Global Marketing Management
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Module - 1
Lecture - 3
Global Economic Environment - Part I

In the first section of this course on Global Marketing Management, in which we have covered module 1 and 2, we have tried to build the base for this course and we have talked about the globalization and its various facets. Now, we will move on to the second section of this course. That is, Global Marketing Environment. This, now try to recall from module 1, there was a slide entitled as global marketing task.

So, we are talking about the external environment, the uncontrollable environment. This external or uncontrollable environment is made up of various different types of environment. Where in, 1 type of environment is the economic environment, another type of environment is the financial environment and the political and the legal environment and the cultural environment.

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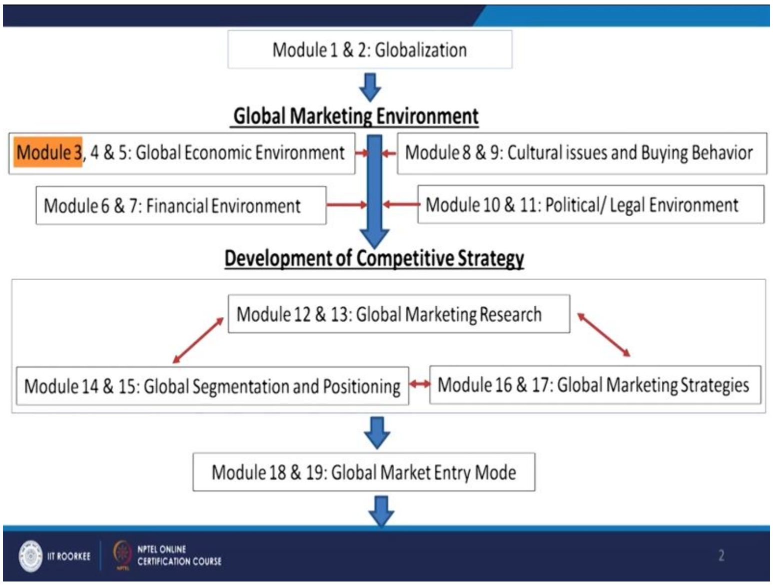

So, module third, fourth and fifth are dedicated to understanding of economic environment. Just keep in mind that we are talking of external environment that is uncontrollable for a company. So, let us start with the Global Economic Environment. There are 3 modules on this Global Economic Environment. That is the module 3, third, fourth and fifth. We will start with module 3 and we will talk about these 5 things. We will first have an overview of the world economy.

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Then we will talk about the various economic systems that are there in this world. And then, we will see how intertwined, how integrated the world economy is. Then we will talk about the country competitiveness; what does it means. And then the stages of market development. Now, the basic idea of this globalization is that, today countries are much more economically interdependent than they were earlier.

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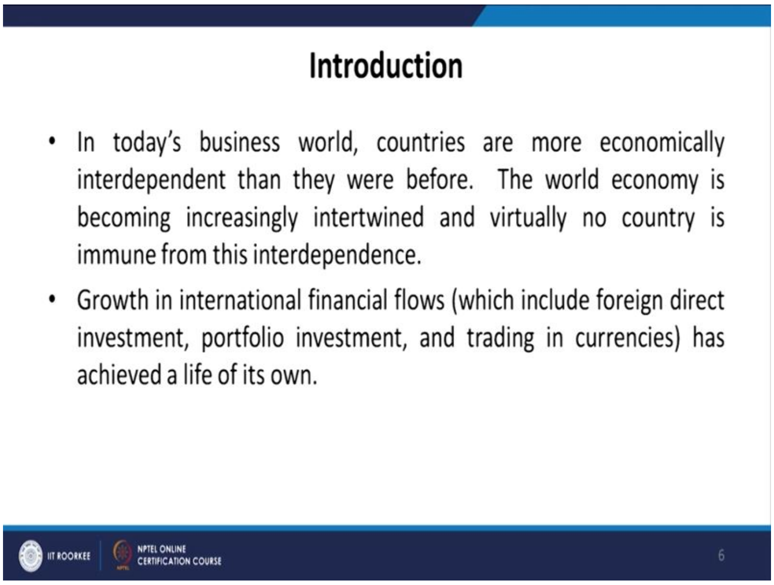

Growth in financial, international financial flows. So, that includes, foreign direct investments, foreign institution investments and trading in currency. They have achieved a life of their own.

