Chapter 8

Emerging markets

CHAPTER OUTLINE

- Global perspective: Aftermath of the Asian financial crisis
- Marketing and economic development
  - The stages of economic development
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  - Bottom-of-the-pyramid markets (BOPMs)
- Developing countries and emerging markets
  - Newest emerging markets
- Strategic implications for marketing

CHAPTER LEARNING OBJECTIVES

What you should learn from Chapter 8:

- The political and economic changes affecting global marketing
- The connection between the economic level of a country and the marketing task
- How marketing contributes to the growth and development of a country's economy
- The growth of developing markets and their importance to regional trade
- The political and economic factors that affect stability of regional market groups
- The NIC growth factors and their role in economic development

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Global perspective

Aftermath of the Asian financial crisis

Four basic problems emerged from the Asian financial crisis. One was the lack of foreign exchange that caused the decline in the value of currencies in Thailand, Indonesia, South Korea and other Asian countries. Second, there were poor methods for apportioning capital in an inadequately developed financial sector. Third was the impact the crisis had on the US and the global economy. The final problem was the operations and slow replacement of funds from the International Monetary Fund. Despite all this, Asia has rebounded quickly and is again the fastest growing economy in the world.

No doubt, there are speculations as to whether Asia's rapid growth is sustainable. More so, is the region safe from crises? Two views have been proposed; the first view is that Asian countries have effectively protected themselves against further financial crises, for instance, their central banks have accrued ample foreign reserves. Debt ratios have declined, maturities have prolonged and the debt to foreign investors is denominated in local currencies. In addition, even if foreign investors are reluctant to renew their maturing claims for banks and firms, then the national authorities can grant the resources needed for repayment. The second view is that they argue that not much has changed that can be visualised. Superficially exchange rates seem more flexible and in a number of Asian countries short-term debt is increasing. China's position on banking is still weak.

Can they rule out another crisis? It is contended that Asia is still at risk but the crisis may take a different form—not so much a currency devaluation, but given the conditions there could be a steep drop in asset valuations. If these crash then leveraged investors will be forced to sell in declining markets. By volatility increasing, banks and funds will be compelled to liquidate. There are still many uncertainties: would the authorities be quick to react? Only time can tell.

Sources: Barry Eichengreen, 'Asian Crisis 10 years later', *Emerging Markets*, 3 July 2007, http://www.emergingmarkets.org/article.asp?ArticleID=1389973&Print=1, accessed August 2007; Dick K Nanto, Specialist in Industy and Trade economics Division, *The 1997–98 Asian Financial Crisis*, 1998, http://www.fas.org/man/crs/crs-asia2.htm, accessed on 21 March 2008.

No doubt, the Asian crisis did affect currencies, stock markets and several asset prices of many Southeast Asian countries but now they are in a better position in terms of their debt reduction, foreign exchange reserves and stable liquid markets. That experience has made these countries better financed and equipped to take on challenges. In Asia, some countries such as Malaysia, Indonesia, South Korea and Thailand can be categorised as emerging markets. These countries not only have large markets but also have been growing, and are becoming competitors and manufacturers for Western companies.

The term emerging markets was initially used by the World Bank Economist Antoine van Agtmael in 1980s. It implies a business phenomenon that cannot be totally characterised by or restricted to geography or economic force. They are countries in

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transition moving from developing stage to developed stage much like China, India, Mexico, Brazil, eastern Europe, parts of Southeast Asia, Latin America and Africa.[1] These countries restructure themselves as a market economy and offer tremendous opportunities in terms of investment, trade, technology transfers and production. With the fall of the Marxist–socialist centrally planned economic model and the boom in some of the Asian economies, it is now clear that the path to economic growth is open trade and direct investment. The transition from socialist to market-driven economies, the liberalisation of trade and investment policies in developing countries, the transfer of public-sector enterprises to the private sector and the rapid development of regional market alliances are changing the way countries will trade and prosper in the twenty-first century.

All developing countries cannot be categorised as emerging economies. Emerging economies are those that have progressed on economic reforms to uplift poverty, poor infrastructure and overpopulation. They are also economies that have achieved a stable growth in gross national product (GNP).[2] The World Bank, the IMF and *The Economist* have proposed 24 emerging economies based on the size of their gross domestic product (GDP) and the capitalisation of their stock markets. Exhibit 8.1 gives a list of those emerging economies.[3]

EXHIBIT 8.1 The emerging economies

Argentina	Mexico
Brazil	Peru
Chile	Philippines
China	Poland
Colombia	Portugal
Czech Republic	Russia
Hong Kong	Singapore
Hungary	South Africa
India	South Korea
Indonesia	Thailand
Israel	Turkey
Malaysia	Venezuela

Source: World Bank, *World Development Report, 2000/2001*, CIA WORLD FACTBOOK, 2000, appearing in P. Ghauri & P. Cateora, *International Marketing* 2nd edn, McGraw-Hill, Berkshire, UK, p. 179.

China, South Korea, Poland, Argentina, Brazil, Mexico, Turkey and India are some of the countries undergoing impressive changes in their economies and emerging as vast markets. These and other countries have an ever-expanding and changing demand for goods and services. As countries prosper and their people are exposed to new ideas and behaviour patterns via global communications networks, old stereotypes, traditions and habits are cast aside or tempered and new patterns of consumer behaviour emerge.

For instance, it is not uncommon to find Sony televisions in China; Avon cosmetics in South Korea; Wal-Mart discount stores in Argentina, Brazil, Mexico, China and Thailand; McDonald's beefless Big Macs in India; Whirlpool washers and refrigerators in eastern Europe; Sara Lee food products in Indonesia; and Amway products in the Czech Republic—all of which represent the opportunities in emerging markets. In the emerging economy, technological changes have created a global marketplace resulting in the departure of domestic markets. There is more mobility now in the factors of production. Future 500 has proposed that the companies that will survive in the emerging economy must be strategic to keep costs low, become more creative, increase responsiveness and sustainability, provide value and create profitability.[4]

Emerging markets will have around 75 per cent of the world's total trade growth in future, according to estimates by the US Department of Commerce.[5] China is growing exponentially. There are reports that three of the world's top six firms by market value are now Chinese (Industrial and Commercial Bank of China [ICBC], PetroChina and China Mobile). The ICBC has surpassed Citigroup. The other three are American companies, with Exxon Mobil and General Electric standing as the top two, followed by ICBC and PetroChina and then Microsoft and China Mobile.[6]

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The pattern of economic growth and global trade that will extend well into the twenty-first century will consist of three multinational market regions that comprise major trading blocs: Europe, Asia and the Americas. Within each trading bloc are fully industrialised countries, namely Germany, Japan and the United States; rapidly industrialising countries such as Mexico, Poland and South Korea that are close on the heels of the fully industrialised; and other countries that are achieving economic development but at rates that are more modest. Outside the triad of Europe, Asia and the Americas are others at different levels of development striving to emulate their more prosperous neighbours. Indonesia, Malaysia, Thailand and the Philippines are beginning to chase the leaders' tails, though from much lower levels of income. All four groups are creating enormous global markets. This chapter and the next explore the emerging markets and the multinational market regions and market groups that comprise the global trading blocs of the future.

Marketing and economic development

The economic level of a country is the single most important environmental element to which the foreign marketer must adjust the marketing task. The stage of economic growth within a country affects not only the attitudes toward foreign business activity,[7] but also the demand for goods, the distribution systems found within a country and the entire marketing process.[8] In static economies, consumption patterns become rigid and marketing is typically nothing more than a supply effort. In a dynamic economy, consumption patterns change rapidly. Marketing is constantly faced with the challenge of detecting and providing for new levels of consumption, and marketing efforts must be matched with ever-changing market needs and wants.

Economic development presents a two-sided challenge. First, a study of the general aspects of economic development is necessary to gain empathy regarding the economic climate within developing countries. Second, the state of economic development must be studied with respect to market potential, including the present economic level and the economy's growth potential. The current level of economic development dictates the kind and degree of market potential that exists, while knowledge of the dynamism of the economy allows the marketer to prepare for economic shifts and emerging markets.

Economic development is generally understood to mean an increase in national production that results in an increase in the average per capita gross domestic product (GDP).[9] Besides an increase in average per capita GDP, most interpretations of the concept also imply a widespread distribution of the increased income. Economic development, as commonly defined today, tends to mean rapid economic growth and increases in consumer demand—improvements achieved 'in decades rather than centuries'.

The stages of economic development

The best-known model for classifying countries by degree of economic development is the five-stage model presented by Walt Rostow.[10] Each stage is a function of the cost of labour, the technical capability of the buyers, the scale of operations, interest rates and the level of product sophistication. Growth is the movement from one

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stage to another, and countries in the first three stages are considered economically underdeveloped. Briefly, the stages are as follows.

1 Stage 1. The traditional society. Countries in this stage lack the capability to significantly increase the level of productivity. There is a marked absence of systematic application of the methods of modern science and technology. Literacy is low, as are other types of social overhead.
2 Stage 2. The preconditions for takeoff. This second stage includes those societies in the process of transition to the takeoff stage. During this period, the advances of modern science are beginning to be applied in agriculture and production. The development of transportation, communications, power, education, health and other public undertakings has begun in a small but important way.
3 Stage 3. The takeoff. At this stage, countries achieve a growth pattern that becomes a normal condition. Human resources and social overhead have been developed to sustain steady development, and agricultural and industrial modernisation lead to rapid expansion.
4 Stage 4. The drive to maturity. After takeoff, sustained progress is maintained and the economy seeks to extend modern technology to all fronts of economic activity. The economy becomes internationally involved. In this stage, an economy demonstrates that it has the technological and entrepreneurial skills to produce not everything, but rather anything it chooses to produce.
5 Stage 5. The age of high mass consumption. The age of high mass consumption leads to shifts in the leading economic sectors toward durable consumer goods and services. Real income per capita rises to the point where a very large number of people have significant amounts of discretionary income.

