PART TWO

THE GLOBAL MARKETING ENVIRONMENT

2 The Global Economic Environment

LEARNING OBJECTIVES

2-1 Identify and briefly explain the major changes in the world economy that have occurred during the past 100 years.

2-2 Compare and contrast the main types of economic systems that are found in different regions of the world.

2-3 Explain the categories of economic development used by the World Bank, and identify the key emerging country markets at each stage of development.

2-4 Discuss the significance of balance of payments statistics for the world's major economies.

2-5 Identify world leaders in merchandise and services trade, and explain how currency exchange rates impact a company's opportunities in different parts of the world.

CASE 2-1

India's Economy at the Crossroads: Can Prime Minister Narendra Modi Deliver *Acche Din*?

During the global recession crisis years from 2008 to 2012, India's economy was in dismal shape. Average annual economic growth was stalled at about 4 percent, inflation was running in double digits, and foreign companies were being blindsided by substantial tax bills. Prime Minister Manmohan Singh and Finance Minister Pranab Mukherjee lacked the capacity to tame inflation, secure financing for much-needed infrastructure improvements, or deliver wheat and rice to India's poor. In short, the economic policies of the ruling Congress Party were ineffective.

Today, India's economy is a combination of good news and bad news. The good news: For several years, India was the world's fastest-growing large economy, posting annual gross domestic product (GDP) increases ranging from 7 percent to 8 percent. By 2017, however, as India commemorated the 70th anniversary of its independence from Great Britain, growth had slowed. Meanwhile, other macroeconomic issues continue to loom large. For one thing, the Indian economy isn't creating enough jobs to absorb the 1 million Indians who enter the job market each month. In addition, as capital expenditures have fallen, so has consumer confidence.

Narendra Modi, the Bharatiya Janata Party's (BJP) candidate, was elected prime minister in 2014. He immediately launched a number of modernization initiatives, including one titled "Make in India" (see Exhibit 2-1). During his first two years in office, Modi loosened investment restrictions and embarked on a global public relations tour to reach out to foreign investors. His efforts paid off. Between March 31, 2015, and March 31, 2016, foreign direct investment (FDI) in India totaled $40 billion, a 29 percent increase compared with the year ended March 31, 2014.

Exhibit 2-1 Shortly after taking office in May 2014, Indian Prime Minister Narendra Modi launched an initiative to attract more foreign manufacturing to his country. Manufacturing currently accounts for only 16 percent of India's economic output; the government is intent on increasing that figure to 25 percent. To reach that goal, India plans to create 100 million new jobs by 2022.

Source: Partha Sarkar/Xinhua/Alamy.

Despite such progress, Modi faces the daunting task of working with opposition politicians who are blocking his attempts at economic reform. For example, Modi was forced to drop a key piece of legislation that would have made it easier for companies to acquire land for greenfield investment. The measure was tabled after negative publicity and opposition from rural voters. Some observers assert that the prime minster still needs to deliver some additional "Big Bang" liberalization measures to further renew India's economy.

Will Modi be able to make good on his campaign pledges and deliver real economic reform? Or, in the end, will his efforts just amount to lots of talk and very little action? Case 2-1 describes the challenges facing India today and Modi's efforts to jump-start the economy. (When you are done reading the chapter, study the case and answer the discussion questions.) Needless to say, the current state of India's economy has created both challenges and opportunities for global marketers.

The situation in India illustrates vividly the dynamic, integrated nature of today's economic environment. Recall the basic definition of a market: people or organizations with needs and wants and the willingness and ability to buy or sell. As noted in Chapter 1, many companies engage in global marketing in an effort to reach new customers outside their home countries and thereby increase sales, profits, and market share. Brazil, Russia, India, China, and South Africa deserve special mention; collectively referred to as BRICS, these five country markets are especially dynamic and represent important opportunities.[1] The BRICS nations and other emerging markets are also nurturing companies that are challenging established global giants at home and abroad.

This chapter identifies the most salient characteristics of the world economic environment, starting with an overview of the world economy. We then present a survey of economic system types, a discussion of the stages of market development, and an explanation of the concept known as balance of payments. Foreign exchange is discussed in the final section of the chapter. Throughout the chapter, we consider the implications of the recent worldwide economic downturn on global marketing strategies.

2-1 The World Economy—Overview of Major Changes

2-1 Identify and briefly explain the major changes in the world economy that have occurred during the past 100 years.

The world economy has changed profoundly since the end of World War II.[2] Perhaps the most fundamental change is the emergence of global markets: Responding to new opportunities, global competitors have steadily displaced or absorbed local competitors in many markets. Concurrently, the integration of the world economy has increased significantly. Economic integration stood at 10 percent at the beginning of the twentieth century; today, it is approximately 50 percent. Integration is particularly striking in the European Union (EU) and the North American Free Trade Area (NAFTA). However, as noted in the last chapter, protectionism and nationalism are emerging forces in some countries that may slow the pace further integration.

Just 75 years ago, the world was far less integrated than it is today. As evidence of the changes that have taken place, consider the automobile. Cars with European nameplates such as Renault, Citroën, Peugeot, Morris, Volvo, and others were once radically different from the American cars from Chevrolet, Ford, or Plymouth or the Japanese models from Toyota or Nissan. They were local cars built by local companies using local supply chains, mostly destined for local or regional markets. Even today, global and regional auto companies make cars for their home-country car buyers that are not marketed abroad.

For automakers BMW, Ford, Honda, Hyundai, Kia, and Toyota, however, the global car has become a reality. The changes in their products reflect organizational changes as well. The world's largest automakers have, for the most part, evolved into global companies. Supply chains now stretch around the globe. Ford is a case in point: In 2008, the company unveiled an updated version of the Fiesta that is being marketed throughout the world. As Mark Fields, an executive vice president at Ford, explained, "We've had cars with the same name, like Escort and Focus, but the products themselves were very regional. This is a real shift point for us in that it's a real global car."[3]

During the past two decades, the world economic environment has become increasingly dynamic; change has been dramatic and far-reaching. To achieve success, executives and marketers must take into account the following new realities:[4]

Capital movements have replaced trade as the driving force of the world economy.

Production has become "uncoupled" from employment.

The world economy dominates the scene; individual country economies play a subordinate role.

The 100-year struggle between capitalism and socialism that began in 1917 is largely over.

The growth of e-commerce diminishes the importance of national barriers and forces companies to reevaluate their business models.

The first change is the increased volume of capital movements. The dollar value of world trade in goods was \$16.5 trillion in 2015. However, the Bank for International Settlements has calculated that foreign exchange transactions worth approximately \$5 trillion are booked *every day*. This works out to more than \$1 quadrillion annually, a figure that far surpasses the dollar value of world trade in goods and services.[5] An inescapable conclusion resides in these data: Global capital movements far exceed the dollar volume of global trade. In other words, *currency trading represents the world's largest market.*

The second change concerns the relationship between productivity and employment. To illustrate this relationship, it is necessary to review some basic macroeconomics. **Gross domestic product (GDP)**, a measure of a nation's economic activity, is calculated by adding consumer spending (C), investment spending (I), government purchases (G), and net exports (NX):

$$\text{GDP} = C + I + G + NX$$

Economic growth, as measured by GDP, reflects increases in a nation's productivity. Until the economic crisis of the late 2000s, employment in manufacturing had remained steady or declined while productivity continued to grow. Employment rates declined in countries where a bubble economy of misallocated resources in housing and real estate collapsed. In the United States, manufacturing's share of GDP declined from 19.2 percent in 1989 to 13 percent in 2009.[6] In 2011, approximately 9 percent of the U.S. workforce was employed in manufacturing; in 1971, that figure had been 26 percent. During that 40-year period, productivity increased dramatically.

Similar trends can be found in many other major industrial economies. In the United Kingdom, for example, manufacturing accounts for only 8 percent of the country's total employment, compared with 24 percent in 1980.[7] Manufacturing represents only 10 percent of the U.K. economy; key sectors include automobiles, aerospace, and pharmaceuticals. One recent study of 20 large economies found that between 1995 and 2002, more than 22 million factory jobs were eliminated. Manufacturing is not in decline; rather, it is *employment* in manufacturing that is in decline.[8] Creating new job opportunities is one of the most important tasks facing policymakers today.

The third major change in the world economic environment is the emergence of the world economy as the dominant economic unit. Company executives and national leaders who recognize this reality have the greatest chance of success. For example, the real secret of the economic success of Germany and Japan is the fact that business leaders and policymakers focus on world markets and their respective countries' competitive positions in that world economy. This change has brought two questions to the fore: How does the global economy work, and who is in charge? Unfortunately, the answers to these questions are not clear-cut.

The fourth change is the end of the Cold War. The demise of communism as an economic and political system can be explained in a straightforward manner: Communism is not an effective economic system. The overwhelmingly superior performance of the world's market economies has given leaders in socialist countries little choice but to renounce their ideology. A key policy change in such countries has been the abandonment of futile attempts to manage national economies with a single central plan. This policy change frequently goes hand in hand with governmental efforts to foster increased public participation in matters of state by introducing democratic reforms.

"Only an outbreak of protectionist policies or a sharp rise in international shipping costs could slow or temporarily reverse manufacturing's declining share of employment in the United States."[9]

Steven J. Davis, Professor of Economics, University of Chicago

Finally, the personal computer revolution and the advent of the Internet era have in some ways diminished the importance of national boundaries. Worldwide, an estimated 1 billion people use personal computers. In the so-called Information Age, barriers of time and place have been subverted by a transnational cyberworld that functions "24/7." Alibaba, Amazon.com, eBay, Facebook, Google, Instagram, Netflix, Snapchat, Spotify, Twitter, and YouTube are just a sampling of the companies that are pushing the envelope in this Web 3.0 world.

2-2 Economic Systems

2-2 Compare and contrast the main types of economic systems that are found in different regions of the world.

Traditionally, economists identified four main types of economic systems: market capitalism, centrally planned socialism, centrally planned capitalism, and market socialism. As shown in Figure 2-1, this classification was based on the dominant method of resource allocation (market versus command) and the dominant form of resource ownership (private versus state). Thanks to globalization, however, economic systems are harder to categorize within the confines of a four-cell matrix. More robust, descriptive criteria include the following:[10]

Type of economy. Is the nation an advanced industrial state, an emerging economy, a transition economy, or a developing nation?

Type of government. Is the nation ruled by a monarchy, a dictatorship, or a tyrant? Is there an autocratic, one-party system? Is the nation dominated by another state, or is it a democracy with a multiparty system? Is it an unstable or terrorist nation?

Trade and capital flows. Is the nation characterized by almost completely free trade or incomplete free trade, and is it part of a trading bloc? Is there a currency board, or are there exchange controls? Is there no trade, or does the government dominate trade possibilities?

FIGURE 2-1 Economic Systems

Resource Ownership		Resource Allocation: Market	Resource Allocation: Command
	Private	Market capitalism	Centrally planned capitalism
	State	Market socialism	Centrally planned socialism

The commanding heights. Are these sectors (e.g., the transportation, communications, and energy sectors) state owned and operated? Is there a mix of state and private ownership? Are they all private, with or without controlled prices?

Services provided by the state and funded through taxes. Are pensions, health care, and education provided? Pensions and education but not health care? Do privatized systems dominate?

Institutions. Is the nation characterized by transparency, standards, the absence of corruption, and the presence of a free press and strong courts? Or is corruption a fact of life and the press controlled by the government? Are standards ignored and the court system compromised?

Markets. Does the nation have a free market system characterized by high-risk/high-reward entrepreneurial dynamism? Is it a free market that is dominated by monopolies, cartels, and concentrated industries? Is it a socialized market with cooperation among business, government, and labor (but with little entrepreneurial support)? Or is planning, including price and wage controls, dominated by the government?

Market Capitalism

Market capitalism is an economic system in which individuals and firms allocate resources and production resources are privately owned. Simply put, consumers decide which goods they desire and firms determine what and how much of those goods to produce; the role of the state in market capitalism is to promote competition among firms and to ensure consumer protection. Today, market capitalism is widely practiced around the world, most notably in North America and the European Union (EU) (see Table 2-1).

It would be a gross oversimplification, however, to assume that all market-oriented economies function in an identical manner. Economist Paul Krugman has remarked that the United States is distinguished by its competitive, "wild free-for-all," and decentralized initiative. By contrast, outsiders sometimes refer to Japan as "Japan Inc." This label can be interpreted in different ways, but it basically refers to a tightly run, highly regulated economic system that is also market oriented.

Centrally Planned Socialism

At the opposite end of the spectrum from market capitalism is **centrally planned socialism**. In this type of economic system, the state has broad powers to serve the public interest as it sees fit. State planners make "top-down" decisions about which goods and services are produced and in which quantities; consumers can spend their money on what is available. Government ownership of entire industries as well as individual enterprises is characteristic of centrally planned socialism. Because demand typically exceeds supply in this model, the elements of the marketing mix are not used as strategic variables.[11] Little reliance is placed on product differentiation, advertising, or promotion; to eliminate "exploitation" by intermediaries, the government also controls distribution.

