

International Marketing Environment

Online lecture is yet to start.

International Marketing Environment

Chapters: 5 & 6

Roadmap

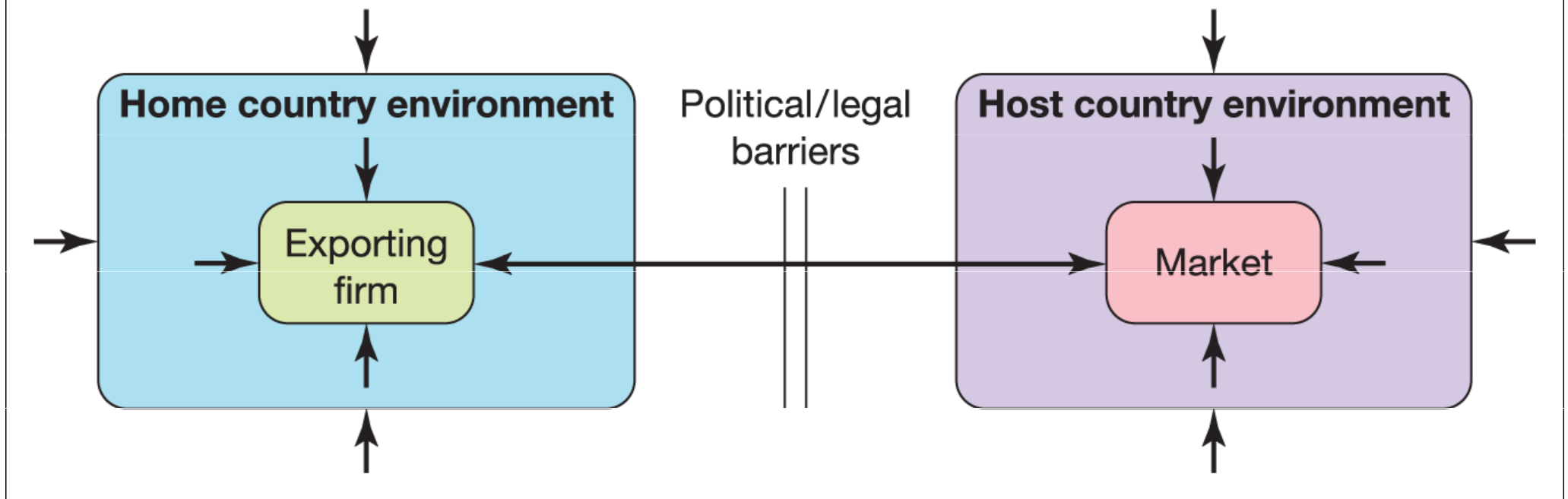
- Political environment
 - Home country
 - Host country
 - Trade barriers
- Economic environment
 - Exchange rates
 - Law of one price
 - Classification by income
 - Regional economic integration

Goals of the Lecture

You should be able to:

- **Discuss how the political/legal environment** will affect the attractiveness of a foreign market
- **Distinguish between political factors** in the home country environment and the host country
- Explain the steps in a **political risk analysis** procedure
- Distinguish between **tariff barriers and non-tariff barriers**
- Describe the **major trading blocs**
- Define **regional economic integration** and identify different levels of integration
- Evaluate **consequences of the EMU and the euro** on European business