Although Rostow's classification has met with some criticism because of the difficulty of distinguishing among the five stages, it provides the marketer with some indication of the relationship between economic development and the types of products a country needs, and of the sophistication of its customers and industrial infrastructure.

Alternatively, the traditional approach was that of the United Nations which classifies a country's stage of economic development based on its level of industrialisation. It groups countries into three categories:

1 MDCs (more-developed countries). Industrialised countries with high per capita incomes, such as Canada, England, France, Germany, Japan and the United States.
2 LDCs (less-developed countries). Industrially developing countries just entering world trade, many of which are in Asia and Latin America, with relatively low per capita incomes.
3 LLDCs (least-developed countries). Industrially underdeveloped, agrarian, subsistence societies with rural populations, extremely low per capita income levels and little world trade involvement. LLDCs are found in Central Africa and parts of Asia. Violence and the potential for violence are often associated with LLDCs.[11]

The UN classification has been criticised because it no longer seems relevant in today's rapidly industrialising world. In addition, many countries that are classified as LDCs are industrialising at a very rapid rate, whereas others are advancing at more traditional rates of economic development.

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Mass industrialisation, higher disposable incomes and abundance in supply of goods and services move products from domestic consumption to global consumption resulting in an increase in world trade. Exhibit 8.2 shows that the growth in world trade has rapidly increased by 2006 in volume terms accelerating to 9.7 per cent from 7.7 per cent in 2005 (World Bank estimates). It is suggested that the demand condition coupled with consumer spending in Japan and the Euro area, supported industrial production both for major industrial economies and for developing Asia. Increased export performance from developing Asia also boosted this growth. In addition, the People's Republic of China (PRC) plays the catalytic role whereby their regional partners export to the PRC and they process and re-export to the rest of the world. However, there are suggestions that growth is expected to moderate in export volume terms.[12]

Countries that are experiencing rapid economic expansion and industrialisation and do not exactly fit as LDCs or MDCs are more typically referred to as newly industrialised countries (NICs). These countries have shown rapid industrialisation of targeted industries and have per capita incomes that exceed other developing countries. They have moved away from restrictive trade practices and instituted significant free market reforms; as a result, they attract both trade and foreign direct investment. Chile, Brazil, Mexico, South Korea, Singapore and Taiwan are some of the countries that fit this description. Taiwan is considered a powerhouse economy and is still one of the top four foreign investors in China, Malaysia, Vietnam and Cambodia.[13]

Brazil provides an example of the growing importance of NICs in world trade, exporting everything from alcohol to carbon steel. Brazilian orange juice, poultry, soybeans and weapons (Brazil is the world's sixth-largest weapons exporter) compete with US products for foreign markets. Embraer, a Brazilian aircraft manufacturer, has sold planes to over 60 countries and provides a substantial portion of the commuter aircraft used in the United States and elsewhere. Even in vehicle production, Brazil is a world player; it ships more than 200 000 cars, trucks and buses to Third World countries annually. Volkswagen has produced more than 3 million VW Beetles in Brazil and has invested more than US$500 million in a project to produce Golf and Passat

EXHIBIT 8.2 GDP estimates

Baseline assumptions for GDP growth rate				
GDP growth (%)	2005 actual	2006 actual	2007 ADO[a] (2007 projection)	2008 ADO[a] (2007 projection)
Industrial countries[b]	2.4	2.9	2.3	2.6
United States	3.2	3.3	2.5	3.0
Japan	1.9	2.2	2.0	2.3
Euro zone	1.4	2.6	2.2	2.1

a ADO—Asian Development Outlook.

b Growth rates for industrial countries are a GDP weighted average for the US, EU and Japan.

Sources: US Bureau of Economic Analysis, available www.bea.gov, downloaded 28 February 2007; Eurostat, available http://europa.eu.int, downloaded 8 March 2007; Economic and Social Research Institute of Japan, available www.esri.cao.go.jp, downloaded 12 March 2007; CEIC Data Company Ltd., downloaded 8 March 2007; World Bank, Commodity Price Data, available http://web.worldbank.org, downloaded 8 March 2007; OECD Main Economic Indicators, available www.oecd.org, downloaded 8 March 2007; World Bank, Prospects for the Global Economy Forecast Summary, available http://web.worldbank.org, downloaded 8 March 2007, cited in Asian Development Bank www.adb.org/documents/books/ADO/2007/part010201.asp, accessed on 17 August 2007.

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cars. The firm also announced a deal to sell US$500 million worth of car parts to a Chinese partner. General Motors has invested US$600 million to create what it calls 'an industrial complex'—a collection of 17 plants occupied by suppliers such as Delphi, Lear and Goodyear to deliver preassembled modules to GM's line workers. Overall, car and car parts makers are investing more than US$2.8 billion aimed at the 200 million people in the Mercosur market, a free trade group formed by Argentina, Brazil, Paraguay and Uruguay.[14]

Among the NICs, South Korea, Taiwan, Hong Kong and Singapore have had such rapid growth and export performance that they are known as the 'Four Tigers' of Southeast Asia. The Four Tigers have almost joined the ranks of developed economies in terms of GDP per head. These countries have managed to dramatically improve their living standards by deregulating their domestic economies and opening up to global markets. From typical Third World poverty, each has achieved a standard of living equivalent to that of industrialised nations, with per capita incomes in Hong Kong and Singapore rivaling those of the wealthiest Western nations. More recently, Argentina, Brazil, Mexico, Thailand and Malaysia are also categorised as NICs.[15]

NIC growth factors

Both Rostow's and the UN's designations for stages of economic development reflect a static model in that they do not account for the dynamic changes in economic, political and social conditions in many developing countries, especially among NICs. Why some countries have grown so rapidly and successfully while others with similar or more plentiful resources languish or have modest rates of growth is a question to which many have sought answers. Is it cultural values, better climate, more energetic population or just an 'Asian miracle'? There is ample debate as to why the NICs have grown while other underdeveloped nations have not. Some attribute their growth to cultural values, others to cheap labour, and still others to an educated and literate population. Certainly all of these factors have contributed to growth, but other important factors are present in all the rapidly growing economies, many of which seem to be absent in those nations that have not enjoyed comparable economic growth.

One of the paradoxes of Africa is that its people are for the most part desperately poor while its land is extraordinarily rich. East Asia is the opposite: it is a region mostly poor in resources that over the last few decades has enjoyed an enormous economic boom. When several African countries in the 1950s (for example, Congo, the former Zaire) were at the same income level as many east Asian countries (for example, South Korea) and were blessed with far more natural resources, it might have seemed reasonable for the African countries to have prospered more than their Asian counterparts. Although there is no doubt that east Asia enjoyed some significant cultural and historical advantages, its economic boom relied on other factors that have been replicated elsewhere but are absent in Africa. The formula for success in east Asia was an outward-oriented, market-based economic policy coupled with an emphasis on education and health care. Most newly industrialised countries have followed this model. The factors that existed to some extent during the economic growth of NICs were as follows:

- Political stability in policies affecting their development.
- Economic and legal reforms. Poorly defined and/or weakly enforced contract and property rights are features the poorest countries have in common.

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- Entrepreneurship. In all of these nations, free enterprise in the hands of the self-employed was the seed of the new economic growth.
- Planning. A central plan with observable and measurable development goals linked to specific policies was in place.
- Outward orientation. Production for the domestic market and export markets with increases in efficiencies and continual differentiation of exports from competition was the focus.
- Factors of production. If deficient in the factors of production—land (raw materials), labour, capital, management and technology—an environment existed where these factors could easily come from outside the country and be directed to development objectives.
- Industries targeted for growth. Strategically directed industrial and international trade policies were created to identify those sectors where opportunity existed. Key industries were encouraged to achieve better positions in world markets by directing resources into promising target sectors.
- Incentives to force a high domestic rate of savings and to direct capital to update the infrastructure, transportation, housing, education and training.
- Privatisation of state-owned enterprises (SOEs) that placed a drain on national budgets. Privatisation released immediate capital to invest in strategic areas and gave relief from a continuing drain on future national resources. Often when industries are privatised, the new investors modernise, thus creating new economic growth.

The final factors that have been present are large, accessible markets with low tariffs. During the early growth of many of the NICs, the first large open market was the United States, later joined by Europe and now, as the fundamental principles of the WTO are put into place, by much of the rest of the world.

Although it is customary to think of the NIC growth factors as applying only to industrial growth, the example of Chile shows that economic growth can occur with agricultural development as its economic engine. Chile's economy has expanded at an average rate of 7.2 per cent since 1987 and is considered one of the least risky Latin American economies for foreign investment. It has been identified that in 2006, in comparison to other Latin American countries, Chile had the highest nominal GDP per capita;[16] however, since 1976, when Chile opened up trade, the relative size of its manufacturing sector declined from 24.2 per cent of GDP in 1973 to 13.2 per cent in 2004.[17] Agriculture, on the other hand, has not declined. Exports of agricultural products have been the star performers. Chile went from being a small player in the global fruit market, exporting only apples in the 1960s, to one of the world's largest fruit exporters in 2000. Chile is also a major exporter of the fish-meal that is fed to hatchery-raised salmon.

