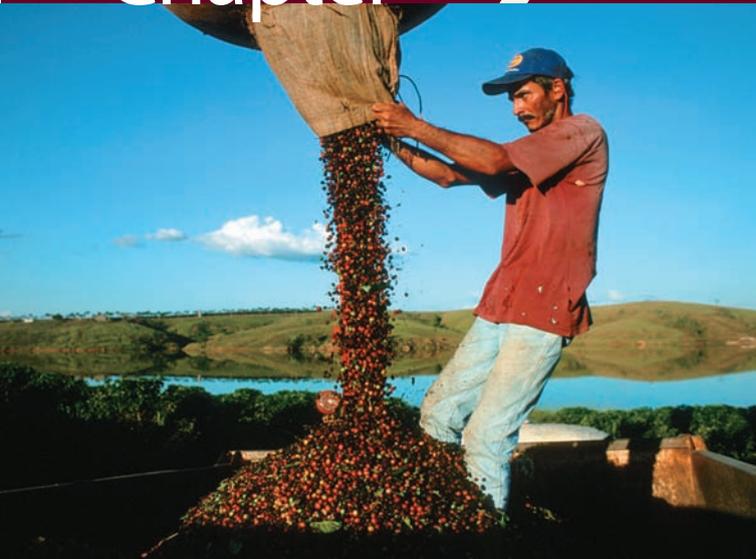


Chapter 9

Economic Development and the Americas



CHAPTER OUTLINE

Global Perspective: Desynchronization? Something George Clooney Caught *Up In the Air*?

Marketing and Economic Development

- Stages of Economic Development
- Economic Growth Factors
- Information Technology, the Internet, and Economic Development
- Objectives of Developing Countries
- Infrastructure and Development
- Marketing's Contributions

Marketing in Developing Countries

- Level of Market Development
- Demand in Developing Countries

Big Emerging Markets (BEMs)

The Americas

- North American Free Trade Agreement (NAFTA)
- United States–Central American Free Trade Agreement–Dominican Republic Free Trade Agreement (DR-CAFTA)
- Southern Cone Free Trade Area (Mercosur)
- Latin America Progress
- Latin American Economic Cooperation
- NAFTA to FTAA or SAFTA?

Strategic Implications for Marketing

CHAPTER LEARNING OBJECTIVES

What you should learn from Chapter 9:

- LO1** The importance of time zones for trade relationships and marketing operations
- LO2** The political and economic changes affecting global marketing
- LO3** The connection between the economic level of a country and the marketing task
- LO4** The variety of stages of economic development among American nations
- LO5** Growth factors and their role in economic development
- LO6** Marketing's contribution to the growth and development of a country's economy
- LO7** The foundational market metrics of American nations
- LO8** The growing importance of trading associations among American nations

Global Perspective

DESYNCHRONOSIS? SOMETHING GEORGE CLOONEY CAUGHT UP IN THE AIR?

The medical term sounds much more ominous than mere jet lag. But whatever you call it, it's still a powerful force. The *Encyclopedia Britannica* tells us:

Physiological desynchronization is caused by transmeridian (east-west) travel between different time zones. The severity and extent of jet lag vary according to the number of time zones crossed as well as the direction of travel—most people find it difficult to travel eastward (i.e., to adapt a shorter day as opposed to a longer one). The resulting symptoms include extreme fatigue, sleep disturbances, loss of concentration, disorientation, malaise, sluggishness, gastrointestinal upset, and loss of appetite.¹

Some international executives seem to handle it well though.

Raj Subramaniam, the Senior Vice President of International Marketing at FedEx has spent almost as much time overseas as he has at the company's Memphis headquarters in the 18 years he has worked there. True, that includes two long-term postings in Hong Kong and Toronto. But even since Subramaniam returned to Tennessee in 2006, he has been logging major miles, visiting FedEx's far-flung offices to oversee global marketing plans and customer service. It's a schedule that suits him, and he takes the opportunity to drop in on old haunts and discover new cities. "The worst thing you can possibly do is stay in the hotel, drink the bottled water, and just look out the window," says the seasoned traveler, who offers a few of his secrets for travelling successfully.

1. Days on the road? I'd say 125 or so, out of which about 100 are outside the U.S.
2. Way to fly? Typically I fly on Cathay Pacific, Emirates, and British Airways. They offer direct flights, and the service is excellent. I'm looking for a reasonable meal and then to read a book and go to sleep. These airlines do a great job of allowing those simple pleasures to happen.
3. Airtime? It's the best time to unplug your electronic leash and read. Right now I'm catching up on a few issues of *Foreign Affairs* magazine.
4. Trip tip? Pack light, and pack running shoes. Travel equals jet lag, so when I get to my destination, I try to hit the gym as quickly as I possibly can.

5. Favorite hotel? The Conrad in Hong Kong. Typically the flight from L.A. lands by 5:30 a.m. I'm at the hotel by 6:30, and I head to the gym. By 7:30, I'm having breakfast on the 59th floor overlooking Victoria Harbor, and by 9:00 I'm in the office. It works beautifully.

Some have a tougher time. Benjamin Southan, correspondent for *Business Traveller.com* recounts his story:

In Sydney . . . I'd woken at four in the morning with extreme jet lag and figured I may as well run it off, but I'd packed in a daze—no socks, and no shorts. Well, I could do without socks, I thought, and I had a pair of normal shorts. I could run in those. Big mistake. The loose t-shirt I preferred when lounging around worked less well when running around; my sockless feet rubbed, particularly once I'd warmed up; and it was very warm, even at five in the morning. And because it was going to be a short run, I hadn't bothered to grab a map, or work out where I was going. I kept the harbour to one side, and turned around after 15 minutes or so, taking what I thought was a shortcut as my feet were beginning to hurt. Second big mistake.

An hour later, exhausted, I half-jogged, half-shuffled through the less than salubrious Kings Cross area. No socks, sweat-stained through T-shirt, one hand holding up my shorts, and wondering why no one would meet my eye so I could ask them the way back to the harbour. . . . When I finally found my way back to the hotel, the receptionist alternated between professional concern and person disgust, with the latter claiming victory. I fell into the lift as the first businessmen were coming down for breakfast, and once in my room pressed the "do not disturb" button and collapsed into bed. I'd allowed myself a day to acclimatize in Sydney before my appointments started, and it was the last trouble I had with jet lag that trip, sleeping for 20 hours and waking only to empty the minibar of chocolate and soft drinks. So much for the weight management.

Sources: Benjamin Southan, "Fit to Drop," *Business Traveller* (UK/Europe Edition), October 2009, p. 82; Eugenia Levenson, "Road Warrior," *Fortune*, April 27, 2009, p. 24.

¹<http://www.Britannica.com>, 2010.

Exhibit 9.1

Three Regional Trading Areas Roughly Defined by Time Zones

Source: World Bank, 2010.

Region	Population	GDP
The Americas	.91 billion	\$19.1 trillion
Europe, Africa, Middle East	1.9 billion	\$19.6 trillion
Asia Pacific	3.5 billion	\$12.5 trillion

LO1

The importance of time zones for trade relationships and marketing operations

Time zones make a difference. Jet lag is an important problem. Virtual meetings across time zones are more than just inconvenient; they can disrupt sleep and family life. Indeed, our own studies have demonstrated that among three kinds of distances that international marketers must traverse—miles, time zones, and cultural distances—time zones have the greatest influence on the success of their commercial efforts abroad.² Moreover, most countries also maintain good trade relationships with contiguous countries. Thus, we can also see an associated pattern of economic growth and global trade that will extend well into the 21st century. It consists of three multinational market regions that comprise major trading blocs: the Americas, Europe, and Asia. Further, the common time zones give the Europeans advantages in both Africa and the Middle East. Within each trading bloc are fully industrialized countries, as typified by the United States, Germany, and Japan; rapidly industrializing countries such as Brazil, Russia, and China that are close on the heels of the fully industrialized; and other countries that are achieving economic development but at more modest rates. See Exhibit 9.1 for the grossest metrics for each trading bloc.

Many American companies have organized their international operations according to these geographic or temporal, if you like, constraints. For example, Quiksilver manages its global operations from three bases: Huntington Beach, California, for the Americas (and corporate headquarters); St. Jean De Luz, France, for Europe; and Avalon, New South Wales, Australia, for the Asia/Pacific region. Among its \$2 billion in global revenues in 2009, approximately 47 percent came from the Americas, 40 percent from Europe, and 13 percent from the Asia/Pacific.

Our presentation of regional market metrics is likewise organized in Chapters 9–11. In this chapter, we first discuss economic development and marketing, then focus on the character of and opportunities for commerce in the Americas. While the United States and Canada are affluent, industrialized countries, most of the countries in the American region better fit the descriptor “developing,” and some are doing so very fast indeed. In Chapter 10, we focus on the European Union, as it represents the benchmark for regional commercial and political cooperation, and then we turn to the broader opportunities among its time zone neighbors—the rest of Europe, Africa, and the Middle East. In Chapter 11 we characterize the opportunities in the bustling Asia/Pacific region that includes the majority of people on the planet.

