Global Marketing

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Chapter 5

Integrating Global, Regional and National Markets

Entering markets different modes

governamental protectionist policies

Regionalism or globalism?

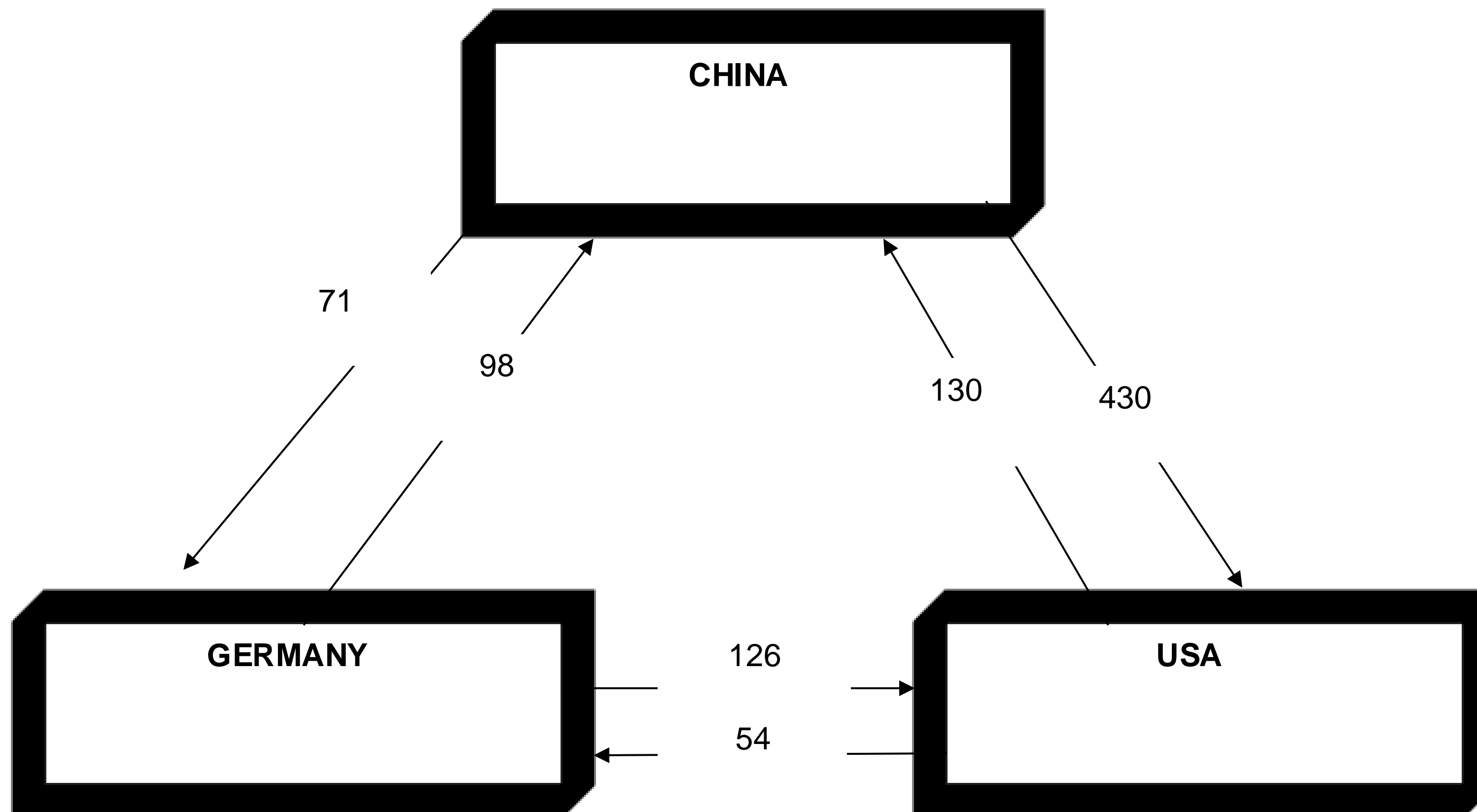
- A **global trade agreement** would allow many countries to enjoy trade with each other free from most restrictions.
- A **regional trade agreement** lowers trade barriers among members without having to lower barriers for non-members.
- Trading blocs have resulted in a **concentration of trade within regions** rather than globally.
- The formation of regional blocs also influences **market entry**:
  - Preferential trading terms reduce the cost of exporting to member country markets.
  - The costs of serving multiple countries within a trading bloc may differ depending on the base of operations. Strategically locating in one country can lead to greater efficiencies than investing in another country outside of the bloc.
  - It may be easier to harmonize marketing standards on a regional level than globally.

