

FOREIGN TRADE IN THE CONTEXT OF GLOBALIZATION

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Abstract: The meaning of globalization can be characterized in terms of three essential features: universal character, economic and social implications things generated also by the intensity of the event. According to experts, globalization is analyzed as the competitive advantage that can be earned by a company by expanding its global business, given that the activity meets the criteria of efficiency. Beyond the action of factors such as free movement of labor and goods as the main criteria that multinational companies are considering them in the expansion of global business, globalization is seen as a continuous process, characterized by the development of foreign investment, enhancing export activities and the development of international strategic alliances in order to extend business activities into new markets.

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1. Reasons for entering international markets

The world is becoming smaller as **speed increases communication, transport and circulation of financial flows**. Products manufactured in a country enjoys of an enthusiastic acceptance in other countries, so in the 70s, the number of multinational corporations from the richest 14 countries of the world has done more than triple, rising from 7000-24000 . Basically, these companies now control a third of all private assets and sales of 6 billion dollars **Worldwide. International Trade** now provides a third of U.S. gross domestic product, up 11% from '70¹⁰. In this context, the whole human development today and in coming decades is reaching a new level of quality simultaneously by **two fundamental processes**:

- Developing new technologies, primarily the information technologies;
- Globalization of the competition in particular on the financial markets.

The phenomenon of globalization in all areas of the world economy emphasizes the intensity of international business leads to an intensification of competition.

¹⁰ Ph. Kotler, *Managementul marketingului*, Ediția a IV-a, Editura Teora, București, 2005, pg. 496

At this stage of development, is born **global competition** in all markets present geographical areas of the Earth. Formation of global markets and their gradual integration into a single market, global, starts a process of formation of **global monopolies**.

The reason for this is simple: a single market cannot be divided - can be conquered, and therefore competitive mechanism is more commonly identified with the military art.

The concrete action plan of the company on conquering new markets, to maintain and to overcome the development of offensive strategies (such as: frontal attack, guerrilla attack, etc.) or defensive strategies (such as: fixed defense, counterattacked etc.) represents action alternatives in the nature, intensity and reactions of competitors.

The globalization process of competition covers two situations, namely:

➤ An aggressive company deciding to use cash flow achieved of its market for its product to launch a new foreign market where competition is local;

➤ The competitor to defend itself, counterattack not its market, but foreign markets where the "aggressor" is vulnerable.

In general, companies can respond to global competition in different ways. The most important priority of a new approach to global competition is that organization/company to remain competitive to **global level** through the globalization of planning, coordinating and implementing global marketing strategies. A global company sees the world as one market, "operating", obtained by research and development, production, marketing and financial operations, cost benefits and worldwide reputation. These advantages are at the origin state and the global restructuring of global companies.¹¹

Ph. Kotler, in his "Marketing Management", even identifies a number of factors that push more companies to the international arena, the most important being:

➤ Global firms offering better products or lower prices may attack domestic market the company concerned. The company could try to counteract these competitors on their home markets.

➤ Company discovered that some foreign markets have better opportunities than the domestic market profit.

➤ Company needs a larger customer base to achieve economies of scale.

➤ Company wants to reduce dependence on one market.

➤ Companies customers exit abroad to the international markets and need an international service.

But before taking the decision to exit the international market, the company must carefully weigh several **risk factors**:

➤ The company might not know foreign customer preferences and fail to provide an attractive and competitive product.

Thus, the introduction of **Hallmark** greeting cards has been a failure in France - French dislike syrupy sentimentality and prefer to write their own greeting text. **Philips** began to get profit in Japan only after he dropped the coffee filters to fit in the little Japanese cuisine, as well as electric shavers, to fit in the "little" palm of a Japanese. **Coca-Cola** was forced to withdraw 2 liter bottle from the Spanish market, after discovering that few Spanish have refrigerators with compartments large enough for such a bottle. Initially, the wax floor from **Johnson** was a failure on the Japanese market – because the

¹¹ Victor Danciu, *Marketing Internațional*, Ed. Economică, București, 2001, pag. 41

floors were too slippery, and the company overlooked the fact that the Japanese never wear shoes at home.

