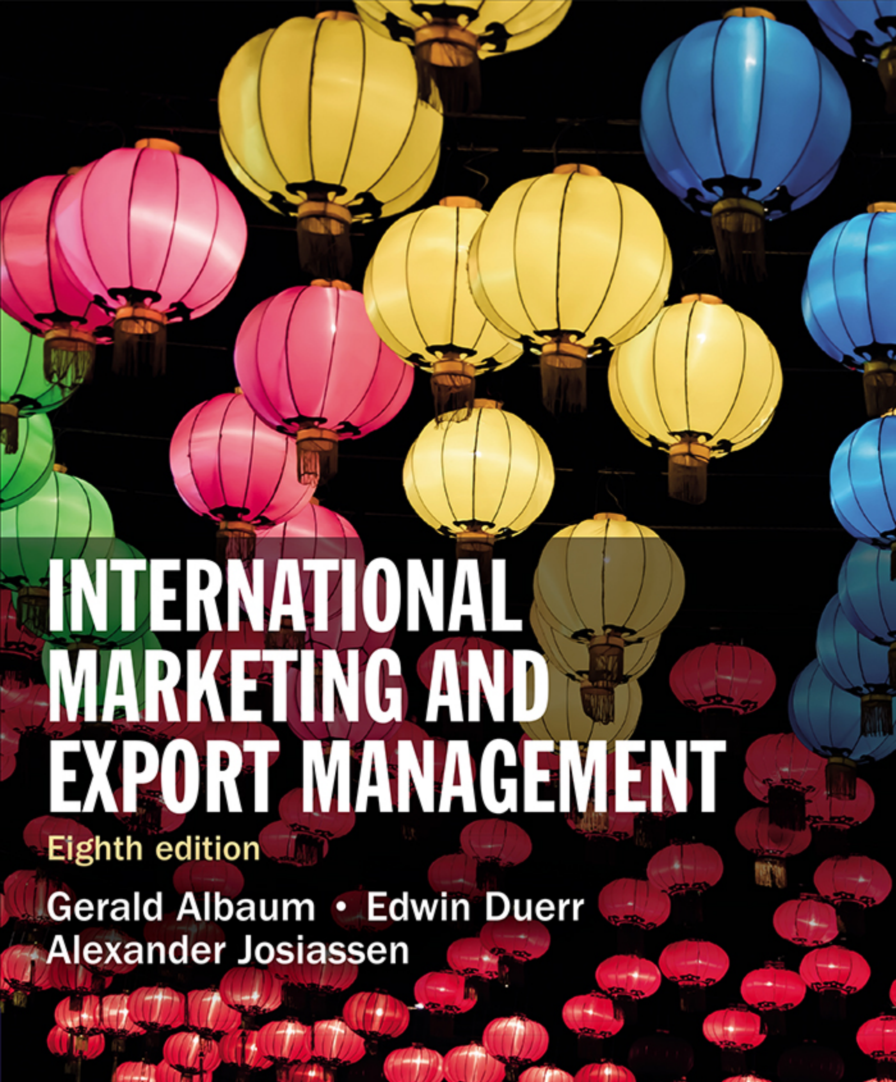

INTERNATIONAL MARKETING AND EXPORT MANAGEMENT

Eighth edition

Gerald Albaum • Edwin Duerr
Alexander Josiassen

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International Marketing and Export Management

Eighth Edition

International Marketing and Export Management

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Dedication

To my wife, Carol, whose support and encouragement have sustained me in my continuing research and through eight editions of *International Marketing and Export Management*.

Gerald Albaum

To Mitsuko Saito Duerr, my wife and companion in life in teaching, consulting, writing and international adventures.

Edwin Duerr

To my wonderful daughters, Anastasia and Freya.

Alexander Josiassen

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Brief contents

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Preface

International marketing in a connected world

Most countries have more or less recovered from the financial crisis in 2008–09. Real estate prices are back up in many places around the world. Stock markets are up in most countries. Largescale unemployment characterizes Southern Europe, and Greece in particular faced issues with foreign debt. Financially, countries around the world have probably never been as dependent on each other as in this era.

The world economy is increasingly becoming an interwoven Web of connections and interdependencies. Three of the challenges which inspired this eighth edition of International Marketing and Export Management are related to this increased financial connectedness. The influence of these challenges has become clearer in recent years and they are on course to be increasingly vital to companies and consumers alike.

The first issue relates to the global connectedness of companies and consumers, large and small, in the marketplace. Hardly any company today is exempt from thinking about international marketing issues. Even the local shoe manufacturer which only sells domestically must understand international marketing because the customers are likely to have a range of domestically and internationally branded shoes to choose from. Consumers who disidentify with their own country might hinder the domestic manufacturer in being successful. Alternatively, ethnocentric consumers who want to support the domestic economy might help the domestic manufacturer gain a competitive advantage. Either way, it is increasingly critical that domestic, exporting, and multinational companies alike gain a thorough understanding of international marketing.

Secondly, the drive towards increased connectedness is evident as a mindset both among managers of companies, as well as among customers. More and more companies adopt a co-creating philosophy in which they cooperate with their suppliers, customers and wider network to provide a value proposition. Customers also drive increased international connectedness aided by technology like Trip Advisor, Meetup, and Airbnb Consumer. Using these and many other apps and sites, customer networks are getting wider and increasingly defy borders.