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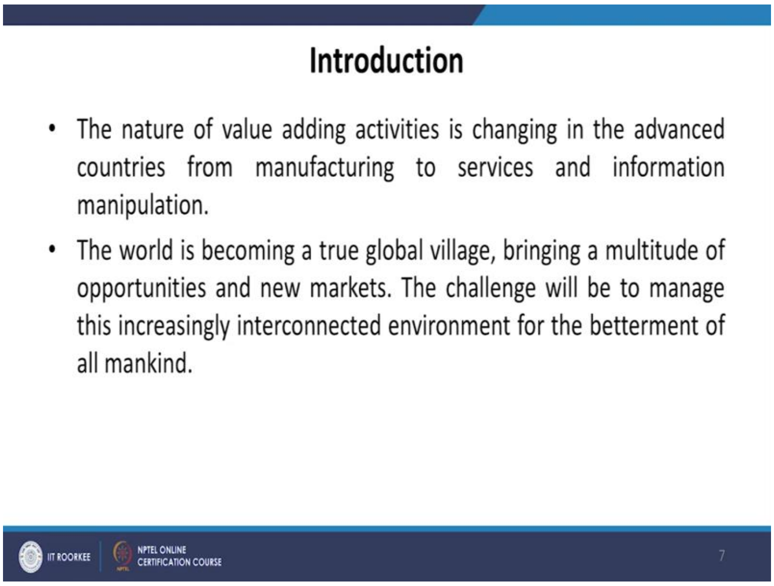

And the nature of value adding activity is changing. They, earlier the value adding activities were related to manufacturing. Now, they are shifting to services and information manipulation. So, this world is becoming a truly global village.

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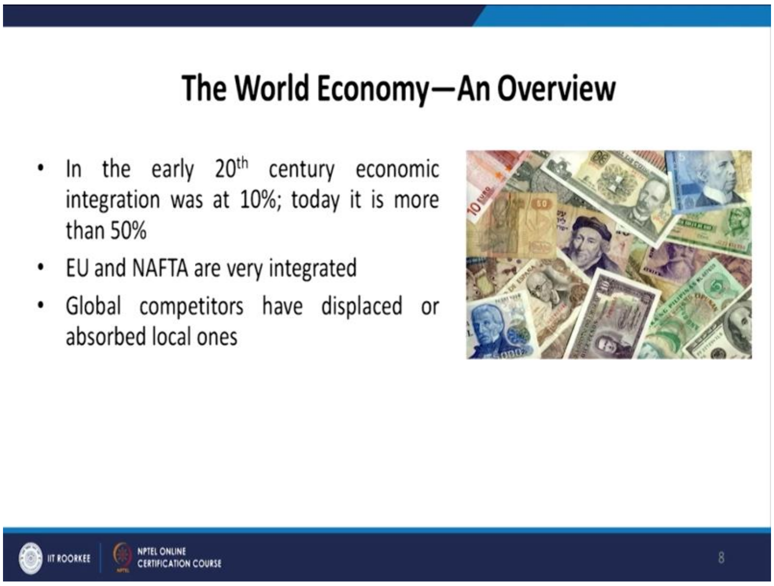

In the early 20th century, economic integration was only 10%. And now, it is more than 50%. European Union and NAFTA, North American Free Trade Area, they are highly integrated.