Marketing and Economic Development**LO2**

The political and economic changes affecting global marketing

Not many years ago, large parts of the developing world were hostile to foreign investment and imposed severe regulatory barriers to foreign trade.³ But few nations are content with the economic status quo; now, more than ever, they seek economic growth, improved standards of living, and an opportunity for the good life as part of the global consumer world.⁴ Latin American and other emerging markets throughout the world will account for 75 percent of the world’s total growth in the next two decades and beyond, according to U.S. Department of Commerce estimates. The transition from socialist to market-driven economies, the liberalization of trade and investment policies in developing countries, the transfer of public-sector enterprises to the private sector,

²Jennifer D. Chandler and John L. Graham, “Relationship-Oriented Cultures, Corruption, and International Marketing Success,” *Journal of Business Ethics* 92(2) (2010), pp. 251–67.

³James C. McKinley Jr., “For U.S. Exporters in Cuba, Business Trumps Politics,” *The New York Times*, November 12, 2007, p. A3.

⁴Stephen Kotkin, “First World, Third World (Maybe Not in That Order),” *The New York Times*, May 6, 2007, p. 7.

and the rapid development of regional market alliances are changing the way countries will trade and prosper in the 21st century.

Argentina, Brazil, Mexico, China, South Korea, Poland, Turkey, India, and Vietnam⁵ are some of the countries undergoing impressive changes in their economies and are 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 behavior patterns via global communications networks, old stereotypes, traditions, and habits are cast aside or tempered, and new patterns of consumer behavior emerge. Luxury cars in China;⁶ Avon cosmetics in South Korea; Walmart 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 represent opportunities in emerging markets.

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 the attitudes toward foreign business activity,⁷ 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.⁹ Marketing constantly faces the challenge of detecting and providing for new levels of consumption, and marketing efforts must be matched with ever-changing market needs and wants. 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.¹⁰

Economic development is generally understood to mean an increase in national production reflected by an increase in the average per capita gross domestic product (GDP) or gross national income (GNI).¹¹ Besides an increase in average per capita GNI or 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 United Nations classifies a country's stage of economic development on the basis of its level of industrialization. It groups countries into three categories:

MDCs (more-developed countries). Industrialized countries with high per capita incomes, such as Canada, England, France, Germany, Japan, and the United States. Exhibit 9.2 summarizes data regarding the standards of living in the most populous American countries that evince a spectrum of development despite their similar sizes. The reader will notice that those at the lowest levels of development often do not

LO3

The connection between the economic level of a country and the marketing task

Stages of Economic Development

⁵“WTO—Landmark of Vietnam's 20-Year Renewal Process,” *Asia Pulse*, January 2, 2008.

⁶Jason Leow and Gordon Fairclough, “Rich Chinese Fancy Luxury Cars,” *The Wall Street Journal*, April 12, 2007, pp. B1, B6.

⁷Terrance H. Witkowski, “Antiglobal Challenges to Marketing in Developing Countries: Exploring the Ideological Divide,” *Journal of Public Policy & Marketing* 24, no. 1 (2005), pp. 7–23.

⁸Ramarao Desiraju, Harikesh Nair, and Pradeep Chintagunta, “Diffusion of New Pharmaceutical Drugs in Developing and Developed Nations,” *International Journal of Research in Marketing* 21, no. 4 (2004), pp. 341–57.

⁹Seung Ho Park, Shaomin Li, and David K. Tse, “Market Liberalization and Firm Performance During China's Economic Transition,” *Journal of International Business Studies* 37 (2006), pp. 127–47.

¹⁰Kevin Zheng Zhou, David K. Tse, and Julie Juan Li, “Organizational Changes in Emerging Economies: Drivers and Consequences,” *Journal of International Business Studies* 37 (2006), pp. 248–63.

¹¹Gross domestic product (GDP) and gross national income (GNI) are two measures of a country's economic activity. GDP is a measure of the market value of all goods and services produced within the boundaries of a nation, regardless of asset ownership. Unlike GNI, GDP excludes receipts from that nation's business operations in foreign countries, as well as the share of reinvested earnings in foreign affiliates of domestic corporations. In most cases and for most applications, the differences between the two are insubstantial. For example, the World Bank reports GDP for China in 2008 as \$4.33 trillion and GNI as \$4.37 trillion.

Exhibit 9.2

Standards of Living in the Eight Most Populous American Countries

Country	Population (millions)	GDI/Capita	Medical Resources per 1000 Persons		Household Ownership %		
			Doctors	Hospital Beds	Color TV	Refrigerator	Shower
United States	307	\$46662	2.4	3.1	99	100	99
Brazil	194	\$ 7627	2.0	—	96	93	81
Mexico	109	\$ 9805	2.0	1.6	95	85	81
Colombia	46	\$ 4063	1.5	1.3	81	71	99
Argentina	41	\$ 7492	3.2	2.0	96	92	96
Canada	34	\$39401	2.2	3.3	99	100	99
Peru	29	\$ 4120	1.3	1.4	56	39	70
Venezuela	29	\$12438	1.3	—	92	97	74

Source: Euromonitor International 2010.

collect or report data suitable for international resources such as Euromonitor International or the World Bank.

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.

LLDCs (least-developed countries). Industrially underdeveloped, agrarian, subsistence societies with rural populations, extremely low per capita income levels, and little world trade involvement. Such LLDCs are found in Central Africa and parts of Asia. Violence and the potential for violence are often associated with LLDCs.

The UN classification has been criticized because it no longer seems relevant in the rapidly industrializing world. In addition, many countries that are classified as LDCs are industrializing at a very rapid rate, whereas others are advancing at more traditional rates of economic development. It is interesting to note in Exhibit 9.2 the differences in income and consumer possessions across the eight most populous American nations.

Countries that are experiencing rapid economic expansion and industrialization and do not exactly fit as LDCs or MDCs are more typically referred to as **newly industrialized countries (NICs)**. These countries have shown rapid industrialization 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. These NICs have become formidable exporters of many products, including steel, automobiles, machine tools, clothing, and electronics, as well as vast markets for imported products.

Brazil provides an example of the growing importance of NICs in world trade, exporting everything from alcohol-based fuels to carbon steel. Brazilian orange juice, poultry, soybeans, and weapons (Brazil is the world's sixth-largest weapons exporter) compete with U.S. products for foreign markets. Embraer, a Brazilian aircraft manufacturer, has sold planes to more than 60 countries and provides a substantial portion of the commuter aircraft used in the United States and elsewhere. Even in automobile 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 \$500 million in a project to produce the Golf and Passat automobiles. The firm also recently announced a deal to sell \$500 million worth of auto parts to a Chinese partner. General Motors invested \$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. All in all, auto and auto parts makers are

LO4

The variety of stages of economic development among American nations



Brazilian production of coffee (on left) has almost always determined world prices for the brew. Now this commercial dominance is being challenged in two ways. First, Vietnam's burgeoning new production (on right) caused world coffee prices to crash in recent years, from a high of \$1.85 per pound in 1997 to about \$.50 in 2001. And Starbucks's is changing the global game in retail coffee distribution—including in its store in the heart of São Paulo, the historical center of coffee production in Brazil and the world.



investing more than \$2.8 billion aimed at the 200 million people in the Mercosur market, the free trade group formed by Argentina, Brazil, Paraguay, and Uruguay.

Economic Growth Factors

LO5

Growth factors and their role in economic development

Why have some countries grown so rapidly and successfully while others with similar or more plentiful resources languished? Some analysts attribute the faster growth of some to cultural values, others to cheap labor, 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.

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.
- 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), labor, 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 direct capital to update the infrastructure, transportation, housing, education, and training.
- Privatization of state-owned enterprises (SOEs) that had placed a drain on national budgets. Privatization released immediate capital to invest in strategic areas and gave relief from a continuing drain on future national resources. Often when industries are privatized, the new investors modernize, thus creating new economic growth.

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

Although it is customary to think such 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 percent since 1987 and is considered one of the least risky Latin American economies for foreign investment. However, since 1976 when Chile opened up trade, the relative size of its manufacturing sector declined from 27.3 percent of GDP in 1973 to less than half that in 2010.¹² Agriculture, in contrast, 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 by 2000. Sophisticated production technology and management methods were applied to the production of table grapes, wine, salmon from fish farms, and a variety of other processed and semiprocessed agricultural products. Salmon farming, begun in the early 1980s, has made salmon a major export item. Salmon exports to the United States are 40,000 tons annually, whereas U.S. annual production of farm-raised salmon is only 31,000 tons. Chile is also a major exporter of the fishmeal that is fed to hatchery-raised salmon.