Regional trade

- Foreign trade flows are concentrated in developed countries, especially by the **Triad Nations**: China, The United States, and Germany.
- **Much of world trade** increasingly occurs within regions and between three major economic areas: **North America(Including Mexico), Asia, and Europe**.
- Ample evidence that a **regional rather than global strategy prevails** among countries and businesses:
  - **Triad and regional trade are dominant**, e.g. 66 percent of EU member’s exports and imports (intra-trade) are to other EU countries.
  - **Most multinational corporations pursue regional, not global strategies**, e.g. approximately 88 percent of all cars manufactured in Europe are sold in Europe, while 65 percent of all cars manufactured in North America are sold in North America.
  - Intra-EU exports of large home appliances (washing machines, dishwashers, refrigerators, etc.) comprise 75% of total exports of these items.

Merchandise trade in the Triad *(USD Billions, 2019)*

These nations, including Japan and the Netherlands (the top five) accounted for 38% of all world trade . Moreover, intra-Triad trade (trade only between the three Triad countries), accounts for about 15% of world trade



Source: International Trade Statistics

The world's largest merchandise exporters and importers *(USD Trillions, 2022)*

In 2022, world biggest exporters were
China ($3.73T),
United States ($1.95T),
Germany ($1.6T),
Japan ($728B),
South Korea ($705B)

and world biggest importers were
United States ($3.12T),
China ($2.16T),
Germany ($1.49T),
Japan ($819B),
France ($799B).

Source: World Trade Organization

Regional Economic Blocs – Integration Versus Disintegration

- Establishment of integrated economies such as the European Union, NAFTA (North American Free Trade Agreement) and Mercosur (Common Market of south America), so-called **"single markets"**.
- These "single markets" have provided the framework through which firms, including manufacturers, distributors and service providers **act under a new set of rules**: those of the **economic region in addition to those of the nation state**.
- **Regional trading blocs such as the EU, NAFTA and Mercosur were established to liberalize trade** between countries and facilitate the flows of goods, services, investment and communication.

Forms of cooperative agreements

- There are **three main forms of cooperative agreements:**
  - Free-Trade areas (between two or more countries)
  - Customs Unions
  - Common Markets

Free-trade areas (FTA)

- Free Trade Areas (FTAs) are arrangements done to **reduce or eliminate tariffs and non-tariff barriers on goods among member countries**.
- However, each country continues its normal trade policies with other countries, determining the extent of its **external tariffs with non-member countries outside of the FTA agreement**
- There are many ***bilateral*** (two countries) **and multi-lateral** (more than two countries) **FTAs *agreements:***
  - Examples of bilateral agreements: between the USA and Israel and the USA and South Korea.
  - Examples of multi-lateral agreements:
    - the **European Free Trade Area – EFTA** (Iceland, Liechtenstein, Norway and Switzerland) includes those countries that did not opt to join the EU since its inception;
    - the **North American Free Trade Agreement (NAFTA)**, signed between the US, Canada and Mexico in 1994.

Countries with which EFTA has concluded an FTA agreement

In 1994 the EU and EFTA established the European Economic Area (EEA) thereby creating a European Single Market. While not members of the EU, EFTA countries (**Iceland, Liechtenstein, Norway and Switzerland**) have **free movement of goods, capital, services and people**, **but without a common monetary and agricultural policy or the same social welfare policies as the EU**.

Bexit and EEA

- The United Kingdom (UK) ceased to be a Contracting Party to the EEA Agreement after its withdrawal from the EU on 31 January 2020
- The EEA EFTA States and the UK signed a Separation Agreement on the 28 January 2020
- All EFTA States are engaging in bilateral dialogue with the UK with the aim to maintain close economic and trade relations after the country has left the EU. Discussions with the UK on the implications of its withdrawal from the EU for EEA EFTA-UK relations were launched in the immediate aftermath of the Brexit referendum.

