**Chapter Two**

1. **International Marketing Environment**

**2.1 Framework for analyzing international Marketing environments**

Fig. 2.1. International marketing environment

In simple terms, ‘environment’ implies everything that is external to the organization. It is something that surrounds an enterprise i.e. the sum-total of external factors within which the enterprise operates.

The international marketing environment is a complex constellation of demands & constraints which the firm faces as it attempts to compete and grow.

This international marketing environment consists of a number of elements most of which lie outside the control of the firm.

International marketing environmental analysis is a pre-entry operation that starts from analysis which is defined as the process by which strategists monitor the economic, governmental/legal, market/competitive, supplier/technological, geographic, and social settings to determine opportunities and threats to their firms.

Environmental diagnosis consists of managerial decisions made by analyzing the significance of the data (opportunities and threats) of the environmental analysis.

Today a much greater emphasis is given than in the past to the fact that environmental analysis is an essential prerequisite for strategic management decision-making.

It is now unquestionably accepted that the prospects of a business depend not only on its resources but also on the environment.

Just as the life and success of an individual depend on his innate capability, including physiological factors, traits and skills, to cope with the environment, the survival and success of a business firm depend on its innate strength – the physical resources, financial resources, skill and organization – and its adaptability to the environment.

* + 1. **Economic environment**

Economic conditions, economic policies and the economic system are the important economic factors that constitute the economic environment of a business.

The economic conditions of a country-for example, the nature of the economy, the stage of development of the economy, economic resources, the level of income, the distribution of income and assets, etc- are among the very important determinants of business strategies.

In a developing country, the low income may be the reason for the very low demand for a product. The sale of a product for which the demand is income-elastic naturally increases with an increase in income. But a firm is unable to increase the purchasing power of the people to generate a higher demand for its product. Hence, it may have to reduce the price of the product to increase the sales. The reduction in the cost of production may have to be effected to facilitate price reduction. It may even be necessary to invent or develop a new low-cost product to suit the low-income market.

In countries where investment and income are steadily and rapidly rising, business prospects are generally bright, and further investments are encouraged.

There are a number of economists and businessmen who feel that the developed countries are no longer worthwhile propositions for investment because these economies have reached more or less saturation levels in certain respects.

In developed economies, replacement demand accounts for a considerable part of the total demand for many consumer durables whereas the replacement demand is negligible in the developing economies.

The economic policy of the government has a very great impact on business. Some types or categories of business are favorably affected by government policy, some adversely affected, while it is neutral in respect of others. For example, a restrictive import policy, or a policy of protecting the home industries, may greatly help the import-competing industries.

Similarly, an industry that falls within the priority sector in terms of the government policy may get a number of incentives and other positive support from the government, whereas those industries which are regarded a s inessential may have the odds against them.

* + - 1. **International Trade Theories**

1. **The Theory of Absolute Cost Advantage**

For trade to take place, all nations who partner to trade must anticipate gain from it. In other words, trade is a positive sum game-in that the participants are placed in a favorable condition.

Adam smith may have been the first scholar to investigate formally the rationale behind foreign trade. Smith used the principle of absolute advantage as the justification for international trade.

The principle of absolute cost advantage holds that a country can have cost advantage by producing some commodities/services more efficiently than any other country with whom to build trade relationship i.e. exporting to those countries commodities the country can produce cost effectively and importing commodities it can produce less cost effectively.

e.g.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Country | Commodities | Cost/quintal in USD | Available resources in money (USD) | Units to be produced |
| Ethiopia | Coffee | 50 | 5000 | 100 |
| Rice | 60 | 7500 | 125 |
| Thailand | Coffee | 80 | 6400 | 80 |
| Rice | 40 | 8000 | 200 |

Ethiopia and Thailand have an absolute cost advantage over coffee and rice production respectively. Total production of coffee =100+80=180quin and total production of rice =125+200=325quin

The situation of absolute advantage with specialization:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Country | Commodities | Cost/quintal in USD | Available resources in money (USD) | Units to be produced |
| Ethiopia | Coffee | 50 | 5000+7500 | 250 |
| Thailand | Rice | 40 | 6400+8000 | 360 |

The situation of absolute advantage with specialization results in total production of coffee =250qu and total production of rice = 360qu. Therefore, when the two countries specialize in each commodity, extra 70 quintals of coffee and 35 quintals of rice would be gained.

The principle of absolute advantage fails to explain whether trade will take place if one nation has an absolute advantage for all products under consideration. In view of this theory, a country which has absolute advantage in the production of all goods and services may not benefit from international trade.

1. **Theory of Comparative Cost Advantage**

This theory argues that a country can obtain/be benefited from international trade even if it is able to produce all offers more cost efficiently than its trading partners. A country can specialize in the production of those commodities that it can produce cost efficiently than other products and exchange with other countries even if it can more cost effectively produce those imported commodities than their trade partners. Assume the following example:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Country | Commodities | Cost/unit in USD | Available resources in money (USD) | Units that can be produced |
| Ethiopia | Leather shoe | 20 | 15000 | 750 |
| Jeans | 90 | 18000 | 200 |
| Turkey | Leather shoe | 10 | 15000 | 1500 |
| Jeans | 30 | 18000 | 600 |

Ethiopia has an absolute advantage neither in leather shoe nor in jeans production. On the other hand, Turkey has an absolute advantage in the production of both leather shoe and jeans.

To see the efficiency ratio

Turkey Ethiopia

Shoe ratio 2 1

Jeans ratio 3 1

Ethiopia is 3 times less efficient/3 times disadvantageous than Turkey in the production of jeans. Again Ethiopia is 2 times less cost efficient/2times disadvantageous than Turkey in the production of leather shoe. Whereas Turkey is 3 times more efficient/3times more advantageous and 2 times more cost efficient in the production of jeans and leather shoe respectively. This implies that Ethiopia can specialize in the production of leather shoe and export to Turkey because Ethiopia is only 2 times less efficient and can import jeans from Turkey. The resources that would be spent to produce jeans by Ethiopia will be shifted to produce leather shoe. The same is true for Turkey; the resources from leather shoe can be shifted to jeans.

1. **Factor endowment theory**

Elihickscher, Bertinohlim and Michael porter argue that the pattern of international trade is determined by the differences in factor endowment. The most important factors suggested are land, labor and capital. Factor endowment theory predicts that countries should invest in those goods and services which will be produced using locally abundant resources and should import commodities and service which can be produced using locally scarce resources. For example, if a country is endowed with manpower but has capital deficiency, this country can export labor intensive outputs and can import capital intensive outputs.

**Balance of Payment**

When countries trade, financial transactions among and between them occur. Commodities and services are imported and exported; people make vacations and foreign travels. In both cases, cash out flows from a nation and cash inflows to a nation exists. In short, balance of payment is a summary of/an accounting record of financial transactions between and among countries over time usually in a year. If a country imports more than it exports, negative balance of payment/trade deficit is recorded. On the other extreme, if a country exports more than it imports, positive balance of payment/trade surplus is recorded. Finally, if the amount imported equals the amount exported, the record shows neither surplus nor deficit i.e. equilibrium.

Balance of payment contains a record of all the goods and services a nation exchanged with other nations over time i.e. recurrent transactions, foreign private investments, government borrowings, lending and payments of debts i.e. long term capital flows.

The balance of payment is an indicator of the international health of a country. This helps government policy makers plan monetary, fiscal and foreign exchange policies. Such data can also provide information for decisions in international marketing. Two important decisions for a firm are the choice of location of supply for foreign markets and the selection of supply to sell to.

Balance of payment analysis can show which countries are importers and exporters of the products in question. The firm can identify its own best import and export targets that are countries to sell to and countries to supply from. Furthermore, the firm can get an indication of the competition in those countries to operate by noting the nations supplying the products under consideration or identifying low price suppliers and high quality/high price suppliers. Looking at the capital account provides a nation’s international solvency over several years. If a country is losing its foreign exchange reserves, there is a strong likely hood of currency devaluation or some kind of exchange control, meaning that the government restricts the amount of money send out of the country. With exchange control, the firm has difficulty of getting foreign exchange to import products. During shortage of foreign exchange, governments give priority for the importation of necessary commodities to the public. Thus, the scarce foreign exchange goes to prioritized offers.