Chile's production technology has resulted in productivity increases and higher incomes. Its experience indicates that manufacturing is not the only way for countries to grow economically. The process is to continually adapt to changing tastes, constantly improve technology, and find new ways to prosper from natural resources. Contrast Chile today with the traditional agriculturally based economies that are dependent on one crop (e.g., 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—exporting apples. 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 detail in Chapter 10, being a member of a multinational market region is essential if a country is to have preferential access to regional trade groups. As steps in that direction, in 2003 Chile and in 2005 Central American countries (including banana producers) signed free trade agreements with the United States.¹³

¹²World Bank, "World Development Indicators," 2010.

¹³"Chile and U.S. Sign Accord on Free Trade," *The New York Times*, June 7, 2003, p. 3; David Armstrong, "CAFTA Signed into Law," *San Francisco Chronicle*, August 3, 2005, p. C1.

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. The cellular phone,¹⁴ the Internet, and other advances in IT open opportunities for emerging economies to catch up with richer ones.¹⁵ New, innovative electronic technologies can be the key to a sustainable future for developed and developing nations alike.

Because 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 Hong Kong to make a suit by hand for an executive in Memphis. One of the big advantages that rich economies have is their closeness to wealthy consumers, and this advantage will erode as transaction costs fall.

The Internet accelerates the process of economic growth by speeding up the diffusion of new technologies to emerging economies. Unlike the decades required for many developing countries to benefit from railways, telephones, or electricity, the Internet is spreading rapidly throughout Latin America and the rest of the world. Information technology 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 a costly telecom infrastructure to bring telephone service to areas not served.¹⁶ In Caracas, Venezuela, for example, where half of the city's 5 million people lives in nonwired slums, cell phones with pay-as-you-go cards have provided service to many residents for the first time. The Internet allows for innovative services at a relatively inexpensive cost. Telecenters in many developing countries provide public telephone, fax, computer, and Internet services where students can read online books and local entrepreneurs can seek potential business partners. Medical specialists from Belgium help train local doctors and surgeons in Senegal via video linkups between classrooms and operating centers and provide them with Internet access to medical journals and databases. Traveling there to teach would be prohibitively expensive; via Internet technology, it costs practically nothing.

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.

Industrialization is the fundamental objective of most developing countries.¹⁷ Most countries see in economic growth the achievement of social as well as economic goals. Better education, better and more effective government, the 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. Regarding the last, consider for a moment the tremendous efforts Brazil has undertaken in preparing for the 2012 Olympics.

Because 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 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 privatizing SOEs. The trend toward privatization is currently a major economic phenomenon in industrialized as well as in developing countries.

¹⁴Nandini Lakshman, "Nokia: Lessons Learned, Reward Reaped," *BusinessWeek*, July 30, 2007, p. 32.

¹⁵Simon Cox, "High-Tech Hopefuls, A Special Report on Technology in India and China," *The Economist*, November 10, 2007, pp. 1–25.

¹⁶Jack Ewing and Edel Rodriguez, "Upwardly Mobile in Africa," *BusinessWeek*, September 4, 2007, pp. 64–71.

¹⁷"Chocolate, Thinking out of the Box," *The Economist*, April 7, 2007, p. 65.

Exhibit 9.3

Infrastructure of Most Populous American Countries

Country	Travel by Rail (passenger-km per capita)	Passenger Cars/1000 People	Energy Consumption (tonnes oil equivalent per capita)	Computers in Use per 1000	Mobile Phones in Use per 1000	Literacy Rate (%)	University Students (per 1000)
United States	27	430	7.5	867	929	100	47
Brazil	93	105	1.2	260	876	92	29
Mexico	—	147	1.6	163	767	93	23
Colombia	0.2	42	0.7	111	1005	94	25
Argentina	198	138	1.9	105	1217	98	38
Canada	43	555	9.9	1085	673	100	34
Peru	5.3	24	0.6	154	809	93	22
Venezuela	—	78	2.9	130	1053	95	40

Source: Euromonitor International, 2010.

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, railroads, seaports, communication networks, financial networks, and energy supplies¹⁸ and distribution¹⁹—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. See Exhibit 9.3 for some comparisons of infrastructure among the eight largest American countries.

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. The lack of readily available educational assets hampers not only the ability to communicate to residents (literacy) but also firms' ability to find qualified local marketing managers. 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 specialized 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 their offerings and augment existing levels of infrastructure.

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. For example, Mexico's economy has been throttled by its archaic transport system. Roads and seaports are inadequate, and the railroad system has seen little modernization since the 1910 Revolution. Please see Exhibit 9.3 for some of the numbers associated with this problem. If it were not for Mexico's highway system (though 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 harbors and inadequate port equipment in part make a container filled with computers about \$1,000 more expensive to ship from Miami to San Antonio, Chile (about 3,900 miles), than the same container shipped from Yokohama, Japan, to Miami (8,900 miles).

¹⁸"Chavez Declares an 'Electricity Emergency' in Venezuela," *Reuters*, February 9, 2010, online.

¹⁹Chris Kraul and Marcelo Soares, "Brazil's Frayed Wires Finally Short Out," *Los Angeles Times*, November 12, 2009, p. A22.

Marketing's Contributions

LO6

Marketing's contribution to the growth and development of a country's economy

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 or regard distribution 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.

Marketing is an economy's arbitrator between productive capacity and consumer demand. The marketing process is the critical element in effectively utilizing production resulting from economic growth; it can create a balance between higher production and higher consumption. 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.²⁰ Marketing efforts must be keyed to each situation, custom tailored for each set of circumstances. A promotional program for a population that is 50 percent illiterate is vastly different from a program for a population that is 95 percent literate. Pricing in a subsistence market poses different problems from pricing in an affluent society. In evaluating the potential in a developing country, the marketer must make an assessment of the existing level of market development and receptiveness within the country, as well as the firm's own capabilities and circumstances.²¹

Level of Market Development

The level of market development roughly parallels the stages of economic development. Exhibit 9.4 illustrates various stages of the marketing process as it evolves in a growing economy. The table is a static model representing an idealized evolutionary process. As discussed previously, 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 specialized the institutions become to perform marketing functions.

As countries develop, the distribution channel systems develop. In the retail sector, specialty stores, supermarkets, and hypermarkets emerge, and mom-and-pop stores and local brands often give way to larger establishments. In short, the number of retail stores declines, and the volume of sales per store increases. 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,²² specialized consumer-financing agencies,²³ 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.

²⁰Y. Luo, "Market-Seeking MNEs in an Emerging Market: How Parent-Subsidiary Links Shape Overseas Success," *Journal of International Business Studies* 35, no. 4 (2003), pp. 290-309.

²¹Donna L. Paul and Rossitza B. Wooster, "Strategic Investments by US Firms in Transition Economies," *Journal of International Business Studies* 39 (March 2008), pp. 249-66; "Indian Retailing, Getting Cheaper and Better," *The Economist*, February 3, 2007, pp. 64-65.

²²Ian Alum, "New Service Development Process: Emerging versus Developed Markets," *Journal of Global Marketing* 20, no. 2/3 (2007), pp. 43-56.

²³Katrijn Gielens and Marnik G. Dekimpe, "The Entry Strategy of Retail Firms into Transition Economies," *Journal of Marketing* 71 (2007), pp. 196-212.

Exhibit 9.4

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	Labor Land	Labor intensive No organized markets
	Surplus commodity product	Agricultural economy, such as coffee, bananas	Exchange	Small-scale merchants, traders, fairs, export-import	Traditional authority	Entrepreneurial Commercial	Labor Land	Labor and land intensive Product specialization Local markets Import oriented
Manufacturing	Small scale	Cottage industry	Exchange Physical distribution	Merchants, wholesalers, export-import	Middlemen	Entrepreneurial Financial	Labor Land Technology Transportation	Labor intensive Product standardization and grading Regional and export markets Import oriented
	Mass production	U.S. economy, 1885–1914	Demand creation Physical distribution	Merchants, wholesalers, traders, and specialized institutions	Producer	Production and finance	Labor Land Technology Transportation Capital	Capital intensive Product differentiation National, regional, and export markets
Marketing	Commercial-transition	U.S. economy, 1915–1929	Demand creation Physical distribution Market information	Large-scale and chain retailers	Producer	Entrepreneurial Commercial	Labor Land Technology Transportation Capital Communication	Capital intensive Changes in structure of distribution National, regional, and export markets
	Mass distribution	U.S. economy, 1950 to present	Demand creation Physical distribution Market information Market and product planning, development	Integrated channels of distribution Increase in specialized middlemen	Producer Retailer	Marketing	Labor Land Technology Transportation Capital Communication	Capital and land intensive Rapid product innovation National, regional, and export markets

CROSSING BORDERS 9.1

Marketing in the Third World: Teaching, Pricing, and Community Usage

Much of the marketing challenge in the developing world, which is not accustomed to consumer products, is to get consumers to use the product and to offer it in the right sizes. For example, because many Latin American consumers can't afford a seven-ounce bottle of shampoo, Gillette sells it in half-ounce plastic bottles. And in Brazil, the company sells Right Guard in plastic squeeze bottles instead of metal cans.