Customs Unions

- **Customs union** = **FTA + A common external tariff**

- There are a number of customs union trade blocs; examples include the **Eurasian Customs Union** (Russia, Belarus and Kazakhstan); the **East African Community** (Kenya, Uganda, Tanzania, Burundi, and Rwanda) and the **Southern African Customs Union** (South Africa, Botswana, Lesotho, Namibia and Swaziland).

Common Markets

- **Common market = FTA + Customs union + free movement of people and capital.**
- The largest of the common markets is the **European Union** (28 members- 27 without UK), established as the European Economic Community in 1958 with six member countries.
- **The EU has two additional goals**: the establishment of a monetary and political union.

Monetary Union in the EU

- A monetary union requires at least **a common currency and a central bank**.
- Eleven countries of the EU – Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Portugal and Spain – initially qualified to participate in the monetary union. This required them to adhere to criteria established by the **Maastricht Treaty regarding price stability, public finance (especially government deficits), interest and exchange rates**.
- Following this initial agreement, a **European Central Bank began functioning in 1998** and a **Euro area in 1999**. Euro notes and coins were introduced in 2002, replacing national ones.
- **Of the EU 28 members, 18 adopted the Euro** in addition to six non-EU members: Andorra, Kosovo, Monaco, Montenegro, San Marino and Vatican City.

Political Union in the EU

- A final stage in the integration of countries belonging to a trade bloc is political union. While this stage is included in the Maastricht Treaty, it is far from fruition.
- **Political union means giving up some if not all national sovereignty to the union, which many countries are unwilling to do, especially the UK, Germany and France.**
- Some forms of political cooperation are possible, such as a common defense (NATO) and foreign policy. However, formal political union remains a distant goal to be achieved.
- **Ireland and the UK do not participate in the Schengen Agreement**, which eliminates internal EU border checks.

NAFTA and the EU (2022)

	INTRA-TRADE VOLUME	INTRA-TRADE SHARE (%)	REGIONAL GDP	REGIONAL GDP SHARE (%)
EU	4.25 trillion euros	63.0	€15.9 trillion	14,5
NAFTA	$1.5 trillion dollars	44,0	$29.08 trillion	28,1

Intra-Trade Volume = Trade volume between member countries.

Intra-Trade Share = Trade within the bloc/total trade volume of member countries.

Regional GDP = Sum of the GDP of members.

Regional GDP Share = GDP of member countries/world GDP.

Sources: https://wto.org/english/review/statis/;www.data.worldbank.org

Trade Agreement examples

Organization	Members
Association Of Southeast Asian Countries (ASEAN)	Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, Vietnam
East African Community (EAC)	Burundi, Kenya, Rwanda, Tanzania, Uganda
Gulf Cooperation Council (GCC)	Bahrain, Kuwait, Oman, Saudi Arabia, United Arab Emirates
Southern Common Market (MERCOSUR)	Argentina, Brazil, Guatemala, Paraguay, Uruguay
Central American-Dominican Republic Free Trade Agrement (CAFTA-DR)	Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, Nicaragua, United States

MERCOSUR

- South America's largest trading bloc with a combined GDP of USD 1.1 trillion
- Combined market encompasses more than 250 million people and accounts for more than three-quarters of the economic activity on the continent
- MERCOSUR tariff policies regulate imports and exports and the bloc can arbitrate trade disputes among its members.

EAST AFRICAN COMMUNITY (EAC)

- Combined population of 120 million people, land area of 1.85 million square kilometers and a combined gross domestic product of USD 41 billion
- Working to form a common market and a monetary union; and ultimately a Political Federation of the East African States
- The rules of the community and trade issues are handled by a legislative assembly and court of justice.

ASSOCIATION OF SOUTH-EAST ASIAN NATIONS (ASEANS)

- Population of about 560 million, and a combined gross domestic product of USD 1,100 billion
- Objective is to create a stable, prosperous and highly competitive economic region with a free flow of goods, services, skilled labor, investment and capital

GULF COOPERATION COUNCIL (GCC)

- Both a customs union and a common market, allowing for the free movement of goods, capital and people among member countries
- Members have some of the fastest growing economies in the world, mostly due to oil and natural gas revenues along with a building and investment boom financed by decades of accumulated petroleum revenues.
- Economic and technical cooperation agreement with the EU, in the fields of energy, industry, agriculture, fisheries, and science

CENTRAL AMERICAN-DOMINICAN REPUBLIC FREE TRADE AGREEMENT (CAFTA-DR)

- The free trade agreement eliminated tariffs on more than 80% of US exports. Total trade between the United States and CAFTA members amounted to USD 60 billion in 2013.