Thirdly, technological advances both drive and are driven by the increased connectedness. The present phase of the IT evolution is characterized by the Internet maturing. For example, companies have discovered working business plans online, and users find value in many new advances in usability. Access is relatively easy for small and large companies, as well as for consumers. However, as the Internet has matured, increasingly the deep Web and corners of the Web with shadow economies are within range of a larger part of the population. These corners have proven hard to regulate and control. The file-sharing platform Pirate Bay and the black marketplace Silk Road were both closed, only to spring into existence again. Blockchain technology led by poster boy Bitcoin is the main means of payment on Silk Road. Bitcoin can be very difficult to trace and was critical to the success of Silk Road. We must remember however that by far the majority of drugs and illegal guns are not bought with Bitcoin but dollars and other similar currency. Bitcoin and the blockchain technology promise great leaps in human productivity and wealth for consumers as well as for companies, but are still at an infant stage with many further innovations needed.

New to the eighth edition

The aim of the eighth edition is to provide a more balanced view of international marketing and export management. In the process, certain aspects have been prioritized more than in previous editions. For example, cultural perspectives of international marketing are more in focus for this edition compared to previous editions. Another example of higher priority relates to theories and models specific to international consumer behavior such as country-of-origin theory and the theories and models that focus on understanding consumers' country biases. On the other hand, information technology is viewed as a host of tools rather than a specific set of strategies or tactics. For this reason, information technology-related topics have, where possible, not been afforded separate sections but are integrated into the text.

The changes in the international marketing landscape discussed above are reflected in both new material and in expanded coverage of topics previously emphasized. The material in this new edition has been updated, integrated, or extensively rewritten.

Aims and objectives

The aims and objectives of this eighth edition are:

1. to provide a text in international marketing which will be as applicable and valuable for small and medium-sized enterprises as it is for large international corporations;
2. to provide a text which is a balance of research insights, cases and practical examples. In doing so we also continue the reputation for being one of the most comprehensive texts in international marketing and export management.
3. to provide a text which is a trusted companion for the student and manager alike.

Target audience

The eighth edition of *International Marketing and Export Management* is designed for anyone desiring to increase his or her knowledge of international marketing and export management. The book provides comprehensive coverage of both the basic marketing concepts and how they relate to international marketing, as well as coverage of models and theories unique to international marketing and export management. The text is particularly well suited for:

- managers who are involved with international marketing from CEOs to marketing managers and country managers. Export/international marketing practitioners interested in fresh insights in the rapidly changing field of international marketing;
- undergraduate and graduate students taking courses in export management or international marketing;
- those enrolled in management education courses and other tertiary non-university programs that cover export management and/or international marketing;
- entrepreneurs who are interested in starting export or import ventures.

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Finally, the Publishing Team at Pearson Education, including Eileen Srebernik deserve our appreciation for their encouragement, support and most of all, patience while we prepared the manuscript.

Gerald Albaum
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About the authors

Gerald Albaum is Research Professor at the Robert O. Anderson School of Management at the University of New Mexico. In addition, he is Professor Emeritus of Marketing at the University of Oregon and a Senior Research Fellow at the IC2 Institute, University of Texas at Austin. He received his PhD in 1962 from the University of Wisconsin-Madison and his MBA (1958) and BA (1954) from the University of Washington.

He is the author, or co-author, of eight books, nine monographs, and more than 90 articles in refereed journals, 40 papers in refereed conference proceedings, 20 papers in other publications, and 14 book and software reviews published in the *Journal of Marketing Research*. His writings deal with issues in research methods, international marketing activities, cross-cultural/national research, and retailing (especially direct selling). Many of his studies are cross-cultural/national in nature.

Dr Albaum has presented seminars for several North-American and European companies such as German GfK Research, and Danish companies such as Danfoss, Novo Nordisk, and LEGO. He has also made presentations before industry groups such as the Northern Jutland Export Council in Denmark and the Hong Kong Institute of Marketing. He has given seminars for the Hong Kong Housing Authority and for Air China in the People's Republic of China.

Edwin Duerr is Professor Emeritus of International Business at San Francisco State University, where he has served as Department Head of International Business, Director of Graduate Studies in the College of Business, and Chairman of the Board of Directors of the SFSU Research Foundation. He has been a Visiting Professor at universities in Denmark, Germany, Japan, the Netherlands, and Sweden.

Dr Duerr obtained his BS in Engineering at the Illinois Institute of Technology. After working for several years in technical and management positions in multinational companies, and establishing (and later selling) a successful importing company, he received his PhD in Business Administration from the University of California, Berkeley.

Dr Duerr has had extensive consulting experience in Brazil, Japan, Spain, and the United States. He has written widely on comparative management, productivity improvement, and international marketing, and is a frequent speaker to business and educational groups in Europe, the United States, and Japan.

Alexander Josiassen is Director of the Centre for Tourism and Culture Management at Department of Marketing, Copenhagen Business School. Alexander has published on international marketing and export management topics in premier marketing journals (e.g., *Journal of Marketing* and *Journal of Retailing*), premier tourism management journals (e.g., *Journal of Travel Research*, *Annals of Travel Research*, and *Tourism Management*), and premier journals in hospitality management (e.g., *International Journal of Hospitality Management*).