* + - 1. **Economic Integration**

Economic integration refers to an agreement among countries of varied geographic regions aimed at reducing and ultimately eliminating tariff and non-tariff barriers so as to allow the free flow of commodities and factors of production between and among each other.

* + - 1. **Levels of Economic Integration**

There are many levels of economic integration ranging from an agreement to reduce trade barriers to the full-scale economic and political integration.

1. Free trade area

It is the first economic integration in which all barriers to trade among members are abolished. However, each member country is allowed to determine its own trade policies to non-member countries. Thus, the tariff imposed on the product of non-member countries may vary among member countries. North American free trade agreement (NAFTA), the agreement signed by United States, Mexico and Canada in 1992 is an example of free trade area. Those member countries are each other’s largest customers/suppliers.

1. Customs union

The customs union is one step further along the road to full economic and political and adopts a common external trade policy. Establishment of a common external trade policy necessitates significant administrative machinery to oversee trade relations with nonmembers.

1. Common market

A common market has no barriers to trade between member countries and has common external trade policy and allows factors of production to move freely between members. There are no restrictions on immigration or cross border flow of people, raw materials, working equipment and capital between member countries. Employment policies look the same.

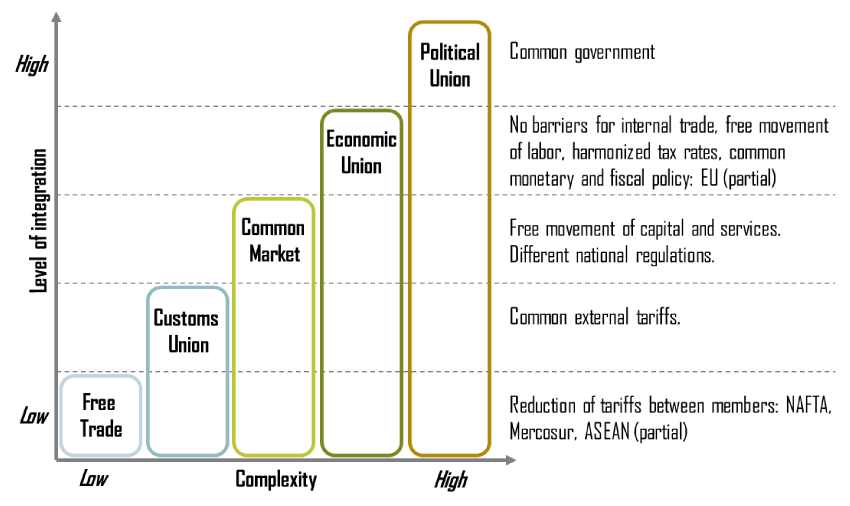
1. Economic union

An economic union entails even closer economic integration and cooperation than a common market. Like the common market, an economic union involves the free flow of products and factors of production between member countries and the adoption of a common external trade policy, but it also requires a common currency, harmonization of members’ tax rates, and a common monetary and fiscal policy. Such a high degree of integration demands a coordinating bureaucracy and the sacrifice of significant amounts of national sovereignty to that bureaucracy. The EU is an economic union, although an imperfect one since not all members of the EU have adopted the euro, the currency of the EU and differences in tax rates across countries still remain.

1. Political union

The move towards economic union raises the issue of how to make a coordinating bureaucracy accountable to the citizens of member countries. The central political apparatus coordinates the economic, social and foreign policy of member countries. The EU is on the road towards at least partial political union. The EU parliament has been directly elected by citizens of the EU member countries since 1970s. In addition, the councils of ministers (the controlling and decision making body of the EU) is composed of government ministers from each EU member.

**Fig. levels of economic integration**



**Advantages of economic integration**

* Trade creation -The ultimate goal of economic integration is to replace high production costs with low production costs. Trade creation occurs when high cost domestic producers are replaced by low cost producers within the free trade area. It may also occur when higher cost external producers are replaced by lower cost external producers.
* Border conflicts reduce
* Open markets for foreign investment and export
* Creating employment opportunities
* Common currency facilitates investment (because no need of currency conversion to invest in and for profit remittance)
* Common currency reduces the risk of exchange rate fluctuation and unavailability of foreign reserve
* Common currency enables to compare the price of a commodity between member countries
* Common currency saves commission for conversion

**Disadvantages/challenges of economic integration**

* Complexity in adjusting the national economic policy with member countries
* Unfair competition between domestic and foreigners
* Unfair resource utilization between developed and developing countries
* Trade diversion (probably low cost of production may be replaced by high cost of production
* Common currency impedes national authorities to control over monetary policy for inflation monitoring
* Increases price competition
* The issue of sovereignty
  + 1. **Political and legal environment in International Marketing**

Political environment ismade up of governmental institutions, political parties, and organizations that rulers and people use to wield power. Political environment is another factor for success as well as existence of a firm. The political environment that MNCs face is a complex one because they must cope with the politics of more than one nation.

The political environment is composed of three different types: Domestic political environment (domestic laws in the homeland of the international marketer that intervene in international trade), foreign political environment (the impact of overseas politics where in the firm wants to do business) and international political environment (the political influence of countries other than the respective trade partners).

* + - 1. **Types of government: Political systems vs economic systems**

A system of the form governments can take can be useful in appraising the political climate.

Government systems differ in terms of consulting with citizens from time to time for the purpose of learning about opinions and preferences.

Thus, governments may be classified as parliamentary, two-party, multi-party, single-party, and dominated one-party. Each approaches international business differently.

Economic systems provide basis for classification of governments. These systems serve to explain whether businesses are privately owned or government owned or a combination. Three systems can be identified, communism, socialism and capitalism.

1. **Communism**

Communism assumes that all resources should be owned and shared by the people i.e. not by profit-seeking enterprises for the benefit of the society. In practice it is the government that controls all productive resources and industries and as a result the government determines jobs, production, price, education and just about anything else. There is no an incentive to motivate employees and managers to improve production. Competition among production plants is none.

Despite communist countries’ precaution with control of industries, it would be an error to conclude that all communist governments are exactly alike.

1. **Socialism**

The degree of government control that occurs under socialism is somewhat less than under communism. A socialist government owns and operates the basic, major industries but leaves small businesses to private ownership. Socialism is a matter of degree and not all socialist countries are the same. Some socialist countries lean toward communism as evidenced by their rigid control over prices and distribution. Some other socialist nations are much closer to capitalism.

1. **Capitalism**

The philosophy of capitalism provides for a free market system that allows business competition and freedom of choice for both consumers and companies. It is a market-oriented system in which individuals motivated by private gain are allowed to produce goods and services for public consumption under competitive conditions. Product’s price is determined by demand and supply. This system serves the needs of the society by encouraging decentralized decision making, risk taking and innovation. The results include product variety, product quality, efficiency, and relatively lower prices.

**Privatization**

Both multinational and local firms should notice a trend toward privatization and its competitive implications. Government-owned enterprises are often characterized by overstaffing, poor financial performance, dependence on subsidies, centralized and politicized organizations, and lack of competition.

Among the objectives of privatization are: promotion of competition and efficiency, reduction of debt and subsidies, and broadening domestic equity ownership.

* + - 1. **Types of political risks**

There are a number of political risks with which marketers must contend.

1. Confiscation

It is the act of a government’s taking ownership of a property without compensation. Example: Chinese government’s seizure of American property after the communists took power in 1949.

1. Expropriation

It is the process whereby the company whose property is expropriated is forced to sell at low price or to be compensated. Unlike confiscation, there is some compensation even if not equivalent.

1. Creeping expropriation

It is a set of actions whose cumulative effect is to deprive investors of their fundamental rights to the investment. Laws that affect corporate ownership, control, profit, production, reinvestment and license renewal can easily be enacted. Countries can change the rules of the game in the middle of the game. Because countries can change the rules in the middle of the game, companies must adopt adequate safeguards.

1. Nationalization

It involves government ownership and it is the government that operates the business being taken over. Governments’ rationale for nationalization varies widely and includes national interests, vote getting, prevention of foreigners’ exploitation, and an easy, cheap, and quick way of acquiring wealth.

