



**Dr. B.R. AMBEDKAR
OPEN UNIVERSITY**

**MBA - 43
INTERNATIONAL
MARKETING**

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BLOCK 1 INTERNATIONAL MARKETING — AN INTRODUCTION

In this first block of the course of International Marketing, an attempt has been made to give you an over view of the scenario on International Marketing and to provide you with an exposure to the conceptual frameworks that exist. The block consists of three units. The first unit called Scope and Size of International Markets explains the distinction underlying the terms International Trade and International Business. It also brings out their underlying premises. In this unit we have also discussed the major economic movements that are taking place in the world today.

The second unit on Conceptual Framework explains the underlying process of management for international marketing.

The third unit titled Institutional framework discusses the institutional framework that an exporter in India can use.

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BRAOU

UNIT 1 SCOPE AND SIZE OF INTERNATIONAL MARKETS

Objectives

After reading this unit one should be able to

- Define the premise for International Trade and Business
- Define the role of the International Marketing Manager and Government in Foreign Trade and International Business
- Define the type of questions that are raised in International Marketing
- Give an overview of world's major regional economic groupings.

Structure

- 1.1 Introduction
- 1.2 Definitions
- 1.3 Reasons and Motivations Underlying International Trade and International Business
- 1.4 Exchange Rate and Balance of Payments
- 1.5 Basic Modes for Entry
- 1.6 Nature of International Marketing
- 1.7 Role of Government in Foreign Trade
- 1.8 India's Foreign Trade
- 1.9 Regional Economic Groupings
- 1.10 Summary
- 1.11 Self-assessment Questions
- 1.12 Further Readings
- 1.13 Appendix : Statistics of World Trade

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1.1 INTRODUCTION

A company manufacturing a product finds that the market for its product is currently saturated.

The managing director of the company calls a meeting of all the functional heads to discuss the problem. In the meeting it emerges that while the production runs cannot be shortened or cut off because of the underlying economics, the market doesn't seem to let up.

The problem before the managing director is 'what should be done now?'

One of the suggestions that emerges during the meeting is to "expand the market size by crossing the national frontiers".

To this suggestion the managing director has posed certain fundamental questions:

Where should he expand to? How can he do this? Would it be feasible to maintain the expansion even when the domestic market lets up?

Basically the managing director has raised the fundamental questions that are posed by any international marketer. We shall attempt to answer these questions in this block but before we answer these questions, let us understand the definition and reasons for international marketing and foreign trade.

Activity 1

A business executive has recently been to Europe on a holiday, and finds that there is a massive demand for his product in that market. He feels that the company should start exporting immediately. Comment on how should he handle this problem?

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1.2 DEFINITIONS

When a country crosses its national frontiers to market its product it is indulging in international marketing. Phillip Cateora and John M Hess define international marketing as "International marketing is the performance of business activities that direct the flow of a company's goods and services to consumers or users in more than one nation."

Yes, the definition sounds very similar to that of marketing, for it is meant to be, the only difference being that marketing task is carried on in more than one nation. This fact by itself adds many complexities to the marketing task (as we shall see later on).

In the common parlance, the terms international marketing and foreign marketing or foreign trade are used interchangeably. But actually they are different and deal with different issues. The term foreign trade is used when we want to talk about trade between nations. It has a macro perspective whereas international marketing (IM) has a managerial perspective. IM deals with issues which concern a firm and not the nation as a whole and therefore the questions raised in each area are of a different nature as we shall see.

1.3 REASONS AND MOTIVATIONS UNDERLYING INTERNATIONAL TRADE AND INTERNATIONAL BUSINESS

There is growing contraction of the world because of better communication and transportation facilities, and the rapid development of domestic economies and concomitant increases in purchasing power of the people. The current interest in international marketing and foreign trade can be explained in terms of changing structures and dynamic changes in demand characteristics of world markets.

Both the firm and country have reasons for entering into international business and foreign trade. While the reasons are often inter-linked, each has its own premise.

International Business

The vast domestic markets have provided the firms an opportunity for continued growth which finally reach a point where the possibility of continued expansion levels off.

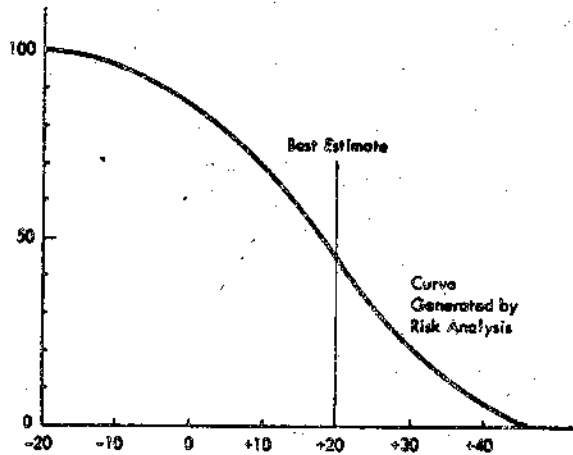
The survival of these firms has come into question, for it has become increasingly difficult for these firms to sustain customary rates of growth as demanded by their shareholders.

These companies have been forced by the 'economic criterion' to locate international markets to sell their surplus production and to gain cost advantages. Besides this, foreign markets may offer high profit margins which gives added impetus for going international. Past experience has shown that profit margins yielded on foreign investments have followed pattern.

Exhibit 1

Estimated Rates of Return on Investment

Chances that
Rate of Return
Will Be Achieved
or Bettered



Estimated Rate of Return

Note: In reading the graph, the "best estimate" is a 20 per cent return on investment; the "Risk Analysis" curve shows an 80 per cent probability of at least a 0 per cent return on investment, a 50 per cent probability of at least 19 per cent return on investment, and a 20 per cent probability of at least a 30 per cent return on investment.

Source: Philip Cateora and John M. Hess.

Most of the firms world over are gearing up for action for besides these reasons the Governments of various countries are providing more and more support and incentives to firms involved in foreign trade (the push factor). Taking advantage of incentives is yet another reason for going foreign, schemes like the tax free export incomes etc. are being offered by the Indian Government to promote foreign trade.

Exhibit 2

Foreign Exchange Earnings of Top Ten Companies in Private Sector for Year 1991-92

Net Foreign Exchange Earnings		Total Foreign Exchange Earnings	
	(Rs in lacs)		(Rs in lacs)
ITC	33,480	ITC	46,205
Century Textiles	15,123	Tata Steel	45,562
Su-Raj Diamonds	14,106	Tata Engg.	25,234
Tata Engineering	13,671	Su-Raj Diamonds	20,286
Hindustan Lever	12,482	Century Textiles	19,468
Madura Coats	7,516	Hindustan Lever	18,414
Britannia Ind.	7,183	Essar Shipping	11,868
E.I. Hotels	6,611	Bombay Dyeing	11,536
Mafatal Fine	5,820	Madura Coats	9,613
Essar Shipping	4,551	Sesa Goa	9,175

Source: Economic Times: 29-10-92

Although profit is the underlying motive, most of the firms are directed into International market because of any of the following five reasons as identified by Vern Terpstra:

- i) **Product Life Cycle**: A product may be at the end of its life cycle in one market and not even introduced in another. The unwillingness of the firm to write off its productive assets may force it into international markets.
- ii) **Competition**: In an effort to avoid competition which may be intense in the domestic market the firm may choose to go international.
- iii) **Excess Capacity**: In an effort to minimise its fixed cost per unit, the firm may undertake foreign orders.
- iv) **Geographic Diversification**: This has to do with the strategy that a firm may adopt. Instead of extending its product line the firm may just choose to expand its market by going international.

- v) **Increase the Market Size** : In an effort to expand its operation a firm may choose to go international.

Foreign Trade

With the growth of materialism, every individual has become interested in improving his/her standard of living in terms of material comforts. This has forced the Governments into foreign trade to yield the underlying economic benefits and thereby improving the standard of living of its people.

The gains from international trade arise from the local production advantages which in itself is a function of differences in availability and the cost of factors of production.

Thus the difference in factors like the capital availability and cost of capital, specialisation of labour, their wage factor, availability of managerial talent determine the area of product specialisation that a country will enter into to gain the cost advantage. The production specialisation will lead to an improvement in productivity and thereby an increase in the real income if the countries indulge in free trade. This explains the reason for importance of balance of payment of a nation and exchange rate.

In economics, three theories have been propounded for explaining the reason for foreign trade. These theories are the classical theory, the opportunity cost theory and the equilibrium theory. Underlying each of these theories is the theory of relative advantage. It is therefore necessary to understand the principles underlying the theory of relative advantage.

The Theory of Relative Advantage

The theory of relative advantage deals with the trade of goods and commodities. It is based on the premise that a nation gains by trading with other nations in those goods in which it has an advantage over the other nations in terms of cost of production. This advantage in terms of cost of production could be absolute or comparative. Let us illustrate this further using the classical theory to explain these concepts:

Absolute Cost Advantage

Uptill the late 18th century it was the theory of mercantalism that held ground. Most of the economic policies laid during that period were based on the theory of mercantalism. In 1776, Adam Smith propounded the theory of Absolute Cost Advantage to combat against the theory of mercantalism.

The concept of absolute cost advantage states that when goods can be produced more cheaply in one country than in another, the first is said to have an absolute cost advantage over the other country. It would be in the interest of each of these countries to specialise in production of the commodity in which it has an absolute cost advantage and trade. This way the productivity of both nations increases and thereby both nations stand to gain.

Thus while India can produce Tea more cheaply than Great Britain and Britain can produce engineering goods more cheaply than India, it would be in the interest of both countries to concentrate in the production of the goods in which they have absolute cost advantage and then to trade. Of course the cost advantage in production must be greater than the cost of transportation incurred in moving the goods.

Comparative Cost Advantage

But in reality what happens is that a country may possess absolute cost advantage in production of both or all the products. Would it then be in the interest of both countries to trade? The answer is Yes. Using the classical theory (which assumes two nations and two commodities) to explain this phenomenon. Let us assume that there are two countries A and B and two products X and Y. Each of these countries has a workforce of ten men. While in country A, each man can produce 6 units of X or 6 units of Y, man in country B can produce 4 units of X or 2 units of Y.

Now assuming that men are equally deployed and no trade exists, the following scenario emerges.

Country	X	Y	Total
A	30	30	60
B	20	10	30
	50	40	90

Here we see that country A has 2 times the production than that of country B. The real income of A is therefore also 2 times that of B.

Now if the countries agree to specialize so as to maximize the total production by specializing in the products in which each has relative advantage. The following scenario emerges.

Country	X	Y	Total
A	10	50	60
B	40	00	40
	50	50	100

Thus we see that the total production of both economies taken together increases by 10 i.e., both economies stand to gain. Various combinations of this are possible. But it has to do with gain, how this gain will be distributed depends upon the market.

But these models are based on the following assumption:

- There must be demand for these products.
- The production gains are greater than the cost of trading.
- Products must be identical i.e., product differentiation concept does not exist.
- There must be an effective market information so that the traders are aware of the cost differentials as they exist.
- The differentials must be large enough to interest the entrepreneur.
- Tariffs must not exceed the difference in cost after transportation and profit are considered.
- No other political or financial restrictions inhibit the trading process.

As pointed out earlier this is a macro-economic theory that deals in the trade of commodities or goods. But like all macro-economic theories it fails to explain other related phenomena because of its underlying assumptions. One phenomena that it fails to explain is the existence of multinational concerns, and their desire to invest in foreign lands. Two theories have been expounded to explain why multinationals exist. They are as follows:

- i) The Oligopolistic Explanation
- ii) The Product Life Cycle Approach

The Oligopolistic Explanation

Many industries have become highly concentrated or oligopolistic worldwide. The industry is dominated by few but large firms. (IBM and computer industry is an example to this.) In fact many countries are making specific efforts to restructure their industries in order to make them competitive worldwide. In 1970 Japan had announced its plan to restructure its computer industry. Today EEC is doing it on a large scale, to make its industries more competitive vis-a-vis Japan and North America.

The reason for restructuring industries and making them oligopolistic in nature is to yield the benefits arising from size. These firms have huge capital resources to draw on and large production capacities. They are better positioned to identify market gaps and enjoy quasi-monopoly advantage even if they are short-run in nature. They are also positioned to exploit their technological advantage to the fullest. In the world market, they become more and more cost competitive as they move along their learning curve.

But the very size which is the reason for their existence and growth brings along certain weaknesses.

They become highly dependent on their established markets, efficient utilisation becomes a must. They require huge supply of raw materials and other inputs which may not be forthcoming as and when required (this probably explains why they undertake backward integration). They also become resistant to new ideas. For this might mean writing off large asset values. Although this has been argued against in terms of movement from one market to another, past experience has shown that they tend to buy out the rights for new ideas and sleep on it till they have recovered their investment.

Product Life Cycle Approach

In any given market, the product passes through four distinct states. The introduction, the growth, the maturity and the decline.

The concept of international product life cycle when applied to international business emphasises on price and cost changes and changes in production process for explaining the existence of multinational firm (investment in foreign countries).

When the product is in the introduction stage both the price and costs are high. The production process is job shop in nature. But as the product passes from introduction to the growth stage the production becomes physically differentiated in the market place. The price and costs still remain relatively high since new and specialised equipments are brought into the scenes to cope with the growing demand.

However when the product enters the maturity stage, there are many competitors in the market place and the demand and price is highly elastic. The product has to be psychologically differentiated to be sold. The production is on a large scale, therefore the cost of production comes down drastically.

The multinational firms exploit this price, cost and production relationship by moving the product from one market to another. Thus while personal computers are in their early maturities in the USA they are in their early growth in India. By moving the same product from the American market to the Indian market the companies can obtain large returns. As long as the demand can be created or utilised this approach is feasible.

While these theories basically explain the economic reason for international trade and business a nation/firm may have political and other motivations for entering into business in a foreign land.

Activity 2

Briefly explain why a firm goes in for international business. Also explain the reason for any firm to make investment in a foreign land.

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Explain the economic and non-economic reasons underlying foreign trade.

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1.4 EXCHANGE RATE AND BALANCE OF PAYMENTS

Exchange Rate

A businessman operating in the international environment is faced with a two price system i.e., the price of the product and the price of the currency.

With the collapse of the Bretton Woods system of fixed but infrequently adjusted exchange rates in the early seventies, the generalised floating exchange rate concept has come into existence. With the advent of the generalised floating exchange rates in the second quarter of 1973, most countries are exposed to enhanced exchange rate risks because of frequent adjustment in nominal and real exchange rate.

This phenomena of generalised floating exchange rate has great implications for developing countries, owing to their dependence on developed countries for trade. Therefore any adjustment in the exchange rate of developed countries would mean implications on trade and balance of payments and thereby an influence on the price levels existing in the developing countries economy.

Exhibit 3
Exchange rates as on 1st Feb., 1993

Currency	Selling		Buying	
	TT/DD	Bills	TT/DD	Bills
£ Stg	2.1835	2.1790	2.2040	2.2055
US \$	3.1800	3.1725	3.2075	3.2100
Can \$	4.0275	4.0175	4.0675	4.0725
DM	5.1625	5.1500	5.2125	5.2175
DG	5.8075	5.7950	5.8650	5.8700
Sw Fr	4.7700	4.7575	4.8150	4.8200
Bel Fr	105.50	105.00	107.00	107.00
Fr Fr	17.5225	17.4825	17.6950	17.7075
It Lira	4808	4796	4863	4867
J Yen	397.00	396.00	401.00	401.50
Dan Kr	19.9125	19.8675	20.1100	20.1200
Nor Kr	21.93	21.88	22.17	22.18
Sw Kr	23.41	23.36	23.65	23.68
Aus Sch	35.93	35.84	36.41	36.44
Aus \$	4.6925	4.6825	4.7425	4.7475
NZ \$	6.1625	6.1475	6.2300	6.2350
MR	8.3325	8.3150	8.4250	8.4300
SD	5.2350	5.2225	5.2850	5.2900
Hongkong \$	24.59	24.53	24.82	24.83

Note: All the above rates are in units of currencies equivalent of Rs. 100

Source: The Times of India, 2nd Feb. 1993

There are a variety of variations existing in the generalised format. A country could peg its currency to the currency of any one country or to the currency of several countries. Alternatively it could follow a free floating or managed floating system.

After a brief trial of single currency peg, in 1975 India opted for a multicurrency peg to a weighted basket of currencies. This basket contained currencies of major trading partners of India. (The exact basket remains undisclosed.)

The value of the rupee is fixed on this basis allowing for a margin of 5% (on either side) to account for its economic policy and macro-economic factors. Thus briefly the value of any currency today depends upon the demand and supply of that currency in the international market. The basic economic premise underlying the valuation of currency is the purchasing power parity theory.

Balance of Payment

The advent of generalised floating exchange rates has made it necessary for all countries to manage this. It has become necessary for all countries to maintain an account of all its financial transactions. This account is known as the Balance of Payment. It is similar to the double entry system of accounting and accounts for all inflows and outflows occurring from a country. Like all double entry accounts, even the balance of payment must balance i.e., inflows = outflows. The fact that Balance of Payment account balances does not mean that a nation is in a good or poor financial condition. It is in fact a record of conditions affecting the country and not a determinant of conditions affecting the country.

Thus the Balance of Payment (BOP) gives an economic picture of the country.

Exhibit 4
India's Trade Balance in the last 32

	Imports		Balance
	Rs. crores		
1960-61	1,122	642	- 480
1970-71	1,634	1,535	- 99
1980-81	12,549	6,711	- 5,838
1985-86	19,658	10,895	- 8,763
1986-87	20,096	12,452	- 7,644
1987-88	22,244	15,674	- 6,570
1988-89	28,235	20,232	- 8,003
1989-90	35,416	27,681	- 7,735
1990-91	43,193	32,553	- 10,640
1991-92	47,813	43,978	- 3,835

* Including re-exports.

Source : Statistical Outline of India (Tata Services Limited)

Exhibit 5
SELECTED EXPORT RATIOS

	India's exports as % of			Value terms of trade (1978-79 = 100)
	World exports	India's imports	India's national income	
1960-61	1.05	57.2	4.2	n.a.
1970-71	0.64	93.9	3.8	127.4
1980-81	0.42	53.5	5.4	80.8
1985-86	0.45	55.4	4.7	107.6
1987-88	0.47	70.5	5.3	122.1
1988-89	0.47	71.7	5.7	125.2
1989-90	0.53	78.2	6.9	n.a.
1990-91	0.52	75.4	6.9	109.3
1991-92	0.50	91.8	8.0	n.a.

* Calendar years.

National Income at market price.

Source : Statistical Outline of India (Tata Services Limited)

Exhibit 6
BALANCE OF PAYMENTS

Item	1991-92	1990-91	1989-90	1988-89
A. Current account				
Exports	44,607	33,178	28,229	20,647
Imports	51,522	47,083	40,642	34,202
Trade balance	-6,915	-13,906	-12,413	-13,556
Non-monetary gold	494		6	
Official transfer, net	1,117	819	897	724
Other invisibles, net	-947	-779	128	1,251
Current account balance	-6,251	-13,855	-11,382	11,580
B. Capital account				
External assistance, net	6,792	4,070	3,090	3,210
Commercial borrowings, net*	4,673+	1,309	2,958	2,743
NRI deposits, net	1,562	2,260	4,000	3,636
Other capital, net	4,110	3,004	2,281	1,887
Total capital account	14,913	10,643	12,329	11,475
C. I.M.F., net	2,079	2,178	-1,458	-1,547
D. Total capital account & I.M.F.	16,992	12,821	10,870	9,927
E. Total current account, capital account & I.M.F.	9,841	-1,045	-512	-1,653
F. Errors & omissions		-1,248	-720	263
G. Reserves & monetary gold	-9,341	2,393	1,232	1,449

Note: Figures are provisional for 1990-91 and quick estimates for 1991-92, made by the Reserve Bank of India.

* Excluding refinancing credits.

† Including India Development Bonds.

Source: Statistical Outline of India (Tata Services Limited)

B.O.P. also acts as a reflector of the standard of living of the people of that country (standard of living is measured by the demand and the capacity to produce).

Of particular interest to any businessman operating in the international market is the country's current account.

The current account reflects the financial transactions accruing on account of trade in goods and services.

Activity 3

i) Examine the exchange rate figures given in daily newspapers and explain the terms T.T. buying and selling rates.

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ii) Is there a difference in the two rates? Explain.

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1.5 BASIC MODES FOR ENTRY

Once a firm has taken the decision to enter into the field of international business it must analyse the basic strategies/methods of entry.

There are basically five different strategies available for entry into a foreign market. They are exporting, licensing, joint venture, manufacturing and management contracts.

Exporting

This is the most commonly used method for entering foreign markets. Commonly used in India, this method involves production of goods and services in the home country followed by distribution into foreign market. This method is commonly adopted by countries entering into the foreign market for the first time since it minimises the financial risks involved.

Licensing

When the company wants to protect its patent and trade mark rights, it simply licenses the production of its product in the foreign market to another company in return for a fixed royalty. This is done when either the market has developed very fast or when export barriers have been erected, e.g. Parle soft drinks are licensed for production in middle eastern countries.

Joint Venture

When a company does not possess the capacity to analyse and handle a particular market, it enters into a joint venture.

The primary reason for sharing the control of the market is to protect itself against political and economic risks.

Joint ventures are increasingly seen in the world market because of this very reason. The other reasons for its existence and growth are:

- a) When the company does not possess competent personnel to handle foreign market or when it is short of capital.
- b) When a company feels that it would be to their mutual advantage to enter in joint venture because of specific resources possessed by the other partner (e.g. distribution network, knowledge of culture).

c) Where wholly owned activities are not permitted by the foreign governments.

Manufacturing

When the company moves along its life cycle (with reference to international business) it develops an international orientation. This motivates it to invest in foreign market and develop its own manufacturing and marketing systems within that market.

The primary reason for this is to reduce the additional costs involved in foreign marketing.

It has to pay no duties on products produced within a foreign country. The transportation cost is also minimised. It can take advantage of low cost labour and thereby minimise its production costs. In an effort to become competitive in the world markets increasing number of firms are undertaking this mode of entry. Nestle India and Hindustan Lever are illustrations of this mode of entry.

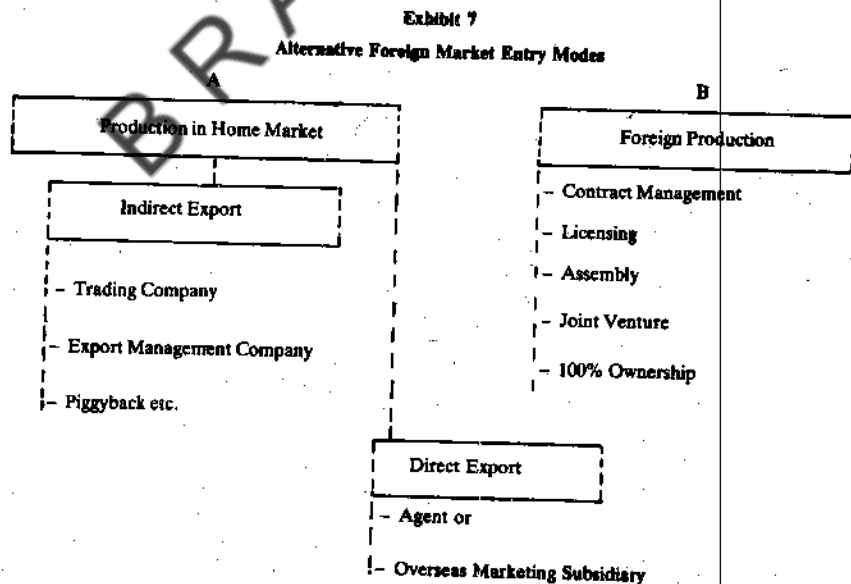
Management Contracts

A country may not possess the required managerial or technical talent and therefore may not be in a position to exploit its imported assets procured in aids or assets maintained by an expropriated company.

In such a situation a company may sign a management contract with such a country's government/company to manage the assets till such time that it has available to it the resources necessary for managing the assets. e.g. foreign companies managing refineries/petro-chemical plants in middle east, East India Hotels/Oberois of India taking management contracts for managing hotels in Egypt, Australia etc.

This is not a common phenomena in international business but for some technologically oriented firms it does represent an entry mode.

Vern Terpstra has given a proposition on basic modes of entry in light of production i.e., where does the production take place. His proposition may be understood from the following figure:



Source : International Marketing by Vern Terpstra

All these are methods for entering foreign markets. But before this it is necessary to understand the nature of marketing task involved.

1.6 NATURE OF INTERNATIONAL MARKETING

The task of marketing manager is to mold the endogenous and exogenous factors in the light of opportunities and threats facing the company.

These endogenous and exogenous factors might again be controllable or uncontrollable. Therefore the manager is basically framing his controllables in the light of uncontrollables.

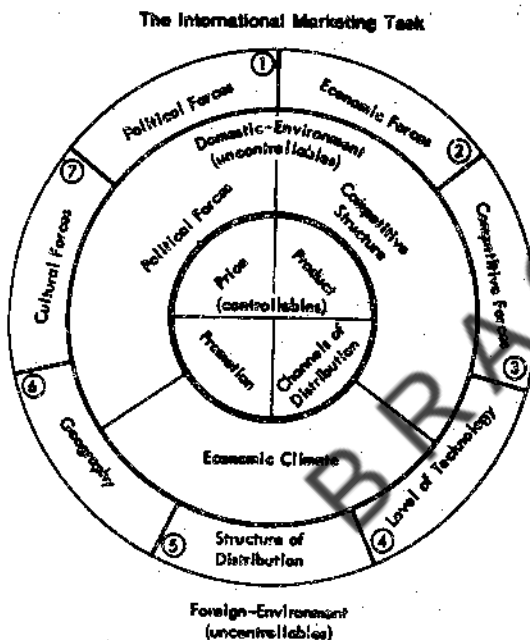
The controllables for a marketing manager include the four P's of marketing and resources within the company. Whereas the uncontrollables can again be classified into domestic uncontrollables and foreign uncontrollables.

While in national marketing the manager is involved in co-ordinating the domestic controllables and uncontrollables, in international marketing a new set of uncontrollable variables enter into the fray. They include the economic, politic and environmental conditions prevalent in the foreign country.

These new variables complicate the task of international marketing and magnify the risks involved. For an international businessman, this means that he has to be alert in the changes taking place in both his home country and in the country he has business interests in.

Phillip Cateora and John M Hess have shown the interplay of these controllables and uncontrollables with the help of a Exhibit which has been presented below:

Exhibit 8



Source : Phillip R. Cateora and John M. Hess

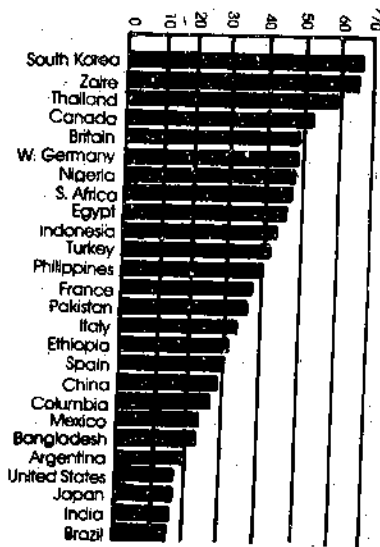
1.7 ROLE OF GOVERNMENT IN FOREIGN TRADE

Just as management is responsible for the decision of going into international business, similarly the government economic and foreign trade policies are responsible for encouraging or discouraging foreign trade.

Exhibit 9

TRADE A country's tendency to trade will depend, in part, on its size. Small countries usually produce fewer goods, and rely on exports to pay for necessary imports. Bigger countries tend to be more self-sufficient. The three countries with the highest proportion of trade to GNP all have populations of around 50m or less; the countries with the lowest ratio of trade to GNP have more than 100m people. But the propensity to trade will also depend on a country's import restrictions, its exchange-rate policy, and the incentives to export. Brazil (although it is changing) and India are two of the most protected economies in the world, and thus sit at the bottom at the table. Nigeria and Indonesia have high ratios of trade to GNP, given their populations. South Korea, at the top of the list, has had the fastest economic growth in the past 20 years of those in the chart.

Trading nations*
Exports plus imports as % of GDP, 1988



Source: World Bank
*Population over 25 m

A government can either adopt an outward approach or an inward approach while deciding about its foreign trade policy.

An outward approach means that the government policy neither favours production for domestic markets nor for exports. It makes no discrimination against imports not does it promote export. This kind of an approach is followed by the growing and already developed economies. United States of America provides an example of this approach as followed by government. More and more governments are adopting this approach because they have realised the benefits arising out of free trade.

The inward approach is just the opposite. A government following an inward approach in its foreign policy favours import substitution and provides motivation for domestic production. The economic objectives followed by such governments are geared towards the objective of self-sufficiency. India is well known for being a strong advocate of this approach.

It is possible to classify policies followed by various governments on this basis:

Exhibit 10
Asian Countries and Policies followed

Outward Oriented		Inward Oriented	
Strongly	Moderately	Strongly	Moderately
Hongkong	Thailand	Burma	Sri Lanka
Japan			Pakistan
Singapore			Indonesia
South Korea			Phillipines

Source : International Marketing and Export Management Edwin Duerr et al.

India's policy currently reflects a change towards outward orientation. How strong this orientation will develop depends largely upon how foreign traders look at India and time span of political stability.

The inward oriented societies may choose to disallow the principle of free foreign trade to apply through the use of its foreign policies. A number of reasons have been forwarded for disallowing free foreign trade. They range from national defence to protection of infant industries and home market. Sometimes reasons such as

encouragement of capital accumulation, maintenance of employment have also been forwarded. Whatever be the reason, it can be pointed out that the consumer generally loses because of inward orientation. He has to pay higher price and he is offered a smaller range of products to choose from. The production system in such economies tend to become inefficient because of the protection afforded. Thus as pointed out earlier the standard of living and balance of payment of such economies is bound to decline. Economists have accepted the arguments of national defence and protection of infant industries but how long and to what degree should the principle of free trade be disregarded has not as yet been agreed upon.

In order to implement its foreign trade policies, to encourage or discourage foreign trade, the governments of such economies have at their disposal various instruments. Depending upon the element of foreign trade as also the industry or product, the government wishes to control, it deploys these instruments in form of barriers and incentives.

Let us view these barriers and incentives in the light of specific elements that a government wishes to control.

Import Discouragement

When the government wishes to discourage imports of any commodity, it creates barriers against the import of this commodity and at the same time uses incentives to promote import-substitution.

The chief legal barriers that a government can utilise are tariffs, quotas and boycotts. The government can also create barriers in form of exchange controls and psychological hardships e.g. French govt. deciding that Japanese VCRs entering French market would have to be checked individually by customs. The government may simply impose very high rates of taxes on the import of such commodities, thus making them unreasonable buys in the domestic market. Similarly, the government may use quotas to specify the quantity (in terms of number of units or money value) that can be imported. Boycott refers to the absolute ban on import of these items. e.g. India's import policy specifically lists a few items which are banned for imports.

The government may further use exchange controls and psychological barriers to prevent imports. Exchange control refers to the availability of foreign exchange and the cost at which these funds are made available. The government may use each of these two variables to control imports. In many countries it has been noticed that the import procedures are long and cumbersome. There may be specifications and sub-specifications. All this add to the harassment value and discourages imports.

Besides the government may use health grounds to prevent import of certain commodities. Thus the governments use of psychological barriers can also be very effective.

When a government prevents imports of certain essential commodities, it must create production facilities within the country. This is done on the principle of import substitution.

Thus, government may add to their long list of rules, a rule like – the goods cannot be imported unless the importer can prove that the good is not available within the country.

Such rules force potential importers to consider manufacturing in the domestic markets thus giving boost to these industries.

Import Encouragements

Normally import encouragements are not witnessed in inward-oriented societies. However when the orientation shifts from inward to outward, we see measures for import encouragements on the bloom. The first signs are the relaxation on import of capital goods, allowing of foreign investments to enter followed by imports of consumer goods.

When the government of such economies feel the need to promote free trade they gradually start minimising their long import restriction both in number and in terms of the implications.

More and more quotas are released for imports, exchange controls are minimised and psychological barriers removed. Some advanced countries like Canada and Japan have importers' association which develop links with other countries and give them specific information regarding how certain commodities and products can be imported to their country.

Export Encouragements

When a government wishes to encourage exports it offers to its firms various cash and non-cash incentives.

Direct or indirect cash incentives are promoted. Direct cash incentives may be on the volume of trade carried out by a firm or value of foreign exchange earned by a company. It may be fixed or in moving terms.

Indirect cash incentives take the form of differential tax structure and lower interest rates for working capital finance required for exports. In India, the differential tax structure is used. All income on account of foreign trade is tax free (subject to certain conditions). Lower interest rates to develop the export base is also another means of providing indirect cash incentives.

Besides the cash incentive, several non-cash incentives are also offered by such governments. These include import facilities, and establishment of free trade zones within the country, permissions for selling a portion of their production in domestic markets and many other such measures.

Export Discouragement

Export discouragement is a phenomena not seen in the modern world because it has become necessary for every country to maintain its income for paying for its imports.

However virtually every country has allowed for ban on export of certain commodities which may be essential or of historical significance. Thus in India there is a ban on the export of antiques which are over a hundred years old. At various times, there has been a ban on export of onions from India to minimise price rise in domestic markets.

Besides these reasons for banning the export of a product, countries unanimously may agree to ban the trade of particular goods on humanitarian/environment grounds. Ban on ivory trade and animal skins to protect wild life are few other examples.

1.8 INDIA'S FOREIGN TRADE

The history of Indian foreign trade begins with her independence. Independent India had a balance of Rs. 1,736 (in sterling pounds) crores to the credit of her balance of payment. By 1950 the balance had dwindled to Rs. 911 crores because of the haste, demonstrated by the government, to bring about development.

Since independence India has adopted a socialistic pattern for her society and aimed at achieving the self-sufficiency objectives. All her economic policies were geared to accomplish these objectives.

So far as the foreign trade is concerned, India was recognised as a major agricultural producer. But because of the interplay of the objective of self-sufficiency the government decided to promote industrial development. The major reason for the rise in imports until the Third Five Year Plan were the pursuance of these objectives and the wars that India fought in 1962 and 1965. Thus while our imports grew in value the exports could not keep pace. The exports were mainly agricultural produce with little or no value added activity being performed on them. The industrial India had not even started producing adequately for domestic demand therefore the question of non-traditional goods being in India's basket for export was non-existent. Besides this the fact that industrial world had developed synthetic substitutes for major Indian produce like jute and the stagnant agricultural production were responsible for the poor performance. Countries which had become independent during the same period also started to follow similar patterns and objectives. Protectionism was being practised and drop in the export brought about negative balance of payments in her earlier years. This can be viewed from the exhibit given below:

Exhibit 11
Indian Foreign Trade in the Planned Period

Scope and Size of International Markets

	Imports	Exports	Balance of Payment (Deficit)
1st Plan (1951-52 - 1955-56)	723	609	-114
2nd Plan (1956-57 - 1960-61)	985	624 ^{mn}	-361
3rd Plan (1961-62 - 1965-66)	1241	752	-489
Annual Plan (1966-67 - 1968-89)	1991	1238	-753

The Fourth Five Year Plan recognised the necessity for controlling the balance of payment deficits. This was reflected in the incentives which were given for the first time to promote foreign trade. The green revolution and a recession in the Indian economy led to a positive balance of payment situation in 1972-73 which was again repeated in 1976-77. However the overall balance of payment situation has remained bleak during the decade as can be seen in the exhibit.

Exhibit 12
Indian Foreign Trade During 1970's

Period	Import	Export	Balance of Trade
	Rs. crores		
1969-70	1582	1413	-169
1970-71	1634	1535	-99
1971-72	1825	1688	-217
1972-73	1867	1971	+104
1973-74	2955	2523	-432
1974-75	4519	3329	-1190
1975-76	5265	4043	-1222
1976-77	5074	5149	+72
1977-78	6025	5404	-621
1978-79	6764	5694	1072

Although the exports grew during this period it did not outgrow the growth in imports mostly because the import bill increased with the increase in the oil prices announced by OPEC and the liberal import policy followed by the government.

The next decade marked a further rise in the government awareness regarding foreign trade. In 1982-83 the government announced an integrated export-import policy. Prior to this the government had been announcing the export and import policies separately. But after 1982-83 it decided to announce it as a single integrated annual policy. Later the term of the import-export policy was extended to three years. The term of the import-export policy has been further extended to five years and the current policy is for the period 1992-97. The government policy has given considerable emphasis to promoting exports. They have further liberalised imports.

Exhibit 13
Excerpt from Approach to Eight Five Year Plan
Exports and International Trade Policy

109. The mounting fiscal deficits and their effect on aggregate demand are part of the reason for the pressure on balance of payments. Sharp deterioration in net invisible earnings, reduction in concessional borrowing and some upsurge in bulk imports have contributed to this process. Increase in imports related to production of non-essential consumption goods has added to the pressure on imports. Prudence requires that further increase in foreign borrowings, especially the recourse to loans of shorter maturity and on harder terms, be restrained severely and steps taken to accelerate the utilisation of aid in the pipeline (which is on much softer terms). The thrust of liberalisation should also shift towards improving the technology and efficiency of the intermediate and capital goods industries, which is desirable from every point of view reducing costs of domestic manufacture, increasing the competitiveness of domestic industry on a wider range than at present and building the base for greater self-reliance.

110. The rate of growth in export earnings in recent years (17 per cent in dollar terms and 11 per cent per annum during 1986-90) has been impressive. But it has to be stepped up even higher to bring down the BOP deficit to manageable levels. Efforts to expand and diversify exports both by products and markets must continue.

111. The strategy for export growth would include:

- i) greater attention to expanding export of labour-intensive manufactures which have emerged as dynamic elements in our trade. At the same time, diversification into a wider range of products such as software and other skilled-based services;

- ii) strengthening of institutional infrastructure for exports such as Export Houses, Export Promotion Councils, specialisation in both product and selected markets; as also modernisation of other trade promotional institutions and elimination of procedural bottlenecks;
- iii) rationalisation of incentives, speedy delivery of raw materials, equipment and components, related to export production — be they indigenous or imported, and promptness in provision of export assistance;
- iv) supportive exchange rates and demand management and
- v) adequate investment provision for infrastructure where there is a high concentration of export production industry.

112. Tourism has demonstrated its potential in contributing substantially to foreign exchange earnings. The circumstances are propitious for a rapid expansion of tourism. Tourism industry does not encounter protectionist barriers. It is today equipped with a reasonable infrastructural base and is poised for further faster growth. The further expansion of tourism should be achieved mainly through the private sector. The state can contribute by planning broad strategies of development, providing essential infrastructure, and devising effective regulatory mechanisms to protect the interests of industry, the consumer and environment.

113. International trading environment is undergoing rapid transformation. Protectionism is growing and multilateralism is under pressure. The inequity of the present international trading system from the viewpoint of developing countries is sought to be perpetuated. Moreover, in the name of the strengthening of the trading system, new linkages are sought to be enforced through the multilateral trade negotiations.

114. India's trade policy will have to be fashioned to meet these challenges. Our efforts to preserve the multilateral and non-discriminatory character of the trading system must continue. In keeping with our development, trade and financial needs, we should prepare ourselves to play an active role in the international trading system, consistent with our national objectives. The gradual shift from quantitative controls to tariffs and technological leap frogging might facilitate this process. Our resistance to introduction of new linkages intended to circumscribe the autonomy of development policies must continue with renewed vigour. We should strengthen our cooperation with the like-minded developing countries in forging coordinated approach and negotiating positions in the multilateral fora.

115. While the freedom to pursue autonomous development policies must be jealously guarded, enhancement of trade and economic cooperation among developing countries must continue to be a major aim of our external economic policy. Our ability to realise these objective will be, in the last analysis, determined by the strength and productivity of our industry, agriculture and infrastructure.

The principal export and import scenario of India with reference to commodities in the past three years vis-a-vis 1980-81 and 1970-71 can be seen as under:

Exhibit 14
Principal Exports

	1991-92*	1990-91	1989-90	1980-81	1970-71
	Rs. crores				
Agriculture & allied	7,638	6,019	4,571	2,057	487
<i>Of which:</i>					
Coffee	310	253	343	214	25
Tea	1,132	1,075	905	426	148
Oilcakes	871	625	546	125	55
Tobacco & manufactures	377	263	175	141	33
Cashew kernels	668	441	368	123	57
Spices	370	235	247	111	39
Rice	755	440	427	224	5
Fish & preparations	1,374	960	687	213	31
Raw cotton	316	846	128	165	14
Ores & minerals	2,281	1,740	1,390	414	164
<i>Of which:</i>					
Iron ore	1,432	1,050	928	303	117
Manufactured goods	32,384	23,319	20,310	3,747	711
<i>Of which:</i>					
Cotton yarn, fabrics & made-ups	3,209	2,100	1,480	408	142
Garments	5,411	4,012	3,224	550	29
Jute yarn & manufactures	387	300	298	330	190
Leather & manufactures	3,076	2,566	1,951	337	72
Handicrafts	8,346	6,167	6,285	952	73
<i>Of which</i>					
Gems & jewellery	6,750	5,247	5,296	642	43
Chemicals & allied products	3,677	2,345	1,981	235	36
Engineering goods	5,107	3,809	3,321	874	198
Mineral fuels & lubricants	1,022	938	697	28	13
Total (incl. others)	43,978	32,553	27,681	6,711	1,538

* Provisional.

Exhibit 15
Principal Imports

	1991-92*	1990-91	1989-90	1980-81	1970-71
	Rs. crores				
Cereals and preparations	141	182	378	100	213
Petroleum and products	13,129	10,816	6,274	5,264	136
Edible oils	240	326	211	677	23
Chemical elements & compounds	3,523	2,289	2,135	358	68
Medical & pharmaceutical products	456	468	272	85	24
Fertiliser & fertiliser materials	2,259	1,766	1,777	818	86
Paper & board and mfrs.	488	456	358	187	25
Iron & steel	2,154	2,113	2,305	852	147
Non-ferrous metals	840	1,102	1,253	477	119
Capital goods	10,394	10,465	8,831	1,910	404
<i>Of which:</i>					
Metal manufactures	n.a.	302	271	90	9
Electrical machinery	n.a.	1,702	1,921	260	70
Other machinery	n.a.	4,240	3,532	1,089	258
Transport equipment	n.a.	1,670	1,526	472	67
Pearls, precious & semi-precious stones	4,822	3,738	4,242	417	25
Total imports (incl. others)	47,813	43,193	35,416	12,549	1,634

* Provisional

For 1989-90 and 1990-91, capital goods include project goods.

Thus India's thrust commodities and countries can be outlined as below:

Exhibit 16
Thrust Markets

Africa	America	East Asia	South Asia	East Europe	West Europe	West Asia and North Africa
Zimbabwe	United States	Japan	Iran	Russia	United Kingdom	United Arab Emirates
Kenya	of America	Republic of Korea		Czechoslovakia	Federal Republic of Germany	Saudi Arabia
Mauritius	Canada	Peoples Republic of Argentina			France	Kuwait
Ethiopia	Brazil	China			Italy	Egypt A.R.
Cameroon	Argentina	Australia				Iraq
Zaire	Mexico	Malaysia				Bahrain
	Trinidad and Tobago	Indonesia				Oman
	Cuba					Jordan
						Morocco
						Tunisia

Source: Developed by Indian Institute of Foreign Trade

Exhibit 17
Thrust Products

- Basic Chemicals
- Capital Goods and Consumer Durables
- Fabrics, price goods and make up
- Leather and Leather manufacturers with an emphasis on the latter
- Iron Ore
- Handicraft and Jewellery
- Marine product specially in value added forms
- Processed foods including fruits and juices
- Meat and Meat product and fresh
- Projects and Services
- Readymade Garments
- Tea, specially in packaged and value added forms
- Woollen fabrics and knitwear

Source: Developed by Indian Institute of Foreign Trade

It is also necessary to monitor the country's foreign exchange reserves in this context.

Exhibit 18
Exchange Reserves

	Reserves (US \$ Bn)		% share in world total		Import cover (Months)
	Sept. 1991	Dec. 1980	Sept. 1991	Dec. 1980	Sept. 1991
	World	668.6	321.3	100.0	100.0
Developed regions					
<i>Of which:</i>					
Denmark	7.9	3.4	1.2	1.1	3.0
France	34.5	27.3	5.2	8.5	1.8
Germany	61.2	48.6†	9.2	15.1†	1.9
Italy	56.9	23.1	8.5	7.2	3.8
Japan	69.9	24.6	10.4	7.7	3.6
Switzerland	25.5	15.7	3.8	4.9	4.6
U.K.	40.4	20.7	6.0	6.4	2.3
U.S.A.	63.7	15.8	9.5	4.9	1.5
Developing regions					
<i>Of which:</i>					
India	1.9	6.9	0.3	2.2	1.1
Bangladesh	1.0	0.3	0.1	0.1	3.3
Brazil	6.2	5.8	0.9	1.8	4.3
China	40.9	2.5	6.1	0.8	8.5
Indonesia	8.5	5.4	1.3	1.7	4.1
Korea, Rep.	13.9	2.9	2.1	0.9	2.1
Mexico	16.4	3.0	2.5	0.9	5.6
Pakistan	0.5	0.5	0.1	0.2	0.7
Philippines	2.4	2.8	0.4	0.9	2.3
Saudi Arabia	11.6	23.4	1.7	7.3	n.a.
Singapore	31.8	6.6	4.7	2.0	5.8
Thailand	17.0	1.6	2.5	0.5	5.4
Venezuela	9.3	6.6	1.4	2.1	12.7

* Total of reserve position in IMF, foreign exchange and SDRs.

† Relates to former West Germany.

Exhibit 19
TRADE WITH SELECTED COUNTRIES

		Imports from		Exports to		Trade balance
		Rs. crores	%	Rs. crores	%	Rs. crores
		O.E.C.D.				
	1970-71	1,042	63.8	769	50.1	-273
	1989-90	20,224	57.1	14,743	53.3	-5,481
	1990-91	23,310	54.0	17,428	53.5	-5,882
EEC	1970-71	320	19.6	282	18.4	-38
	1989-90	11,736	33.1	6,906	24.9	-4,830
	1990-91	12,680	29.4	8,951	27.5	-3,729
Belgium	1970-71	12	0.7	20	1.3	+8
	1989-90	2,696	7.6	1,209	4.4	-1,487
	1990-91	2,718	6.3	1,259	3.9	-1,459
France	1970-71	21	1.3	18	1.2	-3
	1989-90	1,612	4.6	638	2.3	-974
	1990-91	1,304	3.0	766	2.4	-538
Germany	1970-71	108	6.6	32	2.1	-76
(West)	1989-90	2,750	7.8	1,778	6.4	-972
	1990-91	3,473	8.0	2,549	7.8	-924
U.K.	1970-71	127	7.8	170	11.1	+43
	1989-90	2,974	8.4	1,602	5.8	-1,372
	1990-91	2,894	6.7	2,128	6.5	-766
Non-EEC						
Australia	1970-71	37	2.3	25	1.6	-12
	1989-90	887	2.5	335	1.2	-552
	1990-91	1,464	3.4	321	1.0	-1,143
Canada	1970-71	117	7.2	28	1.8	-89
	1989-90	454	1.3	264	1.0	-190
	1990-91	559	1.3	281	0.9	-278

		Imports from		Exports to		Trade balance
		Rs. crores	%	Rs. crores	%	Rs. crores
Japan	1970-71	83	5.1	204	13.3	+121
	1989-90	2,820	8.0	2,727	9.9	-93
	1990-91	3,245	7.5	3,039	9.3	-206
U.S.A.	1970-71	453	27.7	207	13.5	-246
	1989-90	4,260	12.0	4,474	16.2	+214
	1990-91	5,245	12.1	4,797	14.7	-448
OPEC	1970-71	124	7.7	99	6.4	-27
	1989-90	5,074	14.3	1,841	6.7	-3,233
	1990-91	7,041	16.3	1,831	5.6	-5,210
Iran	1970-71	92	5.6	27	1.8	-65
	1989-90	390	1.1	132	0.5	-258
	1990-91	1,018	2.4	141	0.4	-877
Kuwait	1970-71	6	0.4	16	1.0	+10
	1989-90	1,160	3.3	198	0.7	-962
	1990-91	363	0.8	74	0.2	-289
Saudi Arabia	1970-71	24	1.5	15	1.0	-9
	1989-90	1,448	4.1	429	1.5	-1,019
	1990-91	2,899	6.7	419	1.3	-2,480
Eastern Europe	1970-71	220	13.5	323	21.0	+103
	1989-90	2,990	8.4	5,336	19.3	+2,346
	1990-91	3,337	7.8	5,819	17.9	+2,482
U.S.S.R.	1970-71	106	6.5	210	13.7	+104
	1989-90	2,038	5.8	4,463	16.1	+2,425
	1990-91	2,548	5.9	5,255	16.1	+2,707
Developing countries*	1970-71	239	14.6	305	19.9	+66
	1989-90	6,031	17.0	4,246	15.3	-1,785
	1990-91	7,965	18.4	5,465	16.8	-2,500
Asia	1970-71	54	3.3	166	10.8	+112
	1989-90	4,452	12.6	3,634	13.1	-818
	1990-91	6,033	14.0	4,665	14.3	-1,368

Note: Figures under % show the % share of each economic region or country in India's total imports and exports respectively. Data for only some countries are shown under the economic regions.

* Excluding members of OPEC.

1.9 REGIONAL ECONOMIC GROUPINGS

A new arrangement is emerging in economic field since World War II wherein several countries together decide to engage in an economic co-operation with the objective to use their resources more effectively and to provide larger markets for member countries. Different forms of regional economic co-operation can be classified as follows:

The Free Trade Area: It is the least restrictive & loosest form of economic integration. In a free trade area, all barriers to trade among member countries are removed. No custom duties are leviable for trade within member countries. However, each member country retains the right to frame its own tariff structure vis-a-vis non-members. The most well known of the free trade areas is the European Free Trade Association (EFTA).

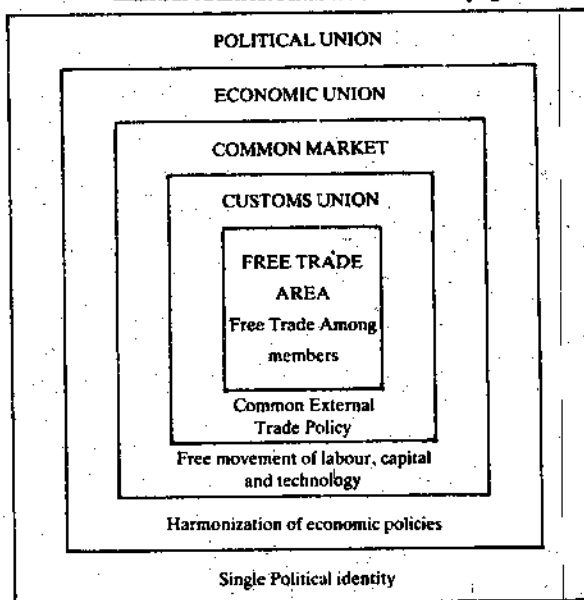
The Customs Union: The customs union is one step further towards economic integration. Like in Free Trade Area, members of customs union do not have any trade barriers between them. Further, there is a common trade policy followed by all members with respect to non-members.

The Common Market: In addition to the features of a customs union, common market allows free movement of labour, capital & technology within member countries. Restrictions on cross border investment are abolished. The free movement of labour, capital and technology help in their most productive utilisation.

The Economic Union: This represents the most advanced stage of economic co-operation wherein the participating countries not only have no trade barriers within them and common trade barriers for non-members but also harmonize their monetary, fiscal, financial & taxation policies.

Political Union: The ultimate development of an economic union takes form of a Political Union where member countries decide to shed their national political status.

Exhibit 20 : Different Forms of Economic Groupings



Some major regional trade associations are described hereunder:

The European Economic Community (EEC):

Based on the treaty of Rome of 25th March 1957, the EEC came into being on 1st January 1958. The community has presently 12 member nations – Belgium, Denmark, France, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, U.K., Germany and has its head quarters at Brussels. The community has till 1992 functioned as a Customs Union and from January 1, 1993 has emerged as a common market of 340 million consumers. The ultimate objective of the community is to form an economic union latest by January 1, 1999 wherein there will be a European central bank & a common currency.

While the single market reforms have been a success, the crucial second phase of economic union is not moving in a smooth manner. The Maastricht Treaty which envisages not only a single European Currency but also a framework for co-ordinating defence and foreign policies, suffered a setback when Denmark rejected it in a referendum on June 2, 1992 by a narrow majority. Some boost was received later, however, when France approved the treaty in the nation wide referendum, though by a very narrow margin. Ireland also gave endorsement to Maastricht in its June 1, 1992 referendum. To become law, Maastricht must be approved by each of the 12 member states, either by legislative vote or by referendum.

Exhibit 21 : 1992 SCORECARD

Sector	Objectives	Accomplishments
Air Lines	Total open skies policy by 1993, including freedom of pricing & entry of new airlines	Free pricing and licensing of new international airlines by 1993. National markets closed until 1997
Telecommunications	Deregulation of equipment and services except for phone calls, by 1993	Open competition in equipment services by 1993. Target for mid-1990s deregulation of cross-border calls.
Automobiles	Ending Europe-wide quotas on Japanese cars by mid-1990s. Transplants not included in quotas.	National quotas in effect until 2000. Japanese transplants included in quotas.
Financial Services	Deregulation of banking, insurance and investment services by 1993	Banking fully liberalised by 1993. insurance by mid-1994. Investment services to open from 1995 to 1999
Borders	Removal of all customs barriers for products and people by 1993	Barriers to products removed by 1993. Free circulation of people in most countries by 1993.
Social Policy	Heavy regulations on working times, subcontracting and workers' rights	Mostly blocked by British opposition.

Source : Business Today

The European Monetary Systems (EMS):

Founded in March 1979 to control inflation, protect European trade from international disturbances & ultimately promote convergence between the European economies. The Exchange Rate Mechanism (ERM) is run by the finance ministries & Central banks of the EC countries on a day-to-day basis; monthly reviews are carried out by the EC Monetary Committee (finance ministries) and the EC Committee of Central bankers. Members are obliged to restrict the fluctuations in the value of their currencies to a variation 'band', usually at 2.25% (though this may be widened to 6% on a country's initial joining) higher or lower than a central rate established by comparing all the currencies in the ERM & the European currency unit. If a currency reaches its top or bottom limits, central banks are obliged to buy or sell currency on the foreign exchanges. Further stabilization measures would involve adjustment of national interest rates, central bank borrowing from other central banks or withdrawal of reserves from the European Monetary Co-operation fund. The adjustment of last resort is re or devaluation.

The European Community received another setback in later part of 1992 when after a turmoil in ERM & a big fall in value of Pound Sterling, Britain withdrew from ERM on September, 16th 1992.

European Free Trade Association (EFTA):

The EFTA was established by the Stockholm Convention of 1959. EFTA is a 'Free Trade Area' and the present member countries are — Austria, Finland, Iceland, Norway, Sweden, Switzerland & Liechtenstein.

A larger European Economic Area (EEA) is also being envisaged by having an agreement between the EC & EFTA with eventually seven EFTA countries becoming members of EC. This, however, has received a setback when in end 1992 Switzerland in its referendum, rejected the membership of the planned European Economic Area.

The North American Free Trade Agreement (NAFTA):

The U.S. President & the leaders of Canada & Mexico participated in a ceremony in October 1992 in Texas to spotlight on an agreement designed to create the World's largest & richest free trade zone. "This meeting marks a turning point in the history of our three countries," Mr. Bush said. Mr. Carlos Salinas De Gortari, President of Mexico said, "We can all win with the agreement because it will lift the economies of all three nations." The 2,000 page document was signed by the trade ministers of the three countries.

NAFTA would create the World's largest free trade area by removing all trade barriers among the 3 countries over 15 years.

Latin American Integration Association (LAIA):

The Association took over from the Latin American Free Trade Area (LAFTA) on 1st January 1981 which was created in 1960 to further trade between the member states & promote regional integration. The LAIA has following members: Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, Uruguay & Venezuela. The Association's head quarter is in Uruguay.

Exhibit 22

CENTRAL AMERICAN TRADE BLOC SOON

Central America is moving towards creating an economic bloc of its own to compete with the World's other trading groups & profit from regional trade.

"We must form a bloc or we are going to be dead economically," said Sonia Maria Gonzalez, who works for the Guatemalan Govt. to attract investment. "You can't have Asian Countries together & European countries together & then have this tiny country of Guatemala with only 9 million people."

Central American nations hope a larger trading unit will give them clout with big ones like the E.C. & the proposed NAFTA.

Another advantage would be to ease internal distribution of such local wares as Costa Rican dairy products, Salvadoran plastics & Guatemalan rubber, pharma, glass & electrical appliances.

The region exports Coffee, Sugar, Cotton, Tobacco, & Seafood. It imports virtually all of its oil, automotive parts, heavy machinery & advanced technology.

A Central American common market was established in 1963, but became mired in political & economic problems & had fallen apart by the late 70's.

What is different now is that we are all talking about the same language, says Juan Luis Miron, Guatemala's economy minister. "We are all talking about free enterprise."

"In the 1960's, we are talking about an extreme left and an extreme right, we had pro-American & Pro-Russia, now we have the same ideological positions & the same ways of doing business."

President Rafael Leonardo Callejas of Honduras said Central American countries are working towards "a policy of common interest & integration with the Caribbean countries" to open the European market to regional products.