Alexander obtained his Master degree in business at Aarhus School of Business, Denmark, and his PhD in marketing at University of Melbourne, Australia. Prior to working in academia, Alexander worked in management in Europe, and Asia. Alexander now frequently consults for leading international corporations on issues in international marketing, tourism management, and export management.

List of abbreviations

(Excludes company names; *these are not spelled out in the text)

AAC	AsiaAfricaChina
ABS*	antilocking brake system
AES	automated Export Control System
AFTA	ASEAN Free Trade Area
AGV	automated guided vehicles
ANZSCEP	Australia, New Zealand, Singapore Closer Economic Partnership
ASEAN	Association of Southeast Asian Nations
Austrade	Australian Trade Commission
B2B	business to business
B2C	business to consumer
BA	business area
BEMs	big emerging markets
BERI	business environment risk index
B/Ls	bills of lading
BPI	business periodicals index
BRIC	Brazil, Russia, India and China
CACM	Central American Common Market
C&F	cost and freight
CalPERS	California Public Employees' Retirement System
CalSTERS	California State Teachers Retirement System
CARICOM	Caribbean Community and Common Market
CATI	computer-assisted telephone interviewing
CATV*	cable television
CCC	[USA] Commodity Credity Corporation
CD	compact disk
CD-ROM*	compact disk read-only memory
CE	chief executive
CEO*	chief executive officer
CEPA	Closer Economic Partnership Arrangement [between Hong Kong and China]
CER	Closer Economic Relations [between Australia and New Zealand]
CFO	chief financial officer
CIF	cost, insurance and freight
CL	container loads
CMA	German Agricultural Marketing Board
COD	cash on delivery
COFACE	Compagnie Française d'assurance pour le commerce extérieur
COMECON	Council for Mutual Economic Assistance
CPM	cost per thousand (*mille*)

CSM	customer satisfaction management
CTCs	commodity trading companies
D/A	documents against delivery
DAP	delivered at terminal
DAT	delivered at place
DDP*	delivered duty paid
DJVs	domestic joint ventures
D/P	documents against payment
DVD*	digital video disc
EC	electronic assemblies
ECGD	[UK] Export Credits Guarantee Department
EVIC	[Hong Kong] Export Credit Insurance Corporation
EDI	systems electronic data interchange systems
EEA	European Economic Association
EFIC	[Australia] Export Finance and Insurance Corporation
EFTA	European Free Trade Area
EJV	equity joint venture
EMC	export management company
EMDG	[Australia] Export Market Development Grant scheme
EMS	environmental management system
EMU	European Monetary Union
EPZs	export processing zones
ERP	enterprise resource planning
ETCs	export trading companies
EU	European Union
Eximbank	[USA] Export–Import Bank
EXW	ex works
FAS	free alongside
FCA	free carrier
FDA	[USA] Food and Drugs Administration
FDI	foreign direct investment
FMGs	federated export marketing groups
FOB	free on board
FPA	free of particular average
FAP-AC	free of particular average American conditions
FAP-EV	free of particular average English conditions
FSCs	foreign sales corporations
FTAA	Free Trade Area of the Americas
FTZ	free trade zone
GATT*	General Agreement on Tariffs and Trade
GCCP	global consumer cultural positioning
GDP	gross domestic product
GMO	genetically modified
GNI	gross national income
GNP	gross national product
GPS	global positioning system
GTCs	general trading companies

IATA	International Air Transport Association
IBRD	International Bank for Reconstruction and Development
ICAC	[Hong Kong] Independent Commission Against Corruption
ICC	International Chamber of Commerce
ICFs	insulating cement forms
IJV	international joint venture
IMF	International Monetary Fund
INCOTERMS*	trade terms of the International Chamber of Commerce
INV	international new ventures
IPO	initial public offering
IP*	Internet provider
ISF	importer security filing
ISIC*	International Standard Industrial Classification of All Economic Goods
ISO	International Standards Organization
ISPs	Internet service providers
IT	information technology
JAG	[Australia] Joint Action Group
JETRO	Japan External Trade Organization
JIT	just in time
L/C	letter of credit
LCL	less than container load
LNG	liquefied natural gas
LOV	list of values
MA	mechanical assemblies
MATV	master antenna television
MENA	Middle East and North African region
MFN	most favored nation
MII	[China] Ministry of Information Industry
MNCs	multinational corporations
MNEs	multinational enterprises
NAFTA	North American Free Trade Agreement
NCR	no licence required
NICs	newly industrialized countries
NVOCCs	non-vessel operating common carriers
OBUs	operating business units [Avon]
OECD	Organization for Economic Cooperation and Development
OEMs	original equipment manufacturers
OFC	offshore financial centers
OLAP	online analytical processing
OPEC*	Organization of Petroleum Exporting Countries
PAIS	Public Affairs Information Service
PC*	personal computer
PCT	Patent Cooperation Treaty
PLC	product life cycle
POP	point of purchase
POS	point of sale
PRC	People's Republic of China

