***Chapter Two***

***International Marketing Environment***

A company’s marketing environment consists of the **factors and forces outside of marketing** that affect marketing management ability to build and maintain successful relationships with target customers”. – Philip Kotler

International marketing environment consists of **global forces, such as economic, social, cultural, legal, and geographical and ecological forces,** that affect **international marketing** decisions.

International Marketing Environment consists of organization’s internal factors, domestic marketing factors, and global marketing factors.

Components of marketing environment

**A. Cultural Environment**

***A definition of Culture***

Anthropology, the study of humans, is a discipline that focuses on the understanding of human behavior. Cultural anthropology examines **all human behaviors that have been learned,** including social, linguistic, and family behaviors. Culture includes the **entire heritage of a society transmitted** by word, literature or any other form. It includes all traditions, habits, religion, art, and language.

Definition:Culture is a **set of traditional beliefs and values that are transmitted and shared** in a given society. Culture is also **the total way of life and thinking patterns** that are passed from generation to generation.

***Cultural Influences on Marketing***

The function of marketing is to earn profits from the satisfaction of human wants and needs. In order to understand and influence the consumer's wants and needs, marketers must understand the culture, especially in an international environment. Culture is embedded in elements of the society such as religion, language, history, and education. These elements send direct and indirect messages to consumers regarding the selection of goods and services. The culture we live in answers such questions as, Is tea or coffee the preferred drink? Is black or white worn at a funeral? What type of food is eaten for breakfast?

One of the most difficult tasks for global marketers is assessing the cultural influences that affect their operations. In the actual marketplace there are always several factors working simultaneously, and it is extremely difficult to isolate any one factor. Frequently, cultural differences have been held accountable for any noticeable differences between countries. However, when environmental factors differ, what is thought to be cultural may in fact be attributable to other factors.

***Elements of Culture***

***Language***

Language is a key component of culture because most of a society's culture finds its way into the spoken language. Thus, in many ways, language embodies the culture of the society. Knowing the language of a society can become the key to understanding its culture. But language is not merely a collection words or terms. Language expresses the thinking pattern of a culture and to some extent even forms the thinking.

Today, companies tend to choose product names carefully and test them in advance to ensure that the meaning in all major languages is neutral and positive. They also want to make sure the name can be easily pronounced. Language differences may have caused many blunders, but careful translations have now reduced the number of international marketing mistakes. However, the language barrier still remains, and companies that do more to overcome this barrier frequently achieve better results.

It is also possible to develop cultural empathy through learning a foreign language which is believed to help in developing cultural skill However, even when executives understand each other's language, there can still be plenty of room for misunderstanding. When an American executives says yes in a negotiation, this usually means, "yes, I accept the terms. "However, yes in Asian countries may mean four different things. First, it may mean that the other side recognizes that you are talking to them but not necessarily that they understand what is said. Second, it could mean that what was said was understood and was clear but not that it was agreed to. Third, it may mean that the other party has understood the proposal and will consult with others about it. And finally, yes may mean total agreement. It takes skill to understand just what yes means in any type of negotiation.

***Non-Verbal Language***

However, achieving some fluency in foreign is not the only cultural barrier to cross. At least as important is the use of nonverbal communication, or body language. Sometimes referred to as the "silent language," this includes such elements as touching, the distance between speakers, facial expressions, and speech inflection, as well as arm and hand gestures.

***Religion***

Many businesspeople ignore the influence religion may have on the marketing environment. There still are, however, religious customs that remain a major factor in international marketing today. Religion impacts people's habits, their outlook on life, the products they buy, the way they buy them, even the newspapers they read. Acceptance of certain types of food, clothing, and behavior are frequently affected by religion, and such influence can extend to the acceptance or rejection of promotional messages as well. Religion is one of the most sensitive elements of a culture. When the marketer has little or no understanding of a religion, it is easy to offend customers unintentionally.

***Education***

Though the educational system of a country largely reflects its own culture and heritage, education can have a major impact on how receptive consumers are to foreign marketing techniques. Education shapes people's outlooks, desires, and motivation. To the extent that educational systems differ by country, we can expect differences among consumers. However, education not only affects potential consumers, it also shapes potential employees for foreign companies and for the business community overall. This will influence business practices and competitive behavior.