TRANS-PACIFIC PARTNERSHIP (TPP)

- The TPP was designed to widen the NAFTA agreement to include a total of 12 countries: Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the United States, and Vietnam.
- Heads of governments signed the agreement in 2016, but the United States withdrew the next year. It would have been the world's largest trade agreement.

CHINA BELT AND ROAD INITIATIVE, 2015

- The Belt and Road Initiative is a global development strategy intended to reopen trade channels between China and Central Asia, the Middle East, and Europe. Reminiscent of the third-century Silk Road, the new plan aims to provide a major trade link between east and west, including Central Asia, the Middle East, and Europe.
- China is expected to provide infrastructure loans as much as USD 8 trillion to 68 countries situated along the routes, becoming the biggest infrastructure project in history. **China's gains are apparent—economic benefits for Chinese companies in transport, construction, telecom, and heavy industry such as steel and equipment.** Other countries would benefit from increased trade and investment as well as sub-contracting.
- Not all countries are supportive, including India and both North and South Korea. European countries have not expressed much interest.

Free versus Fair Trade

- **Fair trade is an approach to international commerce** that aims to ensure that producers in developing countries receive:
  - a fair price for goods and services,
  - decent working conditions,
  - a commitment from buyers; security for sellers
- There are a number of non-governmental organizations (NGOs) that aim to promote fair trade, including The Fairtrade Foundation (www.fairtrade.org.uk), Oxfam International (www.oxfam.org), Traidcraft (www.traidcraft.org.uk) and the International Fair Trade Association, (IFAT, www.ifoam.org/partners/partners/ifat.html).
- These organizations have defined fair trade as "an alternative approach to conventional international trade. It is a **trading partnership which aims at sustainable development for excluded and disadvantaged producers**. It seeks to do this by providing better trading conditions, by awareness raising and by campaigning".
- Global marketers should be aware of the **growing importance of these organizations**. Their market share has become significant in some countries. For example, 47% of all bananas, 28% of the flowers and 9% of the sugar sold in Switzerland are Fair Trade labeled.

Emerging Markets

- The General Agreement on Tariffs and Trade (GATT) defined developing countries as those having low standards of living, but it did not designate how low the living standard should be. The World Trade Organization leaves it up to countries to designate whether they are developed or developing.
- An emerging market country can be defined as a **society transitioning from a dictatorship to a free market-oriented economy**, with increasing economic freedom, gradual integration within the global marketplace, an expanding middle class, improving standards of living and social stability and tolerance, as well as an increase in cooperation with multilateral institutions.
- One determinant of an 'emerging market' is **economic reforms**
- If reforms are successfully implemented, emerging countries are more likely to receive aid from developed countries and from organizations such as the **World Bank** and the **International Monetary Fund**

BRIC Countries

- **Brazil, Russia, India, China**
  - Offer high consumer potential and that could overtake the economies of the developed world by 2050

- The **combined GDP of the BRIC countries could exceed that of the G6** (US, EU, Australia, Japan, India and China) **countries combined**. China especially is at the forefront of world economic development. All BRIC countries had experienced real GDP growth until the financial crisis of 2008-2009.

- *BRIC* countries are not only a **major source for manufacturing**, but also **consumers of basic products like food and clothing**, and **high technology products** as well. Consumer products have to be **adapted to local requirements** and be **priced to make them accessible** to a large number of people.

- BRIC countries has key **strengths and weaknesses**.

