International Business in Emerging Economies

Nirmal Kumar Betchoo

bookboon
The eBook company

NIRMAL BETCHOO

INTERNATIONAL BUSINESS IN EMERGING ECONOMIES

Download free eBooks at bookboon.com

International Business in Emerging Economies
1st edition
© 2019 Nirmal Betchoo & bookboon.com
ISBN 978-87-403-3111-0
Peer review by Dr. Theophilus Tshukudu, Department of Management, Faculty of Business, University of Botswana

Download free eBooks at bookboon.com

CONTENTS

Download free eBooks at bookboon.com

Click on the ad to read more

Download free eBooks at bookboon.com

ABOUT THE AUTHOR

Dr Nirmal Kumar Betchoo is Dean of Faculty at the Université des Mascareignes. He holds a DBA (Switzerland), an MBA (Scotland) as well as Graduate of the professional examinations of the Chartered Institute of Marketing and the Institute of Administrative Management (UK). He is the author of 12 books published nationally and internationally. He has published over 60 peer-reviewed articles in international refereed journals. He is external editor for the Journal of Mass Communications (USA) and the European Scientific Journal (ESJ). So far, he has reviewed some 150 papers. He presents research papers in conferences held in Mauritius and abroad particularly in London, Athens, Porto and Barcelona. He is subject specialist for the Tertiary Education Commission (TEC) in Mauritius for post-graduate programmes in management.

Dr Betchoo writes extensively for the local press where he has published lead papers out of some 150 articles he has published since 2012. His consultancy works include: Trainer for women entrepreneurs, Paper moderator for the University of Technology and the Mauritius Institute of Training and Development, Supervisor for Ph. D students along with his 33-year teaching experience out of which 24 have been devoted to teaching excellence at the tertiary level.

Download free eBooks at bookboon.com

In 2019, Dr Betchoo participated in the Biennial Commonwealth Conference (London) on natural risks and disasters. A book chapter on this issue is awaited. He worked with the Mauritius Research Council Panel on Innovation and Competitiveness Index, and edited a 5-year strategy with the Human Resource Development Council. He published an article in the special edition of 'Diplomacy and Beyond' Journal (India) along with another one in the Mauritius Institute of Education Journal. He is also Lead Guest Editor of Singapore Piscomed Business and Management Journal. He teams with a University of Mauritius panel on a TEC funded research on language translation in Kreol and English.

Download free eBooks at bookboon.com

ABOUT THE REVIEWER

Theophilus Tshukudu is Doctor of Management with the Department of Management, Faculty of Business in the University of Botswana. He teaches the following courses at both undergraduate and graduate levels: Human Resource Management, Strategic Management, Industrial Relations, Research Methodology, Organisation Development, Human Resource Development, Total Rewards Management, Ethics and Accountability and Principles of Management to name but a few. He has also supervised 11 Master's Degree and 7 PhD research projects.

Dr Tshukudu has published widely in the area of business management with two book chapters and 15 peer-reviewed journal articles. He has presented 5 plenary conference papers, and has presented conference papers at 21 International Conferences. Tshukudu has mentored 5 junior academic staff members in the department and currently, he is mentoring 21 PhD potential students. Dr Tshukudu has also been involved in University, community, and professional services for the past 10 years as a scholar and researcher.

Theophilus Tshukudu is the African Continental Assembly Chairperson of International Labour and Employment Relations Association (ILERA). He has consulted for many public, private organisations and government departments. Dr Tshukudu is an externalised 32 dissertations and 11 PhD theses for the following Universities: Milpark Business School, Nelson Mandela University, North West University, Rhodes University, and University of Johannesburg.

Download free eBooks at bookboon.com

PREFACE

International Business in Emerging Economies is a book destined to students and practitioners of international business. The book focuses on emerging economies which are countries ranging from low to upper-middle income nations that form part of the developing world. So far, most of the publications in this area have been seen from a western perspective whereby the texts have been developed and produced in advanced nations with a broad perspective of 'them' and 'us' where the self-reference criterion is used to provide an evaluation of the foreign culture from a western point of view.

This text has been conceived, written and developed from an emerging nation perspective where the author and the reviewer come from such nations. This builds in the advantage of perceiving international business from a diverse and refreshing perspective. Too easily, emerging economies can be claimed as poor with high levels of poverty and unstable policies. Although the perception is generalised and can be partly acceptable, emerging economies are now better espousing concepts of international trade through active engagement in such business and getting involved in attracting foreign investment and competences.

Students from emerging economies must develop a proactive approach and mind-set as they consider learning and studying international business. The very fact is that internationalisation of business is now part and parcel of domestic economies in emerging markets where they are in dire need of trading with foreign partners. Initially, trade looked to be unidirectional with western nations purchasing raw materials and selling finished goods to the developing nations. Nowadays, weaker economies are willing to develop their industrial production and export competences so that they might increase their trade opportunities both with other emerging economies and rich nations that still need raw materials or primary goods.

There is another useful point where emerging economies are currently learning to take advantage of the digital economy, overcome the digital divide wherever possible and develop trade using such premises. Although this concept might still be relatively embryonic in emerging economies, it is certain that this might be an asset for such economies in fostering international business in the future.

This textbook is concisely written in seventeen chapters and makes the student and practitioner embark on a journey within the emerging economies from China to India, Brazil to Venezuela, sub-Saharan Africa, Russia and so many places that are still less known to people. The effort has been to describe emerging economies as liberally as possible and make students aware of prospects developed in various countries concerned. Although China and India might be the giants of the emerging economies, many countries have been referred to and mentioned in this book thereby developing keen interest in learning business from a wide range of environments.

Download free eBooks at bookboon.com

The concept of this book stemmed from syllabus developed more than a quarter of a century ago in Singapore and channelled to Mauritius, the place where the author lives, in the form of teaching pedagogy. After being constantly involved in teaching and curriculum development, it is now a pleasure for me to see the course in a book edition that clearly addresses the needs of undergraduate and even post-graduate students coming from the emerging economy and beyond. It is hoped that this text suits the needs of learners and practitioners in the enterprising world of international business.

Nirmal Kumar Betchoo

Deloitte.
Discover the truth at www.deloitte.ca/careers
© Deloitte & Touche LLP and affiliated entities.
Click on the ad to read more

1 INTERNATIONAL BUSINESS IN EMERGING ECONOMIES

Introduction to international business

This book introduces the concept of international business to students embarking on a undergraduate programme that considers the relevance of undertaking business beyond the national borders. Quite often, most of the business education is done in the local setting with information coming from the outside regarding business but there is still a lack of effective knowledge of the international environment. Most countries now trade beyond their borders as this is an obligatory requirement for any economy. Initially international business was well developed from advanced economies that constituted the dominant power of the past namely western European nations and the United States. At some other time, developing economies also started to trade more significantly with the developed nations. This effort encouraged the conceptualisation of international business in a different way where smaller countries with lower bargaining and economic power could trade their surplus abroad and assist in the development of their domestic economy.

In a similar way, one can understand the role and importance of international business to emerging economies. These are small sized economies from developing nations that form part of the lower, middle and upper-middle income economies. Although much consideration was initially given to BRICS (Brazil, Russia, India, China and South Africa) followed by MINT (Mexico, Indonesia, Nigeria and Turkey), many other economies can also form part of this group known as emerging markets. We could well first develop the concept of such markets prior to engaging in further discussion.

An emerging market economy is one in which the country is becoming a developed nation and is determined to develop its business through many socio-economic factors. It constitutes rapidly growing and volatile economies of certain Asian, African, and Latin American countries. The emerging market economy the term was originally coined by Antoine W. Van Agtmoel of the International Finance Corporation of the World Bank—the emerging economy being defined as an economy with low to middle per capita income and it constitutes 80 percent of the global population and represents about 20 percent of the world economies low-income and rapidly growing countries that use economic liberalisation as their primary engine of growth. However, such economies have a potential to become a developed country. They are the economies that promise huge potential for growth together with some risks. An emerging economy reflects the characteristics of a developed market, but does not satisfy standards to be termed a developed market [1].

Download free eBooks at bookboon.com

This text portrays international business from the emerging market point of view bearing in mind that students might have a subjective view where the global economy is merely the presence of big players like countries of the selected G8 or advanced economies of the west. There has been keen interest from developing economies to move ahead and make the best of business. It is also seen that within emerging markets there are upcoming giants like China and India whose economies have grown more than tenfold over the past twenty years since the liberalization of global business. There are also strong economies like Nigeria, South Africa and Brazil that are making important strides. There might also be resilient small economies like Mauritius, the Seychelles or Botswana that are making excellent effort to boost their trade through wider opening to international business. These concepts now bring us forward to understand the relevance of international business for emerging economies.

International Business as a subject

International Business is a modern subject that is important for students at all levels. It has become imperative for them to understand the business implications at international level. In practically every business course, knowledge of international business has become a prerequisite to learning and appreciating how business takes place in the global marketplace. This course builds a foundation of the essential aspects of international business, namely the economic forces, historical, geographical and socio-cultural implications. It is assumed that all these aspects will create an eagerness for the prospective student to learn and discover the challenging nature of international business.

International Business has become a concern for emerging economies particularly since the past decade. Many countries are stepping to international trade with a more focused approach. Globalisation of the world economy and new conditions under the new economic order, have enforced developing and emerging economies to develop strategic plans related to international trade. They have to position themselves with regards to such conditions and gain the benefits. Definitely, international business is characterised with complexity and increasing difficulty for small economies. Limited by resources, emerging economies have to develop business strategies that will help them integrate global business and seek economic benefits.

Download free eBooks at bookboon.com

The scope of International Business

International Business covers the following areas:

1. The international environment and the challenges affecting the emerging economies.
2. The major trade theories-Absolute Advantage Theory, Competitive Advantage.
3. An overview of external trade and investment.
4. Country assessment and analysis-Investment in a foreign country.
5. Cross-cultural management-Language and Communication barriers.
6. The impact of physical/geographical forces in the foreign environment on international business.
7. The influence of Economic and Socio-economic forces on market size and investment opportunities.
8. The Multinational Organisation-Legal issues.

International Business as an individual subject

International subject is taught as a separate subject for the following reasons:

1. Its scope is wide-encompassing:
2. The world is a global village.
3. The subject deals with key aspects of economics, politics and social sciences.
4. International business is a fast developing subject.
5. There is competition in the international environment.
6. There might be opportunities for students to be engaged at international business level.

The relevance of International Business to students

International Business can represent an opportunity to students who are aiming at working in the international department of a firm. A knowledge of international business can open doors to students who wish to have a better idea of international business and find employment in an international setting.

Download free eBooks at bookboon.com

All economies have limited resources. For emerging economies with limited resources and there is a need for students to have an appreciation of International Business because it remains one of the key issues that will have positive influence on the development of their country. We have noticed that with more and more trade opportunities with Europe, the United States of America and new markets, developing nations are getting additional revenue. It is impossible to believe that by closing doors, countries will benefit financially and economically.

The subject makes students understand the importance of international business to emerging economies and highlights certain measures to promote its growth.

International Business helps us understand the external forces such as geographic, economic, political, legal, in the foreign environment. An understanding of such factors will improve the potential of developing nations as a competitive country in their respective regions.

The subject enhances cross-cultural awareness in international business management. Students are able to understand the complexity of international business because of the differences that exist in the world as a result if various cultures, traditions and modes of living.

SIMPLY CLEVER

ŠKODA

Do you like cars? Would you like to be a part of a successful brand?
We will appreciate and reward both your enthusiasm and talent.
Send us your CV. You will be surprised where it can take you.

Send us your CV on
www.employerforlife.com

Click on the ad to read more

Students will be able to acquire a greater degree of international stance and understanding of the international marketplaces. The domestic market has limited scope and financial returns to offer to the country. It is important to have a knowledge of the international marketplace in order to exploit the advantages from the large international environment.

The subject helps us understand the motivations for going abroad and the different forms of entry in venturing abroad. It is not easy to have access to foreign markets because of the complexity affecting each business situation. Different modes of entry exist and this equips the international businessman to have some knowledge beforehand which can avoid inconveniences and unexpected problems.

International Business helps the student obtain current knowledge of international trade practices and procedures. Everything is not similar or homogeneous everywhere. Differences exist and contrast at the international level. Procedures vary and must be clearly understood.

International Business helps the student understand the international economic factors, multilateral institutions and regional groupings (Mercosur, CAN, ASEAN, IOR, COI, SADC) that affect international business. Regional grouping has become the trend in international trade at this moment as it helps to fight back protectionism and problems such as quotas, tariffs and related issues.

At a later stage, students will learn about the importance of social responsibilities and ethical issues confronting multinational enterprises. Business have to be more conscious of the need to care for the community that they serve.

Students will be able to apply international business in an integrative manner, the knowledge and skills learned in this module to prepare a country analysis report.

International Business relevance for an exporting business

Businesses and exporting firms also benefit from the international business. There are some reasons developed that initiate domestic firms to consider the relevance of trading beyond borders [2].

a. Insufficiency of domestic demand
   If the domestic demand for the product is not sufficient to consume the production, the domestic firm may take a decision to enter the foreign market. In this way it can balance the production and demand.

Download free eBooks at bookboon.com

b. To utilise installed capacity
   If the installed capacity of the firm is much more than the level of demand of the product in the domestic market, it can enter the international market and utilise its unutilised installed capacity. In this way it can export the surplus production.
c. Legal restrictions
   Sometimes the government of a nation imposes certain restrictions on the growth and expansion of certain firms or on the production and distribution of certain commodities in the domestic market in order to achieve certain social objectives.
d. Relative profitability
   The export business is more attractive for its higher rate of profitability. The higher profitability rate also gives extra strength to the firm.
e. Less business risk
   A diversified export business helps the exporting firm in mitigating the risk of sharp fluctuations in the business activity of the firm.
f. Increased productivity
   Due to certain social and technological developments the industrial production has increased to a great extent. The production will be higher at cheaper rate. The surplus production can be exported.
g. Social responsibility
   In order to meet the social responsibility some business firms take the decision to contribute to the National Exchequer or treasury by exporting their products.
h. Technological improvements
   Technological improvements also attract the business firm to enter foreign markets. It introduces new products with latest technological improvements and faces the competition successfully in the international markets.
i. Product obsolescence
   If a product becomes obsolete in domestic market it may be in demand in international markets. The firm has to make a survey for introducing the product in those markets.

The nature of International Business

International business refers to the business strategy that is linked to trade activities done beyond the local confinements of a country. It refers to business done between different nations in view of making transactions through means of exchange; goods or services for capital. International business is of a more strategic concern than local business and there is much higher capital involvement than domestic business.

Download free eBooks at bookboon.com

A few broad ideas about the nature of international business are outlined below.

1. International business requires sufficient knowledge and preparation of the international market.
2. Emerging economies have so far been major importers of goods and services (except China) and have to devise strategies to modify this model.
3. International business is risky because it involves playing the game with already strong competitors in business established since long.
4. International business operates in an uncertain environment characterised by changes in economic or government policies along with international trade conventions.
5. International business requires heavy financial input and infrastructure that developing economies need to have prior to becoming suitable contenders.

The variance between domestic and international business

Domestic Business

1. Domestic business is related to the local environment and it is carried only inside the country.
2. Domestic business is less costly as it involves a low capital outlay.
3. Domestic business is less risky as the business manager has an awareness of the local context.
4. Functional managers may be sufficient at domestic level.
5. The business environment is fairly stable and less rapid to changes.
6. At local level, the firm is already conversant with local rules and regulations.
7. The market size is smaller and probably more homogeneous at local level.
8. At domestic level, firms may operate alone as sole businesses.

International Business

1. International Business is concerned with activities done at international level, i.e., beyond the local confinements of a country.
2. International Business is much costlier than domestic business. There is a high capital outlay.
3. International Business is risky as competition is aggressive at international level.
4. Specialist people are needed and strategic managers may be required for international business.

Download free eBooks at bookboon.com

INTERNATIONAL BUSINESS IN EMERGING ECONOMIES

5. The business environment is unstable and highly changing at international level.
6. At international level, the firm must comply with the rules and regulations governing the international market forces.
7. The market size is very large and not homogeneous at international level.
8. International Business may require partnership among firms. Mergers are also possible.

The International business process

The International Business comprises inputs, process and outputs that allow the flow from the production to the sales and ultimately an expected financial return for any firm.

INPUTS
Raw materials are used in production.
Labour is input both from the home and the host country.
Capital is obtained both from local banks and international corporations.
Management comprising managers both from the local and international environment.

PROCESS
Raw materials are transformed into products that can be sold.
Certain products can be used as derived demand by other firms.
Labour is processed as operating hours and units of production.
Capital is transferred in the production of goods and payment to workers.

OUTPUTS
Manufactured goods.
Revenue earned from sales.
Profits/Losses.
Industrial waste.

Download free eBooks at bookboon.com

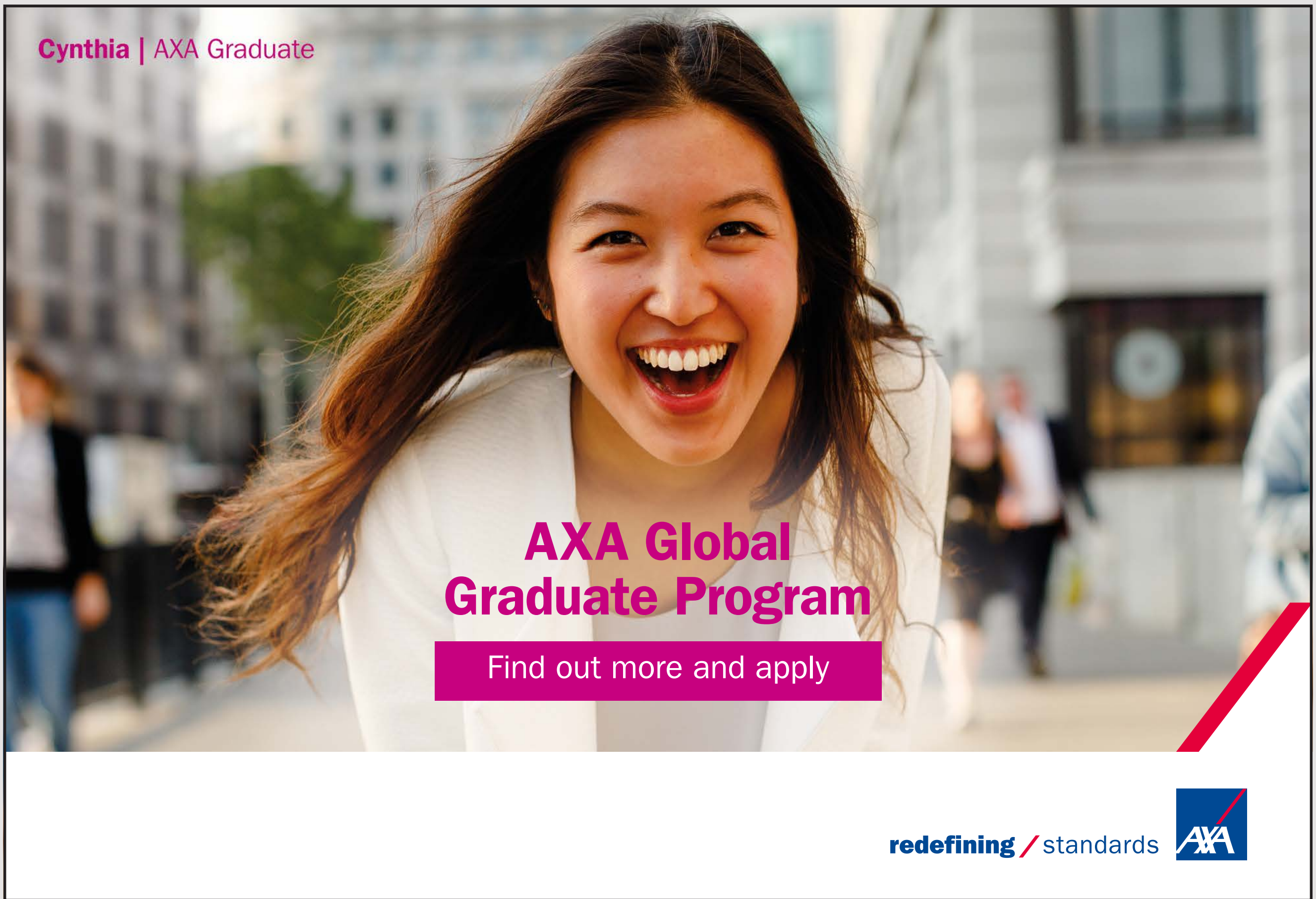
INTERNATIONAL BUSINESS IN EMERGING ECONOMIES

The three environments in which international companies operate.

International Companies operate generally in three environments [3]:

The local environment

Local business is driven by specific local conditions and market characteristics. It operates in a larger economic context. At the local level, the business must compete for employees, resources from suppliers at a competitive price, local advertising and marketing channels. The most successful businesses are well managed creating a compelling value proposition relative to its local competitors. Business intelligence and local community buyer values are critical for management pricing, inventory, and marketing strategies. A domestic business operates in a larger economic context. The overall economy influences local businesses dramatically. Many of these forces are beyond the control of local businesses often determine success and failure. Access to capital, levels of consumer spending, the overall health of the economy, ability to lease space and equipment, unusual weather, all present challenges to local businesses. Finally, the regulatory environment places controls, regulations, and taxes on local businesses that directly affect profitability and business sustainability.



Click on the ad to read more

The foreign environment

The foreign environment consists of geographical, economic, financial, socio-cultural, political, legal and ecological forces outside the home country. A firm should examine these components of the environment for each one of the foreign countries in which it operates. All the components and elements of the foreign environment might not be relevant to a decision maker. Much depends on the nature of the firm and its decisions. For a small firm interested in exporting, analysis of the commercial policy and the economic environment would be sufficient. But for a multinational corporation interested in setting up a manufacturing plant in a foreign country, geographic as well as socio-cultural, legal and political environments would be as important as the economic environment.

The global environment

The definition of global business environment is multiple sovereign nations outside the organisation's home environment influencing how the organisation makes decisions for how to use its resources. The company's operating situation depends on both external and internal factors. Factors within a business environment typically includes suppliers and clients, technology improvements, government activities, economic trends, owners and competition, laws, social trends and market trends. The social environment of the host country plays a major role, so the company must fully understand the social norms of that country to function efficiently and effectively. Social norms include things like the culture and language of the host country.

Case Study: The Importance of the International Business Environment

A vibrant international trade environment benefits all participating parties. Countries with high levels of international trade have stronger economies, better standards of living and steadier growth. Exports boost the economic development of a country, reduce poverty and raise the standard of living. The world's strongest economies are heavily involved in international trade and have the highest living standards, according to the Operation for Economic Co-operation and Development (OECD).

Countries like Switzerland, Germany, Japan and the Scandinavian countries have high volumes of imports and exports relative to their gross domestic product and offer high standards of living. Nations with lower ratios of international trade, such as Greece, Italy, Spain and Portugal, face serious economic problems and challenges to their living standards. Even with low wages, less developed countries can use this advantage to create jobs related to exports that add currency to their economy and improve their living conditions.

Download free eBooks at bookboon.com

Exporting opens new markets for a company to increase its sales. Economies rise and fall, and a company that has a good export market is in a better position to weather an economic downturn. Furthermore, businesses that export are less likely to fail. It is not only the exporting companies that increase sales; the companies that supply materials to the exporters also see their revenues go up, leading to more jobs.

A company that increases its exports needs to hire more people to handle the higher workload. Businesses that export have a job growth 2 to 4 percent higher than companies that don't; these export-related jobs pay about 16 percent more than jobs in companies with fewer exports. The workers in these export-related jobs spend their earnings in the local economy, leading to a demand for other products and creating more jobs. Imported products result in lower prices and expand the number of product choices for consumers. Lower prices have a significant effect, particularly for modest and low-income households. Studies show that lower import prices save the average American family of four around $10,000 per year.

Besides lower prices, imports give consumers a wider choice of products with better quality. As a result, domestic manufacturers are forced to lower their prices and increase product lines to meet the competition from imports. Even further, domestic retailers may have to import more components of their products to stay price competitive.

International business removes rivalry between different countries and promotes international peace and harmony. Mutual trade creates a dependence on each other, improves confidence and fosters good faith. A good example of co-dependency of nations is the relationship between the United States and China. Even though these countries have significant political differences, they try to get along because of the huge amount of trade between them.

Their relationship evolved and changed a lot over the past decades. Not too long ago, it was characterised by mutual tolerance, intensifying diplomacy and bilateral economic relationships. This was a win-win for both parties. In July 2016, more than 800 hundred Chinese products became subject to a 25 percent import tax. The new tariff policy is expected to affect U.S.-China relations. Financial experts believe that there's no going back to how things were.

A policy of a free international trade environment strengthens the economies of all countries. The competition from imports and exports leads to lower prices, better quality of products, wider selections and improved standards of living. While international trade may lead to the loss of some jobs, it has a stronger synergistic effect on the creation of new jobs and improved economic conditions.

Source: Woodruff, J. and Seidel, M. (2018) The Importance of the International Business Environment, bizfluent.com [4]

Download free eBooks at bookboon.com

INTERNATIONAL BUSINESS IN EMERGING ECONOMIES

Questions

What are the factors accounting for the economic development of advanced nations in international business? How are imports affected by international business? How does international business create a win-win situation to countries involved? Briefly state the importance of international free trade.

Multiple Choice Questions

Select the most likely answer in each question

1.	Which countries dominated international business earlier?	
	A.	Western nations.
	B.	Emerging economies.
	C.	Low-income countries.
	D.	The ex-USSR.

Click on the ad to read more

2.	Which one of the following nations is an emerging economy?	
	A.	United States.
	B.	Brazil.
	C.	Germany.
	D.	Switzerland.

3.	In a win-win situation in international business	
	A.	a single country dominates the business.
	B.	a single exports.
	C.	both countries import and export.
	D.	both countries import only.

4.	Selling surplus in international business	
	A.	brings losses to a company.
	B.	brings only capital to a company.
	C.	might state that the export company is facing trouble.
	D.	might bring profit to a company.

5.	Compliance with international regulations form part of the	
	A.	foreign environment.
	B.	domestic environment.
	C.	natural environment.
	D.	multi-domestic environment.

Download free eBooks at bookboon.com

6.	A study of international business makes	
	A.	a student weary of international trade.
	B.	a student knowledgeable of international business challenges.
	C.	a student accept international trade conditions.
	D.	a student less concerned with domestic business.

7.	A particular nature of international business might concern	
	A.	long-term growth.
	B.	certainty.
	C.	uncertainty.
	D.	stability.

8.	The global business environment is	
	A.	multiple colonised nations in the organisation's home environment.
	B.	one sovereign nation outside the organisation's home environment.
	C.	multiple sovereign nations outside the organisation's home environment.
	D.	multiple sovereign nations outside the organisation's home environment.

9.	Countries with high levels of international trade have	
	A.	stronger economies, better standards of living and steadier growth.
	B.	weaker economies, worse standards of living and slower growth.
	C.	stronger economies, weaker standards of living and slower growth.
	D.	stronger economies, average standards of living and average growth.

Download free eBooks at bookboon.com

10.	International business has a stronger synergistic effect on	
	A.	the creation of new jobs and worse off economic conditions.
	B.	the creation of new jobs and improved economic conditions.
	C.	the loss of existing jobs and worse-off economic conditions.
	D.	the loss of existing jobs and improved economic conditions.

Solutions: 1A2B3C4D5A6B7C8D9A10B

References

[1] What are emerging economies? www.igi-global.com
[2] Shaik, S. (2016) economicsdiscussion.net
[3] Reference: What Is the Definition of Global Business Environment?
[4] Woodruff, J. and Seidel, M. (2018) The Importance of the International Business Environment, bizfluent.com

2 THE MULTINATIONAL ENTERPRISE

Introduction

Understanding the role and influence of multinationals in international business is crucial to learning how companies remain the determinants of international trade. One might say that governments and bilateral agreements are the first issues that should be considered while developing business beyond borders. Yet, multinationals could be those organisations that are drivers of international business. Seen from today's perspective, one might reasonably say that multinationals are those that influence trade. Names like Amazon, Mc Donald's, Gillette, Alibaba, etc. are so commonly heard and seen worldwide that it looks like such businesses are at the forefront of world trade with market capitalisations of billions of dollars. In this context, it is important to approach this lecture by underpinning the influence of the multinational business in international trade.

Apparently, all multinationals are companies that have originated as small businesses locally and have reaped success through years of investment in business. Based on the core product and service that they offer, multinationals have developed subsequently over the years to become large organisations and eventually grow up into conglomerates. With greater involvement outside the home border, they have decentralised and based their operations initially in one or a few international environments. Then, their expansion looks like a tentacle strategy depending on the size and scope of the business. Today multinationals can have different appellations as well; transnationals or even supranational.

The multinational enterprise is an illustration of an organisation that is involved in international business. In almost every country in the world, a multinational carries out its operations or trades with the country. Multinationals may not be present in all the countries, yet they can have an influence in trade at international level. The history of multinationals can originate since the early days of the industrial revolution that started in Great Britain in the 1870s.

Initially, the big companies operated in the home market where they dominated smaller businesses. With the advent of the industrial revolution, there was a major change since the companies got industrialised and made a more extensive use of industrial machinery to produce their goods.

Mass production then became something possible and the large organisations that employed many people dominated further business at the local level. However, the local market posed several constraints to them. For example, all the goods could not be channelled in the home market because there was an excess production with industrialisation. Further, the supply exceeded the demand level, and it was possible to think of international business in different countries.

Download free eBooks at bookboon.com

The impact of air and sea routes

At the start of the century, it was difficult to trade goods in an effective way. Transport was mainly maritime by nature and it took a long time for organisations to trade in different countries. In the early thirties, there was a development of air links and this developed trade faster. In the same line, multinationals started to have a foothold in various international markets. The local companies, most of them US-based, started to move to Europe where there was the possibility to trade since Europe was the major trade partner during these times. The domestic companies then grew as multinationals and they started business on the European mainland, initially, in affluent countries, then a little later, all over Europe.

Evolution of multinationals

Pre-Second World War-The Era of European multinationals

During the early decades of the twentieth century, European multinationals like Unilever, Royal Dutch/Shell, ICI, Philips and Courtaulds, were pioneers of international business. Bartlett and Ghoshal describe them as multinational federations, each subsidiary permitted a high level of operational independence from the parent company, undertaking its own product development, manufacturing and marketing. International transport and communication were slow, costly, unreliable and national markets were highly differentiated. Parent company control involved the appointment of senior managers to subsidiaries, the authorisation of capital expenditure and the flow of dividends from subsidiary to parent.

Post-Second World War-The Era of American multinationals

The emergence of the United States as the world's dominant industrial nation at the end of World War II was followed by two decades during which companies like Ford, General Motors, IBM, Coca-Cola, Caterpillar, Gillette, and Procter and Gamble became clear international leaders in their respective industries. Although the subsidiaries of these companies typically operated with a high degree of autonomy in terms of product introduction, manufacturing, and marketing, the US parent companies occupied a dominant position within the groups. Since the US was the largest and most affluent market in the world, the home base acted as the source of new products and process technology for the company.

Download free eBooks at bookboon.com

The 70's and 80's-The Japanese Challenge

During the 70's, Japanese companies emerged as leading global players across a number of manufacturing industries from steel to ship building to electronics and automobiles. A distinguishing feature of Japanese multinationals was their pursuit of global strategies from centralised domestic companies. Companies like Honda, Toyota, Matsushita, and NEC concentrated on R&D and manufacturing in Japan, while the overseas subsidiaries were initially for sales, distribution and customer support. By building plants of unprecedented scale to service growing world demand, Japanese companies were able to exploit substantial scale and experience advantages.

The millennium and today

Multinationals still predominate over international business. The coming up of China and India as well as emerging economies in international business has prompted such countries to have their businesses in the Top 100 listed companies. Some other giants come from South Korea like Samsung or Kia while some emerging companies could be Alibaba, Ten cent or Indian Oil. There is also the development of new multinationals coming from the digital area namely Apple and online businesses like Amazon, e-bay, Aliexpress. In a similar way, some digital companies have international presence through their applications like Facebook or Twitter. In some sense, product-based multinationals seem to lose ground compared to emerging companies in the service sector both from the developed and the developing world.

Conditions for developing a subsidiary

When the multinationals developed their business abroad, they would initially look for conditions that would satisfy their requirements. Investment at international level was heavy and risks were inherent in countries with different political and social environments. The multinationals looked for subsidiaries the following conditions:

a. There would be no political influence in their business abroad.
b. The overseas partner or government would provide suitable inducements and attractions.
c. The market segment would be sufficient to exploit and sell profitably the goods.
d. There would be sufficient incentives to expand the business and repatriate the profit home.

Download free eBooks at bookboon.com

The popular multinationals

As stated earlier, the most popular multinationals are American companies that are established in many countries in the world. The USA had the people, the technology, the marketing infrastructure and the know-how to conquer international markets. The companies established themselves initially across Europe, then moved to different markets like Japan and Latin America.

Japan rose to economic advancement after the Second World War. Companies like Honda, Toyota, Sony, among others moved to the United States where they challenged the strong and established US companies while snatching their rivals' market share. In this way, Japanese multinationals are nowadays popular all over the world.

Below is provided a list of popular multinationals in different categories.

Multinational	Country	Specialisation
General Motors	USA	Automobiles and industrial goods
Coca-Cola	USA	Soft drinks
AT & T, Motorola	USA	Telecommunications
Shell	UK-Netherlands	Petrol and Lubricants
Toyota	Japan	Automobiles
Sony	Japan	Electronic goods
Nestlé	Switzerland	Dairy products and confectionery
Microsoft	USA	Software products
Danone	France	Consumer goods
Procter and Gamble	USA	Fast moving consumer goods
Mc Donald's	USA	Fast food and snacks

The end of the multinational?

The multinational corporation is a concept that is familiar to international business, but the term now looks a little outmoded. International business, in the contemporary world, is characterised by globalisation and the term 'multinational' does not look appropriate.

Different terminologies have been developed and differences will be accounted:

The domestic company

The original form of the multinational. It exists in the home market and has no overseas subsidiary. Demand at international level is one-off, incipient or latent.

The multinational corporation

It is the large company that has its head-quarters in one country and subsidiaries in strategic places in the world like Europe, Japan, Singapore. There is one main policy and strategy that is applied from the home market and followed abroad, like KFC, Coca-Cola.

The international company

The company operates in various environments but it can apply different philosophies and strategies in the international markets that it serves. Sometimes, even the company name can different in various markets.

Click on the ad to read more

The global company or the transnational

The company considers the world as one market where there is little differentiation and more homogeneity. Of course, there can be modifications and slight changes as and where expected. Most established multinationals are now following this concept. Nestlé is a transnational which sells its products worldwide while some can be marketed in particular market segments as well. Unilever is organised primarily on a geographical basis with subsidiaries in each country responsible for a particular business. In the food category for instance, there are global fast foods (hamburgers, fried chicken, soft drinks), international foods (Indian, Chinese and Italian foods sold in many national markets), and national foods (steak and kidney pies in Britain).

A global company has a foothold in multiple countries but the offerings and processes are consistent in each country. For example, a major soft drink brand can set up business in different countries, but the recipe does not change in the global model. The company uses the same ingredients and manufacturing processes, regardless of local culture. In a global model, the business does not adapt to local norms, but rather, it imposes its existing business model on the country. The only exception within the global model is the marketing approach to drive sales in individual countries. The product is consistent but messaging must adapt to work within the cultural norms [1].

Some of the companies in emerging countries are slowly moving up to become global multinationals by expanding in countries outside of their home market. As these companies gain technological know-how and look for ways to deploy excess capital, it is only normal for them to try to imitate their developed world companies. Hence the once-dominant developed world multinationals are seeing their leadership position weakened and have to compete fiercely to maintain or expand market share in their respective industries.

As the global economic balance is projected to shift from West to East, some of the emerging companies from Asia can be expected to reach leadership positions and become truly global multinationals. In addition, some of the major companies in Latin America and South Africa are also expanding their footprint in other countries and would rise up the ranks of global multinationals in the future [2].

Download free eBooks at bookboon.com

Below is provided a list of popular multinationals in emerging economies

Multinational	Country	Specialisation
Brasil Foods	Brazil	General foodstuff
Embraer		Civil aviation
Apollo Tyres	India	Tyres for automobiles
Bajaj		Scooters and motorcycles
Bharti Airtel		Telecommunications
Qatar Airways	Qatar	Civil aviation business
Alibaba Group	China	Online purchases
Aviation Industry Corporation of China		Civil aviation
Emirates Global Aluminium	United Arab Emirates	Aluminium and construction
Etihad Airways		Civil aviation business
Etisalat		Telecommunications
Aspen Pharmacare	South Africa	Pharmaceutical products
MTN Group		Entertainment
Air Asia	Malaysia	Civil aviation business
Petronas		Petroleum products

Case Study: Emerging market multinationals: New giants on the block

The familiar story of the rise of multinational corporations focuses on the usual suspects: longstanding powerhouses, mostly based in the United States and Western Europe, like Walmart, IBM, General Electric, Exxon, BP and Volkswagen. Japan's massive post-WWII investment in modernisation allowed it to become a leader in the automobile and electronics industries.

In the last twenty years, that story–and the multinational map of corporate power, as it were–has undergone a fundamental shift: away from established companies in the developed world and toward ambitious upstarts in the developing world. In their book *Emerging Markets Rule: Growth Strategies of the New Global Giants,* Wharton management professor Mauro Guillen and co-author Esteban García-Canal shine needed light on this new twist in the story, one that has been largely underreported in the mainstream press.

Download free eBooks at bookboon.com

The Emerging Market Multinationals Revolution

Definitions aside, the dramatic surge of EMMs certainly represents a sizable geopolitical shift. Yet just as significant as the fact of companies in developing countries asserting global dominance are the methods by which they have done so. This is a revolution not just in *who* but in *how.* EMMs have made their mark by moving boldly, swiftly, strategically and often stealthily; by nimbly negotiating the often volatile political and economic landscapes of other emerging markets; and by treating joint ventures and other initial forays into acquisition and expansion as learning experiences. This approach, the authors contend, stands in stark contrast to the more plodding, rigid, top-down methods traditionally employed by entrenched multinationals.

Guillén and García-Canal suggest a number of reasons why EMMs as a group seem to exhibit a different approach, and an entirely different institutional culture. Most of these companies, and their owners, cut their teeth in environments characterised by political and institutional instability, and a range of limitations in infrastructure, technology and capital. Early on, they learned to make more out of less and to be comfortable with risk, volatility and uncertainty. As well, many are either family-or government-owned, are free from the second-guessing of stockholders, and thus able to keep their eyes on the long-term prize, even if their strategy results in some short-term bumps in the road.

Download free eBooks at bookboon.com

Suzlon of India listened to the market in a different way. Founded as a textile company, the company grew tired of the erratic and inefficient service provided by India's state-owned electricity network. It began looking into developing its own wind-power generators and, with no background or expertise in the field, had to learn the technology from scratch. Recognising the huge potential in the market for alternative energy, it sold off its textile business in 2001 and is now exclusively devoted to the development of wind farms. Suzlon has risen to the top of the market in India, is number two in the United Kingdom and third in France and Germany.

Speed and Scale

Upstart EMMs have managed to leapfrog entrenched companies, not through cautious and incremental growth, but by thinking big and acting boldly. A number of them have spent years and even decades consolidating their position in their home countries. But when they made the move to go global they have done so at near lightning speed, and with a varied attack utilising vertical integration, joint ventures, rapid expansion and strategic acquisitions. By contrast, 'even after entering foreign markets, old-line multinationals tended to escalate their commitment of resources slowly.'

Samsung Electronics of South Korea exemplifies a bold and swift commitment to scale. Founded in 1969 as a subsidiary of the larger Samsung Group, its early years were devoted to manufacturing contracts outsourced by American brands. In the mid-1970s, Samsung moved aggressively into the semiconductor business, thereafter focusing on its own brands and proprietary technologies. In each market it has entered, it has scaled rapidly. The company started making batteries for digital devices in 2000; ten years later it was the global leader. In 2002, Samsung invested in the manufacture of the flash-memory chips that drive iPhones and iPads; in less than five years, it was Apple's top supplier. By the end of the decade, the company's revenues had surpassed those of rivals Panasonic and Sony. A top executive describes the key to Samsung's success as 'aggressive investments and faster decisions'.

Source: Knowledge Wharton [3]

Questions

Discuss how emerging market multinationals have made their mark by moving boldly, swiftly, strategically in international business. How does the success of Suzlon India compare with the strategy of other international companies in emerging economies? What accounts for the success of Samsung as a well-known multinational today?

Download free eBooks at bookboon.com

Perspective

The rise of emerging market multinationals

Emerging economies have gained ground in wealth and influence over the past two decades, bringing about radical changes in the global economic landscape. The rise of their multinationals, the so-called emerging market multinationals (eMNCs), are an illustration of this phenomenon [4].

The overseas expansion of eMNCs has indeed been remarkable: for instance, about 20% of global outward investment flows today are accounted for by a group of 20 top emerging economies, the E20; who's share was 2% at the turn of the century. Not only have emerging market multinationals significantly increased their investment abroad; but they have also made significant inroads in the global corporate world.

For instance, today, about 30% of the firms in the Fortune Global 500 list (based on revenues) are enterprises from emerging markets; less than 10% of their value, ten years ago. True, China leads the trend: with 98 companies, it ranked in 2015 second in term of number of Fortune 500 firms - not that far from the US (128), and much more than the number 3, Japan (54). However, a wide array of emerging economies is represented: 14 countries of the above are mentioned in the E20 grouping, although sometimes with only one entry in the list. The new players come mainly from China, Korea, India, Brazil, Russia, Mexico and Indonesia.

Beyond the fact that emerging market multinationals significantly increased their presence among the largest corporations in the world, perhaps as remarkable is the fact that several have made it to the very top, becoming world leaders in their own sector. Let's take eight key industries: banking, logistics, automobile, telecom, engineering and construction, petroleum refining, mining, crude oil production and mining. In 2004, based on the Fortune Global 500 ranking, there was no emerging market multinational among the top 5 world leaders in these industries while, in 2015, 40 % of such leaders came from emerging economies, largely dominated by China.

Points to ponder

Emerging economies have gained ground in wealth over the past two decades, bringing about radical changes in the global economic landscape. Emerging market multinationals have significantly increased their presence among the largest corporations in the world, to become world leaders in their own sector. In 2015, 40 % of such leaders came from emerging economies, largely dominated by China.

Download free eBooks at bookboon.com

Becoming digital leaders

Emerging-market companies have grown faster than companies in developed markets in most industries over the past decade. One big reason is their embrace of digital technologies. Nowhere is the trend toward digitisation more evident than among the 100 companies that we call global challengers, many of which are leveraging digital technologies both to win in emerging markets and to compete globally with multinationals.

A growing number of global challengers are digital leaders. Almost 60% of the companies on the 2018 global challenger list are either digital natives or significant digital adopters, compared with only 17% that made significant use of digital technologies in 2012.

These companies are achieving their leadership positions by leapfrogging their developed-market counterparts. Some are innovators in digital technologies—bringing their inventions to market, building major businesses on new tech foundations, and taking share from developed-market competitors. Others innovate in their use of technology to develop new products and services in more traditional industries or to upend traditional ways of manufacturing or delivering products and services. The non-tech companies among the global challengers are using digital technologies to improve operations and overcome many of the physical, financial, and commercial hurdles to doing business in emerging markets, including those related to geography, logistics, and infrastructure.

Global challengers develop their digital capabilities in three main ways: They invest in internal innovation programs and research and development. They pursue partnerships and join digital ecosystems or establish their own. And they acquire digital capabilities through M&A and private investments in start-up companies and technologies. All are proving to be highly productive avenues to digital development [5].

Emerging market multinationals as strong market-driven innovators

Millions of Americans fly on planes made by Embraer. They may even know the name of the aircraft manufacturer. But if they had to guess what country Embraer is from, many would probably guess wrong.

Embraer is from Brazil. It is the largest manufacturer of regional jets in the world and among the top five aircraft manufacturers globally. “In a high-tech area as regional jets, the largest firm at present happens to be from Brazil. Who would have anticipated this a few years ago?” says Mauro Guillen, a Wharton professor of international management [6].

Increasingly, companies from developing countries such as Brazil, India, China and Mexico are becoming global leaders and eclipsing familiar brands in the developed world. Take Alibaba, the e-commerce giant from China. It has a market value greater than Yahoo, Netflix, eBay, Yelp, LinkedIn, Twitter and Groupon put together. Alibaba’s cloud service Aliyun is giving Amazon Web Services a run for its money. South Korea’s Samsung is the world’s largest consumer electronics firm, outselling Sony, Panasonic and Philips. Bimbo of Mexico is the largest bakery company; in 2010, Bimbo purchased Sara Lee’s North American bakery business. And on this year’s Forbes Global 2000 list, although the U.S. still claims the maximum spots, the top four are occupied by Chinese banking firms.

The phenomenon of emerging multinationals (EMs)—successful companies from the developing world—isn’t going away any time soon, according to a report from the World Economic Forum’s Global Agenda Council on Emerging Multinationals. The trend is being fuelled by the growth of emerging markets themselves: During 2000 to 2010, developing and emerging markets accounted for 60% of the incremental world GDP. And over the next decade, most of the world’s population growth will be located in emerging economies, giving rise to new consumers and larger markets.

Download free eBooks at bookboon.com

Perspective

Beyond Commodities: How African multinationals are being transformed

Oil, gold, diamonds, palm oil, cocoa, timber: raw materials have long been linked to Africa in many business people's minds. And in fact the continent is highly dependent on commodities: they constitute as much as 95% of some countries' export revenues, according to the United Nations Conference on Trade and Development. But propping a country's entire economy on commodities is risky business, like building a mountainside home on stilts. Given that reality, the African business landscape is transforming itself—both in reality and in the world's perceptions — to provide a firmer economic foundation and grow multinational enterprises [7].

Leaping to Digital

The traditional image of African business is certainly changing. Not surprisingly, there's a huge push around digital … digital everything: solutions, a variety of platforms. Africa has a 'leapfrogging possibility'—unlike the West, it never accumulated layers of now-outdated technology and infrastructure, so it can start with the most advanced systems available.

Click on the ad to read more

Toward financial inclusion

Among the African entrepreneurs rising to the challenge, CWG has about 600 employees with operations in Nigeria, Ghana, Uganda and Cameroon, and an average yearly revenue of $130 million. The firm's self-stated goal is to become the top cloud platform provider in Africa by 2020. Africa's financial services sector, to which CWG belongs, is growing. The Initiative for Global Development and Dalberg Global Development Advisors recently published a list of the top 25 sub-Saharan multinational companies. Although the top three are commodities firms, a large number of the businesses, eleven, are in the financial services.

The Skills Gap, Africa-Style

One of the biggest business challenges is finding qualified individuals to hire. The idea of starting your own business, or being part of a start-up, is not something yet ingrained in African culture. Many talented students will aspire to become doctors, teachers, or to hold a government position, but not to 'become Bill Gates'. The models largely are not there. Although many countries in Africa are making 'huge strides' in education, there is still a lot of rote learning.

CWG was recognised by the World Economic Forum in 2014 as a Global Growth Company, which the WEF describes as 'medium-sized enterprises on the global scale that stand out due to their innovative business models, dynamic growth, corporate global citizenship and visionary leadership.'

Points to ponder

African business landscape is transforming itself both in reality and in the world's perceptions to provide a firmer economic foundation and grow multinational enterprises. Africa has a 'leapfrogging possibility' where it can start with the most advanced systems available. One of the biggest business challenges is finding qualified individuals to hire.

Download free eBooks at bookboon.com

Multiple Choice Questions

Select the most likely answer in each question

1.	Most multinationals are companies that have originated as	
	A.	small businesses locally.
	B.	large businesses locally.
	C.	small businesses regionally.
	D.	large businesses abroad.

2.	Demand at international level might be one-off, incipient or latent. This relates to	
	A.	the domestic company.
	B.	the international company.
	C.	the global company.
	D.	the regional company.

3.	The emergence of the United States as the world's dominant industrial nation at the end of World War II was followed by companies like	
	A.	Tata, Reliance or Indian Oil.
	B.	Ford, General Motors or IBM.
	C.	MTN, BeIn Sports or Al Jazeera.
	D.	Danone, Renault or Airbus.

4.	For effective multinational business, the overseas partner or government should provide	
	A.	suitable inducements and political affiliations.
	B.	suitable inducements and infrastructure attractions.
	C.	suitable by-products and financial attractions.
	D.	Short-term easily recouped investment .

Download free eBooks at bookboon.com

5.	The development of new multinationals coming from the digital area comes namely from	
	A.	Coca-Cola and Mc Donald's.
	B.	Airbus and Boeing.
	C.	Apple and Amazon.
	D.	IBM and Yahoo.

6.	A global company has a foothold in multiple countries but the offerings and processes are	
	A.	different in each country.
	B.	inconsistent in each country.
	C.	consistent in each country.
	D.	atypical in each country.

Click on the ad to read more

7.	Samsung Electronics of South Korea exemplifies a bold and swift commitment to	
	A.	skills.
	B.	style.
	C.	speed.
	D.	scale.

8.	Embraer, the largest manufacturer of regional jets in the world is from	
	A.	Burundi.
	B.	Belize.
	C.	Belorussia.
	D.	Brazil.

9.	Africa has a 'leapfrogging possibility' in multinational business where	
	A.	it can start with the most advanced systems available.
	B.	it can start with the least advanced systems available.
	C.	it can start with the common systems available.
	D.	it can start with the oldest systems available.

10.	One of the biggest business challenges of African multinationals is	
	A.	finding qualified international individuals to hire.
	B.	finding qualified local individuals to hire.
	C.	finding qualified CEOs to hire.
	D.	finding institutions to collaborate with.

Solutions: 1A2A3B4B5C6C7D8D9A10B

References

[1] Lazzari, Z. (2019) Global vs multinational company. smallbusiness.chron.
[2] Hunkar, D. (2012) 10 Emerging Market Leading Companies https://seekingalpha.com.
[3] Knowledge Wharton (2018) Emerging market multinationals, New kids on the block. https://knowledge.wharton.upenn.edu
[4] Casanova, L. and Miroux, A. (2016) The rise of emerging market multinationals: this is how they can become global industry leaders, Global Agenda, World Economic Forum.
[5] Digital leapfrogs: BCG Global Challengers, https://www.bcg.com
[[6] Guillen, M. (2015) How Innovation Is Helping Emerging Multinationals to Race Ahead https://knowledge.insead.edu
[7] Knowledge Wharton (2018) How innovation is helping emerging multinationals to race ahead, https://knowledge.wharton.upenn.edu

Click on the ad to read more

3 UNDERSTANDING THE TRADE THEORIES

Introduction

Trading basically means to sell goods in return for exchange of money between two trading partners. Trade developed during the late part of the seventeenth or eighteenth century namely when Vasco da Gama started travelling across different countries. The development of sea routes encouraged the creation of international business. The Portuguese, the Dutch, the English as well as the French started moving to the spice routes where they were expecting to get the spices from the British East India Company. Trade became more popular during the nineteenth century as steam ships moved across the oceans. The perspective of trade developed when the exchange of goods allowed products to be available to the main traders that were not found in their own territories. The spice route to India and the silk route to China travelling mainland Eurasia were illustrations that depicted the need for rare goods not found in Europe.

Later, the new land, America, had developed fast because of immigration there and important trade took place along the Mississippi and the Yukon River. The gold rush boosted trade in America whereas the colonies of the British Empire, the countries under the rule of the French, Dutch and Portuguese had started trading with various countries. Many British colonies exported sugar, tea and other agricultural products to Great Britain. In the early part of the century, came the invention of the aircraft. Air routes were created and trade got a major impetus. Connections among countries flourished and the world became a global village with sophistication in air transport and the development of cargo planes.

On the continent, there had been the development of the railway system and trade among countries on the continent increased substantially. More goods were exchanged among nations. Trade definitely prospered as more sophisticated transport technologies were developed that allowed perishable items to be delivered in quite short time in different places.

International trade among advanced nations

International trade flourished at first among advanced nations simply because the Western world was more advanced and innovative than any other nations in most fields namely education, technology, infrastructure and market. In fact, trade was very well organised since the late nineteenth century on the European and American market. Other countries were

Download free eBooks at bookboon.com

either colonies of the Western nations and they were surpassed in this field. Initially, trade was unilateral since colonisers sold the main products to their colonies after purchasing raw materials from them. This condition put them at an absolute advantage earlier and later that changed to comparative advantage.

The direction of the goods traded

Since the early days of trade, commercial activities took place in one direction, that is, intercontinental trade followed by exchange with the United States. Europe represented a market with a rich cultural diversity and high spending compared with the countries of the Third World—a term no more used today and replaced by developing nations or emerging economies. This trend persisted for some time and under globalisation, the unilateral direction looks to have become less fashionable over time although it might be clear to say that huge financial transactions still take place transatlantic.

Importance of Europe and the Americas

The European mainland through its previous past superpowers; England, France, Portugal, Spain or Italy had the possibility of firstly trading among themselves but also consider the United States as an important market. Trade exchanges have influenced the development of the USA as it consistently developed industrial and transportation infrastructure. To this end, the relations looked bilateral. At a certain time in history, during the middle age period, China used to be a dominant power but was surpassed in the Renaissance period by western nations. The diagram above illustrates the variables influencing trade like Europe's market size advantage, its high spending and consumption, resources and industries that were abundant as well as skilled workforce both in academic and skill terms. In parallel, the USA looked to be a promising destination with resources like oil and gold as well as rapid technological and infrastructure development propelling the new land as an emerging superpower.