1. Domestication

Foreign companies relinquish control and ownership either completely or partially to the nationals. The result is that private entities are allowed to operate the deprived property. Domestication may sometimes be a voluntary act that takes place in the absence of confiscation or nationalization. Usually, the causes of this action are either poor economic performance or social pressures.

Another classification system of political risks is the one used by Root. Based on this classification, four sets of political risks may be identified:

*General instability risk:* it is related to the uncertainty about the future viability of a host country’s political system.

*Operation risks:* It proceeds from the uncertainty that a host government might constrain the investor’s business operations in all areas, including production, marketing, and finance.

*Transfer risks:* It applies to any future acts by a host government that might constrain the ability of a subsidiary to transfer payments, capital and profit out of the host country back to the parent firm.

*Political sanctions:* One or a group of nations may boycott another nation, thereby stopping all trade between the countries, or may issue sanctions against the trade of specific products.

The above politics related risks will likely be less in the future for several reasons.

Many governments have experienced very poor records in running the businesses nationalized and have found that their optimistic projections have not materialized. Furthermore, many nations have realized that such actions have created difficulties in attracting new technology and foreign investment as well as in borrowing from foreign banks. There is also the possibility of open retaliation by other governments.

* + - 1. **Analysis and management of political risks/country risk**

Political risk is an uncertainty that stems from the exercise of power by governments and non-governmental actors. Typical hazards include political instability, politicized government policy, expropriation, creeping expropriation, contract frustration, and currency inconvertibility.

Some assessment methods are country specific in the sense that a risk report is based on a particular country’s unique political and economic circumstances.

Many different methods may be employed to predict, measure and analyze political risks.

* Developing questionnaire to be sent to experts or local citizens in order to gauge the political mood of prospective nations. Using the system the marketer rates countries as per their political conditions.
* Econometrics rating- the level of economic development and the type of political system can be used for risk assessment. This system assumes that an economically developed country is most often politically stable.
* Gauging information from experienced people like Ambassadors and businessmen working in the proposed countries.
* Rely on the advice of firms specializing in this area. Those firms advise companies on the danger of doing business in some countries. They offer information and provide training for executives on how to protect themselves, and guide their employees in political crises.
* Browsing online sources which furnish abundant information about the host countries’ political situation. All the aforementioned are information sources prior to going internationally.
  + - 1. **Measures to minimize political risks**

To reduce political risks, MNCs consider any of or combination of the following strategies.

Avoidance- screening out politically uncertain countries. In addition to political unrest internally, MNCs, due to their presence in a large number of countries, must be mindful of terrorist threats.

According to the World Markets Research Center, there are 10 top listed countries deemed to be the most likely targets of a terrorist attack.

1. Colombia, (2) Israel, (3) Pakistan, (4) USA, (5) Philippines, (6) Afghanistan, (7) Indonesia, (8) Iraq, (9) India, and (10) United Kingdom.

MNCs with anti-terrorist programs may focus on security equipment, training executives and their families of protective and defensive mechanisms as well as negotiating skills.

* Insurance- by having government or private insurance, MNCs can transfer the risk to some other party i.e. if they lost their property, they will be reimbursed an equivalent amount. Events like confiscation, expropriation, creeping expropriation, Currency inconvertibility, terrorism get coverage in political insurance.
* Employing most host country nationals by hopping that country’s government does not consider confiscation or expropriation to care its citizens working in the company.
* Using local resources- if an international marketer uses the host countries’ supplies as an input or serve as a supplier for processing plants in those countries, the governments consider the tight link with the economy.

Sometimes local sourcing is compulsory. Governments may require products to contain locally manufactured components because local contents improve the economy into two ways:

a) It stimulates demand for domestic components, and

b) It saves the necessity of a foreign exchange transaction

Further investment in local production facilities by the company will please the government.

Finally, the company should attempt to assist the host country by being export oriented.

* **Sharing ownership:** Instead of keeping complete ownership for itself, a company should try to share ownership with others, especially with local companies. Say, for example converting a private company to a public one or from a foreign company to a local one. One of the most common techniques for shared ownership is simply forming a joint venture. Any loss of control as a result can, in most cases, be more than compensated for by the derived benefits. Voluntary domestication, in most cases, is not a desirable course of action because it is usually a forced decision. The company should therefore plan for domestication in advance instead of waiting until it is required, because by that time the company has lost much of its leverage and bargaining power.
* **Being civic minded:** It is not sufficient that the company simply does business in a foreign country; it should also be a good corporate citizen there. To shed the undesirable perception, multinationals should combine investment projects with civic projects.

Corporations rarely undertake civic projects out of total generosity, but such projects make economic sense in the long run. It is highly desirable to provide basic assistance because many civic entities exist in areas with minimal or nonexistent municipal infrastructures that would normally provide these facilities. A good idea is to assist in building schools, hospitals, roads, and water systems because such projects benefit the host country as well as the company, especially in terms of the valuable good-will generated in the long run.

* **Political neutrality**

For the best long-term interests of the company, it is not wise to become involved in political disputes among local groups or between countries.

A company should clearly but discreetly state that it is not in the political business and that its primary concerns are economic in nature.

* **Expanding the investment base**

Including several investors and banks in financing an investment in the host country is another strategy. This has the advantage of engaging the power of the banks whenever any kind of government takeover or harassment is threatened.

This strategy becomes especially powerful if the banks have made loans to the host country; if the government threatens expropriations or other types of takeover, the financing bank has substantial power with the government.

* **Licensing**

A strategy that some firms find eliminates almost all risks is to license technology for a fee. Licensing can be effective in a situation where the technology is unique and the risk is high. Of course, there is some risk assumed because the licensee can refuse to pay the required fees while continuing to use the technology.

* **Adopt a local personality**. A practical approach may require that the company blend in with the environment.

There is not much to be gained by a company being ethnocentric and trying to Americanize, Europeanize, or Japanize the host country’s citizens. It is far better to be flexible and adapt-able.

The main reason that certain MNCs use local corporate staff is to make it look like a local company. The company is thought to be American in the USA, British in the United Kingdom, and Australian in Australia.

* + 1. **Legal environment in international marketing**

There is a multiplicity of legal environments: domestic, foreign, and international. At their worst, laws can prohibit the marketing of a product altogether. To most businesspeople, laws act as an inconvenience.

There are many products that cannot be legally imported into most countries. Examples include counterfeit money, illicit drugs, pornographic materials, and espionage equipment. It is usually also illegal to import live animals and fresh fruits unless accompanied by the required certificates. Furthermore, many products have to be modified to conform to local laws before these products are allowed across the border.

The modification may be quite technical from an engineering standpoint or only cosmetic, as in the case of certain packaging changes. A company’s production and marketing strategy can be affected by the legal environment.

* + - 1. **Legal systems**

To understand and appreciate the varying legal philosophies among countries, it is useful to distinguish between the two major legal systems: common law and statute law.

There are some twenty-five common law or British law countries. A common law system is a legal system that relies heavily on precedents and conventions. Judges’ decisions are guided not so much by statutes as by previous court decisions and interpretations of what certain laws are or should be. As a result, these countries’ laws are tradition oriented. Countries with such a system include the USA, Great Britain, Canada, India, and other British colonies.

Countries employing a statute law system, also known as code or civil law, include most European countries and Japan. Most countries – over seventy – are guided by a statute law legal system. As the name implies, the main rules of the law are embodied in legislative codes.

Every circumstance is clearly spelled out to indicate what is legal and what is not. There is also a strict and literal interpretation of the law under this system.

In practice, the two systems overlap, and the distinction between them is not clear-cut. Although judges in common law country rely greatly on other judges’ previous rulings and interpretations, they still refer to many laws that are contained in the statutes or codes. For statute law countries, many laws are developed by courts and are never reduced to statutes. Therefore, the only major distinction between the systems is the freedom of the judge in interpreting laws. In a common law country, a judge’s ability to interpret laws in a personal way gives that judge a great deal of power to apply the law as it fits the situation. In contrast, a judge in a civil law country has a lesser role in using personal judgment to create or interpret laws because that judge must strictly follow the “letter of the law.”

***Islamic law (sheri‟ah)*** is derived from the interpretation of the Quran and found in Pakistan, Iran, Saudi Arabia, and other Islamic states. The unique aspects of Islamic law are the prohibition against the payment of interest.

