

University of Global Village (UGV), Barishal
Department of Business Administration
Course Title: Global Marketing

Course Code : 0414-523	Credits : 03
Exam Hours : 03	CIE Marks : 90 SEE Marks : 60

❖ **Course Learning Outcomes (CLOs):** Upon completing this course, students should be able to

CLO1	Understand, List and Explain the key concepts and theories related to global marketing, including global market environments, cultural factors, global consumer behavior, and international market segmentation.
CLO2	Summarize, Illustrate and Demonstrate the understanding of the economic, political, legal, and technological factors influencing global markets and their implications for global marketing strategies.
CLO3	Analyze and Develop global marketing strategies that align with organizational goals and leverage market opportunities across different regions.
CLO4	Comprehend, Evaluate and Apply appropriate market entry strategies (e.g., export, licensing, joint ventures, and direct investment) based on analysis of market conditions and strategic objectives.

❖ **Course plan specifying Topics, Teaching time and CLOs**

Sl no.	Topic	Hours	CLOS
1	The Scope and Challenge of International Marketing	8	CLO1 CLO2
2	The Dynamic Environment of International Trade	7	CLO2 CLO3
3	History and Geography: The Foundations of Culture	7	CLO2 CLO4
4	Cultural Dynamics in Assessing Global Markets	8	CLO1 CLO3
5	Culture, Management Style, and Business Systems	8	CLO3 CLO4

6	The Political Environment: A Critical Concern	7	CLO2 CLO3 CLO4
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❖ **Course plan specifying content, CLOs, co-curricular activities (if any), teaching learning and assessment strategy matching with CLOs.**

Week	Topic	Teaching-Learning Strategy	Assessment Strategy	CLOs
1	The Scope and Challenge of International Marketing: Global Perspective: Global Commerce Causes Peace The Internationalization of U.S. Business International Marketing Defined The International Marketing Task Marketing Decision Factors Aspects of the Domestic Environment,	<ul style="list-style-type: none"> ▪ Lecture ▪ Discussion ▪ Assignment 	<ul style="list-style-type: none"> ▪ Question & Answer (Oral) ▪ Written Test 	CLO1 CLO2
2	The Scope and Challenge of International Marketing: Aspects of the Foreign Environment Environmental Adaptation Needed The Self-Reference Criterion and Ethnocentrism: Major Obstacles Developing a Global Awareness.	<ul style="list-style-type: none"> ▪ Lecture ▪ Discussion ▪ Exercise ▪ Group discussion 	<ul style="list-style-type: none"> ▪ Question & Answer (Oral) ▪ Class Test ▪ Written Test 	CLO1 CLO2
3	The Scope and Challenge of International Marketing: Stages of International Marketing Involvement No Direct Foreign Marketing Infrequent Foreign Marketing Regular Foreign Marketing International Marketing Global Marketing The Orientation of International Marketing.	<ul style="list-style-type: none"> ▪ Lecture ▪ Discussion ▪ Exercise 	<ul style="list-style-type: none"> ▪ Question & Answer (Oral) ▪ Written Test 	CLO1 CLO2
4	The Dynamic Environment of International Trade: Global Perspective: Trade Barriers—An International Marketer’s Minefield The Twentieth to the Twenty-First Century World Trade and U.S. Multinationals Beyond the First Decade of the Twenty-First Century Balance of Payments Protectionism.	<ul style="list-style-type: none"> ▪ Lecture ▪ Discussion ▪ Assignment ▪ Group discussion 	<ul style="list-style-type: none"> ▪ Question & Answer (Oral) ▪ Class Test ▪ Written Test 	CLO2 CLO3
5	The Dynamic Environment of International Trade: Protection Logic and Illogic Trade Barriers Easing Trade Restrictions The Omnibus Trade and Competitiveness Act General Agreement on Tariffs and Trade.	<ul style="list-style-type: none"> ▪ Lecture ▪ Discussion ▪ Problem Solving ▪ Group discussion 	<ul style="list-style-type: none"> ▪ Question & Answer (Oral) ▪ Written Test 	CLO2 CLO3
6	The Dynamic Environment of International Trade: World Trade Organization Skirting the Spirit of GATT and WTO The International Monetary Fund and World Bank Group Protests against Global Institutions.	<ul style="list-style-type: none"> ▪ Lecture ▪ Discussion ▪ Problem Solving ▪ Exercise 	<ul style="list-style-type: none"> ▪ Question & Answer (Oral) ▪ Written Test ▪ Quiz 	CLO2 CLO3
7	History and Geography: The Foundations of Culture: Global Perspective: Birth of a Nation—Panama in 67 Hours Historical Perspective in Global Business History and Contemporary Behavior History Is Subjective Manifest Destiny and the Monroe Doctrine.	<ul style="list-style-type: none"> ▪ Lecture ▪ Discussion ▪ Problem Solving ▪ Group discussion 	<ul style="list-style-type: none"> ▪ Question & Answer (Oral) ▪ Class Test 	CLO2 CLO4
8	History and Geography: The Foundations of Culture: Geography and Global Markets Climate	<ul style="list-style-type: none"> ▪ Lecture ▪ Discussion 	<ul style="list-style-type: none"> ▪ Question & Answer 	CLO2

	and Topography Geography, Nature, and Economic Growth Social Responsibility and Environmental Management.	<ul style="list-style-type: none"> ▪ Problem Solving 	<ul style="list-style-type: none"> (Oral) ▪ Class Test ▪ Written Test 	
9	History and Geography: The Foundations of Culture: Dynamics of Global Population Trends Controlling Population Growth Rural/Urban Migration Population Decline and Aging Worker Shortage and Immigration World Trade Routes Communication Links	<ul style="list-style-type: none"> ▪ Lecture ▪ Discussion ▪ Assignment 	<ul style="list-style-type: none"> ▪ Question & Answer (Oral) ▪ Class Test 	CLO2 CLO4
10	Cultural Dynamics in Assessing Global Markets: Global Perspective: Equities and eBay—Culture Gets in the Way Culture’s Pervasive Impact Definitions and Origins of Culture Geography History The Political Economy.	<ul style="list-style-type: none"> ▪ Lecture ▪ Discussion ▪ Group discussion ▪ Oral presentation 	<ul style="list-style-type: none"> ▪ Question & Answer (Oral) ▪ Written Test 	CLO1
11	Cultural Dynamics in Assessing Global Markets: Technology Social Institutions Elements of Culture Cultural Values Rituals Symbols Beliefs Thought Processes Cultural Sensitivity and Tolerance.	<ul style="list-style-type: none"> ▪ Lecture ▪ Discussion ▪ Assignment 	<ul style="list-style-type: none"> ▪ Question & Answer (Oral) ▪ Class Test ▪ Written Test 	CLO1 CLO3
12	Cultural Dynamics in Assessing Global Markets: Cultural Change Cultural Borrowing Similarities: An Illusion Resistance to Change Planned and Unplanned Cultural Change.	<ul style="list-style-type: none"> ▪ Written exam ▪ MCQ test ▪ Presentation 	<ul style="list-style-type: none"> ▪ Written exam ▪ MCQ test ▪ Oral test 	CLO1 CLO3
13	Culture, Management Style, and Business Systems: Global Perspective: Do Blondes Have More Fun in Japan? Required Adaptation Degree of Adaptation Imperatives, Electives, and Exclusives The Impact of American Culture on Management Style Management Styles around the World Authority and Decision Making Management Objectives and Aspirations Communication Styles Formality and Tempo P-Time versus M-Time Negotiations Emphasis	<ul style="list-style-type: none"> ▪ Lecture ▪ Discussion ▪ Exercise ▪ Group discussion 	<ul style="list-style-type: none"> ▪ Question & Answer (Oral) ▪ Class Test ▪ Written Test 	CLO3 CLO4
14	Culture, Management Style, and Business Systems: Global Perspective: Do Blondes Have More Fun in Japan? Required Adaptation Degree of Adaptation Imperatives, Electives, and Exclusives The Impact of American Culture on Management Style Management Styles around the World Authority and Decision Making Management Objectives and Aspirations Communication Styles Formality and Tempo P-Time versus M-Time Negotiations Emphasis.	<ul style="list-style-type: none"> ▪ Lecture ▪ Discussion ▪ Problem Solving 	<ul style="list-style-type: none"> ▪ Question & Answer (Oral) ▪ Written Test 	CLO3 CLO4
15	The Political Environment: A Critical Concern: Global Perspective: World Trade Goes Bananas The Sovereignty of Nations Stability of Government Policies Forms of Government Political Parties Nationalism Targeted Fear and/or Animosity Trade Disputes Political Risks of Global Business Confiscation, Expropriation, and Domestication	<ul style="list-style-type: none"> ▪ Lecture ▪ Discussion ▪ Exercise ▪ Assignment 	<ul style="list-style-type: none"> ▪ Question & Answer (Oral) ▪ Class Test ▪ Written Test 	CLO2 CLO3 CLO4
16	The Political Environment: A Critical Concern: Economic Risks Political Sanctions Political and Social Activists and Nongovernmental Organizations.	<ul style="list-style-type: none"> ▪ Lecture ▪ Discussion ▪ Problem Solving 	<ul style="list-style-type: none"> ▪ Question & Answer (Oral) 	CLO3 CLO4

	Violence, Terrorism, and War Cyber terrorism.	<ul style="list-style-type: none"> ▪ Group discussion 	<ul style="list-style-type: none"> ▪ Written Test ▪ Quiz 	
17	The Political Environment: A Critical Concern: Cybercrime Assessing Political Vulnerability Politically Sensitive Products and Issues Forecasting Political Risk Lessening Political Vulnerability Joint Ventures Expanding the Investment Base Licensing Planned Domestication Political Bargaining Political Payoffs Government Encouragement.	<ul style="list-style-type: none"> ▪ Lecture ▪ Discussion ▪ Assignment ▪ Oral presentation 	<ul style="list-style-type: none"> ▪ Question & Answer (Oral) ▪ Written Test 	CLO2 CLO3 CLO4

Assessment and Evaluation

1) Assessment Strategy: Group Discussion, Class tests, Case Study, Term Paper, Presentation.

2) Marks distribution:

a) Continuous Assessment:

- Class attendance is mandatory. Absent of 70% classes; disqualify the student for final examination only authority recommendation will be accepted with highly reasonable causes.
- Late submission of assignments is not allowed. Late submission of assignments will be only taken with highly reasonable causes and 20% mark will be deducted.
- To pass this course student will have to appear mid-term and final examination.

b) Summative:

❖ **CIE- Continuous Internal Evaluation (90 Marks)**

Bloom's Category	Test	Assignments	Quiz	External Participation in Curricular/ Co-curricular Activities
Marks (out of 90)	(15)	(15)	(15)	(15)
Remember	05			Bloom's Affective Domain: (Attitude or will) Attendance: 15 Copy or attempt to copy: - 10 Late Assignment: -10
Understand	05	06	07	
Apply	05			
Analyze	10		08	
Evaluate	05	09		
Create	10			
	05			

❖ **SEE- Semester End Examination (60 Marks)**

Bloom's Category	Test
Remember	10
Understand	10
Apply	10
Analyze	10
Evaluate	10
Create	10

3) Make-up Procedures: Dates for exams will be strictly followed. No makeup exam (Normal case), for exceptional case university rules and regulation should be followed.

Learning Materials

1) **Recommended Readings:**

- International Marketing By Philip R. Cateora.

2) **Supplementary Readings:**

- Global Marketing –Foreign Entry, Local Marketing and Global Management by Johansson, J.K.

Week: 1
Slides 1-13

Chapter 1



Week-1-3

The Scope and Challenge of International Marketing

Learning Objectives

- LO1** The benefits of international markets
- LO2** The changing face of U.S. business
- LO3** The scope of the international marketing task
- LO4** The importance of the self-reference criterion (SRC) in international marketing
- LO5** The increasing importance of global awareness
- LO6** The progression of becoming a global marketer

Global Commerce Causes Peace

- Global commerce thrives during peacetime
- Economic boom in North America in the late 1990s largely due to:
 - the end of the Cold War
 - opening of the former communist countries to world trading system

Events and trends affecting global business

- Natural disasters
- Wars and national conflict
- Advancement in information technology



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Events and trends affecting global business

Of all the events and trends affecting global business today, four stand out as the most dynamic,

(1) The rapid growth of the World Trade Organization and regional free trade areas such as the North American Free Trade Area and the European Union.

(2) the trend toward the acceptance of the free market system among developing countries in Latin America, Asia, and eastern Europe.

(3) the burgeoning impact of the Internet, mobile phones, and other global media on the dissolution of national borders.

(4) the mandate to manage the resources and global environment properly for the generations to come.

The Internationalization of U.S. Business

- Companies have to:
 - deal with foreign customers, competitors, and suppliers
 - face competition from domestic and foreign firms

Foreign direct investment in the United States is more than \$3 trillion.

Foreign-Owned Companies in the U.S.

- Exhibit 1.1 lists some of the brands that most people think are American, but are actually foreign-owned. Foreign investment is present in almost all industries:
 - Automobiles (Honda, BMW, Mercedes)
 - Appliances (LG Electronics, Frigidaire)
 - Convenience stores and restaurants (7-Eleven, Ben & Jerry's)
 - News and entertainment (*The Wall Street Journal*, Pearle Vision, Universal Studios, RCA)
 - Hotels (Holiday Inn, Waldorf Astoria)

Exhibit 1.1 (1 of 2)

Foreign Acquisitions of U.S. Companies

U.S. Companies/Brands	Foreign Owner
7-Eleven	Japan
Ben & Jerry's (ice cream)	U.K.
Budweiser	Belgium
Chrysler	Italy
Chrysler Building (NYC)	Abu Dhabi
Church's Chicken	Bahrain
CITGO	Venezuela
Columbia Pictures (movies)	Japan
French's Mustard	U.K.
Firestone (tires)	Japan
Frigidaire	Sweden
Genentech	Switzerland

Sources: Compiled from annual reports of listed forms, 2015.

Exhibit 1.1 (2 of 2)

Foreign Acquisitions of U.S. Companies

U.S. Companies/Brands	Foreign Owner
Gerber	Switzerland
Holiday Inn	U.K.
Huffy Corp. (bicycles)	China
Oroweat (breads)	Mexico
Radio Shack	Mexico
Random House (publishing)	Germany
RCA (television)	France/China
Smith & Wesson (guns)	U.K.
Swift & Company (meatpacking)	Brazil
<i>The Wall Street Journal</i>	Australia
T-Mobile	Germany
Waldorf Astoria Hotel (NYC)	China

Sources: Compiled from annual reports of listed forms, 2015.

Mexico's supermarket chain in California



© John Graham

Gigante, one of Mexico's largest supermarket chains, now has several stores in Southern California, including this one in Anaheim. On store shelves are a variety of Bimbo bakery products. Grupo Bimbo, a growing Mexican multinational, has recently purchased American brand-named firms such as Oroweat, Webers, Sara Lee, and Mrs. Baird's Bread.

Revenues from International Sales

- [Exhibit 1.2](#) illustrates how important revenues generated on investments abroad are to U.S. companies.
 - In most cases, foreign sales overtake those in the U.S.
 - In ten years, Apple's total revenues skyrocketed from \$6 billion in 2003 to \$171 billion in 2013.

As a result, many companies are now seeking foreign markets, and companies with existing foreign operations feel the need to be more competitive to succeed against multinationals.

Exhibit 1.2

Selected U.S. Companies and Their International Sales

Company	Global Revenues (billions)	Percent Revenues from Outside the U.S.
Apple	\$170.9	61.3%
Avon	10.0	85.4
Boeing	86.6	56.6
Chevron	211.6	75.9
Direct TV	31.8	21.0
Ford	146.9	41.8
IBM	99.8	65.1
Intel	52.7	82.8
Johnson & Johnson	71.3	55.3
Mondelez (Oreos, etc)	35.3	80.2
Walmart	474.3	29.0

Source: S&P 500, 2013: Global Sales Year in Review (September 2014).

Week: 2

Slides 15-27

International Marketing Defined

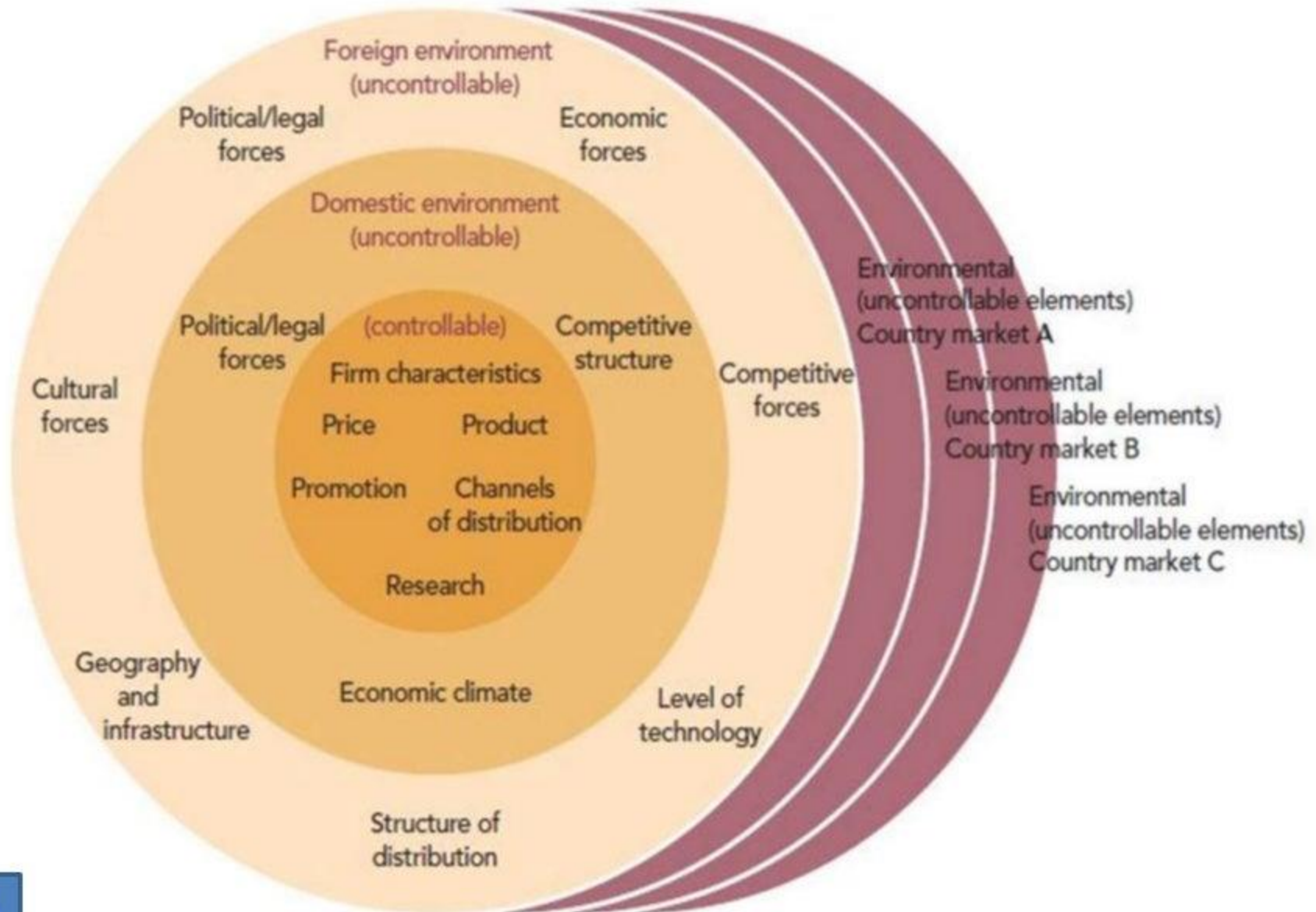
- The performance of business activities designed to plan, price, promote, and direct the flow of a company's goods and services to consumers or users in more than one nation for a profit
 - Unfamiliar problems
 - Different levels of uncertainty
 - Molding the controllable elements of the marketplace (product, price, promotion, distribution, and research) within the framework of the uncontrollable elements (competition, politics, laws, consumer behavior, level of technology, and so forth) in such a way that marketing objectives are achieved

The International Marketing Task

- The total environment of an international marketer is illustrated in [Exhibit 1.3](#)
 - The inner circle depicts the controllable elements
 - The second circle shows the uncontrollable domestic elements that have some effect on foreign-operation decision
 - The third (outer) circle represents the uncontrollable elements of the foreign environment for each foreign market
 - Each foreign market presents different problems involving some or all of the uncontrollable elements
 - Greater possibility of variety of foreign environmental factors to deal with

Exhibit 1.3

The International Marketing Task



[back](#)

Successful Marketing Program

- A program designed for optimal adjustment to the uncertainty of the business climate
 - The inner circle in [Exhibit 1.3](#) shows the areas under the marketing manager's control
 - *The marketing manager blends price, product, promotion, channels-of-distribution, and research activities to capitalize on anticipated demand, assuming the necessary overall corporate resources, structures, and competencies that can limit or promote strategic choice.*
 - The outer circles represent the levels of uncertainty
 - *The marketing manager must actively evaluate, and if needed, adapt to the uncontrollable elements in order to determine the outcome of the marketing enterprise.*

Foreign Environment

- The outer circle in Exhibit 1.3 corresponds to a significant source of uncertainty, the uncontrollables in the foreign environment
 - Political stability
 - Political/legal forces
 - Class structure
 - Competitive forces -Porter's five forces analysis
 - Level of technology
 - Geography
 - Cultural forces
 - Economic climate
 - Structure of distribution
 - Infrastructure

Citibank in Brazil



© John Graham

A Citibank branch in the heart of Brazil on a rainy day. The address on the Avenida Paulista is 1776—how American! One of the world’s great multinational corporations barely survived the financial debacle of October 2008. Perhaps its red, white, and blue umbrella logo protected it from “adverse weather” on Wall Street? Indeed, during the past few years, its international operations have performed much better than its domestic ones. In particular, emerging markets such as China, India, and Brazil proved relatively resilient during the global financial crisis that began in 2008.