Download free eBooks at bookboon.com

Composition of trade in the early 20th century

In the past, trade consisted mainly of the following nations. It is noted that goods were the driving force of international business at the beginning. The thirst for basic commodities was the prominent reason for trading and dependent on what one country could better produce compared to another one. At the same time, consumption commodities depended upon products like oil that produced electricity and energy for the production of goods in new industries. Raw materials for consumption were imported from colonised nations in Africa, South America or Asia where land as a production factor enabled large scale production of commodities like sugar, tea, coffee, palm oil, etc. Coffee, principally grown on mainland Africa grew as the most sought after beverage in the developed world; sugar was used to process foodstuff and produce consumable goods in Europe. Powerful nations had the upper hand in trade by developing expertise through their industries with high-scale production of steel, aluminium and industrial goods. Later on, technological invention allowed the rich nations to trade more abundantly across the world with both production and technological advances.

COUNTRY	GOODS FOR TRADE
England	- Steel products, Oil, Gas, Paraffin - Luxury products, Gold, Cattle, Oil, Automobiles, Petroleum products
United States	- Petroleum products
The Arab World	- Petrol and related products
Colonies of the British Empire	- Sugar, Vanilla, Tobacco, Agricultural products
China	- Agricultural products, Sorghum - Rice
Canada	- Paper products, Timber
South Africa	- Diamond, Gold
Ex-Union of Soviet Socialist Republic	- Gas Oil, Steel products, Cereals - Steel Products
India and Indochina	- Spices, Timber - Agricultural products (Rice)

Download free eBooks at bookboon.com

Volume of goods traded

In the past, the major volume of goods was traded in the European Continent as well as in the United States of America. We must not forget here the importance of communist countries such as the ex-Union of Soviet Socialist Republic, China and many Eastern European countries which consisted of a strong economic market but had a relatively low volume of goods traded with them because of their closed markets. The trade system was hence focused on the economic systems developed by various nations. To a large extent, the capitalist system was more adapted to industrial development and this model favoured western economies to promote liberal trade and achieve prosperity at a much higher pace than closed economies.

The business world today

Trade is in a state of constant change in the modern world. Europe which represented a major marketing power in the past cannot boast being the world's most important trading player. Though it is accepted that with a population of 350 million inhabitants that the European Union represents a major market force, the other players are playing an important role in the process. This is a perception of economic growth where Europe progresses at an average of 3% annually while emerging economies progress at 6% with China and India having double-digit growth during the past twenty years.

The USA as a major superpower

In this new millennium, we can say that the USA is still the superpower be it in terms of armed forces or trade. Besides, it is one of those countries that has a veto over crucial business matters. Being a superpower, the United States of America remains the world's most influential player in international trade. It still has the world's largest financial assets and its dollar is the most important trading currency in the world. Yet, it fears being taken over by China in the next ten years in terms of Gross Domestic Product and since recently, faces a trade war with the new superpower.

The rise of Japan and South-East Asian tigers

The end of the Second World War saw the sudden rise in economic power of Japan as a result of the massive development at industrial level. The building up of Japan resulted in creating the island as one of the major trading superpowers of the world. Japan started investing in the technological sector and produced novelty products such as modern cars,

Download free eBooks at bookboon.com

lighter machines, electronic goods as well as electrical appliances. Japan increased its trade power by investing massively in international business and became one of the most successful nations in the world. The popularity of products such as Honda, Toyota, Seiko and many others are here to prove the big trade power that Japan commands nowadays. This means that the direction and volume of trade has stated shifting to the East, especially to Japan and the newly industrialised South-East Asian tigers. The South-East tigers comprise mainly of Singapore, Malaysia, Cambodia, Thailand, Vietnam and the Philippines. Such countries were formerly assisted in their development by Japan and now, they are among the most important trading partners in that part of the world. Nowadays, such countries have developed their infrastructure and stand as thriving business centres of the world.

Emerging markets in world trade

The relationship between world trade and emerging markets looked grim in recent years due to a surge in populism and protectionist policies in Europe and the United States. Trade is widely considered to be the reason that certain economies, who otherwise would have experienced stagnant growth and increased poverty, were able to establish more free economies and a consumer-based middle class [1].

Not only are these economies important in terms of production of consumer goods for developed countries, but are now increasingly potential markets for such products themselves. If this trend stays true, not only will poverty in these countries continue to decline, but a middle class will emerge and become vibrant markets for products from developed countries, thus benefiting everyone.

Despite what may look like a grim near-term forecast in terms of global trade resulting from political trends in developed countries, history is on the side of greater integration and raising the standard of living for everyone. World trade and emerging markets will continue to be a catalyst spurring growth and reducing poverty across the globe.

Case Study: How emerging markets are transforming global trade

Emerging markets (EM) are transforming global trade patterns. Against a backdrop of growing protectionist policy measures in many developed economies, such countries are, by contrast, actively cultivating and developing their trade partnerships.

Emerging markets now play a more significant part in international trade than at any other point in history. Strong secular growth trends in EM have spurred a monumental supply-side response through innovation, reforms and improved capacity utilisation. At the same time, recent shifts in developed-world trade policy towards a more protectionist stance, have contrasted with the more broadly free-trade outlook of EM countries. This situation puts many EM companies at a distinct advantage to their developed market counterparts and will continue to drive EM growth for many years to come.

As demand and consumption rises in EM, a confluence of supply side reforms, efficiency improvements and innovation has also paved the way for greater export capabilities. In particular, many EM companies have begun to lead the field in areas such as internet technology and e-commerce. Chinese names like e-commerce giant Alibaba and Tencent have built huge footprints domestically (note that in China, US tech giants like Facebook, Amazon and Google are peripheral players in their respective areas of social media, e-commerce and search engines). Meanwhile, other EM tech firms, like colossus chip-maker Taiwan Semiconductor, are central players in global supply chains – providing components for major brands like Apple.

China's New Silk Road, or 'One Belt One Road' (OBOR) initiative is an audacious project that will have major benefits for increasing the ease of trade from China, across Asia and beyond. It is estimated that US$2–4 trillion of capital will be spent across sixty-eight countries to build infrastructure in the form of ports, airports, highways, railways, power generation

Download free eBooks at bookboon.com

plants and pipelines. With this kind of transformational improvement in transportation links, it is easy to imagine the potential benefits that will open up for the EM countries and companies whose markets will expand as a result.

More and more, EM countries' most important import and export partners are other developing nations. China, for example, is by far the top export destination for Brazilian products. While South Africa, India and Russia import more goods from China than any other country. This intra-regional trade is only set to continue with trade blocs, such as the ASEAN Free Trade Area (which includes Thailand, Vietnam, Indonesia, Malaysia, Philippines, Singapore, Myanmar, Cambodia, and Laos) generating considerable internal trade momentum outside trading links with developed markets. The vast majority of import values for the ASEAN region come from its own members as well as China.

Source: martincurrie (2019) How emerging markets are transforming global trade, https://www.martincurrie.com [2]

Questions

How have emerging markets reacted to protectionism in international business? How is cooperation among emerging economies an asset for developing effective trade? What is the rationale for China to develop the Silk Road initiative in its international business strategy?

Perspective

How international business has been beneficial to emerging economies

International business has played so many important roles in the development of emerging market economies; these are seen in the products and services of these economies found in many developed and developing economies of the world [3]. These roles include:

Provision of additional capital to the emerging market economies—the continues inflow of foreign funds through international trade as foreign direct investment (FDI) to countries helps to makes better investment without stringent measure of savings to invest, thus had enabling countries to grow more rapidly with no given in compensation to current consumption.

Fostered multilateral, bilateral and regional trade agreements. During the past 40 years, governments around the world have entered into a series of multilateral agreement to lower government-imposed barriers to trade. Some of these agreements have been between small groups of countries.

Download free eBooks at bookboon.com

Improvement of economic performance through technological transfer and raise overall incomes of emerging market economies (EME)—countries classified as emerging market have attained improved economic performance as a result of international trade through movement of technology by firms from developed nations to emerging nations.

It helps in marketing of natural endowments—different countries of the world are blessed with different weather, mineral resources and technological knowhow. All these endowments are interchange from one country to another through international trade.

Provision of inputs and raw materials for agricultural and manufactory sectors. With the aid of international trade, agricultural inputs are supplied to both the subsistence and commercial farmers in the emerging countries, which higher numbers of its employees are found. These inputs include fertilizers, insecticides, pesticides, implements, and machinery such as tractors etc.

It enables the developing countries to borrow funds in the international capital market at very low interest rates. This is one of the vital roles played by international trade to the growth and development of emerging market economies of the world.

Click on the ad to read more

Points to ponder

For the benefit of emerging economies, international business provides additional capital to the emerging market economies. It fosters multilateral, bilateral and regional trade agreements. International business improves the economic performance through technological transfer. It also provides inputs and raw materials for agricultural and manufactory sectors.

A recent decline in the value of merchandise trade for emerging economies

Developing economies recorded a decline in the value of merchandise trade for the second year in a row, with both exports and imports decreasing by 6 per cent in 2016. A surplus in global supply and a decline in prices for oil products continued to have an impact on the export of fuel products, an important sector for many developing economies. Merchandise exports from least-developed countries (LDCs) decreased by 6 per cent in 2016, resulting in a slight decline in their share of world merchandise exports, which now stands at 0.94 per cent.

Developing economies' participation in trade in services also slowed in 2016 as exports decreased, largely due to lower transport activity, while services imports stagnated. However, exports of other commercial services, especially in intellectual property-related services and ICT services, continued to expand thanks to developing economies in Asia, which are the leading developing economy exporters. LDCs' share of world exports of commercial services contracted to 0.7 per cent while their share of world imports fell to 1.4 per cent but the performance of LDCs' services trade varied across regions. At present, travel within Asia is the driver of international tourism for LDCs and fuels LDCs' travel earnings [4].

Multiple Choice Questions

Select the most likely answer in each question

1.	The spice route concerned trade between Europe and	
	A.	Japan.
	B.	United States.
	C.	China.
	D.	India.

2.	Western nations had trade advantage over other nations due to	
	A.	politics.
	B.	oil.
	C.	developed infrastructure.
	D.	energy.

3.	The emergence of the United States as the world's dominant industrial nation developed from	
	A.	creativity.
	B.	technology.
	C.	bilateral trade.
	D.	intuition.

4.	Which economic system was more beneficial for international business?	
	A.	Capitalism.
	B.	Socialism.
	C.	Command economy.
	D.	Mixed economy.

5.	Emerging markets play a more significant part in international trade than at any other point in history through innovation, reforms and improved capacity utilisation.	
	A.	innovation, reforms and improved capacity utilisation.
	B.	innovation, reforms and reduced capacity utilisation.
	C.	stagnation, rigidity and improved capacity utilisation.
	D.	innovation, inflexibility and reduced capacity utilisation.

Download free eBooks at bookboon.com

6.	The ASEAN Free Trade Area includes	
	A.	Indonesia, China, Philippines and Singapore.
	B.	Indonesia, Malaysia, Philippines and Singapore.
	C.	Indonesia, Australia, Philippines and Singapore.
	D.	Indonesia, Malaysia, Qatar and Singapore.

7.	Through natural endowments, different emerging economies of the world are blessed with different	
	A.	climatic, mineral resources and cultural knowhow.
	B.	climatic, mineral resources and political knowhow.
	C.	climatic, mineral resources and technological knowhow.
	D.	climatic, non-natural resources and technological knowhow.

Click on the ad to read more

8.	Emerging economies have attained economic performance as a result of international trade through movement of technology by firms from	
	A.	rich to very poor nations.
	B.	poor to mid-income nations.
	C.	emerging nations to developed nations.
	D.	developed nations to emerging nations.

9.	World trade and emerging markets will continue to be a catalyst	
	A.	prompting growth and increasing poverty across the globe.
	B.	prompting slump and increasing poverty across the globe.
	C.	prompting growth and reducing poverty across the globe.
	D.	prompting decline and increasing poverty across the globe.

10.	Which nation invested in industrial technology after World War II to become a major power?	
	A.	Morocco.
	B.	Singapore.
	C.	Japan.
	D.	Egypt.

Solutions: 1D2C3B4A5A6B7C8D9C10C

References

[1] Cavins, D. (2017) Comeback: world trade and emerging markets, https://borgenproject.org

[2] Martincurrie (2019) How emerging markets are transforming global trade, https://www.martincurrie.com

[3] Hassan, D., Habakuk A., and Amos, A. (2014) International Trade: A Mechanism for Emerging Market Economies, International Journal of Development and Emerging Economies Vol. 2, No.4, pp. 24-32, December 2014.

[4] World Trade Statistical Review (2017) Participation of developing economies in world trade, https://www.wto.org

Download free eBooks at bookboon.com

4 THE COMPARATIVE AND ABSOLUTE ADVANTAGE THEORY

Introduction

Ideally no country in the world has complete advantage in production terms over another one. If it did so, it would be self-sufficient. This concept might have been popular in the past with respect to developing an internal economy that ideally caters to the needs of the local people. Hence, there would be no need to import goods and this policy would both suit the government and its people. This perception is both idealistic and unfounded in today's economic situation. Within globalisation, all countries have some degree of dependency on one another and accept to trade in order to satisfy their domestic needs. Possibly, conditions where countries had absolute advantage existed earlier when industrialisation stepped in. The industrialised nation could produce much more effectively most goods than an undeveloped nation. At the same time, the trading partner could be a colony of the advanced nation which might consider it well to exploit resources from the poorer nation and consider it to be its market in terms of backward integration. Today, it is right to say that dependencies or colonised becomes are quite rare and that trade dependence is the existing mode underpinning international business.

There are theories that have been successfully adapted to trade whereby countries make exchanges in relation to what they produce better than others. Cuba is known for its high level of sugar production and is a market leader as such. Russia, an ally to Cuba, might be stronger in developing technology due to the earlier capabilities of the ex-USSR. If we imagine a trade opportunity between these two nations, it would be clear that Cuba would trade sugar for industrial or medical products from its ally, Russia. In a similar way, Russia cannot produce the sugar it needs for its consumption and needs to rely on Cuban sugar exports for its domestic consumption.

One of the major trade theories therefore rests on the foundation that one country can better produce certain products than another one with respect to another country. There are many factors that can illustrate such a theory known as the theory of comparative advantage. When Great Britain had colonies all over the world, it traded with them by selling electrical goods, industrial products and processed food in exchange of sugar and other tropical fruits or agricultural products.

Download free eBooks at bookboon.com

Emerging economies within comparative advantage theory

Emerging economies are developing quite rapidly their opportunity to trade. Within globalisation such economies export quite well their production depending upon their degree of specialisation. Africa, Caribbean and Pacific countries forming part of the ACP sugar exporters sell sugar to the European Union. Their bargaining power was quite strong in the past as the importing countries provided a guaranteed price. African nations under the Lomé IV Convention of the past century benefited from guaranteed price from the sales of sugar. When European beet producers claimed their need to have beet sugar sold in the European Union, a protectionist attitude had the impact of lowering considerably the price of sugar exports by 36% making it much less economical for emerging markets to trade. Despite this compromising trade condition, such nations still sell sugar at comparative advantage but is this truly comparative today?

From another stand, emerging economies are providers of raw materials for input to production to advanced economies. Saudi Arabia and Arab countries forming part of the Organisation of Petrol Exporting Countries (OPEC) still trade oil with the rich countries. Ghana exports cocoa while Malaysia or Indonesia might specialise in the exports of palm oil and rubber.

Need help with your dissertation?

Get in-depth feedback & advice from experts in your topic area. Find out what you can do to improve the quality of your dissertation!

Get Help Now

Go to www.helpmyassignment.co.uk for more info

Helpmyassignment

Click on the ad to read more

There is also some evolution today despite the fact the general trade pattern remains the same. Some emerging economies are shifting to the services sector, some are diversifying their economy to create an industrial base, some others might specialise in niche areas like medical tourism, cosmetics, etc. All these to state that production shifts might to some extent counter comparative advantage. This has also been a tough test for China whose trade with the USA puts the giant emerging economy at comparative advantage with the superpower in the sense that there seems to be a trade war and protectionism more applied in such trade nowadays.

There is another useful concept where developing economies are fast developing their technological infrastructure. This allows such nations to benefit from technological transfer and produce goods that they were not earlier exposed to at an industrial level. Bangladesh, Turkey and Rwanda might have been quite good in apparel production but the fact that technology has been transferred to them recently make them become potential bases for production of clothing apparel with comparatively lower labour costs. Also, advanced economies are outsourcing production to emerging markets where they find it easier to produce and purchase.

However, emerging economies will remain dependent on mutual trade because innovations are developed in rich countries. Think of communication tools like smartphones along with mobile technology. This innovation comes from developed economies that, in turn, sell their products to emerging markets or produce such goods at low prices in emerging markets and eventually target them. There is also the possibility of franchising and licensing in emerging markets where the middle class and affluent people are eager to purchase western products that have an international or even global brand appeal. Names like Nike, Dolce and Gabanna or Tagheuer appeal highly to customers in emerging markets and makes them become targets for advanced economies that benefit in this circumstance from comparative production advantage both in terms of scale of production and technological expertise.

We will now examine certain situations illustrating the concept of comparative advantage:

1. The United Kingdom produces industrial goods while it trades with other countries for some products like uranium, zinc, bauxite, and all the mineral resources which she cannot have or produce.
2. Many tropical and sub-tropical products like rubber, rice, grapes may be produced in the United Kingdom but only at the expense of large heated greenhouses. Clearly, it is much cheaper for her to buy these things from the countries which can grow them out in open air at a little expense.

Download free eBooks at bookboon.com

3. Sometimes, two countries are capable of producing two products equally cheaply, but it has been found that if each country specialises in just one of the products, and makes enough to satisfy the wants of both countries, it will be producing in sufficient large numbers to reap the economies of scale in production. In this way, both countries will be able to raise their total production considerably and so raise the living standard in each country respectively.

Comparative advantage is when a country produces a good or service for a lower opportunity cost than other countries. Opportunity cost measures a trade-off. A nation with a comparative advantage makes the trade-off worth it. The benefits of buying their good or service outweigh the disadvantages. The country may not be the best at producing something. But the good or service has a low opportunity cost for other countries to import [1].

For example, technologically-advanced nations have comparative advantage in producing technologically-based products like machines. Their domestically-produced technology provides material at better cost and price when compared to countries without it. Advanced nations like Japan and the USA are competitive with other nations in developing new technology. Their technology is cheaper making their opportunity cost low.

Another example is Bangladesh's textile industry. Rich nations purchase textiles because it is cheaper than producing in the West. Bangladeshi companies provide their service cheaply enough to make the transaction worth it.

In the past, comparative advantages occurred more in goods and rarely in services. The reason is that products are easier to sell. But telecommunication technology like the internet is making services easier to export. Those services include call centres, banking and entertainment.

Five basic reasons why trade may take place

There are five basic reasons why trade may take place. The purpose of each model is to establish a basis for trade and then to use that model to identify the expected effects of trade on prices, profits, incomes, and individual welfare [2].

Differences in technology

Advantageous trade can occur between countries if the countries differ in their technological abilities to produce goods and services. Technology refers to the techniques used to turn resources (labour, capital, land) into outputs (goods and services).

Download free eBooks at bookboon.com

Differences in resource endowments

Advantageous trade can occur between countries if the countries differ in their endowments of resources. Resource endowments refer to the skills and abilities of a country's workforce, the natural resources available within its borders (minerals, farmland, etc.), and the sophistication of its capital stock (machinery, infrastructure, communications systems).

Differences in demand

Advantageous trade can occur between countries if demands or preferences differ between countries. Individuals in different countries may have different preferences or demands for various products. For example, the Chinese are likely to demand more rice than Americans, even if consumers face the same price. Canadians may demand more beer, the Dutch more wooden shoes, and the Japanese more fish than Americans would, even if they all faced the same prices.

Download free eBooks at bookboon.com

Existence of economies of scale in production

The existence of economies of scale in production is sufficient to generate advantageous trade between two countries. Economies of scale refer to a production process in which production costs fall as the scale of production rises. This feature of production is also known as 'increasing returns to scale'.

Existence of Government policies

Government tax and subsidy programmes alter the prices charged for goods and services. These changes can be sufficient to generate advantages in production of certain products. In these circumstances, advantageous trade may arise solely due to differences in government policies across countries.

Illustrations

Comparative Advantage may be illustrated as follows:

Let us suppose that there are two countries: Country P and Country Q.

To keep our example simple, we will suppose that there are also two products involved: wheat and motorcars. There are six hundred workers in each country and before they began to specialise and trade with each other they allocated their labour force between wheat and cars as follows: 200 men growing wheat and 400 men making cars.

Their results were as follows:

	Tonnes of wheat produced by 200 men	Number of cars made by 400 men
Country P	200	50
Country Q	120	20
Total production	320	70

It can be seen that Country Q is poorer than Country P in both fields of production. At this level, we say that it has comparative advantage on both factors of production. If Country Q would produce only 100 tonnes of wheat and produce 40 cars, then Country P would have absolute advantage over it.

In the above figure, Country Q which employs 200 men can produce only hundred tonnes of wheat compared with Country P's 200 tonnes. The 200 men in Country P can produce 80 cars to the 20 cars by the same number of men in Country Q.

The people in Country Q may fear about engaging in trade with Country P. Their attitude will be as follows: If Country P's production processes are more efficient than ours, then they will have nothing in particular to deal with Country Q.

If we examine the figures closer, we see that although Country P is superior to Country Q in both wheat and car production, her superiority is greater in car production than in wheat production. For example, it produced two and a half times as many cars than Country Q but less in terms of wheat production.

Absolute Advantage

Absolute advantage means being more productive or cost-efficient than another country whereas comparative advantage relates to how much productive or cost efficient one country is than another. In economics, the principle of absolute advantage refers to the ability of a party (an individual, or firm, or country) to produce a greater quantity of a good, product, or service than competitors, using the same amount of resources [3].

The Concept of Specialisation

If specialisation has to take place, it seems it would be better for Country P to specialise in the making of motorcars where her superiority is greater, while Country Q specialises in the production of wheat where her inferiority is less marked.

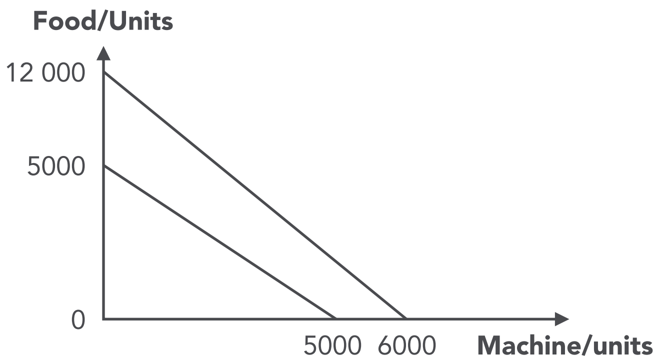
Let us see what happens if Country P allocates all her six hundred workers to car production and Country Q allocates all her six hundred workers to wheat production.

Country P:
400 men produce 50 cars.
600 men produce: $50/400 \times 600 = 75$ cars.

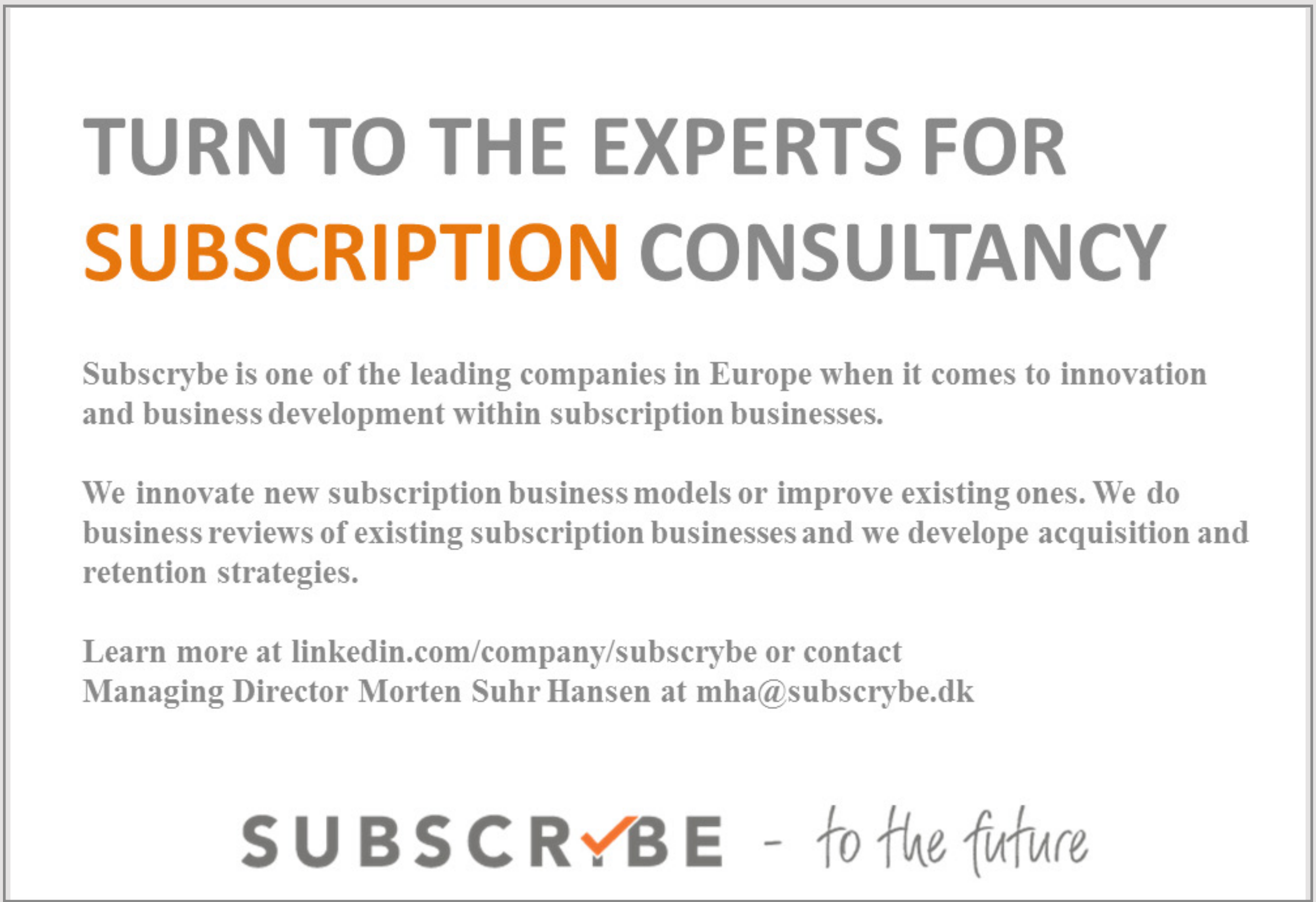
Country Q:
200 men produce 120 tonnes of wheat.
600 men produce: $120 \times 3 = 360$ tonnes of wheat.

If one compares these levels of production with the totals which we had before, that is, 300 tonnes of wheat and 100 cars compared with 360 tonnes of wheat and 180 cars, it is seen that the total production of both commodities is now greater by say, 5 cars and 40 tonnes of wheat.

The diagram below illustrates the production possibility curves of two economies X and Y.



Which country has comparative advantage or absolute advantage?



Answer

Country Y has comparative advantage in the production of machines because it produces one food unit to one machine unit whereas Country X produces 2 food units to 1 machine unit.

The table below shows the output per worker of three products in three countries.

	Product		
Country	Beef	Lamb	Chicken
A	60	120	150
B	80	120	120
C	120	150	150

If these countries agree to produce according to comparative advantage, the best combination of product specialisation that would result.

Answer

Convert to ratios:

	Product		
Country	Beef	Lamb	Chicken
A	1	2	2.5
B	1	1.5	1.5
C	1	1.25	1.25

According to the table, Country A is better at producing chicken (2.5), Country B is better at producing lamb (1.5) and Country C will have to produce beef.

Illustration of benefits of comparative advantage

The rise of Southern economies has given hope to millions of being lifted out of abject poverty. The emerging economies are creating their own niche in the development process, and occupying a notable place in the knowledge economy [4].

Download free eBooks at bookboon.com

In the primary products, exports from emerging economies and their combined exports stood at 165 billion dollars in 2017, and consequently, their share in emerging economies exports rose from 30 percent to 45 percent. Brazil, India, and China performed significantly well, and registered a compound annual growth rate (CAGR) of 11 percent, 12 percent, and 9 percent respectively in primary goods exports.

In agro-product exports, South and South-East Asian Economies, including Malaysia, Indonesia, Philippines, India along with Russia, China, and Poland, were major exporters. These countries accounted 44 percent in 2017. Among these countries, Malaysia was an exceptional performer, followed by Indonesia.

In processed food exports, Brazil, Poland, Mexico, India, Indonesia, and the Philippines are key exporters among the emerging economies. Collectively, their exports amounted to 64.4 billion dollars in 2017; consequently, their share in emerging market exports increased from 15 percent to 28 percent in the same period. Among them, Brazil and Mexico were the major exporters.

A few criticisms of comparative cost advantage theory

Unrealistic assumption of labour cost

The main criticism of the comparative advantage principle is that it is based on the labour theory of value. In calculating production costs, it takes only labour costs and neglects non-labour costs involved in the production commodities. This is highly unrealistic because it is money costs and not labour costs that are the basis of national and international transactions of goods. Further, the labour cost theory is based on the assumption of homogeneous labour. This is again unrealistic because labour is heterogeneous-of different kinds and grades, some specific or specialised, and other non-specific or general [5].

No similar tastes

The assumptions of similar tastes are unrealistic because tastes differ with different income brackets in a country. Moreover, they also change with the growth of an economy and with the development of its trade relations with other countries.

Download free eBooks at bookboon.com

State assumption of fixed proportions

The theory of comparative costs is based on the assumption that labour is used in the same fixed proportions in the production of all commodities. This is essentially a static analysis and hence unrealistic. As a matter of fact, labour is used in varying proportions in the production of commodities. For instance, less labour is used per unit of capital in the production of steel than in the production of textiles. Moreover, some substitution of labour for capital is always possible in production.

Unrealistic assumption of constant costs

The theory is based on another weak assumption that an increase of output due to international specialisation is followed by constant costs. The fact is that there are either increasing costs or diminishing costs. If the large scale of production reduces costs, the comparative advantage will be increased. On the other hand, if increased output is the result of increased cost of production, the comparative advantage will be reduced, and in some cases it may even disappear.

Click on the ad to read more

Ignores transport costs

The concept developed by Ricardo ignores transport costs in determining comparative advantage in trade. This is highly unrealistic because transport costs play an important role in determining the pattern of world trade. Like economics of scale, it is an independent factor of production. For instance, high transport costs may nullify the comparative advantage and the gain from international trade.

Factors not fully mobile internally

The principle assumes that factors of production are perfectly mobile internally and wholly immobile internationally. This is not realistic because even within a country factors do not move freely from one industry to another or from one region to another. The greater the degree of specialisation in an industry, the lower is the factor mobility from one industry to another. Thus, factor mobility influences costs and hence the pattern of international trade.

Two-country two-commodity model is unrealistic

The Ricardian model is related to trade between two countries on the basis of two commodities. This is again unrealistic because in actuality, international trade is among countries trading many commodities.

Unrealistic assumption of free trade

Another serious weakness of the principle is that it assumes perfect and free world trade. But in reality, world trade is not free. Every country applies restrictions on the free movement of goods to and from other countries. Thus, tariffs and other trade restrictions affect world imports and exports. Moreover, products are not homogeneous but differentiated. By neglecting these aspects, the Ricardian theory becomes unrealistic. Unrealistic assumptions of full employment
Like all classical theories, the theory of comparative advantage is based on the assumption of full employment. This assumption also makes the theory static.

Download free eBooks at bookboon.com

Self-interest hinders its operation

The doctrine does not operate if a country having a comparative disadvantage does not wish to import a commodity from the other country due to strategic, military or development considerations. Self-interest stands in the operation of the theory of comparative costs.

Neglects the role of technology

The theory neglects the role of technological innovations in international trade. This is unrealistic because technological changes help in increasing the supply of goods not only for the domestic market but also for the international market. World trade has gained much from innovations and research and development.

Perspective

Heckscher-Ohlin Model and Krugman philosophies on comparative trade

The Heckscher-Ohlin model is an economic theory that proposes that countries export what they can most efficiently and plentifully produce. It evaluates trade and the equilibrium of trade between two countries that have varying specialities and natural resources. The model emphasises the export of goods requiring production factors that a country has in abundance. It also focuses on the import of goods that a nation cannot produce as efficiently. It takes the position that countries should ideally export materials and resources of which they have an excess, while proportionately importing those resources they need [6].

The Heckscher-Ohlin model explains mathematically how a country should operate and trade when resources are imbalanced throughout the world. It pinpoints a preferred balance between two countries, each with its resources.
The model incorporates other production factors such as labour. The costs of labour vary from one nation to another, so countries with cheap labour forces should focus primarily on producing labour-intensive goods, according to the model.

The model emphasizes the benefits of international trade and the global benefits to everyone when each country puts the most effort into exporting resources that are domestically naturally abundant. All countries benefit when they import the resources they naturally lack. Because a nation does not have to rely solely on internal markets, it can take advantage of elastic demand. The labour cost increases and marginal productivity declines as more countries and emerging markets develop. Trading internationally allows countries to adjust to capital-intensive goods production, which would not be possible if each country only sold goods internally.

Download free eBooks at bookboon.com

In the late 1970s, Krugman noticed that the accepted model that economists used to explain patterns of international trade did not fit the data. The Hecksher-Ohlin model predicted that trade would be based on such factors as the ratio of capital to labour, with 'capital-rich' countries exporting capital-intensive goods and importing labour-intensive goods from 'labour-rich' countries. Nevertheless, Krugman noticed that most international trade takes place between countries with roughly the same ratio of capital to labour [7].

The watch industry in capital-intensive Switzerland, for example, exports watches to labour-intensive India, while Indian consumers also import watches from Switzerland through online traders like e-bay or Amazon. Krugman explained it with a simple, elegant and rigorous, model in which monopolistic competition was key. Under monopolistic competition, each firm's product is differentiated from each other firm's product. But monopolistically competitive firms compete with each other and competition drives economic profits to zero. In the monopolistically competitive equilibrium, each firm has unexploited economies of scale. For example, both Toyota and Mercedes could reduce average costs by producing a larger output in particular niches of the market. But they do not practice it because they could so only by reducing their price, and that would cost them profits.

Click on the ad to read more

Points to ponder

The Heckscher-Ohlin model is an economic theory that evaluates trade by emphasising the export of goods requiring production factors that a country has in abundance compared with the import of goods that a nation cannot produce as efficiently. Krugman noticed that most international trade takes place between countries with roughly the same ratio of capital to labour.

Case Study: A short perspective of comparative advantage

International trade, investment, migration and global economy, effects in the daily life, our global is a world of economic relationships; one cannot leave the world behind, in multinational cooperation and world financial markets. There is special problem in developing international economics, for the deep analysis of the international economies, theories need to support and balance the internal relations or global economy. The theories of International Economics might support the dispute of Europe and global economy are absolute advantage theory and comparative advantage theory. These theories could be beneficial to sustain the international trade and global surroundings [8].

Based on trade, any company could have competitive advantage; the country can get benefits after export its commodity or products, and if the country has inefficient ways of production, then country can import the products. Comparative advantage theory can support the economy and can lower or lessen the rate of disputes. If the company is producing higher number of products in lower price, then through comparative advantages, benefits and stability could be attained. However, if any country is producing less number of products in higher prices then import products on lessen prices, than country own production, will also give comparative advantages to the country. For example, if America is producing clothes at cheaper or lesser prices than in India, and India is producing crops (wheat) at cheaper or lower price than America, then comparative advantage can take place (Hantal, 2015).

In this way, relationship between both the countries could be better, and dispute rate around the world, on different issues could be resolved, it will also result in increased domestic opportunities and production, as the country needs to get compensation in future, from fewer input maximum output could be generated. Through comparative advantage, transportation cost could also be saved. If one country is less productive, then export can be helpful, world trade has laws and regulations to prolong this theory, natural environment could be sustained. As regarding to the health issues, to remove disputes, as country get many disadvantages of disputes trading is essential, economy of the country can also develop strong relationships with other country, and can help them and get help when needed.

Source: Hantal, B. (2015) Theories of International Economics according to Peter Wilson [8]

Download free eBooks at bookboon.com

Questions

How might comparative advantage theory help in lowering disputes in international business? How might transportation costs be covered through comparative advantage? Do emerging economies benefit from comparative trade, how and to what extent?

Multiple Choice Questions

Select the most likely answer in each question

1.	When advanced nations consider exploiting resources from their colonies market them through backward integration, they might enjoy	
	A.	business advantage.
	B.	competitive advantage.
	C.	comparative advantage.
	D.	absolute advantage.

Click on the ad to read more

2.	Ideally no country in the world has complete advantage in production terms over another one. If it did so, it would be	
	A.	independent.
	B.	dependent.
	C.	insufficient.
	D.	self-sufficient.

3.	The theory of comparative advantage focuses on	
	A.	comparative costs.
	B.	hidden costs.
	C.	opportunity costs.
	D.	switching costs.

4.	Resource endowments refer to the	
	A.	supremacy of a country's workforce.
	B.	resources and abilities of a country's workforce.
	C.	skills and abilities of a country's workforce.
	D.	strengths and weaknesses of a country's workforce.

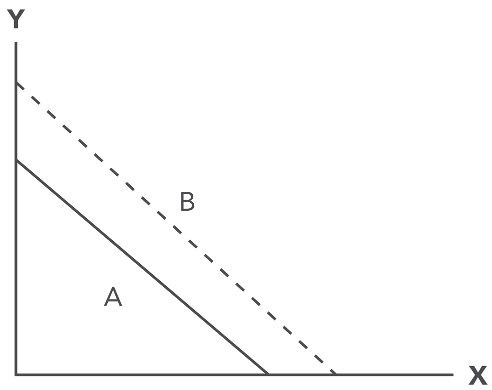
5. Question 5 refers to the following figure.

Maximum outputs	Country A	Country B
Technology	10	15
Agricultural products	5	15

Which country has comparative advantage in producing agricultural products?

	A.	Both countries A and B.
	B.	Country A.
	C.	Country B.
	D.	None of them.

Download free eBooks at bookboon.com

6.	The chart below refers to the production possibilities for countries A and B.  In the chart above, through constant opportunity costs	
	A.	no country has comparative advantage.
	B.	Country A has absolute advantage.
	C.	no country has absolute advantage.
	D.	Country B has absolute advantage.

7.	Advantageous trade can occur between countries if the countries	
	A.	differ in their technological abilities to produce goods and services.
	B.	are similar in their technological abilities to produce goods and services.
	C.	replicate their technological abilities to produce goods and services.
	D.	imitate their technological abilities to produce goods and services.

8.	The greater the degree of specialisation in an industry	
	A.	the lower is the factor mobility from one industry to another.
	B.	the higher is the factor mobility from one industry to another.
	C.	the stronger is the factor mobility from one industry to another.
	D.	the more is the factor mobility from one industry to another.

Download free eBooks at bookboon.com

9.	World trade is not free since every country	
	A.	applies no restriction on the free movement of goods to other countries.
	B.	applies restrictions on the controlled movement of goods to other countries.
	C.	applies no restrictions on the controlled movement of goods to other countries.

10.	Technological changes help in increasing the supply of goods not only for the domestic market but also for	
	A.	the home market.
	B.	the internal market.
	C.	the international market.
	D.	all markets.

Solutions: 1D2D3C4C5B6B7A8A9D10C

Deloitte.
Discover the truth at www.deloitte.ca/careers
© Deloitte & Touche LLP and affiliated entities.
Click on the ad to read more

References

[1] Amadeo, K. (2019) Comparative Advantage Theory and Examples, https://www.thebalance.com.

[2] Resources Taylor (2018) Reasons for trade, https://resources.saylor.org

[3] Economics online (2019) Comparative advantage, https://www.economicsonline.co.uk

[4] Chaturvedi, S. (2019) Trade, production, and emerging economies: rising trends in agriculture and manufacturing, Turkish Policy Quarterly.

[5] Sethy, P. (2017) Important criticism of comparative advantage theory in relation to international trade, Share Your Knowledge.

[6] Bird, B. (2019) Heckscher-Ohlin Model, https://www.investopedia.com

[7] Krugman, P. (1997). "In Praise of Cheap Labor." *Slate*. March 21, 1997

[8] Hantal, B. (2015) Theories of International Economics according to Peter Wilson.

Download free eBooks at bookboon.com

5 COMPETITIVE ADVANTAGE IN INTERNATIONAL BUSINESS

The major trade theories discussed in the precedent chapter were mainly focused on the following aspects. The Absolute Advantage theory rests on the fact that one country dominates completely the other one in terms of major resources. This is not something true in most cases. For example, even if one compares a modest country like the Burkina Faso to a rich country like the United States of America, there will not be absolute advantage of the USA in almost every field. May be in agricultural production, the Burkina Faso could be better in certain instances than the USA. We think here of cassava or cotton. Absolute advantage could be applied between a competitively strong nation and one which is weak. It could be a country from the first world with one from the third world.

Comparative advantage is something practical and quite clearly understood. For example, the United Kingdom used to have comparative advantage on mechanical products to the tropical countries whereas the tropical countries had a comparative advantage over the United Kingdom in terms of sugar production or fresh fruits. The foundation of comparative advantage rests on the fact that each country can excel in its own field of production while increasing total products of two comparative products. Has such a thing been put concretely in practice and have the results been reaped? This may not be true as the stronger nations always try some way or the other to get the best from every field or game they want to play. The European Union produces beet sugar while it imports cane sugar as well.

External and Internal forces for competitiveness

A business can achieve an edge over its competitors in the following two ways:

Through external changes namely when environmental factors change, many opportunities can appear that, if seized upon, could provide many benefits for an organisation. A business can also gain an upper hand over its competitors when its capable to respond to external changes faster than other organisations.

By developing them inside the company when a firm can achieve cost or differentiation advantage when it develops internal resources, unique competences or through innovative processes and products [1].

External forces

When environmental factors change many opportunities arise that can be exploited by a business to achieve superiority over its rivals. For example, new superior automobile production, which is manufactured and sold in Brazil or India, would favour lower production costs for such companies and they would gain cost advantage against competitors in a global environment. Changes in consumer demand, such as trend for wearing branded products, can be used to gain differentiation advantage if a company would sell unbranded or imitated clothing apparel.

Companies need also respond fast to changes. The advantage can also be gained when a company is the first one to exploit the external change. Otherwise, if a company is slow to respond to changes it may never benefit from the arising opportunities.

Internal forces

These could come from core competences. Competence is an ability to perform tasks successfully and is a cluster of related skills, knowledge, capabilities and processes. A company that has developed a competence in producing miniaturised electronics would get at least temporary advantage as other companies would find it very hard to replicate the processes, skills, knowledge and capabilities needed for that competence. This came from Honda, the Japanese automobile company that initially used and developed such competences for its engines like VVIT.

Innovation is another useful factor to consider here. Usually, a company gains superiority through innovation. Innovative products, processes or new business models provide strong competitive edge due to the first mover advantage. For example, Samsung's high definition cameras in its mobile phones creates something innovative recently and this was built upon its earlier ability to provide consumers with instant 12-shot pictures.

Competitive Strategies at management level

The most important recent ideas in strategic planning have come from the work of Michael Porter. His competitiveness strategies framework demonstrates that managers can choose from among three generic strategies. Success is incumbent upon the selection of the right type of strategy. Porter's strategy has been to detail carefully how management can create and maintain competitive advantage that will achieve profitability for any business above industry average.

Download free eBooks at bookboon.com

Application to emerging economies

For the time being, in the post-GATT period, and the dismantling of the Multi-Fibre agreement, certain South-East Asian nations appear to practice the theory of cost-leadership. Countries like Taiwan, Malaysia, the Philippines, Korea, Singapore, are practising such a strategy. This is why cars like Daewoo, Toyota, Hyundai and electronic goods like Aiwa, Sanyo, Panasonic made and assembled in such countries are sold at a lower price. Today, in the textile and manufacturing industry countries like Bangladesh, India, Pakistan, will be practising such a strategy and will become very competitive. Upper-middle emerging economies will probably suffer from the low-cost strategy adopted by the countries.

Differentiation Strategy

This strategy allows a firm to be different from other. The distinction can be provided by high quality, extraordinary a service, innovative design, technological capability or a positive brand image.

SIMPLY CLEVER
ŠKODA


Do you like cars? Would you like to be a part of a successful brand?
We will appreciate and reward both your enthusiasm and talent.
Send us your CV. You will be surprised where it can take you.
Send us your CV on
www.employerforlife.com
Click on the ad to read more

Application to emerging economies

The differentiation strategy is quite common to European countries historically speaking. Switzerland's reputation for excellent watches comes from the fact that the Swiss made watch has always been unique over other brands despite their consequent popularity in the past twenty years. Watches like Seiko, Citizen or Orient may be very popular but they cannot be compared to a top quality Swiss watch like Rolex or Hublot which is distinctive. Recently, Swatch put on the market the very fashionable and attractive looking Swatch watches at a comparatively low-cost.

Similarly, England's reputation with reference to opts electrical goods has barriers over the world. The Morphy Richards iron, the Precious switch and many items have been highly valued by consumers. It has also excelled in steel products such as the Peglar tap, the Sheffield cuisine utensils, the Raleigh bicycle. Concerning machines, the English had focused a lot on quality and durability namely the Morris Oxford car or the Bedford buses and lorries.

Emerging economies like Mauritius, Turkey or Egypt have been trying to implement differentiation strategy because of the nature of competition they face from lesser developed countries which are nowadays preying on our industrial success. Free Zones and cost-leadership is practised by such countries.

Focus Strategy

The focus strategy aims at a cost advantage in a narrow range of industry segments. This must be differentiated from a differentiation strategy which focuses on a wider segment. Management will select a group or groups of segments in an industry and tailor the strategy to serve them to the exclusion of others. The goal is to exploit a narrow segment of the market.

Application to emerging economies

A focus strategy is quite rarely applied by countries but it can be argued that it can be applied in segments where only a few capital-intensive industries can compete. For example, in the aeronautic industry, there are two major competitors, the Boeing and the Airbus. Presently, the Airbus is trying to focus on the French-speaking countries which are quite limited as they are generally spread in Northern Africa. Boeing is trying to focus all over the world but competition through this segment is quite difficult.

Download free eBooks at bookboon.com

In the extraction of gold, only a few countries compete. For example, South Africa is one of the key players in the gold market which is of much appeal to a narrow segment of businessmen.

Focus strategy is most powerful for small firms. This is because they do not have economies of scale or internal resources. At country level, agricultural countries may focus on industries where the segment is quite narrow, e.g. dates, special types of tea such as the pekoe.

Niche Strategy

This strategy is especially useful for the small companies with a limited budget and specialised products. But even large companies with mass products can make use of this strategy to target niche segments. Companies focus on the customers based on their demographics, interests, occupation or social causes. Once the target group has been identified, a marketing strategy can be developed. Some of the strategies that can work well here are word of mouth campaigns, endorsement campaigns and targeted collateral campaigns. The companies can also target high margins by providing specialised services [2].

Application to emerging economies

Emerging economies might find it difficult to create new markets or exploit the same markets that they actually cover. In the tourism sector, island economies like Sri Lanka, Philippines, Seychelles, Mauritius, Cap Verde, will be keen to consider niche markets apart from their traditional ones. There is now an increase in middle-class Chinese and Indians willing to travel abroad. High spending tourists from the Emirates might be willing to choose unknown destinations that add variety to what they want to see and enjoy. Niches are generally markets which are small in size but offer a distinctive advantage of high price offer. Understanding that emerging markets cannot easily target niches, special areas for targeting might hence be described as niches for them. Niche tourist markets might also be Eastern European countries like Romania, Hungary, Latvia, etc. where tourists might enjoy travelling to paradise islands although they are few in number.

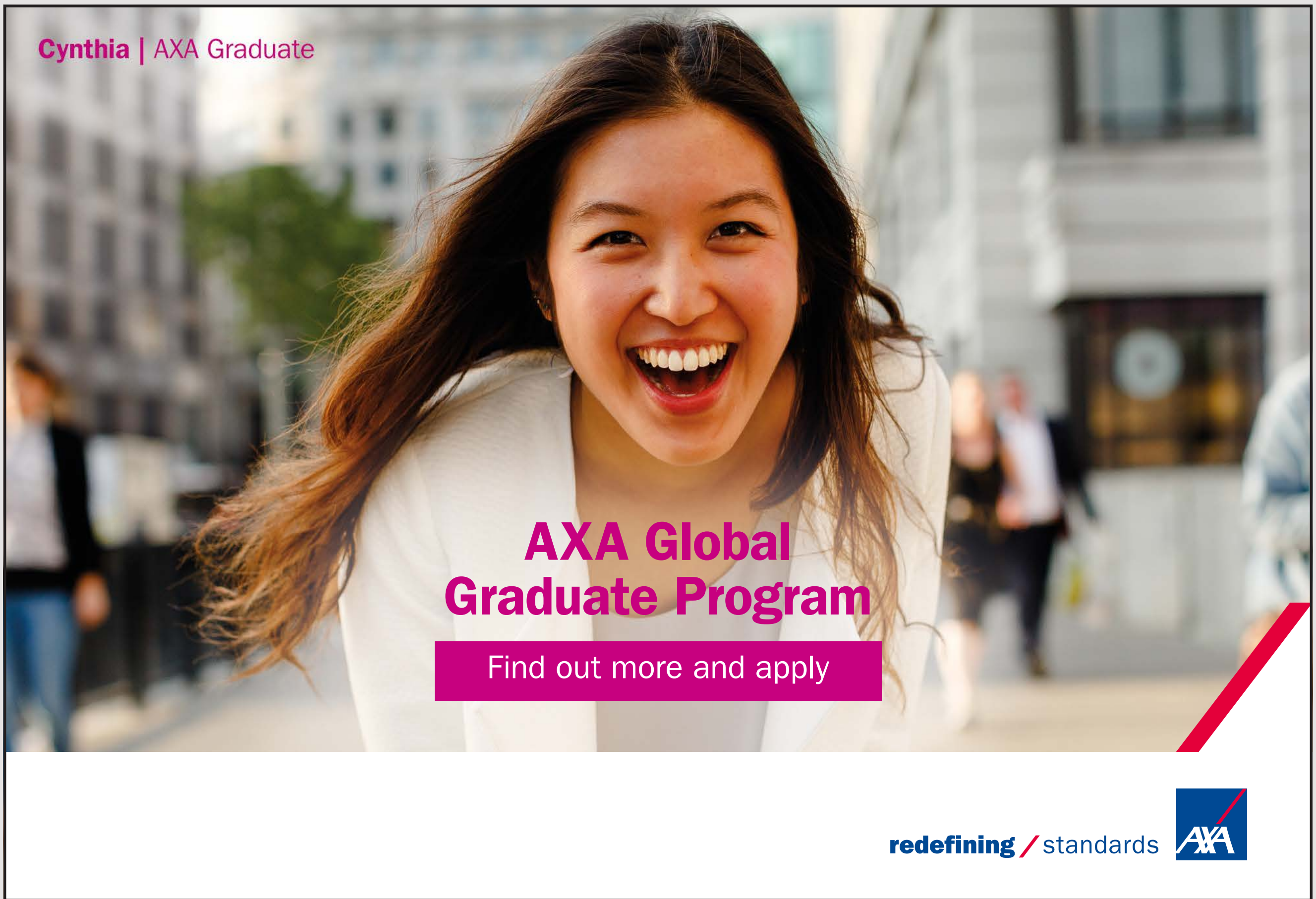
Download free eBooks at bookboon.com

Stuck in the middle

Porter uses the term 'stuck in the middle' to describe organisations that are unable to gain a competitive edge in any one of the strategies. Such countries find it difficult to achieve a long-term success. Porter has corrected his assumption by accepting that companies that were 'stuck in the middle' could also be good performers. A 'stuck in the middle' position happens when a business designed to be low cost starts adding little extra frills which do not add a corresponding amount to the customer value of a product. The business suffers the cost; the customer does not get the benefit. Or when a differentiated business comes under pressure on prices—perhaps there has been a market disruption from new technology or an ultra-low priced competitor from overseas—and starts cutting costs in areas which damage the differentiation advantage [3].

Application to emerging economies

Air Asia wanted to exploit Indian Ocean markets with low frill service. Initially, this concept gained benefit both in terms of customers travelling with the company and the profits initially earned. When there was a low season, Air Asia could not put lower prices nor could it afford keeping the same 'low-cost' price. It was obliged to leave certain markets that it targeted for its future development.