***The Family***

The role of the family varies greatly between cultures, as do the roles that the various family members play. Across cultures, we find differences in family sizes, in the employment of women, and in many other factors of great interest to marketers. Particularly since the family is a primary reference group and has always been considered an important determinant of purchasing behavior, these differences are of interest. In some countries, such as China, the family is valued more than individuals or even country resulting in a situation where individuals have no right in a family or expense is shared. In such cultures product advertising appeals must focus on family benefits, not individual benefits.

Family structure is also one cultural factor affecting international marketing decisions. The term nuclear family is normally used to refer to the immediate family group father, mother, and children living together. In cultures such as United States and some Western Europe countries, their family refers to only the nuclear family. However, for many cultures, the extended family including grandparents, in laws, aunts, uncles, and so on is of considerable importance.

***Work and Leisure***

The attitudes a society holds toward work have been documented to have a substantial impact on a society's or cultures economic performance. David McClelland has maintained that it is not a country's external resources that determine its economic rise but its level of entrepreneurial spirit in exploiting existing resources. What was found to be crucial was the orientation, or attitudes, toward achievement and work. Cultures with a high level of achievement motivation were found to show a faster rise in economic development than those with low achievement motivation.

Well-known German sociologist Max Weber investigated the relationship between attitudes toward work and those toward religion. McClelland later expanded Weber's theory to cover all religions and found that economies with a more protestant orientation exceeded economies with a Catholic orientation in per capita income. McClelland ascribed this difference to the Protestant belief that man did not necessarily receive salvation from God through work but that success in work could be viewed as an indication of God's grace. Consequently, accumulating wealth was not viewed as a shameful activity that needed to be hidden. Traditional Catholic doctrine viewed moneymaking in more negative terms. Thus, religion appears to be a primary influence on attitudes toward work.

By the same token, different societies have different views about the amount of leisure time that is acceptable. Society significantly influences work and leisure through statutory holiday allowances and public holidays. A study of 25,000 people in 23 countries revealed that European countries give employees 25 to 40 days of vacation annually, whereas U.S. Japan, Mexico, and the Philippines require only 5 - 10 vacation days. Moreover, the working hours in Europe are shorter than U.S., Japan, and Mexico. This difference has implications on how people use their vacation times as well.

***Reference Groups***

Reference groups are people such as family, friends, celebrities, common man and experts that consumers turn to for advice on product purchases. Past experience clearly indicates that the concept of reference group influence applies to many cultures. Differences can be found in the types of relevant reference groups and in the nature of their influence on individual consumers.

Famous sports celebrities, movie starts, etc., traditionally have been used to exploit the reference group concept. The idea is to tap the prestige of accomplished athletes and movie stars to promote certain products. The challenge is in finding a sport personality or a movie star that people around the world will recognize equally is difficult.

***Analysis of the Elements***

In general, cultural elements must be evaluated in light of how it could affect a proposed marketing program; some may have only indirect impact, while others may be totally involved. If a company is simply marketing an existing product in an already developed market, studying the total culture is certainly less crucial than for the marketer involved in total marketing from product development through promotion, to the final setting. The effect of all elements of marketing should be seen together since each element is interrelated with the other to produce a specific kind or culture.

***The Challenges of Cultural Changes***

Culture is dynamic in nature; it is not static, but a living process. But that change is constant seems paradoxical, because another important attribute of culture is that it is conservative and resists change. The dynamic character of culture is significant in assessing new markets even though changes face resistance. There are a variety of ways society changes. Some have change thrust upon them by war (for example, the changes in Japan after World War II) or by natural disaster. More commonly, change is a result of a society seeking ways to solve the problems created by its existence. One view is that culture is the accumulation of a series of the best solutions to problems faced in common by members of a given society.

Accident has provided solutions to some problems; invention has solved many other problems. Usually, however, societies have found answers by looking to other cultures from which they can borrow ideas. Cultural borrowing is common to all cultures. However, even though many behaviors are borrowed from other cultures, they are combined in a unique manner that becomes typical for a particular society. To the foreign marketer, this similar-but different feature of cultures has important meaning in gaining cultural empathy.

Several nationalities can speak the same language or have similar race and heritage, but it does not follow that similarities exist in other respects- that a product acceptable to one culture will be readily acceptable to the other. However, differences run much deeper than language differences. Thus, marketers must assess each country thoroughly in terms of the proposed products or services and never rely on an often used saying that if it sells in one country, it will surely sell in another.