The clear superiority of market capitalism in delivering the goods and services that people need and want has led to its adoption in many formerly socialist countries. Thus, the socialist

TABLE 2-1 Western Market Systems

Type of System	Key Characteristics	Countries
Anglo-Saxon model	Private ownership; free enterprise economy; capitalism; minimal social safety net; highly flexible employment policies	United States, Canada, Great Britain
Social market economy model	Private ownership; "social partners" orientation that includes employer groups, unions, and banks; unions and corporations are involved in government, and vice versa; inflexible employment policies	Germany, France, Italy
Nordic model	Mix of state ownership and private ownership; high taxes; some market regulation; generous social safety net	Sweden, Norway

ideology, which was developed in the nineteenth century by Marx and perpetuated in the twentieth century by Lenin and others, has been resoundingly refuted. As William Greider wrote two decades ago:

> Marxism is utterly vanquished, if not yet entirely extinct, as an alternative economic system. Capitalism is triumphant. The ideological conflict first joined in the mid-nineteenth century in response to the rise of industrial capitalism, the deep argument that has preoccupied political imagination for 150 years, is ended.[13]

"Countries with planned economies have never been part of economic globalization. China's economy must become a market economy."[12]

Long Yongtu, chief WTO negotiator for China

For decades, the economies of China, the former Soviet Union, and India functioned according to the tenets of centrally planned socialism. Today, however, all three countries are engaged in economic reforms characterized, in varying proportions, by increased reliance on market resource allocation and private ownership. Even as China's leaders attempt to maintain control over society, they acknowledge the importance of economic reform. At a recent assembly, leaders of the Chinese Communist Party asserted that reform "is an inevitable road for invigorating the country's economy and promoting social progress, and a great pioneering undertaking without parallel in history."

Centrally Planned Capitalism and Market Socialism

In reality, market capitalism and centrally planned socialism do not exist in "pure" form. In most countries, to a greater or lesser degree, command and market resource allocation are practiced simultaneously, as are private and state resource ownership. The role of government in modern market economies varies widely. An economic system in which command resource allocation is utilized extensively in an overall environment of private resource ownership can be called **centrally planned capitalism**. A fourth variant, **market socialism**, is also possible in which market-allocation policies are permitted within an overall environment of state ownership.

In Sweden, for example, where the government controls two-thirds of all expenditures, resource allocation is more "voter" oriented than "market" oriented. Also, as indicated in Table 2-2, the Swedish government has significant holdings in key business sectors. Thus, Sweden's "welfare state" is based on a hybrid economic system that incorporates elements of both centrally planned socialism and capitalism. The Swedish government is embarking on a privatization plan that calls for selling its stakes in some of the businesses listed in Table 2-2.[14] For example, in 2008 Vin & Spirit was sold to France's Pernod Ricard for $8.34 billion.

As noted previously, China is an example of state-directed socialism. However, China's communist leadership has given considerable freedom to businesses and individuals in the Guangdong Province to operate within a market system. Today, China's private sector accounts for approximately 70 percent of national output. Even so, state enterprises still receive more than two-thirds of the credit available from the country's banks.

Market reforms and nascent capitalism in many parts of the world are creating opportunities for large-scale investments by global companies. Indeed, Coca-Cola returned to India in 1994, two decades after being forced out by the government. A new law allowing 100 percent foreign ownership of enterprises helped pave the way for Coke's renewed efforts in that country. By contrast, Cuba stands as one of the last bastions of the command allocation approach. Daniel Yergin and Joseph Stanislaw sum up the situation this way:

TABLE 2-2 Examples of Government Resource Ownership in Sweden

Company	Industry Sector	State Ownership %
TeliaSonera	Telecommunications	45
SAS	Airline	21*
Nordea	Banking	20
OMX	Stock exchange	7
Vin & Spirit	Alcohol	100**

*The Danish and Norwegian governments each own 14 percent.
**Sold in 2008.

> Socialists are embracing capitalism, governments are selling off companies they had nationalized, and countries are seeking to entice multinational corporations expelled just two decades earlier. Today, politicians on the left admit that their governments can no longer afford the expansive welfare state. . . . The decamping of the state from the "commanding heights" marks a great divide between the twentieth and twenty-first centuries. It is opening the doors of many formerly closed countries to trade and investment, and vastly increasing the global market.[15]

The Washington, D.C.–based Heritage Foundation, a conservative think tank, takes a more conventional approach to classifying economies: It compiles data from a survey of more than 180 countries that are ranked by degree of economic freedom (see Table 2-3). A number of key economic variables are considered in the rankings: trade policy, taxation policy, government consumption of economic output, monetary policy, capital flows and foreign investment, banking policy, wage and price controls, property rights, regulations, and the black market. Hong Kong and Singapore (see Exhibit 2-2) are currently ranked first and second in terms of economic freedom; Cuba, Venezuela, and North Korea are ranked lowest. Coincidentally, Cuba and North Korea are the only two countries where Coca-Cola is not available through authorized channels!

The market opportunity in Cuba has changed considerably recently (see Exhibit 2-3). In December 2014, with two years left in his administration, then-U.S. President Barack Obama took executive action: He announced that the United States and Cuba were renewing diplomatic

Exhibit 2-2 Home to the world's second-busiest port, Singapore has long been an important trade hub in Southeast Asia. The city-state is now being remade as a cultural destination. Because developers are running out of real estate, small, new projects are heading underground, as in the Ngee Ann Shopping Mall shown here.
Source: Rick Piper Photography/Alamy.

Exhibit 2-3 In March 2016, rock 'n' roll legends the Rolling Stones played their first-ever concert in Havana, Cuba. Singer Mick Jagger led the 500,000 attendees in a sing-along during the Stones classic "You Can't Always Get What You Want."
Source: Ernesto Mastrascusa/LatinContent/Getty Images.

TABLE 2-3 Index of Economic Freedom—2017 Rankings

Free
1. Hong Kong
2. Singapore
3. New Zealand
4. Switzerland
5. Australia

Mostly Free
6. Estonia
7. Canada
8. United Arab Emirates
9. Ireland
10. Chile
11. Taiwan
12. United Kingdom
13. Georgia
14. Luxembourg
15. Netherlands
16. Lithuania
17. United States
18. Denmark
19. Sweden
20. Latvia
21. Mauritius
22. Iceland
23. South Korea
24. Finland
25. Norway
26. Germany
27. Malaysia
28. Czech Republic
29. Qatar
30. Austria
31. Macedonia
32. Macau
33. Armenia
34. Botswana

Moderately Free
35. Brunei Darussalam
36. Israel
37. Colombia
38. Uruguay
39. Romania
40. Japan
41. Jamaica
42. Kazakhstan
43. Peru
44. Bahrain
45. Poland
46. Kosovo
47. Bulgaria
48. Cyprus
49. Belgium
50. Malta
51. Rwanda
52. Vanuatu
53. Jordan
54. Panama
55. Thailand
56. Hungary
57. Slovakia
58. Philippines
59. Saint Vincent and the Grenadines
60. Turkey
61. Kuwait
62. Saint Lucia
63. Costa Rica
64. Saudi Arabia
65. Albania
66. El Salvador
67. Dominica
68. Azerbaijan
69. Spain
70. Mexico
71. Fiji
72. France
73. Tonga
74. Guatemala
75. Côte d'Ivoire
76. Dominican Republic
77. Portugal
78. Namibia
79. Italy
80. Paraguay
81. South Africa
82. Oman
83. Montenegro
84. Indonesia
85. Seychelles
86. Morocco
87. Trinidad and Tobago
88. Swaziland
89. Kyrgyz Republic
90. Bahamas
91. Uganda
92. Bosnia and Herzegovina

Mostly Unfree
93. Burkina Faso
94. Cambodia
95. Croatia
96. Benin
97. Slovenia
98. Nicaragua
99. Serbia
100. Honduras
101. Belize
102. Mali
103. Gabon
104. Belarus
105. Tanzania
106. Guyana
107. Bhutan
108. Samoa
109. Tajikistan
110. Moldova
111. China
112. Sri Lanka
113. Madagascar
114. Russia
115. Nigeria
116. Cabo Verde
117. Democratic Republic of Congo
118. Ghana
119. Guinea-Bissau
120. Senegal
121. Comoros
122. Zambia
123. Tunisia
124. São Tomé and Príncipe
125. Nepal
126. Solomon Islands
127. Greece
128. Bangladesh
129. Mongolia
130. Barbados
131. Mauritania
132. Micronesia
133. Laos
134. Lesotho
135. Kenya
136. The Gambia
137. Lebanon
138. Togo
139. Burundi
140. Brazil
141. Pakistan
142. Ethiopia
143. India
144. Egypt
145. Sierra Leone
146. Burma
147. Vietnam
148. Uzbekistan
149. Malawi
150. Cameroon
151. Central African Republic
152. Papua New Guinea
153. Kiribati
154. Niger
155. Iran
156. Argentina
157. Maldives

Repressed
158. Mozambique
159. Haiti
160. Ecuador
161. Liberia
162. Chad
163. Afghanistan
164. Sudan
165. Angola
166. Ukraine
167. Timor-Leste
168. Bolivia
169. Guinea
170. Turkmenistan
171. Djibouti
172. Algeria
173. Timor-Leste
174. Equatorial Guinea
175. Zimbabwe
176. Eritrea
177. Republic of Congo
178. Cuba
179. Venezuela
180. North Korea

Not Ranked
Iraq
Libya
Liechtenstein
Somalia
Syria
Yemen

Source: Adapted from Terry Miller and Kim R. Holmes, *2017 Index of Economic Freedom* (Washington, DC: Heritage Foundation and Dow Jones & Company, 2017), available at www.heritage.org/index (accessed January 1, 2018).

relations. Within weeks of the announcement, embassies were reestablished. However, full normalization of trade relations can come only after the U.S. Congress repeals the embargo.

At the end of 2017, a spokesperson for John Deere indicated that shipments of farm tractors from the United States to Cuba were scheduled to begin soon. In addition, Caterpillar announced the opening of a distribution center in the Mariel Special Economic Development Zone. However, there is a possibility that Obama's successor, President Donald Trump, will reverse course and once again prohibit U.S. companies from doing business in Cuba.

A high correlation exists between the degree of economic freedom and the extent to which a nation's mixed economy is market oriented, although the criteria for the ranking have been subject to some debate. For example, author William Greider has observed that the authoritarian state capitalism practiced in Singapore deprives the nation's citizens of free speech, a free press, and free assembly. Indeed, Singapore once banned the import, manufacture, and sale of chewing gum, because discarded wads of gum were making a mess in public places. Today, gum is available at pharmacies; before buying a pack, however, consumers must register their names and addresses. Greider notes, "Singaporeans are comfortably provided for by a harshly autocratic government that administers paranoid control over press and politics and an effective welfare state that keeps everyone well housed and fed, but not free."[16] As Greider's observation makes clear, some aspects of "free economies" bear more than a passing resemblance to command-style economic systems.

▶ **2-3** Explain the categories of economic development used by the World Bank, and identify the key emerging country markets at each stage of development.

2-3 Stages of Market Development

At any point in time, individual country markets are at different stages of economic development. The World Bank has developed a four-category classification system that uses per capita **gross national income (GNI)** as a basis for categorizing countries (see Table 2-4). The income definition for each of the stages is derived from the World Bank's lending categories, and 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.

"In a global market, you're not going to gain your profit by sitting tight in the United States in a flat and declining market. You're going to make your money in China and Russia and India and Brazil."[17]

Tom Pirko, president of BevMark, commenting on InBev's acquisition of Anheuser-Busch

Two decades ago, a number of countries in Central Europe, Latin America, and Asia were expected to experience rapid economic growth. The list of these *big emerging markets* (BEMs) included China, India, Indonesia, South Korea, Brazil, Mexico, Argentina, South Africa, Poland, and Turkey.[18] Today, much attention is focused on opportunities in Brazil, Russia, India, China, and South Africa. As previously noted, these five countries are collectively known as BRICS. Experts predict that the BRICS nations will be key players in global trade even as their track records on human rights, environmental protection, and other issues come under closer scrutiny by their trading partners. The BRICS government leaders will also come under pressure at home as their developing market economies create greater income disparity. For each of the stages of economic development discussed here, special attention is given to the BRICS countries.

TABLE 2-4 Stages of Market Development

Income Group by per Capita GNI	2016 GDP ($ millions)	2016 GNI per Capita ($)	World GDP (%)	2016 Population (millions)
High-income countries (OECD)				
GNI per capita ≥ $12,236	48,557,000	41,208	64	1,190
Upper-middle-income countries				
GNI per capita ≥ $3,956 to ≤ $12,235	20,624,000	8,177	27	2,579
Lower-middle-income countries				
GNI per capita ≥ $1,006 but ≤ $3,955	6,263,000	2,079	8	3,012
Low-income countries				
GNI per capita ≤ $1,005	402,000	612	1	659

Note: OECD, Organisation for Economic Co-operation and Development.

Low-Income Countries

Low-income countries have a GNI per capita of $1,005 or less. Countries at this income level share the following general characteristics:

1. Limited industrialization and a high percentage of the population engaged in agriculture and subsistence farming
2. High birth rates, short life expectancy
3. Low literacy rates
4. Heavy reliance on foreign aid
5. Political instability and unrest
6. Concentration in Africa south of the Sahara

Approximately 9 percent of the world's population resides in countries included in this economic category. Many low-income countries have such serious economic, social, and political problems that they represent extremely limited opportunities for investment and operations. Some, such as Burundi, are no-growth economies, with a high percentage of the population living at the national poverty line. Others were once relatively stable countries with growing economies that have become divided by political struggles. The result is an unstable environment characterized by civil strife, flat incomes, and considerable danger to residents. Countries embroiled in civil wars are dangerous areas; most companies find it prudent to avoid them.