THE GENERAL INTERNATIONAL ENVIRONMENT



Political Environment

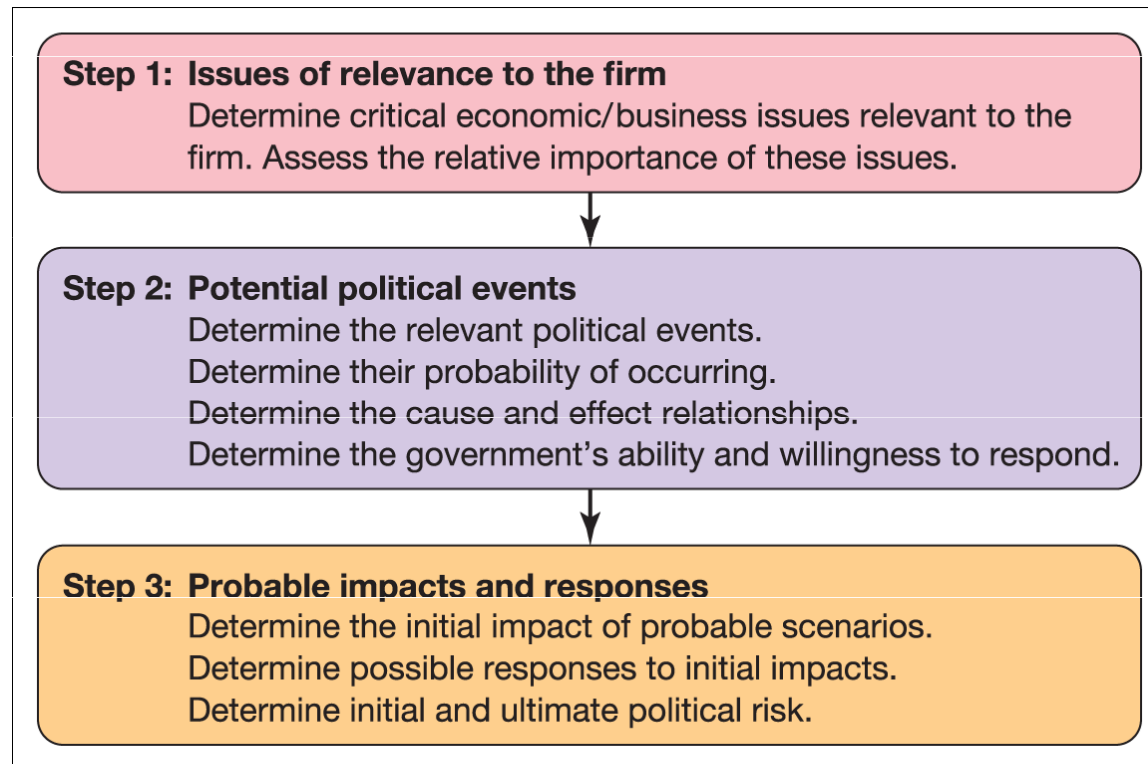
- **Home Country** Environment
- Promotional activities (lack of motivation and information, ops limitations etc.)
- Financial activities
- Information services (economic data, export opportunities etc.)
- Export-facilitating activities (TO abroad, trade fairs, trade missions etc.)
- Promotion by private organizations (chamber of commerce, trade associations etc.)
- State trading



Political Environment

- **Host Country** Environment
- Types of action: import restrictions, local-content requirement, exchange controls, market control, price controls, tax controls, nationalization, labor restrictions etc.
- **Political risks**
 - Ownership risks (property and life)
 - Operating risk (operations endangered)
 - Transfer risk (transactions)

Political Environment - Risks



Political Environment – Trade Barriers

- **Reasons:**
 - To protect domestic producers
 - To generate revenue
- **Tariffs** - taxes imposed on imports: specific, ad valorem, discriminatory.
- **Non-tariff barriers** (less predictable): quotas, import and export quotas, embargoes, administrative delays, bureaucratic rules, local-content requirements
- Historical development of barriers

Questions?