Most cultures tend to be ethnocentric; that is, they have intense identification with the known and the familiar of their culture and tend to devalue the foreign and unknown of other cultures. Ethnocentrism complicates the process of cultural assimilation by producing fallings of superiority about one's own culture and, in varying degrees, generates attitudes that other cultures are inferior, barbaric, or at least peculiar.

There are many reasons cultures resist new ideas, techniques, or products. Even when an innovation is needed from the viewpoint of an objective observer, a culture may resist that innovation if

* If the people lack an awareness of the need for it.
* Local environmental conditions prevent functional use
* If the innovation is complex in nature affecting the culture's ability to understand it or effectively use it
* If it conflicts, customs, traditions, or beliefs

An understanding of the process of acceptance of innovations is of crucial importance to the marketer. The marketer cannot wait centuries or even decades for acceptance but must gain acceptance within the limits of financial resources and project profitability periods.

Marketers have two options when introducing an innovation to a culture: they can wait, or they can cause change. The former requires hopeful waiting for eventual cultural changes that prove their innovations of value to the culture; the latter involves introducing an idea or product and deliberately setting about to overcome resistance and to cause change that accelerates the rate of acceptance.

***B. Political-Legal Environment***

Political and legal factors often play a critical role in international marketing activities. Even the **best business plans can go wrong as a result of unexpected political or legal influences**. A single international political and legal environment does not exist. The business executive must be aware of political and legal factors on a variety of planes. For example, while it is useful to understand the complexities of the host country legal system, such knowledge does not protect against a home-country- imposed export embargo.

We will examine the political legal environment from the manager's point of view. In making decisions about his or her firm's international marketing activities, the manager will need to concentrate on three areas: the political and legal circumstances of the home country; those of the host country; and the bilateral and multilateral agreements, treaties and laws governing the relations between host and home countries.

***1. Home Country Political and Legal Environment***

No manager can afford to ignore the policies and regulations of the country from which he/she conducts international marketing transactions. Wherever a firm is located, it will be affected by government policies and the legal system.

Many of these laws and regulations may not be designed specifically to address international marketing issues, yet they can have a major impact on a firm's opportunities abroad. Minimum wage legislation, for example, affects the international competitiveness of a firm using production processes that are highly labor intensive. The cost of domestic safety regulations may significantly affect the pricing policies of firms in their international marketing efforts.

Other legal and regulatory measures, however, are clearly aimed at international marketing activities. Some may be designed to help firms in their international efforts.

Apart from specific areas that result in government involvement, the political environment in most countries tends to provide general support for the international marketing efforts of the country's firms. For example, a government may work to reduce trade barriers or to increase trade opportunities through bilateral and multilateral negotiations. Such actions will affect individual firms to the extent that they affect the international climate for free trade.

Often, however, governments also have specific rules and regulations restricting international marketing. Such regulations are frequently political in nature and are based on the fact that governments believe commerce to be only one objective among others, such as foreign policy and national security. Four main areas of governmental activities are of major concern to the international marketer here. These are: embargoes or trade sanctions, export controls, import controls, and the regulation of international business behavior.

***Embargoes and Sanctions***

The terms trade **sanctions and embargoes** as used here refer to **governmental actions that distort the free flow of trade** in goods, services, or ideas for decidedly adversarial and political, rather than economic, purposes. To understand them better, it is useful to examine the backing and legal justifications under which they are imposed.

**Trade sanctions** have been used quite frequently and successfully in times of war or to address specific grievances. The basic idea was that **economic sanctions could force countries to behave peacefully in the international community.**

The problem with sanctions is that frequently a unilateral imposition has not produced the desired result. Sanctions may make the obtaining of goods more difficult or expensive for the sanctioned country, yet achievement of the purported objective almost never occurs. Moreover, unilateral embargoes expose businesses from that country to competitive disadvantage and thus are often fought by business interest. In order to work, sanctions need to be imposed multilaterally, a goal that is clear, yet difficult to implement. Quite often individual countries have different relationships with the country subject to the sanctions, and for one reason or another they cannot or do not wish to terminate trade relations.

In addition, sanctions imposed by governments always raise the issue of compensation for the domestic firms that are affected.

***Export Controls***

Many nations have export control systems designed to deny the acquisition of strategically important. Goods to adversaries or at least to delay their acquisition. Some counties require that an exporter get export license for certain products from the appropriate government offices before the export can take place.