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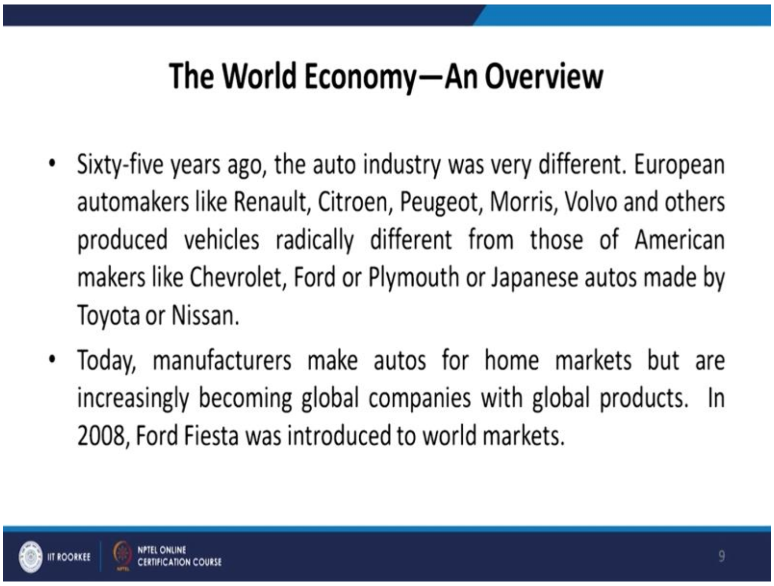

65 years ago, the auto industry was very different. European automakers like Renault, Citroen, Peugeot, Morris, Volvo and other produced vehicle radically different from those of American makers like Chevrolet, Ford and Plymouth or Japanese autos made by Toyota and Nissan. Today, manufacturers make auto for home markets, but are increasingly becoming global companies with global products. In 2008, Ford introduced a model that was called as Ford Fiesta for the world markets.

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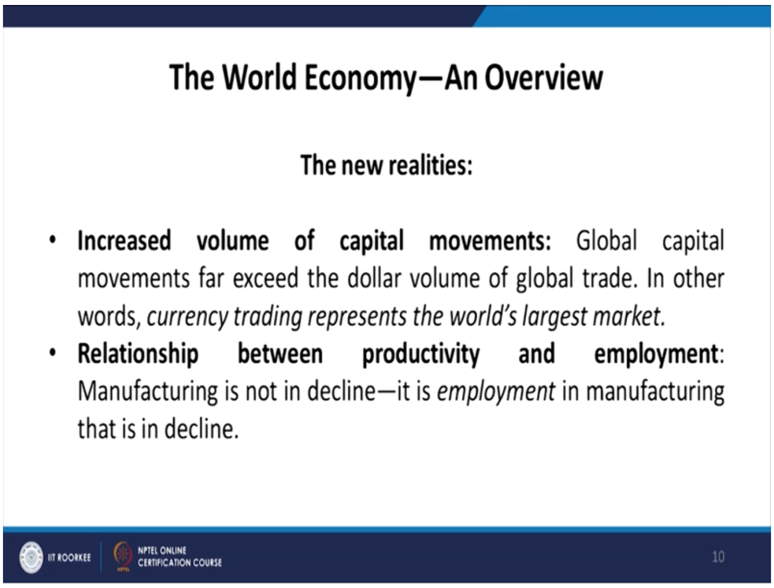

Now, this world economy is facing some new realities. The first reality is increased volume of capital movement. So, trade in currency is increasing. The second reality is relationship between productivity and employment. There was a clear-cut relationship between productivity and employment. So, but, manufacturing employment in manufacturing is decline. So, when we had more manufacturing, the idea was it will give rise to more employment. But now, even though companies are investing and manufacturing; but it does not giving rise to employment. Emerging of the world economy as a dominant economic unit.

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So, the world economy is now itself becoming the dominant economic unit. The end of cold war, the war between communism and capitalism has come to an end. And the last reality is e-commerce.