But the toughest task for Gillette is convincing Third World men to shave. Portable theaters called mobile propaganda units are sent into villages to show movies and commercials that tout daily shaving. In South African and Indonesian versions, a bewildered bearded man enters a locker room where clean-shaven friends show him how to shave. In the Mexican film, a handsome sheriff is tracking bandits who have kidnapped a woman. He pauses on the trail, snaps a double-edged blade into his razor, and lathers his face to shave. In the end, of course, the smooth-faced sheriff gets the

woman. From packaging blades so that they can be sold one at a time to educating the unshaven about the joys of a smooth face, Gillette is pursuing a growth strategy in the developing world.

What Gillette does for shaving, Colgate-Palmolive does for oral hygiene. Video vans sent into rural India show an infomercial designed to teach the benefits of toothpaste and the proper method of brushing one's teeth. "If they saw the toothpaste tube, they wouldn't know what to do with it," says the company's Indian marketing manager. The people need to be educated about the need for toothpaste and then how to use the product. Toothpaste consumption has doubled in rural Brazil in a six-year period.

Sources: David Wessel, "Gillette Keys Sales to Third World Taste," *The Wall Street Journal*, January 23, 1986, p. 30; "Selling to India," *The Economist*, May 1, 2000; Raja Ramachandran, "Understanding the Market Environment of India," *Business Horizons*, January/February 2000, p. 44; Euromonitor International, 2010.

The limitation of Exhibit 9.4 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. So some ventures will not succeed no matter how well planned. A significant factor in the acceleration of market development is that countries or areas of countries have been propelled from the 18th to the 21st century in the span of two decades via borrowed technology.

Marketing structures of many developing countries are simultaneously at many stages. It is not unusual to find traditional small retail outlets functioning side by side with advanced, modern markets. This situation 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 the United States.

Demand in Developing Countries

The data in Exhibit 9.5 represent the diversity of consumption patterns across types of countries. Notice the higher percentages of expenditures for food in developing countries, whereas the costs of housing are more important in affluent countries. Also note the high costs of health goods and medical services associated with the mostly private-sector health-care system of the United States. You may recall from Chapter 4 that the government-based, tax-dollar supported systems in many other affluent countries deliver equal or better longevity to their citizens, particularly in Japan. Affluence also allows higher proportions to be spent on leisure activities than is the case in developing countries.

Estimating market potential in less-developed countries involves additional challenges. Most of the difficulty arises from the coexistence of three distinct kinds of markets in each country: (1) the traditional rural/agricultural sector, (2) the modern urban/high-income sector, and (3) the often very large transitional sector usually represented by low-income urban slums. The modern sector is centered in the capital city and has jet airports, international hotels, new factories, and an expanding Westernized middle class. The traditional rural sector tends to work in the countryside, as it has for 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. Latin America

Exhibit 9.5

Consumption Patterns in Most Populous American Countries

Country	Occupants per household	Household Expenditures (\$/capita)								
		Food	Alcohol, Tobacco	Clothing	Housing	Health Goods, Medical Services	Transportation	Communications	Leisure	Education
United States	2.6	2174	618	1159	5998	5956	3332	720	2959	701
Brazil	3.6	1257	96	168	758	224	226	279	173	365
Mexico	3.9	1277	130	154	726	260	939	95	136	212
Colombia	3.8	871	150	130	447	376	318	109	161	154
Argentina	3.7	820	135	292	621	153	517	149	356	47
Canada	2.6	2082	890	937	5064	1343	3287	500	2173	372
Peru	4.1	809	55	159	274	170	255	85	66	207
Venezuela	4.5	2206	228	310	913	363	719	383	293	475

Source: Euromonitor International, 2010.

The irony of Parker Brothers' introduction of Monopoly to Ecuador in 2009 is rather amusing, given President Rafael Correa's announcement of new anti-monopoly laws just the year before. He was reacting to Carlos Slim's giant Mexican Telmex takeover of Ecuador Telecom.



currently has a population of about 600 million, about two-thirds of which would be classified as middle class by one definition—that is, within the income per capita band of \$5,000 to \$20,000 at purchase price parity.²⁴ The modern sector demands products and services similar to those available in any industrialized country; the remaining 200 million in the transitional and rural sectors, however, demand items more indigenous and basic to subsistence. As one authority on developing markets observed, “A rural consumer 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 21st 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.

Increasingly marketing research efforts are being focused on the lowest income segments in Latin America. For example, McCann Worldgroup's office in Bogota, Colombia (owned by the global advertising conglomerate Interpublic Group), developed a new division called “Barrio.” The launch of the new division is based on a two-year, \$2.5 million research project in which McCann sent employees across Latin America to live for a week with families earning between \$350 to \$700 per month. The agency amassed 700 hours of video recordings and thousands of questionnaires to develop a clearer picture of how consumers behave in the region's poorer districts. A problem discovered for one of their major clients was a misperception that Nido Rindes Diario, a powdered milk product of Nestle SA, was viewed narrowly as formula appropriate for babies only. A new product positioning was developed, based on the finding that for the poorest families in Latin America, food means survival. One executive explained, “The study found that the meaning of food is energy and strength to work, to carry through the day, to not get sick.” To communicate the product's usefulness for the whole family, a radio advertisement was designed using a trumpet and bongo-drum jingle whose verses are a play on the Spanish word *rinde*, which means both long-lasting and productiveness. The jingle suggested that both the consumers of the product and their money would “produce more.”²⁵

The companies that will benefit in the future from emerging markets in Latin America and elsewhere are the ones that invest when it is difficult and initially unprofitable. In some

²⁴There are many ways to define “middle class.” See “Who's in the Middle,” *The Economist Special Report on the New Middle Class*, February 14, 2009, p. 4.

²⁵Antonio Regalado, “McCann Offers Peek at Latin America's Poor,” *The Wall Street Journal*, December 8, 2008, p. B6.

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.

Big Emerging Markets (BEMs) As mentioned previously, the U.S. Department of Commerce estimates that over 75 percent of the expected growth in world trade over the next two decades will come from the more than 130 developing countries; a small core of these countries will account for more than half of that growth.²⁶ Commerce researchers also predict that imports to the countries identified as **big emerging markets (BEMs)**, with half the world's population and accounting for 25 percent of the industrialized world's GDP today, will by 2010 be 50 percent of that of the industrialized world. With a combined GDP of over \$2 trillion, 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.²⁷

Big emerging markets share a number of important traits. They

- Are all geographically large.
- Have significant populations.
- Represent sizable 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 neighboring markets as they grow.

Although these criteria are general and each country does not meet all of them, India, China, Brazil, Mexico, Poland, Turkey, and South Africa are prominent examples of countries the Department of Commerce has identified as BEMs.²⁸ Other countries such as Egypt, 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 channeled into these areas.

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 accelerated growth in demand for goods and services, much of which must be imported. Thus, BEM merchandise imports are expected to be nearly \$1 trillion higher than they were in 1990; if services are added, the amount jumps beyond the trillion-dollar mark.

Because many of these countries lack modern infrastructure, much of the expected growth will be in industrial sectors such as information technology, environmental technology, transportation, energy technology, healthcare technology, and financial services. What is occurring in the BEMs is analogous to the situation after World War II when tremendous demand was created during the reconstruction of Europe. As Europe rebuilt

²⁶Debabrata Talukdar, Sumila Gulyani, and Lawrence F. Salmen, “Customer-Oriented in the Context of Development Projects: Insights from the World Bank,” *Journal of Public Policy & Marketing* 24, no. 1 (2005), pp. 100–11.

²⁷C. K. Prahalad and Allen Hammond, “Serving the World’s Poor, Profitably,” *Harvard Business Review* 80, no. 9 (September 2002), pp. 24–32.

²⁸William J. Holstein, “Emerging Markets, Emerging Giants,” *The New York Times*, April 22, 2007, p. 4.

its infrastructure and industrial base, demand for capital goods exploded; as more money was infused 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 World War II, however, the competition will be fierce as Japan, China, Europe, the NICs, and the United States vie for these big emerging markets.

The Americas²⁹

Within the Americas, the United States, Canada, Central America, and South America have been natural if sometimes contentious trading partners. As in Europe, the Americas are engaged in all sorts of economic cooperative agreements, with NAFTA being the most significant and Mercosur and DR-CAFTA gaining in importance.