Chile depends on international trade. Their exports are about 42 per cent of GDP. In 2006, exports rose to US$59 billion from US$40.5 billion in 2005 and in general, imports rose to US$36.7 billion from US$30.2 billion the previous year. Copper is predominantly the primary export.[18]

Chile's production technology has resulted in productivity increases and higher incomes. Its experience indicates that manufacturing is not the only way for countries

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to grow economically. The process is to continually adapt to changing tastes, constantly improve technology and finding new ways to prosper from natural resources. Contrast Chile today with the traditional agriculturally based economies that are dependent on one crop (such as bananas) today and will still be dependent on that same crop 20 years from now. This type of economic narrowness was the case with Chile a few decades ago when it depended heavily on copper. To expand its economy beyond dependency on copper, Chile began with what it did best, growing apples for export. As the economy grew, the country invested in better education and infrastructure and improved technology to provide the bases to develop other economic sectors, such as grapes, wine, salmon and tomato paste.

Regional cooperation and open markets are also crucial for economic growth. As will be discussed in the next chapter, being a member of a multinational market region is essential if a country is to have preferential access to regional trade groups.

Information technology, the Internet and economic development

In addition to the growth factors previously discussed, a country's investment in information technology (IT) is an important key to economic growth.[19] The mobile phone, the Internet and other advances in IT open opportunities for emerging economies to catch up with richer ones. New, innovative electronic technologies can be the key to a sustainable future for developed and developing nations alike.

Since the Internet cuts transaction costs and reduces economies of scale from vertical integration, some argue that it reduces the economically optimal size for firms. Lower transaction costs enable small firms in Asia or Latin America to work together to develop a global reach. Smaller firms in emerging economies can now sell into a global market. It is now easier, for instance, for a tailor in Shanghai to make a suit by hand for a lawyer in Boston, or a software designer in India to write a program for a firm in California. One of the big advantages that rich economies have is their closeness to wealthy consumers, which will be eroded as transaction costs fall.

The Internet also facilitates education, a fundamental underpinning for economic development. The Internet accelerates the process of economic growth by speeding up the diffusion of new technologies to emerging economies. Not needing the decades it took for many developing countries to benefit from railways, telephones or electricity, the Internet is spreading rapidly throughout Asia, Latin America and eastern Europe. IT can jump-start national economies and allow them to leapfrog from high levels of illiteracy to computer literacy.

Mobile phones and other wireless technologies greatly reduce the need to lay down a costly telecom infrastructure to bring telephone service to areas not now served.

India not only stands firmly at the centre of many success stories in California's Silicon Valley (Indian engineers provide some 30 per cent of the workforce there) but is also seeing Internet enthusiasm build to a frenzy on its own shores. Indian entrepreneurs and capital are creating an Indian Silicon Valley, dubbed 'Cyberabad,' in Bangalore. Exports there are growing 50 per cent annually and each worker adds US$27 000 of value per year, an extraordinary figure in a country where per capita GDP is about US$500. After a little more than a decade of growth, the Indian industry has an estimated 280 000 software engineers in about 1000 companies.

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Similar investments are being made in Latin America and eastern Europe as countries see the technology revolution as a means to dramatically accelerate their economic and social development. As one economist commented:

> Traditional economic reforms in the 1980s and 1990s managed to stop hyper-inflation and currency crises, but further change will not produce significant new growth needed to combat poverty. Governments must work to provide public access to the Internet and other information technologies.

The IT revolution is not limited to broad, long-range economic goals; as Crossing borders 8.1 illustrates, IT infrastructure needs to be provided to the rural areas as well if the country wants to progress on all fronts.

Objectives of developing countries

A thorough assessment of economic development and marketing should begin with a brief review of the basic facts and objectives of economic development.

Industrialisation is the fundamental objective of most developing countries. Most countries see in economic growth the achievement of social as well as economic goals. Better education, better and more effective government, elimination of many social inequities and improvements in moral and ethical responsibilities are some of the expectations of developing countries. Thus, economic growth is measured not solely in economic goals but also in social achievements.

Since foreign businesses are outsiders, they often are feared as having goals in conflict with those of the host country. Considered exploiters of resources, many multinational firms were expropriated in the 1950s and 1960s. Others faced excessively

CROSSING BORDERS 8.1

THE CHANGING FACE OF RURAL INDIA

It is projected that India will provide broadband connectivity by 2010 to all its 600 000 villages. Microsoft on the other hand has set up an ambitious target by proposing over 50 000 broadband connected kiosks across villages, which would cover 50 per cent of the rural population. The aim is for India to have 6.5 million broadband connections by 2010, and with the government already providing contracts to service providers, can rural India face up to this?

The proposed model ensures a connected kiosk. Though this is viable it may not be an easy task. For instance, of the 2500 kiosks now installed, only around one-third works regularly. The results of a Microsoft study on 350 kiosks, involving 4000 users in six states, to understand user habits indicated that kiosks that only offered e-governance were unable to sustain themselves for long. (Electronic governance, commonly referred to as e-governance, is the application of information technology to all operations of the government.) The reason was that 70 per cent of the revenues when the kiosk was initiated were derived from e-governance; in six months there was a decline to around 20 per cent, thus there was a need to provide more widespread services to make it more attractive to farmers.

Solutions to offer a cheaper option have been debated. For instant, Intel is pushing for Wimax, a relatively cheap solution, which is virtually one-sixth the cost of the connection but requires a cluster of kiosks in a 25 to 50 km area to satisfy the initial investment. Closing the digital gap may be as easy as it sounds but there are inevitable problems that would have to be thrashed out.

Source: Rashmi Pratap, TNN, *The Economic Times*, 17 August 2007, http://economictimes.indiatimes.com/articleshow/msid-2286498,prtpage-1.cms, accessed on 17 August 2007; Surajeet Das Gupta, 'How IT is Changing Rural India', April 2006, http://in.rediff.com/money/2006/apr/07spec.htm, accessed on 21 March 2008.

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high tariffs and quotas, and foreign investment was forbidden or discouraged. Today, foreign investors are seen as vital partners in economic development. Experience with state-owned businesses proved to be a disappointment to most governments. Instead of being engines for accelerated economic growth, state-owned enterprises were mismanaged, inefficient drains on state treasuries. Many countries have deregulated industry, opened their doors to foreign investment, lowered trade barriers and begun privatising SOEs. The trend toward privatisation is currently a major economic phenomenon in industrialised as well as in developing countries.

Infrastructure and development

One indicator of economic development is the extent of social overhead capital, or infrastructure, within the economy. Infrastructure represents those types of capital goods that serve the activities of many industries. Included in a country's infrastructure are paved roads, railway, seaports, communications networks, financial networks[20] and energy supplies—all necessary to support production and marketing. The quality of an infrastructure directly affects a country's economic growth potential and the ability of an enterprise to engage effectively in business.[21] See Exhibit 8.3 for some comparisons of infrastructure among countries at different levels of economic development.

Infrastructure is a crucial component of the uncontrollable elements facing marketers. Without adequate transportation facilities, for example, distribution costs can increase substantially and the ability to reach certain segments of the market is impaired. To a marketer, the key issue is the impact of a country's infrastructure on a firm's ability to market effectively. Business efficiency is affected by the presence or absence of financial and commercial service infrastructure found within a country—such as advertising agencies, warehousing storage facilities, credit and banking facilities, marketing research agencies and satisfactory specialised middlemen. Generally speaking, the less developed a country is, the less adequate the infrastructure is for conducting business. Companies do market in less-developed countries, but often they must modify offerings and augment existing levels of infrastructure.

EXHIBIT 8.3 Infrastructure of selected countries

Country	Roads (1000 km)	Vehicles (per 1000 people)	Rail lines (km)	Electrical power (kwh per capita)	Mobile phones (per 1000 people)	Personal computers (per 1000 people)
United States	6304	759	141961	12183	543	659
Brazil	1724	79	30403	1776	264	75
China	1765	12	60627	987	215	28
Colombia	113	51	3154	817	141	49
Germany	231	529	35868	6046	785	485
India	3315	9	63140	380	25	7
Japan	1172	581	20096	7718	679	382
Kenya	64	13	2634	120	50	6
Mexico	330	159	26656	1660	291	82
South Africa	276	143	20041	3860	364	73
Spain	664	539	13866	5,048	909	196

Source: World Bank, World Development Indicators 2005.

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EXHIBIT 8.4 Table of comparison: logistics infrastructure of countries in ASEAN

	Port	Airport	Railway	Road
Cambodia	Poor	Fair	Poor	Poor
Indonesia	Poor	Fair	Good	Fair
Laos	Not applicable	Poor	Not applicable	Fair
Malaysia	Good	Good	Good	Good
Philippines	Fair	Fair	Poor	Fair
Singapore	Good	Good	Good	Good
Thailand	Good	Good	Good	Good
Vietnam	Fair	Fair	Fair	Fair
Burma	Poor	Poor	Poor	Fair

Source: Business in Asia, www.business-in-asia.com/infrastructure_asean.html, accessed on 17 August 2007.

Countries begin to lose economic development ground when their infrastructure cannot support an expanding population and economy. A country that has the ability to produce commodities for export may be unable to export them because of an inadequate infrastructure. Asia's accelerating infrastructure in terms of air and sea is rapidly changing; see Exhibit 8.4.[22] Businesses need to consider not only the infrastructure (such as communications and technology) but also essential logistics.