The international marketing repercussions of export controls have become increasingly important. To design a control system that is effective and, in consideration of important national concerns, restricts some international business activities is one thing. It is quite another when controls lose their effectiveness and when, because of a control system, firms are placed at a competitive disadvantage with firms in other countries whose control system is less severe or nonexistent.

***Import Controls***

Many nations exert substantial restraints on international marketers through import controls. This is particularly true of countries that suffer from major balance-of-trade deficits or major infrastructural problems. These countries, either all imports or the imports of particular products are controlled through mechanisms such as tariffs, voluntary restraint agreements, or quota systems. On occasion, countries cut off imports of certain products entirely in order to stimulate the development of a domestic industry.

For the international marketer, such restrictions may mean that the most efficient sources of supply are not available, because government regulations restrict importation from those sources. The result is either second best products or higher costs for restricted supplies. This in turn means that the customer is served less well and often has to pay significantly higher prices.

Policymakers are faced with several problems when trying to administer import controls. **First, most of the time**, such **controls exact a huge price from domestic consumers.** Even though the wide distribution of the burden among many consumers may result in a less obvious burden, the social cost of these controls may be damaging to the economy and subject to severe attack by individuals. However; these attacks are counteracted by pressures from protected groups that benefit from import restrictions. For example, while citizens of the European Union may be forced because of import controls to pay an elevated price for all agricultural products they consume, agricultural producers in the region benefit from higher levels of income. Achieving a proper trade off is often difficult not impossible for the policymaker.

A second major problem resulting from import controls is the downstream change in import composition that results from these controls. For example, if the import of copper ore is restricted, either through voluntary restraints or through quotas, producing countries may opt to shift their production systems and produce copper wire instead, which they then export. As a result, initially narrowly defined protectionist measures may have to snowball in order to protect one downstream industry after another.

A final major problem that confronts the policymaker is that of efficiency. Import controls that are frequently designed to provide breathing room to a domestic industry either to grow or to recapture its competitive position often turn out not to work. Rather than improve the productivity of an industry, such controls provide it with a level of safety and a cushion of increased income, yet let overall technological advancement fall behind. Alternatively, supply may respond to artificial stimulation and grow totally out of proportion.

***2. Host Country Political and Legal Environment***

The host country environment, both political and legal, affects the international marketing operations of firms in a variety of ways. The good manager will understand the country in which the firm operates so that he s/he is able to work within the existing parameters and can anticipate and plan for changes that may occur.

***Political Action and Risk***

Firms usually prefer to conduct business in a country with a stable and friendly government, but such governments are not always easy to find. Therefore international managers need to analyze the host country's government, its policies, and its stability to determine the potential for political change that could adversely affect corporate operations.

A manager will want to think twice before conducting business in a country in which the likelihood of conflict and violent change is high. If conflict breaks out, the firm and its employees will possibly face violence in the form of guerrilla warfare, civil disturbances, or terrorism. Such violence often has an anti-industry element, making companies and their employee's potential targets.

Less dramatic but still worrisome are changes in government policies that are caused, not by changes in the government itself, but as a result of pressure from nationalist or religious factions or widespread anti-foreigner feeling. The aware manager will work to anticipate these changes and plan ways to cope with them.

Generally, international firms need to look for answers to six broad key questions

* How stable is the host country's political system?
* How strong is the host government's commitment to specific rules of the game, such as ownership or contractual rights, given its ideology and power position?
* How long is the government likely to remain in power?
* If the present government is succeeded, how would the specific rule of the game change?
* What would be the expected changes in the specific rule of the game?
* In light of those effects, what decisions and actions should be taken now?

***Possible actions of governments:***

What sort of changes in policy result from the various events described? The range of possible actions is broad. All of them can affect international marketing operations, but not all are equal in weight. Except for extreme cases, companies do not usually have to fear violence against employees, although violence against company property is quite common. Common also are changes in policy that take a strong nationalist and anti-foreign investment stance. The most drastic steps resulting from such policy changes are usually confiscation and expropriation.

Expropriation was an appealing action to many countries because it demonstrated nationalism and transferred a certain amount of wealth and resources from foreign companies to the host country immediately. It did have costs to the host country, however, to the extent that it made other firms more hesitant to invest in the country. Expropriation does not relieve the host government of providing compensation to the former owners. However, these compensation negotiations are often prolonged and result in settlements that are frequently unsatisfactory to the owners. The use of expropriation as a policy tool has sharply decreased over time.