Click on the ad to read more
Download free eBooks at bookboon.com

Sustainable Competitive Advantage

Long-term success with any one of the strategies requires that the advantage be sustainable. Countries must resist the erosion of their competitive force or action by competing nations by evolutionary changes in industry. Each country must be able to create barriers (entry barriers) that make imitation difficult and reduce opportunities for imitation. Countries must reduce the price of their exports to gain volume sales when there are economies of scale. Tying up buyers with exclusive contracts may sustain competitive advantage. Sustainable competitive advantage requires constant attention and effort by governments and industrialists in order to keep themselves one step ahead of competition. Hamel and Prahalad have proposed an alternative framework for pursuing competitive advantage, growing out of a firm's strategic intent and use of competitive innovation. A firm can build layers of advantage, search for loose bricks in a competitor's defensive walls, change the rules of engagement, or collaborate with competitors and utilize their technology and know-how [4].

Case Study: Operations can create competitive advantage in emerging markets

Operating models that work for developed markets might not necessarily succeed in emerging markets. Involving operations in emerging market strategy can avoid fragmented and misdirected investment, which often prevents growth goals. A recent study analysed the emerging market strategies, portfolio, target countries, and operating models of 15 leading biopharmaceutical companies. The study also assessed the growth potential and market access of developing countries, including the BRICs (Brazil, Russia, India, China) and select countries in EMEA (Europe, Middle East, Africa), South America, and Southeast Asia.

Among the key findings of the study was that most companies operate in emerging markets by extending the mind-set gained from success in developed markets. When it comes to deploying investments, companies tend to give highest priority to the near-term objectives of market entry and revenue generation rather than balancing country-specific objectives with regional or global goals. These approaches typically don't provide efficiency and scale, and companies can end up with a fragmented operating network capable of only meeting individual country objectives.

The right operating model depends on a company's product portfolio and markets of interest. By considering these two dimensions, operations can map a direction for emerging markets strategy that balances market opportunity with operational risks and required investments.

Download free eBooks at bookboon.com

Each of the operating models described above requires different levels of assets, ownership, financial control, governance, and technology. As companies move from innovation—to market-driven strategy, they should consider reconfiguring their operating models to address the challenges of increasing operational investment (number of assets and ownership stake) and complexity. As companies increasingly engage in emerging markets business, they can develop the right operating models to make the most of their investments and balance risk. The right models will help them avoid over-investing in less attractive markets or under-investing in high-potential markets.

Developing the right approach for success in emerging markets

To succeed in emerging markets requires different thinking. Biopharmaceutical companies should quickly realise that established approaches for developed markets might not necessarily succeed in emerging markets. They may want to consider the following recommendations:

Making operations an equal partner in developing emerging market strategy

In developed markets, operations typically follow the lead of the commercial organisation. But operational success and corresponding risks can make or break emerging market aspirations. In developing markets, operations therefore should proactively partner with commercial and other functions to achieve near- and long-term business objectives.

Considering an organisational focus on emerging market operations

Excelling in emerging markets requires dedicated focus. A separate cross-functional team should manage emerging market strategy, investment, planning, and execution. While emerging market operational resources should have the appropriate level of autonomy and decision-making rights, they should tightly integrate with other core emerging market functions, including regulatory, compliance, and commercial.

Along with cost-conscious manufacturing expertise, operations will benefit from a 'regulatory factory'— a function that can significantly accelerate product registrations. With a sharpened focus on the regulatory process, operations can improve product launch timing and build scale quickly in emerging markets. A leading biotech company that implemented this type of regulatory centre in emerging markets obtained an 11-fold increase in capacity.

Download free eBooks at bookboon.com

Emerging markets will continue to offer growth potential for biopharmaceutical companies during the next decade. Companies that involve operations in upfront strategy planning, operating model design and execution will be among the most successful in achieving growth goals and global reach.

Source: Blake, H. (2013) Emerging markets growth: The critical role of operations in driving competitive advantage. [5]

Questions

Why is it important for emerging economies to partner up with companies in the host country? Analyse the organisational focus of companies in relation to core emerging market functions, including regulatory, compliance, and commercial. How will companies that are involved in operations in upfront strategy planning, operating model design and execution be most successful in achieving growth goals and global reach?

Click on the ad to read more

Perspective

Strategies that fit emerging markets

Many western companies shied away from emerging markets when they should have engaged with them more closely. Since the early 1990s, developing countries have been the fastest-growing market in the world for most products and services. Companies can lower costs by setting up manufacturing facilities and service centres in those areas, where skilled labour and trained managers are relatively inexpensive. Moreover, several developing-country transnational corporations have entered North America and Europe with low-cost strategies (China's Haier Group in household electrical appliances) and novel business models (India's Infosys in information technology services). Western companies that want to develop counterstrategies must push deeper into emerging markets, which foster a different genre of innovations than mature markets do [6].

If Western companies do not develop strategies for engaging across their value chains with developing countries, they are unlikely to remain competitive for long. However, despite crumbling tariff barriers, the spread of the Internet and cable television, and the rapidly improving physical infrastructure in these countries, CEOs cannot assume they can do business in emerging markets the same way they do in developed nations. That is because the quality of the market infrastructure varies widely from country to country. In general, advanced economies have large pools of seasoned market intermediaries and effective contract-enforcing mechanisms, whereas less-developed economies have unskilled intermediaries and less-effective legal systems. Because the services provided by intermediaries either are not available in emerging markets or are not very sophisticated, corporations cannot smoothly transfer the strategies they employ in their home countries to those emerging markets.

Points to ponder

Many companies shied away from emerging markets when they should have engaged with them more closely. Companies can lower costs by setting up manufacturing facilities and service centres in those areas, where skilled labour and trained managers are relatively inexpensive. If Western companies do not develop strategies for engaging across their value chains with developing countries, they are unlikely to remain competitive for long.

Download free eBooks at bookboon.com

Multiple Choice Questions

Select the most likely answer in each question

1.	A business can also gain an upper hand over its competitors when its capable to respond to external changes	
	A.	faster than other organisations.
	B.	slower than other organisations.
	C.	in the same way as other organisations.
	D.	comparatively slower than other organisations.

2.	Core competences might arise from	
	A.	external forces of change.
	B.	national forces of change.
	C.	internal forces of change.
	D.	international forces of change.

3.	The differentiation strategy is quite common to Switzerland's reputation for excellent watches in comparison with	
	A.	cheap watches.
	B.	conventional watches.
	C.	luxury watches.
	D.	premium-priced watches.

4.	A focus strategy is applied by countries in segments where	
	A.	many capital-intensive industries can compete.
	B.	only one capital-intensive industries can compete.
	C.	several intensive industries can compete.
	D.	only a few capital-intensive industries can compete.

Download free eBooks at bookboon.com

5.	A 'stuck in the middle' position happens when a business designed to be low cost starts including little extra frills which	
	A.	do not add a corresponding amount to the customer value of a product.
	B.	add a corresponding amount to the customer value of a product.
	C.	highly add amount to the customer value of a product.
	D.	always add a corresponding amount to the customer value of a product.

6.	Most companies operate in emerging markets by extending the mind-set gained from	
	A.	failure in developed markets.
	B.	mitigated success in developed markets.
	C.	success in developed markets.
	D.	lessons in developed markets.

I joined MITAS because
I wanted **real responsibility**

The Graduate Programme
for Engineers and Geoscientists
www.discovermitas.com

Click on the ad to read more

7.	The right operating model depends on a company's	
	A.	brand portfolio and markets of interest.
	B.	product portfolio and markets of interest.
	C.	product line and markets of interest.
	D.	product portfolio and all types of markets.

8.	Many western companies shied away from emerging markets when they should have engaged with them	
	A.	rarely.
	B.	from a distance.
	C.	less closely.
	D.	more closely.

9.	If Western companies to remain competitive for long, they must develop strategies for engaging with developing countries	
	A.	across their value chains.
	B.	over their value chains.
	C.	regardless of their value chains.
	D.	without their value chains.

10.	Innovative products, processes or new business models provide strong competitive edge due to	
	A.	quality.
	B.	late entry in emerging economies.
	C.	the first mover advantage.
	D.	prudent move to emerging economies.

Solutions: 1A2C3B4D5A6C7B8D9A10C

Download free eBooks at bookboon.com

References

[1] Jurevicius, O. (2013) Competitive Advantage, https://www.strategicmanagementinsight.com

[2] Mbaskool (2017) Niche strategy definition, https://www.mbaskool.com

[3] Simister, P. (2011) Stuck in the middle of Porter' Generic strategies, differentiate your business.

[4] Hamel, G., and Prahalad, C. (1989) 'Strategic Intent.' Harvard Business Review 67, no. 3 pp. 63-76.

[5] Blake, H. (2013) Emerging markets growth: The critical role of operations in driving competitive advantage.

[6] Khanna, T., Palepu, K., and Sinha, J. (2005) Strategies That Fit Emerging Markets, Harvard Business Review.

Click on the ad to read more

6 THE INTERNATIONAL PRODUCT LIFE CYCLE

One of the major business theories affecting companies in an international context is the International Product Life Cycle theory. The PLC concept assesses the position that products have in a lifecycle. All products are introduced while gradually they develop until they mature in industry. At a certain level, products may reach the end of their lifecycle where they reach a certain decline. The International PLC theory is relevant as it highlights how a product moves through different stages in its market development.

The PLC generally arises from product development from the rich world. Products could initially remain within advanced countries and were exported regionally. This condition allowed products to be conceived, developed and established in the countries that developed such products. Brands like Frigidaire, Kodak or Ikea remained popular in the home market. Evidently, there was a demand for the same product overseas and this allowed multinationals to prospect international markets. Definitely, products could be imported from the home country or original manufacturer but could be either quite costly and not economically viable if the long-term business prospect was considered. In this perspective, products that were less popular domestically and that grew less fashionable over time could be exported elsewhere. In developing economies, the level of industrial and technological was particularly low and such nations could adopt products that had low market value in advanced nations. This could well explain the transition of black and white television earlier when colour television entered the US market and spread to Europe while developing nations were initiated to television programmes. Since audio-visual technology was expensive, developing nations might only afford black and white television and colour television entered several nations up to the 1970s or late 80s.

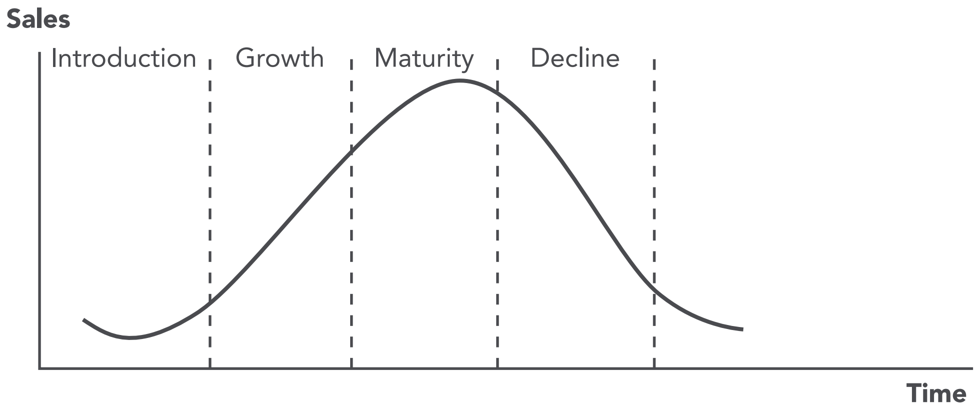
Today emerging economies have altered the product life cycle concept in two ways. Firstly, consumers in such markets can purchase technological products like smartphones, iPhones, IPad, etc. online while having access to the same level of technological prowess. The second argument is obviously the fact that production shifts quickly to emerging economies when products are developed or conceptualised in the west and rapidly conceived in other parts of the world. For instance, Adidas shoes are manufactured in more than 50 countries with the same model or some variation since once the concept is developed, it can be manufactured art comparative cost advantage in developing nations. Also, China and India are the workshops of global business where they can very quickly manufacture product ideas conceived in the West.

Download free eBooks at bookboon.com

The PLC stages according from the American perspective

Observers believe that world trade and investment patterns are based upon the product life cycle concept. From an American perspective, Vernon and Wells (1966) suggested that at international level, products move through four distinct phases [1]:

US or western firms manufacture for the home market and start exporting.
Foreign production starts.
Foreign products become increasingly competitive in world markets.
The rich nation starts to import and this provides room for significant competition in the US market.



The classical product life cycle is described in four stages namely introduction, growth, maturity and decline phases.

Stage One

The international product life cycle begins with the product being developed and manufactured in the USA for high-income segments, subsequently being introduced in other markets in the form of exports.

Stage Two

The second phase outlines that there is an emergence as technology is developed further and becomes more easily transferable. Companies in other countries then begin to manufacture and, because of lower transportation costs or labour costs, are able to undercut the US manufacturers in certain markets.

Stage Three

In the third phase, the foreign companies or those of the emerging economies compete against the US exports to developing nations. This leads to a further decline in the market for US exports. Consequently, the US companies withdraw themselves from selected markets or they invest in manufacturing capacity overseas to regain sales.

Stage Four

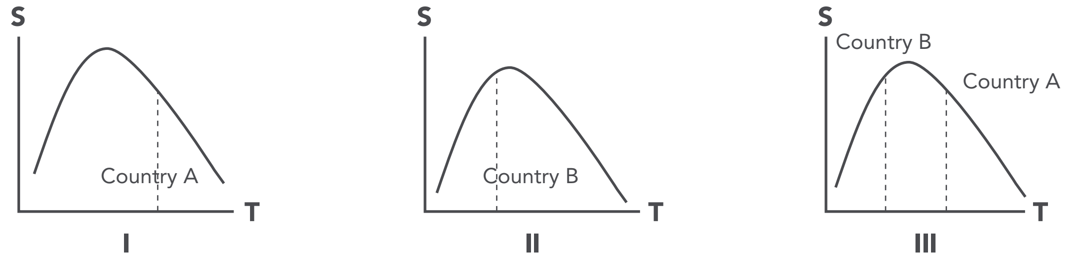
In the final stage, foreign companies that get a foothold in the home as well as overseas markets, start exporting to the USA and compete against the products manufactured domestically. In these four stages, Vernon suggests how American firms eventually find themselves being squeezed out of their domestic markets after having enjoyed monopoly just a few years earlier. He suggested that it is the most highly developed countries in the world that play the innovative role in world trade and that at a later stage, the Western European countries take over the market position initially occupied by the innovators. They also go through the same life cycle when the emerging economies adopt the product and begin to search for new markets. Ultimately, the point is reached where the developed countries buy the products from the emerging economies having moved to newer products and technology.

Click on the ad to read more

The illustration here can be that Europe can import television sets from Malaysia, Taiwan or China while the Old Continent—Europe seeks to develop new technology for television broadcast like the numeric image.

Shift in the International Product Life Cycle

The diagrams below illustrate how multinationals initially used such a theory to sell their products overseas profitably.



In the above diagrams, the following situation is presented.

I: The product is on the decline in the home market. It can be an illustration for Black and White Television sets in the USA or Europe at the end of the fifties or early sixties.

II: The product is still new in the emerging economies. Some segments, the upper or upper-middle class start adopting the Black and White TV set; the early sixties.

III: The time span that it will take for the Black and White TV set to be sold profitably in the overseas market. This has been estimated in the same way as the TV's life cycle in the home market.

This approach was very convenient. Companies were simply able to classify markets according to their economic development and launch declining products in rapid succession into countries with progressively less market development.

Nowadays, this type of strategy is far less feasible, although not entirely impossible. The revolution in communications technology has narrowed the time gap. The total duration of the product life span in both markets as well as the product life cycle has shortened dramatically. A developing country like Mauritius has tuned to satellite television, the Internet, Digital Video Disc, among others in a short lapse of time.

Download free eBooks at bookboon.com

Criticisms of the PLC theory in international business

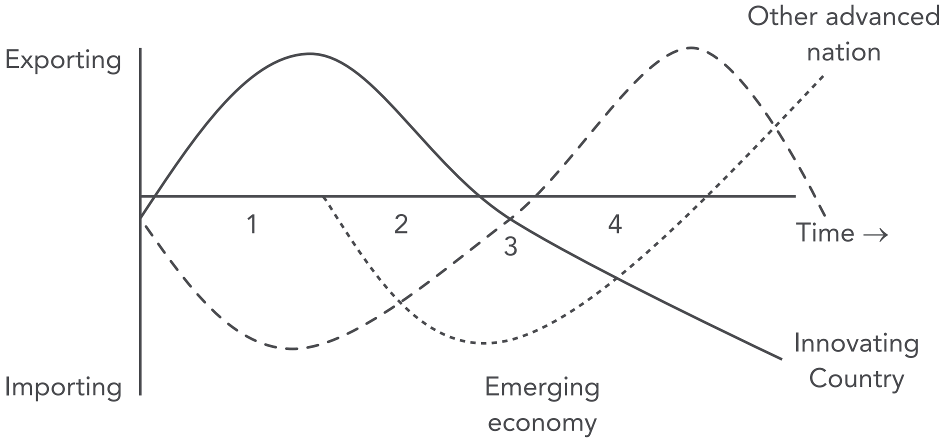
Although the Product Life Cycle provides an interesting insight into the evolution of multinational operations, it needs to be recognised that it provides only a partial explanation of world trade, since all products need not follow this pattern.

The above argument becomes increasingly irrelevant with time. First, competition is international today rather than domestic for all goods and services. The same product may be available in all markets at the same time. Also, there is a considerably reduced time lag in product development, research, design, among others.

Second, it is not the production in the highly labour-intensive industries that moves to low labour cost countries. Rather, high technology products are being outsourced to the developing nations where they are produced at a much cheaper cost that the good can also be traded in that country. For instance, Garnier shampoo and haircare are produced and sold in India at a strikingly low price.

The perspective of the International Product Life Cycle

The major significance of the International Product Life Cycle concept is in long-term strategic planning. A firm developing a new product in a high-income country should try to enter foreign markets as quickly as possible so as to maximise early returns before lower-cost companies located mainly in developing nations enter the market. Moreover, the innovator would do well to consider the benefits of establishing production capacity overseas as early as is technically feasible. New products like Ice tea, Windows Software, DVD, versions of cars, are now launched in a short time span across the globe. However, in the case of cars, re-conditioned versions are still marketable in developing countries because of the high perceived value that people attach to cars and namely because of the high governmental tax which deters people from purchasing new cars which are meant for the upper class.



A cross analysis of the International Product Life Cycle

The table below explains the evolution of products within the international product life cycle. The product is initiated in the advanced or innovation nation and moves to other nations. Typically emerging nations are at the lower end of the cycle. Regarding market location, rich countries are initial markets and later markets are developed in economies of similar level and ultimately emerging economies. Regarding competition, the product is at its peak when it is marketed from the nation that creates it. Prices will stabilise as it moves to other markets and later, the price might also decline as this is now the case for compact discs or flat screen television sets. Production technology also shifts from research and innovation as well as initial high production costs. Later, economies of scale are achieved as production moves to other markets. With technological transfer to emerging economies, labour can be available at lower prices and production might be cheaper.

Click on the ad to read more

	Introduction	Growth	Maturity	Decline
Production location	Innovation nation	Innovation and other industrialised nations	Several countries	Emerging economies
Market location	Innovation country with some exports	Industrialised nations. Foreign production replaces exports in certain markets.	Growth in emerging economies. Industrialised nations might produce and consume less.	In emerging economies. Some exports might be initiated in the emerging economy
Competitive factors	Near monopoly position. Sales are promoted as product is unique. Product characteristics might evolve.	Fast growing demand. Competitors also increase in number. Product gets more standardised and acceptable.	Demand is stabilised in general. Competitors might decrease in number. Pricing creates demand in emerging economies.	Overall decline in demand. Price weakens in most markets. Producers are also on the decline.
Production technology	Short production runs. Production evolves with innovation. High labour input including research and development.	Methods of production are standardised. Capital inputs increase.	Long production runs including high capital input. Highly standardised production. Less labour-intensive production needed.	Semi-skilled labour on long production runs in emerging economies.

Case Study: Apple product life cycles and potential

The Apple product life cycles indicates just how big the iPhone and the iPad will be over the next few years. It took the iPod five years to break the thirty million units per annum mark. The iPhone got there in four and the iPad will make it in year two of launch. As for the Sony Walkman it never made it, it took over ten years to top out, the iPod topped out within eight years of launch. Apple product Life Cycles are moving faster and higher sooner than ever before.

iPod sales may have peaked in 2008 at just under 55 million units and may fall to around 45 million units this year but the iPhone is set to sell just under 70 million units and the iPad is chasing fast behind. It all adds up to an exciting phase of growth for Apple over the next four years with revenues set to rise over $100 billion in 2011.

Students of corporate strategy and business theory are familiar with the concept of the Product Life Cycle. Generally the life cycle is perceived to have four specific stages, introduction, growth, maturity and decline generally plotted with volumes a function of time.

In the introduction phase, costs are high, sales volumes are slow, there may be little or no competition and customers have to be stimulated to action. Profits are limited and the product is cash extensive as marketing costs are substantial. Key customers tend to be innovators and early adopters.

In the growth phase, unit costs are reduced as volumes increase, advertising is amortised over greater volume, market awareness increases beyond the early adopters, to the 'early majority', competition increases with more competitors entering the market and price levels may begin to fall. Profits increase but the product remains cash extensive as greater investment in marketing or working capital is required.

Click on the ad to read more

Tim Cook Apple's CEO said: "We are thrilled with our outstanding results and record-breaking sales of iPhones, iPads and Macs, Apple's momentum is incredibly strong, and we have some amazing new products in the pipeline." For lovers of product life cycles, the Apple product line demonstrates some classic lines. The iPod is on the wane but the future of the iPhone and the iPad look incredibly strong.

In the maturity stage, costs are lowered further as volumes have increased, the market becomes more competitive and alternative products begin to date the initial product offering. The product remains profitable and begins to generate cash. The innovators, early adopters and early majority are joined by the "late majority".

In the saturation and decline phase, sales volumes decline, profits margins are maintained and the product becomes remains cash generative. The laggards and luddites still do not enter the market.

Either way for Apple, four years of strong growth are evident from products already in the line-up, both the iPhone and the iPad are set to hit the one hundred million units per annum mark in 2012 and 2014. Despite the march of the Androids, the Apple growth story will continue.

Source: Product life cycles and the Growth potential: The Apple case study, https://www.theapplecasestudy.com[3].

Questions

Briefly compare the lifecycle development of Apple to Sony. What factors might have caused the change in the life cycle? Why will Apple's iPhone and iPad continue to grow in emerging economies? Is there a possibility to anticipate product change in times of saturation for Apple? Discuss.

Perspective

Today's globalisation and dynamic business environment have made production life cycle theory out of date. Global trade has increased significantly in the last 10-15 years, thanks to the globalisation world but in the same time inequalities are also increasing. Shifting the production facility or offshoring the manufacturing jobs can increase the profit of the firm due to talent pool, low wages in the poor countries but to achieve this, businesses have to address the challenges of offshoring and draft the business strategies and plans effectively. But quality of the product /service and productivity are the major concern to be addressed

Download free eBooks at bookboon.com

by the offshore industry. GDP, income per capita, purchasing power, consumer behaviour are the major deciding factors for buying a new product in any part of the world. All developing countries ratios are very less when compared to advanced countries. So launching a new product in such countries is risky and uncertain even though the product is manufactured in the same country. Firms should analyse the marketing plans and strategy for the developing countries and apply them with respect to the market and other demographic factors [2].

Points to ponder

Globalisation and dynamic business environment have made production life cycle theory out of date. Quality of the product /service and productivity are the major concern to be addressed by the offshore industry. Firms should analyse the marketing plans and strategy for the developing countries and apply them with respect to the market and other demographic factors.

Multiple Choice Questions

Select the most likely answer in each question

1.	The international product life cycle begins with the product being developed and manufactured in the innovation country	
	A.	for low-income segments.
	B.	for mid-income segments.
	C.	for high-income segments.
	D.	for all segments.

2.	Companies in developing countries begin to manufacture an innovative product because of	
	A.	higher transportation costs.
	B.	lower development costs.
	C.	lower transportation costs.
	D.	higher research costs.

Download free eBooks at bookboon.com

3.	In the third phase of the international product life cycle, companies in emerging economies compete against	
	A.	the rich nation's imports.
	B.	the emerging nation's exports.
	C.	the rich nation's exports.
	D.	the emerging nation's imports.

4.	Today the total duration of the product life span in advanced and developing markets as well as the product life cycle	
	A.	has increased slowly.
	B.	has shortened slowly.
	C.	has increased dramatically.
	D.	has shortened dramatically.

5.	The product life cycle is generally applicable to products only and less applicable to	
	A.	production.
	B.	supplies.
	C.	perishable goods.
	D.	services.

6.	A criticism of the international product life cycle is the considerably reduced time lag in	
	A.	political decisions today.
	B.	trade relations today.
	C.	product sales today.
	D.	product development today.

7.	In the introduction phase of the international product life cycle,	
	A.	costs are high, sales volumes are fast.
	B.	costs are high, sales volumes are slow.
	C.	costs are low, sales volumes are slow.
	D.	costs are low, sales volumes are fast.

8.	In the growth phase of the international product life cycle,	
	A.	unit costs are reduced as volumes decrease.
	B.	unit costs are reduced as volumes increase.
	C.	unit costs decrease as volumes increase.
	D.	unit costs decrease as volumes decrease.

Download free eBooks at bookboon.com

9.	A firm developing a new product in a high-income country should try to enter foreign markets as quickly as possible so as to maximise early returns	
	A.	before lower-cost companies in developing nations enter the market.
	B.	after lower-cost companies in developing nations enter the market.
	C.	before high-cost companies in advanced nations enter the market.
	D.	before high-cost companies in developing nations enter the market.

10.	Firms should analyse the marketing plans and strategy for the emerging countries and apply them with respect to the	
	A.	market and demographic factors.
	B.	political and demographic factors.
	C.	competitive and demographic factors.
	D.	market and competitive factors.

Solutions: 1C2C3C4D5D6D7B8B9A10A

References

[1] Vernon, R. and Wells, L. T. (1966) International trade and international investment in the product life cycle. Quarterly Journal of Economics, 81(2), 190-207.
[2] Essays, UK. (2018) International Product Life Cycle model (IPLC) theory.
[3]Product life cycles and the Growth potential: The Apple case study, https://www.theapplecasestudy.com

Download free eBooks at bookboon.com

7 THE FRAMEWORK OF EMERGING ECONOMIES

These forthcoming chapters aim at developing ideas for emerging economies to think about international business. Seen from already worked out chapters, it is clear that the domestic economy is not sufficient in driving the economy alone. There is a constant need to think of the external economy. There might be various ways of learning about the external economy but the influential work of Pankaj Ghemawat of Harvard University based on the CAGE model can be a suitable means to firstly understand the complexities of international trade and secondly appreciate the position of emerging economies in international business.

Four key variables are developed in the CAGE model where the acronym stands for cultural, administrative, geographic and economic distances. All such distances are impediments to international business on behalf of emerging markets. The model is interpreted in two ways. First, country pairs where trade takes place between two countries and second, the emerging economy trading both unilaterally and multilaterally, i.e. with several countries. Each component illustrates the differences that exist. For business managers, it is important to understand the CAGE concept and see how differences might be overcome. It also becomes a roadmap for emerging economies to think about in the development of effective international business.

Click on the ad to read more

The CAGE model

The CAGE model is depicted in the chart below and explains variations between bilateral and unilateral or multilateral trade [1].

	Cultural Distance	Administrative Distance	Geographic Distance	Economic Distance
Country Pairs (Bilateral)	Different languages Different ethnicities; lack of connective ethnic or social networks Different religions Lack of trust Different values, norms, and dispositions	Lack of colonial ties Lack of shared regional trading bloc Lack of common currency Political hostility	Physical distance Lack of land border Differences in time zones Differences in climates / disease environments	Rich/poor differences Other differences in cost or quality of natural resources, financial resources, human resources, infrastructure, information or knowledge
Countries (Unilateral / Multilateral)	Insularity Traditionalism	Nonmarket/closed economy (home bias vs. foreign bias) Lack of membership in international organisations Weak institutions, corruption	Landlocked nature Lack of internal navigability Geographic size Geographic remoteness Weak transportation or communication links	Economic size Low per capita income

Cultural distance

The term cultural distance includes differences in factors such as religious beliefs, social norms, language, and race. Ghemawat states the example of countries that have a common language and that the trade between these countries will be three times greater than between countries that do not share a language. Hence, there is a distance inherent in speaking different languages that we argue is also relevant when considering which country to enter, e.g. there are costs entailed in miscommunication, lack of understanding and also more obvious ones such as the cost of hiring a translator. Miscommunication and a lack of understanding between headquarters and a subsidiary in an emerging market can create problems in form of aligning the subsidiary's goals with headquarters'. However, there are other cultural attributes where it is not as simple to understand how they create distance, e.g. differences in religions, ethnicities, and social norms. These distances are often created when consumers choose between substitute products and their cultural programming makes them prefer certain features before others.

Administrative distance

Another distance that is likely to affect an evaluation of potential markets is administrative distance. This term includes factors such as having a common currency, being part of the same political union or having preferential trading agreements. All of these factors can separately increase trade by more than 300 percent each and since these factors obviously facilitate trade, we argue that they would also influence the choice of country to enter. Although, it should be noted that political ties must be of a friendly nature to facilitate trade. If they are not, it will result in an even bigger distance between the respective countries. A larger distance can also be created if a country imposes trade barriers such as quotas or tariffs. Another factor that is likely to have a strong effect on the evaluation of markets is institutional infrastructure. Factors such as corruption or social conflict usually dampen economic activity heavily into a country.

Geographic distance

Geographic distance is not only the actual distance in kilometres to the host country, but also a matter of e.g. access to waterways, physical size of the country, and communication and transportation infrastructure. The infrastructure of a country can alter its ranking in an evaluation since it affects the cost and speed of transportation of products. Even information infrastructure (e.g. multinational banks and communications) can influence the distance between two countries.

Download free eBooks at bookboon.com

Economic distance

Economic distance implies that companies relying on economies of scale, experience, and standardisation should aim their efforts on markets with a similar economic profile. The reason for this is that, in order for the company to exploit their competitive advantage, they need to imitate their existing business model and this can be hard to achieve if the cost and quality of resources, and consumer incomes are very different. On the contrary, there are companies who base their advantage on these differentials (arbitrage) i.e. exploit cost and price differentials between markets.

Analysis of the CAGE model

After having reviewed the key components of the CAGE model, a two-way analysis with illustrations ins provided in this section.

	Country Pairs (Bilateral)	Country Pairs (Unilateral/ Multilateral)
Cultural Distance	Different languages are spoken in two different countries like the local language and an international language. Different ethnicities; lack of connective ethnic or social networks that could also hamper trade. Different religions like Jewish and Palestinian can be causes for conflict. Lack of trust between two nations; India and Pakistan. Different values, norms, and dispositions with regards to trade practices.	- Insularity Emerging economies which are island nations usually face the difficulty of being isolated in trade whereby they must associate themselves in trade blocs with nations on mainland. Trinidad and Tobago or Dominica with Caribbean nations. - Traditionalism Traditionalism might be linked with the need to feel that local values are important and that international business is bound to dilute such values. E.g, Halaal food in Arabian nations and how they are perceived by westerners.

	Country Pairs (Bilateral)	Country Pairs (Unilateral/ Multilateral)
Administrative Distance	Lack of colonial ties. This could make emerging economies look isolated and not benefit from the support of former colonists like France or Great Britain. Lack of shared regional trading bloc might also hamper trade if trade is limited just to a few countries. Lack of common currency can inhibit trade while a common one might facilitate it like the Euro. Political hostility among nations could be a reason to lower trade opportunities; China and the USA today.	Nonmarket/closed economy (home bias vs. foreign bias) This might still affect African nations which are more determined in regional trade than international one. Lack of membership in international organisations like not being part of an economic union as the European Union, African Union. Weak institutions and corruption might be poor indicators in encouraging both trade and foreign investment.

	Country Pairs (Bilateral)	Country Pairs (Unilateral/ Multilateral)
Geographic Distance	Physical distance can be a factor dampening trade opportunities. Some nations are far from main trade partner, Europe. Differences in time zones make it difficult both to communicate online and develop sustainable trade opportunities. Differences in climates / disease environments could be factors against trade. The spread of infectious diseases might well create a condition for 'blocus'.	Landlockedness disallows countries like Uganda or Congo to have suitable ports for free trade. Lack of internal navigability, especially in the Amazonian region and Central Africa. Geographic size matters like small island nations like Mauritius, Trinidad or Fiji cannot maximize output for certain exports. Geographic remoteness is an impediment for trade for emerging economies but this is partly addressed by better airline connections and internet connectivity. Weak transportation or communication links Weak institutions and corruption might be poor indicators in encouraging both trade and foreign investment.

	Country Pairs (Bilateral)	Country Pairs (Unilateral/ Multilateral)
Economic Distance	- Rich/poor differences. This concept earlier favoured the development of the African Growth and opportunity Act to enhance African trade to the USA. Other differences in cost or quality of natural resources, financial resources, human resources, infrastructure, information or knowledge. This is a problem due to lack of government and institutional support in emerging economies.	- Economic size Madagascar might be a large island but is economically poor in international business because of an undeveloped economy in technology terms. - Low per capita income Poor income per capita in Bolivia or Venezuela might be a challenge for trade as people might be very much concerned with basic necessities than effective international trade.

Download free eBooks at bookboon.com

Case Study: What is different about emerging economies?

Starting with economic differences, the most obvious are the emerging economies' lower per capita incomes and faster real growth rates. But even those characterisations fail to apply to every emerging economy: The International Monetary Fund lists both Qatar and Yemen as emerging or developing even though they had the world's third-highest Gross Domestic Product (GDP) per capita and lowest real growth rate, respectively, in 2015. From a business perspective, lower research and development (R&D) intensity in emerging economies is particularly salient, given the association between R&D (and advertising) intensity with resources that enable firms to become multinational. Also, the higher proportion of GDP coming from the industrial sector in emerging economies implies that it is no longer appropriate to treat 'industrialised countries' and 'advanced economies' as synonymous [2].

Culturally, there are statistically significant differences on three of Hofstede's dimensions of national culture [3]. Greater power distance, collectivism, and long-term orientation in emerging economies all imply requirements for executives to vary leadership practices. Based on data from the World Values Survey, people in emerging economies accord work a higher priority in their lives—presumably an advantage for employers—but have lower levels of trust in foreigners, which can complicate international business activities in particular. Furthermore, the higher cultural fractionalisation and lower representation of women on boards in emerging economies highlight the importance of thinking about diversity within as well as across countries.

Administratively, emerging economies rank significantly worse than advanced economies on indicators of institutional quality, e.g., rule of law, political stability, and control of corruption, all of which can dampen international business activity. According to an estimate by Shang-Jin Wei, 'an increase in the corruption level from that of Singapore to that of Mexico would have the same negative effect on inward FDI as raising the tax rate by fifty percentage points. 'Emerging economies also require more documents to conduct international trade and rank lower on the World Economic Forum's Enabling Trade [4].

Surprisingly, despite their administrative weaknesses, publics in emerging economies express greater confidence in their governments. Emerging economies also present distinct geographic conditions. They average lower levels of urbanisation which impact both demand patterns and supply chains. Temperature levels are also higher, on average, in emerging economies. And while emerging economies' higher likelihood of being landlocked is not statistically significant, infrastructure deficiencies make landlocked emerging economies far less accessible than landlocked advanced economies.

Source: Ghemawat, P., and Altman, S. (2017) Emerging Economies:
Differences and Distances. AIB Insight, Vol 16, No 4. [2,3,4]

Download free eBooks at bookboon.com

Questions

Why should business managers critically think of the higher cultural fractionalisation and lower representation of women with regards about diversity across emerging economies? How can the poor administration strategy of emerging economies dampen international business activity? How might infrastructure affect business in emerging economies?

Perspective

Emerging economies: Differences and Distances

For a typical firm from an advanced economy, emerging economies are more different or distant—to a statistically significant extent—than other advanced economies on every variable except language and legal origins. Geographically, emerging economies are more than one-quarter more distant, and administratively, advanced economies are about two-and-a-half times as likely to have trade agreements with other advanced economies as with emerging economies.

Click on the ad to read more

For firms expanding abroad from emerging economies, while similar levels of development create economic proximity with other emerging economies, many of the other commonalities that bind advanced economies together are absent. Emerging economies share common languages, common religions, colonial linkages, and trade agreements more often with advanced economies than they do among each other. The scarcity of trade agreements between emerging economies is particularly striking: two emerging economies are half as likely as a pair comprised of one advanced and one emerging and one-fifth as likely as two advanced economies to have a trade agreement. The only variable where emerging economies benefit from the greatest commonalities with other countries is legal origins, a legacy of shared colonial histories.

Firms from emerging economies face greater resistance due to non-economic distance when trading and investing in other emerging economies than they do in advanced economies: shifting from two emerging economies to one emerging and one advanced is expected to boost both trade and FDI by 15% as a result of greater non-economic distances, on average, between emerging economies. And, of course, firms from emerging economies face far greater distance-related challenges in advanced economies than do competitors from advanced economies—many factors that make emerging economies harder for advanced economy based firms also apply in the reverse direction. These results imply that distance imposes even greater challenges on multinationals from emerging economies than on those from advanced economies, and our preliminary research also suggests that emerging market based multinationals also have weaker capabilities for traversing distance.

The greater distances faced by emerging economies as well as some of the unilateral characteristics covered in the previous section contribute to another barrier to business into and out of emerging economies: their lower levels of globalisation as measured on our DHL Global Connectedness Index [5]. Advanced and emerging economies are roughly at parity with respect to trade intensity—exports and imports of goods and services as a share of GDP. However, with respect to capital and people flows, advanced economies are four to five times as deeply globalised and advanced economies are nine times as deeply globalised with respect to international information flows.

Points to ponder

Geographically, emerging economies are more than one-quarter more distant, and administratively, advanced economies are about two-and-a-half times as likely to have trade agreements with other advanced economies as with emerging economies. Firms from emerging economies face greater resistance due to non-economic distance when trading and investing in other emerging economies than they do in advanced economies.

Download free eBooks at bookboon.com

Multiple Choice Questions

Select the most likely answer in each question

1.	According to Ghemawat, countries having a common language might trade between three times greater than	
	A.	countries that do not share a language.
	B.	countries that share a language.
	C.	countries that do not share a culture.
	D.	countries that do share a religion.

2.	Political ties must be of a friendly nature to	
	A.	decrease trade.
	B.	hamper trade.
	C.	facilitate trade.
	D.	deregulate trade.

3.	The infrastructure of a country can alter an emerging market's ranking in an evaluation since it affects the	
	A.	quality and speed of transportation of products.
	B.	price and duration of transportation of products.
	C.	cost and speed of transportation of products.
	D.	mobility of transportation of products.

4.	Economic distance implies that companies relying on economies of scale, experience, and standardisation should aim their efforts on	
	A.	markets with the same economic profile.
	B.	markets with a similar economic profile.
	C.	markets with a different economic profile.
	D.	markets with a peculiar economic profile.

Download free eBooks at bookboon.com

5.	Emerging economies which are island nations usually face the difficulty of being isolated in trade whereby they must associate themselves in trade blocs with nations	
	A.	within their border.
	B.	far away from their borders.
	C.	inland.
	D.	on the mainland.

6.	Lack of common currency can inhibit trade while a common one might facilitate it like the	
	A.	Euro.
	B.	Rupee.
	C.	Shilling.
	D.	Rupiah.

Click on the ad to read more

7.	Being geographically landlocked disallows countries like ………. to have suitable ports for free trade.	
	A.	Kenya and Tanzania.
	B.	Malta and Cyprus.
	C.	Uganda and Congo.
	D.	Guyana and Venezuela.

8.	Greater power distance, collectivism, and long-term orientation in emerging economies all imply requirements for executives to vary	
	A.	trade practices.
	B.	religious practices.
	C.	leadership practices.
	D.	communication practices.

9.	Administratively, emerging economies rank significantly …….. advanced economies on indicators of institutional quality like rule of law, political stability, and	
	A.	equal to.
	B.	worse than.
	C.	better than.
	D.	similar to.

10.	Despite their administrative weaknesses, publics in emerging economies express	
	A.	no confidence in their governments.
	B.	little confidence in their governments.
	C.	average confidence in their governments.
	D.	great confidence in their governments.

Solutions: 1A2C3C4B5D6A7C8C9B10D

Download free eBooks at bookboon.com

References

[1] Ghemawat, P. (2007) Redefining Global Strategy: Crossing Borders in a World Where Differences Still Matter, Pankaj Ghemawat, Harvard Business School Press.

[2] Ghemawat, P., & Altman, S. (2016) Economies: Differences and Distances, AIB Insights, Vol 16. No4.

[3] Hofstede, G., & Bond, M. H. 1988. The Confucius connection: From cultural roots to economic growth. Organizational Dynamics, 16(4): 5-21.

[4] Wei, S.-J. 2000. How taxing is corruption on international investors? Review of Economics and Statistics, 82(1): 1-11.

[5] Ghemawat, P., & Altman, S. (2016) DHL Global Connectedness Index 2016: The State of Globalization in an Age of Ambiguity.

Need help with your dissertation?

Get in-depth feedback & advice from experts in your topic area. Find out what you can do to improve the quality of your dissertation!

Get Help Now

Go to www.helpmyassignment.co.uk for more info

Helpmyassignment

Click on the ad to read more

8 KEY INDUSTRIES IN EMERGING ECONOMIES

What really accounts for the development of emerging economies today? Is it a question of economic life cycle that dictates the progress of such economies or is it a sustained industrial development that might account for this? Ideally, emerging economies have developed over the years by diversifying their internal economy that might have been limited to agricultural products. Some economies that are labour intensive might have initially relied on a monocrop culture. The African-Caribbean-Pacific countries forming part of the ACP were producers of cane sugar since that was considered as 'white gold' in the past and was enough to provide revenue for imports for them. Over time, a single industry has not been viable despite comparative advantages concerned with specialised production. As such there was a need to diversify the economy by prospecting related or innovative industries.

This chapter reviews the key industries of selected economies within emerging markets to explain how such industries stand as paramount to the nations' survival and development. A few selected industries have been sought namely the agricultural sector that comprises sugar, tea and coffee production, the manufacturing sector comprising coal and oil production, the textile production sector as well as the nascent information and communications sector developing in the form of services sector. Definitely, a comprehensive coverage of all such industries would be both difficult and cumbersome to assess and synthesise. Effort has been made to find out salient information from emerging markets and see how such industries are actually performing.

What can be generally assessed is that all key sectors of the economy of emerging nations might at times perform very well and at other times perform quite moderately. This is principally due to trade taking place with advanced nations where price fluctuations influenced by commodity markets can sometimes imperil such economies. For this reason, developing nations are keen to develop new sectors so that jobs are created, revenue is earned and a diversified economy allows such countries to avoid 'putting all eggs in the same basket'. This is a challenge for emerging economies since they have to espouse new technologies that demand new technological knowledge with a high need for skilled labour.

Apart from industrial technology, the services sector in emerging economies is also booming. This has come from the development of computer and information technology in emerging economies. Apparently this is an international phenomenon and such technological progress moves fast across borders because of its quick adaptation and transfer. Incidentally, one can speak of a 'Silicon Valley' in Bangalore, India in the same way as an IT sector in Shengzen

Download free eBooks at bookboon.com

China. Through information technology, developing economies act as production and back office facilities for already established giants like Microsoft or Apple and at the same time provide services that are outsourced to them.

This chapter develops ideas and prospects around key industries and highlights current problems facing emerging economies. On the one hand, they have to diversify, innovate and expand in order to be successful while on the other hand, they have to consolidate and reengineer their local industries in order to remain viable. Since they have benefited from comparative advantage since long at competitive costs, it is important to see how such traditional industries will survive in local and international business.

Guyana's Sugar industry: The elusive search for economies of scale

Today's truly fundamental defining feature of the condition of the Guyana sugar industry (and Guysuco more particularly), is that, several decades ago it became mature, and from all appearances since the 1960s, it has entered a long-run declining phase, as described in classic industrial and firm theories. Cane sugar production can no longer reclaim the glory that it had earlier enjoyed in Guyana and the Caribbean, when plantation/estate sugar production was emerging as the leading edge of capitalistic modes of development (especially the emergence of global transnational enterprises and their internationalisation) as world markets for goods, services, capital and finance were being rapidly created. If truth be told, those economic outcomes of plantation enterprise were stupendous and in my view represent the decisive precursors to the present age of globalisation [1].

Several contributory factors are responsible for the present situation of the cane sugar industry in Guyana, and for that matter worldwide. The emergence of sugar extraction from other plant sources (particularly beet) and the growth of a wide range of substitutes for sugar, both caloric (particularly high-fructose corn syrup) and non-caloric (particularly artificial sweeteners like Splenda and Equal). Importantly, these alternate sweeteners have found wide acceptance among consumers everywhere.

Searching for economies of scale in sugar production in Guyana at levels of output well below half-a-million metric tonnes annually, would be elusive. It reveals the basic illogic underlying the US$185 million plus Skeldon Sugar Modernisation Project (SSMP). Given the global configuration of the leading competitive sugar producers as presented in the Schedule above, even in the best of circumstances the gains from economies of scale at an output of 450,000 tonnes annually would be marginal on a global scale. There is no real hope for Guyana becoming again a competitive global exporter, given the present demand and supply structure of the world sugar market.

Download free eBooks at bookboon.com

This constraint is reinforced by the consideration that Guyana's sugar production is principally for export (that is, for sale in external markets Guyana cannot control). As I shall more fully explain in subsequent columns, the future configuration of our sugar industry must therefore, necessarily centre on this fundamental illogic. Otherwise, if Guysuco remains a state-owned entity there is grave danger of the state directing scarce resources to sugar for purely political reasons, particularly as this burden can be passed on (through taxation) to the citizenry at large.

Cocoa in Ivory Coast and Ghana

Ghana is the world's second largest cocoa producer with an annual production of 750, 000 to a million tonnes putting its total share in the global market at 20%. In the past decade, the chocolate industry's demand for the product has gone up 12 per cent but production has stagnated. While the demand, especially from developed economies like India and China is a positive sign for the Industry, the more than 6 million cocoa producers, most of whom are small-scale farmers, face a myriad of challenges ranging from poverty, poor connection to infrastructure from producers to consumers.

Click on the ad to read more

But the Ghana Cocoa Board (COCOBOD) established in 1947 has had a history of overseeing the sector, ensuring that it remains on track despite the challenges. The board serves as the only exclusive marketing intermediary between producers and processors of the crop.

The marketing year for cocoa begins in October, when harvest of the main crop begins, followed by the harvest of a smaller 'light crop' in July. Light-crop beans are smaller than the main-crop variety, but are identical in quality and grown on the same trees. The main crop accounts for 90 per cent of total annual cocoa bean production in the country, and the light crop accounts for the remaining 10 per cent. During the 2015/2016 harvesting season the country produced approximately 800,000 metric tonnes, which was 20 per cent of the total world harvest.

Until a couple of years ago, cocoa generated around a third of Ghana's export earnings. This share decreased due to the start of oil production. In 2014, cocoa was the third largest export product with a share of 20 per cent. It is estimated that during the 2016/17 a total output of 850,000 will be produced.

Cocoa production in Ghana remains a major contributor to the tax income of the government. There are approximately 800,000 cocoa farmers in Ghana. Cocoa is grown on an estimated 1.9 million hectares. The cocoa industry employs about 60 per cent of the total labour force of the agriculture sector; most cocoa farmers are smallholders who harvest cocoa on 2 to 3 hectares with a yield of on average 400 kg/ha. Including families of farmers, employees of trading companies and input services, the cocoa sector provides income for more than 1 million Ghanaians.

The cocoa sector is one of Ghana's economic backbones. Ghana is not only the second largest producer of cocoa in the world, but it produces the world's highest quality cocoa. The cash crop accounts for about 9% of Ghana's GDP and makes up about one-third of the country's export revenues, totalling over US$ 1.5 billion.

Additionally, cocoa is an important tool to guarantee the liquidity of the Ghanaian government. Every year, the government issues a bond, which is secured by the predicted income from selling the cocoa of the next harvest. Potential investors know that due to the forward cocoa selling system the bond is a low risk investment. The Ghanaian government pays for the bond at much lower interest rates than it would have to pay for a bank loan.

Download free eBooks at bookboon.com

Tea industry's in Sri Lanka

The tea industry in Sri Lanka has played an important role in terms of its contribution to the national output, employment and net foreign exchange earnings from its inception in 1867. The industry has undergone a number of changes over the last 150 years. During this period, the ownership of tea lands has changed from privately-owned large scale tea plantations to nationalised tea plantations managed by the state, and to the present day regional plantation companies owned by private companies [3].

In recent times, the smallholder sector of the tea industry has also grown eclipsing the tea plantations as the main source of tea production in the country. The industry is changing rapidly in many other ways as well, due to the increased international competition, expansion of the small holder tea sector, labour issues, automation, changes in demand for tea, climate change and multiplication of quality standards.

Sri Lankan tea production in 2019, consequent to the Government's decision to lift the ban on the use of glyphosate (weedicide) is likely to give much relief to the producers and in particular, to the large-scale plantations which would be able to carry-out the required agricultural practices to achieve the full potential of the plantations. Further the Government's decision last month – to allow a more liberal policy on fertiliser – should contribute favourably. Needless to say, subject to extreme weather conditions not being a reality. However, ageing tea bushes and low productivity levels would be a downside.

Other factors that are likely to impact Sri Lankan tea prices

- A significant appreciation in the fourth quarter on the third quarter, particularly in respect of Leafy orthodox teas.
- Further, the first quarter traditionally is a low cropping period with enhanced product quality from most producer countries. This scenario will augur well for Small Leaf liquoring varieties that would be on offer.
- Another important factor that might influence tea prices is the variation in exchange rates. The Sri Lankan Rupee, which was under severe pressure at the commencement of 4th quarter 2018, stabilised somewhat towards mid-December.
- Improved demand from Iran following the recent indications that tea would not be featured on the list of items attracting US import sanctions.
- Importers of orthodox teas are likely to have lower inventory levels in the backdrop of deficits accumulated since 2015.

Download free eBooks at bookboon.com

These factors would enable us to predict an upward movement in prices, particularly in the first half for most varieties of orthodox teas. The market demand for teas thereafter, would greatly depend on how the global tea industry would progress during the first half. As we have periodically highlighted, market demand for good quality teas would command a premium consistently throughout the year.

Rwanda's textile industry as key lever of economic growth

Uganda, Kenya, Tanzania and Burundi are major cotton producing countries, a major component in textile manufacturing, however Rwanda is a net importer making what is produced locally expensive. The government plans to invest $3 million to $5 million in setting up the cocoon processing factory to produce silk in the Kigali Special Economic Zone. With the assured market for the cocoons, it is hoped the farmers would venture back into sericulture.

Relying on imported raw materials such as polyester and cotton stands in Rwanda's path to revamping its ailing textile and garment making industry. This reliance makes the textile produced locally uncompetitive on pricing, forcing garment makers to source material from other East African Community member states. Rwanda's effort to revive the textile industry has been complicated further after the project to commercially produce silk cocoons locally collapsed. As such, the country imports all the cotton to make yarn to feed its only composite textile factory. The government plans to invest $3 million to $5 million in setting up the cocoon processing factory to produce silk in the Kigali Special Economic Zone. With the assured market for the cocoons, it is hoped the farmers would venture back into sericulture [5].

A statement from the Private Sector Federation indicates that Chinese textile experts will also provide new technology and capacity building to Rwandans in the textile sector, as per the new deal. This is seen as a new move that will reduce the importation of high-end clothes from abroad.

'This is a great milestone for our sector. We have been facing the challenge of inadequate fabrics and importing finished clothes from different countries but now this will be done locally,' said Dianne Mukasahaha, Chairperson of the AMG Company.

The local partner, AMG, is one of the companies formed by the PSF with the main aim of promoting collective investment. According to the agreement, AMG will officially represent the Chinese garment company. Warehouses will be set up to cater for effective production of fabrics and clothes. A delegation of Rwanda business operator's textile industry is currently in China to look for potential investment partnerships. Members of AGM are mostly small

Download free eBooks at bookboon.com

and medium enterprises who were brought together under the same Company. With the partnership, the produced clothes will be sold locally and in other African markets at a competitive price. Eric Kabera, the head of Communications and Marketing at PSF, said it is important to promote collective investment with the aim of finetuning and enhancing performance of the sector.

Oil and Gas Industry in the Arab World

Arab countries hold more proven oil reserves than any other region (713.6 billion barrels), comprising more than 43 percent of the world's total proven reserves. With an average output of 26.3 million barrels per day in 2011, the Arab world produces nearly a third of world oil supply [6].

Oil reserves in the GCC countries (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, UAE) are among the cheapest in the world to find, develop, and produce (with the exception of those in Oman). The IEA estimates total production costs in Saudi Arabia, Kuwait, and the UAE to vary between $3 and $5 per barrel of oil produced.

TURN TO THE EXPERTS FOR SUBSCRIPTION CONSULTANCY

Subscrybe is one of the leading companies in Europe when it comes to innovation and business development within subscription businesses.

We innovate new subscription business models or improve existing ones. We do business reviews of existing subscription businesses and we develope acquisition and retention strategies.

Learn more at linkedin.com/company/subscrybe or contact Managing Director Morten Suhr Hansen at mha@subscrybe.dk

SUBSCRYBE - to the future

Click on the ad to read more

Saudi Arabia holds more than 265 billion barrels of proven oil reserves, 16 percent of global total reserves. Four of the world's ten largest producers of oil are Arab oil producers, including Saudi Arabia, the UAE, Kuwait and Iraq.