For example, Mexico's economy has been throttled by its archaic transport system. Roads and seaports are inadequate and the railway system has seen little modernisation since the 1910 revolution. If it were not for Mexico's highway system (although it, too, is in poor condition), the economy would have come to a halt; Mexico's highways have consistently carried more freight than its railroads. Conditions in other Latin American countries are no better. Shallow harbours and inadequate port equipment make a container filled with computers about $1000 more expensive to ship from Miami to San Antonio, Chile, than the same container shipped from Yokohama, Japan, to Miami which is much further. Costs could also increase by way of warehousing, demurrage, storage and other unforeseeable expenses.

Marketing's contributions

How important is marketing to the achievement of a nation's goals? Unfortunately, marketing (or distribution) is not always considered meaningful to those responsible for planning. Economic planners frequently are more production oriented than marketing oriented and tend to ignore distribution or regard it as an inferior economic activity. Given such attitudes, economic planners generally are more concerned with the problems of production, investment and finance than the problems of efficiency of distribution.

While it is difficult to compete with China's low manufacturing costs, imagine marketing in a country with production but little disposable income, no storage, limited transportation that goes to the wrong markets and no middlemen and facilitating agents to activate the flow of goods from the manufacturer to the consumer. When such conditions exist in developing markets, marketing and economic progress are retarded. These countries face a number of 'special' problems such as poor economic conditions, while the market economy tends to be characterised by uncertainity—some countries may not have had many consumer products in the past and consumer needs tend to be basic.[23] Thus, these countries lack consumer sophistication and

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awareness. To some degree, this is the problem in China and many of the republics of the former Soviet Union. In China, for example, most of the 1.2 billion potential consumers are not accessible because of a poor or nonexistent distribution network. Indeed, the true consumer market in China is probably limited to no more than 20 per cent of those who live in the more affluent cities. No distribution and channel system exists to effectively distribute products, so companies must become resourceful to compensate for poor infrastructure.

For example, after nearly a decade of frustration in trying to effectively market and service its products in China, IBM took a bold step[24] and entered a venture

CROSSING BORDERS 8.2

EMERGING GIANTS CUTTING THE COMPETITIVE EDGE

With globalisation continuing, there are some emerging giants that compete in several countries—for instance, Brazil's AmBev (which in 2004 merged with Belgium's Interbrew to form InBev); Chile's SACI Falabella; China's Baosteel, Galanz and Lenovo groups and Huawei Technologies; India's Dr Reddy's Laboratories, Infosys, NIIT, Ranbaxy, Satyam, Tata Group and Wipro; Israel's Teva Pharmaceuticals; Mexico's Cemex; the Philippines' Jollibee Foods; and South Africa's SABMiller. There are some that operate only locally—for example, China's Wahaha Group, India's Bharti Tele-Ventures and ITC Limited, and Turkey's Koç and Doğuş business groups.

What strategies did these globally competitive businesses employ? How did they establish an international presence? What process did they deploy to strengthen their position at home or enter markets overseas? How can local companies compete against these emerging giants?

In the first instance you find that Western, Japanese and South Korean companies have advantages over businesses in newly industrialising countries. This is because they not only have well-established brands, innovative processes and managerial systems, but also have sophisticated technology and access to a large pool of financial and managerial talent, while on the other hand developing countries lack the soft infrastructure that is required for markets to run efficiently. Due to institutional problems such as lack of specialised intermediaries, regulatory systems and contract-enforcing mechanisms, these businesses in emerging markets cannot access capital or talent as easily or as inexpensively as European and American corporations can. That often makes it difficult for businesses in developing countries to invest in research and development or to build global brands.

They have identified three reasons for overcoming these disadvantages: first, multinationals from the developed world are faced with similar institutional problems when exploring business opportunities in emerging markets. They face the same institutional problems which they are not capable of dealing with. They have resources, and rely on data from market research firms to suit their products and marketing strategies to compete in different markets.

Other factors such as supply chain partners assist to deliver products to customers inexpensively, so companies attempting to move into countries that don't have skilled market researchers or reliable supply chain partners, often find it hard to use their successful business models there. By contrast, the local managers of local firms understand the culture and functioning to get around these institutional problems. Corporate groups such as India's Tata Group, the Philippines' Ayala Group and Turkey's Koç Group have developed systems for raising capital and developing talent. For example, they find it easier to raise money from the local stock market by trading on their reputations. These groups can also extend the effectiveness of training executives in-house by positioning their managers across businesses. These fundamental mechanisms assist many local companies to compete effectively with foreign giants.

Source: Tarun Khanna and Krishna G. Palepu, 'Emerging Giants: Building World-Class Companies in Developing Countries', *Harvard Business Review*, undated, http://harvardbusinessonline.hbsp.harvard.edu/hbsp/hbr/articles/article.jsp?articleID=1459&ml_action=get-article&print=true, accessed on 23 August 2007.

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with the Railways Ministry that allowed IBM to set up IBM service centres dubbed the 'Blue Express'. The agreement created a national network of service centres in railway stations that has enabled IBM to ship computer parts via the railroad around the country within 24 hours; competitors must book cargo space weeks in advance. In addition, the ministry's staff of more than 300 computer engineers helps out by providing customer services on IBM products.

Such innovative thinking by IBM and other marketers often accelerates the development of a more efficient market system.[25] IBM's service centres set an example of effective service before and after sales—important marketing activities. Management training for the thousands of employees of franchises such as Pizza Hut, McDonald's and KFC has spread expertise throughout the marketing system as the trainees move on to more advanced positions.

Marketing is an economy's arbitrator between productive capacity and consumer demand. The marketing process is the critical element in effectively utilising production resulting from economic growth; it can create a balance between higher production and higher consumption. Although marketing may be considered a passive function, it is instrumental in laying the groundwork for effective distribution. An efficient distribution and channel system and all the attendant liaisons match production capacity and resources with consumer needs, wants and purchasing power.

Marketing in a developing country

A marketer cannot superimpose a sophisticated marketing strategy on an underdeveloped economy.[26] Marketing efforts must be keyed to each situation, tailored for each set of circumstances. A promotional program for a population that is 50 per cent illiterate is vastly different from a program for a population that is 95 per cent literate. Pricing in a subsistence market poses different problems from pricing in an affluent society. An efficient marketing program is one that provides for optimum utility given a specific set of circumstances. In evaluating the potential in a developing country, the international marketer must make an assessment of the existing level of market development and receptiveness within the country.

Level of market development

The level of market development roughly parallels the stages of economic development. Exhibit 8.5, overleaf, illustrates various stages of the marketing process as it evolves in a growing economy. The table is a static model representing an idealised evolutionary process. As discussed earlier, economic cooperation and assistance, technological change and political, social and cultural factors can and do cause significant deviations in this evolutionary process. However, the table focuses on the logic and interdependence of marketing and economic development. The more developed an economy, the greater the variety of marketing functions demanded and the more sophisticated and specialised the institutions become to perform marketing functions. The evolution of the channel structure illustrates the relationship between market development and the stage of economic development of a country.

As countries develop, the distribution and channel systems develop. In the retail sector, speciality stores, supermarkets and hypermarkets emerge and the smaller stores give way to larger establishments. In short, there is an increase not only in

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the number of retail stores but also in the volume of sales per store. This is due to consumers having more disposable income. Additionally, a defined channel structure from manufacturer to wholesaler to retailer develops and replaces the import agent that traditionally assumed all the functions between importing and retailing.

Advertising agencies, facilities for marketing research, repair services, specialised consumer-financing agencies and storage and warehousing facilities are facilitating agencies created to serve the particular needs of expanded markets and economies. These institutions do not come about automatically and the necessary marketing structure does not simply appear. Part of the marketer's task when studying an economy is to determine what in the foreign environment will be useful and how much adjustment will be necessary to carry out stated objectives. In some developing countries, it may be up to the marketer to institute the foundations of a modern market system.

The limitation of Exhibit 8.5 in evaluating the market system of a particular country is that the system is in a constant state of flux. To expect a neat, precise progression through each successive growth stage, as in the geological sciences, is to oversimplify the dynamic nature of marketing development. A significant factor in the acceleration of market development is that countries or areas of countries have been propelled from the eighteenth to the twenty-first century in the span of two decades by the influence of borrowed technology.

Marketing structures of many developing countries are simultaneously at many stages. It is not unusual to find traditional marketing retail outlets functioning side by side with advanced, modern markets. This is especially true in food retailing, where a large segment of the population buys food from small produce stalls while the same economy supports modern supermarkets equal to any found in Japan.

Demand in a developing country

Estimating market potential in less-developed countries involves myriad challenges. Most of the difficulty arises from the coexistence of three distinct kinds of markets in each country:

1 traditional rural/agricultural sector[27]
2 modern urban/high-income sector
3 often very large transitional sector usually represented by low-income urban slums.

The modern sector is centred in the capital city and has jet airports, international hotels, new factories and an expanding Westernised middle class. The traditional rural sector tends to work in the countryside as it has for decades or centuries. Directly juxtaposed to the modern sector, the transitional sector contains those moving from the country to the large cities. Production and consumption patterns vary across the three sectors. India is a good example.