* + - 1. **Legal form of organization**

Firms doing business in various overseas markets have the following options for the legal form of organization: a branch, subsidiary, limited company, sole proprietorship, partnership, and corporation.

These legal forms of organizations vary in terms of ownership (public or private), the decision to sell securities to the public or to private companies, requirements in terms of registration and capital structure, subscription for shares, profits and assets available for distribution, in terms of limited liability. Those business forms apply different nomenclature as part of their trade names in different countries. Some nomenclatures include Corp., Inc., ltd., or ltd. co., PLC.

To eliminate confusion and to ensure some uniformity, European countries are now encouraging the use of PLC instead of other nomenclature.

Once a business is in operation, there is confrontation of various countries rules and regulations. Countries’ legal approach of intellectual property registration requirements, protection, protection of inventions by locals and foreigners, time span in which the property is protected, measures against bribery, counterfeiting, etc is different.

Some countries may refuse to recognize certain patents granted elsewhere, or they may refuse to approve foreign firms’ patent applications in their own countries. Some countries do not give patents for some product categories. For instance, China does not give patents for chemicals and pharmaceuticals. Membership to international organizations and economic integrations influence countries’ legal approach of intellectual property protection.

Many countries participate in international conventions designed for mutual recognition & protection of intellectual property rights.

There are three major international conventions:

* The Paris conventions for the protection of industrial property, commonly referred to as the Paris convention, includes the USA and other 100 countries.
* The Inter- American convention including most of Latin American nations and the USA
* The Madrid arrangement, which established the bureau for international registration of trademark, includes 26 European countries.
* In addition, the world intellectual property organization (WIPO) of the United Nations is responsible for the promotion of the protection of intellectual property and for the administration of the various multilateral treaties through the cooperation among its member states.

*Prior Use of brand mark versus registration of brand mark*

In the process of filing for patent protection, it is good idea to make a distinction between common law countries and statute law countries. A common law country determines patent ownership by priority in use.

In a statute law country, in comparison, is determined by priority in registration i.e. the first file is granted a patent even if an innovation was actually created or used earlier by someone else.

The failure to protect intellectual property rights adequately in the world market place can lead to legal loss of rights in potentially profitable markets.

*Market Laws*

All countries have laws regulating marketing activities in promotion, product development, labeling, pricing, and channels of distribution. For example, premium offers, free gifts, or coupons are differently governed in different countries.

* + - 1. **Jurisdiction and extraterritoriality**

There is no international law per se that deals with business activities of companies in the international arena. There are only national laws that vary from one country to another.

One aspect of the law that does not have universal acceptance involves its extraterritorial application. A nation wishing to protect its own interests often applies its laws to activities outside its own territory. In the case of a country’s firms which have foreign subsidiaries, it is questionable whether these subsidiaries must comply with the base government’s decrees.

Legal disputes can arise in three situations:

* Between Governments:
* Between a company and a government and
* Between two companies

Jurisdiction is generally determined in one of three ways:

* On the basis of jurisdictional clauses included in contracts,
* On the basis of where the contract was entered into, or
* On the basis of where the provisions of the contract were performed

Each country’s legal approach of cases is different.

In preparing a contract, a seller or buyer should stipulate a particular legal system that is to take precedence in resolving any contract dispute. The court to be used for legal remedy should also be specified. The company must keep in mind that to earn a legal victory in its home court is one thing, but to enforce a judgment against a foreign party is something else altogether. Enforcement is difficult unless that foreign party has the desire to continue to do business in the country where the judgment is obtained. Given the disparity of national laws, an international marketer will need to seek assistance from either a local lawyer or an international law firm.

It is often necessary to file a lawsuit in the defendant’s home country. To make certain that the foreign court will have jurisdiction to hear the case, the contract should contain a clause that allows the company to bring a lawsuit in either the home country or the host country. As per international conventions like Brussels Convention on Jurisdiction and the Enforcement of Judgments, the place where the matter in controversy is located is the exclusive forum for disputes regarding real property, status of a corporate entity, public records, trademark, copyright and patent, and enforcement of judgments.

* + - 1. **International dispute resolution**

When things go wrong in a commercial transaction, the buyer refuses to pay, the product is of inferior quality, the shipment arrives late, or any one of the myriad problems that can arise-what recourse does the international marketer have.

There are four steps to settle disputes both domestic and international:

* 1. **Informal Talks**

The 1st step the international marketer should do is he has to try to resolve the issue informally, but if that fails the foreign marketer must resort to more resolute actions

* 1. **Conciliation (Mediation)**

Conciliation is a non-binding agreement between parties to resolve disputes by asking a 3rd party to mediate differences.

The function of the mediator is to carefully listen to each party and to explore, clarify and discuss the various practical options and possibilities for a solution with the intent that the parties will agree on a solution.

The Chinese believes that when a dispute occurs, informal, friendly negotiation should be used first to solve the problem; if that fails, conciliation should be tried.

* 1. **Arbitration**

It is the settlement of a dispute by a person or persons chosen to hear both sides and come to a decision. If conciliation is not used or an agreement cannot be reached, the next step is arbitration. When all else fails, arbitration rather than litigation is preferred method for resolving international commercial disputes. The usual arbitration procedure is for the parties involved to select a disinterested and informed party or parties as referee to determine the merits of the case and make a judgment that both parties agree to honor.

In most countries, decisions reached in formal arbitration are enforceable under the law.

The popularity of arbitration has led to a proliferation of arbitral centers established by countries, organizations, and institutions. All have adopted standardized rules and procedures to administer cases.

* 1. **Litigation**

It is the act of or process of carrying a lawsuit. When all else fails, the final step is to solve the dispute is litigation.

* + 1. **Socio-cultural environment**

The socio-cultural environment encompassing, language, traditions and beliefs, tastes/preferences, social institutions, buying and consumption habits which are important factors for business.

* + - 1. **Characteristics of Culture**

There has also been debate about gifts. Traditionally, US firms provide Christmas gifts for their customers, employees, and those who have assisted the firm. In foreign countries, gifts may be given for other occasions, such as a New Year holiday or birthday. These gifts are often considered by Westerners as bribes.

In any case, a good basic definition of the concept is that culture is a set of traditional beliefs and values that are transmitted and shared in a given society. Culture means many things to many people.

**Culture is prescriptive**. It prescribes the kinds of behavior considered acceptable in the society. The prescriptive characteristics of culture simplify a consumer’s decision-making process by limiting product choices to those which are culturally acceptable. It creates problems for those products not in tune with the consumer’s cultural beliefs.

**Culture is socially shared**. Culture, out of necessity, must be based on social interaction and creation. It cannot exist by itself. It must be shared by members of a society, thus acting to reinforce culture’s prescriptive nature.

**Culture facilitates communication:** culture usually imposes common habits of thought and feeling among people. Thus, within a given group culture makes it easier for people to communicate with one another. Culture may also impede communication across groups because of a lack of shared common cultural values.

This is one reason why a standardized advertisement may have difficulty communicating its message to consumers in foreign countries.

**Culture is learned:** culture is not inherited genetically. It may be learned and acquired. **Socialization or enculturation** occurs when a person absorbs or learns the culture in which he /she is raised. In contrast, if a person learns the culture of a society other than the one in which he or she is raised, the process of **acculturation** occurs. The ability to learn culture makes it possible for people to absorb new cultural trends. Asian countries are complaining bitterly, about how their cultures are being contaminated by rock-and-roll music and western sexual & social permissiveness - foreign elements they consider undesirable and harmful.

**Culture is subjective:** people in different cultures often have different ideas about the same object. What is acceptable in one culture may not necessarily be so in another. In this regard, culture is both unique and arbitrary. As a result, the same phenomenon appearing in different cultures can be interpreted in every different manner.

It is customary in many cultures for a bridegroom’s family to offer a dowry to a bride’s family, either for the bride’s future security or to compensate her family for raising her. In India, an entirely different set of cultural rules applies. A woman there is viewed as a burden to both her own family and her husband-to-be. When she marries, her family must offer a dowry to the bridegroom.

**Culture is enduring:** Because culture is shared and passed down from generation to generation, it is relatively stable and somewhat permanent. Old habits are hard to break, and people tend to maintain its own heritage in spite of a continuously changing world.