Coal 'renaissance' in emerging economies

A coal 'renaissance' in poor and developing countries has led to the fossil fuel becoming the dominant source of carbon emissions once again. Scientists from the Mercator Research Institute for Global Commons and Climate Change in Berlin have found the low price of coal compared with gas and oil has led to a surge in consumption since the end of the 1990s. This has mainly been seen in poor and developing countries, with these economies relying on inexpensive coal to meet their energy demands [7].

In their report, the researchers systematically analysed the main drivers and impacts of carbon-intensity increases focusing on coal. Findings showed the acceleration of coal use can be attributed by low prices compared to other energy sources, with coal-fired power plants also having relatively low capital costs.

They said developing countries should be looked to in terms of climate change mitigation, as the trend towards higher carbon intensity will cancel out the effect of decreases in industrialised countries. If the future economic convergence of poor countries is fuelled to a major extent by coal, i.e., if current trends continue, ambitious mitigation targets likely will become infeasible.

Furthermore, building new coal power plants, mining operations, and transport networks for long-distance coal trade arguably would result in further lock-in of this highly carbon-intensive energy carrier and would make future emission reductions even more difficult to achieve.

To avoid an increase in high-carbon technologies, they say international climate policy should found ways to make the use of coal unattractive—either through raising the price or lowering the cost of low-carbon alternatives—without hampering development.

The relatively low coal prices are an important reason countries choose coal to satisfy their energy needs. This result underlines the importance of cheaply available energy for economic growth and suggests that viable alternatives to cheap coal will be required to ensure the participation of developing countries in global climate change mitigation."

Download free eBooks at bookboon.com

ICT has the potential to promote economic growth in emerging economies

ICT undoubtedly have the potential to promote economic growth and deliver innovative applications in government, commerce, education and other areas. So far this progress is reflected most clearly in the business arena. In his book The Emerging Markets Century, Antoine van Agtmael notes that in 1988, just 20 companies in the emerging markets had sales over US$1bn. By 2005, no fewer than 270 firms had sales over US$1bn, and 38 had sales over US$10bn. Such companies are able to thrive because their governments have built regulatory frameworks that encourage ICT usage. And where the big companies lead, small and medium-sized businesses—the true engines of many emerging economies—will undoubtedly follow. Countries that become information-rich, taking advantage of networks and convergence on the Internet Protocol platform, stand poised to create economic and social opportunities that were unimaginable only a generation ago. The potential offered by ICT will allow countries that exploit it intelligently to move ahead with great speed, perhaps leapfrogging over their developed-country counterparts in record time [8].

Perspective

Technology: A game changer for emerging markets

Emerging markets have been adopting new technologies much more rapidly in recent years. This is a welcome development because new technologies raise labour productivity, the main driver of increased living standards. And it is especially significant against the background of a global economy where productivity increases have come to a near standstill in the aftermath of the 2008–2009 financial crisis. While global productivity grew on average 1.2 percent a year from 1999 to 2008, it slowed to 0.3 percent from 2009 to 2012 and has fallen to near zero since then. Technological innovations offer emerging markets a promising way to boost productivity and share prosperity without relying solely on demographic factors such as population growth or natural resources [9].

Rapid technological advances offer emerging market economies immense opportunities: Mobile phones and the Internet connect local labour markets to global labour markets and make new services available that are independent of distance; better access to energy through off-grid solutions supports rural development of information and communications technology infrastructure; enhanced access to financial services provides businesses with loans they need to invest and grow; and greater access to education helps workers prepare for the challenges of a rapidly changing work environment. Private firms are essential to the delivery of all of these technologies, and privately-led advances in technology have played a critical role in emerging-market growth, especially in Africa.

Download free eBooks at bookboon.com

Businesses in Africa have become a major catalyst for innovation-led growth and economic development. However, many African nations must contend with shortages of skilled workers at all levels, making it difficult for businesses to implement new technologies. And low-level technologies—especially in infrastructure—are in short supply or even absent across many sectors and geographies, for both businesses and households. Yet that also represents an opportunity, as Africa is one of the few regions of the world where technological leap-frogging is a real possibility, as long as skilled workers can be found.

There are numerous success stories that demonstrate how public policy can influence business growth. They cover a wide range of industries, from energy to agriculture and education. Inventions initially designed for Africa include portable solar powered electrical chargers, locally manufactured crop and seed protection storage bags, *and* pay-per-view customizable educational curricula tablets, among others.

Yet obstacles to technology adoption by firms in emerging markets remain. They include poor access to financing, a shortage of qualified workers, obstructive regulatory frameworks, and substandard infrastructure. These obstacles can generally be overcome through investments in education and infrastructure. And since technology adoption can be costly, domestic firms in emerging markets not only need improved access to external finance but can also benefit from more efficient and better developed financial markets.

Click on the ad to read more

Download free eBooks at bookboon.com

Points to ponder

Technological innovations offer emerging markets a promising way to boost productivity. Businesses in Africa have become a major catalyst for innovation-led growth and economic development. remain and they include poor access to financing, a shortage of qualified workers, obstructive regulatory frameworks, and substandard infrastructure.

Case Study: Path to growth: The power of technology in emerging markets

Some emerging economies have grown much faster and more consistently than others. Underlying these success stories is a pro-growth policy agenda and the standout role of large companies. Emerging economies accounted for two-thirds of the world's GDP growth and more than half of new consumption or the past 15 years. Yet economic performance among individual countries varies substantially [10].

According to the McKinsey Global Institute, a pro-growth agenda of productivity, income, and demand has driven outperformance. While the 18 outperformers vary considerably—spanning different income levels, sizes, factor endowments, and regions—with the exception of Latin America, the analysis suggests they share foundations of similar pro-growth cycles of rising productivity, income, and demand. Part and parcel of these foundations are competition policies that created an impetus for productivity growth and helped forge the big companies that have driven a significant part of GDP growth.

More than two-thirds of the GDP growth in outperforming countries over the past 30 years is attributable to a rapid rise in productivity correlated with industrialisation: an annual average productivity gain of 4.1 percent versus 0.8 percent for the other developing economies. That rapid development initially drives the pro-growth cycle by creating wealth and boosting demand, which translates into more jobs.

Capital accumulation—enabled by high rates of investment and domestic savings—contributed an average of 3.8 percentage points to economic growth each year between 1990 and 2015 for the seven 50-year outperformers in our sample, and five percentage points for the 11 shorter-term outperformers between 1995 and 2015.

Investment as a share of GDP averaged 30 percent for long-term outperformers and 20 percent for recent outperformers, or three to 13 percentage points higher than investment in other developing economies. The difference in domestic savings as a share of GDP was ten to 30 percentage points higher.

Download free eBooks at bookboon.com

The outperformers could tap into higher levels of domestic savings, some of which was required by government-run pension-savings schemes, and some of which was encouraged by governments developing strong financial institutions and convenient digital banking services. Higher domestic savings enabled more investment in infrastructure, among other areas. Outperformers also attracted the largest share of foreign investment, almost 70 percent, of the approximately $900 billion invested in emerging markets between 2000 and 2016.

Strong productivity growth translated into exceptional income growth. Real wages and benefits rose by an average 4.6 percent annually in the seven long-term outperforming countries between 1980 and 2014.

China led the way, with incomes there rising by 8.6 percent annually. Among the more recent outperforming countries, real wages and benefits grew by 6.0 percent per year between 1995 and 2014. This was about triple the level in other developing and advanced economies. Household consumption spending generated by rising incomes grew about three percentage points faster in the 18 outperforming countries than in other developing or advanced economies.

Source: Woetzel, J. et al (2018) Outperformers: High growth emerging economies and the companies that propel them, Mc Kinsey Global Institute [10].

Questions

What might be the rapid development that drives the pro-growth cycle by creating wealth and boosting demand in emerging economies? What is the relevance of foreign direct investment to developing economies? How might productivity impact wealth and income in emerging economies?

Download free eBooks at bookboon.com

Multiple Choice Questions

Select the most likely answer in each question

1.	A diversified economy allows emerging countries to avoid	
	A.	relying on international markets.
	B.	relying on a single market.
	C.	relying on a few markets.
	D.	relying on every market prospected.

2.	Apart from industrial technology, the services sector in emerging economies is also	
	A.	booming.
	B.	recovering.
	C.	declining.
	D.	weakening.

Click on the ad to read more

3.	When sugar production was developed in emerging as economies	
	A.	labour and knowhow were being slowly created.
	B.	labour and material were being rapidly created.
	C.	capital and finance were being slowly created.
	D.	capital and finance were being rapidly created.

4.	Ghana is not only the second largest producer of cocoa in the world, but it produces	
	A.	the world's highest quality cocoa.
	B.	the world's lowest quality cocoa.
	C.	the world's highest quality chocolate.
	D.	the world's highest quality derivate products.

5.	Sri Lankan government's decision to allow a more liberal policy on fertiliser contributes	
	A.	weakly to the development of the tea industry.
	B.	averagely to the development of the tea industry.
	C.	favourably to the development of the tea industry.
	D.	unfavourably to the development of the tea industry.

6.	Relying on imported raw materials such as polyester and cotton stands in Rwanda's path to revamping its ailing	
	A.	tea and sugar industry.
	B.	textile and garment industry.
	C.	coal and mine industry.
	D.	aloe and tea industry.

Download free eBooks at bookboon.com

7.	A coal 'renaissance' in developing countries has led to the fossil fuel becoming the	
	A.	dominant source of carbon emissions once again.
	B.	dominant source of hydrogen emissions once again.
	C.	rare source of carbon emissions once again.
	D.	rare source of hydrogen emissions once again.

8.	Emerging markets have been adopting new technologies which raise labour productivity as the	
	A.	main driver of declining living standards.
	B.	main driver of low consumption.
	C.	main driver of low living standards.
	D.	main driver of increased living standards.

Click on the ad to read more

9.	Emerging economies accounted for ………………. of the world's GDP growth over the past 15 years.	
	A.	two-thirds.
	B.	one-third.
	C.	half.
	D.	ten percent.

10.	In emerging economies, the role of key productive companies is a characteristic of is a key characteristic of	
	A.	small businesses.
	B.	blue-chip companies.
	C.	outperforming economies.
	D.	underperforming companies.

Solutions: 1B2A3D4A5C6B7A8D9A10C

References

[1] Thomas, C. (2012) Guyana's Sugar industry: The elusive search for economies of scale, https://www.stabroeknews.com
[2] African Business (2017) Cocoa in Ivory Coast and Ghana, https://www.africanbusinessexchange.com
[3] Institute of Policy Studies in Sri Lanka (2017) Transition of tea industry 150 years and beyond, www.ips.lk/sri-lanka
[4] Daily FT Sri Lanka (2018) Tea industry's performance in 2018 and prospects for 2019, www.ft.lk/agriculture
[5]Esiara, K. (2017) Can Rwanda's textile industry compete in East Africa? https://www.newtimes.co.rw
[6] Fattouh, B. and Laura El-Katiri, L. (2012) 'Energy and Arab Economic Development,' Arab Human Development Report Paper Series, http://www.arab-hdr.org.
[7] Osborne, H. (2015) Coal 'renaissance' in poor and developing countries hampering emissions targets, https://www.ibtimes.co.uk

Download free eBooks at bookboon.com

[8] EIU {2007) Path to growth: The power of technology in emerging markets, Economist Intelligence Unit Cisco path to growth, graphics.eiu.com

[9] International Finance Corporation (2016)Broadman, H., Mölders, F., and Thomas Rehermann, Technology: A Game Changer for Emerging Markets.

[10] Woetzel, J., Madgavkar, A., Seong, J., Manyika, J., Sneader, K., Tonby, O., Cadena, A., Gupta, R., Leke, A. (2018) Outperformers: High growth emerging economies and the companies that propel them, Mc Kinsey Global Institute.

Deloitte.

Discover the truth at www.deloitte.ca/careers

© Deloitte & Touche LLP and affiliated entities.

Click on the ad to read more

9 COUNTRY ASSESSMENT AND REPORTS

When a country decides to carry out business with another one, it will not directly rush on the new market that the new country offers, to sell its products. It has to make an assessment and analysis of the country before it decides to have a foothold in the market of the host country. May be at first instance, the country is exporting products without planning or making use of suitable marketing strategies to the new market. This has happened because no major trade links had been created between the two countries. When there are agreements on bilateral trade between countries, then business activities are conducted seriously.

In advanced countries, it is usually the multinational corporations that carry out country assessments as they normally represent the major business opportunities in host countries. Multinationals are important businesses that are implanted in various countries and that generate business activities on a large scale generating big returns. Country assessments are also conducted by various international press groups namely the Economist Intelligence Unit (EIU) which produces quarterly reports on a large number of countries in the world and this can become useful information for potential investors in foreign countries. The advantage of using reports prepared by press groups is that they give an actual image of a country's economic situation which is of prime importance to international businessmen. There are also a few dedicated online reports like countryreport.com or Europa.eu that provided updated country reports that are freely available.

Emerging economies are also keen in using country reports. Their move to regional markets could be a factor that encourages governments to think critically before moving to new markets. There is the other fact that such economies are thinking of developing an external economy through potential trade partnerships with other economies. Governments and stakeholders in emerging economies will use the same sources of data and country reports. These might be western based but they might be a possibility for initiating research and investigation on potential markets. There is further the ned to have local organisations like an investment authority or an economic development board or agency to undertake fieldwork and direct research in the markets sought.

Download free eBooks at bookboon.com

Needs for multinational enterprises to carry out country assessments

To look for potential markets overseas

Multinationals have the ambition to expand and increase business activities in as many countries as possible throughout the world so that they can have potential markets where they can carry out business. In other words, they are keen to build up market opportunities so that they can increase their business activity and profit.

To develop strategic markets

Multinationals carry out country assessments with a view to developing strategic markets. The term strategic is important here because a multinational cannot be implanted in whatever country in the world.

Strategic market here means a market which shows the following characteristics:

- The market is sizeable, that is, there is a large number of consumers.
- The market is representative of the firm's span of activities.
- There is enough infrastructure and material development in a particular country to carry out business.
- The market can show a potential purchasing power.
- The country in which the multinational corporation is willing to be established is in proximity with other important markets whereby exchange and trade can be rapidly carried out.
- The market is also targeted by competitors because of its strategic importance in the region.

To analyse the potential of the different countries

Country assessments can become bases which multinationals firstly assess and where they can be established later on. For example, if country assessments are carried out in various countries, the multinational corporation can come to a conclusion as to the most appropriate country where it is going to carry out business. Therefore, as a result of country assessment, the potential of the different countries can be assessed and this can be a reference for future purposes.

Download free eBooks at bookboon.com

To make wise decisions to settle in a market

Multinationals carry out country assessments in order to ensure that the country where they are going to be established is the most appropriate one. If no prior assessment is made, then this can represent a risk for the multinational as competing firms might already be well-established over there and it is difficult to snatch a market share as well as obtaining profits in case if the multinational conducts its business over there.

To study the characteristics of the various markets in different countries

Multinational corporations carry out country assessments in order to understand the characteristics of the various markets in different countries. Not each country shows the same market characteristics. Certain markets are homogeneous and show similar characteristics as the one in the home country and it is fairly easy for a firm to be established in such a country. Certain countries which show big market potential, for example, China, may have a heterogeneous market because it comprises people coming from different provinces having a range of characteristics and purchasing power.

SIMPLY CLEVER
ŠKODA


Do you like cars? Would you like to be a part of a successful brand?
We will appreciate and reward both your enthusiasm and talent.
Send us your CV. You will be surprised where it can take you.
Send us your CV on
www.employerforlife.com
Click on the ad to read more

To develop short and long-term perspectives

Multinational corporations must study the market characteristics in the different countries. They can decide about business prospects and long-term benefits.

A country which has a heterogeneous market can be an opportunity in a few years' time as the world itself looks heterogeneous when viewed on market terms.

Certain countries have markets which are still undeveloped mainly due to the degree of the country's development. This can be a major source for market development in the long run.

Certain markets are too traditional because of the regime actually in force in such countries and of tradition, customs and values which are very strong in such countries. Perhaps, it is not wise for the firm to depend on such a market in the short-term.

The essential role of Country Reports

The preparation of Country Reports is one of the most important steps in the process for preparing country assessments and will be critical in filling in gaps to existing information and establishing baseline information on national economies. The preparatory process of Country Reports should also be considered a strategic planning exercise and the report generated an overview of the country's sustainable management and economical practices and a tool for the assessment of national priorities and future needs to be addressed. Country Reports should also be seen as an opportunity to engage and stimulate the interests of a wide range of stakeholders from different sectors, and including smallholders [1].

Guidelines for Country Reports aim to help countries to assemble baseline information and highlight the importance of a collaborative process, bringing together experts (including those stakeholders with experiential knowledge, such as managers, strategists, economists and stakeholders across sectors to assess available information and analyse gaps and needs. The Guidelines are also structured as a tool to guide data collection, planning and policy making at national level.

The Guidelines make a distinction between information countries may wish to provide in support to their own strategic planning, from the information needed for the preparation of the overall Country Report. The guidelines outline the suggested content and provide questions to assist countries to undertake their strategic analysis and develop each section of their Country Report. The questions are provided to facilitate analysis, to stimulate discussion and to ensure that the Country Report contains strategic directions that address priorities

Download free eBooks at bookboon.com

and needs. Questions that are critical to enable basic understanding of the conditions in the country under review and facilitate regional and global synthesis of the data and information collected are indicated in bold. Questions are organised and formulated in relation to the production systems that are present in your country.

Country programme evaluations and sources of error

Country programme evaluations can naturally contain many sources of error. The conclusions of such an evaluation are usually based on assessments of changes rather than on clearly measurable effects, with the causal links also becoming assessments. Those who use such a report must form their own opinion of the validity of the reasoning and the reliability of the empirical material. By openly reporting sources, discussing possible errors and using evaluators who are independent of the interventions being evaluated, it is possible to reduce the errors and make it easier for decision-makers and the general public to take a stand on the value of the results. There is probably also a decreasing marginal rate of return with regard to higher costs for a big evaluation and better accuracy, but that relationship is hardly linear. When an evaluation is drawn up, it is necessary to decide on the minimum amount of resources that are necessary for reasonably reliable data and what can be achieved with more data and a more thorough analysis [2].

Executive Summary

It is recommended that the Country Report contains an executive summary of 2-3 pages highlighting the main findings of the analysis and providing an overview of key issues, constraints and existing capacity to address the issues and challenges. The executive summary should indicate trends and driving forces and present an overview of the proposed strategic directions for future actions aimed at the national, regional and global levels.

Other elements of the report

The country report should also contain the following information.

- General Information about the country
- Some pertinent economy-related information
  In-depth reviews of specific markets
  Identification of the fastest-growth brands and categories over the last five years
  Insights into the reasons underpinning growth trends
  Price, market, consumer segment trends

Download free eBooks at bookboon.com

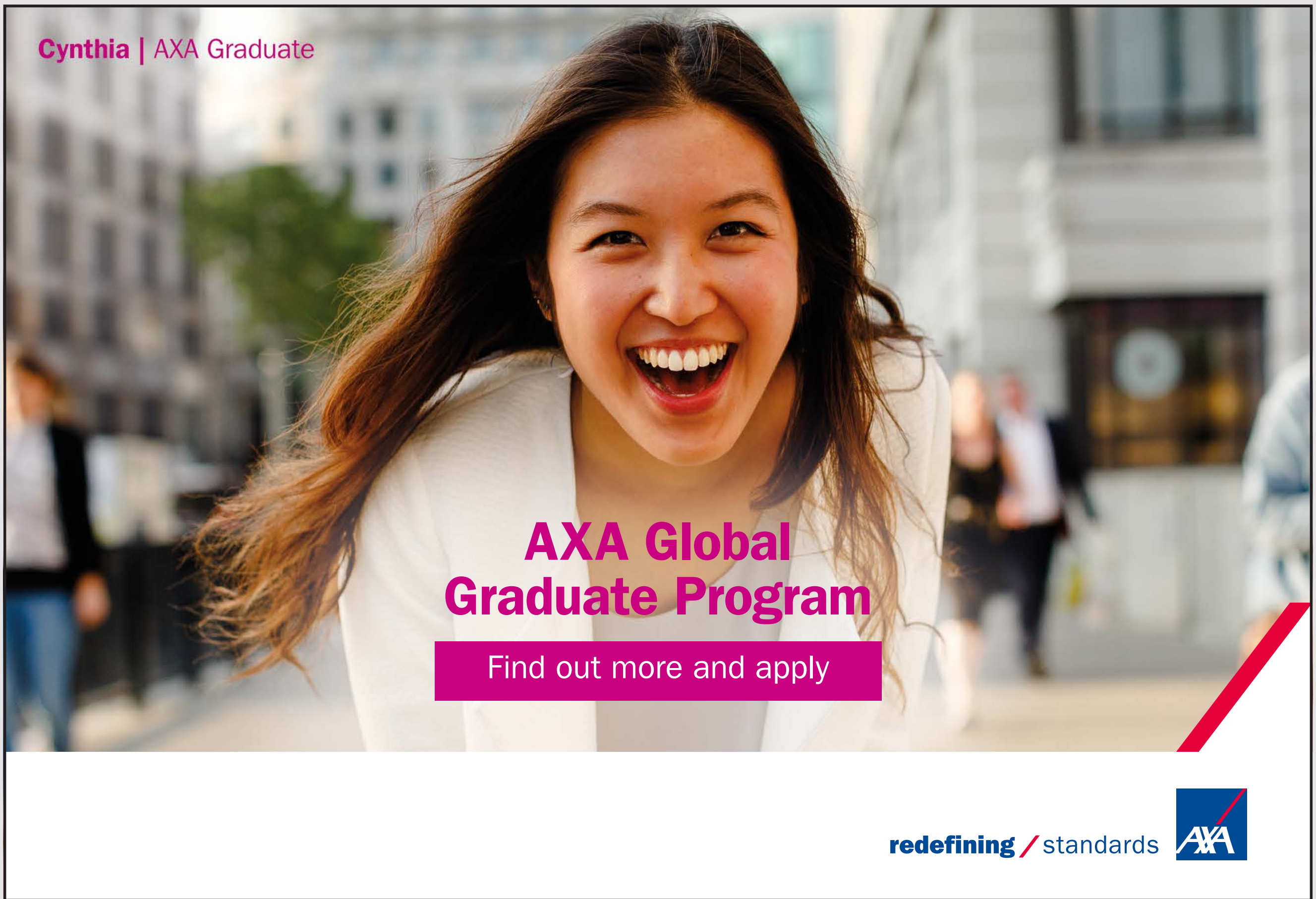
- Tabulation of information
- Fieldwork assessment
- Final analysis and selection.

These elements can also be part of the screening stages in country assessments and analysis. They are outlined below.

The screening stages involved in country assessment and analysis

Step 1: General Information about the country

The initial screening stage may comprise general information about the country. The source of information can be obtained from the specialised press, from country reports, from encyclopaedia which give substantial preliminary information about a country;



Click on the ad to read more

The following information can be analysed.

- Country Location-Region, strategic position.
- Country size.
- Country Status-Dependent or independent.
- Country's population: Race, main population, cultures, religion.
- Proximity with other important markets.
- Gross Domestic and National Product.
- Main production or industry.
- Size of working population.

Step 2: Some pertinent economy-related information

The assessment will here be focused on economic-related information about the country. The following information would be required:

- Gross Domestic and National product.
- Key Economic Indicators such as:
- Inflation rate
- Financial status
- Economic performance.
- The level of unemployment.
- The types of industries.
- The facilities provided to international investors.
- Example: Repatriation of funds,
- Quotas, Tariff barriers.
- Political stability of the country.
- Type of Government: Dictatorship, one-party system, multi-party system, democratic, paternalistic, communist.

Step 3: Tabulation of information

Once the information has been obtained, it can be analysed and the management of the firms will see whether the country offers them the real business opportunities or not. It is possible, at this stage, that similar assessments are being made in other countries as well and some more deliberation might be given as to the choice that will be made by the multinational enterprise.

Download free eBooks at bookboon.com

Step 4: Fieldwork assessment

In any assessment or research activity, desk information or secondary information is first assessed, then primary data is obtained. Once, the firm has shortlisted a few countries which represent a potential, it will try to see closer the market aspects that the potential market can offer. This is only possible through a closer evaluation of the market. Researchers and international investors may want to have information on the spot.

At local level, they will conduct market surveys and be in contact with the local population while having a closer and more specific outlook on its characteristics. Contacts may be established as well with different parties concerned namely:

- Businessmen of important firms.
- People of the industry and related institutions.
- Distributors on the local market.
- Advertising agencies and the services that they offer.
- Politicians and influential people with whom good contacts can be made.

Step 5: Final analysis and selection.

The information obtained from field work will consist of important feedback for the organisation which will use it to make the selection of the country where it is going to be established.

At analysis stage, all the information that has been piled up will be scrutinised and a final analysis will be made as to the choice of a country. Certain factors will definitely be prioritised to others and these can influence the final selection.

Factors which are influential:

- Country's economic performance.
- Country's government structure.
- Existing infrastructure.
- Productivity figures.
- Political stability.
- Market size and potential.

Download free eBooks at bookboon.com

Sources of international business information

Source	Type of information
The Economist Intelligence Unit/Business week	Quarterly assessment of country's performance across the world. Business Week-Trends and articles, features
The Financial Times	Articles about countries in relation to economic performance.
United Nations Statistical Data on Countries.	Economic indicators relevant to the performance of each country in various sectors.
Embassies	The Embassies provide relevant and up-to-date information about countries.

Click on the ad to read more

Analytical tools to assist in country assessment analysis

Analytical Tool	Use and application
Statistical Information. Abstract of statistics	Provides a quick view of a country's performance and this can help in comparing one country's performance with another one.
GNP/GDP figures	Help in comparing the performance of countries. GNP per capita can give an indication of relative country performance.
Marketing Research Reports	Provide information about marketing opportunities in different countries, consumer responses, likes and dislikes.
Business Reports	These can highlight on the economic performance of a country in the recent past. They may give indices such as the inflation rate, the Consumer Price Index,…
Reports from banks and financial institutions	These give an idea of the performance of banks in the host country, the finance that can be obtained as well as the facilities such as credit which can be offered by banks.
Fieldwork reports	These reports can be compiled by the firm's specialised employees or people in the host country who can do a similar activity.
Government reports	These refer to reports made by governments of respective countries where the firm wants to settle and can give an indication of the economic climate that prevails over there.
Census Reports	These may provide information on different industries, example, Agricultural industry census, Manufacturing industries Census,…
Internet	This is an innovative tool that may be useful in providing 'on-line' information about a country's economic situation. E.g. www.statista.com.

Perspective

Comparative evaluation: Emerging economies: India and Pakistan [3]

The table below provides a selective list of indicators used for comparison between India and Pakistan. When countries are in proximity for a business purpose, it is essential to find out how the statistics compare. Firstly, the country profile is viewed in terms of location, geographical and cultural factors. Economic indicators are also examined while there is consideration for modern indices like innovation, corruption, human development, etc. This preliminary finding allows business managers to make initial evaluations of countries, deliberate upon the choice of markets that they might select and think concretely of making a decision of whether the selected market is prospective or not.

Download free eBooks at bookboon.com

	India	Pakistan
Country Profile	Capital: New Delhi Population: 1,352,617,328 Surface Area: 3,287,259 km2 Currency: Indian rupees (1 EUR=76.7810 INR) Religion: Mostly Hindu Belongs to: ACD, BIMSTEC, BRICS, G20, IMF, MGC, UN, SAARC	Capital: Islamabad Population: 200,960,000 Surface Area: 796,100 km2 Currency: Pakistani Rupees (1 EUR=138.5949 PKR) Religion: Mostly Islam Belongs to: ACD, ECO, IMF, UN, SAARC
Annual GDP	2,716,750M.$	312,570M.$
GDP per capita	2,009$	1,555$
Debt to GDP ratio	69.7%	72%
Deficit (Millions $)	-181.1	-20
Exports(M$)	299,163	21,724
Imports (M$)	447,003	57,746
Education expenditure (M$)	71.300	8,400
Health (M$)	21,300	2,140
Defence Expenditure (M$)	65.700	12,800
Moody's Rating	Baaa2	B3
Standard and Poor's rating	BBB-	B-
Corruption Index	41	33
Innovation rating	57^0	109^0
Human capital rating	103^0	125^0
Doing business	77^0	136^0
Human Development Index	0.64	0.56
Life expectancy	68.8	66.6
Population (Million)	1,352, 617	200,960
Fertility rate	2.3%	3.41%
Density per km square	411	252

Points to ponder

India and Pakistan were a single nation before the partition of 1948. They have been always facing cross-border problems. India's economy is the strongest among emerging economies with a growth rate of nearly 10% per annum. Both India and Pakistan spend high on the military. Ratings for both countries contrast with India having the upper hand. Both nations can still be a potential for investment seen from the economic outlook provided.

Case Study: Executive summary on Malta

As Malta's economy continues to grow strongly, the main challenge is to ensure that its development is sustainable in the long term. In recent years, Malta has seen high GDP growth, strong employment growth, a budget surplus and a buoyant services sector. Economic growth appears to have been driven by structural changes, such as the shift towards the services sector, which are expected to continue in the short term. However, ensuring the sustainability of Malta's development remains a challenge. Risks to Malta's future growth and attractiveness to potential investors include infrastructure bottlenecks, constraints on natural resources, low skill levels, an ageing population and vulnerabilities in the governance framework [3].

Click on the ad to read more

Economic growth continued at a strong pace. GDP growth in 2018 is estimated at 6.2 %, based on strong domestic demand and, in particular, both private and public consumption. The internationally oriented services sector continues to underpin Malta's large current account surplus. Inflation has started to accelerate and is expected to pick up as wage pressures start gaining pace. In the short term, Malta's economic growth is projected to gradually moderate to an annual average rate of 5.2 % in 2019 and 4.6 % in 2020.

The budget position has improved significantly in recent years, with strong economic growth boosting tax revenues. The exceptionally high surplus in 2017 stemmed from the marked increase in current revenue which resulted from the tax-rich composition of growth, including high corporate profits, and higher-than-expected proceeds from the Individual Investor Programme (the citizenship scheme) in that year. The general government surplus is expected to decline from 3.5 % of GDP in 2017 to 1.2 % of GDP in 2019. Part of the decline in the budget surplus is driven by continued growth in spending.

Focussing investments on skills development, innovation, infrastructure and natural resource management would strengthen the sustainability of Malta's economic growth. The recent shift towards the services sector has helped boost productivity. Investment has stabilised at a relatively high level, supported in particular by construction. In the long run, the increased economic activity may exacerbate existing bottlenecks and put further pressure on natural resources and infrastructure, while labour shortages, low skill levels and low innovation reduce firms' growth prospects. Investment is needed to support environmental sustainability, enhance educational outcomes and skills, and improve the innovation framework.

Source: Country Report Malta 2019, European Commission [4].

Questions

Briefly comment on the risks linked with Malta's future growth and attractiveness to potential investors like infrastructure bottlenecks, constraints on natural resources, low skill levels, an ageing population and vulnerabilities in the governance framework. What is the prospect of increasing tax revenues in Malta? Investment is needed to support environmental sustainability, enhance educational outcomes and skills, and improve the innovation framework. What information does this statement provide to a potential investor in Malta?

Download free eBooks at bookboon.com

Multiple Choice Questions

Select the most likely answer in each question

1.	Multinationals carry out country assessments in order to ensure that the country where they are going to be established is	
	A.	the appropriate one.
	B.	the less appropriate one.
	C.	the most appropriate one.
	D.	the least appropriate one.

2.	Certain markets are homogeneous and show similar characteristics as the one in the home country and it is	
	A.	fairly easy for a firm to be established in such a country.
	B.	difficult for a firm to be established in such a country.
	C.	demanding for a firm to be established in such a country.
	D.	compelling for a firm to be established in such a country.

3.	Guidelines for Country Reports aim to help countries to assemble	
	A.	comprehensive information of emerging economies.
	B.	baseline information of emerging economies.
	C.	political information of emerging economies.
	D.	very possible information of emerging economies.

4.	Country programme evaluations may contain many sources of error since the conclusions are usually based on assessments of changes rather than	
	A.	on general measurable effects.
	B.	on clear measurable effects.
	C.	on invisible measurable effects.
	D.	on unnoticed measurable effects.

Download free eBooks at bookboon.com

5.	The initial screening stage of a country assessment may comprise	
	A.	all information about the country.
	B.	statistical information about the country.
	C.	specific information about the country.
	D.	general information about the country.

6.	In a country assessment, secondary information is first assessed, then	
	A.	primary data is obtained.
	B.	ancillary data is obtained.
	C.	subordinate data is obtained.
	D.	historical data is obtained.

Click on the ad to read more

7.	Quarterly assessment of country's performance across the world can be obtained from	
	A.	Embassies.
	B.	The Economist Intelligence Unit.
	C.	Le Monde.
	D.	United Nations.

8.	A suitable evaluation of country performance in financial terms can be available from	
	A.	Universal rating.
	B.	Government rating.
	C.	Economic Times rating.
	D.	Standard's and Poor rating.

9.	In the ease of doing business, India and Pakistan score respectively 57 and 109^{0}. It means that	
	A.	India is a worse choice to Pakistan in business terms.
	B.	India and Pakistan are similar in business terms.
	C.	India is a better choice to Pakistan in business terms.
	D.	Pakistan is a better choice to India in business terms.

10.	Focussing investments on skills development, innovation, infrastructure and natural resource management would strengthen an emerging nation's	
	A.	technological growth.
	B.	social growth.
	C.	economic growth.
	D.	human capital growth.

Solutions: 1C2A3B4B5D6A7B8D9C10C

Download free eBooks at bookboon.com

References

[1] Commission on Genetic Resources for Food and Agriculture: Tenth Regular Session Rome, (2004) Preparation of the second report on the state of the world's plant genetic resources for food and agriculture, www.fao.org.

[2] Dahlgren, S. (2007) Evaluations of Country Strategies an Overview of Experiences and a Proposal for Shaping Future Country Programme Evaluations, SIDA Studies in Evaluation, Organisation for Economic Cooperation and Development.

[3] Country Economy (2019) Comparative evaluation: Emerging economies: India and Pakistan, countryeconomy.com

[4] European Commission (2019) Executive summary on Malta, European Commission Country Report.

Click on the ad to read more

10 CULTURE AND COMMUNICATIONS IN INTERNATIONAL BUSINESS

Culture refers to patterns of behaviour, attitudes and beliefs that are common to a group of people who commonly share these attributes and who use them for their identity. There are many cultures across the world and each culture has its own specific patterns of living.

Culture is defined as the arts, beliefs, customs, institutions, and other products of human work and thought considered as a unit, especially with regard to a particular time or social group: Japanese culture. The arts, beliefs, and other products are considered with respect to a particular subject or mode of expression: musical culture; oral culture.

Culture is also described as the set of predominating attitudes and behaviour that characterise a group or organisation: a manager who changed the corporate culture [1].

Apart from definitions of culture, the forthcoming chapters provide an insight into cultural influences on managers in international business. So far the economic issues were highlighted but an essential one remains the cultural aspect. In a globalised world, managers are in contact with their counterparts in other geographical locations. Companies have businesses in more than a single country. These conditions entail a deeper understanding of cultural variations. Taking for granted that cultural differences are internal and do not materially affect the activities of a multinational would be erroneous. Companies start believing that the world is a global village and that adaptation to the needs of local markets remains important. This is where the jargon 'glocal' arises where it means think global act local.

Understanding and respecting a foreign culture is a necessity for managers. Very often, there might be religious or socio-cultural factors that are contrasting between one country and the other one. Religious patterns vary, social values might differ apart from administration or bureaucracy that might also be embedded in a country's broader culture. Emerging economies are usually highly prospected by western companies since they have been unexploited earlier or might, by now, have attained a higher level of economic development to become a potential market. Multinationals will be eager to enter markets like Russia, India or China but they must make adjustments to such environments as customers are not enough familiar to understanding and consuming new products. There might be ingredients that might not religiously satisfy a different country. Some emerging nations might have a community that is largely vegetarian and consumes less meat. Some others might stick to 'halaal' food.

Download free eBooks at bookboon.com

It is also useful to note that cultural variations do not expressly mean that one culture is superior to another one. This is simply a dumb and unfounded statements. The fact that a business manager is unaware or not conversant with another culture might also be a source of cultural misunderstanding. This can create the risk for a business to fail abroad if it does not comply by local regulation's in force. Additionally, there might be the consequence of cultural divide and related problems like lack of tolerance, blasphemy, etc. when local mores are not clearly understood and respected. In this respect, it becomes an imperative for business managers to learn about cultural variations, similarities, the level of homogeneity and heterogeneity, prior to embarking on foreign business. These aspects, once properly mastered, allow organisations to have a better entry possibility in an emerging market and make the best of business both regionally and internationally.

The pervasive aspect of culture

Culture is all pervasive. In other words, it can affect people at various stages and instances of life. In the past, each country had its own culture and patterns of behaviour. With the development of the media and technology, culture evolves much more rapidly from one place to another one and creates impact in various societies. 'Culture appears to have become key in our interconnected world, which is made up of so many ethnically diverse societies, but also riddled by conflicts associated with religion, ethnicity, ethical beliefs, and, essentially, the elements which make up culture,' De Rossi said [2]. 'But culture is no longer fixed, if it ever was. It is essentially fluid and constantly in motion.' This makes it so that it is difficult to define any culture in only one way. Nowadays, in every corner of the world, people wear the American jeans despite the fact that it is not their dressing style. The consumption culture has had its impact in many places across the world. People drink Coca-Cola as they view it as their favourite Cola drink, the young people stroll around carrying a Walkman, etc.

Artefacts are contained within cultures. Artefacts are the physical things that are found that have particular symbolism for a culture. Artefacts can also be more everyday objects. They main thing is that they have special meaning, at the very least for the people in the culture. There may well be stories told about them. The purpose of artefacts are as reminders and triggers. When people in the culture see them, they think about their meaning and hence are reminded of their identity as a member of the culture, and, by association, of the rules of the culture. Artefacts may also be used in specific rituals. Churches do this, of course. But so also do organisations [3].

Visible artefacts: These can be the way people dress, tools, equipment, icons, and other physical materials that they use. For example, the presence of statues which are worshipped by people in oriental cultures, gives us an impression of the value and importance of visible artefacts.

Download free eBooks at bookboon.com

Invisible artefacts: These refer to patterns of behaviour that cannot be easily seen or understood. They are beliefs that have been transmitted through the ages and are unconditionally accepted by the new generation. For example, uttering the word 'Namaskar' or nodding the head either show approval or disapproval are evidences of invisible artefacts, that is things that cannot be easily interpreted yet they have an implication.

Culture is supported by religion and dogma

Culture is sustained by religion and dogma. This is true because religion still makes people fearful about God and obliges them to follow culture. This is more evident in oriental cultures where people participate with fervour in many festivals, perform rituals and sacrifices and follow the spiritual path which they believe brings them to the path of salvation. Albert Einstein stated that 'The religion of the future will be a cosmic religion. It will have to transcend a personal god and avoid dogma and theology. Encompassing both the natural and the spiritual, it will have to be based on a sense of intelligence arising from the spirit of all things, natural and spiritual, considered as a meaningful unity [4].'

Click on the ad to read more

Subcultures

Subcultures are cultural groups that come from mainstream cultures. It is believed that the main reason underlying the existence of sub-cultures is that the main culture has been unable to cater for all sections of the community which follows the broad cultural patterns and backgrounds. Subcultures have less formality and splendour than major cultures. Many subcultures are hence unofficial and they look rather for a little group of people who look for satisfaction within it. For example, people who were born after the second World War were considered as 'baby boomers', people who remain in their house once they are way from work have been considered as 'cocooners'. Subcultures, because of their informality, can be numerous and have their own set of values, beliefs and customs.

Drawing from Marxist theorists, literary critics, French structuralists, and American sociologists, subcultures was an initial study of Hebdige who presented a model for analysing youth subcultures. The scholar argued that each subculture experienced the same trajectory, while he outlined the individual style differences of specific subcultures, such as Teddy boys or skinheads and punks. Hebdige emphasised the historical, class, race, and socioeconomic conditions that surrounded the formation of each subculture [5].

Examples of subcultures

The Hispanic subculture in the USA—One urban subculture heavily related to Mexico, and parts of the U.S. which have high levels of Mexican immigration, is that of the *cholo.* Popular culture regularly depicts the *cholo* as either a baggy pant and XL shirt wearing man with a penchant for bandanas, or as a hoop-earring wearing, overly lip-lined woman, and many would agree that that's their 'look' [6].

The Harley Davidson Subculture—Youngsters who are rich, trendy and drive the big HD motorcycle. For example, black leather vest in the company of insignias that serves as the identical uniform for members of the Harley Davidson subculture bears a striking semblance in the form and the function to prohibited colours which only tend to inspire some radicalism into the bikers [7].

But the most straightforward, prosaic theory is that, as with virtually every area of popular culture, it's been radically altered by the advent of the internet: that we now live in a world where teenagers are more interested in constructing an identity online than they are in making an outward show of their allegiances and interests. It's hard not to be struck by the sensation that, emos and metalheads aside, what you might call the 20th-century idea of a youth subculture is now just outmoded. The internet doesn't spawn mass movements, bonded together by a shared taste in music, fashion and ownership of subcultural capital: it spawns brief, microcosmic ones [8].

Download free eBooks at bookboon.com

Importance of Culture to International Businessmen

Culture is a very important aspect that businessmen will have to consider especially when they are concerned with international business activities. When, the businessman goes on board of an aeroplane, he starts feeling that he is alienated from the ties he has with his native land. In fact, when he enters a foreign country, he must get accustomed to the mode of living in that country, or the prevailing culture in the country.

Perspective

Communication is important in international business

Businesses are selling products around the world. Partnerships are being formed with people from diverse cultures as business relationships are formed. Each country and the cultures within a country bring communication challenges to businesses. Good international business communication practices help maintain these intricate business dealings. Bad communication practices can cause loss of business and even international tension among countries. Communication is intricately blended with non-verbal communication and etiquette [9].

Because cultures vary so widely across the globe, understanding the differences in culture and the importance of international communication is vital to the business environment. A person's culture impacts the way he communicates. For example, in Japan people do not like to say the word 'no'. In a business meeting, a Japanese business person may mean no, but never directly state it. This can cause confusion.

Another cultural example is in Saudi Arabia. Never discuss women, even to ask about a female family member's health. In Saudi Arabia, you may be having a business meeting and the person may leave the room for up to 20 minutes. The Saudi person may have gone to prayers as he considers the business meeting more of a discussion than a formal meeting.

In the Western World, business is handled by phone calls and emails. Less formal communication can cause confusion and misinterpretation due to language differences. For example, if you use generally accepted Americanized statements, you can cause a lot of confusion such as, 'I'm on it. I'll jump on that right away,' or even, 'I get it'. Other email communication needs to be considered.

For example, in Japan, typically, a person will greet you by your last name and then the word 'san'. This is a sign of respect to you. If you simply send back an email response without a greeting, it may be considered rude.

Download free eBooks at bookboon.com

Points to ponder

Good international business communication practices help maintain these intricate business dealings whereas bad communication practices can cause loss of business and even international tension among countries. Cultures vary so widely across the globe, understanding the differences in culture and the importance of international communication is vital to the business environment.

Case Study: Cultural sensitivity in international business

Culture plays an important role in life of people as it is closely associated with them. It is very necessary to understand what a culture requires and what emotions are attached to it. Different countries follow different culture and because of this some things will be acceptable in some countries whereas the same things will appear to be rude in other countries because of cultural difference. People who are culture sensitive will know that the difference between the culture of different people can create differences in their relationship with respect to the way they behave, communicate etc. According to Hofstede, culture could be considered as 'the manner in which the mind is programmed such that it can differentiate the people of one category with those of other.' A culturally sensitive person should try to adapt the culture of other country, their traditions, their way of living, their lifestyle etc.

Nowadays people are getting closer to each other so tolerance, dialogue between people of different culture and respect towards their culture and respect for diversity becomes more important. Learning and trying to understand the customs and culture of the foreign country indicates respect for the other country and for any business relationship to be successful respect for each other is very essential [10].

Many employers feel and have sensed that cross cultural sensitivity is an important skill and proper care should be taken when dealing in and trading with international market. In domestic market people will know what to do and how to do but to achieve the same motive in different country with the same concept and then getting success by using same interpersonal professional skills is more important. Proper training should be provided should to the staff about the nature of the place, its scope and language, values and aesthetics.

When people are travelling from one country to another it is necessary that they do a research about the culture of the country in which they are travelling so that they can go well prepared, which can save them and people around them from any embarrassing situation. Doing business internationally means cultural management of different countries and for maintaining international business relations, people will have to deal with that countries norms, rules, values and regulations. Overall people need to involve in the culture of different people and try to adapt to their cultural skills and style. Right type of knowledge for right kind of job is very important in global business. The ability to negotiate better, understanding the cultural problems and becoming an insider often give a competitive edge in the business. Managers should possess high level of managerial skills as the relationship between various business networks depends upon the manner in which the manger interact and behave with international clients and how much capable they are in dealing with crossing cultural boundaries. Cross cultural training helps in improving success by trying to improve the level of personal cultural awareness and this will help in understanding the culture of other people.

Source: Wen Themes (2018) Role of Cultural Sensitivity in International Business, https://www.mbaknol.com [10]

Questions

Why is important for a business manager to learn and understand the customs and culture of a foreign country? Why is it necessary for foreign managers to do a research about the culture of the country in which they are travelling? What is the relevance of cross cultural training for a business manager?

Click on the ad to read more

Communication in international business

Communication refers to the way we deliver messages to people. The main form of business communication is oral communication. When such a communication method is used, we must learn how to be effective communicators.

Certain elements of effective communication are:

- *Body language*: The ability to express by making gestures.
- *Eye contact*: Eye contact must be maintained through communication.
- *Initial and final courtesies*: Communication must include starting and final courtesies such as Good Morning, Thank you, Good bye.
- *Empathy:* Empathy means to enter into the recipient's frame of communication.
- *Tone*: A god tone must be used while communicating with a person.
- *Pitch*: The pitch refers to the different rise and fall in tone.
- *Expression:* Expression may be a smile, a serious look, a calm and placid look, persuasive attitude in communication.
- *Diplomacy and resilience*: The art of communicating tactfully and the ability to sustain negative feelings about a product or a negotiation.

Communication must be done both verbally and orally it is useful to cast a glance at the appropriateness of the different types of communication in different contexts. The issue of communication is intricate and demands much subtlety as well. When it comes to the translation of a language to a different one, it is expected that the translation is a suitable interpretation of the initial one, otherwise it may lose its flavour and significance. We shall also stress on misunderstandings that result because of poor interpretation of communication and the innuendoes that exist. At a further stage, we will also deal with foreign language learning which can represent an asset for the international businessman.

Communication in low-context culture

Communication in a low-context culture means that importance is given to gestures and words in order to express something. Most of the things explained are explicit, in that effort is done to explain something as clearly as possible. Scandinavian is considered as a low-context language.

In international business, such a concept is useful because information should be given in an explicit way to emerging nations where the educational level is low and where people need lots of information to use an equipment.

Download free eBooks at bookboon.com

Low context implies that a lot of information is exchanged explicitly through the message itself and rarely is anything implicit or hidden. People in low context cultures such as the UK tend to have short-term relationships, follow rules and standards closely and are generally very task-oriented [11].

High-context culture

The high-context culture comprises of business people who are in the business field for a certain period and who are familiar with technical jargon. Besides, they possess sufficient academic background to interpret and decipher messages.

In a high context culture, communication can be implicit and people can understand things without much interpretation. This implies that a lot of unspoken information is implicitly transferred during communication. People in a high context culture such as Saudi Arabia tend to place a larger importance on long-term relationships and loyalty and have fewer rules and structure implemented [12].

Low Context	High Context
Direct, simple and clear messages	Indirect and implicit messages
Low use of non-verbal communications	High use of non-verbal communications
High reliance on written communications	Low reliance on written communications
Rely on facts and evidence for decisions	Use of intuition and feelings to make decisions
Short-term relationships	Long-term relationships
Schedules are more important than relationships	Relationships are more important than schedules
Flexible and open	Strong distinction between in-group and out-group

Non-verbal communication

Non-verbal communication refers to anything that is not written. It comprises of dialogue or the spoken word. It can also include signs. The advantage of the spoken word is that it is spontaneous and direct and leads to more interactive participation between the marketer and his market. The disadvantage is that face-to-face contact may involve emotions and misunderstanding as well. This can affect the communication process. Noise can also affect the process.

Download free eBooks at bookboon.com

Translation

As a result of globalisation, working with international clients, customers and partners is more important than ever. Although English is widely spoken, many individuals for whom it is not a first language would prefer to read about products and services, or engage with content, in their native tongue. Not only that, but localisation can sometimes play as important a role as translation. According to the most recent EuroBarometer report, English is significantly less popular than we would like to believe. For example, it is the second language of only 39 percent of the French population. In Italy, this figure is just shy of 35 percent, and in Spain it is less than 23 percent. The situation gets drastically worse when we take emerging economies into account: only 5.2 percent of people in Russia speak English fluently; 5 percent in Brazil; and less than 0.75 percent in China. [13].

Translation means to convey a message in a language to another language. Translation is important because as a result of international business, a message must be interpreted by other people. Let us look at the translation of a message in different languages.
Tout va mieux avec Coca-Cola (French) *Todor va mejor avec Coca-Cola*. (Spanish)

Click on the ad to read more

At this level, translation is literal and easily understood by whatever recipient in any part of the world. This type of translation is literal translation and poses no problem when such a thing is possible. However not every translation can be literally done as this can create confusion ad misinterpretation. For example, telling someone after eating a meal that 'my stomach is full' can be translated in French as '*je suis pleine*' which means that I am pregnant.

For this reason, back translation is very important in certain situations. It means that the language must be rehearsed in the language and understanding of the recipient before it can have the same meaning.

Innuendoes

Innuendoes refer to insinuation that is made to make something look bad. May be because of anthropological issues, we have various interpretations about a particular thing. If one refers to a documentary on Chinese cuisine in Hong Kong, he may hear that even snakes are eaten over there. In France, the French people eat toads. The British may think that monkeys are eaten in Mauritius. All these refer to innuendoes. We cannot say straightforward that one type of person is bad or inferior compared with the other one. For this reason, innuendoes can distort our appreciation of foreign cultures and make us rather enclosed within our own cultural confinement. They can also be detrimental to international businessmen because people may have different interpretations of different things. The example of the 'mad cow' disease has generated innuendoes about British dairy production and has affected British business considerably for a certain period.

Although innuendo may be used for politeness, it is generally more insulting, humorous, or bawdy. Innuendos can be used to attack people and reputations without breaking the rules of social etiquette, to criticize governments or institutions without getting in trouble, or to humorously say something inappropriate without any consequences. In other words, innuendo is a powerful technique for getting around the limitations of any discourse. However, one should be careful; if people understand the innuendo, it could still get the person in trouble sometimes [14].

Business Language

For the International businessman, business language is very important. Nowadays, it is possible for an individual to learn and study languages by making use of specially devised audio-tapes and books. Business language is generally formal and makes use of jargon related to business. It has nothing to do with the subtlety of poetry and literature.

Download free eBooks at bookboon.com

Business language is crisp and to the point. There is no need to use cosmetic language when making a deal with an interested party. The language must be clear, understandable and simple. Communication will be enhanced.

Foreign language learning

Foreign language learning has got a wide popularity worldwide. In the European Union, learning more than one language is considered as an advantage over those who communicate in their native language only. Knowing the language of another culture bridges the gap within different cultures while creating more proximity among the different races. More opportunities are hence created.

Perspective

Corporate benefits of learning a foreign language

With the evolving business landscape, and thinning borders, it would be a huge disadvantage for an individual or business-person to be limited to just one language. Learning a foreign could be a difficult, and exasperating activity. But the benefits are well worth it. Besides the ‘growing popularity’ of foreign languages, learning how to speak a foreign language fluently could also open you up to be more accepting of the culture and traditions of others [15].

Upgrading the manager’s personal network

Without any dispute whatsoever, learning a foreign language widens the door to know more people. Because of people, generally trust somebody more if he can speak their language. So knowing how to speak their language removes the initial ‘strangers’ barrier’, and apprehension they might have of him. So knowing how to speak their language, makes one appear ‘like one of their own’.

This could earn the business manager more trust than it could earn a typical stranger who doesn’t understand the language. Why? Because understanding a language also means that one does understand its cultural norms and etiquette.

Download free eBooks at bookboon.com

It opens you up to a large swath of professionals and individuals who speak the same language. Considerably widening the network of helpful contacts. These are people one could either do business with or serve as a go-between, during business negotiations and meetings. In today's global world, learning a foreign language is essential to a manager's success in another country.

It would also help him bridge the language gap he might face in his educational pursuits in a foreign country. Learning a foreign language could tremendously reduce this language barrier.

Improves decision making

Bilinguals have been shown to have the ability to gain a more logical and rational thought process, than their monolingual counterparts. Learning a foreign language does take a considerable conscious effort to master. It employs the whole rational faculty one has. A marked benefit of this is, it improves the decision-making process and quickens the rate at which one comes to a meaningful conclusion. The manger is better able to tie effortlessly between two languages without a break in the thought processes. This is an ability many monolinguals do not have.