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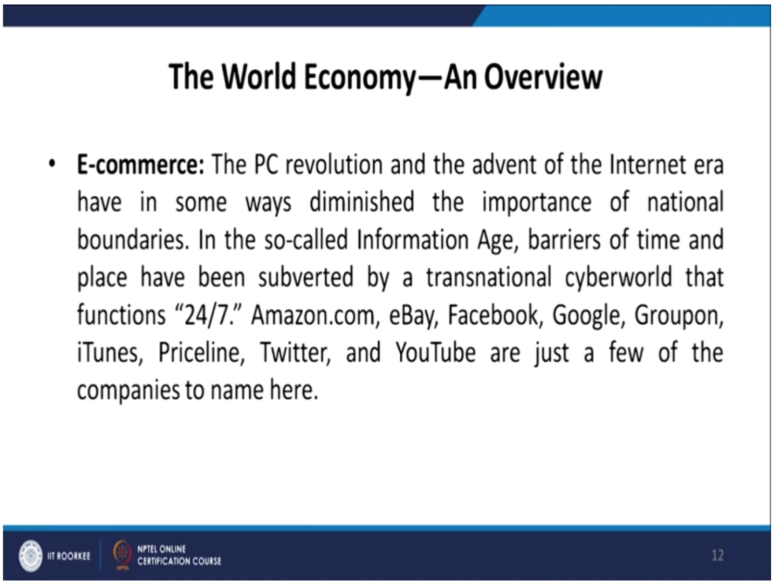

There are companies that work 24/7. And there are lot of companies like that, Amazon and eBay, Facebook, etcetera. Next thing that we will see in this module is the various types of economic system that are there in this world.

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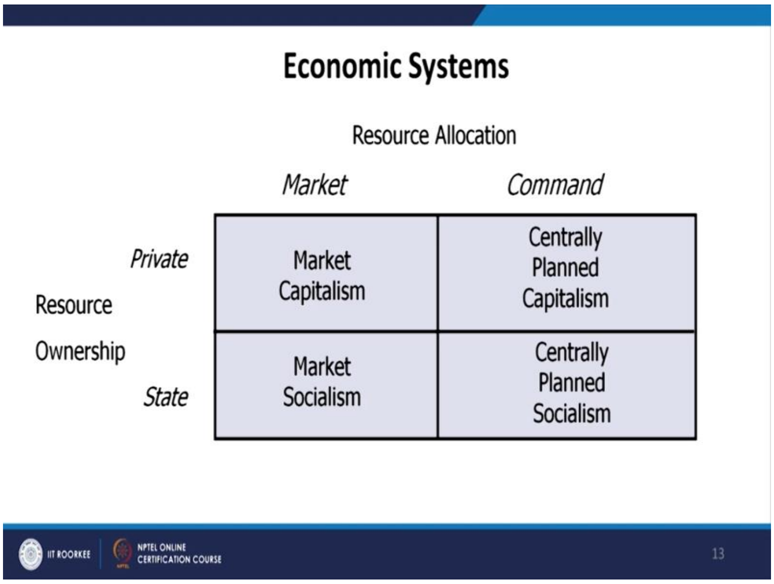

You see that on the y-axis we have resource ownership. On the x-axis we have resource allocation. Now, resource allocation can be done by market or it can be done by government. That is called as command. While the resource ownership can be of private or it can be state. Now, this gives rise to 4 different types of economic system. 1 is market capitalism, market socialism, centrally planned capitalism and centrally planned socialism.

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Let us see the peculiarities or the characteristics of each of this economic system and let us start with market capitalization. Keep in mind that in market capitalization, resource allocation is done by market and resource ownership is in private hands. So, individuals and firms, they allocate resources. Production resources are privately owned. They are driven by consumers. That is, the forces of demand and supply.

The government's role is to promote competition among firms and ensure that the consumers are protected. And this kind of a system is practiced around the world. Most notably in Western Europe and North America. All market oriented economics do not function in an identical manner. So, there are 2, you will see 2 different kind of examples here.

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U.S. that is competitive free for all and decentralized initiative, while Japan, it is sometimes called as Japan, inc. Because, it has a tightly run highly regulated economic system that is also market oriented. Next comes centrally planned socialism. In centrally planned socialism, keep in mind that the resource allocation is on the, is by the government, but resource ownership is private.