Cultural Adjustment

- Most challenging and most important while confronting international markets
 - International marketers must:
 - adjust marketing efforts to cultures which they are not attuned to
 - be aware of frames of reference they are using in making decisions or evaluating the potential of the market
 - an important factor in determining or modifying a marketer's reaction to situations—social and even nonsocial

In any study of the market systems of different peoples, their political and economic structures, religions, and other elements of culture, foreign marketers must constantly guard against measuring and assessing the markets against the fixed values and assumptions of their own cultures.

The Self-Reference Criterion and Ethnocentrism

- The **Self-Reference Criterion (SRC)** is an unconscious reference to one's own cultural values, experiences, and knowledge as a basis for decisions.
- **Ethnocentrism** is the notion that people in one's own company, culture, or country know best how to do things.
- Both the **SRC** and **ethnocentrism** impede the ability to assess a foreign market in its true light.

The Self-Reference Criterion

- When confronted with a set of facts, we react spontaneously on the basis of knowledge assimilated over a lifetime—knowledge that is a product of the history of our culture.
 - We seldom stop to think about a reaction—we simply react instinctively and refer to our SRC for a solution.
 - These reactions are based on meanings, values, symbols, and behavior of our own culture, usually different from those of the country we are dealing with.
 - Prevent us from being aware of the importance of cultural differences.
 - We fail to recognize the need to take action.

Isolate SRC Influences and Be Vigilant of Ethnocentrism

- Define the business problem or goal in home-country cultural traits, habits, or norms.
- Define the business problem or goal in foreign-country cultural traits, habits, or norms through consultation with natives of the target country.
- Isolate the SRC influence in the problem and examine it carefully to see how it complicates the problem.
- Redefine the problem without the SRC influence and solve for the optimum business goal situation.

Developing a Global Awareness

To be globally aware is to have:

- tolerance of cultural differences and
- knowledge of cultures, history, world market potential, and global economic, social, and political trends

Global awareness also involves knowledge of world market potentials and global economic, social, and political trends.

Factors Favoring Faster Internationalization

- Companies with either high technology and/or marketing-based resources are better equipped to internationalize than more traditional manufacturing companies
- Smaller home markets and larger production capacities favor internationalization
- Firms with key managers well networked internationally are able to accelerate the internationalization process

International Marketing Involvement

- The first two types are more reactive in nature, and do not involve careful strategic thinking about international marketing
 - No Direct Foreign Marketing
 - Infrequent Foreign Marketing
- The next three types are involved in strategic planning and decisions about international marketing
 - Regular Foreign Marketing
 - International Marketing
 - Global Marketing

Week: 3
Slides 29-37

No Direct Foreign Marketing

- A company that does not actively cultivate customers outside the country
 - Products may reach foreign market via domestic wholesalers/distributors who sell abroad without the knowledge of the producer
 - Sales done by trading companies/foreign customers who directly contact the firm
 - Products gain popularity to foreign buyers through websites
 - *This can ignite the interest of the company to seek additional international sales.*

Infrequent Foreign Marketing

- A company with temporary surpluses caused by variations in production levels or demand may send their products for marketing overseas
 - Sales to foreign markets are made as goods become available
 - As domestic demand increases and absorbs surpluses, foreign sales are withdrawn

Few companies fit his model because international customers seek long-term commercial relationships.

Regular Foreign Marketing

- A firm with permanent productive capacity devoted to the production of goods and services to be marketed in foreign markets
 - Employs foreign or domestic overseas intermediaries, or may have its own sales force or sales subsidiaries in important foreign markets
 - Primary focus of operations and production is to service domestic market needs
 - As overseas demand grows, production is allocated for foreign markets
 - Products may be adapted to meet the needs of individual foreign markets
 - Company becomes dependent on profit from foreign markets to meet its goals

International Marketing

- A firm that is fully committed to international sales
 - Seeks markets all over the world and sells products that are a result of planned production for markets in various countries
 - Planning generally entails not only the marketing but also the production of goods outside the home market

Global Marketing

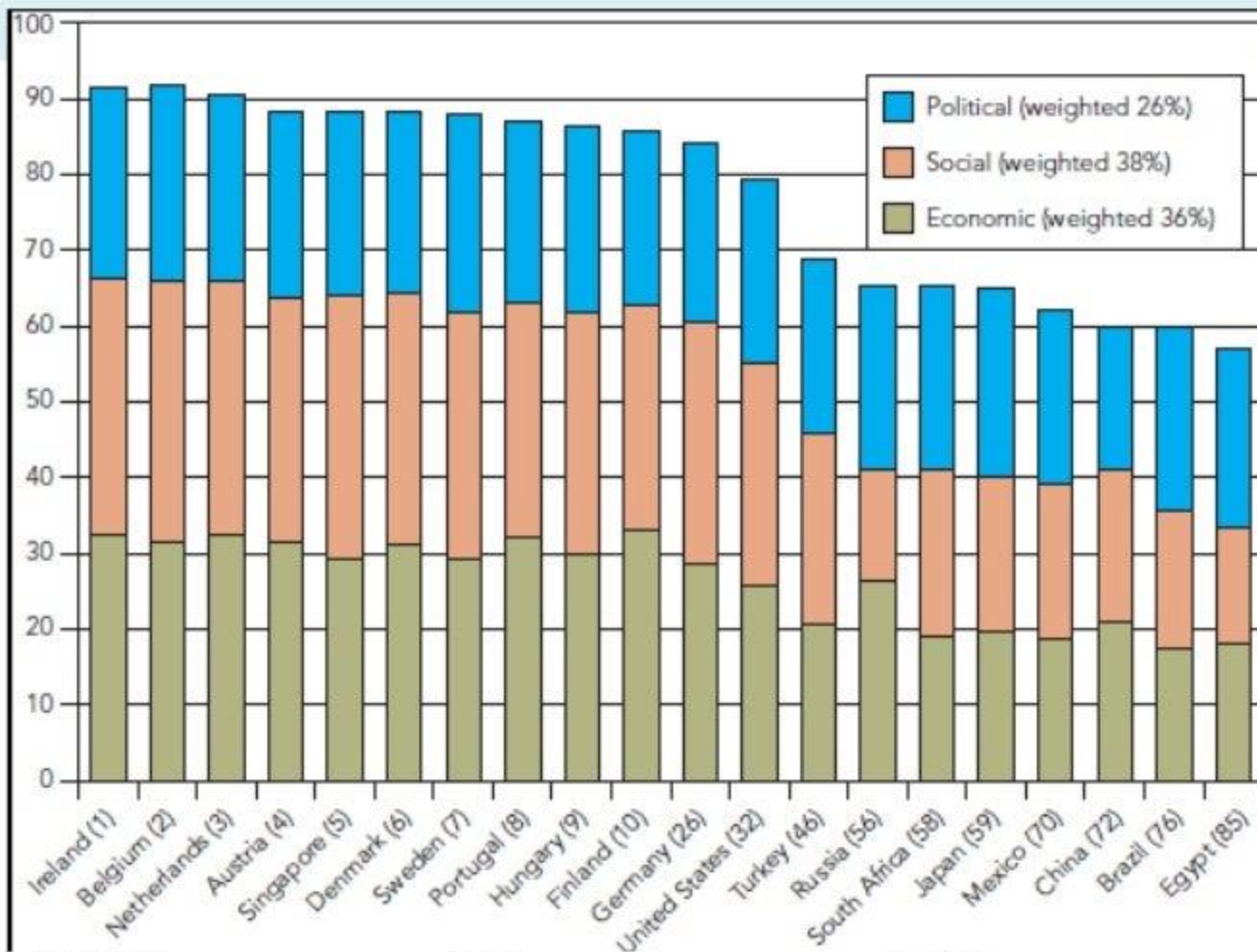
- Companies that treat the world, including their home market, as one market
 - Market segments are defined by income levels, usage patterns, or other factors that frequently span countries and regions
 - More than half of sales revenues come from abroad

Success in International Marketing

- Awareness of the environment with which marketing programs will be implemented
 - Ability to assess and adjust properly to the impact of a strange environment
 - A thorough study of foreign marketing environments, people, and cultures, and their influences on the total marketing process
- [Exhibit 1.4](#) shows the most recent ranking of countries on their extent of globalization.

Exhibit 1.4

The KOF Globalization Index (top ten plus selected other countries)



Economic Globalization Measures

- Trade flows
- Foreign direct investment flows
- Income payments to foreigners
- Mean tariff rates
- Taxes on international trade

Social Globalization Measures

- Telephone traffic
- International tourism
- Foreign population
- Internet users
- Televisions

Political Globalization Measures

- Embassies in country
- Membership in international organizations
- International treaties
- Participation in UN missions

The Orientation of International Marketing

- Environmental/cultural approach
- Relate the foreign environment to the marketing process
- Illustrate how culture influences the marketing task
 - The cultural environment within which the marketer must implement marketing plans can change dramatically from country to country

Summary

- American business is going global, and the markets and competition need to pay attention to global environment.
- The self-reference criterion and ethnocentrism limit the international marketer's abilities to understand and adapt to differences prevalent in foreign markets.
- Some companies see international marketing as ancillary to the domestic operations, whereas others see international marketing as a crucial aspect of sales revenue generation.
- Global orientation views the globe as the marketplace, and market segments are no longer based solely on national borders.

Week: 4
Slides 39-59

Chapter 2

Week-4-6

The Dynamic Environment of International Trade



Trade Barriers

- **A trade barrier is a general term that describes any government policy or regulation that restricts international trade.**
- **It is like a wall that affects trade between countries**



Trade Barriers

- Barriers to trade are one of the major issues confronting international marketers
- They can be tariff or nontariff barriers
- Countries continue to use nontariff barriers for a variety of reasons
- Tariff barriers have reduced considerably in recent years

The balance of trade:

is the difference between amount of exports and imports of visible goods.

Balance of trade = total exports - total imports.



Balance of Trade (1 of 2)

- The balance of merchandise trade also reflected the changing role of the United States in world trade
- Between 1888 and 1971, the United States had a favorable balance of trade
- By 1971, the United States had a trade deficit of \$2 billion that grew to \$160 billion in 1987
- Trade deficit peaked in 2007, with the continued weakness in the U.S. dollar
- A positive consequence of the global financial crisis in 2008 in the United States was the halving of the U.S. trade deficit during 2009 from its high in 2007
- But in 2011, the deficit was again more than \$700 billion

Balance of Trade (2 of 2)

- The continuing integration of the countries of the European Union, the creation of NAFTA and the American Free Trade Area (AFTA), and the rapid evolution of the Asia-Pacific Economic Cooperation Conference (APEC) are the beginnings of global trading blocks that many experts expect to dominate trade patterns in the future.
- Smaller companies are using novel approaches to marketing and seeking ways to apply their technological expertise to exporting goods and services not previously sold abroad.

Balance of Payments (BOP):

The system of accounts that records a nation's international financial transactions.

- ✓ The difference between all money flowing into the country in a particular period of time and the outflow of money to the rest of the world.
- ✓ These financial transactions are made by individuals, firms and government bodies to compare receipts and payments arising out of trade of goods and services.

Balance of Payments (1 of 5)

- When countries trade there are financial transactions among businesses or consumers of different nations
- Money constantly flows into and out of a country
- The system of accounts that records a nation's international financial transactions is called its balance of payments (BP)
- It records all financial transactions between a country's firms, and residents, and the rest of the world usually over a year
- The BP is maintained on a double-entry bookkeeping system

Balance of Payments (2 of 5)

- The assets and liabilities or the credits and debits must offset each other
- When they balance, it does not mean a nation is in particularly good or poor financial condition
- A balance of payments is a record of condition, not a determinant of condition
- Each of the nation's financial transactions with other countries is reflected in its balance of payments

Balance of Payments (3 of 5)

The BP is the difference between receipts and payments



Receipts

- merchandise export sales
- money spent by foreign tourists
- transportation
- payments of dividends and interest from FDI abroad
- new foreign investments in the U.S.



Payments

- costs of goods imported
- spending by U.S. tourists overseas
- new overseas investments
- cost of foreign military and economic aid



Elements of Balance of Payment

- A balance-of-payments statement includes three accounts:
 - the **current account**, a record of all merchandise exports, imports, and services plus unilateral transfers of funds
 - the **capital account**, a record of direct investment, portfolio investment, and short-term capital movements to and from countries
 - the official **reserves account**, a record of exports and imports of gold, increases or decreases in foreign exchange, and increases or decreases in liabilities to foreign central banks
- Of the three, the current account is of primary interest to international business.

Balance of Payments (5 of 5)

- When the wealth of a country whose expenditures exceed its income has been exhausted, that country, like an individual, must reduce its standard of living.
- If its residents do not do so voluntarily, the rates of exchange of its money for foreign monies decline, and through the medium of the foreign exchange market, the purchasing power of foreign goods is transferred from that country to another.

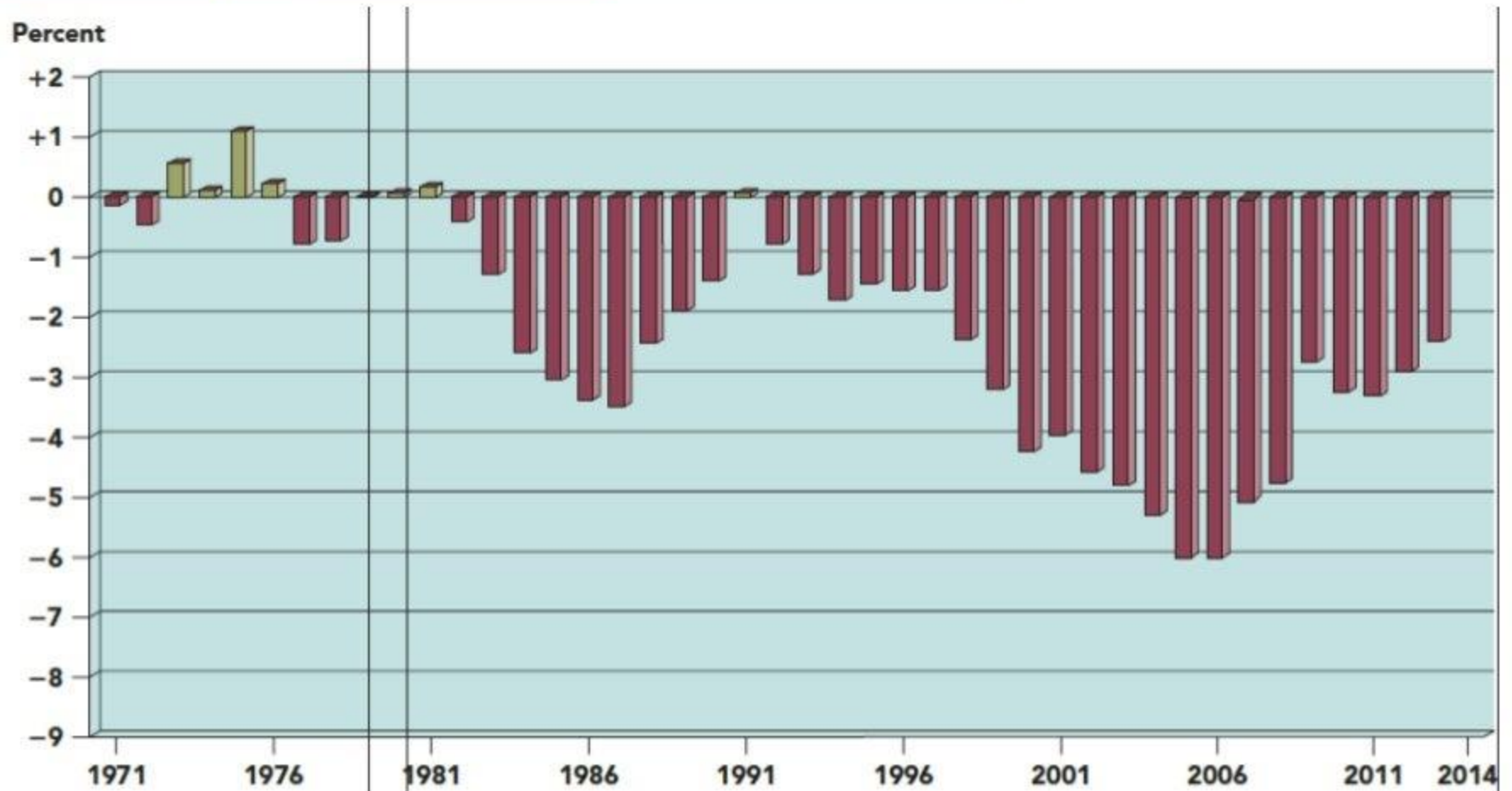
Exhibit 2.4

U.S. Current Account by Major Components, 2014 (\$ billions)

Exports	
Goods	\$ 1635
Services	709
Income receipts	813
Imports	
Goods	-2371
Services	-478
Income payments	-586
Unilateral current transfers, net	164
<i>Current account balance</i>	-114

Exhibit 2.5

U.S. Current Account Balance (% of GDP)



Source: World Bank, 2015.

Exhibit 2.6

What Would One U.S. Dollar Buy?

	1985	1988	1992	1995	1999	2000	2005	2010	2012
British Pound	0.86	0.54	0.56	0.63	0.62	0.68	0.57	0.63	0.63
French Franc	9.6	5.4	5.29	4.95	6.49	7.28			
Japanese Yen	250.23	123.7	126.7	93.96	102.58	112.21	112.3	89.9	76.3
Swiss Franc	2.25	1.29	1.41	1.18	1.58	1.68	1.31	0.96	0.92
Euro			1.01	0.90	0.92	1.08	0.79	0.71	0.88
Mexico Peso	0.37	2.28	3.12	6.45	9.43	9.47	10.8	13.0	13.1

Source: *The Wall Street Journal*, 2012

Protectionism:

Policy of protecting domestic industries against foreign competition by means of tariffs, subsidies, import quotas, or other restrictions or handicaps placed on the imports of foreign competitors.



Protectionism

- The reality of trade is that this is a world of tariffs, quotas, and nontariff barriers designed to protect a country's markets from foreign investment
- Although the World Trade Organization has been effective to some extent in reducing tariffs, countries still resort to measures of **protectionism**
- Countries use legal barriers, exchange barriers, and psychological barriers to restrict the entry of unwanted goods

Arguments for Protectionism (1 of 2)

- Protection of an infant industry
- Protection of the home market
- Need to keep money at home
- Encouragement of capital accumulation
- Maintenance of the standard of living and real wages
- Conservation of natural resources
- Industrialization of a low-wage nation

Arguments for Protectionism (2 of 2)

- Maintenance of employment and reduction of unemployment
- National defense
- Enhancement of business size
- Retaliation and bargaining

Arguments against protectionism

Market Distortion and loss of Economic Efficiency

Protectionism can be an ineffective and costly means of sustaining jobs and supporting domestic economic growth:

Higher Prices for Consumers

Import tariffs in particular push up prices for consumers and insulate inefficient domestic sectors from genuine competition. They penalize foreign producers and encourage an inefficient allocation of resources both domestically and globally.

Reduction in Market Access for Producers

Export subsidies depress world prices and damage output, profits, investment and jobs in many lower and middle-income developing countries that rely heavily on exporting primary and manufactured goods for their growth.

Arguments against protectionism

Extra Costs for Exporters

For goods that are produced globally, high tariffs and other barriers on imports act as a tax on exports, damaging economies, and jobs, rather than protecting them. For example, a tariff on imported steel can lead to higher costs and lower profits for car manufacturers and the construction industry.