Central American economic ministers have established minimum tariffs within the region of 5% & maximum of 20% to be effective by the end of year, replacing duties of up to 75%.

In May, the presidents of Guatemala, Honduras & El Salvador agreed to lift tariffs on 10,000 items by the end of the year and work towards a customs union. Tariffs have been dropped throughout Central America on about 1,600 agricultural products.

In July, 1991, Costa Rica, El Salvador, Guatemala, Honduras & Nicaragua agreed to further integration with an eye towards the U.S. enterprise for the Americas initiative, a programme introduced in 1990 that allows wider access to U.S. markets.

"We benefit in practical business terms, as well as in foreign policy terms, from having more prosperous neighbours," Peter Whitney of the State Dept.'s bureau of inter-American affairs said at a trade meeting last year in Guatemala city.

"Sooner or later we are going to be absorbed into the U.S. big trading bloc, since we are the little dwarfs on the side," said Jorge Skinner Klee, a Guatemalan Congressman. "It is better to increase our bargaining power by integrating and then try to cut a deal with the big boys."

Johanna Fiallos, head of a Nicaraguan business group said, "Positive changes are taking place throughout the region, integration will result in more competition.... Higher quality products & better service."

At their meeting last July, the regional presidents decided to spend more on infrastructure, including a rail road network & improving the Atlantic port of Santo Tomas shared by El Salvador, Guatemala and Honduras.

Bilateral treaties have been signed since to expand trade within the regions, now at \$ 640m a year and there is a talk of common currency.

Immigration departments are considering a regional passport similar to the visa-free systems in the E.C.

"If we want to face the external market as a strong whole, we will need to break down our own internal barriers first," said Otto Becker, head of Guatemala's business associations.

(Source: Economic Times: July 3rd, 1992)

Latin American Economic System (SELA):

SELA was created by 25 Latin American & Caribbean countries meeting in Panama on 17th October, 1975. Surinam joined later in 1979. The system provides member countries with permanent institutional machinery for joint consultation, co-ordination, co-operation & promotion in economic & social matters at both intraregional & extraregional levels. The head office of SELA is based in Caracas, Venezuela.

Caribbean Community (CARICOM):

The Treaty establishing the Caribbean community, including the Caribbean common market and the Agreement establishing the common External Tariff for the Caribbean Common Market was signed by the Prime Ministers of Barbados, Guyana, Jamaica & Trinidad & Tobago at Chaguaramas, Trinidad, on 4th July 1973 and entered into force on 1st August, 1973. The Caribbean community has 3 areas of activity (i) economic Co-operation through the Caribbean common market; (ii) Co-ordination of foreign policy; (iii) functional co-operation in areas such as health, education and culture, youth & sports, science & technology and tax administration.

The Caribbean Common Market provides for the establishment of a common external tariff, a common protective policy and the progressive co-ordinations of external trade policies; the adoption of a scheme for the harmonization of fiscal incentives to industry; double taxation arrangements among member countries; the co-ordinating of economic policies & development planning; and a special regime for the less developed countries of the community. In 1990 a target date of 1994 for the creation of common market was agreed.

Members: Antigua & Barbuda, Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, Montserrat, St. Kitts-Nevis, Saint Lucia, St. Vincent and the Grenadines and Trinidad & Tobago.

Arab Common Market (ACM):

The Arab Common Market came into operation on 1st Jan. 1965. The agreement reached on 13th August, 1964 and open to all the Arab League states, has been signed by Iraq, Jordan, Syria & Egypt. The agreement provides for the abolition of customs duties on agricultural products & natural resources within 5 years by reducing tariffs at an annual rate of 20%. Customs duties on industrial products are to be reduced by 10% annually. The agreement also provides for the free movement of capital & labour between member countries, the establishment of common external tariffs, the co-ordination of economical development & the framing of a common foreign policy.

Association of South-East Asian Nations (ASEAN):

The ASEAN was formed by the governments of Indonesia, Malaysia, The Philippines, Singapore & Thailand through the Bangkok Declaration which was signed by Foreign Ministers of ASEAN countries on 8th August, 1967. Brunei joined in 1984.

The main objectives of the association are to accelerate economic growth, social progress & cultural development, to promote active collaboration & mutual assistance in matters of common interest, to ensure the stability of the South-East Asian region and to maintain close co-operation with existing international & regional organizations with similar aims. The central secretariat for ASEAN is located in Jakarta, Indonesia & is headed by the Secretary General.

Central African Customs and Economic Union (UDEAC):

By virtue of the treaty signed in Brazzaville (Republic of Congo) on December 4, 1964 the UDEAC was formed. The member countries are Cameroon, Central African Republic, Congo/Brazzaville and Gabon.

In addition to being a Customs Union this Union hopes to achieve the status of an economic Union. In 1970 it had launched joint industrialisation programmes. The UDEAC has to its credit a common development bank, common external tariffs and a common investment code. It has also been successful in removal of trade barriers.

Economic Community of States of Central Africa (ECSCA):

On October 18, 1983 the ECSCA came into being by virtue of treaty of Liberville. It has 10 members which include Cameroon, Central African Republic, Congo/Brazzaville, Gabon, Equitorial Guinea, Rwanda, Sao Tome Principe, Zaire, Chad and Barundi. It was hoped that this union would become a true economic union with removal of trade barrier, and the development of common external barriers and trade policy, and free movement of resources.

It aimed at achieving this by 1995 within 3 stages of 4 years each. It also put deadlines to the minimum and maximum periods. The shortest period being 10 years and the longest being 20 years. The 1st stage aims at stability of fiscal and customs rules while the 2nd stage aims at setting up a free trade zone and the 3rd stage aims at creation of a formal customs union and common external tariffs.

Thus this union aims at not only promoting trade but also mutual co-operation among member nations.

Economic Community of Western African States (ECOWAS):

The ECOWAS came into being on 28th May, 1975. It, however, became effective only from 5th of November, 1976. It had 15 members who include Benin, Burunia, Faso, Cape Verde, Gambia, Ghana, Republic of Guinea, Bissau, Ivory Coast, Liberia, Mali, Mauritania, Niger, Nigeria, Senegal, Sierra Leone, and Togo. It was thus the largest agreement covering a population of approximately 124 million including 6 French speaking, 5 English speaking and 1 Portugese speaking countries, with such great diversity it was still hoped to achieve the objectives (common to any economic union) by 1994.

1.10 SUMMARY

To sum up the theory of relative advantage explain why a country indulges in foreign trade. However, even if the country realizes that it is advantageous to enter into foreign trade it must convert it into economic policies so as to motivate individual firms to enter into foreign business. These benefits have to be firm, specific and cannot be correlated with foreign trade.

India's current position and history of foreign trade goes back to time of its economic independence. Today India is at point where it must change its argument of self-sufficiency and move with agreement of foreign trade if it has to develop rapidly. This is validated by what has been happening in the world with reference to foreign trade. The most dominant and immediate movement that the world has been seeing is the EEC. Similar other movements are visible world over. They include free trade areas, regional co-operation groups and economic unions. Even international bodies have come up to support this. They include the IMF and the World Bank. Legal environment is also developing for promoting International business and foreign trade. GATT or General Agreement on Trade and Tariff marks this.

1.11 SELF-ASSESSMENT QUESTIONS

- i) Define the premise for the existence of International trade and business?
- ii) What are the reasons that promote international business concerns to invest in foreign lands.
- iii) Argentina and Brazil have decided to form an economic union. What would be the probable premise underlying this union? Analyse critically.
- iv) For the purpose of scanning the environment certain variables may be used to reduce the span of the scan. Enumerate 6 such variables.

1.12 FURTHER READINGS .

Philip R Cateora and John M Hess, *International Marketing*, 3rd edition, Richard D. Irwin, Inc.

Warren J Keegan, *'Multinational Marketing Management'*, 2nd edition, Prentice Hall of India.

Rajan Saxena and M C Kapoor, 1984, *International Marketing Concept, Techniques and Cases*, Tata McGraw Hill Publishign Co. Ltd.

1.13 APPENDIX : STATISTICS OF WORLD TRADE

Scope and Size of International Markets

Key indicators 1988/89

	Population (m)	Area ('000 sq km)	GDP per capita (\$)	Inflation (%)	GDP real growth (%)	Balance of trade (\$m)
Argentina	32.00 (1)	2766.9	2862 (1)	4427.0	3.1	4234(1)
Bolivia	6.99	1098.6	724	16.0	2.8	57
Brazil	144.00	8512.0	2449	683.0	0.0	19182
Chile	12.80	756.6	2518	14.7	7.4	2219
Colombia	30.20	1138.9	1739	28.1	3.7	648
Costa Rica	2.90	51.1	2235	20.8	3.0	86
Ecuador	10.20	270.7	1477	58.3	12.8	589
El Salvador	5.10	21.4	955	19.7	1.6	305 (1,e)
French Guiana	0.09	91.0	-	4.0 (1)	-	337 (1,e)
Guatemala	8.70	108.9	1502	10.9	3.5	396 (1)
Guyana	0.72	215.0	995	40.0	3.7	21
Honduras	4.80	112.1	851 (1)	4.6	3.0	24
Mexico	82.70	1958.2	2588	114.0	1.1 (e)	1600
Nicaragua	3.62	147.9	819	33000.0	8.0	612
Panama	2.32	77.1	2229	0.3	25.0	177
Paraguay	4.04	406.7	1503	23.4	6.2	69
Peru	21.30	1285.2	1503	1191.0	7.1	122
Suriname	0.40	163.3	3420	30.0	2.2 (1)	119 (2)
Uruguay	3.10 (1)	176.2	2989	62.6	0.5	292
Venezuela	18.80	916.5	4544	35.5	5.7	1347
Canada	26.10	9976.0	-	4.0	4.5 (e)	8881
United States of America	246.30	9300.0	-	4.0	3.9 (a)	126780
Anguilla	0.01	0.1	3562 (1)	5.0	8.2	-
Antigua	0.08	0.4	3399 (1)	1.2 (1)	6.6	230 (1)
Aruba	0.07 (1)	0.2	-	-	-	-
Bahamas	0.23	13.9	11317	4.2 (1)	2.0	774 (1)
Barbados	0.25	0.4	4233	4.8	3.5	181 (1)
Belize	0.17	23.0	1138 (1)	0.3	7.6	61
Bermuda	0.06	0.1	18000 (1,e)	5.3	4.0 (1)	530 (2)
British Virgin Islands	0.02	0.2	9491 (1)	5.2	15.1 (1)	35 (1)
Cayman Islands	0.03	0.3	18239 (1)	5.2	10.0	10 (1)
Cuba	10.00 (2)	114.5	2238 (3,n)	-	3.7 (1,n)	-
Dominica	0.08	0.8	1550 (1)	1.7	5.6	24
The Dominican Republic	6.90	48.4	354	46.0	0.8	715
Grenada	0.10 (1)	0.4	1346 (1)	5.8	5.8	60
Guadeloupe	0.34	1.7	3600 (3)	3.5 (1)	-	938 (1)
Haiti	6.30	27.8	319 (e)	4.0	0.2 (e)	128
Jamaica	2.40	11.0	1388	8.8	1.9	395
Martinique	0.34	1.1	4761 (3)	3.6 (1)	-	905 (1)
Montserrat	0.01 (1)	0.1	3997 (1)	1.6	12.4	17
Netherlands Dependencies	0.20 (2)	0.8	7500 (1,n)	2.6	2.5 (1,n)	195 (1)
Puerto Rico	3.30	8.9	7762	2.8	5.2	2000
St Kitts Nevis	0.05	0.3	2119 (1)	1.0	4.0	24 (1)
St Lucia	0.14	0.6	1400 (1)	1.0	5.0	82
St Vincent Trinidad and Tobago	0.11	0.4	1210 (1)	2.0	3.0	99
1.20	5.1	3636	7.7	4.0	25	
Turks and Caicos Islands	0.01	0.4	3500 (n,e)	-	-	24 (3)
US Virgin Islands	0.11	0.4	9724 (2,n,e)	-	6.2 (2,n)	521 (2)

(1) 1987 (2) 1986 (3) 1985 (e) estimated figure (n) gross national product (GNP)

Source : The Economic and Business Report

Key Indicators 1988/89

	Population (m)	Area ('000 sq km)	GDP per capita (\$)	Inflation (%)	GDP real growth (%)	Balance of trade (\$m)
Afghanistan	15.50	647.5	170 (1,e)	-	3.5 (3,e)	196
Australia	16.50	7682.3	15097	7.6	3.7	1136
Bangladesh	104.50	144.0	170 (n)	9.4	2.6	1444
Bhutan	1.35 (1)	47.0	150 (1)	-	6.7 (4)	63 (1,e)
Brunei	0.30	5.8	15390 (1)	2.0	2.2	800
Cambodia	6.70	181.0	-	-	-	200 (2,e)
China	1100.00	9597.0	227 (n,e)	18.5	11.2	5500 (e)
Fiji	0.74	18.3	908	11.7 (e)	2.5	54
Hong Kong	5.68	1.1	1058 (1)	7.4	6.0 (n)	5729
India	796.60	3287.6	330 (n)	9.4 (e)	1.7 (n,e)	7900
Indonesia	175.20	1919.4	450 (1,e)	8.0 (e)	2.1 (1,e)	5726
Japan	121.80 (1)	377.7	16136 (1,n)	0.7	3.8 (n)	94990
Korea DPR	21.90	123.0	-	-	2.5 (e)	530 (2)
Republic of Korea	42.00	99.1	4082	7.1	12.0	11450
Laos	3.90	236.8	141 (n)	-	8.0 (4,e)	130 (e)
Macao	0.44	0.0	5242	7.8	7.5 (e)	-
Malaysia	16.92	330.4	2046 (e)	2.5	7.4 (e)	5559
Maldives	0.20	0.3	405 (1,e)	4.0 (2)	8.7 (e)	65
Mongolia	2.04	1565.0	2140 (2,n)	-	-	-
Myanmar	38.30	676.6	254 (1)	16.1	3.7 (1)	487
Nepal	18.30	147.2	159	9.0	4.5	96
New Zealand	3.29	268.7	9389	6.4	0.6 (n,e)	2015 (1)
Pakistan	105.41	804.0	362	8.8	5.8	2607
Papua New Guinea	3.60	461.7	721 (1)	5.4	3.9 (e)	1198
Philippines	60.00	300.4	668 (e)	9.0	6.1 (e)	1085 (e)
Singapore	2.65	0.6	8932	1.5	9.0	2345
Sri Lanka	16.60	65.6	423 (n,e)	14.0	3.5 (n,e)	544
Taiwan	19.80	36.0	5696	5.0	7.0	10760
Thailand	54.50	514.0	841 (1)	3.8	8.4 (1)	2074
Vietnam	65.20	329.6	150 (2,n,e)	700.0 (e)	-	1200 (2,e)

(1) 1987 (2) 1986 (3) 1985 (4) 1984 (e) estimated figure (n) gross national product (GNP)

Source : The Economic and Business Report

Key indicators 1988/89

	Population (m)	Area ('000 sq km)	GDP per capita (\$)	Inflation (%)	GDP real growth (%)	Balance of trade (\$m)
Afghanistan	15.50	647.5	170 (1,e)	-	3.5 (3,e)	196
Algeria	23.84	2321.7	2271	6.0	1.8	640
Bahrain	0.46	0.7	7040 (1,e)	0.3	2.8 (1)	13
Cyprus	0.69	9.3	5985	3.5	6.9	1030
Djibouti	0.50	23.2	430 (1,e)	-	-	182 (1)
Egypt	54.00	1101.5	731 (1,e)	17.6	1.5 (1)	6200
Iran	52.70	1648.0	3408 (n)	15.0 (1,e)	0.2 (1,e)	144
Iraq	17.20	434.9	2943 (1,e)	25.0 (1,e)	1.7 (1,e)	879
Israel	4.50	20.8	7677	16.3	1.8	3144
Jordan	2.90	95.4	1552	14.0	3.5	1705
Kuwait	1.96	17.8	13160 (n)	1.5	-	1907
Lebanon	2.80	10.5	-	700.0 (2)	-	1540 (2,e)
Libya	4.30	1761.1	5500 (1)	-	-	433 (2)
Mauritania	2.00	1030.7	503 (1,e)	8.2 (1)	0.5 (2,n)	146 (2)
Morocco	23.30	711.0	720 (1)	2.3	8.0	752
Oman	1.38	320.0	5780 (1,n)	0.0 (1)	1.6 (2,n)	439
Pakistan	105.41	804.0	362	8.8	5.8	2607
Qatar	0.35	11.4	15645	1.6 (1)	0.4 (1)	619
Saudi Arabia	14.00	2149.7	5535	1.0	0.0 (1)	1952
Somalia	5.70	738.0	290 (1,n)	125.0	12.4 (1,n)	382 (1)
Sudan	23.10 (1)	2505.8	482 (1,n)	24.4 (2)	3.2 (1,n)	403 (1)
Syria	11.34	185.2	1820 (1,n)	59.0 (1)	9.3 (1)	869 (1)
Tunisia	7.80	164.2	1286	6.3	1.5	1090
Turkey	54.10	779.5	1342 (n)	75.4	3.4 (n)	1800
United Arab Emirates	1.50	90.6	15527	6.0 (1,e)	2.1	-
Yemen Arab Republic	9.30	195.0	576 (1,n)	-	2.4 (2,n)	1141 (1)
PDR	2.48	333.0	420 (1,n)	-	1.2 (2,n)	-

(1) 1987 (2) 1986 (3) 1985 (e) estimated figure (n) gross national product (GNP)

Source : The Economic and Business Report

Key Indicators 1988/89

Scope and Size of International Markets

	Population (m)	Area ('000 sq km)	GDP per capita (\$)	Inflation (%)	GDP real growth (%)	Balance of trade (\$m)
Algeria	23.84	2381.7	2271	6.0	1.8	640
Angola	9.20 (1)	1246.7	-	-	-	118 (1)
Benin	4.30 (1)	112.6	351 (2)	5.0 (2)	8.0 (1,e)	385 (1)
Botswana	1.21	582.0	973	8.4	1.3	386
Burkina Faso	8.30 (1)	274.2	216 (1)	4.2 (1)	3.2 (1)	418 (2)
Burundi	5.15	27.8	232 (1)	4.5	2.0 (1)	78 (1)
Cameroon	10.70	475.4	1185	8.6	2.0 (1)	398 (e)
Cape Verde	0.36	4.0	500 (1,n)	-	6.0 (2,n,e)	124 (e)
Central African Republic	3.00	623.0	330 (1,n)	4.0	0.4 (1,n,e)	71 (1)
Chad	5.40	1284.0	138 (1)	6.5 (1,e)	0.5 (1,n)	150 (1)
Comoros	0.42 (1)	2.2	370 (1)	-	1.7(1,n,e)	34 (3)
Congo	2.00	342.0	842 (n,e)	16.5	0.6	373
Cote d'Ivoire	11.60	322.5	857	7.0	3.9 (1,n)	815
Djibouti	0.50	23.2	430 (1,e)	-	-	182 (1)
Egypt	54.00	1101.5	731 (1,e)	17.6	1.5(1)	6800
Equatorial Guinea	0.41	28.1	399 (1)	-	-	-
Ethiopia	47.90	1251.0	113	7.0	8.0 (1)	1125 (1,e)
Gabon	1.09	267.7	2988	6.0	12.3 (e)	404
Gambia	0.81	11.3	290 (1)	11.7	-	31
Ghana	14.10	239.5	624 (1)	31.3	6.0 (e)	125 (1)
Guinea Republic	6.50 (1)	246.0	320 (1)	-	5.9 (1,e)	116 (1)
Guinea Bissau	0.92 (1)	36.1	170 (1,n)	30.0 (2)	-	30 (1)
Kenya	23.90	582.7	360	8.2	6.1	785
Lesotho	1.70	30.4	234 (1)	12.2 (1)	5.8 (2)	409 (1)
Liberia	2.50	111.4	490 (1,n)	5.0 (1)	1.0 (1,n,e)	63 (1)
Libya	4.30	1761.1	5500 (1)	-	-	430 (2)
Madagascar	10.90	587.0	190 (2)	15.0 (1,e)	1.0 (1,n,e)	17 (2)
Malawi	8.40	118.5	182 (1)	33.9	3.6	139 (1)
Mali	8.70 (1)	1240.2	222 (1,n)	-	2.0 (2,n)	80 (1)
Mauritania	2.08	1030.7	503 (1,n)	8.2 (1)	0.5 (2,n)	146 (2)
Mauritius	1.08	1.9	1714 (1)	9.1	7.4 (e)	147
Morocco	23.30	711.0	720 (1)	2.3	8.0	752
Mozambique	14.70	799.4	95 (n)	-	3.0 (1)	549 (1,e)
Namibia	1.70 (1)	823.6	1014 (2)	16.0 (2)	1.0 (2,e)	65 (2,e)
Niger Republic	6.80 (1)	1267.0	318 (1,n)	6.7 (1)	6.6 (2,n)	159 (1)
Nigeria	105.00	923.8	287 (1)	3.2	4.2	2419 (1)
Rwanda	6.80	26.3	319 (1)	2.9	4.5 (2)	161
Sao Tome & Principe	0.11	1.0	280 (1)	-	5.1	10
Senegal	7.00	196.2	510 (1,n)	6.4 (2)	1.3 (2,n)	447 (1)
Seychelles	0.07	0.5	3723 (1)	1.7	2.5 (n)	113
Sierra Leone	4.00	72.3	300 (1,n)	179.0 (1)	0.4 (1,n)	25 (1)
Somalia	5.70	738.0	290 (1,n)	125.0	12.4 (1,n)	382 (1)
South Africa	33.80	1221.0	2574	12.8	3.2	5200
Sudan	23.10 (1)	2505.8	482 (1,n)	24.4 (2)	3.2 (1,n)	430 (1)
Swaziland	0.70 (1)	17.4	773 (1,n)	12.4 (1)	0.9 (2,n)	27 (1)
Tanzania	23.20	945.1	159 (1)	35.0	3.9 (1)	860
Togo	3.30	56.6	300 (1,n)	0.1	1.4 (1)	28
Tunisia	7.80	164.2	1286	6.3	1.5	1090
Uganda	17.20	236.0	260 (1,n)	60.0	5.0	316
Zaire	34.00	2345.4	90 (1)	100.0	2.6 (1)	563
Zambia	7.50	752.6	250 (1,n)	55.7	2.7	497
Zimbabwe	8.90	391.1	580 (1,i)	12.5 (1)	2.6 (2)	381 (1)

(1) 1987 (2) 1986 (3) 1985 (e) estimated figure (n) gross national product (GNP)

Source: The Economic and Business Report

Key Indicators 1988/89

	Population (m)	Area ('000 sq km)	GDP per capita (\$)	Inflation (%)	GDP real growth (%)	Balance of trade (\$m)
Albania	3.20	27.4	850 (2,e)	-	-	42 (2,e)
Andorra	0.05	3.5	9834 (1)	-	-	-
Austria	7.60	83.9	13900 (1)	1.9	1.0 (1)	4700
Belgium	9.92	30.5	15345	1.2	4.2	1105
Bulgaria	9.00	110.9	2750 (1,m)	-	5.1 (1,s)	161 (1)
Cyprus	0.69	9.3	5985	3.5	6.9	1030
Czechoslovakia	15.61	127.9	6045 (2,m)	2.3 (2)	2.0 (1,m)	-
Denmark	5.13	43.1	21060	4.5	0.4	1300

	Population (m) ('000 sq km)	Area	GDP per capita (\$)	Inflation (%)	GDP real growth (%)	Balance of trade (\$m)
Finland	4.95	338.1	18163 (1)	5.1	5.2	1390
France	55.90	544.0	16859	3.1	3.7	8100
GDR	16.70	108.3	8659 (s)	-	8.2 (2,s)	1613
German Federal Republic	61.20	248.7	19261 (n)	1.1	3.6 (n)	68760
Gibraltar	0.03	0.0	7346 (1,n)	4.4	-	167
Greece	10.00	132.0	5242	13.5	0.0	6702
Greenland	0.05	2175.6	-	-	-	157 (1)
Hungary	10.60	93.0	2471	15.7	0.4	-
Iceland	0.25	102.9	22976	23.5	0.9 (n)	153
Ireland	3.54	70.3	8323	2.1	3.0	2983
Italy	57.40	301.3	14430	5.0	3.9	9169
Liechtenstein	0.03	0.2	35600 (1)	1.9	0.0	472
Luxembourg	0.38	2.6	18486 (1)	1.6	5.2	-
Malta	0.35	0.3	5168	0.9	6.2 (1)	644
Monaco	0.03	0.0	-	-	-	-
The Netherlands	14.80	41.5	14558	0.7	3.0	8171
Norway	4.20	324.0	22457	6.7	1.1	1079
Poland	37.80	312.7	1363 (m,e)	60.0	4.7 (m)	1089
Portugal	10.40	92.1	3465 (1)	9.6	4.7 (1)	5100
Romania	23.10	237.5	3456	-	3.6 (1)	1900 (2)
San Marino	0.02	0.1	7001 (3)	-	-	-
Spain	39.10	504.8	4236 (2)	4.8	5.0	18000
Sweden	8.40	449.0	21289	5.8	2.0	3903
Switzerland	6.51	41.3	37361	1.9	3.2	10900
Turkey	54.10	779.5	1342 (n)	75.4	3.4 (n)	1800
United Kingdom	57.10	244.1	7937	4.8	2.6	24937
U.S.S.R.	287.50	22402.2	-	-	4.4 (m)	2725
Yugoslavia	23.60	255.8	2285 (2,m)	194.0	3.6 (2,m)	779

(1) 1987 (2) 1986 (3) 1985 (e) estimated figure (m)

(n) gross national product (GNP)

Source : Economic and Business Report

UNIT 2 CONCEPTUAL FRAMEWORK

Objectives

After going through this unit you should be able to:

- Distinguish between foreign, international and multinational marketing
- Distinguish between global and domestic marketing
- Define and use concepts related to the management of the international marketing function.

Structure

- 2.1 Introduction
- 2.2 Global and Domestic Marketing
- 2.3 Global Marketing : A Conceptual Framework
- 2.4 Some Concepts
- 2.5 Summary
- 2.6 Self-assessment Questions
- 2.7 Further Readings

2.1 INTRODUCTION

A company executive has been invited to give a talk on international marketing to a group of MBA students.

In order to maximize the thrust of his lecture he looks at company's foreign operations, since its inception with a view to identify the subtle differences underlying the activities of foreign marketing, international marketing and multinational marketing. This is what he finds about the history of his company's foreign operations.

The company started its export operation in the year 1948, exporting to three specific markets — the U.S.A., Britain and some countries around India. The operation was mostly order based. With the induction of new CEO in 1955 these operations acquired a major change. The market needs were identified and production was oriented to meet their needs. The company had appointed some agents to handle the marketing of their product. By 1970 the operations had grown large enough to account as a separate business entity. In 1972 this entity had been created and a new CEO had been appointed. He made two major changes — he created subsidiaries in the foreign markets which would handle all the business functions. He, however, made it a policy to appoint nationals at key positions in each of the subsidiaries. By the time he retired in 1980 each of these subsidiaries was running as an independent business unit. It no longer required direction from the headquarters and was quite capable of making its own decision.

In fact today these subsidiaries are not only operating independently but also help each other by re-directing their production to the subsidiaries that have need for such production. Although the company now has an universal brand name each subsidiary still proudly retain their own nationality.

The current CEO was appointed in 1980 in Asia and had aimed at making the following major changes:

- changing the policy of recruitment
- changing the location of production facilities from subsidiaries in home countries to centralise in Asian countries.

The executive although knows these facts cannot decide when company adopted a multinational stature.

Activity 1

Can you help the executive in making this decision through a clear classification.

When the firm decides to exploit the world as a market it is hoping to be a global marketer. Two types of activities emerge in the arena of global marketing and they involve —

- Foreign marketing
- International and Multinational marketing

These activities may be undertaken sequentially or the second may override the first. These activities normally develop as a firm grows in its life cycle and saturate its domestic markets, indulging first in foreign marketing before proceeding to international marketing and subsequently to multinational marketing.

Foreign Marketing

Foreign marketing is nothing but marketing in foreign environment. This concept assumes foreigners of the new environment because of its constant reference to the domestic market and environment.

In this stage of marketing the concern merely expands the market size. It applies the same marketing mix even in the foreign environment. It makes no effort to adapt its marketing mix or product to the market needs and requirement.

The emphasis in this stage of marketing is on expanding the market size and not the marketing mix. The company follows a binary orientation when marketing — the home country and foreign country orientation.

International and Multinational Marketing

The second phase that company enters with reference to global operations is international marketing.

In this stage the firm retains its binary orientation but adapts its marketing mix to the requirement of the new environment. Thus while it thinks of profitability vis-a-vis the parent company it makes sure that the product is marketed with the best mix that it can design. In its activities the company changes its stature. It might even open subsidiaries in the foreign market. These subsidiaries may be working either through direction from the headquarters or independently but the key positions in such concerns are manned by nationals.

Multinational Marketing

When the company orientation changes from binary to unitary then it becomes truly multinational. The approach is product/market, satisfying the market is the prime thrust of such a marketing concern. It makes no distinctions in its personnel policy between national and non-national. The role of headquarters in such concerns is that of co-ordination among the subsidiaries. But the primary thrust is on the orientation — product/market orientation! The marketing mix is designed to earn maximum profits through customer satisfaction.

Thus the distinctions between international foreign and multinational marketing can be depicted as under:

Exhibit 2.1
Patterns of Marketing Overseas

Foreign Marketing:	<ul style="list-style-type: none">— Marketing within foreign countries— Marketing mix remains the same as domestic market— No subsidiaries
International Marketing:	<ul style="list-style-type: none">— Marketing across international markets— Marketing mix adapts to the market— Subsidiaries develop.
Multinational Marketing:	<ul style="list-style-type: none">— Marketing approach is universal— Absence of concept of foreign country— Marketing mix adapted to country requirement— Co-ordination in the efforts of subsidiaries.

All these are activities of global marketing. But then, what is global marketing? In order to understand the concept of global marketing it is necessary to reiterate the concept of marketing.

The Marketing Concept

In early sixties the concept followed was the selling concept where the focus was upon product/service and end was profit via sales. This meant that the emphasis was on hard sell and not on the consumers' requirement or needs. What the producer perceived as a good product, he manufactured and sold.

However, today the marketing concept followed has undergone a marked change, the focus is now on consumers/competition. The emphasis is therefore on what is being demanded by the consumers and what is being supplied to him by the competitors. The end as perceived by a good marketer is profit via consumer satisfaction. The means adopted is adapting the variables of the marketing mix to the requirement of the market.

Marketing can now be defined as "the process of focussing the resources and objectives of an organisation upon the opportunities and needs that exist in the environment".

Global marketing as already expressed is nothing but directing the efforts in other countries. The marketer looks upon world as a market. Global marketing may thus be defined as "the process of focussing the resources and objectives of an organisation upon the opportunities and needs that exist globally".

2.2 GLOBAL AND DOMESTIC MARKETING

If the distinction between the two definitions is the world global then is the task of marketing very similar to that of domestic marketing. The answer to the above statement is a Yes but new dimensions have emerged. They include the increase in the number of markets and difference in the orientation that arises because of entering new country or a new environment.

Thus the differences between domestic and global marketing arise entirely from the differences that exist in the national environment within which the marketing effort is directed and the differences that arise in the organisation and programme because of operations being conducted simultaneously in different markets. Because this statement does not bring out the magnitude of differences, it becomes necessary to analyse the impact on marketing variable. For this a checklist has been prepared:

Exhibit 2.2
A Checklist for Differentiating Domestic & International Marketing

Decision Variable	Domestic Marketing	International Marketing
Market Segment:	Single Market & Sub-markets	Multiple Markets Multiple Sub-markets
Marketing Control:	Easier as only a single market and sub-market is served	More difficult as new variables like culture, religion, govt. policy enter the gamut of decisions
Market Research:	Awareness of the market in domestic market is high, therefore one can often do without market research	Imperative
Administration:	Since the Control is over a single set up, administration is relatively easier	Multiple markets, multiple mix of marketing variables demand a new set up of administrative machinery
Product Mix:	The decision is taken solely on the grounds of providing better service to increase revenue — stages of PLC may be ignored	Although the decision grounds are identical market adaptability and acceptability becomes a question
Product Quality:	Product quality may be placed anywhere on the BCG Matrix of product and price	With the production function, Product quality is normally high even if the technology is old
Product Design:	Since the product is designed for the market question of adapting does not arise	Product has to be adapted to every market segment

Decision Variable	Domestic Marketing	International Marketing
Product Development:	Product developed to meet domestic market needs — When the product reaches end of its life cycle, it is withdrawn	Products developed to meet international market needs — May move to new markets where it may be in growth or introduction stages
Advertising:	Single market — Single message, question of adaptation limited to sub-segments, media choice known with certainty	Multiple market — multiple message depending on the emphasis demanded by each market — message may be adapted to new markets or could be universal — Complex media availability
Sales Promotion:	Nationality may be used to promote sales Options known with certainty therefore choice is often taken in advance	rarely used — Options may not be known, choice therefore depends upon market research.

Activity 2

i) List some exporters and examine their activities with reference to the definitions of foreign, international and multinational marketing.

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ii) "Hard sell strategy is being used by exporters in India." Examine the statement critically with reference to an example.

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iii) Decide whether the operation of Hero Honda are foreign, international, multinational with the help of the following data:

Exhibit 2.3
Hero Honda's bid to export components

A management team of Hero Honda Motors Ltd. is going to Japan next week to explore the possibility and identify components for export to its collaborator, Honda Motors Ltd.

The Japanese collaborator, one of the world's largest manufacturers of motorcycles, has evinced keen interest in buying components, especially casting and forgings, from its Indian partner. Moreover, the team will also seek access for export to Honda subsidiaries worldwide engaged in the manufacture of motorcycle.

The Indian company has already made an entry in the foreign market by exporting its 100 cc motorcycles to Sri Lanka. A team from Nigeria will come to India later this month to hold negotiations for importing Hero Honda motorcycles. Trial supplies have also been made to Oman, Dubai and Abu Dhabi. According to the management, there is bright scope for exporting motorcycles to Bangladesh, Ivory Coast, Mauritius, Kenya and Ghana.

In the domestic market, the company achieved a market share of over 40 per cent in 1989-90 in spite of the labour problem at its works during the year. Sales of both 100 cc CD and Sleek models have aggregated 96,192 vehicles against the target of one lakh vehicles primarily because of the production loss due to a labour strike. In the first two months of the current year (April-May), however, production and sales have logged 10,000 units per month. The company has targeted sales of 1,20,000 vehicles for 1990-91, 1,35,000 for 1991-92 and 1,50,000 for 1992-93.

Meanwhile, the company achieved a turn around in the second half of 1989-90, though it incurred a small loss of Rs. 44.83 lakh after providing Rs. 5.28 crore for depreciation during the year. Sales have also risen to Rs. 150 crore in 1989-90, which are expected to increase to Rs. 200 crore in 1990-91.

The company has achieved an indigenisation level of about 95 per cent during 1989-90 with the start of production of electrical components and forgings. Only a few engine components like valves, pistons and cam chain now remain to be indigenised, and are likely to be in production in a year's time.

According to Mr. Pawan Kant Munjal, works director, the company has decided to penetrate the rural markets by introducing features tailored to rural road needs.

Moreover, it has decided to open more office and expand its dealership network in order to tap the rural market. With aggressive marketing strategies both at home and abroad, the company is poised for a marked growth in sales and profits in the future.

Can you comment upon the operation of Honda, the parent company.

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2.3 GLOBAL MARKETING : A CONCEPTUAL FRAMEWORK

Global marketing has two major dimensions which arise because of the distinction between domestic marketing and global marketing. They may be enumerated as under:

- problems and dynamics of a new market that a firm chooses to enter.
- the impact on organisations structures and programmes created by entering new markets.

(The emphasis is on the number of markets open to the company)

When a company leaves its home country and enters a foreign country it immediately comes into contact with the rules and regulations of the foreign country it chooses to operate in. This has widespread implications on each and every element of marketing mix and its organisation. The duties, the company pays are ultimately passed on to the consumer through price. The company might choose to enter a region through a country of low duties and tariff regulations which means the place variable is affected. Similarly, the product and promotion variable also gets affected by the culture, the medium of communication available, religion and other similar variables.

These variables not only affect the integration of the marketing mix but also have an impact on the organisational structure. The basic questions of global marketing what, who, when, where, how, regarding the opportunities that exist in the global market influence the structure of the company that wishes to exploit these opportunities: Who is to take the decision? Which markets have to be penetrated? How are they to be penetrated? All other similar questions reflect in the organisational structure.

Exhibit 2.4
Strategy Formulation
A Conceptual Framework

Phase I Strategic Dimensions	<p>Scanning the Dimensions</p> <p>THE ENVIRONMENT</p> <ul style="list-style-type: none"> • Government, political, socio-cultural, technological, market competitors, customers cost <p>Organisation of Resources & Capabilities</p> <ul style="list-style-type: none"> • Marketing, finance, human resources, manufacturing, engineering, R&D, risk taking capabilities <p>Values and Aspirations</p> <ul style="list-style-type: none"> • Aesthetics, styles, ethics, size, profitability growth, social responsibility, ecology, geography
Phase II	<p>Generating Alternatives</p> <ul style="list-style-type: none"> • Analyse the environment for opportunities and threats • Analyse the organisation's strengths and weaknesses • Match and develop alternatives • State the underlying assumptions

Phase III	Determining Objectives
The objectives	<ul style="list-style-type: none"> • What is desired? Where? By whom? <p>With reference to:</p> <p>Organisation</p> <ul style="list-style-type: none"> • Profitability, growth, sales, earnings, stockholders, social environment <p>Product</p> <ul style="list-style-type: none"> • Product functions, quality, adaptation, Aesthetics <p>Markets</p> <ul style="list-style-type: none"> • Customer benefits, competitive position, technological position, market share, geographic
Phase IV	Develop Plans & Programmes
	<ul style="list-style-type: none"> • Marketing, finance, manufacturing, human resources, control, social accountability, R&D, engineering
Phase V	Committing Resources
	<ul style="list-style-type: none"> • Obtain and allocate resources to plans and programmes on the basis of hierarchy.
Phase VI	Monitoring and Control
	<ul style="list-style-type: none"> • Monitor performance, assess with respect to objectives • Control the deviations to achieve planned objectives • Review the entire process before undertaking major changes.
Phase VII	Time Scaling
	<p>Performance Future Plan Budget</p>

	fund allocation			
Past	Present	Next year	Medium term	Long term

According to Keegans framework the strategy for entering the foreign markets involves seven distinct phases. These phases may be outlined as below:

Phase 1 identifies the three basic strategic dimensions — the environment, the organisation and the values and aspirations. This involves scanning the environment for opportunities and needs and at the same time identifying the threats that exist in the environment.

Phase 2 is closely interlinked with phase 1 and indulges the company to enter into a SWOT analysis with reference to its resources, strengths and structure.

Phase 3 is a result of the matching process of phase 1 and phase 2 to identify markets and product with which to enter that suit both the opportunities that exist in the environment and the strength of the company to handle them. Basically it is the stage of developing feasible alternatives. This is a result of defining the product/market objectives and broad organisational objectives.

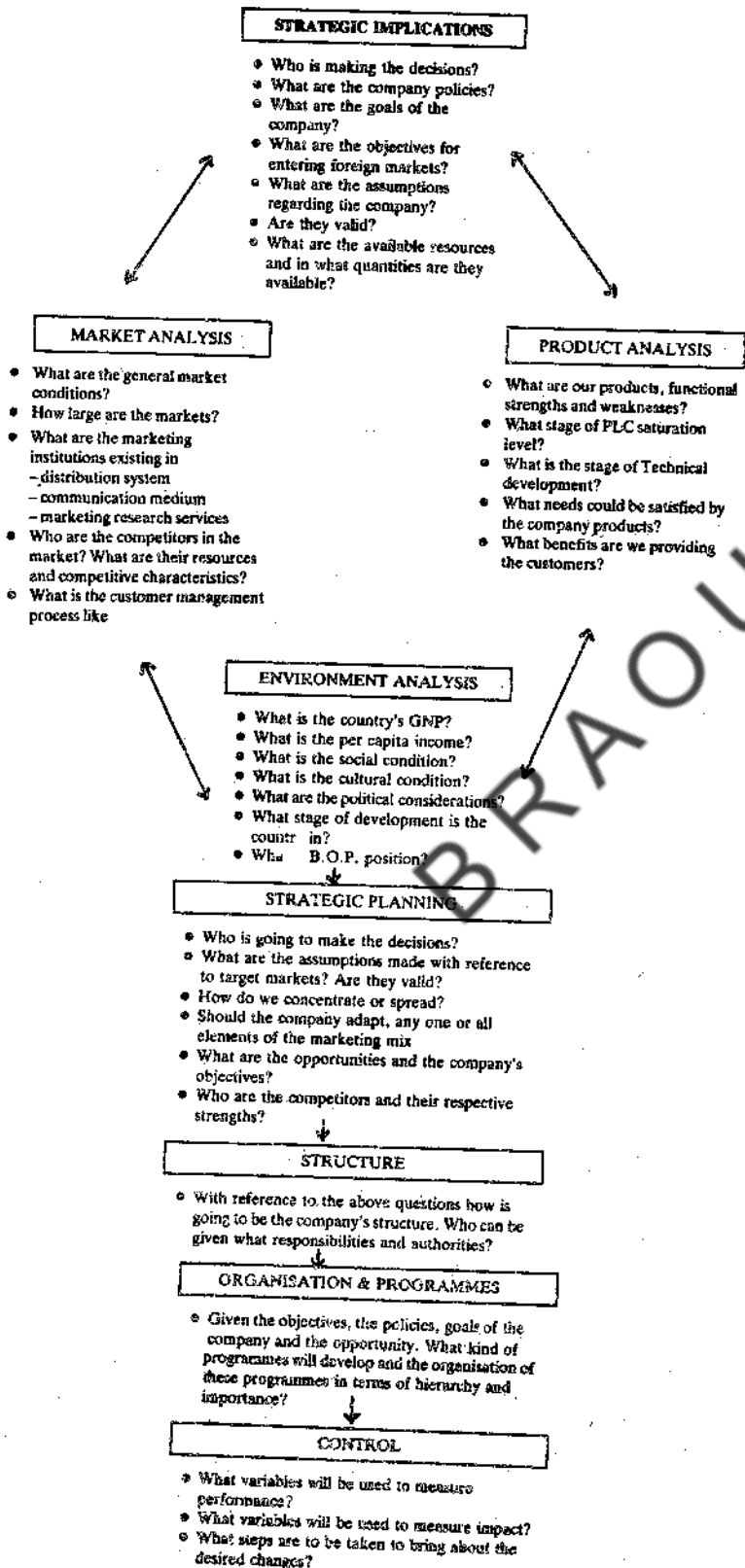
Phase 4 is the phase in which these objectives are converted into plans and programmes necessary for achieving these objectives, having identified specific plans and programmes.

Phase 5 results in process of committing resources (this is the point of no return) to the plans and programmes identified as per their hierarchy of importance. Like in all programmes **phase 6** develops the control system necessary for achieving the objectives. It identifies the criteria on which corrections are based. It must evaluate and monitor both organisation performance and impact performance.

Phase 7 applies a time frame within which the activities are to be executed. For this short-term, medium-term and long-term objectives have to be defined. Short-term objectives may not be meaningful in the medium-term or in the long-term. But at the same time the firm must keep in mind the future dimensions, i.e., it has to identify its objectives in the long run.

While this process seems to be familiar and similar to the marketing management process. It raises different questions as result of the forces operating in the environments of the country(s) it chooses to market in. These forces may be unifying or diversifying and must be carefully considered for their implications. Some of the questions raised can be expressed as under:

International Marketing Inputs for Analysis



The above framework gives us the basic process for management of marketing for international markets. However there is yet another dimension to the process and this refers to the 'Executive View Point' for marketing in international market(s).

An Executive's Viewpoint

In the days of modern business culture it has been widely accepted that it is the Chief Executive Officer (CEO) who gives the shape and pace to the organisation. His view point therefore becomes important from the point of international marketing.

Basically the CEO views the international marketing problem in five distinct phases. These phases can be expressed very clearly in form of questions. These questions are as below:

- Does the company wish to enter foreign markets?
- What are the options if the answer is yes?
- What approach should be adopted for the process and how does he control the entire process?
- How does he get the product to the market?
- And last but not the least what is the liability/risk the firm is undertaking?

If the CEO raises the first question then he would most probably be examining the company's policies regarding profitability, structure, product, client base, resources and thrust.

From the policy angle he would probably be looking at ways and means to increase profitability without really affecting the risk profile of the company.

He would be asking questions on the product — its function, its life and service and also would it be possible for the product to find markets abroad. To make sure he would check his existing clientele to see if any one of them was exporting his product or other similar products. He would have to keep in mind the production capacity and product quality factor. He would also have to find out what quantity is the product normally exported in — (what is the size of the smallest order in the defined product class?) The other factors that would influence his decision are the availability of time and money resources. Since the thrust of his reasoning would be profitability he would be also re-examining the cost-margin factors and possibilities of changing them.

After becoming reasonably sure of his premise for entering into foreign markets he would have to learn about the environment. Here the marketing tool of market research would come to his aid in identifying potential markets. He may base his decision solely on secondary data — on trade statistics, product statistics, economic and demographic statistics or he may also extend his research through primary research displaying in trade fairs, talking to other exporters, and conducting surveys in the desired/identified markets. He would have to choose the method of entry that seems appropriate to him and market. The standard alternatives of direct exporting and indirect exporting would also be considered by him. For any method that he chooses he has to evaluate it further in terms of which should he choose and why?

Having decided on the country and method of entry the CEO would be faced with problem of organising the marketing mix to suit the company's objectives and the country's needs. He would have to consider questions regarding cost modifications keeping in mind shipping and entry costs (entry costs refer to commissions, tariffs, custom duties to be paid etc.), price, the options for reaching the customers, product and the place.

If the process of marketing involves more than one country then the CEO would also have to identify and state company policies regarding objectives of export, the resource allocation, distribution methods, marketing approach and targets. This would involve a quick but thorough analysis into industry and competition in both domestic and world markets. All this would make the framework of the marketing. Operationalisation of this plan would also have to be considered at the policy level for limiting options regarding financing, credit in foreign markets, mode of transportation, use of freight forwarders and other agents and money payable to them for services rendered, insurance, and its level. By making choices at each level the CEO declares his thrust and pace in the process. At each level he tries to foresee the risk structure and type of risk his company is getting into. In his policy he makes an attempt to minimise the risk profile of the company.

Activity 3

- i) Examine the export policy of a company from the viewpoint of thrust, profitability and risk.

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- ii) What are the likely objectives of company that wishes to enter the export arena?

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2.4 SOME CONCEPTS

The management process in international market has been influenced by certain concept and frameworks that have emerged. They include the international product life cycle, the EPRG framework and continuum of environmental sensitivity.

International Product Life Cycle

While the concept of international product life cycle has already been explained in the previous unit the emphasis of the concept can be reiterated.

The product life cycle examines the phases of life of the product from introduction, to growth, to maturity, to decline. The emphasis is on the changes in the market place and subsequent changes in the marketing mix. In the case of international product life cycle, however, the approach remains the same but the emphasis shifts from changes in market place and marketing mix to changes in price and cost and the changes in the production process.

For formulating international product strategies this approach has opened new doors. This model realises the implications of the changes in focus and attributes international trade and foreign investment on the stage the product is in the domestic life cycle, i.e., a company not wishing to loose its asset investment may simply market the product in a market where the product is in its growth or introductory stages. Furthermore the approach also emphasises on market related factors like innovation, imperfect information and knowledge of the market and oligopoly thereby influencing the dimension of strategy formulation.

EPRG Framework

Depending on the kind and degree of its involvement in foreign marketing, a firm has to re-orient and re-organise its activities to cope with the different levels of operational responsibilities inherent in such involvement. To throw some light on this issue, some guidelines are available from what is called the EPRG orientation. The EPRG framework attempts to identify four broad types of orientation of a firm towards internationalisation of its operations. These are : Ethnocentrism, Polycentrism, Regiocentrism and Geocentrism (EPRG).

Ethnocentric Orientation

The ethnocentric orientation of a firm considers that the product, marketing strategies and techniques applicable in the home market are equally applicable in the overseas markets as well. Foreign markets are looked upon merely as an extension of the home market. In such a firm all foreign marketing operations are planned and carried out from the home base, with little or no difference in product formulation and specifications, pricing strategy, distribution and promotional measures in the home and overseas markets. The firm generally depends on its foreign agents and export-import merchants for its export sales.

Polycentric Orientation

When a firm adopts polycentric approach to overseas marketing it attempts to organise its international marketing activities on country-by-country basis. Each country is treated as a separate market entity and individual strategies are worked out accordingly. Local assembly or production facilities and marketing organisations are created for serving the market needs in each country.

Polycentrism could be most suitable for firms seriously committed to international marketing and have the resources for investing abroad for fuller long-term penetration into chosen overseas market.

Regiocentric Orientation

In regiocentric approach, the firm adopts a regional marketing policy covering a group of countries which have comparable market characteristics. The operational strategies are formulated on the basis of the entire region rather than individual countries and production and distribution facilities are created to serve the whole region with effective economy of operations and closer control and coordination.

Geocentric Orientation

In geocentric orientation, the firm adopts a worldwide approach to marketing and its operations become truly global in character. In a global enterprise, the management establishes manufacturing and processing activities at specific points around the world in order to serve the various national or regional markets through a complicated but well-coordinated system of productive and distributive network. There are close similarities between regiocentric and geocentric approaches to international marketing, except perhaps that the geocentric orientation calls for a much greater scale of operation, coordination and organisational set-up in order to cater to markets of heterogeneous characteristics which are usually more pronounced in geocentrism compared with regiocentrism.

Briefly then the orientation that the firm adopts is a function of the attitude it takes and this attitude is reflected in its marketing efforts.

Exhibit 2.6
EPRG at a Glance

Orientation	Attitude	Marketing Effort
ETHNOCENTRIC Home Country	Overseas operations are viewed as secondary operations	Centralised
POLYCENTRIC Host Country	Subsidiaries established Each subsidiary operates independently	Decentralised and market specific
REGIOCENTRIC Region	On the basis of similar markets which are clustered and regions are treated as market	Integrated
GEOCENTRIC World	World is treated as a market	Integrated

Activity 4

- i) Look for examples of companies in the world following each of the above orientation.

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- ii) What variables would you take into account for selecting a market?

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While the Exhibit 2.6 gives a broad outline of what the framework is, its implications on strategy formulation remain largely ignored because of their depth and the fact that they influence virtually every marketing variable and decision. To understand the implications let us take a variable (organisation structure) and see how this framework modifies it.

Exhibit 2.7

Organisation Structure	Ethnocentric	Polycentric	Regiocentric and Geocentric
Complexity of design	Complex in home simple in subsidiary	Independent and varied	Complex and interdependent
Decision making	Concentrated at headquarters	Each subsidiary making its own decisions (mutually exclusive)	The decisions are taken on common approach (mutually inclusive) i.e. integrative approach
Recruitment	Home country people considered superior and therefore allocated to all key posts in subsidiary	One or two key people are nationals the remaining are from host country	Choice among the best
Evaluation and Control	The criteria remain same as at the home country	The criteria are determined locally and judged by the subsidiary needs	Universal and local criteria are created
Incentives	Concentrated at home i.e. headquarters	Wide variations	Both applicable for local and internationally set standards
Communication	Heavy top-down from headquarters to subsidiaries	Low mutual sharing (no-or-low among subsidiaries)	Intensive communication between headquarters and subsidiaries
Identification	Home country	Host country	Global

This gives us an idea as to how the choice of an orientation can have an impact on the strategy formulation process.

A study was conducted by Howard Perimutter to get some insight into the framework and to examine its validity. Forty key executives of an international concern were interviewed on 15 international marketing decisions. It was found the polycentric orientation was most commonly followed, however, the desire was to reach geocentric orientation. Polycentric approach was found to be most applicable in case of decisions on price, customer service, market research and choice of channels of distribution, however for decisions like brand name and product quality geocentric orientation was reflected. The firm can thus follow multiple orientation while indulging in the marketing management process. However this would have to be variable specific.

Continuum of Environmental Sensitivity

This concept again influences the strategy specifically relating to the product planning formulation process. The management is forced to answer questions pertaining to product functions benefits and degree of adaptation required for being marketed in foreign markets. According to this concept there are two types of products — environmentally sensitive products and environmentally insensitive products. The environmentally sensitive products require major adaptation to the economic and social environment existing in the foreign country. The business has to spend a great deal of time learning about the way its products react specifically with the economic, social, physical and perspective environmental conditions that exist throughout the world. Food products is an example of environmentally sensitive product.

On the other hand of the continuum is the environmentally insensitive products. Such products require little or no adaptations for being marketed in the foreign countries. An example of the environmentally insensitive product is computers. This approach helps the business to realise, on the one hand, product options having chosen the market or product modification options and on the other hand market options, having chosen the product. These together represent some of the major concepts that have

influenced the strategic formulation process for marketing in foreign countries. Other concepts like cluster analysis etc. play an equally important role in process of developing a conceptual framework.

2.5 SUMMARY

In this unit the process of strategy formulation for marketing in foreign lands has been discussed both from the point of view of the firm and from the point of view of the executive incharge.

Some concepts like the international product life cycle, the EPRG framework, the continuum of environmental sensitivity have also been examined along with the implications they raise in the international marketing management process. All this is of course dependent on how one defines international marketing.

2.6 SELF-ASSESSMENT QUESTIONS

- 1) What are the different international marketing definitions applicable today? Examine them with the help of examples.
- 2) The EPRG framework has implications on the strategy formulation process. Explain with help of example in the Indian context.
- 3) The CEO of a company manufacturing shampoos has chosen to enter Bangladesh to exploit the latent demand. Examine the decision using variable like GNP, per capita income, distribution of income, etc.
- 4) With reference to question (3) above explain the advantages and disadvantages in favour of his decision.

2.7 FURTHER READINGS

Warren J. Keegan, *Multinational Marketing Management*, 2nd edition, Underlying forces and Concepts, Prentice Hall of India, New Delhi.

John Fayerweather, *International Business Management*, 'A Conceptual Framework', New York, McGraw Hill, 1969.

UNIT 3 INSTITUTIONAL FRAMEWORK

Objectives

After going through this unit you should be able to:

- Give an overview of the institutional framework for exports,
- Discuss the role of consultative and deliberative bodies in the context of export,
- Describe various types of service institutions facilitating exports,
- Elaborate upon government participation in foreign trade, and
- Discuss the export-import policy and export incentives in India

Structure

- 3.1 Introduction
- 3.2 Institutional Set-up
- 3.3 Consultative and Deliberative Bodies
- 3.4 Commodity Organisations
- 3.5 Service Institutions
- 3.6 Government Participation in Foreign Trade
- 3.7 Summary
- 3.8 Self-assessment Questions

3.1 INTRODUCTION

This unit is directed towards explaining the institutional framework. An exporter needs guidance and assistance at different stages of his export effort. For this purpose the Government of India has set up several institutions whose main functions are to help the industry and trade engaged in exports. It would be advisable for an exporter to acquaint himself with these institutions and the nature of help that they can render to him so that he can initially contact them and have a clear picture of what help he can expect from organised sources in his export effort.

There are a number of constraints which are faced by an Indian exporter. They are basically high cost domestic inputs, low productivity of labour, under utilisation of capacities, existence of a lucrative domestic market, etc. The two other major handicaps faced by Indian manufacturers are high cost of capital goods obtained under tied aid and uneconomic size of the plants necessitated by the government policy of avoiding concentration of economic power.

3.2 INSTITUTIONAL SET-UP

Institutions engaged in export effort fall in six distinct tiers. At the top is the Department of Commerce of the Ministry of Commerce. This is the main organisation that formulates and guides India's trade policy. At the second tier, there are deliberative and consultative organisations to ensure that export problems are comprehensively dealt with after mutual discussions between the Government and the Industry. At the third tier are the commodity specific organisations which deal with problems relating to individual commodities and/or groups of commodities. The fourth tier consists of service institutions which facilitate and assist the exporters to expand their operations and reach out more effectively to the world markets. The fifth tier consists of Government trading organisations specifically set up to handle export/import of specified commodities and to supplement the efforts of the private enterprise in the field of export promotion and import management. Agencies for export promotion at the State level constitute the sixth tier.

Exhibit 3.1
Institutional Framework : An overview

Tier Level	Bodies	Responsibilities
Tier I	Department of Commerce	Framing of Trade Policy
Tier II	Deliberative and Consultative Organisation	Coordination discussion between industry & Govt. of bringing in required changes
Tier III	Commodity Organisations	Assist the export effort of specific product group
Tier IV	Service Organisations	Facilitate and assist exporters to expand markets
Tier V	Government Trading Organisations	Handle export import of specific commodity
Tier VI	State Export Promotion Agencies	Increase the State level interest of exports

Department of Commerce

The Department of Commerce is the primary government agency responsible for evolving and directing foreign trade policy and programmes, including commercial relations with other countries, State trading, various trade promotional measures and development and regulation of certain export oriented industries.

