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Business, Marketing

IMPACTS OF POLITICAL AND ECONOMICFACTORS ON MARKETING IN EMERGING MARKETS ECONOMIES A REPORT TO THE WORLD TRADEORGANIZATION. By Wycliffe McCalter WinterbiltAugust 2017 TABLE OF CONTENTSITEM

EXECUTIVESUMMARYWiththe emergence of the developed nations shifting their focus towards theemerging economies, a lot of international investors have had interest insetting up ventures and marketing their products and services in them. Theseemerging markets, characterized by fast economic growth, numerous investmentopportunities, high risk and high returns have been a hotcake even forinternational financing bodies like IMF and the World Bank.

However, despitethese positive indications there have been impeding factors that have eitherslowed or hindered the growth of the economies both political and economic. This report being presented to the World Trade Organization, serves tohighlight on some of the major political and economic factors that havepresented a challenge to the international investors from marketing theirproducts and services to the emerging economies and also recommend possiblepracticable ways to solve them. The countries used as reference are Brazil, Russia, India, China and South Africa. IMPACTS OF POLITICALAND ECONOMIC FACTORS ON MARKETING IN EMERGING MARKETS ECONOMIES1. 0: INTRODUCTIONTheInternational Monetary Fund organization defines Emerging Market Economies (EMEs)as nations whose economy is progressing towards becoming advanced characterizedby high growth expectations, high level of risk and possible high returns. (Mody, 2004). They have market securities that can be termed as being immature with nolong history of foreign investment and range from Per Capita incomes rangingfrom $350 like Kenya to $5000 like Mexico.

They are countries which foreign companiesand marketers in established first world countries are eager to invest in dueto the promising nature of high returns. EMEs are important in the globaleconomy. In a recent workshop held by UNCTAD in Geneva, Switzerland (Prates, 2013) the report indicatedthat over two thirds of the global economy is accounted for by the EMEs. Despitethe high rates of promising growth and investments, certain political andeconomic factors have really hampered investment in these economies. Investorsseeking to set up new industries and investments have met serious challengesand adverse setbacks that have slowed their growth.

Though different fromcountry to country, most of these factors are universal and some areunavoidable. In this report, I seek to explain in detail both economic andpolitical factors hampering marketing in EMEs as well as recommend possiblepracticable solutions that can be implemented. 2. 0: ECONOMIC FACTORSFirstly, inflation has been a major drawback in EMEs. In a working paper published by Singaporepress on inflation rates in China and India, (Madhukar and Nagarjuna, 2011) theauthors stress the fact that inflation has been a challenge in the growth onthe economies of the two countries. To begin with, the value of their currencyis weak and cannot compete favorably with the established countries. This tendsto bring a huge balance of trade since imports become more expensive thanexports. Moreover, the purchasing power of the commodities produced compared toestablish markets tends to be low.

Lastly production of similar products whichreduces the purchasing power of the same and they tend to be regarded as lowquality and fetch low prices in the world trade markets. Secondly, decline in commodity prices has been on the increase in these EMEs. Coupledwith global trade dynamics and commodity price fluctuations, many of these EMEshave experienced a sluggish economic demand for their products. This tends tocool down the hopes of high returns for the products and services that wouldhave been offered once the international investors start marketing theirproducts in these countries. An extract from the Economic Bulletin (European Central Bank, 2016) points out asfollows: ‘ Insome larger countries, particularly Brazil and Russia, declines in keycommodity prices have interacted with other shocks (including politicaluncertainty and the fallout from geopolitical tensions), leading to significantmacroeconomic adjustments. As commodity-driven revenues have shrunk and fiscalpositions have deteriorated, governments in commodity-exporting economies havehad difficulty cushioning the downturn in activity.

‘ (p. 5) InBrazil for example, there has been deterioration in potential growth due todecline in commodity prices which have hit the investment activity particularlyin the key export sectors. This has caused changes in potential growth andtherefore the investors are hesitant to start their ventures in the country. Lastly, is the changes in the global financing environment? Since the adoption of WorldBank recommendations on liberalization of economies in most third worldcountries in the 1980s to early 2010 the EMEs have been enjoying financialsupport from the developed countries for investment in their economies andmarkets. However, upon the start of the EU crisis on debt and credit risk, thefinancial sources have become limited. Tightening of external financing conditionshas made countries like China and India have some sectors stall in development. The World Trade Statistical review (2016) shows that in China, after years ofinvestment backed by credit have resulted in some sectors booming whilst othersdue to misallocation of resources and buildup of debt have had to graduallydecrease and hence the contribution of the WTO through increased tradeintegration has decreased as well. Lack of favorable means of financing of theeconomy sectors in the EMEs has led to slow economic growth and hence makinginvestors doubtful about marketing their products and establishing businessventures in them.