Click on the ad to read more

Increased perception

With a foreign language, the manager becomes skillful at observing and focusing on relevant proceedings in his area of business interest. He also gains the ability to filter out irrelevant and unnecessary details. And learning a foreign language makes him an adept at spotting misleading information, this is especially essential in contract negotiations and meeting with potential partners and clients.

One more added benefit of learning a foreign is it improves the manager's multitasking skills. He can switch effortlessly between two differing activities. These skills can make him a better communicator. It can also help him develop a better ear to listen. Which makes the manager a better listener than his monolingual colleagues.

Points to ponder

Learning a foreign language makes a manager become more adept of the culture and traditions of others. A marked benefit of this is that it improves the decision-making process and quickens the rate at which one comes to a meaningful conclusion. One more added benefit of learning a foreign is that it improves the manager's multitasking skills where he can switch effortlessly between two differing activities.

Multiple Choice Questions

Select the most likely answer in each question

1.	The jargon 'glocal' arises means think	
	A.	global act local.
	B.	global act global.
	C.	local act local.
	D.	local act global.

Download free eBooks at bookboon.com

2.	Cultural variations do not expressly mean that	
	A.	one culture is superior to another one.
	B.	one culture is inferior to another one.
	C.	one community is inferior to another one.
	D.	one nation is superior to another one.

3.	Invisible artefacts refer to patterns of behaviour that	
	A.	can be always seen or understood.
	B.	can be rarely seen or understood.
	C.	can be easily seen or understood.
	D.	cannot be easily seen or understood.

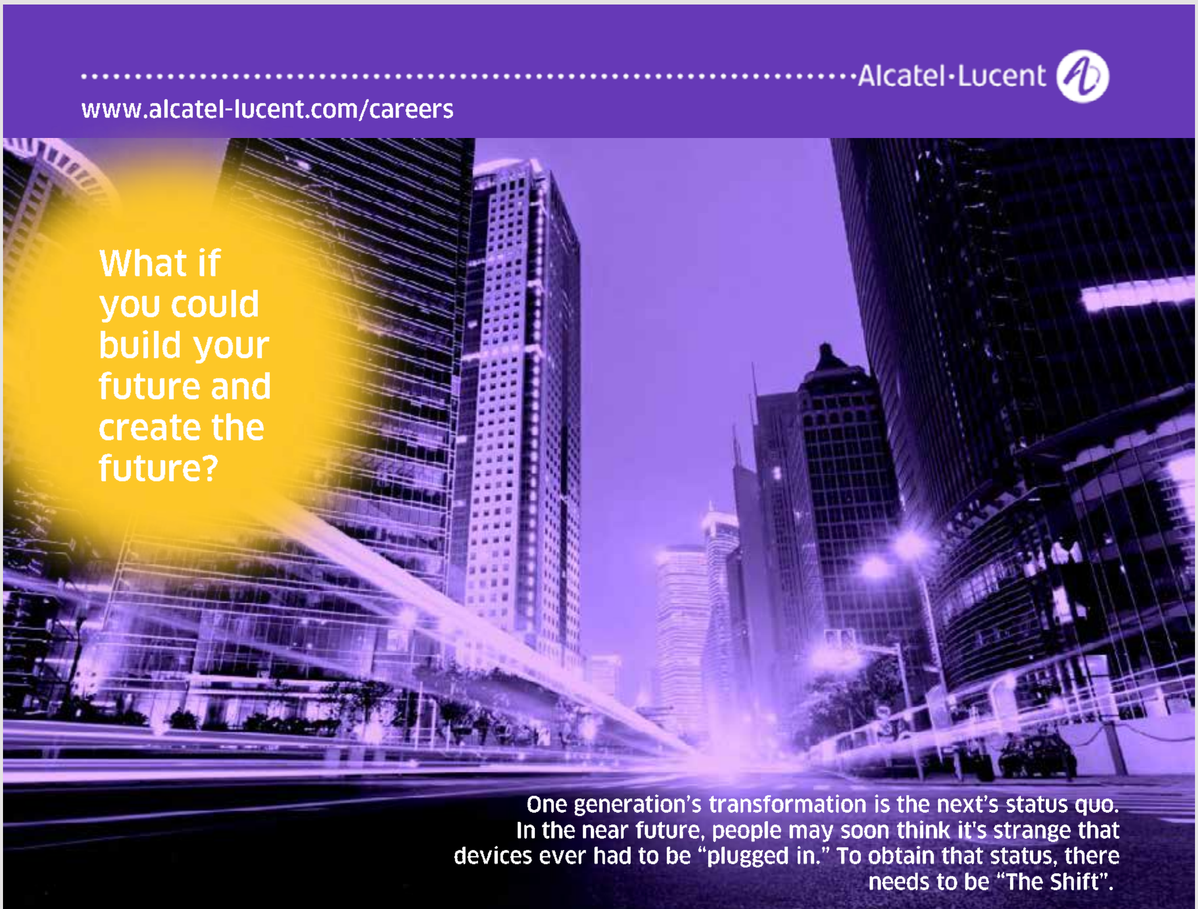
4.	Subcultures are cultural groups that	
	A.	offspring from minor stream cultures.
	B.	offspring from national cultures.
	C.	offspring from minor cultures.
	D.	offspring from mainstream cultures.

5.	In a business meeting, a Japanese business person may mean no	
	A.	but sometimes directly state it.
	B.	but always directly state it.
	C.	but never directly state it.
	D.	but seldom directly state it.

Download free eBooks at bookboon.com

6.	People in low context cultures such as the UK tend to have	
	A.	short-term relationships and are generally low task-oriented.
	B.	long-term relationships and are generally high task-oriented.
	C.	short-term relationships and are generally high task-oriented.
	D.	long-term relationships and are generally low task-oriented.

7.	In a high context culture, communication can be implicit and people can understand	
	A.	gestures without much interpretation.
	B.	things without much interpretation.
	C.	things with lots of interpretation.
	D.	meanings without a bit of interpretation.



Click on the ad to read more

8.	Innuendoes refer to insinuation that is developed	
	A.	to make something look good.
	B.	to make something look bad.
	C.	to make something look inflated.
	D.	to make something look valued.

9.	Business language must be	
	A.	complex and informal.
	B.	unclear, understandable and complex.
	C.	clear, understandable and simple.
	D.	complex and reserved for businessmen.

10.	One benefit of learning a foreign language is that it improves the manager's multitasking skills where he can switch	
	A.	painstakingly between two differing activities.
	B.	painfully between two differing activities.
	C.	effortlessly between two differing activities.
	D.	meticulously between two differing activities.

Solutions: 1A2A3D4D5C6C7B8B9C10C

References

[1] Culture : https://www.thefreedictionary.com
[2] Zimmerman, K. (2017) What is culture? Live science.
[3] Brown, A. *Organizational Culture*, Pitman, London, 1995
[4] Mc Gee, G. (2016) Spirituality vs dogmatic religiosity, Waking Times.
[5] Hebdige, D. (1979) Subculture: The Meaning of Style. London: Routledge.
[6] Cocking, L. (2016) A brief guide to Mexican subcultures, culturetrip.
[7] Custom writing papers (2019) Harley Davidson subculture, https://exclusivepapers.com
[8] Petridis, A. (2014) Youth subcultures: what are they now? The Guardian, UK.

Download free eBooks at bookboon.com

[9] Mcrill, D. and Seidell, M. (2019) The Importance of Communication in International Business, https://bizfluent.com

[10] Wen Themes (2018) Role of Cultural Sensitivity in International Business, https://www.mbaknol.com

[11,12] Maclachclan, M. (2010) Cross-cultural communication styles: high and low context, https://www.communicaid.com

[13] Speranza, C. (2018) The importance of translation in business, World Finance.

[14] The Importance of Using Innuendo, https://literaryterms.net

[15] Rashid, B. (2017) Three corporate benefits of learning a foreign language and why you should care, Forbes.

Click on the ad to read more

11 ATTITUDES, VALUES AND AESTHETICS IN INTERNATIONAL BUSINESS

An attitude refers to the way we behave to something or to any stimulus. It reflects the different characteristics of an individual towards something. We all have attitudes which can form the basis of our personality. One important concept about attitude is that a good amount of attitudes is built up in the early stages of the life of an individual. These attitudes are partly based on our own experience of life, on parental influence, on peer influence or from reference groups or from environmental factors. A social attitude is an acquired tendency to evaluate social things in a specific way. It is characterised by positive or negative beliefs, feelings and behaviours towards a particular entity. Social attitude has three main components: emotional, cognitive and behavioural. Attitudes are consistent and enduring, that is, once they are learned, they tend to characterise our way of behaving and our personality as well. Nevertheless, with time and experience, our attitudes may change as we mature. For example, we could have been too uncaring and shy during childhood. At adulthood stage, we may learn that we must look after things or be outgoing to some extent.

International business requires the need for managers to learn attitudes and values from the different environments where they are operating. They definitely require tolerance and acceptance from managers. European and western managers usually face the problem of adjustment in different environments. For this reason, it is accepted that managers must learn about attitudes and values in different environments. There are various societal attitudes towards a range of aspects namely work and achievement, time, family, authority, risk and change. In today's world, there might also be attitudes towards gender and sexuality. There are trends taking place both in the developed world and emerging economies. The difference might be better marked in developing countries that are either tradition bound or might be less caring of certain values. The business manager then learns the differences between a linear-active culture that rests upon a high degree of formalisation and a multi-active culture, more predominant in emerging economies, that seeks less formality and more relations and customisations. These do impact business practice in an international setting.

Attitudes towards work and achievement

Let us consider the attitudes of different types of people towards work and achievement. Here, we are taking the risk to make generalisations about attitudes among different communities in the world. Living in a capitalist country with consumerist values might indicate that people would only view value in terms that can be monetised, but this is not necessarily

Download free eBooks at bookboon.com

the case. While the marketing minds who help power consumerism are extremely adept at identifying ideas or movements, this relationship responds to the powerful authenticity generated by independent and charismatic individuals working against the grain. And endeavours that have no intrinsic value, which are undertaken purely for the joy of doing them, continue to stay one step ahead of efforts to sell unnecessary products. In such a world, achievements that are difficult but have no utility become especially admirable [1].

Nationality	Attitude towards work and achievement
American	Wants to be highly achieving. Has a desire to be the leader in the field of activities he carries out. Wants success very rapidly and improve his business standing very rapidly. May feel defeated by failure.
Chinese	Very hard-working. Such an attitude has been learnt during childhood. Strict and very painstaking. Can work for very long hours and invests in business. Always has the desire for achievement in his mind.
Arab	Can boast to be rich because of natural resources. Is concerned very much with business and can be very cunning. Always prizes success at the highest level of personal satisfaction.
Israeli	Painstaking and very much business oriented. Works hard but has an interest to win on business matters. Successful because he is very venturesome. Has families stabilised in various parts of the world who are successful as well.

Attitudes towards time

Few Northern Europeans or North Americans can reconcile themselves to the multi-active use of time. Germans and Swiss, unless they reach an understanding of the underlying psychology, will be driven to distraction. Germans see compartmentalisation of programmess, schedules, procedures and production as the surest route to efficiency. The Swiss, even more time and regulation dominated, have made precision a national symbol. This applies to their watch industry, their optical instruments, their pharmaceutical products, their banking. Planes, buses and trains leave on the dot. Accordingly, everything can be exactly calculated and predicted. In countries inhabited by linear-active people, time is clock and calendar-related, segmented in an abstract manner for our convenience, measurement, and disposal. In multi-active cultures like the Arab and Latin spheres, time is event or personality-related, a subjective commodity which can be manipulated, moulded, stretched, or dispensed with, irrespective of what the clock says [2].

Download free eBooks at bookboon.com

Nationality	Attitude towards time
American	Quite strict towards time. Is somewhat strict and caring about time. Time management is very important as every second lost is a lost opportunity.
Indian	Unfortunately, the term 'Indian time' has been associated with him. Is not uncaring but because of many arrangements or meetings may be late.
Japanese	Punctual and very serious. Can spend long hours at work. In general, a Japanese can work for ten hours a day and on average works for 42 hours a week. Uses maximum time to work.
European	A little less caring about time but at business level, may be very punctual. Thinks of a three-tier day: sleep, work and leisure.

Click on the ad to read more

Attitudes towards change and risk

The concept of risk is essentially a modern one. In ancient and mediaeval societies, the idea of risk management would never have arisen and fortune was attributed to luck, fate or 'acts of God'. Giddens has demonstrated that the concept of risk is now central to our society and he defines risk as being different to danger or hazard in that it is related to our impact on our environment and stems directly from the consequences of our actions on the world. Such a concept could only have arisen in a society bent on controlling the future. Giddens also stresses that the notion of risk is positive as well as negative and cites the example that the whole rationale behind western capitalism is based on the calculation of future risk [3].

Nationality	Attitude towards change and risk
American	Is quite rapid and flexible to change. Management of change may represent a challenge but is important for him to succeed. Is also a high risk-taker because he thinks in terms of the benefits that can be obtained if he commits himself much to the success of his business.
Indian	Is quite conservative to change. Does not want to incur risk in his business activity. Generally, tends to be a follower. Examples such as the Enfield motorbike and the Ambassador car state his degree of conservatism and low risk-taker.
Chinese	Generally, a low risk-taker. Wants to make maximum profit from existing business. Is therefore less tempted to change because of his traditional nature. Believes that taking risks is contrary to business tradition in his community.

Attitudes towards family

In the modern world, most communities are moving towards the nuclear type of family. Some communities however have values and cultural beliefs which encourage them to retain elder members of the family at home. Family structures have undeniably changed, moving away from the conventional family model. Nowadays more mothers work outside of the home, more fathers are asked to help with housework, and more women are choosing to have children solo. Today there are families that have a mom and a dad living in the same home, there are step-families, and families that have just a mother or just a father [4].

Download free eBooks at bookboon.com

Nationality	Attitude towards family
American	Nuclear family concept. Working parents which can sometimes be separated. Children may be bred outside the home. Lives in apartments and wants to have an ideal home and ideal family size. Little interaction with children and little influence as well.
Indian	Is quite conservative on family issues. Grandparents still have an important role, that is, to look after and care for children. Believes in the extended family because the patriarchal family type is still respected in India.
European	Nuclear family concept, except in Mediterranean countries which have a rather oriental culture. Free Union, union without formal marriage is common in Europe. There is also a high rate of divorce as in the American society. Men and women go to work and children are given little consideration with regards to the development taking place nowadays.
African	Tradition-bound. Extended family, may have many children. Some societies allow for polygamy and polyandry as well. In some societies, the woman can have a dominant role to play. Gives importance to rituals practised by the family.

Attitudes towards authority

Authority refers to the power in force in a country. Some societies, because of their strict laws, tend to be more authoritative than others. In general, each community in the world must have respect for the authority. Some attitudes may be inborn in terms of high level of respect that people need to have. In other cases, whether formal rules exist or not, the attitude can vary both in rich countries and emerging nations. Unrest in the Arabian world known as the Arab Spring and the Yellow Jacket movement in France are two clear examples of how people might develop reactive attitude to authority depending upon situations. The classical one took place in the Tian An Men Square in 1989 in China but repressive measures killed such reaction.

South Korean society operates according to Confucian values. These state that people should respect authority, respect the collective, behave virtuously, work hard and learn hard, avoid extremes and live moderately. A business manager will find that, if he can demonstrate these qualities, he will be more successful in your business relationships [5].

Nationality	**Attitude towards authority**
American	In general conservative and very open-minded as well. Since the United States of America represents the cradle for democracy, Americans are less fearful of authority. Nevertheless, penal codes for breach of authority are quite severe. In business life, the American has to follow closely orders as the US government has set up ethical behaviour to be observed at work.
Singaporean	Respects very much authority. This notion of respect has been inculcated since childhood and has been enforced during his lifetime. Singapore is considered today as the cleanest and safest metropolitan in the world. The simple reason is that it looks more of a paternalistic democracy.
European	In Europe, authority is generally well respected. Recent information tells that sometimes there is an outlet that leads to violence after too much abidance with authority. Demonstrations, violence in the stadiums, show-off in certain places, all prove that authority may be threatened. This has been aggravated by the racist issue in France.

Need help with your dissertation?

Get in-depth feedback & advice from experts in your topic area. Find out what you can do to improve the quality of your dissertation!

Get Help Now

Go to www.helpmyassignment.co.uk for more info

Helpmyassignment

Click on the ad to read more

Perspective

African cultural values

In Africa, actions speak louder than words, especially if there is a barrier between languages [6]. In an effort to contextualise and be mindful of a complex mind-set and worldview, here are a few *African cultural values* to be aware of when travelling in Africa!

Greeting—Hello and a handshake

Greeting people in Africa is one of the most important things you can do. A quick 'hello,' paired with a handshake is a sufficient way to make a positive first impression with anyone.

Show respect to elders

African cultural values are based on a foundation of the past and present, a leading reason why elders are so well respected. Always acknowledge an elder, let them ask questions, and during mealtime elders should be served first.

Eat with the right hand

You might have heard this before, the right hand is for eating food and the left hand is reserved for the unsanitary task of what happens afterward. Whatever you do, don't touch African food with your left hand!

Silence is an African Value

Don't be alarmed or nervous with spans of silence during African conversation. When there's something to be said, it will be said; when there's nothing to be said, silence is perfectly fine. There's no need to feel uneasy during a period of silence in Africa, take the time just to enjoy the presence of others.'

Download free eBooks at bookboon.com

Less importance given to time

Despite the use of clocks to tell 'what time it is,' African clocks work differently; things fall into place as they unfold. An African worldview does not focus far into the future, but dwells more on past events and whatever is happening currently. Future scheduled times can't be rushed and thinking so will only make one more and more frustrated.

Positive communication

Positive communication is a key African cultural value. Along with not displaying public negativity there are countless ways to express "good," or "ok." Don't immediately get into a discussion about a hardship or struggle, these topics can be gradually being brought forth.

Relationships matter

With future-time a little less important, current time is of extreme value. Meeting people and spending time with others to develop lasting relationships is an aspect of African culture that is truly cherished.

Points to ponder

Moving to Africa for business matters especially when it relates to developing the right attitude in some countries. Time might not be highly valued but respect for elders and authority matter. The importance of communications and relationships are essential for effective business.

Influence on aesthetics in international business

Aesthetics refer to everything which is concerned with beauty and attractiveness. In all human beings, there is some concern with regards to aesthetics. When we purchase a product, we want to choose one which is appealing to our eyes and which pleases us. In this way, we pay attention to aesthetics.

Download free eBooks at bookboon.com

Whatever possessions we want to have refer to aesthetics. If you are thinking about a car that you wish to have, you might think of its design, colour and look. If you are planning to furnish your living room, you would like to have a special set of sofa, nice decorations on the wall and a pleasant colour to enliven the room.

At international business level, business people must understand the importance aesthetics play in the life of a person. Each country has its own perception of aesthetics though the cultural environment may differ from one country to another one. Some countries might have the preference for strong colours and an attachment to symbols, others may be show less attachment to colour because of cultural differences among countries.

Architecture and Aesthetics

Aesthetics could also be linked with the corporate identity of businesses. New buildings are constructed worldwide with a view to developing something different from existing ones, The case of Dubai, in the United Arab Emirates, is a good example of bridging aesthetics with business where it is seen that the appeal for beauty and design fits in well the concept of a modern and vibrant business centre in the Arabian world.

Perspective

A potted history of Dubai architecture

Dubai's transformation from fishing village to global business hub has impressed the world – for its innovation, sheer speed and dynamism. Nowhere is the progress more evident than in the emirate's architecture. But now it could be the case that the city's architecture is at a crossroads, an inflection point, as there is a gradual shift from grand to green, and from imposing to approachable. How did we get here?

Back in the 1960s and much of the 1970s, Dubai's charming traditional architecture with its narrow alleys and wind tower houses still bore testimony to its Bedouin heritage. Dubai was a port town then, and trading was a mainstay of the economy. The typical image of Dubai in the late 1970s and even into the 1980s was of simple low-rise building [7].

In the years that followed, the influence of architecture has broadened out to create connections across the design sector in Dubai. Local companies in collaboration with intrepid European designers experiment with new forms of architecture, including luxury low-rise floating homes. The recent rise of walkable communities and eco-friendly projects has cemented Dubai's reputation for constantly reinventing itself.

While Dubai has always been associated with a penchant for luxury, the growing popularity of ecologically sustainable and integrated built environments reflects a shift in consumers' and the industry's perception of the new age of design in the city. Today, architects and interior designers in the region are increasingly opting for recycled materials in their cutting-edge designs, with woven vinyl flooring, reconstituted stone and consciously sourced upholstery taking centre stage.

Source: Saeed Al-Shehni, M. (2017) A potted history of Dubai architecture - from low-rise to the Burj Khalifa, from local to luxury, from souqs to sustainable, The National, UAE. [7]

Points to ponder

Dubai has always been associated with a penchant for luxury but there is the growing popularity of ecologically sustainable and integrated built environments which reflects a shift in consumers' and the industry's perception of the new age of design in the city. These also reflect on Dubai's attraction for regional and international business.

Download free eBooks at bookboon.com

Colours, symbols and forms

Colours, symbols and forms characterise the diversity and cultural uniqueness that exists in the world. Ancient races had attached lots of symbolism to the aesthetics. For example, the African witch doctor used to dress himself up in different colours just to create a feeling of fear and submission with his patients. The Indian chieftain had feathers on his head in order to represent the dignity his followers had bestowed upon him.

Forms also represent an element of aesthetics. For example, African art relies on figures that are in general black, shiny and a little elongated. Chinese culture may use forms which are rounded. European culture may be more concerned with forms that reflect reality (beaux arts) or abstract forms (abstract art).

Colour meanings in business [8]

Red
Red gives people the signal to act. When using Red in business, use it as an accent colour to tempt buyers to buy on an impulse. A touch of red to a website can help portray the business as energy—driven and exciting.

Orange
Using orange in business suggests adventure, fun and travel. It is a beneficial colour for hotels travel companies and resorts and can stimulate social communication. Orange is friendlier, approachable and less aggressive than red.

Yellow
Colour experts recommend yellow for use in children's industry as this colour's meanings include stimulation, creativity and wisdom. Yellow could also be used in promoting point of sale purchases especially when you want the customer's attention quickly.

Green
No other colour meanings in business symbolise growth and abundance as much as Green. It is used invariably to advertise safety in drugs and medicines as well as a sign of vegetarianism. Green represents nature, prosperity and money.

Blue
Stability and depth are the best meanings of colour. Blue as far as its business usage is concerned. Most conservative corporate businesses have blue in some form or the other in their logos, business cards and brochures etc. Similarly, communication, hi-tech, computer products, water industry, etc. also always use blue.

Download free eBooks at bookboon.com

White
The use of white colour meaning in business is cleanliness and hygiene. It indicates calm, simplicity and organization.

Black
Luxury, elegance and sophistication-thy name is black. Black is used for selling and marketing to youth audiences; hence music industry likes to use it to portray style and trendiness. Black is best when combined with jewel colours like ruby, turquoise and gold etc.

In the following table, we will cast a glance at the perception of colours, symbols and forms with reference to aesthetics on international business. It is noted that each variable has a symbolic value whether it is colour, symbol or form. There is also importance given to food that forms part of the cultural identity of the different nations highlighted below.

TURN TO THE EXPERTS FOR
SUBSCRIPTION CONSULTANCY

Subscrybe is one of the leading companies in Europe when it comes to innovation and business development within subscription businesses.

We innovate new subscription business models or improve existing ones. We do business reviews of existing subscription businesses and we develope acquisition and retention strategies.

Learn more at linkedin.com/company/subscrybe or contact
Managing Director Morten Suhr Hansen at mha@subscrybe.dk

SUBSCRYBE - to the future

Click on the ad to read more

Country	National Identity	Interpretation
France	Colour	The national flag is the tricolore: red, blue and white
	Symbol	Cock
	Forms	Art representing reality like *impressionisme, beaux arts, fauvisme, …* Wide cultural enrichment because France is one of the leading countries in cultural terms.
	Food	Wine, cheese like Roquefort.
England	Colour	The national flag is the Union Jack. Colours chosen: Royal blue and white.
	Symbol	Lion
	Forms	Art representing reality like beaux arts. Wide cultural enrichment because England has produced the world's leading authors and poets.
	Food	Beer, steak..
India	Colour	The national flag is green, white and orange. Clothes are plain white. Orange, green and white for religious purposes
	Symbol	Divinity, wheel.
	Forms	A high inclination on sculptures, art like batik, use of paper, colours,..
	Food	Rice, dholl, chapatti
China	Colour	The national flag is red and yellow/gold. Red is very symbolic for the Chinese.
	Symbol	Dragon, jade.
	Forms	Art with the use of china ink, aquarella, sculptures made on china marble.
	Food	Noodles, greens, chopsuey,..

Download free eBooks at bookboon.com

Music and folklore

Music and folklore are very important assets for countries as they distinguish them from another one. Both the East and the West attach high importance to music and folklore through costumes, songs. Hereunder, we are casting a glance at such issues. Note that only the most popular names or musical types are included. An appreciation of music and folklore enriches humanity. This aspect may have a low potential in business terms yet it needs to be appreciated in terms of cultural identity and differentiation. It is well-known that western music and arts predominate common international culture and this may be viewed as some cultural invasion that might weaken local identity. France, for example, insists that French exception applies within the country's limits because of the need to preserve the uniqueness of local culture. Other nations like India or Nigeria might be highly influenced by western arts and blend certain components with their local cultures.

Country/ies	Music Group and/or style	Folklore
Britain	The Beatles, Rolling Stones, Cliff Richard, Freddie Mercury, The Coors….(Pop music)	Traditional classic songs, carols, The Waltz, Ballet dance, Irish music
France	Charles Trenet, Mike Brandt, Francis Cabrel, Johnny Halliday…(Mainly romantic songs)	Traditional classic songs, religious songs Cantiques, mainly vocal.
USA	Frank Sinatra, Bruce Springsteen, Elvis Presley (Rock and roll)	Country music, Negro-spirituals, gospel songs
India	Saigal, Ravi Shankar, Lata Mangeshkar (Romantic movie songs, melodious songs)	Traditional classic songs, songs from Rajasthan, Kerala, kutchipuddi from Tamil Nadu, Bhangra dance.
Africa	Mory Kante, Youssou N'Dour, (Traditional African Songs)	African traditional dance, the use of the tambourine and cymbals in African dance,..
Caribbean and Brazil	Calypso , Rasta, Bob Marley.	Calypso dance is popular, Trinidad and Brazil have their annual carnivals that combine religious values with national culture.
Latin America	Los Reales del Paraguay, Evita Peron, Serena Kaoma (Brazil)	Rhythmic dance, popular traditional dance, the tango, the salsa, the calypso.
Italy and Spain	Andrea Boccelli, Luis Bunuel, Rossellini, de Sica, Sorrentino (Italian cinema)	The tenor, musical hall, opera music. The torero and the tomato festival is typical of Spanish culture.

Download free eBooks at bookboon.com

Perspective

The Importance of aesthetics in business

In the world of business people sometimes tend to oversee the importance of image and branding. Needless to say, a company's image and brand is one of the most important factors in their success. Image and branding is just one of the many components that a company needs to be successful. This along with management, finance, customer service and innovation are among the essential contributors to a company's progress [9].

A company's image can be tied to a lot of elements. These include, advertising, marketing, public relations and customer service. A company should never overlook the idea of branding their business because it tantaliSes the most important sense of a person's sight. Believe it or not, aesthetic plays a vital role in business. Aesthetics could spell the difference between a successful transaction and an unsuccessful one. Just think McDonald's and its competitors, Coca Cola vs. Pepsi and Apple vs. other computer brands. You will notice that companies like Coca Cola, Apple and McDonald's all emphasise the beauty and appeal of their brand, their products and their image to the greater community. Part of the reason as to why these companies are very successful is because people perceive their products as beautiful. Image initially strikes us. It is then followed up be a good product, and the process repeats itself.

Click on the ad to read more

Download free eBooks at bookboon.com

In the end, image and company branding are just a few factors to take note of. It is however, very important in getting a customer's attention. It is not enough that a product stands out. It has to stand out because it looks great.

Points to ponder

In the world of business people sometimes tend to oversee the importance of image and branding. Aesthetics could spell the difference between a successful transaction and an unsuccessful one. Companies are very successful is because people perceive their products as beautiful.

Case Study: Aesthetics in business practice

During hard economic times, you would expect consumers to look for bargains and be less concerned with amenities—and companies to respond with low prices and plain products and services. Companies have discovered what Starbucks learned long ago. Nowadays, customers don't want just fuel. They want pleasure—good food in an aesthetically appealing environment.

Competition and a slow economy may drive down prices, but it also raises expectations—not just for service, function, and reliability, but for sensory experience. 'Look and feel' increasingly drives economic value. Businesses today face an aesthetic imperative. Style can no longer be an afterthought. It has become a critical source of product identity and economic value. The desire for interesting, enjoyable, and meaningful sensory experiences is everywhere. Starbucks is to the age of aesthetics what McDonald's was to the age of convenience or Ford was to the age of mass production. It's the touchstone, the pioneer others seek to imitate.

For businesses, aesthetics is not a matter of esoteric art theory. It's the way we communicate through the senses, the art of creating reactions without words. Aesthetics is the way we make the world around us special. Successful businesses understand that aesthetics is more pervasive than it used to be — not restricted to a social, economic, or artistic elite, or limited to only a few settings or industries, or designed to communicate only power, influence, and wealth.

Formerly bland malls try to emulate the sumptuousness of upscale hotel lobbies. Well-designed restaurants extend their attention to look and feel into their restrooms. As suburban tract homes routinely incorporate granite and marble (whose prices have dropped because of new supplies and fabricating equipment), hotels must follow suit. Aesthetics is not just for places. Computers, for example, all used to look pretty much the same. Now they, too, can be special.

Download free eBooks at bookboon.com

The drive for aesthetic value is creating opportunity throughout the supply chain. 'At the GE Plastics design centre in Selkirk, New York, customers' industrial designers and marketers brainstorm and develop new products, ranging from razors to car bumpers, inspired by new materials. Since 1995, GE Plastics has introduced 20 new visual effects. Its heavy-duty engineered thermoplastics can now emulate metal, stone, marble, or mother-of-pearl; they can diffuse light or change colours depending on the viewer's perspective; they can be embedded with tiny, sparkling glass fragments.

Aesthetic plenty creates new challenges for companies. The more they incorporate aesthetics into their products and services, the higher customers' expectations become. Like every other measure of quality, aesthetics offers innovators a short-term advantage. But in a competitive market, investing in aesthetics isn't a sure route to profits. It's a cost of staying in the game.

Source: Postrel, V. (2003) The Economics of Aesthetics, Strategy, Boost and Company [10].

Questions

Explain the concept that competition raises expectations for the sensory experience. How does the drive for aesthetic value is creating opportunity throughout the supply chain? Compare the benefits and challenges of adopting aesthetics in business.

Multiple Choice Questions

Select the most likely answer in each question

1.	In a capitalist country, consumerist values might indicate that people view value in terms	
	A.	that can be synthesised.
	B.	that can be dematerialised.
	C.	that cannot be monetised.
	D.	that can be monetised.

Download free eBooks at bookboon.com

2.	In multi-active cultures like the Arab and Latin spheres, time is	
	A.	clock and calendar-related.
	B.	measured and calculated.
	C.	measured and calendar-related.
	D.	event or personality-related.

3.	Which one of the following community is a low risk-taker?	
	A.	American.
	B.	French.
	C.	German.
	D.	Asian.

Click on the ad to read more

Download free eBooks at bookboon.com

4.	The concept of having an extended family relates better to the	
	A.	African.
	B.	Japanese.
	C.	British.
	D.	Scandinavian.

5.	High levels of respect for authority can be better experienced in	
	A.	Singapore.
	B.	Morocco.
	C.	Chile.
	D.	Uruguay.

6.	.... is a key African value.	
	A.	Negative communication.
	B.	One-way communication.
	C.	Positive communication.
	D.	Informal communication.

7.	Aesthetics refer to everything which is concerned with	
	A.	modelling.
	B.	beauty and style.
	C.	scientific design.
	D.	facial make-up.

Download free eBooks at bookboon.com

8.	Which colour is used in the music industry to portray style and trendiness?	
	A.	Green.
	B.	Black.
	C.	Blue.
	D.	Yellow.

9.	Folklore in the form of country music, jazz blues and negro spirituals better relate to	
	A.	the United Arab Emirates.
	B.	the United States.
	C.	the people's Republic of China.
	D.	Ivory Coast.

10.	A subjective commodity which can be manipulated, moulded, stretched, or dispensed with, irrespective of what the clock says relates to a	
	A.	hyperactive community.
	B.	linear-active community.
	C.	multi-active community.
	D.	reactive community.

Solutions: 1D2D3D4A5A6C7B8C9B10C

References

[1] Bonenberger, A. (2018) Achievement in a consumerist society, https://www.wrathbearingtree.com
[2] Lewis, R. (2014) How Different Cultures Understand Time, https://www.businessinsider.com
[3] Jisc (2014) Attitudes to risk, https://www.jisc.ac.uk

[4] Bartleby Research (2018) Society's Changing Attitude about the Traditional Family Model, https://www.bartleby.com
[5] IMA (2018) Doing Business in South Korea, Doing Business Guide.
[6] Wiens, M. (2019) 17 African Cultural Values, https://migrationology.com
[7] Saeed Al-Shehni, M. (2017) A potted history of Dubai architecture - from low-rise to the Burj Khalifa, from local to luxury, from souqs to sustainable, The National, UAE.
[8] Olesen, J. (2018) Colour meanings in business, https://www.color-meanings.com
[9] Landry, F. (2009) the importance of aesthetics in business, Ezine articles.
[10] Source: Postrel, V. (2003) The Economics of Aesthetics, Strategy, Boost and Company.

Click on the ad to read more

12 PERSONAL ADJUSTMENT FOR THE BUSINESS MANAGER

Business managers are obliged to adjust themselves to the foreign environment. Multinationals will seek people who have worked previously in diverse cultural environments. Since their activities are based worldwide, they might always need business or country managers who can well adapt themselves to a foreign environment. A respectable manager who can adapt himself internationally must understand and accept acculturation, that is, the willingness to learn about other cultures and accept them as such. American and European managers are trained for such purposes. In their posting, they try to learn as much as possible the culture, values, social mores and perceptions of other cultures. International business goes beyond the concept of trade and seeks the desire to evolve in all confidence and harmony with various cultures. Avoidance of stereotypes and clichés is required.

Managers must accept the cultural differences in different countries. They must learn the local etiquette and get accustomed with the social mores. In Malaysia, for example, the tourist information office makes it clear the need to accept Islamic values in force in that country. Personal adjustment in an international context remains an important issue for the business manager. People who are unable to adjust themselves abroad feel homesick and develop negative attitudes and perceptions on a particular country. It is therefore essential for a manager to adjust himself with the norms and mores of a country. This is very typical of European and American managers who are posted to different countries in their international assignments. It is definitely imperative for them to understand the differences between the home and the host environment, to make the necessary adjustments and even to enjoy this as a new experience. Coupled with such differences is empathy; the ability to think and respond in a similar way to the foreigner, avoidance of clichés and stereotypes and also acculturation. This will make a manager feel more comfortable abroad and motivate him to work in the interest of his firm.

Emerging economies are important considerations for business managers. The fact that such countries are developing trade opportunities with the western nations make them interesting targets for international business managers. Nigeria is a current attraction for business managers prospecting sub-Saharan Africa, Kazakhstan might be interesting for managers in the oil business while Guyana might look interesting for sugar trade. These countries, hereby mentioned, offer a different setting from the industrialised western world making it imperative for managers to learn how each nation differs in various contexts. One aspect might be religious differences and cultural habits but others might be adjustments to time, climate and business practices.

Download free eBooks at bookboon.com

Personal adjustment is tough when environments differ and contrast significantly. What is perceived as socially acceptable in one country might not be acceptable elsewhere. Sometimes, corruption might be a stereotype that might exist in an emerging economy but it might also be seen that there are regulations to combat unfair and unethical practices. Linguistic differences do matter although English language might be well understood in many communities. There is no immediate need to learn a foreign language but certain terms that are used locally might be a positive way of approaching a foreign citizen. This chapter also deals with the readjustment of managers once they are relieved from their foreign posting. Coming back to the homeland is generally viewed as simple and easy to accommodate. Nevertheless, this might also be considered for managers who might well see changes operating in their home country and see or accommodate certain differences that they have not be accustomed to for a long time.

Empathy

Empathy means to try to understand another person from that person's point of view. When a person goes abroad, he must learn to empathise with his counterpart. Empathy starts from the point of view of accepting a person how he is or how he behaves. One cannot blindly say that an individual living in the Third World is a person having a low standard of cultural and educational devilment.

For example, let us consider the following situations in the following country and think about how to empathise with the different people.

India

Businesses start at 9 and end at 5 p.m.

- Corruption exists at different levels of businesses.
- Some businesses are very traditional and others can be modern.
- Money may be accepted as a favour. (baksheesh)
- Warm temperature and tropical climate.
- Certain places have slums and very poor living conditions.

Adjustment:

- Climate-Air-con offices, table water
- Resist pressure from national companies and consumer groups
- Adjust to taxation standards and legislation
- Consider the importance of cultural values and traditions that are deeply anchored.

Download free eBooks at bookboon.com

These generalisations look rather as stereotypes, that is, we have tried to picture the different people in different ways. All these are subjective and cannot exactly describe one typical community.

Empathy, in this situation, means to try to understand such people and accept their particularities. In the case of the Africans, we must learn that they are people who come from a land where they have lived quite closely with the world's most dangerous as well as magnificent species. They are definitely bold and courageous and have a fairly natural way of behaving. However, because they have little material possessions, they may be interested to have something from the foreigner which they can prize.

Empathy must be made in all the different situations. For example, we are of opinion that racism has taken a great pretension in Europe. The European may not be gentle towards the foreigner but can still show good behaviour. Perhaps as a result of racism and extremists action on their territory that they start having negative views of foreigners.

Deloitte.
Discover the truth at www.deloitte.ca/careers
© Deloitte & Touche LLP and affiliated entities.
Click on the ad to read more

Avoidance of stereotyping

Stereotyping means to develop a generalised mindset because of descriptions given by other people or simply because we have studied about such people in the books. The problem is that when so much has been learnt either from the books and the media that stereotypes are removed with difficulty.

Some stereotypes are just the opposite of the reality. The perception has been described as such:

Literature

E.M.Foster's book 'A passage to India' describes the country as infested with flies and mosquitoes. V.S.Naipaul, in his book, 'The overcrowded barracoon' portrayed Mauritius as an overcrowded island without a bright future. Salman Rushdie's controversial book 'The Satanic Verses' could give negative perception of Islam.

Movies, films, documentaries

Movies may easily develop stereotypes. Portraying the Nazi as dominating and inconsiderate to the Jews may develop stereotypes against Germans. Documentaries can give a clearer picture if a situation but at times can distort the information as well.

Avoidance of clichés

Clichés like third wordlist, dirt poor, uncivilised, etc. must be avoided and the businessman must think in positive terms when he carries out a business activity abroad. It is true that certain information provided may be real but they must not influence the businessman too emotionally as they may create prejudice over other communities.

Case Study: Avoiding stereotypes in international business

Globalisation and the emergence of cross cultural business have tremendously reshaped our working environment over the last fifteen years. People around the world are increasingly finding themselves working with colleagues and counterparts from another culture. Dealing with such diversity is complex and requires a high level of cross cultural competence that a business manager can develop through cross cultural awareness training [1].

To make sense of all these differences we tend to classify people into specific categories such as the company they work for or their own culture. This classification provides us with references about certain groups of people and helps us begin to understand their attitudes. You could say for example that Spanish people tend to speak more loudly than British do and Brazilians tend to be more affectionate than Finnish.

While there are some relative truths to these statements, such stereotypical representations are often over-simplified and could lead to false assumptions. Stereotypes, taken-for-granted beliefs about our counterparts' habits and behaviour, can affect our own attitudes and expectations when communicating with other cultures. The main purpose of stereotypes is to help us when we are dealing with a culture we do not know and to give us the illusion of a predictable pattern we could learn and thus know how to react to any given cross cultural situation.

For instance, when doing business in Italy we might expect our Italian counterparts to be late for a meeting whereas a Swiss would always be punctual and well organised. However, it would be inappropriate to assume that no Italian would ever be on time and no Swiss would ever be late. Hence, cross cultural stereotypes need to be treated carefully as they might have a negative impact on our thinking and our capacity to perceive things with discernment.

Whether stereotypes are commonly shared among society or progressively developed through our direct experience in cross cultural relations, it is crucial to keep questioning their relevance. By doing so, we would certainly prevent ourselves from judging our international counterparts on the basis of wrong assumptions leading to inappropriate cross cultural behaviour and critical incidents.

Stereotypes can however be perceived as the first stage of acknowledging the existence of cross cultural differences which is an initial step towards the development of a higher level of cross cultural awareness and competence. However, stereotypes need to be questioned, mitigated and never taken for granted if they are to help us to work more effectively in a cross cultural context.

Source: Machlachlan, M. (2011) Impact of stereotypes on international business: Cross cultural awareness is key, https://www.communicaid.com [1]

Questions

Provide illustrations where stereotypical representations are often over-simplified and could lead to false assumptions. Why should stereotypes be perceived as the first stage of acknowledging the existence of cross cultural differences? Why is it important for the business manager to develop a higher level of cross cultural awareness and competence?

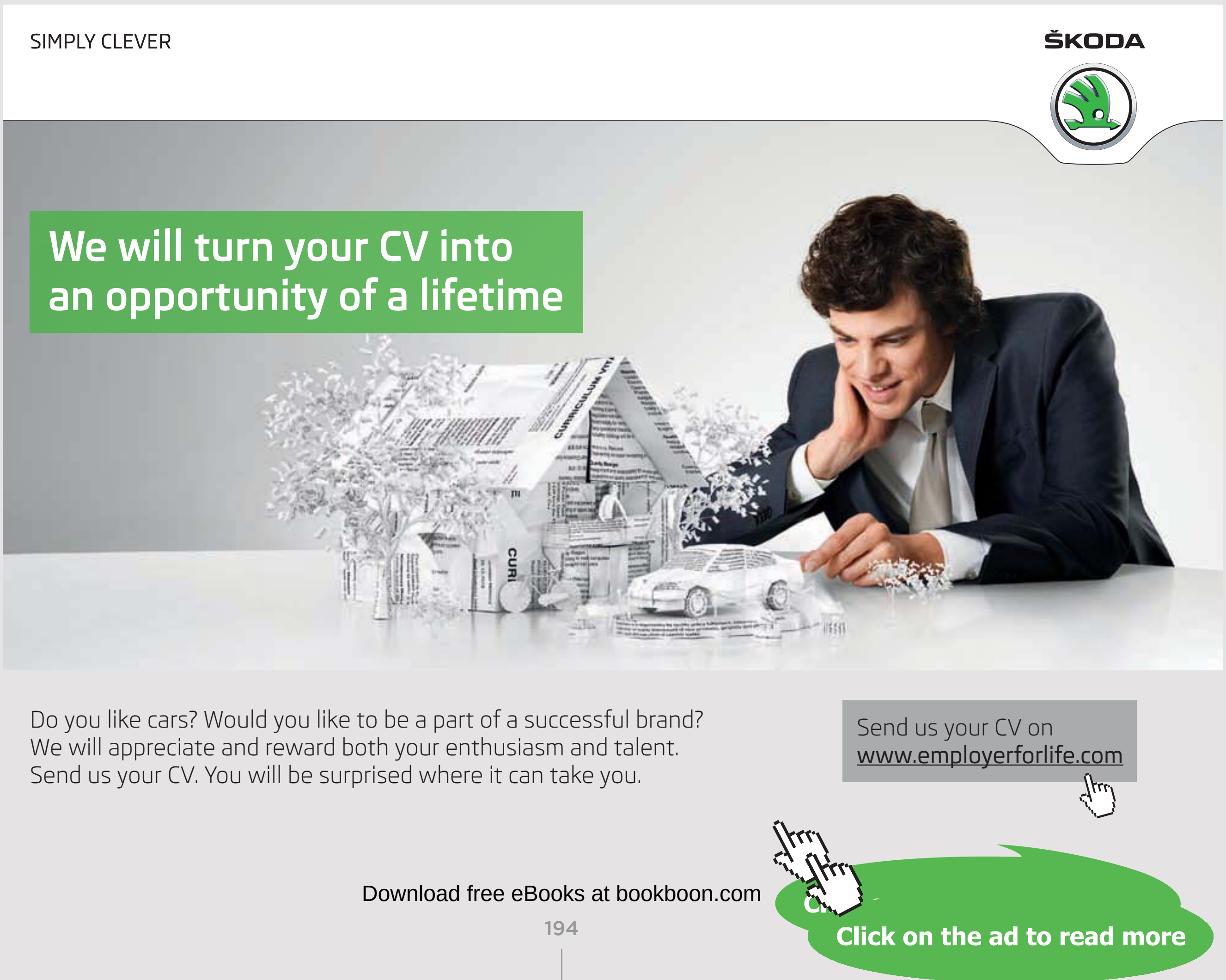
Download free eBooks at bookboon.com

Overcoming cultural shock

In order to overcome cultural shock, information must be obtained by the international businessman prior to his visit abroad. He must know the outcomes and expectations in foreign countries. In France, for example, one may not have enough of fresh vegetables. The dish can be prepared with pork's grease and food is accompanied with wine. Sex is something overtly discussed in the country and nudity does not really shock. Beaches and pools may be places where partly unclad people visit. 'Le Moulin Rouge' or other shows contain a degree of eroticism. Such a situation will never exist let us say in Iran where religion has a strong foothold and anything concerned with sex is declared immoral and leads to punishment. Adultery in Iran may lead to flogging.

Acculturation

Acculturation is a process through which a person or group from one culture comes to adopt the practices and values of another culture, while still retaining their own distinct culture. This process is most commonly discussed regarding a minority culture adopting elements of the majority culture, as is typically the case with immigrant groups that are culturally or ethnically distinct from the majority in the place to which they have immigrated.



Acculturation is a process of cultural contact and exchange through which a person or group comes to adopt certain values and practices of a culture that is not originally their own, to a greater or lesser extent. The result is that the original culture of the person or group remains, but it is changed by this process [2].

Adjustment to time

The effect of time zones has been a little-known but important issue for international business. Country time zones have been historically influenced by trading patterns and partners. Setting the same time zone to a partner makes it easier to conduct trading since business hours match. Different time zones force businesses to factor in time zone conversion when dealing with international business and can negatively impact worker productivity. When businesses expand across the globe and change time zones, a large communication gap instils. During the waking hours of one country, another across the globe experiences night-time. This presents an obstacle for companies with speed and customer service as core values since different time zones cause delays. Companies will experience a time gap where they have even less time in their working day to accomplish interdependent tasks [3].

Download free eBooks at bookboon.com

Other forms of adjustment

Adjustment	Home Environment	Emerging Economy
Climate	Usually summer, winter, autumn and spring conditions prevail.	Two seasons like summer and winter in emerging economies. Monsoon in India, High temperatures in Equatorial Africa.
Business hours	Generally, 9 to 5. Some businesses operate around the clock. Flexibility exists for modern businesses.	In Arabian countries, Friday is a worship day, businesses operate for fewer hours. Many emerging nation businesses are now also working around the clock.
Language	The local language is the most used one. English is practised in most businesses.	The same principle applies here. However, subtlety in language use is very important.
Entertainment	All modern forms of entertainment are available. High level of freedom is allowed.	Modern forms of entertainment are allowed in key business centres but restricted in remote places and rural areas.
Religious values	High level of tolerance though there might be some conflict in Europe like 'antisemitism'.	Religious values and differences have to be seriously abided by in emerging economies. Such values range from highly conservative (Arabian nations) to quite permissive (Mexico, Brazil).

Tips for overcoming cultural-shock and adjusting to new cultural surroundings

The following refer to tips for overcoming cultural shock:

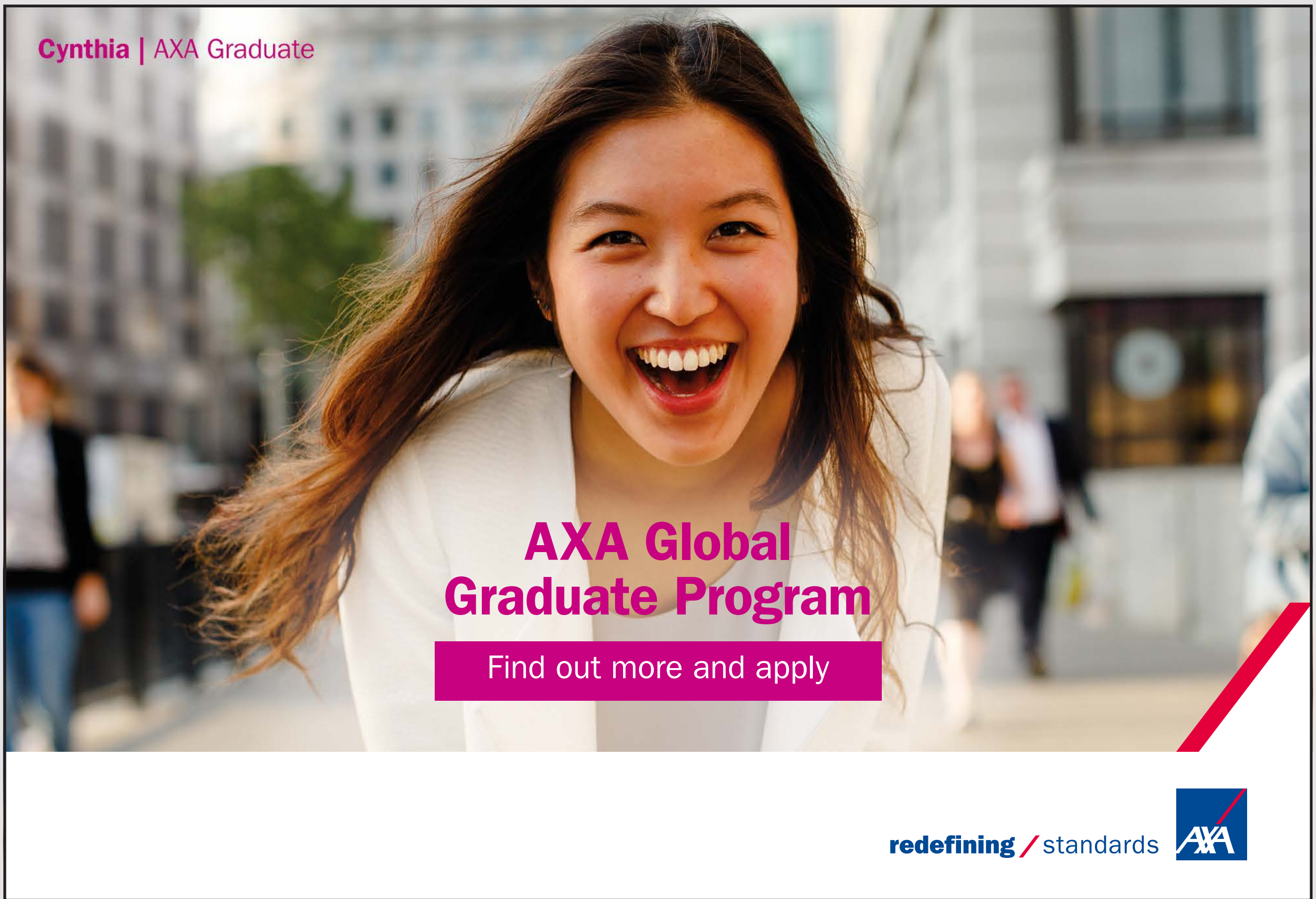
1. Get information that you feel is sensitive.
2. Notify children or spouse about the differences among foreign people.
3. Learn to accept difference.

4. Learn to be open-minded.
5. Avoid confronting situations where there can be culture-shock, e.g. hotels, casinos, beaches.
6. View the things in a positive light.
7. Avoid showing over concern for petty things.
8. Be calm, considerate and fair-minded.

Perspective

Reassignment and readjustment problems on returning home.

When a businessman returns home, he is reassigned his post. In other words, he has to get along with his previous activity in the home country. If it is for a short time, reassignment will be done quite smoothly. If the person has been away for a long time, then reassignment might be difficult and the person will be filled with nostalgia at first instance. Nevertheless, after a period of adaptation, things can take place smoothly as before.



Click on the ad to read more

Returning home

Depending on the length of stay in a foreign environment, re-entry difficulties may arise for a sojourner upon the return home. Usually, it is because the process is expected to be any easy one, when it fact, it is not. The sojourner will likely have changed during the time away, possibly with regard to new customs, language, dress or worldview. The original culture may also have changed over that time period [4]. Both the individual and the corporation should expect and prepare for these changes, and be willing to work through the re-entry process [5].

Points to ponder

If the person has been away for a long time, reassignment might be difficult at first instance. Usually the process is expected to be any easy one, when it fact, it is not. Both the individual and the corporation should expect and prepare for these changes, and work through the re-entry process.

Readjustment problems

When the businessman comes back home after a long time, he may have to readjust himself. Let us consider the following readjustment problems.