➤ The company **might not understand the business culture** of that country or not know how to deal effectively with the locals. **Crest** toothpaste from **P&G** initially failed in Mexico because American advertising campaign was used. Mexicans do not care too much advantage of preventing tooth decay, and scientific and didactic tone of advertising has not caught at all.

➤ The company might underestimate **the effect of foreign statutory** and record unexpected costs (the necessity for managers with international experience);¹²

➤ **Instability of governments** - involves a high risk of expropriation, nationalization and restrictions on repatriation of profits;

➤ **Monetary depreciation** - external debt and political and economic instability forces the devaluation of domestic currency against others coins, foreign companies wanting their currency repatriation of profits in strong currency;

➤ **Restrictions on market penetration** - the high percentage of local staff, transfer of technology limitations, restrictions on repatriation of profits.

➤ **Tariff barriers** - high tariffs on imports;

➤ **Conflicts of culture, technology piracy** (making local products), **the high cost of adapting products**, etc.¹³

Because of this discordant combination of advantages and risks, when a company decides to expand to an international market, must clearly define its marketing objectives and policies, setting (approximately) what proportion of total sales come from abroad. The firm also must decide if markets fall only a few countries or more and how fast it is time to expand. Thus, founded in 1959 by co-founders Jay Van Andel and Rich DeVos, **Amway** is one of the largest and most important direct selling companies in the world. The company expanded into Australia in 1971, and in the 80s in 10 countries, until 1999 to turn into an international giant with a sales force numbering over 3 million independent distributors who bring revenue of 5 billion USD. Today, Amway sells its products in over 80 countries and territories around the world and the target is that the marketing abroad to represent 80% of the total sales. It has over 13,000 employees, more than 160 distribution centers and offices in 57 countries, over 500 researchers involved in developing new products, more than 600 patents registered and pending trademarks additional 400. Keywords in this century are "**Think local, act global**"¹⁴. Amway is guided by this principle for over 45 years.¹⁵

2. Forms of international market penetration

Market penetration ways varies from the low-risk and low-involvement entry to indirect methods involving maximum effort.

¹² Ph. Kotler, *Managementul marketingului*, Ediția a IV-a, Editura Teora, București, 2005, pg. 498

¹³ C-tin. Sasu, *Marketing internațional*, Editura Polirom, Iași, 2001, pg. 19

¹⁴ www.amway.ro

¹⁵ Idem



Source: E. Hill, T. O'Sullivan, *Marketing*, Header House, Oradea, 1996, pp. 307.

As with all strategic decisions, **with higher risk, the higher the profit**, but the choice depends on the availability and the firm's ability to provide managerial resources, financial and operational. Normally, ambitions and firm size will influence how the target market is moving towards. Type of product/service, firm market, level and nature of competition, etc., will contribute to choose the best input method, however, it was found that most companies experience in the international market starts with exports.

a) **Exports** - is the most simple, flexible and low level employment in international marketing and requires expansion of market. It can be:

➤ **Indirectly** - the company's activity limited to selling goods to a middleman or exporter who oblige itself to sell abroad; the advantages of indirect exports are lower investment costs, limited, early market positioning, lower risk, flexibility. For example, **Pepsi Cola**, to enter the Indian market where local producers of soft drinks and officials disfavor multinational company came up with an offer that could hardly be refused. Thus the American company has offered to help India to export agricultural products to a value exceeding the cost of purchasing the necessary essence of Pepsi-Cola drink production.

She also promised to focus some marketing effort on rural areas to contribute to their economic development. Subsequently the company has offered to build a research center for agriculture and to give the Indian state the processing technology for agricultural products, their packaging and water treatment. After three years of negotiations the Indian bureaucracy gave to that tempting offer from Pepsi. It is obvious that the American company's strategy was based on providing a set of benefits to attract the support of various interest groups that could influence the market acceptance. This strategy Pepsi Company aimed directly the entrance on the second world market to a leadership level.