The most important division of the Department of Commerce which an exporter must be familiar with is the Export Services Division which deals with the problems of export assistance from import replenishment licensing, cash assistance, export credit, export houses, Marketing Development Assistance and grants therefrom, transport, free trade zones, dry ports, quality control and pre-shipment inspection, joint ventures abroad and capacity creation in export-oriented industries to assistance for import of capital goods and essential raw materials.

3.3 CONSULTATIVE AND DELIBERATIVE BODIES

Among consultative and deliberative bodies, are the Board of Trade which was set up only in May 1989, the Central Advisory Council on Trade and the Zonal Export and Import Advisory Committees.

Board of Trade

The functions of the 26 member board are : to advise the government on policy measures for the preparation and implementation of both short and long-term plans for increasing exports in the light of the emerging national and international economic scenario and to review the export performance of various sectors, to identify constraints and to suggest measures to be taken both by government and industry/trade consistent with the need to maximise export earnings and restrict imports. It will also examine the existing institutional framework for exports and suggest practical measures for reorganising and streamlining it with a view to ensure coordinated and timely decision-making.

The Central Advisory Council

The Central Advisory Council on Trade has 41 Members including representatives from different trade organisations and official bodies including individuals with business standing and expertise in the field of commerce. The Council which meets ordinarily twice a year, advises the government on matters relating to

- 1) export and import policy and programmes
- 2) the operation of export and import controls
- 3) organisation and development of commercial services
- 4) organisation and expansion of export production.

There are four zonal Export and Import Advisory Committees, one each for the western, eastern, southern and northern zones. These were set up in July 1968(i) to consider difficulties faced in the operation of prevailing import and export policies and procedures and to suggest measures for improvement in disbursement of cash assistance (ii) to consider difficulties in the matter of customs clearance, shipping, credit, insurance and export inspection and to suggest measures for improvement therein, and (iii) to suggest improvements in the methods of working and public relations of the

Import and Export Trade Control Organisation and other Government Departments concerned with trade and industry. The members of the Committees have a 3 year term. The Committee meet thrice a year. In addition there is a Cabinet Committee on Export consisting of the Prime Minister, the Finance Minister, the Industry Minister and the Commerce Minister which takes policy decisions relating to export promotion, export production and performance.

Activity 1

Identify the location of each of the Zonal export-import Advisory Committees. What has International business gained by their existence?

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3.4 COMMODITY ORGANISATIONS

The Commodity Organisations are: 1) The Commodity Boards 2) The Export Promotion Councils and 3) The Export Development Authorities for Marine products, agriculture and processed foods. But the more important among them are the Export Promotion Councils.

Export Promotion Councils

At present there are 19 Export Promotion Councils (EPC's) whose basic objective is to promote and develop the exports of the country. Each council is responsible for the promotion of a particular group of products, projects and services.

Exhibit 3.2

Export Promotion Councils At a Glance

1. Engineering Export Promotion Council (EEPC), Calcutta
2. Overseas Construction Council of India (OCCI), Bombay.
3. Electronics & Computer Software Export Promotion Council, New Delhi.
4. Plastics & Linoleums Export Promotion Council (PLEXICIL), Bombay.
5. Basic chemicals, pharmaceuticals & Cosmetics Export Promotion Council (CHEMIXCIL), Bombay.
6. Chemicals & Allied Products Export Promotion Council (CAPEXCIL), Calcutta.
7. Gems & Jewellery Export Promotion Council (GJEPC), Bombay.
8. Council for Leather Exports (C.L.E.), Madras.
9. Sports Goods Export Promotion Council (SGEPC), New Delhi.
10. Cashew Export Promotion Council, Kochi.
11. Shellac Export Promotion Council, Calcutta.
12. Apparel Export Promotion Council (AEPC), New Delhi.
13. Synthetic & Rayon Textiles Export Promotion Council, Bombay.
14. Indian Silk Export Promotion Council, Bombay.
15. Carpet Export Promotion Council, New Delhi.
16. Export Promotion Council for Handicrafts, New Delhi.
17. Wool and Woollens Export Promotion Council, New Delhi.
18. Cotton Textiles Export Promotion Council (Texprocil), Bombay.
19. Handloom Export Promotion Council (HEPC), Madras.

EPCs are non-profit organisations. They are supported by financial assistance from the Central government.

Role: The main role of the EPCs is to project India's image abroad as a reliable supplier of high quality goods and services. In particular, the EPCs shall encourage and monitor the observance of international standards and specifications by exporters. The EPCs shall keep abreast of the trends and opportunities in international markets for goods & services & assist their members in taking advantage of such opportunities in order to expand and diversify exports.

Functions: Major Functions are

- a) To provide commercially useful information and assistance to their members in developing and increasing their exports,
- b) To offer professional advise to their members in areas such as technology upgradation, quality and design improvement, standards and specifications, product development, innovation etc.,
- c) To organise visits of delegations of its members abroad to explore overseas market opportunities; and

- d) To organise participation in trade fairs, exhibitions and buyer-seller meets in India and abroad,
- e) To promote interaction between the exporting community and the Govt. both at the central and state levels,
- f) To build a statistical base and provide data on the exports and imports of the country, exports and imports of their members, as well as other relevant international trade data.

Any exporter/importer may apply to become a member of an EPC.

Exhibit 3.3
Commodity Boards : At a Glance

1. The Tea Board
2. The Coffee Board
3. The Coir Board
4. The Central Silk Board
5. The All-India Handloom Board
6. The All-India Handicraft Board
7. The Rubber Board
8. The Cardamom Board
9. The Tobacco Board

Outside India, the activities of the Council are primarily geared to the projection of proper industrial image of the country as also to the publicity of the engineering goods with export potential.

Activity 2

What are the publications produced by the Apparel Export Promotion Council (AEPCC)? Examine their usefulness from the point of view of apparel exporters.

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3.5 SERVICE INSTITUTIONS

A number of institutions and organisations have been established to meet the requirements of industry and trade. The fields in which these institutions have been active include development of export management personnel, market research, export credit insurance, export publicity, organisation of trade fairs and exhibitions, collection and inspection and quality control, development in packaging, etc. A brief review of the activities and functions of some of these institutions is given below:

The Trade Development Authority (TDA)

The TDA was set up by Government of India in 1970 for providing package assistance to enterprises at the micro level after identifying the potential of their products and their requirements of assistance. The TDA strives to concentrate on specific products, specific exporters, specific markets and specific buyers. Though the Trade Development Authority is a non-trading organisation yet it plays a catalytic role.

The TDA has three divisions namely, Merchandising Division, the Research and Analysis Division and the Trade Information and Statistics Division. The Merchandising Division which is the core division of TDA provides comprehensive services in the field of export promotion and export marketing. The TDA identifies technically competent and commercially viable medium and small scale units and assists them in the expansion of export oriented production facilities in selected products and areas, undertakes product development/adaptation and helps in raising the technology levels of selected exporters. The TDA arranges for commercial contacts between selected Indian units and potential foreign buyers. Once the export contract is concluded the TDA provides a package of services to the selected units. This package may include production inputs, balancing equipment, financial credits, marketing and merchandising and other aids. The TDA has adopted a number of methods to bring the buyer and seller into contact with each other. The TDA has been organising Trade Fair for Indian Products. It has also arranged for participation of its clients in product

specific specialised trade fairs. It has also been organising departmental store promotion programmes for Indian merchandise.

TDA has also been inviting many buying delegations to visit India. It also identifies and cultivates specific buyers and selected overseas markets which have increasing trade potential. A special function of the TDA is to attract international sub-contracting of engineering and other components from India and promotion of export oriented joint ventures in the country in conjunction with the Indian Investment Centre.

Initially the TDA confined its activities to developed countries like the West Europe, the USA and Japan but now the TDA has enlarged its areas of operation to South-East Asia, Far-East and Middle-East. Similarly a number of selected non-traditional products were taken up in the beginning but today the product coverage has been substantially increased.

The TDA has set up overseas offices at Frankfurt, New York, Tokyo, Stockholm, and Monrovia.

The Research and Analysis Division conducts research activities for export promotion such as, assistance in identification of products and markets, feasibility studies, consultancy services, studies relating to India's foreign trade, GSP and other tariff concessions, inter-firm comparison, and short-term forecasting of exports.

The Trade Information & Statistics Division is designed to collect, compile, analyse, store, retrieve and disseminate information on international trade and industry and related fields in India and trade and economy of other countries. A modern trade information centre has been set up to meet the trade information requirements of the exporting community, research organisations and Government organisations. The Centre disseminates information on export marketing through across-the-desk services, responding to postal enquiries, and also through publishing. Weekly Trade Intelligence Bulletin, Market Intelligence Bulletin, information hand-outs and circulars.

The type of information supplied by the TDA includes:

- import contracts for specific commodity in specific country, including agents, distributors;
- import regulations of overseas countries;
- import tariffs of overseas countries offering preferences;
- import statistics on overseas countries;
- overseas/Indian trade fairs and exhibitions;
- details of publicity media in overseas countries;
- export documentation;
- foreign exchange regulations pertaining to travel abroad and prototype samples;
- health and hygiene regulations;
- marketing and labelling regulations;
- marketing channels;
- floor prices;
- export prospects of different products;
- shipping intelligence; and
- India's trade agreement with foreign countries.

The Division services are not confined to TDA products but are broad based to include all products having export potential. So also, its services are available to the entire exporting community, members as well as non-members. The Trade Development Authority and The Trade Fair Authority of India have now been merged to form 'India Trade Promotion Organisation' (ITPO)

Export Credit Guarantee Corporation

For minimising the risk element in export business and to facilitate the flow of finance from the banks to exporters, there is an Export Credit Guarantee Corporation. In addition to the normal risk policies, the Corporation assists the exporters through special schemes such as packing credit guarantee, post-shipment credit guarantee and export finance guarantee. It is wholly owned by the Government of India and works on no profit no loss basis. To suit the varying needs of the exporters, the Corporation provides different types of covers which may be divided into the following three broad groups:

- 1) Standard policies issued to exporters to protect them against the risks of trading with overseas buyers on credit terms;
- 2) Financial guarantees issued to banks against the risks involved in providing credit to exporters; and
- 3) Special policies

Under its policies intended to protect the exporters against overseas credit risks, ECGC bears the main brunt of the risk and pay the exporter 90 per cent of his loss on account of 'commercial' and 'political' risks.

Export-Import Bank of India

The Export-Import Bank of India was established on January 1, 1982 for the purpose of financing, facilitating and promoting foreign trade of India. It extends finance to exporters of capital and manufactured goods, exporters of software and consultancy services and to overseas joint ventures and turnkey/construction projects abroad. The Bank is coordinating the work of institutions engaged in financing export and import trade.

Indian Institute of Packaging

Considering the existing deficiencies in the standard of packaging for eye-appeal and the standards of packaging for the safe transit, Government of India, in collaboration with the industry set up the Indian Institute of Packaging (IIP) in 1966.

The main objectives of the Institute are to:

- undertake research on raw materials for the packaging industry,
- keep India in step with international developments in the field of packaging,
- organise training programmes on packaging technology,
- stimulate consciousness of the need for good packaging, and
- organise consultancy services for the industry.

Its activities include effecting improvements in packaging standards and rendering testing facilities in respect of packaging.

Federation of Indian Export Organisations (FIEO)

It is an apex body providing a common coordinating platform for the various export organisations in India. The two major functions of the FIEO are:

- 1) To act as a promotion organisation for the export of consultative services from India and
- 2) To act as spokesman of the export and trading houses in India.

Indian Government Trade Representatives Abroad

The institutional arrangements which have been developed and strengthened within the country are supplemented by the Indian trade representatives abroad. The trade representations in the Embassies and Consulates are continually being strengthened to enable them to effectively support the effort which is being made within the country. India's commercial representatives are expected to monitor the commercial events and developments of their accreditation, identify products with export potential and other trade opportunities, study the tariff and non-tariff barriers, government procedures and shipping facilities, take initiative in cultivating specific trade contracts, undertake all publicity activities for image building, organise participation in trade fairs, department store promotions etc., give effective guidance to the trade visitors and missions, maintain a flow of timely commercial intelligence and deal with all problems of commercial complaints and bottlenecks. They also provide facilities to the Indian trade delegations and exporters visiting foreign countries, and help procure and forward samples of goods imported from other countries which are capable of being exported.

3.6 GOVERNMENT PARTICIPATION IN FOREIGN TRADE

For supplementing the efforts of the private sector in the field of foreign trade, Government of India has set up a number of Government trading corporations, namely, (1) The State Trading Corporation (STC), (2) The Minerals and Metals Trading Corporation (MMTC), (3) Spices Trading Corporation Limited and (4) Metal Scrap Trading Corporation (MSTC). The State Trading Corporation itself has a

number of subsidiaries, namely the Handicrafts and Handlooms Export Corporation, the Projects and Equipment Corporation, the Tea Trading Corporation of India and the Cashew Corporation of India. The Mica Trading Corporation is a subsidiary of the Minerals and Metals Trading Corporation.

These corporations have provided the essential base for developing and strengthening the efforts relating to specific commodities and products and diversifying the country's foreign trade. Briefly, their activities are:

- 1) to arrange for exports where bulk handling and long-term contracts are advantageous,
- 2) to facilitate exports of 'difficult to sell' items through various devices such as linking essential imports with additional exports under barter, link and parallel deals,
- 3) to organise production to meet export demands and to help production units overcome difficulties of raw materials and other essential requirements to meet export orders and develop lines of export by various methods, and
- 4) to undertake import of such commodities where bulk purchase is advantageous.

The corporations handle actual transactions. They maintain offices abroad and function like any commercial unit in the private sector. However, the government is now reducing its direct participation in trade and therefore number of items which were earlier canalised through the government corporations have been removed from the canalised list. The new policies of the government would result in competition to the government corporations from private sector companies.

Organisational Set-up in the States

The State Governments are increasingly participating in export effort of the country. Some State Governments have created independent Departments of Commerce and a Minister has been put in charge of it. Some Governments have also set up Export Promotion Boards and Export Corporations for stimulating export items originating from their respective States. Liaison officers have also been appointed by the States to develop export trade and maintain links with the Central Government departments and organisations. Export Promotion Advisory Committees have been established by some States under the Chairmanship of the Chief Minister or the Industries Minister.

Activity 3

You have just bought an Induction Furnace with 70 ton capacity. Determine the ratio in which assistance would be granted and process by which Metal Scrap Trading Corporation can help you.

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3.7 SUMMARY

This unit has discussed the institutional framework as it exists in India. Each of the tiers from the Department of Commerce to the Agencies for Export Promotion at state level has been discussed in detail. Their responsibilities and functions have also been brought out.

3.8 SELF-ASSESSMENT QUESTIONS

- i) How has the institutional framework shaped the International Marketing environment in India?
- ii) Comment upon the role of service institution in developing the Indian international trade.

BRAOU

BLOCK 2 ENVIRONMENT OF INTERNATIONAL BUSINESS

Environment constitutes a major variable within which a business enterprise has to operate. Management of environment for international marketing necessitates that environment be broken down into manageable components.

The first unit in this block deals with culture as a variable in the environments. Unit 5 deals with political and legal aspects of the environment that face an international marketer, while the last unit deals with trade, monetary and financial environment.

BRAOU

BRAOU

UNIT 4 CULTURAL ENVIRONMENT OF INTERNATIONAL BUSINESS

Objectives

After going through this unit you should be able to :

- define culture
- explain the elements underlying culture
- undertake a cultural analysis.

Structure

- 4.1 Introduction
- 4.2 Definition of Culture
- 4.3 Elements of Culture
- 4.4 Cultural Analysis
- 4.5 Summary
- 4.6 Self-assessment Questions
- 4.7 Further Readings

4.1 INTRODUCTION

Cultural dimension is one of the important dimensions of international marketing environment, other dimensions being political, economic, legal, technological, geographic etc. It influences all aspects of consumer behaviour and is pervasive in all marketing activities in product design, packaging, pricing, promotion, distribution, communication and the like. Since the scope of marketing concept is to satisfy consumer needs, it is quite clear that the marketer must be fully familiar with the cultural dimensions of consumer behaviour in target markets and must understand their implications for specific marketing functions.

4.2 DEFINITION OF CULTURE

Culture can be defined as a "sum total of man's knowledge, beliefs, art, morals, laws, customs and any other capabilities and habits acquired by man as member of society." It is the distinctive way of life of a group of people, their complete design for living. Culture thus refers to man's entire social heritage—a distinctive life-style of a society and its total value system which is intricately related to the consumption pattern of the people.

Cultural Dynamics

Man uses the media of culture in adapting to the physical, biological, psychological, social, anthropological, and historical components of human existence. Each culture evolves its own modes and norms to solve problems created by man's existence in society. Accidental solutions were found for some problems; inventions and innovations have provided solutions to other problems. But more commonly a society found answers to most of its problems through direct or indirect interaction with and borrowing from other cultures. Inter-cultural borrowing is a significant phenomenon of cultural dynamics. What a culture adopts from another culture becomes adapted to its needs in course of time and once the adaptation becomes assimilated, it is passed on as cultural heritage of that society. In other words, culture is a living and dynamic phenomenon which keeps on constantly interacting with other cultures and passes through the continuing process of adopting, adapting and assimilating.

A significant characteristic of human society is that the culture is passed on to succeeding generations which constantly build upon and expand the inherited culture, from which man learns a wide range of behaviour that is of relevance to marketing.

Cultural Similarities

Sometimes apparent similarities in certain features of culture create illusion of 'sameness' in different national cultures. For example, several nationalities may speak the same language

or may have similarities in religious or racial features: but it does not necessarily follow that similarities exist in other respects as well, nor does it follow that a product or a promotional message acceptable to one culture would be readily acceptable to another. Even when two or more nationalities use the common language, there would be differences in interpretation of a word or phrase giving different connotations.

Sub-cultural Patterns

Furthermore, within each culture there are many subcultures that can have marketing significance. For instance, in a country like the United States distinct subcultures prevail in the South, North-Eastern or Midwestern parts. Similarly, the general similarities of Indian culture are in evidence throughout the country but regional differences do exist in the cultural features that are of marketing importance. Subcultures are found in all national cultures and failure to recognise them may create the impression of sameness which in reality may not exist. A single national and political boundary does not necessarily mean a single cultural entity. Canada, for example, is culturally divided between its French and English heritages, although politically the country is one. Because of such distinctive cultural division, a successful marketing strategy among the French Canadians may not effectively work among the English Canadians or vice versa.

It is therefore important to explore the possibility of existence of more than one distinct cultures in a country as well as characteristics of subcultures, before marketing plans are formulated.

Activity 1

a) How does the study of cultural universals influence the marketing programme?

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b) The existence of sub-culture influences the distribution function: explain with an example.

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4.3 ELEMENTS OF CULTURE

Culture includes all facets of life. In order to obtain a total picture of a culture it is necessary to investigate every possible side of it. For facilitating an accurate study of culture, the anthropologists have evolved a "cultural scheme" which embodies all the various elements of culture. The main elements included within the meaning of the term 'culture' are:

- 1) Material Culture
 - Technology
 - Economics
- 2) Social Institutions
 - Social organisation
 - Education
 - Political structures
- 3) Man and the Universe
 - Belief systems
- 4) Aesthetics
 - Graphic and plastic arts

- Folklore
- Music, drama and the dance

5) Language

These five broad dimensions of culture embrace all the major aspects of man's social heritage. They serve as a framework for the analysis of cultural ramifications. The foreign marketer may find such 'cultural scheme' as a useful instrument in assessing the potential and intricacies of a foreign market. Each of these elements of culture has some influence on the marketing process and they differ from culture to culture. It is therefore necessary to study the implications of these differences in analysing specific foreign markets.

A brief analysis of the elements of the 'cultural scheme' of a society will illustrate the variety of ways in which culture and marketing are interlinked.

Material Culture

Material culture can be classified into two parts: technology and economics. Technology includes the ways and means applied in making material goods—it is the technical know-how in the possession of people in a society. Economics refers to the manner in which the people of a society employ their resources and capabilities to generate social welfare and benefits. Economics includes activities like production and distribution of goods and services, consumption function, means of exchange and generation of income derived from the creation of utilities and similar activities.

Material culture thus influences the level of demand, types and quality of goods in demand and their consumption pattern in a society. The marketing implications of material culture of a society are obviously many. The goods and services that are acceptable in one market, may not be acceptable in another market because of differences in the material cultures of two societies. For example, sophisticated electronic appliances widely in demand in the technologically and economically advanced Western countries, may not find a market in less developed countries of Asia, Africa or Latin America.

Social Institutions

Social institutions existing in a society affect marketing system in a variety of ways. Social organisations, educational systems, political structures mould the pattern of living and interpersonal relationships of people in a society. These institutions collectively influence the behavioural norms, codes of social conduct, value system etc. and thereby affect the entire consumption pattern of a society which is of direct relevance to marketing.

Educational systems affect not only the level of literacy but also the development of various mental faculties and skills. In countries where the literacy rates are low, for instance, the conventional forms of printed communication will not work.

Similarly certain types of political institutions govern the growth of marketing organisations as well as several other marketing functions and business systems.

Social institutions thus exert notable influence on all aspects of marketing including product formulations and design, pricing structure, distributive network, promotional methods and the like.

Man and the Universe

"Man and the universe is a relationship that generally results in the form of religious beliefs and related power structure." Religions are a major determinant of the moral and ethical values and influence people's attitude, habits and outlook on life which are reflected in their consumption pattern. Dr. Ernest Dichter found:

"In Puritanical cultures it is customary to think of cleanliness as being next to godliness. But in catholic and Latin countries, to fool too much with one's body, to overindulge in bathing or toiletries, has the opposite meaning. It is that type of behaviour which is considered immoral and improper."

The religious faith and belief thus affect people's consumption habits and their attitudes to goods and services as well as promotional messages, which should be in consonance with the religious faith to be acceptable.

Aesthetics

The man expresses his inner urge for creativity through aesthetics, i.e. the arts, folklore, music, drama, dance and the like. The aesthetics of a particular society are embedded in its

culture and are expressed through various symbols and forms. The aesthetics are of special interest to the marketer because of their role in interpreting symbolic meanings of the various methods of creative expressions, colour and norms of beauty in a particular culture. In the absence of culturally correct interpretation of a society's aesthetic values, product styling or promotional message, for instance, would seldom be successful.

It is therefore essential for the international marketer to be sensitive to the aesthetics of a society and their symbolic expressions through signs, colours, shapes and forms in order to make the product and the message as well as marketing communication effective.

Language

Language is an important element of culture. It is through language that most of the marketing communications take place. An international marketer should have a thorough understanding of the language of the market—particularly the semantic differentials and idiomatic nuances which are essential characteristics of all languages of the world. For example, the dictionary translation could be quite different from the idiomatic interpretation of a language. When literal translations are made of brand names or advertising messages from one language to another by people who know the language but not the culture, serious mistakes may occur. In Canada, for example, a family brand name—'Big John'—was translated into French as 'Gros Jos' which is a colloquial French expression for a woman with 'big breasts'. When General Motors of the United States literally translated its marketing phrase 'Body by Fisher' into Flemish language, it meant 'Corpse by Fisher'. The phrase "come alive with Pepsi" faced problems when it was translated into German advertisements as "come alive out of the grave" or in Chinese as "Pepsi brings your ancestors back from the grave". When the American car called 'Nova' was introduced in Puerto Rico, sales were poor until the company realised that the word Nova was pronounced as 'No va'—which literally means in Spanish 'doesn't go'. Sales were better when the name was changed to 'Caribe'. Similar mistakes of one kind or another regarding use of translated language in international marketing communication are fairly common mainly because of non-familiarity with the semantics and idioms in their cultural context.

4.4 CULTURAL ANALYSIS

A Manager's Perspective

The successful implementation of a marketing plan in country X does not necessarily guarantee its success in country Y, for besides the economic criteria there are also non-economic factors which influence the demand function. Culture represents one of the most important non-economic factors influencing the demand function. For a manager to understand culture and its orientation, a cultural analysis becomes a prerequisite. Cultural analysis is thus the study and classification of non-economic parameters. Its influence may be through the concept, the method or format in which goods are marketed for a stated purpose in the desired market.

The method of cultural analysis involves the following steps :

- understanding culture and its orientation i.e., procuring knowledge about the culture.
- market screening keeping in mind the product modification or marketing mix modification and its implication on the incremental costs and potential profitability of the market.
- the choice of market and marketing strategy and programme.

While these steps broadly reflect upon the method, there is a long process involved, and techniques available to a manager for undertaking cultural analysis.

While culture is omnipresent it is invisible, therefore, procuring knowledge about culture becomes a complicated process. What complicates the matter even further is that man works on perceptual inputs. He spends most of his time monitoring perceptual inputs and even here he monitors only the negative inputs. This complicates the assimilation process.

In order to overcome the limitation of perceptual inputs and the constant cross reference to one's own environment while solving problems or defining goals, James Lee developed the technique of SRC or self-reference criterion.

According to this technique, in order to overcome the shortcomings of perception and self-reference while defining the problem or goal a manager must begin the process of problem

solving by undertaking the following steps :

- Step I — Define the problem or goals in context of the home culture
- Step II — Define the problem or goal in context of the foreign culture
- Step III — Analyse the difference if any
- Step IV — Redefine the problem or goal, keeping step III in mind.

While this technique helps us in the problem definition stage, to get an idea of the implication, that the underlying forces of culture have on the problem, a manager must first collect information about culture and its orientation. Prior to collection of cultural information a manager has to bear in mind the fact that the anthropological view is large and all encompassing and, therefore, collection of data on these grounds may be time consuming, expensive and probably irrelevant to the problem on hand. Therefore he must establish some criteria vis-a-vis his problem or goal.

A suggested criteria which can be used while solving problem or stating goals in the area of marketing involves answering the following questions :

- Does the existence of culture affect the product physically or does it bear marketing implications?
- Are these implications short-term in nature or long-term?
- What would a cost/benefit analysis of inculcating this information, look like?

Keeping these questions in mind, the cultural elements can be redefined so as to carry product modification and marketing implications.

The cultural indicators may then be subdivided under four heads

- Defacto indicators
- Traditional indicators
- Legal indicators
- Marketing mix indicators

Defacto Indicators

This set includes factors like climate, terrain, the basic infrastructural facilities available. The impact of these indicators on product construction and marketing bear major significance. Thus while marketing motor vehicles globally the firm would have to keep the climatic conditions, terrain conditions and infrastructural conditions in mind. It would have to adapt the car body for both warm and cold climates. In fact not providing anti-skid tyres may very well make their product unattractive in cold countries. The availability of fuel, its types and quality will have impact on the engine design.

Traditional Indicators

This set includes the systems, the attitudes and the value systems that exist within a market. When a marketer seeks knowledge about these indicators, he begins by taking into account the historic demand for goods, the attitude of the consumers and the mechanics of the market i.e., for example the credit facilities that have existed in the particular industry. It involves an analysis of the tradition and background of the market system as they exist and its interlinkages with other market systems and manufacturing countries. Thus, hoping to market a high value item in a country where the money market is not developed, and where credit facilities are erratic may not be possible.

Legal Indicators

The law reflects the problems that have been faced by a particular society over a period of time but what influences a marketer most, are the laws relating to construction of a product and safety and environmental laws.

In the European countries, the safety laws are very strict. A pharmaceutical product banned in these countries are often marketed in third world countries. This is because the third world countries cannot 'afford' to make such laws. Another fact which must be kept in mind while marketing the product is that laws have to be met in totality.

Marketing Mix Indicators

How a customer is presented with the product is a function of how the marketing mix has been designed. Indicators with reference to marketing mix refer to indicators on price, product, promotion techniques, and distribution techniques. The implications for marketing

are very clear when a person enters a new environment. Laws in United States regarding advertising require that advertiser be able to back up his claims. The use of aspirational advertising and the influence of this law can create a problem.

While this gives us an idea about the culture, the study of orientation of the culture also has an equal importance. The orientation of a culture can be understood through Edward Hall's technique of high context and low context culture. While the technique itself may not be read it becomes necessary to understand the orientation of a culture with reference to the following variables.

Time

The perception of time considerably varies from culture to culture; there are different languages of time as there are different spoken languages. In the United States, for instance, when there is a delay in answering a business communication, it might be interpreted by the person awaiting the answer as having low priority or lack of interest. A similar delay elsewhere may mean something different. In Ethiopia, the time required for a decision is directly proportional to its importance. In Arab countries, the time required to get something done, depends on the relationship. Important people get quicker service from less important people and close relatives take absolute priority over the non-relatives. An Arab's reluctance to commit to any time schedule is not an indication of his disinterest in the business deal but it means only his habitual cautiousness to make hurried commitments which he normally takes seriously.

In the West, time a visitor spends waiting in an executive's reception room is a sure indication of what the executive thinks of the visitor or how important he feels the visitor's business is. But in Latin America, it means nothing to wait for hours in an outer office. A delay of even years to decide does not mean that the Japanese have lost interest—they might be working out something during this time.

Similar examples are available in all cultures. They show that the vocabulary of time is different around the world and so is its meaning. To understand the language of time is to understand the culture.

Space

In some countries the relative importance of an executive in an organisation may be indicated by the size of his office in relation to other offices around him. In other countries, like in France, office space is often laid out as a network of connecting points of influence, activity of interest—the supervisor occupying his seat in the middle of his subordinates for effective control. In the Arab world, the location of an office or its size does not reflect the importance of the person who occupies it.

The conversation distance in space between two persons has a cultural dimension. In some countries, particularly in the West, men avoid excessive touching while in the Asian and Latin American countries people tend to get too close to one another physically when engaged in conversation.

Friendship

The meaning of friendship and the obligations involved in it varies from culture to culture. In USA, the concept of friendship is fragile; it is hard to say at which point friendship gives way to business opportunism. In Eastern countries, friendship is not formed fast but once formed, it goes much deeper, last longer and involves real obligations. Friends and relatives in several cultures represent a sort of social insurance, helping each other in difficult times and getting things done without expectation of reciprocity. Attitude towards friendships and inter-personal relations is a product of culture and plays a very subtle role in building up international business relations.

Material Possessions

Material possessions are used in different ways in different cultures with different meanings. Americans are considered as highly materialistic, projecting their socio-economic status through material possession. The Japanese take pride in often inexpensive but artistic and tasteful arrangements that are used to produce the proper emotional setting. The French, Germans and English attach great value to traditional and historical things. In Middle East, people would not like to be judged solely by their material possessions but by family connections and friendships. Material possessions thus mean different things in different cultures and do influence the business attitudes and relationships.

Business Agreements

While it is important for international businessmen to understand the symbolic meanings and cultural implications of friendship rules, language of time, space and material possessions, it is equally important to know the guiding principles and attitudes towards negotiating business agreements in different countries. The basic rules for negotiating business agreements vary from country to country and can be classified into three broad types, namely,

- i) Rules that are spelled out technically as law or regulation.
- ii) Moral practices mutually agreed on and taught to the young as a set of principles.
- iii) Informal customs to which every one conforms without being able to state the exact rules.

Application of such rules varies from one society to another depending on the cultural circumstances. Generalisations are difficult, however, while the Americans consider the negotiating process to have ended when the agreement is signed, for the Greeks the agreement is nothing more than a charter for serious negotiations which ends only when the job is satisfactorily completed. In the Arab world, once a verbal word is given, it becomes as binding as, if not more than any written agreement. Few Americans, on the other hand, will conduct any business without some written agreement or contract.

Informal patterns and unstated agreements often lead to innumerable difficulties and confusion in cross-cultural negotiating process. All agreements have certain obligations and codes attached to them—whether in writing or by implications. The norms and codes are primarily of cultural origin and therefore become a way of social and cultural life. The people of each country may think that their own code is the only acceptable one, and that everything else is irrelevant. It is not so. Each code is different and people's business behaviour, and agreements are greatly influenced by these codes and practices.

It is therefore important for the international marketer to understand and appreciate the differences in the cultural dimensions of international business, so that he can adopt and adapt his business strategies to the cultural requirements of a country.

Once the manager has undertaken the cultural analysis he must decide on a marketing strategy encompassing the cultural element. He has three options open to him depending upon his market screening process. If he decides to undertake marketing in a market where the cultural variable influences are same in all the markets then he is undertaking a culturally congruent strategy. But what if he finds that the culture that exists is not conducive for the marketing of his product, in which case, he can start marketing and hope that the culture will change or he may himself decide to influence the culture to the extent that allows him to market the product.

In the former case he is undertaking the strategy of unplanned change, in the latter case he is undertaking the strategy of planned change. The importance that culture bears on the demand function of the product will in effect be responsible for the choice of strategy adopted by the management.

Activity 2

An international marketer wants to market Industrial Pumps in India. Frame an objective using the SRC technique with special reference to traditional factors.

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4.5 SUMMARY

The cultural dimension complicates the environment in which an international marketer has to operate. He must not only identify cultural boundaries but also what are the underlying

similarities and differences. This is particularly important because of the influence culture bears on what the man consumes and the manner and priority he allots to its consumption. He undertakes a cultural analysis to understand the orientation and underlying forces which make the culture so that he can use the information while planning and executing his marketing programme.

4.6 SELF-ASSESSMENT QUESTIONS

- 1) Enumerate the elements that make up culture.
- 2) What are the major variables one must keep in mind while screening the market for marketing?
- 3) What are the techniques available to a manager for undertaking cultural analysis?

4.7 FURTHER READINGS

Cateora and Hess, *International Marketing*, Third Edition, Richard D Irwin, Inc. Homewood Illinois.

Warren J Keegan, *International Marketing*, Second Edition, Prentice Hall of India Private Limited, New Delhi.

John Fayerweather, *International Marketing*, Second Edition, Prentice Hall of India Private Limited, New Delhi.

Vern. Terpstra, *International Dimensions of Marketing*, Kent Publishing Company. A division of Wordsworth Inc., 1982.

BRACOU

UNIT 5 POLITICAL AND LEGAL ENVIRONMENT FOR INTERNATIONAL MARKETING

Objectives

After going through this unit you should be able to :

- explain the rationale for undertaking a political analysis of international marketing
- explain political risk and its dimensions
- describe method for assessing, measuring and managing political risk
- discuss the rationale for legal environment
- trace development and scope of international law
- elaborate upon the legal issues in international marketing
- define the terminology used in export marketing.

Structure

- 5.1 Introduction
- 5.2 Political Risk : A Definition
- 5.3 Assessing and Managing Political Risks
- 5.4 Management of Political Risk
- 5.5 International Marketing and the Legal Environment
- 5.6 The Development and Scope of International Law
- 5.7 Legal Issues in International Marketing
- 5.8 Legal Environment in India : An Export Perspective
- 5.9 General Agreement on Tariffs and Trade (GATT)
- 5.10 Summary
- 5.11 Self-assessment Questions
- 5.12 Further Readings

5.1 INTRODUCTION

The buoyancy or depression of the stock market in the immediate pre-election and post-election period clearly demonstrates the impact of political changes on business conditions. A government by its perspective on business enterprise influences the business environment. For any firm involved in marketing, the role government assumes will influence its activities. The government may choose to allow and in fact provide free and fair competition, choosing to let the economic direction of the country be directed by business entities as in the case of U.S.A., or it may choose to provide the economic direction itself as in the case of India.

Although a firm regards itself as an economic entity it is drawn and affected by political developments. It therefore becomes necessary for the firm, particularly an international firm to monitor not only the domestic but also the international political environment. Since the international business firm operates in a host country and as a guest of that country, it becomes particularly important for it to monitor the developments taking place in the domestic political environment of the host country.

The three main concerns facing any international business entity are political stability, the government's orientation and nationalism.

While political stability is necessary for a business entity, it is particularly important for an international business firm because they reflect the success or failure of any business concern, for political stability is often associated with stability of economic policies. The other concerns facing international business are orientation of the government and nationalism. The orientation of the government can very often reveal whether international business can survive in that country or not. Nationalism also influences this variable because the business entity has to exist and operate within that country. These concerns through their impact give rise to political risks.

5.2 POLITICAL RISK : A DEFINITION

An international business entity is a guest of the host country and, therefore, the host country reserves the right of not only allowing it access but also of expropriating it. It also can influence the scale and dimensions of the operations through its policies. Political risk is thus the vulnerability of returns of a project to the political acts of a sovereign government.

This definition gives rise to several issues but the most important issue is that political risk is associated with blockage of funds and expropriation (or domestication of investment) by the foreign government, for a firm operating across its national borders. This does not mean that an exporting firm is free from political risks because political development in the areas of import restriction, tax controls, price controls, exchange regulations, and counter trade etc. can create a major impact on the value of the exporting firm and its survival.

Blockage of Funds

An issue associated very closely with the subject of political risk is a temporary or permanent blocking of funds. Blockage of funds refers to the fact that although a business entity may own the funds and still hold property rights, it cannot export its earnings for investment or repatriation purposes. This was a common problem faced by Indians during Idi Amin's rule in Uganda. Although the government did not formally make any announcements, regarding take over of property, it had become almost impossible for the firms to repatriate their earnings in any form.

Although black market operations may exist in any given country, it is difficult for such operations to handle the large scale of funds involved.

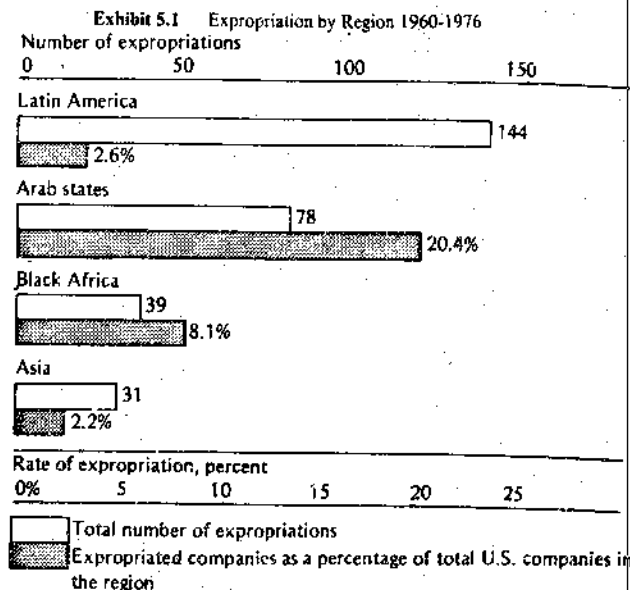
Domestication

Domestication refers to transfer of control of foreign investment to national ownership to bring the firm's activities in line with national interests. It differs from expropriation in the sense that, it is a gradual encroachment of freedom of operation of a foreign operator. There are three types of domestications. They are firm initiated domestication, government initiated domestication, and predetermined domestication.

Whereas firm initiated and predetermined domestication involves low level of risk, government initiated domestication is ranked at par with expropriation. The difference in risk profile is a product of discount factor used in the capital budgeting decision. While in case of predetermined and self-initiated domestication, the firm has the freedom to use discount rates having known the project life, in the case of government initiated domestication both variable are unknown or unplanned for. Besides, in a government initiated domestication programme, the economics of the operation may go haywire. Thus, while India has predetermined domestication, Latin American countries and Mexico have demonstrated government initiated domestication where numerous companies have been instructed to sell off a certain percentage of their stake by a given date.

Expropriation

The most extreme case of political vulnerability is expropriation. Expropriation refers to the government confiscation of property with or without proper reimbursement. Even where reimbursement is forthcoming, it doesn't equate with the value of the firm which is the summation of future earnings by a firm. Reimbursement is often fixed keeping in mind book value of assets. Modern economic history is replete with cases of expropriation as can be from the Exhibit 5.1 below :



Source : David G. Bradley, "Managing Against Expropriation" *Harvard Business Review* July-August 1977

The exhibit shows expropriations carried out by various regions in a 16 year period viz. 1960-1976. But expropriation have occurred even before this period. Mexico's takeover of foreign owned railways in 1937 and oil industry in 1938. Iran's attempted take over of British owned oil interests in 1952.

While these risks are faced by firms operating within the boundaries of the host countries, companies operating from outside the political boundaries are also influenced by political risks.

These risks often manifest themselves in form of exchange control, import restrictions, tax controls, price control, counter trade and other similar measures. These risks are often interlinked with economic problems and perception of the government regarding these economic problems. The USA itself has demonstrated the use of two such measures: exchange controls, and tax control to overcome the trade gap and other related problems. Interest equalisation tax regulation Q, in 1965 and the declaration of 10% tax on all imports clearly reflect that even the most developed economies might resort to these measures.

Normally, when a government perceives a trade gap emerging, it may announce a measure or a combinations of these measures. It may also be a result of the economic direction that a government wishes to impart to its country. Thus, when India decided to focus on self-reliance, several import restrictions were imposed. However, today the situation is quite different. Firms exporting to foreign markets may also be influenced by price controls. The Government of India declares minimum price ceiling for apparel exporters in order to avoid unfair competition amongst them and to maximise foreign exchange earnings.

It is thus, not necessary for a firm to be producing in international markets to be influenced by political risks although the extreme form of political risks is witnessed only by such firms and MNC's.

Activity 1

What is political risk? How do bilateral and multilateral relations influence the risk profile?

5.3 ASSESSING AND MANAGING POLITICAL RISKS

Once the existence and the impact of political risk has been noted, it becomes necessary for any international marketer to assess and manage political risks.

Assessment and management of political risks involve three basic steps:

- Recognising the existence of political risk and its accompanying consequences.
- Developing plans and policies in advance to cope with such risk.
- Maximising compensation in the event of expropriation

Several indices have been developed to measure country specific risk. They involve taking socio-economic variables, societal conflict variables and governmental process index into account. But for an international marketer wishing to undertake a broad analysis before involving himself into specifics (the more it is specific the more the time and money it takes) answering the following questions could be useful.

What is the current form and system of government? Are the economic policies stable? Is capital flight taking place. These three steps entail the political risk identification process.

Assessing Political Risks

It has been observed that international managers when entering new markets recognise the existence of political risk but refuse to give it the required significance. This is more so

because although the existence of political risk has been widely accepted, the definition of political risk does not explain whether such risk is country specific or firm specific. Here the discussion entails assessment of both country specific risk and firm specific risk.

Country Specific Risks

Country specific risk refers to risk arising out of doing business with a specific country.

- What is the current political system in existence?
- What is the stability and permanency of government policy?
- What are the encouragements the business firms will receive as a result of political activity?

Answering these questions involves going into the political history of that country to understand whether it follows a monarchy, dictatorship or parliamentary form of government. Even where parliamentary form exists, whether there exists a single party, a two party, a multi-party or a dominating party system, and what are the ideologies each of these parties have with respect to business enterprise can help in the country assessment process.

Several agencies produce country level political risk analysis. The exhibit 5.2 below gives the Business Environment Risk Index published by the Business Environment Risk Information Geneva.

Exhibit 5.2

BERI Rankings, November 1987

Low Risk	Category	High Risk	Category*
Switzerland	82	Greece	54
Japan	80	Israel	54
Germany	78	Thailand	54
United States	78	South Africa	52
Singapore	74	Turkey	50
Taiwan	70	Ecuador	49
<i>Medium Risk</i>		Italy	49
Netherlands	69	Colombia	48
Belgium	68	Cote d'Ivoire	48
United Kingdom	68	Hungary	48
Canada	67	Brazil	46
Sweden	67	Chile	46
Norway	66	India	46
France	64	Portugal	46
Ireland	64	Indonesia	42
Australia	62	Argentina	40
Denmark	62	Kenya	40
Korea (South)	61	Mexico	40
Saudi Arabia	58	Pakistan	40
Spain	57	Venezuela	40
Malaysia	56	<i>Prohibitive Risk</i>	
		Egypt	39
		Peru	39
		Philippines	39
		Iraq	38
		Morocco	38
		Nigeria	38
		Iran	38
		Zaire	28

*BERI Categories

- 100-86 Unusually stable and superior business environment for the foreign investor.
- 85-70 Typical for an industrialized economy. Any tendency toward nationalism is offset in varying degrees by the country's efficiency, market opportunities, financial entities, etc.
- 69-56 Moderate risk countries with complications in day-to-day operations. Usually the political structure is sufficiently stable to permit business without serious disruption.
- 55-41 High risk for foreign-owned businesses. Only special situations should be considered (e.g., scarce raw materials).
- Below 41 Unacceptable business conditions.

Source : Business Environment Risk Information, Geneva.

Although such analysis are carried out by various institutions like S & P and Moodys etc. are available for public consumption, most MNC's prefer to undertake their own analysis. Usually such analysis is conducted at the head offices by the economic units for country

banking units. Most of the foreign banks in India, e.g., Bank of America, Citibank etc. undertake such analysis for fixing risk units for size of operations.

Firm Specific Risk

Although business units undertake country risk assessment they have realised that political risk does not manifest itself equally among various firms. This is the major assumption underlying country risk assessment. It has been observed that sometimes firms in the same country receive differential treatment as in the case of Cerro Corpn. and Macrona Mining Corporation and the Peruvian government attitude towards them. While Cerro Corpn. was expropriated, Macrona Mining Corporation was encouraged.

This example brings out the fact that political risk is not equally distributed within a country and even within a country within a specific industry.

It is commonly believed that firm specific political risk arises because of the following :

- size and visibility
- product handled
- attitude of the company

These are explained briefly below :

Size and Visibility

It has been observed that MNCs like to indulge themselves in business on a large scale to derive the benefit of economies of scale. They also undertake massive advertisement programmes for creating brand preferences. This, it has been observed, causes resentment among local businessmen who feel that the MNC is taking more than its fair share of business. They create pressure on the government to take steps to restrict MNC's operations often in the name of protecting domestic industries.

Product Handled

The product handled by an MNC or an international business house also influences the attitude a government will adopt towards it. If the ruling government perceives that the product handled by the foreign company is crucial for the economic development of the country or it is socially/strategically important then the attitude might be favourable whereas if the company is perceived as undertaking marketing or production of non-essential items then the likelihood of the attitude being unfavourable is quite high.

Phillip Cateora and John M. Hess have developed the following questionnaire for deciding upon the attitude meted out to the business.

Exhibit 5.3

1. Is the availability of supply of the product ever subject to important political debates? (sugar, salt, gasoline, public utilities, medicines, foodstuffs)
2. Do other industries depend upon the production of the product? (cement, power, machine tools, construction machinery, steel)
3. Is the product considered socially or economically essential? (key drugs, laboratory equipment, medicines)
4. Is the product essential to agricultural industries? (farm tools and machinery, crops, fertilizers, seeds)
5. Does the product affect national defense capabilities? (transportation industry, communications)
6. Does the product include important components that would be available from local sources and that otherwise would not be used as effectively? (labour, skills, materials)
7. Is there local competition or potential local competition from manufacturers in the near future? (small, low-investment manufacturing)
8. Does the product relate to channels of mass communication media? (newsprint, radio equipment)
9. Is the product primarily a service?
10. Does the use of the product, or its design, rest upon some legal requirements?
11. Is the product potentially dangerous to the user? (explosives, drugs)
12. Does the product induce a net drain on scarce foreign exchange?

If answers to each of these questions are scored from 1 to 10, from a strong no to a strong yes the highest scoring products would be subject to maximum political risk.

To sum up, the perception of the ruling government determines the degree of political risk a firm has to face at the firm level.

The Attitude of the Company

The attitude of the company is also important. A foreign business enterprise must realise that it is a guest of the host country and is there only on their invitation. If a firm realises this fact then the political risk is minimised because it will realise that it must contribute to the national goals of the host country if it wants to continue doing business in that country.

In the example of Cerro V/s. Macrona Mining Corporation both belonging to the mining industry one was encouraged by the Peruvian government while the other firm was discouraged. This was essentially because Macrona realised its position as a guest of the country, making contribution to the furtherance of achievement of national objectives; also making known the fact the role it was playing, Cerro Corporation undertook no such task and therefore was doled out an unfavourable decision.

5.4 MANAGEMENT OF POLITICAL RISK

The insecurity arising out of political risk especially, risk of loss of investment and information, in foreign lands can be minimised through proper management of political risk. Political risk management process can be undertaken either before the investment is made or after the investment is made. The former refers to pre-investment planning whereas the latter refers to post-investment planning.

Pre-investment Planning

Under the pre-investment planning for political risk management, four options are available to the international marketer. They are :

- Avoidance
- Insurance
- Negotiating the Environment
- Structuring the Investment

Avoidance

As the name suggests, this method involves avoiding political risk by not undertaking any foreign investment. However, this is an option which can be exercised only prior to the decision of going international. Once that decision is taken then the business has to undertake a measured risk for earning the required rate of return.

Insurance

Today, several business and non-business entities have come up, which underwrite the insurance of political risk. Any businessman can have his political risk underwritten for him. Although varying premiums are charged for different business activities, the international businessman now, has open to him the option of insuring his political risk of expropriation.

However, insurance does not offer a full coverage because insurance companies underwrite the book value of assets whereas the value of the firm is dependent upon the stream of future earnings. Any expropriation would mean a lowering in the value of the firm.

What insurance does is that it minimises the losses through underwriting the value of asset. Today about 90 to 95% of the insured value is recoverable. In India, Export Credit Guarantee Corporation undertakes the role of insuring political risks.

Negotiating the Environment

Negotiating the environment refers to agreements drawn up between the company and the ruling government. It states clearly the rights and undertakings of each party. It is also referred as concession agreements.

The only drawback with this method is in countries with low degree of political stability where the emergence of new ruling party may mean repudiation of the earlier contract by the new government.

Structuring the Investment

This is a strategy being followed today by most companies and involves diversification of investment so that it is not concentrated in any one country. Thus, Chrysler Corporation distributed its investment in Peru, Brazil, Argentina and Detroit. In Peru itself, only 50% of the auto truck parts were manufactured. Therefore, expropriation of Chrysler would have the implicit consequence of loss of the trucks being manufactured in Peru. Therefore, it did not make sense for the Peruvian government to expropriate Chrysler.

Similar to diversification of in the investment decision the firm can also undertake financial structuring. This involves raising capital along with the government participation i.e., some

portion is contributed by MNC whereas the remaining is raised from the domestic sources viz. the foreign government and its citizens.

But all these strategies refer to the pre-investment period. Political risk also arises even after the investment decision has been taken which means the firm is already committed so far as the country is concerned. Therefore, the company must evolve strategies even after the investment decision has been taken so as to minimise the losses and to maximise the compensation in case of expropriation.

These strategies include the following:

- Planned Divestment
- Short-term Profit Maximisation
- Change of Benefit/Cost Ratio
- Develop Local Stockholders
- Adaptation

These strategies are explained briefly below:

Planned Divestment

This refers to divestment of assets in the foreign country over a fixed period of time so as to minimise the risk involved. Effectively, this strategy involves recovery of the invested capital along with desired return over a fixed period of time after which the productive asset is sold to the local citizens.

Short-term Profit Maximisation

If at all the expropriation is to occur, there is always some advance notice. This strategy involves sacrificing long-term goals in favour of short-term objectives. In the light of the developing circumstances, the firm cuts costs and increases profit margins to recover the initial investment.

However, this strategy instead of working for the firm may work against it in the sense that when a company starts undertaking such measures the host government is often forced to the decision of expropriation (even if it was initially against it), because it does not see any forthcoming benefits.

Another available strategy for preventing or postponing expropriation involves changing the benefit/cost ratio.

Before taking over the foreign investments, a government usually undertakes a cost benefit analysis of the advantages and the disadvantages associated with expropriation. If the analysis can be made lopsided in favour of the firm by increasing the cost v/s the benefit, then, probably the expropriation decision may be withheld.

Develop Local Stockholders

What Sears has done in Latin America is that it has made sure that most of its products are manufactured within the country for sale. For doing this, they have promoted business for specific product category. By promising guarantee they have even helped some of their business associates get off the ground. These businessmen now strongly identify with the Sear's stores and therefore would prevent the expropriation of Sears Roebuck from their country. This strategy of developing local stakes has worked wonders for minimising the political risk involved and often has even resulted in favourable treatment being meted out to them.

Adaptation

Businessmen today have learnt that it is not necessary to own assets, to earn profits. Profits can also be earned through management contracts. Indian experience of management contracts in Middle East countries has demonstrated the existence of this fact.

In Venezuela, the expropriated oil companies have been given management contract for oil exploration, drilling etc. This strategy of beating the political risks is known as adaptation.

Thus the options available to minimise political risk can be shown as below :

Exhibit 5.4 Coping with Political Risk

DIRECT APPROACHES

Negative Approaches

- Control of raw material
- Control of transportation to international markets
- Control external markets
- Licence or patent restrictions under international law

Positive Approaches

- Concession agreements
- Joint venture with government
- Joint venture with local banks citizens
- Local sourcing of raw materials

Indirect Approaches

- Insurance
- Capitalised Firms
- External Financing

Source : Rodriguez and Carter, *International Financial Management*.

Activity 2

a) What is country risk? How is it different from firm specific risk?

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b) Market access and market entry decisions are linked with country risk analysis. Explain.

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5.5 INTERNATIONAL MARKETING AND THE LEGAL ENVIRONMENT

Every business operates within the jurisdiction of legal system. The legal system is an inevitable component of the environment within which a business operates. The commercial law existing within any country influences not only each and every variable of marketing mix but also the environment within which a business operates. This has a direct bearing on the management of global marketing plan. Thus for example, the advertising laws in West Germany are so strict that it is best advised for the international marketer to get himself good legal counsel before framing his advertising strategy in West Germany. In fact all over Europe their exist different set of laws preventing promotion of products through price discounting. These laws are based on the premise that such practices differentiate buyers. This example reflects the influence on only one of the variable of marketing mix. Laws may exist for other variables of marketing mix viz. product, price, and place. Thus monitoring the legal environment is also essential. *International business* came out with an article indicating areas where management should consider the laws before framing their strategy. They include watching out for rules regarding :

- Retail price maintenance
- Product quality
- Packaging
- After sales commitment
- Price controls
- Property rights which includes immovable property and patent & trade mark regulations
- Cancellation of agreements.

Not only does the legal system influence the marketing management process but also the environment within which the marketer has to operate. Thus while one country may promote competition within its markets through its legal system, another country may try to protect its industry and thereby restrain competition.

In USA anti-trust legislation influences all mergers, takeovers, and business practise which are in restraint of trade. The verdicts awarded are governed by paragraph one of Sherman Act. Thus for example, Gillette was prevented from taking over Braun A.G. of West Germany, which was an electric razor manufacturer, on the grounds that it would distort competition.

On the other hand in India competition is not been encouraged. Protection is afforded to industries in infancy stage. In fact the MRTP Act restrains the activities of any business concern with an asset base greater than Rs. 100 crores.

Activity 3

How does the legal system in India influence domestic marketing? What are the laws that an international marketer must keep in mind for marketing in India?

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5.6 THE DEVELOPMENT AND SCOPE OF INTERNATIONAL LAW

The domestic marketer is aware of the jurisdiction of the legal system and the bearing it has on his activities. But when he crosses national frontiers to market or produce his product in a host country; the problem of legal system arises on two counts. They are:

- a) Every country has its own legal system
- b) The legal systems of the world are not harmonised and are in fact based on contradicting political philosophies.

The legal system that exists in different countries of the world are antecedents of one of the two legal philosophies. They are common law and code law philosophies.

Common law finds its roots in Britain and is practised today in U.S.A., Britain and Canada. The basis of common law is tradition, past practices and past ruling of higher courts who look upon similar problems within the accepted set of laws. On the other hand, code law is based on Roman law and is an all inclusive system of written rules that encompasses all eventualities. This basis for legal system can be witnessed in most countries of the world.

It must be pointed out here that while these represent the basis of various legal systems, the legal systems in different countries of the world are by no means identical. This difference between code law and common law has been pointed out to the student to make him aware of the fact that the bearing of these two distinct philosophies on judgements awarded in case of commercial disputes can be radically different. To illustrate let us take the interpretation in case of non-fulfilment of required conditions of a contract under 'Act of God'. What constitutes an 'Act of God' in code law is not necessarily incorporated under common law. Thus while strike may be looked up under 'Act of God', in code law it will definitely not be accepted as a reason for non-fulfilment of the contract under common law.

The development of international law took place in late sixteenth century in an effort to deal with international political issues like granting recognition to new countries and for maintaining world peace.

The developments in international commercial law, however, started taking place only in the 19th century with law of sea coming in as late as 1958. These developments took place on a state by state basis as international trade grew in volume and value. This fact accounts for

different legal systems existing in different countries of the world and based on conflicting legal policies.

International law deals with upholding order. Originally it recognised only nations as entities, but today it also incorporates role played by individuals. International laws may be defined as a set of rules and regulations which the nations consider binding upon themselves. This definition brings out two important characteristics of international law. They are absence of existence of a comprehensive legal system. There is no truly comprehensive body of law because as stated earlier, international commercial law is of recent birth. This has had a direct impact on the existing administering authorities. As of today there are only a few international bodies for administering justice. They include the International Court of Justice founded in 1946 and the World Court at the Hague.

Besides this is the fact that no nation can be forced into these rules as stated in the line 'consider binding upon them' which brings us to the fact that all nations recognise the sovereignty of the legal systems and therefore international judgements are based on the premise of 'good of humanity' and not on basis of any particular country's legal system.

5.7 LEGAL ISSUES IN INTERNATIONAL MARKETING

The field of international law is wide and cannot be dealt with fully here. However, certain issues like entering into contract, the method at seeking recourse, protecting property rights, tax laws, and foreign exchange are some of the major issues facing the international marketer. These issues can be illustrated as under:

The decision to market product across the national frontier imply that agreements have to be entered into with parties on the other side. For this legal counsels advice on contract act as it exists in the foreign land is absolutely essential.