1. Social habits such as having breakfast, lunch and dinner may vary very much. In the host country, dinner could be taken in a restaurant.
2. Dressing habits have to be changed. In the host country, the person could have put on western dress. In the home country, some more conservative dressing may be required.
3. There might have been a cultural change. For instance, the person might have been used to speaking French or English. He might be listening to European songs and watching such movies.
4. Work habits can also be very different. Abroad the pace of work might be hectic. In the local country, life may look cool, quieter and passive.
5. Entertainment or night life may be missing in the home country especially at night.
6. Children may have to be placed in schools in the home country.
7. Car and housing facilities must again be looked out for. This might not have been a problem in the foreign country.

Download free eBooks at bookboon.com

Multiple Choice Questions

Select the most likely answer in each question

1.	By learning the local etiquette and the social mores, country managers	
	A.	accept the cultural similarities in foreign countries.
	B.	reject the cultural differences in foreign countries.
	C.	accept the cultural differences in foreign countries.
	D.	reject the cultural similarities in foreign countries.

2.	People who are unable to adjust themselves abroad feel homesick and develop	
	A.	negative attitudes and perceptions on a particular country.
	B.	positive attitudes and perceptions on a particular country.
	C.	insignificant attitudes and perceptions on a particular country.
	D.	neutral attitudes and perceptions on a particular country.

3.	Empathy means to try to understand	
	A.	oneself from his own point of view.
	B.	a foreigner from a manager's point of view.
	C.	oneself from a foreigner's of view.
	D.	a foreigner from his own point of view.

4.	Stereotyping means to develop	
	A.	a positive mind-set of other people.
	B.	a negative mind-set of other people.
	C.	a generalised mind-set of other people.
	D.	an objective mind-set of other people.

Download free eBooks at bookboon.com

5.	One way to overcome cultural shock is to learn to be	
	A.	reserved.
	B.	open-minded.
	C.	subjective.
	D.	self-centred.

6.	When the businessman comes back home after a long time, he may have to	
	A.	readjust himself to his host environment.
	B.	readjust himself to his home environment.
	C.	readjust himself to his external environment.
	D.	readjust himself to his foreign environment.

Click on the ad to read more
Download free eBooks at bookboon.com

7.	Accepting a different culture as it is refers to	
	A.	acculturation.
	B.	homogeneity.
	C.	heterogeneity.
	D.	decolonisation.

8.	The initial adjustment of a manager moving from Spain to Sri Lanka is the adjustment to	
	A.	religion.
	B.	time.
	C.	space.
	D.	social values.

9.	Friday is a special day for prayers in	
	A.	Congo.
	B.	Bolivia.
	C.	Qatar.
	D.	Papua New Guinea.

10.	One benefit of acculturation is	
	A.	declining differences of the foreign culture.
	B.	accepting similarities of the foreign culture.
	C.	declining similarities of the foreign culture.
	D.	accepting differences of the foreign culture.

Solutions: 1C2A3D4C5B6B7A8B9C10D

Download free eBooks at bookboon.com

References

[1] Machlachlan, M. (2011) Impact of stereotypes on international business: Cross cultural awareness is key, https://www.communicaid.com
[2] Cole, N. (2019) Understanding Acculturation and Why It Happen, Thought.co.
[3] Simon, J. (2013) Time is Money: How Time Zones Impact International Business, Global Edge.
[4] Callahan, C. (2010). Going Home: Deculturation Experiences in Cultural Re-entry. Journal of Intercultural Communication.
[5] Kovaleski, A. (2013) Managing Culture Shock for Employees in International Business Settings, researchgate.net.

13 INFLUENCE OF SURFACE FEATURES IN THE CREATION OF DIFFERENCES AMONG NATIONS

Surface features refer generally to the geographical and physical aspects of different countries which are bound to create differences among nations. Each country may not have the same features and the fact that it forms part of different continents, a country can have a surface difference and its own particularities.

Just imagine the following image. A camel is carrying a traveller across the very hot desert of the Sahara and the man has his face covered with cloth in order to avoid the problem of being burnt by the scorching sun. There are some sand dunes that are moving as the camel makes its way through the desert. The earth is full of cracks and the traveller might be looking for an oasis. Compare it with the following image. It is very cold and the blizzards have been striking the igloos constructed by the little community of people in the Lapland. More animals are being hunted in order to get the fur to protect the body and logs of wood are purchased in the nearby market in order to have heat inside the igloos. The temperature is minus11 degrees Celsius.

These two contrasting images show how surface differences exist and contrast among nations and this leads to differences in many areas. Earlier, the comparative advantage theory was discussed paying attention to production factors that varied from one country to the next. Surface features concern the land and topography respective for any country. Tropical nations are bound by warm weather, rainy conditions but, more importantly, fertile soil that becomes the ideal condition for cultivating cash crops like sugar, tea, coffee or cassava. This develops a business condition that tropical nations abide by and find it favourable for trade.

Rich countries, though technologically advanced, do consider the genuine importance of surface features. France is an agricultural nation based on the land available for the cultivation of cash crops but also the large scale cultivation of grapes used to make wine. The United States has large scale cultivation of wheat for its local consumption. It has also vast plains like Texas, Montana or Dakota for cattle rearing and agriculture.

Download free eBooks at bookboon.com

Emerging economies will rely on surface features. The discovery of oil a few centuries ago claims this statement where Arabian nations were essentially desert-based land with sand had no business opportunity. Drilling desert land for oil prospect developed the major oil industry in most Arabian nations that have become quite prosperous at some time in history like Libya, Saudi Arabia, Kuwait, etc.

In the modern world, more trade opportunities are sought through other forms of surface feature exploitation. The blue economy does not concern the land but more ideally the sea whereby apart from the exploitation of fish for consumption, new opportunities might be developed like the exploitation of nodules, the development of cooling systems in coastal cities, the possibility of exploiting marine oil.

To this extent, it is worth mentioning the need to have sustainable development of resources from the surface features and see that there do not adversely affect the natural environment thereby causing externalities that become insurmountable. This is usually the backyard of emerging nations that have to face the problems of smog, trash and environmental hazards.

Economic development

The chart below provides an explanation of the economic development which results from the physical features of a country. Denmark, for example, has a flat land which is quite similar to most countries in Northern Europe, has a potential for economic development because a flat land provides opportunities for the development of agriculture and related industries. Saudi Arabia is a country covered with deserts and has to rely exclusively on its only natural resource, petrol. This is not the case for Gabon which is found in the region of Equatorial forests and which can benefit from such a resource quite easily. In the African mainland, countries dispose of natural resources but are hampered in their economic development because of a lack of specialist knowledge and technical know-how to operate in such fields.

Download free eBooks at bookboon.com

Country	Denmark
Location:	Scandinavian country: North of Europe.
Surface features	Land is fertile with lots of resources. Mild and humid climate. Flat country.
Resources	Hops and wheat. Fishing is also well developed.
Industries	Mechanical and naval industries, chemical industries, food industry (dairy-butter, milk and cheese)
Economic development	This is favoured by the existence of natural resources and the potential resources available in the country.
Country	**Saudi Arabia**
Location	Arabic peninsula; Middle East.
Surface features	Vast country, mainly filled with deserts. Possesses large amount of oil.
Resources	Oil. This has attracted large number of investors in the country.
Industries	Mainly oil industry and derivative products, duty-free shopping.
Economic development	Like most of the Arabian states, Saudi Arabia is rich because of the oil it produces and exports and owes it much for its economic development. Besides, it is one of the lead members of the OPEC.
Country	**Argentina**
Location	South-American state lying below Brazil.
Surface features	Partly dry but has cool climate as well in certain regions.
Resources	Beef and sheep.
Industries	Wool, hide and meat. Other industries: sugar, rice, cereal, oil seeds, agricultural products.
Economic development	Experiences problems linked with political issues. A typical state in emerging economies.(Latin America)

Economic differences

The above chart provides an explanation of the economic development which results from the physical features of a country. Denmark, for example, has a flat land which is quite similar to most countries in Northern Europe, has a potential for economic development because a flat land provides opportunities for the development of agriculture and related industries. Saudi Arabia is a country covered with deserts and has to rely exclusively on its only natural resource, petrol. This is not the case for Gabon which is found in the region of Equatorial forests and which can benefit from such a resource quite easily. In the African mainland, countries dispose of natural resources but are hampered in their economic development because of a lack of specialist knowledge and technical know-how to operate in such fields.

Political differences

Political differences may be contrasting among countries in different continents. Let us fist devise one important characteristic between developed and emerging economies. Because of the high level of literacy in developed countries, democracy is common in most of the countries and they experience few political upheavals. Third world countries are mainly governed by one-party system that practically allows room for different people to be involved in the political process. In certain cases, potential dictators may exist namely in Africa and Latin America.

Click on the ad to read more

Let us look at a few political differences among some nations.

Country	Political system
China	A command economic system with opening on capital investment. One of the few countries to adopt actually communism. Every administrative and political decision is centred in Beijing. *Influence of surface features:* Historically speaking yes. Peasants and the skilled or semi-skilled class has to work for their masters. Agriculture gets mechanised today.
England	A democratic system with elections held regularly. Wesminsterian style. Actually in Brexit mode. *Influence of surface features:* No great influence as such but earlier, Britain formed part of the European Union agricultural programme.
France	Socialist for the time being. New socialism being forwarded by La République en Marche and Macron's presidency. *Influence of surface features:* A large agricultural country. Government policy is to make France competitive in the European Union.
South Africa	Nowadays more democratic than before. In the past had the problem linked with apartheid. *Influence of surface features:* Yes, this still have incidence on the country because the whites still have their strong political power with regards to the possessions they have in South Africa; gold mines, diamond, charcoal.

It can be seen that in countries where the feudal system is still being practised, or where dictatorship is still present, the political system still influences business linked with surface features. In the case of Saudi Arabia, for example, the government practises feudal or quasi-totalitarian system because of the material possessions in the country namely petrol. Anyone discovering petrol can become a rich man.

It is quite similar in the case of South Africa where economic power was and is still in the hands of the White population. Nevertheless, with the arrival of Thomas Mbeki in power followed by Mandela's rule, the country is paving its way for more democracy.

Download free eBooks at bookboon.com

Cultural and Social differences

It is also argued that social and cultural differences can be created because of surface features in a country. If a country is small, as in the case of Mauritius, such a difference might not be clear-cut. Nevertheless, this is evident from what we have analysed when we look at different countries. The use of land for agricultural purposes might also illustration the way of living in different places. Subsistence living might be common in rural areas compared to more amenable living standards in urban areas.

Country	Social and cultural difference
Brazil	Hot country, more casual and colourful dressing, quite liberal codes of conduct and behaviour.
China	People are mainly peasants and attached to agriculture. Have preserved lots of cultural and social values.
United States	People are mainly businessmen and have little concern for social values. More move towards materialism and loess interest in cultural values. Rather new cultural trends are being discovered.
Central Africa	Still attached to ancient values and traditions. People are mainly peasants and attach lots of importance to superstitions, cultural and religious values.

How new physical resources can impact business

The influence surface features had on the economic, political, social and cultural development of a country was discussed. Because the world has a varied topology, each country has a particular way of managing its resources. Therefore, differences tend to exist. Arabian countries, for example, do not have any other natural resource apart from petrol and have to manage their economic development on petrol itself. Further, because petrol a prized product which is so much coveted by other countries and people in the country itself, because it provides lots of material wealth, governments tend to be possessive and adopt a system of near totalitarianism where they can take control of the country's resources and assets.

In a similar way, the surface feature of each country creates a difference or particularity in its way of managing resources. We cannot say that surface features have a direct influence because differences among nations also depend upon the type of government in power and the way country matters are handled.

Influence of climate

Climate is the weather we usually have. In a tropical country, it can be said that people enjoy a fairly mild climate. In summer, the temperature averages 32 degrees Celsius while in the cool season, the average temperature is around 24 degrees Celsius. With such topography, the country gets lots of rain in summer whereas in winter, rain is scarce.

Country or Region	Climate	Effect on business
Arizona	Dry and usually hot.	During droughts, cattle rearing is affected in the West Coast.
Bangladesh	Hot and wet.	The country is usually affected by flooding which considerably affects its production of jute.
Chile, Bolivia and Argentina	Dry and hot during summer.	This affects cattle rearing and production of milk is much affected.
Pakistan/India	Hot and wet	Drought affects considerably farming and peasants have to struggle a lot to earn their living.
Sahara/Sudan	Very hot.	No rain falls. The country or region is inhabited with touaregs. Business is low. Only dates can grow well over there. These also need some water.

Climate and natural calamities can therefore have an incidence on the business activity of countries. Natural disasters put a country's activities at stakes and it may have to look for international aid in order to survive. Countries which are affected by famine provide evidence of the precarious situation that is created if an economy is solely agriculturally-based. To counteract to a certain extent, the hazards of climate, better storage facilities should be devised as well as developing modern methods of farming. This is hampered to a certain extent in developing countries which have the tendency of sending more on armaments rather than on the essential needs of the country. Climate is also a consideration for the development of industry. The French have a strong agricultural base namely with regards to the availability of fertile land across the counter.

Discovery of new resources and development of business

Oil

When the motorcar was invented, then it became important for the inventors to think about the fuel which would best meet the needs of their invention. It was found that petrol would be the most appropriate fuel to make the machines work. Therefore, people from the west started believing in the importance of purchasing petrol from Arab countries.

This could therefore be referred to as black gold. In America, oil production was developed by the Texas Oil Corporation and Texaco. However, for reasons of practical and strategic importance, the United States prospected the Arabian market for large scale use of this commodity in its industries.

Gold

Economic power is still held by the White population and this had led to apartheid, whereby blacks and coloured people were segregated from the Whites. With democratisation going on in the country, South Africa is now in the post-apartheid era and is progressing slower but quite steadily.

Not all countries can boast having natural resources as the United States of America (gold), England (Gas oil and paraffin), Arabian States (Oil) and South Africa (Diamond and gold). Island nations have little natural resources and bet rather on agriculture and marine resources for their economic development. One attraction that they might have can be their physical beauty namely beaches, hills and scenery.

Natural Resources

Countries which do not have natural resources have to rely otherwise. Islands like Malta, the Seychelles, Mauritius and Martinique are obliged to bet upon their human resources for its economic development. This is the same for Singapore which is an island state but which has developed to a great extent its services industry as well as manufacturing industries due to the presence of multinationals in the country.

Download free eBooks at bookboon.com

Case Study: Natural resource exploitation in Madagascar

Madagascar, the fourth largest island in the world, is famous for its biodiversity – it is home to thousands of species of plants and animals found nowhere else on Earth. It also has a wealth of mineral resources: graphite, ilmenite, chromite, coal, bauxite, rare Earth elements, salt, quartz, tar sands and semi-precious stones.

But the country's recent history has been blighted by violence. A political coup in 2009 was sparked by an attempted land grab by South Korean multinational Daewoo, seeking to grow agrofuels, maize and palm oil on 1.3m hectares of ancestral lands.

Madagascar is one of the world's poorest countries. According to the World Bank, 70% of the island's 22.6 million population live on less than $2 a day and 59% on less than $1.25. But its richness in natural resources means that foreign mining, oil, tourism and agricultural businesses have all set their sights on Madagascar. The island, therefore, has the potential to serve as a testing ground for sustainable development.

Foreign investors, generally, acknowledge the principle of free, prior and informed consent (FPIC), which requires communities to be informed about commercial projects and given the opportunity to approve or reject them, and many of the big extractive players have committed to follow these rules.

Click on the ad to read more

Holloway explains that Malagasy civil society is, in general, fragmented and very often insufficiently organised to be able to voice their concerns and apply pressure to government to reverse decisions over the lease of land to international companies. Has Rio Tinto taken a different approach?

Holloway suggests so. 'Rio Tinto has publicly committed to integrating sustainable development into its corporate strategies because it makes good business sense.' The company's operation in south-east Madagascar, QIT Madagascar Minerals (QMM), is 'a test case for this commitment' she says, as it is located in an area of extremely rich and unique biodiversity where poverty levels are high and dependence on natural resources such as food from the forests is widespread.

Rio Tinto's stated aim is to achieve a net positive impact on biodiversity over the course of its operations in Madagascar. It will do this, Holloway says, through implementing a 'mitigation hierarchy' of avoidance, minimisation and rehabilitation. But is Rio Tinto in fact acting positively, for either the land or the people?

Questions

How could the existence of minerals imply potential business opportunities in Madagascar? What is the importance of engaging local community in business prospects concerned with surface feature exploitation? What arguments could be raised for and against natural resource exploitation in Madagascar?

Source: Crosse, G. (2014) Natural resources – Is mineral-rich Madagascar open for business? Ethical Corporation [1]

Development of new physical infrastructure

If surface features matter for a business opportunity among nations, the search for resources either for domestic or international business matters. The use of new forms of energy creates possibilities for improving business locally and can be the source for lower dependency of raw materials like oil or coal. At the same time, they help to make important savings to the country. Emerging economies are now moving ahead in considering with greater attention the development of new physical infrastructure.

Download free eBooks at bookboon.com

Fibre Optics	- Transmission of sound and images - International telecommunications connection - Faster transmission rate
Digital technology	- Fast transmission of images - High quality sound and resolution - Images digital compared with traditional analogue signals
Tidal energy	- Low exploitation of such energy - Dependent on wave energy from the sea - Impractical at the time being
Solar energy	- Collects sun rays and converts them to energy - Is highly economical and cost efficient - Requires heavy capital investment - Applications: Solar water heaters, calculators, solar batteries
Nuclear energy	- Provision of electricity - Treatment of diseases-cancer with Cobalt-6 - Nuclear enrichment programme in Iran and North Korea are sensitive issues reading this form of energy

Since natural resources cannot be created nor renewed, governments have been thinking about developing new physical infrastructure which would otherwise sustain business development in such countries. Let us consider the concept of new physical infrastructure. Given that natural resources are being used up at a rapid extent, people are speculating whether the countries where natural resources are actually being tapped will still be the 'gold mines' that they are actually. For this reason, new physical infrastructure is being sought out. To replace petrol is something very difficult. Nevertheless, as we are approaching the new millennium, we are busy thinking of solar energy as a natural resource that could be effectively used by populations. It is said that harnessing solar energy can assist in the development of many economies, or many countries throughout the world.

Physical infrastructure for solar energy

The physical infrastructure for solar energy would be as follows:

1. Special mirrors to converge the rays of the sun.
2. Solar cells to attract and store solar energy.
3. Mechanical devices to make use of the energy.

Download free eBooks at bookboon.com

Application of solar energy

1. As a substitute for petrol for automobiles.
2. For domestic purposes, heating, bathing.
3. For lighting purposes; light energy.

Commercial viability of solar energy in emerging economies

According to a study commissioned by IFC, the World Bank's Energy Sector Management Assistance Programme (ESMAP) and the US Department of Energy, energy storage development in emerging economies is expected to grow by 40% annually over the next decade, up from today's capacity of 5 GW, resulting in about 80 gigawatts of new storage capacity. This will open up new markets and offer tremendous opportunities.

IFC expects the energy storage sector will grow significantly in the coming years leading to economies of scale. It has been tracking the storage market over several years and continues to support energy storage deployment in emerging markets. To date, we have engaged by means of early-stage venture capital investments, helping to prepare the market for mainstream investments. Some of our noteworthy investments included Microvast, a China-based manufacturer of especially fast-charging lithium-ion batteries Fluidic Energy, a manufacturer of zinc-air batteries used to power telecom towers; and AST, from India, which deploys photovoltaic solar plus batteries to power telecom towers [2].

Perspective

Africa's natural resources can be a blessing, not an economic curse [3]

New discoveries of natural resources in several African countries—including Ghana, Uganda, Tanzania and Mozambique—raise an important question: will these windfalls be a blessing that brings prosperity and hope, or a political and economic curse, as has been the case in so many countries?

On average, resource-rich countries have done even more poorly than countries without resources. They have grown more slowly, and with greater inequality—just the opposite of what one would expect. After all, taxing natural resources at high rates will not cause them to disappear, which means that countries whose major source of revenue is natural resources can use them to finance education, healthcare, development and redistribution.

Download free eBooks at bookboon.com

- Resource-rich countries tend to have strong currencies, which impede other exports
- Because resource extraction often entails little job creation, unemployment rises
- Volatile resource prices cause growth to be unstable, aided by international banks that rush in when commodity prices are high and rush out in the downturns (reflecting the time-honoured principle that bankers lend only to those who do not need their money).

Moreover, resource-rich countries often do not pursue sustainable growth strategies. They fail to recognise that if they do not reinvest their resource wealth into productive investments above ground, they are actually becoming poorer. Political dysfunction exacerbates the problem, as conflict over access to resource rents gives rise to corrupt and undemocratic governments.

There are well-known antidotes to each of these problems: a low exchange rate, a stabilisation fund, careful investment of resource revenues (including in the country's people), a ban on borrowing, and transparency (so citizens can at least see the money coming in and going out). But there is a growing consensus that these measures, while necessary, are insufficient. Newly enriched countries need to take several more steps in order to increase the likelihood of a 'resource blessing'.

Click on the ad to read more

Points to ponder

Resource-rich countries have done even more poorly than countries without resources. They have grown more slowly, and with greater inequality. Such countries often do not pursue sustainable growth strategies as they do not reinvest their resource wealth into productive investments. There are antidotes to each of these problems namely a low exchange rate, a stabilisation fund and careful investment of resource revenues.

Multiple Choice Questions

Select the most likely answer in each question

1.	The discovery of oil from desert land created a business opportunity in	
	A.	Sri Lanka.
	B.	Saudi Arabia.
	C.	Sweden.
	D.	Spain.

2.	A concept like the 'blue economy' for business will better suit	
	A.	Mauritius.
	B.	Moldavia.
	C.	Monserrat.
	D.	Mali.

3.	A political strategy of using resources for development in Africa actually benefits	
	A.	Chili.
	B.	Cyprus.
	C.	Colombia.
	D.	China.

Download free eBooks at bookboon.com

4.	Dry and clayey soil with little amount of rain are ideal for the cultivation of	
	A.	tea.
	B.	coffee.
	C.	wine.
	D.	malt.

5.	Political systems might still create difficulties for land democratisation in	
	A.	England.
	B.	South Africa.
	C.	Singapore.
	D.	Denmark.

6.	In which one of the following places there is subsistence farming?	
	A.	Myanmar.
	B.	Malta.
	C.	Micronesia.
	D.	Malaysia.

7.	A surface feature which is rugged and rocky could benefit the development of	
	A.	solar energy.
	B.	tidal energy.
	C.	fossil fuel.
	D.	wind energy.

Download free eBooks at bookboon.com

8.	The United States prospected the Arabian market for	
	A.	limited use of this commodity in its industries.
	B.	domestic use of this commodity in its industries.
	C.	large scale use of this commodity in its industries.
	D.	confined use of this commodity in its industries.

9.	Without sufficient exploitable surface features, small island development states could rely upon their	
	A.	human resources.
	B.	agricultural production.
	C.	technological sectors.
	D.	digital industries.

10.	The energy storage sector will grow significantly in the coming years in emerging economies like China and India leading to	
	A.	economies of market.
	B.	economies of scale.
	C.	domestic savings.
	D.	marginal savings.

Solutions: 1B2A3D4C5B6A7D8C9A10B

References

[1] Crosse, G. (2014) Natural resources – Is mineral-rich Madagascar open for business? Ethical Corporation.
[2] Klein, A. and Sheahan, B. (2017) Energy storage can open doors to clean energy solutions in emerging markets, World bank blogs.
[3] Stiglitz.J. (2012) Africa's natural resources can be a blessing, not an economic curse, The Guardian, UK.

Download free eBooks at bookboon.com

14 THE INFLUENCE OF ECONOMIC AND SOCIO-ECONOMIC FORCES ON MARKET SIZE AND BUSINESS OPPORTUNITIES

Businesses must understand the influence of economic and socio-economic forces on the market size of a company and learn about investment opportunities. At international business level, firms must think about the market opportunities available and how they can maximise on investment. Firms must therefore have the desire to conduct economic analyses. In practice, economic indicators will be quite useful in determining the potential for investing in a hots country. In today's world, through the advent of e-commerce, indicators might be less useful as online companies might target similar markets with the same potential and sell their products quite well. The reality is different when it comes to dealing with consumers in their domestic market. This requires a thorough understanding of local business practices along with the socio-economic forces that can determine a business or investment opportunity.

Click on the ad to read more

The first indicator that businesses might use would be the market potential. This analyses the ability for a foreign market to respond to the company's offer. This could comprise a variety of indicators that include the social classes, the relative purchasing power of different classes, the income earned by specific communities, potential savings and spending ability. The economic issue is essential because people respond to an offer depending on their purchasing power.

Market size matters as the larger a market is, the more differentiated it will be and the clearer it will be for an organisation to find out the potential market. For luxury goods, this market will be likely to provide a niche where there are a few concentrated areas of potential buyers with high spending power. This concept might vary from one country to another one. For instance, despite the small size of Singapore, there are customers likely to spend heavier and on more luxury items than in Sudan.

Economic analyses are usually undertaken by a company's financial and economic analysts. They might also be conducted by marketing and management experts outsourced by the company along with economists. Apart from that, indicators might be available from government sources, databases and online platforms that might provide economic-related data to potential investors.

Investment is a key issue that is line with the economic prospect of developing international business. This might be in the form of developing a subsidiary, acquiring a domestic company or forming a merger or a joint venture with a hots organisation. This aspect is not covered in this chapter but aligns to some extent with the analysis of socio-economic indicators. Most emerging economies are keen to have potential investors but, to a large extent, the success of investment and capital influx will once again be dependent on the market potential. Unless the market responds favourably to a foreign company's offer, it will otherwise not be capable of drawing investment.

Reasons for conducting economic analyses

An economic analysis is a process in which business owners gain a clear picture of the existing economic climate, as it relates to their company's ability to thrive. Economists, statisticians, and mathematicians often carry out this analysis on behalf of for-profit and non-profit businesses. These types of economic evaluation consist of an in-depth appraisal of the strengths and weaknesses of the market [1].

Download free eBooks at bookboon.com

Economic analysis involves assessing or examining topics or issues from an economist's perspective. Economic analysis is the study of economic systems. It may also be a study of a production process or an industry. The analysis aims to determine how effectively the economy or something within it is operating.

Estimating the market potential

Global marketing has become more and more important over the years with the increasing trend of internationalisation. Faced with too many choices, business managers have the challenge of determining which international markets to enter and the appropriate marketing strategies for those countries [2].

This indexing study undertaken by the Michigan State University—International Business Centre helps companies compare prospect markets on several dimensions. Eight dimensions are chosen to represent the market potential of a country on a scale of 1 to 100. The dimensions are measured using various indicators and are weighted in determining their contribution to the overall Market Potential Index(MPI).

Dimension	Weight	Measures Used
Market Size	25/100	Electricity Consumption Urban Population
Market Intensity	15/100	GNI per Capita Estimates Using PPP Private Consumption as a percentage of GDP
Market Growth Rate	12.5/100	Compound Annual Growth Rate (CAGR) of Primary Energy Use Compound Annual Growth Rate (CAGR) of GDP (constant 2005 US$)
Market Consumption Capacity	12.5/100	Consumer Expenditure Income Share of Middle-Class Median Disposable Income per Household
Commercial Infrastructure	10/100	Airport Connectivity Cellular Mobile Subscribers Fixed Broadband Subscriptions Fixed Broadband Internet Speed Logistics Performance Index (LPI) Paved Road Density Population per Retail Outlet
Market Receptivity	10/100	Per Capita Imports Trade as a Percentage of GDP
Economic Freedom	7.5/100	Economic Freedom Index Political Freedom Index
Country Risk	25/100	Business Risk Rating Country Risk Rating Political Risk

Indicators Used in Developing the Market Potential Index

Recent decades have brought a pronounced increase in international trade. Before a business engages in marketing a product to another country, research is needed to ensure the market potential is high for maximum profitability. The Market Potential Index for emerging markets is one valuable tool for firms interested in international trade. There are certain indicators are used with this index [3].

Download free eBooks at bookboon.com

Market size

The first of eight indicators used in the Market Potential Index is the market size. Business website globalEDGE weights this as the most important of the indicators. Urban population numbers and the amount of electricity consumed provides the basis for the market size indicator.

Market Growth Rate

The market growth rate is based on a historical five-year average, along with a one-year current statistic. Growing markets will show increasing demand for products.

Market intensity

Market intensity is figured by blending two statistics. First, an analyst must divide the gross national income by the population figures. Second, the statistician needs to calculate how much of the gross domestic product is being consumed in the private sector.

Market Consumption Capacity

ascertain the market consumption capacity. Determining the market share of the middle class factors into the overall Market Potential Index.

Commercial Infrastructure

This statistic is calculated by examining the saturation and availability of common technology and communication devices. Ratios are based on the amount of TVs, telephone lines, personal computers, cell phones, Internet users, paved road density and percentage of people per retail outlet.

Download free eBooks at bookboon.com

Economic Freedom

Economic freedom relates to the degree of citizens' autonomy. Included in this weighted ratio is the degree of political freedom the residents enjoy.

Market Receptivity

Some high-consuming countries rely heavily on imports, while others are able to produce the majority of products within the national borders. Reviewing the amount of imports in relation to the gross domestic product might reveal how willing the country is to try new foreign products.

Country Risk

Euromoney magazine calculates investment risk factor for many countries around the world. Local conditions may simultaneously create a low-risk opportunity in one country while producing a dangerous market in another.

Click on the ad to read more

Relative purchasing power

Market potential estimates enable companies to deduce the relative purchasing power of the markets. This is achieved by conducting a research or a survey in the towns and making a stratification of different income groups. For example, the income earners could be stratified as follows: executives, administrative, supervisory, skilled, manual or stratification can be done according to the social class of consumers. Once the international businessman is able to classify the people into different categories, it is then possible for him to assess the revenue that can be earned by selling the product.

The 'Purchasing Power Parity' is a term used to explain the economic theory that states that the exchange rate of two currencies will be in equilibrium or at par to the ratio of their respective purchasing powers. The formula for purchasing power parity can be simply derived by dividing the cost of a particular good basket (say burger) in country A in currency A by the cost of the same good in country B in currency B.

Purchasing power parity = Cost of good in Country A/Cost of good in Country B

Particulars	Cost
Cost of a burger in China	USD 2.73
Cost of a burger in The UK	GBP 3.09 or USD 3.84
Exchange rate (Chinese Yuan/UK Pound)	1 Yuan =0.15 USD or 1 USD = 6.67 Yuan
Cost of burger in China	2.73 x 6.67 = 18.20 Yuan
Purchasing power parity	18.20/3.84 = 4.73 Yuan per GBP.

The Big Mac Index

The best way to understand PPP is to study the Big Mac Index. This index was created as a humorous attempt to illustrate how the PPP worked by comparing the prices of a globally sold product, the McDonald's Big Mac burger. The Big Mac Index has been published in The Economist since 1986.

Calculating for purchasing power parity allows economists to determine the cost of living in other countries compared to the United States. PPP is a good tool for comparing GDP outputs between nations. It is also used to determine which have large or small economies. But since it involves many factors such as differences in taxes, tariffs, transportations costs, import costs, and the like, the PPP calculation is highly complex [4].

Download free eBooks at bookboon.com

The Big Mac index was invented by *The Economist* in 1986 as a light-hearted guide to whether currencies are at their 'correct' level. It is based on the theory of purchasing-power parity (PPP), the notion that in the long run exchange rates should move towards the rate that would equalise the prices of an identical basket of goods and services (in this case, a burger) in any two countries.

Burgernomics was merely a tool to make exchange-rate theory more digestible. Today, the Big Mac index has become a global standard, included in several economic textbooks and the subject of dozens of academic studies [5].

Looking for business opportunities

Firms conduct economic analyses in order to look out for business opportunities. This is referred to as business prospect. An economic analysis of a country can immediately highlight the cost of living in the country, the Gross National and Domestic Product, the inflation rate, the average salary level, etc. This can be used to make forecasts about the business opportunity that a country can provide. Note that earlier we discussed that in certain countries, products may be in their maturity stage, in other countries in their introductory phase. The businessman will make such analyses and think about the viability of having a business prospect in a particular market.

Assessing implications to the firm's operations

A firm cannot ensure itself that it will prosper in a new country. No formal guarantee can be given with regards to the operation it is expecting to carry out in the foreign country. This depends a lot on the general health of a country's economy and the performance of the industry that the firm is involved in.

General economic prospect of a country

A firm will be able to make profitable business if:

- The country's economy is progressing.
- The government is providing incentives to foreign businessmen.
- If the country has a favourable or acceptable balance of payments and debts.
- If the level of output of the employees is maintained or improved.

Download free eBooks at bookboon.com

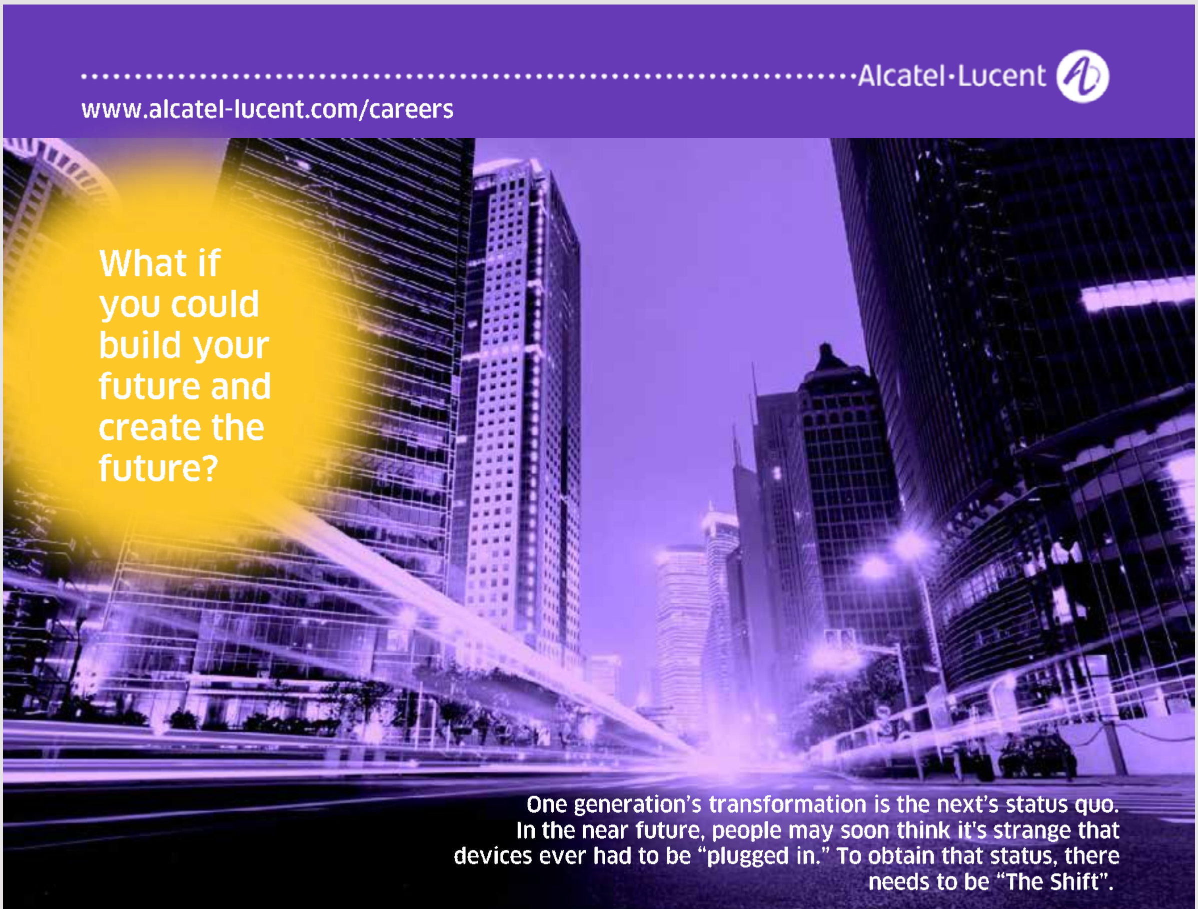
- The cost of living in the host country is fairly low.
- If the country has a substantial part of trained manpower.
- Taxation is not regressive and against the low-income earners.

It will not make successful operations if the following factors affect its development:

- Operation costs are high.
- The economy is buoyant.
- Taxation is high. Business incentives may not be provided by the government.
- The economic and political situation in the country is not stable.
- Opportunities for investment and business development are low.

The performance of industries

Certain sectors of industry in a country might be showing growth and development opportunities as well. For example, in Mauritius, the IT sector is a developing sector. The banking sector is perhaps a little saturated and somewhat closed. The tea sector is on decline because it is not providing satisfaction to the authorities.



Click on the ad to read more

If the performance of a particular industry where the firm is involved is quite average, then people might not be willing to purchase adequate amounts of products and these will remain unsold. Much depends upon the performance of the industry. If the performance is on decline, the potential for developing a market will be very little. On the contrary, a well-performing industry will always provide suitable cash inflow to the country. The implication to the firm's operation illustrates the performance of one industry or sector. Note that performance of a sector does not always mean that success is written everywhere. May be at industry level, performances are good but at national level, business is done passively.

Analysis of economic indicators to deduce relative purchasing power

The relative purchasing power in an international environment gives us a general idea of the market potential in a country. For example, not all countries can afford luxuries because the purchasing power might be quite low. Some countries, especially the developed ones, have a comparative high purchasing power because of their actual level of development and their productive output.

Economic indicators can therefore give us a general indication of the purchasing power in a country. They are summarised as follows:

- The size and growth of the GDP and the GNP.
- The distribution of income.
- The personal consumption expenditure and pattern.
- Private savings and investments.
- Unit labour cost.
- Inflation rates and rise of Consumer Price Index.

These economic indicators are useful because they help the international businessman to have sufficient accounting information which can help them understand the financial position of a country as well as the potential purchasing power of the individuals.

Size and growth of Gross Domestic or Gross National Product

Definition of Gross National Product

A country's Gross National Product is the total value, measured in the country's currency, of the final goods and services produced during a certain period, such as a year.

Download free eBooks at bookboon.com

The GNP is equivalent to National Product
A country's Gross National Product is equivalent to
National Output≡National Expenditure≡National Income

Importance of the Gross Domestic Product or Gross National Product

The Gross Domestic Product or the Gross National Product gives an indication of the revenue generated in all sectors of the economy of a country. It can show which country has achieved growth and which country is not progressing as expected. GNP and GDP figures can also differentiate the economic activity of different countries. A capital-intensive economy is bound to have a comparatively higher GNP than a labour economy.

Gross domestic product (GDP) refers to the market value of all final goods and services produced in a country in a given period. GDP per capita (GDP per citizen) is often considered an indicator of a country's standard of living.

Its formula is:

$$GDP = C + I + G + X\text{-}M$$

where:

C = Consumption I = Investment, G = government expenditure, X = Exports, M = imports

Selected GDP growth for emerging economies [6]

Country	Annual GDP	GDP Growth Rate	Rating
Brazil	M$ 1,868, 180	1.1%	
Botswana	M$ 18,616	4.5%	xx
Hong Kong	M$ 363,031	3.0%	x
Sri Lanka	M$ 88,90	3.2%	x
Madagascar	M$ 12,10	5.2%	xxx
Peru	M$ 225,204	4.0%	xx
Senegal	M$ 24.02	6.2%	xxx

Rating: x: Fair xx: Reasonable xxx: Excellent

Distribution of Income

The distribution of income is another important source of information that can be of interest to the international businessman. Certain people will enjoy the highest income level and will have a league of their own. Other people might enjoy an average standard of living whereas a certain number may live at subsistence level as well. The distribution of income is bound to create earning groups or social classes.

The British classification of social classes is as follows:

A	Upper class
B1	Upper middle class
B2	Middle class
C1	Lower middle class
D	Manual or semi-skilled class
E	Unskilled class or subsistence level.

Click on the ad to read more

Differences in income levels in regions

Income may vary among the social classes that exist in society but it may vary as well as in regions. Certain places like Beverly Hills, London, Paris, New York, Sydney among others have areas where the rich people live. There are millionaires and opinion leaders in various fields. among such a category of income earners.

Conurbation areas may have populations which either receive high incomes and low incomes as well. For example, certain areas in Mumbai, Jakarta, Sao Paulo, Mexico City have a contrast of income earners. A certain population may be very rich and afford the luxuries of life whereas another section may have to contend with a minimal salary.

Income distribution may vary among different regions as well. Rural areas across the world have more peasants and manual labour than urban areas. This means that people in rural areas will generally earn a lower income as they depend much on their day-to-day existence. This might be different from urban areas which can generally earn a higher income.

Income inequality is typically higher in developing and emerging economies than in advanced economies. In most major emerging economies, income inequality rose over the past three decades. The picture is mixed more broadly in the developing world. The largest increases among major emerging economies that are G-20 members, as measured by the Gini coefficient of disposable income, were in China, Russia, and South Africa, with India also experiencing a notable increase. One developing region that jumped the trend and saw some decline in inequality was Latin America. Several economies in the region, including Brazil, the region's largest economy, saw a drop in inequality, especially in the past two decades. Average income inequality in the region, however, remains the highest in the developing world [7].

Other factors that influence the distribution of income

The economic activity a country practices

If a country is labour-intensive, it is bound to have a better income than a country practising a labour-intensive economy. The reason is that where there is more capital outlay, more money can be generated through business activities.

Download free eBooks at bookboon.com

The education level of the community

A country which has a high educational level is bound to have people with higher earning power. This may differ from a country having a low level of education. Singapore, for instance, has a high level of education and its distribution of income is better than the Philippines that has a comparatively low level of education.

The natural resources of a country

If a country has natural resources that it can tap, then there may probably be a better spread of income among the population. For example, Arabian countries have a better income distribution because they benefit a lot from their natural resource which is petrol.

The country's political system

Some countries in the world are fully democratic because they believe in the freedom of choice or opinion of their community members.

Personal consumption expenditure and pattern

Personal consumption expenditure refers to the capital outlay done by an individual on personal grounds. We all have a different way of spending our money because this depends very much on our personal way of spending our money. Personal Consumption is nowadays to some extent deductible in income tax. Personal consumption is bound to increase annually as a result of increasing costs of living. Also, people may tend to pursue better standard of living. An increase in personal consumption may both indicate that a country is progressing and affected by economic difficulties. Governments may sometimes encourage the population to curb down on expenses as it may provide incentives for savings. Banks may apply such an incentive as a temporary measure.

Download free eBooks at bookboon.com

Private Savings

At country level

Private savings can help us understand the purchasing power of a community. If private savings are quite high, it is possible to say that the community has enough money as reserve. This can be later used to purchase goods. In other words, the more a community saves, the better it is in its financial position. We can clearly understand that countries that have low levels of savings might not be spending the money wisely. This is in the case of African countries which spend relatively much on military forces and do not have enough money for purchasing goods.

At personal level

Private savings can also be related to consumers in a society. If the consumers are able to save each month out of their income, it is logical to say that they can use their personal savings for later purchases. The more one saves, the better he can face a future purchase situation. Anyway, people who are able to save money can prepare themselves much better to the uncertainties of the future. This might not be possible among people who are unable to save, worse incur losses at the end of the month.

Private savings equation

The private savings equation tells us how much all the people who reside within an economy are saving. Private savings is defined as the total income (Y) (might be referred to as GDP or National income or just Income) minus the tax that they pay (T) and how much of their expenditure is used on consumption (C):

Private savings = Y - T - C
In essence, private savings is how much income all private citizens have 'left over' after they pay their taxes and purchase all the goods they desire [8].

Unit labour cost

Unit labour costs (ULC) measure the average cost of labour per unit of output and are calculated as the ratio of total labour costs to real output. Context: In broad terms, unit labour costs show how much output an economy receives relative to wages, or labour cost per unit of output.

Unit labour costs (ULCs) represent a direct link between productivity and the cost of labour used in generating output. A rise in an economy's unit labour costs represents an increased reward for labour's contribution to output. However, a rise in labour costs higher than the rise in labour productivity may be a threat to an economy's cost competitiveness, if other costs are not adjusted in compensation [9].

ULCs should not be interpreted as a comprehensive measure of competitiveness, but as a reflection of cost competitiveness. Unit labour cost measures deal exclusively with the cost of labour, which though important, should also be considered in relation to changes in the cost of capital.

Case Study: A concept of changing unit labour costs in emerging economies

The low-cost allure of emerging economies such China, India and Eastern Europe for Western companies is overdone once the meagre productivity of their workers. Productivity gains from new technology and innovation have to keep pace with often fast-rising wages of skilled and semi-skilled workers, or the 'cost advantage' begins to erode. The key for emerging economies is to promote productivity through technological change and innovation to match wage increases which will undoubtedly happen in a rapidly growing economy [10].

Click on the ad to read more

Billing the study as the first by a private-sector group to analyse standardised labour costs globally, the Conference Board said that Mexico, for example, loses nearly all its competitive advantage if productivity is factored in. Mexico's total wage costs were 11% of the average U.S. level in 2002. But because Mexican workers produce 10 times less than Americans per hour, the unit labour costs came out nearly the same.

India and China enjoy the biggest comparative edge because their wages are so low—less than 3% of the level paid to U.S. workers in manufacturing. Even with lower worker productivity factored in, unit labour costs in India and China are on average 80% lower than those in the United States. But the report also noted that those averages were for all manufacturing companies. U.S. and other foreign companies typically pay their local workers much more than domestic ones.

Newer and poorer entrants to the European Union as the Czech Republic, Hungary and Poland have seen their comparative advantage wane as wages have risen faster than their workers' productivity. In Poland, for instance, industrial workers earn about 13% of the average U.S. salary but their unit labour costs come out much higher at 73%.

These differences underscore the challenge that even very low-wage countries have in fostering productivity growth that keeps pace with or exceeds rising wage levels to preserve their relative global competitive position.

Source: Agence France-Presse (2006) 'Low-Cost' Economies Not So Cheap, Industry Week [10].

Questions

How might an increase in unit labour costs in emerging economies affect their competitiveness? How might foreign companies affect labour costs when they operate in emerging economies? Explain the competitiveness of Poland with regards to its employee's earnings and unit labour cost.

Consumer Price Index

The Consumer Price Index (CPI) measures the average change in prices over time that consumers pay for a basket of goods and services, commonly known as inflation. Essentially it attempts to quantify the aggregate price level in an economy and thus measure the purchasing power of a country's unit of currency. The weighted average of the prices of goods and services that approximates an individual's consumption patterns is used to calculate CPI [11].

Download free eBooks at bookboon.com

CPI is widely used as an economic indicator. It is the most widely used measure of inflation and, by proxy, of the effectiveness of the government's economic policy. The CPI gives the government, businesses, and citizens an idea about prices changes in the economy, and can act as a guide in order to make informed decisions about the economy.

The formula used to calculate the Consumer Price Index for a single item is as follows:

CPI = Cost of Market Basket in Given Year / Cost of Market Basket in Base Year x 100
The base year is determined by the Government or Bureau of Labour.

Consumer Price Index Indicators for selected emerging economies [12]

Country	Last	Previous	Reference	Range
Mauritius	103	104	Jun/19	9.85 : 106
Moldova	2529	2495	May/19	119 : 2529
Thailand	103	103	Jun/19	18.8 : 103
Trinidad and Tobago	108	108	May/19	23.5 : 109
Vietnam	112	113	Jun/19	100 : 113
Zambia	229	229	Jul/19	82.7 : 229

Inflation rate

The rate of inflation is the change in prices for goods and services over time. Measures of inflation and prices include consumer price inflation, producer price inflation and the House Price Index.

The Inflation Rate is a measurement of the rise of general price level over a period of time. It's usually calculated for a year, quarter or month. That is to say the Inflation Rate is a decrease of a purchasing power of currency. The higher the inflation rate is; the fewer goods or services you can buy for a unit of currency. The process opposite to inflation is called deflation, which is a decrease of general price level.

The Inflation Rate is calculated by dividing the difference between CPI index for the ending period and CPI for the starting period by CPI index for the starting period. This number is to be multiplied by 100 to get the number reflected as a percentage.

Download free eBooks at bookboon.com

$$\text{Inflation Rate} = \frac{\text{CPIx}-\text{CPIy}}{\text{CPIy X } 100\%}$$

Where y is the initial consumer price index for the calculated period/time, and x is the ending consumer price index for the period calculated.

Effects of Inflation

The effects of inflation are highlighted in the columns below. The inflation rate is generally close to the consumer price index. For most countries, efforts are undertaken to lower or control inflation. Today, Venezuela and Zimbabwe can be counted as two nations having an excessively high inflation due to poor economic and political management. The annual inflation rate in Venezuela fell to 282,973 in April 2019 from 329,568 in the previous month, according to the Central Bank. Inflation Rate in Venezuela averaged 4374.19 percent from 1973 until 2019, reaching an all-time high of 815194 percent in May of 2019 and a record low of 3.22 percent in February of 1973. This deters investment in such nations [13]. Some effects of inflation briefed below are: encouraging spending, lowering cost of borrowing, increasing spending and investing, reduction of unemployment and weakening the local currency. [14].

Need help with your dissertation?

Get in-depth feedback & advice from experts in your topic area. Find out what you can do to improve the quality of your dissertation!

Get Help Now

Go to www.helpmyassignment.co.uk for more info

Helpmyassignment

Download free eBooks at bookboon.com

Click on the ad to read more

Effect (Positive or Negative)	Short explanation
Erodes purchasing power	Inflation is a decrease in the purchasing power of currency due to a rise in prices across the economy.
Encourages spending and investing	A predictable response to declining purchasing power is to buy now, rather than later.
Raises the cost of borrowing	If interest rates are low, companies and individuals can borrow cheaply to start a business, earn a degree, hire new workers, and encourage borrowing.
Lowers the cost of borrowing	When there is no central bank, or when central bankers are indebted to elected politicians, inflation will generally lower borrowing costs.
Reduces unemployment	There is some evidence that inflation can push down unemployment. Wages tend to be fixed, meaning that they change slowly in response to economic shifts.
Increases growth	Unless there is an attentive central bank on hand to push up interest rates, inflation discourages saving, since the purchasing power of deposits erodes over time. That prospect gives consumers and businesses an incentive to spend or invest.
Weakens a currency	High inflation is usually associated with a slumping exchange rate, though this is generally a case of the weaker currency leading to inflation, not the other way around.

Perspective

Inflation: a new worry for emerging markets

Among all the worry about the effect of the credit crisis on emerging markets, another vital issue for the developing world has been overlooked. Following years of strong growth and the surge in commodity prices, notably food (in some countries, subsidies cushion the impact of higher energy prices), inflation is 'back with a vengeance'. In Ukraine, it has hit 26%, Sri Lanka's rate is 25% and Latvia's 17% [14].

Download free eBooks at bookboon.com

The Bank of Turkey foresees a rate of 10% in the third quarter, while in China inflation remained above 8% in March and non-food inflation hit a seven-year high of 1.8%, a sign price pressures may be spreading beyond food. Meanwhile, Russia is showing signs of overheating, with nominal wages growing by 30% year-on-year; higher labour and food costs are underpinning inflation of 13.3%. Vietnam's boom has pushed inflation to 21%. Merrill Lynch is now forecasting inflation across emerging markets of 6.7% this year, a seven-year high. And according to JPMorgan, inflation in developing economies is around 3% above the average target ceiling.

Food prices have a much bigger impact on overall inflation in poor countries as food comprises a larger share—around 50% in some states—of household expenditure. Another problem is that some countries still peg their currencies to the dollar, while others, in order to bolster exports, have been wary to allow their currencies to rise, which would help temper inflation. So monetary conditions in many emerging markets have been too loose.

Burgeoning emerging market inflation makes it unlikely that the developing world can rely on domestic consumption to offset sliding exports as America falls into recession and Europe slows, as David Roche of Independent Strategy notes in the Wall Street Journal. That augurs ill for global economic health. The countries most exposed to commodity inflation, such as China and India, are "precisely the ones that the world economy now depends on for most of its growth.

Emerging countries are now having to tighten monetary policy to tame inflation— even though growth in their export markets is slowing and undermining overall growth. China, Brazil, South Africa and India have all raised rates recently, and tighter monetary policy, which hampers growth, is not good news for stocks; high inflation also erodes profit margins.

Points to ponder

Food prices have a much bigger impact on overall inflation in emerging countries as food comprises a larger share of household expenditure. Growing emerging market inflation makes it unlikely that the developing world can rely on domestic consumption to offset slipping exports. Emerging countries are now having to tighten monetary policy to control inflation.

Download free eBooks at bookboon.com

Multiple Choice Questions

Select the most likely answer in each question

1.	The more ……………… a foreign market is, the ………….. it will be for an organisation to find out the potential market.	
	A.	differentiated, tougher.
	B.	undifferentiated, tougher.
	C.	differentiated, easier.
	D.	undifferentiated, easier.

2.	One factor within market size to identify market potential is	
	A.	connectivity.
	B.	population.
	C.	compound annual growth rate.
	D.	broadband internet connection.

3.	The 'Purchasing Power Parity' states that the exchange rate of two currencies will be in ………………… with their respective purchasing powers.	
	A.	equilibrium'
	B.	imbalance.
	C.	disequilibrium.
	D.	disparity.

4.	A light-hearted guide to whether currencies are at their 'correct' level based on the theory of purchasing-power parity is the	
	A.	Mc Donald's Index.
	B.	Coca-Cola Index.
	C.	KFC Index.
	D.	Big Mac Index.