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This is opposite to market capitalism, state holds broad powers to serve the public interest, decides what goods and services are produced and in what quantities. Consumer can spend only what is available. Governments own entire industries and they control distribution. Demand typically exceeds supply. There is little reliance on product differentiation, advertising pricing and strategy.

China, India and former USSR are now moving towards the market allocation and private ownerships, but earlier they were typical examples of centrally planned socialism. Then comes centrally planned capitalism.

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Economic systems in which command resources allocation is used extensively in an environment of private resource ownership. For example, Swedish government controls 2/3 of all spendings. A hybrid of centrally planned socialism and capitalism. Now, Swedish government plans to move towards privatization.

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The fourth kind of economic system is market socialism. This is a type of economic system involving the public cooperative or social ownership of the means of production in the framework of market economy. Market socialism differs from non-market socialism. In that, the market mechanism, that is, how the forces and demand and supply interact is utilized for the allocation of capital goods and the means of production.

So, you see that the, all along these 4 types of systems, the degree of economics, economic freedom is different. So, there in Washington DC;

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There is a Heritage Foundation that is a conservative think tank. It ranks country by degree of economic freedom they support. And the ranking, they give ranking on the basis of we will talk about the various the characters or various factors on which they give a ranking to various countries. But they put countries into 4 category: free, mostly free, mostly unfree and repressed.

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And these are the variables that are considered to decide what kind of economic freedom a country has. 1 key economic variable is the trade policy, the taxation policy, government consumption of economic output, monetary policy, capital flows and foreign investments, the banking policy, wages and price controls and property rights regulation and the black market.

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Now, for a next couple of minutes, let us see how intertwined, how integrated the world economy is. The total world merchandise trade, merchandise means goods. It volume, it grew from $7.6 trillion in 2000 to $19 trillion in 2014. From 1997 to 2007, world's GDP, that is

Gross Domestic Product grew more than 30%. And in the same period, world exports of merchandised, merchandise increased by more than 60%.

What is the net result of all these factors? That is, there is a greater interdependence of countries and economies because there is more amount of export and import is happening. And this means that there is increased competitiveness because you can export only what you are making at a lesser cost than the other parts of the world.

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And need for firms to keep a constant watch on the international economic environment. Consumers and company in the U.S. and Japan are able to find domestic sources for their needs because of their diversified and large extremely large economies. But this flexibility, this advantage is not available to small countries.

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So, the larger the country's domestic economy, the less dependent it tends to be on exports and imports relative to its GDP. Intertwining of economies by the process of specialization due to international trade leads to job creation in both exporting and importing countries.

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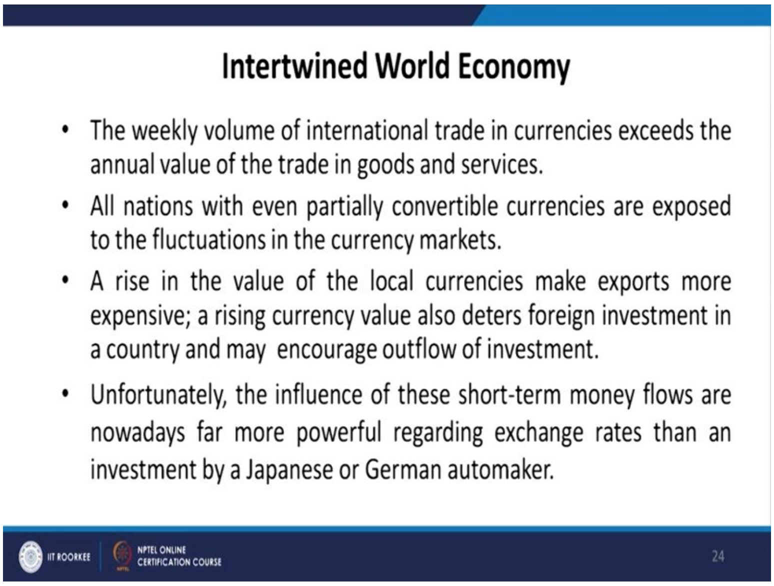

Now, see the amount of international trade in currency, the weekly volume of international trade in currencies exceed the annual value of trade in goods and services. All nation with even partially convertible currencies are exposed to the fluctuation in the currency market. A rise in the value of local currency made makes export more expensive. And therefore, the exports reduces.

