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ASSIGNMENT

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COURSE TITLE

INTERNATIONAL MARKETING

SCHOOL OF BUSINESS AND ECONOMICS

1.1 INTRODUCTION

Due to globalization, exports have become vital for economic development.

No country can afford to remain isolated from the rest of the world.

The world in fact, has become a global village. International Marketing is growing day by day, since no country can claim to be self-sufficient,

it has to depend upon some other countries to reach its needs and requirements. International Marketing calls for Identifying needs and requirements of overseas buyers and meeting them. Since there is competition even from smaller countries for exports, there is a need to bench work the practices and performances against best of companies from other part of globe.

1.2 MEANING AND FEATURES

International Marketing calls for management of various activities from the receipt of copies export orders till it is executed. International Marketing is defined as:

According to Hesi and Cateora "International Marketing is the performance of business activities that direct the flow of goods and services to consumers or uses in more than one nation". According to Walsh "International Marketing is the marketing of goods and services across national frontiers".

The essential features of International Marketing are as follows

1. It is a process International Marketing is a lengthy process. It involves in entertaining and executing in international orders. For these 2 purposes it calls for process of production and distribution of goods and services.

It also involves other marketing functions like pricing, branding, warehousing, advertising etc.

2. It is a lengthy and time-consuming process: International bus9ness calls for satisfaction of needs and requirements of international buyers.

The goods should be tailor made as per their requirements, discovery of new markets, sales promotional activities, suitable pricing policy packing and packaging as per product requirements is a lengthy procedure.

3. BULK OPERATIONS: International business is quite risky, unlike domestic because it flows across the national boundaries, while domestic business can be carried on retail basis with lesser risk international business is not so is carried on wholesale basis.

4. DOMINANCE OF MULTINATIONAL CORPORATIONS (MNCs): International Marketing is dominated by multinational Corporate.

Earlier their presence was felt only in the pharmaceutical and medical fields Today, they play a dominant role in international marketing. They have wide contact throughout the world through their network of branches/offices etc.

5. TARIFF AND NON-TARIFF BARRIERS: Each nation wants to protect itself from products imported from other nations. For this purpose, various trade barriers (Tariff and Non-Tariff) are imposed. Due to globalization, there is relaxation in the imposition of tariff and non-Tariff barriers.

6. TRADING BLOCS Trading Blocs are formed in several countries for mutual benefit and economic development.

The maintenance purpose of forming such blocs is to reduce or, culminate trade barriers among member nations. Regional blocs like EU, SARRC, ASEAN, NAFTA encourage free trade among member nations. Trade barriers are imposed by all nations.

7. FOREIGN EXCHANGE REGULATIONS

. International Marketing is subject to Foreign Exchange regulation imposed by countries.

The regulations relate to payment and receipt of export proceeds. Under our constitution, the export process (in respect of consumer goods) should be realized within a period of 180 days from the day of shipment of goods.

8. INTERNATIONAL MARKETING RESEARCH

International Marketing is involved in creating new markets and exploring exports. Its purpose is to conduct research about competitors, customers dealers etc.

It should be noted that International Marketing research is quite different from domestic research.

9. RESEARCH & DEVELOPMENT: In order to make product export worthy constant R & 0 in the field of product, ingredients used, much be taken.

10. NEED FOR SUITABLE MARKETING MIX:

International Marketing calls for right marketing mix. Marketing mix is a construction of 4 Pcs-Product, price, place and promotions. It involved exporting right products at the right price.

It the right place with right promotion.

NEEDS FOR EXPORTS: International Marketing calls for services of experts in the import export trade, their services are required for meeting import export requirement.

At time the exporters require experts to advertise their products in the importer's country.

1.3 TRENDS IN INTERNATIONAL TRADE

As it seen earlier, due to globalization, the worlds have become a global village. The trends in international business have undergone a change from time to time. International business is curried on in unusual conditions. Different countries have different political, legal and cultural aspects which greatly affect business activities. Such aspects do not influence domestic trade. International business is greatly influenced by some of the factors mentioned below:-

a) Technological considerations.

b) Emergence of supportive institutions.

c) Competitive search from organizations

d) Improvement in financial policies.

(a) TECHNOLOGICALCONSIDERATIONS: International business, over a period of time has undergone a sea change due to technological Advancements. Now a days many organizations the world over makes use of advanced and sophisticated technology to update product and manufacture it in less time. (In the 1950 and 605 Japan did it and now China is doing the same. Once Technology is used then the organizations require bigger markets with lesser costs.