Download free eBooks at bookboon.com

5.	A company might not make successful business in an emerging economy if	
	A.	operation costs are high.
	B.	the economy is stable.
	C.	business incentives may be provided by the government.
	D.	the economic and political situation in the country is stable.

6.	The Gross National Product gives an indication of the revenue generated in	
	A.	all sectors of the economy of a country.
	B.	a few sectors of the economy of a country.
	C.	selected sectors of the economy of a country.
	D.	common sectors of the economy of a country.

Click on the ad to read more

7.	The private savings equation is best illustrated by………. where Y equals to taxation, X is expenditure and C is consumption.	
	A.	Y - T + C.
	B.	Y - T - C.
	C.	Y + T + C
	D.	Y + T -C

8.	Unit labour costs (ULCs) represent a direct link between	
	A.	input and the cost of capital.
	B.	productivity and the cost of capital.
	C.	input and the cost of labour.
	D.	productivity and the cost of labour.

9.	One effect of inflation in an emerging economy is that	
	A.	it increases purchasing power.
	B.	it imptroves the growth.
	C.	it weakens the local currency.
	D.	it favours consumer spending.

10.	Emerging countries may have to tighten monetary policy to	
	A.	accelerate inflation.
	B.	increase inflation.
	C.	control inflation.
	D.	Speed up inflation.

Solutions: 1C2B3A4D5A6A7B8D9C10C

Download free eBooks at bookboon.com

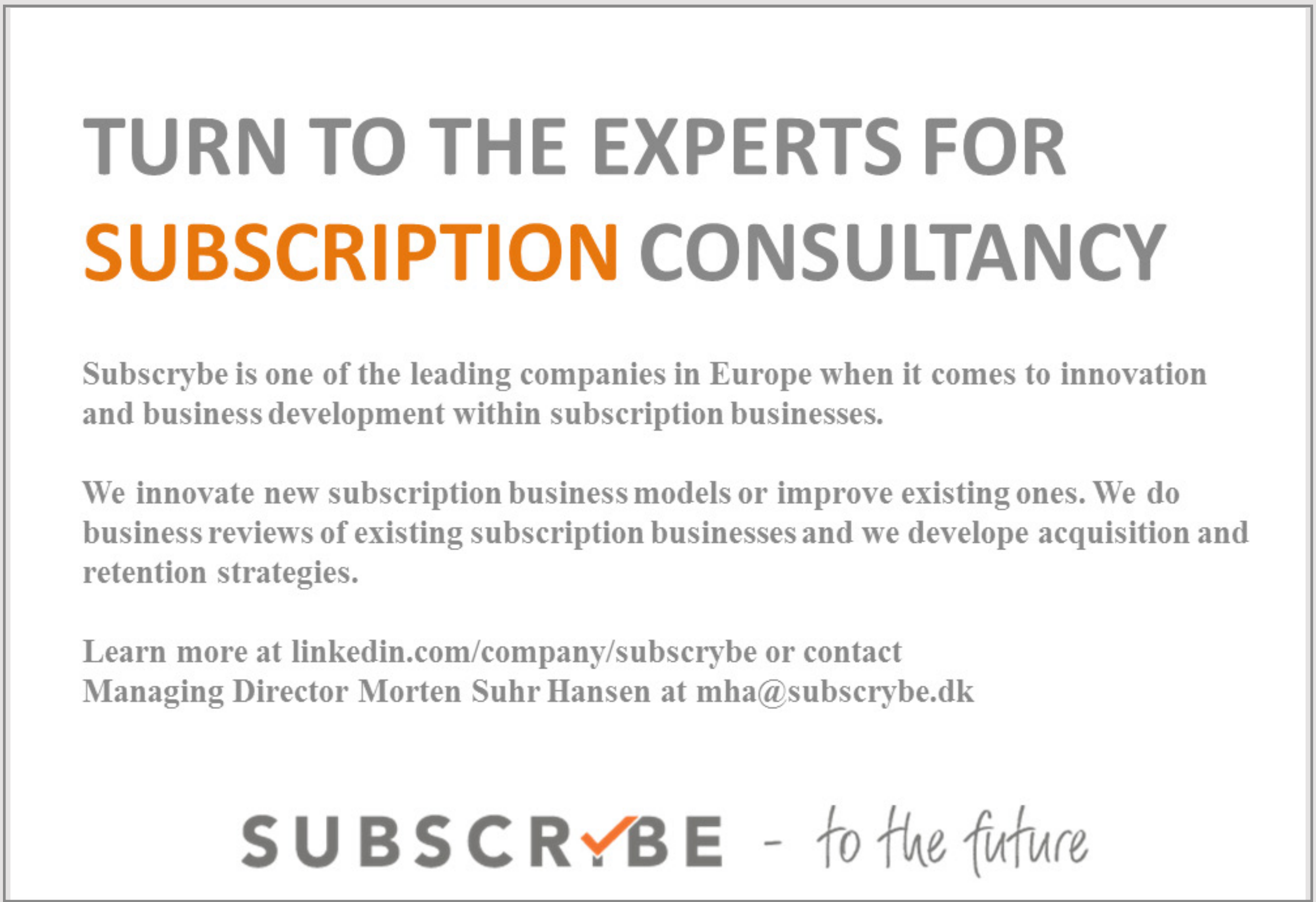
References

[1] Quain, S. (2018) Types of economic analysis, https://smallbusiness.chron.com
[2] Market Potential Index (MPI) – 2019, https://globaledge.msu.edu/mpi
[‘3] Hemmerling, K. (2017) What are the indicators used in developing the Market Potential Index? https://bizfluent.com
[4] Amadeo, K. (2019) Purchasing Power Parity, how to Calculate PPP and how to use it, The Balance.
[5] Burgereconomics 92019) the Big Mac Index, The Economist.
[6] Country Economy (2019) Gross Domestic Product, countryeconomy.com
[7] Dervis, K. and Qureshi, Z. (2014) Income distribution within countries: Rising inequality, https://www.brookings.edu
[8] Central Intelligence Agency. (2016). Budget. The World Fact Book.
[9] Key Indicators of the Labour Market (KILM): (2002) International Labour Organisation.
[10] Agence France-Presse (2006) ‘Low-Cost’ Economies Not So Cheap, Industry Week.
[11] Chen, J. (2019) Definition of Consumer Price Index, Investopedia.
[12] Trading Economics (2019) Economic Indicators, https://tradingeconomics.com
[13] Trading Economics (2019) Venezuela Inflation Rate, https://tradingeconomics.com
[14] Floyd, D. (2019) Nine common effects of inflation, Investopedia.
[15] Money Week (2008) Inflation: a new worry for emerging markets, https://moneyweek.com

Download free eBooks at bookboon.com

15 ANALYSIS OF POPULATION CHARACTERISTICS FOR INTERNATIONAL BUSINESS PROSPECTS

Population characteristics might be important arguments for business managers in an international business prospect. This might also be the very first issue of concern for multinationals especially when they are moving beyond their borders. There is the argument that the world has a higher population over the years and this has increased significantly since the baby boom after the post-World War II period. At the same time, emerging economies have experienced a population surge due to progress made in medicine but also through inadequate programmes to curb the fertility rate. If rich countries have forwarded strong political moves to reduce the population rise that might today account for an increase in senior citizens, the contrary has taken place in emerging economies—not all—that have experienced a rise in their population.



Click on the ad to read more
Download free eBooks at bookboon.com

From a socio-economic perspective, rising populations in emerging economies might be initially considered as a threat since the concept aligns with the Malthusian theory that explains that population rises geometrically while food production for survival progresses arithmetically. This might today explain how the world population consumes resources far quicker than the planet itself produces. Such an imbalance might also raise the question of the imbalance between production and consumption where the higher the population growth, the greater the threat exists in term of food availability or shortage. This might create the risk of famine in poor countries.

Comparatively, emerging nations might have a young population where nearly 50% or more of the population comprises the young generation. This is an advantage in terms of productive labour available. At the same time, technology in production has shifted to emerging economies thereby reducing the need for manual labour. In such circumstance, there might be the young population left aside without attractive job prospects and that might have the tendency of moving to the rich world in search of better job prospects. Such brain drain is evidenced in many parts of the world.

Large or increasing populations might, however, be interesting prospects for western multinationals. India having around 250 million of middle-class citizens looks to be a potential market where consumers are aiming to afford higher luxuries of living. Businesses can have the potential of exploiting such a market. The same might apply to Nigeria which is the second largest economy in sub-Saharan Africa claiming a potential of increasing the purchasing power of is aspiring middle-class.

There is another useful concept where e-business has become more evident in emerging economies. Populations might be initiated to new ways of communicating and business opportunities exist. Initially, such a prospect firstly benefits domestic companies but competition also comes from international companies. It is also important to consider population consumption patterns. Traditional populations might be nomadic or limited in terms of movement and choice. They might respond less efficiently to the materialistic offer of foreign companies. There could also be limitations in choices of products due to dietary habits or customs having strong influence upon such people. Young generations in emerging economies might show a reverse trend. There is the potential of purchasing products without much constraint and barriers like religion, choice, parental pressures, etc. might be better overcome in such communities.

Download free eBooks at bookboon.com

The international manager has to analyse the population characteristics and other socio-economic data in order to gather information on the number and the distribution of people. Socio-economic data involve the elements such as the size and growth of the population, the age distribution, the population density and distribution, ethnic composition and other factors such as literacy rate, the level of education, income, etc. The importance of studying population and socio-economic characteristics are beneficial to the international businessman in the following ways:

The concept of global village

They help the international businessmen to have a general overview of the population which lives in this world. Western marketers have perhaps thought too much in terms of the American and the European market. This is not a complete world in itself as other components of the world population which come from various races are also part of the global market.

Marshall McLuhan was the first person to popularise the concept of a global village and to consider its social effects. His insights were revolutionary at the time, and fundamentally changed how everyone has thought about media, technology, and communications ever since. McLuhan chose the insightful phrase 'global village' to highlight his observation that an electronic nervous system (the media) was rapidly integrating the planet where events in one part of the world could be experienced from other parts in real-time, which is what human experience was like when we lived in small villages [1].

One of the earliest thinkers along this line was Nicolas Tesla, who in an interview with Colliers magazine in 1926 stated: '*When wireless is perfectly applied the whole earth will be converted into a huge brain, which in fact it is, all things being particles of a real and rhythmic whole. We shall be able to communicate with one another instantly, irrespective of distance* […] *and the instruments through which we shall be able to do his will be amazingly simple compared with our present telephone. A man will be able to carry one in his vest pocket* [2]'

Each segment of the world population is a potential buyer

It is unfortunate to think that only people living in the western world are potential purchasers of products. This perception must be changed nowadays as marketers must consider the whole world as a potential market. Different races have different characteristics and they purchase goods. They form part of a potential market and such an advantage must be seriously considered.

Download free eBooks at bookboon.com

Good news may be coming out of emerging markets. Consumption spending in Asia-Pacific as a whole looks set to expand at the fastest rates globally in the next couple of years, boosted by growth in China and India. Although China's consumption has decelerated along with the overall economy, consumption spending in what is now the world's second biggest economy is still expanding at a rapid pace and looks to be contributing 4 to 5 percentage points to growth. And India's economy is growing faster than China's. Latin America's economies have been suffering from the commodity downturn and elevated political uncertainty but there are signs that they are stabilizing. Brazil—the biggest economy in the region and the eighth-largest national economy in the world—could turn a corner next year, and we see it reaching the bottom of its sharp consumption spending decline this year, helped by moderating inflation and prospects for monetary easing. emerging market consumption growth will again outpace the developed world in 2017 [3].

The world is in a constant state of flux

The world is evolving nowadays. Perceptions, views and appreciation of people are also changing. For example, consumers are nowadays thinking more of purchasing fast foods. Advertisement and publicity are re-shaping the views of people. The global community is wishing to purchase goods of a similar kind. Nevertheless, there is diversity among the races and it must also be considered that fundamentalism in certain countries may mould the opinion of people differently.

Germany, a country with a birth rate of 1.36 is estimated to have one-third of its population above 60 by 2030. The retirees are qualified for pension at almost 70% of last drawn wages. The new generation now looks at a pension plan where they will contribute more for less returns. Certain countries like China and South Korea face workforce shortage as the existing employees retire without appropriate people to replace them. India by and large are going to be the talent pool of the Global Corporations. The Young Indian workforce which values growth above everything else therefore requires a concerted effort from the Government and the Industry to be able to carry out its responsibilities [4].

Size and growth of the world population

The fastest doubling of the world population happened between 1950 and 1987: a doubling from 2.5 to 5 billion people in just 37 years — the population doubled within a little more than one generation. This period was marked by a peak population growth of 2.1% in 1962. The world's population is actually evaluated at 7,7 billion people, China and India having

Download free eBooks at bookboon.com

a population of more than two billion people alone with 1.42 and 1.37 billion respectively. There has been a substantial population growth worldwide and this is more evident in third world countries. It has been said that the global population could double in the next fifty years. Asia and Pacific: 4.54 billion, Europe: 742 million, Africa: 1,28 billion million, North America: 363 million, South America: 651 million. [5]

Evolution: **1850**: *1,24* billion; **1900**: *1,6* billion; **1950**: *2,5* billion; **1990**: *5,4* billion, **2000**-6 billion, **2010** 6,9 billion, **2019** 7.7 billion.

In emerging economies, there is a young population. In other words, due to the high birth rate, the population in developing countries is constantly rising and rejuvenating. This is not the case for the western world or industrialised countries, where there is a stable growth in population or a relative decline in population growth. Demographers are of view that there is an ageing population in the advanced world [6].

The pace of change will vary substantially across different regions. Africa's population–the fastest growing—is set to double by 2050. Europe's is projected to shrink. Fertility in Latin America will remain higher than mortality. The average age in Japan in 2050 will be 53–in Nigeria it will be 23.

Click on the ad to read more

These developments have profound implications both locally and globally. All countries will need to implement bold policies to cope with these demographic changes. In North America and Europe, as well as much of Asia and Latin America, supporting an ageing population will require greater participation in the labour force from women and the elderly, and possibly also higher levels of immigration. Africa's younger population is a major opportunity, but will require the right policy conditions to maximize the benefits of this demographic dividend: more young people is only an advantage if you can generate enough jobs for them.

Problems associated with population growth

Resource scarcity

When there is a rise in population, resources become more and more scarce. It becomes difficult to grow more and even produce more because our resources are limited and consumed. For example, with a rise in the number of car users, petrol is going to be used up more rapidly. There must be more growth of agricultural products to sustain the rise in population.

Environmental problems

Definitely, environmental problems will increase. As there is a larger population to manage, problems of control with regards to population becomes difficult. There will be more slum areas, environmental problems such as the pollution of the air, water and land will increase. Also, it becomes difficult to manage the waste caused by a larger population.

Social problems

With a larger population, more social problems will crop up. For example, there is the possibility of having more problems linked with violence such as delinquency, theft, crime, and other social problems.

Economic problem

Countries which have a large population find it more difficult to manage their economy. Expenses may be higher in fields such as education, health, welfare for the elderly. This is why certain countries are no keener to provide more facilities to the different sections of the population.

Download free eBooks at bookboon.com

Less equitable share of wealth

As population rises, there is bound to be a larger discrepancy between the rich and the poor. The rich may get richer whereas the poor may get still poorer aggravating the phenomenon known as exclusion.

Age distribution

In advanced nations, there is an ageing population already as couples have fewer children and marry at a later stage. The fertility rate in such countries is definitely on the decline. This contrasts sharply with developing nations where there is a higher number of young people. This is the case for Africa. If there are younger people, the advantage is that there is a potential workforce that can exist in such countries. The problem is about how such a large number of young people will be placed in different jobs. It is quite apparent that demand for jobs will largely exceed supply and this may lead to unemployment.

Population density and distribution

The population density refers to the number of people per square kilometre. Capital cities of many countries have very large population densities. Places like Jakarta, Rio de Janeiro, Bombay, New York, Calcutta, Beijing, among others have a very large concentration of people. This is because such places are affluent and have many industries. Since they are thriving cities, people make mass migration to the towns in order to live their dreams and enjoy a better living standard. Island nations also face this problem. Singapore, Hong Kong, and Mauritius are among the most densely populated parts of the world in terms of population density. If this problem was not well managed in such countries, severe economic difficulties would be encountered. Certain places however have a low population and consequentially, a low population density. Places such as Namibia, Australia, Madagascar, Angola and Canada have a comparatively low population density, at times one person per square kilometre. Certain among them invite investors to develop their economy, other attract people through immigration.

Download free eBooks at bookboon.com

Perspective

Rising young population in emerging economies

There is a notable discrepancy between numbers in emerging and developed economies. Emerging markets account for a forecast 89.8% of the total population aged under 30 in 2014. This age group will account for just one third of the population in developed economies in 2030 compared to nearly half (46.5%) in emerging and developing countries [7].

Even emerging markets are ageing and their share of the population aged under 30 is declining. In 1980, the age group accounted for 65.4% of the region's total population and this fell to 52.7% in 2013 and will carry on the downward trend to reach and estimated 46.5% in 2030. These developments will shape working-age population and labour market trends. The Middle East and Africa region has the largest share of under-30s in its population globally and will experience the largest growth of all regions in the world in its working-age population (aged 15-64) with 46.4% period growth over 2014-2030.

Eastern Europe has amongst the lowest under-30s ratio to total population and its working-age population will actually decline by a forecast 10.6% in the same period. Eastern Europe will therefore face a squeeze of its labour resources, impacting government employment

Click on the ad to read more
Download free eBooks at bookboon.com

policy and the business environment, while emerging countries will continue to offer a young and growing workforce;

Latin America and Asia Pacific are also prominent for having large populations under the age of 30. We forecast that this group will account for 43.7% and 40.7% of their respective total populations in 2030. However, developed economies will retain greater potential in terms of higher average gross incomes of their younger consumers.

Points to ponder

Emerging markets account for a forecast 90% of the total population aged under 30 recently. The Middle East and Africa region has the largest share of under-30s in its population globally and will experience the largest growth in the world. Latin America and Asia Pacific are also prominent for having large populations under the age of 30 namely some 40%.

Case Study: A growing consumer market in emerging economies

Emerging economies will likely play a large role in the growth of consumer products companies, given the positive outlook for most of these markets long term, and the secular and demographic challenges facing the industry in more advanced economies. In light of our projection for low-single-digit organic sales growth in the next three to five years in developed markets (where modest economic growth, changing tastes—especially among Millennials—and ageing populations will weigh on revenues), we believe consumer product companies will continue to invest in emerging markets [8].

Demand for branded good should grow along with the number of middle-class consumers, particularly in China, where consumers have shown a preference for premium-branded products. Demand for basic items such as diapers and meat products will also likely increase as income levels rise.

Geographic diversity will help companies generate more consistent profitability, as periods of economic weakness in one region can be offset by economic strength in another. A good example is Colgate-Palmolive Co., one of the most geographically diverse companies and one that reports consistently solid operating performance. Moreover, the compound annual growth rate of Colgate's organic sales has exceeded 5% from 2009 to 2015, largely due to its presence in emerging markets. Developed markets have been growing at a low-single-digit rate.

The biggest European consumer product companies--Unilever PLC, Reckitt Benckiser Group PLC, Danone, and Nestle S.A—also posted solid results in 2015, despite tough macroeconomic conditions facing them in developed markets.

Download free eBooks at bookboon.com

However, operating in developing markets doesn't come without risks, like currency volatility and geopolitical risks (including election outcomes). Therefore, we expect companies to enter markets slowly or through a joint venture, and to diversify manufacturing and debt denomination. The sharp rise in the dollar last year resulted in U.S.-based multinational corporations reporting lower operating profits, though no ratings were affected as many consumer-products companies reduced share repurchases to maintain stable credit metrics.

Source: Tanchua, J., and Shand, D. (2016) Emerging Markets May Offer the Most Potential for the World's Largest Consumer-Focused Companies, https://www.spglobal.com [8].

Questions

Why is there a potential for consumer goods in China in relation to a high population of middle-class citizens? How might geographical density impact the profitability of companies in emerging economies? What might be the risks associated with trade in emerging economies?

Political Influences related to International Business

Political forces can exert diverse influences in the multinational enterprises' environments. Politics refer to the types of governments and ideologies they follow. Politics is a very sensitive issue especially when it relates to country matters both at local and international level. Any government does not want political intervention in its internal affairs because this is bound to create unethical interference and disorder in a country. Multinational organisations can be influenced by political factors like government support, relations with politicians and people of influence in the government, bilateral relationships between nations, treaties and licenses to undertake business in a foreign territory. Some politicians in a country may show a high degree of patriotism whereas others may be more open to influences from the western world. Apparently, political relations are essential in the setting up of efficient business opportunities but they must be devoid of negative influences like nepotism, bribery or corrupt practice or any illegitimate influence and pressure on a foreign government.

An essential component of political influence comes from bilateral or multilateral agreements. The creation of economic or trading blocs is paramount to the increase of trade exchanges among nations. Some countries might also get engaged in a double tax agreement treaty (DATT) whereby products and services are taxed in either country thereby forgoing tax in both environments. Under such treaty, trade opportunities are boosted but trade agreements as such cannot be expected to be eternal. They might need to be renegotiated.

This section firstly analyses a few political systems which are in line with the economic system of a nation. Socialism claims to be government oriented while it may have variations like capitalist socialism favouring welfare of people and communist-oriented socialism

Download free eBooks at bookboon.com

which might be mostly state-influenced and controlled. Democracy is the most attractive prospect where there is freedom of enterprise encouraging businesses to operate within legal parameters but still enjoying a high level of financial freedom in terms of investment, recouping profits, expanding the business and developing alliances in a foreign country. Such capitalism is sought after by multinationals that find it more attractive to invest in emerging economies favouring democracy. India attracts high level of investment through this system while African nations favouring multiparty system with more political parties contesting elections are better business prospects for multinationals.

The case of Zimbabwe is compelling here as foreign businesses fear the political risk of such a nation where there might be the risk of expropriation that was partly evidenced through the Mugabe regime. There might also be the risk of economic failure due to a shaky political system coupled with poor financial governance. In this way, it becomes more engaging for companies to seek trade opportunities with governments that favour foreign direct investment and that have institutions encouraging a fast setting up of trade opportunities. This comes from a political will to open the domestic economy, enhance regional trade first but also consider the importance of developing international business prospects. Emerging economies are eager to attract investors but success stands on their political agendas.

Click on the ad to read more

Types of political systems

Two main types of political systems are discussed here namely socialism and capitalist democracy.

Socialism

Socialism is a doctrine that has been closely related to communism but rests on the fundamental point that the government works for the benefit of society. Socialism has had an influence in the former U.S.S.R, China and countries of Eastern Europe which were to a certain extent pro-Communist. Socialism is also present in the western world because the rationale rests on working for the benefit of society. However, countries have rather adopted variations in relation to socialism, such as social democrat, communist socialist, France is under a socialist regime since the coming of power of Mitterrand in 1981 followed by the Jospin government actually in power. The government provides suitable incentives like “allocations” to various classes of people.

Capitalist democracy

Democracy is a more liberal type of government. Democracy means the freedom of assembly and speech. Any country cannot be 100% democratic or ultra-liberal. There must be a certain degree of government control otherwise this can lead to chaos. This is why certain governments declare themselves as liberal democrats (France), social democrats (UK), paternalistic democracy (Singapore). Democracy therefore has variations and it is not the same in every state which practices it. Nevertheless, democratic governments are exposed to influences from the western world. Since the nineties, Eastern European nations are opening their doors to an open economy thereby favouring democracy.

Political risks

Political risks refer to the risks for foreign companies which enter a new country. When a multinational carries out a country assessment, it must cast a glance on the type of government and the political system in vigour in the country.

Entering a planned economy represents a real risk because the government may allow few incentives to the multinational. Restrictions may be as follows: tax on the revenue earned, a limited number of foreign workers or staff, little manoeuvre for expansion or development. Other risks can be the closure and seizure of assets of the firm when strong political moves are made by the government.

Download free eBooks at bookboon.com

Political risks are evident in states which practice totalitarianism or dictatorship. Such governments are unstable and can be overturned at any time by guerrillas or rebels. If the assets are taken by the government, then it can lose not only its assets, but the other privileges such as a potential market, expected revenue and profits and raw materials if ever the host country is a source of raw material provision. This accounts for the desire for firms to move to democratic states where there are incentives for investment and more peace as well. An annual UN report provides information related to the political risks. Switzerland and Singapore are less prone to risks.

Deloitte.
Discover the truth at www.deloitte.ca/careers
© Deloitte & Touche LLP and affiliated entities.
Click on the ad to read more

Political risk and Political Instability

Political Risk	Political Instability
Risk of expropriation Assets of a firm may be taken by the government in force. The managers or regional directors may be allowed to leave the firm.	*Unstable Climate* There may be lots of warfare and guerrilla attacks in certain countries. These affect the smooth day-to-day running of the business.
Risk of nationalisation Certain governments may nationalise industries because they believe in the advantages and profits that can be generated by the firm.	*Changes in governments.* Governments may change every then and now and this illustrates the concept of banana republic.
Risk of heavy taxation Taxation can be very high in certain countries because governments may view multinational organisations as business mongers who are there to generate profit and exploit both natural resources and the workers.	*Uncertainty* The economic environment may be uncertain because of the inherent political risk. Each time, a new government may come with a new programme as well as a new set of measures which may go against the development of the firm.
Risk of interference This may come from both sides: The multinational directors may participate in the political financing of companies. On the other hand, governments may have vested interest in multinationals.	*Revolution* Certain politicians like the notion of ruling over the country according to their own will. They can considerably affect the smooth development or progress made by the firm.
Chauvinism Certain governments dislike foreign companies because they wish to protect the local industries. They may show resentment and lack of openness to foreign companies. Success may not be reaped in the future.	*Unemployment can rise.* Because of unstable governments or politicians who lack a vision of the future, there can be are sudden rise in unemployment which affects a country's development.

Perspective

The Libyan crisis persists

After several failed attempts at mediation led by the United Nations, the Libyan crisis seems to be deadlocked once again. Undermined by political fractures inherited from the post-Gaddafi transition, Libya remains a divided territory. The UN is trying to find a political solution to the conflict and to reunify the two governments through parliamentary and presidential elections. Despite some progress in the political resolution of the conflict, the country continues to be undermined by clashes, particularly around oil fields [9].

Download free eBooks at bookboon.com

Recovery in oil production

Despite the disruptions between June and July, oil production stood at around 1 million barrels per day in 2018, thus ensuring that Libya recorded its second year of growth after the crisis. Despite the obsolescence and destruction of some infrastructure, Libyan production is expected to remain at a comparable level in 2019. Foreign companies seem to be making a cautious return to the country. British oil company BP has announced a partial resumption of exploration activities in collaboration with National Oil Corporation of Libya in 2019. However, FDI flows will remain very limited until the political situation is clarified and peace returns to the territory.

Meanwhile, the non-oil economy continues to be hindered by a lack of resources and continued security concerns. The increase in oil exports has partly made it possible to respond to the shortage of foreign exchange and alleviate the pressure on the parallel exchange rate, leading to a slight drop in prices. In addition, the Libyan central bank plans to apply a tax on foreign currency transactions to narrow the spread between the official and black market exchange rates. Households, who have seen their purchasing power cut by 80% since 2011, should benefit from more stable inflation and civil service wage increases.

Substantial twin deficits

Despite a significant increase in budgetary revenues, the government deficit remained significant in 2018. Higher oil revenues failed to offset the growth in wage expenditure, which reached 48% of GDP. The Tripoli government has, however, embarked on a fiscal consolidation plan aimed at reducing the share of incompressible expenditure by scaling back subsidies (10.6% of GDP). Nevertheless, these reforms will need time to take effect given the country's political instability and the lack of legitimacy of the presidency, which, despite the support of the international community, is struggling to assert its authority across the nation.

Points to ponder

FDI flows will remain very limited in Libya until the political situation is clarified and peace returns to the territory. Reforms will need time to take effect given the country's political instability and the lack of legitimacy of the presidency.

Download free eBooks at bookboon.com

Case Study: Political instability in Venezuela [10]

Venezuela's political crisis is exacerbated by a twin tornado of economic and security problems. Venezuela, with its nonsensical system of currency controls, is by far the most dysfunctional economy in Latin America. Inflation is expected to top 1600% this year. At the same time, Venezuela's murder rate of 91.8 per 100,000 is high enough to give the country the inglorious title of being the world's second most violent country. (Mexico, by contrast, has a murder rate of 17 per 100,000). Caracas, Venezuela's capital, is now ranked as the most violent city in the world. The murder rate in Caracas is an astounding 130 per 100,000 residents.

With frustrations over crime and economic problems mounting and President Maduro trying to entrench his position and silence critics it does not look like there are any easy solutions for Venezuela's problems.

The Venezuelan economy will continue to shrink and people will suffer because of it. Inflation is out of control and Venezuelans are finding it hard to keep up. The government's only solution seems to be to increase the minimum wage and the amount of food stamps, which only makes matters worse since all food is imported. No trick will pull them out of crisis. New exchange rates, currency devaluations, and more international borrowing will only pull the country further adrift. While some say that this is the beginning of the end for Maduro, the Venezuelan economy has been teetering on absolute collapse for some time now. The proverb says, 'when you're in a hole stop digging,' but it never mentions just how deep the hole goes. This is Venezuela.

To understand Venezuela is to accept unpredictability. Venezuela had an 80% probability of defaulting on its debt back in November 2016, yet it didn't. That said, the situation is far more likely to get worse before it gets better. The state oil company, Petróleos de Venezuela, S.A. (PDVSA), has said it will be able to make its April 12 foreign debt repayment, but another big test will come in the fall when another $3.5 billion is owed.

The economic calamity has helped usher in a humanitarian crisis unprecedented in our hemisphere. People are starving, hospitals don't have medicine or even working lights and the international community has yet to decisively act. We cannot let this situation go on. Further deterioration will not only cost lives through everyday suffering but lead to the potential of horrific violence and instability for the region.

Source: Flannery, N. (2017) Political Risk Analysis: Venezuela's economic crisis, Forbes [10].

Download free eBooks at bookboon.com

Questions

How does the poor economic situation in Venezuela relates to an efficient political system? What political risks exist for businesses willing to invest in Venezuela? How might a country assessment help a business manager to get prepared in the face of a political crisis?

Multiple Choice Questions

Select the most likely answer in each question

1.	According to Malthusian economic theory,	
	A.	population and food production rise arithmetically.
	B.	population rises geometrically while food production rises arithmetically.
	C.	population and food production rises geometrically.
	D.	population rises arithmetically while food production rises geometrically.

SIMPLY CLEVER
ŠKODA


Do you like cars? Would you like to be a part of a successful brand?
We will appreciate and reward both your enthusiasm and talent.
Send us your CV. You will be surprised where it can take you.
Send us your CV on
www.employerforlife.com
Click on the ad to read more

2.	A potential large middle-income class from an emerging economy might be	
	A.	Grenada.
	B.	Madagascar.
	C.	India.
	D.	Jamaica.

3.	When employees retire without appropriate people to replace them, there is	
	A.	idle labour.
	B.	excess labour.
	C.	labour shortage.
	D.	labour surplus.

4.	A large number of young people is an advantage in Africa if the governments can	
	A.	involve them in the military.
	B.	make them do surplus work.
	C.	provide them with relief funds.
	D.	generate jobs for them.

5.	As population rises, there is bound to be ……………. discrepancy between the rich and the poor.	
	A.	an insignificant.
	B.	an average.
	C.	a weaker.
	D.	a larger.

Download free eBooks at bookboon.com

6.	What percentage of the total population aged under 30 recently do emerging economies account for presently?	
	A.	90%.
	B.	19%.
	C.	9%.
	D.	20%.

7.	Political risks are evident in states which practice	
	A.	totalitarianism.
	B.	socialism.
	C.	democracy.
	D.	multiparty systems.

8.	When assets of a firm may be taken by the government in force, there is the risk of	
	A.	expropriation.
	B.	appropriation.
	C.	extortion.
	D.	nationalisation.

9.	If political reforms are not well established in Libya,	
	A.	food provision will increase.
	B.	migrant labour will decrease.
	C.	capital inflows will be low.
	D.	political tensions will decrease.

Download free eBooks at bookboon.com

10.	Which one of the following combinations apply to Venezuela presently?	
	A.	Low inflation and good governance.
	B.	High inflation and food scarcity.
	C.	Limited resources but stable economy.
	D.	Weak democracy but good fiscal policy.

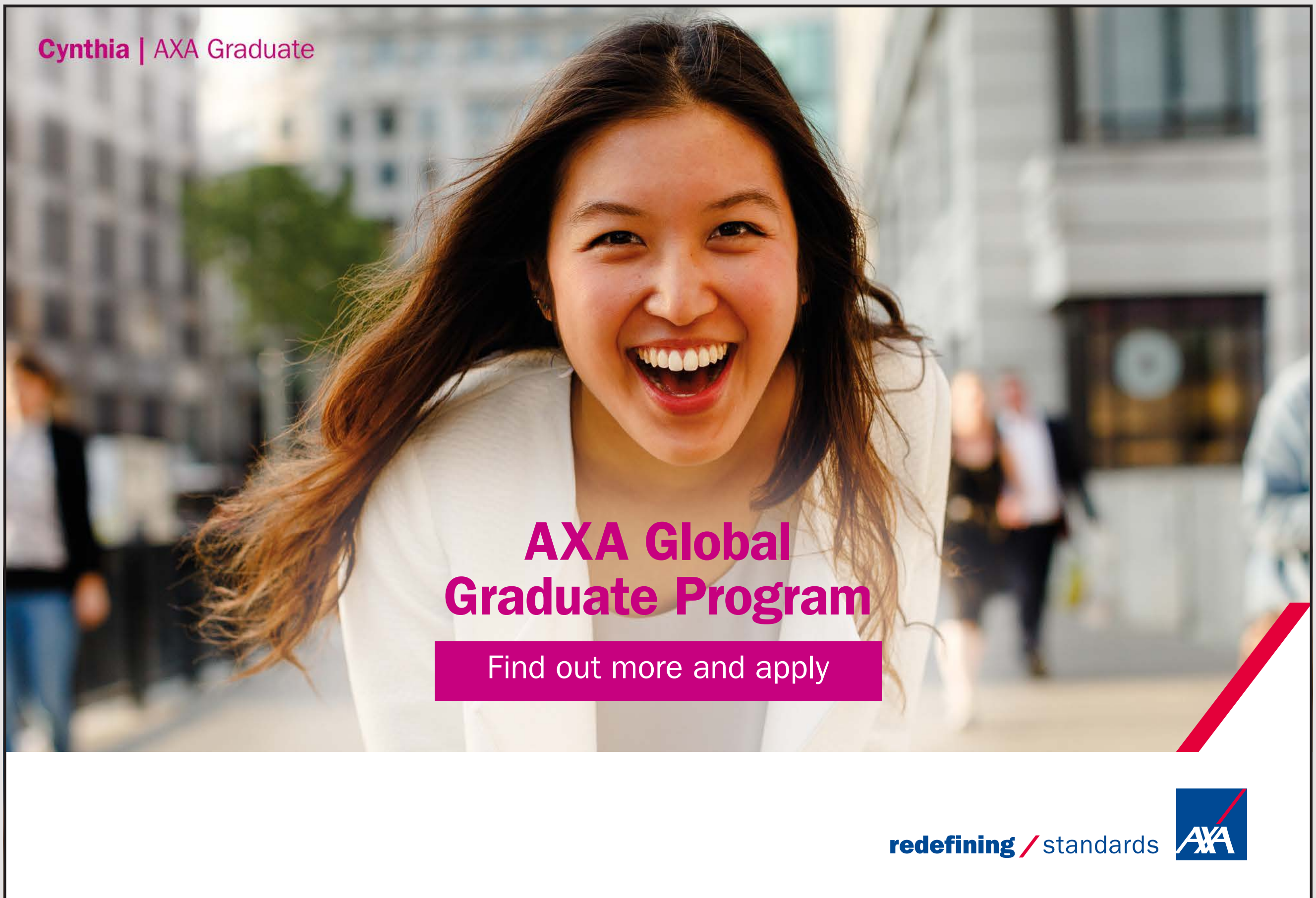
Solutions: 1B2C3C4D5D6A7A8A9C10B

References

[1,2] Living Internet (2000) Marshall McLuhan predicts the global village, livinginternet.com.
[3,5] Roser, M., Ritchie. H., and Esteban, O. () World Population Growth, https://ourworldindata.org
[4] Banerjee, S., and Singh, S. (2014) global trends in work-force demographics, Human Resource Articles.
[6] Hawksworth, J., Tran, D. and Teow, J. (2015) The changing global population, https://www.pwc.co.uk/issues/megatrends
[7] Euromonitor (2019) Emerging markets account for 90% of the global population aged under 30, blog.euromonitor,com
[8] Source: Tanchua, J., and Shand, D. (2016) Emerging markets may offer the most potential for the world's largest consumer-focused companies, https://www.spglobal.com
[9] Coface (2019) Risk Assessment: The Libyan crisis, https://www.coface.com
[10] Source: Flannery, N. (2017) Political Risk Analysis: Venezuela's economic crisis, Forbes.

16 UNDERSTANDING LEGAL ASPECTS OF INTERNATIONAL BUSINESS

To have a good gasp of international business, an understanding of legal aspect matters. Any business operates in an environment that is legally bound and this applies very much to international business. When companies operate overseas, they should be compliant with all legal implications like the nature of the business, the legislation binding such type of business, the type of partnership or agreements reached between the company and its overseas subsidiary along with all legal requirements concerned with the employment of foreign nationals. It is common to assume that there will be certain barriers to trade along with conflicts that can occur between the company and the foreign partner or between one country and another one. The legal aspect of international business is vast and this chapter aims at providing certain illustrations of legal requirements in such circumstances.



Click on the ad to read more

Firstly, the nature of international business is described paying attention to the creation of the World Trade Organisation in the post-GATT period that augurs better trade, more exchanges with fewer restrictions and tariffs for all countries. Under the new trade status known as the Most Favoured Nation (MFN) status, emerging economies have the possibility of developing wider trade opportunities internationally. So far, this is not legislation but it pertains to a clause in international trade that should be complied among countries that are signatory members of the WTO. It is important to note the entry of China in WTO and how this emerging nation has shaped business differently since its creation in 1995.

Certain particular legal aspects of business are described namely patents, intellectual property, copyrights and trademarks. Since businesses operate across borders, they must be conversant with such requirements as certain businesses that might practice unethical activities might get involved in the infringement of copyrights and intellectual property. Very often, genuine and original products are bound to suffer from the acceptance and trade of imitation and counterfeit products that might cause major harm to partners involved in genuine trade.

At a further level, international trade and litigation are discussed. Given that there are violations in trade agreements and that one partner goes against the fair trade agreement with another partner, litigation might exist. This is common practically everywhere and multinationals are bound to bear the consequences of being filed for unfair business. Along with litigation, there is also the issue of arbitration that involves settling disputes in a less formal way. An important concern might be child labour that is exploited in emerging economies while children are indirectly involved in manufacturing products for top multinationals. Child labour is subject to serious penalties if this is practised and where violations of children's' rights are clearly illustrated.

Issues on conservation are briefly discussed in this chapter whereby organisations need to be more cautious about biodiversity and the natural environment. They might be producers of goods or exporters of finished goods while they might be directly or indirectly involved in the destruction of habitat. Some businesses might be directly involved in pollution while some others might negatively contribute to the protection of the natural environment. In today's cause for a sustainable future, it is imperative for companies to be up-to-date with ethical and sustainable trade practices.

Download free eBooks at bookboon.com

Perspective

Conflicts in International Business

International Trade is expanding day by day, small and big countries of the world are engaged in transfer of huge quantum of goods and services. The mutual contact between the parties, at time, creates legal problems. They arise from the first act of offer made by a trading partner and its acceptance by the other trading partner. The contracts created between the traders are generally binding on the parties [1].

Goods are sold against letter of credits, guarantees, and post arrival payments or through barter trade. All these segments of trade processes create legal bindings. Where the legal instruments are properly made nothing happens, but where there are mistakes errors or shortcomings in the type of business undertaken, the trade instruments, these may lead to dispute and litigation. These disputes create problem of jurisdiction, applicability of law, enforcement of judgments obtained and the interpretation of actions of the parties in arriving at trade contracts.

The issues not only relate to individual parties but also include conflict with States on the issues relating to promises made by the States before the investment was made by the investor. Generally, such conflicts are related to legal aspects of business transactions and are settled through legal mechanism either through municipal course or through international tribunals. These disputes may be settled through arbitration or through International Chamber of Commerce where the States agree to settlement and arbitration. Particular reference is invited towards Bilateral Investment Treaties (BIT's). There are many such treaties between different countries which govern the rules for Foreign Direct Investments (FDI).

As regard private parties, the emerging issues are generally governed by conflict of laws where the principle of 'lex domicili' determines the issue of jurisdiction. The general principles of international law do become applicable. The transactions between the parties suggest that which country and which Court have the jurisdiction to settle the dispute. That is why; the trading parties should be more vigilant in respect of their international business transactions. It is suggested that merchants should be careful while agreeing to the terms and conditions of the contract specifying the jurisdiction and the applicable law to settle the disputes.

Points to ponder

Where the legal instruments are improperly made, they may lead to dispute and litigation. Generally, most conflicts are related to legal aspects of business transactions and are settled through legal mechanism but country-to-country disputes may be settled through arbitration or through International Chamber of Commerce where the States agree to settlement and arbitration.

Download free eBooks at bookboon.com

Current economic issues in International Business

The World Trade Organisation (WTO) is the only international governing body that World Trade Organisation replaces General Agreement on Tariffs and Trade (GATT) which was created in the year 1948. The WTO has emerged as a world's most powerful institutions for reducing trade related barriers between the countries and opening new markets. The General Agreement on Tariffs and Trade (GATT) was replaced by the World Trade Organisation (WTO) which is the world's global leading body in the year of 1995, in the day when Uruguay round took effect. The purpose was to ensure that global trade starts and goes on smoothly, freely, and in all likelihood. The other purpose of WTO was to strengthen the GATT mechanism of settling trade disputes.

Benefits

The WTO serves as an international organisation that deals with the trading process has eventually created some benefits toward the world in such aspects:

First of all, WTO promotes the establishment of world trade liberalisation and economy globalisation. WTO facilitates implementation, administration and smooth operations of trade agreements between the countries [2]. After WTO was established, the world market has experienced decline in tariff levels and WTO members experienced an average of 40% decline in tariff rate. In addition, The WTO has favoured better prospects in agriculture, textile trade, anti-dumping and countervailing, investment, trade in services, intellectual property and other aspects of the operation mechanism.

The WTO system has been developing peace among countries. The WTO created system that helps the trade process to go on smoothly and providing countries a constructive and fair outlet for dealing with disputes between countries over trade issues.

The WTO favours a decrease in cost of living is one of the benefits of WTO. Earlier, protectionism increased the cost of the goods, in terms of production, raw material, and so on. Lower trade barriers mean less or no tariff will be imposed to the goods, therefore price of the goods will be cheaper, and it leads to decrease the cost of living.

Case Study: Emerging nations benefit from new international trade agreements

The creation of the World Trade Organisation (WTO) has provided tangible benefits to developing countries. First of all, a rule-based system actually governs the international trade that these developing countries involved, and ensures that they would get the greatest benefits throughout the international trade. Unlike industrialised countries, developing countries do not have strong negotiating power in international business and only follow the pricing adopted in the developed countries. WTO came out with a Most Favoured Nation (MFN) principle, which aimed at market liberalisation between any two members that was further extended to all members of WTO [3].

Secondly, the benefit to developing countries is intellectual property rules. The agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) offers a benefit for emerging economies by creating a policy framework that helps in promote technology transfer and foreign direct investment. The purpose is to include non-discrimination and equal application by all members of minimum standard of protection of intellectual property rights. This agreement also protects developing countries as the owner of intellectual property rights, especially those having a high technology sector.

Download free eBooks at bookboon.com

The third benefit is the preferential treatment for the emerging economy. Most of the developing countries relied on the special preferential access to the global market under the Generalised System of Preferences (GSP). This concept is the enabling clause of WTO legal basis to ensure that developed countries offer non-reciprocal preferential treatment to emerging economies, and vice versa.

What is the purpose of the Most Favoured Nation Status in international business and how might this favour developing nations? How is the agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) beneficial for emerging economies? How might a Generalised System of Preferences (GSP) benefit an emerging economy in international business?

Concerns within the new trade agreement

The current legal issues in International Business must focus mainly on the types of trade done among the countries. The first economic consideration here is that the post-GATT period means that competition will be made tougher as there will be the globalisation of the world economy. Every country will have access to more liberal transactions than before. The issue of post-GATT arises from the fact that many countries were subject to quota and trade barriers and this created to some extent unfair competition. Therefore, the post-GATT is more in favour of an open-market economy. Another important issue is about the end of the Multi-fibre agreement. This now allows more countries producing textile products to enter competition. No market will be secured as such and there will exist a cut-throat competition.

Current legal issues

Intellectual Property is a basket of different rights. There is no precise definition of intellectual property but it can be divided into the areas of trademarks, patents, copyright, database rights, designs and confidential information. Intellectual Property is important to businesses as they are intangible assets that can be financially exploited because like physical property, it can be sold or licensed. Every business possesses such assets whether they are aware of it or not. When a business is establishing its presence in the marketplace, protecting and managing its intellectual property is critical as it can mean the difference between success or failure [4].

Download free eBooks at bookboon.com

Intellectual property

Many emerging economies have signed the Universal Copyright Convention of the Berne Convention and the Trade Related Intellectual Property Rights Agreement (TRIPS), one of the key elements under the agreement of the World Trade Organisation [5].

One element of the treaty reads as follows:

'States party to the Berne Convention and TRIPS Agreement whose international copyright laws do not mention computer programs among protected works would be well advised if they would complete their laws accordingly'.

The international context

Patents, copyright and trade marks

In order to encourage new inventions and original works and to protect those who have built up a business law gives statutory protection to patents, designs, copyright and trademarks.

Click on the ad to read more

In Britain, these rights are covered by Copyright, Designs and Patents Act 1988 and the Patents Act 1977. The economic tort of 'passing off' prevents a person from conducting himself so that customers will mistake his goods, services or business for that of someone else. This branch of law is known as Intellectual Property Law.

Patent

A patent is the name given to a bundle of monopoly rights which give the patentee the exclusive right to exploit the invention for a given period of time. It is the right to stop others, an inventor does not need a positive right to exploit his own invention.

International application procedure

The Patent Co-operation Treaty provides for the filing of a single application designating the countries for which the applicant seeks protection. A single research is carried out and the application is sent to each of the designated countries for separate examination as a national application according to their local laws. The European Patent Convention provides for an application to be filed at the European Patent Office in Munich. The application is searched and examined at the European Patent Office. If the application is a real invention, then separate national patents are granted for the specified countries.

Patentability

Patents must fulfil the following requirements specified in the Patents Act 1977.

A product must be a patentable invention which is capable of industrial application.
A list of things are not patentable inventions:
Discoveries, scientific theories or artistic work.

- Literary, dramatic, musical or artistic work.
- Rules or methods for performing a mental act, doing business or programming a computer.
- The presentation of information.

Novelty. The invention must be new, it must not be available before to the public anywhere in the world.
Inventive Steps. An invention involves an inventive step if it is not to a person skilled in art.

Download free eBooks at bookboon.com

Ownership, assignment and licensing

- A patent, or an application for a patent, is personal property, but it is not a chose in action.
- An assignment must be in writing and signed by both parties, otherwise it is void.
- Licensing is a method of developing a patent whereby the patentee gives permission for the sale or manufacture of the patented article, subject to express conditions.
  Coca-Cola, Pepsi Cola, KFC, are produced, among others, under licence in most emerging economies. The local producers must however pay, under expressed terms, the owner's patent rights and a percentage commission upon the units produced.

The patents issue at international business level

This is quite a sensitive issue because certain countries can just use the invention of another one and commercialise the invention. Countries where the Patents Act are not strict take advantage of such a situation. E.g. The electric hair brush had a U.S Patent but the product is made in China as well as a low and very competitive cost.

In 2018, Huawei Technologies of China was the top PCT applicant among the business sector, for the fourth time since 2014. With 5,405 published PCT applications, Huawei Technologies became the first company to have had more than 5,000 PCT applications published within the period of a year. With 2,812 published PCT applications, Mitsubishi Electric Corporation of Japan moved up two spots to rank second thanks to an increase of 291 published applications compared to 2017. These two companies were followed by Intel Corporation (2,499) and Qualcomm Incorporated (2,404), both U.S.-based companies [6].

Copyright

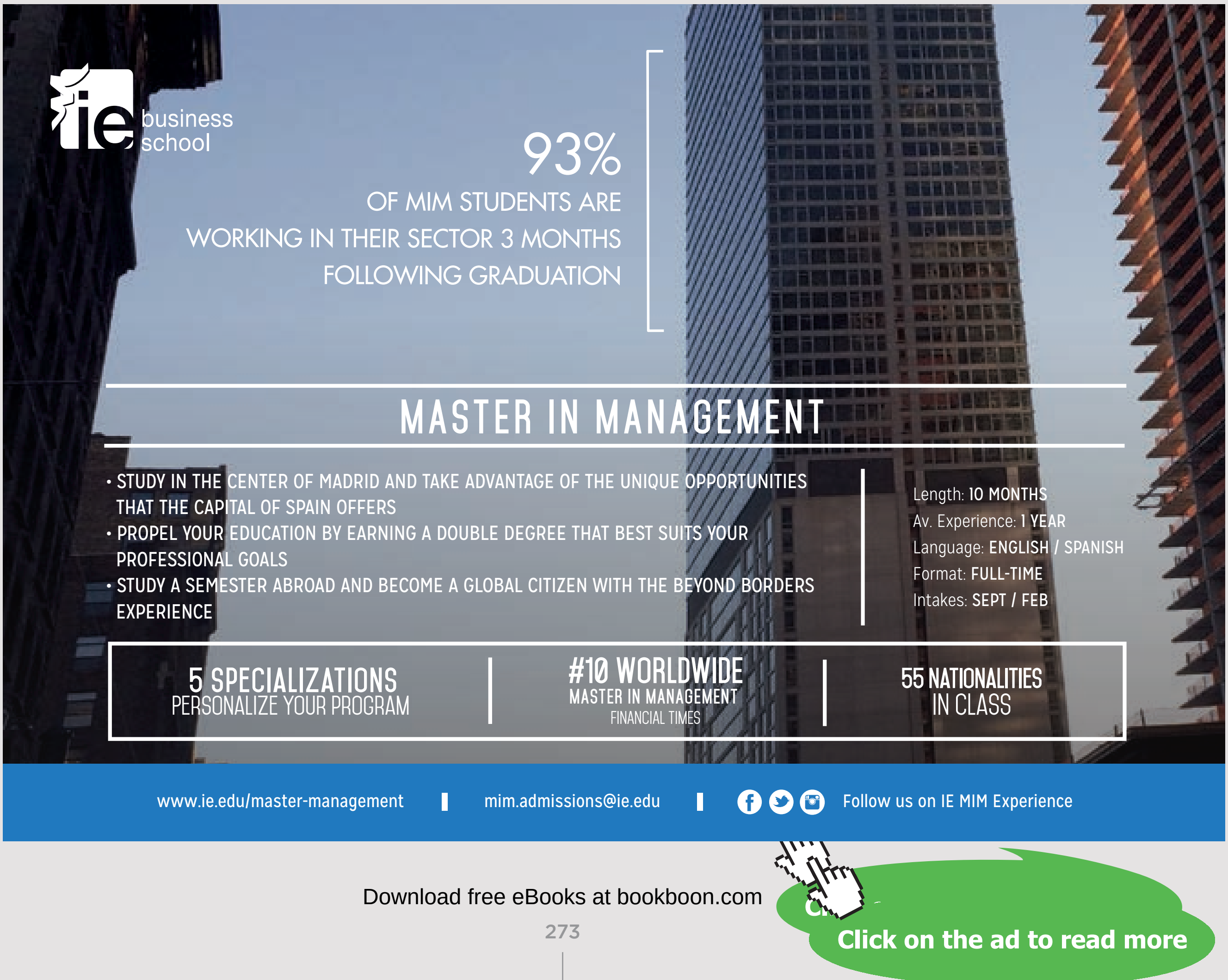
Copyright protects the independent skill, labour and effort which has been expended in producing work and prevents others from helping themselves to a too large proportion of that skill, labour and effort. Unlike a patent, a copyright is not a monopoly. Copyright is acquired by bringing a work into existence. There is no requirement of, nor provision for, registration. Most countries offer some sort of copyright protection for an author's work. In dealing with foreign works, most countries have agreed to one or more international copyright treaties and conventions, such as the Berne Convention for the Protection of Literary and Artistic Works, the Universal Copyright Convention, the World Intellectual Property Organisation (WIPO) Copyright Treaty, the WIPO Performances and Phonograms

Download free eBooks at bookboon.com

Treaty and the Agreement on Trade-Related Aspects of Intellectual Property Rights. Other countries rely only on protection under their national laws [7]. Only three countries, Eritrea, Turkmenistan and San Marino, are said by the U.S. Copyright Office to have no copyright protection either for authors within their borders or for foreign works.