Economic Environment

Three types of economic activity:

- Primary
- Secondary
- tertiary
- **Exchange rates**

weak currency: export \uparrow , import \downarrow - devaluation

strong currency: export \downarrow , import \uparrow - revaluation

- **What do managers** of both domestic and international companies **prefer?**

Economic Environment

- **Law of one price (PPP)**
- Big Mac Index
- **Classification of countries:**
 - By income (e.g. GNP, GNP per capita, GDP, GDP per capita)
 - By industrialization (e.g. less developed countries - LDC, newly industrialized countries - NIC, advanced industrialized countries - AIC)
- Regional economic integration:
 - free trade area (e.g. EFTA, NAFTA)
 - customs union (e.g. Benelux)
 - common market (e.g. EEC)
 - economic union (e.g. EU)

Economic Environment

- EU and EMU
- **Major trading blocks:**
 - European Union (EU)
 - Association of South-East Asian Nations (ASEAN)
 - Asia Pacific Economic Cooperation (APEC)
 - North America Free Trade Agreement (NAFTA)

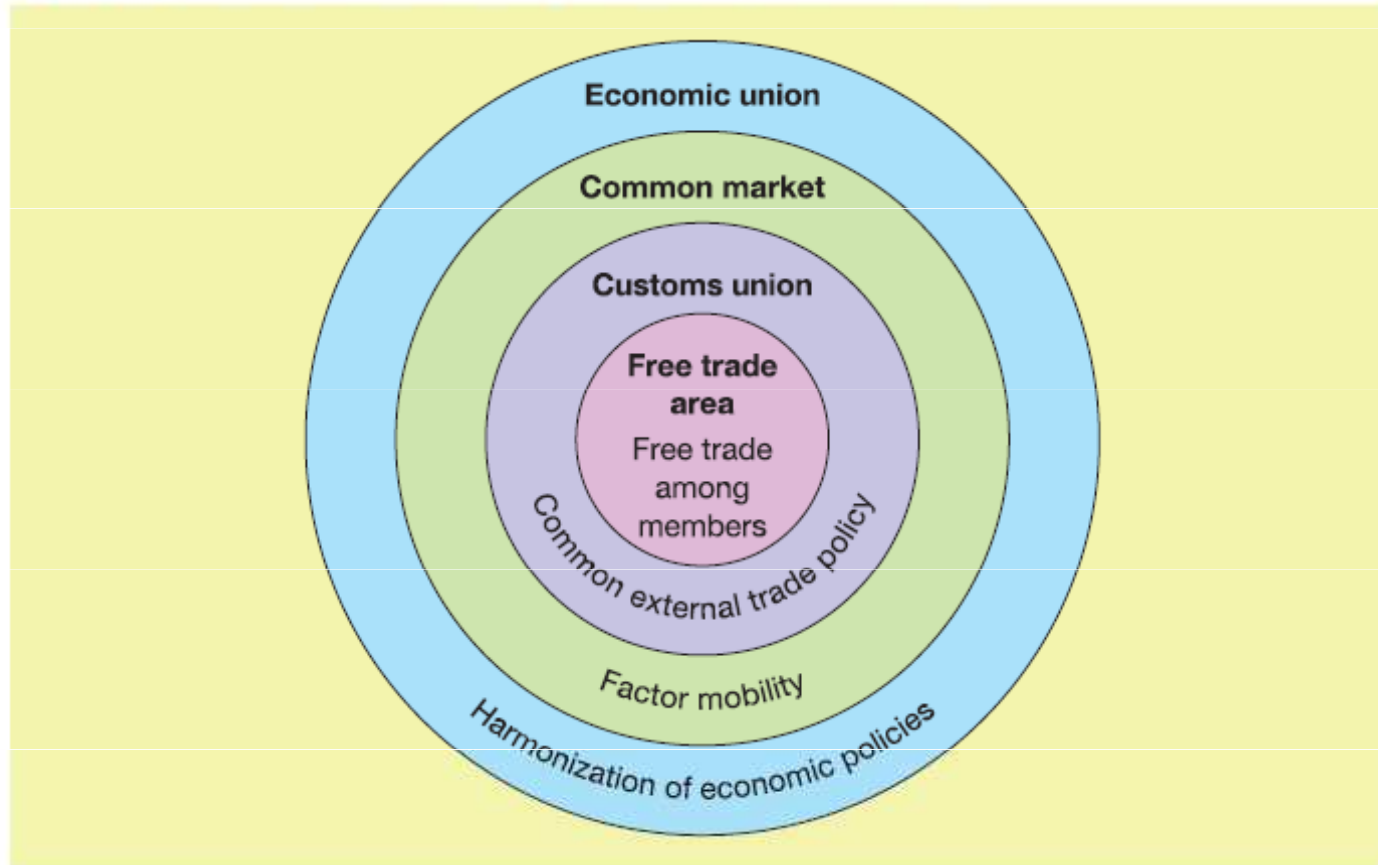
Table 5.1 The hamburger standard (based on 25 March 2006 Big Mac prices)