Not only must the marketer be aware of laws regarding contract, and termination of contracts but he must also be aware of the legal formalities that he is subjecting himself to. Thus as per Coelso Doctrine a person desirous of doing business in Latin America must agree to subject himself as a national. This has important bearings for an executive doing business with Latin American countries. The entry decision may be influenced to a great extent by such laws as they exist in that country.

A marketer must also be aware of and monitor laws regarding product quality, packaging, price control, retail price maintenance, after sales service. If he wishes to continue his marketing efforts in that country.

Of special importance in this context are laws relating to competition and property laws. Property laws in the recent years have taken an important dimension with the dawn of brand pirating and expropriation.

With brand pirating becoming a dominant problem, many international conventions have been held. Some of the important conventions and their agreements are as follows:

Paris Union

The 50 participating countries have agreed to uphold trademark and patent rights once the firm registers them in any one of the countries.

Madrid Convention

Some 22 countries in Europe decided to uphold trademark rights in all these countries once it is registered in any one of the country.

Vienna Diplomatic Conference

Also known as the TRT (Trademark Registration Treaty) provides the same protection in 50 countries of the world.

The world has also witnessed an increasing number of expropriations. The options available for expropriation have been discussed in the earlier portion of the unit.

Tax laws is another dimension of the legal system which influences every income earning member of the society. The international marketer has to be particularly alert with reference to tax laws for they keep changing in most developing countries. For an international

marketer who wants to repatriate his income, can only through tax planning and foreign exchange planning repatriate his income.

5.8 LEGAL ENVIRONMENT IN INDIA : AN EXPORT PERSPECTIVE

The cornerstone of international marketing, especially, in the Indian context, is product export. Consequently, the basic legal document than an exporter is concerned with is the international sales contract.

Export transactions necessarily involve movement of goods from one country to another. The basic task of an export contract is to allocate the risks and costs of export shipments between the exporter and importer. Simultaneously, it also seeks to provide a system through which disputes, if any, can be settled, in case either party fails to honour what the contract has provided in the first instance.

The allocation of risks and costs are done by taking the delivery point as the bench-mark. Various types of contracts have, therefore, been developed with different delivery points. International Chamber of Commerce has codified the contract terms commonly used in international trade and has also standardised their interpretation in their publication entitled Incoterms, 1980. This codification has almost universally been accepted and majority of Indian firms use these terms while negotiating export contract. The most important contract terms are explained below :

Goods Moving at Buyer's Risk and Cost

Ex works (EXW) : The seller makes the goods available at his premises. The buyer bears the full cost and risk of loading and transporting the goods.

Free Carrier (FCR) : The seller delivers the goods into the custody of the carrier (or the first carrier in a multimodal transport operation). The risk in the goods passes to the buyer at that moment, and the buyer pays the transport costs. The term can be used for all modes of transport.

FOR/FOT, Free on Rail, Free on Truck (FOR) : This term is for use in rail transport only ("Truck" means railway truck). The seller delivers the goods to the railway. The buyer bears the risk of loss or damage from that moment and pays the transport costs.

FOB Airport (FOA) : The seller delivers the goods to the air carrier at the airport of departure. The buyer bears the risk in the goods from that moment and pays the air transport costs. The seller normally arranges the contract of carriage on the buyer's behalf. The seller clears the goods for export.

Free alongside Ship (FAS) : The seller delivers the goods alongside the ship in the port of shipment. The risk in the goods is transferred to the buyer of that moment. The buyer clears the goods for export and pays the transport costs.

Free on Board (FOB) : The seller clears the goods for export and delivers them on board the ship. The risk passes from seller to buyer when the goods cross the ship's rail in the port of departure. The buyer pays the freight charges.

Goods Moving at Buyer's Risk and Seller's Cost C&F, Cost and Freight (CFR) : This term is designed for maritime transport. The seller clears the goods for export, pays the freight charges and delivers the goods on board ship. Risk passes to the buyer when the goods cross the ship's rail in the port of departure. The seller undertakes to provide the buyer with a negotiable bill of lading that can be endorsed to transfer ownership in the goods or pledge them to a financing bank.

Cost, Insurance and Freight (CIF) : This is identical to the CFR term except that, in addition, the seller insures the goods against loss and damage at his own cost. The insurance covers the buyers, not the seller, since the goods are travelling at the buyer's risk.

Freight, Carriage Paid to (DCP) : This term can be used for all modes of transport including multimodal operations. The seller pays the transport costs. Risk passes to the buyer when the seller delivers the goods into the custody of the first carrier.

Freight, Carriage and Insurance Paid to (CIP) : This term is identical to the DCP term except that in addition the seller insures the goods at his own cost, for the benefit of the buyer

Goods Moving at Seller's Risk and Cost

Ex ship (EXS): The seller makes the goods available to the buyer on board the ship at the port of destination. He pays the transport costs and bears the risk in the goods until they are made available in this way.

Ex quay (EXQ): The seller makes the goods available to the buyer on the quay or wharf at the port of destination. The seller bears the risk in the goods up to that point and pays the transport costs. The seller pays the import dues ("ex quay duty paid") unless the contract provides the contrary ("ex quay, duties on buyer's account").

Delivered at Frontier (DAF): The seller delivers the goods at the agreed frontier and bears all costs and risks up to that point, including transport costs. The buyer is responsible for import costs and formalities, and for any transport costs after the frontier.

Delivered Duty Paid (DDP): The seller delivers the goods at an agreed point in the buyer's country—the buyer's premises, for example. The seller bears all costs and risks in the goods up to the point of delivery, including transport costs. The seller is responsible for import costs and formalities.

5.9 GENERAL AGREEMENT ON TARIFFS AND TRADE (GATT)

The General Agreement on Tariffs and Trade is the international forum for trade negotiations for liberalizing international trade.

GATT, established in 1947 has following main principles:

- 1) Non-discrimination in trade negotiations among members.
- 2) A commitment to observe any negotiated tariff concessions.
- 3) Prohibition against the use of quantitative restrictions on exports and imports.
- 4) Special provisions to promote the trade of the least developed countries.

The several rounds of GATT negotiations succeeded in reducing many tariffs and quotas. The average U.S. tariff, for example, fell from 26 per cent in 1946 to 5 per cent in 1987. Early in its existence the GATT achieved the liberalization of trade in 50,000 products, amounting to two-thirds of the value of the trade among its participants. The latest GATT round, which convened in Uruguay in September 1986, primarily deals with trade in agricultural products and services. Initially it was envisaged that the negotiations would be concluded by the end 1990, however because of various conflicts among participating countries especially between U.S.A. and E.C. over farm subsidies, this could not be concluded even by end 1992.

The Trade Related Intellectual Property Rights (TRIPS) text under negotiations in GATT, is against the Patent Act of India, 1970 in practically all important respects. Its adoption by India will have large implications for Indian companies especially in the field of Drugs and Pharmaceuticals, and will virtually mean scrapping of the 1970 Act.

- 1) What do you understand by the term political risk? In your opinion is it country specific or firm specific or both, Elaborate giving examples.
- 2) What are the major components that make up political risk?
- 3) What is the management process available for managing political risk?
- 4) What are the basic principles of GATT?

5.10 SUMMARY

Upon crossing the national borders an international marketer is faced with a new political environment. As every marketer realises the implication of political environment on business, it becomes necessary for him to understand and gauge the political risk he is undertaking and the options available to him for managing the same. So also he must undertake an analysis of the legal environment.

Managers involved in international marketing are not supposed to be experts in law. What is necessary is to have an appreciation of the legal problems that may arise while

negotiating or implementing an export contract. Once that perspective is developed, it would be a good idea to prepare a checklist, with the help of legal experts, which can be used for guiding future managerial action. The correct business approach to law is not to find out what legal solutions are there to a dispute which has occurred but what should be done to prevent occurrence of disputes. This is because legal processes even in a purely domestic country setting can take a long time. When foreign countries and foreign laws are involved, time and costs can be so enormous that an exporter would be well advised to forget legal solutions and accept the loss.

Government of India set up Indian Council of Arbitration which serves as the nodal agency for giving guidance to Indian exporters on drafting contracts. It also provides arbitral facilities for settling international trade disputes.

5.11 SELF-ASSESSMENT QUESTIONS

- 1) What do you understand by the term political risk. In your opinion is it country specific or firm specific or both, Elaborate giving examples.
- 2) What are the major components that make up political risk?
- 3) What is the management process available for managing political risk?

5.12 FURTHER READINGS

Cateora and Hess, *International Marketing*, Third Edition, Richard D Irwin, Inc
Homewood Illinois.

Warren J Keegan, *International Marketing*, Second Edition, Prentice Hall of India Private
Limited, New Delhi.

Alan, C. Shapiro, *Multinational Financial Management*, Third Edition, Allyn and Bacon, &
Division of Simon & Schuster, Massachusetts.

UNIT 6 TRADE, MONETARY AND FINANCIAL ENVIRONMENT

Objectives

After going through this unit you should be able to :

- explain the need for undertaking such an analysis
- discuss the trade patterns over the years
- define the dimensions of the growing debt problem
- define the changes that have taken place in the monetary system
- define the changes that have taken place in the financial environment.

Structure

- 6.1 Introduction
- 6.2 Underlying Rationale
- 6.3 World Trade—A Temporal Analysis
- 6.4 Trade Patterns : An Analysis
- 6.5 The Debt Problem
- 6.6 Major Developments in the International Economy
- 6.7 Developments in International Monetary System
- 6.8 Financial Environment
- 6.9 IMF and World Bank
- 6.10 Summary
- 6.11 Self-assessment Questions
- 6.12 Appendices
- 6.13 Further Readings

6.1 INTRODUCTION

From the end of World War II till date, world trade has been stimulated by growth in output, incomes and expenditure of industrialised countries of the world. The classical trade pattern of commodity exports from underdeveloped countries to developed countries, in return for manufactured goods produced in the developed countries has long since been abandoned.

Today the trade patterns have shifted drastically. Industrialised countries have realised the importance of coordinated and integrated effort. This has been demonstrated by the increased understanding among G-7 nations and their offer to help Hungary in keeping out of the mess, provided Hungary undertook SAF (Structural Aided reforms).

In 1973, with OPEC raising the prices of oil from \$3 a barrel to \$10 a barrel there was a major shift in the resources of the world from the non oil producing countries to the oil producing countries which was followed by a US \$ crisis in 77-78 because of the large trade deficit and loss of faith in the Economic Power of US \$. This led to another rise in the oil prices in 1979. Since this meant a shift in wealth, most of the industrial countries felt pressures on their trade account which had developed because of the drastic rise in oil prices. Only U.K. Norway and Netherland benefited from North sea oil findings. But on the whole, the world began the decade by facing depression, 1980-82 representing the recession period.

The world output which had grown @ 3.9% p.a. between 1971-80 period and grew only 1.8% in 1981 and 0.7% in 1982. The growth rate of GNP of industrialised countries also fell from an average of 3.2% in 1970's to 1.5% in 1981 and in 1982 they faced a negative growth rate of 0.3%

The world trade also suffered a set back. As against the average annual growth of 5.7% in world trade during 1970 there was only 1.2% in the growth volume of world trade in 1981. In 1982 world trade declined by 2%.

Since then the world economy has been seen a steady recovery, infact the 1987 crisis did not affect the rate of recovery. In fact the IMF predicts a continued growth rate, however,

there would be a decline in the rate of change of growth rate. Various economic unions were also formed during this period of which the most important was EEC which was based on Treaty of Rome signed in 1950. Simultaneous changes had also occurred during this period in the financial environments of the world. These changing trends could be classified as---

- a) The growth and development of MNC's as promoters of international trade and as major producers in the host countries.
- b) The acceptance of generalised floating exchange rates in 1973 and the growing volatility of exchange rate. This meant an increased unpredictability of cash flows and rate of returns on investment in absence of exchange rate measurement for International business.
- c) Finally, the trend of globalisation and integration of money and capital markets, in the 1980s expanded opportunities that existed for investors and organization for raising funds. This meant increase in speculative flows which would create different kind of pressures on the B.O.P. (Balance of Payment) of participating countries.

6.2 UNDERLYING RATIONALE

Today's marketing executive has, not only, to be aware of the major changes taking place in the monetary and financial environment, but has also monitor them constantly. The underlying rationale behind this exercise may be explained through the influence these changes have on the marketing operations and marketing strategies adopted by the firm.

A company wishing to analyse or undertake an investment decision would have to make sure that B.O.P. pressures are in favour of locating its production facilities in that nation.

A nation with strong but adverse B.O.P. pressures, cannot be a likely place to diversify to although all other factors may be in its favour because this would mean restrictions on the flow of foreign exchange. Initially, while assessing a nation as a market, the B.O.P. would reflect whether it can be a potential market in terms of standard of living and repatriation of income. Thus for e.g. in 1979 when oil prices were raised, most countries faced an adverse B.O.P. pressure as a result of which world trade was subdued. This was reflected in the recession that followed. In fact, such an analysis assists a Marketing Manager not only the strategy formulation level but also at operational level. A marketing manager must know which currency should be used to invoice the customers so that he can minimize his exchange rate risks. Although today most of the contracts are drawn in US \$ wouldn't it be advantageous for the business to think in terms of Y or DM for they represent more stable currencies. This statement again reflects their B.O.P. flows. Similarly, if the firm has to finance the inventory in transit the use of currency analysis (speculative) may help the firm to minimize the cost of use of funds. In fact, this argument can be extended further. Due to the existing imperfections it has commonly been seen that MNC's raise capital and debt in markets different from the markets in which they want to use the funds. Such imperfections allow the firm to minimize its weighted average cost of capital. These are just a few of the dimensions that make it necessary for the marketing manager to monitor and analyse the trade monetary and financial environment as it exists in the world.

6.3 WORLD TRADE—A TEMPORAL ANALYSIS

The trade patterns of the world are influenced by the output, incomes and expenditures of the industrialised countries. This makes it necessary for one to monitor and analyse these variables to understand the trade patterns as they exist in the world. The world saw a recession in the years 1980-82 because of the rise in prices of oil in 1973 and 1979 and the depreciation of US \$ the most traded currency in 1977-78 because of the mounting deficits faced by US economy and gross neglect by the earlier administration which had concentrated on domestic development, neglecting its foreign trade. The world output declined from an average annual growth rate of 3.9% p.a. between 1971-80 to 1.8% in 1981 and 0.7% in 1982. The GNP of industrialised countries (annualised growth rate in 1970's) of 3.2% p.a. also declined to 1.5% in 1981 and reached a negative growth rate in 1982.

However, since then the recovery has been steady USA has demonstrated the fastest recovery rate as compared to other G-7 nations. This was because of the following reasons :

- a) capital productivity improved at an average annual rate of 2.5% p.a. between 1982-87

- b) labour productivity also improved while the labour costs remained subdued in this period.
- c) USA managed to control inflation and bring it down to 3.4% in 1982 as against 10% in 1981.
- d) improved tax reforms introduced by the administration.

This led to an increase in domestic investment which was propelled by a growth in domestic demand. However, today USA is facing two major problems. The problem of federal deficit and the problem of growing trade deficit. Both of which reached their peak levels in 1987.

The American administration has decided to bring the federal deficit down to zero by 1993. It has succeeded in bringing down the deficit from US \$ 230 billion in 1986 to \$ 155 billion in 1988. In order to bring down the trade deficit from the peak of \$ 170 billion in 1987, it has started applying pressures on Japan, S. Korea, India, Taiwan and Brazil to liberalize their economic policies.

Besides this, depreciation of US \$ since September 1985 has had improved its export volumes. The export volumes increased by 7%, 13.2%, and 24.1% in 1986, 1987, 1988 respectively. Although export volumes have gone up USA has not been able to curtail the growth in import volumes which grew @ 5.5% in 1987 and 7.17% in 1988.

The US administration does not perceive external debt of \$ 1 trillion a problem because it feels that this represents the integration of the world economy with the US economy.

The British economy also saw a recovery from the recession in 1981-82 period. Britain had a rate of recovery better than the rate of recovery rate demonstrated by Canada, FRG, France and Italy. The real GNP growth rate in 1987 and 1988 was 5% & 6%. Such growth rates were perhaps a results of growth in domestic demand and investments and simultaneous improvement in labour productivity. In 1988, Britain recorded a growth in fixed investment by 11.4%. It has been able to bring down the unemployment rates from 11.3% in 1986 to 8.2% in 1989. It is estimated that in 1990 the unemployment rate will drop to 7.1%. However, these unemployment rates to reflect a higher rate than 1971-80 period when the unemployment rate in UK was 3.9%. Besides USA and Britain it was Canada that reflected a recovery in its growth of gross domestic product. The growth of GDP in real terms was higher than 4.6% (the growth rate between 1971-80) during the 1983-88. But Canada also continues to face the problem of decline in domestic demand which declined by 6.6%, 3.9% and 5.5% in 1982, 1986, 1988 respectively. It also had an unemployment rate of 7.8% in 1988.

Germany, France and Italy were the worse affected by the recession. The GNP growth rate of Germany remained at less 3% during the 1983-90 period. In the period between 1983-88 the GNP ranged from 1.8% to 3.4%. In 1988 it crossed the 3% mark to reach 3.4%. However, it dropped to 2.4% in 1989 and is expected to be less than 3% in 1990.

The major reasons for lower growth rate may be explained through subdued growth in domestic demand and lower rate of growth in domestic investment. The growth rate of domestic demand in Germany fell from 3.36% in 1986 to 2.2% in 1989. The growth rate of gross fixed investment was just 5.8% (and in 1990 is predicted to fall to 2.7%) a rate lower than other G.7 nation.

It has been unable to regain its growth in labour productivity which fell from 4.7% in 1971-80 period to less than 2% in 1986-90 period. But Germany has been able to curtail inflation by curtailing labour costs which in fact fell by 0.3% and 0.5% in 1982 and 1985 respectively and reduction in interest rates both short-term and long-term. It is because of this the rate of inflation dropped from 4.4% in 1982 to 2.5% in 1989-90. In fact in 1988 it was just 1.5%. The behaviour of interest rates in Germany can be clearly understood from the exhibit below:

Exhibit 6.1 Interest Rates

Year	Short-term	Long-term
1981	12.1%	10.4%
1987	4.0%	5.8%
1989 (Feb)	6.4%	6.7%

France and Italy were other nations badly affected by recession. In 1982 France achieved growth rate in GNP of 2.5%. But in the subsequent period i.e., the period between 1983-87 the rate of growth of GNP was lower than this. In 1988 France achieved GNP growth rate of 3.4% which again declined in 1989 to 2.8%. It had witnessed a growth in fixed investments of 6.8% in 1988. Italy also saw a growth in gross fixed investments of 6.8% in the same year.

The only industrialised country in the world to remain unaffected by the recession was Japan, although it faced a lowered growth in GNP. The rate of growth of GNP was 3.5% during 1980-83 period as against 4.8% during 1971-80 period. In the 1984-85 period it witnessed a rise in its GNP growth rate. The growth rate in GNP in that period was 5% but it fell again to 4.5% in 1986. In 1988 it had GNP growth rate of 4.7%.

The reasons underlying Japan fate were a simultaneous growth in domestic demand both qualitatively and quantitatively and low inflation rates. The inflation rate in 1987 and 1988 were negative -0.2% and -0.5% respectively. Japan also saw an improvement in its labour productivity and a decrease in labour cost. This allowed it to compete in international markets in spite of strengthening of the yen (¥)

Trends in Output, Incomes and Expenditure of Developing Economies

The recession of 1980-82 also affected the developing economies. Their real GDP growth rates fell from 5.5% p.a. in 1971-80 period to a range between 1.9-4.3% p.a. in the 1981-88 period. Inflation has been on the rise as indicated by a rise in the consumer prices in these economies. The consumer prices had risen by 67% in 1988. The inflation rate had been growing steadily from 10% p.a. in 1965-73 to 26% in 1974-82 subsequently rising to 51% in 1983-87 period. This has been followed by a growing indebtedness and decrease in foreign direct investments. The indebtedness has grown from \$ 503 billion in 1981 to \$ 996 billion in 1987 and the foreign direct investment had fallen from US \$ 10.2 billion to \$ 9.5 billion in the corresponding period. If the developing economies are divided as low income developing and middle income developing economies then some more trends emerge. The growth rate of real GDP is greater in low income developing economies than in middle income economies. In 1980-85 period the difference between the two was marked. While the middle income economies grew only 2.2% the low income economies grew by 5.9% p.a. In fact, in 1988 the growth rate of real GDP in low income developing economies was 8.6%. This marked difference as a result of two factors (a) most of the debtors countries belong to the middle income economies (b) growth rate generated by China and India, who account for 68% of the GDP of low income economies. Thus, while the GDP growth rate in China and India (combined) was 8.5% p.a. in the period of 1980-87, for other low income economies the GDP grew only by 1.7% p.a. in the same period. For a further analysis in this context the following exhibit is useful :

Exhibit 6.2

Performance of Low Income Countries (Annual Change 1980-87)

	GDP	Industry	Services	Inflation	Exports	Imports	Energy Consumption
Low-income countries	6.1	8.6	5.1	8.6	3.4	2.3	6.4
China & India	8.5	12.0	6.9	5.5	9.6	19.6	6.0
Others	1.7	0.2	2.9	13.3	-0.1	-3.9	-0.4

Source : Background Paper, PHD Chamber of Commerce and Industry.

Within the middle income developing countries, S. Korea, Taiwan, Turkey, Thailand, Egypt and Oman represented the high growth economies. But even their performance couldn't help in maintaining the GDP growth rates which fell from 5.5% in 1973-80 to 2.2% in 1981-85 period. Since 1985, the middle income developing economies have shown a gradual rise in their annual real growth rate of GDP which had risen to 3.9% in 1986; 3.4% in 1987. In 1986, however, there was again a decline to 2.6%.

The behaviour of developing economies has also been significantly different when a

regionwise analysis is undertaken. While East Asian and South Asian economies have not been so badly affected, other developing countries have seen drastic changes in their economic growth.

In fact, countries in East Asia demonstrated GDP growth can take place despite world recession. Their real GDP growth rates increased from 6.5% p.a. in 1973-80 to 7.8% in the 1980-85 period. Their GDP growth further increased by 8.6% in 1987 to reach 9.4% in 1988.

This region has also witnessed a change in the composition of its outputs. The growth rates in the industrial sectors were 12.7%, 9.3% and 10.1% per annum in the periods of 1965-73, 1973-80, 1980-87 respectively. The subsequent rise in the last period can be explained through an increase in the saving from 27.8% in 1980 to 33.7% in 1987. The growth in the service sector has also been marked.

The growth in this region can be attributed primarily to the four Asian tigers, viz. South Korea, Taiwan, Singapore and Hongkong. All these countries have managed to generate Trade surplus. While Taiwan has a surplus of \$ 80 billion, South Korea and Singapore have trade surplus. While Taiwan has a surplus of \$ 80 billion South Korea and Singapore have high income economies with per capita GNP greater than \$ 7000. Except for South Korea which has a per capita GNP of US \$ 5000. It is estimated that South Korea will also belong to the high income economies by next decade. The reason that South Korea has lower GNP is that, although, it has an GNP in absolute terms greater than all the three countries combined but it also has a population which is greater than all three countries combined.

The other country worth noting is Thailand which may become the 5th Asian tiger. Although it was an agrarian economy in 1965 the share of agriculture has declined from 32% in 1965 to 16% in 1987. At the same time the share of manufacturing sector has gone up from 23% to 35% in the identical timespan. This is also reflected in its trading pattern, while the share of primary goods declined from 84% to 45% the share of light manufactured goods rose from 4% to 59% in the period of 1965-1987. Exports for Thailand have been growing at the rate of 10.2% p.a. whereas imports have been growing only at the rate of 3.4% p.a.

Other ASEAN members like Philippines and Indonesia haven't been doing well. The GDP growth rates in the period of 1980-87 were -5% & 3.6% p.a. respectively. The growth rates of agriculture and industrial sectors have also declined for both these economies. In fact for Philippines the growth rate of service sector is zero.

The S. Asia regions performance has been greatly influenced by the performance of China, India, Pakistan and to some extent Bangladesh and Sri Lanka.

The real GDP growth rate of this region has continuously increased except in 1986-87 which were drought years. While the GDP growth rate p.a. was 4.4% in 1973-80 period it rose to 5.4% p.a. in 1980-85. As previously mentioned the GDP growth rate fell in 1986-87 because of drought in this region. But it subsequently increased 7.6% in 1988.

This region reflects a primarily agrarian region. However, the dependence on agriculture is continuously declining in 1965-73 period it declined at the rate of 3.4% p.a. This decline continued at the rate of 2.4% p.a. and 1.4% p.a. in the 1973-80 and 1980-87 periods. Decline in income through agriculture was substituted by a growth in industries sector and service sectors which grew at the rate of 7.2% p.a. and 6.1% p.a. in the period of 1980-87. Thus, while the share of agriculture dropped from 35% in 1980 to 27% in 1987. The share of industries rose from 22% to 25% in the corresponding period.

This region has also witnessed a rise in the savings rate and exports. The rate of saving increased from 17.9% in 1980 to 20.3% in 1987. The rate of growth of exports rose from 8.3% p.a. in 1973-80 to 13.2% in 1988. This rate of growth was greatly influenced by the recession and declined to 2.6% p.a. in the period of 1980-85. However, since 1986 the recovery has been remarkable. In 1986 the rate of growth of this region 10.4% which rose to 15.7% in 1987.

The behaviour of rate of increase in GDP can also be explained if we observe the rate of growth of GDP and its composition in India and China and Pakistan. The following exhibit can be used to analyse the above trends:

Exhibit 6.3

	Period 1980-87		
	India	China	Pakistan
Real growth in GDP p.a.	4.6%	10.4%	6.6%
Growth rate in manufacturing sector	8.3%	12.6%	—
Export behaviour (growth rate p.a.)	3.6%	11.7%	8.4%

The rate of saving in China were also greater than that of India. While India had 22% rate of saving China had a rate of saving of 38%. In these countries while the rate of growth in GNP declined the population continued to grow as a result of which the per capita GNP also declined.

In fact in the highly indebted countries there was a drop of 2.6% p.a. because of the above reasons in the period of 1980-88. The GDP growth rates in the highly indebted countries was only 0.2% p.a. in 1980-85. This improved to 3.2% in 1986 but again declined to 1.5% in 1988.

The saving ratio in all of these countries declined because of the lowering in per capita GNP. In this region the role of Bangladesh and Sri Lanka are also worth mentioning. Bangladesh also witnessed significant improvement in the growth of industrial sector and the country export sector also saw an average annual increase of 6.2% in this period. In case of Sri Lanka also both manufacturing and export sectors growth rates have shown a remarkable recovery.

In the other developing economies in Europe, Middle East, N-America & Latin America and Caribbean as also in the sub-saharan Africa the trends were different from that S. Asian and E. Asian economies.

In Europe East and N. America the developing economies were greatly influenced by the upheavels in the world as also by the recession in 1980-82. The real growth of GDP p.a. dropped from a high of 7.6% p.a. in 1965-73 to 4.3% in 1973-80. It continued to drop the period of 1980-85 and reached a low of 2.3% p.a. Similarly in the Latin American countries and Caribbean countries also the GDP growth rate dropped to 0.5%. In 1988, however, it improved to 1% rate of increase.

The sub-saharan Africa was the worst affected. Its GDP growth rate declined from 3.2% during 1973-80 to -0.5% in 1980-85 period. Although the world trade increased during the decade the 1981-82 phenomena can be explained more clearly by watching the behaviour of Export, Import volumes of both developed and developing countries.

Thus, while for developed countries the decline in export volumes in 1982 was 2.1% the decline in import volumes was 0.7% and the decline in developing countries export volumes was 6.6%. Therefore, there was a decline in the world trade (in terms US \$ 4.3 billion) in 1982. This was also partially because of an accompanied price decline of manufacturing goods 3.9% and 2.1% in 1981 and 1982 respectively and 13.5% and 9.9% in case of non-oil commodities. Within the developing countries and the developed countries the changes in export volumes, import volumes and terms of trade can be observed from the following exhibits.

Exhibit 6.4

Industrial Countries : Export Volumes, Import Volumes, and Terms of Trade 1981-88

	1981	1982	1984	1985	1986	1987	1988
Export Volumes							
Canada	4.9	-0.5	15.6	6.5	3.8	6.7	9.3
United States	-1.6	-11.0	8.0	3.2	7.0	13.2	24.1
Japan	11.5	-2.4	15.7	5.1	-0.5	0.4	4.3
France	4.4	-4.3	4.7	1.8	-0.3	2.4	6.9
FRG	6.6	3.3	9.2	5.9	1.3	2.8	7.6
Italy	6.6	-1.6	8.0	3.2	4.1	3.1	6.4
U.K.	-1.0	2.8	8.1	5.6	3.6	5.3	0.2
All Industrial Countries	3.8	-2.1	9.9	4.7	2.7	5.3	8.7
Import Volumes							
Canada	10.1	-16.5	19.5	10.0	7.9	8.2	13.9
United States	0.5	-3.7	24.8	-4.5	13.2	5.5	7.1
Japan	-2.5	-0.8	10.5	0.6	9.7	9.1	16.7
France	-3.6	3.0	3.4	4.3	6.6	7.2	8.0
FRG	-5.0	1.4	5.1	4.1	6.2	5.4	6.9
Italy	-4.5	-1.8	10.9	4.1	8.0	10.6	7.2
U.K.	-3.9	5.5	11.4	3.1	6.9	7.0	13.2
All Industrial Countries	-1.7	-0.7	12.5	4.6	8.1	6.9	9.5
Terms of Trade							
Canada	1.7	-3.1	-0.9	-1.5	-2.4	1.9	2.4
United States	1.9	3.0	1.9	-2.2	0.6	-6.5	1.8
Japan	1.1	1.2	2.5	4.1	34.3	1.1	3.0
France	-4.7	2.0	1.3	2.6	9.7	1.0	1.3
FRG	-6.6	3.7	-2.3	1.3	15.1	3.7	-0.4
Italy	-4.9	2.7	-1.5	0.6	15.8	2.3	0.5
U.K.	0.9	-0.1	-1.5	1.0	-5.1	0.9	1.1
All Industrial Countries	-1.1	1.5	0.4	0.4	8.5	0.5	1.7

Source : Background paper, Colloquium

Exhibit 6.5

Trend of Developing Countries Merchandise Trade

	1981	1982	1984	1985	1986	1987	1988
Export Value	-1.5	-11.1	6.4	-4.3	-6.6	22.4	12.5
Import Value	9.2	-7.3	0.1	-3.2	0.3	14.8	17.0
Export Volume	-5.3	-6.6	7.1	0.9	9.2	10.6	11.0
Import Volume	6.2	-3.5	2.5	-0.6	-4.0	5.9	10.2
Terms of Trade	2.1	-0.9	1.7	-2.6	-18.1	2.2	-4.6
Purchasing Power of Exports	-2.4	-7.1	9.7	1.7	-10.5	13.0	5.9

Exhibit 6.6

Export Performance of Developing Countries by Categories

	1981	1982	1984	1985	1986	1987	1988
Manufactures	9.7	1.9	14.5	4.1	8.7	12.1	12.7
Primary Products	-0.1	1.4	2.2	5.5	4.2	2.4	3.2
Agricultural Products	2.4	-0.7	2.4	6.4	3.9	1.9	7.0
Asia	7.6	1.1	13.3	3.7	16.4	18.7	13.4
Africa	-13.8	-5.0	9.1	6.4	3.3	-1.1	2.4
Europe	2.6	3.6	11.8	2.7	0.8	9.3	6.4
Middle East	-16.5	-17.7	-4.3	-7.1	19.3	1.8	12.2
Western Hemisphere	7.8	-2.1	8.0	0.8	-7.2	7.5	11.2
Sub-Saharan Africa	-2.1	1.4	5.1	-0.2	8.6	2.4	-0.5
Four NICs	10.4	1.9	15.8	3.8	20.6	22.3	15.7
Fifteen Heavily Indebted Countries	-0.8	-5.0	8.7	2.3	-2.5	5.6	10.8

6.4 TRADE PATTERNS : AN ANALYSIS

While analysing trade patterns it is not only necessary but essential to break the patterns into volumes and prices for a better understanding of the pattern. While trade volumes may be given for the purpose of analysis the price impact is explained through the terms of trade and the purchasing power of export (a composite measure).

The terms of trade may be understood as the relative price of foreign goods vis-a-vis domestic goods. The terms of trade are largely a result of world economic situation and may also be explained as uncontrollable variable. The oil prices in 1973 and 1979 has had significant impact on the terms of trade world over. Thus while the industrial countries of the world saw an unfavourable term of trade in 1981 the developing countries observed it in 1982. This lag behaviour and pattern in terms of trade can be very clearly understood from the exhibit 6.4 and exhibit 6.5. This behaviour is again reinforced by an observation of purchasing power of exports vis-a-vis terms of trade and can be observed in exhibit 6.6

Activity 1

- i) Explain how output, income and expenditure influence the patterns of trade in the world.

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- ii) Examine the prices of exports and imports for various products exported and imported by India and develop a weighted average for the same. Also explain what is the nomenclature for the same.

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6.5 THE DEBT PROBLEM

With the declaration of oil price rise given by OPEC in 1973, there was a major shift in the resources of the world from the non-oil producing countries to the oil producing countries of the world. This created major pressures on the current account of the NOPEC countries. In order to counter the pressures created in their current account these countries raised the capital inflow through debt so that their currency values remain stable. This major recycling of petro dollars was undertaken by banks in the period of 1973-79 to maintain the world economic growth.

While the developed countries were able to handle the debt problem through their current account the developing countries and the less developed country could not. Moreover they kept borrowing in a hope that they would be better off in real terms because of inflation, a fact inconsistent with both Fisher effect and International Fisher effect.

This problem climaxed with Mexico declaring its inability to meet its debt in 1982. Brazil and Argentina followed suit in 1983 causing major chaos in international banking practices. Today the world borrowing among developing economies can be distributed as under :

Asian countries	20%
African countries	33%
European countries	13%
N. East countries	12%
World debt	100%

This debt problem has two major implications : (i) reduction in the economic consumption which can be measured through Debt/GNP or GDP (ii) the problem of repaying the principal and interest which is measured through debt/export earning.

This is also known as the debt servicing problem. The exhibit 6.7 given below shows these ratios for some of the worlds most indebted countries.

Exhibit 6.7: The Burden of External Debt
Ten developing nations with highest external debt in 1990

In Billion U.S. \$		As % of GNP
116.2	Brazil	25.1
96.8	Mexico	42.1
70.1	India	25.0
67.9	Indonesia	66.4
61.1	Argentina	61.7
52.5	China	14.4
49.4	Poland	82.0
49.1	Turkey	46.1
39.9	Egypt	126.5
36.1	Nigeria	110.9

Source: World Development Report, 1992

An interesting fact to note is that all the developing countries and the less developing countries have been facing an increasing debt burden irrespective of the fact that whether they are trying to increase export earning or trying to change their contribution pattern. And even where they have chosen to remain agrarian economies. They are still facing the debt problem. In fact 73% of the world debt is concentrated in economies trying to promote export. For economies trying to increase the share manufacture in their GNP the debt has increased from US \$ 281.5 billion in 1981 to US \$ 470.4 billion in 1988.

Activity 2

Explain the following :

- the need for a country to borrow
- the debt servicing ratio and the problems faced by a country with mounting debt servicing ratio.

6.6 MAJOR DEVELOPMENTS IN THE INTERNATIONAL ECONOMY

Significant developments have taken place in the world economy. These changes have been subdivided as developments in trade, monetary and financial environments. The major developments that have taken place in the trade environment of the world may be illustrated as under :

- a) co-ordinated and integrated approach towards major growth issues
- b) Qualitative changes that have taken place in North-South relationship
- c) Policy of privatisation
- d) Development of SME's
- e) Development of economic unions free trade areas and regional co-operation movements.

In the process of recovery most of the industrialised nations have realised the benefits of a co-ordinated and integrated approach in tackling growth problems. There has been an increased understanding among the G-7 nations since 1985. This is viewed by economic experts as a measure that will impart greater stability to the world economy. This will also

benefit the developing countries and less developing countries because they would have to be involved in the development process of the open economies.

In fact this development has had all impact on the North-South relationship. North is more willing to help the South through soft loans, aids and other similar financial and non-financial assistance.

The realisation of the fact that global co-operation is necessary for sustaining world economic growth has resulted in increase in privatisation and liberalisation of economies world over. The development of SME's (Socialist Market Economies) is a byproduct of this process countries like USSR, Hungary, Poland and China are revamping their economic policies. Even a country like India is slowly opening up its economy in keeping with the trend. The developed world is exerting pressures on developing and less developing countries economies to go in for free market economies.

All this has given IMF a greater freedom and importance in instituting the development process. In fact the G-7 has offered to bail Hungary out of the mess if it undertakes Structural Adjustment Facility (a package prepared by the IMF). Another dimension of this increased co-operation are the developments of economic union, regional co-operation movements and free trade areas. (For a detailed analysis into this dimension look into Block I Unit I.)

All these changes in the economic environment of the world have had an impact on trade practices. Voluntary export restraint practised by Japan and S. Korea to bail America out of its problem of trade imbalance provide support to the above development.

However, all has not been well. The world has witnessed a growing weakening of GATT, an increase in bilateralism and groupism, as also existence and an increase in of certain unwarranted tariffs and duties.

6.7 DEVELOPMENTS IN INTERNATIONAL MONETARY SYSTEM

A monetary system may be defined as the structure with which the foreign exchange rates are determined, international trade and capital flows are accommodated and B.O.P. adjustments are made.

In the last two decades major developments have taken place in the international monetary system. Most important among these development is the declaration of generalised floating of exchange rates in 1973.

The necessity to combat volatility in exchange rates resulted in the world acceptance of generalised floating as a means for determining the exchange values. Today, the real value of a currency is determined by its demand and supply conditions. (The demand for a currency is derived demand and is dependent upon the country's demand and supply for internationally traded goods and services.)

Prior to the acceptance of generalised floating exchange rates, the exchange rates were fixed by the value of gold reserves held by a country. The current monetary system is a descendant of the Bretton Woods agreement 1944. In the agreement drawn by the Allied power in the post World War II period it was agreed that the value of the currency would be fixed by the buying and selling pressure keeping in mind the gold reserves.

It was also agreed that a currency would not be devalued unless it was absolutely necessary and then also marginally. If the devaluation was to be greater than 10% then IMF permission was mandatory and the trade band fixed had a limit of 1%. However, the world environment remained hostile and gold linkage had to be dropped, this was a result of several development.

Crisis of 1971

The crisis of 1971 also referred to crisis of monetary reserves developed on account of increase in foreign trade and investment not keeping pace with monetary reserve.

In order to maintain the value of the currency, countries maintained reserves in gold, Dollars Pounds SDR's and other convertible currencies. Since the gold tranche could be withdrawn

it was also added to the reserves. In the period from 1949-1971 this resulted in monetary reserves increasing from US \$ 46 billion to US \$ 117 billion. The gold reserves hadn't grown during this period, therefore, this rise represented an increase in US \$ held by the surplus countries. The major reason for gold not being added was the fact that the gold mined was either consumed or hoarded by private citizens. This discrepancy in gold reserves created serious trade imbalances.

The world, perceived that the only way of restoring trade balance was by making reserve rich countries run deficits to transfer wealth. Consequently USA, UK and France ran deficits. By August 1971, USA had mounted an all time high deficit of \$ 29.6 billion. The monetary speculators began to doubt the ability of these governments to make up their deficits. These countries, therefore, had to devalue their currency in order to restore balance. But the monetary speculators began to doubt the monetary system and more specifically the US \$ and its ability to convert for most of the currencies had appreciated by then in relation to US \$. Are this made currency rates volatile with US \$ losing strength?

In order to control the situation the President Nixon declared the following measures :

- a) price freeze
- b) .10% duty on all imports
- c) suspended purchases and sale of gold by US treasury
- d) dropped the conversion clause.

Although Nixon was against devaluation of dollar, because he felt that all other countries would also devalue since their currency value was also fixed on gold basis, the dollar was devalued in December, 1971 as per the Smith Sonian Agreement from \$ 35 = 1 ounce to \$ 38 = 1 ounce. This was accepted because other nations agreed to revalue their currencies. It was also agreed by this agreement, to increase the trade band from 1% to 2.5%, in effect allowing for a 4.5% variability.

The period between 71-76 reflected a period of indecision when the world could not decide on a single concept. In fact the trust in the monetary system was fast evaporating. The snake witnessed in 1972 which was fixing of trading band among a few European nations and with respect to each others currency's and super snake an agreement between the Dutch and Belgians made this fact very clear.

In 1976, the G-10 nations met in Jamaica and agreed to adopt floating exchange rates. The government were free to interfere to remove the impact of unwarranted speculation. It was here that Gold was demonitized or delinked finally. This development marked the major change in monetary system.

The volatility of exchange rates has only mounted since then with major movement occurring in 1973, 1977-78, 1979, 1981-85, 1985-88, 1973 and 1979 marked rise in oil prices causing tremendous volatility in exchange rates because of the B.O.P. pressure created. The 1977-78 was the period when Carters administration decided to pursue domestic policies totally ignoring their international trade pressures. Although later on they did declare measures like interest equalisation tax but still the dollar continued to fall because of the pressure created by OPEC. In 1981-85 the American dollar regained its strength partly because of tax reforms and other similar reform but more so because people regained faith in political strength (a period when Reagan came to power) but the \$ has again started declining because of the major trade gap and deficits undertaken by the US government. The volatility of exchange rate still remains a major issue because it creates the problem for all concerned.

International business has to develop exchange risk management strategies because money is no longer just a medium of exchange and store of value but has also become an income earning asset as we shall see in the analysis of financial environment.

6.8 FINANCIAL ENVIRONMENT

The International Financial scene has undergone a sea change in the two decades. The major developments in International Finance can be summarized under the following markets constituting the International Financial System.

The Foreign Exchange Market

Since the advent of generalised floating in 1973, the currency rates in the Foreign Exchange Market are determined by the forces of demand and supply under the present arrangement. This causes a tremendous variability in the exchange rates of major currencies on day-to-day basis. This enhanced variability has proved to be major problem both for the policy-makers at national level as well as the corporate manager.

A great deal of time has to be devoted in managing foreign currency risks, and the cost of buying a cover to protect against foreign currency fluctuations has been multiplied in normally international business transactions. On the other hand, however, variations in exchange rates has opened up profit opportunities for the speculators who take positions in a currency as well as the arbiters who take advantage of the differences in rates in various markets at a given point of time. An arbiter buys a particular currency in a market where it is cheaper and sells the same currency (same amount) in another market where the rate is slightly higher and makes the profit in the process. This has forced the foreign exchange markets come closer and become truly global and integrated one where the participants in the market continuously buy and sell different currencies with a view to make profit. The developments in information technology have also helped the spatially dispersed markets to come closer. The foreign exchange markets happens to be the largest market where transactions worth \$ 500-700 billion take place everyday.

There are a lot of new hedging products such as forward rates, currency options, currency futures, roll over covers etc. which have become available in the recent times.

The Money Market

The world money markets have seen a mushroom growth in various short-term financing and treasury products. The forward exchange market acts as a bridge between the exchange market and the money market.

In the International money market, funds in any currency are traded outside the regulations governing domestic markets in that currency. For instance, when the US dollar deposits are traded outside the banking regulations governing domestic US dollar deposits, this type of transaction is the core of the so-called Eurodollar market. When speaking of all the currencies traded in foreign markets one usually refers to them as Euro-currency markets.

The Euro-currency markets have witnessed a tremendous increase in the volume of transactions during the current decade. The deregulation of these markets have been a major feature in the past. The availability of short-term financing products such as the commercial paper has increased the access of corporate borrowers in these markets. Also, due to the tremendous flexibility available in these markets, it is possible to totally separate the financial aspect of a project from its investment aspect by accessing the short-term money markets. Since there are no regulations governing these markets, the borrowing costs tend to be slightly lower than in the domestic markets. Similarly, the depositor is also offered a slightly higher return than what he would be carrying to the domestic markets. The products in this markets are of short-term nature because the interest rates and currency values fluctuate on a continuous basis.

The Long-term Capital Markets

If one wishes to raise long-term capital from international markets, one can today choose from the array of instruments that are available for this purpose. These include the syndicated Loans, Bonds, Equity Issues, and the derivative products. While the syndicated loan markets are accessible by an ordinary corporate borrower, the Bond and the equity markets are meant only for the top class corporate clients. These bond markets offer cost advantage to the syndicate loans to the borrower. To the investor also, they offer a slightly higher rate of return and liquidity as they are often bearer bonds. If a bond is a multicurrency one, then it automatically provides protection against currency fluctuations.

Access to international equity markets helps a company to take advantage of International portfolio diversification and minimise the overall risks of its operation. Also, the cost of funds may turn out to be lower by accessing gamut of the segmented markets. We have seen the part phenomenal increase in the cross border of listing of various securities, and also different variants of International bonds.

To summarise the trends in all the three markets, it is worth noting the following

- 1) Financial Risk Management has become the major issue today due to the fact that currencies and interest rates fluctuate continuously in the foreign exchange and

- International money markets. This increases the cost of International operation as a company needs to buy a cover against these fluctuations.
- 2) International integration of various markets has increased the access for funds by a company, also the cost of funds to same extent.
 - 3) Increase in volume of transactions, and going deregulation of various markets have developed healthy competition in these markets, thereby bringing down the margins of intermediaries.
 - 4) Due to the availability of various linking and hedging products the three major markets today seem to overlap with each other a great deal.

6.9 IMF AND WORLD BANK

International Monetary Fund (IMF)

The IMF was established on 27th December 1945 as an independent international organisation and began operations on 1st March 1947. The capital resources of the Fund comprises SDRs and currencies that the members pay under quotas calculated for them when they join the Fund. The fund headquarters is located in Washington DC with offices in Paris and Geneva.

The objectives of the bank are to promote international monetary co-operation, the expansion of international trade and exchange rate stability; to assist in the removal of exchange restrictions and establishment of a multilateral system of payments; and to alleviate any serious disequilibrium in members' international balance of payments by making the financial resources of the Fund available to them, usually subject to conditions to ensure the revolving nature of fund resources.

Each member of the fund undertakes a broad obligation to collaborate with the Fund and other members to ensure the existence of orderly exchange arrangements and to promote a system of stable exchange rates. In addition, members are subject to certain obligations relating to domestic and external policies that can affect the balance of payments and the exchange rate. The fund makes its resources available, under proper safeguards, to its members to meet short-term or medium-term payment difficulties.

International Bank for Reconstruction and Development (IBRD)

IBRD was conceived at the Bretton Woods Conference in July 1944 and began its operations in June 1946. It has its headquarters at Washington DC and is also known as 'World Bank'. The Bank's purpose is to provide funds and technical assistance to facilitate economic development in its poorer member countries.

The bank obtains its funds from capital paid in by member countries; sales of its own securities; sale of parts of its loan; repayments; and net earnings.

The Bank furnishes a wide variety of technical assistance. It acts as executing agency for a number of pre-investment surveys financed by the UN Development Programme. The Bank helps member countries to identify and prepare projects for the development of agriculture, education and water supply by drawing an expertise of the FAO, WHO, UNIDO, and UNESCO through its co-operative agreements with these organisations.

International Development Association (IDA)

IDA is a lending agency which came into existence on 24th September 1960. Administered by the World Bank, IDA is open to all members of the Bank.

IDA concentrates its assistance on those countries with an annual per capita GNP of less than \$481 (1987 rates). Its resources consist mostly of subscriptions, general replenishments from its more industrialized and developed members, special contributions, and transfer from the net earnings of the Bank. IDA credits are made to Governments only.

International Finance Corporation (IFC)

The Corporation, an affiliate of the World Bank, was established in July 1956. IFC supplements the activities of the World Bank by encouraging the growth of productive

private enterprises in developing member countries. Chiefly, IFC makes investments in the form of subscription to the share capital of privately owned companies, or long-term loans or both. The corporation will help finance new ventures and assist established enterprises to expand, improve or diversify. It also provides a variety of advisory services to public and private sector clients.

6.10 SUMMARY

This unit has discussed the developments in the trade, monetary and financial environment. So far as international trade is concerned the relationship with output, income and expenditure of the developed world has been explained. This has been examined both from temporal and analytical point of view. An attempt has also been made to bring out the impact on developing economies of the world. The growing debt problem has also been viewed.

The changes that taken place in the monetary and financial environment have also been brought out. Of special importance is the acceptance of generalised floating which has made money, more than a medium of exchange and store of value, an asset. All these developments in the environment have definite implications for an international marketing manager in terms of redefining his task. This relationship has also been explored.

6.11 SELF-ASSESSMENT QUESTIONS

- 1) Why should an international marketing manager monitor the trade, monetary and financial environment?
- 2) What are the underlying implications of the mounting debt problem on international business? Examine with reference to India.
- 3) The currency in which marketing manager invoices can have direct implications on his cash flows and profitability. Explain.

6.12 APPENDICES

Appendix 1 World Economy : 1979-82

Appendix 2 GDP Growth Rates of Different Economies

Appendix 3 Economic Trends in G-7 Countries

Appendix 4 Debt Composition of 17 Highly Indebted Countries : 1980-87

Appendix 5 Net Oil Export Earnings of Major Oil Exporting Developing Countries : 1983-86

6.13 FURTHER READINGS

David K. Eitleman and Arthur I Stonehill, *Multinational Business Finance*, Fifth Edition, Addison-Wesley Publishing Co.

Alan C. Shapiro, *Multinational Financial Management*, Third Edition, Allyn and Bacon, A division of Sunon and Schuler Massachusetts.

International Monetary Fund, *The World Economic Outlook 1989*

Appendix 1

World Economy : 1979-82

		GDP Growth	Inflation Rate*	Invest- ment/ GDP Ratio	Consum- ption/ GDP Ratio	Current A/c Bala- nce (\$ bn.)	Exports (\$ bn.)	Imports (\$ bn.)
World	1979	3.5	13.1	24.0	75.8	-13.26	1553.4	1583.5
	1980	2.0	15.6	23.6	76.4	-31.64	1896.7	1946.4
	1981	1.6	13.3	23.0	76.9	-71.50	1864.1	1928.0
	1982	—	12.0	21.4	78.3	-106.84	1729.3	1806.8
Industrialised Countries	1979	3.2	8.3	23.3	76.6	-24.59	1052.7	1142.7
	1980	1.3	10.5	22.8	77.4	-61.75	1239.7	1370.2
	1981	1.5	8.9	22.0	77.7	-21.39	1218.9	1301.5
	1982	-0.2	7.3	20.4	79.2	-23.28	1155.5	1220.5
Developing Countries	1979	4.5	31.1	26.1	73.2	11.32	484.6	426.1
	1980	4.4	34.9	26.0	73.0	30.11	637.2	556.4
	1981	2.2	29.9	26.3	74.3	-50.10	622.7	605.4
	1982	0.9	30.0	24.5	75.4	-83.56	551.7	567.4

* Change in GDP deflator

Source : International Financial Statistics, IMF, 1987.

Appendix 2

GDP Growth Rates of Different Economies

Group of Countries	GDP (\$ billion)				GDP Growth (%)						
	1965	1980	1985	1988	1965- 73	1973- 80	1965- 80	1980- 85	1986	1987	1988
High-income	1412	7914	8933	13963	4.6	2.9	3.7	2.3	2.6	3.4	3.7
Low-income	162	771	815	893	6.0	4.7	4.8	5.9	5.8	5.4	8.6
Middle-income	208	1616	1681	2172	6.9	5.1	6.5	2.2	3.9	3.4	2.6
East Asia	91	573	629	852	7.9	6.5	—	7.8	7.3	8.6	9.4
South Asia	65	221	277	316	3.8	4.4	—	5.4	4.6	3.1	7.6
Sub-Saharan Africa	28	207	185	146	6.1	3.2	5.3	-0.5	3.2	-1.3	3.1
Latin America & the Caribbean	99	716	682	837	6.4	5.2	—	0.5	3.6	2.7	1.0
17 Highly Indebted Countries	121	915	826	934	6.6	5.2	6.4	0.2	3.5	1.7	1.5
Oil Exporters	78	966	1011	855	7.4	5.0	6.8	0.8	-0.9	1.3	—
				(1987)							
Reporting Countries	1786	10300	11431	17125	4.9	3.3	—	2.6	3.1	3.6	4.0

Appendix 3

Economic Trends in G-7 Countries

		1982	1983	1984	1985	1986	1987	1988
Real GNP	USA	-2.5	3.6	6.8	3.4	2.8	3.4	3.9
	Canada	-3.2	3.2	6.3	4.6	3.2	4.0	4.5
	Japan	3.1	3.2	5.1	4.9	2.5	4.5	5.7
	France	2.5	0.7	1.4	1.6	2.1	2.3	3.4
	FRG	-1.0	1.9	3.3	1.9	2.3	1.8	3.4
	Italy	0.2	1.1	3.2	2.9	2.9	3.1	3.8
	U.K	1.8	3.6	2.1	3.5	3.2	4.6	4.4
Domestic Demand	USA	-1.9	5.1	8.7	3.8	3.7	3.0	3.0
	Canada	-6.6	4.1	5.3	5.1	3.9	4.7	5.5
	Japan	2.8	1.8	3.8	4.0	4.1	5.2	7.7
	France	3.5	-0.7	0.4	2.2	3.9	3.4	3.7
	Italy	-2.0	2.3	2.0	0.8	3.6	3.1	3.5
	FRG	0.3	0.2	4.0	3.1	3.2	4.6	4.2
	UK	2.2	4.8	2.6	2.7	3.9	5.0	6.0

		1982	1983	1984	1985	1986	1987	1988
Gross Fixed Investment	USA	9.6	8.2	16.8	5.4		1.9	6.0
	Canada	3.5	0.7	2.1	8.2	5.0	9.6	12.5
	Japan	0.8	0.3	4.9	5.8	5.8	10.3	13.3
	France	1.4	3.6	2.3	2.4	2.9	3.5	6.8
	FRG	5.3	3.2	0.8	0.1	3.3	2.5	5.8
	Italy	5.7	0.1	5.3	2.5	1.4	5.2	6.8
	UK	5.4	5.0	8.6	3.8	0.9	5.6	11.4
Employment	USA	0.9	1.3	4.1	2.0	2.3	2.6	2.3
	Canada	3.5	0.5	2.4	2.6	2.8	2.9	3.2
	Japan	1.0	1.7	0.6	0.7	0.8	1.0	1.7
	France	0.2	0.4	0.9	0.3	0.2	0.3	1.0
	FRG	1.9	1.7	0.2	0.8	1.2	0.9	0.7
	Italy	0.2	0.3	0.4	0.5	0.6	0.1	1.3
	UK	1.9	0.2	2.2	1.4	0.7	2.1	2.1
Unemployment Rate	USA	9.7	9.6	7.5	7.2	7.0	6.2	5.5
	Canada	11.0	11.8	11.2	10.5	9.5	8.8	7.8
	Japan	2.4	2.7	2.7	2.6	2.8	2.8	2.5
	France	8.1	8.3	9.7	10.2	10.4	10.6	10.3
	FRG	6.8	8.2	8.1	8.2	7.9	7.9	7.7
	Italy	8.6	9.9	10.0	10.3	11.1	12.0	12.0
	UK	9.9	10.8	11.0	11.2	11.3	10.2	8.2
GNP Deflator	USA	6.4	3.8	3.7	3.0	2.7	3.3	3.4
	Canada	8.7	3.0	3.1	2.9	2.5	4.3	4.2
	Japan	1.8	0.8	1.2	1.4	1.8	0.2	0.5
	France	11.9	10.1	8.9	4.5	5.1	2.5	2.8
	FRG	4.4	3.3	2.9	2.2	3.1	2.0	1.5
	Italy	16.2	15.0	11.3	8.9	7.5	5.6	5.4
	UK	7.5	5.1	4.8	3.6	3.6	3.9	6.0

Appendix 4

Debt Composition of 17 Highly Indebted Countries, 1980-87

Country	Debt from Official Sources		Debt from Private Sources		Debt at Floating Rate	
	1980-82	1987	1980-82	1987	1980-82	1987
Argentina	9.0	14.2	91.0	55.8	29.2	79.3
Bolivia	50.3	73.3	49.7	25.7	28.0	27.9
Brazil	12.6	24.1	88.3	76.2	46.1	58.3
Chile	11.0	22.0	89.0	78.0	23.4	68.2
Colombia	46.1	53.8	51.9	46.2	33.7	36.8
Cost Rica	36.8	51.0	63.2	49.0	42.4	49.8
Ecuador	30.6	34.9	69.4	65.1	36.5	68.6
Jamaica	68.3	82.3	31.7	17.7	17.4	24.9
Mexico	10.9	16.4	89.1	83.6	61.7	67.6
Peru	39.3	46.0	60.7	54.0	23.0	29.9
Uruguay	21.1	20.3	78.9	79.7	28.5	65.0
Venezuela	3.0	3.4	97.0	96.6	60.3	68.7
Cote d'Ivoire	23.8	40.4	76.2	59.6	37.1	37.1
Nigeria	14.6	44.6	85.4	55.4	48.6	48.8
Philippines	32.6	43.8	67.4	56.2	23.4	45.2
Morocco	56.5	71.9	43.5	28.1	26.8	30.5
Yugoslavia	23.6	35.1	76.4	64.9	10.1	39.2

Source : World Development Report, 1989.