PROEXPO	[Columbia] Government Trade Bureau
PSE	Personal Selling Ethics Scale
R&D*	research and development
RFID	radio frequency identification
RIP	Regulation of Investigatory Powers (Act)
ROI*	return on investment
RTA	ready-to-assemble
RTBs	regional trading blocs
RvA	Dutch Council for Accreditation
SAR	Special Administration Region
SARS	severe acute respiratory syndrome
SBU	strategic business unit
SDR*	Special Drawing Rights
SICA	Central American Integration System
SITC*	Standard International Trade Classification
SKUs*	stock keeping unit
SMEs	small and medium-sized companies
SRC	self-reference criterion
SUV	sports utility vehicle
SWIFT	Society for Worldwide Interbank Financial Telecommunications
SWOT*	strengths, weaknesses, opportunities, threats
TEU	20 foot container equivalent units
TGW	things gone wrong
TPOs	trade promotion organizations [public sector]
TQM	total quality management
TRIPS	Agreement on Trade-Related aspects of Intellectual Property Rights
UNCTAD	United Nations Conference on Trade and Development
UNIDO	United Nations Industrial Development Organization
USAID US	Agency for International Development
URL	uniform resource locator
VALS	values and life styles
VAT	value added tax
VCR	video cassette recorder
VERs	voluntary export restraints
VRA	voluntary restraint agreement
WAPs	wireless application protocols
WFOE	wholly foreign-owned enterprise
WIPO	[UN] World Intellectual Property Organization
WTO	World Trade Organization
WWW	World Wide Web

Publisher's acknowledgements

Figures

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Tables

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Text

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CHAPTER 1

International marketing and exporting

Learning outcomes

In Chapter 1, we discuss:

- setting the scene in the world economy today: from recession to recovery, and longer-range prospects
- the importance, opportunities and challenges of international marketing, factors affecting its growth: current problems and long-range opportunities
- being effective: the nature and practice of international marketing
- export marketing strategy and planning, and relationship to importing
- the increasing impact of the Internet, Internet, and **e-business**; the critical importance of technological advances, increased competition and innovations; the growth of non-traditional **exports**
- how the book is designed to be of use to students, entrepreneurs, and marketing professionals

Five case studies are provided at the end of the chapter, offering examples of how the material in the chapter (and book) relate to current opportunities and problems in international business and marketing. In Case 1.1 Voice4u, a small business, looks for ways for promotion. Case 1.2, NUMMI, examines the reasons for formation of the Toyota-GM joint venture, obstacles overcome, lessons learned, benefits obtained by each of the partners and reasons for the closure of the company in 2010 after 25 years of successful operation. Case 1.3, Export of art goods, discusses questions facing a potential exporter. Case 1.4, eBay, Inc. shows how an emerging technology and entrepreneurship created a new type of international marketplace. Case 1.5, Dell Inc. shows how changing consumer demands and competition forced an international company to change its **business model**.

Introduction

The growing importance of international marketing and export management

Recession and recovery

In 2015–2016 most countries are recovering from the financial crisis and recession beginning in 2007–2008. This recession temporarily reversed a long period of economic growth and international trade. As will be shown, renewed growth in international trade is necessary for economic recovery and resumption of growth. Because of this, international marketing will continue to be of great importance in the future. While this chapter will discuss the recession, the primary focus will be on the opportunities and challenges facing business in the near and long-range future.

The recession that began in 2007–2008 has been called the 'Great Recession' because of its wide, serious, and prolonged effects (Zukerman, 2010). It sharply reduced demand in most of the nations around the world. International trade, which had been increasing more rapidly than investment and Gross Domestic Product (GDP) for several decades, was directly affected. In 2009, for the first time in 50 years, the volume and value of international trade decreased. At the time of writing, international trade and recovery from the recession are progressing slowly. There is some fear that some economies may regress into a 'double-dip' recession because of the present sovereign-debt crisis in Europe or other problems (Premack, 2010). Whatever the short-range changes in the world economy, the other factors discussed below will retain their importance. Some comments regarding the causes, development and repercussions of the recession are given in the Appendix to this chapter.

As growth has resumed in most countries in 2016, even though it was uneven and serious concerns remained, three things became apparent.

1. The importance of international business to national and regional economies, companies of all sizes, workers and consumers, in regaining growth.
2. The role of exports, along with innovation, as critical engines of economic growth (this was demonstrated again, as it had been in the past, by the experience of China and others).
3. All of the factors that brought about previous rapid growth in international business and the growing importance of international marketing will continue to drive increasing globalization and economic development in the future.

Increased international interdependence

Small and medium-size companies, as well as giant multinationals, have increased opportunities to enter foreign markets as goods, services, technologies, and ideas move more easily across national boundaries. Even an individual with a sufficiently good product, service, or idea can now find customers abroad if he or she understands international marketing and develops an appropriate strategy. Small domestic businesses with well-designed Web pages are increasingly receiving otherwise unsolicited orders from overseas, and have the potential to exploit new opportunities. Unfortunately, many small and medium-size companies are so daunted by their lack of knowledge of international business that they fail to follow up on the opportunities.

