on *World Bank* (2008).

Criticisms of using per capita income figures

- Uneven income distribution
- Purchasing power not reflected
- Lack of comparability

6.5

Poverty as a market opportunity

Prahalad recognizes that serving the low-income sector requires a commercial strategy in response to the needs of those people; to succeed, other players have to get involved – mainly local and central government, financial institutions and non-governmental organizations (NGOs). He proposes four key elements to thrive in the low-income market:

1. creating buying power;
2. shaping aspirations through products innovation and consumer education;
3. improving access through better distribution and communication systems; and
4. tailoring local solutions.

The poor as marketers of products and services

In order for the BOP to develop successful entrepreneurs, there are three critical aspects that should be fulfilled in order to serve the BOP market (Pitta *et al.*, 2008)

- access to credit (micro finance)
- the establishment of alliances
- adaptation of the marketing mix.

CASE STUDY 6.1

G-20 and the economic and financial crises: what on earth is globalization about?
Massive protests during a meeting in London in 2009



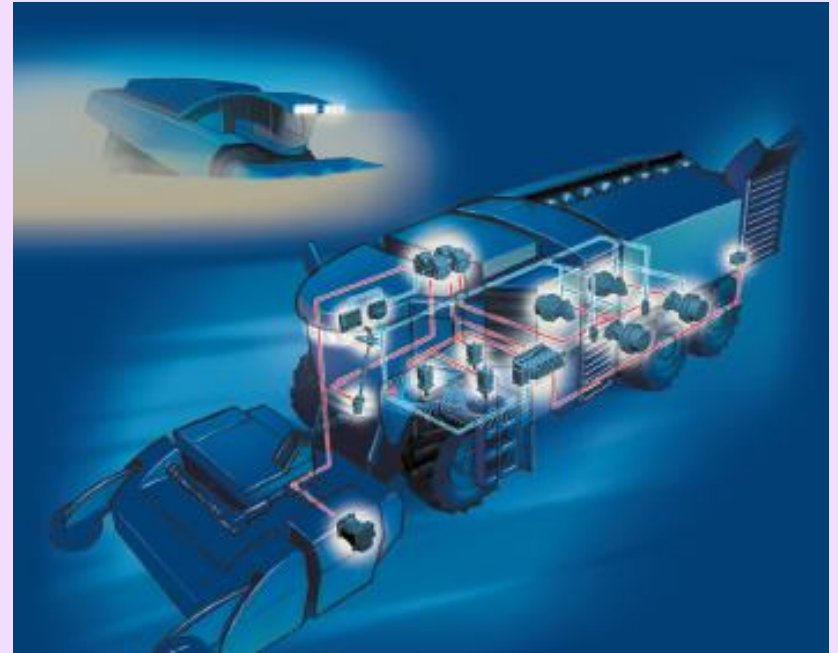
SAUL LOEB/AFP/Getty Images.

QUESTIONS

1. What were the key arguments of the anti-globalization groups?
2. How could these protests affect the operations of multinational companies?
3. How could the G-20 do a better marketing job in communicating its views to the global audience?

CASE STUDY 6.2

Sauer-Danfoss: which political/economic factors would affect a manufacturer of hydraulic components?



QUESTIONS

1. Which political and economic factors in the global environment would have the biggest effect on the future global sales of Sauer-Danfoss hydraulic components/systems to:
 - (a) manufacturers of construction and mining equipment (e.g. Caterpillar)?
 - (b) manufacturers of agricultural machinery (e.g. John Deere)?
2. What are the biggest problems in forecasting future demand for a sub-supplier such as Sauer-Danfoss?

VIDEO CASE STUDY 6.3 Debate on globalization

download from www.pearsoned.co.uk/hollensen

Questions

1. In your opinion, is globalization inevitable? Are the overall benefits of globalization positive? What are the gains and losses from globalization?
2. What external influences does a company encounter when determining how and where to conduct business globally?
3. How do the stages that a company goes through evolve as its operations become more globalized?

Questions for discussion (1)

- Identify different types of barriers to the free movement of goods and services.
- Explain the importance of a common European currency to firms selling goods to the European market.
- How useful is GNP when undertaking a comparative analysis of world markets? What other approaches would you recommend?

Questions for discussion (2)

- Discuss the limitations of per capita income in evaluating market potential.
- Distinguish between: (a) free trade area, (b) customs union, (c) common market, (d) economic and monetary union and (e) political union.
- Why is the international marketer interested in the distribution of the population in a market?

Questions for discussion (3)

- Describe the ways in which foreign exchange fluctuations affect: (a) trade, (b) investments and (c) tourism.
- Why is political stability so important for international marketers? Find some recent examples from the press to underline your points.

Questions for discussion (4)

- How can the change of major political goals in a country have an impact on the potential for success of an international marketer?
- A country's natural environment influences its attractiveness to an international marketer of industrial products. Discuss.
- Explain why a country's balance of trade may be of interest to an international marketer.