Strength and weaknesses of BRIC Countries

Country	Key Strengths	Key Weaknesses
Brazil	South America's leading economic power. Brazil is increasing investment in higher education. Abundant natural resources and a diversified economy.	GDP growth and consumer spending power is declining. More investment needed in the infrastructure.
Russia	Abundant natural resources and a skilled labor force.	The only BRIC country undergoing a population decline reducing the labor market and increasing the number of pensioners.

opportunities for incoming tourism e luxury (curiosity emulation and show off)
labor market

Strength and weaknesses of BRIC Countries

Country	Key Strengths	Key Weaknesses
China	Population GDP’s growth infrastucture	Economic slowdown Increasing Aging of population and workforce Social tensions pollution
India	27% of the population will be younger than 15 in 2020, an important future consumer market. Economic growth averaged about 8% since 2003. Large population of world-class competitive industries, IT competent workforce. Stable financial institutions and strong legal system.	Limited foreign investment, inadequate infrastructure. Inadequate domestic savings that could fuel investme

opportunities for incoming tourism e luxury (curiosity emulation and show off)
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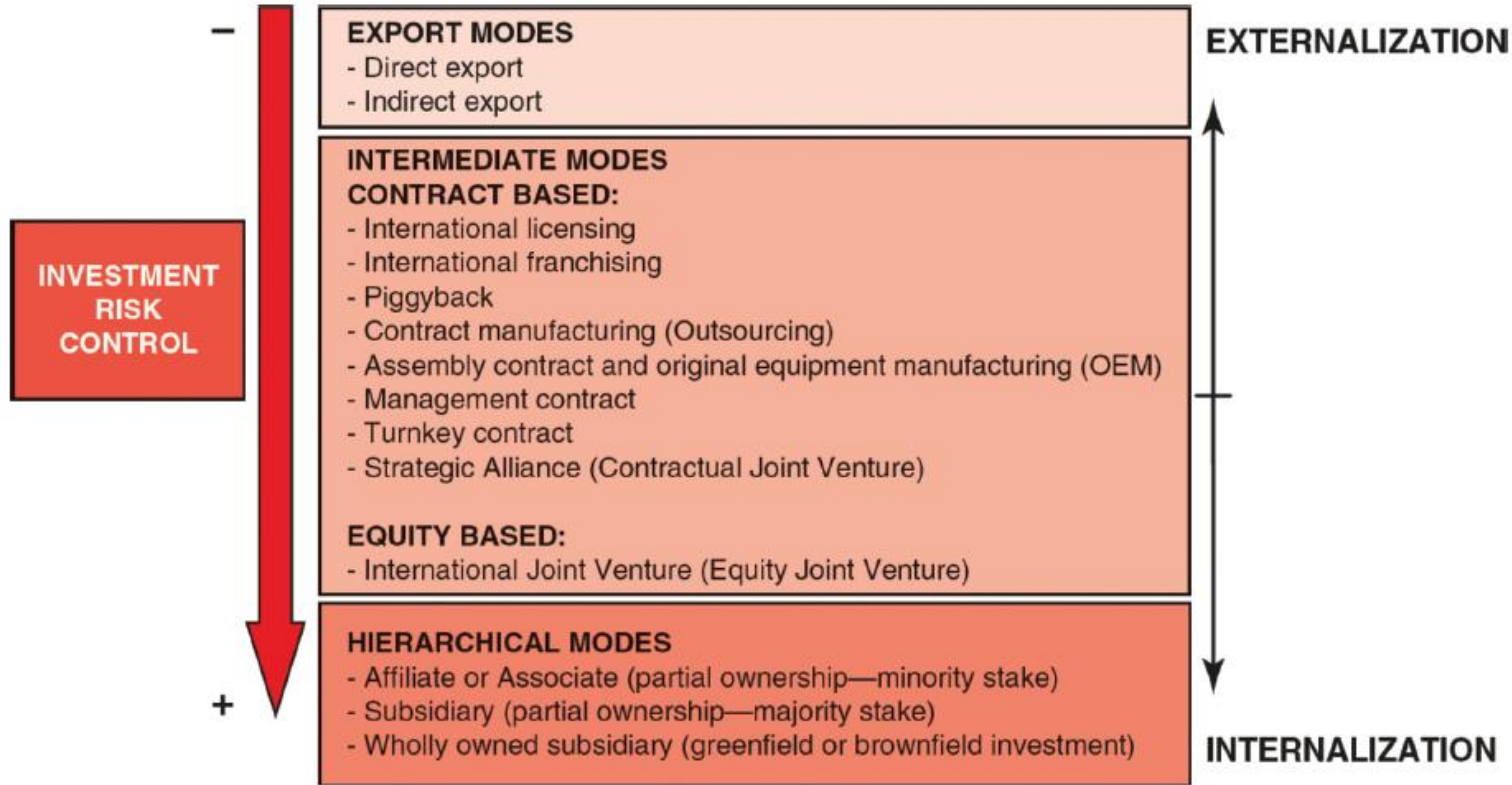
Investment, Risk, and Control Considerations in Selecting Entry Mode



Source: Compiled by authors.