The rising currency value also determine foreign investments in a country and may encourage outflow of investments. Unfortunately, the influence of these short-term money flows are nowadays far more powerful regarding exchange rates than an investment by Japanese or a German auto maker. Now, what is country competitiveness? Now, we have seen that the more the country is competitive; we have seen that, when we were talking about the net result of these factors, we have seen that this these factors results in increased competitiveness.

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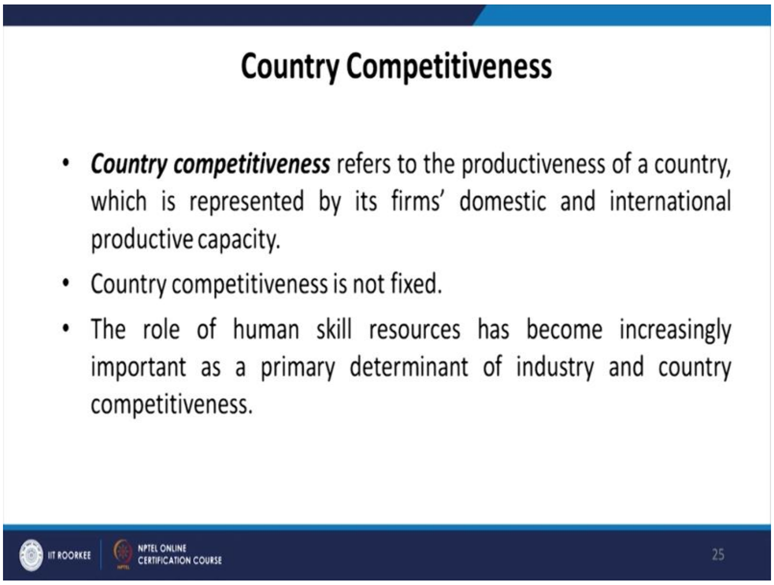

Now, let us see what is country competitiveness. It refers to the productiveness of a country which is represented by its firm's domestic and international productive capacity. And this country competitiveness is not fixed. The role of human skill resources has become increasingly important as a primary determinant of industry and country competitiveness.

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Next, we will see the stages in market development. World Bank has defined 4 categories of development using Gross National Income. Now, what is Gross National Income? Like Gross

Domestic Product, Gross National Income is a measure of county's income. Whereas GDP only counts income received from domestic sources, Gross National Income includes net income received from abroad.

Although the income definition for each of the stages is arbitrary, countries within a given category generally have a number of characteristics in common. Thus, the stages provide a useful basis for global market segmentation and target marketing. So, the idea of understanding the stages of market development is that we are able to identify how to go about making our marketing strategy, how to go about doing segmentation and targeting.

Now, this, these stages of market development are on the basis of income. Then, there are BEMs, the, which means Big Emerging Markets, identified 10 years ago, where countries in Central Europe, Latin America, and Asia, that were to have rapid economic growth. Today, the focus is on BRIC. That is, Brazil, Russia, India and China. BRIC nations are expected to be the key players in global trade. Even as they track record on human rights, environment protection and other issues are scrutinized by their trading partners.

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The BRIC government leaders also come under pressure at home as their developing market economy economies create greater income disparity. Microsoft example illustrates the nature of the market opportunities in these countries. In the financial year 2008, the software giant's collective revenues from BRICs grew 54% compared with overall global revenue growth of 18%.