3. 0: POLITICAL FACTORSThefirst notable factor that scares potential international investors is politicalinstability. Changes in regimes associated with harsh unfavorable politicalideologies and laws has been a great

impediment in these EMEs. Corruption inBrazil and South Africa has caused many international investors to stay aloofof the countries. Xenophobic tendencies that were witnessed in South Africa inlate 2016 and early 2017 scared many international investors.

Speaking in aninterview with Aljazeera, the South Africa President condemned the acts ofviolence and attacks on foreigners saying that they were scaring valuableinvestors in the country who were vital for economic growth. (Aljazeera, 2017). Secondly, conflicts in bilateral relations have strained trade relationship between theEMEs and the developed nations. For instance the recent trade sanctions thatwere placed on Russia by USA Congress (Zengerle and Rampton, 2017) will meanthat less foreign investments will be done in Russia. Thus marketing of USAproducts in Russia becomes strained.

The same has been experienced through thetrade sanctions that Ukraine imposed on Russia have led to infrastructurebottlenecks and poor business climate causing trade between the two countriesto be strained as well. Conformingto geopolitical policies, laws and standards is another impediment as well. Inmost countries within the EU, the standards set for the imported goods are veryhigh. For instance, meeting the standards on agricultural produce exports bycountries like Brazil and South Africa to the European Countries has been quitea challenge. In addition to agricultural produce, other products like machinesand motor vehicle imports are taxed heavily thus straining the proceeds got tobe less.

The emergence of the Brexit issue has also caused Britishinternational marketers and investors to back off some countries which are highrisk and invest in the low risk ones. As a result most of the EMEs have beenleft out by potential investors due to inability to conform and exceed the highstandards, policies and laws set by geopolitical bodies such as EU and NATO. 4.

0: RECOMMENDATIONSTobegin with, there is need to flex the conditions that have been set by theWorld Bank, IMF and the European Central Bank on financial support to the EMEs. Most of these countries have had their various sectors thrive under loans andexternal financing. Though the EU debt crisis has led to tightening offinancial support, this should not be an impediment to hinder support towardsthe same. Thedeveloped countries should set up policies that will favor fast growth anddevelopment of the EMEs. Instead of merely competing with them with their hardcurrencies, they should embrace their new market products and services and evenestablish new industries as either franchises or new branches in the EMEs. Instead of perceiving them as high risk and setting up high standards whichthey should conform, EMEs should be viewed as countries in the ‘ Take-off’ phaseof economic development and become hot spots of economic development. Accordingthe WTO statistics, (2016) the EMEs have the highest rates of economic growth.

This is even favored by the fact that costs of production are low and cheaplabor is readily available. 5. 0: CONCLUSION: Conclusively, EMEs are important to the World Trade. Three quarters of the world economy depends on them. The above economicfactors of inflation, decline in commodity prices and tightening of globalfinancial sources are just but a few of the whole economic array of factorshindering growth of EMEs. The political factors of political instability, conflicts in bilateral relations and setting of high standards by geopoliticalzone are factors that can be addressed and solved. In a website article fromthe Marketing Science Institute, (Sivakumar and Nakata, 1995) the authorsmention the following: ‘ Although many emerging market conditions appear toinhibit rather than enhance first mover advantages, companies need to accountfor the endogenous (internal) qualities that may uniquely qualify some firmsnot only to embrace the risks and costs associated with being first in thesemarkets, but also succeed via their ingenuity, tenacity, and resources.

Suchfirms will be able to enter markets ahead of the pack, overcome negativeconditions and thrive, reaping many benefits for a long period of time.'(p. 1) Theabove is true and achievable. It is my hope that the World Trade Organizationwill favor and encourage the same. 6. 0: ReferencesEuropean Central Bank.

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