Other low-income countries have rebounded sharply after years of ethnic turmoil and internal strife. For example, Rwanda's per-capita GNI increased 100 percent in the decade from 2006 to 2016. President Paul Kagame is investing heavily to bring about economic transformation. A new convention center in Kigali is designed to lure business to the capital city and increase tourism to the country overall (see Exhibit 2-4). Kagame has laid out an ambitious growth agenda dubbed Vision 2050, and he envisions raising the country's per capita income to $4,035 by 2035. Critics have noted that government-linked businesses known as "partystatals" dominate some industry sectors in Rwanda; however, the president denies that his ruling Rwandan Patriot Front is trying to take over the economy.[19]

With per capita income of less than $700, Ethiopia is another poor country located in sub-Saharan Africa. However, Ethiopians have enjoyed more than a decade of double-digit economic expansion. Buoyed by foreign investment from China, several industrial parks have opened in the past few years. This has paved the way for garment workers to earn the equivalent of $45 per month making garments for global brands such as J Crew and Burberry. Hong Kong–based TAL Apparel has opened a factory in one of the industrial parks. Roger Lee, chief executive of TAL, recently summed up the advantages of Ethiopia: "We were looking for a country that has a sufficient available workforce, is sufficiently near a seaport for exports, low enough wage levels . . . and duty-free access to the key U.S. and European markets."[20]

Exhibit 2-4 Rwanda's gleaming new $300 million convention center is integral to President Paul Kagame's strategy for economic growth. Other investments include a new $800 million airport and special economic zones to attract investment.
Source: MARCO LONGARI/AFP/Getty Images.

Exhibit 2-5 BRCK is a tech company based in Kenya. The company's breakthrough product, a surge-resistant Internet router with an 8-hour battery, sells for $250. Although low-income African nations are the primary target market for the devices, tech-savvy consumers in Europe and the United States have also snapped up BRCKs. A new product, the Kio Kit, is an affordable educational package that provides digital content to students studying in remote areas. The company has also launched Moja, a free public Wi-Fi network.
Source: SIMON MAINA/AFP/Getty Images.

Lower-Middle-Income Countries

The United Nations designates 50 countries in the bottom ranks of the low-income category as **least-developed countries (LDCs)**; the term is sometimes used to contrast them with **developing countries** (i.e., upper ranks of low-income plus lower-middle- and upper-middle-income countries) and **developed countries** (high-income countries). **Lower-middle-income countries** have a GNI per capita between $1,006 and $3,955. Consumer markets in these countries are expanding rapidly. Vietnam (GNI per capita $2,050), Indonesia ($3,400), and others in this group represent an increasing competitive threat as they mobilize their relatively cheap—and highly motivated—labor forces to serve the world market. The developing countries in the lower-middle-income category have a major competitive advantage in mature, standardized, labor-intensive light industry sectors such as footwear, textiles, and toys. Case in point: Vietnam and Indonesia are the top two countries in terms of line employee head count in Nike's worldwide network of more than 500 contractor factories.

> **"As the saying goes, if you are not manufacturing in China or selling in India, you are as good as finished."[21]**
>
> Dipankar Halder, Associate Director, KSA Technopak, India

With a 2016 GNI per capita of $1,680, India has transitioned out of the low-income category and now is classified as a lower-middle-income country. In 2017, India commemorated the 70th anniversary of its independence from Great Britain. For many decades, economic growth was weak. Indeed, as the 1990s began, India was in the throes of an economic crisis: Inflation was high, and foreign exchange reserves were low. Country leaders opened India's economy to trade and investment and dramatically improved market opportunities.

During this era, Manmohan Singh was placed in charge of India's economy. Singh, former governor of the Indian central bank and finance minister, believed that India had been taking the wrong road. Accordingly, he set about dismantling the planned economy by eliminating import licensing requirements for many products, reducing tariffs, easing restrictions on foreign investment, and liberalizing the rupee.

Yashwant Sinha, the country's former finance minister, once declared that the twenty-first century would be "the century of India." His words appear prescient: India is now home to a number of world-class companies with growing global reach, including Infosys, Mahindra & Mahindra, Tata, and Wipro. Meanwhile, the list of global companies operating in India is growing longer. They include Benetton, Cadbury, Coca-Cola, DuPont, Ericsson, Fujitsu, IBM, L'Oréal, MTV, Staples, Unilever, and Walmart, among others. India's huge population base also presents attractive opportunities for automakers. Suzuki, Hyundai, General Motors, and Ford are among the global car manufacturers doing business in India.

Two of the smaller countries from the former Soviet Union, Tajikistan and Uzbekistan, also fall into the lower-middle income categories. Sometimes lumped into a regional group known as "the Stans," they invite closer study on both an individual and regional basis. Incomes in these countries are low, there is considerable economic hardship, and the potential for disruption is certainly high. Are they problem cases, or are they attractive opportunities with good potential for economic growth? These countries represent an obvious risk–reward trade-off; some companies have taken the plunge, but many others are still assessing whether they ought to join the pioneers.

"It may feel like the temperature has only risen a couple of degrees so far, but this heralds the end of India's economic Ice Age."[22]

Vivek Paul, vice chairman, Wipro

Table 2-3 ranks Uzbekistan quite low in terms of economic freedom. This is one indication of a risky business environment in a lower-middle-income country. Perhaps that helps explain why there are no Western fast-food chains in Uzbekistan—no Starbucks, no McDonald's! The good news is that, in the last few years, Uzbekistan has transitioned from "repressed" in the index to "mostly unfree." And, as befits a nation whose cities were once important trade hubs on the Silk Road, there are market opportunities here. For example, GM is the top car company in Uzbekistan; in 2013, GM Uzbekistan produced its two-millionth car. Overall, this Central Asian country is one of GM's 10 largest markets worldwide! Moreover, Uzbekistan stands to gain from China's infrastructure investment in neighboring Kazakhstan.

Russia's economy has slipped from the high-income category to the upper-middle-income tier; it stands at number 114 in the 2017 economic freedom rankings. The pace of Russia's economic recovery has lagged that in other emerging markets. With the collapse in oil prices, the Kremlin's search for new sources of revenue to fund its budget outlays has created tension between government ministries and business. In fact, some observers have asked whether Russia should still be included in the BRICS grouping. Pundits debated whether President Vladimir Putin would run for a fourth term as elections loomed in 2018.

Upper-Middle-Income Countries

Upper-middle-income countries, also known as *industrializing* or *developing countries*, are those with GNI per capita ranging from \$3,956 to \$12,235. In these countries, the percentage of the population engaged in agriculture drops sharply as people move to the industrial sector and the degree of urbanization increases. Chile, Malaysia, Mexico, Venezuela, and many other countries in this stage are rapidly industrializing. They have high literacy rates and strong education systems; wages are rising, but they are still significantly lower than in the advanced countries. Innovative local companies can become formidable competitors and help contribute to their nations' rapid, export-driven economic growth.

Brazil (\$8,840 GNI per capita in 2016), Russia (\$9,720), China (\$8,260), and South Africa (\$5,480) are the four BRICS nations that currently fall into the upper-middle-income category. Brazil is the largest country in Latin America in terms of the size of its economy, population, and geographic territory. Brazil also boasts the richest reserves of natural resources in the hemisphere; China, Brazil's top trading partner, has an insatiable appetite for iron ore and other commodities.

Government policies aimed at stabilizing Brazil's macroeconomy yielded a decade of impressive results: Brazil's GNI grew steadily between 2003 and 2013. During the same period, tens of millions of Brazilians joined the middle class as their incomes and living standards increased.[23] Needless to say, this trend was a boon to global companies doing business in Brazil, which include Electrolux, Fiat, Ford, General Motors, Nestlé, Nokia, Raytheon, Toyota, Unilever, and Whirlpool (see Exhibit 2-7). More recently, Brazil's economy has been negatively impacted by a series of scandals known as *Lavo Jato* ("Car Wash") involving government and business leaders.

As is typical for countries at this stage of development, Brazil is a study in contrasts. Grocery distribution companies use logistics software to route their trucks; meanwhile, horse-drawn carts are still a common sight on many roads. To keep pace with the volatile financial environment of the early 1990s, many local retailers invested in sophisticated computer and communications systems. They use sophisticated inventory management software to maintain financial control. Thanks to Brazil's strength in computers, the country's outsourcing sector is growing rapidly.[24] Former French President Jacques Chirac underscored Brazil's importance on the world trade scene when he noted, "Geographically, Brazil is part of America. But it's European because of its culture and global because of its interests."[25]

EMERGING MARKETS BRIEFING BOOK

Myanmar Is Open For Business

Myanmar is a low-income country in Southeast Asia with a population of 52 million people. After gaining independence from Great Britain in 1948, the country was ruled for decades by a military junta. In 2003, the U.S. government imposed a trade embargo on Myanmar, effectively slamming the door on opportunities for American businesses in that country.

In 2011, however, the country formerly known as Burma abruptly changed course. For starters, Myanmar's citizens elected a president, Thein Sein. Other political and economic changes swiftly followed: Political prisoners have been released, and press censorship has been abolished.

Encouraged by Myanmar's transition from dictatorship toward economic openness and democracy, many Western governments have lifted sanctions such as bans on the country's imports. These actions have opened the doors to global companies, and Coca-Cola, General Electric (GE), MasterCard, Mitsubishi, Nestlé, Visa, and many others have begun setting up operations in Myanmar (see Exhibit 2-6). Indeed, foreign investment has skyrocketed, from a modest $208 million in 2000 to $850 million in 2011. Coca-Cola alone has pledged to invest $200 million by 2018.

However, those global giants will be playing catch-up. Why? During years of Western sanctions, companies in China, Japan, and other Asian countries maintained a presence in Myanmar. That fact is paying dividends today. Mitsubishi is a case in point. This company established an export office in Yangon years ago. As Mitsuo Ido, Mitsubishi's general manager, notes, "Japan and Myanmar have had a long relationship, and Japanese companies are now very interested in increasing their involvement here. Myanmar people are very similar to Japanese in some ways."

U.S. President Barack Obama made a quick visit to Myanmar at the end of 2012. Even now, however, some sanctions remain in place. These include sanctions targeting "Specially Designated Nationals," who had ties to the former military regime, such as businessman Zaw.

Much remains to be done to improve life in Myanmar. Ethnic conflict is rife; the fledgling government is struggling to achieve peace and stability in the face of protests. In addition, Myanmar's economic and physical infrastructures have serious shortcomings. The legal system is undeveloped, and workers lack training. Mobile telecommunications networks need upgrades; most Western cell phones don't work in Myanmar. According to the Asian Development Bank, only about one-fourth of Myanmar's population has access to reliable electricity, and power shortages and outages are not unusual. Despite these obstacles, the country's rich gas and oil reserves represent a major opportunity for GE; Total, a French energy giant; and other companies.

It remains to be seen whether the "gold rush" in Myanmar will yield big successes. Years ago, some companies that attempted to capitalize on new opportunities in Russia and Vietnam ended up losing a lot of money. Moreover, corruption is rampant in Myanmar, and many former military leaders have secured licenses in banking and other services. Global soft drinks titan Coca-Cola finds itself competing with inexpensive soft drinks such as Blue Mountain Cola and Fantasy Orange. Even so, some business owners in Myanmar worry that foreigners will dominate key business sectors. An executive at a New York–based investment firm summed up the opportunity this way: "If I was 25 years old and single, I'd just go there. It's just ready for takeoff."

Sources: Shibani Mahtani, "Gap to Make Old Navy, Banana Republic Apparel in Myanmar," *The Wall Street Journal* (June 6–7, 2014), p. B3; Laura Meckler, "Obama Challenges Myanmar on Visit," *The Wall Street Journal* (November 20, 2012), p. A8; Patrick Barta, "Final Frontier: Firms Flock to Newly Opened Myanmar," *The Wall Street Journal* (November 12, 2012), p. A1; Michiyo Nakamoto and Gwen Robinson, "Japan Looks for Early Lead in Myanmar Race," *Financial Times* (October 1, 2012), p. 6; Patrick Barta, "Myanmar Concerns Remain, U.S. Envoy Says," *The Wall Street Journal* (August 20, 2012), p. A7; "Myanmar Is Next Real Thing for Coke," *Financial Times* (June 15, 2012), p. 16; Simon Hall, "Energy Titans Look to Myanmar," *The Wall Street Journal* (June 8, 2012), p. B6; David Pilling and Gwen Robinson, "Myanmar: A Nation Rises," *Financial Times* (December 3, 2010), p. 6.

Exhibit 2-6 An employee takes a call as customers purchase jewelry at a gold shop in Yangon, the former capital of Myanmar. Myanmar's economy is set for growth as sweeping political, economic, and financial reforms raise hopes of a renaissance for the impoverished nation. Now that trade sanctions have been lifted, global companies in a variety of industries are moving quickly to formulate and implement market-entry strategies.
Source: Ye Aung Thu/AFP/Getty Images.

Exhibit 2-7 Nestlé has invested tens of millions of dollars to build several plants in the Brazilian state of Rio de Janeiro. This $83 billion facility in Tres Rios opened in 2011. It produces milk products and was designed with environmental sustainability in mind. Coffee, cookies, noodles, and other items that Nestlé produces locally are adapted to suit Brazilian tastes and pocketbooks. As Ivan Zurita, CEO of Nestlé Brasil, noted, "In our country there are 30 million people considered too poor to be consumers, and we have come to the conclusion that regionalization will speed up our competitiveness in terms of cost and greater operational efficiency."
Source: visicou/Shutterstock.

In 2016, Russia slipped from the high-income category as its per capita GNI decreased from $14,840 in 2013 to $9,720 (upper-middle income). Overall, Russia's economic situation rises and falls as the price of oil fluctuates. The current slump in world oil prices has impacted Russia, as have international sanctions. Strong local companies have appeared on the scene, including Wimm-Bill-Dann Foods, Russia's largest dairy company; PepsiCo acquired it in 2011. However, corruption in Russia is pervasive, and the bureaucracy often creates a mountain of red tape for companies such as Diageo, Mars, McDonald's, Nestlé, and SAB Miller.