Is international marketing only of concern for large and so-called international firms? Far from it. Worldwide, most companies are now selling to, buying from, competing against, and/or working with enterprises in other nations. Many of the goods appearing in marketplaces in any country include materials or components produced abroad, have been assembled or packaged overseas, and/or use technologies developed elsewhere. Increasingly, production, and even research and development efforts are being carried out in cross-national cooperative efforts. Technological advances in communications and information processing have made it possible to provide a wide range of services across borders.

For many companies, small as well as large, international sales provide additional profits, and often are all that enable some companies to make a profit at all. Research and development costs for many products simply cannot be recovered unless they can be sold internationally. Examples of these include: new medicines and equipment to combat disease; Japanese and American computer consoles and games; major American movies; machine tools; BMW's Rolls-Royce automobiles; mid-range commercial aircraft made in Canada by Bombardier and in Brazil by Embraer; long-range commercial aircraft made by the United States' Boeing and Europe's Airbus; and many other products. For example, recently the super-hero genre has gained cinematic popularity, and Marvel and DC-based movies have been very successful. While some earlier Marvel movies did almost the same in the United States as well as in the rest of the world, the box office for all eight Marvel movies between 2008 and 2015 have all done more internationally than domestically (to Marvel) in the United States. Guardians of the Galaxy did 43% domestically and 57% internationally, while Avengers: Age of Ultron did only 33% domestically and 67% internationally. There is a clear trend toward the US domestic market being less and less important, and the international market being more important.

For consumers, international marketing and trade are providing an increasing range and selection of goods and services, often at lower prices and/or of better quality. It is no longer only better products that can enable an enterprise to expand internationally. Companies that have developed better ways of doing business or new concepts (business models) can use these in expanding overseas (eBay, Google, Canada's Cirque du Soleil, the UK's Tesco, Sweden's Ikea, the USA's Costco, etc.). Similarly, companies that have created new types of retail outlets to meet lifestyle needs or desires can successfully establish chains abroad (Japan's 7-Eleven, Starbucks from the United States, etc.). All of these companies are discussed in cases or exhibits in this text. In the increasingly competitive business environment, even very successful business models may need to be adjusted for changing competitive reasons as well as for other **cultures**.

For most nations and regions, economic health and growth have become increasingly dependent upon export sales as an engine of growth, and as a source of the foreign exchange necessary for the import of goods and services. International trade will continue to grow more rapidly than international investment and world GDP. Overall, the countries most open to international trade and investment, as we shall see in Chapter 2, have enjoyed both higher per capita GDP growth rates and lower unemployment rates. Those that have stressed self-sufficiency have generally lagged.

Exports as one engine of growth

At the time of writing this book, German industry has more or less recovered from the recession (Storm and Naastepad, 2015). Small and medium-size companies in Germany had suffered most early in the recession but are now leading in expanding exports. Countries in

Europe that have not been able to increase exports sufficiently continue to lag in recovering. Japan's fragile recovery depends upon growth in Japanese exports (Lau, 2010). 'Exports have been the key driver of growth' in the United States according to the director of economic research at AllianceBernstein LP in New York (Homan and Feld, 2010). Though the former referred primarily to high-tech products, a number of other industries are also benefiting. Exports from America's Caterpillar, Inc., the world's largest manufacturer of construction and mining equipment, allowed the company to increase its annual dividend in June 2010. US exports of high-tech products and services are increasing. Increasing exports are leading Japan out of recession, and highly specialized small and medium-size companies in Japan hold world leadership in their areas of technical superiority. The increased strength of the Japanese yen, as discussed in Chapter 11, may push Japan back into recession even as other economies grow.

During the recession, China's exports declined more than imports and the nation actually contributed to the strength of the economies of a number of its supplying countries. China was able to continue to grow during the recession because the foreign exchange it had accumulated through exports in preceding years supported a major stimulus, with continuing importing, during the international crisis. China has a continuing growth in demand for a wide range of goods from automobiles to cosmetics, agricultural products, parts for use in making final products, and raw materials for its domestic and export-oriented industries. India, which continued to grow during the recession, but at a lower rate than China, is now growing more rapidly as their exports increase.

Many companies made changes specifically to accommodate, or take advantage of, the recession and other economic changes. Some brief examples are given in Exhibit 1.1.

Exhibit 1.1 Selected company responses to economic and competitive changes

During the recession, the Japanese convenience store chain 7-Eleven began a major expansion in the United States and a retrenchment in Japan. It saw the depressed real estate prices in the United States as an opportunity to expand its number of outlets there at relatively low cost. In Japan, real estate prices had been depressed for 20 years, and the cutback in consumer spending during the recession there resulted in its weaker stores losing money. It thus began closing weaker stores there (see Case study in Chapter 5).

Avon Products, Inc., a major US cosmetics company and the world's largest direct seller, receives approximately 80% of its revenue from overseas sales. It saw the economic downturn as an opportunity to grow its representative (sales) staff and its customer base in China and elsewhere. It thus carried out its most massive recruiting campaign in its history, simultaneously carrying out a restructuring program to improve its global supply chain operations (see Case study in Chapter 7). Several years earlier, it had been necessary to change its marketing model in China because of unexpected legal changes there (see Case studies in Chapters 4 and 7).