This leads to expansion of business and in turn creation of demand the world over. The organization in China follow the same example to dominate the entire globe.

They can also offer to sell the product at lesser price in a globalized economy and maximize profits.

(b) EMERGENCE OF SUPPORTIVE INSTITUTIONS: To help international business, many supportive institutions like Exim Bank have been established. There are many financial institutions abroad which help domestic institutions to meet their financial difficulties. In many countries apart from EXIM Bank, International Bank for Reconstruction

and Development assist different institutions to meet financial problems.

(c) COMPETITIVE SPIRIT FROM ORGANISATION: Competition in organization from different countries is also one of the major reasons for international business.

In the past we had heard of multinationals from West- USA, U.K. France, dominating the international business. But now the situation has reserved.

The Indian Multinationals like TATAS, Mittals, Birla's have taken over several consumer and steel companies and dominate international business competitions is a term used when organizations find it different to adjust to the present-day conditions in terms of product pricing, quantity, delivery, profit etc.

Many organizations import raw materials and semi furnished goods only to convert them into finished ones and selling them in international marketing at competitive rates to earn profits. Sometime these organizations establish offices abroad minimize risk, costs and make profits.

1.4 CHALLENGES IN INTERNATIONAL MARKETING

Since International Marketing operates in diverse environments, it has to face a large number of challenges during its operations.

These challenges includes:

(a) PROBLEMS OF TRADING BLOCS: Because of existence of trading blocs like NAFFA, EU, ASEAN, SAARC, the nonmember countries face challenges with member of Trading bloc regarding reduction of trade barriers from member nations.

These trade barriers (Tariff & Non-Tariff) are imposed because of protective policies of these nations.

(b) MULTIPLE TAXATION SYSTEM: International transactions come across multiple taxation systems. The import export transactions invite taxation at each stage which is quite complicated. Besides they reduce the profits of exporter.

(c) PAYMENT DIFFICULT: International Marketing also faces foreign exchange risks due to fluctuation in exchange rate. Different countries have different currencies and the exporter is to be paid in the currency of his country. In the common wealth, international transactions need to be settled through the dollars etc. Crude oil prices are fluctuating on day today basis, which changes making payments.

(d) POLITICAL ENVIRONMENT: It involves Political stability, peace with trading nation risk of expropriation etc. All these aspects need to be properly analyzed. It is also necessary for times to carefully analyses the investment ratings of countries they wish to invest. ·

(e) DIVERSE LANGUAGE, CUSTOMERS AND TRADITIONS: When International trade takes place, an exporter has to watch diversities in language, customs and traditions e.g. In Japan most of Japanese speak their own language and have their own traditions and customs. Similarly in China widely spoken and understood language is Chinese.

(f) DOCUMENTATION FORMALITIES: International marketing invoices clearance of different documents at different levels.

Documents need to be cleared to meet customs formalities. Reserve Bank of India for obtaining foreign exchange, bill, loading for clearance of cargo from ship etc. Hence the exporters entrust this work to agents.

(g) DISTANCE: International Marketing is separated by distance. Neither the exporter can meet the importer or vice versa because of distance.

Distance increases transport costs.

Similarly, the risk of meeting the transaction is more. Delays in supply of goods is more.

METHODS OF PAYMENT IN INTERNATIONAL TRADE

International transactions are settled depending upon methods of payment because each method of payment involves varying degree of risk for the exporter.

These are five methods of payments:

a) Payment in advance

b) Open account c) Payment against shipments on consignment.

d) Documentary bills.

e) Letter of Credit.

(a) Payment in advance: Under this method, the buyer is not given any credit facility. He must make payments immediately Sometimes; the exporter will request the importer to make certain percentage say 50% in advance and the rest on receipt of consignment.

This method is followed when:

i. There were no past dealings between importer and exporter.

ii. When the consignments are full of risks.

iii.When the credit worthiness of buyer is not properly known.

iv.When the political/economic situation in the buyer's country is unstable.

v. When the price of the commodity is highly fluctuating.