China is the third BRICS nation in the upper-middle-income category; its GNI per capita was $8,260 in 2016. China represents the largest single destination for foreign investment in the developing world. Attracted by the country's vast size and market potential, companies in Asia, Europe, and North and South America are marking China as a key target in their global strategies. Shenzhen and other special economic zones have attracted billions of dollars in foreign investment. Despite the ongoing market reforms, however, Chinese society lacks a democratic foundation.

China is a case study in how to jump-start a nation's economic growth. Leveraging the country's central planning economic model, the government poured money into infrastructure improvements such as highways, railways, and ports. Soon, China's economy was growing at a double-digit pace. The beneficiaries of this economic boom included companies in Australia, Brazil, Indonesia, and other countries that export goods to China. Avon, Coca-Cola, Dell, Ford, General Motors, Honda, HSBC, JPMorgan Chase, McDonald's, Motorola, Procter & Gamble, Samsung, Siemens AG, Toyota, and Volkswagen were among the scores of global companies that began actively pursuing opportunities in China.

In 2007, just prior to the global economic crisis, the message from the Chinese government began to change. As words like "unsteady," "unbalanced," and "uncoordinated" began to pop up in key political speeches, China watchers sensed that change was in the wind. For years, China's economic growth has been built on exports and low-wage manufacturing. More recently, GDP growth has begun to weaken. A new leadership team is in place, and Beijing is shifting from an external focus to an internal one in an effort to deal with urgent problems related to the country's infrastructure, bribery, and corruption.

"If you want to do well globally today, you have to first be successful in China, and we're already here."[26]

Daniel Kirchert, co-founder, Byton (electric vehicle company)

Meanwhile, China is moving to become less reliant on exports. To achieve this goal, consumption by Chinese citizens must increase. President Xi Jinping's ambitious infrastructure plan, known variously as the "Belt and Road Initiative" (BRI) and "One Belt One Road," revives the ancient Silk Road trade route. Beijing has also launched a new industrial strategy dubbed "Made in China 2025." The aim is for China to become a world leader in advanced industries such as

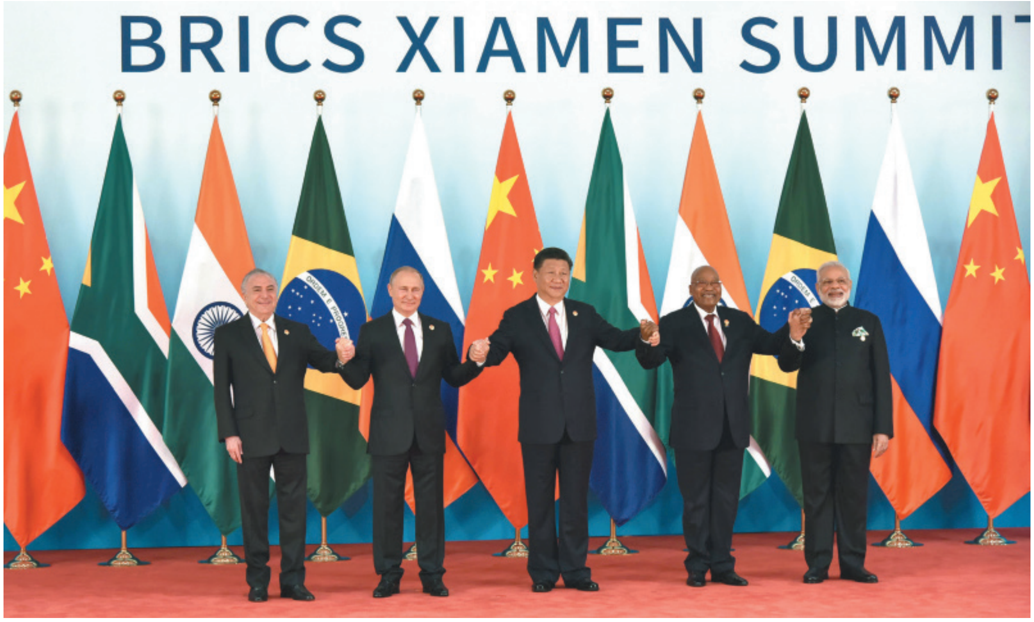


Exhibit 2-8 Leaders of the BRICS nations met at a summit in Xiamen in 2017 (from left): Brazilian President Michel Temer, Russian President Vladimir Putin, Chinese President Xi Jinping, South African President Jacob Zuma, and Indian Prime Minister Narendra Modi.
Source: PIB/Alamy Stock Photo.

robotics and electric vehicles. However, Beijing's state involvement in industry is one reason why the World Trade Organization (WTO) has still not granted China "market economy" status.

South Africa joined the BRICS group in 2011. In 2017, the Chinese president welcomed leaders from the other four BRICS nations to a summit in Xiamen (see Exhibit 2-8). One topic of discussion at this meeting was the opening of the Africa Regional Centre, funded by the BRICS-supported National Development Bank. The Centre will serve as a source of financing for infrastructure development and other projects. South Africa hosted the tenth BRICS summit in Johannesburg in 2018, providing President Jacob Zuma with an opportunity attract more direct investment in the African continent as a whole.[27]

Lower-middle- and upper-middle income countries that achieve the highest sustained rates of economic growth are sometimes referred to collectively as **newly industrializing economies (NIEs)**. Overall, NIEs are characterized by greater industrial output than developing economies; heavy manufacturing operations and refined products account for an increasing proportion of their exports. Goldman Sachs, the firm that developed the original BRIC framework more than a decade ago, has identified a new country grouping called Next-11 (N11). Five of the N11 countries are considered NIEs: three lower-middle-income countries (Egypt, Indonesia, and the Philippines) and two upper-middle-income countries (Mexico and Turkey). Among these five countries, Egypt, Indonesia, and the Philippines have posted positive GDP growth over the past several years.

Marketing Opportunities in LDCs and Developing Countries

Despite the many problems in LDCs and developing countries, it is possible to nurture long-term market opportunities there. Today, Nike produces and sells only a small portion of its output in China, but when the firm refers to China as a "2-billion-foot market," it clearly has the future in mind. C. K. Prahalad and Allen Hammond have identified several assumptions and misconceptions about the "bottom of the pyramid" (BOP) that need to be corrected:[28]

Mistaken assumption #1: The poor have no money. In fact, the aggregate buying power of poor communities can be substantial. In rural Bangladesh, for example, villagers spend considerable sums to use village phones operated by local entrepreneurs.

Mistaken assumption #2: The poor are too concerned with fulfilling basic needs to "waste" money on nonessential goods. In fact, consumers who are too poor to purchase a house do buy "luxury" items such as television sets and gas stoves to improve their lives.

Mistaken assumption #3: The goods sold in developing markets are so inexpensive that there is no room for a new market entrant to make a profit. In fact, because the poor often pay higher prices for many goods, there is an opportunity for efficient competitors to realize attractive margins by offering quality and low prices.

Mistaken assumption #4: People in BOP markets cannot use advanced technology. In fact, residents of rural areas can and do quickly learn to use cell phones, PCs, and similar devices.

Mistaken assumption #5: Global companies that target BOP markets will be criticized for exploiting the poor. In fact, the informal economies in many poor countries are highly exploitative. A global company offering basic goods and services that improve a country's standard of living can earn a reasonable return while benefiting society.

Despite the difficult economic conditions in parts of Southeast Asia, Latin America, Africa, and Eastern Europe, many nations in these regions will evolve into attractive markets. One role of marketing in developing countries is to focus resources on the task of creating and delivering products that are best suited to local needs and incomes. Appropriate marketing communications techniques can also be applied to accelerate acceptance of these products. Marketing can be the link that relates resources to opportunity and facilitates need satisfaction on the consumer's terms.

An interesting debate in marketing is whether it has any relevance to the process of economic development. Some people believe that marketing is relevant only in affluent, industrialized countries, where the major problem is directing society's resources into ever-changing output or production to satisfy a dynamic marketplace. In the less-developed country, the argument goes, the major problem is the allocation of scarce resources toward obvious production needs. Efforts should therefore focus on production and ways to increase output, rather than on customer needs and wants.

Conversely, it can be argued that the process of focusing an organization's resources on environmental opportunities is a process of universal relevance. The role of marketing—to identify people's needs and wants and to focus individual and organizational efforts so as to respond to those needs and wants—is the same in all countries, irrespective of the level of economic development. When global marketers respond to the needs of rural residents in emerging markets such as China and India, they are also more likely to gain all-important government support and approval.

"Sustainable energy pioneers who focus on the base of the pyramid could set the stage for one of the biggest bonanzas in the history of commerce, since extensive adoption and experience in developing markets would almost certainly lead to dramatic improvements in cost and quality."[29]

Stuart L. Hart and Clayton M. Christensen

For example, pursuing alternative energy sources is important for two reasons: the lack of coal reserves in many countries and the concerns that heavy reliance on fossil fuels contributes to global warming. Similarly, people everywhere need affordable, safe drinking water. Recognizing this fact, Nestlé launched Pure Life bottled water in Pakistan. The price was set at about 35 cents per bottle, and advertising promised, "Pure safety. Pure trust. The ideal water." Pure Life quickly captured 50 percent of the bottled water market in Pakistan; the brand has since been rolled out in dozens of other low-income countries.[30] The Coca-Cola Company recently began to address dietary and health needs in low-income countries by developing Vitango, a beverage product that can help fight anemia, blindness, and other ailments related to malnutrition.

There is also an opportunity to help developing countries join the Internet economy. Intel Chairman Craig Barrett has been visiting villages in China and India and launching programs to provide Internet access and computer training to the residents there. One aspect of Intel's World Ahead initiative is the development of a $550 computer that is powered by a car battery. Similarly, Hewlett-Packard engineers are working to develop solar-powered communication devices that can link remote areas to the Internet.[31] Meanwhile, an initiative called One Laptop Per Child embarked on a program to develop a laptop computer that governments in developing countries can buy for $100.

Global companies can also contribute to economic development by finding creative ways to preserve old-growth forests and other resources while creating economic opportunities for local inhabitants. In Brazil, for example, Daimler AG works with a cooperative of farmers who transform coconut husks into natural rubber to be used in auto seats, headrests, and sun visors. French luxury goods marketer Hermès International has created a line of handbags called "Amazonia" made of latex extracted by traditional rubber tappers. Both Daimler and Hermès are responding to the opportunity to promote themselves as environmentally conscious while appealing to "green"-oriented consumers. As Isabela Fortes, director of a company in Rio de Janeiro that retrains forest workers, notes, "You can only prevent forest people from destroying the jungle by giving them viable economic alternatives."[32]

ENTREPRENEURIAL LEADERSHIP, CREATIVE THINKING, AND THE GLOBAL STARTUP

Blake Mycoskie, TOMS

Blake Mycoskie is an entrepreneur. He created a brand, developed several innovative products, and started a company to market them using an innovative business design. By applying the basic tools and principles of modern marketing, Mycoskie has achieved remarkable success.

As is true with many entrepreneurs, Mycoskie's innovative idea was based on his recognition of unmet needs. In this particular case, the needs were not his own; rather, they were the needs of children whose parents could not afford to buy shoes.

While competing on the reality TV show *The Amazing Race* in 2002, Mycoskie and his sister found themselves in Argentina. Although they lost the contest (by a mere 4 minutes!), Mycoskie was captivated by the local people and culture. He returned to Argentina in 2006 for a vacation. Using his own powers of direct observation, he could see that a lightweight canvas shoe called the *alpargata* was very popular in Argentina. He also noted that many of the local children had no shoes; many suffered from foot disease as a result of going barefoot.

Back home in the United States, Mycoskie started thinking about how he could help the disadvantaged people he had seen. One key decision: Instead of setting up a nonprofit organization, he started a for-profit business, based on a "sell one, give one away" business design. He set up a shoe company, TOMS, with a unique business model and social mission: Each time a customer buys a pair of TOMS, the company donates a pair of shoes to a child in need. This business model has become known as "One-for-One" or "B1G1" ("Buy One, Give One"); Mycoskie's title is "Chief Shoe Giver." In fact, Mycoskie insists TOMS is not a shoe company. Rather, he defines his business as "one-for-one," and the company's mission as improving lives (see Exhibit 2-9).

Exhibit 2-9 Blake Mycoskie is founder and Chief Shoe Giver at TOMS. He pioneered a business design called "one-for-one" that aims to improve the lives of those in need and promote economic development.
Source: Aristidis Vafeiadakis/ZUMA Press, Inc./Alamy.

Mycoskie's business design put him at odds with some of his advisors, who urged him to give a percentage of profits, or perhaps donate one pair for every three pairs sold. Undeterred, Mycoskie was intent on giving away as many pairs as possible, while giving shoe customers, which the company calls "supporters," an intimate "one-for-one" experience.

Mycoskie next turned his attention to the urgent need for eye care in developing countries. Partnering with the Seva Foundation, he introduced TOMS sunglasses in 2011, pledging to donate funds for eye care and surgery for every pair purchased. Instead of a logo, each pair of frames features three painted stripes. As Mycoskie explains, every stripe tells a story: The outside stripes represent the bond between the purchaser and the person in need, while the middle stripe represents TOMS, which brought the other two together.

In 2014, Mycoskie extended the TOMS brand to a third category: premium coffee. While on a trip to Africa, Mycoskie realized that coffee farmers required a lot of water to wash coffee beans. Also, clean drinking water was in very short supply in many villages. He was struck by the irony that the countries that supply the world with the best coffee don't have adequate water for their own people. Mycoskie partnered with Water For People, a nonprofit organization whose mission is to ensure that everyone has access to a safe, continuous supply of water. The result was TOMS Roasting Company, which sells coffee beans at Whole Foods stores and other select locations. For every bag of coffee beans purchased, TOMS donates one week of clean water to a person in need.