It is reported that when measured in US dollar exchange rate terms, India can be categorised as the twelfth largest in the world. While the population climbs steadily to over 1 billion, of which 250 million are considered middle class, the economy happens to be the second fastest-growing major economy with a GDP growth rate of approximately 9.4 per cent for the fiscal year 2006–07.[28] The modern sector demands products and services similar to those available in any industrialised country; the

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EXHIBIT 8.5 Evolution of the marketing process

Stage	Substage	Example	Marketing functions	Marketing institutions	Channel control	Primary orientation	Resources employed	Comments
Agricultural and raw materials	Self-sufficient	Nomadic or hunting tribes	None	None	Traditional authority	Subsistence	Labour Land	Labour intensive No organised markets
	Surplus commodity product	Agricultural economy, such as coffee, bananas	Exchange	Small-scale merchants, traders, fairs, export-import	Traditional authority	Entrepreneurial Commercial	Labour Land	Labour and land intensive Product specialisation Local markets Import oriented
Manufacturing	Small scale	Cottage industry	Exchange Physical distribution	Merchants, wholesalers, export-import	Middlemen	Entrepreneurial Financial	Labour Land Technology Transportation	Labour intensive Product standardisation and grading Regional and export markets Import oriented
	Mass production	US economy, 1885–1914	Demand creation Physical distribution	Merchants, wholesalers, traders and specialised institutions	Producer	Production and finance	Labour Land Technology Transportation Capital	Capital intensive Product differentiation National, regional and export markets
Marketing	Commercial—transition	US economy, 1915–1929	Demand creation Physical distribution Market information	Large-scale and chain retailers	Producer	Entrepreneurial Commercial	Labour Land Technology Transportation Capital Communication	Capital intensive Changes in structure of distribution National, regional and export markets
	Mass distribution	US economy, 1950 to present	Demand creation Physical distribution Market information Market and product planning, development	Integrated channels of distribution Increase in specialised middlemen	Producer Retailer	Marketing	Labour Land Technology Transportation Capital Communication	Capital and land intensive Rapid product innovation National, regional and export markets

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remaining 750 million in the transitional and rural sectors, however, demand items more indigenous and basic to subsistence. As one authority on India's markets observed, 'A rural Indian can live a sound life without many products. Toothpaste, sugar, coffee, washing soap, bathing soap, kerosene are all bare necessities of life to those who live in semi-urban and urban areas'. One of the greatest challenges of the twenty-first century is to manage and market to the transitional sector in developing countries. The large-city slums perhaps present the greatest problems for smooth economic development. The mode of transportation is still conventional in urban areas. Rickshaws are rampant in all major cities, especially in suburban areas. Rickshaws cater to the middle class and poor consumers but are also used frequently by the modern rich and their children for convenience. They can manoeuvre even

CROSSING BORDERS 8.3

GOT DISTRIBUTION PROBLEMS? CALL GRANDMA OR YOUR LOCAL UNIVERSITY!

It may sound trivial, but in China's teeming cities, getting cold carbonated drinks into the hands of the young can be a struggle. Fierce competitors Coca-Cola and PepsiCo rely on Grandma and hip college students with space-age coolers to slake Chinese thirst.

Coca-Cola was having problems with Shanghai's two main shopping streets, Nanjing Lu and Huaihai Lu. The area was becoming too expensive for the small stores that offered Coke. Further, traffic regulations were constantly changing, downtown deliveries required a special pass and street vendors were banned. So how did Coca-Cola get its product to market? Enter one of the lingering remnants of the old communist regime: that bastion of the geriatric busybody, the Chinese street committee.

Initially the Chinese street committee consisted of older people whose job was to make sure all within their territory were being 'good Chinese citizens'. If not, they scolded law breakers and, if that didn't work, reported them to higher authorities. To carry out their jobs committee members had privileged status. People wearing the zhi qin (on-duty) armband could pretty much go where they liked and do whatever they wanted. As the Chinese experienced more personal freedom, however, they resented being spied on and bossed around by self-important old people—the traditional role of the street committee was becoming redundant.

The members, however, retained their privileged status, which, as Coca-Cola managers noted, meant they could push carts laden with ice-cold Coke around traffic and through street vendor-restricted areas of downtown Shanghai. So each committee was recruited to store, chill and sell ice-cold Coke on an exclusive basis on its turf. Coca-Cola has signed up a fleet of 150 push-carts and 300 specially designed tricycles.

PepsiCo, facing a similar problem, recruited young, energetic and outgoing university students to roam through the hottest and most crowded shopping areas. Toting space-age coolers strapped to their backs, the students dispense cups of cold Pepsi stored at 2 degrees Celsius. With a cup dispenser on one shoulder strap, a money belt and a dispensing gun snaking around from behind, the student sellers are mobile vending machines—and walking, talking billboards.

The latest Coke–Pepsi contest in China is over the rights to use NBA star Yao Ming's image in ads. Even though the 7-foot-5 centre for the Houston Rockets has signed a deal with Pepsi and appeared in their TV ads for the Chinese market, his likeness concurrently appeared on bottles of Coke in Shanghai. It will be interesting to see how the companies decide to split the big guy—and we're sure the government will help 'mediate' the dispute!

Sources: 'Those Ever-Resourceful Coke Boys: Distribution Is It', *Business China*, 28 April 1997, p. 12; Bruce Gilley, 'Pepsi Gets Street Smart: In Its Campaign to Win Over Young Chinese, Pepsi-Cola Is Drafting Student Ambassadors', *Far Eastern Economic Review*, June 2000, p. 37; Brook Larmer, 'The Center of the World', *Foreign Policy*, September–October 2005, pp. 65–74.

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through the thickest of traffic and often cause traffic jams themselves. Their safety is a major concern as their weak chassis makes them dangerous to passengers. The probability of overturning due to imbalance (they have three wheels instead of four) make them far from safe. They are also not fully equipped to protect passengers from extreme weather conditions.

Developing countries thus have at least three different market segments. Each can prove profitable, but each requires its own marketing program and products and services appropriate for its market characteristics. Many companies market successfully to both the traditional and the modern market segments but often have problems in the transitional segments, where, for example, advertising targeting high-income consumers reaches low-income consumers.

Tomorrow's markets will include expansion in industrialised countries and the development of the transitional and traditional sectors of less-developed nations, as well as continued expansion of the modern sectors of such countries. The traditional sector offers the greatest long-range potential, but profits come only with a willingness to invest time and effort for longer periods. Market investment today is necessary to produce profits tomorrow.

New markets also mean that the marketer has to help educate the consumer. Procter & Gamble, Colgate and Unilever are all aggressively pursuing dental health education programs—from school visits to scholarships at dental universities to sponsorship of oral care research. While creating new markets for their products they are also helping to spread healthier practices. In China, for instance, only about 20 per cent of the population in rural areas brushes daily—most view brushing as purely cosmetic, rather than medicinal. P&G's efforts may change that attitude as school children frolic with Crest's giant inflatable Tooth Mascot, which appears when the mobile dental van makes a stop in the countryside. Crest's program reaches 1 million children in China each year.[29]

The companies that will benefit in the future from emerging markets in Eastern Europe, China, Latin America and elsewhere are the ones that invest when it is difficult and initially unprofitable. In some of the less-developed countries, the marketer will institute the very foundations of a modern market system, thereby gaining a foothold in an economy that will someday be highly profitable. The price paid for entering in the early stages of development may be a lower initial return on investment, but the price paid for waiting until the market becomes profitable may be a blocked market with no opportunity for entry.

Bottom-of-the-pyramid markets (BOPMs)

'Bottom of the pyramid' was a phrase that was used by the US president Franklin Roosevelt in his radio address, *the forgotten man*. Currently distinguished professors from the US, C.K. Prahalad[30] and Stuart Hart used it to refer to the 4 billion people surviving on less than US$2 per day.[31] These markets are not necessarily defined by national borders, but are pockets of poverty across countries. These 4 billion consumers are, of course, most often concentrated in the LDCs and LLDCs, as defined in the aforementioned UN classification scheme.

Prahalad's basic point is that these BOPMs consumers have been relatively ignored by international marketers because of misconceptions about their lack of