Confiscation is similar to expropriation in that it results in a transfer of ownership from the foreign firm to the host country. It differs, however, in that it does not involve compensation for the firm.

Some industries are more vulnerable than others to confiscation and expropriation because of their importance to the host country economy and their lack of ability to shift operations. For this reason, sectors such as mining, energy, public utilities, and banking have been targets of such government actions.

Confiscation and expropriation constitute major political risks for foreign investors. Other government actions, however, are nearly as damaging. Many countries are turning from confiscation and expropriation to more subtle forms of control, such as domestication. The goal of domestication is the same, to gain control over foreign investment, but the method is different. Through domestication, the government demands partial transfer of ownership and management responsibility, and imposes regulations to ensure that a large share of the product is locally produced and a larger share of the profit is retained in the country.

Domestication can have profound effects on the international marketer for a number of reasons. First, if a firm is forced to hire nationals as managers, poor cooperation and communication can result. If the domestication is imposed within a very short time span, corporate operations overseas may have to be headed by poorly trained and inexperienced local managers. Further, domestic content requirements may force a firm to purchase supplies and parts locally, which can result in increased costs, inefficiency, and lower quality products, thus further damaging a firm's interest. Export requirements imposed on companies may also create confusion for the international distribution plan of a corporation and force it to change or even shut down operations in third countries. Finally, domestication usually will shield the industry within one country from foreign competition. As a result, inefficiencies will be allowed to grow due to a lack of market discipline. In the long run this will affect the international competitiveness of an operation abroad and may become a major problem when, years later, the removal of domestication is considered by the government.

***Ways to lessen the risk:***

Managers face political and economic risk whenever they conduct business overseas, but there may be ways to lessen the risk. In order to reduce the risk of government intervention, a firm needs to demonstrate that it is concerned with the host country's society and that it considers itself an integral part of the host country rather than simply an exploitative foreign corporation. Ways to do this include intensive local hiring and training practices, good pay, more charity, and more socially useful investment. In addition, a company can form joint ventures with local partners in order to demonstrate a willingness to share its benefits with nationals. Although such actions will not guarantee freedom from risk, they will certainly lessen the exposure.

Local borrowing can be taken as another strategy to reduce political risk. Financing local operations from indigenous banks and maintaining a high level of local accounts payable maximize the negative effect on the local economy if adverse political actions were taken. Typically, host governments do not expropriate themselves, and they are reluctant to cause problems for their local financial institutions. It is also advisable to minimize fixed investment in the host country by taking actions like leasing facilities instead of buying them. It is also possible to purchase insurance to cover political risk.

Other actions that can be taken by corporations to protect against political risk consist of the close monitoring of political developments. Increasingly, private sector firms offer assistance in such monitoring activities, permitting the overseas corporation to discover potential trouble spots as early as possible and react quickly to prevent major losses.

Clearly, the international marketer must consider the likelihood of negative political factors in making decisions on conducting business overseas. On the other hand, host-country political and legal systems can have a positive impact on the conduct of international business. Many governments, for example, encourage foreign investments, especially if they believe that the investment will produce economy to foreign investment, will produce economic and political benefits domestically. Some governments have opened up their economy to foreign investors, placing only minimal constraints on them, in the hope that such policies will lead to rapid economic development. Others have provided for substantial subsidization of new investment activities in the hope that investments will generate additional employment. The international marketer, in his investment decision, can and should therefore also pay close attention to the extent and forms of incentives available from foreign governments. Although international marketing decisions should be driven by market forces, the basic economies of these decisions may change depending on incentives offered.

***3. The International Environment***

In addition to the politics and laws of both the home and the host countries, the international marketer must consider the overall international political and legal environment. Relations between countries can have a profound impact on firms trying to do business internationally.

***International Politics***

The effect of politics on international marketing is determined by both the bilateral political relations between home and host countries and by multilateral agreements governing the relations among groups of countries.

The government-to-government relationship can have a profound effect, particularly if it becomes hostile. International political relations do not always have harmful effects on international marketers. If bilateral political relations between countries improve, business can benefit.

The good international marketer will be aware of political currents worldwide and will attempt to anticipate changes in the international political environment, good or bad, so that his or her firm can plan for them.

***International Law***

International law plays an important role in the conduct of international business. Although no enforceable body of international law exists, certain treaties and agreements respected by a number of countries profoundly influence international business operations. As an example, the World Trade Organization (WTO) defines internationally acceptable economic practices for its member nations. Although it does not directly affect individual firms, it does affect them indirectly by providing a more stable and predictable international market environment.