What's next for TOMS? As the company reached its 10-year anniversary in 2015, it began to transition from being a wholesaler by opening brick-and-mortar stores. These retail locations currently account for only 5 percent of company sales, but Mycoskie envisions that share increasing to 25 percent within a few years. By embedding itself in local communities, TOMS will be better able to "start a movement," as company executives put it. If supporters want to stop in at a store just to use the Internet or have a cup of coffee, that's fine with TOMS.

TOMS is experimenting with new media to help encourage customer loyalty. For example, all associates (sales staff) have the opportunity to go on giving trips after they have worked at the company for one year. A giving trip to Peru was filmed and supporters can view the event using an Oculus virtual reality (VR) headset. Even as the company searches for ways to operationalize such leading-edge communication tools in today's tech environment, it offers TOMS supporters a new way to participate in the TOMS brand experience.

Sources: Blake Mycoskie, "TOMS and the Future of the One-for-One Movement," SXSW Presentation, March 2014; Blake Mycoskie, *Start Something That Matters* (New York, NY: Random House, 2011); Andrew Adam Newman, "'Buy One, Give One' Spirit Imbues an Online Store," *The New York Times* (November 5, 2013), p. B7; Mark Hornickel, "Fit for the Sole," *Northwest Alumni Magazine* (Fall 2013), pp. 10–13; Carly Gillis, "TOMS Announces Eyewear as Next 'One for One' Product," *The Huffington Post* (June 7, 2011).

High-Income Countries

High-income countries, also known as *advanced*, *developed*, *industrialized*, or *postindustrial countries*, are those with a GNI per capita of $12,236 or higher. With the exception of a few oil-rich nations, the countries in this category reached their present income level through a process of sustained economic growth.

The phrase *postindustrial countries* was first used by Daniel Bell of Harvard to describe the United States, Sweden, Japan, and other advanced, high-income societies. In his 1973 book *The Coming of the Post-Industrial Society*, Bell drew a distinction between the industrial and postindustrial stages of country development that went beyond mere measures of income. Bell's thesis was that the sources of innovation in postindustrial societies are derived increasingly from the codification of theoretical knowledge rather than from "random" inventions. When a country reaches this level, the service sector accounts for more than half of national output, the processing and exchange of information become increasingly important, and knowledge trumps capital as the key strategic resource.

In addition, in a postindustrial society, intellectual technology is more important than machine technology, and scientists and professionals play a more dominant role than do engineers and semiskilled workers. Further, postindustrial societies exhibit an orientation toward the future and stress the importance of interpersonal relationships in the functioning of society. Taken together, these forces and factors spell big sociological changes for the work and home lives of the residents of postindustrial nations.

Product and market opportunities in a postindustrial society are heavily dependent upon new products and innovations. Ownership levels for basic products are extremely high in most households. As a consequence, organizations seeking to grow often face a difficult task if they attempt to expand their share of existing markets. Alternatively, they can endeavor to create new markets. Today, for example, global companies in a range of communication-related industries are seeking to create new e-commerce markets for interactive forms of electronic communication. A case in point is Barry Diller's Expedia Inc.; the world's largest online travel company, it includes the Expedia, Orbitz and Travelocity brands. Diller also founded IAC/InterActiveCorp, which owns Vimeo; the Match.com, OkCupid, and Tinder dating sites; the Web magazine *Daily Beast*; and other Internet businesses.[33]

In 2009, the *Financial Times* Stock Exchange (FTSE) upgraded South Korea's economic status from "emerging" to "developed." The change is consistent with the World Bank's ranking and reflects South Korea's emergence as a global powerhouse. It is the 11th-largest economy by GDP, and a major importer and exporter. South Korea is home to Samsung Electronics, LG Group, Kia Motors Corporation, Daewoo Corporation, Hyundai Corporation, and other well-known global enterprises. Instead of erecting substantial barriers to free trade, South Korea initiated major reforms in its political and economic systems in response to the "Asian flu" (i.e., the 2009 economic crisis in Asia, which coincided with an influenza pandemic originating in the region).

Even so, investors note the political risk posed by North Korea's aggressiveness and the missile tests ordered by President Kim Jung Un. Another concern is inconsistent treatment of foreign investors by the government. For example, authorities recently raided the local offices of French retailer Carrefour. Adding to the uncertainty is U.S. President Donald Trump's pledge to overturn the U.S./Korea Free Trade Agreement.

Seven high-income democracies—the United States, Japan, Germany, France, Britain, Canada, and Italy—comprise the **Group of Seven (G-7)**. Finance ministers, central bankers, and heads of state from the seven nations have worked together for more than a quarter of a century in an effort to steer the global economy in the direction of prosperity and to ensure monetary stability. Whenever a global crisis looms—be it the Latin American debt crisis of the 1980s or Russia's struggle to transform its economy in the 1990s or the economic crisis in Greece in 2007–2008—representatives from the G-7 nations gather and try to coordinate policy (see Exhibit 2-10).

Starting in the mid-1990s, Russia began attending the G-7 summit meetings. In 1998, Russia became a full participant, giving rise to the **Group of Eight (G-8)**. Russia's membership was suspended in 2014 after President Vladimir Putin annexed the Crimean peninsula (see

Exhibit 2-10 When the world's leaders meet to discuss policy issues, nongovernmental organizations (NGOs) often take advantage of the opportunity to make their voices heard. For example, in 2015, prior to a G7 meeting in Dresden, Germany, protesters from One released giant balloons depicting the faces of G7 leaders.
Source: Joerg Koch/Getty Images.

Exhibit 2-11 and Case 5-1). The **Group of Twenty (G-20)** was established in 1999; it is composed of finance ministers and central bank governors from 19 countries plus the European Union. The G-20 includes developing nations such as Argentina, Brazil, India, Indonesia, and Turkey; Russia remains a member.

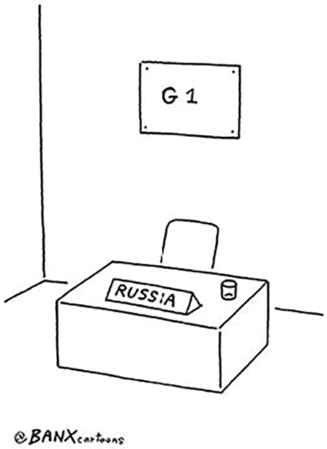


Exhibit 2-11
Source: Jeremy Banx/Banx Cartoons.

Another institution to which high-income countries belong is the **Organisation for Economic Co-operation and Development** (OECD; www.oecd.org). The 35 nations that belong to the OECD believe in market-allocation economic systems and pluralistic democracy. The organization has been variously described as an "economic think tank" and a "rich-man's club"; in any event, the OECD's fundamental task is to "enable its members to achieve the highest sustainable economic growth and improve the economic and social well-being of their populations." The OECD evolved from a group of European nations that worked together after World War II to rebuild the region's economy; it is headquartered in Paris. Canada and the United States have been members since 1961, while Japan joined in 1964. Evidence of the increasing importance of the BRICS group is the fact that Brazil, Russia, India, and China have all formally announced their intention to join the OECD. To become members of this organization, applicants must demonstrate progress toward economic reform.

Representatives from OECD member nations work together in committees to review economic and social policies that affect world trade. The secretary-general presides over a council that meets regularly and has decision-making power. Committees of specialists from member countries provide a forum for discussion of trade and other issues. Consultation, peer pressure, and diplomacy are the keys to helping member nations candidly assess their own economic policies and actions. The OECD publishes country surveys and an annual economic outlook.

Recently, the OECD has become more focused on global issues, social policy, and labor market deregulation. For example, it has addressed the vexing problem of bribery: In 1997, it passed a convention that requires members to cooperate when pursuing bribery allegations. In the 20-plus years since this agreement entered into force, Germany, France, and other countries have adopted antibribery laws. Prosecutors from various countries are doing a better job of collaborating across borders, with one case against Siemens AG resulting in a record \$1.6 billion fine.[34]

Marketing Implications of the Stages of Development

The stages of economic development described previously can serve as a guide to marketers in evaluating **product saturation levels**, or the percentage of potential buyers or households that own a particular product. George David is the former CEO of United Technologies; its business units include Otis Elevators. David explained the significance of product saturation to his former business as follows:

> We measure elevator populations in countries as units installed per thousand people. And in China, the number today is about one half an elevator per thousand people. In most countries of the world outside of the U.S., people live in elevator and storied apartment houses. It's true all over Europe, all over Asia, South America, certainly true in China. And in a mature market like Europe, the installed population is about six elevators per thousand people. And so we're on our way to some portion of six.[35]

As this comment suggests, product saturation levels for many products are low in emerging markets. For example, while Indian consumers have 700 million debit cards, only 700,000 retail outlets in India had card machines in 2016. Overall, India has one card machine for every 1,785 people. By contrast, in Europe the ratio is one machine per 119 people; China has one machine for every 60 people. In the United States, the corresponding figures are one machine for every 25 people.[36]

Automobile ownership exhibits similar disparity. In India, just 8 out of every 1,000 adults own a car.[37] In Russia, 200 people out of 1,000 own cars; in Germany, the figure is 565 out of 1,000.[38] Low levels of vehicle ownership are one reason Myanmar represents an attractive market opportunity for global automakers (see "Myanmar Is Open for Business").

The global market for French Champagne provides another example. Following the Brexit vote in 2016, the British pound fell in value relative to the euro. That translated into higher prices for premium imported bubbly in the United Kingdom, the number 2 export market by sales behind the United States. As budget-conscious British shoppers opt for English sparkling wines or Italian Prosecco, French Champagne producers have been compelled to seek more growth elsewhere. Again, relative product saturation levels show the opportunity. In 2016, Champagne producers shipped two bottles per person in France, one bottle per capita in Switzerland, and one-half bottle per person in Great Britain. As for the United States, shipments totaled just 0.07 bottle per person—less than half a glass. Conclusion: Americans should be popping more Champagne corks![39]

2-4 Balance of Payments

◀ **2-4** Discuss the significance of balance of payments statistics for the world's major economies.

The **balance of payments** is a record of all economic transactions between the residents of a country and the rest of the world. U.S. balance of payments statistics for the period 2012 to 2016 are shown in Table 2-5. International trade data for the United States is available from the U.S. Bureau of Economic Analysis (www.bea.gov); the bureau's interactive Web site enables users to generate customized reports. The International Monetary Fund's *Balance of Payments Statistics Yearbook* provides trade statistics and summaries of economic activity for all countries in the world.[40]

The balance of payments is divided into the current and capital accounts. The **current account** is a broad measure that includes **merchandise trade** (i.e., manufactured goods) and **services trade** (i.e., intangible, experience-based economic output) plus certain categories of financial transfers such as humanitarian aid. A country with a negative current account balance has a **trade deficit**; that is, the outflow of money to pay for imports exceeds the inflow of money from sales of exports. Conversely, a country with a positive current account balance has a **trade surplus**.

The **capital account** is a record of all long-term direct investment, portfolio investment, and other short- and long-term capital flows. The minus signs signify outflows of cash. For example, in Table 2-5, line 2 shows an outflow of more than $2.2 trillion in 2016 that represents payment for U.S. merchandise imports. (Entries not shown in Table 2-5 represent changes in net errors and omissions, foreign liabilities, and reserves.) These are the entries that constitute the balance of payments balance. In general, a country accumulates reserves when the net of its current and capital account transactions shows a surplus; it gives up reserves when the net shows a deficit. The important fact to recognize about the overall balance of payments is that it is always in balance, although imbalances do occur in subsets of

TABLE 2-5 U.S. Balance of Payments, 2012–2016 (US$ millions)

	2012	2013	2014	2015	2016
A. Current Account	**−426,198**	**−349,543**	−373,800	−434,598	−451,685
1. Goods Exports	1,561,540	1,592,784	1,632,639	1,510,757	1,455,704
2. Goods Imports	−2,303,785	−2,294,453	−2,374,101	−2,272,612	2,208,211
3. *Balance on Goods*	−742,095	−701,669	−741,462	−761,855	−752,507
4. Services: Credit	654,850	687,410	710,565	753,150	752,507
5. Services: Debit	−450,360	−462,134	−477,428	−491,740	−504,654
6. *Balance on Services*	204,490	225,276	233,138	261,410	247,714
7. *Balance on Goods and Services*	−537,605	−476,392	−508,324	−500,445	−504,793
B. Capital Account	**6,904**	**−412**	**−45**	**−42**	−59

Source: www.bea.gov. Accessed December 1, 2017.

the overall balance. For example, a commonly reported balance is the trade balance on goods (line 3 in Table 2-5).

A close examination of Table 2-5 reveals that the United States regularly posts deficits in both the current account and the trade balance in goods. The U.S. trade deficit reflects a number of factors, including the high volume of trade with China, a seemingly insatiable consumer demand for imported goods, and the enormous cost of military operations in the Middle East and Afghanistan.

Table 2-6 shows a record of goods and services trade between the United States and the BRIC countries for 2011. A comparison of lines 4 and 5 in Table 2-5 and Table 2-6 shows a bright spot from the U.S. perspective: The United States has maintained a services trade surplus with much of the rest of the world. Overall, however, the United States posts balance of payments deficits while important trading partners, such as China, have surpluses.