**Culture is cumulative:** Culture is based on hundreds or even thousands of years of accumulated circumstances. Each generation adds something of its own to the culture before passing the heritage on to the next generation. Therefore, culture tends to become broader based over time, because new ideas are incorporated and become a part of the culture.

Of course, during the process, some old ideas are also discarded.

**Culture is dynamic:** culture is passed along from generation to generation, but one should not assume that culture is static & immune to change. Culture is constantly changing-it adapts itself to new situations and new sources of knowledge. The dynamic aspect of culture can make some products obsolete and can usher in new buying habits.

Sellers must examine the ways consumers in different countries think about and use certain products before planning a marketing program.

For example, Germanys and the French eat more packaged and branded spaghetti than do Italians. Italians’ children like to eat chocolate bars between slices of bread as a snack. Women in Tanzania will not give their children eggs for fear of making them bald and impotent.

South Americans like to sit or stand very close to each other when they talk business. On the other hand, American business executives tend to keep backing away as the South Americans move closer.

In most parts of the world, wedding gowns are white color, whereas in Asian countries black colors are preferable. Furthermore, some citizens believe that foreign investors coming to their country are driven by an intense interest of exploiting the local resources and leaving the country underdeveloped.

* + - 1. **Influence of culture on consumption**

Consumption patterns, lifestyles, and the priority of needs are all dictated by culture. Culture prescribes the manner in which people satisfy their desires.

Hindus and some Chinese do not consume beef at all, believing that it is improper to eat cattle that work on farms, thus helping to provide foods such as rice and vegetables.

The edibles we eat, the beverages we drink, the occasions we have eating, the ways of eating, working on products differ among overseas countries.

* + - 1. **Influence of culture on thinking processes**

Thinking processes are also affected by culture. When traveling over-seas, it is virtually impossible for a person to observe foreign cultures without making reference, perhaps unconsciously, back to personal cultural values.

This phenomenon is known as the self-reference criterion (SRC) i.e. an unconscious reference to one’s own cultural values, experiences, and knowledge as a basis for decisions. The SRC impedes the ability to assess a foreign market in its true light. Because of the effect of the SRC, the individual tends to be bound by his or her own cultural assumptions. It is thus important for the traveler to recognize how perception of overseas events can be distorted by the effects of the SRC.

When confronted with a set of facts, we react spontaneously on the basis of knowledge assimilated over a lifetime; knowledge that is a product of the history of our culture. Quite often we do not know ourselves why we behave in a certain way in a certain situation as we do that unconsciously. We seldom stop to think about a reaction, we react. Thus, when faced with a problem in another culture, the tendency is to react instinctively referring only to our SRC for a solution. Our reaction, however, is based on meanings, values, symbols and behavior relevant to our own culture and usually different from those of the foreign culture. Such decisions are often not helpful.

To illustrate the impact of the SRC, consider misunderstandings that can occur about personal space between people of different cultures. In the West, unrelated individuals keep a certain physical distance between themselves and others when talking to each other or in groups. We do not consciously think about that distance; we just know what feels right without thinking. When someone is too close or too far away, we feel uncomfortable and move either further away or get closer to correct the distance – we are relying on our SRC.

Your SRC can prevent you from being aware that there are cultural differences or from recognizing the importance of those differences.

* + - 1. **Influence of culture on communication**

Culture also influences the communication process. A country can be classified as either high context culture or a low context culture. This classification provides an understanding of valuable cultural orientations and explains how communication conveyed and perceived. North American and northern Europe (Germany, Switzerland, and Scandinavian Countries) are examples of low context cultures. In these types of society, messages are explicit and clear in the sense that actual words are used to convey the main part of information in communication. What is important is what is said not how it is said and not the environment within which it is said.

Asia, Africa, Middle Eastern Arab nations and some European countries like Spain, Italy and France are high context cultures. In such cultures, the communication may be indirect and the expression manner in which the message is received becomes critical. Because the verbal part (words) does not carry most of the information, much of it is contained in the non-verbal part of the message to be communicated.

The context of communication is high because it includes a great deal of additional information, such as the message sender’s values, position, back-ground, and associations in the society. As such, the message cannot be understood without its context.

* + - 1. **Communication through verbal and non-verbal languages**

Language is a significant part of culture, and communication is impossible without it. A language may be spoken, written, or nonverbal.

Each native speaker is naturally going to feel that one’s own native language is superior. England and France are going to claim that their many former colonies use their languages.

There is no question that English is the world’s language of business, diplomacy, and aviation.

* + - 1. **Communication through non-verbal languages**

People do not always communicate solely through the spoken or written word. Knowingly or not, people routinely communicate with one another in a nonverbal manner. Body language includes movement, appearance, dress, facial expressions, gestures, posture, use of silence, use of touch, timing, distance between speakers and listeners, physical surroundings, tone, and rhythm of speech.

Some body-languages (e.g., a smile) are universal, but other phrases vary in meaning across cultural lines. Whereas the Japanese view prolonged eye contact as rude, Americans instead feel that avoidance of eye contact is impolite.

Indonesians are polite people. A business guest will often be served something to drink and should not reach for his drink until the host gestures to do so. It is polite to at least sample the drink or any food offered. Indonesians are not known for their punctuality, so offence should not be taken if events do not start on time or if your guest arrives late. Indonesians avoid the use of the left hand when offering food and other objects, as it is regarded as the unclean hand. It is also considered rude to point with a finger.

There is a need to appreciate cultural differences in matters concerning the language of time, space, objects, friendship patterns, and agreements.

In some countries, particularly middle east, the official weekend is on Friday, and the new week begins on Saturday.

Therefore, Friday in most of the Middle East countries is like Sundays in the West. As a result, the outside world can do business with Jordan and other Muslim countries only on Mondays, Tuesdays, Wednesdays, and half of Thursdays (when most businesses close down early).

The relationship between time and the importance of a matter varies between countries. In USA, when a matter is important, it requires immediate attention and action. In some countries, a reverse relationship exists. A matter of importance requires more time to ponder, and to declare a deadline is to exert undue pressure.

1. **Language of time**

Time has different meanings in different countries. An American and an Asian do not mean the same thing when they say: “why don’t you come over sometime?” In the United States, the statement takes a formal tone, implying that advance notice should be given if the visit is to take place. For an Asian the meaning is exactly what is said-drop in any time without any appointment, regardless of how early or late it may be in the day.

Time is cultural, subjective and variable.

For example:

“The clock didn’t invent man.” (Nigeria)

“If you wait long enough, even an egg will walk.” (Ethiopia)

“Before the time, it is not yet the time, after the time it is too late.” (France)

“Time is money.” (USA): They often feel that things need to be settled and completed as soon as possible and that they have no time to waste or spare. American impatience is not a virtue in dealing with foreign firms. In general, American negotiators tend to skip the non-task activities and go directly to the agreement stage.

Russians are patient and careful before making a move, often taking extra time just to gain an advantage in the process of negotiation.

Lack of punctuality may even imply importance and status in some places. For instance, the Chinese observe strict punctuality for social occasions and appointments whereas; there is a lack of punctuality in other Asians and Africa. It is common for people to be half an hour or an hour late for an appointment. Usually, no excuse is offered to those who are kept waiting.

Very specifically, in Ethiopia, the startup and completion of construction projects is experiencing a considerable delay. In addition, for example in invitations and other social gatherings, people become late minutes or even hours.

There is also a culture that one should not travel in a time period determined to be unsafe or unlucky. This creates a dilemma for those who are traveling on a plane whose departure time is deemed to be inappropriate.

1. **Language of space**

Space has its own special meaning. Space has implication for personal selling. Latin Americans are comfortable with just a few inches of distance. Asians on the other hand, prefer substantial conversational distance and no physical contact. For Americans, a comfortable distance is something in between those extremes.

In addition in USA a person occupying an office at the top of a building is supposed to be top manager, chief executive (a person with the first responsibility in running the organization).

In Japan, top executives have offices on the ground floor.

1. **Language of agreement**

The USA is a very legalistic society. Americans are both specific and explicit in terms of agreement, making legal contracts common and indispensable. Not surprisingly, lawyers become partners in virtually all business deals. Culture dictates how a disagreement is expressed & resolved. North Americans generally prefer a straight forward approach. Elsewhere, one must be careful in a disagreement never to make someone else lose face.