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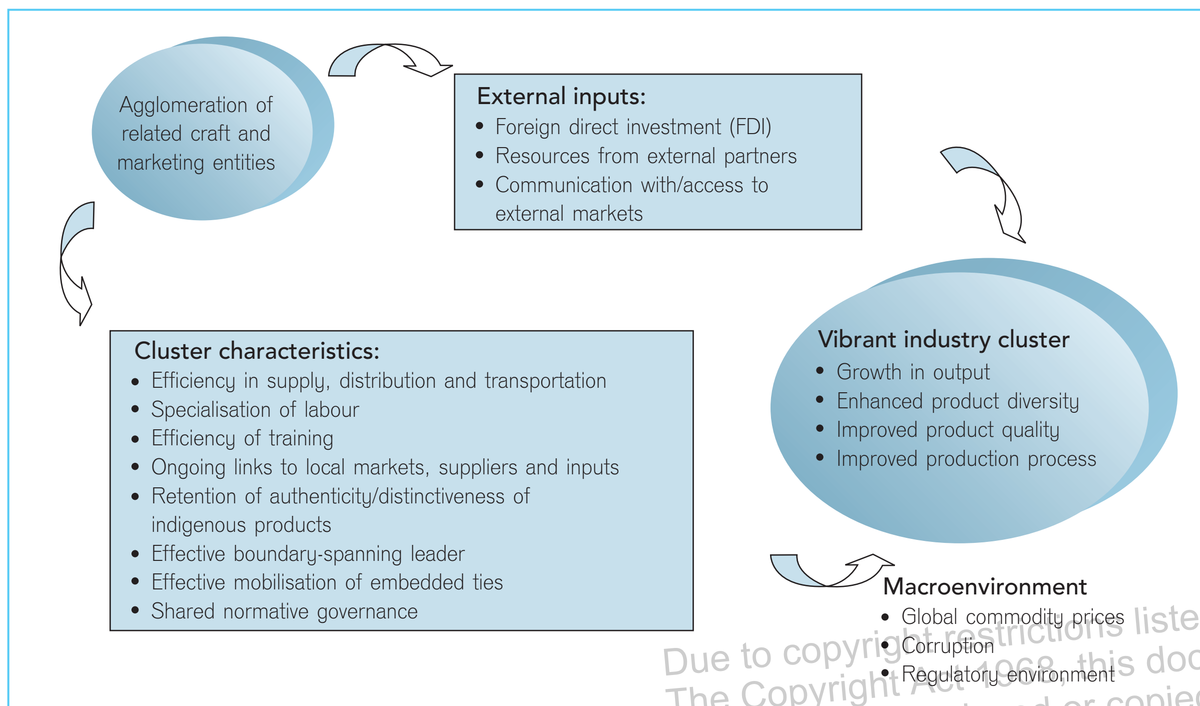
resources (both money and technology) and the lack of appropriateness of products and services usually developed for more affluent consumers. Companies should not only create innovative products for these countries but also better their quality of life and aim to lift regional economic development. The following three cases well demonstrate the commercial viability of such markets and their long-term potential. CEMEX, the Mexican cement company with global operations, pioneered a profitable program to build better housing for the poor that includes innovative design, financing and distribution systems. Similarly, Aravind Eye Care System in India began with the problem of blindness among the poor and developed an innovative organisation of workflow—from patient identification to postoperative care—that has yielded better vision for consumers and profits for the company. Finally, in her wonderful book about the global economy, Pietra Rivoli[32] tells the story of how small entrepreneurs clothe East Africa with old American T-shirts. All three operations described include combinations of products, services, research and promotions that are appropriate for the lowest-income neighbourhoods on the planet.

In addition, a comprehensive study of the development of the leather-working industry in west Africa presents a new approach to creating industries and markets in BOPMs.[33] The authors describe how industry clusters evolve and can be supported by outside investments from commercial and governmental concerns. Exhibit 8.6 represents the ingredients and processes involved in establishing a viable industry cluster in a LLDC. Craftsmen must network and collaborate to attain efficiencies in production, domestic and international distribution,[34] and other marketing activities.

EXHIBIT 8.6 Dynamic transformation of BOPM clusters



Source: Eric Arnould and Jakki J Mohr, 'Dynamic Transformation for Base-of-the-Pyramid Market Clusters', *Journal of the Academy of Marketing Science*, 33:3, July 2005. Reprinted by permission of Sage Publications Inc.

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CROSSING BORDERS 8.4

BOTTOM OF THE PYRAMID (BOP): ARE THERE OPPORTUNITIES?

Some suggestions have been made to fight poverty. It is anticipated that rather than considering the poor as victims or as a burden, if we see them as budding entrepreneurs and value-conscious consumers, it would open a window for significant opportunities. This is a situation where big businesses can serve the world's largest population. For instance, Dr Ashok Khosla has suggested that rather than serve this poor market, which has a very low purchasing power, with a 200 ml container of shampoo, they could use disposable sachet packs of shampoo. Although, this may still seem a luxury, selling sachets is unquestionably a valuable service. Khosla proposes that unless the act of selling is attached to the act of production (which in turn would raise the purchasing power and lead to scaling up demand), selling these products in remote areas would be far more expensive. On another note, he suggested that if people were employed by big business to make some of these products they could use this income to buy the products—based on the Henry Ford maxim, that his workers should be able to buy the cars they made, as they made good money working in factories.

Sources: 'Face Value: CK Prahalad, Profits and Poverty', *The Economist* print edition, 19 August 2004, http://www.economist.com/people/displaystory.cfm?story_id=3104498, accessed on 21 March 2008; Dr Ashok Khosla, *BOP Too Good to be True?*, June 2007, www.alliancemagazine.org/free/html/jun07b.html accessed on 20 August 2007.

Key to the vibrancy of the industry cluster will be a series of cluster characteristics, external inputs[35] and macroenvironment factors. The scheme presented might serve as a checklist for stimulating economic development through marketing in BOPMs. Entrepreneurial activities that are networked appear to be perhaps the best way to stimulate economic development and growth from within[36] developing countries[37] and marketing is key.

Developing countries and emerging markets

As mentioned earlier, the US Department of Commerce estimates that over 75 per cent of the expected growth in world trade over the next two decades will come from the more than 130 developing and newly industrialised countries; a small core of these countries will account for more than half of that growth.[38] Commerce researchers also predict that imports to the countries identified as big emerging markets (BEMs),[39] with half the world's population and accounting for 25 per cent of the industrialised world's GDP today, will by 2010 be 50 per cent of that of the industrialised world. With a combined GDP of more than US$2 trillion, the BEMs already account for as large a share of world output as Germany and the United Kingdom combined, and exports to the BEMs exceed exports to Europe and Japan combined.

It is reported that China's biggest rivals are the other BRIC countries—Brazil, Russia and India; however, Goldman Sachs compiled a set of 11 countries calling it the 'Next 11'. These countries are Bangladesh, Egypt, Indonesia, Iran, South Korea, Mexico, Nigeria, Pakistan, the Philippines, Turkey and Vietnam. It is predicted that since 2005, economic growth of these N11 countries have averaged 5.9 per cent, which happens to be the strongest in 15 years and which has more than doubled the 2.3 per cent average growth of Old Europe.[40]

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Big emerging markets share various important traits. They

- are all physically large
- have significant populations
- represent considerable markets for a wide range of products
- have strong rates of growth or the potential for significant growth
- have undertaken significant programs of economic reform
- are of major political importance within their regions
- are 'regional economic drivers'
- will engender further expansion in neighbouring markets as they grow.

Although these criteria are general and no one country meets all the criteria, the Department of Commerce has identified those countries listed in Exhibit 8.7 as BEMs. Other countries such as Egypt,[41] Venezuela and Colombia may warrant inclusion in the near future. The list is fluid because some countries will drop off while others will be added as economic conditions change. Inducements for those doing business in BEMs include Export–Import Bank loans and political-risk insurance.

The BEMs differ from other developing countries in that they import more than smaller markets and more than economies of similar size. As they embark on economic development, demand increases for capital goods to build their manufacturing base and develop infrastructure. Increased economic activity means more jobs and more income to spend on products not yet produced locally. Thus, as their economies expand, there is an accelerated growth in demand for goods and services, much of which must be imported.

Because many of these countries lack modern infrastructure, much of the expected growth will be in industrial sectors such as information technology, environmental

EXHIBIT 8.7 Big emerging markets

Country	Population (millions)	GDP* (billions)	GDP* (per capita)	Imports of goods and services (billions)	Exports of goods and services (billions)
Asia					
China	1288.4	$1375.2	$ 5196	$441.8	$502.8
India	1064.4	543.7	511	83.7	88.6
South Korea	47.9	586.1	12232	213.8	266.4
Vietnam	81.3	38.2	470	28.6	23.9
Latin America					
Argentina	36.8	263.5	7165	19.4	34.7
Brazil	176.6	619.9	3510	63.8	88.0
Colombia	44.6	89.9	2017	19.1	18.6
Mexico	102.3	592.5	5792	189.2	177.9
Venezuela	25.7	102.9	4009	12.9	27.7
Europe					
Poland	38.2	177.0	4634	60.0	56.7
Turkey	70.7	210.5	2997	69.5	66.3
Africa					
South Africa	45.8	138.7	3026	37.6	37.4

* Constant 2000 dollars.

Source: World Bank, World Development Indicators, 2005.

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technology, transportation, energy technology, health care technology and financial services. India, for example, has less than 46 million telephone lines and 25 million mobile phones to serve a population of 1 billion, and Turkey's plans for improving health services will increase the demand for private hospital services and investments in new equipment.

What is occurring in the BEMs is analogous to the situation after the Second World War when tremendous demand was created during the reconstruction of Europe. As Europe rebuilt its infrastructure and industrial base, demand for capital goods exploded; as more money and investment was poured into its economies, consumer demand also increased rapidly. For more than a decade, Europe could not supply its increasing demand for industrial and consumer goods. During that period, the United States was the principal supplier because most of the rest of the world was rebuilding or had underdeveloped economies. Meeting this demand produced one of the largest economic booms the United States had ever experienced. As we shall see later in the chapter, consumer markets and market segments in the BEMs are already booming. Unlike the situation after the Second World War, however, the competition will be fierce as Japan, China, Europe, the NICs and the United States vie for these big emerging markets.

What can be inferred from Exhibit 8.8, overleaf, is the impact of 'globalisation'. Emerging countries have become powerhouses in manufacturing, predominantly due to cheaper labour, thus increasing the ratio of external trade in goods and services to nominal GDP levels. There is also a widespread increase in the amount of foreign direct investment pooled in some countries. With an increase in the number of macro indicators, emerging markets have become 'less risky'. The current account position has risen in 11 of the 14 economies, with the exception of Poland, Turkey and South Africa. Concerns have risen regarding China and the danger of excess investment. In addition, the buoyant market in India and weaknesses in the domestic market in many parts of East Asia, make China and India the leading edge economies. The stronger growth in India, Russia, Turkey and South Africa, coupled with the rapid Chinese accelerating growth, would continue to offset the suppressed trends that are still present in many Asian economies.[42]

Newest emerging markets

The United States' decision to lift the embargo against Vietnam and the United Nations' lifting of the embargo against South Africa resulted in the rapid expansion of these economies. Because of their growth and potential, the US Department of Commerce designated both as BEMs.