China has more than $3 trillion in foreign reserves, more than any other nation. It offsets its trade surpluses with an outflow of capital, while the United States offsets its trade deficit with an inflow of capital. China and other countries with healthy trade surpluses are setting up *sovereign wealth funds* to invest some of the money. As trading partners, U.S. consumers and businesses own an increasing quantity of foreign products, while foreign investors own more U.S. land, real estate, and government securities. Foreign-owned U.S. assets total $2.5 trillion; China currently owns about $1.2 trillion in U.S. treasury bonds. As Ha Jiming, an economist with China's largest investment bank, noted, "One trillion is a big amount, but it is also a hot potato."[41] A key focus of U.S. President Trump's trade policy is America's trade deficit with China, which pushed past the $300 billion mark in 2013.

TABLE 2-6 U.S. Goods and Services Trade with China, India, and Brazil 2016 (US$ millions)

	China	India	Brazil
1. U.S. Goods Exports to	115,988	21,624	30,022
2. Goods Imports from	−463,288	−46,125	−24,620
3. *Balance on Goods*	−347,290	−24,501	*5,402*
4. U.S. Services Exports to	54,157	20,632	24,338
5. Services Imports from	−16,139	−25,808	−6,797
6. *U.S. Balance on Services*	*38,018*	−5,175	*17,541*
7. *U.S. Balance on Goods and Services*	−309,272	−29,676	*22,944*

Source: www.bea.gov. Accessed December 1, 2017.

2-5 Trade in Merchandise and Services

◀ **2-5** Identify world leaders in merchandise and services trade, and explain how currency exchange rates impact a company's opportunities in different parts of the world.

Thanks in part to the achievements of the General Agreement on Tariffs and Trade (GATT) and the WTO, world merchandise trade has grown at a faster rate than world production since the end of World War II. Put differently, import and export growth has outpaced the rate of increase in GNI. According to figures compiled by the WTO, the dollar value of world merchandise trade in 2015 totaled $16.5 trillion, a modest downturn after several years of growth as trade recovered to pre–economic crisis levels. The top exporting and importing countries are shown in Table 2-7.

In 2003, Germany surpassed the United States as the world's top exporter. German manufacturers of all sizes have benefited from global economic growth because they provide the motors, machines, vehicles, and other capital goods that are required to build factories and country infrastructures; worldwide, machinery and transport equipment constitute approximately one-third of global exports. Overall, approximately two-thirds of Germany's exports go to other EU nations; France is the number 1 country destination, while the United States ranks second. Today, exports generate 40 percent of Germany's GDP, and 9 million jobs are export related. In addition, annual sales by the foreign subsidiaries of German-based companies are $1.5 billion.[43] To ensure that local companies keep pace with the rate of digital disruption and opportunities associated with the Internet of Things, the German government recently announced an action program dubbed Industrie 4.0, whose centerpiece is a shift toward decentralized "smart" manufacturing.

In 2009, China leapfrogged Germany in the global merchandise export rankings (see Table 2-7). China's top-place ranking underscores its role as an export powerhouse: The country has demonstrated continued economic strength by achieving double-digit export growth. Chinese exports have surged since China joined the WTO in 2001; in fact, policymakers in several countries are pressuring Beijing to boost the value of the yuan in an effort to stem the tide of imports.

The fastest-growing sector of world trade is trade in services—and it is also one of the major issues in trade relations between the high- and lower-income countries. Services include travel and entertainment; education; business services such as accounting, advertising, engineering, investment banking, and legal services; and royalties and license fees that represent payments for intellectual property.

As a group, low-, lower-middle, and even upper-middle-income countries are lax in enforcing international copyrights and protecting intellectual property and patent laws. Countries that export service products such as computer software, music, and video entertainment suffer a loss of income when these rights are not enforced. According to the Global Software Piracy Study conducted each year by the Business Software Alliance, annual worldwide losses due to software piracy amount to approximately $62.7 billion. In China alone, software piracy cost the industry an estimated $8.8 billion in lost sales in 2013.

The United States is the world's leading services trader. The United Kingdom ranks second, with services accounting for 45 percent of that country's total exports. More than one-third of the U.K. services exports go to the EU; the trade in services is a key issue as the United Kingdom proceeds with its plans to exit the EU.[44]

As shown in Figure 2-2, U.S. services exports in 2016 totaled more than $750 billion, or nearly half of total U.S. exports. The U.S. services surplus (service exports minus imports) stood at $247 billion. This surplus partially offset the U.S. merchandise trade deficit of $758 billion in 2016. Bottom line: The United States runs an annual trade deficit of $0.5 trillion. It is this figure in particular that President Trump has promised to address with his vision of "America First."

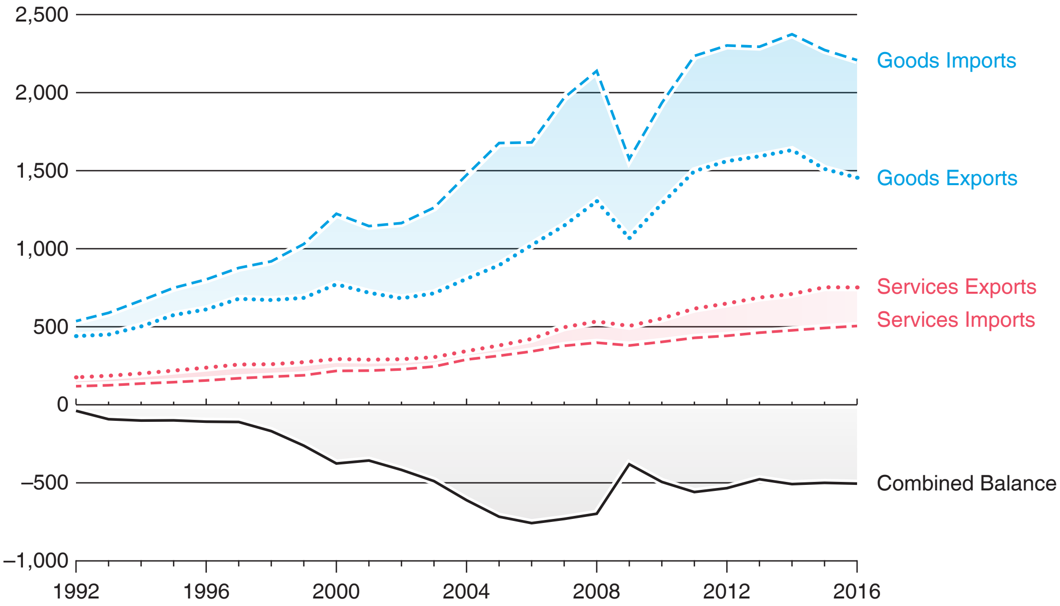
TABLE 2-7 Top Exporters and Importers in World Merchandise Trade, 2015 (US$ billions)[42]

Leading Exporters	2015	Leading Importers	2015
1. China	$2,274	1. United States	$ 2,308
2. United States	1,504	2. China	1,681
3. Germany	1,329	3. Germany	1,050
4. Japan	624	4. Japan	648
5. Netherlands	567	5. United Kingdom	625

Source: www.wto.org. Accessed December 1, 2017.

FIGURE 2-2 U.S. Trade Balance on Services and on Merchandise Trade (US$ billions)

Source: www.bea.gov. Accessed December 1, 2017.



Many economists, however, argue that trade deficits should not be used as an indication of an economy's strength, or lack thereof.

Overview of International Finance

Foreign exchange makes it possible for a company in one country to conduct business in other countries with different currencies. However, foreign exchange is an aspect of global marketing that involves certain financial risks, decisions, and activities that are completely different from those facing a domestic marketer. Moreover, those risks can be even higher in developing markets such as Thailand, Malaysia, and South Korea. When a company conducts business within a single country or region with customers and suppliers paying in the same currency, there is no exchange risk. All prices, payments, receipts, assets, and liabilities are in the given currency. In contrast, when conducting business across boundaries in countries with different currencies, a company is thrust into the turbulent world of exchange risk.

The foreign exchange market consists literally of a buyer's and a seller's market where currencies are traded for both spot and future delivery on a continuous basis. As noted earlier in the chapter, $5 trillion in currencies is traded every day. The *spot* market is for immediate delivery; the market for future delivery is called the *forward* market. This is a true market where prices are based on the combined forces of supply and demand that come into play at the moment of any transaction.

Who are the participants in this market? First, a country's central bank can intervene in currency markets by buying and selling currencies and government securities in an effort to influence exchange rates. Recall that China currently holds trillions of dollars in U.S. treasury securities. Such purchases help ensure that China's currency is relatively weak compared to the U.S. dollar.[45] Second, some of the trading in the foreign exchange market takes the form of transactions needed to settle accounts for the global trade in goods and services. For example, because Porsche is a German company, the dollars spent on Porsche automobiles by American car buyers must be converted to euros. Finally, currency speculators also participate in the foreign exchange market.

Devaluation can result from government action or an economic crisis; whatever the cause, devaluation is reduction in the value of a nation's currency against other currencies. For example, in August 1998 the Russian economy imploded. The ruble plunged in value, and the government defaulted on its foreign debt obligations. Many Russians faced wage cuts and layoffs; savings were wiped out as banks collapsed. In the decade that followed, however, Russia's economy made a rapid recovery. Real GDP doubled, in part because import price increases caused by the ruble's devaluation stimulated local production. As one economist noted, "The crash of '98 really cleaned out the macroeconomy."[46] But in 2014, it was "déjà vu all over again." As world oil prices crashed below $50 per barrel, the ruble was in free fall once again.

In 2014, the European Central Bank (ECB) embarked on a course of action that resulted in a decline of the euro's value. Using a tool known as *quantitative easing*, the ECB began buying tens of billions of euros' worth of government bonds each month, greatly increasing the supply of euros. As the supply expanded, the euro's value declined significantly. Just a few years ago, one euro was equal to $1.35. By early 2015, the exchange rate was €1 equals $1.13. While the stronger dollar was good news for U.S. tourists traveling in Europe, U.S. businesses faced significant losses when euro sales were converted into dollars at the new exchange rate.

To the extent that a country sells more goods and services abroad than it buys, there will be a greater demand for its currency and a tendency for that currency to appreciate in value—unless the government pursues foreign exchange policies that do not allow the currency to fluctuate. In international economics, such policies are called *mercantilism* or *competitive-currency politics* because they favor domestic industries at the expense of foreign competitors. During the past few years, the Chinese government has been criticized for keeping China's currency undervalued to support exports. Faced with escalating rhetoric from politicians in the United States and elsewhere, Beijing has responded by adopting a policy of **revaluation** to allow the yuan to strengthen against the dollar and other currencies.[47] Between 2006 and 2008, the yuan appreciated by approximately 20 percent.

What effect would a stronger Chinese currency have? The impacts would be felt both domestically and globally. In the broadest sense, a stronger renminbi (or yuan, as the Chinese currency is called) should help rebalance the global economy. In other words, China's economic growth would be less dependent on the United States and other countries continuing to snap up its exports. Chinese consumers and companies would enjoy increased purchasing power as imported goods became more affordable. This would put downward pressure on China's consumer price index, helping Beijing meet its goal of keeping inflation under control. Global automakers such as BMW, General Motors, and Volkswagen that assemble cars in China from imported parts would reap the benefits of lower costs.

Table 2-8 shows how fluctuating currency values can affect financial risk, depending on the terms of payment specified in the contract. Suppose, at the time a deal is made, the exchange rate is €1.10 equals $1.00. How is a U.S. exporter affected if the dollar strengthens against the euro (e.g., €1.25 equals $1.00) and the contract specifies payment in dollars? What happens if the dollar weakens (e.g., €0.85 equals $1.00)? Conversely, what if the European buyer contracts to pay in euros rather than dollars?

Given that currencies fluctuate in value, a reasonable question to ask is whether a particular currency is overvalued or undervalued compared with another currency. Recall from the chapter discussion that a currency's value can reflect government policy (as in the case of China) or market forces. One way to approach the question is to compare world prices for a single well-known product: McDonald's Big Mac hamburger. *The Economist* magazine's Big Mac Index is a "quick and dirty" way of determining which of the world's currencies are weak or strong. The underlying assumption is that the price of a Big Mac in any world currency should, after being converted to dollars, equal the price of a Big Mac in the United States. (Similar indexes have been proposed based on the price of Starbucks coffee and IKEA furniture.[48])

A country's currency would be overvalued if the Big Mac price (converted to dollars) is higher than the U.S. price. Conversely, a country's currency would be undervalued if the converted Big Mac price is lower than the U.S. price. Economists use the concept of purchasing power parity (PPP) when adjusting national income data to improve comparability. For example, let's take as given that the average U.S. price of a Big Mac is $5.06; in China, the price is 19.19 yuan. If we divide 19.19 by 6.78 (the yuan/dollar exchange rate), we get 2.83. Because this converted price is less than the U.S. price, the yuan must be undervalued. In other words, based on the average U.S. price for a Big Mac, the yuan/dollar exchange rate ought to be 3.79 to $1 (19.19 ÷ 3.79 = 5.06) rather than 6.78 to $1.[49] Make sure you understand that if the exchange rate changes from 6.78 yuan to the dollar to 3.79 yuan to the dollar, the yuan has strengthened relative to the dollar.

TABLE 2-8 Exchange Risks and Gains in Foreign Transactions

	$1,000,000 Contract		€1,100,000 Contract	
Foreign Contract Exchange Rates	U.S. Seller Receives	European Buyer Pays	U.S. Seller Receives	European Buyer Pays
€1.25 = $1	$1,000,000	€1,250,000	$880,000	€1,100,000
€1.10 = $1	$1,000,000	€1,100,000	$1,000,000	€1,100,000
€1.00 = $1	$1,000,000	€1,000,000	$1,100,000	€1,100,000
€0.85 = $1	$1,000,000	€850,000	$1,294,118	€1,100,000

Economic Exposure

Economic exposure reflects the impact of currency fluctuations on a company's financial performance. It can come into play when a company's business transactions result in sales or purchases denominated in foreign currencies. Diageo, for example, faces economic exposure to the extent that it accepts payment for exports of Scotch whisky at one exchange rate but actually settles its accounts at a different exchange rate.[50] Obviously, economic exposure is a critical issue for Nestlé, as 98 percent of that company's annual sales occur outside Switzerland.