Asians, in particular, are sensitive to affronts and can become violent when “loss face” results. Public humiliation criticism must thus be avoided in Asia where politeness is valued over blunt truth. Asian cultures do not teach workers to argue point-blank with immediate supervisors.

In many cultures, written contracts are not as binding as one’s word. According to people in these societies, if a person cannot be trusted as a friend, then it is futile to expect that person to live up to obligations

1. **Language of friendship**

Americans have the unique characteristics of being friendly, even at first meeting. They seem to have no difficulty in developing friendship in a very short time and this trait is carried over into business relationship. American business persons are impatient to develop the deep personal ties that are critical overseas. In many countries, friendship is not taken lightly.

The quick friendship characteristics of the United States prompt Americans to use first names in social as well as business encounters soon after a first meeting. The American practice of using first names can be very offensive in other countries, where formality and respect are strongly established traditions.

Addressing someone by a first name is not common outside of the western hemisphere, unless the first name is accompanied by the proper pronoun or adjective (Mr. or Mrs.). It is thus, very important for a businessperson to remember to address foreign counterparts with formal pronouns unless or until being asked to do something else. A formal last-name approach is used in Europe.

1. **Language of Negotiation**

Negotiation styles vary greatly; In some countries, a lack of eye contact is usually viewed as indication that something is not quite right. But the cultural style of negotiation in Japan requires a great deal less eye contact between speakers. Furthermore, in Japan periods of silence are common during interactions, and a response of silence should not come as a surprise.

Chinese negotiations are generally tough-minded, well-prepared, and under no significant time constraints. They are prepared to use various tactics to secure the best deal. In china, foreigners should expect repetitions and time-consuming negotiations.

1. **Language of color**

Flowers and colors have their own language and meaning. Preferences for particular colors are determined by culture. Because of custom and taboo, some colors are viewed negatively. A color deemed positive and acceptable in one culture can be inappropriate in another.

Swiss women do not want flowers with strong scents. To Swedish women, a cactus signals the end of a romance.

Yellow is associated with disease in Africa. White is an appropriate color for a wedding gown in the USA, yet white is used alternatively with black for mourning in India, Hong Kong, and Japan.

1. **Language of Gifts**

Cultural attitude concerning the presentation of gifts vary greatly across the Globe. Because of varying perceptions of gifts and their appropriateness, good intention can turn into surprises and even embarrassment when particular gifts violate cultural beliefs.

* + - 1. **Cultural Sensitivity and Tolerance**

Cultural sensitivity or cultural empathy must be carefully cultivated. International marketers should recognize that cultures are not right or wrong, better or worse; they are simply different.

For every amusing, annoying, or repulsive cultural traits we find in a country, there is a similarly amusing, annoying, or repulsive trait others see in our culture. For example, we bath, perfume and deodorize our bodies in daily rituals that are seen in many cultures as compulsive, while we become annoyed with those cultures less concerned with natural body orders.

Just because a culture is different does not make it wrong. Marketers must understand how their own cultures influence their assumptions about another culture.

The more exotic the situation, the more sensitive, tolerant, and flexible one need to be.

* + - 1. **Cultural Changes**

Culture is the means used in adjusting to the environmental and historical components of human existence. Societies usually have found answers by looking to other cultures from which they can borrow ideas. Cultural changes may appear caused by economic environment, new generation, cultural borrowings.

Marketers have two options when introducing an innovation to a culture:

i) They can wait: hopeful waiting for eventual cultural changes that prove their innovations to be of value to the culture.

ii) They can cause a change: involves introducing an idea or product and deliberately setting about to overcome resistance and to cause change that accelerates the rate of acceptance.

**a) Planned changes of culture:**

The steps in a planned change in a society are:

1. Determine which cultural factors conflict with an innovation, thus creating resistance to its acceptance.
2. Make an effort to change those factors from obstacles into stimulants for change (gaining acceptance for hybrid grains, better sanitation methods, improved farming methods, or protein – rich diets among the peoples of underdeveloped societies) can be adopted by marketers to achieve marketing goals.
3. Deliberately set out to change those aspects of the culture offering resistance to predetermined marketing goals.

**b. Unplanned changes of culture:** Involves with introducing the product and hope for the best.

**Social Institutions:** Social institutions including family, religion, school, the media, government and corporations all affect the ways in which people relate to one another, organize their activities to live in harmony with one another, teach acceptable behavior to succeeding generations and govern themselves.

* + 1. **Demographic environment in international marketing**

Demographic factors such as size of the population, population growth rates, age composition, population diversity, gender mix, family size, life expectancy, new generation, income levels, employment pattern, occupation, education level, etc. have very significant implications for business.

The size of the population is an important determinant of demand for many products.

Poor countries with small population are generally not attractive for business. However, even such countries may hold out opportunities for some companies. As these markets may not be of interest for large companies, small firms may find promising niches in these markets.

Advanced countries, particularly with large population, are generally attractive markets. The major part of the international trade and foreign investment naturally take place between these nations. Because of the large potential of these markets, competition is generally strong in them.

Several high income nations, however, pose a problem for many businesses. Because of the decline in the birth rates and the consequent fall in the size of the baby population, the market for baby products has shrunk.

High population growth rate also implies an enormous increase in the labor supply. When the Western countries experienced industrial revolution, the population growth was comparatively slow. Labor shortage and rising wages encouraged the growth of labor intensive methods of production.

Cheap labor and a growing market have encouraged many multinationals to invest in developing countries. Many companies in the developed countries have relocated their production facilities, wholly or partially, in the developing countries to reduce the labor costs.

**Level of education:** The rising number of educated people will increase the demand for quality products, books, magazines, more travel/vacation, personal computers and internet services.

**Increasing diversity**

Countries vary in their ethnic and racial make-up. At one extreme is Japan where almost everyone is Japanese. At the other extreme is the United States with people from virtually all nations. Marketers are facing increasingly diverse markets across boundaries. The US population is a 71% white, 12% Afro- Americans, 12 % Hispanics, 4% Asian- Americans, 1% American-Indians, Eskimo and Aleut.

Hispanics tend to buy more branded higher quality products- generics do not sell well to this group. They tend to make shopping a family affair. Children have a big say in which brand to buy. They are brand loyal and tend to favor firms paying special attention to them.

Afro-Americans are more price conscious than other segments and also are strongly brand loyal. They are fashion conscious.

Asian – Americans shop frequently and are brand conscious. However, they are the least brand-loyal. They change brands more often than other groups.

Diversity in terms of labor: if labor is highly heterogeneous in respect of language, ethnic, religion, etc. personnel management is likely to become more complex.

**Occupation**

Most occupations urge employees to use their time wisely/efficiently. This new generation is time squeezed creating an opportunity for fast food firms, time saving devices/electronic devices, dinning at hotels, etc.

Another phenomenon is the trend of women working outside home which creates labor market opportunity for baby sitters/keepers, home maids, articles which women will use when going outside.

* + 1. **Geographical factors that affect development**

**Climate**  
One of the most important factors in development is geography, where the country is in the world, and climate. It’s no coincidence that the poorest countries are in the tropics, where it is hot, the land is less fertile, water is more scarce, where diseases flourish. Conversely, Europe and North America profit from huge tracts of very fertile land, a temperate climate, and good rainfall. In extremes of climate, either hot or cold, too much energy goes into the simple business of survival for there to be much leftover energy for development. You have to work twice as hard to get enough to eat out of the ground, you have to irrigate where others can depend on rainfall. It may be too hot to work between 11 and 2, so you lose three hours out of every day. Rain patterns may give you a short growing season, while others can get two harvests in one year. Some countries are just at a natural disadvantage.

**Location**  
Secondly, geographical location plays a part in access to markets. All the great empires have been based around trade routes, and these are almost always maritime. There are notable exceptions, the medieval Mongol empire was based on the Silk Road from China to the west, but Jeffrey Sachs sums it up well in his important book [The End of Poverty](https://www.amazon.com/gp/product/0143036580/ref=as_li_tl?ie=UTF8&camp=1789&creative=9325&creativeASIN=0143036580&linkCode=as2&tag=mwhus-20&linkId=9ba91f0f134ef37b84721902b44ac2f2): ‘Many of the world’s poorest countries are severely hindered because they are [landlocked](http://en.wikipedia.org/wiki/Landlocked); situated in high mountain ranges; or lack navigable rivers, long coastlines, or good natural harbours.’