Vietnam's economy and infrastructure were in a shambles after 20 years of socialism and years of war, but this country of more than 84 million people is poised for significant growth.

There is a controversy over Vietnam's economic future. On one hand, it is stated that the country's insufficient physical infrastructure, uncertain legal structure and authoritative system of government makes doing business in Vietnam multifaceted and complicated. But far from this, it is predicted that its strategic location near the world's largest countries would make it a good location for exporting. Vietnam has similar Confucian traditions, (Confucianism is an ethical and philosophical system

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EXHIBIT 8.8 Emerging markets

Comparison of key economic indicators in the emergers, 2006 versus 1996

	Average GDP growth		Average CPI Inflation		Average budget balance as %GDP		Average current acc. balance as % GDP		Average investment ratio as % GDP	
	1994–96	2004–06	1994–96	2004–06	1994–96	2004–06	1994–96	2004–06	1994–96	2004–06
China	11.3	10.4	16.5	2.4	–1.1	–1.7	0.8	6.5	33.5	48.5
India	7.3	8.2	9.8	4.6	–5.8	–4.3	–1.4	–0.7	25.4	30.1
Korea	8.2	4.6	5.2	2.9	0.7	0.4	–2.3	2.2	37.0	29.1
Taiwan	6.7	4.9	3.6	1.5	–4.3	–1.9	2.8	5.8	23.9	20.6
Indonesia	7.9	5.4	8.6	9.9	2.1	–0.8	–2.5	1.1	25.6	23.1
Thailand	8.0	5.3	5.6	4.0	2.3	0.3	–7.1	–0.5	40.7	27.8
Malaysia	9.7	6.1	3.5	2.7	1.5	–3.7	–6.7	15.0	42.1	20.2
Brazil	4.0	4.1	719.2	5.9	–4.6	–2.8	–1.8	1.5	19.0	16.4
Mexico	1.1	3.9	25.4	4.1	–0.2	–1.0	–2.8	–0.6	17.7	19.8
Argentina	2.8	8.9	2.6	8.3	–0.9	2.1	–2.9	2.9	18.6	21.3
Russia	–6.8	6.8	184.3	11.1	–5.7	7.2	3.0	10.4	20.1	17.9
Poland	6.2	4.9	26.6	2.2	–4.6	–3.4	–0.2	–2.7	17.7	18.4
Turkey	2.9	7.5	91.3	8.8	–5.6	–3.4	–0.3	–6.8	25.0	19.5
S. Africa	3.6	5.0	8.3	3.1	–5.7	–0.9	–0.9	–4.4	15.8	17.3

	Average contribution of net trade to growth		Average 'Openness' to trade		Average FDI inflows as %GDP		Exports to US as % of total		Exports to China & HK as % of total	
	1994–96	2004–06	1994–96	2004–06	1994–96	2004–06	1994–96	2004–06	1994–96	2004–06
China	1.4	3.2	19.7	34.6	5.2	3.2	28.6*	29.2*	–	–
India	–0.1	–0.4	13.5	23.8	0.6	1.4	19.1	17.6	7.1	11.4
Korea	–1.9	2.1	29.3	42.0	0.3	0.9	15.9	13.4	16.3	29.0
Taiwan	0.8	1.9	43.5	63.7	0.6	0.9	22.8	14.4	23.3	39.8
Indonesia	–1.9	0.1	23.3	31.3	1.8	1.9	13.6	11.5	7.4	9.4
Thailand	–1.8	0.7	45.7	75.6	1.2	2.0	17.8	15.1	9.0	14.5
Malaysia	–1.9	–0.5	91.9	110.9	5.2	3.7	18.2	18.9	8.3	12.3
Brazil	–1.7	–0.2	7.9	13.4	0.9	2.0	19.5	18.6	3.2	9.0
Mexico	2.3	–0.6	26.4	31.3	2.9	2.7	84.0	79.9	0.5	1.1
Argentina	0.3	–1.0	10.1	22.5	2.0	2.6	8.2	8.8	3.4	7.6
Russia	–1.5	–2.3	26.2	28.1	0.5	2.4	7.6	3.4	5.8	5.5
Poland	–1.0	0.0	24.1	38.9	2.4	4.2	2.3	1.9	0.3	0.7
Turkey	1.1	–2.1	23.6	31.7	0.5	2.9	7.1	6.0	1.2	0.9
S. Africa	–1.4	–2.7	22.4	28.7	0.6	1.5	7.0**	11.7	1.9**	4.8

	Nominal GDP in US$ bn		Private sector credit as % GDP		Real exchange rate (2000=100, BIS)		No. of months' imports covered by reserves		CPI inflation targeting framework	
	1996	2006	1996	2006	1996	2006	1996	2006	Yes/No	2007 target
China	856	2633	90	114	91	93	7.3	13.5	No	
India	337	787	25	48	93	102	4.0	8.3	No	
Korea	557	890	57	101	115	121	2.2	7.1	Yes	3.0%
Taiwan	289	356	138	142	103	85	8.4	13.3	No	
Indonesia	251	365	51	25	157	134	3.1	4.6	Yes	6.0%
Thailand	182	207	147	88	127	106	5.0	4.4	Yes	0–3.5%***
Malaysia	101	149	138	113	125	99	3.3	6.3	No	
Brazil	839	1068	41	35	138	110	10.1	7.0	Yes	4.5%
Mexico	333	840	20	22	72	94	2.0	3.4	Yes	3.0%
Argentina	272	214	20	13	86	45	5.8	7.1	No	
Russia	387	992	8	31	148	166	1.8	14.2	No	
Poland	156	340	19	32	87	110	5.1	3.8	Yes	2.5%
Turkey	178	401	22	30	74	107	3.9	4.9	Yes	4.0%
S. Africa	144	256	59	83	112	105	0.4	3.1	Yes	3–6%***

Average 'openness' to trade = (exports of goods & services + imports of goods & services) / (2 * nominal GDP) Shares of exports going to US and China are calculated from the IMF DOTS database (except for Taiwan) and may vary from those calculated using national sources. *China exports to US are defined as those measured directly + half of China's sales to Hong Kong to ensure a closer match with US–sourced data. ** 1998 rather than 1996 data *** Core inflation in Thailand, CPIX in S.Africa

Source: Anonymous, 'What a Difference a Decade Makes', *Emerging Markets Weekly*, ABI/Inform Global, Oxford Economics, 23 April 2007.

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that has a significant influence on the culture of east Asia), a high literate population and similar characteristics to Japan (i.e. critically important economies of scale and related people resources). In addition, the 2001 approval by the US congress of a trade agreement that provides improved export access to the US gives this country a bright economic future.[43]

A bilateral trade agreement between the United States and Vietnam led to 'normal trading relations' (NTR) status for Vietnam and will lower tariffs on Vietnamese exports to the United States from an average of 40 per cent to less than 3 per cent.[44] For example, Vietnamese coffee is now in almost every pantry in America, and the new competitiveness has caused prices to sharply decline on the world market. If Vietnam follows the same pattern of development as other Southeast Asian countries, it could become another Asian Tiger. Many of the ingredients are there: the population is educated and highly motivated, and the government is committed to economic growth. Some factors are a drag on development, however, including poor infrastructure, often onerous government restrictions, minimal industrial base and a lack of capital and technology, which must come primarily from outside the country. Most of the capital and technology are being supplied by three of the Asian Tigers—Taiwan, Hong Kong and South Korea. US companies are beginning to make investments now that the embargo has been lifted.[45]

South Africa's economic growth has increased significantly, now that apartheid is officially over and the United Nations has lifted the economic embargo that isolated that nation from much of the industrialised world. Unlike Vietnam, South Africa has an industrial base that will help propel it into rapid economic growth, with the possibility of doubling its GNP in as few as 10 years. The South African market also has a developed infrastructure—airports, railways, highways, telecommunications—that makes it important as a base for serving nearby African markets too small to be considered individually but viable when coupled with South Africa.

Upbeat economic predictions, a stable sociopolitical environment and reinforced vigour of the South African Government in addressing privatisation and deregulation[46] while maintaining the long-term goal of making the country more investor-friendly bode well for US businesses seeking trading, investment and joint venture opportunities in South Africa. The country has a fair-sized domestic market of nearly US$500 billion with significant growth potential and is increasingly becoming free-market oriented. It has yet to develop to its full potential, however, because of years of isolation, former inward-looking trade and investment policies, a low savings rate and a largely unskilled labour force with attendant low productivity.

Vietnam and South Africa have the potential to become the newest emerging markets, but their future development will depend on government action and external investment by other governments and multinational firms. In varying degrees, foreign investors are leading the way by making sizeable investments.