Adverse Effects on Poverty

Higher prices from tariffs tend to hit those on lower incomes hardest, because the tariffs (e.g. on foodstuffs, tobacco, and clothing) fall on products that lower income families spend a higher share of their income. Tariffs can therefore lead to a rise in relative poverty.

Retaliation & Trade Wars

There is the danger that one country imposing import controls will lead to retaliatory action by another.

Week: 5
Slides 61-82

Reasons for Trade Barriers

- Governments establish tariffs and a variety of nontariff barriers
 - To encourage development of domestic industry
 - To protect existing industry
 - Include quotas, boycotts, monetary barriers, and market barriers
 - Against imports and against foreign businesses

The Impact of Tariff (Tax) Barriers

(1 of 2)

- Tariff barriers tend to **increase**:
 - Inflationary pressures
 - Special interests' privileges
 - Government control and political considerations in economic matters
 - The number of tariffs they beget via reciprocity

The Impact of Tariff (Tax) Barriers

(2 of 2)

- Tariff barriers tend to **weaken**:
 - Balance-of-payments positions
 - Supply-and-demand patterns
 - International relations (they can start trade wars)
- Tariff barriers tend to **restrict**:
 - Manufacturers' supply sources
 - Choices available to consumers
 - Competition

Trade barriers

- Trade Barriers can broadly divided into tariff barriers and non tariff barriers.
- The purpose of trade barriers is to promote domestic goods than imported goods and there by safeguard the domestic industries.

The background of the slide is a blue mosaic pattern composed of small squares in various shades of blue, ranging from light to dark. A solid blue horizontal band is positioned in the center of the slide, containing the title text.

Tariff and Non-tariff barriers

Tariff Barriers

- Term tariff means 'Tax' or 'duty'.
- Tariff barriers are the 'tax barriers' or the 'monetary barriers' imposed on internationally traded goods when they cross the national borders.



Major tariff barriers:

1. Specific duty:

It is based on the physical characteristics of the good. A fixed amount of money can be levied on each unit of imported goods regardless of its price.

Eg. Imposing of \$15 on an imported shoe.

2. Ad Valorem tariffs:

The Latin phrase 'ad valorem' means "according to the value". This tax is flexible and depends upon the value or the price of the commodity.

Eg. Imposing tax of 5\$ for a 50\$ shoe and 10\$ for a 100\$ shoe.

3. Combined or compound duty:

It is a combination of specific and ad valorem duty on a single product, for instance , there can be a combined duty when 10% of value(ad valorem) and 1\$ per kilogram(specific tax) are charged on metal M.

4. Sliding scale duty:

The duty which varies along with the price of the commodity is known as sliding scale duty or seasonal duties. These duties are confined to agricultural products, as their prices frequently vary because of natural and other factors.

5. Countervailing duty:

It is imposed on certain import where it is being subsidised by exporting governments. As a result of the government subsidy, imports become more cheaper than domestic goods, to nullify the effect of subsidy, this duty is imposed in addition to normal duties.

6. Revenue tariff:

A tariff which is designed to provide revenue or income to the home government is known as revenue tariff. Generally this tariff is imposed with a view of earning revenue by imposing duty on consumer goods, particularly on luxury goods whose demand from the rich is inelastic.

7. Anti –dumping duty:

At times exporters attempt to capture foreign markets by selling goods at rock-bottom prices, such practice is called dumping. As a result of dumping, domestic industries find it difficult to compete with imported goods. To offset anti-dumping effects, duties are levied in addition to normal duties.

8. Protective tariff:

In order to protect domestic industries from stiff competition of imported goods, protective tariff is levied on imports. Normally a very high duty is imposed, so as to either discourage imports or to make the imports more expensive as that of domestic products.

9. Classification of tariff on the basis of trade relationship:

a) Single column tariff: here the tariff rates are fixed for various commodities and the same rates are charged for imports from all countries. Tariff rates are uniform for all countries and discrimination between importing countries is not made.

b) Double column tariff: here two rates of tariff on all or some commodities are fixed. The lower rate is made applicable to a friendly country or the country with which bilateral trade agreement is entered into. The higher rate is made with all other countries.

c) Triple column: here 3 rates are fixed. They are: general rate, international rate, preferential rate. The first two are similar to lower and higher rates while the preferential rate is substantially lower than the general rate and is applicable to friendly countries with trade agreement or with close trade relationship.

Non Tariff Barriers

- Any barriers other than tariff.
- It is meant for constructing barriers for the free flow of the goods.
- It do not affect the price of the imported goods.
- It affects the quality and quantity of the goods.

1. LICENSES: License is granted by the government, and allows the importing of certain goods to the country.

2. VOLUNTARY EXPORT RESTRAINS(VER):

These type of barriers are created by the exporting country rather than the importing one. These restrains are usually levied on the request of the importing company.

eg. Brazil can request Canada to impose VER on export of sugar to brazil and this helps to increase the price of sugar in Brazil and protects its domestic sugar producers.

3. Quotas: under this system, a country may fix in advance, the limit of import quantity of commodity that would be permitted for import from various countries during a given period. This is divided into the following categories:

a) Tariff quota: certain specified quantity of imports allowed at duty free or at a reduced rate of import duty. A tariff quota, therefore, combine the features of a tariff and import quota.

b) unilateral quota: the total import quantity is fixed without prior consultations with the exporting countries.

c) bilateral quota: here quotas are fixed after negotiations between the quota fixing importing country and the exporting country.

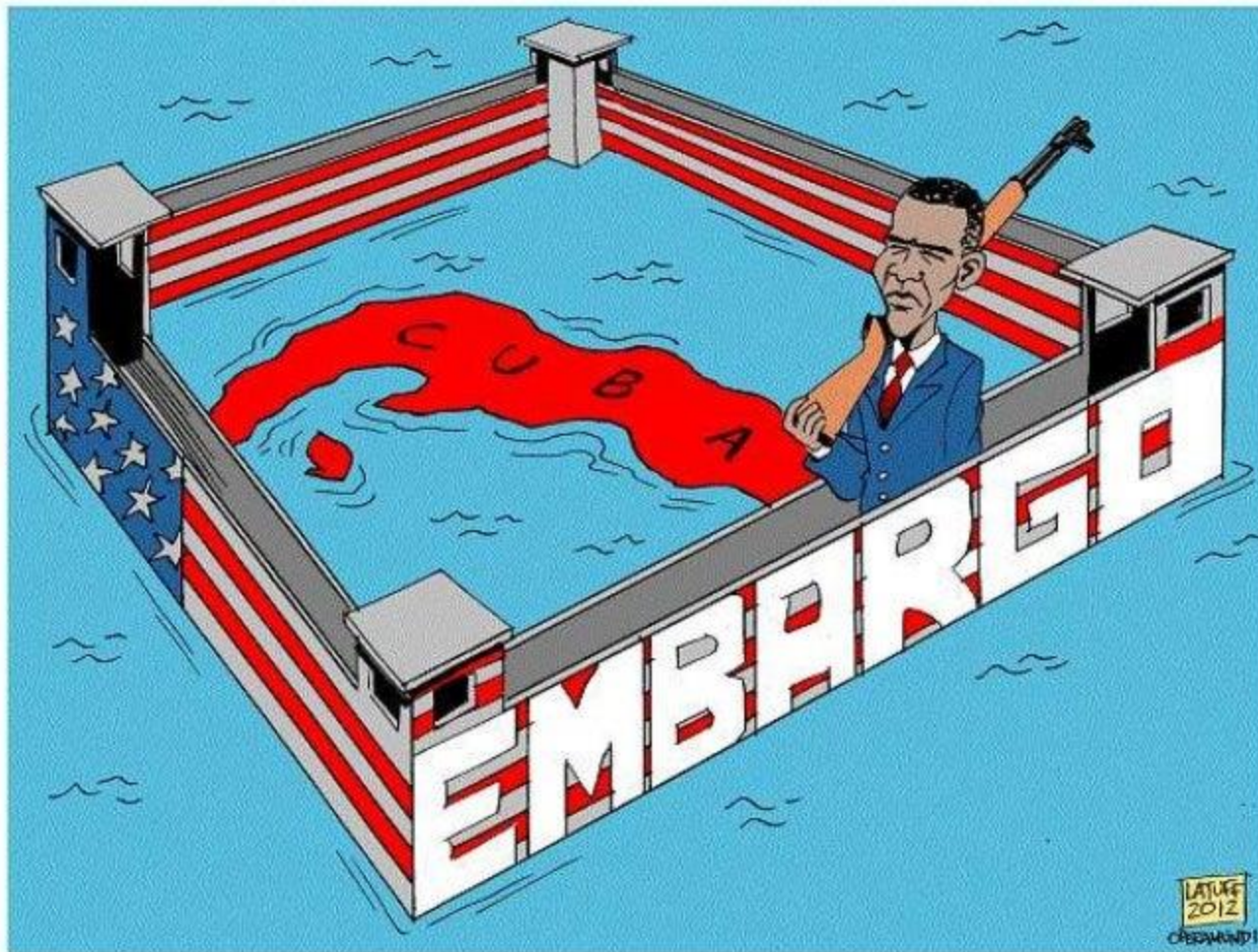
d) multi lateral quota: a group of countries can come together and fix quotas for each country.

4. **Product standards:** here the importing country imposes standards for goods. If the standards are not met, the goods are rejected.
5. **Domestic content requirements:** governments impose DCR to boost domestic production.
6. **Product Labeling:** certain countries insist on specific labeling of the products.
Eg. EU insist on products labeling in major languages in EU.
7. **Packaging requirements:** certain nations insist on particular type of packaging of goods.
Eg. EU insist on packaging with recyclable materials.

8. **Foreign exchange regulations:** the importer has to ensure that adequate foreign exchange is available for import of goods by obtaining a clearance from exchange control authorities prior to the concluding of contract with the supplier.

9. **State trading:** in some countries like India, certain items are imported or exported only through canalising agencies like MMTT(minerals and metals trading cooperation of India)

10. **Embargo:** partial or complete prohibition of trade with any particular country, mainly because of the political tensions.



Other NTBs are:

- Health and safety regulations.
- Technical formalities
- Environment regulations

Difference between Quota and License

Quotas and Import Licenses

- A quota is a specific unit or dollar limit applied to a particular type of good.
- As a means of regulating the flow of exchange and the quantity of a particular imported commodity, countries often require import licenses.
- The fundamental difference between quotas and import licenses as a means of controlling imports is the greater flexibility of import licenses over quotas. Quotas permit importing until the quota is filled; licensing limits quantities on a case-by-case basis.

Boycotts and Embargoes

- A government boycott is an absolute restriction against the purchase and importation of certain goods and/or services from other countries.
- An embargo is a refusal to sell to a specific country.
- A public boycott can be either formal or informal and may be government sponsored or sponsored by an industry.

Week: 6

Slides 83-103

Monetary Barriers

- A government
 - can effectively regulate its international trade position by various forms of exchange-control restrictions
 - may enact such restrictions to preserve its balance-of-payments position specifically for the advantage or encouragement of particular industries

Two Types of Monetary Barriers

- **Blocked currency:** Blockage is accomplished by refusing to allow importers to exchange its national currency for the sellers' currency
- **Government approval:** In countries where there is a severe shortage of foreign exchange, an exchange permit to import foreign goods is required from the government. This encourages the importation of goods the government deems desirable and discourages importation of goods the government does not want by adjusting the exchange rate.

Easing Trade Restrictions

The Omnibus Trade and Competitiveness Act (OTCA) of 1988 (1 of 2)

- Many countries are allowed to trade freely with the United States but do not grant equal access to U.S. products in their countries.
- To ease trade restrictions, the OTCA focused on correcting perceived injustices in trade practices.
- It dealt with trade deficits, protectionism, and the overall fairness of our trading partners.

The Omnibus Trade and Competitiveness Act (OTCA) of 1988 (2 of 2)

- Covers three areas for improving U.S. trade:
 - market access
 - export expansion
 - import relief

General Agreement on Tariffs and Trade (GATT)

- Covers three basic areas:
 - Trade shall be conducted on a nondiscriminatory basis
 - Protection shall be afforded domestic industries through customs tariffs, not through such commercial measures as import quotas
 - Consultation shall be the primary method used to solve global trade problems

General Agreement on Trade in Services (GATS)

- GATS was the first multilateral, legally enforceable agreement covering trade and investment in the services sector.
- It provides a legal basis for future negotiations aimed at eliminating barriers that discriminate against foreign services and deny them market access.
- Specific market-opening concessions from a wide range of individual countries were achieved, and provision was made for continued negotiations to liberalize telecommunications and financial services further.

Trade-Related Investment Measures (TRIMs)

- It established the basic principle that investment restrictions can be major trade barriers and therefore are included, for the first time, under GATT procedures.

Trade-Related Aspects of Intellectual Property Rights (TRIPs)

- The TRIPs agreement establishes substantially higher standards of protection for a full range of intellectual property rights (patents, copyrights, trademarks, trade secrets, industrial designs, and semiconductor chip mask works) than are embodied in current international agreements, and it provides for the effective enforcement of those standards both internally and at the border.

World Trade Organization (WTO)

Unlike GATT, WTO is an institution, not an agreement

- It sets many rules governing trade between its 160 members
- WTO provides a panel of experts to hear and rule on trade disputes between members, and, unlike GATT, issues binding decisions

World Trade Organization (WTO)

The World Trade Organization (WTO) is the only global international organization dealing with the rules of trade between nations.

-goal is to help producers of goods and services, exporters, and importers conduct their business.

The main functions of WTO

1. To implement rules and provisions related to trade policy review mechanism.
2. To provide a platform to member countries to decide future strategies related to trade and tariff.
3. To provide facilities for implementation, administration and operation of multilateral and bilateral agreements of the world trade.

The main functions of WTO

4. To administer the rules and processes related to dispute settlement.
5. To ensure the optimum use of world resources.
6. To assist international organizations such as, IMF and IBRD for establishing coherence in Universal Economic Policy determination.

WTO (1 of 2)

- The Internet exposed protected industries to global competition
- WTO was established January 1, 1995 through the Uruguay round of GATT (1986–1993)
- Statutory powers to adjudicate trade disputes

WTO (2 of 2)

- Permanent international organization
- New legal and institutional foundation
- Platform for trade relations: collective debate, negotiation, and adjudication
- Dispute settlement faster
- Evolution of GATS, TRIMS, TRIPS

The IMF and the World Bank

- The **International Monetary Fund (IMF)** and the **World Bank Group** are two global institutions created to assist nations in becoming and remaining economically viable.
- These organizations play important roles in international trade by:
 - helping maintain stability in the financial markets
 - assisting countries that are seeking economic development and restructuring

The World Bank (1 of 2)

- The World Bank Group has five institutions, each of which performs the following services:
 - lending money to the governments of developing countries to finance development projects in education, health, and infrastructure
 - providing assistance to governments of the poorest developing countries (per capita incomes of \$925 or less) for developmental projects
 - lending directly to help strengthen the private sector in developing countries with long-term loans, equity investments, and other financial assistance

The World Bank (2 of 2)

- providing investors with investment guarantees against “noncommercial risk,” such as expropriation and war, to create an environment in developing countries that will attract foreign investment
- promoting increased flows of international investment by providing facilities for the conciliation and arbitration of disputes between governments and foreign investors; it also provides advice, carries out research, and produces publications in the area of foreign investment law

The World Bank

IBRD

The International Bank
for Reconstruction and
Development

IDA

The International
Development
Association

IFC

The International
Finance Corporation

MIGA

The Multilateral
Investment Guarantee
Agency

ICSID

The International
Centre for Settlement
of Investment Disputes

Protests against global institutions



"Globalization" by Gifford Myers. Photo by John Graham.



© Jane Mingay/AP Images

Gifford Myers showed the sculpture *Object (Globalization)*–2001, in the photo to the left, in Faenza, Italy, as a peaceful protest. In the photo above, protest of the deadly sort. Terrorists maim and kill those aboard the classic red London double-decker bus (you can see the pieces in the street).

Week: 7

Slides 105-118

Chapter 3

Week-7-9

History and Geography: The Foundations of Culture



Learning Objectives

- LO1** The importance of history and geography in understanding international markets
- LO2** The effects of history on a country's culture
- LO3** How culture interprets events through its own eyes
- LO4** How long-past U.S. international policies still affect customer attitudes abroad
- LO5** The effect of geographic diversity on economic profiles of a country
- LO6** Why marketers need to be responsive to the geography of a country
- LO7** The economic effects of controlling population growth and aging populations
- LO8** Communication infrastructures are an integral part of international commerce

Historical Perspective in Global Business

History helps define a nation's "mission."

- how it perceives its neighbors
- how it sees its place in the world
 - how it sees itself

- Knowing the history of a nation helps in understanding:
 - attitudes about the role of government and business
 - the relations between managers and the managed
 - the sources of management authority
 - attitudes toward foreign corporations

History and Contemporary Behavior

- Historical events between nations influence business and history.
- Any nation's business and political culture is shaped by history.

James Day Hodgson, former U.S. Labor Secretary and Ambassador to Japan, suggested that anyone doing business in another country should understand at least the encyclopedic version of the people's past as a matter of politeness, if not persuasion.

China: Vigilant of Foreign Influence

- First Opium War and the Treaty of Nanjing (1839–1842)
 - British traders forced a gateway into xenophobic China
- Second Opium War (1857–1860)
 - British and French forces destroyed the summer palace in Beijing
 - Signaled more freedom for foreign traders
 - Allowed Christian evangelism throughout the country
- Taiping Rebellion (1851–1864)
 - Loss of confidence in the Chinese government

Understanding Japanese Behavior

- Japanese went through
 - seven centuries under the shogun feudal system
 - isolation before the arrival of Commodore Perry in 1853
 - threat of domination by colonial powers
 - rise of new social classes
 - humiliation of World War II

Confucian philosophy emphasizes the basic virtue of loyalty “of friend to friend, of wife to husband, of child to parent, of brother to brother, but, above all, of subject to lord,” that is, to country. A fundamental premise of Japanese ideology reflects the importance of cooperation for the collective good.

History Is Subjective

Subjective perception of its history is crucial in understanding a nation's business and political culture.

In the case of U.S.–Mexico relations, perception of history presents two sides:

"Geography has made us neighbors, tradition has made us friends."

–President John F. Kennedy

"Geography has made us closer, tradition has made us far apart."–Mexicans

When the U.S. Marines sing with pride of their exploits *"from the halls of Montezuma to the shores of Tripoli,"* the Mexicans are reminded of how U.S. troops marched to the center of Mexico and extracted as tribute the area that is now known as Arizona, California, New Mexico, and Texas.

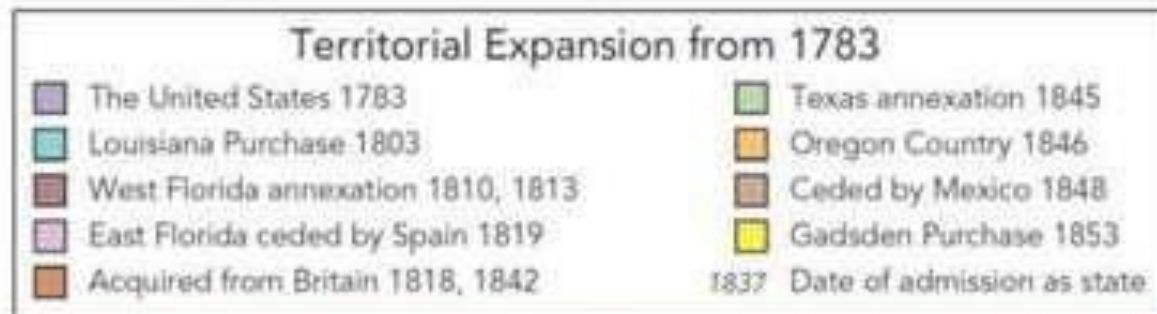
[Exhibit 3.1](#) gives an overview of the expansion of U.S. territory from 1783.

Exhibit 3.1

Territorial Expansion of United States from 1783



Source:
Oxford Atlas of the World,
18th ed.,
2002.
Reprinted
with
permission
of Philip
Maps.



Manifest Destiny and the Monroe Doctrine

- The basis of U.S. foreign policy in the 19th and 20th centuries
 - **Manifest Destiny** means that Americans were a chosen people ordained by God to create a model society.
 - Referred to the territorial expansion of the United States from the Atlantic to the Pacific
 - Justified the U.S. annexation of Texas, Oregon, New Mexico, and California, and U.S. involvement in Cuba, Alaska, Hawaii, and the Philippines
 - **The Monroe Doctrine** is the cornerstone of U.S. foreign policy, proclaiming that
 - No further European colonization in the New World
 - Abstention of the United States from European political affairs
 - Nonintervention by European governments in the governments of the Western Hemisphere

Roosevelt Corollary

- An extension of the Monroe Doctrine stating that not only would the United States prohibit non-American intervention in Latin American affairs, but it would also police the area and guarantee that Latin American nations met their international obligations. Using this in:
 - 1905, the Dominican Republic was forced to accept the appointment of an American economic adviser, who quickly became the financial director of the small state
 - 1903, the Panama Canal Zone was acquired from Colombia
 - 1906, Cuba was forced to accept the formation of a provisional government

Exhibit 3.2 highlights U.S. interventions in Latin America since 1945.