Coach, Inc. introduced a new line of handbags selling for about 20% less than other purses offered by the company. J. Crew, Inc. opened a new boutique selling accessories that carry a higher margin than its other products. Nordstrom, Inc. and Sacks, Inc. reduced inventories of slower-selling and/or lower margin items (Jargon, 2009).

Germany's Volkswagen AG was faced with relatively slow growth in most of its European and North American markets. However, China, VW's largest single market, was growing rapidly. Thus, in 2010 the company increased its investment funds for China to $7.8 billion for the period 2010 through 2016 (see Case study in Chapter 9).

The UK's Tesco, the third-largest grocery chain in the world, encountered problems in its entry into the US market, based on problems with its small store model and the recession. The company did not withdraw but, at least temporarily, scaled back the number of stores to be opened.

In 2009, all three of McDonald's restaurants in Iceland were closed by mutual agreement between the franchise holder and McDonald's. The nation's financial crisis and collapse of the Icelandic krona made it economically unfeasible to continue to import meats, cheeses and packaging from Germany as required for quality control by McDonald's (US). While McDonald's has exited eight countries from 1996 to 2002 because of poor profits, it continues to operate in 119 countries. It is expected that the three restaurants in Iceland will be reopened under another name, and using more locally produced products, by the present franchisee (Helgason and Wardell, 2009).

Walmart's heavy **advertising** showing how families could save money on breakfasts and other purchases resulted in increased market share and profits. In 2010, it announced an international expansion goal to serve a billion customers per week by 2030. It plans to do this by developing a global e-commerce platform that includes a delivery capacity (*USA Today*, 2010; Birchall, 2010).

Newspapers in several European countries, Japan, and the United States have been experiencing falling sales as a result of both long-term trends and the recession. Papers in the three areas have taken different approaches to coping with change. In Europe, most newspapers have cut costs and gone to more online offerings. In Japan, the country's largest business newspaper, with three times as many subscribers as *The Wall Street Journal*, has developed a new pay-to-view website and greatly restricted online access to any free content. A number of other Japanese newspapers are also restricting the amount of content people can see online (Tabuchi, 2010). Most US newspapers have seen even greater declines in circulation and revenue from advertising than European and Japanese papers. Most US papers have focused primarily on cutting costs, including major layoffs. Two US papers have chosen different methods to offset the declines. (1) *The Christian Science Monitor*, sold abroad as well as domestically, moved to reduce costs by ceasing to produce its daily print edition. It established an e-edition with a subscription rate that it hoped would provide enough income to support continuing operations. Though the e-edition did not gain the hoped-for number of subscribers, the Sunday edition which it continued to publish gained enough additional subscribers to allow the company to continue publishing under the new model. (2) The regional *San Francisco Chronicle* changed its business model to increase the percentage of income from sales of the newspapers while accepting a lower percentage of income from advertising. Assuming that core subscribers would be willing to pay a higher price for an improved paper, it raised the subscription cost by over 75%, stopped offering special discounts for new subscriptions, and ceased delivery to low-volume areas where it was uneconomical. In its newspapers, it used higher-quality paper in some parts, added color printing to certain pages in daily editions (including the front page and comic strips) and to special pages in some of the advertising sections of weekend editions. It strengthened its business section through agreements with Bloomberg. The strategy returned the paper to profitability.

Innovation and entrepreneurship as engines of economic growth

China's more rapid growth, while greatly increased through exporting, actually started when the government allowed more widespread private ownership. Farmers responded by becoming more productive as they benefited more directly from their individual efforts than they had as simply members of a cooperative. Some also began increasing output of higher value-added products such as vegetables and meat. Private ownership also led to the development of additional more productive small businesses. Another major increase in the growth rate occurred when manufacturing of products for sale overseas led to increases in exports, and also brought in foreign investment, which helped to create even more factories to produce additional exports as additional technology spread to Chinese firms as well as joint ventures. The entrepreneurial spirit of the Chinese, previously demonstrated by the overseas Chinese throughout the world and those in Taiwan, increased the rate of growth in the People's Republic.

Japan was not able to begin rapid recovery after World War II until orders for purchases by the American military provided enough foreign exchange to enable the highly entrepreneurial Japanese to put their technical and entrepreneurial talents to use. Import of technology from the US and Europe further fueled Japan's export drive and rapid growth.

The US and Europe have both grown through innovation and entrepreneurial activities, many of which led to increased exports.

Five reasons why rapid growth in international business will continue to be the norm rather than the exception

In addition to the changes in short-term economic conditions, five major changes that have occurred during past decades will continue to drive increasing globalization, and the ever-greater importance of international marketing and export management. They are:

- The information revolution with the technological advances and lowered costs in communications, the development of the Internet and e-commerce, and the development of increasingly sophisticated and diverse software to support a wide variety of business functions. New companies and industries have emerged while a number of existing companies have undertaken major changes or failed. New communications networks, some of which were initially developed as social network sites, have enabled easier gathering of information by individuals as well as providing new opportunities for businesses. They have provided means for companies to more effectively interact with key stakeholders: obtaining information on consumer preferences, demands and suggestions as well as advertising to the customers; obtaining suggestions from and providing information to company personnel as well as other stakeholders and the public.
- The further development of logistics and supply chain management, drawing upon new concepts and methods, advances in information technology in its most broad sense and major advances in physical equipment and facilities. This has resulted in goods moving around the world with increasing efficiency and lower costs.
- The increased importance of innovation as ideas and advances in technologies, strategies and business models, spread more rapidly. The advantages of being ahead, and the dangers of failing to adjust to new conditions, have increased greatly.
- The recognition that increasing incomes, and the increasingly diverse populations in some countries, have provided new and often more segmented markets. Niche markets have emerged that provide additional opportunities for small companies and the need for larger companies to respond to the increasing diversity in demand.