A number of efforts have been made to simplify business procedures. For example, firms wanting to patent their products in the past had to register them separately in each country in order to have protection. In response to the chaos and expense of such procedures, several multilateral simplification efforts have been undertaken. European countries have been at the forefront of such efforts, having developed the European patent Convention and the Community Patent Convention. Similar efforts have been undertaken with regard to trademarks so that firms can benefit from various multilateral agreements.

***C. THE ECONOMIC ENVIRONMENT***

The assessment of a foreign market environment should start with the evaluation of economic variables relating to the size and nature of the markets. Because of the large number of worthwhile alternatives, initial screening of markets should be done efficiently yet effectively enough, with a wide array of economic criteria, to establish a preliminary estimate of market potential.

The discussion that follows is designed to summarize a set of criteria that helps identify foreign markets and screen the most opportune ones for future entry or change of entry mode. Discussed are variables on which information is readily available from secondary sources such as international organizations, individual governments, and private organizations or associations.

The Statistical Yearbook of the United Nations, World Bank publications and individual countries' Statistical Abstracts provide the starting point for market investigations. The more developed the market, the more data are available. Data are available, on past developments as well as on projections of broader categories such as population and income.

***1. Market Characteristics***

The main dimensions of a market can be captured by considering variables such as those relating to the population and its various characteristics, infrastructure, geographical features of the environment, and foreign involvement in the economy.

***Population***

The number of people in a particular market provides one of the most basic indicators of market size and is, in itself, indicative of the potential demand for certain staple items that have universal appeal and are generally affordable.

Population figures themselves must be broken down into meaningful categories in order for the marketer to take better advantage of them. Because market entry decisions may lie in the future, it is worthwhile to analyze population projections in the areas of interest and focus on their possible implications.

Depending on the marketer's interest, population figures can be classified to show specific characteristics of their respective markets. Age distribution and life expectancy correlate heavily with the level of development of the market.

An important variable for the international marketer is the size of the household. A household describes all the persons, both related and unrelated, who occupy a housing unit.

***Income***

Markets require not only people but also purchasing power, which is a function of income, prices, savings, and credit availability.

A part from basic staple items, for which population figures provide an estimate, income is most indicative of the market potential for most consumer and industrial products and services. For the marketer to make use of information on gross national products of various nations, further knowledge is needed on distribution of income. Per capita GNP is often used as a primary indicator for evaluating purchasing power. In some markets, income distribution produces wide gaps between population groups. The more developed the economy, the more income distribution tends to converge toward the middle class.

In general, income figures are useful in the initial screening of markets. However, in product specific cases, income may not play a major role, and startling scenarios may emerge. Some products, such as motorcycles and television sets in China, are in demand regardless of their high price in relation to wages because of their high prestige value.

Some products are in demand because of their foreign origin. Further, the lack of income in a market may preclude the marketing of a standardized product but, at the same time, provide an opportunity for an adjusted product. A packaged goods company, confronted with considerable disparity in income levels within the same country, adapted a deodorant product to fit two separate target income groups the regular product version in a spray can and the less expensive one in a plastic squeeze bottle. By substituting cheaper parts and materials, successful international marketers can make both consumer and industrial products more affordable in less affluent markets and therefore reach a wider target audience.

***Consumption Patterns***

Depending on the sophistication of a country's data collection systems, economic data on consumption patterns can be obtained and analyzed. The share of income spent on necessities will provide an indication of the market's development level as well as an approximation of how much money the consumer has left for other purchases. Engel's laws provide some generalizations about consumers spending patterns and are useful generalizations when precise data are not available.They state that as a family's income increases, the percentage spent on food will decrease, the percentage spent on housing and household operations will be roughly constant, and the amount saved or spent on other purchases will increase.

***Infrastructure***

The availability and quality of an infrastructure is critically important in evaluating marketing operations abroad. Each international marketer will rely heavily on services provided by the local market for transportation, communication, and energy as well as on organizations participating in the facilitating functions of marketing: marketing communications, distributing, information, and financing. Indicators such as steel consumption, cement production, and electricity production relate to the overall industrialization of the market and be used effectively by suppliers of industrial products and services. As an example, energy consumption per capita may serve as an indicator of market potential for electrical markets, provided evenness of distribution exists over the market. Yet the marketer must make sure that the energy is affordable and compatible (in terms of current and voltage) with the products to be marketed.