China has three of the world’s busiest ports, and so does the US. With ports you can raise money through tolls and shipping services. If you have no access to the coast, not only do you miss out on these services, you have to transport everything by land, which is much more expensive. And what if your neighbors don’t like you? Ice-bound on its northern coastlines, Russian has squabbled for centuries over access to a warm water port, the Crimean War being the most serious. Countries like Afghanistan, Rwanda, Malawi, or Bolivia are all hindered by access to ports. Other countries, like Ethiopia or Lesotho, are not only landlocked, but mountainous as well, making trade even more expensive.

**Resources**  
Thirdly, every country has been dealt a hand in natural resources. It takes infrastructure to capitalize on these, but some places have a distinct advantage over others. Oil is the most obvious. Nobody is any doubt about how Saudi Arabia or UAE make their money. Among other advantages, gold and diamonds have helped South Africa build the most successful economy on the continent. These are all non-renewable resources – once they’re gone, they’re gone, but while stocks last there is wealth to be made.

Besides these there are renewable resources – forests, fish, stocks that, if correctly managed, will refresh themselves. Much South American development has been based on the Amazon rainforest, in natural rubber and then timber.

Finally, there are what are sometimes called ‘flow resources’. These are renewable that need no management, wind, tide and solar resources. The Earth Policy Institute describes the American Great Plains as ‘the Saudi Arabia of wind energy’, while sunshine-rich places like California, Sicily and Portugal are able to invest in [solar power](http://www.wired.com/science/planetearth/news/2005/11/69528). No natural resource is a license to print money, and there are plenty of poor countries who are rich in resources, but it is a factor.

**Stability**  
Finally, environmental stability can be a factor in development. Some countries are more stable than others. [Mohammad Yunus](https://makewealthhistory.org/2007/06/11/upside-down-banking/) makes this point in describing his book [Banker To The Poor](https://www.amazon.com/gp/product/1586481983/ref=as_li_tl?ie=UTF8&camp=1789&creative=9325&creativeASIN=1586481983&linkCode=as2&tag=mwhus-20&linkId=96d9a41aa180ea9d4766fa031070491f): ‘Bangladesh is a land of natural disasters, so this is unfortunately an important factor in our doing business here.’ If you are regularly beset by monsoons, floods and landslides, like Bangladesh or the Philippines, things are going to be harder for you. You may be in an earthquake zone, and we’ve all seen what a tsunami can do to a country.

Where I grew up in Madagascar, the annual cyclone season regularly swept away roads and bridges, damaged railways and refineries, and took the roofs of houses and hotels all along the east coast. How do you build and sustain infrastructure in those conditions? It’s not impossible, but these are problems most countries don’t have to face.

* 1. **International marketing barriers**

Why nations impede free trade? The following are the reasons:

1. **keeping money at home**

Trade unions and protectionists often argue that international transaction will lead to an outflow of money, making foreigners richer and local people poorer. This assumption is based on the fallacy of regarding money as the sole indicator of wealth. Others assume even products can also be indicators of wealth. For instance, it does not make sense to say a man is poor just because he does not have much cash on hand when he has many valuable assets like jewelry and land.

1. **Reducing unemployment**

It is a standard practice for trade unions and politicians to attack imports and international trade in the name of job protection. The argument is based on the assumption that import reduction will create more demand for local products and subsequently create more jobs. Most marketing analysts see this kind of thinking as one-sided, though not completely without merits.

1. **Equalizing cost and price**

Some protectionists attempt to justify their actions by invoking economic theory. They argue that foreign items have lower prices because of lower production costs. Therefore, trade barriers are needed to make price of imported products less competitive and local items more competitive.

1. **Enhancing national security**

Protectionists often present themselves as patriots. They usually claim that a nation should be self-sufficient and even willing to pay for inefficiency in order to enhance national security.

Opponents of protectionists argue that a nation can never be completely self-sufficient because resources are not found in the same proportion in all areas of the world.

1. **Protecting infant industry**

The necessity to protect an infant industry is perhaps the most credible argument for protectionist measures. Some industries need to be protected until they become viable.

In practice, it is not an easy task to protect industries. The government must first identify deserving industries. Next appropriate incentives should take place to encourage their productivity. Finally, the government has to make sure that the resultant protection is only temporary.

**There are two major marketing barriers:**

* + 1. **Tariffs**

**Tariffs** is derived from a French word meaning rate, price, or list of charges, is a customs duty or tax on products that move across borders.

Tariffs are classified based on the following issues:

**1. Based on Direction: Import and Export Tariffs:** Tariffs are often imposed on the basis of the direction of product movement i.e. on imports & exports, with the latter being the less common one. When export tariffs are levied, they usually apply to an exporting country’s scarce resources or raw materials rather than finished manufactured products. For example, companies exporting from Russia must pay an average export tariff of about 20% on a number of Goods sold on cash transactions and an average export tariff of about 30% for goods sold in non-cash or barter transactions.

**2. Based on purpose: protective and revenue tariffs**

**Protective tariffs:** The purpose of a protective tariff is to protect home industry, agriculture, and labor against foreign competitors by trying to keep foreign goods out of the country.

**Revenue tariffs:** The purpose of revenue tariffs is to generate tax revenues for the government. Compared to a protective tariff, a revenue tariff is relatively low.

**3. Based on length of time: Tariff surcharge versus countervailing duty**:

**Tariff surcharge:** a temporary action taken, say for example to protect the local industry in line with national interest. For example, the tariff on heavy motorcycles jumped from 4.4 % to 45 % for one year and then declined to 35 %, 20 %, 15 %, and finally 10 % in subsequent years.

**Countervailing duty:** a permanent tariff imposed on certain imports when products are subsidized by foreign governments. These duties are thus assessed to offset a special advantage or discount allowed by an exporter’s government.

**4. Based on rates: specific, Ad Val Orem, and combined**

**a. Specific duties:** These are a fixed or specified amount of money per unit of weight, gauge, or other measure of quantity. Based on a standard physical unit of a product, they are specific rates of so many dollars or cents for a given unit of measure. ($1/gallon, 25¢/square yard, $2/ton, etc). Product cost or prices are irrelevant here. The duties are constant for low and high-priced products of the same kind.

**b. Ad Valorem duties:** These are duties “according to value”. They are stated as a fixed percentage of the invoice value and are applied as a percentage to the dutiable value of the imported goods. For example, Japans ad valorem tariffs on beef and processed cheese are 25 % and 35 % respectively. This is the opposite of specific duties since the percentage is fixed but the total duty is not. There is a direct relationship between the total duties collected and the price of the product. It provides a continuous and relative protection against all price levels of a particular product. Moreover, it provides an easy comparison of rates across countries and across products.

**c. Combined rates or compound duty:** These are a combination of the specific & ad valorem duties on a single product. For example, the tariff may be 10¢ per pound plus 5% ad valorem.Under this system, both rates are used together, though in some countries only the rate producing more revenue may apply.

* + 1. **Non-Tariff Barriers**

Tariffs, though generally undesirable, are at least straight forward and obvious. Non-tariff barriers, in comparison, are more elusive or non-transparent. Non-tariff barriers can be grouped into five major categories:

* **Government participation in trade**

The degree of government involvement in trade varies from passive to active. The types of participation include:

**a. Administrative guidance:** Many governments routinely provide trade consultation to private companies. Japan has been doing this on a regular basis to help implement its industrial policies. The government uses a carrot-and stick approach by exerting the influence through regulations, recommendations, encouragement, discouragement, or prohibition.

**b. Government procurement and state trading:** State trading is the ultimate in government participation, because the government itself is now the customer or buyer who determines what, when, where, and how much to buy. In this practice, the state engages in commercial operations, either directly or indirectly, through the agencies under its control. Such activities are either in place of or in addition to private firms.