| Country | Big Mac price | | Implied PPP of the \$ (local price divided by price in US) | Actual Exchange Rate 1 USD = | Over(+) / Under(-) valuation against the dollar, % |
|---------------|-------------------|---------------|--|------------------------------------|--|
| | in local currency | in US dollars | | | |
| United States | \$3.10 | 3.10 | – | 1.00 | – |
| Argentina | Peso7.00 | 2.27 | 2.26 | 3.08 | –27 |
| Australia | A\$3.25 | 2.49 | 1.05 | 1.30 | –19 |
| Brazil | Real6.40 | 2.94 | 2.06 | 2.17 | –5 |
| Britain | £1.94 | 3.68 | 1.60* | 1.90* | +19 |
| Canada | C\$3.52 | 3.13 | 1.14 | 1.12 | +2 |
| China | Yuan10.50 | 1.31 | 3.39 | 7.98 | –58 |
| Euro area | €2.94 | 3.77 | 0.95 | 0.77 | +22 |
| Hong Kong | HK\$12.00 | 1.54 | 3.87 | 7.77 | –50 |
| Hungary | Forint560 | 2.65 | 181.00 | 210.74 | –14 |
| Indonesia | Rupiah14,600 | 1.60 | 4.71 | 9,090.91 | –48 |
| Japan | ¥250 | 2.17 | 80.6 | 115.18 | –30 |
| Malaysia | M\$5.50 | 1.49 | 1.77 | 3.67 | –52 |
| Mexico | Peso29.0 | 2.66 | 9.35 | 10.87 | –14 |
| New Zealand | NZ\$4.45 | 2.81 | 1.44 | 1.58 | –9 |
| Poland | Zloty6.50 | 2.15 | 2.10 | 3.02 | –30 |
| Russia | Rouble48.00 | 1.79 | 15.5 | 26.72 | –42 |
| Singapore | S\$3.60 | 2.29 | 1.16 | 1.57 | –26 |
| South Africa | Rand13.95 | 2.06 | 4.50 | 6.76 | –33 |
| South Korea | Won2,500 | 2.57 | 806 | 970.40 | –17 |
| Sweden | Skr33.0 | 4.60 | 10.6 | 7.16 | +48 |
| Switzerland | SFr6.30 | 5.12 | 2.03 | 1.22 | +65 |
| Taiwan | NT\$75.00 | 2.29 | 24.2 | 32.65 | –26 |
| Thailand | Baht60.0 | 1.59 | 19.4 | 37.52 | –48 |

* Dollars per pound.

Source: *The Economist*, 25 March 2006 © The Economist Newspaper Limited, London (25.04.06).

Figure 5.2 Forms of economic integration in regional markets



Source: From Czinkota/Ronkainen. *Global Marketing*, 1e. © 1996 South-Western, a part of Cengage Learning, Inc. Reproduced by permission. www.cengage.com/permissions.

Questions?

In-Class Activity

- **SA2: The Importance of Internal Marketing Environment**
- Please check Learning Materials folder.

Home-readings for Next Week

Reading for next lecture:

- Culture and International Marketing
- *Hollensen – Essentials of Global Marketing. Chapter 6*

Case Study

- *Lifan: A Chinese sub-supplier and brand manufacturer of motorcycles is aiming at the global market (p. 239)*

More details available in **Interactive Syllabus**.

Thank you for your attention