***Foreign Involvement in the Economy***

For the international marketer interested in entering a foreign market, it is important to know the extent to which such entry is accepted by a country. An economy's overall acceptance of foreign involvement can be estimated by analyzing the degree of foreign direct investment by country and by industry in a given market as well as by the rules governing such investment.

**Regional Economic Integration**

**Regional economic integration**, refers to the growing economic interdependence that results when countries within a geographic region form an alliance aimed at reducing barriers to trade and investment. **40%** of world trade today is under some bloc preferential trade agreement.

* Premise- mutual advantages for cooperating nations within a common geography, history, culture, language, economics, and/or politics
* Free trade that results from economic integration helps nations attain higher living standards by encouraging specialization, lower prices, greater choices, increased productivity, and more efficient use of resources.

**Economic bloc**- a geographic area that consists of two or more countries that agree to pursue economic integration by reducing tariffs and other restrictions to cross-border flow of products, services, capital, and, in more advanced stages, labor.

Blocs involve a smaller number of countries and are much easier to negotiate than a system of worldwide free trade. **1947**- The GATT the WTO have fostered economic integration on a *global* scale. WTO rules have been less effective in dealing with groups of countries, and the slow progress to liberalize trade, especially in agricultural products, has prompted many developing countries to seek alternatives to the trading system favored by the WTO.

**Types of Regional Integration**

Regional integration is a continuum, with economic interconnectedness progressing from a low level of integration—the **freetrade area**— through higher levels to the most advanced form of integration—the **political union**.

* **Synergies**- the total output of the integrated area becomes greater than that achievable by individual states.

Five possible levels of regional integration.

* 1. **Free trade area**- is the simplest and most common arrangement, in which member countries agree to gradually eliminate formal barriers to trade in products and services within the bloc, while each member country maintains an independent international trade policy with countries outside the bloc. **E.g.,** NAFTA.
  2. **Customs union-** similar to a free trade area except that the member states harmonize their trade policies toward non-member countries -- *common* tariff and non-tariff barriers on imports from nonmember countries. **E.g.,** MERCOSUR(Argentina, Brazil, Paraguay, and Uruguay)
  3. **Common market** - trade barriers are reduced or removed, common external barriers are established and products, services, and *factors of production* such as capital, labor, and technology are allowed to move freely among the member countries. Common trade policy with nonmember countries. **E.g.,** the EU.

Common market challenges:

* Require substantial cooperation from the member countries on labor and economic policies.
* As labor and capital can flow freely inside the bloc, benefits to individual members vary, because skilled labor may move to countries where wages are higher and investment capital may flow to countries where returns are greater.

**4. Economic union**- member countries enjoy all the advantages of early stages, but also strive to have common fiscal and monetary policies- identical tax rates, fixed exchange rates, free convertibility of currencies and the free movement of capital.

**Example**- the EU has made great strides toward this.

Seventeen EU countries have established a *monetary union* with a single currency, the euro.Member countries strive to eliminate border controls, harmonize product and labeling standards, and establish region-wide policies for energy, agriculture, and social services.Members standardize laws and regulations regarding competition, mergers, and other corporate behaviors, and harmonize licensing procedures for professionals.

**5. Political union**

Perfect unification of all policies by a common organization- submersion of all separate national institutions.Remains an ideal, yet to be achieved.

**Why Nations Pursue Economic Integration?**

* + - * 1. ***Expand market size***

Regional integration greatly increases the scale of the marketplace for firms inside the economic bloc.Consumers also gain access to a greater selection of products and services.

* + - * 1. ***Achieve scale economies and enhanced productivity***

Expansion of market size within an economic bloc gives member country firms the opportunity to gain economies of scale in production and marketing.Internationalization inside the bloc helps firms learn to compete more effectively outside the bloc as well.Labor and other inputs are allocated more efficiently among the member countries- leading to lower prices for consumers.

* + - * 1. ***Attract direct investment from outside the bloc***

Compared to investing in stand-alone countries, foreign firms prefer to invest in countries that are part of an economic bloc as they receive preferential treatment for exports to other member countries.By establishing operations in a single EU country, these firms gain free trade access to the entire EU market.

* + - * 1. ***Acquire stronger defensive and political posture***

Provide member countries with a stronger defensive posture relative to other nations and world regions- this was one of the motives for the initial creation of the European Community (precursor to the EU).