Among countries in the euro zone, GlaxoSmithKline, Daimler AG, BP, Sanofi-Aventis, Royal Dutch Shell, and AstraZeneca all generate more than one-third of total sales in the U.S. market. Given the volatility of the dollar relative to the euro, all of these companies face potential economic exposure. Conversely, GE generates 45 percent of its revenues in the domestic U.S. market and only 14 percent in Europe, so the relative extent of GE's exposure is less than that of the European companies just listed. Even so, GE does face economic exposure. For example, in a 2014–2015 Securities and Exchange Commission filing, the company noted, "The effects of a stronger U.S. dollar compared to mainly the euro, Brazilian real, and Canadian dollar, decreased consolidated revenues by $4.9 billion."[51]

In dealing with the economic exposure introduced by currency fluctuations, a key issue is whether the company can use price as a strategic tool for maintaining its profit margins. Can the company adjust prices in response to a rise or fall of foreign exchange rates in various markets? That depends on the price elasticity of demand. The less price-sensitive the demand, the greater the flexibility a company has in responding to exchange rate changes. In the late 1980s, for example, Porsche raised prices in the United States three times in response to the weak dollar. The result: Porsche's U.S. sales dropped precipitously, from 30,000 vehicles in 1986 to 4,500 vehicles in 1992. Clearly, U.S. luxury car buyers were exhibiting elastic demand curves for pricey German sports cars!

Managing Exchange Rate Exposure

It should be clear from this discussion that accurately forecasting exchange rate movements is a major challenge. Over the years, the search for ways of managing cash flows to eliminate or reduce exchange rate risks has resulted in the development of numerous techniques and financial strategies. For example, it may be desirable to sell products in the company's home-country currency. When this is not possible, techniques are available to reduce both transaction and operating exposure.

Hedging exchange rate exposure involves establishing an offsetting currency position such that the loss or gain of one currency position is offset by a corresponding gain or loss in some other currency. This practice is common among global companies that sell products and maintain operations in different countries. For example, Porsche now relies on currency hedging rather than price increases to boost pretax profits on sales of its automobiles. This automaker manufactures all of its cars in Europe, but generates about 45 percent of its sales in the United States. Thus, Porsche faces economic exposure stemming from the relative value of the dollar to the euro. Porsche is "fully hedged"; that is, it takes currency positions to protect all earnings from foreign exchange movements.[52]

If company forecasts suggest that the value of the foreign currency will weaken against the home currency, it can hedge to protect against potential transaction losses. Conversely, when it is anticipated that the foreign currency will appreciate (strengthen) against the home currency, then a gain can be expected on foreign transactions when revenues are converted into the home currency. Given this expectation, the best decision may be not to hedge at all. (The operative word is "may"—many companies hedge anyway unless management is convinced the foreign currency will strengthen.) Porsche has profited by (correctly) betting on a weak dollar.

External hedging methods for managing both transaction and translation exposure require companies to participate in the foreign currency market. Specific hedging tools include forward contracts and currency options. *Internal hedging methods* include price adjustment clauses and intracorporate borrowing or lending in foreign currencies. The **forward market** is a mechanism for buying and selling currencies at a preset price for future delivery. If it is known that a certain amount of foreign currency will be paid out or received at some future date, a company can insure itself against exchange loss by buying or selling forward. With a forward contract, the company can lock in a specific fixed exchange rate for a future date, thereby immunizing itself against the loss (or gain) caused by the exchange rate fluctuation. By consulting sources such as the *Financial Times, The Wall Street Journal*, or www.ozforex.com, it is possible to determine exchange rates on any given day. In addition to spot prices, 30-, 60-, and 180-day forward prices are quoted for dozens of world currencies.

Companies use the forward market when the currency exposure is known in advance (e.g., when a firm contract for sale of a good exists). In some situations, however, companies are not certain about the future foreign currency cash inflow or outflow. Consider the risk exposure of a U.S. company that bids for a foreign project but won't know until sometime later if it will be awarded the project. The company needs to protect the dollar value of the contract by hedging the *potential* foreign currency cash inflow that will be generated if the company turns out to be the winning bidder. In such an instance, forward contracts are not the appropriate hedging tool.

A foreign currency **option** is the best approach for dealing with such situations. A **put option** gives the buyer the right—but not the obligation—to sell a specified number of foreign currency units at a fixed price, up to the option's expiration date. (Conversely, a **call option** is the right—but not the obligation—to buy the foreign currency.) In the example of bidding for the foreign project, the company can take out a put option to sell the foreign currency for dollars at a set price in the future. In other words, the U.S. company locks in the value of the contract in dollars. Thus, if it wins the bid, the company's future foreign currency cash inflow has been hedged by means of the put option. If it is *not* awarded the project, the company can trade the put option in the options market without exercising it. Remember, options are rights, not obligations. The only money the company stands to lose is the difference between what it paid for the option and what it receives upon selling it.

Financial officers of global firms can avoid economic exposure altogether by demanding a particular currency as the payment for their foreign sales. As noted, a U.S-based company might demand U.S. dollars as the payment currency for its foreign sales. This, however, does not eliminate currency risk; it simply shifts that risk to the customers. In common practice, companies typically attempt to invoice exports (receivables) in strong currencies and invoice imports (payables) in weak currencies. However, in today's highly competitive world market, such practice may reduce a company's competitive edge.

Summary

The economic environment is a major determinant of global market potential and opportunity. In today's global economy, capital movements are the key driving force, production has become uncoupled from employment, and capitalism has vanquished communism. Based on patterns of resource allocation and ownership, the world's national economies can be categorized as *market capitalism*, *centrally planned capitalism*, *centrally planned socialism*, and *market socialism*. The final years of the twentieth century were marked by a transition toward market capitalism in many countries that had been centrally controlled. Nevertheless, great disparity still exists among the nations of the world in terms of economic freedom.

Countries can be categorized in terms of their stage of economic development: *low income*, *lower-middle income*, *upper-middle income*, and *high income. Gross domestic product (GDP)* and *gross national income (GNI)* are commonly used measures of economic development. The 50 poorest countries in the low-income category are sometimes referred to as *least-developed countries (LDCs)*. Upper-middle-income countries with high growth rates are often called *newly industrializing economies (NIEs)*. Several of the world's economies are notable for their fast growth; for example, the *BRICS* nations include Brazil (lower-middle income), Russia (upper-middle income), India (low income), China (lower-middle income), and South Africa (upper-middle income). The *Group of Seven (G-7)*, the *Group of Eight (G-8)*, the *Group of Twenty (G-20)*, and the *Organisation for Economic Co-operation and Development (OECD)* represent efforts by high-income nations to promote democratic ideals and free market policies throughout the rest of the world. Most of the world's income is located in Japan and Greater China, the United States, and Western Europe; companies with global aspirations generally have operations in all three areas. Market potential for a product can be evaluated by determining *product saturation levels* in light of income levels.

A country's *balance of payments* is a record of its economic transactions with the rest of the world; this record shows whether a country has a *trade surplus* (value of exports exceeds value of imports) or a *trade deficit* (value of imports exceeds value of exports). Trade figures can be further divided into *merchandise trade* and *services trade* accounts; a country can run a surplus in both accounts, a deficit in both accounts, or a combination of the two. Although the U.S. merchandise trade deficit was $752 billion in 2016, the United States enjoys an annual services trade surplus. Overall, the United States is a debtor; China enjoys an overall trade surplus and serves as a creditor nation.

Foreign exchange provides a means for settling accounts across borders. The dynamics of international finance can have a significant impact on a nation's economy as well as the fortunes of individual companies. Currencies can be subject to *devaluation* or *revaluation* as a result of actions taken by a country's central bank. Currency trading by international speculators can also lead to devaluation. When a country's economy is strong or when demand for its goods is high, its currency tends to appreciate in value. When currency values fluctuate, global firms face various types of economic exposure. Firms can manage exchange rate exposure by *hedging*.

Discussion Questions

2-1. The seven criteria for describing a nation's economy introduced at the beginning of this chapter can be combined in a number of different ways. For example, the United States can be characterized as follows:

Type of economy: advanced industrial state
Type of government: democracy with a multiparty system
Trade and capital flows: incomplete free trade and part of a trading bloc
The commanding heights: mix of state and private ownership
Services provided by the state and funded through taxes: pensions and education, but not health care
Institutions: transparency, standards, no corruption, a free press, and strong courts
Markets: free market system characterized by high-risk/high-reward entrepreneurial dynamism

Use these seven criteria (page 66) to develop a profile of one of the BRICS nations, or any other country that interests you. What implications does this profile have for marketing opportunities in the country?

2-2. Briefly describe the five major transformations affecting the global economic environment since the Second World War. What is the one common theme that features among the changes?

2-3. What are the main features of market capitalism and centrally planned socialism? What has led to the adoption of a market capitalist system among many former socialist countries?

2-4. The Heritage Foundation's Index of Economic Freedom is not the only ranking that assesses countries in terms of successful economic policies. For example, the World Economic Forum (WEF; www.weforum.org) publishes an annual Global Competitiveness Report; in the 2017–2018 report, the United States ranked 2rd, according to the WEF's metrics. By contrast, Sweden was in 7th place. According to the Index of Economic Freedom's rankings for 2017, the United States and Sweden are in 17th and 19th place, respectively. Why are the rankings so different? Which criteria does each index consider?

2-5. When the first edition of this textbook was published in 1996, the World Bank defined "low-income country" as one with per capita income of less than $501. In 2003, when the third edition of *Global Marketing* appeared, "low income" was defined as $785 or less in per capita income. As shown in Table 2-4, $1,005 is the current "low-income" threshold. The other stages of development have been revised in a similar manner. How do you explain the trend in the definition of income categories during the past 20 years?

2-6. Your friend owns an import-and-export company and is worried that the value of the local currency has underperformed in comparison to all regional currencies in recent months. How would you advise your friend on the use of hedging in managing exchange rate exposure?

2-7. The prices of general products and services fluctuate, but there are marked differences in prices across the world. A small bottle of water costs $3.29 in Switzerland but only $0.19 in Tunisia. How does your country measure up in terms of the price of products and services? The website Numbeo.com was launched in April 2009 and has comparison prices across a broad range of products and services in a number of countries. Choose ten products or services at random and see how your country compares in terms of price. Apart from price, what other factors should be considered?

CASE 2-1 *Continued* *(refer to page 63)*

India's Economy at the Crossroads: Can Prime Minister Narendra Modi Deliver *Acche Din*?

In mid-2015, Modi announced several policy changes that were designed to open India's economy even further to foreign investment. One change grants foreign single-brand retailers a three-year grace period for complying with local-content rules requiring that at least 30 percent of manufactured materials in the products they sell are sourced in India. Tech retailers offering "cutting-edge" or "state-of-the-art" products have an additional five years to comply.

Foreign Investment Increases

This policy change paves the way for Apple to open its own stores in the world's second-largest smartphone market. Apple currently has an approximately 3 percent market share in India. Apple requested an exemption from the local-sourcing requirements, and a government panel ruled in the company's favor. However, India's finance minister and the Foreign Investment Promotion Board rejected the panel's findings, thwarting Apple's retail plans for the near future.

Amazon is another tech company that is targeting India for its growth potential. In doing so, Amazon India is competing with entrenched local e-commerce companies including Flipkart and Snapdeal. The key to success, according to CEO Jeff Bezos, will be local market customization. This approach embodies lessons learned in Amazon's failure to penetrate China's e-commerce market. In India, Amazon will accept payment in cash for shoppers who don't use credit or debit cards. Also, customers can shop using tablets installed in local shops.

One challenge is that Indian regulations prevent Amazon from using an "inventory-led" business model. In essence, Amazon cannot sell its own goods, but rather must adhere to a "marketplace model" in which the technology platform brings buyers and sellers together. Also, no single vendor is allowed to account for more than 25 percent of products sold. In spite of such restrictions, Amazon's investment in India has totaled approximately $5 billion to date.

In addition to retail, other sectors of the Indian market are being liberalized. For example, foreign investors will now be allowed to have 100 percent ownership of Indian airlines; previously, ownership stakes by foreign investors were limited to 49 percent. In the defense sector, full foreign ownership of arms-related projects will also be allowed. U.S.-based Boeing is taking advantage of the new rules to form a partnership with India's Tata Advanced Systems to make aircraft frames.

The Innovation Imperative

Fostering innovation is another of Modi's imperatives, though achieving success on this front will require changing the nature of Indian capitalism. Indeed, in the World Bank's 2015 Ease of Doing Business index, India's ranking improved four points, to 130. In the World Economic Forum's 2015–2016 rankings of global competitiveness, India ranks 55, one step above Vietnam. High on Modi's agenda is improving education for girls and providing more opportunities for women.

> **"Value creation comes where different businesses collide, not within businesses themselves."[53]**
>
> Anand Mahindra, Mahindra Group

Another important element of the recent initiatives is "Digital India," Modi's plan to provide more high-speed Internet access throughout India. In September 2015, an audience of 18,000 people attended a town-hall style meeting with Facebook's Mark Zuckerberg and the prime minister at the SAP Arena in San Jose, California. Many in the audience were Indian-born Facebook employees who greeted the prime minister with chants of "Modi! Modi!" Modi told the crowd, "We are an $8 billion economy today. My dream is to become a $20 trillion economy." At the time of the meeting, Modi had more than 15 million Twitter followers and more than 30 million Facebook likes.