(b) Open Account: Under this method, the exporter forwards all shipping documents to the buyer and waits for payment. If no condition is allowed then the

importer has to pay immediately. There is no need to draw a bill of exchange in this case. This

method is followed when there is a proper understanding between exporter and buyer regarding the terms of credit, rate of interest. This method is followed when: -

i. Buyer's financial standing and reputation is known to the exporter.

ii. Long and established relationship between exporter and buyer.

iii. No exchanger fluctuation in the importer's country.

iv. Foreign exchange regulations in exporters country permit such payment

v. Political environment in quite stable in importer's country.

(c) Payment against Shipment on Consignment: This method is followed when the exporter has his own establishment abroad or appoints an agent to sell good on his behalf. In India, prior permission from RBI is required from exchange centers department.

The exporter has to enter into legal contract with the agents who will sell goods when demand and send the payments to the exporter.

This method should be made to trust worthy agents only because.

i. Distance to be covered by the consignment.

ii. Consignment exports is full of risks. iii. Price to be realized depending upon market conditions.

(d) Documentary Bills: Under this method an exporter agrees to submit relevant documents of title along with the foreign bill of exchange.

The documents required are:

i. Bill of lading ii. Marine Insurance Policy iii. Service and other documents. Documentary bills are of two types: -

i. Documents against payment (DIP)

ii. Documents against acceptance (DIA) In case of DIP the exporter sends negotiable documents to the buyer through the bank. The buyer is expected to make payments on serving the documents.

Therefore, it is known as payment made against "Sight Draft". This method is risky as the buyer may refuse accepting documents and making payments.

Under DIA the importer can collect documents only when he gives in writing his acceptance to make payments as per terms of export contract.

The credit is allowed for a specific period of time say 60, 90 or 180 days. Documents are released against the Time draft. f) Letter of Credit (L/C): One of the most popular methods of making international payments in recent times is through letter giving. On importer's request his bank given a written

understanding to the bank of the exporter that if the exporter present certain shipping documents covering the goods within a fixed period the bank can make payment to the exporter.

A letter of credit can be defined as "an understanding by importer's" bank stating that payment will be made to the exporter if the required documents are presented to the Bank within the validity of the UC.: Parties to letter of Credit: Opener/Applicant

ii. Opening/Issuing Bank

iii. Beneficiary

iv. Negotiating Bank

v. Addressing Bank Importer Importers Bank Exporter Exporters bank to which the Exporter presents documents for payment.

Opening bank's branch or corresponding bank in the country. exporter.
OPERATION OF LETTER OF CREDIT:

The following steps are involved in the process of opening of letter of credit. ·

1. Contractor of Sale: The transaction in UC originals when both the party's importer and exporter enter in a contact of sale.

The contract covers all the particulars of product, mode of payment, date of shipment etc.
Request from importer

The importer request his banker to open a uc in favour of the exporter

It can instruct his banker to deposit cash or by saving sufficient balance in his current account Issue of L/C The issuing bank opens the L / C and forwards in directly to negotiating bank to the addressing bank.

iv. Receipt of L/C: The exporter takes possession of L / C. The exporters prefer confirmed L / C.

Therefore, exporters have to see that L / C is confirmed.

v. Shipment of Goods: After shipment of goods through customs, the exporter presents relevant set of documents to the negotiating bank.

vi Scrutiny of documents:

The negotiating bank then scrutinizes documents and if they are in order make payment to the exporter.

Vii Realization of Payment: The issuing bank with the imbusses the work (which is paid to the exporter) to the negotiating bank.

Vii Documents to importer: The documents sent by the negotiating bank to the issuing bank is now handed over to the importer.

2.2 ROLE OF MNCS IN INTERNATIONAL MARKETING

A firm is said to be a multinational firm (MNC) If it owns or controls and enterprise in one or more countries.

In a globalized economy business growth is possible through different methods such as expansion, diversification, strategies, alliances, Joint Venture and foreign collaboration. Multinational cooperation is huge corporation with its headquarters located in country of original but, conducting a variety of activities in several other countries. Presently well-known MNCS like IBM, Pepsi-Cola, Siemens, Sony, Honda, etc. are operate in several countries including ours. Conversely Indian Multinational like TATA, Birlas, Mittal etc. operate in other countries.

They operate at Global level and dominate Global Marketing.

a) Direct Foreign Investment: MNCS have huge financial Recourses at their disposal. They invest this resources in other countries through equity participation or establishing new manufacturing companies.

In our country they have done so in pharmaceutical companies or directly investing in bottling plants like Pepsi cola, Coco-cola, etc.