Net Oil Export Earnings of Major Oil Exporting Developing Countries: 1983-86

(\$ billion)

Countries	1983	1984	1985	1986
Algeria*	9.00	8.19	7.81	3.55
Angola	1.72	1.10	2.25	1.30
Bahrain	0.22	0.18	0.17	0.08
Brunei	1.79	1.60	1.52	0.84
Cameroon	1.15	1.25	1.70	0.86
Colombia	n.a.	n.a.	0.03	0.58
Congo	1.04	1.16	1.26	0.65
Ecuador*	1.55	1.71	1.94	0.89
Egypt	3.66	4.56	4.65	2.00
Gabon*	1.63	1.61	1.51	0.71
Indonesia*	10.28	11.24	9.04	4.64
Iran*	18.37	14.70	15.07	5.69
Iraq*	6.43	9.73	11.26	6.86
Kuwait*	7.91	8.50	7.86	5.28
Libya*	11.10	10.30	9.39	4.25
Malaysia	1.95	2.53	2.13	1.38
Mexico	15.51	15.89	14.06	5.70
Nigeria*	11.46	12.75	13.22	6.42
Oman	4.04	4.09	4.76	2.49
Peru	0.63	0.61	0.80	0.32
Qatar*	3.29	4.29	3.07	1.74
Saudi Arabia*	47.22	40.41	27.55	19.55
Syria	0.21	0.22	0.13	0.10
Trinidad	1.44	1.42	1.49	0.64
Tunisia	0.62	0.61	0.64	0.24
UAE*	12.02	13.72	12.27	7.27
Venezuela*	15.28	15.63	13.59	6.67
Total	191.52	188.00	169.17	90.74
% OPEC	82	81	79	81

* OPEC Members

Source: Energy in Non-OECD Countries, Selected Topics, 1988.

BLOCK 3 POLICY FRAMEWORK AND PROCEDURAL ASPECTS

Block 3 on policy framework and procedural aspects consists of 2 units. Unit 7, describes the salient features of current Import-Export Policy of India.

The transfer of ownership and possession in international trade has typically been associated with a large number of documents and attendant procedures. Unit 8 describes the various documents associated with exports appropriately categorised to facilitate understanding. Export procedures have also been sequentially discussed.

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UNIT 7 IMPORT EXPORT POLICY OF INDIA 1992-97

Objectives

After reading this unit you should be able to:

- List out major features of the policy
- Identify the purview of the policy

Structure

- 7.1 Introduction
- 7.2 Main Features
- 7.3 Imports
- 7.4 Exports
- 7.5 Export Promotion Capital Goods Scheme
- 7.6 Duty Exemption Scheme
- 7.7 Export Houses, Trading Houses & Star Trading Houses
- 7.8 Export oriented units & Units in Export Processing Zones
- 7.9 Summary
- 7.10 Self Assessment Questions
- 7.11 Further Readings
- 7.12 Appendix

7.1 INTRODUCTION

The central government announced sweeping changes in the trade policy on 4th July 1991 & 13th August 1991. The new Import Export policy which has come into force w.e.f. 1st April 1992 is a step forward in the direction of these trade policy reforms. For the first time, the duration of the policy has been made as 5 years in order to give a stability enabling the business community to make their plans effectively. The current policy shall be in force till 31st March 1997.

The principal objectives of this policy are as follows:

- a) To establish the framework for globalisation of India's foreign trade;
- b) To promote the productivity, modernisation and competitiveness of Indian industry and thereby enhance its export capabilities;
- c) To encourage the attainment of high and internationally accepted standards of quality and thereby enhance the image of India's products abroad;
- d) To augment India's exports by facilitating access to raw materials, intermediates, components, consumables and capital goods from the international market;
- e) To promote efficient and internationally competitive import substitution and self-reliance under a deregulated framework for foreign trade;
- f) To eliminate or minimise quantitative, licensing and other discretionary controls in the framework of India's foreign trade;
- g) To foster the country's Research and Development (R&D) and technological capabilities; and
- h) To simplify and streamline the procedures governing exports and imports.

7.2 MAIN FEATURES

- 1) Exports and Imports may be done freely, subject only to Negative List of Imports and Exports.
- 2) The number of canalised goods has been drastically reduced and is confined to certain petroleum products, fertilisers, edible oils, cereals and a few other items.
- 3) The import of consumer goods and durables continue to be under restraint.

- 4) The scope of the Duty Exemption Scheme has been enlarged by introducing Value Based Advance Licences besides the Quantity Based Advance Licences. The Duty drawback rates have also been raised for 161 items.
- 5) Export houses, Trading houses and Star Trading houses will be eligible for the facility of self-certification under the Advance Licence Scheme.
- 6) The Export Promotion Capital Goods (EPCG) Scheme has been liberalised. Two windows will be now available for import of capital goods at concessional rates of customs duty at 25% or 15% with corresponding export obligations.
- 7) Gem and jewellery export promotion schemes are continued with little modification.
- 8) EOUs and EPZs given greater autonomy and flexibility. Will be allowed to install own machinery or take machinery on lease. May also export their production through Export Houses, Trading Houses or Star Trading Houses.
- 9) Registration-cum-Membership Certificate (RCMC) issued by Export Promotion Councils will continue to be an essential requirement for any importer/exporter to avail of the benefits or concessions or to apply for any licence under the new policy.
- 10) Duty Exemption Schemes, duty drawback schemes and exemption from terminal excise duty have been extended to Deemed Exports.
- 11) Special Import Licences to certain categories of exports and exporters. These include: deemed exports, Export Houses, Trading Houses, Star Trading Houses and manufacturers who acquire ISO 9000 (series) or BIS 14000 (series) certification of quality.
- 12) Government to launch a major nation-wide campaign on quality awareness and to take other steps to bring Indian products to world standards.

Activity 1

Visit any company engaged in Export/Import activities and find out the impact of the import-export policy on its business.

7.3 IMPORTS

- a) Capital goods, raw materials, intermediates, components, consumables, spare parts, accessories, instruments & other goods may be imported freely subjected to a small negative list.
- b) Consumer goods will continue to be under restraint.
- c) Special import facilities given to hotels & tourism industry & for sport bodies.
- d) Actual user condition eliminated except in a few special cases.
- e) Second hand capital goods may be imported without a licence in certain specified sectors. Other second hand capital goods to be imported in accordance with a licence issued on this behalf. The second hand capital goods shall not be more than seven years old & shall have a minimum residual life of five years. Import of second hand capital goods shall be subject to Actual User condition in all cases.

7.4 EXPORTS

Free Exports: All goods may be exported without any restriction except to the extent such exports are regulated by the negative list of exports or any other provisions of the policy. Negative list of exports has been pruned.

Registration-cum-Membership Certificate (RCMC): Any person applying for a licence to import or export or for any other benefit or concession under the policy shall be required to furnish his Registration-cum-Membership Certificate (RCMC) number granted to him by an Export Promotion Council (EPC) of which he is a member.

Denomination of Contracts: All export contracts shall be denominated in freely convertible currency. Contracts for which payment are received through the Asian Clearing Union (ACU) may be denominated in the country of the exporter or importer or in any freely convertible currency and all such payments shall be deemed to have been received in convertible currency.

Export Contracts with RPA countries: Exports to Rupee Payment Area (RPA) countries/former Rupee Payment Area (RPA) countries may be made under the terms of the Trade Agreement/Protocol signed with such countries. However, exports to such countries against payments in non-convertible Indian rupees may be required to be registered with such authority as may be specified in this behalf.

Re-exports: Goods imported from any country in the General Currency Area (GCA) in accordance with the Policy shall not be re-exported in the same or substantially the same form, without a licence, to any country in the Rupee Payment Area (RPA).

Deemed Exports: "Deemed Exports" means those transactions in which the goods supplied do not leave the country & the payment for the goods is received by the supplier in Indian rupees, but the supplies earn or save foreign exchange for the country. The policy specifies number of categories of supply of goods which shall be regarded as "Deemed Exports", provided the goods are manufactured in India & the payment is received in Indian rupees. These include supply of goods to foreign ships & airlines, ONGC, OIL, GAIL, units located in export processing zones, export oriented units, projects financed by ADB, IBRD, IDA, IFAD, OPEC, SFD, OECF & other agencies notified by the Central Government, supply of capital goods to fertilizer plants in India, supply of capital goods to holders of licence under Export Promotion Capital Goods scheme, supply of goods against licences issued under the Duty Exemption Scheme.

Deemed exports are eligible for following benefits:

- a) Duty Exemption Scheme
- b) Duty Drawback Scheme
- c) Refund of terminal excise duty
- d) Special import licences, for such value or bearing such proportion to the value of the deemed export, for the import of such items included in the negative list of imports as may be specified under a scheme to be notified in this behalf.

7.5 EXPORT PROMOTION CAPITAL GOODS SCHEME

Scheme:

Capital goods may be imported with a licence under the Export Promotion Capital Goods (EPCG) Scheme.

Import on Concessional Duty:

Capital goods may be imported, at a concessional rate of customs duty according to the conditions given in the table below, but subject to an export obligation to be fulfilled over a period of time. Such export obligation may be reckoned from the date of customs clearance of the first consignment of such imported goods.

Duty	Export Obligation	Period
25% CIF Value	3 times CIF value	4 years
15% CIF Value	4 times CIF value	5 years

Eligibility:

A manufacturer-exporter to be eligible to import capital goods under the scheme should have been a regular exporter for a period of not less than three years. However, import of capital goods under the scheme may also be allowed, on merits, to other

manufacturer-exporter who are new exporters or whose export performance is for a period of less than three years. Testing equipment, R&D equipment, packaging machinery and such other machinery or equipment as may be specified may also be imported under the scheme.

Both new and second hand capital goods may be imported under the scheme. The export obligation under the scheme shall be in the form of direct exports of the products manufactured with the capital goods permitted to be imported. The import of capital goods under the scheme shall be subject to actual user condition.

7.6 DUTY EXEMPTION SCHEME

Under the Duty Exemption Scheme, imports of duty free raw materials, components, intermediates, consumables, spare parts including mandatory spares & packing materials required for the purpose of export productions may be permitted by the competent authority under the five categories of licences mentioned below:

- 1) Advance licence
- 2) Advance Intermediate licence
- 3) Special Imprest licence
- 4) Advance customs clearance permit
- 5) Licences under production programme

7.7 EXPORT HOUSES, TRADING HOUSES & STAR TRADING HOUSES

Under the exclusive schemes for export promotion Six Free Trade Zones have been established by the Government of India. These zones are designed to provide every facility required to generate export production namely, developed plots or built-up space to entrepreneurs for establishing 100% export oriented industries. The infrastructure provided in those zones includes water and power supply, communications, banking, warehousing, access roads, transport services, custom bonding arrangements etc.

The first Free Trade Zone was established at Kandla in 1965, followed by SEEPZ in 1973. Four others are at FALTA (Calcutta), NOIDA (U.P.), Madras and Cochin. All these Free Trade Zones except SEEPZ, are multi-product zones where a variety of export products can be manufactured and exported. SEEPZ is the Electronics Export Processing Zone at Santacruz, Bombay.

EXPORTS FROM FREE TRADE ZONES

Free Trade Zone	Exports (Rs. crores)			
	1990-91	1989-90	1988-89	1987-88
Kandla FTZ	456.55	338.23	271.59	185.05
S.E.E.P.Z.	389.02	285.01	185.19	110.14
Madras EPZ	61.32	29.56	24.04	16.45
Falta EPZ	24.95	16.38	8.11	1.86
Cochin EPZ	5.46	11.00	6.25	3.04
Noida EPZ	44.58	51.90	21.34	16.05
Vizag EPZ	-	-	-	-
Total*	981.88 (3.02)	732.08 (2.64)	516.52 (2.55)	333.09 (2.13)

* Figures in brackets are percentages to total exports of India.

Merchant and manufacturer exporters and trading companies including those having foreign equity, Export Oriented Units (EOUs) and units located in Export Processing Zones (EPZs) have been recognised as Export Houses, Trading Houses or Star Trading Houses under criteria which were laid down from time to time upto 31st March 1992. With effect from 1st April 1992, the criterion for recognition as Export House, Trading House or Star Trading House shall be the average annual NFE during the three preceding years or the NFE during the preceding year, whichever is satisfied as follows:

Category	Average annual Net Foreign Exchange (NFE) earned during the base period i.e. 3 preceding licensing years, in Rupees	Net Foreign Exchange (NFE) earned during the base period i.e., preceding licensing year, in Rupees
Export Houses	6 Crores	12 Crores
Trading Houses	30 Crores	60 Crores
Star Trading Houses	125 Crores	150 Crores

Benefits

Export Houses/Trading Houses/Star Trading Houses shall be entitled to special import licences, for such value or bearing such proportion to the NFE earned during the previous licensing year, for the import of such items included in the Negative List of Imports as may be specified under a scheme to be notified in this behalf.

7.8 EXPORT ORIENTED UNITS & UNITS IN EXPORT PROCESSING ZONES

Eligibility

Units undertaking to export their entire production of goods may be set up under the Export Oriented Unit (EOU) Scheme or Export Processing Zone (EPZ) Scheme. Such units may be engaged in manufacture, production of software, horticulture, agriculture, aquaculture, animal husbandry or similar activity. Units engaged in service activities may also be considered on merits.

Importability of Goods

The unit may import free of duty the following goods required by them for production provided they are not prohibited items in the Negative List of Imports.

- Capital goods including captive power plants;
- Raw materials, components, intermediates, semi-finished goods, spares, parts and consumables;
- Proto-types, office equipment and consumables for office equipment; and
- Material handling equipment such as forklifts, overhead cranes etc.

Export Obligation

The following supplies shall be counted towards fulfilment of the export obligation:

- Supplies effected in Domestic Tariff Area (DTA) under global tender conditions;
- Supplies effected in DTA against payment in foreign exchange;
- Supplies against Advance Licences and other import licences;
- Supplies with the permission of the Development Commissioner, to other EOUs/EPZ Units.

Benefits for EPZ/EOU Units

Concessional Rent: The units set up in the EPZs will be eligible for concessional rent for lease of industrial plots and standard design factory (SDF) buildings/sheds allotted for the first three years at the following rates:

For Plots: The concession will be 75% for the first year, 50% for the second year and 25% for the third year if production had commenced in the first year or the second year. The concession will not be available for the third year if production had not commenced by the end of the second year;

For SDF Buildings/Sheds: The concession will be 50% for the first year and 40% for the second year if production had commenced in the first year. The concession will be 25% for the third year if production had commenced in the first year. The concession will not be available if production had not commenced by the end of the first year;

Tax Holiday: EOUs and EPZ units will be exempted from payment of corporate income tax for a block of five years in the first eight years of operation;

Clubbing of NFE: Net Foreign Exchange (NFE) earned by an EOU/EPZ unit can be clubbed with the NFE of its parent/associate company in the DTA for the purpose of according Export House, Trading House or Star Trading House status for the latter;

IPRS: The International Price Reimbursement Scheme for supply of iron and steel will be available to EOUs and EPZ units; and

100% Foreign Equity: Foreign equity upto 100% is permissible in the case of EOUs and EPZ units.

Activity 2

Number of new 100% export oriented units are coming up these days & tapping the capital market for funds. Obtain prospectus or share application forms of a couple of these companies & study the project details like benefits given by the government to them, export prospects, marketing arrangements etc.

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7.9 SUMMARY

This unit has discussed various aspects of the current import export policy of India (1992-97). In order to boost exports & make available latest technologies in India, several schemes have been introduced by the Government like Export Promotion Capital Goods Scheme, Duty Exemption Scheme, Special benefits for export oriented units etc. Import restriction have also been eased for most of the products.

Though this policy is valid for a period of 5 years, some small changes are made by the Govt. over period of time keeping in view the economic conditions and industry's demand.

7.10 SELF-ASSESSMENT QUESTIONS

- 1) Which of the following categories of goods are under restraint for imports?
 - a) Capital Goods
 - b) Consumer Goods
 - c) Raw Materials
 - d) Spares for Capital Goods
- 2) Which of the following is/are Deemed Exports?
 - a) Supply of machinery by L&T Bombay to GEC in U.K.
 - b) Supply of machinery by L&T Bombay to NTPC, India for an IDA assisted power project.
 - c) Supply of machinery by L&T Bombay to ONGC, India.
- 3) A pharmaceutical company is manufacturing & exporting formulations. It intends to import machinery worth Rs. 5 crores CIF for manufacturing disposable syringes with a concessional import duty of 25% under EPCG scheme. To fulfil its export obligation, it has to export
 - a) 15 crores worth of any product in a period of 4 years
 - b) 15 crores worth of formulations & disposable syringes manufactured by the company, in a period of 4 years
 - c) 20 crores worth of disposable syringes manufactured by the company on the machines being imported, in a period of 5 years
 - d) 15 crores worth of disposable syringes manufactured by the company on the machines being imported, in a period of 4 years

4) Mr's ABC Corporation imported goods from U.K. against payment in Pound Sterling & want to export the same to another country against Rupee payment. Is the company required to take approval from the government for doing so?

5) What are the full forms of the following abbreviations?

- a) EOU b) RPA c) NFE

Answers:

- 1) b 2) b & c 3) d 4) Yes 5) a) Export Oriented Unit
b) Rupee Payment Area
c) Net Foreign Exchange

7.11 FURTHER READINGS

Import-Export Policy & Hand book of Procedures – Government of India Publication.

7.12 APPENDIX: OTHER LIBERALISATION MEASURES

With a view to make foreign trade freer, boost exports & encourage foreign investments in India, Govt. has taken a number of steps in addition to the provisions in EXIM policy. These include convertibility of rupee, liberalising industrial policy, NRI policy & are discussed in brief here below.

A. NEW INDUSTRIAL POLICY 1991

Government tabled a statement on Industrial Policy in both the houses of Parliament on July 24, 1991. The statement has substantially reduced the requirement for various types of industrial approvals. Some of the major features of this policy and subsequent notifications, which have a bearing on India's international trade like provision for foreign technology agreements, foreign investments in India etc. are highlighted here below:

- a) In projects where imported capital goods are required, automatic clearance to be given in cases where foreign exchange availability is ensured through foreign equity.
- b) Approval for direct foreign investment upto 51% foreign equity in specified high priority industries.
- c) To obtain access to international markets, majority foreign equity holding upto 51% equity to be allowed for trading companies primarily engaged in export activities.
- d) Automatic clearance to foreign equity proposals in the small sector.
- e) Automatic permission for foreign technology agreements in specified high priority industries.
- f) No permission is necessary for hiring of foreign technicians and no applications need to be made to Govt. for this purpose irrespective of whether the hiring of foreign technicians is under an approved collaboration agreement or not.
- g) Foreign investment proposals in India need not necessarily be accompanied by foreign technology agreement, unlike the earlier policy.
- h) Till May 1992, all LOIs & Foreign collaboration Approvals issued by the Ministry of Industry, contained a condition prohibiting the use of any foreign name/trade mark on goods for sale within the country. This condition was not applicable in the case of exports. On 14th May 1992, Ministry of Industry (Department of Industrial Development), Govt. of India, vide its press note No. 6 has specified that henceforth no such condition would be imposed by this ministry or RBI, while granting letters of Intent/Foreign collaboration approvals.

B. NON-RESIDENT INDIANS INVESTMENT POLICY: 1991

Wide range of facilities have been provided to NRI's (i.e. individuals of Indian nationality or origin resident outside India and overseas corporate bodies owned to the extent of at least 60% by such persons/OCB's) for direct investments, the most prominent among them is providing "Automatic Approval for Investment upto 100% in High Priority Industries".

Automatic Approval for Investment upto 100% in High Priority Industries:

NRIs/OCBs will be permitted to invest with full repatriation benefits upto 100% in the equity issue of a private/public limited company engaged in high priority industries listed in Annexure III to the Statement on Industrial Policy. Reserve Bank will grant automatic approval for such proposals provided –

- i) The foreign equity covers the foreign exchange requirement for import of capital goods, if any. The plant and machinery proposed to be imported must be new and not second hand.
- ii) Outflow on account of dividend payments is balanced by export earnings over a period of seven years from the commencement of commercial production. Remittance of dividends should be covered by earnings of the company from export of items of Annexure III of Industrial Policy either recorded in years prior to the payment of dividend or in the year of payment of dividend.
- iii) The proposed project is not located within 25 kms from the periphery of the standard urban area limits of a city having a population of more than 10 lakhs according to 1991 Census.

The above facility will be available for new investments for expansion as well as for diversification of existing industrial undertakings.

The above facility will also be available for making investment by individual NRIs in partnership firms in India.

C. CONVERTIBILITY OF RUPEE

- i) A major policy change of far-reaching importance announced in the Union Budget 1992-93 presented by Dr. Manmohan Singh is the introduction of a new system of partial convertibility of the rupee. With partial convertibility of rupee, the system of exim script introduced in the trade policy in 1991 stands abolished.

Under the new system, all foreign exchange remittances, whether earned through export of goods and services, or remittances, will be converted into rupees – 40% of the foreign exchange remitted will be converted at the official exchange rate while the remaining 60% will be converted at the market determined rate. The foreign exchange surrendered at the official exchange rate will be available to meet the foreign exchange requirements of essential imports such as petroleum, oil products, fertilisers, defence and life saving drugs.

All other imports including capital goods will be freely importable on OGL but the foreign exchange for these imports will have to be obtained from the market.

Foreign exchange required for other payments on private account including travel, debt service payments, dividends, royalties and other remittances will also have to be obtained at the market rate.

For the purpose of calculation of customs duty, the import value of goods is to be converted into Indian Rupees as per the market rate.

Table: Market Exchange Rate of Indian Rupee

1992	U.S. \$	£ Sterling
Rupee per unit of foreign currency		
March 31	31.23	53.69
April 30	30.61	54.13
May 28	30.89	55.40
June 30	30.66	58.48
July 31	30.11	58.06
Aug. 28	30.49	59.97
Sept. 30	30.04	53.69

Note: Before the partial convertibility introduced on 1.3.92, the rate was 1\$ = Rs. 26.04.

- ii) In the Union Budget 1993-94 presented by Dr. Manmohan Singh on Feb. 27, 1993, Rupee has been made fully convertible on trade account, thereby abolishing the dual exchange rate mechanism introduced in the previous budget as described above.

UNIT 8 IMPORT-EXPORT DOCUMENTATION

Objectives

After going through this unit you should be able to:

- explain the significance of documentation and related procedures in export import transactions,
- describe the basic purpose which each document and related procedure seeks to serve,
- develop familiarity with the documents and related procedures needed in executing an export order,
- acquire a systematic approach towards documentation in your organization.

Structure

- 8.1 Introduction
- 8.2 Need
- 8.3 Kinds of Documents
- 8.4 Principal Export Documents
 - Commercial Invoice
 - Proforma Invoice
 - Packing List
 - Marine Insurance Policy/Certificate
 - Bill of Exchange
 - Letter of Credit
 - Bill of Lading
 - Air Way Bill (AWB)/Air Consignment Note
 - Combined Transport Document (CTD)
 - Export Inspection Certificate
 - Certificate of origin
 - Consular Invoice
 - Shipment Advice
 - GR/PP/VPP/COD Forms
 - AR4/AR4 A Form
 - GPI/GPII Form
 - Shipping Bill
- 8.5 Auxiliary Documents
 - Shipping Instruction Form
 - Application for Export Inspection
 - Shipping Order
 - Mate Receipt
 - Dock Chalan
- 8.6 Documents in Import Trade
 - Bill of Entry
- 8.7 Export Documentation and Procedures – Step by Step
- 8.8 Simplified Export Documents
- 8.9 Some useful tips
- 8.10 Summary
- 8.11 Self-assessment Questions
- 8.12 Further Readings

8.1 INTRODUCTION

Documentation and procedures, though complex and cumbersome are integral part of international marketing operations. Full knowledge and accurate compliance of procedures and documentation formalities are as essential as looking into other areas of marketing mix to ensure success in international marketing. Inadequate understanding of the various formalities on the part of the managers results in protracted correspondence, adversely affecting the business and cash flow due to delays in realisation of export proceeds as also the various incentives.

8.2 NEED

The physical transfer of goods in international trade has traditionally been associated with a number of documents. Over the years, however, the number of documents and related procedures has multiplied making international trade complex and cumbersome. Need for documentation arises primarily because of certain peculiarities of international trade transactions. Unlike domestic trade, buyers and sellers are separated by long distances in overseas trade transactions. This necessitates concluding a formal contract laying down duties and responsibilities of buyers and sellers respectively. Moreover, some intermediation becomes inevitable. No international trade transactions can be completed without the assistance of at least three intermediaries – a carrier, who undertakes to deliver the goods to the buyer on behalf of seller, an insurance company that covers the risks arising out of hazards of long voyage and finally a banker who collects the sale proceeds from the buyer and hands over the same to the exporter. Besides, other intermediaries are freight forwarders, freight brokers, chambers of commerce etc. Documentation and attendant formalities become necessary to ensure compliance of contract obligations of the concerned parties i.e., the exporter, importer and intermediaries.

International trade also means trading relationship between the citizens of two independent sovereign states. International trade is state regulated everywhere, even US government regulates the export import operations of domestic firms and insists on documentation for information and control purposes. In India, several documents have been prescribed to ensure compliance of Export Trade Control, Foreign Exchange Regulations, Quality Control and Preshipment Inspection, Central Excise etc.

Activity 1

What is the underlying rationale for documentation? Discuss from the exporter's point of view.

8.3 KINDS OF DOCUMENTS

These documents can be broadly classified into the following six categories:

- i) Documentation as per requirements of the contract:
 - a) Commercial Invoice
 - b) Packing list
 - c) Insurance Certificate/Policy
 - d) Bill of exchange
 - e) Shipment Advice
 - f) Certificate of origin
 - g) Inspection Certificate
 - h) Transportation Documents:
 - Bill of lading
 - Airway bill
 - Combined Transport Document
- ii) Documentation as per requirement of Government of India:
 - i) Export License, if necessary,
 - ii) AR4/AR4A Form
 - iii) GPI/GPII Form
 - iv) Preshipment Inspection Certificate
 - v) Export Declaration Form
GR/EP/PP/VPP/COD Form
 - vi) Shipping Bill
- iii) Documents as per requirement of the Importing Country:
 - i) Customs Invoice

ii) GSP Certificate of Origin

v) Documents required for claiming export assistance:

- 1) Application form
- 2) Shipping Bill duly authenticated by customs
- 3) Commercial invoice attested by bank
- 4) Bank certificate
- 5) Statement of Exports certified by the negotiating bank
- 6) Registration cum membership form of concerned export promotion council.

Another way of looking at the document is to classify them as principal and auxiliary documents.

Principal Documents

These are:

- 1) Commercial Invoice
- 2) Packing List
- 3) Marine Insurance Policy/Certificate
- 4) Bill of Exchange
- 5) Letter of Credit
- 6) Bill of Lading
- 7) Airway Bill
- 8) Combined Transport Document
- 9) GR/EP/PP/VPP/COD Forms
- 10) Export Inspection Certificate
- 11) AR4/AR4A Forms
- 12) GPI/GPII
- 13) Shipping Bill
- 14) Certificate of Origin
- 15) Shipment advice.

Auxiliary Documents

These documents may be required for the preparation or procurement of some of the principal documents or for arranging some of the preliminaries in effecting shipment of goods, such as giving shipping instructions to freight forwarders, arranging preshipment inspections, marine insurance cover, shipping space, procurement of bills of lading etc. Documents normally required are:

- 1) Shipping Instructions Form
- 2) Application for Export Inspection Agency
- 3) Shipping Order
- 4) Mate Receipt and
- 5) Dock Challan.

Activity 2

What is the underlying difference between Principal Documents and Auxiliary Documents.

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8.4 PRINCIPAL EXPORT DOCUMENTS

Managers concerned with export/import business should be well acquainted with all the documents which are needed from time to time. These documents are briefly explained below:

Commercial Invoice

It is a basic document which gives full details of the contents of the shipment and serve as seller bill of goods and, therefore, sets out the terms of sale. An exporter is required to prepare this complete document which must fully identify the overseas shipment and serve as a basis for the preparation of all other documents which, in greater or lesser detail reproduce information from it.

Normally, apart from the special requirements of the importer, form of invoice will be similar to that used for domestic business. There is no standard form and it is left to the exporter to change his own design, always ensuring that it will be convenient for use by foreign parties. In fact, the exporter should strictly follow the requirements of the purchaser in regard to invoicing and, as the requirements of foreign laws vary widely and are revised from time to time, it is important for an exporter to keep himself fully informed about such changes in government regulations of the importing countries.

According to the Uniform Customs and Practices for Credit

- i) Unless otherwise specified in the credit, commercial invoices must be made out in the name of the applicant for the credit;
- ii) Unless otherwise specified in the credit, banks may refuse commercial invoices issued for amounts in excess of the amount permitted by the credit, and
- iii) the description of the goods in the commercial invoice must correspond with the description of the goods in the credit.

The following check list of the items making up a commercial invoice should always be kept in view though not all items are required for every transaction:

Name and address of the shipper
Invoice number and date
Buyer's and Seller's Order number
Name and address of the overseas customer (buyer)
Name of the vessel and sailing date
Terms of payment
Insurance reference
Customs and consular declaration
Shipping marks and number on packages
Quantities and description of commodities
Net weight and gross weight as well as measurement in metric units
Specification of packing
Unit price and total value
Terms of sale (F.O.B., C.I.F., C & F, FAS, etc.)
Any additional charges which should be itemised such as packing, cartage, consular, etc. (if the contract is on f.o.b. basis)
Bill of Lading number
Import Licence number and Date
Letter of Credit number and Date

Proforma invoice

It is a preliminary, provisional, temporary invoice for an anticipated shipment which might or might not take place. Such invoices serve certain useful functions in that the overseas buyer is then in a position to deal with certain requirements before placing the order, e.g. obtaining an import licence. Secondly, proforma invoices, if made out, can be supplied to the bank when a Letter of Credit is to be established by the overseas buyer with the instructions that the L.C. (letter of credit) be opened in accordance with the invoice.

Packing List

Exporters are required to prepare an accurate packing list showing, item by item, the contents of the packages or cases so as to enable the receiver of the shipment to carry out a check. The packing list should give a description of the goods, number and marks on the packages, quantity per package, net and gross weight, measurement, etc. Properly prepared, these packing lists ensure movement of goods and avoid unnecessary unpacking.

There is no particular form to be used but for purposes of guidance a specimen copy may be seen.

Marine Insurance Policy/Certificate

A marine insurance policy/certificate is a document associated with transit of goods in trade, whereby the insurer undertakes to indemnify the assured against damage for loss of goods due to risks/hazards in transit, to the extent and in the manner mentioned in this document. In a CIF contract of sale, the seller has to take the requisite insurance cover to protect his own as well as the buyer's interests in case of damage or loss of goods. The insurance policy/certificate must be such as to satisfy the conditions of the letter of credit/sales contract, and must cover all risks specified therein, or which are considered to be normally associated with trade in a particular product.

Bill of Exchange

An exporter can send a bill of exchange for the value of the invoice of goods for export through the banking system for payment by an overseas buyer on presentation. A bill of exchange is legally defined as "an unconditional order in writing, addressed by one person to another, signed by the person giving it, requiring the person to which it is addressed to pay on demand or at a fixed or determinable future time a sum certain in money, to or to the order of, a specified person, or to bearer".

In other words an exporter prepares a bill of exchange (which looks something like a cheque) which is drawn on an overseas buyer, or even on a third party as designated in the export contract, for the sum agreed as settlement.

The bill is called a sight draft if it is made out payable at sight i.e. 'on demand'. If it is payable 'at a fixed or determinable future time' it is called a term draft, because the buyer is receiving a period of credit, known as the tenor of the bill. The buyer signifies an agreement to pay on the due date by writing an acceptance across the face of the bill.

By using a bill of exchange with other shipping documents through the banking system, an exporter can ensure greater control of the goods, because until the bill is paid or accepted by the overseas buyer the goods cannot be released. Conversely, the buyer does not have to pay or agree to pay by some agreed date until he receive delivery of the goods from the exporter.

An exporter can pass a bill of exchange to a bank in India. The Indian bank forwards the bill to its overseas branch or to a correspondent bank in the overseas buyer's country. This bank, known as the collecting bank, presents the bill to whomever it is drawn upon, for immediate payment if it is sight draft, or for acceptance if it is a term draft. This procedure is known as a clean bill collection because there are no shipping documents required. Clean bill collections have become more popular, particularly, in some European countries where the method is also used in internal trade.

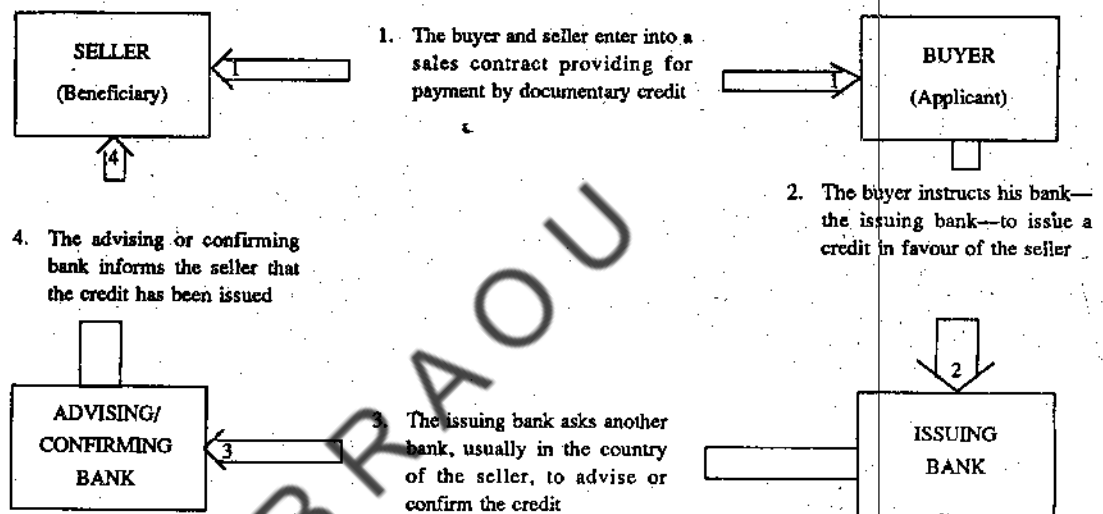
However, it is more likely that bills are used in a documentary collection method of payment. In this case, an exporter sends the bill to the buyer through the banking system with the shipping documents, including the document of title to the goods i.e. an original bill of lading. The bank then releases the documents on payment or acceptance of the bill by the overseas buyer.

Letter of Credit

A letter of credit is a written undertaking by a bank, the issuing bank, to the seller, the beneficiary, in accordance with the instructions of the buyer, the applicant, to effect payment upto a prescribed amount, within a prescribed time period against prescribed documents, provided these are correct and in order i.e. they conform with the instructions of the applicant. Letters of credit are one of the most used methods of payment in international transactions. Letters of credit are usually issued subject to the provisions of the "Uniform Customs and Practices for Documentary Credits" issued by the International Chamber of Commerce. It contains the rules governing the letter of credit transactions and the interpretation of various terms relating thereto and has been subscribed by almost all the major trading countries of the world.

There are usually two banks involved in a documentary credit operation. The issuing bank is the bank of the buyer. The second bank, the advising bank, is usually a bank in the seller's country. The second bank can be simply an advising bank, or it can also

assume the more important role of a confirming bank. In either case, it undertakes the transmission of the credit, and by doing so, implies the authenticity of the signature of the issuing bank. If the second bank is simply "advising the credit" it will mention this fact when it forwards the credit to the seller. Such a bank is under no commitment to pay the seller. If the advising bank is also 'confirming the credit' it will so state. This means that the confirming bank, regardless of any other consideration, must pay, accept, or negotiate without recourse to the seller, provided all the documents are in order & the credit requirements are met. Figure below summarizes the relationships between the partners to the letter of credit. A letter of credit contains all essential details like seller's name, buyer's name, value, usance documents required, description of goods, shipment & negotiation dates, port of shipment & destination etc.



Letters of credit used in international trade are of various types:

- Revocable and Irrevocable Letters of Credit:** A revocable letter of credit is rather rare now-a-days because it means that the terms of the credit can be cancelled or amended by an overseas buyer without prior notice to the exporter. Most letters of credit are irrevocable which means that once buyer's conditions in the letter have been agreed by an exporter, they constitute a definite undertaking by the buyer's bank and cannot be revoked without the exporter's agreement.
- Confirmed and Unconfirmed Letter of Credit:** A confirmed letter of credit carries the confirmation of another bank, generally, in the country of the exporter. Such confirmation, added at the request of the issuing bank, binds the confirming banker to negotiate the drafts drawn under the credit provided the terms and conditions thereof are fulfilled.
- Without Recourse and with Recourse:** A 'without recourse to drawer' letter of credit is one under which the negotiating bank cannot have a recourse against the exporter if the draft is subsequently not taken up or reimbursed by the issuing bank provided, of course, the negotiation is without recourse.
- Sight and Usance:** Documentary credit may provide for payment at sight or for acceptance of a usance bill of exchange by either issuing bank in a buyer's country or the correspondent bank in exporter's country.
- Transferable:** A transferable letter of credit is one which can be transferred by the beneficiary named therein in favour of another party. A credit can be transferred only if it is expressly designated as transferable by the issuing bank.

Straight and Negotiation Credit

A negotiation credit enables either a specifically nominated bank (or any bank, if the words "Freely negotiable by any bank" are used in the credit) to check the documents and, if they are in order, to pay them less the interest for the time it will take to obtain reimbursement from the issuing bank. Sellers would require negotiation credits where the currency of the credit is not their own currency, or where the seller's local bank offers preferential rates or service.

Generally, a negotiating bank pays with recourse to the beneficiary if any thing goes wrong, but the legal position is by no means settled. This is a very important point for beneficiary, as under every other kind of Letter of Credit there is no recourse to him. All beneficiaries under negotiation credits should settle with the negotiating bank at payment, whether recourse to the beneficiary is reserved or not.

Revolving Letter of Credit

A revolving letter of credit is one which revolves to its face value as soon as the bill negotiated under the credit is paid. Letters of credit can be made revolving on certain other conditions, e.g. negotiation of draft without waiting for the bill to be paid, at fixed periods—say monthly or every quarter, etc. Revolving Letters of Credit are used when regular and continuous payments are required to be made to the exporter.

Red Clause Credits

Red clause credits contain an authorization by the issuing bank to the advising or confirming bank to make advances to the beneficiary before presentation of documents. The description red clause arises from the colour of the ink that is used to draw attention to the credit's special condition.

The purpose of these credits is to provide preshipment finance to the seller who might not otherwise be capable of raising the finance to produce the merchandise desired by the buyer.

Green Clause Credit

Green clause credit is similar to red clause but advance is given only against a warehouse receipt given by the beneficiary.

Back to Back Letter of Credit

A letter of credit issued on the strength of another letter of credit. It is in effect, an extension of the terms and conditions of the backing credit. Usually, the beneficiary under such credit is a supplier to the beneficiary of the backing credit.

Some of the important points laid down in uniform customs and practices for documentary credits issued by ICC, are as follows:

- 1) All credits should clearly indicate whether they are revocable or irrevocable. In the absence of such indicators the credit shall be deemed to be revocable.
- 2) A revocable credit may be amended or cancelled by the issuing bank at any moment and without notice to the beneficiary.
- 3) An irrevocable credit constitutes a definite undertaking of the issuing bank, provided that the stipulated documents are presented & that the terms & conditions of the credit are complied with.
- 4) When an issuing bank authorizes or requests another bank to confirm its irrevocable credit & the latter has added its confirmation, such confirmation constitutes a definite undertaking of such bank (the confirming bank), in addition to that of the issuing bank, provided that the stipulated documents are presented & that the terms & conditions of the credit are complied with.
- 5) All credits must clearly indicate whether they are available by sight payment, by deferred payment, by acceptance or by negotiation.
- 6) Banks assume no liability or responsibility for the form, sufficiency, accuracy, genuineness, falsification or legal effect of any document, or for the general and/or particular conditions stipulated in the documents or super imposed thereon, nor do they assume any liability or responsibility for the description, quantity, weight, quality, condition, packing, delivery, value or existence of the goods represented by

any documents or for the good faith or acts and/or omissions, solvency, performance or standing of the consignor, the carriers, or the insurers of the goods, or any other person whomsoever.

- 7) All credits must stipulate an expiry date for presentation of documents for payment, acceptance or negotiation.
- 8) The description of the goods in the commercial invoice must correspond with the description in the credit. In all other documents, the goods may be described in general terms not inconsistent with the description of the goods in the credit.
- 9) Credits should stipulate the type of insurance cover required and, if any, the additional risks which are to be covered. Failing specific stipulation in the credit, banks will accept insurance documents as presented, without responsibility for any risk not being covered.

CHECKLIST FOR THE SELLER AFTER THE DOCUMENTARY CREDIT OPENING

General Points

- Does the documentary credit correspond with the contract, especially in connection with the following points?
 - Amount/unit price
 - Period of validity/time limit for shipment
 - Terms of delivery
 - Description and origin of the merchandise
- Is the documentary credit revocable, irrevocable/unconfirmed or confirmed?
- Is it transferable, if necessary?
- If unconfirmed or confirmed by a bank abroad, how do you assess the
 - a) Credit risk
 - b) Conditions in the buying country (political and transfer risks)
 - c) mailing risk (if credit is available abroad)?
- Are the names and addresses of the applicant and the beneficiary correct?
- Is the documentary credit subject to the ICC's currently valid Uniform Customs and Practice for Documentary Credits?
- Is there sufficient time available to complete attestation and authentication procedures?
- Are declarations request in the documents which cannot be made?
- Are documents stipulated which are contradictory to the terms of delivery?
- Does the credit stipulate documents which need to be drawn up or countersigned by the buyer or his bank? In such a case, the utilization of the credit depends to a large extent on the goodwill of the buyer.
- Can the required number of specified documents be furnished?

Deadlines and shipment of goods

- Can the shipment deadline be met?
- Are the terms regarding the place where the goods are to be taken into possession and the points of departure and arrival feasible?
- Are partshipments and transshipments prohibited contrary to the terms of contract?
- Can the prescribed marks and modes of transport be provided?
- Can the documents be presented in the desired form by the dates specified in the credit? (If the credit stipulates a transport document, the documents have to be presented at the bank not later than 21 days after the issue date of the transport document unless the credit stipulates another time limit.)
- Are you familiar with the expressions of time utilized in the credit?

Draft

- Are you absolutely certain about the way the draft should be made out?

Invoice

- Can the description of the goods in the invoice be taken word for word from the documentary credit?

Transport documents in general

- If the transport document is not described precisely, banks do not accept any document that
 - a) is subject to a charter party (only in the case of seaborne transport)
 - b) designates, loading on deck (only in the case of seaborne transport)
 - c) stipulates carriage by sailing ship
 - d) is issued by a forwarding agent (regardless of mode of transport) except in the case of the FIATA Combined Transport Bill of Lading which is recognised by the ICC or where the forwarding agent is also carrier or agent of an expressly named carrier.
- If goods are exported through the intermediary of a company domiciled abroad (a subsidiary), in some countries the value of the merchandise has to be stated in the transport documents. Does this value correspond to the amount and the currency in your invoice?

Marine bill of lading

- The restrictions a), b) and c) listed under "Transport documents in general" are also valid for the marine bill of lading.
- The marine bill of lading should not be issued by a forwarding agent, unless the latter is also a carrier or acts as agent for an expressly named carrier.
- If the bill of lading is to be issued to order of the buyer or is to be made out in his name, it will be extremely difficult to arrange any return of the goods. This point should be taken into full account.
- Do the prescribed freight notations conform to the terms of delivery?

Air waybill

- Air waybills issued by forwarding agents are not accepted by banks unless the forwarders act as carrier or as agents for an expressly named carrier.

Insurance documents

- Can the terms of insurance be fulfilled?
- Are the risks to be covered accurately described in the credit?
- Is the insurance coverage also sufficient to meet your requirements?
- Clarify whether a policy or a certificate is required. (Broker's cover notes will not be accepted by the bank unless expressly permitted in the credit.)

Certificate of Origin

- Are the Chamber of Commerce and a consulate willing to attest or authenticate the statements required to appear on the certificate of origin?
- If legalization is necessary, does the respective country maintain a consulate where needed?
- Can a certificate of origin issued in the country of origin be furnished in time?
- Can the legalization be effected in time?

Bill of Lading

Of all the documents, bill of lading is unquestionably the most important and valuable document. Issued by the shipping company, a bill of lading is

- a receipt/acknowledgement of cargo delivered for transportation.
- a contract of affreightment between the shipper and the carrier specifying their respective responsibilities and obligations.
- a document of title to goods and provides interested parties including banks with title to the goods mentioned therein.

- a collateral, that can be used for any advances made to the seller or to the buyer in the process of financing the shipment.

Bills of lading are prepared by the shippers on printed forms supplied by the shipping company concerned and necessary particulars are entered therein the blank spaces provided for the purpose. Normally, a bill of lading shows the date of shipment, port of shipment, name of the carrying vessel, name of the consignor, consignee and notify party, port of discharge, number, contents and identification marks of packages and goods shipped, and the amount of freight 'paid' or 'to pay'. Bills of lading are normally issued in sets of four. Three copies duly signed are delivered to the shipper, while the fourth copy is unsigned and retained by the shipper's master for his own use. Different copies are sent by different mails to reduce the risk involved by delay or loss in transit. Goods are released at the port of destination against one of the copies of the bill of lading presented first and other copies become void. Banks invariably take possession of full set of bill of lading, the number comprising the full set being indicated by the bill of lading itself.

Bills of lading may be issued either in negotiable or non negotiable form. A negotiable bill of lading is issued to the order of consignee, or endorsed either in blank by a shipper or endorsed to the order of named party.

An 'on board bill of lading' means that goods have already been loaded on board a named vessel. A 'received for shipment bill of lading' indicates that the goods have been delivered to shipping company but have not been actually placed on any vessel.

A 'through bill of lading' covers shipment of goods for the whole of the contracted voyage, though goods are transhipped during transit.

A 'charter party' is a contract for hiring a ship for carriage of goods either for a voyage or a period of time. As a 'charter party' bill of lading is governed by the charter arrangement it does not give such rights to the shipper as an ordinary bill of lading would give.

Air Way Bill (AWB)/Air Consignment Note

In air carriage, the transport document is known as the Air Way Bill (AWB) or Air Consignment Note. The AWB merely evidences the air carrier's receipt of the goods on the terms of the contract of carriage and does not represent the good/title of goods. The goods are delivered to the consignee (receiver) mentioned in the AWB. The consignee will have to identify himself as the party named in the AWB and the goods may be delivered to him without any hindrance usually on payment of some charges (depending upon the terms of the trade). When the seller has made the contract with the air carrier, the buyer can protect himself against the seller's rerouting of the goods by obtaining the shipper's copy of the AWB (marked "orig. 3 for shipper").

The air carrier may not accept instructions from any person other than the holder of such a copy of AWB, and if this duty is not observed, the air carrier will be liable to pay compensation for the loss incurred.

Some of the important details contained in the AWB are the name of the consignee/consignor/notified party, the flight number and date on which the goods will be airlifted, brief description of the goods and quantity, departure airport and the destination airport, freight amount and AWB number and terms on which carriage is undertaken, and signature of carrier/its agent and shipper/agent.

Since the goods reach the destination within the shortest time usually on the same day or the next day, it becomes the duty of the seller to inform the buyer of the despatch of the goods by the use of the telecommunication system to avoid unnecessary additional charges to the buyer.

Comblaed Transport Document (CTD)

Exporters situated in interior parts of the country face the problem of delay in submitting shipping documents pertaining to the exports made by them to their bankers for negotiation as they have to depend on their shipping agents functioning at sea ports to obtain shipping documents, especially, the marine bill of lading. To obviate this delay and also to popularise containerisation Government have established Inland Container Depots (ICD) at Bangalore and New Delhi. In these depots, exporters can arrange to get the goods stuffed in containers, Customs formalities completed and

goods despatched to gateway ports in Customs Sealed Containers. The Combined Transport Operator (CTO) when undertaking to export goods from the ICD to the place of destination, will issue the Combined Transport Document (CTD) subject to FEDAI Rules contained in either FEDAI Brochure No. 081 or Brochure No. 082 as the case may be, to enable the exporters to negotiate the shipping documents with an authorised dealer. When goods are exported from ICD's in India and relevant letter of credit does not call for a marine bill of lading, authorised dealers will accept CTDs drawn subject to FEDAI Rules. It may be mentioned that though a bank is authorised to accept a transport document issued by a freight forwarder under the 1983 revision of the Uniform Customs and Practice for Documentary Credits by the International Chamber of Commerce (ICC Brochure No. 400), FEDAI Rules permit issue of CTDs only by a person having as his ordinary course of business the carriage of goods by sea either as owner or charterer of an ocean going vessel. Therefore, exporters, in cases where a CTD is acceptable to overseas buyer, should so arrange that the relevant export contract specifically provide for the production of a CTD drawn, subject to the FEDAI Rules. The date of CTD will be date of export in this case.

However, where the letter of credit does not permit acceptance of a CTD or the letter of credit specifically calls for a marine bill of lading, authorised dealers will accept CTDs drawn subject to FEDAI Rules with the CTO's undertaking to have CTDs substituted by marine bill of lading soon after the goods are loaded on board of ocean going vessels. But the bill will be negotiated by the bankers only after the CTD is substituted by regular ocean bill of lading. This position is also applicable in cases where export is not covered by a letter of credit. The date of marine bill of lading will be the date of export in such cases.

Export Inspection Certificate

It is issued usually by Government agency entrusted with the task of inspecting the concerned goods, private firms of repute specialising in inspection or at times buyer's own representative in India. These certificates are required by importers because they wish to be sure of the quality of merchandise and such inspection as is agreed in terms of the sales contract. In India, however, all exports are subject to compulsory inspection prior to shipment by an authorised agency under the provisions of Export (Quality Control and Inspection) Act, 1963. Inspection of export items covered by this legislation are carried out by five regional Export Inspection Agencies under the administrative control of Export Inspection Council. Schemes for compulsory quality control and pre-shipment inspection are also operated by certain official agencies as well such as Agricultural Marketing Advisor, BIS, Drugs Controller, Tea Board, Coffee Board, Salt Commissioner etc.

The basis for inspection is usually the importer's specifications or in the case of goods involving safety or health hazards, certain minimum standards are enforced.

Export Inspection Certificate issued by the competent authority is required to be submitted to the customs authorities at the time of customs clearance. While negotiating documents banks also insist on submission of Inspection Certificate along with other documents.

Certificate of Origin

This certificate serves as an evidence to show the actual country of origin (place of production or manufacturing) of the goods. It is signed in the exporting country by the consular of the importing country or by the exporter or by the Chamber of Commerce, as the regulations may require. The custom regulations of certain countries require a certificate of origin to be produced before clearance of imported goods and for assessment of duty. The certificate is usually required by the countries where goods from certain countries are granted preferential treatment or where import of goods from certain countries is wholly or partially prohibited. Sometimes, the certificate of origin is endorsed on the back of the relative invoice which is then known as a "certified invoice". In some cases, the certificate of origin is combined with consular invoice for tariff purposes.

Under the General System of Preferences (GSP) of the European Economic Community for all items covered under the scheme, a certificate of origin signed by the Export Inspection Agency is required to be submitted to the customs authorities as also to the negotiating bank alongwith other documents.

Consular Invoice

A consular invoice made out on a specially printed form contains detailed particulars, such as description, quantity, grade and value of the merchandise shipped. It is certified by the consulate of the importing country situated in the exporting country for which certification fee is charged. It also contains a declaration of the shipper as to the value of the goods covered. The consular advice enables the custom authorities of the importing country to levy ad valorem custom duty on the goods and helps in maintaining proper record of the imports for general statistical purposes.

Shipment Advice

Depending upon the terms of sale on a specific stipulation in the contract, and immediately after shipping the goods, the exporter has to inform the foreign buyer of the fact of shipment. This is usually done in the form of a 'shipment advice' giving invoice number, description of goods, quantity, number of packages, marks and numbers, name of the carrier, bill of lading/airway bill number and date, expected time of arrival of the carrier at the port of destination, etc. This enables the foreign buyer to arrange insurance coverage in respect of goods in transit and also for making advance arrangements for the clearance of the goods at the port of destination.

GR/PP/VPP/COD Forms

These forms are submitted to the customs authorities in compliance of exchange control regulations. According to section 18 of the Foreign Exchange Regulations Act, 1973 and para 11.B.1 of Exchange Control Manual 1987 (Edition) all exporters other than those exporting to Nepal and Bhutan are required to submit a declaration in the prescribed form duly supported by such evidence as may be prescribed or so specified and true in all material particulars which, among others, shall include the amount representing—

- i) the full export value of the goods; or
- ii) if the full export value of the goods is not ascertainable at the time of export, the value which the exporter, having regard to the prevailing market conditions, expects to receive on the sale of goods in the overseas markets, and affirms in the said declaration that the full export value of the goods (whether ascertainable at the time of export or not) has been, or will within the prescribed period be, paid in the prescribed manner.

These forms are:

- a) GR : for all shipments (excepting by post)
- b) PP : for exports by post parcel
- c) VPP/COD : for collection of proceeds through post office

The form needs to be submitted in duplicate – the original copy is meant for the customs authorities and the duplicate is lodged with an authorised dealer along with other documents for realisation of export proceeds from the foreign buyer. Copy which is retained by the custom authorities is sent to the Exchange Control Department of the Reserve Bank of India, the duplicate is submitted to the authorised dealer, is also sent to the Reserve Bank after the documents are negotiated.

AR4 and AR4A Form

Rule 12 of the Central Excise Rules formulated in terms of basic provisions of section 37 of the Central Excise and Salt Act 1944 provides for refund of central excise duty paid in respect of export product cleared from the factory under AR4/AR4A formalities. Rules 13 and 14 provide for export excisable goods without payment of central excise duty under the system known as export under bond. Rule 13 provides for export under bond in respect of single export transaction, whereas Rule 14 provides for export under bond on a continuing basis.

To avail these facilities, AR4/AR4A* (5 copies) have to be duly filled in by the exporter specifying the details about the shipment, port of shipment, the amount of duty applicable, the fact that the duty has been paid or there is enough credit balance in the

* In cases where the goods meant for export are to be examined and sealed by the Central Excise Officer before their clearance from the factory AR4 form is prepared. In other cases AR4A form is to be used.

running account have to be submitted to the Range Superintendent. The original and duplicate copies of AR4/AR4A forms are handed over to the exporter; the triplicate copy is sent to Maritime Central Excise Collectorate - Refund Section, having jurisdiction over the port where from the goods are to be shipped; the fourth copy is sent to the Chief Accounts Officer of the Maritime Excise Collectorate concerned; the fifth copy is retained with the Range Superintendent for his record and future reference. The original and duplicate copies are to be submitted to Export Deptt. of Customs House along with other shipping documents to prove that formal central excise clearance has been obtained. After the goods have been loaded and the Mate Receipt obtained, these copies are submitted to Preventive Officer incharge of the ship for necessary certification. After endorsement, the original copy is retained by the Preventive Deptt. and the duplicate one is handed over to the exporter. The original copy is subsequently collected by the Maritime Central Excise Collectorate. Exporter gets refund or release from the bond by submitting the duplicate copy of the Refund Section of Maritime Central Excise.

As vast majority of manufactured goods are subject to central excise, AR4/AR4A form becomes an important document in an export transaction.

GPI & GPII Form

While submitting the AR4/AR4A form, exporter is required to submit GP (Gate Pass) form in triplicate, a form specifying the amount of duty paid in respect of goods to be cleared from the factory. Where the goods are being exported under bond, GP2, specifying the fact that there is enough credit balance in the account of exporter, is submitted. GPI/GPII form is prepared in triplicate. The original is submitted to jurisdictional authorities along with the AR4/AR4A form, which is returned to the exporter duly stamped. This copy is sent along with the cargo. The second copy is retained by the exporter and submitted again to jurisdictional authorities along with the monthly return. The third copy is retained by the exporter for his future reference and records.

Shipping Bill

Shipping Bill is the principal document required by the customs authorities. It contains description of export goods and other particulars like number and description of package, marks and number, quantity and value as defined in the Sea Customs Act, Indian or foreign merchandise, name of the vessel in which goods are to be shipped, country of destination, etc. It is only after the Shipping Bill is stamped by the customs that cargo is allowed to be carted to Port sheds and Docks. It is used for export by sea or air or even for transportation from one port to another within the country.

There are separate forms of shipping bill for free goods, goods on which export duty is payable and goods for which there is a claim for drawback of duty.

8.5 AUXILIARY DOCUMENTS

Shipping Instruction Form

It is used to send shipping instructions to the shipping company or the shipping agent regarding shipment of export cargo. This facilitates the preparation of bill of lading and other documents by the shipping agent. Also known as Cargo Declaration Form, it usually contains information about country of origin, marks on cases, number of packages, name and address of the consignee, exporter's name and address, invoice value, steamer freight payable etc.

Application for Export Inspection

For obtaining the certificate as required under the provisions of Export (Quality Control and Inspection) Act, 1963, the exporter has to submit an application in the prescribed form (in duplicate) submitting the original to Export Inspection Agency and duplicate to the Export Inspection Council, seven days in advance of the expected date of shipment. The application form contains details of shipment including technical requirement including specifications as stipulated in the export contract.