North American Free Trade Agreement (NAFTA)

Preceding the creation of the North American Free Trade Agreement (NAFTA), the United States and Canada had the world's largest bilateral trade agreement; each was the other's largest trading partner. Despite this unique commercial relationship, tariff and other trade barriers hindered even greater commercial activity. To further support trade activity, the two countries established the United States–Canada Free Trade Area (CFTA), designed to eliminate all trade barriers between the two countries. The CFTA created a single, continental commercial market for all goods and most services. The agreement between the United States and Canada was not a customs union like the European Community; no economic or political union of any kind was involved. It provided only for the elimination of tariffs and other trade barriers.

Shortly after both countries had ratified the CFTA, Mexico announced that it would seek free trade with the United States. Mexico's overtures were answered positively by the United States, and talks on a U.S.–Mexico free trade area began. Mexico and the United States had been strong trading partners for decades, but Mexico had never officially expressed an interest in a free trade agreement until the president of Mexico, Carlos Salinas de Gortari, announced that Mexico would seek such an agreement with the United States and Canada.

²⁹For a comprehensive list of all trade agreements in the Americas, with links to specific documents, visit <http://www.sice.oas.org> and select Trade Agreements.



Geographic proximity allows Mexicans from Baja, California, to attend Padres baseball games in close-by San Diego. The team maintains this successful store just across the border in Plaza Rio shopping center in Tijuana. And of course, historically, Padre Junipero Serra had visited both places in the late 1700s while establishing the chain of missions in old Spanish California. NAFTA also has given Taco Bell a second shot at making it in Mexico; this store is in Monterrey. The company's 1992, pre-NAFTA incursion failed.

CROSSING BORDERS 9.2

Taco Bell Tries Again

It sounds like a fast-food grudge match: Taco Bell is taking on the homeland of its namesake by reopening for the first time in 15 years in Mexico. Defenders of Mexican culture see the chain's reentry as a crowning insult to a society already overrun by U.S. chains, from Starbucks and Subway to KFC. "It's like bringing ice to the Arctic," complained pop culture historian Carlos Monsivais.

In Mexico, the company is projecting a more "American" fast-food image by adding French fries—some topped with cheese, sour cream, ground meat, and tomatoes—to the menu of its first store, which opened in late September 2007 in the northern city of Monterrey. Other than the fries and sales of soft-serve ice cream, "our menu comes almost directly from the U.S. menu," said Managing Director Steven Pepper.

Some of the names have been changed to protect the sacred: The hard-shelled items sold as "tacos" in the United States have been renamed "tacostadas." This made-up word is a play on "tostada," which for Mexicans is a hard, fried disk of cornmeal that is always served flat, with toppings. But while Mexicans eagerly buy many American brands, the taco holds a place of honor in the national cuisine. Mexicans eat them everywhere, any time of day, buying them from basket-toting street vendors in the morning or slathering them in salsa at brightly lit taquerias to wrap up a night on the town.

Taco Bell has taken pains to say that it's not trying to masquerade as a Mexican tradition. "One look alone is enough to tell that Taco Bell is not a 'taqueria,'" the

company said in a half-page newspaper ad. "It is a new fast-food alternative that does not pretend to be Mexican food." It's still a mixed message for Mexicans like Marco Fragoso, a 39-year-old office worker sitting down for lunch at a traditional taqueria in Mexico City, because the U.S. chain uses traditional Mexican names for its burritos, gorditas, and chalupas. "They're not tacos," Fragoso said. "They're folded tostadas. They're very ugly."

Taco Bell failed with an earlier, highly publicized launch in Mexico City in 1992, when it opened a few outlets next to KFC restaurants. Now Taco Bell, KFC, and Pizza Hut are owned by Yum! Brands. But Mexicans were less familiar with foreign chains back then, the economy was on the verge of a crisis, and NAFTA had yet to be signed. The restaurants didn't even last two years. Since then, free trade and growing migration have made U.S. brands ubiquitous in Mexico, influencing everything from how people dress to how they talk.

Graham Allan, president of Yum! Brands, says two years of market research have convinced him that the firm will succeed this time. The company is building its second store in another Monterrey suburb and is opening between 8 and 10 more locations in its first year, with plans to eventually reach 300 stores. The first stores will be company-owned, and franchise opportunities will open up in later years.

Sources: Michael Arndt, "Tacos without Borders," *BusinessWeek*, September 3, 2007, p. 12; Mark Stevenson, "Another Run for the Border," *Los Angeles Times*, October 15, 2007, p. C4.

Despite the disparity between Mexico's economy and the economies of the other two countries, there were sound reasons for such an alliance. Canada is a sophisticated industrial economy, resource rich, but with a small population and domestic market. Mexico desperately needs investment, technology, exports, and other economic reinforcement to spur its economy. Even though Mexico has an abundance of oil and a rapidly growing population, the number of new workers is increasing faster than its economy can create new jobs. The United States needs resources (especially oil) and, of course, markets. The three need one another to compete more effectively in world markets, and they need mutual assurances that their already dominant trading positions in the others' markets are safe from protection pressures. When NAFTA was ratified and became effective in 1994, a single market of 360 million people with a \$6 trillion GNP emerged.

NAFTA required the three countries to remove all tariffs and barriers to trade over 15 years, and beginning in 2008, all tariff barriers were officially dropped.³⁰ Some nagging disagreements still persist, such as allowing Mexican trucks and truckers free access to U.S. roads. But for the most part, NAFTA is a comprehensive trade agreement that

³⁰Jenalia Moreno, "Trade Tariffs End, Marking a NAFTA Milestone: U.S., Mexico Tout New Growth, but Some Farmers Feel Squeezed Out," *Houston Chronicle*, January 2, 2008.

Exhibit 9.6

Key Provisions of NAFTA

Market access

Within 10 years of implementation, all tariffs will be eliminated on North American industrial products traded among Canada, Mexico, and the United States. All trade between Canada and the United States not already duty free will be duty free as provided for in CFTA. Mexico will immediately eliminate tariffs on nearly 50 percent of all industrial goods imported from the United States, and remaining tariffs will be phased out entirely within 15 years.

Nontariff barriers

In addition to the elimination of tariffs, Mexico will eliminate nontariff barriers and other trade-distorting restrictions. The U.S. exporters will benefit immediately from the removal of most import licenses that have acted as quotas, essentially limiting the importation of products into the Mexican market. NAFTA also eliminates a host of other Mexican barriers, such as local-content, local-production, and export-performance requirements that have limited U.S. exports.

Rules of origin

NAFTA reduces tariffs only for goods made in North America. Tough rules of origin will determine whether goods qualify for preferential tariff treatment under NAFTA. Rules of origin are designed to prevent free riders from benefiting through minor processing or transshipment of non-NAFTA goods. For example, Japan could not assemble autos in Mexico and avoid U.S. or Canadian tariffs and quotas unless the auto had a specific percentage of Mexican (i.e., North American) content. For goods to be traded duty free, they must contain substantial (62.5 percent) North American content. Because NAFTA rules of origin have been strengthened, clarified, and simplified over those contained in the U.S.–Canada Free Trade Agreement, they supersede the CFTA rules.

Customs administration

Under NAFTA, Canada, Mexico, and the United States have agreed to implement uniform customs procedures and regulations. Uniform procedures ensure that exporters who market their products in more than one NAFTA country will not have to adapt to multiple customs procedures. Most procedures governing rules-of-origin documentation, record keeping, and verification will be the same for all three NAFTA countries. In addition, the three will issue advanced rulings, on

request, about whether or not a product qualifies for tariff preference under the NAFTA rules of origin.

Investment

NAFTA will eliminate investment conditions that restrict the trade of goods and services to Mexico. Among the conditions eliminated are the requirements that foreign investors export a given level or percentage of goods or services, use domestic goods or services, transfer technology to competitors, or limit imports to a certain percentage of exports.

Services

NAFTA establishes the first comprehensive set of principles governing services trade. Both U.S. and Canadian financial institutions are permitted to open wholly owned subsidiaries in Mexico, and all restrictions on the services they offer will be lifted. NAFTA opens Mexico's market for international truck, bus, and rail transport and eliminates the requirement to hand off cargo to a Mexican vehicle upon entry into Mexico, saving U.S. industry both time and money. Also, U.S. truck and bus companies will have the right to use their own drivers and equipment for cross-border cargo shipment and passenger service with Mexico.

Intellectual property

NAFTA will provide the highest standards of protection of intellectual property available in any bilateral or international agreement. The agreement covers patents, trademarks, copyrights, trade secrets, semiconductor integrated circuits, and copyrights for North American movies, computer software, and records.

Government procurement

NAFTA guarantees businesses fair and open competition for procurement in North America through transparent and predictable procurement procedures. In Mexico, PEMEX (the national oil company), CFE (the national electric company), and other government-owned enterprises will be open to U.S. and Canadian suppliers.