Exhibit 3.2

U.S. Intervention in Latin American since 1945



US Intervention in Latin America since 1945

- Direct military action by USA
- Economic and political intervention by USA
- Direct military action by USSR

Source: Oxford Atlas of the World, 18th ed., 2002 Preprinted with permission of Philip Maps



Geography and Global Markets

■ Geography

- The study of Earth's surface, climate, continents, countries, peoples, industries, and resources
- Includes an understanding of how a society's culture and economy are affected as a nation struggles to supply its people's needs within the limits imposed by its physical makeup
- Involves the study of:
 - Climate and topography
 - Nature and economic growth
 - Social responsibility and environmental management
 - Resources

Climate and Topography

- Marketers need to be aware of a country's climatic features that can affect the uses and functions of products and equipment.
 - Extremes in altitude, humidity, and temperature
 - Products that perform well in temperate zones may deteriorate rapidly or require special cooling or lubrication to function adequately in tropical zones
 - Within even a single national market, climate can be sufficiently diverse to require major adjustments
 - Different seasons between the northern and southern hemispheres also affect global strategies
 - Mountains, oceans, seas, jungles, and other geographical features can pose serious impediments to economic growth and trade

Marveling in Machu Picchu?

The solution
for high altitude sickness

Die Lösung
gegen die Höhenkrankheit

La solución
contra la mal de altura

- Prevents and brings relief to all high altitude sickness
- Previene y alivia todos los síntomas del mal de altura

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CRIZAL

EVIDENCIA DE EFECTIVIDAD EN EL TRATAMIENTO DE LA ENFERMEDAD DE MONTAÑA

© John Graham

This advertisement provides the only time we have seen a human vomiting to market a product. The product advertised treats altitude sickness. The billboard appears in the Lima, Peru, airport, targeting tourists traveling from sea level to Cuzco and Machu Picchu (pictured in the scenic background). Cuzco, the old Inca capital, is at more than 11,000 feet in altitude, and many foreign tourists visiting there suffer this particular sort of *tourista*.

Week: 8

Slides 120-131

Geography, Nature, and Economic Growth

- Climate and topography coupled with civil wars, poor environmental policies, and natural disasters push these countries further into economic stagnation.
 - Without irrigation and water management, droughts, floods, and soil erosion afflict them, often leading to creeping deserts.
 - Population increases, deforestation, and overgrazing intensify the impact of drought and lead to malnutrition and ill health.
 - Cyclones cannot be prevented, nor can inadequate rainfall, but means to control their effects are available.

Pollution in Angkor Wat



© John Graham



© John Graham

Two kinds of pollution in Cambodia. The monkey with the Coke can may seem kind of funny, until you think about it as an eyesore on the steps of the pristine Angkor Wat temple grounds. We'd also guess that caffeine, sugar, sharp-edged aluminum cans, and monkeys don't mix too well. The land mines still in the ground from a decade's past war are not funny. Here, Germany is helping clean up the deadly mess.

Social Responsibility and Environmental Management

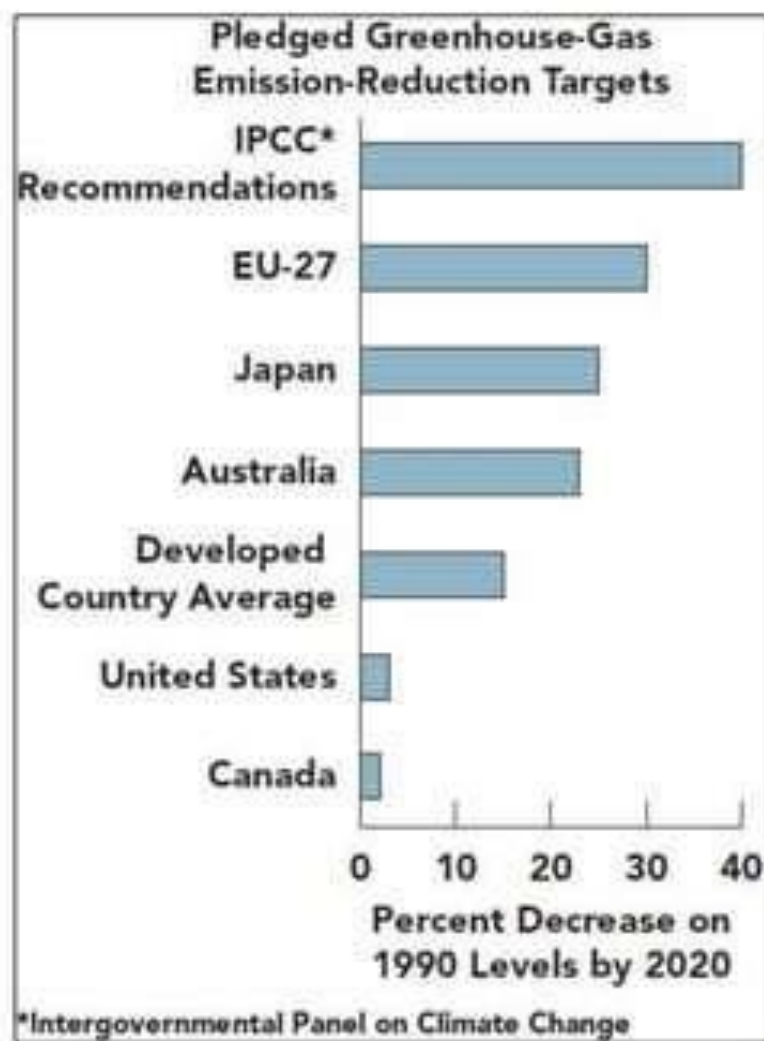
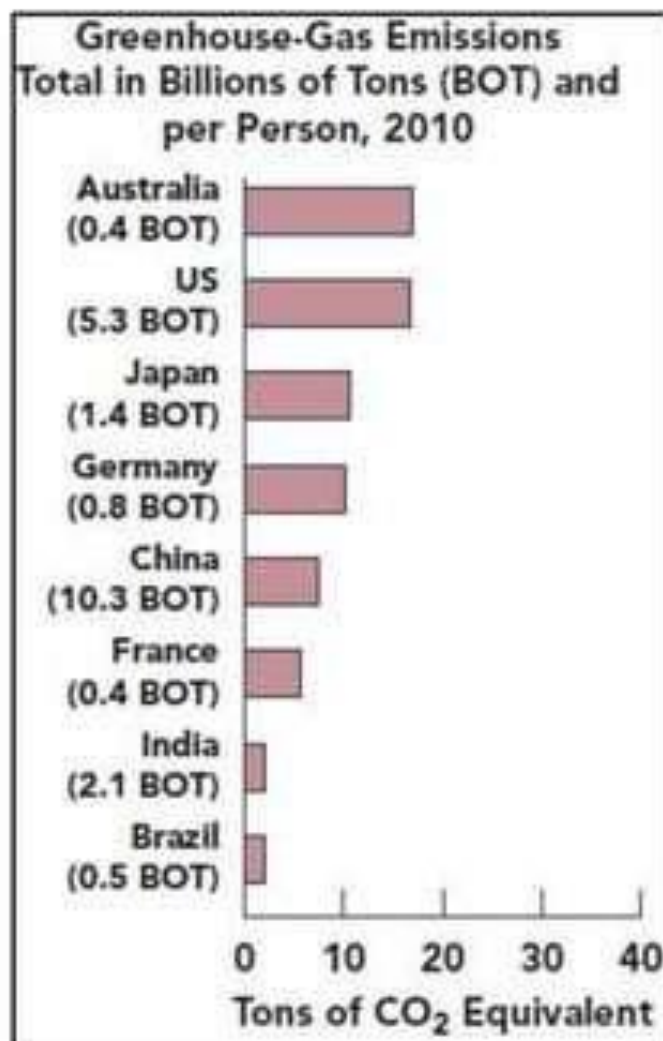
Environmental protection is NOT an optional extra; it is an essential part of the complex process of doing business.

- Global issue rather than national
- Poses common threats to humankind and thus cannot be addressed by nations in isolation
- Ways to stem the tide of pollution and to clean up decades of neglect are special concern to governments and businesses

Exhibit 3.3 shows a comparative analysis of several countries' rates and pledges for the reduction of greenhouse-gas emissions.

Exhibit 3.3

A Comparison of Greenhouse-Gas Emission Rates and Pledges for Reductions



Source: EuroMonitor International, 2012; Intergovernmental Panel on Climate Change

[back](#)

In São Paulo, motorists have a choice!



© John Graham

Here in São Paulo, Shell sells two kinds of fuel: alcohol made primarily from sugarcane and gasoline made from dirtier fossil fuels. Flexible-fuel engines in Brazilian cars can burn either kind of fuel or any mixture of the two. Although the price per liter is quite different, so is the mileage per liter. Brazilians make their choice of fuel based on the kind of driving they anticipate, city versus highway.

Resources

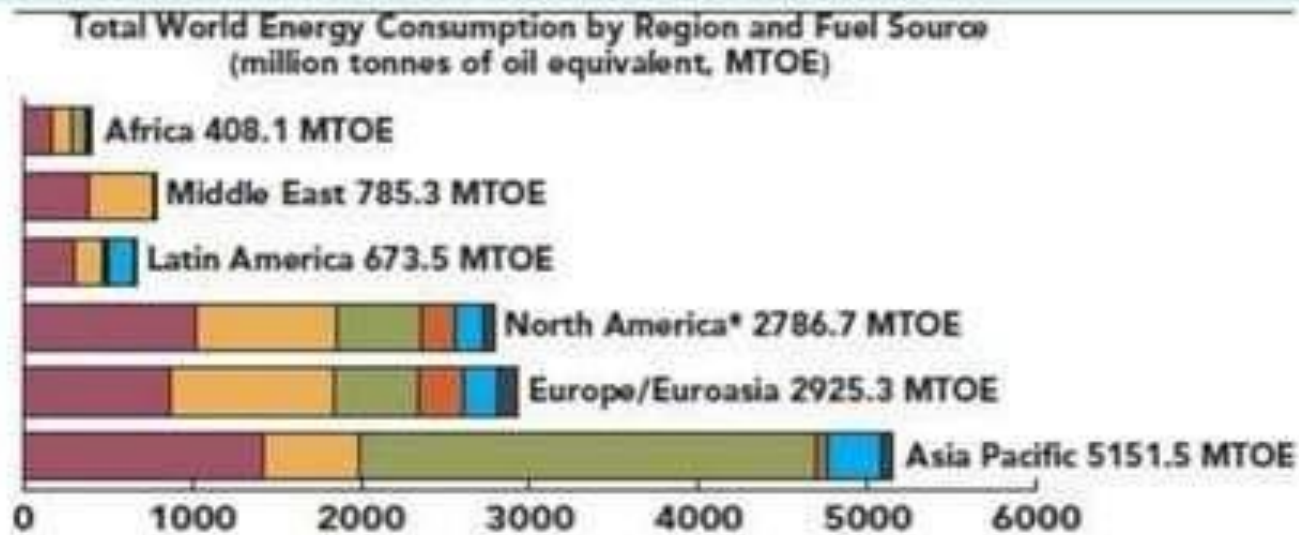


© narvikk/Getty Images

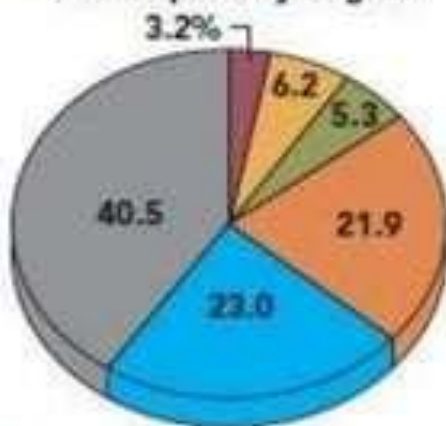
- A nation's demand for a particular mineral or energy source does not necessarily coincide with domestic supply.
- In the underdeveloped world, human labor provides the preponderance of energy.
- The principal supplements to human energy are
 - animals
 - wood
 - fossil fuel
 - nuclear power
 - to a lesser and more experimental extent the ocean's tides, geothermal power, and the sun
- [Exhibit 3.4](#) shows Total World Energy Consumption by Region and Fuel Source

Exhibit 3.4

Sources: BP Statistics Review of World Energy 2014 and International Energy Outlook 2014, U.S. Department of Energy, both accessed 2015.

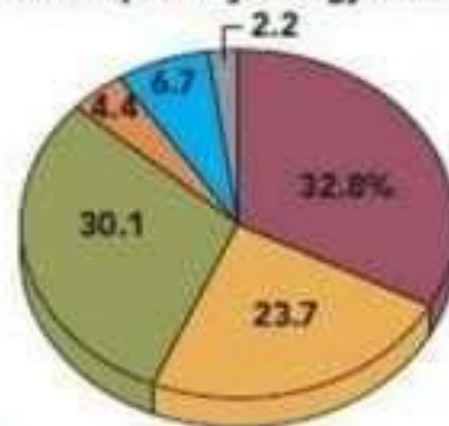


Percentage of World Energy Consumption by Region



Africa
 Middle East
 Latin America
 North America*
 Europe/Eurasia
 Asia Pacific

Percentage of World Energy Consumption by Energy Source



Oil
 Coal
 Hydro-electricity
 Natural Gas
 Nuclear
 Renewables



The Good News

- China is beginning to curtail its use of coal in favor of renewable resources as their demand is expected to peak before 2020.
- United States and China recently agreed on targets to cut carbon emissions, spurring the global efforts for cutting greenhouse gases.
- Countries in Asia and Africa have started using alternative resources for a more sustainable lifestyle.

Use of Alternative Resources (1 of 2)



© John Graham

This Masai woman of Tanzania put to good use both cow dung and urine in building her hut, pictured here in her family village (or boma). The semi-nomadic Masai graze their cattle during the day but enclose them within the acacia bush boma at night to protect them from predators.

Use of Alternative Resources (2 of 2)

Cattle dung, which is used both as farmyard manure and, dried into cakes, as household fuel, is being carried to a local market in India. India's cattle produce enormous quantities of dung, which some studies suggest provide the equivalent of 10,000 megawatts of energy annually. The Chulha stove described at the beginning of this chapter is designed to safely burn the cattle dung pictured on this fellow's head.



© John Graham

Global Population

- Recent estimates put world population at more than 7 billion people
- Expected to grow to about 9.5 billion by 2050
- Almost all the projected growth will occur in less developed regions
- 1.2 billion jobs must be created to accommodate new entrants through 2025
- [Exhibit 3.5](#) shows that 85 percent of the population will be concentrated in less developed regions by 2050.

Exhibit 3.5

World Population by Region, 2014–2050 (millions)

Regions	Population (in millions)	
	2014	2050
World	7,243	9,550
More developed regions*	1,255	1,350
Less developed regions ¹	5,986	8,247
Least developed regions ²	918	1,810
Africa	1,137	2,047
Asia	4,342	5,156
Europe	742	708
Latin America	662	781
Northern America	357	446
Oceania	49	57

Source: *World Population Prospects, The 2014 Revision*, United Nations Economic and Social Affairs, <http://www.unpopulation.org>, 2012. Reprinted with permission.



Week: 9

Slides 133-145

Controlling Population Growth

- The prerequisites to population control are:
 - Adequate incomes
 - Higher literacy levels
 - Education for women
 - Universal access to healthcare
 - Family planning
 - Improved nutrition
 - Basic change in cultural beliefs
 - Procreation is one of the most culturally sensitive, uncontrollable factors.

Religion and Family Planning

- Religion plays a major role in attitudes about family size and family planning.
- Many religions discourage or ban family planning and thus serve as a deterrent to control.
- **Case in Point – NIGERIA**
 - The country has a strong Muslim tradition in the north and a strong Roman Catholic tradition in the east, and both faiths favor large families.
 - Most traditional religions in Africa encourage large families; in fact, the principal deity for many is the goddess of land and fertility.
- Map 7 shows the different religions of the world. Some of those have beliefs hampering the population programs of many governments.

Rural/Urban Migration

- **1800**
 - 3.5% live in urban areas
- **2015**
 - 54% live in urban areas
- Desire for greater access to sources of education, healthcare, and improved job opportunities
- Tokyo has already overtaken Mexico City as the largest city on Earth, with a population of 38 million, a jump of almost 8 million since 1990
- *By 2030, 61% of the world's population will live in urban areas*
- *At least 27 cities will have populations of 10 million or more, 23 of which will be in less-developed regions*

Population Decline and Aging

- Birthrates in western Europe and Japan have been decreasing since the early or mid-1960s
 - More women are choosing career over children
 - Couples are deciding to remain childless
- Global life expectancy has grown more in the past 50 years than over the previous 5,000 years
 - Today, the over-age-65 group is 14%, and by 2030 this group will reach 25% in 30 different countries
 - The number of “old old” will grow much faster than the “young old”

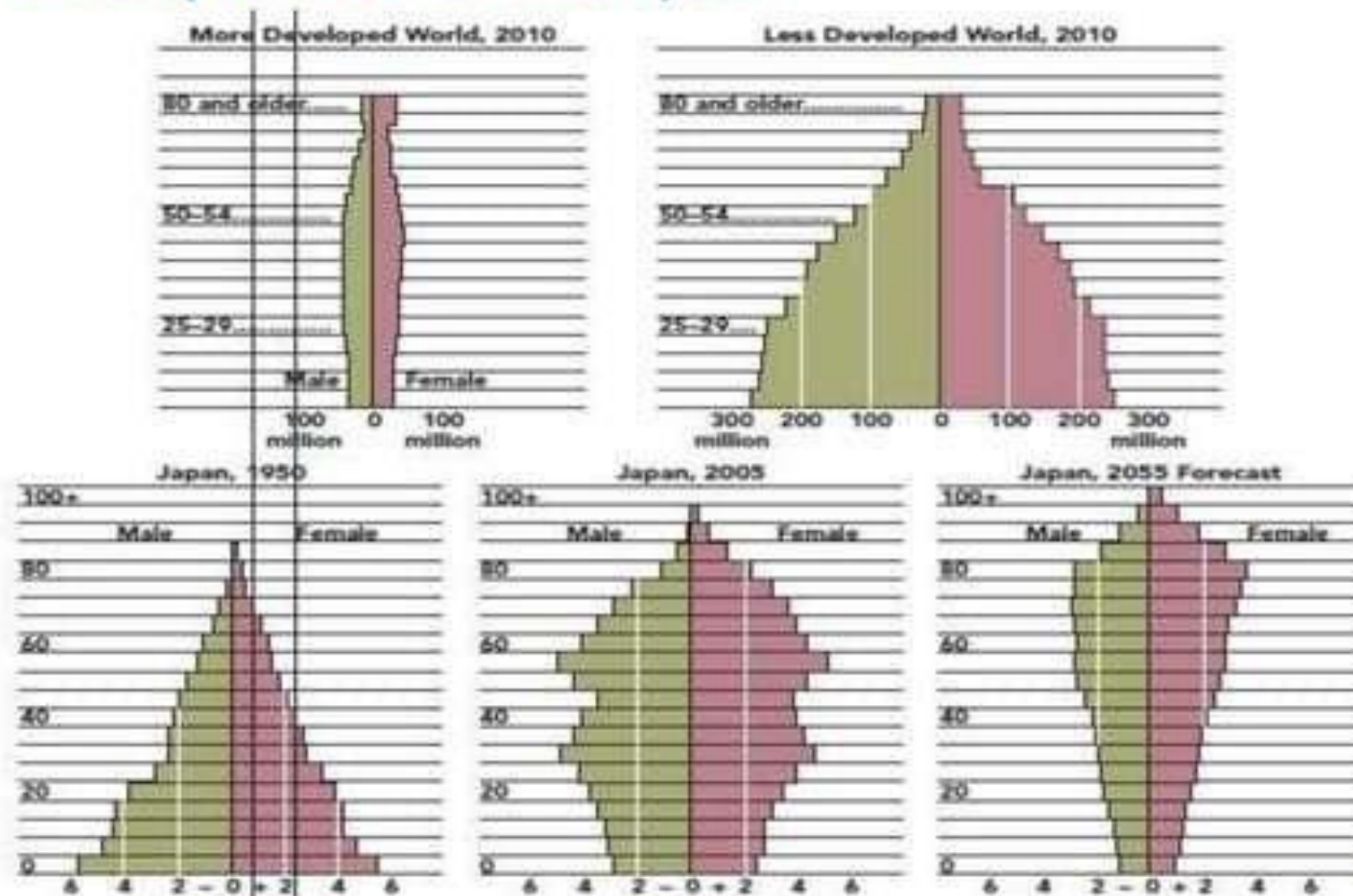
U.N. Projections for 2050

- People Aged 65 to 84
 - From 400 million to 1.3 billion (3x increase)
- 85 years and over
 - From 26 million to 175 million (6x increase)
- Over 100 years
 - From 135,000 to 2.2 million (16x increase)

- [Exhibit 3.6](#) illustrates the disparity in aging between more developed and less developed countries.