Upon receipt of the application, the goods are inspected and certificate issued, if found in order.

Shipping Order

For booking space, the exporter has to apply to the shipping company either directly or through a freight broker. If the space is available, the shipping company will issue to the broker/shipper a document called a shipping order, instructing the Commanding Officer of the ship that the goods from the shipper concerned as per details given should be received on board the vessel. The original is given to the shipper and duplicate is sent to the Commanding Officer of the ship.

Mate Receipt

When the cargo is loaded on the ship, the Commanding Officer of the ship will issue a receipt called the 'Mate Receipt'. This includes information about the name of the vessel, berth, date of shipment, description of packages, marks and numbers, condition of the cargo, at the time of receipt on board the ship etc. The mate receipt is first handed over to the port authorities for payment of port dues and then to the shipping company for obtaining the Bill of Lading.

Dock Chalan

Also known as Port Trust copy of the shipping bill in Bombay and Export Application Form in ports other than Calcutta, Dock Chalan is a document prescribed by the port authorities. When the cargo is brought at the dock gate, the shipper has to submit this document along with the Vehicle Ticket (in duplicate) to the Gate Inspector. At the gate, documents are checked to ensure that only goods duly passed by Customs are brought to the docks for shipment.

Activity 3

Which documents can be used by the exporter to finance the goods in transit?

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8.6 DOCUMENTS IN IMPORT TRADE

Bill of Entry

Bill of Entry is the only document which an importer has to prepare and submit to the custom authorities. It contains a complete declaration of the required particulars of imports like quantity, description and CIF value of the goods. Along with the bill of entry, a number of documents such as supplier's invoice, packing list, bill of lading, import license/customs clearance permit, purchase order and indent acceptance etc. are submitted. Bill of Entry is noted and a Serial Number given by the customs along with the date. The scrutiny of documents including scrutiny of Import License, classification of goods and the assessment, calculation and collection of duty is completed on the strength of the declaration made in the Bill of Entry supported by documents mentioned above. In case physical examination does not disclose any discrepancy, the goods can be straightaway cleared.

8.7 EXPORT DOCUMENTATION AND PROCEDURES - STEP BY STEP

Exporting involves 18 steps as detailed below:

- (i) The first step is to examine the export contract and/or the letter of credit to ensure that the terms and conditions stipulated in these documents are in accordance with those originally proposed, and/or the amendments subsequently agreed to, by the exporter. On receipt of these documents, the exporter writes to the importer acknowledging these documents and, where necessary, drawing

attention of importer to the discrepancies in the terms of conditions of contract/letter to credit.

- ii) **Instructions to Factory/Supplier:** If the above mentioned documents are in order, a Delivery Note (in duplicate) containing the specifications and other details of the order is sent to the factory for the manufacture and despatch of export cargo to the port of shipment.
- iii) **Preshipment Inspection and Central Excise (Clearance):** As soon as the goods are ready for despatch, the factory office arranges to complete the following formalities:
- 1) Make out an application to the export inspection agency for conducting preshipment and quality control inspection. The Export Inspection Agency will depute an inspector to inspect the consignment and issue the certificate of inspection if the goods conform to the prescribed specifications.
 - 2) Secure clearance of export consignment under Bond* from Excise Authorities. For this Purpose, AR-4A form in quintuplicate and a Gate Pass (form GP-2 in triplicate) is prepared and presented to the C.E., Range superintendent who after verification that adequate credit is available in the Bond A/c signs all the five copies of the AR-4A form. He gives back the original copy of the Gate Pass to the exporter and sends the triplicate copy of AR-4A form to the Maritime Collector of C.E. at the port of shipment. The fourth copy of AR-4A form is sent to Chief Accounts Officer and the fifth copy is retained by him for his record.
 - 3) Despatch of consignment to the port of shipment by rail and obtaining Railway Receipt or by road and obtaining Lorry-way bill.
- iv) **Despatch of Documents to the Export Department of the Firm By the Factory Office:** The factory office prepares a 'Despatch Advice' and sends it to the Export Department along with following documents.
- 1) Railway Receipt/Lorry-way-bill
 - 2) AR 4A form (original and duplicate copies)
 - 3) Excise Gate Pass (Original)
 - 4) Duplicate copy of Delivery Note duly signed by factory office. It states that the consignment has been sent to the port town.
 - 5) Certificate of Inspection.
- v) **Arranging Insurance Coverage:** On receipt of these documents the Export Department makes an application to the Insurance Company for marine insurance cover and requests them to issue an insurance policy/certificate in duplicate with appropriate risk coverage.
- vi) **Instructions to Forwarding Agent:** At the same time, the Export Department prepares a note for the forwarding agent at the port of shipment giving detailed instructions regarding the shipment of the consignment. The exporter must also give the details of the vessel on which space has been booked for shipment of the cargo. This note is sent to the forwarding agent along with the following documents:
- 1) AR-4A Form (original and duplicate copies)
 - 2) Excise Gate Pass (Original)
 - 3) Commercial Invoice (Adequate number of copies -- generally 8/10)
 - 4) Packing List (one copy)
 - 5) GR Form, (Original & Duplicate)
 - 6) Customs-Invoice (where required in the importing country)

* Under the procedure for export under bond, manufacturer-exporter enters into a bond under such conditions as the Collector of Central Excise approves for a sum at least equal to the duty chargeable on the goods. At the time of removing the export goods from the factory, a debit entry for excise duty is made in the Bond A/c which is duly discharged after the goods have been exported. An alternative to this procedure is to pay the C.E. duty at the time of removing the export consignment from the factory and after exportation of the goods file a claim for rebate of duty with the collector of Central Excise. Here the Gate Pass (Form GP-1) is prepared.

- 7) Original Letter of Credit/Contract
 - 8) Declaration* Form in triplicate
 - 9) Quality Control Certificate (O)
 - 10) Purchase Memo
 - 11) Railway Receipt/Lorry-way bill
- vii) **Port, Shipping and Customs Formalities:** On receipt of the documents, the Forwarding Agent takes delivery of the consignment from the Railway Station or from the road transport at the port of shipment and arranges its storage in the warehouse.
- viii) He also initiates action to obtain customs clearance. For this purpose the Forwarding Agent prepares four/five copies of the relevant 'Shipping Bill**' and presents it along with the above mentioned documents*** to the Export Department of the Customs House. The Customs Appraiser examines these documents and appraises the value having regard to the following considerations:
- 1) That the value and the quantity declared in the shipping bill is the same as in the export order/letter of credit.
 - 2) That the formalities regarding exchange control, preshipment quality control inspection etc. have been duly completed. After examination of documents and appraisal of value, the Customs Examiner/Appraiser makes an endorsement on the duplicate copy of the shipping bill giving directions to the Dock Appraiser about the extent of physical examination of the cargo to be conducted at the Docks. All the Documents, except GR(O) Form, the original Shipping bill and a copy of the Commercial Invoice are returned to the Forwarding Agent to be presented to the Dock Appraiser.
- ix) After taking delivery of documents from the Export Department the Forwarding Agent presents the Port Trust Document* to the Shed Superintendent of the Port and obtains carting order for bringing the export cargo to the transit shed for physical examination by the Dock Appraiser. He then presents the following documents to the Dock Appraiser for conducting physical examination of the cargo.
- 1) Duplicate, triplicate and export promotion copies of the Shipping Bill.
 - 2) Commercial Invoice
 - 3) Packing List
 - 4) AR-4A Form - original and duplicate copies and gate pass
 - 5) Inspection Certificate (O)
 - 6) GR-Duplicate
- The Dock Appraiser after conducting physical examination records examination report and makes "Let Export endorsement" on the duplicate copy of the Shipping Bill and hands it over to the Forwarding Agent along with all other documents to be presented to the Preventive Officer of the Customs Department who supervises the loading of the cargo on Board the vessel.
- x) The Preventive Officer makes an endorsement "Let Ship" on the duplicate copy of the Shipping Bill. The duplicate copy of the Shipping Bill is then handed over to the agent of the shipping company. This constitutes an authorisation by the Customs to the shipping company to accept the cargo on board and vessel.
- xi) After the goods are loaded on board the vessel the Captain of the ship issues a receipt known as the "Mate's Receipt" to the Shed Superintendent of the Port.

* It is declaration by the exporter stating that the value, specifications, quality and description of the goods being exported as mentioned in the Shipping Bill are in accordance with the terms of the export contract and that the statements made in the Shipping Bill are true.

** The Shipping Bill may be a Shipping Bill for (i) Duty Free Goods or (ii) Dutiable Goods, or (iii) Goods under Claim for Duty Drawback.

*** All the documents listed at 1-11 under step VI.

* Port Trust copy of Shipping Bill at Bombay; Dock Challan at Calcutta and Export Application at other ports.

The Forwarding Agent then makes a payment of the port charges* and takes delivery of the Mate's Receipt. He presents the Mated Receipt first to the Preventive Officer who records the Certificate of Shipment on all the copies of Shipping Bill, original and duplicate copies of AR-4A form and returns the Export Promotion copy, a copy of Drawback Shipping Bill and duplicate AR-4A to the Forwarding Agent. The latter then presents the Mate's Receipt to the Shipping Company and requests it to issue the Bill of Lading (2/3 negotiable and a few non-negotiable copies as required).

xii) **Despatch of Documents by Forwarding Agent to the Exporter:** After obtaining the Bill of Lading from the Shipping Company the Forwarding Agent sends the following documents to the exporter:

- 1) One copy of the commercial invoice duly attested by the Customs
- 2) Export Promotion copy of the Shipping Bill
- 3) Drawback copy of the Shipping Bill
- 4) Full set of 'clean on-board bill of lading' together with a few non-negotiable copies
- 5) Original letter of credit/contract order
- 6) Copies of Customs Invoice
- 7) AR-4A form (duplicate) and Gate Pass
- 8) GR Form (Duplicate)

xiii) **Certificate of Origin:** On receipt of the above documents, the exporter makes an application to the Chamber of Commerce and obtains a 'Certificate of Origin' in duplicate. In case of export shipment to countries offering GSP concessions, the GSP Certificate of Origin will have to be procured by the exporter from the concerned authority like Export Inspection Agency or others.

xiv) **Shipment Advice to Importer:** The exporter then sends 'Shipment Advice' to the importer intimating the date of shipment of the consignment by a named vessel and its expected time of arrival (ETA) at the destination port. The following documents are also sent along with the shipment advice so that the importer may start making arrangements for taking delivery of the consignment:

- 1) A non-negotiable copy of the Bill of Lading
- 2) Commercial Invoice
- 3) Packing List
- 4) Customs Invoice

xv) **Presentation of Documents to Bank:** The exporter presents the following documents to the bank for negotiation/collection:

- 1) Commercial Invoice - (with requisite number of copies)
- 2) Certificate of Origin - two copies
- 3) Customs Invoice - (with requisite number of copies)
- 4) GR Form (Duplicate)
- 5) Packing List - (with requisite number of copies)
- 6) Full set of Clean-on-board Bill of Lading negotiable plus non-negotiable copies as required
- 7) Original Letter of Credit/Export Contract
- 8) Additional copies of the Commercial Invoice for Certification by the Bank
- 9) Bank Certificate in the prescribed form in duplicate
- 10) Marine Insurance Policy/Certificate
- 11) Bill of Exchange
- 12) Quality Control/Preshipment Inspection Certificate

* At all ports in India except at the port of Bombay, port charges are required to be paid before carting of goods to the docks.

xvi) At the Bank, these documents are processed in the following manner.

- 1) The documents are examined with reference to the terms and conditions of the original order and also that of the letter of credit.
- 2) A set of the following documents is transmitted to the bank of the importer by the first air mail followed by the second set of these documents by the second air mail to ensure that in case the first set is lost or delayed, the importer or his bank can take delivery of the consignment on the basis of the second set of documents.
 - i) Commercial Invoice
 - ii) Customs Invoice
 - iii) Packing List
 - iv) Certificate of Origin
 - v) Negotiable Bill of Lading
 - vi) Insurance Policy Certificate
 - vii) Bill of exchange
 - viii) GSP Certificate of Origin
 - ix) Certificate of Inspection
 - (if necessary)

- 3) The exporter receives payment against the above documents.
- 4) Duplicate copy of the GR form is transmitted to the Exchange Control Department of the Reserve Bank of India on receipt of payment from abroad.
- 5) The original copy of the Bank Certificate as applied for by the Exporter along with attested copies of the Commercial Invoice are returned to the exporter.
- 6) The duplicate copy of the Bank Certificate is sent to the J.C.I. & E. as indicated by the exporter.

xvii) **Rebate of Central Excise Duty & Duty Drawback:** Simultaneously, the exporter files a claim with the Maritime Collector of Central Excise, for rebate of Central excise duty or for getting credit in his Bond Account and also for duty drawback in accordance with the procedure laid down in this regard.

xviii) **Export Benefits:** The exporter initiates action for claiming benefits against exports made by him as per the procedure outlined under the Policy for Registered Exporters

Activity 4

Visit an exporter and find out the time taken by an exporter to move a single consignment. What is the implication of this variable on working capital management?

8.8 SIMPLIFIED EXPORT DOCUMENTS

For many years exporters have complained about the amount of paper work involved in export transactions. Hence, in a number of countries, advanced countries in particular, steps have been taken in the direction of rationalization of procedures and use of standardised documents. The use of standardised documents based on what has come to be known as "ECE Lay Out Key" is reported to have brought considerable savings in export documentation costs to the exporters in advanced countries.

The system works on the principle of having a set of alignment forms, which means an exporter need only compile one master document, as he can then use the information for each separate form as required by means of a copying machine. The master document has been designed on A4 size, and most of the export documents can be included in the assigned series.

In India, the need for simplification of export procedures and documents has been felt for a long time. However, concentrated efforts in this field began in 1969 when at the instance of Ministry of Commerce, the Indian Institute of Foreign Trade made a comprehensive study of India's export procedures and documentation. The report was brought out in 1970. Follow up action has taken place with respect to many of the recommendations made in the report. Work relating to standardising export documents has also been initiated. A simplified standard document which would meet the requirements of all the concerned organizations and departments is being evolved.

8.9 SOME USEFUL TIPS

A common complaint made by the bankers is documents submitted by exporters are often either incomplete or incorrect. This leads to delays, or even refusal of payment.

To avoid, these delays, it is necessary to be very careful about documentation, particularly in case of letter of credit. While exporting under letter of credit arrangements, immediately on receipt, read and re-read the letter of credit very carefully and check the terms against the contract of sale. It is necessary to check that the letter of credit-

- is of the type agreed e.g. irrevocable and confirmed or just irrevocable
- has an expiry date that is sufficiently far ahead for the goods to be shipped and the required documents obtained and presented in time
- has terms and conditions that can be met and that the required documents can be obtained exactly as called for.

If any amendment or extension is necessary the buyer should be asked immediately to instruct the issuing bank accordingly. A watch should be kept to see that the advice of amendment of the credit is received without delay.

In regard to documentation under letter of credit it is necessary that all the documents are prepared with great care. It should be remembered the letter of credit is the bank's mandate to pay. The bank has no discretion. It is not allowed to approve errors and/or inconsistencies of whatever nature and however small is the documents presented to it and will not pay in such circumstances.

Even where the goods are exported on D/P or D/A terms, documentation should be correct and every care should be taken to ensure that there are no mistakes. The following points should be kept in view.

In regard to commercial invoice, it should be ensured that the document is properly signed, dated and all the necessary information pertaining to goods and terms of payment. Description of goods must tally with what is given in the contract to avoid any confusion at the buyer's end.

In regard to Bill of lading, the exporters should ensure that it is a clean, on board bill of lading and should clearly evidence whether freight has been paid or not. Unless agreed clearly in advance, it should not be a charter party but on board bill of lading.

In regard to insurance documents, exporters should ensure that the policy/certificate should clearly indicate the type and extent of coverage or risks as per contract. In case the contract is silent, exporters should ensure that coverage is quite comprehensive to cover all types of risks and is effective from the date of shipment/despatch.

In regard to other documents inspection certificate, certificate of origin etc. exporters should ensure that they are in conformity with the laws in the importing countries.

In documentation relating government rules and regulations pertaining to exports, i.e. GR/PP form, AR4/AR4A. Shipping Bill etc. exporters should ensure that all information should be absolutely correct. Inadequate or incorrect information may result in delay in shipment or even penal action against the exporter.

8.10 SUMMARY

Documentation and procedures, though complex and cumbersome are an integral part of international marketing operations. They are needed in compliance with either the requirements of contract concluded between exporters and importers, or the requirements of exporting or importing countries.

In a typical transaction, contract requires the exporters to send a copy/copies of each of the following documents:

- i) Invoice
- ii) Packing List
- iii) Insurance Policy/Certificate
- iv) Bill of exchange

- v) Bill of lading/Airway Bill/Combined transport documents
- vi) Export Inspection Certificate
- vii) Certificate of Origin
- viii) Shipment Advice

Commercial invoice is a document of content giving details of the goods shipped along with price and other charges/expenses etc. incurred on buyer's account. Packing list gives details of contents in individual packets/cases. Marine Insurance Policy/Certificate gives details of the insurance cover e.g. type of risks covered, extent of coverage etc. Bill of exchange is an instrument through which the drawer of the instrument i.e. the exporter calls upon the drawee i.e. importer to pay the net amount payable under the contract either to the exporter or a party named thereunder. The exporter can pass on this bill to his bank either to get paid, if drawn at sight, or accepted, in case of a usance bill. Then, the transport documents providing evidence of shipment, bill of lading in case of shipments by ocean transport, airway bill in case of shipment by air and Combined Transport Documents, where more than one kind of transport is involved, are submitted to the bank.

Export Inspection Certificate, usually a requirement of the importer, is also needed in compliance with Export (Quality Control and Inspection Act, 1963). It is an evidence to the effect that the goods have been inspected as per requirement of the contract/government regulations. Certificate of origin certifying that the goods have been produced/manufactured in the exporter's country is usually a requirement of the Government in the importing country. So is the case of Consular Invoices - which is an invoice made in a format prescribed by the importing country. Shipment Advice is intended to inform the buyer that the goods have been shipped. Details regarding the date of shipment and mode of transport are also given to enable him to get ready to receive the shipment. GR/PP/VPP/COD forms contains declaration regarding exports and a undertaking for realising the export proceedings within the stipulated time period, as per requirement of the Foreign Exchange Regulations, Act, 1973. Dock challan is required as per the requirement of the Port Authority. While GP is required for all exports other than postal exports, PP form has to be submitted where the goods are sent through Post Office. Where the sale proceeds are also desired through post offices, VPP/COD form is needed.

AR4/AR4A and GP I/GP II are the forms in pursuance of the requirements of central excise act. Goods sold abroad are exempted for payment of central excise duty. These forms enable the exporter to claim refund of duty or get their cargo exempted from payment against a bond.

Shipping Bill, a requirement of the Customs Act is an important document which is in nature of an application submitted to Customs Authority seeking their permission to export.

Among the auxiliary documents, Shipping Instruction Form is used for giving instructions to the C&F Agent/Shipping Company. Application for Export Inspection is submitted to the concerned Export Inspection Agency. Shipping Order Issued by the Shipping Company asking the Commanding Officer of the ship to accept the goods from the named shipper. Mate's Receipt is issued by the Commanding Officer of the ship to the shipper indicating that the goods have been loaded aboard the ship.

Export Procedure & Documentation - Step by Step

Export Documentation and Procedures involves 18 steps;

First step: Exporter examines export order/letter.

Second step: Exporter places order with the factory or supplier in case of merchant exporters.

Third step: Factory/Supplier makes arrangements for pre-shipment inspection and central excise clearance.

Fourth step: Factory arranges despatch of Railway Receipt/Lorry Challan, AR4/AR4A, GP I/GP II, inspection certificate, packing list etc. to Export Department.

Fifth step: Insurance cover is arranged.

Sixth step: Documents (Commercial Invoice in particular) are prepared in Export Deptt. and despatched to C&F Agent along with shipping instructions.

Seventh step: C&F Agent takes delivery of goods for storage in a warehouse.

Eighth step: C&F Agent brings the documents for clearance by the Export Department of the Customs.

Ninth step: After the documents are cleared goods are brought for physical examination. The Dock Appraiser records examination report, makes 'Let Export endorsement on the duplicate copy of Shipping Bill and hands over the same to the C&F Agent to be presented to Preventive Officer supervising the loading of the cargo aboard.

Tenth step: Preventive Officer makes the endorsement 'let ship'. Thereafter, shipping Bill is handed over to the Agent of the shipping company.

Eleventh step: Goods are loaded and captain of the ship issues Mate's Receipt to the Shed Superintendent. C&F agent pays part charges and takes delivery of the Mate's Receipt, which is exchanged with Bill of Lading.

Twelfth step: C&F Agent forwards all the documents to the exporter.

Thirteenth step: The exporter takes necessary steps for obtaining Certificate of Origin.

Fourteenth step: Shipment Advice is sent to Exporter.

Fifteenth step: Export Documents are presented to Bank for negotiation.

Sixteenth step: Export documents are scrutinized, and if found in order are negotiated or sent for collection. Exporter receives payment, if documents are negotiated and Bank Certificate issued to him.

Seventeenth step: Exporter claims rebate of central excise and duty drawback.

Eighteenth step: Exporter initiates action for claiming export benefits.

As consequences of non-compliance of requirements inadequate documentation can cause delay in payments or even penal action, exporters are advised to take the documentation seriously and exercise all possible care.

8.11 SELF-ASSESSMENT QUESTIONS

- 1) Contact any exporter/importer in your vicinity and see for your self the various documents which have to be submitted to different authorities. With his help, write out the various steps involved in executing a specific order. If possible, you may also contact a bank, if there is one with authorisation to deal in foreign currencies.
- 2) Why are the documents needed? Discuss the role of following documents and explain their significance from the importers' viewpoint.
 - a) Commercial Invoice
 - b) Packing List
 - c) Insurance Policy/certificate
 - d) Bill of Exchange
 - e) GR Form
- 3) What are the different parties in a letter of credit? Explain the step by step procedure of realising export proceeds.
- 4) Discuss the role of banks in export transactions. Name the documents needed by them for realising export proceeds from the foreign buyers.

8.12 FURTHER READINGS

- Uniform Customs and Practice for Documentary Credit (1983 Revision). International Chamber of Commerce Publication No. 400.*
- Booklet on Export Procedures and Documentation – prepared for Export Executives Orientation Workshop. Reserve Bank of India, Bombay (1985). Reprinted by Canara Bank and several other nationalized banks.*
- A Handbook of Export Import Procedures and Documentation. Government of India, Publication Division.*

BRAOU

BLOCK 4: INTERNATIONAL MARKETING MIX

This block consists of four unit on elements of the international marketing mix. An array of external and internal variables influence like firms product offering to the international marketplace. Unit 9 discusses how the international marketer adjusts his offering to the unique needs of each of the markets it chooses to enter. Effective marketing communication is particularly important in international marketing because of the geographical and psychological distances that separate a firm from its intermediaries and customers. Unit 10 on international advertising focuses on the principles of marketing communications in international markets. It also provides a scenario of international advertising through strategic relating to international advertising agencies.

Unit 11 focuses on international pricing decisions the setting of export price, terms of sale and terms of payment. Channels of distribution provide essential linkages that connect producers and customers. The links are intracompany and extracompany entities that perform a number of functions. Unit 12 discusses how an international marketer can form an optimal distribution system in terms of design and choice of individual intermediaries. The decisions involved in the management of channels and the physical distribution function have also been discussed.

BRAOU

BRAOU

UNIT 9 INTERNATIONAL PRODUCT POLICY AND PLANNING

Objectives

After studying this unit you should be able to:

- explain the importance of international product life cycle
- discuss the product policy options available to international marketer
- explain the factors that influence branding, labelling and packaging planning, and
- describe the emerging role of international marketing of services.

Structure

- 9.1 Introduction
- 9.2 International Product Life-cycle
- 9.3 International Product Policy
- 9.4 Planning the International Product Mix
- 9.5 Branding, Labelling, Packaging and Organisation of Product Warranties and Service
- 9.6 International Marketing of Services
- 9.7 Summary
- 9.8 Self-assessment Questions
- 9.9 Further Readings

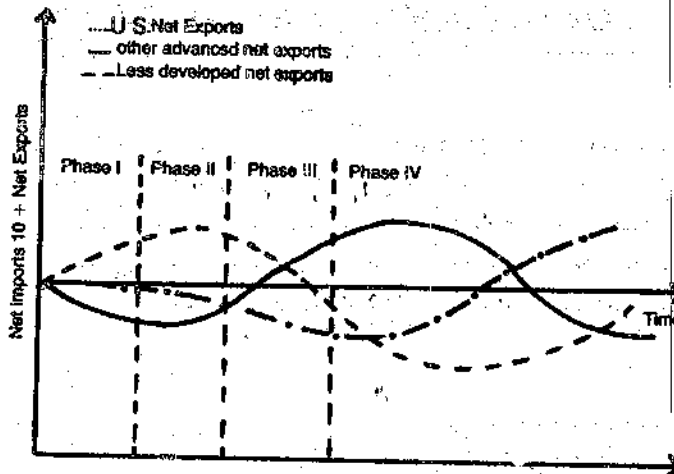
9.1 INTRODUCTION

One of the fundamental decisions for successful international marketing relates to product policy and planning. An international marketer has the option of exporting the home market product to foreign markets, adapting the home market product to meet the needs of the foreign customers more closely, or developing new products to meet the specific needs of the customers in foreign markets. The selection process needs a careful analysis of the foreign market needs, appraisal of the market opportunity and detailed product planning. The important aspects of international product planning which are discussed below, include: international product life cycle, standardisation vs. adaptation of products, new product development, consistency of product lines, width and depth of product-mix, branding, labelling, packaging and organisation of product warranties and services.

9.2 INTERNATIONAL PRODUCT LIFE-CYCLE

The theory of international product life-cycle (IPLC) makes a significant contribution to formulation of effective international product policy and plans. The theory postulates a four-phase cycle for most products. In the first phase U.S. exports dominate the world market, while in the next three producers from other developed countries become increasingly competitive, first in their markets, then in less-developed country markets and finally in the U.S. market. The cycle may be repeated by successive challenges from producers in less-developed countries. A schematic representation of net exports over the IPLC is given in Figure 1.

Fig. 1. Net Exports of Nations, and Phase over IPLC



Source: Igal Ayal, International Product Life-Cycle: A Reassessment and Product Policy Implications, *Journal of Marketing*, Fall 1981.

In simple words, the theory of IPLC brings out that advanced (initiating) countries play the innovative role in new product development. Later for reasons of comparative advantage or factor endowments and costs, such a product moves over to other developed countries and ultimately gets produced and exported by less-developed countries. Not surprisingly, therefore, that countries such as Taiwan, Hong Kong, Korea, Singapore and even India have emerged as major exporters of growing range of products to USA and Western Europe during the last decade and a half.

The general pattern of a typical IPLC may be put as under:

Innovating Country: Stage	Other Developed Countries	Less-developed Countries
Production	Early Imports	Late Imports
Exports	Production	Production
Imports	Exports (Large volume declining to small volume)	Exports (Small volume rising to large volume)

The IPLC theory presents the following implications for international product planners:

- innovative products carry significant export potential;
- the marketer whose products face declining sales in one foreign market may find another foreign market with encouraging demand for his product; and
- innovative products improve the staying power of the international firm.

9.3 INTERNATIONAL PRODUCT POLICY

A firm's product policy reflects its marketing orientation. Following the framework of IPLC, a firm may begin exporting the products it sells in the domestic market. Alternatively, it may recognise the significant differences in customer needs, conditions of product use, etc., and may plan for exporting different products or product versions to meet the specific needs of each of its different global market segments. In the latter case, the exporting firm would thus offer a large product mix.

The other option available to exporting firms is to develop a new product for the

export markets. This new product may be the result of the firm's own R&D acquisition or joint venture with a business partner in the host country. Interesting examples, here, include Coca-Cola Corporation which having entered Japan in 1958 had added Fanta and Sprite by 1970 and still later introduced fruit drink products, carbonated orange fruit drinks and also potato chips which were not even sold by the company in its US Market. Similarly, IBM developed EPABX within the U K, Brooke Bond essentially a tea company elsewhere, markets coffee and spices in India.

Given the relative merits and demerits of each of the available options, the basic question on international product policy relates to whether the exporting firm should standardise adapt or develop an altogether new product for the export market.

Standardisation vs. Adaptation

The advantages of economies of scale; savings on common costs of R&D, product and package design; and universal image make a strong case for product standardisation across different export markets. The reality of the export markets is, however, not so easy to harness. Factors such as the following and their implications influence the exporting firm's decision in favour of product adaptations and in extreme cases even for new product development. These factors and their implications on product design are as under :

Factor	Implications for Product Design
Customer Orientation (purchasing power, habit preferences, socio-cultural characteristics, literacy and education levels)	Product range, size, brand name; mark, labels, package colour and use instructions
Stage of Market Development (availability of infrastructure support facilities, level of technical skills and maintenance)	Product form, packing, product simplification, change in tolerances, service after-sales
Legal Consideration (patent, safety standards commercial terms, control requirements)	Brand name, mark, label, language, measurement units and sizes, instructions, and packaging
Climatic Condition and Physical Environment (hot, cold climate, plains, hilly areas, living environment in home etc.)	Packaging protections, package size, product storage.

While the listed factors explain the scene of global product adaptation, the extent of product adaptation is governed by cost-benefit accruing to the exporting firm, the state of competitors in the host country market, and also the nature of the product—mere adaptation is needed in consumer non-durable goods for reason of varying tastes and preferences of consumer, than in durables and industrial goods. Some illustrations of product adaptations are as follows :

- McDonald's sell cheese burgers in Australia to one segment of the market as a low-calorie diet food.
- For want of refrigeration facilities Lever Brothers introduced dehydrated vegetables in India, Pakistan, Thailand and South Korea in place of frozen vegetables marketed by it in developed countries.
- Campbell Soup company modified its soup ingredients in Britain to cater to local tastes.
- Agarbathi exporters from South India modified the intensity and type of perfume in incense sticks to suit the liking of Middle East and North American customers.
- Electrical system of 220-volt for European market and 110-volt for North America.
- In Oman, the law requires tobacco manufacturers to print the legend "smoking is a major cause of cancer, lung disease and diseases of the heart and arteries," on both the package as well as on all tobacco products.
- Nicaragua, Iraq, Thailand and Saudi Arabia require dual-language brand names, labelling and usage instructions.

- 9 Coca-Cola Corporation did not use its brand name in China as Chinese translation of "Coca-Cola" means phonetically "bite the wax tadpole." Instead, it chose an idiomatic brand name meaning "pleasure in the mount."

J.D. Singh in his pilot study on export marketing practices of successful Canadian exporters found that one of the significant factors that contributed to their award winning performance was their ability to innovate and constantly adapt and update their products to the customer needs. This was the case with Positron (innovations in telecom products); IMAX (adapting Omni-systems to country/users needs); Allsteel (wide range of products to meet diverse needs of country/customers); Interbake (adaptations in taste and flavours biscuits and sweets); Phantom (innovations in styles and designs in swimwear, beachwear and bodywear) to quote a few corporations practices.

New Product Development

Attractive market opportunities and/or competitive pressures prevailing in the market may invite the exporters to develop new products for the host country markets. Such a new product could be developed internally in the exporter's own R&D set up, by acquisition or be the result of joint venture with another organisation.

While the process of new product development for global markets is similar to that for the domestic market, greater emphasis is needed on legal requirements, customs and habits market research and test market aspects of the process in the target market. Owing to substantial environmental differences across different countries, new product development and marketing in foreign markets is a high risk area and hence needs systematic planning and management.

Activity 1

Please tick the most appropriate answer:

- 1) Product design strategies include:
 - a) customisation
 - b) optimisation
 - c) standardisation
 - d) both a and c
- 2) Not being able to market your frozen foods in a country because the retailers do not have facilities with deep freezers is an example of a product development problem arising from:
 - a) competition
 - b) physical environment
 - c) support system
 - d) legal environment
- 3) Management of a product line must take into consideration:
 - a) market segmentation
 - b) product design
 - c) product quality
 - d) all of the above
- 4) The decision to add a product to the line is influenced by such considerations as:
 - a) compatibility
 - b) finance
 - c) organisation
 - d) all of the above
- 5) The need to rewire the electrical products in the country where the product is being introduced does not have a common voltage system; or product

simplification when the local level of technology is not high; or the need for a colour change if present colour violates the local taboos, are all examples of:

- a) cultural adaptation
- b) consequences of innovation adaptation
- c) physical adaptation
- d) compatibility adaptation

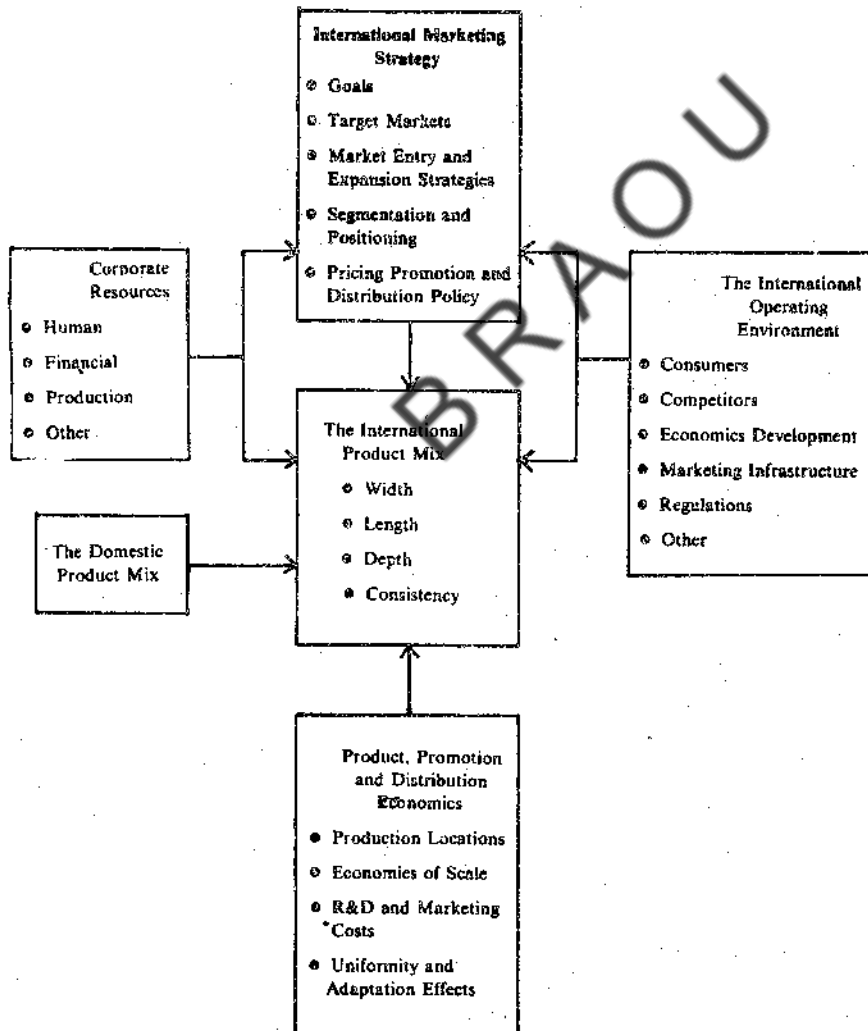
Answers:

1) d), 2) c), 3) d), 4) d), 5) c).

9.4 PLANNING THE INTERNATIONAL PRODUCT MIX

Emanating out of the international marketing objectives and strategy, the planning of the international product mix requires balancing of and integration with other key determinants which are given in Exhibit 9.2.

Exhibit 9.2. International Product Mix Policy : Key Determinants



Source: Brain Toyne and Peter G.P. Walters, Global Marketing Management, Allyn and Bacon, 1989, p.450.

Basic issues that need thorough analysis and evaluation in product mix planning are: the number of product lines to market; width, depth and consistency of each product line with the other; and also the product portfolio analysis. Much like in domestic marketing, the international product mix needs periodic and systematic review both for detecting any incompatibility between the products marketed and the customer needs as well as for locating the non-performing products and picking up the weak products for elimination.

9.5 BRANDING, LABELLING, PACKAGING AND ORGANISATION OF PRODUCT WARRANTIES AND SERVICES

These four decision areas play a crucial part in international product planning and are briefly discussed below:

Branding

The issues that need consideration in branding and trademark decision are:

- Whether to have one brand name world wide (e.g., Coke); or modify the brand name in each market (e.g., Nescafe Instant in India, Nescafe Gold in Germany, and Nescafe Gold Blend in Great Britain); or to have different brand names in different markets;
- Whether to use separate product names as brand names or make use of company name or a combination of the two (e.g., Levi's, Phillips, ICI, Bata, Scotch); and
- Whether to seek legal protection (trade mark) for the brand names and mark of the company.

The selection of a brand name that does neither lose its meaning nor image when translated into diverse languages poses a serious challenge. Although the establishment of international brand names facilitates the marketing of products globally, it also raises issues of brand piracy, imitation and fake brands. It may also be worth noting here that the world bodies are currently pushing hard for greater protection of intellectual property rights on a global basis.

Notwithstanding the above brand and trademark decisions are affected by the company's product policy on standardisation vs. adaptation, and the legal requirement of the host country.

Labelling

Like in the branding decision, the informational and promotional contents of the product label are influenced as well by the legal requirements as by the exporting firm's product and promotion policy.

While the aspects concerning name of manufacturer, date of manufacture, shelf-life, weight, contents, ingredients, price and handling instructions vary with the legal requirements and the international marketing policy of the firm, the language(s) of the host country, and the level of literacy of its people determine the graphics and visuals to be used on the product label.

Packaging

Physical protection of the product as well as its psychological promotion are the key concerns of packaging.

A 'package' as simple as it may look, is influenced in its design, material, shape and weight by a large number of factors. The important factors being:

- safety and security of the product within the package in terms of temperature limits, barometric pressure, corrodibility, colour retention, vibrations, and even the ecological effect of the package in itself;
- transportation hazards, weight and package construction in case of air shipment,

- and the handling and warehousing needs of the package;
- customer perceptions in terms of shape, size, colour, storage life reusability and aesthetics;
 - product promotion in terms of display value of the package shelf-life, package attractiveness as a silent salesperson, brand and label information and sales promotion aids like coupons, stickers, etc; and
 - compliance with legal requirements, and how much does the package cost in the light of the role it performs.

These factors force the exporting firm to keep in touch with innovative packaging materials and be on the look out to make their packaging cost effective.

Product Warranty and Service

A warranty is a guarantee on the product performance as stipulated by the manufacturer. In other words, it defines the manufacturer's liability in the case of non-performance, or under-performance of the product.

Other than compliance with the legal requirements of the host country, product warranties and service constitute an integral part of the added value of the product offered in international markets. As such, it must be one-up on the competitors.

A warranty without the back up of service facilities is counter productive. Consumer durables and industrial goods require servicing that is both convenient and reliable. Since customer service means enhancing efficiency of the product as well as that of the customer, the formulation of the service policy requires an assessment of customer expectations and needs, competitive practices, and the quality of servicing infrastructure and network in existence in the host country. Generally speaking, where the host country's service infrastructure has been found to be of satisfactory level, international marketers (such as General Motors and TELCO) have preferred to have tie-ups with local services for provision of services and have supported them with regular supply of spares, manuals, drawings and the training of their personnel. This is one area in which Indian exporters have to improve a lot.

Activity 2

Please tick the most appropriate answer:

- 1) When introducing a new product for the first time in a foreign market, the marketer should:
 - a) consider what the product does to a customer's habits, tastes, and patterns of life
 - b) treat the product as a new product
 - c) expect some natural resistance to change if the product is "new" to the market
 - d) all of the above
 - e) none of the above
- 2) International packaging decisions ought not to take into account the requirements of:
 - a) customers
 - b) shipping
 - c) designers
 - d) distributors
- 3) The decision on warranty design (standardisation vs customisation) is based on:
 - a) nature of the market
 - b) competition
 - c) service ability of the company

d) all of the above

Activity 2

1) d), 2) c), 3) d).

9.6 INTERNATIONAL MARKETING OF SERVICES

Service as a product has been having the most rapid growth in international marketing in the recent past of particular interest has been the fantastic growth registered by financial and consulting services. Organisations like McKinsey, Price Waterhouse, Kay Associates, Arthur D. Little, Citi Bank, etc. now operate on global basis. A proof of their rapid growth is that today a large number of countries have imposed direct and indirect barriers on foreign companies entry to their domestic markets. To overcome the resulting problems, U.S. Government is attempting to get an agreement through GATT for curtailing restrictive barriers to trade in services.

The important prerequisites for success in international marketing of services include:

- employment of competent professionals
- greater flexibility in market entry and exit almost at a short notice
- networking relationship with other international and leading service organisations in the host country, and
- closer relationships with some of the well-established leading organisations and with dignitaries who matter with the host country government and world development bodies.

The risks associated with international marketing of services are more or less the same as that of products, namely, cancellation of license, expropriation, currency inconvertibility or the customer insolvency. Strong relationships with customers and host country government go a long way in minimising the impact of such risks in global marketing of services.

Given the critical role which the marketer's relationships play, Sharma and Johanson make the following suggestions in evaluating opportunities for international marketing of services:

- Identify and examine the current network of relationships with current and potential clients and other organisations and individuals that could prove useful. Issues of special interest include the genesis, nature and quality of the relationship.
- Evaluate ways in which present network is being and could be used as a platform for generating foreign business. Key questions include: does it provide good information on overseas business opportunities? Does it result in effective project collaboration? Could these contacts be used more effectively to obtain foreign business?
- Devise a strategy for network development to facilitate entry into new overseas markets and to increase business opportunities in current markets.

9.7 SUMMARY

International product policy and planning plays a crucial role in the successful management of international marketing operations. Aimed at seizing the market opportunity, it focuses on the basic decision of whether to export the domestic standardised product or to adapt or even develop a new product for the global markets. Although global marketing of the standardised product is more convenient and profitable, yet customer needs, competitive pressures and legal considerations require the product to be adapted to even the newly developed needs.

Implementation of the product policy requires planning as the width and depth of the product-mix. Branding, labelling, packaging and organisation of product warranties and service are the other integral parts of international product policy and planning.

Service as a product now offers a tremendous potential for international marketing. Networking with the professional organisations and closer relationships with leading customers and influencers act as the important factors for success in international marketing of services.

9.8 SELF-ASSESSMENT QUESTIONS

- 1) Discuss the nature, importance and process followed by a local export firm in planning its international product policy.
- 2) List the factors that help in the successful management of the international product line.
- 3) What considerations are involved in the branding and packaging of food products or garments, for the developed country market, and for less-developed country market. Name the countries selected.

9.9 FURTHER READINGS

- Subhash C. Jain and Lewis R. Tucker, Jr., *International Marketing: Managerial Perspectives*, Second Edition, Kent, 1986, Chapters 13 and 14.
- V.H. Kirpalani, *International Marketing*, Prentice-Hall, India 1987, Chapter 13.
- Brian Toyne and Peter G.P. Walters, *Global Marketing Management*, Allyn and Bacon, 1989, Chapters 12 and 13.

UNIT 10 INTERNATIONAL ADVERTISING

Objectives

After going through this unit you should be able to:

- discuss international advertising strategy
- describe the elements of international advertising strategy
- explain the determinants and factors of media strategy
- comment upon the role and functions of advertising agencies in the international context
- get an overview of the international advertising scene.

Structure

- 10.1 Introduction
- 10.2 International advertising strategy
- 10.3 Elements of advertising strategy
- 10.4 Media Strategy
- 10.5 Advertising Agency
- 10.6 International Advertising Scene
- 10.7 Summary
- 10.8 Self-assessment Questions
- 10.9 Further Readings

10.1 INTRODUCTION

Most people must be motivated to want a product before they buy it. Advertising is an important motivator in marketing. The primary role of advertising is to inform, educate, to motivate and to persuade people to buy a product, a brand or a service. Advertising must also be able to overcome people's resistance and inertia to change and counter competitive claims to draw consumer's attention to the advertiser's products. Once consumers are won, they must be held and made loyal to the advertiser's products. Advertising thus plays two basic roles in marketing: (a) attract potential customers towards the product and (b) help hold them as loyal customers to the product.

In addition to the two top objectives of advertising—to draw in new customers and to help hold old ones as repeat purchasers of advertiser's product—advertising also plays other important roles in marketing such as

- Advertising identifies a business with goods or service it offers.
- Advertising can build up confidence in a business.
- Advertising can create image and good will.
- Advertising can increase sales and increase turnover.

However, advertising is not the only answer to all marketing problems. There are several things which advertising cannot do.

Some of these are:

- Advertising cannot help a business prosper if that business offers products of poor quality compared with competitive products. Good advertising may be able to sell a poor product once but not repeatedly.
- Advertising cannot lead to sales if the prospects which it brings in are not properly treated or attended to.
- Advertising cannot create sustained sales overnight. It needs to be repeated for impact and reinforcement.
- Untruthful or misleading advertising does not help build much-needed credibility and confidence in the product or the company.

These basic functions of advertising in marketing are relevant maybe in different degrees—whether these are applied in the domestic market or in the foreign markets. The principles of advertising are universally applicable. However, the diversity of environmental conditions obtaining in different countries create problems of planning and implementation of advertising nationally and internationally.

10.2 INTERNATIONAL ADVERTISING STRATEGY

Advertising is a crucial element in the integrated foreign marketing plan, but its role in specific marketing programme varies from time to time, market to market and company to company depending on the overall marketing strategies adopted.

Advertising is one element of the promotion-mix and promotion is but one element of the marketing mix. Hence advertising strategy cannot be anything but an integral part of the promotion strategy which again is an essential component of the integrated foreign marketing strategy. International advertising strategy has therefore to be formulated within the framework of the marketing strategy and its role has to be clearly defined in helping achieve marketing objectives. Like any other marketing strategy, advertising should be used only if it can be economically and effectively contributed to the attainment of marketing goal in a given situation. Because of environmental differences, a certain type of advertising which works in one country may not work at all in another country or another market segment in the same country. International product advertising has therefore to be target-market-specific. Even if a standardised advertising theme or message is developed for multicountry use it often becomes necessary to adapt or modify the central theme or message to suit the local conditions of a country or a region.

10.3 ELEMENTS OF ADVERTISING STRATEGY

Two broad elements dominate advertising strategy. These are: (a) Creative strategy and (b) Media strategy.

These two strategies are interlinked and interdependent. They are practically two sides of the same coin—one cannot be formulated in the absence of the other. In formulating international advertising strategy in creative and media terms, the advertiser comes across a host of environmental problems and limitations which would vary from market to market. Since the advertiser can not alter these given conditions and limitations in a foreign country, the creative and media considerations have to be adapted to these conditions.

Creative Strategy

Versatility and creativity are key concepts in developing the creative strategy for an international advertising campaign. In formulating creative content of foreign advertising, the main factors to be considered include:

- Language factors
- Legal factors
- Cultural factors
- Production and cost factors

Language Factors

Language is one of the most formidable barriers to effective advertising communication. The problem involves not merely the different countries or even different languages in the same country, it also involves linguistic nuances and semantics, literacy rate, prevalence of idioms and dialects etc. Illiteracy for example, severely limits the number of people in a country who can be reached through print media like newspapers, magazines, etc. Many countries are multilingual such as India, Canada, Switzerland, Israel, Soviet Union, with different communication media for people speaking different languages. This linguistic pattern in a country creates serious problems for economic and effective advertising communication.

Language translation also faces innumerable barriers to effective communication. A dictionary translation is not the same as an idiomatic interpretation and in advertising

communication dictionary translations hardly suffice. For example, two popular American advertising slogans—'Body by Fisher' and 'Let Hertz put you in the driver's seat'—when literally translated into French would respectively read: 'Corpe by Fisher' and 'Let Hertz make you a chauffeur'. These translations not only lose their intended meaning but also become negative.

Legal Factors

In many countries, particularly in the developed countries, advertising is closely regulated, requiring modifications of the creative approach from country to country. Law pertaining to advertising may restrict the amount spent on advertising, the use of particular media, advertising of certain kinds of products, the use of certain types of copy and visuals, comparative advertising, misleading and unfair advertising, use of foreign-made commercials and the like.

The German advertising legislation, for instance, is considered as the world's "strictest and most specific". There are more than 50 central institutions and organisations monitoring German advertising practices. The other countries which are restrictive in advertising legislation include: UK, USA, Canada, France, Sweden, Austria, Belgium, Italy, Denmark, Finland, Australia, Argentina and Mexico.

One of the main objectives of statutory regulations of advertising is to promote the interest of the consuming public against factually misleading and unfair advertising. Consumerism movement and consumer organisations have become stronger and better organised. It is felt this movement has had profound impact on the advertising industry and consumer legislation.

Apart from legislative measures, advertising practices are also subjected to voluntary code or self-regulatory action in many countries adopted by the advertising industry itself. In some countries large advertising agencies and media have their own standards for judging the content of advertisement. Some broad-based, self-regulatory codes on worldwide advertising practices also exist in many transnational corporations. To guide the worldwide advertising practice, the International Chamber of Commerce (ICC) has formulated the 'International Code of Advertising Practice'

The ICC code is designed primarily as an instrument for self-discipline but it is also for use by the Courts as a reference document within the framework of the appropriate laws. The basic principles of ICC Code are:

- a) All advertising should be legal, decent, honest and truthful.
- b) Every advertisement should be prepared with a due sense of social responsibility and should conform to the principles of fair competition, as generally accepted in business.
- c) No advertisement should be such as to impair public confidence in advertising.

Cultural Factors

The advertising communication is often impeded by the great diversity of cultural heritage. Culture is pervasive in all marketing activities, including advertising. The fundamental problem of foreign marketing is the distance—not merely physical distance but distance in terms of market characteristics and foreign consumers habits, attitudes and modes of thoughts. Cultural factors largely mould and shape people's value-system, perception faith and beliefs, aesthetic values and the like. People perceive and interpret advertising message in the light of their cultural background. For example, the customer benefits featured in the advertising may be appropriate in one country but may not be so in another country. The artwork may be visually unacceptable. The colour scheme or the copy theme may convey different meaning or cause different reactions among consumers in different countries. Such dangers of negative or adverse response become greater when the claim in an advertisement has a psychological rather than a factual foundation. It is therefore necessary to understand the various dimensions and nuances of cultural heritage of people for formulation of effective advertising message aimed at international markets.

Production and Cost Factors

The facilities for and cost of production of advertisement substantially vary from

country to country causing severe production limitations. Poor quality of printing and reproduction or non-availability of high grade paper, for example, are genuine handicaps for creative work. The necessity for low cost reproduction in small markets poses another problem. Production and cost limitations exist nearly in all advertising media.

Activity 1

Select international advertisements of a product and a service. Describe how the elements of creative strategy have been used in them.

Guidelines for Creative Strategy

The preceding description of limitations cause various creative problems in international advertising. It is therefore important to develop certain guidelines to deal with these problems and limitations internationally. An international advertising executive suggests five guidelines for international creative strategy. They are as follows:

- 1) Establish a firm policy on the degree of uniformity best suited to the company needs.
- 2) Look for common denominators, not differences.
- 3) Make maximum use of local marketing and creative talents.
- 4) Do not inhibit creative people.
- 5) Develop a criterion for measuring the creativity and effectiveness of advertising.

10.4 MEDIA STRATEGY

Media strategy is crucial for effectiveness of international advertising and it is closely linked with the creative strategy, for media availability is one of the limiting factors in creativity. Although nearly every sizeable country has some kinds of mass communication media in the form of the press, television, radio, cinema, outdoor, etc., there are a number of specific considerations, problems and differences encountered from one country to another. Primary areas that are of special concern to the international advertiser include: availability coverage and cost.

Availability

The availability of advertising media substantially differs from country to country. Normally, media availability is closely related to the socio-economic development of countries. Some countries have too few advertising media and others have far too many. In some countries Government does not allow advertising through certain media—specially television and radio—or some media are not allowed to advertise certain products. For example, advertising of products like tobacco, alcohol etc. are prohibited in many countries. In many developing countries the quality of print media, for example, is poor in terms of printing, paper or reproduction. Many bilingual or multilingual countries have bilingual and multilingual newspapers and magazines or radio and TV programmes, aimed at different linguistic groups. Media availability in a foreign country therefore is an important factor the international advertiser has to take into consideration in planning advertising strategy in a foreign country.

Coverage

The media coverage implies the number of people who are collectively exposed to different media like the press, television cinema or radio, available in a country. That is, how many people watch television or listen to radio, how many people see movies in cinema houses and so forth. This provides an estimate of the proportions of total population in a country who are exposed to different media. However, advertisers are more interested in individual exposure rather than collective exposure. In other words, how many people read a particular newspaper or magazine, watch particular television programmes or listen to particular radio channels which broadcast commercials. In addition, the advertisers are also interested to have socio-economic profiles of different media audience to make an assessment of qualitative coverage.

Such information as required by the international advertiser is not easily available or not available at all from any reliable sources. However, nearly all developed countries and many advanced developing countries have got media database for use of the prospective advertisers.

Apart from the conventional kinds of media, the new forms of electronic media are creating larger audience in several countries. Satellite-beamed TV media has the ability to create supranational audience. The cable TV segments the audience by region, by life-style and by special interest groups. The marketing significance of cable television lies in the way it is 'demassifying' the media in line with the modern trend to appeal to narrower segments of the market. Similar media trends are visible in pre-recorded video cassettes, discs and teletext systems. Similar trends have also set in for print media. New magazines and newspapers are published which appeal to specific interest groups.

Although the international media scene is not uniform all over the world, the international advertiser needs to keep himself abreast of the media availability in each country of his interest and select media mix for most effective and economic coverage.

Cost

The basic media cost involves the cost of space in the print media and the cost of time in electronic media, with wide variations according to special positions and special time segments. The media prices are normally quoted by the individual units of media but prices are susceptible to negotiation specially between the media-owners and advertising agencies. It is to be noted that the price of individual media unit is determined on the basis of the coverage potential of the media. For example, the cost of space in newspapers and magazines is based on the calculation of cost per thousand circulation or readership of the particular newspaper or magazine concerned. Media cost is an important determinant of international media planning.

Activity 2

In the context of International media scene, with the help of specific example explain how media availability and media coverage have affected media strategy of advertisers.

10.5 ADVERTISING AGENCY

The advertising agencies play a very critical role in international advertising. It is therefore important that proper care is taken by the advertiser in selecting the agency.

for handling international advertising. It is often supposed that overseas advertising can be handled directly by the advertising agency employed in the home country. It is often a risky supposition because the home country agency is unlikely to have an insight into the nuances of socio-economic and cultural variations, as discussed elsewhere in this lesson. In the absence of such an insight, the creative work may be ineffective or even counter-productive. It is therefore important that the creative work for overseas advertising is carried out by the best available local advertising agent who will be sensitive to the local culture, semantics, habits and attitudes. There are numerous examples of failure of overseas advertising prepared without the adequate knowledge and understanding of the cultural milieu of the country concerned.

There are many multinational advertising agencies, mostly based in the United States and the UK which have set up worldwide network of agencies through equity or non-equity collaboration, acquisition and mergers or direct investment. An affiliate agency in any country can use the global network facilities of these multinational agencies for advertising in foreign countries. For example, presently more than twenty advertising agencies in media have affiliation agreements with different multinational advertising agencies. In most cases international advertisers use the network facilities of the multinational advertising agencies.

Selection of advertising agency for overseas advertising should be made carefully. In many cases there are variations among the agencies in their specialisation and organisational capability and expertise. Following are some guidelines for selection of advertising agencies.

Firstly, the size of the agency and its network of international affiliations should be considered. Often large agencies do not pay adequate attention to the small-budget clients. It is therefore advisable to select an agency whose size is compatible with that of the advertiser's budget and preferably sufficiently small but efficient to regard the budget as important.

Secondly, the expertise of the agency should be assessed carefully specially in the area of creativity and media planning. Some agencies will have more comprehensive and up-to-date media database in respect of foreign countries.

Thirdly, informal consultation, where possible, with the past and existing clients of the candidate agencies might be helpful in selection.

These are some general guidelines for the selection of advertising agencies for international advertising. These are applicable whether a home agency with international affiliations or a multinational agency or a foreign country-based local agency is selected.

Activity 3

Talk to your own agency or any other agency which has international operation/collaboration, with respect to their last international campaign. Discuss with them on how the development creation and generation of an international campaign differs from a domestic one.

10.6 INTERNATIONAL ADVERTISING SCENE

The following exhibit gives an overview of the international advertising scene in terms of top agencies and their billing. The media scene is also given.