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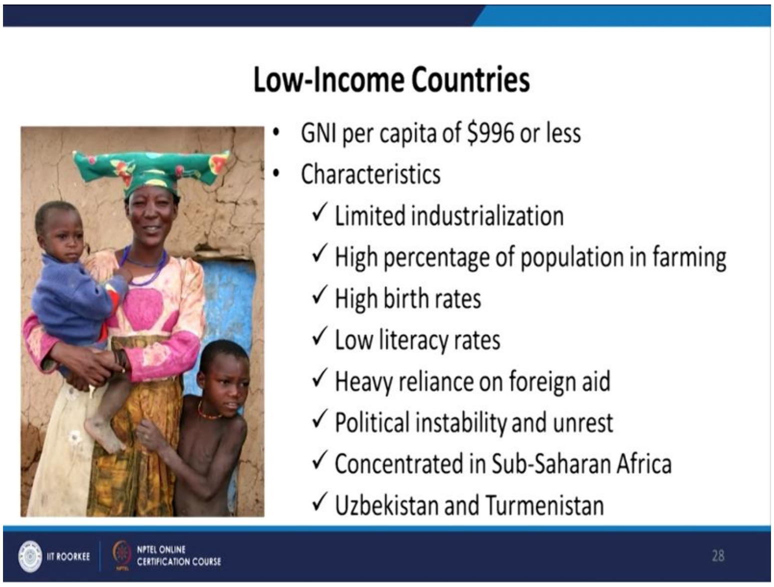

Now, let us see the various stages of market development. The first is low-income countries. GNI, Gross National Income, per capita of $996 or less. The characteristics of these kind of countries are: they have very limited industrialization; high percentage of population is involved in farming; high birth rate; low literacy rate; they have a heavy reliance on foreign aid; political instability and unrest; these countries are concentrated in Sub-Saharan Africa; Uzbekistan and Turkmenistan. Next comes low-middle-income countries. In these countries, the Gross National Income per capita is $996 to $3,945.

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So, all those countries that have a GNI per capita between $996 to 3,945, they are coupled together and they are called as lower-middle-income countries. The characteristics are, they are rapidly expanding consumer markets. The labor is cheap. Mature, standardized, labor-intensive industries like footwear, textile and toys. Now, these are called as mature and standardized because there is lot of competition in this in these kind of industries across the world.

And therefore, cheap labor is 1 advantage that the companies can get in terms of cost. Another category of countries is upper-middle-income countries. In these countries, Gross National Income per capita is between $3,946 to $12,195.

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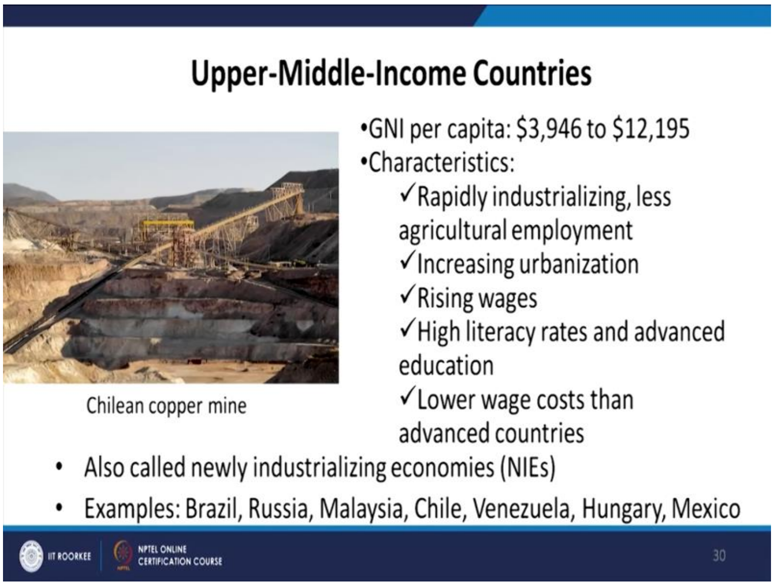

The characteristics of these countries are, they are rapidly industrializing and their employment is less based on agriculture, but it comes more from manufacturing. There is increasing urbanization; wages are rising in these kind of countries; high literacy rate and advanced education; lower wage costs than advanced countries; also called newly industrialized economies, that is NIEs; examples are, Brazil, Russia, Malaysia, Chile, Venezuela, Hungary and Mexico.