The Copyrights issue at international business level

This is another important issue. Since, copyright claim does not need to be made in a Court, other countries may copy the work of its author. However, countries which have signed the TRIPS treaty are obliged to abide by the requirements of the Act. Computer-based organisations, reputed international music houses, are reluctant to move to countries which violate copyrights. The USA was keen to apply economic sanctions to China which did not strictly follow intellectual property requirements.



Collective licensing at an international level

In many countries, copyright collective management organisations, also known as collecting societies or 'collective management organisations' (CMOs) [8].

- license large-scale use of works on behalf of large numbers of rights holders
- collect royalties for those uses
- distribute these royalties back to rights holders

There are collective management organisations that specialise in different categories of works and creators. In the field of text and image-based works these organizations are called Reproduction Rights Organisations (RROs). They typically deal with the licensing of secondary uses of books, journals, newspapers and magazines – in both their paper formats AND their online or digital formats – and in some cases also with visual content such as motion pictures, photographs and illustrations.

Trademarks

- A trade mark is a mark used in relation to goods or services so as to indicate a connection in the course of trade between goods and some person having the right to use a mark.
- 'Mark' includes a device, brand, heading, label, ticket, name, signature, word, letter, numeral or any combination thereof.
- The commercial purpose of a trade mark is to distinguish the goods or services of a company from those of its competitors.
- The legal purpose of a trade mark is to prevent others from using the mark.
- Life patents, trademarks constitute 'industrial property'.

Trademarks related to international business

For the international registration of a trademark, a broad international filing can be done through the Madrid Protocol, a group of 86 countries, including most of the major industrial nations in the world. Through this process, a company can file a mark in the home country and then extend the filing later to other jurisdictions throughout the world. Although businesses still have to pay the fee in each country, this is still a smart and relatively inexpensive option, since they will save time and money from the administrative costs of having to fill out an application multiple times. It is important to remember that other countries can still choose to reject that mark [9]. Companies should run a clearance

Download free eBooks at bookboon.com

before applying for a trademark. This allows them to determine if another party is using an identical or confusingly similar trademark. Adopting an identical or similar trademark to others can lead to legal disputes and fees, brand confusion, and lost revenue.

Trademarks represent another important issue at International Business level. France is very insistent on trademarks as the country has companies which produce top quality products namely, Chanel, Dolce and Gabbana and Lacoste, among others. It is against countries that infringe trademarks and very severe penalties are imposed such as long years of imprisonment, confiscation and destruction of goods.

Ethical Issues in international business

If copyright and intellectual property issues are essential in considering effective and rightful international trade, ethical issues do matter. These might not be directly concerned with the Judiciary of a country but might be well considered under international conventions. The protection of the natural environment, the exploitation of child labour, endangering natural species under the threat of extinction, could be important aspects to consider. Unethical aspects would mean violation to such important aspects at work and might compromise the choice between profit-making and sustainable environment. Issues on child labour and the natural environment are debated in the coming sections.

Exploitation of child labour

This is one of the latest legal issues affecting international business. The International Labour Organisation (ILO) is against the exploitation of child labour in business activities. Many European partners were formerly importing good that were produced by children from third world countries. Companies in the developing world employ child labour because of its relative cheapness and facility for employment. Countries like Brazil, India, Pakistan among others exploit child labour by paying them a very meagre salary and making them work for long hours. This has led foreign buyers to think that it is morally unfair for them to use such products for commercial purposes.

Worldwide, an estimated 211 million children aged under 15 work. Child labour is widespread throughout Africa, Asia, Latin America and the Caribbean, though there are also some 2.5 million working children in developed economies. Asia has the largest number of working children, accounting for 60 per cent of the world's total [10].

In India, one of the world's fastest-growing economies, the UN estimates that child labour contributes 20 per cent of gross national product. The government has banned child labour,

Download free eBooks at bookboon.com

but with even the lowest official estimate of children engaged in hazardous occupations standing at 12.6 million, India still has the largest number of child labourers under the age of 14 in the world.

Children can be found working in many export-oriented industries, including garments and footwear, glass manufacturing, leather tanning, stone quarries, and gem stones. Many work unacceptably long hours, often in unsafe conditions or with minimal respect for their rights.

Exploitation of natural and endangered resources

Delegations from the Americas met on 10 October 2018 in London to commit to future engagement on Illegal Wildlife Trade, including poaching, in the Americas and assess the potential for further coordinated action in the region. Participating countries recognised that Illegal Wildlife Trade is a major issue in the Americas, should be treated as a serious and organised crime that affects the economy, security, indigenous communities and ecosystems in the region, and decided to work collaboratively to tackle the trafficking of flora and fauna, including poaching, on a regional and international scale. To affirm this intention, all delegations recognised the need for regional collaboration on this issue [11].

Kenya

Kenya will strengthen its resolve to eradicate illegal wildlife trade, to build coalitions and to find solutions to better protect its wildlife. To this end, Kenya has identified five critical areas that require support from wildlife conservation partners to enhance law enforcement capacity to deal with illegal wildlife trade [12].
These areas include:

- enhancement of forensic laboratory capacity to support law enforcement leading to successful prosecutions.
- improvement of stockpile management.
- enhancement of law and law enforcement at ports of entry and exit.
  human/wildlife conflict mitigation.
- establishment and distribution of pangolin which is fast emerging as a highly traded species.

Wildlife

Many companies are paying attention to environmental and ecological issues. Let us consider the issue of wildlife. In our contemporary world, it can be said that many species are being forced to extinction mainly by poaching (illegal killing). A few endangered species are outlined in the table below.

Species	Habitat	Reason for exploitation
Panda	Tropical forests in China and South-east Asia	Use of animal fur for clothing, especially 'haute couture'. Nowadays, this is being unanimously condemned by international business organisations and legislation.
The white and blue whale	Warm seas of the South Pacific ocean	Substances extracted from the whale were widely used as cosmetics in the sixties. Nowadays, certain species of the whale have disappeared and legislation is against the exploitation of the whale.

Because the products that could be made from endangered species are still being demanded by people in the affluent countries, companies have been encouraged to make use of synthetic fibres and products that could be a near perfect imitation for animal fur, cosmetics or decorative products.

Download free eBooks at bookboon.com

Effluents and Toxic materials

Toxic materials and dangerous effluents may be used in the production process. By the way, the use of chemicals and dyes are toxic substances used in the production of garments. For the time being, not much effort has been done in this sense but international legislation has paid consideration to such an issue. Toxic substances used in the production of clothed may be dangerous and harmful to people as these can create allergy and contamination. The degree of toxicity may be accounted for and, if it is viewed that certain companies do not respect the level of tolerance, legal actions may be taken against them. However, this can be a double-side issue as the buyers themselves might be paying little concern on to the degree of toxicity with reference to materials.

River pollution in India

Around the world as countries are struggling to arrive at an effective regulatory regime to control the discharge of industrial effluents into their ecosystems, Indian economy holds a double edged sword of economic growth and ecosystem collapse. The present experimental data indicates that there is a high level of pollution along many rivers in India. The experimental data also suggests a need to implement common objectives, compatible policies and programs for improvement in the industrial waste water treatment methods. The existing situation, if mishandled, can cause irreparable ecological harm in the long-term [13].

International business conflicts

International disputes are, by definition, major disagreements between two or more countries on matters such as territory, maritime rights, and human rights, to name just a few. These disagreements may also be over business, considering how trade and business has joined the globalisation bandwagon.

International disputes, however, are not limited to two or multiple parties disagreeing actively, because they may also arise from declarations made unilaterally by one country that are not acknowledged or accepted by other countries.

If these international disputes are not addressed and resolved, they could lead to bigger problems of global proportions, such as enmity and hostility among nations, tense international relations, or possibly the threat of conflicts and war. International business conflicts arise from the fact that one country or trading partner feels embarrassed by the other one. Conflicts occur frequently in business life and methods must be adopted to resolve such conflicts at international level.

Download free eBooks at bookboon.com

Arbitration and Litigation

Arbitration and litigation are common in international business. In arbitration, two or more businesses enter a civil case where the matter is debated. In litigation, the case is dealt in a Court where the offense is liable for criminal pursuit. Litigation cases are common if both parties mutually sue each other for infringement, breach of contract or impingement of legislation.

Litigation

Litigation means that some warfare has been officially declared among trade partners because of unfair trade practice. Such a matter is quite common in business at international level. The matter can be raised in major judicial instances as well as at the United Nations. Litigation depends on the nature of the dispute. If it concerns business matters which are mainly at company level, then the dispute might be brought in front of an International Law Court. Problems affecting territories can be voiced and arbitrated at United Nations level.

Click on the ad to read more

Nationalisation of energy sector in Venezuela

When ConocoPhillips invested in major heavy-crude projects in the Orinoco basin, no one expected that Venezuela would subsequently restructure its entire energy sector, nationalising the assets and denying the company its anticipated return. Nor could they have predicted the protracted dispute that ensued, a complex arbitration with a $30 billion claim at stake [14].

Marine exploitation territory

This is a major issue for many countries and leads to confrontation and disputes. Each country has an exclusive territorial zone of 200 miles whereby it can exploit its marine resources both for personal consumption and commercial purposes. Mauritius has suffered a lot in this context. Quite often, it had been in conflict with the Seychelles concerning the Saya de Malha bank which is an important fishing area. In the past, Mauritius had problems from the ex-USSR which exploited its marine resources namely the Tuna fish and it had poor economic relations with the super power.

Arbitration

Arbitration means that an international arbitration authority will decide upon the issue of litigation affecting two countries. When two parties in dispute agree to go into arbitration, both agree to be bound by the ruling or decision of the arbitrator, who is the one who will hand down the decision on how to settle or resolve the dispute. He hands down his decision, and the dispute is resolved. In short, he acts as a judge, which means that sometimes his decision may also be contested [15]

There are two types of arbitration:

Institutional arbitration

These days, there are now a lot of arbitral institutions in place, all with the objective of providing arbitral services or administering arbitrations that are related to international business and commercial disputes. They play an active role in an institutional type of arbitration.

Download free eBooks at bookboon.com

Ad hoc arbitration

This type of arbitration is carried out without an institution or specialist administering the proceedings. The parties are the ones to organise the proceedings, including the selection of the arbitrator or arbitrators.

Levels of cross-border trade and investment are on a rising trend across the global economy, particularly following the demise of the former Communist bloc and the rising levels of economic activity in parts of the developing world, including China and India. The evidence strongly suggests that, as a result, the resolution of disputes via the mechanisms of international arbitration will continue to grow in prevalence over the coming years. Partly as a result, leading businesses are thinking about ways of enhancing the existing mechanisms and practice of arbitration. This field of dispute resolution, practically unknown even 20 years ago, is set to form an ever-larger part of boardroom agendas in the coming years [16].

Comparison between Arbitration and Litigation

Basis for Comparison	Arbitration	Litigation
Meaning	Arbitration implies a non-judicial process in which a neutral third party is appointed for the resolving disputes between parties. This can involve two businesses (home and host) in a dispute.	Litigation refers to a formal judicial process wherein the parties under dispute go to the Court for its settlement. This might involve two nations in a dispute e.g. marine and land exploitation.
Nature	Civil.	Civil or criminal.
Proceeding	Private as it can be resolved between the companies concerned.	Public as it needs an international hearing.
Place	Decided by the parties.	Domestic or International Court.
Decided by	An arbitrator who is chosen by the parties mutually.	A judge who is appointed by the Court.
Cost	Low.	Comparatively high.

Multiple Choice Questions

Select the most likely answer in each question

1.	Where the legal instruments are improperly made, they may lead to	
	A.	dispute and litigation.
	B.	agreement and fair trade.
	C.	acceptance and ethical trade.
	D.	competition and litigation.

2.	After WTO was established, the world market has experienced an average of	
	A.	40% decline in tariff rate.
	B.	4% decline in tariff rate.
	C.	14% decline in tariff rate.
	D.	70% decline in tariff rate.

3.	Most of the developing countries relied on the special preferential access to the global market under the	
	A.	Nationalised System of Preferences.
	B.	Individualised System of Preferences.
	C.	Unique System of Preferences.
	D.	Generalised System of Preferences.

4.	Intellectual Property is important to businesses as they are	
	A.	intangible assets that cannot be financially exploited.
	B.	tangible assets that can be financially exploited.
	C.	intangible assets that can be financially exploited.
	D.	tangible assets that cannot be financially exploited.

Download free eBooks at bookboon.com

5.	A patent is the name given to a bundle of monopoly rights which give the patentee the	
	A.	exclusive right to exploit the invention permanently.
	B.	exclusive right to exploit the invention for a given period of time.
	C.	common right to exploit the invention for a given period of time.
	D.	exclusive right to exploit the invention permanently.

6.	Branded products like Dolce and Gabbana or Lacoste can be subject to negative action like	
	A.	licensing.
	B.	counterfeiting.
	C.	franchising.
	D.	outsourcing.

Download free eBooks at bookboon.com

Click on the ad to read more

7.	Which one of the following countries might be more liable to child labour exploitation?	
	A.	Israel.
	B.	India.
	C.	Ireland.
	D.	Italy.

8.	Which one of the following species is subject to exploitation for clothing?	
	A.	The blue whale.
	B.	The lion.
	C.	The panda.
	D.	The cheetah.

9.	Litigation occurred in the case of	
	A.	nationalisation of energy systems in Venezuela.
	B.	electrifying villages in India.
	C.	modernising transport in Chin.
	D.	democratising education in African nations.

10.	In which one of the following case does the proceeding need an international hearing in a Court?	
	A.	Arbitration.
	B.	Litigation.
	C.	Conciliation.
	D.	Settlement.

Solutions: 1A2A3D4C5B6B7B8C9CA10B

Download free eBooks at bookboon.com

References

[1] Iqbal, Z. (2017)Legal aspects of international Trade transactions, https://www.hg.org
[2] Roy, P. (2015) Role of WTO in International Business, SASE SA.
[3] Teacher, Law. (2013). Role of GATT in Promoting International Trade, https://www.lawteacher.net.
[4] Beauchamps. (2016) The importance of Intellectual Property to businesses, Lexology.
[5] Intellectual Property Office (2018) Protecting your copyright abroad, www.gov.uk
[6] WIPO (2019) Patent Cooperation Treaty Yearly Review 2019, World Intellectual Property Organisation, Switzerland.
[7] Rada, J. (2018) Countries with no copyright laws, Legal Beagle.
[8] Rights Direct (2018) What is copyright? https://www.rightsdirect.com
[9] Business News Daily Staff (2012) How to Protect Your Trademark Internationally, https://www.businessnewsdaily.com
[10] Ethical Trade Initiative () Child labour: A global scourge but signs of progress, https://www.ethicaltrade.org
[11, 12] Declaration: London Conference on Illegal Wildlife Trade 2018, www.gov.uk.
[13] Erickson, J. (2013) India: the exploitation of resources for economic gain, Mint Press.
[14,15] Martin (2018) Ultimate Guide to Resolving International Business Disputes, Cleverism.
[16] Dispute Resolution in the Global Economy (2018), FTI Journal.

Download free eBooks at bookboon.com

17 E-COMMERCE IN EMERGING ECONOMIES

This final chapter deals with the possibilities of e-commerce in international business, more particularly in emerging economies. If e-business was initially the matter of concern for technologically-savvy entrepreneurs and business people in the west, it can now be said that this type of business gets better ingrained in developing economies and it is bound to boost trade both within the borders of the country and also outside the national borders. The fact is that e-commerce is undertaken online using simpler technology than a company's premises and financial output. By the way, the e-commerce giant Amazon started from simple business of making sales online with a small office and associated retailers within the USA. Today it is a large business with large-scale operations worldwide and strong consumer image due to the level of professionalization of the retail business.

Emerging economies have not stayed behind although their scale of operations might strongly contrast with that of western businesses. Through the development of the Internet as from the mid-1990s, such nations might have been initially slow at developing e-business but consumers in such environments have been keen users of internet technology and have accepted to practise online shopping. This effort has captured the attention of local businesses in emerging markets to think of providing similar services to their domestic consumers. Alibaba started timidly in 1999 but has gradually gained high consumer attraction both in China and overseas. Companies in Brazil, Argentina and later African companies have also started thinking of the importance of developing e-commerce. Over the years, they are making genuine in-rods in e-business.

So far, the e-business market might not be so well developed in emerging economies while it is realistic to say that technologies in information technology and online platforms might still lag behind what western companies offer. However, mobile technology has become popular even in the lesser developed nations and this tempts companies to see how consumers use mobile technology to make their transactions. In a later part of this chapter, statistics from Pew Research Centre provide insightful information on the potential of e-commerce in emerging economies and how it is bound to develop.

From the consumer's point of view, it is evidenced that due to better economic prospects in emerging nations with quite remarkable annual growth, there has been a rise among the mid-income consumers. These comprise people who are relatively young, fairly well-educated, quite well versed in information technology, among others, who are aiming at a more decent living standard than their predecessors. Such people are potential users of online technology as they are constantly in contact with their peers. Businesses perceive this lifestyle as an opportunity to make products and services available online and increase the viability of their offers.

Download free eBooks at bookboon.com

There is also the role of the government in facilitating e-commerce. Normally, entrepreneurs develop interesting ideas about trade and end up in creating an enormous potential through online trade. The success of Chinese companies is quite inspiring in that businesses and governments collaborate in developing e-business that incidentally affects international business. This also develops a major opportunity for emerging economies to boost their trade and increase revenue. This perspective was not visible just two decades ago but now develops as an option that emerging nations must rely upon in their international business strategy.

Connecting people in emerging economies

In developing markets, the challenge is more often about connecting people in remote, hard to reach, or economically unviable areas. But it also involves moving from older 2G and 3G networks with limited capabilities to 4G and advanced connectivity, which enable people to use smartphones and more fully interact, transact and engage with friends, companies, content and the rest of the world. As advancing technologies demand more capable and efficient telecommunications networks, the availability of radio spectrum for mobile use—at affordable prices and without unreasonable conditions or constraints—is another important prerequisite [1].

Click on the ad to read more

Other basic physical infrastructure is often an issue. A reliable energy network is, of course, essential; innovative efforts are underway in many developing countries to bring affordable sources of power to poor or remote places. Digital commerce requires transportation infrastructure (roads, bridges, airports) and a well-functioning logistics system for the delivery of goods ordered online. In all markets, legal and regulatory systems that provide certainty for investment and commerce and establish a level playing field for all marketplace participants are additional important enablers.

The main drivers of e-commerce in emerging markets

With e-commerce use accelerating on the back of improved Internet penetration in emerging markets, it is important to recognise the specificities of local consumers and how they approach online shopping. Unlike in most advanced economies, both the choice and range of goods on offer by web retailers in developing markets are limited, which is driving demand for global shipping and cross-border commerce. Mobile retail is far more popular in emerging markets, since for many the web-enabled mobile handset is often the only point of Internet access. Providing an expansive range of payment options is also key to reaching a wider audience, since most emerging nations are significantly underbanked [2].

Choice and range enhanced by global shipping

Retailers in many developing countries have limited stocks of goods, and domestic e-commerce in these regions can therefore be limited in terms of international products. For example, China has a wealth of low-cost fashion and electronics products but searching out specific types of authentic, branded goods can be difficult. Even if these products are available, they come with a price premium due to their rarity on the marketplace.

The solution has become cross-border e-commerce, largely made available by improved (in terms of time and bureaucracy) shipping routes. International retailers such as eBay, Amazon and Aliexpress are targeting the developing world's 1.9 billion Internet users (as of 2014) and developing partnerships with local postage operators to ensure smooth delivery. This form of e-commerce is typically expanding at triple the rate of domestic Internet retailing across emerging markets.

Nonetheless, the segment faces challenges such as widely contrasting taxing laws on foreign imports on a country-by-country basis, remaining held-ups at border controls during busy festive periods, and the lengthy return times for incorrect or damaged products.

Download free eBooks at bookboon.com

Range of payments is key to serve diverse and underbanked shoppers

Unlike in advanced economies, many emerging markets have large underbanked populations. In Brazil, for example, more than a third of the 15+ population held no bank account in 2014. In order to reach a wider audience, online retailers must therefore provide as many possible payment methods as possible. This enables the entire Internet-using spectrum to find a payment means to suit them, and has helped make China's the fastest expanding e-commerce market worldwide over 2009-2014, with a real rise of over 4,000% in value. The online retailer's primary goal is to survive in a cash-driven environment, which still dominates most emerging markets.

Emerging consumers more active in mobile and social media shopping

Although advanced economies boast much higher smartphone and mobile Internet penetration rates, emerging market consumers are well ahead of their wealthier counterparts in using their handset to shop. According to a 2014 report by Deloitte Digital, Brazil is the global leader in retail sales influenced by mobile devices, which drive 40.0% of its e-commerce site traffic. The country's mobile Internet subscriptions increased by almost 1,500% over the 2009-2014 period.

The importance of the mobile is often a necessity rather than a choice. Many emerging markets in Asia Pacific, Latin America and Africa are mobile-first, meaning the mobile handset is the first web-enabled device accessed by consumers. Laptops and desktop PCs are simply found in much fewer homes than in developed countries.

An Explosion of digital activity in India

As internet adoption and use rises in India, the government and others are increasingly turning to digital solutions to long-standing problems.

The government has also announced plans to build 100 smart cities across the country. The 'Digital India' initiative, launched in 2015, aims to increase the optical fibre network to local governments in thousands of villages where two-thirds of the population lives. The opportunity for expansion of service delivery is huge as the number of connected Internet users in India is expected to more than double in the next few years to as many as 550 million. New users are expected to comprise older people, rural residents and women [3].

Download free eBooks at bookboon.com

Under the Unique Identification Authority of India (UIDAI) system, anyone can obtain an electronic and digitally-signed proof of identity. The government also seeks to provide each citizen with a 'digital cloud' for storing data related to their electronic identities. Almost the entire adult population carry Aadhaar cards that facilitate electronic payments, and the electronic payment industry today encompasses telcos, banks, wallet companies and e-commerce firms. BCG projects that more than 50% of India's internet users will use digital payments by 2020 when the size of digital payments industry in India will be $500 billion.

Mobile technology in emerging economies

In a remarkably short period of time, internet and mobile technology have become a part of everyday life for some in the emerging and developing world. Cell phones, in particular, are almost omnipresent in many nations. Meanwhile, smartphones are still relatively rare, although significant minorities own these devices in countries such as Lebanon, Chile, Jordan and China.

Click on the ad to read more

People around the world are using their cell phones for a variety of purposes, especially for texting and taking pictures, while smaller numbers also use their phones to get political, consumer and health information. Mobile technology is also changing economic life in parts of Africa, where many are using cell phones to make or receive payments.

While the internet still has a limited reach in the emerging and developing world, once people do gain access to the internet, they quickly begin to integrate it into their lives. A significant number of people in these nations say they use the internet on a daily basis, including roughly half of those polled in Lebanon, Russia and Argentina. At least 20% use the internet daily in 15 of the 24 nations surveyed.

Similarly, smartphone ownership is more common in countries with higher levels of per capita income. Traditional cell phones still outnumber smartphones, although roughly three-in-ten or more Lebanese, Chileans, Jordanians, Chinese, Argentines, South Africans, Malaysians and Venezuelans now own a smartphone.

While making or receiving payments is one of the least common cell phone activities, it is much more common in the region where mobile money is a phenomenon—Africa, and more specifically, Kenya and its neighbour Uganda. Nearly seven-in-ten Kenyans (68%) who own a cell phone say they regularly use their mobile device to make or receive payments. Half in Uganda say this as well. Meanwhile, even though only 29% of mobile owners in South Africa and 24% in Senegal say they use their phones for monetary transactions, these are still among the highest percentages across all the countries surveyed. Only in Russia (24%) do as many cell owners use their device for such purposes. In the 18 countries surveyed outside of sub-Saharan Africa, a median of only 8% use their cell phones for making and receiving payments [4].

Emerging e-commerce markets

In the last couple of decades, e-commerce has taken the world by storm, a storm in its full swing. In its literal meaning, e-commerce only means the sale and purchase of goods and services via electronic channels, most commonly the internet. But it has a lot more feathers to it than just buying and selling of goods and services.

The retail market has changed colours repeatedly in the last several years. Consumer behaviour and customer expectations have been extremely dynamic and variable. It is because of variable customer needs and expectations that this sector has lived very fruitfully as constant upgrading and adaptation was required. Different countries have reacted differently to e-commerce. Those who have managed to meet with the pace of this sector have reaped great fruits. Let’s take a look at them here.

Download free eBooks at bookboon.com

Emerging e-commerce markets [5]

China

China is at the top of the list in the e-commerce market. The annual e-commerce sale is around $370 BN. It is also one of the fastest growing e-commerce markets in the world.

Russia

Russia has more than 85 million internet users. It is the largest country in the world. The potential of the country's e-commerce growth can be judged by the fact that, it grew by almost 20% in the year 2016, despite severe economic crises. This impressive growth is primarily driven by Chinese companies like Alibaba's B2C marketplace Aliexpress.ru. However, western giants like Amazon, Next, and Asos are also trying to firm their grip on the market.

Brazil

Brazil is the largest economy in Latin America and the 5th biggest country in the world in terms of population and area. As per Pagbrasil, it is the 4th largest internet market in the world with almost 140 million Internet users, out of a total population of around 207 million. As per Euromonitor Internacional, Brazil represents around 42% of B2C e-commerce in Latin America. The country has an impressive number of active Facebook users at 111 million and is currently ranked 3rd on a worldwide scale.

Turkey

Turkey is a transcontinental Eurasian country. It is home to a large population of 77 million people, who with every passing day are becoming progressively digitally savvy and urbanised. There are almost 33 million e-commerce users in the country, with the current growth rate of almost 10%, e-commerce users are expected to be around 44.3 million by the end of 2020. Total e-commerce sales in Turkey are around $7 billion, and this is expected to cross the figure of $10 billion by the end of 2020. Out of these sales, electronics take the lead followed closely by fashion and furniture.

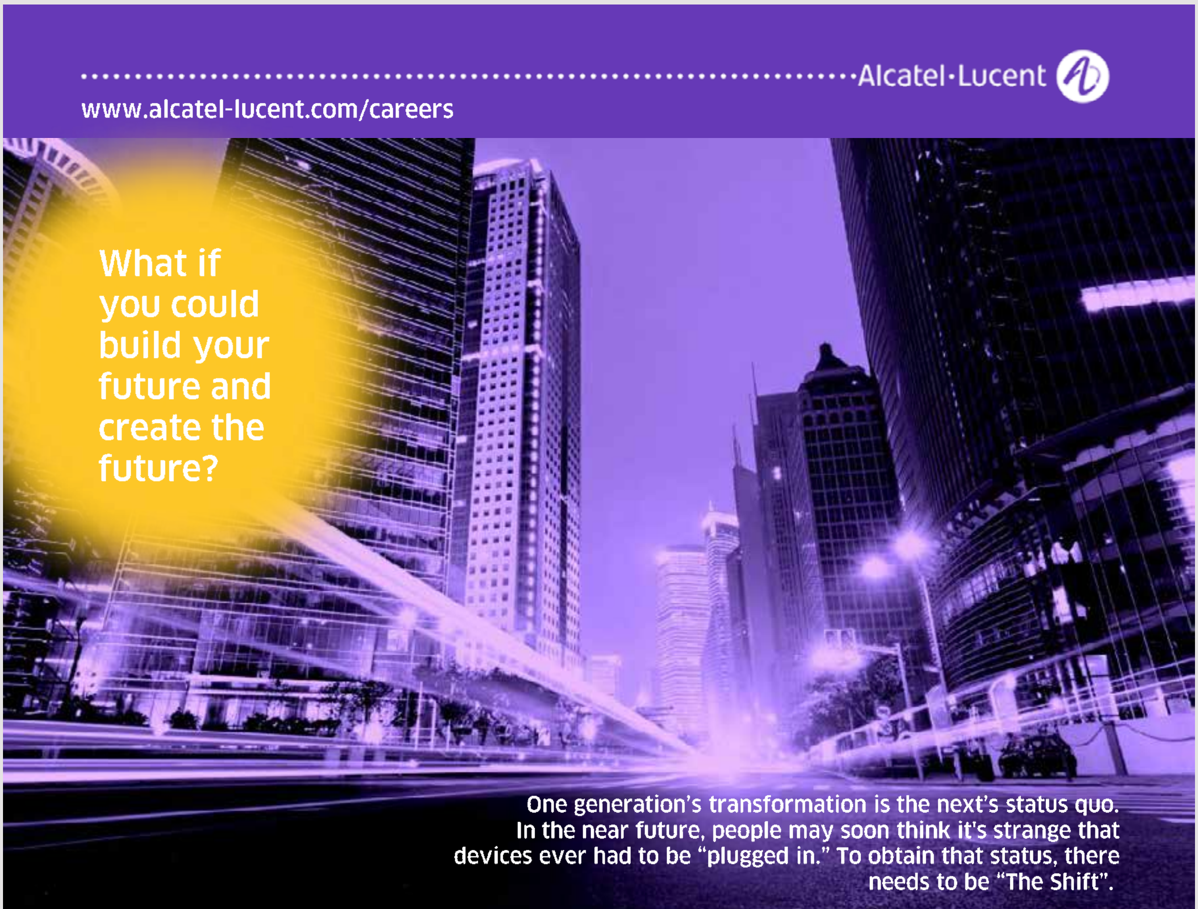
Download free eBooks at bookboon.com

Indonesia

Indonesia is currently considered to be the quickest and the biggest growing online market in the region of Southeast Asia, as per relaystats.com. Indonesia has recognised itself as one of Asia's leading mobile-first nations, with a StatCounter report guesstimating that in 2016, more than 70% of the country's internet traffic was originated from mobile phone devices.

Singapore

There is a strong boom in the e-commerce industry in Singapore, as depicted by a study by online platform 'Flipit', revealing that at present 3 out of 5 Singaporeans are online shoppers. One of the factors that can prove to be helpful in the growth of this industry in the country is the huge population using the internet. Around 82% of the population access the internet daily in the country.



Click on the ad to read more

Factors influencing e-commerce growth

An interesting article from Gaffar Khan, A. (2016) Electronic Commerce: A Study on Benefits and Challenges in an Emerging Economy states a few key factor that influence e-commerce in Bangladesh and these could also be applicable to other nations namely economic infrastructure, government's role, trust, accessibility and localisation of context.

Economic Infrastructure

Economic power and stability matters especially when it comes to speculating diffusion rates of new technologies and concepts. Thus, countries having a higher state of economic well-being are therefore more likely to have higher Internet diffusion and e-commerce based applications.

Accessibility

The Internet is the golden key these days; every single application is based upon it. As the internet is fast becoming a chief foundation of information and services, it is highly imperative that e-commerce websites should be well-designed, so that the public can easily access information and also increase and improve their participation.

The Government's role

The role of the government is extremely important, as it lays the foundation for the development of e-commerce by providing solid ICT infrastructure, a secure online payment system and the building of public awareness by using a variety of mediums including print, electronic media, etc.

Trust

Trust can be a vital factor in e-commerce. It gives buyers or sellers the faith to transact their respective transactions and enhances the level of adoption and acceptance of this industry, which consequently leads to high customer satisfaction. It also embraces the concept of loyalty and assists the acquiring of a competitive benefit.

Download free eBooks at bookboon.com

Localisation of content (Internet)

As per the spokes for Google in India, web content search in Hindi has grown a whopping 155% last year, which is substantially higher than the same content search in English. Growth in traffic in other languages, too, was quite impressive.

The e-commerce sector has seen almost unprecedented progress, especially during the last decade. The global e-commerce market has become advanced in terms of awareness, payment systems, and technology. The future of e-commerce looks promising indeed. Several countries like China, US, UK, etc. have already established strong roots in the market, but the real positive is the new players who are trying to enter this segment and in fact doing a good job of keeping up with the vibrant pace and demand of this market. It will also be very interesting to see how the other developing countries react to this digital phenomenon.

Perspective

E-commerce expands in emerging economies

The rapid expansion of e-commerce is transforming many emerging economies, bringing an array of benefits for consumers and entrepreneurs. While there are clear opportunities for multinational giants, local businesses could hold unique advantages. E-commerce has slashed the costs and logistical challenges associated with starting a business, negating the need for bricks and mortar stores [7].

The rise of e-commerce brings many benefits to consumers in these nations, particularly for residents of rural areas and smaller population centres. Research from the Boston Consulting Group found that a major contributor to the strong ecommerce sales in smaller cities is the ability to buy from brands that do not have a local store. For example, BCG found that almost 50 per cent of premium skin care products sold on Alibaba's Tmall online marketplace are bought by shoppers in Chinese cities where these brands have no physical presence.

Even for large, multinational corporations, the costs of opening bricks and mortar stores in a foreign market can be substantial. The need to establish a physical presence in a new region to pursue meaningful growth created barriers for companies that didn't want to commit to such costly expansion plans.

Download free eBooks at bookboon.com

There are well-known challenges around weak delivery infrastructure and payment security, while online shoppers in some emerging markets can be sensitive to unexpected costs and barriers when checking-out. There can be onerous security checks from the payment processor, while payments can be declined without explanation.

International companies need to tailor their e-commerce platforms to each region's unique cultural expectations, even at the most basic level of ensuring that prices appear in the local currency. For example, many Brazilian online shoppers are accustomed to paying instalments, sometimes through a variety of different means: few online stores can accommodate this request.

Local e-tailers are often at an advantage thanks to their detailed knowledge and experience of their markets. This enables them to offer a user experience that eases the transition from offline to online retail. Some are leveraging their physical store network to encourage hesitant consumers to try online shopping. Omnichannel solutions – which combine various types of shopping—are in use throughout the developing world, with some 85 per cent of China's shoppers consuming in this way, according to Jeongmin Seong, a Shanghai-based McKinsey Global Institute senior fellow.

Click on the ad to read more

The explosion of ecommerce in these nations is not happening in a vacuum, with advances in online shopping stimulating the formation of new businesses that are working to find solutions to challenges around logistical issues and patchy payment systems. The combination of these factors is helping emerging markets to attract innovative products and new retailers, in addition to improving efficiency in developing countries. In China, for example, the leading five retailers only control between two per cent and twenty per cent of the market, whereas in the United States the ecommerce sector is far less fragmented, with the top five firms accounting for between 30-70 per cent of sales in most categories. The rise of ecommerce will see the consolidation of a number of industries, allowing for economies of scale to be achieved.

While this digital revolution has led to growth in certain areas and significantly expanded the consumer choice, many of these countries are also seeing some of the same growing pains that Western countries experienced namely increased costs, cannibalisation of store sales, and organisational challenges. However, as the Western market becomes more saturated and challenging, it is the emerging countries that will provide new growth opportunities for retailers.

Points to ponder

The rapid expansion of e-commerce is transforming many emerging economies, bringing an array of benefits for consumers and entrepreneurs. E-commerce has lowered the costs and logistical challenges associated with starting a business. International companies need to tailor their e-commerce platforms to each region's unique cultural expectations.

Case Study: Tencent and Alibaba are reaching market cap

It was a close call, but Tencent won the race to become China's first $500bn technology giant and leapt past Facebook — a milestone for the nation and for the tech sector at large. The Hong Kong-listed social media group may still be less known outside China but alongside rival Alibaba, which is snapping at its heels with a $474bn market capitalisation, Tencent dominates its home turf. Alibaba, founded 19 years ago by former English teacher Jack Ma, started in e-commerce but now spans video, payments and bricks-and-mortar retail. Tencent, founded by Pony Ma a year later (and two months after Google), has similarly expanded from its social media beginnings—into literature, news, financial services and shopping. More than half the near-1billion users on its wildly popular WeChat platform spend more than 90 minutes a day on the app. The doubling of both companies' share prices this year partly reflects some crowd-pleasing tricks. They beat expectations on earnings growth so consistently and widely that it is a wonder sell side analysts have not yet cottoned on to the trend. US-listed Alibaba is big on show and spectacle [8].

Download free eBooks at bookboon.com

US-listed Alibaba is big on show and spectacle. But mostly the rise of China's tech giants has been about smart ideas—Tencent's move to make a virtual version of the *hongbao* red gift packets traditionally given out at Chinese new year; Alibaba's pioneering blend of online and offline retail—and mass market domination.

In the latter, they have been helped hugely by the government's block on most international competitors: Facebook, Twitter, YouTube and Google search are all banned in China. There is little alternative to WeChat.Amazon is available but has not made much headway in a market dominated by Alibaba platforms Tmall and Taobao, which quickly beat eBay out of the market.

The travails of Silicon Valley's big tech groups in the US and Europe are also unlikely to be visited upon the Chinese players, at least in the same format. This points to one of the strongest weapons in China tech's armoury. Like their US peers, Tencent and Alibaba are megacorporations that dominate every aspect of citizens' lives and, increasingly, the lives of small businesses, restaurants, manicure parlours and high fashion. Unlike their state-owned predecessors, they are privately owned and theoretically answer to shareholders.

Only, they do not. Government looms large in their lives too, but for now the tensions are manageable. The relationship is a symbiotic one of aligned interests. China wants to lead in tech, so having two players chasing the market caps of Facebook et al is a plus. So is having deep-pocketed champions, who can make big hires, set up research labs across the globe and buy start-ups overseas (a highly squeamish US regulator permitting).

[8] Source: Lucas, L. (2017) Tencent and Alibaba close in on global tech elite: Tech giants are less known outside China but both are reaching market cap, Financial Times.

Questions

How might the Chinese government assist Chinese companies like Tencent and Alibaba to better embrace international business. What can be said about the use of digital platforms and technologies for Chinese companies to expand internationally? How might the acquisition of star-ups abroad assist in the development of e-commerce for Chinese busineses?

Africa's emerging economies to take the lead in consumer market growth

Africa's emerging economies present exciting opportunities to global businesses for expansion in retail and distribution. Changing demographics and improving business environments across the continent will be just two of the factors contributing to rising household consumption, which is predicted to reach $2.5 trillion by 2030. Seven countries—Nigeria, Ethiopia, the

Download free eBooks at bookboon.com

Democratic Republic of Congo, Egypt, Tanzania, Kenya, and South Africa—will soon hold half of the continent's population, and 43 percent of Africans across the continent will belong to the middle or upper classes. The rising income levels among all socioeconomic groups and increasing demand for goods and services should encourage businesses to explore introducing their products to the continent. Lucrative opportunities throughout Africa exist for investment, production, and delivery [9].

Fast-moving consumer goods

Africans are generally highly brand-loyal consumers. Fast-moving consumer goods—low-cost products with a short shelf life that are constantly in high demand—present the opportunity for existing brands to strengthen their consumer base with unique advertising and expansion of distribution. This sector will also cater to the majority, low-income tier of buyers and middle-class households, which will collectively have disposable incomes of almost $680 billion by 2020. Food, beverages, hygiene products, home care, and appliances have all exhibited growth in sales within the past decade. East African consumers have also shifted toward more formal retailers, due to a growing distribution services sector.

Online retail or e-commerce

Africa is currently the fastest-growing mobile telecom market in the world. Since 2000, an annual increase of approximately 30 percent in mobile phone communications has led Africa to become the world's second-largest mobile market behind Asia. Almost half of all Africans report going online on a daily basis, and the general spread of information and communication technologies provides new avenues for consumer spending and marketing. The variations in different countries' ICT sectors may increase the uncertainty of returns; though, an increasingly mobile financial sector proves there are high returns if companies can capitalise on the continent's projected digitisation. Africa's consumer e-commerce market was valued at $5.7 billion in 2017 and these revenues will increase with an increase in the number of internet users across Africa.

As the purchasing power is increasing simultaneously with the mobile phone and internet connections, online retail and e-commerce is as well becoming an important market opportunity. In fact, Africa online retailer Jumia (valued at about $1 billion) will soon be listed in the New York Stock Exchange.

Download free eBooks at bookboon.com

Mobile connectivity in emerging economies

It is important to note that mobile connectivity in emerging economies is on the rise with more people using mobile and internet services. Mobile services are getting practical in most countries because they are cheap and easy to use. These connect people in Africa and emerging economies quite quickly. Western Union has adopted such a platform for money transfer, other companies might offer applications to provide online data to consumers. At the same time, e-commerce gradually seeps in the culture of emerging economies particularly among the young generation. Pew Research Centre (PRC) provides some salient information on the diffusion of e-technology and commerce in emerging economies [10].

Key findings relating to the adoption and use of digital technology in these countries include

- Majorities in each country own their mobile phone, and sharing a phone with someone else is relatively rare. A median of just 7% of adults in these countries share a mobile phone, ranging from a low of 1% of adults in Vietnam to a high of 17% in Venezuela.

Click on the ad to read more

- Smartphone use is higher among younger adults and those with higher education levels. Lebanon and Jordan are the only countries in the survey in which a majority of adults ages 50 and older – as well as a majority of those with less than a secondary education – are smartphone users.
- Home computer and tablet access is relatively rare in these countries: A median of 34% have access to either kind of device. And a median of 27% of adults in these countries say they do not have a tablet or computer at home but do have a smartphone, ranging from a low of 18% in Venezuela to a high of 50% in Jordan.
- By a substantial margin, Facebook (used by a median of 62% of adults in these countries) and WhatsApp (used by a median of 47%) are the two most commonly used social media or messaging platforms out of the seven included in the survey. To the extent that adults use only one of these platforms, in every country that platform is either Facebook or WhatsApp.
- Some social media platforms or messaging apps are more popular in some countries than in others. For example, about one-third of Lebanese adults (34%) use the photo-sharing site Instagram. The messaging app Viber is more popular in Lebanon and Tunisia – where about one-in-five adults report using it—than elsewhere, while Jordanians stand out for their use of the photo-messaging app Snapchat (24%).

Top e-commerce companies in selected emerging economies

The table below provides a list of a few e-commerce companies in selected emerging markets. It can be seen that their area of business focuses on consumer retailing, platforms where entrepreneurs and consumers interact as well as online payments. They look very similar to the giants like Amazon, e-bay or Alibaba.

Download free eBooks at bookboon.com

Country/Area	Company	e-business
e-business	Jumia-Nigeria	Connecting African entrepreneurs and consumers.
	Takealot-South Africa	Online retailing and shopping.
	Kilimall-Uganda and Nigeria.	Computers and electronics online.
	Konga-Nigeria known as the 'Amazon of Africa'.	Baby care and beauty products.
China	Alibaba	Large online company for many products and large orders.
	Jingdong	Online technology-based company.
	Wsmall	Online entrepreunerial university for entrepreneurs.
India	Amazon.In	Similar to Jeff Bezos company with focus on Indian retail market.
	Flipkart.com	Bengaluru e-commerce company.
	Rediff.com	Books, accessories, homecare products.
Brazil	Mercado Livre	e-commerce and electronic payments.
	Americanas.com	Online portal of retail chain Lojas Americanas.
	Magazine Luiza	Consumer electronics, furniture and home appliances.

Multiple Choice Questions

Select the most likely answer in each question

1.	Which activity is quite popular in emerging economies concerned with e-commerce?	
	A.	Mobile retailing.
	B.	Mobile banking.
	C.	Internet banking.
	D.	Internet retailing.

Download free eBooks at bookboon.com

2.	International retailers such as eBay, Amazon and Aliexpress are targeting the developing world's	
	A.	9.1 billion Internet users.
	B.	1.9 billion Internet users.
	C.	1.9 billion telephone users.
	D.	2 billion social media users.

3.	Many emerging markets in Asia Pacific, Latin America and Africa are	
	A.	mobile-last.
	B.	internet-first.
	C.	mobile-first.
	D.	telephone-first.

Need help with your dissertation?

Get in-depth feedback & advice from experts in your topic area. Find out what you can do to improve the quality of your dissertation!

Get Help Now

Go to www.helpmyassignment.co.uk for more info

Helpmyassignment

Click on the ad to read more

4.	Through e-commerce in emerging economies, consumer behaviour and customer expectations have been extremely	
	A.	dull and stable.
	B.	average and mitigated.
	C.	slack and sluggish.
	D.	dynamic and variable.

5.	Which country is currently considered to be the quickest and the biggest growing online market in the region of Southeast Asia?	
	A.	Indonesia.
	B.	Papua New Guinea.
	C.	Thailand.
	D.	Laos.

6.	In emerging economies, laying the foundation for the development of e-commerce by providing solid ICT infrastructure is the task of the	
	A.	customer.
	B.	government.
	C.	private business.
	D.	public organisation.

7.	E-commerce has slashed the costs and logistical challenges associated with	
	A.	starting an overseas subsidiary.
	B.	starting a capital venture.
	C.	starting a business.
	D.	starting a megaproject.

Download free eBooks at bookboon.com

8.	Africa's emerging economies present exciting opportunities in e-business for expansion in	
	A.	cargo handling.
	B.	logistics.
	C.	information technology.
	D.	retail and distribution.

9.	In Africa, mobile phones and Internet connections impact	
	A.	online retail and e-commerce.
	B.	direct sales.
	C.	merchandising.
	D.	local retail and commerce.

10.	Domestic e-commerce giants in China are	
	A.	e-bay and Amazon.
	B.	Alibaba and Tencent.
	C.	B2W digital and cnova.
	D.	Flipkart and rediff.

Solutions: 1A2B3C4D5A6B7C8D9B10B

References

[1] GSM Association (2017) Embracing the Digital Revolution Policies for Building the Digital Economy, www.gsma.com
[2] Marceux, P. (2015) What are the Main E-Commerce Drivers in Emerging Markets?
[3] Embracing the Digital Revolution Policies for Building the Digital Economy
[4] Pew Research Centre (2014) Emerging Nations Embrace Internet, Mobile Technology https://www.pewresearch.org
[5] Shah, S. (2017) Emerging e-commerce markets in the world, https://www.primaseller.com

Download free eBooks at bookboon.com

[6] Gaffar Khan, A. (2016) Electronic Commerce: A Study on Benefits and Challenges in an Emerging Economy, Global Journal of Management and Business Research: B Economics and Commerce Volume 16 Issue 1.

[7] Toesland, F. (2018) In emerging economies, locals push e-commerce advantages, www.raconteur.net

[8] Lucas, L. (2017) Tencent and Alibaba close in on global tech elite: Tech giants are less known outside China but both are reaching market cap, Financial Times.

[9] Signé, L. (2019) Africa's emerging economies to take the lead in consumer market growth, www.brookings.edu

[10] Silver, L., Smith, A., Johnson, C., Taylor, K., Jiang, J., Anderson, M. and Rainie, L. (2019) Mobile Connectivity in Emerging Economies, Pew Research Centre.

Click on the ad to read more

GLOSSARY OF KEY TERMS USED

Absolute advantage

The principle of absolute advantage refers to the ability of a party (an individual, or firm, or country) to produce a greater quantity of a good, product, or service than competitors, using the same amount of resources.

Acculturation

Acculturation is a process through which a person or group from one culture comes to adopt the practices and values of another culture, while still retaining their own distinct culture.

Aesthetics

Aesthetics refer to everything which is concerned with beauty and attractiveness.

Arbitration

In arbitration, two or more businesses enter a civil case where the matter is debated.

Attitude

An attitude refers to the way we behave to something or to any stimulus. It reflects the different characteristics of an individual towards something.

Big Mac Index

The Big Mac Index was invented by *The Economist* in 1986 as a light-hearted guide to whether currencies are at their 'correct' level.

Download free eBooks at bookboon.com

CAGE model

Four key variables are developed in the CAGE model where the acronym stands for cultural, administrative, geographic and economic distances. All such distances are impediments to international business on behalf of emerging markets.

Comparative Advantage

Comparative advantage takes place when a country produces a good or service for a lower opportunity cost than other countries under the Ricardo model.

Competitive Advantage

Businesses use competitive advantage like low price, differentiation or niche strategies to better position them in competitive terms with businesses either in the domestic or the host country.

Consumer Price Index (CPI)

The Consumer Price Index (CPI) measures the average change in prices over time that consumers pay for a basket of goods and services, commonly known as inflation.

Copyright

Copyright protects the independent skill, labour and effort which has been expended in producing work and prevents others from helping themselves to a too large proportion of that skill, labour and effort.

Country Assessment

When a country decides to carry out business with another one, it has to make an assessment and analysis of the country before it decides to have a foothold in the market of the host country.

Download free eBooks at bookboon.com

Culture

Culture refers to patterns of behaviour, attitudes and beliefs that are common to a group of people who commonly share these attributes and who use them for their identity.

Differentiation Strategy

This strategy allows a firm to be different from other. The distinction can be provided by high quality, extraordinary a service, innovative design, technological capability or a positive brand image.

Domestic business

Domestic business is related to the local environment and it is carried only inside the country.

Domestic company

The domestic company is the original form of the multinational. It exists in the home market and has no overseas subsidiary.

E-commerce

e-commerce is the buying and selling of products and services by businesses and consumers through an electronic medium without using any paper documents.

Economic Analysis

Economic analysis involves assessing or examining topics or issues from an economist's perspective. Economic analysis is the study of economic systems. It may also be a study of a production process or an industry.

Download free eBooks at bookboon.com

Emerging economy

An emerging economy is a country that has some characteristics of a developed nation, but does not satisfy such standards. Such nations might include developing nations between the lower and upper-middle income economies.

Empathy

Empathy means to try to understand another person from that person's point of view.

Focus Strategy

The focus strategy aims at a cost advantage in a narrow range of industry segments. e.g. Toyota cars priced slightly above-average market prices.

Global company

A global company has a foothold in multiple countries but the offerings and processes are consistent in each country.

Global environment

The global business environment is multiple sovereign nations outside the organisation's home environment influencing how the organisation makes decisions for how to use its resources.

Global village

McLuhan chose the insightful phrase 'global village' to highlight his observation that vents in one part of the world could be experienced from other parts in real-time, which is what human experience was like when we lived in small villages.

Download free eBooks at bookboon.com

Gross National Product

A country's Gross National Product is the total value, measured in the country's currency, of the final goods and services produced during a certain period, such as a year.

Heckscher-Ohlin model

The Heckscher-Ohlin model is an economic theory that proposes that countries export what they can most efficiently and plentifully produce.

High-context culture

The high-context culture comprises of business people who are in the business field for a certain period and who are familiar with technical jargon. In a high context culture, communication can be implicit and people can understand things without much interpretation.

Inflation Rate

The Inflation Rate is calculated by dividing the difference between CPI index for the ending period and CPI for the starting period by CPI index for the starting period.

Innuendoes

Innuendoes refer to insinuation that is made to make something look bad. e.g. Japanese are addicted to work.

International Business

International Business is concerned with activities done at international level, i.e., beyond the local confinements of a country.

Download free eBooks at bookboon.com

Litigation

Litigation means that some warfare has been officially declared among trade partners because of unfair trade practice.

Low-context culture

Communication in a low-context culture means that importance is given to gestures and words in order to express something. Most of the things explained are explicit, in that effort is done to explain something as clearly as possible.

Multinational

The multinational enterprise is an illustration of an organisation that is involved in international business with headquarters in the home country and subsidiaries overseas.

Niche Strategy

This strategy is especially useful for the small companies with a limited budget and specialised products. e.g. Porsche cars, Rolex watches for upper classes.

Patent

A patent is the name given to a bundle of monopoly rights which give the patentee the exclusive right to exploit the invention for a given period of time.

Personal consumption

Personal consumption expenditure refers to the capital outlay done by an individual on personal grounds

Download free eBooks at bookboon.com

Political risks

Political risks refer to the risks for foreign companies which enter a new country. Political risks are evident in states which practice totalitarianism or dictatorship.

Population density

The population density refers to the number of people per square kilometre, e.g. Mauritius has a population density of 622 people per km square.

Private Savings

Private savings is defined as the total income (Y) (might be referred to as GDP or National income or just Income) minus the tax that they pay (T) and how much of their expenditure is used on consumption (C).

Purchasing Power Parity

Purchasing Power Parity is a term used to explain the economic theory that states that the exchange rate of two currencies will be in equilibrium or at par to the ratio of their respective purchasing powers.

Socialism

Socialism is a doctrine that has been closely related to communism but rests on the fundamental point that the government works for the benefit of society.

Stereotyping

Stereotyping means to develop a generalised mind-set because of descriptions given by other people or simply because we have studied about such people in the books.

Download free eBooks at bookboon.com

Stuck in the middle

Porter uses the term 'stuck in the middle' to describe organisations that are unable to gain a competitive edge in any one of the strategies.

Subcultures

Subcultures are cultural groups that come from mainstream cultures e.g. Hispanic subculture in the United States.

Surface features

Surface features refer generally to the geographical and physical aspects of different countries which are bound to create differences among nations.

Sustainable Competitive Advantage

This term refers to long-term success with any one of the strategies low-cost, focus or differentiation which requires that the advantage be bearable.

The International Product Life Cycle

The PLC concept assesses the position that products have in a lifecycle in four main stages: Introduction, Growth, Maturity and Decline and its transition from the domestic country to a foreign environment.

Trademark

A trade mark is a mark used in relation to goods or services so as to indicate a connection in the course of trade between goods and some person having the right to use a mark.

Download free eBooks at bookboon.com

Unit labour cost

Unit labour cost measures the average cost of labour per unit of output and are calculated as the ratio of total labour costs to real output.

World Trade Organisation

The World Trade Organisation (WTO) is the only international governing body that World Trade Organisation replaces General Agreement on Tariffs and Trade (GATT) which was created in the year 1948. It is active since 1995.

Download free eBooks at bookboon.com