Exhibit 10.1
AGENCY INCOME

Top 100 agencies worldwide by gross income

Rank	Agency, headquarters	Worldwide gross income		Worldwide billings		U.S. Income		U.S. billings		Advertising Age March 26, 1990	%age	
		1989	1988	1989	1988	1989	1988	1989	1988			
1.	Dentsu Inc., Tokyo	\$1,316.4	\$1,176.2	11.9	\$10,063.2	\$8,939.3	12.6	NA	NA	NA	NA	NA
2.	Saatchi & Saatchi Advertising Worldwide New York	890.0	740.5	20.2	6,049.9	5,033.9	19.7	\$395.2	\$2,209.6	\$2,778.9	\$2,209.6	23.8
3.	Young & Rubicam, New York	865.4	757.6	14.2	6,240.5	5,390.3	16.0	469.5	372.8	3,114.8	2,791.8	11.6
4.	Becker Spiesvogel Bates Worldwide, New York	759.8	689.8	10.2	5,143.2	4,677.9	9.9	310.7	282.7	2,158.0	1,964.2	9.9
5.	McCann-Erickson Worldwide, New York	715.5	656.8	8.9	4,772.3	4,381.0	8.9	209.1	197.0	1,394.8	1,314.0	6.1
6.	Ogilvy & Mather Worldwide New York	699.7	635.2	10.1	4,828.0	4,110.1	17.5	305.1	281.1	2,104.4	1,874.9	12.2
7.	BBDQ Worldwide New York	656.6	585.9	12.1	4,590.0	4,051.2	12.3	373.6	340.5	2,656.0	2,414.3	10.0
8.	J Walker Thompson Co. New York	626.4	559.3	12.0	4,407.5	3,857.5	14.3	268.5	257.5	1,851.0	1,787.9	3.5
9.	Linias Worldwide, New York	593.3	537.6	10.4	3,957.6	3,585.6	10.4	224.9	201.7	1,499.9	1,345.4	11.5
10.	Hakuhodo Inc. Tokyo	585.5	522.2	12.1	4,449.2	3,939.1	12.9	NA	NA	NA	NA	NA
11.	DDB Needham Worldwide, New York	552.9	399.9	38.2	4,095.4	3,020.3	35.6	302.9	244.4	2,386.3	1,929.3	23.7
12.	Foot, Cone & Welding Communication Chicago	510.9	483.9	5.6	3,413.9	3,242.5	5.3	280.5	273.7	1,871.2	1,825.8	2.5
13.	Grey Advertising, New York	498.9	432.8	15.3	3,267.4	2,886.5	13.2	240.7	227.9	1,605.3	1,520.3	5.6
14.	Leo Burnett Co., Chicago	483.8	428.4	12.9	3,265.5	2,865.1	13.3	288.8	263.4	1,945.3	1,765.0	10.2
15.	D'Arcy Masius Benton & Bowles, New York	471.5	428.7	10.0	3,803.1	3,360.8	13.2	232.3	209.6	2,055.3	1,794.2	14.6
16.	EWDB Worldwide, Paris	381.0	NA	NA	2,702.3	NA	NA	82.4	NA	684.0	NA	NA
17.	Publicis-FCB Communications R.V., Paris (49% FCB)	358.8	337.0	6.5	2,405.4	2,278.6	5.6	4.3	2.7	31.7	19.0	66.8
18.	N W Ayer Inc, New York	210.5	185.2	13.6	1,398.2	1,347.7	3.7	128.8	127.8	859.1	946.7	(9.3)
19.	Bozell Inc., New York	190.7	179.2	6.4	1,400.0	1,283.0	9.1	155.4	150.3	1,165.0	1,090.0	6.9
20.	RSCG, Paris	175.3	151.6	15.7	1,234.3	1,138.2	9.4	27.3	14.2	216.8	153.9	42.7
21.	Tokyo Agency, Tokyo	156.2	134.6	16.0	1,259.4	1,115.2	12.9	NA	NA	NA	NA	NA
22.	Dai-ichi Kikaku, Tokyo	155.8	141.9	9.8	1,053.0	977.7	7.7	NA	NA	NA	NA	NA
23.	Dai-ichi Advertising, Osaka, Japan	152.1	139.7	8.9	1,214.1	1,126.7	7.8	NA	NA	NA	NA	NA
24.	Chiat/Day/Mojo, Venice, Calif	150.0	110.0	36.4	1,060.0	838.0	26.5	106.0	77.0	785.0	603.5	30.1
25.	Lowie International, London	137.8	NA	NA	918.6	NA	NA	42.0	NA	279.9	NA	NA
26.	Wells Rich Greene, New York	132.5	125.1	5.9	885.0	835.9	5.9	132.5	125.1	883.9	833.9	5.9
27.	Scall, McCabe, Sloves, New York	127.0	107.0	18.7	870.1	77.6	12.9	79.0	71.8	59.3	559.7	5.5

	Worldwide gross income			Worldwide billings			U.S. income			U.S. billings		
	1989	1988	%age	1989	1988	%age	1989	1988	%age	1989	1988	%age
28. TBWA Advertising, New York	123.7	97.4	27.0	827.0	671.9	23.1	33.2	23.1	43.8	221.6	154.1	43.8
29. Ketchum Communications, Pittsburgh	117.8	109.9	- 7.1	915.7	776.0	18.0	112.9	102.1	10.6	854.9	726.0	17.7
30. Asatsu Inc, Tokyo	113.9	102.7	10.8	837.3	740.4	13.1	NA	NA	NA	NA	NA	NA
31. Yomiko Advertising, Tokyo	100.3	90.0	11.5	753.5	660.34	14.1	NA	NA	NA	NA	NA	NA
32. Ross Roy Group, Bloomfield Hills, Mich.	97.7	85.2	40.6	651.1	568.1	14.6	97.7	85.2	14.6	651.1	568.1	14.6
33. I&S Corp, Tokyo	94.7	83.2	13.9	770.2	692.9	11.2	NA	NA	NA	NA	NA	NA
34. MPM Propaganda, Sao Paulo	83.9	NA	NA	220.7	NA	NA	NA	NA	NA	NA	NA	NA
35. Asahi Advertising, Tokyo	82.9	70.7	17.3	509.4	440.3	15.7	NA	NA	NA	NA	NA	NA
36. BDDP, Paris	79.2	69.3	14.2	527.9	462.5	14.2	NA	NA	NA	NA	NA	NA
37. Chell Communications, Seoul	64.0	44.7	43.1	347.5	194.1	27.5	NA	NA	NA	NA	NA	NA
38. Nihon Keizai-sha Advertising, Tokyo	56.3	47.1	19.6	337.3	283.0	19.2	NA	NA	NA	NA	NA	NA
39. W.B. Doster, Southfield Mich	52.1	41.9	24.4	381.0	303.3	25.6	44.2	37.0	19.4	309.0	268.7	15.0
40. Clemenger/BBDQ, Melbourne (46.46% BBDO)	52.0	43.1	20.8	325.1	269.2	20.8	NA	NA	NA	NA	NA	NA
41. Hill, Holliday, Connors, Cosmopolis, Boston	51.6	50.2	2.7	344.0	335.0	2.7	43.9	43.1	2.0	293.1	287.4	2.0
42. Chuo Senko Advertising, Tokyo	50.6	47.0	7.6	376.4	345.8	8.9	NA	NA	NA	NA	NA	NA
43. Armando Testa Group Worldwide, Milan	50.2	47.7	5.2	349.4	323.4	8.1	NA	NA	NA	NA	NA	NA
44. Saegai Co, Tokyo	49.2	39.2	25.7	309.2	263.0	14.2	NA	NA	NA	NA	NA	NA
45. Onkami Advertising, Tokyo	48.5	40.8	60.3	435.8	491.9	3.8	NA	NA	NA	NA	NA	NA
46. Oricom Inc, Seoul	48.1	32.5	38.8	173.0	137.0	26.3	NA	NA	NA	NA	NA	NA
47. Admarketing Inc, Los Angeles	44.9	40.5	11.1	252.0	224.5	12.2	44.9	40.4	11.1	252.0	224.5	12.2
48. FCAI Group, Paris	42.3	NA	NA	28.7	NA	NA	NA	NA	NA	NA	NA	NA
49. Man-Nen-Sha Inc., Osaka	42.2	36.4	15.9	550.4	492.9	11.9	NA	NA	NA	NA	NA	NA
50. Telephone Marketing Programs, New York	40.5	31.8	29.1	270.0	209.2	29.1	37.8	29.6	27.9	252.1	197.1	27.9
51. Earle Palmer Brown, Bethesda, Md	40.1	36.2	10.3	310.5	271.1	14.5	40.1	36.2	10.8	310.5	271.1	14.5
52. Collett Dickinson Pearce, London	39.1	31.9	22.5	269.6	216.1	24.7	NA	NA	NA	NA	NA	NA
53. Jordan, McGrath, Case & Taylor, New York	38.5	38.5	0.0	345.0	300.0	5.0	38.5	38.5	0.0	315.0	300.0	5.0
54. Aimp, BBDO, Sao Paulo (19.9% BBDO)	38.0	NA	NA	144.1	NA	NA	NA	NA	NA	NA	NA	NA
55. Nihon Keizai, Tokyo	37.2	29.6	25.6	254.8	211.5	20.5	NA	NA	NA	NA	NA	NA
56. Levine, Huntley, Schmidt & Beaver, New York	37.1	32.1	15.7	250.3	216.4	15.7	37.1	32.1	13.7	250.3	216.4	15.7
57. Ally & Gargano, New York	37.0	34.4	7.6	316.0	295.2	7.0	37.0	34.4	7.6	316.0	295.2	7.0
58. Kyodo Advertising, Tokyo	35.3	35.4	(0.1)	265.6	270.0	(1.6)	NA	NA	NA	NA	NA	NA
59. Tokyu Agency International, Tokyo (24.5% DMB & B)	34.9	30.3	15.0	272.4	233.5	16.7	NA	NA	NA	NA	NA	NA
60. Laurence, Charles, Free & Lawson, New York	34.6	41.5	(16.5)	275.2	302.0	(8.9)	34.6	41.5	(16.5)	275.2	302.0	(8.9)
61. Dualibi Petit Zaragoza Propaganda, Sao Paulo	34.6	NA	NA	139.6	NA	NA	NA	NA	NA	NA	NA	NA
62. Hal Riney & Partners, San Francisco	33.8	23.0	46.7	225.0	200.4	12.5	33.8	23.0	46.7	225.0	200.4	12.5
63. Meisui Inc., Tokyo	32.0	31.0	3.2	13.1	193.5	101.1	NA	NA	NA	NA	NA	NA
64. Natunwide Advertising Service, Cleveland	31.0	27.8	11.5	206.8	185.4	11.5	31.0	27.8	11.5	206.8	185.4	11.5
65. Sankosha Tokyo	28.9	26.4	9.5	190.6	174.1	9.5	NA	NA	NA	NA	NA	NA

	Worldwide gross income			Worldwide billings			U.S. income			U.S. billings		
	1989	1988	%age	1989	1988	%age	1989	1988	%age	1989	1988	%age
66. Cassette Communications-Marketing, Toronto	28.3	21.0	34.5	180.7	136.6	32.2	NA	NA	NA	NA	NA	NA
67. Italia/BBDO, Milan (40% BBDO)	27.7	25.4	8.9	184.2	169.4	8.7	NA	NA	NA	NA	NA	NA
68. Abbott Mead Vickers, SMS, London	25.8	23.6	8.9	194.4	177.6	9.4	NA	NA	NA	NA	NA	NA
69. Direct Marketing Group, New York	25.7	26.1	(1.5)	149.6	152.9	(2.2)	25.7	26.1	(1.5)	149.6	152.9	(2.2)
70. Warwick Baker & Fibre, New York	25.6	24.0	6.3	170.0	160.0	6.3	70.0	160.0	6.3	170.0	160.0	6.3
71. Gold Greenleaf Trout PLC, London	24.4	22.1	10.4	164.4	142.6	15.3	NA	NA	NA	NA	NA	NA
72. Norton Publicidade, Sao Paulo	24.2	NA	NA	96.8	NA	NA	NA	NA	NA	NA	NA	NA
73. L.G. Ad, Seoul	24.1	19.0	26.6	160.7	126.9	26.6	NA	NA	NA	NA	NA	NA
74. Evans Communications, Salt Lake City	24.0	21.1	8.5	160.0	147.5	8.5	24.0	22.1	8.5	160.0	147.5	8.5
75. Allen Brady & Marsh, London	23.8	22.5	5.7	158.4	149.9	5.7	NA	NA	NA	NA	NA	NA
76. Dailey & Associates, Los Angeles	23.3	19.6	18.4	155.2	131.6	18.4	23.3	19.6	18.4	155.2	131.6	18.4
77. Abstin Knight, London	23.0	19.1	20.4	153.6	127.5	20.4	NA	NA	NA	NA	NA	NA
78. McKim Advertising, Toronto	22.6	22.1	2.7	151.1	147.2	2.6	NA	NA	NA	NA	NA	NA
79. Griffin Bacal, New York	22.4	20.0	12.0	176.2	153.8	13.1	20.7	18.4	12.3	162.7	143.9	13.1
80. Salles/Inters/Americana, Sao Paulo	22.0	NA	NA	104.9	NA	NA	NA	NA	NA	NA	NA	NA
81. ARC Advertising, London	21.6	13.8	36.3	148.0	92.1	36.3	NA	NA	NA	NA	NA	NA
82. Bartle Bogle Hegarty, London	21.4	19.0	12.8	159.2	126.9	25.7	NA	NA	NA	NA	NA	NA
83. Keller Crescent Co., Evansville, Ind.	21.3	22.0	(3.4)	106.5	110.3	(3.4)	21.3	22.0	(3.4)	106.5	110.3	(3.4)
84. Yellowhammer Advertising, London	21.3	17.4	23.4	141.8	115.9	22.4	NA	NA	NA	NA	NA	NA
85. CFP Alliance, Paris	21.2	20.3	4.3	141.1	136.1	3.6	NA	NA	NA	NA	NA	NA
86. Nambokusha Inc., Tokyo	20.8	15.2	37.2	165.2	117.2	44.9	NA	NA	NA	NA	NA	NA
87. Neville Jeffress Advertising, Sydney	20.8	16.6	25.6	138.5	110.7	22.5	NA	NA	NA	NA	NA	NA
88. Thomas G. Ferguson Associates, Parsippany, N.J.	20.6	16.9	22.1	170.7	102.1	18.2	20.6	16.9	22.1	170.7	102.1	18.2
89. GSD&M, Austin, Texas	20.2	15.3	32.1	130.8	134.1	21.5	20.2	15.3	32.1	130.8	124.1	21.5
90. Alliance International U.K., London	20.1	20.7	(3.1)	133.9	138.2	(3.1)	NA	NA	NA	NA	NA	NA
91. Bloom Cos., Dallas	20.0	22.1	(9.5)	168.2	182.6	(7.9)	20.0	22.1	(9.5)	168.2	182.5	(7.9)
92. Wyse Advertising, Cleveland	19.9	15.7	26.5	140.4	105.8	32.8	19.9	15.7	26.5	140.4	105.8	32.8
93. Geer, DuBois, New York	19.5	18.0	8.3	130.0	120.0	8.3	19.5	18.0	8.3	130.0	120.0	8.3
94. Rosenthal, Sirowitz, Humphrey & Strauss, New York	19.1	17.4	9.5	127.0	116.0	9.5	19.1	17.4	9.5	127.0	116.0	9.5
95. Korad Ogilvy & Mather, Seoul (30% O&M)	18.8	14.4	30.8	118.9	90.5	31.4	NA	NA	NA	NA	NA	NA
96. Richards Group, Dallas	18.7	15.1	24.3	125.1	101.4	24.3	18.7	15.1	24.3	125.1	101.4	24.3
97. Osaka Yemiaru Advertising, Osaka, Japan	18.5	16.2	14.0	142.1	124.6	14.0	NA	NA	NA	NA	NA	NA
98. Standard Advertising, Tokyo	18.1	17.7	2.2	146.0	138.4	5.0	NA	NA	NA	NA	NA	NA
99. Baker Lovick Advertising, Toronto (40% BBDO)	17.7	16.3	8.7	118.4	108.9	8.7	17.4	17.5	(0.6)	NA	NA	NA
100. Rubin Postner & Associates, Los Angeles	17.4	17.5	(0.6)	143.1	128.7	11.2	17.4	17.5	(0.6)	143.1	128.7	11.2

Notes: All figures are US dollars are in millions; percentages and initials in parentheses indicate equity amounts included in other top agencies. See Page S-20 for methodology.
 * Indicates that gross income and/or total volume figures are AA estimates. Profiles of the Top 100 agencies begun on Page S-33. AA chart Kevin Brown

10.7 SUMMARY

Marketing communications in the international context become critical determinants of a marketer's success, not only because they have to compensate for the spatial and psychological distance between the firm and the customer, but also because it becomes more important tool of cultivation in a foreign market. Formulated within the framework of marketing strategy, advertising strategy utilizes the components of media and creative strategy to evolve effective marketing communication. Modern day advertising makes extensive use of advertising agencies being the benefits of specialisation to the task of communication. International Agency and Media scenario provides an idea of the scale of operation of this function in present day international marketing.

10.8 SELF-ASSESSMENT QUESTIONS

- 1) How do environmental variables affect the design of advertising strategy? Explain.
- 2) Describe the components of international advertising strategy.
- 3) How do coverage and availability of media influence the design of media plan?
- 4) Give an overview of the international advertising agency scenario.

10.9 FURTHER READINGS

Contractor, Farok J and Pilee Lorange, *Cooperative Strategies in International Business*, Mass: Lexington Books, 1985.

Drun, S. Watson, Arnold M. Barban, Dean Kriyanan and Leonard N. Re,d *Advertising and its Role in Modern Marketing*, 7th ed. Hinsdale, III, Drydenpuss, 1990.

Jain, Subash and Lewis R. Tucker, *International Marketing: Managerial Perspectives*, Boston: CBI Publishing, 1979.

UNIT 11 INTERNATIONAL PRICING POLICY

Objectives

After going through this unit you should be able to:

- explain the factors influencing international pricing
- discuss the role of costs in international pricing
- describe the process of price setting in the international context
- explain the informational needs for international pricing.

Structure

- 11.1 Introduction
- 11.2 Components of Price
- 11.3 The Process of Price Setting
- 11.4 Pricing in International Market
- 11.5 Information for Pricing Decisions
- 11.6 Sources of Price Information
- 11.7 Issues in International Pricing
- 11.8 Summary
- 11.9 Self-assessment Questions

11.1 INTRODUCTION

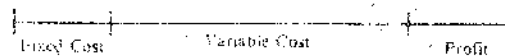
From its domain in economics, to its application in management the issue of 'choice of a specific price for a specific product in a specific market' has baffled both, the student of economics and the managers, alike. The issue till date remains fuzzy, attached with it is a large element of subjectivity.

The marketing manager is concerned with the revenue function of the firm. An important variable of the revenue function is price (the other being quantity). Moreover, this variable possesses the capacity to influence the other variable i.e., the quantity sold. The economists refer to this relationship as price elasticity. It therefore, becomes necessary for the marketing manager to manage this variable.

11.2 COMPONENTS OF PRICE

The price variable is made up of two components viz costs and profit. The cost component is further subdivided as fixed and variable.

Exhibit 11.1
Components of Price



The economic theory, weaves itself around these components, through demand and supply functions, to explain the process of price settings.

11.3 THE PROCESS OF PRICE SETTING

The marketing manager uses the parameters suggested by the economists for arriving at a price. These parameters may be enumerated as under:

- Costs
- Demand and supply
- Legal, economic and political constraints.

Costs

Costs represent the base line for setting the price. In other words, costs represent the price floor beyond which prices cannot be dropped. As already explained costs are made up of two components, fixed costs and variable costs. Fixed costs represent the unescapable element of cost, whereas, the variable cost represent the escapable costs. The variable costs are also sometimes interpreted as marginal costs or incremental costs.

Each of these component has its own significance when pricing a product but the significance is in turn is dependent upon the marketing goals, and other similar variables.

Demand & Supply

For a marketing manager the upper limit is demonstrated by the demand and supply conditions as they exist in the market. The demand conditions are interpreted from the market conditions and the consumer behaviour whereas, the supply conditions are interpreted by an analysis of the competition. The prices charged by the competitors, and the attributes and quantity sold by the competitors, set the supply parameters. Thus for e.g., the prices being charged for garments by the Italians and the South Asians will determine broadly the range that can be charged by the Apparel exporters. Again if the international buyer is alert he will through his awareness, bargain against the subsidies being provided by the Government to the exporter, thus forcing the Indian exporter to charge as per real costs.

Economic, Legal and Political conditions

These represent parameters outside the market forces which influence the price structure. The Government, it has been noted, can through its policy, in fact modify the market conditions, making them lopsided. Thus, the countries where the economic policies are directed by the Government, the economic and political conditions have an important bearing on price structures. Taxes and duty drawback represent excellent examples for the same.

Legalities lengthen any process and complicate it and thereby influence the price structure. The more the legal constraints to be adhered to, the more the price charged from the customers, in an effort to pass the increase in costs.

These parameter suggest the upper and lower limits but, the actual price lies somewhere in between. The effort of every manager is to arrive at a process that is easy and minimize the deviation from the chosen price, in order to ensure the resultant profit. As a result of this various methods of pricing have come into vogue which emphasise one variable as against the other variable. Cost plus pricing competitive pricing are products of the same thought. Cost plus pricing extensively employed by the Americans reflects an accounting thought rather than a managerial thought. Similarly competitive experience pricing extensively used by Japan reflects a supply side thought process.

It must be pointed out that marketing efforts are directed at fulfilling the need of the identified consumers. Price is an inherent factor of need. Therefore price must reflect managerial thought, and must fit into the overall marketing strategy.

A suggested process for arriving at the price would induce the following steps:

- Analysis of the marketing goals
- Choosing the marketing mix
- Composing the marketing mix
- Determining the pricing policy
- Defining the pricing strategy
- Arriving at a specific price.

Of course, the chronology is not important but thought on each of the above steps would enable the marketing manager to arrive at a price which fulfills his marketing objectives within the set upper and lower limit. Thus, in brief, the marketing manager arrives at a price, within the parameters of cost, demand & supply and economic, political and legal parameters, by adopting a process that fulfills his marketing objective.

Activity 1

- i) Price is an important element of marketing mix. Explain how does it fit in the above process.

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- ii) What can be the possible objectives of a marketing manager while choosing a specific price?

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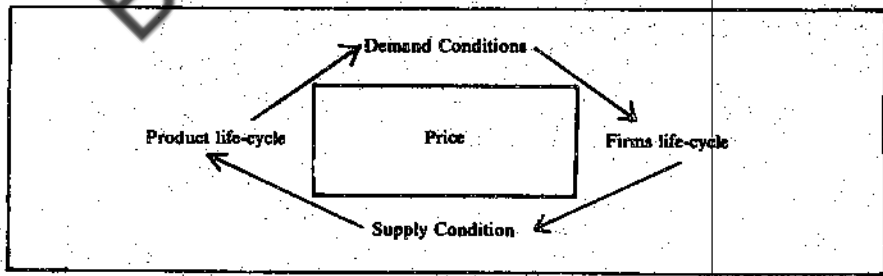
11.4 PRICING IN INTERNATIONAL MARKET

Although, the parameters and the process of pricing remain the same, new dimensions are added to the pricing decision when a firm starts exploiting the international markets.

When an organisation enters a new market in the international marketing arena, it opens itself to an absolutely new set of characteristics. Thus, as each market stands out as a separate entity and this influences the parameters of pricing.

Moreover, a products position on its life-cycle curve and the firms position on its life-cycle curve no longer remain sacred, adding more complexities to the pricing decision.

Exhibit 11.3



Firm Life-Cycle

In international marketing operation a firm moves from the export marketing stage to international marketing and finally graduating to multinational marketing.

At each stage the position of the firm on its life-cycles curve emphasises the influence it will bear on the pricing decision. The influence is likely to be felt in two ways—the marketing process it adopts and the marketing goal the firm chooses.

Export Marketing

Export marketing represents an entry mode for a firm, in its infancy, in international marketing, process. At this stage the firm has neither the requisite marketing experience nor the accompanying financial clout at its disposal. As a result of these shortcomings it cultivates large and organised buyers and has little commitment to the market.

Moreover, such a firm has little or no control over the distribution and promotion

functions, owing to the above shortcomings. Therefore, price becomes the only variable that remains controllable given the product. Such a firm, therefore, uses price its unique selling proposition. The stature the price occupies that of a bargaining point.

As already pointed out the second influence is on the marketing goals and through it, the process of price settings. Because the firm is committed to large buyers, it has little involvement with the market. Therefore, the goal of such firm is short-term in nature with maximum emphasis on profit element of the price. It therefore resorts to marginal pricing to seek bulk orders. As the firm gains marketing experiences the goals become long-term in nature with emphasis on market cultivation. In such cases the firm vacillate between fixed or full cost pricing vs variable pricing.

The entire process of export pricing gives rise to certain issues. These issues may be discussed as under:

- Elements of price quotation
- Price escalation
- fundamentals of pricing strategy

Elements of Price Quotation

Since export marketing firms have to deal with organised buyers, the issue of making a quote arises. For making a quote three sub-elements must be considered. They are cost, currency, terms and buyers limit.

Costs

Cost represent an important element of quote but cost itself is composed of many sub-elements. The exhibit below gives the major sub-elements of the cost component.

Exhibit 11.3

Table : Elements of Cost for Export Pricing

1)	Direct costs:
a)	Variable costs:
	Direct material
	Direct Labour
	Variable Production overheads
	Variable Administrative overheads
	(e.g. salary of an export clerk)
b)	Other costs directly related exports:
	Selling costs—advertising support to importers abroad.
	Packing
	Commission to Overseas agent
	Export credit insurance
	Local charges
	Forwarding charges
	Inland insurance
	Port charges
	Export duties, if any
	Warehousing
	Incidentals
	Interest on funds involved/deferred credit
	Cost of free parts supply
	Consular fees
	Pre-shipment inspection and loss on rejects
	Total direct costs
	Less : Export incentives allowed by the Government
	Direct cost net (F.O.B. export price at marginal cost)
2)	1 + Fixed costs/common costs
	Production overheads
	Administration overheads
	Publicity and advertising (general)
	Travel abroad*
	After-sales services*
	F.O.B. price (based on full cost)

* To begin with, they may be treated as fixed cost. When business develops, they may be treated as variable costs.

1 + Freight
+ Insurance
= C.I.F. Price (based on marginal cost)

2 + Freight
+ Insurance
= C.I.F. Price (based on full cost)

Part I of the cost sheet gives the lower limit for export pricing. As would be clear from the cost sheet, all costs directly related to exports are taken into account for fixing the lower limit. If some incentives are allowed by the government on the export of the product concerned, the lower limit would be further reduced by the amount of incentives.

Currency

The choice of currency in which the quote is made is an important decision. For, an unwarranted fluctuation in the exchange rate may wipe out the business profits and, at the same time if the firm is capable of exchange rate management, it can magnify its business profits through exchange speculation. If the firm does not possess the required competence for exchange management, then choosing a stable currency might represent the appropriate answer. Until recently the Japanese Yen and the German Mark represented stable currencies.

Terms of Trade

The trade terms represent an important element of the quote. The quoted price changes with change in terms.

Here, it must be pointed out that different producers can produce at different cost levels and therefore this method can only provide a guideline for entry.

The Effects of Terms of Delivery on Price

Therefore, the price quoted by an exporter will need to be adjusted according to the terms of delivery. The simplest way to understand this is to study an example. The one quoted below concerns a shipment of cloth from Britain to Milan by sea. The basic price the exporter wished to receive was \$32 a metre. The enquiry was for 3,000 metres. Hence the exporter began by wishing to receive at his works a total of \$6,000. The costs at all stages of delivery to Milan were as follows:

	\$
Price of the cloth, unpacked, at works	6,000
Packing costs	300
Transport to docks by rail	450
Port dues and loading charges	60
Freight by sea to Genoa	875
Landing charges at Genoa	90
Duty payable on 3,000 metres of cloth	1,200
Transport from Genoa to Milan	150
Insurance, all risks, to Milan	100
	9,225

- 1) If you quoted 'Ex Works,' your price would be \$6,000 because you would have no additional costs to add. But in this case, you would have to specify 'Packing extra at cost; since export packing is seldom included in the cost. If it so, then your price would be \$6,300.
- 2) If you quoted F.O.R., you would probably not add anything further, unless you were some distance from the railhead.
- 3) If you quoted F.A.S., you would have to add the cost of taking the goods by rail to the port, so in this case your price would be \$6,750.
- 4) If you quoted F.O.B., you would have to add the port charges, which would include any documentation. Thus your price would now be \$6,810.
- 5) With a C.I.F. quotation, you have to include the freight to the nearest port, in this

case Genoa, and the insurance. While this has been shown as \$100, this was right through to Milan, so you might need to add only \$80, when your C.I.F. price would be \$7,765.

- 6) Selling on a Franco Domicile basis you would have to add all landing charges at Genoa, the duty payable on the cloth, the full insurance and the freight from Genoa to Milan. Thus your final price deliver to your customer's warehouse in Milan, would be \$9,225.

From the customer's point of view he has least to do when he buys from you on a Franco Domicile basis. He has most to do when he buys Ex-Works. Customers often prefer to buy on F.O.B. terms for three reasons:

- 1) They have other goods being sent to them and wish your goods to be shipped at the same time, possibly saving freight charges.
- 2) They can use the ships and other services of the own country, thereby saving foreign currency.
- 3) Their import licences may be granted on an F.O.B. basis.

(Example taken from *Export Made Simple* by Deschampsneufs, pp. 25-26)

The Buyer's Limit

Although, this limit shall vary from buyer to buyer the general method adopted is to identify and match costs. The process is to learn about the quoting prices and then to work backwards. Thus, to get an idea of the possible quote one can take the market price and start deducting major elements as shown in the exhibit below:

Market Price in the Target Market

- Less: Retail margin on the selling price
Cost to the Retailer
- Less: Wholesaler's mark-up on his cost
Cost to the Wholesaler
- Less: Importer's mark-up on his cost
Cost to the Importer
- Less: Import Duty
Land Price
- Less: Freight and Insurance charges
i.e. realisation to the exporter.

This will give an idea whether with the existing cost structure it is possible to make a competitive quote.

11.5 INFORMATION FOR PRICING DECISIONS

An important pre-requisite for scientific export pricing decisions is regular availability of authentic basic data relating to export products, foreign market and other relevant marketing information. The details of information requirements vary from product to product, market to market and firm to firm.

In general, the following information is usually necessary for facilitating export pricing decision:

Product Information

- 1) Production cost details:
 - a) Prime cost
 - b) Factory overheads
 - c) General Administration overheads
- 2) Cost of distribution:
 - a) Cost of packing
 - b) Cost of selling
 - c) Cost of transportation including insurance
 - d) Distribution cost at the importing end

3) Cost of marketing support—advertising, sales promotion and technical literature

These data may have to be obtained for the exporting countries, for competing countries and for consuming countries.

- i) Nature of the Product
 - a) Whether a consumer or an industrial product
 - b) Elasticity of demand
 - c) Can demand be pushed up by promotion
 - d) Importance given to the price-quality mix
 - e) Elasticity of supply of the product
- iii) International levies, taxes, etc.
- iv) Export incentives
- v) Product guarantees
- vi) Installation and after-sales service requirements, and
- vii) Percentage incidence of rejects.

Market Information

- i) Market Structure—high competition, little competition or low competition
- ii) Peculiarities of the Market—Developed and developing countries, particular segments in developed countries may be interested in low price goods.
- iii) Ruling price in the foreign market including prices of substitutes
- iv) Terms of payment offered by the competitors and demanded by importers
- v) Import duties, border fiscal charges and quota, restrictions.
- vi) Major sources of supply in the importing country—local and foreign
- vii) Trade preferences and/or trade agreements, if any
- viii) Extent of G.S.P. concessions, if any
- ix) Brand image, brand loyalty and consumer preferences
- x) The nature of market segmentation, if any
- xi) Publicity—need, media and cost
- xii) Channels of distribution and the margins allowed to various intermediaries
- xiii) Shipping freight, insurance, packing, banking, transportation and other charges incidental to export, and
- xiv) Documentation and invoicing requirements, health and sanitary regulations and other government regulations.

Information Required at the Micro Level

Some of the strategic points of information necessary for pricing decisions at the micro level cover the following aspects:

- i) Production capacity of the firm—installed as well as utilised
- ii) Proportion of total production supplied to the home market
- iii) Proportion at present exported
- iv) *Inter se* competition among domestic firms in the export field, and
- v) Additional export possibilities

As regards the supplies for additional exports, the essential information required is:

- i) Whether it would involve curtailment of supplies to the domestic market
- ii) Whether it would lead to the utilisation of idle capacity, or
- iii) Whether it would require commissioning of new capacity.

11.6 SOURCES OF PRICE INFORMATION

The exporters' own files could give an idea of the prices charged in the past and as to what extent they were acceptable.

Domestic export statistics usually provide quantity and value of the commodities/products exported. If we divide the value by quantity, we can get an idea of the export price realised by the domestic exporters. So also a look at the foreign import statistics could give an idea of the prices paid by importers for imports of various products/commodities from various countries.

Export Promotion Councils/Bureaus also provide an idea of the possible prices at which the products could be exported.

Commodity Price Bulletins issued by the United Nations, International Monetary Fund and Food and Agriculture Organisation provide an idea of the export, import and wholesale prices of the various commodities. The prices at which the commodities are traded at the various commodity exchanges are usually published. So also publications of commodity oriented organisations like International Sugar Agreement could provide an idea of the spot and auction prices. The Commonwealth Economic Committee also publishes wholesale, quoted and import prices of commodities of interest to Commonwealth countries.

Catalogues published by departmental stores of the major developed countries can provide an idea of the prices charged for the various products from consumers. Of course, the exporter would have to work backwards by deducting the retail margins, wholesale margins, the import duties and the freight and insurance charges. Trade Journals very often provide price data about the products covered. Studies made by various research organisations including the International Trade Centre also contain the data about prices and the margins applicable at various distribution levels.

Reports of Trade Delegations could be another sources of price information. Participation in Trade Fairs and Exhibitions could possibly give the best idea about the prices of the products covered by the fairs & exhibitions as also of the modifications required in the product.

In addition, there are specialised price information agencies which could also help the exporters about prices which could be obtained for the products exported by them. The two major agencies are Reuters, 85 Fleet Street, London and Unicom 72-78 Fleet Street, London.

Activity 2

Visit an exporter to find out the criteria he uses to make the quote.

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What emphasis does an Indian exporter give to the currency management issue.

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International Marketing and the Pricing Decision

In export marketing price had remained the most important variable of marketing mix. But, as the firm grows and builds upon its international marketing experience and financial clout, it changes its orientation. It no longer seeks out bulk buyers but chooses to develop markets i.e., it starts on the process of consumer orientation. Promotion becomes a tool in its hand and therefore even the distribution function comes to be influenced. All this is result of the change in marketing goals.

With the change in marketing goals the process of arriving at a specific price, also undergoes a change, because the pricing objectives have to remain consistent with the other marketing objectives. Various pricing strategies adopted reflect the marketing goals of the company. Thus experienced pricing (a strategy commonly adopted by the Japanese) reflects a desire to take advantage of scale and gain through volume. Whereas pre-emptive pricing reflects the marketing goal of market share maintenance similarly the penetration pricing strategy reflects the marketing goal capturing a large market share. The emphasis of such pricing strategies is on value rather than costs, and all of these strategies reflect long-term commitment on part of the firms.

11.7 ISSUES IN INTERNATIONAL PRICING

Several issues have cropped up with references to international pricing among them. The most important are the issue on inflation and the issue on transfer pricing.

With the problem of inflation being faced by almost every country the pricing policies must incorporate measures to deal with it. For inventory being held would lose value if proper measures aren't undertaken. NIFO (Next in First Out) is one of the techniques followed in countries with high inflation rates.

Similarly to this is the issue on transfer pricing. Although the optional methods remain the same the objectives change in the arena of international pricing. There is the desire to take advantage of the differential tax structure. Various governments are framing rules to prevent this form of tax planning.

Activity 3

What are the various methods for transfer pricing? How would its application differ in case of multinational concerns

11.8 SUMMARY

In this unit an attempt has been made to illustrate how the pricing decision is taken by the managers. The parameters that determine price floor and price ceiling have been discussed. The manager has open to him the choice of a specific price within these parameters. For this, a process has been briefly discussed. The issues that arise in relation to pricing decision, when a firm enters international market have also been explained.

11.9 SELF-ASSESSMENT QUESTIONS

- 1) What is the premise of cost plus pricing?
- 2) What are the major components of a quote?
- 3) What role does choice of currency play in the management of revenue function?

UNIT 12 INTERNATIONAL DISTRIBUTION AND SALES POLICY

Objectives

After going through this unit you should be able to :

- explain the international distribution channels and the option available of direct and indirect distribution;
- identify the key elements of international distribution and sales policy;
- highlight the importance of systematic management of channel members and their motivation and control.
- gain an overview of the physical distribution management.

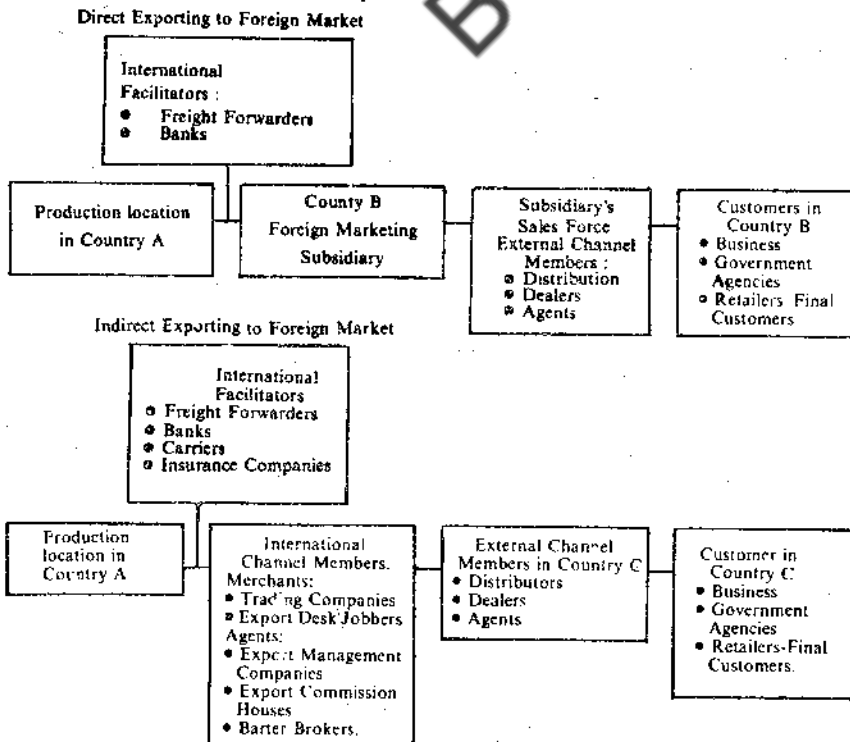
Structure

- 12.1 Introduction
- 12.2 International Distribution Channels
- 12.3 International Distribution Policy
- 12.4 Selecting Distribution Channels and Channel Members
- 12.5 International Physical Distribution Management
- 12.6 Summary
- 12.7 Self-assessment Questions
- 12.8 Further Readings

12.1 INTRODUCTION

Distribution plays an important role in the implementation of the international marketing programme as it enables the products and services to reach the ultimate customer. An international marketing firm has the option of managing its distribution function either directly or indirectly through middleman or a suitable combination of the two. See Table 1.

Exhibit 12.1 : Example of International Distribution Channels



Source: Brian Toyne and Peter and G.P. Walters Global Marketing Management, p 514.

Due to physical distance, and also the differences in geographical-cultural and market characteristics of the trading countries, use of middlemen is found quite prevalent in international marketing. In fact, distribution is one such primary functions of marketing which makes use of the services of external independent agencies that bind the firm in long term relationship. Also this function has been found to be a dark continent of marketing and researchers point out to numerous areas which carry potential for improving the efficiency and effectiveness of this as well as the overall marketing function. This function, therefore, needs to be managed systematically, and the formulation of an appropriate international distribution and sales policy form a vital part in its management

12.2 INTERNATIONAL DISTRIBUTION CHANNELS

As already mentioned, international marketers have the options of organizing distribution of their goods in foreign markets through the use of indirect channels, i.e. using intermediaries, direct channels or a combination of the two in the same or different markets.

Indirect Distribution

Indirect channels are further classified based on whether the international marketer makes use of domestic intermediaries. An international marketer therefore, can make use of the following types of intermediaries for distribution in foreign markets.

- a) **Domestic Overseas Intermediaries**
 - Commission buying agents
 - Country-Controlled buying agents
 - Export Management companies (EMCs)
 - Export merchants
 - Export agents
 - Piggy backing

- b) **Foreign Intermediaries**
 - Foreign Sales Representatives
 - Foreign Sales Agents
 - Foreign Stocking and Non-Stocking Agents
 - State Controlled Trading Companies.

The definition and major advantages and disadvantage of the above types of intermediaries are given in Exhibit 12.2.

Exhibit 12.2 : Intermediaries in International Distribution : basic definitions

(e) Domestic Overseas Intermediaries

Type	Definition	Advantages	Disadvantages
Commission buying agents	Holders working in the U.S. for a foreign company on salary commission basis in search of lowest prices & best deliveries	Same ease as domestic sale	No true international exposure experience gained
Country controlled buying agents	Similar as above but controlled by the foreign government	Same as above	Same as above
EMCs	Independent firm contracted by manufacturer to develop exports sales handle shipping and delivery arrange for payment	Immediate experience and international contracts.	Some loss of control and lower gross profits
Export merchants	Purchase for own account to resell in the market place	Same ease as domestic sale	Loss of market control
Exporters	Act as international manufacturers representative	Low overhead expense	Lack of control
Piggy backing	Selling to domestic company with compatible product line already well placed in the international market	Immediate access to experienced field force in same product area	Partial loss of control and lower gross profits

b) Foreign Intermediaries

Type	Definition	Advantages	Disadvantages
Foreign Sales representatives	Foreign manufacturer step who handles related product line on commission basis	Knowledge of local market and ability to cover area	Sells number of products and may not push yours
Foreign Sales Agent	Same as above but with degree of authority to commit your company	Same as above can make local decisions	Same as above
Distributor stocking or non-stocking	Purchase your products for resale to end user	Same as above plus can provide on site service	Some lack of control and pricing
End user	Similar to above though do not use product directly	Local control	Requires export sales force
State buying companies	Your foreign customer	Often found in centrally controlled economies	Same as above

Source : Adapted from R. Wayne Walvoord, *Ten steps to Successful Exporting*, Amacom, p. 43.

Direct Distribution : Linking International Distribution and Sales

The options available to international marketer in organizing direct distribution range for sending missionary sales representatives abroad from the headquarter; setting up of local sales/branch office in the foreign country or for a region; establishing a subsidiary abroad entering into a joint venture or franchising agreement.

Companies having long-term interest in international marketing find it expedient to deploy their own sales force in foreign markets. This helps them in increasing their sales volume through committed market development activities; better control and motivation of foreign intermediaries being used, and paving the way for smoother transition to direct distribution and marketing.

12.3 INTERNATIONAL DISTRIBUTION POLICY

The international distribution policy of a firm according to Cateora, should cover the following factors:

- 1) Question of control, size of margins, length of channels, terms of sale and channel ownership.
- 2) Resource (money and personnel) commitment plans for the distribution function management keeping profit goals in a foremost position.
- 3) Specific market goals expressed in terms of volume, market share and margin requirements, to be accomplished.
- 4) Return on investment, sales volume and long run potential as well as guidelines for solving routine distribution problems, and
- 5) The relationship between long-and short-term goals, the extent of the company's involvement in the distribution system as well as the extent of its ownership of middlemen.

Adapting to distribution patterns

Notwithstanding, the international distribution policy of the company, the factor of flexibility to adapt the distribution policy to local conditions of the foreign markets is very crucial for effective results.

A clear understanding of the target market characteristics covering aspects such as traditions and conventions in the wholesaling and retail distribution patterns (see Exhibit 12.3); shopping habits of customers including customers reliance on channel members for product informations and servicing; commercial terms; and legal requirements help define the selection of channels;

The following trends help to illustrate the need of the above analysis for suitable adaptation of the distribution patterns:

- In the US, there has been a rapid expansion of large supermarkets and other retail chains, and also the deep-vertical integration into wholesale and manufacturing by large retail houses.
- In Sweden, a powerful consumer-oriented cooperative movement handles a substantial business in food, petroleum, etc.
- In Mexico, there is a modern retail distribution for the urban people, and traditional outlets and public distribution system exists for the poor.
- In China, wholesalers mainly control the Chinese distribution system.
- In Japan, large trading companies, handle half of Japanese trade while a large number of wholesale and retail outlets help products to penetrate in its market.
- In Saudi Arabia, a small number of hands approved by the royal family control its manufacturer-wholesaler - retailer distribution system.
- In Peru, importers act as distributors or wholesalers, and retailing is done typically through retail chains and street merchants.

Exhibit 12.3 : Characteristics of middlemen in foreign countries

Type of duties	Agents							Merchants						
	Broker	Factor	Manufacturer's representative	Managing agent	Comproador	Distributor	Dealer	Importer/ jobber	Wholesaler and retailer					
Take title	No	No	No	No	No	Yes	Yes	Yes	Yes					
Take possession	No	No	Seldom	Seldom with buyer	Yes	Yes	Yes	Yes	Yes					
Continuing relationship	No	Sometimes	Often	sellers	Yes	Yes	Yes	No	Usually not					
Share of foreign output	Small	Small	All or part for one area	n.a.	All one area	All for certain countries	Assignment area	Small	Very small					
Degree of control by principal	Low	Low	Fair	None	Fair	High	High	Low	Nil					
Price authority	Nil	Nil	Nil	Nil	Partial	Partial	Partial	Full	Full					
Represent buyer or seller	Either	Either	Seller	Buyer	Seller	Seller	Seller	Self	Self					
Number of principals	Many	Many	Few	Many	Few	Small	Few major	Many	Many					
Arrange shipping	No	No	No	No	No	No	No	No	No					
Type of goods	Commodity and food	Commodity and food	Manufactured goods	All types manufactured goods	Manufactured goods	Manufactured goods	Manufactured goods	Manufactured goods	Manufactured goods					
Breadth of line	Broad	Broad (often specialized)	Allied lines	Broad	Narrow to broad	Narrow to broad	Narrow	Narrow to broad	Narrow to broad					
Handle competitive lines and selling effort	Yes	Yes	No	Yes	No	No	No	Yes	Yes					
Extend credit to principal	Nil	Nil	Fair	Nil	Fair	Fair	Good	Nil	Nil usually					
Market information	Nil	Fair	Good	Nil	Good	Sometimes	Good	Nil	No					

Note n.a. = not available

Source: Philip R. Cateora, *International Marketing*, p.396

Agents, known by different names and performing varying functions in different foreign markets, have an historically established place in international distribution. While agents do not take the title to the goods, their importance stems from: local language proficiency, access to important policy and decision-makers. Overcoming business culture differences; short circuiting the buying-selling process; and performing the cumbersome formalities and complying with routines and procedures of the foreign market.

Activity 1

Check whether the following questions are true or false

- 1) The channels of distribution available in a foreign country are the result of corporate power.
- 2) Channel type and relationship mainly depend on the relative size of international marketer rather than on a country's level of development.
- 3) An international marketing firm may choose a direct distribution to maintain complete control over distribution in foreign markets.
- 4) It is not necessary for a distributor in foreign markets to have financial strength.
- 5) International distribution policy should only focus on satisfaction of target customers.

Answers : 1 (False) 2 (True) 3 (True) 4 (False) 5 (False)

12.4 SELECTING DISTRIBUTION CHANNELS AND CHANNEL MEMBERS

Within the overall international distribution policy of the firm, the factors of: (1) capital requirements; (2) level of distribution costs; (3) desired extent of control over distribution channel; (4) depth of market coverage; (5) product-market distribution pattern characteristics; (6) competitive practices; (7) legal requirements; and (8) short-term versus long-term involvement of the firm in international marketing govern the choice of distribution channels.

This is followed by the development of a criteria for the selection of specific intermediaries. The criteria generally includes factors as financial soundness, local government contacts, business reputation, distribution network, technical support and infrastructural facilities (esp. relating to heavy industrial goods), business experience and managerial expertise, commercial terms, and extent of exclusivity to the international marketer. As the selection of the channel members commit the marketer to them for a relatively long period of time their selection involves a cautious process and a careful analysis and referencing. Some international marketers make use of an elaborate process in this regard which begins with relative rating of candidate firms on pre-determined criteria, and example of which appears in Exhibit 4.

Exhibit 12.4 : Example of Distributor (Dealer) Selection Criteria

Criteria (no ranking implied)	Weight	Distributor 1		Distributor 2		Distributor 3	
		Rating	Score	Rating	Score	Rating	Score
1. Financial soundness and depth of channel member	4	5	20	4	16	3	12
2. Marketing management expertise and sophistication	5	4	20	3	15	2	10
3. Satisfactory trade/customer relations and contacts	3	4	12	3	9	3	9

Criteria (no ranking implied)	Weight	Distributor 1		Distributor 2		Distributor 3	
		Rating	Score	Rating	Score	Rating	Score
4. Capability to provide adequate sales coverage	4	3	12	3	12	3	12
5. Overall positive reputation and image as a company	3	5	15	4	12	4	12
6. Product compatibility (synergy or conflict?)	3	3	9	4	12	4	12
7. Pertinent technical know-how at staff level	—	—	—	—	—	—	—
8. Adequate technical abilities and service support	—	—	—	—	—	—	—
9. Adequate infrastructure in staff and facilities	1	5	5	3	3	3	3
10. Proven performance record with client companies	2	4	8	3	6	3	6
11. Positive attitude toward the company's products	1	3	3	3	3	3	3
12. Mature outlook regarding the company's inevitable progression in market management	1	3	3	3	3	3	3
13. Excellent government relations	1	4	4	3	3	3	3
	Score		111		94		84

SCALES	Rating	Weighting
5	Outstanding	5 Critical success factor
4	Above average	4 Prerequisite success factor
3	Average	3 Important success factor
2	Below average	2 Of some importance
1	Unsatisfactory	1 Standard value

Source : Based on Finding and Managing Distributors in Asia, *Business International* quoted in Coyne and Walters, *Global Marketing Management*, p. 510.

After the channel member is selected it is a prudent business practice to enter into a written agreement spelling out the scope of commitment to each other and thus minimising the possibility of disputes and misunderstandings. Exhibit 12.5 lists the items that should be included in a typical agreement with the foreign channel members.

Table 5 : Items to include in an agreement with foreign channel members

- * Name and address of both parties
- * Date when the agreement goes into effect
- * Duration of the agreement
- * Provisions for extending or terminating the agreement
- * Description of product lines included
- * Definition of sales territory
- * Establishment of discount and/or commission schedules and determination of when and how paid.
- * Provisions for revising the commission or discount schedules
- * Establishment of a policy governing resale prices
- * Maintenance of appropriate service facilities
- * Restrictions to prohibit the manufacture and sale of similar and competitive products
- * Designation of responsibility for patent and trademark negotiations and/or pricing
- * The assignability or non-assignability of the agreement and any limiting factors
- * Designation of the country and state of contract jurisdiction in the case of dispute

Source : *A Basic Guide to Exporting*, United States department of Commerce, p. 66 quoted in Subhash C. Jain, *International Marketing Management* p. 498.

Motivation of Channel Members

In order to get the best out of the international marketer and channel member relationship it is necessary that economic and non-economic incentives be used for the purpose. It may be emphasised that channel members being independent business entities their key consideration for relationship is economic. If the channel member does not get an adequate economic return it is unlikely that he will put in his best in the business. In addition regularity of contact, involvement in goal setting, better understanding of the international marketer's business, and provision of assistance in

market development or other areas of deficiency of the channel members capability prove useful for getting the channel members more than what they are generally expected to contribute.

Robert Douglas Stuart suggests the following ways for strengthening the channel members loyalty:

- Build your distributor with your company: bring him into your picture; discuss future plans as they affect his area with him, seek his advice.
- Give your distributor an effective profit margin; try to keep in mind that you want to be in business with him for several years; make him want to continue the relationship.
- Be sure he has credit terms which make him competitive, or more so, in amount and length of payment.
- Maintain regular correspondence, and make sure he can clearly understand what you have to say.
- Make a point of commenting on successful distributors in whatever communication you use in his area (advertising, publicity, house organs, sales bulletins, and so on)
- Keep your obvious control to a minimum; as his performance improves, your supervision can be reduced.
- If financing is needed locally and you have the ability to help do so if his situation justifies this.
- Bring the distributor.... (to your country) on the occasion and let him see what goes on.
- Establish a recognition system: recognition certificates, cash prizes, trips, and so on.
- Make available remembrance items: give aways with your Company name—perhaps, if warranted with his name too.

Control of Channel Members

Control of channel members in international distribution though difficult yet is an important aspect of its management. Accomplishment of sales targets, market coverage and development goals, payment schedules, and profit contribution made are some of the factors on which the performance of channel members is appraised and controlled. Constant monitoring, periodic reviews, regular communications and intermittent suggestions help a marketer to control its channel members and keep the marketer-channel member power balance in its favour. Legal requirements and adverse impact on reputation must be given their due weightage if and when the unavoidable decision of termination of channel member is to be taken.

12.5 INTERNATIONAL PHYSICAL DISTRIBUTION MANAGEMENT (IPDM)

Physical Distribution or logistics of goods represents yet another crucial element of international distribution policy. Its management includes the functions as well as costs associated with packing, order taking and processing, and inventory control. Given the geographical distance, the associated business risks and the variety of transportation modes available, the management of this function poses a difficult challenge so far as the objectives of ensuring ready and regular supply of goods, in foreign markets at the most optimal costs are concerned.

PDM, known as the dark continent of marketing offers tremendous potential in cost cutting and improving profitability. It requires the use of a systems approach and the management of the transportation, warehousing and inventory functions in an integrated manner.

To facilitate the performance of the tedious physical distribution activities and

procedure, international freight forwarders play an important role. The typical functions performed by them are given below:

- 1) Figure costs, FAS or C&F. Develop most economic methods of shipment to port, port charges, wharfage, handling, tollage, etc. at port of exit; ocean freight rate and steamship services available; consular requirements and fees, insurance costs for terms of coverage specified in sale; export licence or import permit requirements.
- 2) Make steamship booking; If payment is by letter of credit, check date shipment must be onboard and expiration date for negotiating documents. Investigate transit time from plant to port, and free time allowed so shipment will arrive in time and demurrage will not be incurred.
- 3) Instruct shipping department when to make shipment from plant. Notify steamship company when shipment made and whether by rail, truck, air or piggy express, giving routing, name of carrier.
- 4) Secure pier permit. Make arrangements for delivery to pier.
- 5) Prepare export declaration showing shipper, consignee, value and commodity classification number.
- 6) Prepare bill of lading, checking compliance with all conditions and terms of sale, shipper consignee, open or order notify, freight collect or prepaid, description, etc.
- 7) Present export declaration to Custom House for approval and deliver to steamship company.
- 8) Present bill of lading to steamship company for execution.
- 9) Secure consular forms, prepare consular documents (in foreign language if required). Present to consul for visa.
- 10) After shipment is on board, secure signed bill of lading from steamship company, paying ocean freight and chargee.
- 11) Assemble documents, bills of lading, commercial and consular invoices, certificate of origin, export licence, import permit, as required.
- 12) If payment is by sight draft, prepare draft, attach necessary documents and have exporter's bank forward. If on letter of credit, present documents to bank holding credit.

Large-sized shipping vessels, increase in number of air cargo planes, development of air cargo terminals, containerisation and other innovation in bulk transportation have been successful in reducing both the transit time and delays but at higher costs. It is therefore necessary that the PDM be managed in a cost-effective manner.

An in-depth study of the PDM costs and an analysis of the causes of delays and damages to goods can point out to areas of potential savings in costs and improvement in customer service satisfaction.

Containerisation

The container system, widely developed in the United States, provides a highly efficient and flexible form of transport by road, rail, air and water. Containers are large boxes that the seller fills with the shipment. These containers are then sealed and opened only when the goods arrive at their final destination. Over the long voyage, the containers, but not the goods, will be handled several times. The fact that the majority of containers are built to internationally recognised dimensions means that cargo handling in ports can be fully mechanized using standard equipments. Ships can also be purpose built to carry an optimum number of containers.

The various advantages offered by containerization include:

- 1) Containers can be loaded and sealed at the consignor's premises or at nearby container depot, minimizing the risk of theft.
- 2) Since the goods are not directly handled during voyage, the risk of damage is minimized.
- 3) Cargo can be loaded in a matter of hours rather than days. The reduction in handling time at ports results in increasing berth capacity.

- 4) The faster turn-round enables ships to make a higher number of annual voyages and reduces the number of necessary ships.

Because of the numerous advantages, both air and water carriers encourage the use of containers by charging lower rates for containerized shipments.

Activity 2

Tick the most appropriate answer

- 1) The selection and motivation of effective channels of distribution are often crucial factors for:
 - a) cost advantage
 - b) differential advantage
 - c) political advantage
- 2) Distributors who do not take title but distribute goods on behalf of the international marketers are called:
 - a) wholesalers
 - b) retailers
 - c) agents
 - d) export merchants
- 3) The discretion that an international marketer has or wants in seeing that goods adequately get through to the customers is a function of:
 - a) control
 - b) market coverage
 - c) cost
- 4) Warehousing, transportation and inventory management are aspects of:
 - a) physical distribution
 - b) channel control
 - c) distribution policy
- 5) Effective distribution performance requires that the marketer and the intermediaries:
 - a) adapt their roles
 - b) display commitment to developing business
 - c) exhibit lower levels of conflicts
 - d) all of the above

Answers : 1) b) 2) c) 3) a) 4) a) 5) d)

12.6 SUMMARY

International distribution and sales policy decision is one of the most complex aspect of international marketing management. Since distribution decisions bind the marketers with their channels for long-term, its implications in terms of costs, flexibility, control and reputation must be examined carefully before committing the decision. While an international marketer has the option of direct or indirect distribution of the goods in foreign markets, the physical distribution aspect needs systematic planning as this continues to be handled by intermediaries. Regular reports on foreign markets, Foreign visits, deployment of salesforce abroad and an in-depth analysis of physical distribution cost and obstacles help a firm to streamline its international distribution, offer superior customer service, and keep distribution cost within reasonable limits.