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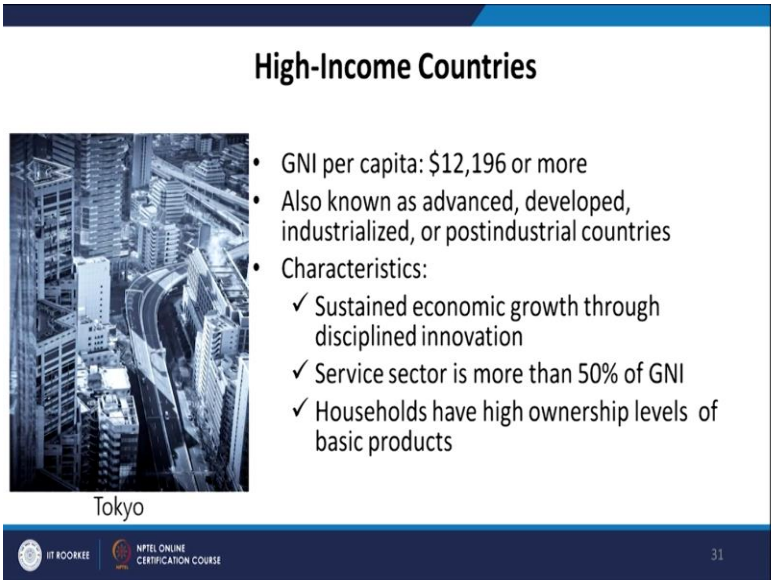

Then there are high-income countries. In high-income countries, the Gross National Income per capita is more than $12,196. They are also known as advanced developed industrialized or post-industrial countries. Their characteristics as you can see from the picture on the left, Tokyo, this is a picture of Tokyo. So, the characteristics are: sustained economic growth through disciplined innovation; service sector contributes more than 50% of the Gross National Income; households have high ownership levels of basic products. Other characteristics of these high-income countries are that;

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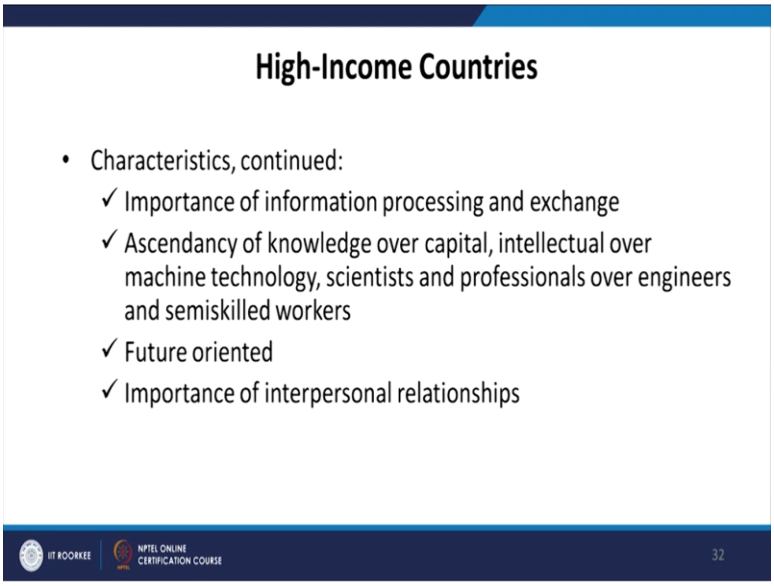

Their importance of information processing and exchange. So, these countries, they give much more importance, they place much for importance on information processing and exchange. And they have, they give more importance to knowledge over capital, intellectual over machine, intellect over machine technology, scientists and professionals over engineers and semi-skilled workers.

They are future oriented and importance of interpersonal relationship is more important in these countries. With this, we end the module 3 of this section, that is the Global Economic Environment. In the next module that again we will talk about the Global Economic Environment and we will talk about the evolution of various cooperative trading arrangements.