Export modes

- Export is the **most common and low-risk method of entering overseas markets**, and it is also the one requiring the least financial, marketing and human resources, and time investments.
- For the above reasons, export is the **preferred mode of entry for most small and entrepreneurial businesses**. It is an especially well-suited method for **initial market tests** owing to the relative ease of pulling out of a market (high flexibility) if said market turns out to be unprofitable.
- Exportation has been favored by the diffusion of **internet**.
- Export is limited to actual physical products that are produced outside the target country market. By nature, **this mode of entry is unsuitable for service companies,** because they cannot perform/produce their services domestically and then ship them to another country.

Advantages and disadvantages of export-based modes

Advantages
Low risk
Easy market entry or exit
Low operational costs
Low investment
Local market knowledge acquisition
Disadvantages
Lack of market control
Inappropriate feedback from distributor
Tariffs and quotas
Transportation costs
Multiple export intermediaries
Possible distributor selection and relationship issues

Intermediary entry modes

- ***Contract-based:*** contract-based modes are ***non-equity agreements***, such that there is no investment in risky capital. These include the following different alternatives:
  - International Licensing
  - International Franchising
  - Piggyback
  - Contract Manufacturing or Outsourcing
  - Assembly Contract and OEM (Original Equipment Manufacturing)
  - Management Contract
  - Turnkey Contract
  - Strategic Alliances

- ***Equity-based:*** In equity-based agreements, **an organized entity is set up, with its social capital shared between partners.** These agreements are a form of Foreign Direct Investment (FDI), and they include minority joint ventures, 50/50 joint ventures, and majority joint ventures.

International licencing

- **International licensing is the process of transferring the rights of a firm's products to a foreign company for the purpose of producing or selling. For a set royalty fee, the licensor allows the licensee to use its technology, trademarks, patents, characters, and other intellectual property in order to gain presence in the markets covered by the licensee.**
- In some cases, the **company's core-products are licensed**, and the **technology** directly necessary for producing the product is provided, often at lower costs and, if necessary, the product is adapted to local demands.
- However, companies do adopt strategies that allow reducing potential drawbacks associated with sharing their **intellectual property**.
- In other cases, if the **innovative technology** is required for manufacturing only part of the product, this part is directly assembled in the final product as produced by the licensee, without requiring the licensor to transfer the related knowledge.
- The international expansion of **famous brands** has been often based on the use of licensing contracts. Also **well-known people or movie characters**, who are employed for launching new products or collections in different industries, can benefit of licencing.

International Licensing: advantages and disadvantages for licensor

Advantages
Royalties
Bypassing regulations and tariffs
Limited investment in the foreign market
Fast market access
Risk is mainly taken by the licensee
Licensor can gain local market knowledge from the licensee
Licensor can use the licensee’s distribution network
Licensee can suggest marketing adaptations for the local market
Licensor can profit from a mature technology
Disadvantages
Licensee acquires technological and marketing skills from the licensor and can become a future competitor
Intellectual property concerns
Licensee is an independent entrepreneur: risk of limited control over market and revenues for the licensor
Brand image not homogeneous across countries

Source: Compiled by authors.

International franchising

- **Under international franchising, the company (franchisor) enters a foreign market by giving to a foreign independent company (*franchisee*) the right to operate its business.**
- In comparison with licensing, international franchising gives the franchisor greater control over the franchisee licensing the **franchisor company's trademarks, products and/or services, and production and/or operation processes**.
- Control is exerted through the franchise fee, which can be expropriated if contracts are not adhered to, and by elaborating contracts that govern the relationship between the franchisor and the franchisees. On the flip side, the franchisor is also required to provide more materials, training, and other forms of support to the franchisee.
- A well-functioning franchise provides a **win-win arrangement for both parties**: the franchisor gets to expand into new markets with little or no risk and investment, while the franchisee gets a proven brand, marketing exposure, an established client base, and management expertise to help it succeed.
- International franchising can **support the production systems of global companies**. For example, Coca-Cola is the world's largest beverage company, producing and distributing via local franchisees in more than 200 countries.
- Franchising is **growing in emerging countries.**