- The lowering of governmental and other barriers to trade and investment, the changes in international trade patterns, and changes in location of some major economic activities, partly the result of the greater participation of China and India in international trade and investment. China has become a major consumer of resources and products, a major supplier of industrial goods, an important recipient of foreign investment and a major creditor country. It has become a major competitor to businesses in both developing and advanced industrial countries. India is also growing and has become a world competitor in some activities, particularly in the export of services of knowledge-industry workers, and to a lesser extent in manufacturing (see Exhibit 1.2).
- The increased competition and increased opportunities for companies of all sizes, resulting from the greater mobility of goods, services, information and ideas due to all of the changes noted above.

Exhibit 1.2 China and India in the international economy

China is the world's fastest-growing major economy, and has overtaken Japan to become the second largest in the world. At over $3.5 trillion dollars as of June 2013, its foreign reserves are also the greatest of any nation (Yi-Chong, 2014). It has enjoyed an average annual growth rate of over 9.5% over the past 30 years. While China's annual rate of investment is variously estimated to be between 36% and 45% it ranks among the world's highest. China is a major consumer of raw materials, using 47% of global output of cement, 37% of cotton, 30% of coal, 26% of crude steel and 21% of aluminum (Energy Department & Agriculture Department, 2010). In 2010, China accounted for about 40% of world copper demand. Whereas price changes on the London Metal Exchange used to trigger price changes on the Shanghai Futures Exchange, the situation is now reversed. Fertilizer is another major commodity consumed in large part by China (Farchy, 2010). China has now passed the US to become the world's largest consumer of energy according to the International Energy Agency, though China says 'this is not very credible' (Hook and Hoyos, 2010). In any event, it is both the world's largest coal producer and the world's largest importer of coal (Hoyos, 2010). China has become a major purchaser of many types of goods from a wide array of countries. As an example, it has overtaken Japan as the largest purchaser of US agricultural exports (Meyer and Hook, 2010). Overall, it is now the world's largest exporter and second-largest importer. Combined, China is the largest goods trader in the world (Anderlini and Hornby, 2014).

Beginning in 1979, China started a series of market-oriented reforms and an opening of its economy to foreign investment. Economic growth was stimulated by both increasing domestic entrepreneurial activity and increasing investment. In 2001, the nation joined the World Trade Organization (WTO) in a stepped process, further accelerating both international investment and trade. The final step in the process was completed in December 2006 (Tucker, 2007). The agreements China signed in order to gain acceptance into the WTO were concerned more with the export of cheap manufactured goods than with the problems now faced by major foreign investors, as noted further on in this Exhibit. There is thus a problem in addressing these issues because there are inadequate provisions concerning them (Beattie and Anderlini, 2010).

In the 1990s, with its population of approximately 1.3 billion people, China had appeared to offer substantial market potential in the long run. Short-run potential at the time was limited by low average incomes and remaining restrictive government regulations on foreign companies entering the domestic market. The nation did, however, offer immediate advantages as a potential source of manufactured goods based on its very low wages, high literacy rate (89%), availability of workers, and some government incentives for exports. As a result, most of the foreign direct investment in China, and substantial domestic investment, was in facilities for manufacturing goods for export. (There were notable exceptions. See Case 8.3 on VW in China and Case 4.3 on Avon.)

In the mid-1990s, low-tech manufactured goods dominated China's exports. This has changed rapidly as foreign manufacturers have worked with Chinese companies and/or set up manufacturing facilities to assemble and/or produce more advanced products. Now computers and electronics, and TVs, phones, and audio gear are the biggest categories of exports (Saminather, 2006). China is now the world's largest exporter of technology goods, though half of the goods China exports have been assembled from imported parts. China is adding massive capacity in steel, chemical, and high-tech electronics plants (Bremmer and Engardio, 2005).

Large Japanese, European, and American companies have established R&D centers in China, with 196 foreign-owned facilities in Shanghai alone. They have located in China to utilize the large pool of individuals with science-related backgrounds and relatively low wage rates (Watanabe, 2007). Much of the work being done is for products for the international market, though some is for specific products for the Chinese market. Chinese technology and manufacturing companies, encouraged by the government as well as their own recognition of the need for innovation, are increasing their own R&D expenditures. In 2004, entities in China made over 130,000 patent applications, the fifth-highest nation in the world (Einhorn, 2006a). Some of China's large companies have set up laboratories abroad to design products for markets there, and to be at centers of product innovation. For example, China's Huawei Technologies has established R&D laboratories in India, Sweden, and the United States as well as in China. The Chinese government broke new ground in 2007, appointing as Minister of Science and Technology a non-communist party member with 15 years overseas experience.