Standards

NAFTA prohibits the use of standards and technical regulations used as obstacles to trade. However, NAFTA provisions do not require the United States or Canada to lower existing health, environmental, or safety regulations, nor does NAFTA require the importation of products that fail to meet each country's health and safety standards.

addresses, and in most cases improves, all aspects of doing business within North America. See Exhibit 9.6 for some of the key provisions of the trade agreement. The elimination of trade and investment barriers among Canada, Mexico, and the United States creates one of the largest and richest markets in the world. Cross-border cooperation seems to ameliorate other long-standing areas of conflict such as legal and illegal immigration. NAFTA also has paved the way for Walmart to move into Mexico and the Mexican supermarket giant Gigante to move into the United States. Other cross-border services are also thriving, including entertainment and healthcare.

CROSSING BORDERS 9.3

In Quebec, They Prefer Pepsi

Up until the 1980s, Coke was king in Quebec. Then the local advertising executives at J. Walter Thompson took a risk. Standard practice for both Coke and Pepsi had been to simply translate U.S. campaigns into French. But being second in the market forced creativity, and based on qualitative research, the ad execs recommended a new selling point: comedy.

It was risky, because while Pepsi had been adopted as a self-effacing term by some Quebecers, it was also a derogatory slur used by non-francophones to describe them. If the marketing plan was seen as offensive, Pepsi could become a pariah.

"Young Quebecers in the 1980s . . . were crowning their own celebrities and creating their own made-in-Quebec lifestyle," wrote the J. Walter Thompson company in a submission to the Cassies, the Canadian Advertising Awards. "Research revealed an inner confidence among Quebec target groups. . . . Since Quebec was culturally unique, it had developed its own entertainment system complete with its own stars," especially in the comedy milieu. "It was a style of comedy that used typical Quebecois stereotypes to redefine the emerging new 'street-smart' culture of young, urban Quebecers."

Claude Meunier, famous for his absurdist humor on *Ding et Dong* television skits, was chosen. The theme of Meunier's ads remained an intractable *joie de vivre* and an undying love of Pepsi. His brief, 30-second spots debuted in 1985 and featured a variety of characters and a humor only Quebecers could appreciate; they became an instant hit.

Pepsi came almost neck-and-neck with Coke the same year. By 1986, David had surpassed Goliath and continued to thrive, even though Coke fought back, outspending Pepsi two-to-one on six media campaigns between 1985 and 1993.

"Quebecers had the sentiment that a multinational corporation finally took the trouble to try and understand them, using the same language, with the same accents," says Luc Dupont, a Canadian marketing professor. A nation moored in a sea of English could empathize with company fighting for purchase in an ocean of Coke. "Subconsciously, Quebecers identify with products that are No. 2," Dupont said. "In addition to the absurd humour and joy of life, they like to say, 'We're different here. We changed things.'"

The Meunier campaign would last 18 years, aided by the fact Meunier became the star of *La Petite Vie*, an early 1990s Quebec sitcom watched by 4 million out of a possible 6 million viewers every Monday night. The Meunier Pepsi campaign won the 1993 CASSIE Best of Show advertising award.

Today, Coke dominates the global market with 51 percent of total sales, compared with Pepsi's 22 percent. But in Quebec, the Pepsi stable of soft drinks owns 61 percent of the market against Coke's 20. It is a dominance unseen anywhere else in North America. "Pepsi's ad campaign allowed us to feed that image of ourselves as different," Dupont said. "Even though in fact, we are not so different." The Pepsi Meunier campaign is taught in textbooks now, Dupont said, as a lesson in how to adapt to your market and change with the times.

The latest TV spot may be the best yet: A Scandinavian-sounding tourist, with the insouciance of Mr. Bean, walks into a *casse-croute* somewhere in Quebec's hinterland and makes the mistake of ordering a Coke. The snack bar falls silent. Wildlife stops in the forest. Traffic grinds to a halt in Old Quebec. People stick their heads out of windows. When the waiter finally pops open a can of the blue and red in front of him, the tourist clues in: "Ah! Ici, c'est Pepsi."

Pepsi is celebrating its 75th anniversary in Quebec this year, honoring the opening of the Montreal plant in 1934 (its first outside the United States). It's rolling out a new logo and ad campaign. It's also putting \$40 million into its Montreal bottling facilities, one of several plants in the province employing a total of 1,200 people. That investment, along with large amounts of money spent sponsoring sports and culture (among them the Colisée Pepsi arena in Quebec City and the Pepsi Forum in Montreal) is another key to its success.

We also note that the Quebec province flag is blue and white, while the Canadian flag is red and white. As we will see in Chapter 16, colors often make such a difference.

Sources: Konrad Yakabuski, "How Pepsi Won Quebec," *The Globe and Mail*, August 28, 2008, p. B1-2; Rene Bremmer, *The Gazette*, July 11, 2009, online.

Furthermore, U.S. and foreign investors with apparel and footwear factories in Asia have been encouraged to relocate their production operations to Mexico. For example, Victoria's Secret lingerie chain opened a new manufacturing plant near Mexico City. The company previously had used contractors in Asia for its lingerie line. Even with wages in Mexico three times the monthly wages in Sri Lanka, the company will still come out ahead because moving goods from Mexico City to the United States is cheaper and faster than moving them from Colombo—the time needed to make a sample can be cut from weeks to days. Mexican goods have no tariffs, whereas Sri Lankan goods carry a 19 percent duty.

Total foreign direct investment in Mexico has averaged \$11 billion a year since 1995 as companies from all over the world poured money into auto and electronics plants, telecommunications, petrochemicals, and a host of other areas. A large chunk of investment is earmarked for factories that will use Mexico as an export platform for the rest of North America, and increasingly the rest of Latin America.

Job losses have not been as drastic as once feared, in part because companies such as Lucent Technologies have established *maquiladora* plants in anticipation of the benefits from NAFTA. The plants have been buying more components from U.S. suppliers, while cutting back on Asian sources. Miles Press, a \$2 million maker of directory cards, saw orders from Lucent grow 20 percent in just a few months. Berg Electronics, a \$700 million component maker, expects to triple sales to Lucent's Guadalajara plant next year. This ripple effect has generated U.S. service-sector jobs as well. Fisher-Price shifted toy production for the U.S. market from Hong Kong to a plant in Monterrey. Celadon Trucking Services, which moves goods produced for Fisher-Price from Mexico to the United States, has added 800 new U.S. drivers to the payroll.

During the protracted economic slump following the dot-com bust in the United States, *maquiladora* plants were closing at an uncomfortable rate. Manufacturing migrated to other low-paying countries such as China, Guatemala, and Vietnam. Most recently, in the depths of the unemployment environment in all three countries, new immigration rules have limited Mexican farm workers from coming north.³¹ Even so, the bleak predictions by the critics of NAFTA³² have not been borne out. By the broadest measure of consumer benefits, the per capita income levels at purchase price parity have steadily increased in all three countries: from \$7,110 in 1994 to \$14,270 in 2008 in Mexico; \$21,050 to \$36,220 in Canada; and \$26,230 to \$46,970 in the United States during the same time period.³³

NAFTA is a work in progress. It is still too early to pass judgment; after all, the European Union has been in existence for more than 50 years and has had its ups and downs. NAFTA is a mere babe in arms in comparison. What is happening is that economic relationships among the three countries are becoming more intense each day, for the most part quietly and profitably. In short, at least 20 years are needed for an objective evaluation of NAFTA to be possible.

United States–Central American Free Trade Agreement–Dominican Republic Free Trade Agreement (DR-CAFTA)

LO7

The foundational market metrics of American nations

In August 2005, President George Bush signed into law a comprehensive free trade agreement among Costa Rica, the Dominican Republic, El Salvador, Guatemala, Honduras, Nicaragua, and the United States.³⁴ The agreement includes a wide array of tariff reductions aimed at increasing trade and employment among the seven signatories. Thus, DR-CAFTA represents another important step toward the ultimate goal of a free trade agreement encompassing all the Americas. See Exhibit 9.7 for a listing of American countries involved in trade associations. The statistics included there reflect fundamental measures of their attractiveness to international marketers. Perhaps most useful will be the data reported in

³¹P. J. Huffstutter, "Hiring Foreign Farmworkers Gets Tougher under New Rule," *Los Angeles Times*, February 12, 2010, p. B2.

³²Eduardo Porter, "NAFTA Is a Sweet Deal, So Why Are They So Sour?" *The New York Times*, February 11, 2008, p. A24.

³³World Bank, 2010.

³⁴Beyond NAFTA and DR-CAFTA, the United States has free trade agreements approved for 10 other countries: Australia, Bahrain, Chile, Israel, Jordan, Morocco, Oman, Peru, and Singapore. Agreements with Colombia, South Korea, and Panama await Congressional approval.