International Franchising: advantages and disadvantages for franchisor

Advantages
Royalties
Relatively quick development of a store chain
Risk is mainly borne by the franchisee
Investment is mainly made by the franchisee
Greater control than the export modes
Rapid increase in brand awareness within the country and in different foreign countries
Franchisor can gain local market knowledge from the franchisee
Franchisee can suggest marketing adaptations for the local market
Economies of scale in production
Disadvantages
In some countries, the legal system is not stable
Identification of a good franchisee is often not easy and time consuming
Reliability of the relationships with franchisees/potential franchisees
High investments to identify the best adaptation of the franchising format in each foreign country
Limited control over market and revenues

Source: Compiled by author.

Piggyback

“Piggyback” refers to being carried by someone. This kind of agreement stipulates that. **the company (rider) gets international by inserting its own products in the product portfolio, and, consequently, in the distribution system of another company (carrier), that sells complementary products in the foreign market**.

- The carrier may be localized in the export market (**direct piggyback**) or in the domestic market (**indirect piggyback**)
- In some cases, **indirect piggyback may be realized between companies from the same country**. In this case, though, the rider does not develop any form of international culture because this is a simple business-to-business sale to a company from its own country.
- Piggyback is an interesting choice for **small and medium-sized companies** operating within high-quality product niches.
- Piggyback allows for **maintaining distinction and control over the distribution channel** in which the product is inserted.

International Joint ventures

- **Equity-based IJVs are a form of Foreign Direct Investment (FDI) when two or more companies agree to share ownership of a third commercial entity and collaborate in the production of its goods or services to pursue a common goal**. Differently from Strategic Alliances (Contractual JVs), where the operations in foreign market are based on a contract, in International Equity JVs **two or more parent companies create a third new company** in the foreign market of entry
- The result for the company that enters a foreign market can be
  - a **minority joint venture** (less than 50 percent of the shares),
  - a **50/50 joint venture**,
  - or a **majority joint venture** (more than 50 percent of the shares).
- IJVs are attractive to businesses because of their **shared risk, shared knowledge and expertise**, and the potential for **synergy and competitive advantage in the global marketplace** .
- IJVs can take **many different forms**:
  - Two or more companies from the same country form an alliance to enter another country
  - An overseas company joins a local company to enter the local company's domestic market
  - Firms from two or more countries band together in a JV formed in a third country
  - A foreign private business and a government agree to join forces to pursue mutual interests
  - A foreign private firm enters into a JV with a government-owned firm to enter into a third national market
- A JV can involve companies of the same sector (**horizontal JV**) or different sectors (**vertical JV**)

Types of Foreign Direct Investments

- **Representative office**: it is an office usually established to support marketing and service activities for the company's exports. This office only "represents" the parent company but it cannot buy and sell goods or services.

- **Branch**: it can carry out a much broader range of activities such as selling goods and signing contracts. A branch should not be confused with a sales subsidiary. In fact, the branch is not a separate legal entity of the parent corporation.

- **Sales subsidiary - sales and production subsidiary**: it is a society with its own juridical personality, separate from the parent company, and it may operate as an importer as well as manage the distribution and sales activity for the parent company in the foreign country. A subsidiary can be constituted as any type of separate legal entity based on the laws of the foreign country of entry, with its own income, liabilities, and local taxation.

Factors that influence mode of entry decision process

- Internal factors
  - Financial resources
  - Human resources
  - Type of product and/or service
  - Time horizons
  - Risk tolerance
  - Company value chain

- External factors
  - Market
  - Consumer factors
  - Competitive environment
  - Production conditions
  - Environmental conditions

Factors that influence mode of entry decision process

- **Market entry is not static**, and entry modes may have to be restructured as environmental conditions change.
- **The choice of the entry mode is not always sequential**, as hypothesized in the Uppsala model.
- In many cases, the company may choose **more than one entry mode given the complexity of the market and the multiplicity of targets**.
- It is even possible to talk about **hybrid entry modes**, including JVs associated with distribution contracts, own-property stores, or franchising managed by subsidiaries.
- **Born global firms** follow different internationalization patterns.