China's domestic market has grown rapidly as the economy has expanded. China's retail sales were estimated at $860 billion in 2006, and are expected to climb to $2.4 trillion by 2020. It is now the world's largest market for automobiles. European, American, and Japanese automakers are manufacturing cars in China for the Chinese market in partnership with domestic companies. China is the world's largest market for beer. London-based SABMiller is in a thriving joint venture with China Resources Snow Breweries Ltd (Einhorn, 2006b). A number of foreign retail companies are in the market, including 7-Eleven Japan, the UK's Tesco, France's Carrefour, US's Walmart and McDonald's, Malaysia's Parkson, and others. Foreign firms account for 23% of the sales of the top 100 food retailers in China (*The Economist*, 2006).

Doing business in China, in competition with China, or just buying from China continues to present a number of specific problems. These include, but are not limited to, the following (not listed in any particular order): corruption, a judicial system that is sometimes capricious and unfair, lack of protection of intellectual property, counterfeiting, production of foodstuffs including unlisted dangerous ingredients, manufactures of products that are not safe, sudden and disadvantageous changes in laws and regulations, cases of Chinese partners in joint ventures setting up parallel competitive wholly owned Chinese companies using technology acquired from their foreign partners.

For years, foreign businesses have been concerned about Chinese government policies that they felt ignored intellectual property rights, forced technology transfer, and biased government purchases toward domestic companies. Most experts agree that there still is a fairly weak enforcement of intellectual property rights in China (Cao, 2014). Chinese companies with state subsidies are also increasingly challenging the Chinese subsidiaries of Western companies in third country markets as well as in China itself (Beattie and Anderlini, 2010). In 2009, Philippe Mellier, CEO of Paris-based Alstom Transport, claimed that China was closing its market to suppliers of locomotives and other types of rolling stock from other countries. Tenders for high-speed trains to be used from Beijing to Shanghai specified that they be entirely designed and built in China. At the same time, China is attempting to sell its trains, made in China improperly using technology gained from Europe and elsewhere, in Europe. He said that China had forced foreign companies to transfer technology as a condition of getting orders, and then used that technology improperly (Wright, 2010).

While many foreign businesses have been reluctant to complain for fear of reprisals, more are now speaking out. In July of 2010, the CEOs of two major German companies met directly with the Chinese Premier, Wen Jiabao. Jurgen Hambrecht, CEO of the chemicals giant BASF complained about foreign companies being forced to transfer technology to Chinese companies in order to gain market access. Peter Loescher, CEO of the industrial conglomerate Siemens and also chairman of the Asia-Pacific Committee of German Business, criticized restrictions on trade and financial services, and lack of access to government contracts. An article in *The Financial Times* noted that Mr Wen told Hambrecht to 'calm down' and said that he was aware that there are allegations that China's investment environment 'is worsening, but noted 'I think it is untrue' (Anderlini, 2010). Earlier in the month the CEO of American's industrial giant General Electric, Jeffrey Immelt, had complained about increasing protectionism and the most difficult business climate in 25 years (Dinmore and Dyer, 2010). A few days later, he softened his statements, which some believe resulted from complaints by the Chinese government.

In contrast to some other foreign businessmen, Jim Owens, the Chairman and CEO of Caterpillar, manufacturer of construction equipment, regards China as a success story. The company is a major manufacturer of construction equipment. It started its first sizeable joint venture there in 1994. It has since increased its stake in the company to 87%, thus acquiring control. It also acquired 100% ownership of a former government-owned business in a series of steps. Caterpillar has 11 plants in China and had sales of about $2.5 billion and is now expanding. Owens credits Caterpillar's success to his convincing government authorities, by word and deed, that it will be a responsible owner of manufacturing facilities. 'We've spent a lot of time in China spelling out how we aim to be good stewards of business in China for years to come' (Marsh, 2010).

The Minister of Commerce in China addressed these concerns in an article in *The Financial Times*, pointing out that China is continuing to lower the threshold for investment in China and providing increasing market access. He pointed out the contribution to world economic recovery in 2009, the successes of foreign multinationals in China, and the continuing opportunities for international businesses (Chen Deming, 2010). It should also be noted that Japan, in its period of rapid growth from 1950 to 1990, borrowed much technology from the US and Europe, kept a number of trade barriers, and used its productive and then relatively low-paid workforce to spearhead development. (In an earlier century, the United States did much the same.)

Worker unrest has been growing in China at Japanese-owned automobile factories and at factories owned by others such as Taiwan's Foxconn. Foxconn's Longhua plant, with an enormous workforce of 300,000 workers, had an increasing number of worker suicides in 2010. Much of the problem there is growing discontent among the factory's largely migrant workers. They originally came from farming areas, leaving their families and living in dormitories under conditions that do not permit them to live in the nearby communities or to remain in the area if they quit the company. Once happy simply to have paying jobs, as the Chinese economy grew their living conditions became increasingly unsatisfactory, and their pay lagged that of comparable work elsewhere (Hille, 2010). In the months since the recognition of the problem, basic pay has been more than doubled (Hille and Kwong, 2010). At some Japanese-owned factories, in addition to concerns over pay lagging that at other foreign-owned factories, there are other serious problems that have become key issues.