12.7 SELF-ASSESSMENT QUESTIONS

- 1) What should be the objective and the way in regard to management of the international distribution channels for a garment and leather products exporter who has made a serious commitment to develop its exports to Rs.500 crores in next 3 years from the present level of Rs. 50 crores.
- 2) Study a large exporter and examine its international distribution function. In what ways can the prevailing distribution arrangements be made more effective.

12.8 FURTHER READINGS

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BLOCK V INTERNATIONAL MARKET SELECTION AND SEGMENTATION

This last block of the course on international marketing deals with the planning and control aspects.

Unit 13 deals with the issues and practices in international market selection.

Marketing Research precedes all strategic planning activities. Unit 14 explains the process of marketing research used for overseas markets.

The last unit deals with the strategic planning process issues in international planning and control. The planning and control sequence is also described.

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UNIT 13 INTERNATIONAL MARKET SELECTION

Objectives

- After going through this unit you should be able to:
- explain the factors influencing market selection decision
 - describe the process for undertaking market selection and segmentation
 - discuss the strategies adopted by the firm which undertaking the market selection decision.

Structure

- 13.1 Introduction
- 13.2 Factors Influencing International Market Selection and Segmentation
- 13.3 The Process of Market Selection
- 13.4 Some Strategies
- 13.5 Summary
- 13.6 Self-assessment Questions
- 13.7 Further Readings

13.1 INTRODUCTION

In the preceding units we have talked about economic policies of India, Methodologies for undertaking political, cultural and economic analysis. All these analysis were essential for answering the question of which market to enter. In this unit the topic is carried further. Here an attempt has been made to answer questions—what should the company's corporate market portfolio look like in terms of number and types of market held and what is the process for coming to such an answer? Put more simply, the company must answer how many markets will it capture and what would their characteristics be like, and for a particular market it must answer whether it will build, abandon or divest that market. Thus, at Nestle headquarters similar question regarding India as country market must be answered. Moreover, they must at the headquarters and decide how many countries like India would they handle.

Activity 1

How does economic, political and cultural analysis help in the process of market selection?

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13.2 FACTORS INFLUENCING INTERNATIONAL MARKET SELECTION AND SEGMENTATION

Every company while selecting a particular country as a market, attempts at achieving the best fit between the market requirements and the company's abilities in meeting these requirements. As a result, the factors that come into consideration, while planning the international market selection and segmentation, all the factors

whether country market factors or company factors. These factors may be studied in greater detail as under:

Country Market Factors : The country market factors may again be subdivided under three heads viz:

- Product factors
- Marketing factors
- Market factors

Product Factors : The product characteristics and the transaction characteristic play a vital role in market selection and segmentation process. The degree of specialisation, the value, the level of standardisation and the position in IPLC (International Product Life Cycle Curve) all influence the market selection process.

The degree of product specialisation will by itself eliminate several country market. Thus IBM wishing to market super computers would find small market because of the product specialisation and value factors. On the other hand, Nestle may choose virtually any country as its market.

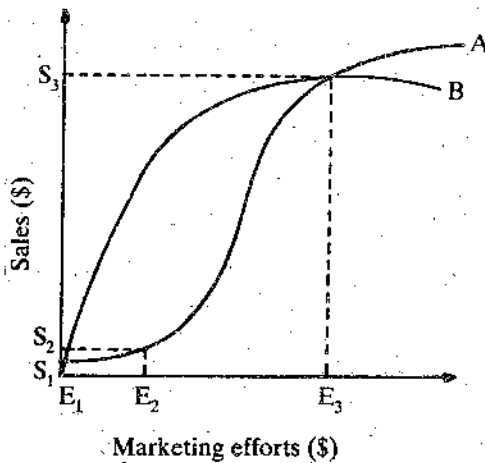
Similarly, the degree of standardisation may also influence the market selection process. Here standardisation refers to standardisation of both pre transaction and post transaction measures like after sales service. Thus, a company may be forced to eliminate country markets either because the product does not meet with the country, specific market established requirements or because it does have established after sales service. India in its recent Import-Export policy eliminated many companies manufacturing the essential life saving equipment by simply including a clause on after sales service.

The position of the product on the PLC (Product Life Cycle Curve) of any given market and on the IPLC also influences the market selection and segmentation process. Most companies in fact enter international markets not by choice but by the fact that they find their domestic markets drying up. The desire to survive and grow, forces them to go into international markets. Even then, they must establish the position of the product on the PLC. Thus, product position on PLC influences the market selection process.

Market Factors : The cultural, political and economic analysis help in determining the nature of market for undertaking the market selection and segmentation process. Questions regarding the size, stability, growth potential, uncertainty and competition get answered. These questions help in deciding which markets to eliminate and which markets to concentrate upon. Consideration to such factors is necessary for aligning the market requirement with company abilities through a marketing strategy. Very often a company may have to choose between size and growth potential. The emphasis it lays on a particular variable through its strategy may entirely be an outcome of the company's abilities and goals.

Marketing Factors : The company being an economic entity is influenced by economic gains while selecting and segmenting a particular market. It considers the costs and the nature of the costs against profitability of the market or the sales while assessing the choice of the market. The costs is the outgrowth of product characteristics and market characteristics. How much a company spends on each of its four P's of the marketing mix depends upon these factors and the entry strategy adopted. The profitability is judged on the basis of sales made. Two most frequently viewed responses while undertaking cost benefit analysis are the concave sales response function and the S-shaped functions. In the concave sales response function the highest returns are noticed at the lower levels of marketing expenditure because of the shape of the sales function. This is essentially an outgrowth of the fact that the market is ripe for accepting the product. Here segmentation issues become predominant if maximum gains are to be cropped (reaped).

In case of the S-shaped sales function, it is assumed that a market has to be created therefore the highest returns are yielded just before the diminishing returns set in and after the marketing blocks are overcome.



In the exhibit above curve B represents the concave sales function whereas curve A represents the S-shaped sales response. With every increase in marketing efforts (E) the sales response (S) can be gauged. The impact of the predicted sales response function on the choice of market is clear, however, it must be pointed out here that marketing efforts by themselves can be of different types therefore the response would be dependent upon the type of marketing effort planned. Thus, a company indulging in Mail Order business may observe lower communication costs as against a company wishing to set up its own facilities in the specified market. The analysis must, therefore, revolve around similar marketing efforts.

Activity 2

- a) How can a new company with a technologically new product undertake a similar analysis for the purpose of market selection?

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- b) Determine whether the sales response function in the above case will be S-shaped or concave.

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Company Factors : As the process of market selection involves a match between market factors and company factors. It becomes necessary to understand the company factors. The company factors may be divided under three heads—the management risk consciousness, the company goals, and the company's resources. The management's risk consciousness determines how the company will perceive various risks while undertaking country market analysis. In fact subjects like assessment of political risk depend directly on how the company perceives the risk. The company goals can also influence the market selection and segmentation process for they provide the foothold for direction. The company's resources both financial and managerial influence the market selection process. In fact the financial strength of a company may force it to choose a mode of entry in spite of its not wanting to do

so: Similarly, the management's export market experience may determine the choice of market even when the macro analysis may be against the choice.

The fit between the company factors and the country market factors broadly answers the question as to which country will be selected. But, although they represent the factors, every company must determine a process for market selection. This is the issue which is addressed in the next head. Section below.

13.3 THE PROCESS OF MARKET SELECTION

Every company is forced to address the question of which market to enter. Even after entering the markets a company must answer questions like, should it build, divest or abandon the market it has entered; how many such markets should it hold so as to maximize its economic benefits; how best to export to the chosen market.

To answer such questions every company must formulate procedures, policies and adopt strategies which allow it to keep the focus on both country market factors and company factors.

Since the process of market selection begins with an attempt to match the market requirement with the company's ability, the first step involves defining the market and the company's ability. This step is followed by identifying the section of the market to be captured or market segmentation and the final step involves determining the number of markets to be held.

Market Definition

When a company is forced with heterogeneous international market, it becomes imperative for the company to define the market. Market definition is usually one dimensional i.e. a company can define the market in terms of country characteristics or in terms of product characteristics. Such a definition must also include a time frame and a reference to competition. The time frame is essential not only from the point of performance measurement and control but also, for giving direction. Thus, a short term market definition would involve a tactical concern. Similarly, defining the competition would help in knowing precisely how the market is not being served, thus, it would pave way for the company's positioning. Since market definition precedes segmentation it becomes necessary for it to be specific. Market definition must encompass both served and unserved markets. All this makes it necessary for a company to undertake the mechanical exercise of market definition.

Market Segmentation

Having defined the market it becomes necessary for the company to identify the relevant segment. This is known as market segmentation. The process of segmentation must clearly lay down the niche in terms of measurability, accessibility, profitability and actionability.

Measurability

This involves identifying the market segment in terms of size, purchasing power and consumer behaviour. Since international markets are heterogeneous the concept of measurability has been flouted all too often, all the same some effective criteria must be developed by the company.

Accessibility

How effectively can the company reach the identified segment must also be spelled out. Here again, the existence of heterogeneous markets makes the task more difficult.

Profitability

Since the firm is an economic entity, it must make sure that the identified segments are profitable. Here also the existence of heterogeneous market compound the task. Many new costs are added while adapting to the identified segments. Market tariffs also influence the cost structure. The company must ensure that the size of the identified segment should be large enough to recover these costs.

Actionability

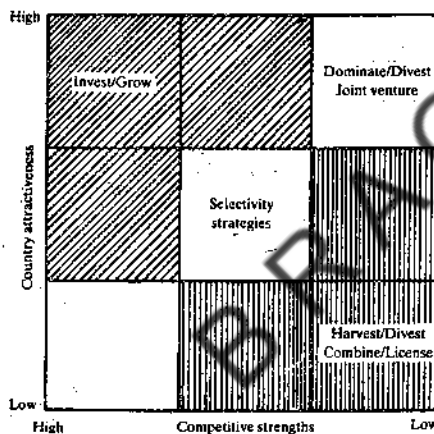
The last factor but, by no means the least, is actionability. Every identified segment should be capable of being captured through effective marketing programmes. If an identified segment cannot be tapped it is useless from the point of view of the company, however, profitable it may be.

The process of segmentation is the most crucial step for the survival of the firm. It is here that the company's resources are matched with the identified segment. Wrong choices may lead to the decline of the company. This step is more or less in line with the step on market definition. If the definition is based on product characteristics then the segments are identified using product indicators else the segments are identified using general market indicators. It must also be mentioned here that in international marketing the process of segmentation involves two levels viz. (a) Country market level and (b) customer market level.

The next step in the process is usually associated with companies who have been in the export market for long. They must know which market to build, which to divest and which to abandon in order to optimize their return on investment. In other words they must define the direction of growth.

For this purpose most companies use the country attractiveness/competitive strength matrix as shown in the exhibit below.

Export Market Selection: Strategies and Assessment



Such a matrix helps in identifying invest/grow countries against Harvest/Divest countries.

However, before using such a matrix the company must ensure that

- Contributing factors are identified
- their relationship and direction have been established
- weights have been allotted to such factors.

It must also realise that such an analysis does not take into account

- the risk of international operation
- cost of entry into various countries and markets
- shared costs in international marketing.

Keeping these facts in mind it becomes simple for a company to identify the market on the basis of growth, divesture. The various countries that can be identified on such a matrix would fall under any one of the following heads.

Invest/Grow Countries : Such countries call for a high level marketing commitment. They represent a large market size which can be tapped through investment in people and capital. Here it becomes necessary to match the products with the marketing requirements.

Harvest/Divest/Licence/Combine Countries : They represent the direct opposite of invest/grow countries. Because the country attractiveness is low and competitive strength is also low, such a country must be harvested. A growth of market share in such a market would demand an equal increase in marketing effort wiping out the gains if any. Therefore, in such countries it makes more sense to sell out, to maintain a close watch of cash flow and to follow a pricing policy which will minimize the investment in such countries till the operations are abandoned.

Dominant/Divest Countries : Such countries rank high on country attractiveness but low on competitive strengths. Therefore, the choice rest in either of the alternatives, to sell out or to develop competitive strength to reap the opportunities offered by such a market. If one wants to reap such benefits then he must analyse the market more closely in terms of cash required to build the strength and the potential profits. In such decision, time frame and corporate profitability become important issues.

Selectivity Countries

Such countries fall in the centre of the matrix representing the fact that they are neither highly attractive countries nor highly unattractive. They also represent in company terms, a position that can be built or broken. In such situation the company can either unite the market or build the market by introducing new product features, through technological upgradations.

Such an analysis helps a company competing in the global scene to use its limited resources more effectively. It knows which markets to divest and which to hold. Even within markets it answers questions regarding which segments to build. In the absence of such an analysis the corporate profitability would fall because of inclusion of losers in the market portfolio and the company's survival itself may come into question.

13.4 SOME STRATEGIES

While the above procedure broadly outlines the country selection method various strategies and approaches are available to the management which fit within this framework. Some of the approaches have been discussed as under.

Reactive vs Proactive Approach

When an exporter enters into foreign market on the basis of an enquiry received by him, he has resorted to the reactive approach.

Such an approach for market selection reflects absence of planning. The enquiries in such cases result from earlier participation in international markets or through contacts established. This approach is frequently used by small and middle sized firms belonging to countries rated as attractive. The objective underlying such a mode of entry can normally be classified as 'short-term profits'. Thus, many exporters in India who procured enquiries through participation in international trade fairs reflected a passive entry mode or a reactive method of market selection.

In direct contrast to the above approach is the proactive approach where a formal process of market selection is followed. In such an approach the international marketer has to develop an organisation with strong international marketing experience. Such an approach reflects marketing orientation. Japan reflects a country where proactive approach towards market selection has been actively followed.

While the above approach reflects the theoretical difference, in reality any firm would pursue both the modes of market selection.

Expansive vs Contractible Approach

If the firm decides to follow a proactive approach then it has two options for market selection. It can follow the expansive approach as against the contractible approach. The expansive approach presupposes a bench mark i.e. it either uses the home market or an established market as the base market. All other markets are screened on the basis of the similarities that exist. Thus, it reflects the experience based

market selection approach. The clustering technique or the Nearest Neighbour technique are examples of the expansive approach. They resort to either environmental proximity or trade policy proximity for eliminating unwanted markets. The other technique which fall under the expansive approach is the temperature gradient approach where the countries are classified as moderate, hot or cold on the basis of seven variables. These variables are political stability, market opportunity, economic development and performance, cultural unity, legal barriers, physiographic barriers and geocultural distance.

As against the expansive approach is the contractible approach.

In the contractible approach the markets are first organised on the basis of (a) general market indicators and (b) specific product indicators and then screened against knock out factors.

Normally, this approach involves two steps for market screening, they are geographic segmentation and customer segmentation.

Geographic Segmentation

This step is again further sub-divided into two stages (a) information-stage (b) decision stage. In the information stage, information regarding the general market characteristics and product characteristics is collected. Here it must be pointed out that the information collected will have to deal with ever changing variables. Therefore, some criteria for allowing for such change must also be taken into account.

The data so collected is further sub-divided under the heads of prohibitive market factors and prohibitive product factors.

A prohibitive product factor may be factor which contrast against general market factors. Therefore, such a market or product may be comfortably be knocked out. Similarly, a prohibitive market factor may be a barrier imposed by the government.

The markets which remain after such an analysis may be further knocked out on the basis of established knock out factor. This is known as the decision stage.

Customer Segmentation

The markets which remain after step are further petored out by a quantitative and qualitative analysis of demand and supply data.

On the demand side data regarding consumer behaviour for both consumer and industrial products must be collected. Similarly on the supply side data pertaining to quantity produced, no. of producers, distribution system must be collected. This data is again matched with the market characteristics and product characteristics to arrive at the final choice of markets to be tapped.

Activity 3

Visit an exporter and determine the strategy followed by him for export market selection. Why does he follow that particular strategy?

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13.5 SUMMARY

The discussion in this unit centres around market selection and segmentation issues. These issues are faced by a firm every time it wants to enter a new market. Therefore, they are very often evaluated as expansion of growth strategies.

The basic thrust of the unit is on answering two pertinent questions viz. which markets to enter and which direction to build. To answer these questions, the factors influencing international marketing selection and segmentation are discussed. Procedure has also been outlined for answering these questions. Some approaches commonly followed by international firms have also been discussed.

13.6 SELF-ASSESSMENT QUESTIONS

- 1) What are the factors influencing the market selection decision? How do company factors modify the market factors?
- 2) Market definition is one dimensional. Explain with help of marketing strategies adopted by a firm.
- 3) Using the contractible method select a market for a company marketing shoes internationally.

13.7 FURTHER READINGS

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UNIT 14 INTERNATIONAL MARKETING RESEARCH

Objectives

After going through this unit you should be able to :

- explain the scope of International Marketing Research
- describe the procedure for undertaking International Marketing Research
- describe the techniques available for International Marketing Research
- plan a field research
- describe the techniques available for interview
- analyse the data collected
- prepare a project report.

Structure

- 14.1 Introduction
- 14.2 The Scope of International Marketing Research
- 14.3 Procedures of International Marketing Research
- 14.4 Techniques of International Marketing Research
- 14.5 Planning of Survey Research
- 14.6 Technique of Interviewing
- 14.7 Analysis of Field Data
- 14.8 Preparation of Research Report
- 14.9 Summary
- 14.10 Self-assessment Questions
- 14.11 Further Readings

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14.1 INTRODUCTION

Marketing research can be defined as the systematic study and evaluation of all factors bearing on any business operation relative to marketing of goods and service. Logically, marketing research begins before production starts - in fact, even before the factory is built or the plant is set up, and continues as long as the business remains in operation. Although marketing research is invaluable in the solution of business and marketing problems, it is by no means a substitute for sound business judgement based on knowledge, experience or even intuition. It is an aid and a guide to the managerial decision-making process. It eliminates or reduces guess work by providing facts and throwing light on the areas of enquiry. Objectivity is at the heart of marketing research.

There is no difference between the fundamentals of international and domestic marketing research. The research process is basically the same wherever it is applied. Generally, the tools and techniques in foreign and domestic marketing research remain more or less the same but the areas of its application are divergent, creating a variety of operational problems. The environmental factors, for example, that are relevant for marketing may vary from country to country or specific information needed in one country may not be required in another. Within a foreign environment, the changing emphasis on the kinds of information needed, the research tools and techniques required to collect the information and the difficulty in implementing the research process constitute the real problems in international marketing research.

14.2 THE SCOPE OF INTERNATIONAL MARKETING RESEARCH

The scope of international marketing research covers a wide range of marketing and environmental factors that can affect a product's in a foreign market. These factors can be broadly classified as :

- 1) Socio-economic and political profile of the country
- 2) Size and trend of the market
- 3) Structure of competition
- 4) Rules and regulations

Socio-economic and Political Profile

Information under this category includes a wide variety of data on factors like : size of the population; national income and principal sources; per capita income; standard of living; cultural attributes; geographic and climatic conditions; political system and policy etc.

It is also necessary to find out political and economic relations of the country with other countries, including the country of the exporting company, and the country's political status among the international trading community.

Size and Trend of the Market

Several factors enter into the analysis of the size and growth trend of the market for specific product groups. These include: data on indigenous production and product-mix; direction and sources of export and import; size and trend of foreign trade; proportion of national consumption of the product supplied by the domestic industry; price behaviour of the market; future growth prospects, etc.

Structure of Competition

The study of competitive structure of the market is very important for an intending exporter. The strength of competition is a key factor that must be taken into account before an exporter decides to enter a foreign market. The competition may come from the domestic supplies as well as from other exporter into the same market. Competition may come not only from the similar products but also from substitute products. For example, for a coffee exporter, other coffee suppliers would be direct competitors and tea or cocoa suppliers would be indirect competitors.

In studying the strength and structure of competition, a number of specific factors are to be taken into consideration, such as :

- What are the competitors' shares of the market?
- Is the market dominated by a small group of large-scale suppliers or a large number of small suppliers?
- What are the marketing strategies of the competitors, including product range, pricing strategy, distribution channels, promotional techniques and the like?
- What are infrastructural and institutional facilities available in the market and their cost; for instance, transportation, warehousing, finance, insurance etc.
- What are the commercial and business practices, norms, ethical standards etc.

There are many more similar factors are required to be considered in order to chalk out a competitive profile and the market, highlighting the strengths and weaknesses of competitions.

Rules and Regulations

Rules and regulations governing a foreign market are many and diverse. The rules could be broadly divided into two areas, namely (a) rules governing entry conditions of foreign goods into the country and (b) rules governing internal business practices.

All countries regulate import of foreign goods by various means such as, imposition of complete ban or of quantitative quotas on imports; tariff barriers; non-tariff barriers of a wide variety; currency and licencing restrictions; internal tax structure; product specifications and standards; health and safety regulations; promotional methods; branding, trademark and patent regulations; and various kinds of restrictions on business relationships and dealings between the exporting and importing organisations. It is important to examine the impact and implications of these factors on the conduct of export business.

Following is a checklist of information required for assessing market potential in a foreign country :

- 1) **Socio-economic and Political Profile**
 - Population—size, growth, composition
 - Gross National Product
 - Per Capita Income
 - Balance of Payments
 - Industrial Structure
 - Cultural Attributes
 - Climatic Conditions
 - Political System
- 2) **Size and Trend of the Market**
 - Indigenous production, volume and growth
 - Direction and composition of foreign trade
 - Consumption patterns and trends
 - Market Segmentation pattern
 - Demand trends
- 3) **Structure of Competition**
 - Direct and indirect competition
 - Nature of competition
 - Competitive shares of the market
 - Standards and specifications of competitive products
 - Competitive marketing strategies
 - Business and commercial practices,
 - Trademarks and patents
- 4) **Rules and Regulations**
 - Market entry regulations
 - Tariff and non-tariff barriers
 - Foreign exchange regulations
 - Internal taxes
 - Healths and safety regulations
 - Trademarks and patents regulations
 - Regulations on marketing practices and promotional methods.

In addition to collection and analysis of information on markets and marketing conditions obtaining in foreign countries, it is necessary to conduct research on consumer characteristics and consumption habits of people; product preferences in terms of attributes like size, shape, style, colour, taste, materials, performance, packaging and the like. Marketing practices with regard to sales and distribution channels, pricing mechanism, advertising and sales promotion after-sales services etc. are an important area of research investigation.

The foregoing are only illustrative of the various areas of applications of international marketing research and by no means are exhaustive. Marketing research techniques could be applied in any areas of business on which information is required to plan and conduct international marketing functions. Before conducting research, it is therefore necessary to carefully define the specific information need in light of marketing problems required to be solved or decisions to be made. It is therefore of utmost importance that appropriate procedures and methodologies are followed by the researcher in planning and conducting international marketing research.

14.3 PROCEDURES OF INTERNATIONAL MARKETING RESEARCH

The following are the basic steps in planning international marketing research :

- 1) Definition of the objectives of research in light of marketing problem to be investigated and decisions to be made.
- 2) Determining the information required to throw light on the problem to be solved.
- 3) Determining the methodologies and planning the collection of information.
- 4) Actual collection of information from pre-determined sources.
- 5) Analysis and interpretation of information.
- 6) Preparation of the report.

Defining Research Objectives

The first step in starting the process of international marketing research is to define the objectives. The clear definition of objectives helps the researcher to identify the appropriate sources of information and select the suitable methodologies for collection of information.

Determining Information Required

The information required in the light of research objectives has to be listed out for planning of data collection. For example, if one of the objectives is to find out the market potential for a new product, it is necessary to spell out the specific kinds of information that will throw light on market potential, so that research can be planned to collect the required information.

Determining Methodologies

For collection of different kinds of information from various sources, different methodologies are used in marketing research. For example, the method of desk research is used to collect information from secondary sources and survey research is used to collect data from the primary sources. In desk research various kinds of statistical or non-statistical techniques are used for compilation and analysis of data. Similarly, in survey research various techniques are used for generating quantitative and qualitative data on the objectives of the research study. The reliability and validity of the data is closely related to the sources and methodologies used for the survey.

Actual Collection of Information

Actual collection of data involves appropriate planning of fieldwork for contacting respondents or other sources for the survey. Respondent contact can be made either personally or via mail or telephone, depending on the nature of research. It is very crucial stage in conducting survey research, for on the effective conduct of fieldwork will depend the success of the survey.

Analysis and Interpretation

The field data collected via various methods are to be properly edited, analysed and interpreted in the light of the research objectives initially set out. It is important that analysis and interpretation is done in an objective manner in order to avoid the possibility of bias or any kind of subjectivity.

Preparation of the Report

The information and data collected through research is, after analysis, presented in the form of a report. The report usually contains not only the findings of the research but also the comments and recommendations of the researcher.

14.4 TECHNIQUES OF INTERNATIONAL MARKETING RESEARCH

The techniques of conducting international marketing research can be divided into two broad categories which are complementary in practice. These are : Desk Research and Survey Research (which is also called sample survey, field research etc.).

Desk Research

Desk research basically involves collection of information from documentary sources or other published and unpublished sources. In other words, information and data already exist in published or unpublished form. Through desk research the sources of such data are searched and relevant documents, publications etc. are collected. This stage of searching for sources of published or what is also called secondary data, is also referred to as bibliography research or library research. Search for the sources of secondary data or the collection of documents etc. is only the preliminary part of desk research. The actual desk research involves compilation, processing and analysis of secondary data in accordance with the objectives of research.

In international marketing research, desk research plays a very important role. In respect of most of the countries, a good amount of general economic, political and market information is available from secondary sources. Information on the countries industrial and economic profile, government policies and regulations, size, composition and destination of foreign trade and host of other general information is often available for desk research. Very often only desk research may serve the purpose when limited and general types of information is required. Desk research also provides background information for selection of the most promising foreign markets for in-depth investigation. It can also point out specific factors that should be carefully looked into. Desk research therefore could be used for general and limited information on foreign markets as well as the preliminary step for effective planning and conduct of survey research in foreign countries.

Sources of Data

The key to successful desk research is the knowledge of how to find out relevant sources of required data and how to collect and make use of them. There could be numerous specific sources of information but it is not possible nor necessary to tap all such sources. It is therefore necessary to classify sources according to their relative importance. The principal sources of information can be classified under specific categories like :

- a) Government sources
- b) Semi-government sources
- c) Private sources, and
- d) International sources

Government Sources

All governments in all countries generate a wide variety of information and data that

are useful and relevant to marketing. Information provided by governments covers wide areas like population, economy, policies, programmes, industries, institutions, rules and regulations etc. and published in the forms of reports, documents, journals, notifications etc. The governments in different countries are the largest generators of information and data useful for international marketing.

Semi-government Sources

In many countries there are specialised semi-government agencies or institutions charged with specific tasks such as monitoring of consumption trend, foreign trade, industrial development, income distribution, purchasing power of people, health, education etc. These institutions usually carry out regular studies primarily to help and guide government policy-making. The reports and publications of these institutions contain valuable information relevant for marketing.

Private Sources

There are research institutions, publishing houses, banking and financial institutions, chambers of commerce, trade associations and a host of others similar organisations which collect, process and disseminate different kinds of information in their respective areas of concern which could be relevant to international marketing.

International Sources

International organisations within and outside the UN system publish a wealth of statistical data and information relating to markets. The important ones among these organisations are : United Nations; Food and Agricultural Organisations (FAO); International Labour Organisation (ILO); United Nations Conference on Trade and Development (UNCTAD); UN Economic Commissions; International Monetary Funds (IMF); Organisation for Economic Cooperation and Development (OECD); International Trade Centre (ITC) and a number of others.

Many developed countries have set up 'Import Promotion Office' (IPO) to assist developing countries to export their goods to the developed country markets. Valuable information on foreign markets is available from the IPOs of different countries.

The diplomatic missions located in the exporter's country can often provide a great deal of information about their respective countries and guide the researcher on other sources of information. A plethora of individual sources of secondary information, as described above, are available at the national and international levels for desk research. A desk researcher has to be selective in choosing the appropriate material for research—otherwise he might get lost in the wilderness of irrelevant data which he does not really need. It is therefore important that the researcher evaluates the sources in term of his particular need. The following criteria could be used for evaluating sources of secondary data:

Coverage : Is the source likely to cover the subject of research comprehensively and precisely?

Level : Is the level of information too high, too low or just right to the purpose of research?

Emphasis : Does the material focus on the most relevant aspects of the subject?

Timeliness : Is the material up-to-date or outdated for the purpose of research?

Accuracy : How accurate and reliable the information is? Who originally collected it and for what purpose?

Survey Research

The main difference between desk research and survey research is that in case of desk research the data are already available to research whereas in case of survey research data are generated in course of doing the research. Most of the desk research on foreign market can be done in the exporter's country itself but survey research has to be carried out within the potential markets abroad through direct contact with people there. Often desk research provides the general background or framework for

planning and conducting survey research for collection of primary information specific to the exporter's needs.

14.5 PLANNING OF SURVEY RESEARCH

Before survey research or field research is undertaken in a foreign country, a detailed plan should be prepared covering the following points :

- a) The scope of research
- b) Definition of universe
- c) Methods of Sample Selection
- d) Techniques of interviewing
- e) Analysis of field data
- f) Preparation of research report

Scope of Research

To begin with, the scope of research has to be clearly described covering the purpose of research, information to be collected and from whom, geographic areas to be covered and the like. The scope provides the framework within which research will be conducted in the foreign market.

Definition of Universe

It spells out the 'universe' or 'population' selected for the survey. For example, survey may be carried out among the end-users/consumers, importers, distributors, retailers, industrial buyers, representatives of chambers, trade associations, government departments and agencies or any other groups of people concerned with the subject-matter of research or who might provide information, opinions or views, that would be useful for the purpose of research. The 'universe' is the total of a particular group of people or organisations from which sample is taken for survey.

Methods of Sample Selection

When doing survey research, it is usually not possible to interview every user or importer, distributor etc. of a company's product. There must therefore be some methods of selecting respondents. This is done by sampling. The usual practice is to draw smaller samples from the relevant 'universe' selected for the survey. The samples should be representative of the entire 'universe' chosen for research, both in terms of their characteristics as well as geographic locations.

There are different types of samples. The three basic types normally used in market research are :

- Random sampling
- Quota sampling
- Cluster sampling

Random Sampling method ensures that every 'unit' or 'member' of the universe has an equal chance of being included in the sample. If properly drawn, the random sample provides most accurate statistical results.

Quota Sampling is based on selection of 'unit' in the same proportions of characteristics as they exist in the universe. The characteristics used as 'quota' are pre-determined and their proportions in the 'universe' must be known in advance for drawing quota sample.

Cluster Sampling involves dividing a geographic area (say, a town or district) into smaller areas (wards or blocks). From these smaller areas, a sample of areas is drawn at random and then every relevant 'unit' within the sample areas are surveyed.

In international marketing research it often becomes necessary to modify sampling techniques to suit varying field conditions. However, it should be ensured that the survey findings do not get unduly biased or distorted due to wrong application of sampling techniques.

14.6 TECHNIQUES OF INTERVIEWING

A variety of techniques are used for gathering first-hand information in the field. Different techniques are useful for different kinds of investigations—some of them are quite complicated, costly and time-consuming, such as psychological and projective techniques or techniques of product testing. However, there are three basic techniques which are most commonly used in international market surveys. These are:

- Personal interview
- Telephone interview
- Mail or postal survey

Personal Interview

The face-to-face personal interview is the most effective and reliable method of collecting information at the consumer as well as industrial levels of market research. For personal interview, the interviewee or the respondent is selected using one of the sampling methods described above.

The interview may be conducted either in a structured, semi-structured or unstructured manner. The structured interview is conducted strictly in accordance with the structured questionnaire mostly using closed-end questions. The questions are asked in the same language and the same sequence and appropriate answers are marked/ticked as pre-coded on the questionnaire or recorded verbatim in case of open-ended questions. Unstructured interview allows for a more free exchange between the interviewer and the respondent, without sticking to a set list of questions as in the case of structured interview. The semi-structured interview is a combination of the two types mentioned above.

Telephone Interview

The telephone interview serves limited but very useful purpose. It is limited to only those who could be contacted over the telephone and is more suitable for asking a few short and simple questions. It is quick and less time consuming. It is often used to identify the right kind of respondent for subsequent personal interview or to contact busy executives for quick interviews.

Mail Survey

The mail or postal survey can be conducted in a foreign market from the researcher's home country. The mailing list of respondents (like importers) can be prepared and questionnaires sent by mail for filling in and returning by the respondents. Although the method is least expensive, it is most unreliable and the response is usually very low.

14.7 ANALYSIS OF FIELD DATA

After the field survey is completed the researcher faces a mass of data and information. In the raw or unprocessed form, these data do not give a clear picture of the market. It is therefore necessary for the researcher to sort out the field data and organise them in an orderly and systematic fashion, in the context of research objectives. The following processes are involved in preparing data for analysis :

- 1) **Editing** involves selecting data which are relevant and putting them into consistent form. It is also necessary to check the data for accuracy and reliability to check that the information is free from bias.
- 2) **Organising** of research data is to arrange them according to the areas of interest and putting them into workable format.
- 3) **Classifying** involves dividing the information into meaningful categories.

- 4) **Tabulating** involves counting of responses/replies to survey questions according to the categories selected or by characteristics of the respondents or making non-tabulations to establish correlation between responses to two or more questions. New information can be 'generated' by non-tabulations of interconnected questions.

Various statistical techniques are used for analysis of tabulated data in accordance with the research objectives as well as to focus on information need for specific decision-making purpose.

14.8 PREPARATION OF RESEARCH REPORT

The final stage of survey research in international markets is to write the report for the 'user' of the survey findings. The content, quality and presentation of the report determine its effectiveness in practical use. A poorly written report can cancel out even the best research. A research report is usually written for use of the management of exporting companies, who are often non-technical people. One should therefore avoid technical language in presenting the findings of research. The language of the report should be clear, unambiguous and to the point. Apart from the style of writing, the report should be presented in a proper sequence for facilitating reading and comprehension. The general format and layout may consist of the following sections :

- The title page
- The table of contents
- Introduction
- Technical note (describing the research methodologies etc.)
- An executive survey of findings
- Conclusions and recommendations
- List of statistical tables, charts etc. (summary of tables may appear in the main body of the report)
- Appendices (including copies of the questionnaires/forms etc. used for survey)
- References

The following checklist provides guidelines for writing of research report :

- Write the report keeping the reader in mind, his need for information, his knowledge and experience.
- Keep the report short and concise as far as possible and avoid irrelevant information.
- Present the facts in a simple and easily understandable style, avoiding technical jargon.
- Use summarised tables/charts in the body of the report and the detailed statistical data in the annexures.
- Put the different aspects of the research in appropriate sequence to facilitate easy reading and comprehension.

14.9 SUMMARY

In this unit an attempt has been made to acquaint you with the problem of International Marketing Research and Analysis. Although, several techniques and methods are available for undertaking international market research, this unit reflects the broad framework for undertaking international marketing research.

Since, marketing research is undertaken with a view of minimising business risk, a cost/benefit analysis of the decision is in order. Such an analysis raises issues like desk research vs. field research, planning of survey research and techniques of interviewing, all of which have been discussed in the unit.

14.10 SELF-ASSESSMENT QUESTIONS

- 1) What is the framework of a marketing research decision?
- 2) Why should an international marketing choose between desk research and field research or a combination of both? Explain using an example.
- 3) What are the techniques available for interviewing? What can be potential problems faced by a field researcher in international marketing research.

14.11 FURTHER READINGS

Cateora and Hess, *International Marketing*, Third Edition, Richard D. Irwin, Inc.
Warren J. Keegan, *International Marketing*, Second Edition, Prentice Hall of India
Private Ltd.

Gerald Albarum et al., *International Marketing and Export Management. A
Decision*—Wesley Publishing Company, 1989.

BRAOU

UNIT 15 INTERNATIONAL MARKETING PLANNING AND CONTROL

Objectives

After going through this unit you should be able to :

- discuss the issues in international marketing planning
- develop a framework for international planning
- utilise the data generated through checklists to develop your marketing plan
- describe the issues to be considered in developing an international marketing control system
- explain the sequence of control process used to control overseas marketing operations.

Structure

- 15.1 Introduction
- 15.2 Developing an International Marketing Plan
- 15.3 Issues in Framing International Marketing Plan
- 15.4 Organisation for International Marketing
- 15.5 Framework for International Marketing Planning
- 15.6 International Marketing Control
- 15.7 Control Sequence
- 15.8 Summary
- 15.9 Self-assessment Questions
- 15.10 Further Readings

15.1 INTRODUCTION

A multinational corporation manufacturing and marketing a consumer durable product is faced with a problem.

The CEO of the corporation has portrayed the following scenario.

The corporation has just entered into the French Canadian market, investing heavily in developing the manufacturing facilities. Since, the idea was to gain economies of scale, the corporation resorted to penetration pricing.

It was at this time that the country manager 'France' revealed to the CEO that the French market share of 80% was being rapidly eroded by competition. Competition, according to the country manager was eating into the market share from two directions. On the one side, the substitute product industry had developed rapidly and on the other side, the only competitor was manufacturing a differentiated product had stepped up his advertising expenditure.

The country manager wants to introduce a substitute product and undertake an aggressive promotion programme to combat competition on both sides. He believes that he can muster the required resources within the country. The question facing the CEO is whether to sanction the country managers request.

Activity 1

What is the problem faced by the CEO?

.....
.....

Can you develop an alternative marketing plan for the country manager 'France'.

From the above case let it becomes clear that every organisation needs to direct and

co-ordinate its marketing effort. For undertaking this, it must frame a marketing plan. While the task of developing a domestic marketing plan in itself is complex it gets further compounded when a firm gets into international operation. For international marketing it takes a multi country scenario necessitating marketing planning at two levels viz. country level and corporate level. Having developed the marketing plan the corporation must again implement them again at two levels i.e. at country level and at the corporation level. For this it must define an organisational structure and develop control system. These are the issues which have been addressed in this last unit of the course.

15.2 DEVELOPING AN INTERNATIONAL MARKETING PLAN

As already pointed out earlier the marketing plan must be developed at two levels i.e. at the country level and the corporation level.

At the country level the marketing plan resembles any domestic marketing plan. In the sense that it lays down the strengths, weaknesses of the organisation and opportunities and threats faced by the organisation. It proceeds to define the organisation objective alongwith the assumptions. Having undertaken the above steps it lays down the broad action plan, the organisation structure and control system necessary for accomplishing the above plan.

The international marketing plan is more than a mere integration of the country plans, for it seeks to direct and co-ordinate the activities of the corporation on a globe basis and at country levels. These variables are :

- Knowledge of the market
- Knowledge of the product
- Knowledge of the marketing systems

The corporation must decide how will it obtain information about all these variables on a global and country basis. This information will then be formalised into a marketing plan to provide guidance to each country manager.

15.3 ISSUES IN FRAMING THE MULTINATIONAL MARKETING PLAN

One of the issues most commonly faced in framing the multinational marketing plan is with regard to the strategy of international marketing plan. Every organisation must address this issue. It must decide whether to follow a standardised or multidomestic marketing approach or a blend of the two approaches. A brief description on all the three approaches has been presented below.

Standardised Approach

This refers to standardisation in four major decision areas of marketing viz. product decision, price decision, promotion decision and the distribution decision for achieving the competitive and sales objectives of the corporation. The organisation through policy directives can achieve this. The underlying premise of this strategy recognizes the globalisation of market. Theodor Levitt in his article on 'The Globalisation of Market' points out that because of technological and communication revolution consumers would know about the quality products that exists and seek to procure them through formal or informal channels. Once this assumption is accepted it become possible for an organisation to encash the advantages of standardisation which include cost saving in all areas right from manufacturing (because of longer production runs and learning curve effect) to promotion (because the message becomes common as demonstrated by Exxon put a tiger in your tank). The corporation also has the advantage of maintaining the international customer, for wherever he goes in the world a similar product will be available, a class which is

growing as demonstrated by the increase in international air traffic. However, this approach is not free from limitation. Although theoretically a corporation may demand standardisation in practise, it is not always possible because of heterogeneity of the markets. Thus, dumping laws and retail price maintenance laws may prevent standardisation of price variable, non-availability of media vehicles may prevent standardisation of promotion variable and entry regulations by various countries may prevent standardisation of distribution variables. This approach has however found many advocates within practising managers. They attempt in standardising variables partially. Thus, in case of promotion variables the messages are unified, very often even the movies shot as standardised as demonstrated by Ogilvy and Mather. The brand variable is also standardised. Similarly in case of products certain major parts are standardised so that they can take advantage of cost savings and at the same time take into account the heterogeneous characteristics of the market.

Multi Domestic Approach

The multi domestic approach to market planning emanates on the assumption that markets are heterogeneous and therefore the marketing mix decision in each country should specifically cater to the needs of the country. This approach by some advocates has been rated as the true marketing approach. This approach however, fails to explain the existence of the multinational giants like Coca Cola. In reality it must be accepted that markets are heterogeneous and at the same time standardisation is possible in many decision areas. The existence of common brand names like IBM, Levis etc. proves this. But even these organisation do cater to the specific needs of the heterogeneous markets.

Activity 2

What makes it possible for a company like Levis or Benetton to market the product globally although traditionally accepted as belonging to the domain of multi domestic approach?

Once the plan is formulated it must be implemented.

15.4 ORGANISATION FOR INTERNATIONAL MARKETING

Once the plan has been drafted it becomes necessary to implement it. For this resources have to be deployed and efforts have to be directed. This is possible, only when a structural framework exists for allocating the requisite authority and responsibility. This structure should be capable of meeting over varying challenges of international marketing function. It should be capable also of responding to different market characteristics. It is perhaps for these reasons that international marketing organisations are characterised by their flexibility and restructuring.

For achieving this it becomes necessary to develop a plan for an organisation structure. Such a plans usually undertaken at the corporate level and is long run in nature. While, planning a structure for international marketing normally the following parameters are considered.

- Company growth and dynamic nature
- Geographical distance
- Governmental regulations
- Level of policy decision
- Length of chain of command
- Degree of control
- Degree of involvement in the marketing functions.

These parameters along with resources available are aligned with objectives on a production, a function or a geographical basis. The basis also takes into account the method of decision making.

Historically the organisational structures were designed around the production function. However, today it is the profit and marketing functions which give rise to the organisational structure. Most of the existing organisations can be identified in one of the three categories, centralised, decentralised or regionalised.

15.5 FRAMEWORK FOR INTERNATIONAL MARKETING PLANNING

As noted earlier planning in the international context is a more difficult process, partly because there are many unknowns in this case. It encompasses all the steps used in the process for any typical marketing plan. To reiterate, any marketing plan consists of

- a) Diagnosis of the situation
- b) Identification of corporate strengths and weaknesses as well as environmental opportunities, and threats.
- c) Definition of the objectives
- d) Forecasted estimates of sales, costs, profits
- e) Designing an appropriate marketing program based on objectives and estimates
- f) Deciding on the relevant appropriations for the plan

Definition of the objectives is considered by some, as the first step in the marketing planning process. Others feel that objectives cannot be decided without a situation and SWOT analysis which would generate information to enable objective definition. What is however, important to bear in mind is that since marketing planning is an iterative process, it requires monitoring, revaluation and adaptation of objectives and strategy in the light of constantly changing marketing environment.

Strategic planning in the international marketing context comprises of the following decision areas.

- | | |
|------------------------------------|--|
| The commitment decision | : Considering the resource position of the firm and its home market situation, does the international market offer an attractive opportunity worth striving for? |
| Area of operation decision | : Which country/countries present the most attractive alternative/s as potential target markets? |
| Entry mode and Operations decision | : What could be the most effective strategy for entering the international markets and conducting the marketing operations? |
| Marketing Organisation decision | : What is the best possible organisational arrangement of facilities and personnel to enable the firm to have local flexibility and corporate control? |
| Marketing mix decision | : Which possible combination of the marketing mix elements would be most suitable for the given foreign market environment? |

All the above decisions are interlinked and interdependent. Combining these decision areas with the general planning process steps generates an international marketing planning matrix given in fig. 1 below. Each cell in the matrix represents step in the iterative process of the overall strategic planning function. Some of them (as you will note) are part of the review and reassessment process that must be carried on till a final plan emerges.

Fig. 1 International Marketing Planning Matrix
Steps in the Planning Process

International Planning Decisions	Diagnosis of the Situation	SWOT Analysis	Objectives	Sales/ Cost Profit forecasts	Mktg. Program	Budget
A) Commitment decision						
B) Area of Operation decision						
C) Entry mode and Operation decision						
D) Marketing Organisation						
E) Marketing Mix						

The matrix given above provides an overall framework for planning. Detailed marketing information would need to be generated and analysed in order to fill in the matrix and evolve the marketing plan relevant to a given international situation. Given below are the checklists of information pertaining to each decision area, that must be generated utilised to evolve the marketing plan. The lists are not exhaustive, they merely illustrate the type of information that forms the data basic for such a plan.

The Commitment Decision—Checklist

The commitment decision is based upon valid and defensible reasons for entering international markets. The reasons must include an analysis of corporate objectives, resources philosophy and the sources of differential advantages sought in going international. Following are the factors that need to be considered while making the commitment decision.

- A) Reasons for entering international markets
- Saturation in domestic markets
 - Greater profitability
 - Preempting competition
 - Excess liquidity
 - As an alternative growth strategy
 - Better utilisation of current resources and differential advantage both
 - Excess or obsolescent inventory
 - Securing sources of supply
- B) Own resources, strength and weaknesses
- Domestic operations under control
 - Differential advantages
 - Image for high quality
 - Cost advantages
 - Manpower skills
 - Finances
 - Patents
 - Marketing expertise
- C) Own objectives and philosophy
- Growth objectives
 - Growth strategies followed (e.g. growth through market expansion or product development, in current products or unrelated products, growth through reinvested earnings, attitude towards mergers and acquisitions)

- Profitability, required return on investment
- Attitude and preferences regarding risk
- Liquidity preferences
- Market share desired

D) Country preference

- Developed, industrialised countries
- Developing countries
- Eastern European countries

Definition of the above variables would help finalising the commitment decision, and enable-determination of the type and extent of commitment in a given area of operation.

The Area of Operation Decision—Checklist

Once in the context of the commitment decision the type of country preferred has been decided, the specific country alternatives must be evaluated. Unless specific reasons compel choice of a particular country, several alternatives within a given type must be analysed with respect to both to international and the local marketing environment. The factors that must be considered for this analysis may include

A) International environment

- Relations between domestic country and country chosen (say country X)
- Tariffs and non-tariff barriers in country X
- Currency stability and currency control
- Infrastructural costs (e.g. transportation, communication)
- Counter trade requirement

B) Local marketing environment

- Government stability
- Economic development, growth rate, developmental/policies
- Inflation
- Government controls and regulations
- Local business culture
- Philosophy towards cooperation, competition
- Business ethics
- Respect for contracts
- Cartelization

Marketing infrastructure

- Availability and reliability of marketing data, research skills
- Literacy
- Media
- Ad agencies
- Distributive network facilities
- Availability and reliability of communication system
- Transportation availability and costs

C) Marketing structure and demand

- Consumption pattern and buyer behaviour

D) Financial needs and analysis

- Short Term
- Investment Needs

- Sales Volume Forecast
- Profitability estimate, return on investment

Long Term

- Taxation
- Currency stability and convertibility
- Profitability remittance and repatriation prospects

E) Overall suitability

- Country X fit in a regional approach
- Country X as part of a global market portfolio

Entry Mode and Operations Decision—Checklist

This checklist helps determine the appropriate mode of market entry, the first part of the international operations plan. It is essential that the plan incorporate the general assumptions and specific forecasts on which it is based on that it be prepared in written form, especially if it is a first or "initial" plan.

A) Objectives

- Sales volume expected during initial period; market share
- Profitability, return on investment (note: the larger the scale of operations, the more likely negative profits during a buildup period)
- Permissible risk exposure
- Going in for a fast profit and then leave vs. aiming for a lasting commitment
- Philosophy of ownership vs. joint ventures, etc.
- Data feedback for future decisions:
Test marketing or other marketing research, acquisition of data to determine desirability and form of long-term commitment—all the while keeping costs of data generation and analysis in mind
- Justification of local objectives in terms of overall company objectives

B) International environment

- See checklist A of Area of operations decision

C) Local marketing environment

- See checklist B of Area of operations decision
- Local government view of our kind of production
- Could we—and should we—obtain favoured treatment from Government?

D) Market structure and demand analysis

- See checklist B of Area of operation decision
- Detailed industry and company sales forecast

E) Resources

- Expected sources of differential advantage (see checklist B of Commitment decision)
- Local validity of own patents and trademarks
- Availability of company personnel with prior local experience
- Tasks to be performed by company, tasks to be contracted out; marketing research, advertising, distribution may all be contracted out, if desired, given sufficient local infrastructure
- Available sources of supply relative to expected sales volume, supply from headquarters or from other subsidiaries or from outside firms. Adequacy of sources and their ability to adjust to possible fluctuations in demand

F) Mode of market entry

- Direct exports from home base
- Indirect exports through home country channels
- Direct exports through outside distribution channels
- Direct exports and sales through local sales branch
- Licensing, franchising, technology transfer
- Foreign direct investment (FDI) in joint venture
- FDI in wholly-owned assembly or integrated production facilities.

Marketing Mix Strategy—Checklist

Assuming the international commitment decision has been made, the country or countries selected, and the most likely mode of entry determined, this checklist enumerates the strategic aspects in the overall marketing plan. These include the underlying strategic concept, rationale, general thrust, and consideration of appropriate and matching marketing mix variables.

A) Strategy

- Overall concept of our international marketing strategy. Strategy should be explicitly related to local objectives and to our notion of differential advantage. Include definition of market niche, if nichemanship is sought.
- Rationale for contemplated differentiation from domestic strategy, if any. Such deviations are often desirable or even inevitable. As they do lessen synergy, their justification should, however, be made explicit.
- Homogenization or segmentation of local demand

B) Marketing mix implication of strategy

- Product: opinions, models to be marketed, modifications for local market, if any, product simplification, invention
- Price: skimming vs. penetration. Price relative to current and potential competition; price relative to our policies elsewhere. If price very high compared to domestic due to tariffs, freight, high distributor margins, etc. justify belief that it will be accepted locally. If planned local price is very low, contemplate side-effects on company operations elsewhere.
- Promotion and intelligence: budget, theme, media, timing. If major resources to be committed, include plan for measurement of promotional effectiveness. Labelling, consumer information. Feedback from the market place, marketing research
- Distribution channels
- Mode of market entry.
- Functions to be performed by channel members or distributors, Exclusive vs. selective distribution
- Margins, promotional allowances (if any)
- Short term vs. long-term commitments. Note possible need for future flexibility
- Post-transaction service
- Service and warranty system
- Spare parts: locally manufactured or procured vs. imported from home country or subsidiary
- Handling of customer complaints
- Net working and trust: plan for the build-up of goodwill and customer confidence. The larger the operations and the longer its time perspective the more important is trust

International Marketing Organisation—Checklist

International Marketing Planning and Control

To bring the plan into fruition requires adequate marketing organisation. This Checklist includes among organisational factors the type and nature of coordination between headquarters and international units, scheduling, performance evaluation (audit), and preview of subsequent planning periods.

A) Headquarters service and coordination

- Manpower allocation at headquarters (HQ) and overseas
- Organisational adjustments at HQ, if any
- Identification of areas of HQ direction, assistance and consultation. Areas of local autonomy
- Reporting arrangements
- Pricing and other policies for intra-company transfers

B) Schedules

- Step-by-step timing of activities and the attainment of sub-targets. PERT or flow diagram techniques may be helpful here
- Budgeting
- Master budget
- Projected profit and loss statements for each reporting period
- Proforma balance sheets for each reporting period
- Cash flow projections in each reporting period

C) Action potential at the end of the planning period

This is an advance audit of operational performance, assuming full realization of the plan. The end of the period a post-audit should be undertaken, including re-evaluation of the commitment decision and its future implication. These management audits should comprise items of the type indicated below:

- Resource profile, including personnel skills
- Differential advantage
- Data about the market structure and demand
- Trust and goodwill
- Patents and trademarks
- Standing arrangements with local suppliers and customers
- Competitive position
- Performance relative to budget
- Performance relative to other aspects of objectives and plan
- Impact on host country

D) Contingency plan: contingency planning is the standby plan for emergencies. It may be a strike, an import prohibition, a currency devaluation, failure to obtain local financing if planned for, or simply the fact that some vital assumption about the future might be mistaken.

E) Long-term plan: assuming that the substance of the initial plan will be realized, the long-term plan should at least present a sketch of the next three to five years.*

Adapted from

- International Marketing Strategy, Third Edition, Hans R. Thorelli, S. Tamer Cavusgil

Activity 3

Study 3 organisations operating in International markets. Analyse their marketing plans for the past year to analyse how the marketing plans have been affected by

a) Reasons for entering international markets

facilitate centralised action and coordination, the primary responsibility for control should be located with one person who can then control the activities of others.

Formalised, defined communication systems become imperative in the context of international control procedures, in contrast to the domestic marketing, where informal communication are quite often utilized in addition to the formal ones.

An important ingredient of the communication system are tools used for information collection. The approaches used are examination of company records, routine reporting periodic enquiry and field audits.

Company Records

Depending upon the informational needs some companies are interested primarily in the analysis of the aggregate sales or profit figures of their overseas business supplemented by the routine reporting system information, this type of analysis may give an idea of the overall position of the international.

Periodic Enquiry

Most parent companies even those who have entrusted their overseas operations control to the subsidiaries themselves, institute a system of periodic enquiry about their marketing operations and their effectiveness. The sources of information could be organisational, including functional departmental heads or non-organisational including consumer and channel members. This sort of periodic enquiry, specially if it is in contest of specifically defined objectives, helps in sensitising the parent organisation to the variation from the planned performance and even the possible reasons for it.

Routine Reporting or Monitoring Systems

Parent companies which prefer a centralised control, tend to develop and implement a monitoring system consisting of standardised report formats, submitted periodically. The reporting formats are designed to make interpretation of variance possible. These monitoring systems include routine reports by field sales personnel and channel members. A routine reporting is time consuming, the system should be periodically reviewed to ensure that it is economical, accurate and relevant.

Field Audits

It is some times felt that reported information at times is not adequate enough to provide a full, in depth understanding of international business sense. Without perceptual understanding of the location and environment, it is difficult to understand some of the peculiarities of the situation that the management may have to deal with. A system of periodic field visits may provide with organisation with greater insights into the marketing problems unique to a given international markets. The periodicity of the audit visit would depend upon the number and kinds of problems encountered in the foreign market, the profit potential of the area, the capabilities of the local managerial personnel and the cost of these visits. To make effective use of the field audit as a control tool, the field auditor must plan in advance, an audit checklist so as to ensure adequate field coverage.

Evaluation and Corrective Action

This final step in the control process involves the comparison of actual performance with planned performance. Information generated from the markets needs to be compared with predefined, established norms and standards for different operational areas. If the expected and the actual results vary, corrective action is indicated either by modifying operations and procedures or by modifying the standards and objectives, if they seem to be unrealistic in the context of the altering circumstances. In international markets there is a heightened possibility of a time lag developing between the initiation and implementation of corrective action. It is therefore, important that both evaluation and remedial action be adopted as continuing, iterative activities. An additional safeguard in view of the possibility of time lag, is the development of contingency plans which may be utilised to meet unanticipated market conditions.

Activity 4

With respect to the organisation studied for activity 3, study the control systems used by them. Comment upon

- a) The differentiation between domestic and international control operations
- b) The control tools used
- c) The communication systems established for control purposes

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15.8 SUMMARY

International marketing planning presents the challenge of responding to different environment variables and integrating rational, regional and international planning inputs into an overall plan that best utilises organisational resources to exploit opportunities. This unit discusses the complexity of international planning and provides an overall framework for strategic marketing planning.

Planning as an activity necessitates control because and when a company plans, it must also make arrangements to monitor the plan output and make adjustments to adjust variations from planned activity. The unit presents a sequential description of the international marketing control process and points out factors worthy of consideration while designing control mechanisms for international markets. At the outset, however it should be clear there is no single correct organisational structure.

15.9 SELF-ASSESSMENT QUESTIONS

- 1) Differentiate between domestic and international planning.
- 2) How do entry objectives in a given foreign market affect the marketing planning for that market? Explain with examples.
- 3) What barriers make controlling international operations more complex than controlling domestic marketing activities? Explain with the help of a specific example.
- 4) How are contractual arrangements utilised for affecting control of international operations?
- 5) Comment upon the communication systems that can be established for effective control systems.

15.10 FURTHER READINGS

Hans B. Thorelli, S. Tamer Covusgil (ed.), *International Marketing Strategy*, Pergamon Press—Third Edition, Oxford, 1990.

Philip Cateora and John M. Hess, *International Marketing*, Third Edition, Richard D. Irwin, Inc., Homewood Illinois, 1975.

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