Exhibit 9.7

American Market Regions Fundamental Market Metrics

(in parentheses) = average annual growth rate, 2004–2009 as a percentage

Association	Country	Population (millions)	GNI* (billions \$)	Exports* of Goods (billions \$)	Imports* of Goods (billions \$)	Ease of Doing Business Index	GNI/ capita* (\$)	Internet Users (per 1000 people)
North American Free Trade Agreement (NAFTA)								
	United States	306.6 (0.9)	14306.6 (4.0)	1068.3 (5.6)	1566.1 (1.3)	3	46662 (3.1)	741 (2.3)
	Mexico	108.6 (1.1)	1068.8	299.3 (4.1)	233.9 (3.5)	55	9805	230 (6.5)
	Canada	33.7 (1.0)	1325.9 (6.3)	313.3 (−0.4)	319.6 (3.1)	8	39401 (5.2)	769 (3.1)
Dominican Republic–Central American Free Trade Agreement (DR-CAFTA)								
	Guatemala	14.0 (2.5)	37.6 (9.7)	2.4 (−4.2)	10.7 (6.4)	117	2678 (7.0)	184 (24.6)
	Costa Rica	4.6 (1.5)	28.3 (9.7)	8.7 (6.6)	11.3 (6.4)	120	6172 (8.1)	398 (13.8)
	El Salvador	6.6 (0.4)	21.5 (7.0)	3.8 (3.6)	6.9 (1.7)	81	3489 (6.6)	175 (12.5)
	Nicaragua	5.7 (1.3)	5.8 (6.3)	1.4 (13.6)	3.5 (9.4)	113	1008 (4.9)	48 (15.7)
	Honduras	7.5 (2.0)	14.5 (11.6)	2.7 (10.2)	6.3 (8.5)	136	1948 (9.4)	112 (27.7)
	Dominican Republic	10.1 (1.4)	43.5 (17.1)	6.6 (2.2)	18.1 (15.9)	102	4309 (15.4)	296 (27.3)
	United States	as above						
Caribbean Community and Common Market (CARICOM)								
	Antigua and Barbuda	.09 (1.2)	(7.4)	.08 (7.4)	.8 (12.1)	44	12595 (6.1)	811 (27.2)
	Bahamas	.34 (1.2)	7.4 (3.8)	.54 (2.6)	2.3 (4.0)	59	21503 (2.5)	462 (9.8)
	Barbados	.26 (0.3)	2.9	.3 (3.8)	1.5 (1.2)	—	11154	801 (6.2)
	Belize	.31 (2.1)	1.3 (6.1)	.3 (9.0)	.9 (11.0)	75	4091 (3.9)	151 (21.2)
	Dominica	.07 (−0.3)	.4 (6.9)	.04 (0.1)	.2 (10.0)	76	5254 (7.2)	829 (22.4)
	Grenada	.10 (0.3)	.6 (8.3)	.06 (9.5)	.4 (8.6)	88	5926 (8.0)	240 (4.2)
	Guyana	.76 (0.0)	1.1	.8 (7.2)	1.4 (16.2)	98	1447	293 (9.1)
	Haiti	10.0 (1.6)	7.0	.6 (10.6)	1.7 (5.9)	154	700	112 (25.0)
	Jamaica	2.7 (0.5)	11.3 (3.3)	1.4 (−0.4)	4.5 (3.5)	67	4143 (2.8)	663 (10.5)
	St. Kitts-Nevis	.05 (1.3)	.5 (7.6)	.04 (−3.2)	.3 (9.7)	70	10062 (6.2)	327 (5.7)
	St. Lucia	.17 (1.0)	1.0 (5.5)	.1 (11.8)	.7 (9.7)	34	5530 (4.5)	618 (23.6)
	St. Vincent and the Grenadines	.11 (0.1)	.6 (8.6)	.05 (5.5)	.4 (10.6)	62	5423 (8.5)	663 (55.2)
	Surinam	.52 (1.0)	2.7	1.9 (16.0)	1.4 (13.2)	148	5192	112 (12.9)
	Trinidad-Tobago	1.3 (0.4)	20.6 (9.9)	18.1 (23.2)	7.7 (9.8)	78	15404 (9.4)	183 (8.4)
Latin American Integration Association (LAIA, aka ALADI)								
	Argentina	40.3 (1.0)	302.2 (15.9)	55.7 (10.0)	38.9 (11.6)	112	7492 (14.8)	811 (14.0)
	Bolivia	9.8 (1.8)	15.6 (13.2)	4.7 (17.2)	4.2 (18.2)	158	1582 (11.2)	143 (26.3)
	Brazil	193.7 (1.1)	1477 (18.1)	151.1 (9.3)	127.5 (15.2)	127	7627 (16.9)	452 (18.8)
	Chile	17.0 (1.0)	138.0 (9.5)	51.9 (9.8)	41.1 (10.6)	40	8129 (8.3)	342 (12.1)
	Colombia	45.7 (1.5)	185.5 (14.6)	33.3 (15.4)	35.6 (16.3)	49	4063 (12.9)	475 (39.1)
	Cuba	11.2 (0.0)	—	3.3 (9.1)	13.4 (22.8)	—	—	143 (11.2)
	Ecuador	13.6 (1.1)	38.5 (10.4)	13.3 (11.4)	14.7 (12.4)	133	2824 (9.2)	109 (17.6)
	Mexico	as above						
	Paraguay	6.3 (1.8)	16.3	3.4 (15.7)	8.7 (23.0)	122	2587	112 (26.5)
	Peru	29.0 (1.4)	119.5	25.1 (14.4)	20.2 (11.4)	65	4120	269 (17.7)
	Uruguay	3.4 (0.2)	30.5 (19.3)	5.8 (14.5)	7.4 (18.8)	109	9079 (19.1)	448 (21.3)
	Venezuela	28.6 (1.7)	355.5 (26.7)	95.4 (22.9)	38.6 (18.3)	178	12438 (24.5)	313 (30.0)

*Current U.S. dollars

Sources: Euromonitor International, 2010; World Bank, 2010

the last four columns: the size of the import market, the ease of doing business, and the resources available to consumers, including both money and communication infrastructure. The Ease of Doing Business Index³⁵ is a ranking based on a combination of 10 different measures, such as ease of . . . “starting a business,” “registering property,” and “enforcing a contract.” For details, see www.doingbusiness.org.

Southern Cone Free Trade Area (Mercosur)³⁶

LO8

The growing importance of trading associations among American nations

Mercosur (including Argentina, Bolivia, Brazil, Chile, Paraguay, and Uruguay) is the second-largest common-market agreement in the Americas after NAFTA. The Treaty of Asunción, which provided the legal basis for Mercosur, was signed in 1991 and formally inaugurated in 1995. The treaty calls for a common market that would eventually allow for the free movement of goods, capital, labor, and services among the member countries, with a uniform external tariff. Because Mercosur members were concerned about sacrificing sovereign control over taxes and other policy matters, the agreement envisioned no central institutions similar to those of the European Union institutions.

Since its inception, Mercosur has become the most influential and successful free trade area in South America. With the addition of Bolivia and Chile in 1996, Mercosur became a market of 220 million people with a combined GDP of nearly \$1 trillion and the third largest free trade area in the world. More recently Colombia and Ecuador have become associate members, with Venezuela to follow shortly; Mexico has observer status as well. Mercosur has demonstrated greater success than many observers expected. The success can be attributed to the willingness of the region’s governments to confront some very tough issues caused by dissimilar economic policies related to the automobile and textile trade and to modify antiquated border customs procedures that initially created a bottleneck to smooth border crossings. The lack of surface and transportation infrastructure to facilitate trade and communications is a lingering problem that is being addressed at the highest levels.

Mercosur has pursued agreements aggressively with other countries and trading groups. For example, there are concrete negotiations under way to create a free trade program with Mexico, talks with Canada regarding a free trade agreement, and talks between Chile and Mercosur aimed at gradual and reciprocal trade liberalization.

In addition, negotiations have been under way since 1999 for a free trade agreement between the European Union and Mercosur, the first region-to-region free trade accord. A framework agreement was signed in 1995, and the long-term objective is to reach convergence in all areas—cooperation, trade, market access, intellectual property, and political dialogue. The two blocs propose the largest free trade area in the world. The advantages of the accord to Mercosur will mainly come from lifting trade barriers on agricultural and agro-industrial products, which account for the lion’s share of Mercosur exports to Europe. However, that point will also be a major stumbling block if the European Union is unwilling to open its highly protected agricultural sector to Brazilian and Argentine imports. Nevertheless, one official of the European Union indicated that the European Union was already in the process of reforming its Common Agricultural Policy. Although negotiations will not be easy, Mercosur and the European Union should be able to reach an accord. As we shall see in the next section, Mercosur has assumed the leadership in setting the agenda for the creation of a free trade area of the Americas or, more likely, a South American Free Trade Area (SAFTA).