Exhibit 3.6

Age Density for World and Japan



Source: Adapted from "There Will Soon Be Seven Billion People on the Planet," *National Geographic Magazine*, January 2011, p. 51; "A Special Report on Japan," *The Economist*, November 10, 2010, p. 4.

Worker Shortage and Immigration

Free flow of immigration will help ameliorate the dual problems of explosive population expansion in less developed countries and worker shortage in industrialized regions

To keep the worker-to-retiree ratio from falling:

- Europe will need 1.4 billion immigrants over the next 50 years
- Japan and the United States will need 600 million immigrants between now and 2050

Immigration will not help ameliorate the problem though if political and cultural opposition to immigration cannot be overcome.

World Trade Routes

- Trade routes link people and economies
 - Bind the world together
 - Minimize distance
 - Break natural barriers
 - Curtail lack of resources
 - Bridge fundamental differences

As long as one group of people in the world wants something that another group somewhere else has and there is a means of travel between the two, there is trade.

Trading Through the Years



- 1500 – establishment of trade routes between Europe, Asia, and the Americas
 - The Spanish empire founded the city of Manila in the Philippines to receive its silver-laden galleons bound for China.
 - On the return trip, the ship's cargo of silk and other Chinese goods would be offloaded in Mexico, carried overland to the Atlantic, and put on Spanish ships to Spain.
- *The same trades routes remain important today and many Latin American countries have strong relationships with Europe, Asia, and the rest of the world.*

Map 8 shows these traditional trade routes and the burgeoning trade linkage between the developing nations.

Port of Corinth



© John Graham

- During ancient times the Port of Corinth was a crucial trading center and port serving Greece and its neighbors.
- The isthmus on which the city is built linked central Greece with the Peloponnesian Peninsula by land before the 6-kilometer canal pictured was completed in 1893.
- In ancient times ships were unloaded in Corinth and literally dragged across the 6-kilometer isthmus and reloaded, all to save the weeks-long voyage by sail between the Aegean and Ionian Seas.

The Changing Climate

- Climate change opens up a new trade route that may compete with the Panama Canal, cutting costly days off the travel time between Western Europe and Asia.
- Here a German commercial vessel follows a Russian icebreaker through the proverbial Northwest Passage.
- [Map 2](#) shows the changing world climate and how it opens up new avenues for foreign trade.



© Education Images/UiG/Getty Images

Communication Links

- Telegraph
- Telephone
- Television
- Computer
- Mobile Phones
- Satellite
- Internet
- *Communication has evolved. Each revolution in technology has had a profound effect on human conditions, economic growth, and the manner in which commerce functions.*

Map 5 illustrates the importance of fiber optic cable and satellites in providing global communications.

Summary

- A prospective international marketer should be reasonably familiar with the world, its climate, and topographic differences.
- Geographic hurdles must be recognized as having a direct effect on marketing and the related activities of communications and distribution.
- Many of the peculiarities of a country (i.e., peculiar to the foreigner) would be better understood and anticipated if its history and geography were studied more closely.
- The study of history and geography is needed to provide the marketer with an understanding of why a country has developed as it has, rather than as a guide for adapting marketing plans.
- History and geography are two of the environments of foreign marketing that should be thoroughly understood and that must be included in foreign marketing plans to a degree commensurate with their influence on marketing effort.

Week: 10

Slides 147-165

Chapter 4

Week-10-12

Cultural Dynamics in Assessing Global Markets



Learning Objectives

- LO1** The importance of culture to an international marketer
- LO2** The origins of culture
- LO3** The elements of culture
- LO4** The impact of cultural borrowing
- LO5** The strategy of planned change and its consequences

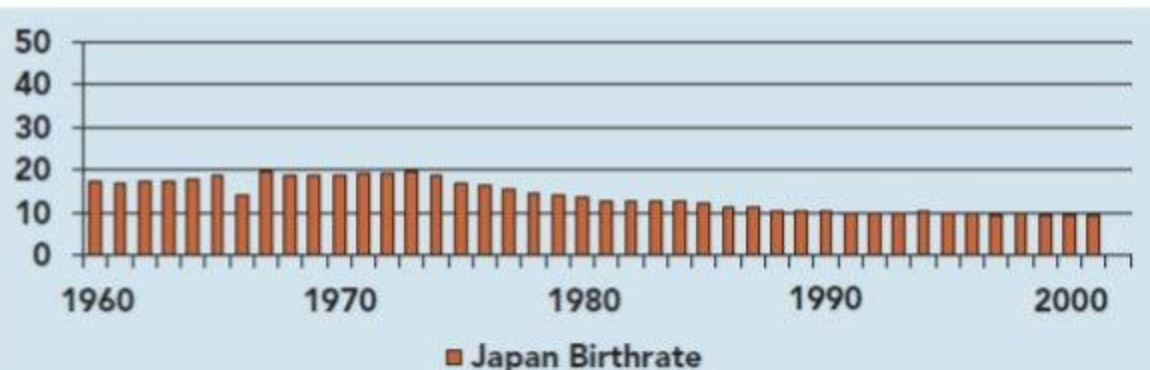
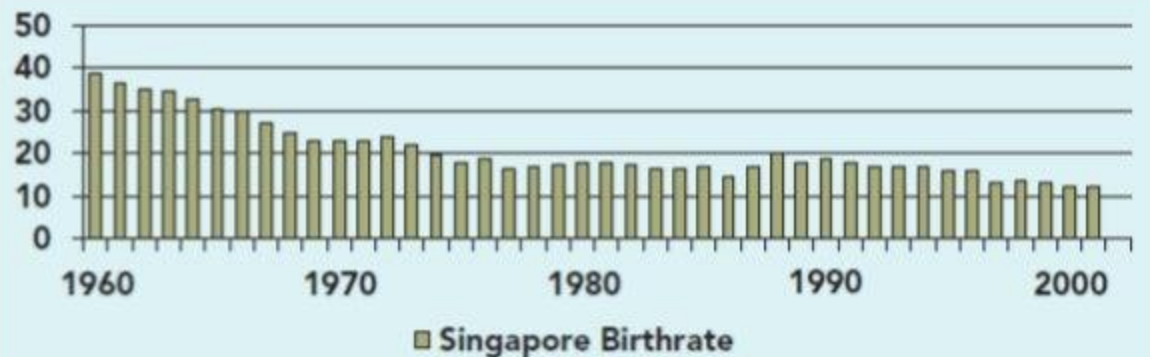
Culture's Pervasive Impact

- Culture affects every part of our lives
 - How we spend money
 - How we consume
 - How we sleep

Culture and Birthrates

- The birthrate tables in [Exhibit 4.1](#) show the gradual decline beginning in the 1960s.
- Birthrate spikes in Singapore in 1976 and 1988 are not a matter of random fluctuation.
 - In Chinese cultures, being born in the Year of the Dragon is considered good luck.
- A sudden and substantial decline in fertility in Japan in 1966 reflects abstinence, abortions, and birth certificate fudging.
 - The Japanese believe that women born in the Year of the Fire Horse will lead unhappy lives and perhaps murder their husbands.

Exhibit 4.1 Birthrates (per 1000 women)



Source: World Bank, *World Development Indicators* by International Bank for Reconstruction and Development, 2012. Copyright © 2012 by World Bank. Reproduced with permission of World Bank via Copyright Clearance Center.

Culture and Consumption

- [Exhibit 4.2](#) illustrates culture's influence on consumption patterns
 - The Dutch are the champion consumers of cut flowers.
 - The Germans and British love their chocolates.
 - The Japanese and Spaniards prefer seafood.
 - The Italians love pasta.
 - The French and Italians consume wine.
 - The Japanese are the highest consumers of tobacco.

Exhibit 4.2

Patterns of Consumption (annual per capita)

Country	Cut Flowers (€)	Chocolate (kg)	Fish and Seafood (kg)	Dried Pasta (kg)	Wine (liters)	Tobacco (sticks)
France	42	4.3	5.2	9.2	37.9	682
Germany	48	8.1	8.6	9.0	24.6	980
Italy	45	2.5	8.3	24.7	35.1	1147
Netherlands	49	4.9	4.8	3.7	25.7	659
Spain	23	2.1	28.2	5.2	19.5	911
United Kingdom	38	8.0	11.3	4.7	21.2	568
Japan	46	1.1	32.1	8.0	7.2	1490
United States	32	4.4	5.0	2.2	9.9	874

Source: CBI Marketing Information Data Base, "CBI Tradewatch for Cut Flowers and Foliage," <http://www.cbi.eu>, 2012; and 2015. EuroMonitor International



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Culture and Disease

- [Exhibit 4.3](#) shows the consequence of consumption patterns across the countries listed.
- The Germans have some of the highest consumption levels of flowers, candy, and wine, but the lowest birthrate among the six European countries.
- Perhaps the Japanese diet's emphasis on fish yields them the longest life expectancy.
- The diabetes mellitus death rates have declined in five of the countries.
- Japan shows a high incidence of stomach cancer.

Exhibit 4.3

Consequences of Consumption

Death Rate per 100,000

Country	Birthrates (per 1,000)	Life Expectancy	Ischemic Heart Disease	Diabetes Mellitus	Lung Cancer	Stomach Cancer
France	13.1	82.2	58.6	18.3	52.2	7.8
Germany	8.6	81.2	161.3	30.8	56.7	12.6
Italy	8.9	82.6	120.2	35.2	60.6	16.8
Netherlands	10.7	81.3	57.8	16.4	64.8	8.5
Spain	9.5	82.6	77.6	22.4	48.0	12.5
United Kingdom	12.8	81.2	121.0	9.7	56.4	7.7
Japan	7.9	83.3	62.1	11.7	56.5	39.4
United States	12.7	78.9	120.1	22.3	51.6	3.7

Source: EuroMonitor 2015.



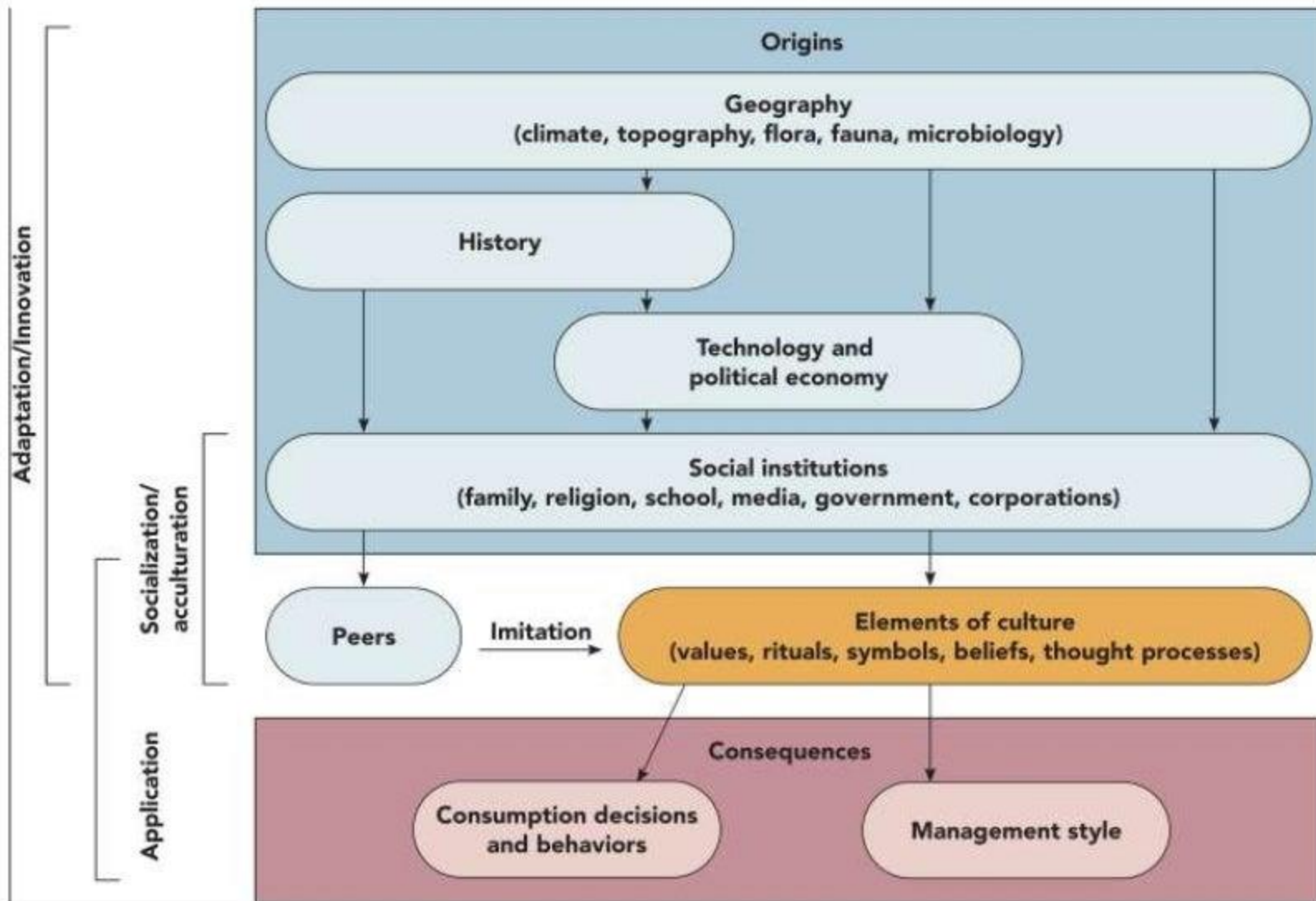
The Traditional Definition of Culture

- The sum of the values, rituals, symbols, beliefs, and thought processes that are learned and shared by a group of people, then transmitted from generation to generation
 - Resides in the individual's mind
 - Recognizes that large collectives of people can be like-minded



Exhibit 4.4

Origins, Elements, and Consequences of Culture



Origins of Culture: Geography

- Includes climate, topography, flora, fauna, and microbiology
- Influences history, technology, and economics
 - Social institutions
 - Boy-to-girl birth ratio
 - Ways of thinking

Origins of Culture: History

- The impact of specific events in history can be seen reflected in technology, social institutions, cultural values, and even consumer behavior.
 - Much of American trade policy has depended on the happenstance of tobacco being the original source of the Virginia colony's economic survival in the 1600s.
 - The Declaration of Independence, and thereby Americans' values and institutions, was fundamentally influenced by the coincident 1776 publication of Adam Smith's *The Wealth of Nations*.
 - The military conflicts in the Middle East in 2003 bred new cola brands as alternatives to Coca-Cola—Mecca Cola, Muslim Up, Arab Cola, and ColaTurka.

Origins of Culture: The Political Economy

- For most of the 20th century, four approaches to governance competed for world dominance:

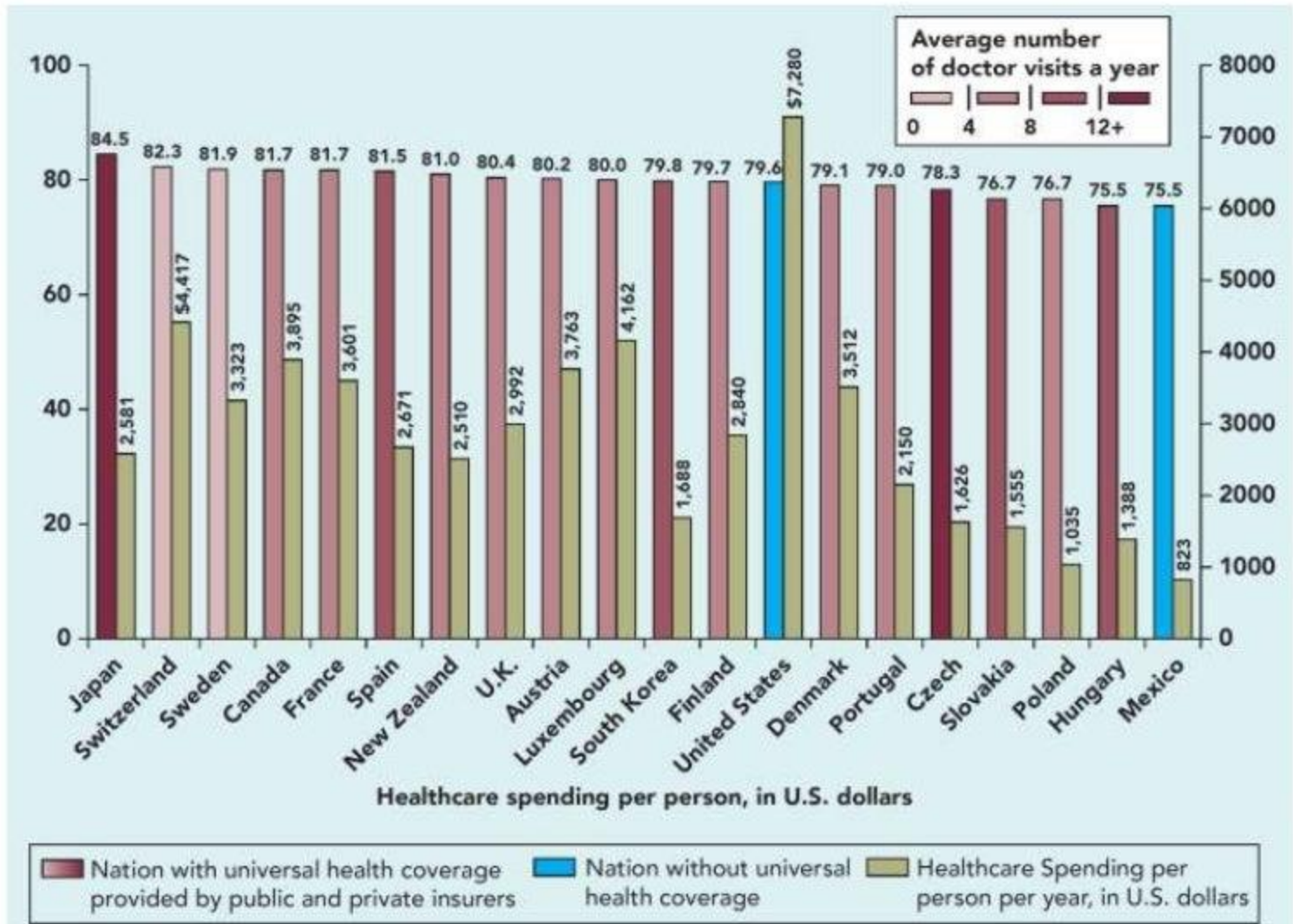
- Colonialism
 - Casualty of World War II
- Fascism
 - Fell in 1945
- Communism
 - Crumbled in the 1990s
- Democracy/free enterprise



Origins of Culture: Technology

- The effect of birth control techniques
 - Women have careers.
 - Half the marketing majors in the United States are women.
 - 10 percent of the crews on U.S. Navy ships are women.
 - Men spend more time with kids.

Exhibit 4.5 Comparison of Healthcare Systems



Source: Michelle Andrews, "Health, The Cost of Care," *National Geographic Magazine*, December 2009. Oliver Uberti/National Geographic Stock. Reprinted with permission.

Origins of Culture: Social Institutions

- Includes family, religion, school, the media, government, and corporations
- Aspects that are interpreted differently within each culture:
 - The positions of men and women in society
 - The family
 - Social classes
 - Group behavior
 - Age groups
 - How societies define decency and civility

Social Institutions: Family

- The technology of birth control has tremendously affected families and reduced family sizes around the world.
- Family forms and functions also vary substantially around the world, even around the country.
- The ratio of male to female children is affected by culture (as well as latitude).
- All these differences lead directly to differences in how children think and behave.

Social Institutions: Religion

- The impact of religion on the value systems of a society and the effect of value systems on marketing must not be underestimated.
 - In most cultures, the first social institution infants are exposed to outside the home takes the form of a church, mosque, shrine, or synagogue.
- The influence of religion is often quite strong, so marketers with little or no understanding of a religion may readily offend deeply.

Week: 11

Slides 167-183

Religious Pilgrims



© Mahmood Mahmoud/AFP/Getty Images

Every Muslim is enjoined to make the hajj, or pilgrimage, to Mecca, once in his or her lifetime if physically able. Millions of faithful Muslims come from all over the world annually to participate in what is one of the largest ritual meetings on Earth.