Thanks to booming sales of low-cost smartphones, approximately one-third of India's population—some 425 million people—is now connected to the Internet. Local e-commerce startups such as Quikr and Snapdeal offer app-based services in Hindi and other local languages. Baidu, a Chinese e-commerce company, is following suit. Some of these companies feature content translated from English with the aid of machine-learning software. Other Indian companies, such as social networking site ShabdaNaragi and news aggregator Dailyhunt, are creating or sharing content that is native in local Indian languages.

Wipro, Infosys, and Tata Consultancy Services (TCS) are currently India's Big Three information technology companies. Starting in the 1980s, these companies benefited from the outsourcing trend that saw Western companies taking advantage of India's low-cost, highly educated labor force. Call centers were one key industry; another was installation and maintenance of computer software systems.

Today, Wipro, Infosys, TCS, and other Indian IT companies are navigating the global shift in IT spending. Competitive threats—and opportunities—are coming from all sides. For example, cloud-based services from Amazon and Microsoft threaten to disrupt the traditional IT services that have long been a bright spot in India's economy. Some cloud-services companies are focused on specific sectors; an example is U.K.-based Equiniti Financial Services, whose customers include both individuals and organizations. At the same time, companies such as IBM and Accenture are expanding their IT services offerings.

Demonetization: Modi Clamps Down on "Black Money"

In November 2016, Prime Minister Modi made a bold move: He announced that, overnight, the government was canceling the country's Rs500 ($7.66) and Rs1000 currency notes. The move was designed to curb various forms of "black money" obtained through black market transactions and other illegal activities such as corruption or currency counterfeiting. "Black money" also includes money earned legally but not declared as taxable income.

Before the change, roughly 80 percent of consumer transactions in India were conducted in cash. After Modi's announcement, Indians had a short window of opportunity to deposit the canceled bank notes in their bank accounts or exchange them for new currency. The move basically "demonetized" about 86 percent of the currency—worth a total of $220 billion—circulating through India's economy. It also provided opportunities for fintech startups such as mobile payments provider Paytm.

Some critics noted that "shock treatment" of this type had previously occurred only in countries experiencing hyperinflation or economic collapse. Why, the critics asked, was Modi resorting to such a drastic measure when India's GDP was growing at a rate of 7 percent? Swapan Dasgupta, a member of India's parliament, had this answer: "It's motivated by a philosophy which is that if you want India to be a meaningful player on the world economic stage you've got to take tough measures."

TABLE 2-9 GST Categories

Tax Rate (%)	Items Included (Partial List)
0	Milk; fruit; children's picture books and coloring books; raw coffee beans
3	Gold
5	Packaged food; clothing costing less than Rs 1,000 ($15.50); roasted coffee beans; railway transport; small restaurants without air conditioning
12	Toothpaste; umbrellas; mobile phones; medium-sized restaurants without air conditioning
18	Cookies; cakes, restaurants with air conditioning
28	Chewing gum; deodorant; shampoo; instant coffee

New Tax Regime

In July 2017, Modi's government launched a new national sales tax system, which included the Goods and Services Tax (GST). The GST was designed to eliminate some of the abundant red tape that kept a damper on India's economic growth. Previously, products could be taxed at different rates in different Indian states. Instead of a single national sales tax rate, the new system includes six rates, ranging from 0 percent to 28 percent (see Table 2-9). Mass-consumption goods are taxed at the lowest rates. In contrast, luxury cars, tobacco, chewing tobacco, and carbonated soft drinks will be taxed at "sin tax" rates approaching 300 percent. Some categories, including property and alcoholic beverages, are not included in the GST and will be subject to tax at the state level.

Discussion Questions

2-8. Social activists and political opponents in India have voiced objection to Modi's economic liberalization initiatives. What do you think is the nature of some of these objections?

2-9. Do you think Modi's large number of social media "likes" and "followers" are indicative of his potential to achieve economic reform?

2-10. Assess Modi's two main economic reforms—namely, demonetization and tax reform.

2-11. What must Wipro, Infosys, TCS, and other companies in India's IT sector do to avoid being victimized by new trends in technology?

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CASE 2-2
A Day in the Life of a Contracts Analyst at Cargill

Glynis Gallagher works as a contracts analyst at Cargill Risk Management, which is a business unit within Cargill. Based in Wayzata, Minnesota, Cargill celebrated its 150th anniversary in 2015. Cargill is a truly global company: With operations in more than 60 countries, it markets food, agricultural, financial, and industrial products and services to customers worldwide. The company is one of the world's top grain traders. In addition, it has global beef operations, and it does business in starches and sweeteners as well. Cargill also processes steel and de-icing salt. Its revenues totaled $109,699 billion in 2017, making Cargill the largest privately owned company in the United States.

Cargill is committed to feeding the world in a responsible way, while also reducing its environmental impact and improving the communities where its employees live and work. Writing in the introduction to his 1979 book *Merchants of Grain*, author Dan Morgan noted:

> Grain is the only resource in the world that is even more central to modern civilization than oil. It goes without saying that grain is essential to human lives and health. . . . As America became the center of the planetary food system, trade routes were transformed, new economic relationships took shape, and grain became one of the foundations of the postwar American Empire.

Today, as the saying goes, "You can't walk down the grocery aisle without seeing something Cargill has been involved with in one way or another." A recent article in *Forbes* described the scope of the company's operations:

> Cargill, the $135 billion (fiscal year 2014 sales) family-owned food behemoth dominates all roads between the world's farms and your dinner plate. . . . Since the company was founded in 1865, the core of its business has always been trading

commodities—buying, storing, shipping and selling the crops farmers grow around the world.

Commodities processing is a high-volume, low-margin business; Cargill crushes large quantities of soybeans each day. Because the company is privately held, Cargill can pursue long-term investment opportunities in many global markets. For example, it has had a major presence in India and other emerging markets for decades. The company has made large investments in cocoa, sugar, and food innovation.

The career path of Greg Page, former Cargill CEO and current executive chairman, shows the range of job opportunities Cargill offers its employees. After graduating from college, Page took a trainee position in the Feed Division. In subsequent years, he held a number of positions in the United States and Singapore. He was also involved with the startup of a poultry processing facility in Thailand. Today, Cargill exports roughly 100 million metric tons of chicken from Thailand every year.

Gallagher graduated from a large Midwestern university in 2012 with a major in marketing. She spent fall semester of her senior year studying in northern Italy. Many of her business courses helped prepare her for her current role. She recalls, "Although I never took a course focused on derivatives and trading exclusively, my math and finance courses gave me a solid foundation in order to understand portfolio exposures, fee schedules, and financing options we utilize every day. My marketing courses have allowed me to use this data in a more customer-focused approach on a daily basis."

Cargill Risk Management is part of Financial Services, one of Cargill's six platforms that comprise 65 business units. Cargill, through Cargill Risk Management, is a registered limited designation swap dealer with the U.S. Commodities Futures Trading Commission (CFTC). Gallagher must make sure that everything she does for customers complies with CFTC swap dealing guidelines. Cargill and other commodities trade houses are industry members of the Commodity Markets Council, a trade group that serves as a liaison between companies and the government.

Gallagher is a contracts analyst. She says, "I have always been interested in law. Becoming a contracts analyst in such a regulated industry allowed me to gain exposure to contractual language, legal requirements, and the regulatory environment. For example, if you do not set up a contract properly, you are opening yourself up to unnecessary risk." As Gallagher explains, "In today's highly regulated and changing business environment, it is essential to protect yourself while completing business transactions. Being part of this facet of the business is a daily challenge. It pushes me outside of my comfort zone to understand a basic question—namely, what is the true risk here for Cargill?"

As noted previously, Cargill Risk Management is a limited designated swap dealer. What's a "swap"? Swaps, also known as over-the-counter (OTC) transactions, can be complex financial structures that derive their value from something else—a futures contract, for example. Swaps are traded in direct negotiation between buyer and seller; they represent a $700 trillion market. Who uses swaps? Gallagher's business unit services a variety of customers, including farmers, major airlines, food companies, investment funds, oil companies, and many others.

Gallagher's business unit works with its customers to provide commodities hedges through swaps and structured products. The commodities in question are often agricultural commodities such as grains (e.g., corn, wheat, and soybeans), as well as beef and other animal proteins. Cargill also deals in metals and energy. Hedging is a financial strategy that allows a customer to lock in the price for a specific commodity purchase in the future. An important part of Gallagher's job is to work diligently to understand customers' business objectives, and to ensure contractual terms are aligned with these strategies. The Cargill team assists customers by creating tailored risk management solutions to reduce risks and uncertainty by having more diversified hedging portfolios.

Consider the following example: When a large restaurant chain purchases cooking oil, it must manage budgets and margins to ensure profitability. When the price of oil seeds—a commodity—increases, the company needs to find a way to offset this increase instead of passing along the cost to its customers in the form of higher prices. Of course, market volatility and cost swings are difficult to predict—so how is the restaurant chain able to do this? Helping customers answer this question is an important part of Gallagher's team's job.

Summing up her experience, Gallagher says, "I enjoy working with our customers in more than 60 countries throughout the world. With 16 global offices, I am exposed to different cultures and business practices that challenge me to think globally. Understanding where the customer is coming from allows me to succeed in helping them understand and navigate this complex field. Ultimately, I am part of the process which allows enterprises ranging from huge corporations to small farmers succeed in managing their overall risk."

Discussion Questions

2-12. What knowledge and skills are required to be successful as a contracts analyst?

2-13. What do you think is the best part of Gallagher's job? The most challenging part?

2-14. What does Gallagher's career profile tell you about the importance of professionalism and a good work ethic at a company such as Cargill?

2-15. Cargill engages in a wide range of sustainability initiatives, including ensuring access to food; preventing food waste; supporting urban agriculture; and participating in the Non-GMO Project. **Dig deeper:** Choose one of these topics, conduct some exploratory research, and write a short essay or present a brief oral report on your findings. Remember to cite your sources!

Sources: Jacob Bunge, "Demographic Destiny 2050—Chicken to Feed the World," *The Wall Street Journal* (December 5–6, 2015), pp. C1, C2; Gregory Meyer and Neil Hume, "Cargill Set to Keep It in the Family 150 Years On," *Financial Times* (April 20, 2015), p. 18; Dan Alexander, "Faster Food: Inside Cargill's Plan to Make the World's Biggest Food Business Even Bigger," *Forbes* (November 24, 2014), pp. 44–48; Dan Morgan, *Merchants of Grain* (New York, NY: Penguin Books, 1979); Scott Kilman, "Bountiful Harvest: Giant Cargill Resists Pressure to Go Public as It Pursues Growth," *The Wall Street Journal* (January 9, 1997), pp. A1, A4.

Notes

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[6]Another economic indicator, *gross national income* (GNI), comprises GDP plus income generated from nonresident sources. A third metric, *gross national product* (GNP), is the total value of all final goods and services produced in a country by its residents and domestic business enterprises, plus the value of output produced by citizens working abroad, plus income generated by capital held abroad, minus transfers of net earnings by global companies operating in the country. GDP also measures economic activity; however, GDP includes *all* income produced within a country's borders by its residents and domestic enterprises as well as foreign-owned enterprises. Income earned by citizens working abroad is *not* included. For example, Ireland has attracted a great deal of foreign investment, and foreign-owned firms account for nearly 90 percent of Ireland's exports. This helps explain the fact that, in 2016, Ireland's GDP totaled $304 billion while GNI was $247 billion. As a practical matter, GNP, GDP, and GNI figures for many countries will be roughly the same.

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3 The Global Trade Environment

LEARNING OBJECTIVES

3-1 Explain the role of the World Trade Organization in facilitating global trade relations among nations.

3-2 Compare and contrast the four main categories of preferential trade agreements.

3-3 Explain the trade relationship dynamics among signatories of the North American Free Trade Agreement.

3-4 Identify the four main preferential trade agreements in Latin America and the key members of each.

3-5 Identify the main preferential trade agreements in the Asia-Pacific region.

3-6 Describe the various forms of economic integration in Europe. What is Brexit, and what are the implications for Great Britain's relationship with Europe.

3-7 Describe the activities of the key regional organizations in the Middle East.

3-8 Identify the issues for global marketers wishing to expand in Africa.

CASE 3-1

Breaking Up Is Hard to Do: Britons Contemplate "Brexit"

"Should we stay or should we go?" That was the question on the minds of voters who went to the polls in June 2016 to decide whether the United Kingdom of Great Britain and Northern Ireland would remain in the European Union (EU). The issue was complicated by the election of Jeremy Corbyn, a far-left candidate, as leader of the Labor Party in September 2015. Britain was also witnessing the rise of populist movements, as evidenced by the fact that nearly 4 million people voted for the anti-EU U.K. Independence Party (UKIP). UKIP's leader, Nigel Farage, had long been a vocal critic of the EU.

Disillusionment was also evident among members of the Tory party who had opposed Britain's initial inclusion in the EU, which dated to 1973. In the 1990s, some Tories had also opposed Britain's participation in the Maastricht treaty that established Europe's Single Market.

In 2013, Prime Minister David Cameron, a member of the Conservative party, had announced that he was calling a referendum on the issue. At the time, Cameron was convinced that, after sufficient public debate, most U.K. citizens would opt for the status quo. By the time the referendum was put to a vote three years later, however, the opposition movement had gathered considerable momentum and rhetoric on both sides became heated. When the votes were tallied, the "Exit" camp prevailed: The United Kingdom would leave the EU.

As a member of the EU, the United Kingdom has access to a free, open market of nearly 500 million people. For that reason alone, many members of the U.K. business community were