Latin American Progress

A political and economic revolution has been taking place in Latin America over the past three decades. Most of the countries have moved from military dictatorships to democratically elected governments, and sweeping economic and trade liberalization is replacing the economic model most Latin American countries followed for decades. We make this claim despite the recent backsliding of a few countries in the region, such as Venezuela. Privatization of state-owned enterprises and other economic, monetary, and trade policy reforms show a broad shift away from the inward-looking policies of import substitution

³⁵Euromonitor International, 2010.

³⁶See <http://www.mercosur.org.uy/>.

(that is, manufacturing products at home rather than importing them) and protectionism so prevalent in the past. The trend toward privatization of SOEs in the Americas followed a period in which governments dominated economic life for most of the 20th century. State ownership was once considered the ideal engine for economic growth. Instead of economic growth, however, they ended up with inflated public-sector bureaucracies, complicated and unpredictable regulatory environments, the outright exclusion of foreign and domestic private ownership, and inefficient public companies. Fresh hope for trade and political reforms is now being directed even to communist Cuba.³⁷

Today many Latin American countries are at roughly the same stage of liberalization that launched the dynamic growth in Asia during the 1980s and 1990s. In a positive response to these reforms, investors have invested billions of dollars in manufacturing plants, airlines, banks, public works, and telecommunications systems. Because of its size and resource base, the Latin American market has always been considered to have great economic and market possibilities. The population of nearly 600 million is nearly twice that of the United States and 100 million more than the European Community.

The strength of these reforms was tested during the last two decades, a turbulent period both economically and politically for some countries. Argentina, Brazil, and Mexico were affected by the economic meltdown in Asia in 1997 and the continuing financial crisis in Russia. The Russian devaluation and debt default caused a rapid deterioration in Brazil's financial situation; capital began to flee the country, and Brazil devalued its currency. Economic recession in Brazil—coupled with the sharp devaluation of the real—reduced Argentine exports, and Argentina's economic growth slowed. Mexico was able to weather the Russian debt default partly because of debt restructuring and other changes after the major devaluation and recession in the early 1990s. However, competition with Chinese manufacturing has yielded slower growth than predicted at the time of passage of the North American Free Trade Agreement (NAFTA). Other Latin American countries suffered economic downturns that led to devaluations and, in some cases, political instability. Nevertheless, Latin America is still working toward economic reform. Finally, not reflected in the data in Exhibit 9.7 is the surprising resilience in the developing countries vis-à-vis the United States and Canada to the lingering economic malaise following the recession of 2008–2009.³⁸

Latin American Economic Cooperation

Besides the better-known NAFTA and Mercosur, other Latin American market groups (Exhibit 9.7) have had varying degrees of success. Plagued with tremendous foreign debt, protectionist economic systems, triple-digit inflation, state ownership of basic industries, and overregulation of industry, most Latin American countries were in a perpetual state of economic chaos. In such conditions, trade or integration among member countries stagnated. But as discussed previously, sparked by the success of Mercosur and NAFTA, Latin America has seen a wave of genuine optimism about the economic miracle under way, spurred by political and economic reforms from the tip of Argentina to the Rio Grande. Coupled with these market-oriented reforms is a desire to improve trade among neighboring countries by reviving older agreements or forming new ones. Many of the trade groups are seeking ties to Mercosur, the European Union, or both.

Latin American Integration Association. The long-term goal of the LAIA, better known by its Spanish acronym, ALADI,³⁹ is a gradual and progressive establishment of a Latin American common market. One of the more important aspects of LAIA that differs from NAFTA, its predecessor, is the differential treatment of member countries according to their level of economic development. Over the years, negotiations among member countries have lowered duties on selected products and eased trade tensions over quotas, local-content requirements, import licenses, and other trade barriers. An important

³⁷Katherine Yung, "When Cuba Opens Up . . ." *Dallas Morning News*, March 11, 2007, pp. D1, D6.

³⁸"Counting Their Blessings," *The Economist*, January 2, 2010, pp. 25–28; Jack Ewing, Vikas Bajaj, and Keith Bradsher, "An Uneven World of Debt," *The New York Times*, February 8, 2010, pp. B1, B3, B6.

³⁹<http://www.aladi.org>, 2008.

People queued for a Chinese-made bus at city center in Havana. China is making major sales and investments in the infrastructures of the developing world, including in Cuba, a member country of LAIA and a fellow “communist” country.



feature of LAIA is the provision that permits members to establish bilateral trade agreements among member countries. It is under this proviso that trade agreements have been developed among LAIA members.

Caribbean Community and Common Market (CARICOM).⁴⁰ The success of the Caribbean Free Trade Association led to the creation of the Caribbean Community and Common Market. CARICOM member countries continue in their efforts to achieve true regional integration. The group has worked toward a single-market economy and in 2000 established the CSME (CARICOM Single Market and Economy) with the goal of a common currency for all members. The introduction of a common external tariff structure was a major step toward that goal. CARICOM continues to seek stronger ties with other groups in Latin America and has signed a trade agreement with Cuba.

NAFTA to FTAA or SAFTA?

Initially NAFTA was envisioned as the blueprint for a free trade area extending from Alaska to Argentina. The first new country to enter the NAFTA fold was to be Chile, then membership was to extend south until there was a Free Trade Area of the Americas (FTAA) by 2005. The question now is whether there will be an FTAA or whether there will be a tri-country NAFTA in the north and a South American Free Trade Area (SAFTA) led by Brazil and the other member states of Mercosur in the south. The answer to this question rests in part with the issue of fast-track legislation and the policies of President Obama.

Strategic Implications for Marketing Surfacing in the emerging markets in the Americas and around the world 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, and social capital investments are made. Market behavior changes, and eventually groups of consumers with common tastes and needs (i.e., market segments) arise.⁴¹

When incomes rise, new demand is generated at all income levels for everything from soap to automobiles. Furthermore, large households can translate into higher disposable incomes. Young working people in Latin America and Asia usually live at home until they marry. With no rent to pay, they have more discretionary income and can contribute to

⁴⁰<http://www.caricom.org>, 2008.

⁴¹Peter G. P. Walters and Saeed Samiee, “Marketing Strategy in Emerging Markets: The Case of China,” *Journal of International Marketing* 11, no. 1 (2003), pp. 97–106.

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. In the United States, the first satellite dishes sprang up in the poorest parts of Appalachia. Similarly, in Mexico, homes with color televisions outnumber those with showers.

As incomes rise to middle-class range, demand for more costly goods increases for everything from disposable diapers to automobiles. Incomes for the middle class in emerging markets are less than those in the United States, but spending patterns are different, so the middle class has more to spend than comparable income levels in the United States would indicate. For example, members of the middle class in emerging markets do not own two automobiles and suburban homes, and healthcare and housing in some cases are subsidized, freeing income to spend on refrigerators, TVs, radios, better clothing, and special treats. Exhibit 9.5 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 expenditures 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 wealth; they want to display status symbols such as Rolex watches, Louis Vuitton purses, and Mercedes-Benz automobiles.

One analyst suggests that as a country passes the \$5,000 per capita GNP level, people become more brand conscious and forgo many local brands to seek out foreign brands they recognize. At \$10,000, they join those with similar incomes who are exposed to the same global information sources. They join the “\$10,000 Club” of consumers with homogeneous demands who share a common knowledge of products and brands. They become global consumers. If a company fails to appreciate the strategic implications of the \$10,000 Club, it will miss the opportunity to participate in the world’s fastest growing global consumer segment. More than 1 billion people in the world now have incomes of \$10,000 or better. Companies that look for commonalities among these 1 billion consumers will find growing markets 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 21st century.

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 global 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. Furthermore, 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.

Brazil and the rest of Latin America continue to undergo rapid political and economic changes that have brought about the opening of most countries in the region to foreign direct investments and international trade. And though 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 MNCs as new market segments evolve. The economic advantages of geography and trade continue to favor market integration and cooperation among American countries on both continents.

Key Terms

Economic development

Newly industrialized countries (NICs)

Infrastructure

Big emerging markets (BEMs)

Questions

1. Define the key terms listed on the previous page.
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 fully.
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? Explain.
4. Discuss each of the stages of evolution in the marketing process. 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 of importance 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 three 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 growth factors, evaluate Mexico and Brazil as to their prospects for rapid growth. Which factors will be problems for Mexico or Brazil?
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. One of the ramifications of emerging markets is the creation of a middle class. Discuss.
19. The needs and wants of a market and the ability to satisfy them are the result of the three-way interaction of the economy, culture, and the marketing efforts of businesses. Comment.
20. Discuss the strategic implications of marketing in Mexico.
21. Discuss the consequences to the United States of not being a part of SAFTA.
22. Discuss the strategic marketing implications of NAFTA.
23. Visit the Web pages for NAFTA and Mercosur and locate each group's rules of origin. Which group has the most liberal rules of origin? Why is there a difference?
24. NAFTA has been in existence for several years—how has it done? Review Exhibit 9.6, which discusses the initial provisions of the agreement, and, using the Internet, evaluate how well the provisions have been met.