© John Graham

Each day at sunrise and sunset, pilgrims crowd the *Ghats* (steps to the holy river/Mother Ganga/the River Ganges) to immerse themselves in the water and perform *puja*. The 55-day festival attracts some 60–80 million pilgrims.

Social Institutions: School

- The literacy rate of a country is a potent force in economic development.
 - According to the World Bank, no country has been successful economically with less than 50 percent literacy.
 - When countries have invested in education, the economic rewards have been substantial.
- Communicating with a literate market is much easier than communicating with one in which the marketer must depend on symbols and pictures.

Children reading books rented from a street vendor



© Cary Wolinsky/Trillium Studios

In the United States, kids attend school 180 days per year; in China, they attend 251 days—that's six days a week. There's a great thirst for the written word in China.

Social Institutions: The Media

- The relative performance of educational systems ([Exhibit 4.6](#)) is seen as a leading indicator of economic competitiveness.
- Media time (TV and increasingly the Internet and mobile phones) has replaced family time.
- American kids spend only 180 days per year in school.
- Chinese, Japanese, and German kids spend around 220 days per year in school.


Exhibit 4.6

OECD Program for International Student Assessment (PISA)

Selected Scores and Rankings for 15-Year-Olds, 2013

Country	Reading	Math	Science
Shanghai, China	570 (1)	613 (1)	580 (1)
Hong Kong, China	545 (2)	561 (3)	555 (2)
Singapore	542 (3)	573 (2)	551 (3)
Japan	538 (4)	536 (7)	547 (4)
South Korea	536 (5)	554 (5)	538 (7)
Finland	524 (6)	519 (12)	545 (5)
Taiwan	523 (7)	560 (4)	523 (13)
Canada	523 (7)	518 (13)	525 (10)
Ireland	523 (7)	501 (20)	522 (14)
Poland	518 (10)	518 (13)	526 (9)
Vietnam	508 (19)	511 (17)	528 (8)
Germany	508 (19)	514 (16)	524 (12)
France	505 (21)	495 (20)	499 (26)
United States	498 (24)	481 (36)	497 (28)
Spain	488 (30)	484 (33)	496 (29)
Russia	475 (41)	482 (34)	486 (37)
Turkey	475 (41)	448 (44)	463 (43)
Mexico	424 (52)	413 (53)	415 (55)
Brazil	410 (55)	391 (58)	405 (59)
Indonesia	396 (60)	375 (64)	382 (64)

Source: OECD, PISA, <http://www.economist.com/node/21529014>, 2015.



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Social Institutions: Government

- Most often governments try to influence the thinking and behaviors of adult citizens for the citizens' "own good."
- In some countries, the government owns the media and regularly uses propaganda to form "favorable" public opinions.
- Other countries prefer no separation of church and state.
- Governments also affect ways of thinking indirectly, through their support of religious organizations and schools.
- Governments influence thinking and behavior through the passage, promulgation, promotion, and enforcement of a variety of laws affecting consumption and marketing behaviors.

Social Institutions: Corporations

- Most innovations are introduced to societies by companies, many times by multinational companies.
- Multinational companies efficiently distribute new products and services based on new ideas from around the world. As a result:
 - Cultures change.
 - New ways of thinking are stimulated.

Elements of Culture

- The five elements of culture
 - Values
 - Rituals
 - Symbols
 - Beliefs
 - Thought processes

Cultural Values

- Hofstede, who studied over 90,000 people in 66 countries, found that the cultures differed along four primary dimensions.
 - **Individualism/Collective Index** (IDV), which focuses on self-orientation
 - **Power Distance Index** (PDI), which focuses on authority orientation
 - **Uncertainty Avoidance Index** (UAI), which focuses on risk orientation
 - **Masculinity/Femininity Index** (MAS), which focuses on assertiveness and achievement

Individualism/Collective Index

- Refers to the preference for behavior that promotes one's self-interest
 - High IDV cultures reflect an "I" mentality and tend to reward and accept individual initiative
 - Low IDV cultures reflect a "we" mentality and generally subjugate the individual to the group

Power Distance Index

- Measures the tolerance of social inequality, that is, power inequality between superiors and subordinates within a social system.
 - High PDI cultures tend to be hierarchical, with members citing social roles, manipulation, and inheritance as sources of power and social status.
 - Low PDI cultures tend to value equality and cite knowledge and achievement as sources of power.

Uncertainty Avoidance Index

- Measures the tolerance of uncertainty and ambiguity among members of a society
 - High UAI cultures are highly intolerant of ambiguity, experience anxiety and stress, are concerned with security and rule following, and accord a high level of authority to rules as a means of avoiding risk.
 - Low UAI cultures are associated with a low level of anxiety and stress, a tolerance of deviance and dissent, and a willingness to take risks.

Cultural Values and Consumer Behavior

- A variety of studies ([Exhibit 4.7](#)) have shown cultural values can predict such consumer behaviors as
 - word-of-mouth communications
 - impulsive buying
 - responses of both surprise and disgust
 - the propensity to complain
 - responses to service failures
 - movie preferences
 - the influence of perceptions of product creativity

Exhibit 4.7

Hofstede's Indexes, Language, and Linguistic Distance

Country	IDV Score	PDI Score	UAI Score	Primary Language	Distance from English
Arab countries	38	80	68	Arabic	5
Australia	90	36	51	English	0
Brazil	38	69	76	Portuguese	3
Canada	80	39	48	English, French	0, 3
Colombia	13	67	80	Spanish	3
Finland	63	33	59	Finnish	4
France	71	68	86	French	3
Germany	67	35	65	German	1
Great Britain	89	35	35	English	0
Greece	35	60	112	Greek	3
Guatemala	6	95	101	Spanish	3
India	48	77	40	Dravidian	3
Indonesia	14	78	48	Bahasa	7
Iran	41	58	59	Farsi	3
Japan	46	54	92	Japanese	4
Mexico	30	81	82	Spanish	3
Netherlands	80	38	53	Dutch	1
New Zealand	79	22	49	English	0
Pakistan	14	55	70	Urdu	3
South Korea	18	60	85	Korean	4
Taiwan	17	58	69	Taiwanese	6
Turkey	37	66	85	Turkish	4
United States	91	40	46	English	0
Uruguay	36	61	100	Spanish	3
Venezuela	12	81	76	Spanish	3

Source: Geert Hofstede, Gert Jan Hofstede, and Michael Minkov, *Culture and Organizations: Software of the Mind*, 3rd ed. (New York: McGraw-Hill, 2011); Joel West and John L. Graham, "A Linguistics-Based Measure of Cultural Distance and Its Relationship to Managerial Values," *Management International Review* 44, no.3 (2004), pp. 239–60.



Rituals

- Patterns of behavior and interaction that are learned and repeated
 - Marriage ceremonies
 - Funerals
 - Graduation rituals
 - Dinner at a restaurant
 - Visit to a department store
 - Grooming before heading off to work
- Coordinate everyday interactions and special occasions
- Let people know what to expect

Symbols

- Anthropologist Edward T. Hall tells us that culture is communication.
- Learning to interpret correctly the symbols that surround us is a key part of socialization.
- Aesthetics includes arts, folklore, music, drama, dance, dress, and cosmetics.
- Customers everywhere respond to images, myths, and metaphors that help them define their personal and national identities and relationships within a context of culture and product benefits.
- [Exhibit 4.8](#) lists the metaphors Martin Gannon identified to represent cultures around the world.

Language

- For some around the world, language is itself thought of as a social institution, often with political importance.
- **Linguistic distance** determines differences in values across countries and the amount of trade between countries and demonstrates a direct influence of language on cultural values, expectations, and even conceptions of time.
- **Bilingualism:** Customers process advertisements differently if heard in their native versus second language.
- **Biculturalism:** Customers can switch identities and perception frames.

Week: 12

Slides 185-198

Exhibit 4.8

Metaphorical Journeys through 23 Nations

The Thai Kingdom	The Traditional British House
The Japanese Garden	The Malaysian <i>Balik Kampung</i>
India: The Dance of Shiva	The Nigerian Marketplace
Bedouin Jewelry and Saudi Arabia	The Israeli Kibbutzim and Moshavim
The Turkish Coffeehouse	The Italian Opera
The Brazilian Samba	Belgian Lace
The Polish Village Church	The Mexican Fiesta
<i>Kimchi</i> and Korea	The Russian Ballet
The German Symphony	The Spanish Bullfight
The Swedish Stuga	The Portuguese Bullfight
Irish Conversations	The Chinese Family Altar
American Football	



Source: From Martin J. Gannon, and Rajnandini K. Pillai *Understanding Global Cultures, Metaphorical Journeys through 31 Nations*, 5th ed. (Thousand Oaks, CA: Sage, 2012). Reprinted by permission of Sage Publications, Inc. via Copyright Clearance Center.

Beliefs

- Beliefs, which mainly stem from religious training, vary from culture to culture.
 - The western aversion to the number 13
 - Japanese concern about Year of the Fire Horse
 - The Chinese practice of Feng Shui
- Myths, beliefs, superstitions, or other cultural beliefs are an important part of the cultural fabric of a society and influence all manner of behavior.

Russian Orthodox priests blessing a Niva assembly line



© Maxim Marmur/AP Images

Part of a joint venture between General Motors and AvtoVaz, the Niva is the best-selling SUV in Russia, making a profit for GM.

Thought Processes

- Culture seems to matter more in snap judgments than in longer deliberations.
- Studies demonstrate a deeper impact of culture on sensory perceptions themselves, particularly aromas.
- Newer products and services and more extensive programs involving the entire cycle, from product development through promotion to final selling, require greater consideration of cultural factors.

Cultural Sensitivity and Tolerance

- Successful foreign marketing begins with **cultural sensitivity**
 - Being attuned to the nuances of culture
 - A new culture can be viewed objectively, evaluated, and appreciated
- Being culturally sensitive will reduce conflict and improve communications and thereby increase success in collaborative relationships.

The Paradox in Cultural Change

- Culture is dynamic in nature.
 - It is a living process.
- Culture is conservative and resists change.
- Culture is the accumulation of a series of the best solutions to problems faced in common by members of a given society.
- Why do societies change?
 - War
 - Natural disaster

Cultural Borrowing

- Cultural borrowing is a responsible effort to learn from others' cultural ways in the quest for better solutions to a society's particular problems.
- Regardless of how or where solutions are found, once a particular pattern of action is judged acceptable by society, it becomes the approved way and is passed on and taught as part of the group's cultural heritage.
- Culture is learned; societies pass on to succeeding generations solutions to problems, constantly building on and expanding the culture so that a wide range of behavior is possible.

Similarities: An Illusion

- A common language does not guarantee a similar interpretation of words or phrases.
 - Americans and British have a harder time understanding each other because of their *apparent and assumed* cultural similarities.
- The growing economic unification of Europe has fostered a tendency to speak of the “European consumer.”
- Marketers must assess each country thoroughly in terms of the proposed products or services and never rely on an often-used axiom that if it sells in one country, it will surely sell in another.

Resistance to Change

- Consumers in different cultures display differing resistance.
- Observations indicate that those innovations most readily accepted are those holding the greatest interest within the society and those least disruptive.
- Historically, most cultural borrowing and the resulting change has occurred without a deliberate plan, but increasingly, changes are occurring in societies as a result of purposeful attempts by some acceptable institution to bring about change, that is, planned change.

Mom in Mumbai



© Joe McNally/Getty Images

Culture does change—dress and even names of major cities! Mumbai was formerly called Bombay. However, according to a local resident, everyone still calls it Bombay despite the official alteration.

Planned and Unplanned Cultural Change

- The first step in bringing about planned change in a society is to determine which cultural factors conflict with an innovation, thus creating resistance to its acceptance.
- The next step is an effort to change those factors from obstacles to acceptance into stimulants for change.

Introducing Innovation

- Marketers have two options when introducing an innovation to a culture.
 - They can wait for changes to occur.
 - Hopeful waiting for eventual cultural changes that prove their innovations of value to the culture
 - They can spur change.
 - Introducing an idea or product and deliberately setting about to overcome resistance and to cause change that accelerates the rate of acceptance

Cultural Congruence

- Not all marketing efforts require change to be accepted.
- **Cultural congruence** involves marketing products similar to ones already on the market in a manner as congruent as possible with existing cultural norms, thereby minimizing resistance.

Summary

- Marketers have only limited control over the cultural environment.
- New environments influenced by elements unfamiliar and sometimes unrecognizable to the marketer complicate the task of planning marketing strategies.
- Of all the tools the foreign marketer must have, those that help generate empathy for another culture are, perhaps, the most valuable.

Week: 13

Slides 200-224

Chapter 5



Week- 13 & 14

Culture, Management Style, and Business Systems

Learning Objectives

- LO1** The necessity for adapting to cultural differences
- LO2** How and why management styles vary around the world
- LO3** The extent and implications of gender bias in other countries
- LO4** The importance of cultural differences in business ethics
- LO5** The differences between relationship-oriented and information-oriented cultures

Business Customs in Global Marketing

- Business etiquette is largely driven by cultural norms.
- Cultural analysis often pinpoints market opportunities and gives companies a competitive edge.

Required Adaptation

- Adaptation is a key concept in international marketing.
- To successfully deal with individuals, firms, or authorities in foreign countries, managers should exhibit:
 - open tolerance
 - flexibility
 - humility
 - justice/fairness
 - ability to adjust to varying tempos
 - curiosity/interest
 - knowledge of the country
 - liking for others
 - ability to command respect
 - ability to integrate oneself into the environment

Cultural Imperatives, Electives, and Exclusives (1 of 2)

- Cultural imperatives:
 - business customs and expectations that must be met, conformed to, recognized, and accommodated if relationships are to be successful
- Cultural electives:
 - areas of behavior or customs that cultural aliens may wish to conform to or participate in but that are not required

Cultural Imperatives, Electives and Exclusives (2 of 2)

- Cultural exclusives:
 - customs or behavior patterns reserved exclusively for the locals and from which the foreigner is barred and must not participate

Cultural elective or imperative?



© POOL/Reuters/Corbis

BEIJING, CHINA: German Chancellor Angela Merkel and Chinese Prime Minister Wen Jiabao toast after the EU–China Business Summit at the Great Hall of the People in Beijing. The summit was boosted by the settlement of a trade row that had left 80 million Chinese-made garments piled up in European seaports, unable to be delivered to shops under a quota pact agreed to at the time. Drinking half a bottle is a cultural elective, but taking a sip is more of an imperative in this case.

American Culture and Management Style

- There are at least three reasons to focus briefly on American culture and management style:
 1. For Americans, it is important to be aware of the elements of culture influencing decisions and behaviors.
 2. For those new to American culture, it is useful to better understand business associates from the U.S., as the U.S. market is the biggest export market in the world.
 3. Since the late 1990s, American business culture has been exported around the world.

The Impact of American Culture

- Ways in which U.S. culture has influenced management style include, but are not limited to, the following:
 1. “Master of destiny” viewpoint
 2. Independent enterprise as the instrument of social action
 3. Personnel selection and reward based on merit
 4. Decisions based on objective analysis
 5. Wide sharing in decision making
 6. Never-ending quest for improvement
 7. Competition produces efficiency

Differences in Management Styles Around the World (1 of 4)

- Authority and Decision Making
 - In high-PDI countries subordinates are not likely to contradict bosses, but in low-PDI countries they often do
 - Three typical patterns exist:
 1. Top-level management decisions
 2. Decentralized decisions
 3. Committee or group decisions
 - Top-level management decision making is generally found in situations in which family or close ownership gives absolute control to owners, and businesses are small enough to allow such centralized decision making.

Differences in Management Styles Around the World (2 of 4)

- Decentralized decision making allows executives at different levels of management to exercise authority over their own functions.
- Committee decision making is by group or consensus. Committees may operate on a centralized or decentralized basis, but the concept of committee management implies something quite different from the individualized functioning of the top management and decentralized decision-making arrangements.

Differences in Management Styles Around the World (3 of 4)

- Management Objectives and Aspirations
 - Security and mobility
 - Personal life
 - Affiliation and social acceptance
 - Power and achievement

Differences in Management Styles Around the World (4 of 4)

- Personal security and job mobility relate directly to basic human motivation and therefore have widespread economic and social implications.
- For many individuals, a good personal and/or family life takes priority over profit, security, or any other goal.
- In some countries, acceptance by neighbors and fellow workers appears to be a predominant goal within business.
- Although there is some power seeking by business managers throughout the world, power seems to be a more important motivating force in South American countries.

Exhibit 5.1

Annual Hours Worked

	2000	2010
United Kingdom	1700	1647
Canada	1775	1702
Germany	1473	1419
Netherlands	1435	1377
Japan	1821	1733
Norway	1455	1414
United States	1814	1778
S. Korea	2512	2193
Mexico	1888	1866
Italy	1861	1778

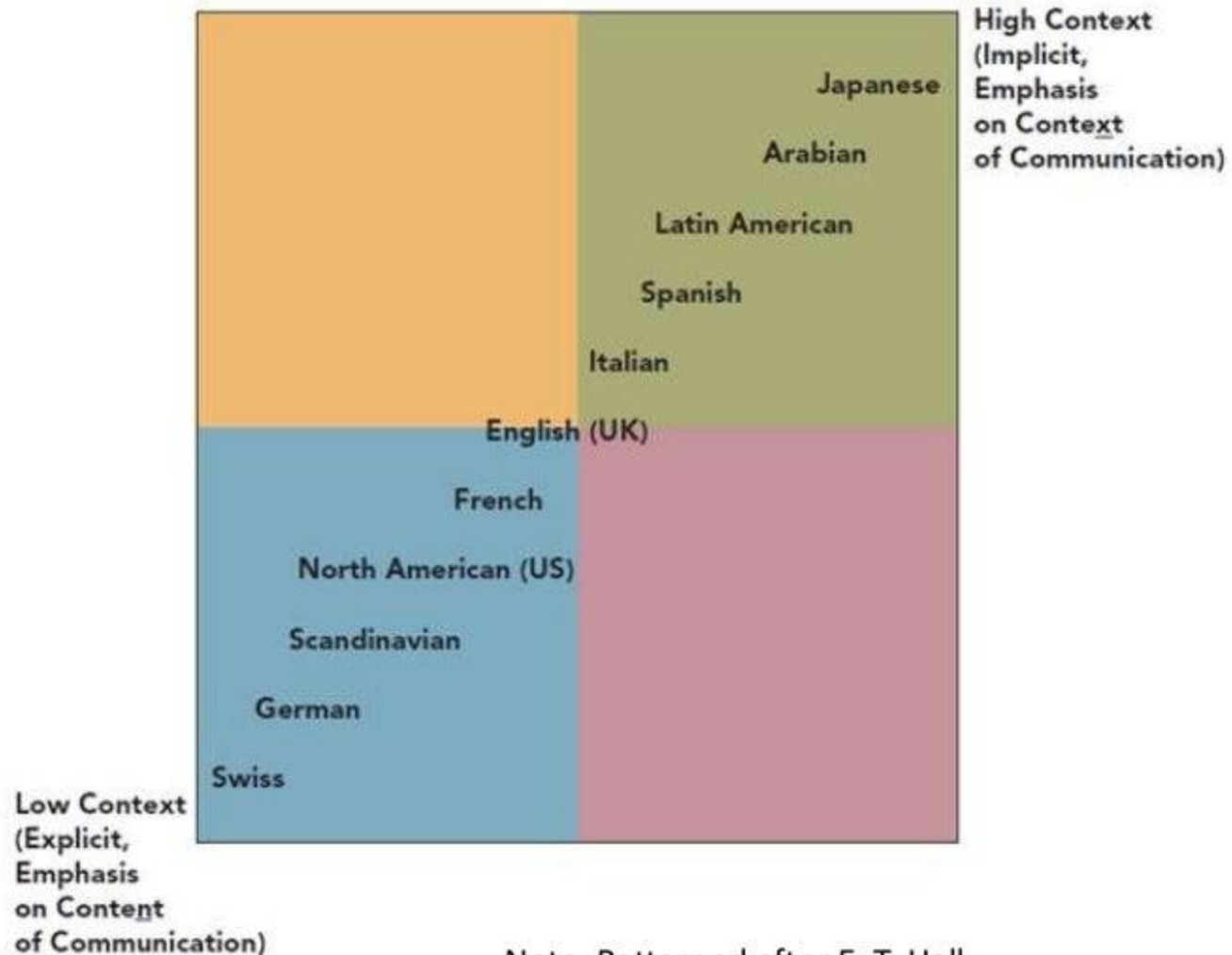
Source: OECD, Labor Market Indicators, 2012.