Strategic implications for marketing

Surfacing in the emerging markets described earlier is a vast population whose expanding incomes are propelling them beyond a subsistence level to being viable consumers. As a country develops, incomes change, population concentrations shift, expectations for a better life adjust to higher standards, new infrastructures evolve

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and social capital investments are made (see Exhibit 8.9). Market behaviour changes and eventually groups of consumers with common tastes and needs (that is, market segments) arise.[47]

Many Western countries are acclimatised to marketing in a buyer's market. It should be noted that domestic markets in most emerging markets are characterised by a seller's market in which individual customer concerns are not significant in consumer goods and they are a concentrated market whereby personal selling strategies require adaptations.[48]

When incomes rise, new demand is generated at all income levels for everything from soap to cars. Officially, per capita income in China is only about US$1000 a year. But nearly every independent study by academics and multilateral agencies puts incomes, adjusted for black market activity and purchasing power parity, at three or four times that level.[49] Further, large households can translate into higher disposable incomes. Young working people in Asia and Latin America usually live at home until they marry. With no rent to pay, they have more discretionary income and can contribute to household purchasing power. Countries with low per capita incomes are potential markets for a large variety of goods; consumers show remarkable resourcefulness in finding ways to buy what really matters to them.

As incomes rise to middle-class range, demand for more costly goods increases for everything from disposable diapers to motor vehicles. Incomes for the middle class in emerging markets are less than those of the West, but spending patterns are different, so the middle class has more to spend than comparable income levels in the West would indicate. For example, members of the middle class in emerging markets do

EXHIBIT 8.9 Living standards in selected countries

Country	Households (millions)	Persons per household	Colour TV (per 100 households)	Passenger car (per 100 households)	Refrigerator (per 100 households)	Shower (per 100 households)
Brazil	52	3.5	88	48	84	77
Chile	4	3.7	63	49	65	89
Colombia	12	3.8	87	37	68	98
Peru	6	4.8	50	20	49	62
Azerbaijan	3	2.5	54	22	57	67
China	378	3.5	46	3	7	43
Hong Kong	2	3.2	99	75	97	97
India	203	5.3	35	1	15	43
Indonesia	57	3.9	52	4	27	47
Japan	48	2.6	99	82	98	100
Kazakhstan	4	3.5	61	32	81	68
Malaysia	5	4.7	90	64	97	100
Pakistan	22	7.2	38	6	18	67
Philippines	17	4.9	67	8	44	84
Singapore	1	3.5	99	43	99	100
South Korea	17	2.8	94	44	97	95
Taiwan	7	3.2	99	51	100	98
Thailand	17	3.6	84	35	70	67
Vietnam	27	3.3	41	2	19	37
United States	110	2.6	100	93	100	100

Source: Euromonitor, 2005.

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not own two motor vehicles and suburban homes, and in some cases health care and housing are subsidised, freeing income to spend on refrigerators, televisions, radios, better clothing and special treats. Exhibit 8.10 illustrates the percentage of household income spent on various classes of goods and services. More household money goes for food in emerging markets than in developed markets, but the next category of high expenditure for emerging and developed countries alike is appliances and other durable goods. Spending by the new rich, however, is a different story. The new rich want to display their new status; they want to wear status symbols such as Rolex watches, high-end Swiss watches that cost more than $1000.

However, emerging economies are still in the process of becoming market economies and as indicated by Cavusgil, Ghauri and Agarwal,[50] domestic markets of most of these countries are small in terms of their absolute size and purchasing power. They suggest that this condition often leads to natural monopolies served mainly by a single manufacturer rather than many manufacturers. Even if there are not many import restrictions, competing for market share in the domestic market could have a relatively low return, which puts off new entrants in the marketplace. Another common issue is that wholesale distribution is controlled by manufacturers or importers, which makes it very difficult for new entrants to enter the market. In some economies government involvement is more than regulatory; this is apparent in the private sector when they have to accrue capital for investments, in national and economic security issues and in subsidising a sector.

Recognising the growth in Asia, Whirlpool has invested US$265 million to buy controlling interest in four competitors in China and two in India. The attraction is expanding incomes and low appliance ownership rates. Fewer than 10 per cent of Chinese households have airconditioners, microwave ovens or washing machines. At the same time, incomes are reaching levels where demand for such appliances will grow.

One analyst suggests that as a country passes the US$5000 per capita GNP level, people become more brand conscious and forgo many local brands to seek out foreign brands they recognise. At US$10 000, they join those with similar incomes who are exposed to the same global information sources. They join the 'US$10 000 Club' of consumers with homogeneous demands who share a common knowledge of products

EXHIBIT 8.10 Consumption patterns in selected countries

Country	Food	Alcohol and tobacco	Clothing	Housing	Health/ medical	Trans-portation	Communi-cation	Leisure	Education
United States	7.0	2.2	4.1	18.2	19.1	11.0	1.8	9.1	2.6
Mexico	24.6	2.6	3.3	12.6	4.5	17.2	1.7	5.0	3.3
Azerbaijan	52.8	2.9	4.4	9.7	4.3	11.4	1.2	1.5	1.3
India	43.5	4.0	4.7	10.7	7.8	12.9	1.0	1.4	1.3
Malaysia	22.0	2.6	3.6	21.6	2.4	16.2	2.8	4.2	1.8
Singapore	12.3	1.6	3.8	15.2	6.2	17.9	2.4	7.1	6.9
Thailand	26.3	4.4	12.1	9.8	7.8	9.8	1.7	3.1	1.4
Algeria	36.1	3.0	4.7	18.9	4.7	11.3	2.8	3.5	1.1
South Africa	18.4	9.0	5.0	12.0	7.9	17.3	2.0	4.6	2.5

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and brands. They become global consumers. If a company fails to appreciate the strategic implications of the US$10 000 Club, it will miss the opportunity to participate in the world's fastest-growing global consumer segment. More than one billion people in the world now have incomes of US$10 000 or better. In Asia alone, Singapore's average income is more than US$27 000, Hong Kong is at US$25 000 and Taiwan is just more than US$12 000.[51] Companies that look for commonalties among this 700 million will find a growing market for global brands.

Markets are changing rapidly and identifiable market segments with similar consumption patterns are found across many countries. Emerging markets will be the growth areas of the twenty-first century.

The purpose of international market segmentation is to identify relatively homogeneous groups of consumers with similar consumption patterns across countries. Segmentation can be broken into various components; the four main ones are that segments should be:

1. identifiable
2. reachable
3. large enough to be profitable
4. more homogeneous in their characteristics than the market as a whole.

An international marketer should apply these criteria to market segments across country markets. When a company conducts its business in multiple countries there are two approaches it could use to target a market. One is to identify all consumers within the borders of a country; the other is to group them into global market segments (identifying all consumers with the same needs and wants in groups of country markets). Most international marketers have viewed each country as a single market segment.[52]

Summary

The ever-expanding involvement in world trade of more and more people with varying needs and wants will test old trading patterns and alliances. The foreign marketer of today and tomorrow must be able to react to market changes rapidly and to anticipate new trends within constantly evolving market segments that may not have existed as recently as last year. Many of today's market facts will likely be tomorrow's historical myths.

Along with dramatic shifts in global politics, the increasing scope and level of technical and economic growth have enabled many nations to advance their standards of living by as much as two centuries in a matter of decades. As nations develop their productive capacity, all segments of their economies will feel the pressure to improve. The impact of these political, social and economic trends will continue to be felt throughout the world, resulting in significant changes in marketing practices. Further, the impact of information technology will speed up the economic growth in every country. Marketers must focus on devising marketing plans designed to respond fully to each level of economic development. China and Russia continue to undergo rapid political and economic changes

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that have brought about the opening of most socialist-bloc countries to foreign direct investments and international trade. Although big emerging markets present special problems, they are promising markets for a broad range of products now and in the future. Emerging markets create new marketing opportunities for multinational companies as new market segments evolve.

Questions

1 Define the following terms:
   - underdeveloped
   - economic development
   - NICs
   - BEMs
   - infrastructure
   - BOPMs.
2 Is it possible for an economy to experience economic growth as measured by total GNP without a commensurate rise in the standard of living? Discuss briefly.
3 Why do technical assistance programs by more affluent nations typically ignore the distribution problem or relegate it to a minor role in development planning?
4 Discuss each of the stages of marketing evolution. Illustrate each stage with a particular country.
5 As a country progresses from one economic stage to another, what in general are the marketing effects?
6 Select a country in the agricultural and raw materials stage of economic development and discuss what changes will occur in marketing when it passes to a manufacturing stage.
7 What are the consequences of each stage of marketing development on the potential for industrial goods within a country? For consumer goods?
8 Discuss the significance of economic development to international marketing. Why is the knowledge of economic development important in assessing the world marketing environment? Discuss.
9 The Internet accelerates the process of economic growth. Discuss.
10 Discuss the impact of the IT revolution on the poorest countries.
11 Select one country in each of the five stages of economic development. For each country, outline the basic existing marketing institutions and show how their stages of development differ. Explain why.
12 Why should a foreign marketer study economic development? Discuss.
13 The infrastructure is important to the economic growth of an economy. Comment.
14 What are the objectives of economically developing countries? How do these objectives relate to marketing? Comment.
15 Using the list of NIC growth factors, evaluate India and China as to their prospects for rapid growth. Which factors will be problems for India/for China?
16 What is marketing's role in economic development? Discuss marketing's contributions to economic development.
17 Discuss the economic and trade importance of the big emerging markets.
18 What are the traits of those countries considered big emerging markets? Discuss.
19 Discuss how the economic growth of BEMs is analogous to the situation after the Second World War.
20 One of the ramifications of emerging markets is the creation of a middle class. Discuss.
21 Discuss the strategic implications of marketing in emerging economies.

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