➤ **Directly** - requires the company to assume responsibility for selling its products abroad. Forms that a business can make direct export are: department/division of export sales branch abroad, overseas sales force, distributors or foreign agents.

Advantages and disadvantages of direct export are reflected as follows:

ADVANTAGES	DISADVANTAGES
1. A good control of export operations	1. Low external control market
2. Limited financial risk	2. High commercial risk
3. Direct contact between sellers	3. Low market penetration
4. Lower costs	4. "Low" Image of the company

Source: C-tin., Sasu, *International Marketing*, Ed Polirom, Iasi, 2001, pp. 22

b) **License** - is authorized by a foreign firm to manufacture the product by a local firm, the latter giving him the right to use the technological processes, patents or trademarks in exchange for economic compensation. Licensing means reduced marketing efforts, as licensee of the country researching the market and the product does not exceed the boundaries of this country. **E-Trade Group**, an online broker of securities in California, concluded so far on-line business units in Australia, Canada, Denmark, Germany, Hong Kong, Japan, Correa, Norway, South Africa, Sweden, the United Kingdom.

Coca-Cola provides components without product patent cannot be achieved. Particular variants of the License Agreement: **The Company Marriot** signs a *management contract* with owners of some foreign hotels, under which manages the hotel came under the mark, for a fee.

A special form of licensing is the **franchising**, meaning the understanding by which a mother-company grants individuals the right and license to sell products or services, and the ability to use business system developed by the company (McDonald's, KFC), etc..

c) **Joint-ventures** - requires greater involvement in international marketing. In this case, a domestic company and a foreign company reach an agreement for carrying out economic activities under specified conditions. **Coca-Cola and Nestlé** have joined forces to develop the international market for tea and coffee "ready to drink", which is currently sold in considerable quantities in Japan.¹⁶

d) **Direct property** - is used only when demand justifies the investment made in that market and production may be the only method of access. The presence on this kind of stage allows the firm to immediately feel the external environmental changes, allowing for rapid adaptation. **Hewlett Packard** (the American producer of computers) deliberately adopted abroad that would gather the production of marketing, adjusting their production in different countries, which allowed him to seize the opportunities offered by markets.

3. Evaluation of potential markets

It is hard to say what would be optimal in the case of a foreign market penetration and, of course, what would be the most appropriated markets for a company.

Many companies prefer to enter neighboring countries, because they know better and are easier to control costs. An example is that most of the **U.S.A.** market is **Canada** (second place was Mexico) or that **Swedish companies** have started to export first to their Scandinavians neighbors.

It cannot be neglected in choosing a **psychological proximity** markets in this so many U.S.A. companies prefer to sell in Canada, England, Australia, than in larger markets like Germany, France etc.. because they feel more at ease on their language, culture and legislation in these countries.

Generally, a company will prefer to enter **in countries with highly attractive market with low risk and within that market the company has a competitive advantage.**

¹⁶ Ctin. Sasu, *Marketing internațional*, Editura Polirom, Iași, 2001, pg. 26

When evaluating a new market, should be followed if the company can earn enough investment to cover the risk factors and other negative elements. An example of a way to exploit *opportunities neglected* global market consists of **the poorest markets of the world**. Some companies have been in pioneering by "attacking" poor markets, holding 85% of world population.

➤ **Colgate-Palmolive** "wander" with vans through Indian villages within are installed video devices, showing them the benefits of brushing villagers;

➤ Fiat developed Palio model, as " car of the third world", which is a huge success and it's about to be launched in other developing countries.

The challenge is to imagine effective ways to use marketing to fulfill dreams of better life in the greater part of the world.

Identification of criteria against which selection is made for international markets is an extremely important process by which the company analyzed different by dividing it in attractive countries and countries in which business will be avoided. It is considered that the selection of foreign markets operates **four critical factors**:

□ **Foreign market size and growth** is analyzed by:

- **Macroindicators** (which usually means the components of the macro-environment) geographic (area of the country, climate, topographic features), demographic (population, age structure, density) or economic (the size of gross national product per capita, income distribution) etc.;

- **Microindicators** such as: provision of radio and television stations broadcasting number, cinema halls, the number of hospitals and hospital beds, alcohol, coffee consumption, the fuel availability telephones, the number of tourists etc..