Communication Styles

- Differences in Communication Styles
 - Face-to-face communication
 - Internet communication
- According to Edward T. Hall, the symbolic meanings of time, space, things, friendships, and agreements vary across cultures
- Hall places eleven cultures along a high-context/low-context continuum
- Communication in a high-context culture depends heavily on the contextual (who says it, when it is said, how it is said) or nonverbal aspects of communication
- Communication in a low-context culture depends more on explicit, verbally expressed communications

Exhibit 5.2

Context, Communication, and Cultures: Edward Hall's Scale



Note: Patterned after E. T. Hall.

Differences in the American and Japanese office structure



© Ed Kashi/Corbis



© Andy Rain/Bloomberg News/Getty Images

Speaking of office space: Notice the individualism reflected in the American cubicles and the collectivism demonstrated by the Japanese office organization.

Formality and Tempo

- Level of formality in addressing business clients by first name
- Level of formality in addressing your boss by first name
- Tempo or speed in getting “down to business”
- Perception of time varies in many cultures

P-Time versus M-Time

- M-time, or monochronic time, typifies most North Americans, Swiss, Germans, and Scandinavians.
- Monochronic time divides time into small units and is concerned with promptness. M-time is used in a linear way, and it is experienced as almost tangible, in that one saves time, wastes time, bides time, spends time, and loses time.
- Most low-context cultures operate on M-time, concentrating on one thing at a time.
- P-time, or polychronic time, is more dominant in high-context cultures.
- P-time is characterized by multi-tasking and by “a great involvement with people.”

Exhibit 5.3 (1 of 3) Speed Is Relative

Source: Robert Levine, "The Pace of Life in 31 Countries," *American Demographics*, November 1997. Reprinted with permission of Robert Levine.

Overall Pace	Country	Walking 60 Feet	Postal Service	Public Clocks
1	Switzerland	3	2	1
2	Ireland	1	3	11
3	Germany	5	1	8
4	Japan	7	4	6
5	Italy	10	12	2
6	England	4	9	13
7	Sweden	13	5	7
8	Austria	23	8	9
9	Netherlands	2	14	25
10	Hong Kong	14	6	14
11	France	8	18	10

Rank of 31 countries for overall pace of life [combination of three measures: (1) minutes downtown pedestrians take to walk 60 feet, (2) minutes it takes a postal clerk to complete a stamp-purchase transaction, and (3) accuracy in minutes of public clocks].

Exhibit 5.3 (2 of 3) Speed Is Relative

Overall Pace	Country	Walking 60 Feet	Postal Service	Public Clocks
12	Poland	12	15	8
13	Costa Rica	16	10	15
14	Taiwan	18	7	21
15	Singapore	25	11	4
16	United States	6	23	20
17	Canada	11	21	22
18	South Korea	20	20	16
19	Hungary	19	19	18
20	Czech Republic	21	17	23
21	Greece	14	13	29

Source: Robert Levine, "The Pace of Life in 31 Countries," *American Demographics*, November 1997. Reprinted with permission of Robert Levine.

Rank of 31 countries for overall pace of life [combination of three measures: (1) minutes downtown pedestrians take to walk 60 feet, (2) minutes it takes a postal clerk to complete a stamp-purchase transaction, and (3) accuracy in minutes of public clocks].

Exhibit 5.3 (3 of 3) Speed Is Relative

Source: Robert Levine, "The Pace of Life in 31 Countries," *American Demographics*, November 1997. Reprinted with permission of Robert Levine.

Overall Pace	Country	Walking 60 Feet	Postal Service	Public Clocks
22	Kenya	9	30	24
23	China	24	25	12
24	Bulgaria	27	22	17
25	Romania	30	29	5
26	Jordan	28	27	19
27	Syria	29	28	27
28	El Salvador	22	16	31
29	Brazil	31	24	28
30	Indonesia	26	26	30
31	Mexico	17	31	26

Rank of 31 countries for overall pace of life [combination of three measures: (1) minutes downtown pedestrians take to walk 60 feet, (2) minutes it takes a postal clerk to complete a stamp-purchase transaction, and (3) accuracy in minutes of public clocks].

Negotiations Emphasis

- Differences with respect to the product, its price and terms, services associated with the product, and finally, friendship between vendors and customers
- Negotiating process is complicated, and the risk of misunderstanding increases when negotiating with someone from another culture
- Attitudes brought to the negotiating table by each individual are affected by many cultural factors and customs often unknown to the other participants and perhaps unrecognized by the individuals themselves

Market Orientation

- American companies are embracing the market orientation philosophy
- Other countries are still in the traditional production, product, and selling orientations

Gender Bias in International Business

- The gender bias against women managers exists in some countries
 - Women are not easily accepted in upper-level management roles in Asia, the Middle East, and Latin America (although this is changing)
- Gender bias poses significant challenges in cross-cultural negotiations

Week: 14

Slides 226-245

Societal attitudes toward women in Tokyo and Riyadh



© Kyodo News/Newscom



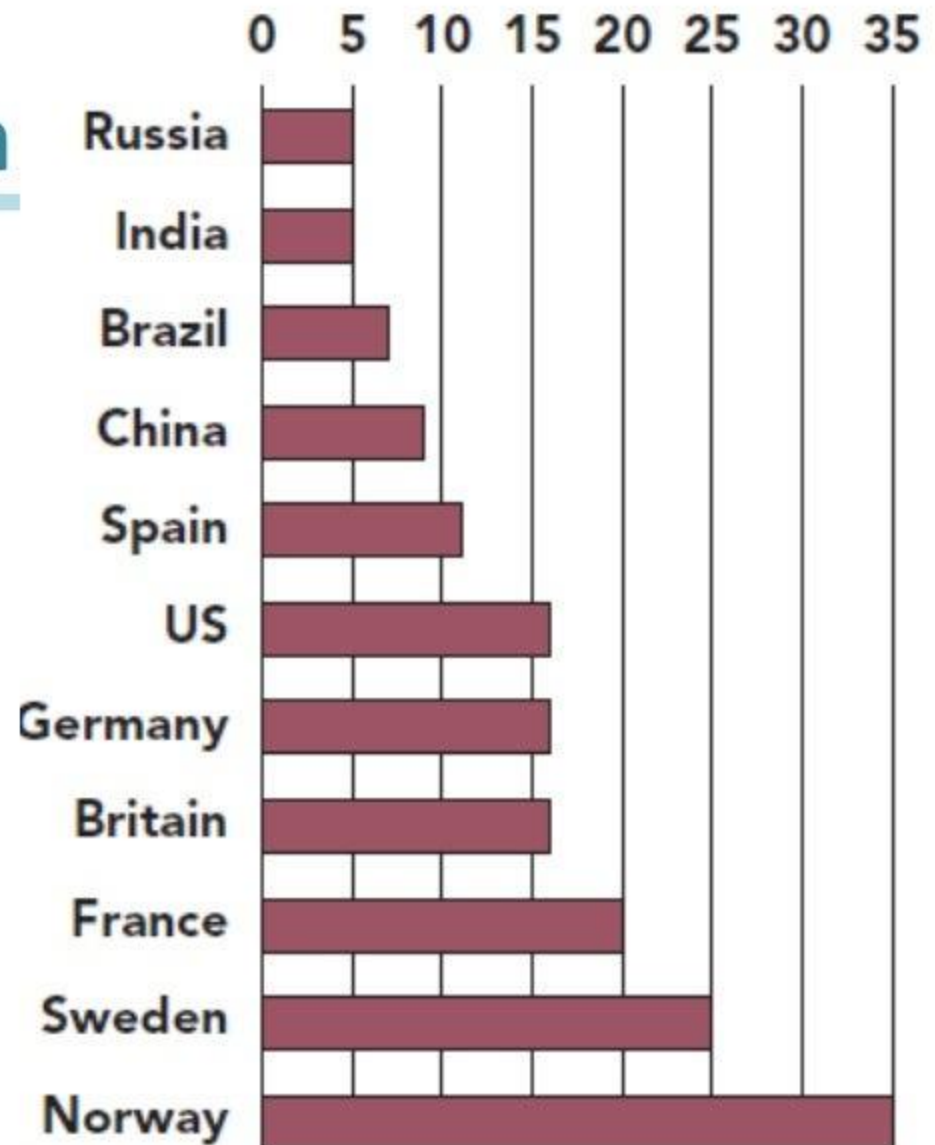
© Hasan Jamali/AP Images

Two ways to prevent the harassment of women. Mika Kondo Kunieda, a consultant at the World Bank in Tokyo, explains, "I ride in a special women-only metro car that runs between 7:20 and 9:20 am. The cars were created in 2005 due to frequent complaints that women were being groped and sexually harassed. I was a victim a few times when I was younger, and it was—and still is—a humiliating experience. I had to learn how to position myself against moves even in the most overcrowded train. Now, I've seen a few men get visibly anxious when they realize they've accidentally boarded a car during women-only time!" One interpretation of the Koran specifies the cover-up pictured here in Riyadh, Saudi Arabia.

Exhibit 5.4

Few and Far Between

Female directors on corporate boards as a percentage of total.



Source: "All Aboard: The World in 2012," *The Economist*. Copyright © The Economist Newspaper Limited, London, November 17, 2011.

Business Ethics (1 of 2)

- Business ethics is complex in the international marketplace because value judgments differ widely among culturally diverse groups.
- Corruption is varyingly defined from culture to culture.

Business Ethics (2 of 2)

- Different levels of corruption, bribery, and fraud exist worldwide.
- Bribery creates a major conflict between ethics and profitability.
- The international organization Transparency International is curbing corruption through international and national coalitions encouraging governments to establish and implement effective laws, policies, and anti-corruption programs.

Exhibit 5.5 (1 of 5) Transparency International Corruption Perceptions Index 2013

Source: Corruption Perceptions Index 2013, www.transparency.org. Reprinted from Corruption Perceptions Index. Copyright © 2013, Transparency International: the global coalition against corruption. Used with permission. For more information, visit <http://www.transparency.org>

Rank	Country	CPI Score
1	Denmark	91
2	New Zealand	91
3	Finland	89
4	Sweden	89
5	Norway	86
5	Singapore	86
7	Switzerland	85
8	Netherlands	83
9	Australia	81
9	Canada	81
11	Luxembourg	80

Higher numbers correspond to a perceived lower level of public sector corruption. The top 25 (4 tied for #22), the BRIC countries, and the bottom 20 are shown; see <http://www.transparency.org> for the most complete and up-to-date listings. <http://cpi.transparency.org/cpi3013/> for the complete 2013 listings.

Exhibit 5.5 (2 of 5)
Transparency
International
Corruption
Perceptions Index
2013

Source: Corruption Perceptions Index 2013, www.transparency.org. Reprinted from Corruption Perceptions Index. Copyright © 2013, Transparency International: the global coalition against corruption. Used with permission. For more information, visit <http://www.transparency.org>

Rank	Country	CPI Score
12	Germany	78
12	Iceland	78
14	United Kingdom	76
15	Barbados	75
15	Belgium	75
15	Hong Kong	75
18	Japan	74
19	United States	73
19	Uruguay	73
21	Ireland	72
22	Bahamas	71

Higher numbers correspond to a perceived lower level of public sector corruption. The top 25 (4 tied for #22), the BRIC countries, and the bottom 20 are shown; see <http://www.transparency.org> for the most complete and up-to-date listings. <http://cpi.transparency.org/cpi3013/> for the complete 2013 listings.

Exhibit 5.5 (3 of 5) Transparency International Corruption Perceptions Index 2013

Source: Corruption Perceptions Index 2013, www.transparency.org. Reprinted from Corruption Perceptions Index. Copyright © 2013, Transparency International: the global coalition against corruption. Used with permission. For more information, visit <http://www.transparency.org>

Rank	Country	CPI Score
22	Chile	71
22	France	71
22	Santa Lucia	71
BRIC Countries		
72	Brazil	42
80	China	40
94	India	36
127	Russia	28
Bottom 20		
153	Angola	23
154	Republic of Congo	22

Higher numbers correspond to a perceived lower level of public sector corruption. The top 25 (4 tied for #22), the BRIC countries, and the bottom 20 are shown; see <http://www.transparency.org> for the most complete and up-to-date listings. <http://cpi.transparency.org/cpi3013/> for the complete 2013 listings.

Exhibit 5.5 (4 of 5) Transparency International Corruption Perceptions Index 2013

Rank	Country	CPI Score
154	Democratic Republic of Congo	22
154	Tajikistan	22
157	Burundi	21
157	Myanmar	21
157	Zimbabwe	21
160	Cambodia	20
160	Eritrea	20
160	Venezuela	20
163	Chad	19
163	Equatorial Guinea	19
163	Haiti	19
167	Yemen	18

Source: Corruption Perceptions Index 2013, www.transparency.org.
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Higher numbers correspond to a perceived lower level of public sector corruption. The top 25 (4 tied for #22), the BRIC countries, and the bottom 20 are shown; see <http://www.transparency.org> for the most complete and up-to-date listings. <http://cpi.transparency.org/cpi3013/> for the complete 2013 listings.

Exhibit 5.5 (5 of 5) Transparency International Corruption Perceptions Index 2013

Source: Corruption Perceptions Index 2013, www.transparency.org. Reprinted from Corruption Perceptions Index. Copyright © 2013, Transparency International: the global coalition against corruption. Used with permission. For more information, visit <http://www.transparency.org>

Rank	Country	CPI Score
168	Syria	17
168	Turkmenistan	17
168	Uzbekistan	17
171	Iraq	16
172	Libya	15
173	South Sudan	14
174	Sudan	11
175	Afghanistan	8
175	North Korea	8
175	Somalia	8

Higher numbers correspond to a perceived lower level of public sector corruption. The top 25 (4 tied for #22), the BRIC countries, and the bottom 20 are shown; see <http://www.transparency.org> for the most complete and up-to-date listings. <http://cpi.transparency.org/cpi3013/> for the complete 2013 listings.

Exhibit 5.6 (1 of 3) Transparency International Bribe Payers Index 2011*

Source: Bribe Payers Index 2011, www.transparency.org. Reprinted from Bribe Payers Index. Copyright © 2011, Transparency International: the global coalition against corruption. Used with permission. For more information, visit <http://www.transparency.org>.

Rank	Country	Score
1	Netherlands	8.8
1	Switzerland	8.8
3	Belgium	8.7
4	Germany	8.6
4	Japan	8.6
6	Australia	8.5
6	Canada	8.5
8	Singapore	8.3
8	United Kingdom	8.3

*Based on responses to questions such as: In the business sectors with which you are most familiar, please indicate how likely companies from the following countries are to pay or offer bribes to win or retain business in this country (respondent's country of residence). The Index ranks the likelihood of companies from 28 leading economies to win business abroad by paying bribes—higher scores correspond to perceived lower levels of bribe paying internationally.

Exhibit 5.6 (2 of 3) Transparency International Bribe Payers Index 2011*

Source: Bribe Payers Index 2011, www.transparency.org. Reprinted from Bribe Payers Index. Copyright © 2011, Transparency International: the global coalition against corruption. Used with permission. For more information, visit <http://www.transparency.org>.

Rank	Country	Score
10	United States	8.1
11	France	8.0
11	Spain	8.0
13	South Korea	7.9
14	Brazil	7.7
15	Hong Kong	7.6
15	Italy	7.6
15	Malaysia	7.6
15	South Africa	7.6
19	Taiwan	7.5

*Based on responses to questions such as: In the business sectors with which you are most familiar, please indicate how likely companies from the following countries are to pay or offer bribes to win or retain business in this country (respondent's country of residence). The Index ranks the likelihood of companies from 28 leading economies to win business abroad by paying bribes—higher scores correspond to perceived lower levels of bribe paying internationally.

Exhibit 5.6 (3 of 3) Transparency International Bribe Payers Index 2011*

Source: Bribe Payers Index 2011, www.transparency.org. Reprinted from Bribe Payers Index. Copyright © 2011, Transparency International: the global coalition against corruption. Used with permission. For more information, visit <http://www.transparency.org>.

Rank	Country	Score
19	India	7.5
19	Turkey	7.5
22	Saudi Arabia	7.4
23	Argentina	7.3
23	United Arab Emirates	7.3
25	Indonesia	7.1
26	Mexico	7.0
27	China	6.5
28	Russia	6.1

*Based on responses to questions such as: In the business sectors with which you are most familiar, please indicate how likely companies from the following countries are to pay or offer bribes to win or retain business in this country (respondent's country of residence). The Index ranks the likelihood of companies from 28 leading economies to win business abroad by paying bribes—higher scores correspond to perceived lower levels of bribe paying internationally.

Bribery: Variations on a Theme (1 of 3)

- Bribery
 - Voluntarily offered payment by someone seeking unlawful advantage
- Extortion
 - Payments are extracted under duress by someone in authority from a person seeking only what they are lawfully entitled to

Bribery: Variations on a Theme (2 of 3)

- Lubrication
 - Involves a relatively small sum of cash, a gift, or a service given to a low-ranking official in a country where such offerings are not prohibited by law
- Subornation
 - Involves giving large sums of money—frequently not properly accounted for—designed to entice an official to commit an illegal act on behalf of the one offering the bribe; involves breaking the law

Bribery: Variations on a Theme (3 of 3)

- Agent Fees

- When a businessperson is uncertain of a country's rules and regulations, an agent may be hired to represent the company in that country
- It's often a legal and useful procedure
- If a part of that agent's fee is used to pay bribes, the intermediary's fees are being used unlawfully

Ethical Decisions

- Difficulties arise in making decisions, establishing policies, and engaging in business operations in five broad areas:
 - employment practices and policies
 - consumer protection
 - environmental protection
 - political payments and involvement in political affairs of the country
 - basic human rights and fundamental freedoms

A Framework for Ethical Principles

(1) Utilitarian ethics

Does the action optimize the “common good” or benefits of all constituencies? And, who are the pertinent constituencies?

(2) Rights of the parties

Does the action respect the rights of the individuals involved?

(3) Justice or fairness

Does the action respect the canons of justice or fairness to all parties involved?

Exhibit 5.7

Dimensions of Culture: A Synthesis

Information-Oriented (IO)	Relationship-Oriented (RO)
Low context	High context
Individualism	Collectivism
Low power distance	High power distance (including gender)
Bribery less common	Bribery more common*
Low distance from English	High distance from English
Linguistic directness	Linguistic indirectness
Monochronic time	Polychronic time
Internet	Face-to-face
Focus on the foreground	Background
Competition	Reduce transaction costs

*We note that Singapore, Hong Kong, Japan, and Chile do not fit all the rules here. Most would agree that all four are relationship-oriented cultures.

Summary (1 of 2)

- Management styles differ around the world. Some cultures appear to emphasize the importance of information and competition, while others focus more on relationships and transaction cost reductions.
- Business behavior is derived in large part from the basic cultural environment in which the business operates and, as such, is subject to the extreme diversity encountered among various cultures and subcultures.
- Environmental considerations significantly affect the attitudes, behavior, and outlook of foreign businesspeople.

Summary (2 of 2)

- Varying motivational patterns inevitably affect methods of doing business in different countries.
- International variation characterizes contact level, ethical orientation, negotiation outlook, and nearly every part of doing business.
- Sensitivity, however, is not enough; the international trader must be constantly alert and prepared to adapt when necessary.

Week: 15

Slides 247-263

Chapter 6



Week-15-17

The Political Environment: A Critical Concern

Learning Objectives

- LO1** What the sovereignty of nations means and how it can affect the stability of government policies
- LO2** How different governmental types, political parties, nationalism, targeted fear/animosity, and trade disputes can affect the environment for marketing in foreign countries
- LO3** The political risks of global business and the factors that affect stability
- LO4** The importance of the political system to international marketing and its effect on foreign investments
- LO5** The impact of political and social activists, violence, and terrorism on international business
- LO6** How to assess and reduce the effect of political vulnerability
- LO7** How and why governments encourage foreign investment

World Trade Goes Bananas (1 of 2)

- The European Union imposed a quota and tariffs that favored imports from former colonies in the Caribbean and Africa, distributed by European firms, over Latin American bananas distributed by U.S. firms.
- France gave preferential treatment for bananas coming from its former colonies in the Caribbean and Africa.
- Chiquita Brands International and Dole Food Company, contending that the EU's "illegal trade barriers" were costing \$520 million annually in lost sales to Europe, asked the U.S. government for help.

World Trade Goes Bananas (2 of 2)

- Chiquita Brands' annual political campaign contributions increased from barely over \$40,000 in 1991 to \$1.3 million in 1998.
- The U.S. government agreed that unfair trade barriers were damaging their business, and 100 percent tariffs on selected European imports were levied.
- The rest is history and politics.