**c. Subsidies:** According to GATT, “subsidy is a “financial contribution” provided directly or indirectly by a government and which confers a benefit.” Subsidies can take many forms including cash, interest rate, various taxes, freight, insurance, and infrastructure. Subsidized loans for priority sectors, and budgetary subsidies are among the various subsidy policies.

* **Customs and entry procedures**

Trade barriers in this category include classification, valuation, documentation, license, inspection, and health and safety regulations.

**a. Classification:** Product classification is important because the way in which a product is classified determines its duty status. Classification thus determines if certain product categories are qualified for a special treatment, but it also determines whether some products should be banned altogether. Most countries ban obscene, immoral, and seditious materials, as well as imports of certain products. In South Korea, prohibited articles include books, printed matter, motion pictures, phonograph records, sculptures, and other like articles that are deemed subversive or injurious to national security or detrimental to the public interest, as well as articles used for espionage or intelligence activities.

**b. Valuation:** Regardless of how a product is classified, each product must still be valued. The value affects the amount of tariffs levied. A custom appraiser is the one who determines the value.

**c. Documentation:** Documentation can present another problem at entry and exit because many documents and forms are often necessary, and the documents required can be complicated. Documentation requirements vary from country to country. Usually, the following shipping documents are required: commercial invoice, proforma invoice, certificate of origin, bill of lading, packing list, insurances certificate, import license in general and for specific items as per necessity, and shippers export declarations. Without proper documentation, goods may not be cleared through customs. At the very least, such complicated & lengthy documents serve to slow down product clearance.

**d. License or Permit:** Not all products can be freely imported; controlled imports require licenses or permits. For example, importation of distilled spirits, wines, malt beverages, arms, ammunition, and explosives into the USA require a license issued by the bureau of alcohol, Tobacco, and Fire arms. India requires license for all imported goods.

**e. Inspection:** It is an integral part of a product clearance. Goods must be examined to determine quality and quantity. *First,**I*nspection classifies and values products for tariff purposes. ***Second***, inspection reveals whether imported items are consistent with those specified in the accompanying documents & whether such items require any licenses. ***Third,*** inspection determines whether products meet health and safety regulations in order to make certain that food products are fit for human consumption or that the products can be operated safely. ***Fourth,*** inspection prevents the importation of prohibited articles. Marketers should be careful in stating the amount and quality of products, as well as in providing an accurate description of products. Any deviations from the statements contained in invoices necessitate further measurements and determination, more delay, and more expenses.

**f. Health and Safety Regulations:** Many products are subject to health and safety regulations, which are necessary to protect the public health and environment. Both food and non-food items have to be assessed for against health and safety regulations are not restricted to agricultural products. For example, edibles and beverages, TV receivers, micro wave ovens, X-ray devices, cosmetics, chemical substances, and wearing apparel. For example, Japan bans *aluminum softball bats* from the United States which has a small hole in the top filled with a rubber stopper; on the ground that the stopper may fly out and hurt someone which is unfounded.

* **Product requirements**

For goods to enter a country, product requirements set by that country must be met.

Requirements may apply to product standards, packaging, labeling and marking.

**a. Product standards:** Each country determines its own product standards to protect the health and safety of its consumers. Such standards may also be erected as barriers to prevent or to slow down importation of foreign goods. Because of U.S grade, size, quality, and maturity requirements, many ***Mexican agricultural*** commodities are barred from entering into the U.S. Japanese product standards are even more complex, and they are based on physical characteristics instead of product performance. Furthermore, these standards are frequently changed in Japan in order to exclude imports.

**b. Packaging, labeling and marking:** These concepts are considered together because they are interrelated. Many products must be packaged in a certain way for safety and other reasons. Canada requires imported canned foods to be packed in specified can sizes, and instructions contained within packages or on them must be English and French. The Canadian labeling Act also requires all imported clothing to have labels in both languages. Products must also be properly marked and labeled, and marking and labeling may apply either to products themselves or to their packages. An Italian judge ordered a seizure of bottled coke because he felt that the ingredients listed on the bottle cap were not properly described and labeled. France requires all imported goods to carry labels of origin, and so does the USA. For identification and transportation purposes, packages should bear a consignee’s mark, port mark, and package numbers.

* **Quotas**

Quotas are a quantity control on imported goods. Generally, they are specific provisions limiting the amount of foreign products imported in order to protect local firms and to conserve foreign currency. From a policy standpoint, a quota is not as desirable as a tariff since a quota generates no revenues for a country*.* There are three kinds of Quotas: absolute, tariff, and voluntary.

**4.1. Absolute quotas:** An absolute quota is the most restrictive of all. It limits in absolute terms the amount imported during a quota period. Once filled, further entries are prohibited. Some quotas are global, but others are allocated to specific foreign countries. Japan imposes strict quotas on oranges and beef. To appease the EU, it has lifted quotas on skimmed milk powder and tobaccos from Europe. The most extreme of the absolute quota is an embargo, or a zero quota, as shown in the case of the U.S. Trade embargoes against Iraq and North Korea.

**4.2. Tariff Quotas:** Tariff Quotas are a quantity control on imported goods. A tariff quota permits the entry of a limited quantity of the product at a reduced rate of duty. **Quantities in excess of quota can be imported but are subject to a higher duty** rate. Through the use of tariff quotas, a combination of tariffs and quotas is applied with the primary purpose of importing what are needed and discouraging excessive quantities through higher tariffs. When the U.S.A increased tariffs on imported motorcycles to protect the motorcycle industry, it exempted from the tax the first 6,000 big motorcycles from Japan and the 1st 4,000-5,000 units from Europe.

**4.3. Voluntary Quotas:** A voluntary quota differs from other two kinds of quotas, which are unilaterally imposed. A voluntary quota is a formal agreement between nations or between a nation and an industry. This agreement usually specifies the limit of supply by product, country, and volume.

Orderly Marketing agreement (OMA): a negotiation between two governments to specify export management rules, the monitoring of trade volumes, and consultation rights.

* **Financial Control**

Financial regulations restrict international trade. These restrictive monetary policies are designed to control capital flow so that currencies can be defended or imports controlled. There four forms of financial restrictions.

**a. Exchange control:** An exchange control is a technique that limits the amount of the currency that can be taken abroad. The reasons exchange controls are usually applied is that the local currency is overvalued, thus causing imports to be paid for in smaller amounts of currency. Purchasers then try to use the relatively cheap foreign exchange to obtain items either unavailable or more expensive in the local currency. It limits the length of time and amount of money an exporter can hold for the goods sold. For example, French exporters must exchange the foreign currencies for francs within one month. By regulating all types of capital outflows in foreign currencies, the government either makes it difficult to get imported products or makes such items available only at higher prices.

**b. Multiple exchange rates:** Multiple exchange rates are twofold: To encourage exports and imports of certain goods and to discourage exports and imports of others. This means that there is no single rate for all products or industries. But with the application of multiple exchange rates, some products and industries will benefit and some will not. Spain once used low exchange rates for goods designated for export and high rates for those it desired to retain at home. Multiple exchange rates may also apply to imports. The high rates may be used for imports of particular goods with the government’s approval, whereas low rates may be used for other imports.

**c. Prior import deposits and credit restrictions:** Both of these barriers operate by imposing certain financial restrictions on importers.

* **Prior import deposits:** A government can require prior import deposit –forced deposits that make imports difficult by tying up an importers capital. In effect, the importer is paying interest for money borrowed without being able to use the money or get interest earnings on money from the governments. Importers in Brazil and Italy must deposit a large sum of money with their central banks if they intend to buy foreign goods.
* **Credit restrictions:** These restrictions are applied to importers; i.e. exporters may be able to get loans from the government, usually at favorable rates, but importers will not be able to receive any credit or financing from the government. Importers must look for loans in the private sector-very likely at significantly higher rates, if such loans are available at all.

1. **Profit remittance restrictions:** ASIAN Countries share a common philosophy in allowing unrestricted repatriation of profits earned by foreign companies. Singapore, in particular, allows unrestricted movement of capital. But, many countries regulate the remittance of profits earned in local operations and sent to a parent organization located abroad. Brazil uses progressive rates in taxing all profits remitted to a parent company abroad, with such rates going up to 60%. Other countries practice a form of profit remittance restriction by simply having long delays in permission for profit expatriation.