□ **Political conditions** are highlighted by the action of such factors as the *likelihood of nationalization, bureaucracy, and expropriation, terrorist attacks, the number of political extremists, restrictions on free movement of capital, state intervention in the economy, , limits imposed for the foreign companies etc..*

These political risks are highlighted by indicators such as advisory groups generated by *Frost & Sullivan, Business International*, which reflects long-term trends, but events like the World Trade Center terrorist attacks, Iraq war, winning elections in Austria by an extremist party etc. was impossible to predict.

□ **Competition** expressed in *number of domestic and foreign competitors, economic power available to them and works at a foreign market* for the position expressed in the segments of consumers, limit or increase the country's chances of being selected for penetration by an international business.

□ **Similarities between different foreign markets** are made by *using the same communication forms (official language), use of common reference systems (measurement, legislative etc.)* and allow the approach of a company, as a priority, those external spaces have structure as common points of *production and transport, consumers, trade, education, and health.*

From this point of view foreign markets can be classified into:

➤ **Interconnected markets**, common customers or competitors who shared that trade between them with a large volume of goods and services, through the joint distribution or action taken in a market which affect the operations performed on the other market.

➤ *Similar markets* - customers have the same tastes, interests and purchasing behavior and media markets that are similar regarding the products, advertising regulation or the infrastructure distribution.

Ex. Reasons for entry of foreign investors on the Romanian market

NO.	REASON SELECTION	FREQUENCIE S	PERCENTAGE S
1.	Expanding into new markets activities	76	63,3
2.	Forcasting a higher profit	15	12,5
3.	Assurance and control sales in Romania	8	6,7
4.	Low cost labor	8	6,7
5.	Recovery of local skills	7	5,8
6.	Access to some local resources of raw materials	2	1,7
7.	Creating new jobs	2	1,7
8.	Production for the mother-company (by importing it again)	2	1,7
TOTAL		120	100

NOTE: Foreign investors from 26 countries surveyed (U.S. - 17, Germany - 14, UK - 12, France - 12 Italy - 11, Austria -11, etc.).

4. The process of internationalization – choosing international markets

Most countries deplore the fact that too few of their companies participate in international trade. Thus, the country does not earn enough foreign currency to be able to pay the necessary imports. In addition, there is also fear that domestic companies will and be eventually affected by the competition of large multinational corporations and sometimes even completely taken over. Countries that fear that, tries to encourage national companies **to grow and expand globally**. Many governments sponsoring aggressive export promotion programs in order to determine firms to export, but such programs require a very good knowledge of how to make internationalization of companies.

In the process of internationalization, firms go through four stages as follows:

- The absence (total) export activity;
- Export activity through independent representatives (agents);
- Establishment of sales subsidiaries abroad;
- Establishment of production facilities abroad.

The first thing to do is to determine the companies to pass the first stage in the second. This is made easier by studying how companies take the decision to export. Most companies will choose to work with an independent agent and to enter a neighboring country or like them. Then, the firm will hire more agents to enter. Later, he will set up an export department for relations with agencies. After that, the company will replace the

agency with its own sales subsidiaries in countries with higher export market. This increases the investment firm and the degree of their risk and profit potential.

For the management of the subsidiaries, the company replaced its export department with an international department. If some markets are still high and stable, or if the host insists on local production, the company will take the next step: **the placement of production capacities in the respective markets**, which is a greater degree of commitment, but also potential higher profit. At this point, the company acts as a global company and has engaged in optimizing its global activities of contracting resources, financing, production and marketing.¹⁷

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¹⁷ Ph. Kotler, *Managementul marketingului*, Ediţia a IV-a, Editura Teora, Bucureşti, 2005, pg. 511