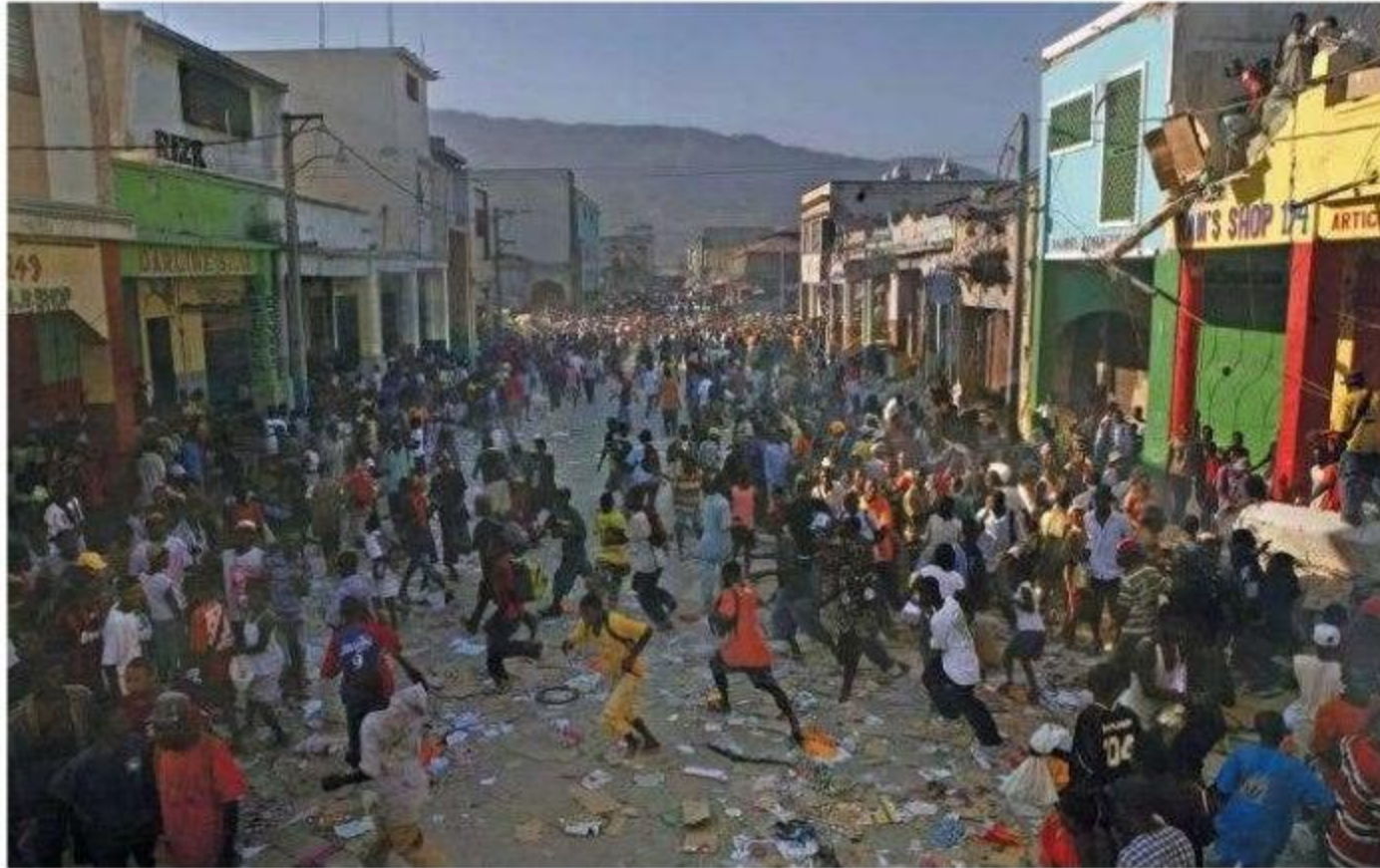
The Sovereignty of Nations

- **Sovereignty** refers to both the powers exercised by a state in relation to other countries and the supreme powers exercised over its own members.
- A sovereign state:
 - is independent and free from all external control
 - governs its own territory
 - selects its own political, economic, and social systems
 - has the power to enter into agreements with other nations
 - enjoys full legal equality with other states

Stability of Government Policies

- At the top of the list of political issues concerning foreign businesses is the stability or instability of prevailing government policies.
- Other issues include:
 - Opposing political party ascends to power
 - Pressure from nationalist and self-interest groups
 - Weakened economic conditions
 - Bias against foreign investment
 - Conflict among governments

Chaos in Port-au-Prince



© Olivier Laban-Mattei/AFP/Getty Images

CHAOTIC CONDITIONS: On the first Sunday after the quake, at 9:00 a.m., the streets of downtown Port-au-Prince were filled with people scavenging. Onlookers add to the crowd.

Instability in the International Market

- Five main political issues
 - governments that are inherently unstable
 - changes in political parties during elections
 - nationalism
 - animosity targeted toward specific countries
 - trade disputes themselves

Case in Point: Africa

- Africa is trapped in a vicious cycle. For its nations to prosper, they need foreign investment. But investment is leery of unstable nations.
- Some African countries are unstable, with seemingly unending civil wars, boundary disputes, and oppressive military regimes.
- Kenya fell victim to political violence in 2008 that greatly disrupted growth in commerce in the entire region.
- Sierra Leone has had three changes in government in five years.
- UN peacekeeping forces have had to maintain the peace in Central Africa, where ethnic wars have embroiled seven nations.

Forms of Government

- Monarchy (Dictatorship) - rule by one
- Aristocracy (Oligarchy) - rule by few
- Democracy - rule by many

The purpose of the government is to serve the people, not vice versa.
– Cyrus the Great, Monarch of Persia

- Cyrus's notion is embedded in the constitutions of most modern nations.
- The world seemed to have agreed that free enterprise democracy was the best solution to all the criticisms of government.
- [Exhibit 6.1](#) lists a sampling of the countries that are currently taking a different approach to the conventional wisdom of representational democracy.

Exhibit 6.1 A Sampling of Government Types

Country	Government Type
Afghanistan	Islamic republic
Belarus	Republic in name, though in fact a dictatorship
Bosnia and Herzegovina	Emerging federal democratic republic
Burma (Myanmar)	Nominal civilian parliamentary government
Canada	Confederation with parliamentary democracy
China	Communist state
Congo, Democratic	Republic
Cuba	Communist state
Iran	Theocratic republic
Libya	Transitional government
North Korea	Communist state, one-man dictatorship
Saudi Arabia	Monarchy
Somalia	No permanent national government; transitional, parliamentary federal government
Sudan	Federal republic ruled by the National Congress Party (NCP), which came to power by military coup in 1989; the CPA-mandated Government of National Unity, which since 2005 provided a percentage of leadership posts to the south Sudan-based Sudan People's Liberation Movement (SPLM), was disbanded following the secession of South Sudan
United Kingdom	Constitutional monarchy
United States	Constitutional federal republic
Uzbekistan	Republic; authoritarian presidential rule, with little power outside the executive branch
Vietnam	Communist state

Source: <http://www.cia.gov/cia/publications/factbook/>, 2012.



Political Parties

- Current assessment of political philosophy and attitudes within a country is important in gauging the stability and attractiveness of a government in terms of market potential.
- An astute international marketer must
 - know the philosophies of all major political parties within a country, because any one of them might become dominant and alter prevailing attitudes and the overall business climate
 - know the direction each party is likely to take, in case there are two, or more, strong political parties since they typically succeed one another in control of the government
 - understand all aspects of the political landscape to be properly informed about the political environment

Eyes on the polls



© Behrouz Mehri/AFP/Getty Images

Portraits of Ayatollah Ali Khamenei (the Supreme Leader) and the late Ayatollah Ruhollah Khomeini loom over Iranian women lined up to vote at a mosque south of Tehran. As mandated by law, women and men waited in separate lines at polling places with more than one ballot box. The current government also specifies the public dress of the women pictured.

Nationalism

- Intense feeling of national pride and unity
 - National interest and security are more important than international relations
 - Manifestations:
 - Call to “buy our country’s products only,” (e.g., “Buy American”)
 - Restrictions on imports, restrictive tariffs, other barriers to trade

Targeted Fear and/or Animosity

- NO nation-state, however secure, will tolerate penetration by a foreign company into its market and economy if it perceives a social, cultural, economic, or political threat to its well-being
- Nationalism: targets all foreign countries
- Animosity: targets specific nations

Trade Disputes

- Trade disputes can boil over and affect other aspects of international trade.
- Hot issues circa 2015
 - solar panels
 - Internet trade
 - steel
 - trade sanctions against Russia
 - farm subsidies in developed countries
 - AIRBUS–Boeing battle over subsidies

Political Risks of Global Business

Confiscation

- The most severe political risk, seizing of a company's assets without payment

Expropriation

- Government seizes an investment, but some reimbursement for the assets is made; often the expropriated investment is nationalized to become a government-run entity

Domestication

- Host countries gradually cause the transfer of foreign investments to national control and ownership through a series of government decrees that mandate local ownership and greater national involvement in a company's management

Week: 16

Slides 265-278

Economic Risks (1 of 2)

Exchange Controls

- When a nation faces shortages of foreign exchange and/or a substantial amount of capital is leaving the country, controls may be levied over all movements of capital or selectively against the most politically vulnerable companies to conserve the supply of foreign exchange for the most essential uses.

Local-Content Laws

- In addition to restricting imports of essential supplies to force local purchase, countries often require a portion of any product sold within the country to have local content, that is, to contain locally made parts.

Import Restrictions

- Selective restrictions on the import of consumer products, raw materials, machines, and spare parts are fairly common strategies to force foreign industry to purchase more supplies within the host country and thereby create markets for local industry.

Economic Risks (2 of 2)

Tax Controls

- Taxes must be classified as a political risk when used as a means of controlling foreign investments.

Price Controls

- Essential products that command considerable public interest, such as pharmaceuticals, food, gasoline, and cars, are often subjected to price controls. Such controls applied during inflationary periods can be used to control the cost of living. They may also be used to force foreign companies to sell equity to local interests.

Labor Problems

- Labor unions with strong government support may use it effectively to obtain special concessions from businesses. Layoffs may be forbidden, profits may have to be shared, and an extraordinary number of services may have to be provided.

The consequences of U.S. embargo of Cuba



© John Graham



© John Graham

A relatively new Chinese Chery Q (red provisional plate), and one of the newest American cars you can find on the island, a 1957 Chevy (yellow citizen's plate), certainly with a refurbished engine. A variety of other European and Asian brands ply the streets of Havana, almost all recent models. No new American models are in sight.

Political Sanctions

- One or a group of nations may boycott another nation, thereby stopping all trade between the countries, or may issue sanctions against the trade of specific products.
 - United States' long-term boycott of trade with Cuba and Iran
 - Trade sanctions against Russia for its continued aggression toward Ukraine
 - Russians retaliating against McDonald's, closing stores in Moscow

Political and Social Activists (PSAs) and Nongovernmental Organizations

- Those who seek to bring about peaceful change
- Those who resort to violence and terrorism to effect change
- Some of the most effective and best-known PSAs
 - Worldwide boycott of Nestlé
 - Free Burma Campaign (FBC)
 - College campuses boycott of Pepsi drinks and PepsiCo-owned Pizza Hut and Taco Bell stores
- Images in the following pages show protestors using creativity to make a point

The French food throw



© Claude Paris/AP Images

The most entertaining protest technique was pioneered by French farmers.

Pitching perch in Taiwan



© AP Images

Apparently they pay attention in Taiwan. Most recently, fishermen pitched perch in Taipei to protest the Japanese fishing fleet's presence in their waters.

Protesting milk prices



© Georges Gobet/AFP/Getty Images

A farmer sprayed milk on police forces during a protest against falling milk prices outside the European Commission headquarters in Brussels. European dairy farmers are seeking more aid to cope with a sharp drop in milk prices. An udderly fantastic shot!

Baring their dismay



© Klaus-Dietmar Gabbert/epa/Corbis

Members of the Pirate Party parade through Berlin's Tegel Airport in their underwear to protest government plans to test full-body scans as an invasion of citizens' privacy.

Masked faces



Activists of the Bharatiya Janata Party wearing “evil” masks shout antigovernment slogans near the Union Carbide plant in the central Indian city of Bhopal on the eve of World Environment Day.

Staging a drama



Courtesy of Sea Shepherd Conservation Society

They were “pirates” to some, “hostages” to others. But two anti-whaling activists (an Australian and a Briton from the Sea Shepherd Conservation Society) who drew global attention by forcibly boarding a Japanese harpoon ship in Antarctic waters have demonstrated how the emotional clash over Japan’s annual whale hunt can disrupt even the best international friendships.

Violence, Terrorism and War

- Terrorist attacks victimized thousands of people around the world.
 - These attacks affect business
 - Multinationals are targeted to
 - embarrass government and its relationship with firms
 - generate funds by kidnapping executives
 - inflict terror within a country
- Based on the threats of terrorism and other violence, the U.S. State Department posts travel warnings on its website, as shown in [Exhibit 6.2](#).
- The world-wide battle deaths from 1940s to 2000s is shown in [Exhibit 6.3](#).

Exhibit 6.2

U.S. State Department Travel Warnings

(in order of date of posting, most recent list)

Somalia	Iraq	Venezuela
Mexico	Saudi Arabia	Iran
Mauritania	Pakistan	North Korea
Lesotho	Nigeria	Philippines
Yemen	Liberia	Central African Republic
Eritrea	Cameroon	Sudan
Israel, West Bank, Gaza	Libya	Burundi
Afghanistan	Chad	Niger
Ukraine	Honduras	Mali
Lebanon	Kenya	Haiti
Sierra Leone	South Sudan	
Algeria	Djibouti	

Source: <http://travel.state.gov/travel/>, 2015.



Political disaster strikes Kenya



© EPA/Newscom

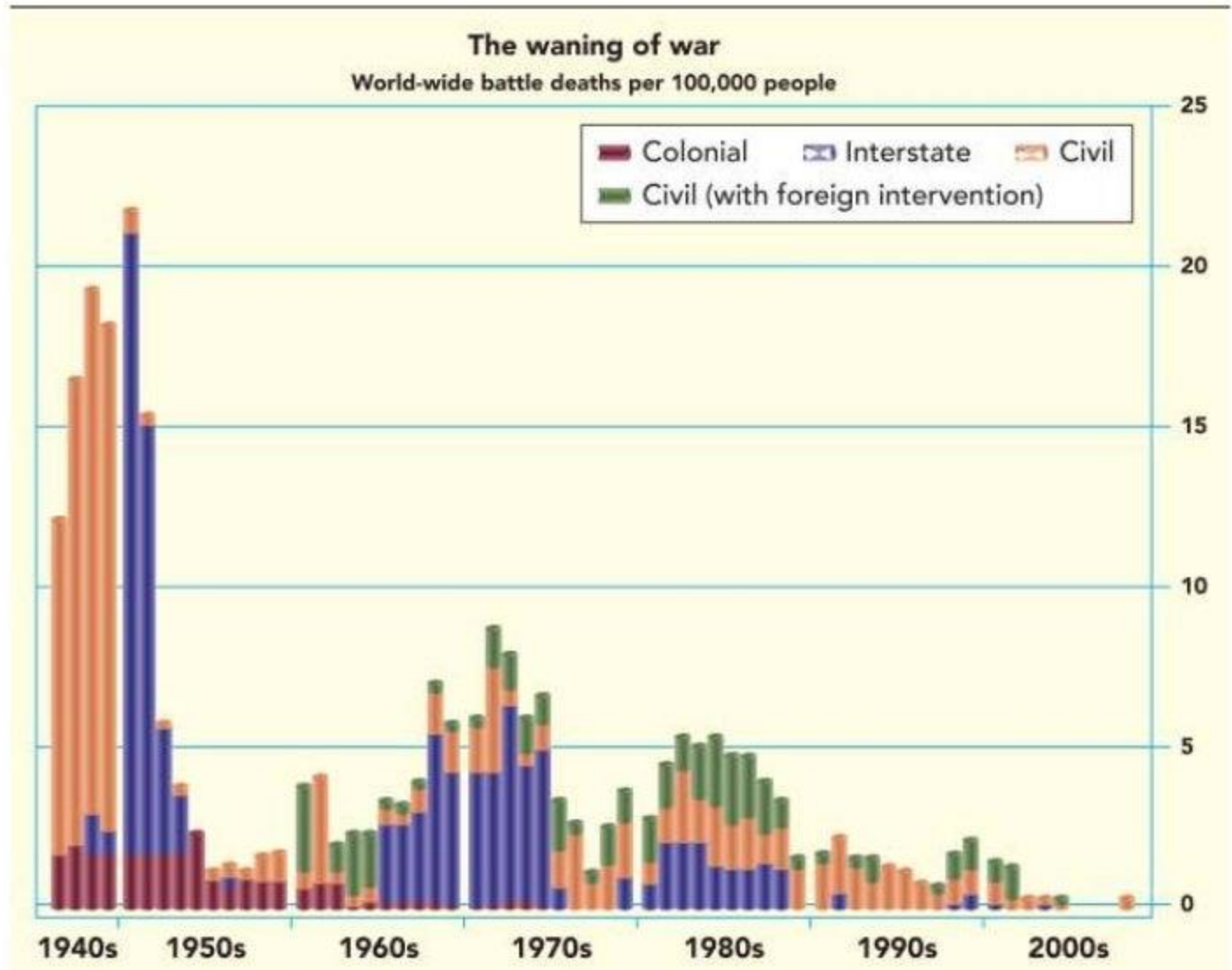
In the Nairobi slum of Kibera, supporters of opposition leader Raila Odinga tear up a key railway that ran from the coast to Uganda.

Week: 17

Slides 279-290

Exhibit 6.3

The Waning of War



Source: Human Security report project, the Uppsala Conflict, and the Peace Research Institute of Oslo

Current State of Peace

- Steven Pinker, in his book *The Better Angels of Our Nature*, makes the most detailed argument about the current state of peace on the planet.
- He reasons that the four causes of the decline in violence are
 - the rule of law
 - the rule of reason
 - the rule of women
 - commerce

Cyberterrorism and Cybercrime

- As the Internet grows, “It’s only a matter of time before every terrorist, anarchist, thief, and prankster with a PC and a phone line will be waging a virtual war and inflicting real harm.”
- One of the problems of tracking cyberterrorism and criminals is that it is hard to determine if the cyber attack has been launched by
 - a rogue state
 - a terrorist
 - a hacker as a prank

Assessing Political Vulnerability

- A marketer has
 - no absolute guidelines to determine whether a company and its products will be subject to political attention.
- Countries seeking investments in high-priority industries may well excuse companies from
 - taxes
 - customs duties
 - quotas
 - exchange controls
 - other impediments to investment

Politically Sensitive Products and Issues

- Products that have or are perceived to have an effect on the
 - environment
 - exchange rates
 - national and economic security
 - welfare of people
 - particularly children health

Forecasting Political Risk

- Political risk assessment
 - an attempt to forecast political instability to help management identify and evaluate political events and their potential influence on current and future international business decisions
 - used to estimate the level of risk a company is assuming when making an investment and to help determine the amount of risk it is prepared to accept
- *Foreign Policy* magazine uses 12 criteria to rank countries on its “Failed States Index.”
 - Demographic pressures
 - Human flight
 - Uneven development
- [Exhibit 6.4](#) lists the 20 most fragile states.

Exhibit 6.4

Fragile States Index

South Sudan	Yemen	Syria
Somalia	Haiti	Guinea Bissau
Central African Republic	Pakistan	Nigeria
Democratic Republic of Congo	Zimbabwe	Kenya
Sudan	Guinea	Ethiopia
Chad	Ivory Coast	Niger
Afghanistan		

Source: From *Foreign Policy*, "Fragile States Index," August 2014, pp. 72–77.



Lessening Political Vulnerability

- Joint ventures
- Expanding the investment base
- Licensing/franchising
- Planned domestication
- Political bargaining
- Political playoffs

Where everybody wins!



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Political and economic aid in action, where everybody wins: The Japanese government has paid for the construction of a new highway that connects key safari tourism areas in Tanzania. Foreign tourism becomes more efficient, comfortable, and profitable for the Tanzanian company (and others) pictured—Kibo is one of the best in the country. The Japanese designers, consultants, and contractors involved make money on the work. And the road ultimately pays for itself in the form of lower warranty expenses on the armada of Toyota Land Cruisers that regularly ply the path between the Makuyuni and Ngorongoro animal preserves.

Government Encouragement

- Reasons to encourage foreign investment
 - accelerate development
 - create local employment
 - transfer technology
 - generate export sales
 - stimulate growth and development of local industry
 - conserve foreign exchange

Summary

- Vital to every marketer's assessment of a foreign market is an appreciation for the political environment of the country within which he or she plans to operate.
- The foreign firm must strive to make its activities politically acceptable, or it may be subjected to a variety of politically condoned harassment.
- As governments change political philosophies, a marketing firm accepted under one administration might find its activities undesirable under another.
- An unfamiliar or hostile political environment does not necessarily preclude success for a foreign marketer if the company becomes a local economic asset and responds creatively to the issues raised by political and social activists.