Some of Global Auto Manufacturing units like Honda, Toyota, have establish their plants for Manufacturing purposes.

The profit made by them are reinvested for further expansion. After taking a percent of profit to their parent Company.

2. TRANSFER OF TECHNOLOGY: In our developing country like ours, small manufacturer finds it difficult to have direct excess to technology because of cost involved. MNCS help such companies in developing countries for technology transfer.

They also allowed them to participate in research and development. Along with such services, consultancy services are also provided to them.

10 3. LICENSING: In developing countries the companies are permitted by government to enjoy patents trademarks etc. for innovation. Such patents are a monopoly of company and is granted to others on payment of fees.

4. TURNKEY PROJECT: MNCs also undertake completion of projects on turnkey Project basis. Such projects are supplied on turnkey or cost-plus fee services basis. In India major steel plants like Bhili, Bokaro, were installed on turnkey basis.

Similarly, our construction company have undertaken re building Infrastructure in Iraq after the war.

5. ESTABLISHMENT SUBSIDIARIES: OF FOREIGN OFFICES & MNCs, in some cases establish in some foreign offices and subsidiaries in developing countries through which they try to supply their own product.

Thought their subsidiaries they also advertise their products and adopt said promotional activities.

6. DOMINATE GLOBALLY: MNCs, dominate globally.

The manufacture goods with the help of local labors and raw materials. In this process they also create employment opportunities while carrying on manufacturing activities. Such products are manufacture on a mass scale', Thus they expand their activities.

7. MERGES AMALGAMATION, ACQUISITION ETC.

In order to have monopolistic claims over markets.

The MNCS also use techniques of Mergers, amalgamation and acquisition, Coco cola took over Parle, Thumps up, Pepsi Cola took over Dukes, Mangola.

8. INVOLVEMENT IN SERVICES SECTOR.:

MNCs expand their activities by providing services in developing countries. Such services are provided in Banking, Tourism, Hospitality Sectors.

2.3 PROBLEMS OF INDIA'S EXPORT SECTOR

Unlike domestic Marketing International Marketing is quite complicated because, it involves trading between different nations.; Some of the problems faced by International Marketing are:

11 1. Political and Legal Systems:

Political and Legal Systems defers from country to country e.g., India having business relations with China but ours is a democratic Country and China a Communist one. Similarly, the legal systems in different countries are quite different.

While India has democratic. legal stems, Gulf countries have Islamic Law in operation.

2. Cultural Environment: International business is also influenced by culture and cultural affinities.

While countries like India use more and more Spice, Western Countries may not make use of it.

Due to climatic and cultural reasons. Similarly, use of perfume is not much prevalent in our Country, While in the Gulf the local make use of it every time. While offering prayers in mosque.

3. Financial Systems - International Marketing is also dependent upon financial systems. Financial systems differ from country to country.

All nations do not hare same financial systems.

4. Foreign Exchange Rate - Since Currencies differ from country to country. Their exchange rates also very.

The country carrying on business faced difficulties in settling transaction due to fluctuating exchange rate.

5. Language Problem - While Western Countries mostly follow English, Countries like Japan, China, Germany etc. follow their own language.

The Language probe acts as a barrier is international Marketing.

6. Infrastructure - A lack of Infrastructure crate difficulties.

In International Marketing.

In the service sectors due to growth of Aviation sectors lack of Infrastructure offers little rooms for business to grow. Hence the government has decided to modernize existing airports as well as construction of the new ones.

Similarly, the Market Infrastructure and use of Advertising Media differ from Country to Country. While they are 12 developed in advanced countries.

They are not so much developed in others countries.

7. Cost of Transportation - International Marketing calls for distance in transporting goods, hence the cost of transaction risks involved in transportation are more.

8. Customs formalities

- Customs formalities also differ from country to country.

The documents to be clear taxes to be paid also create problems in International Marketing.

2.5 OVERVIEW OF INDIA'S FOREIGN TRADE

International Marketing is not a new phenomenon in business History. "Export or Perish" was the catchy slogan coined by Jawaharlal Nehru during early sixties.

It spoke volume of important of international business. Development is not full-fledged if import export business in on limited. Scale. Before Globalization, the economy was regulated and insular.

It is only when we opened up our economy, liberalization, privatization became buzz words.

It is not correct that surplus economics only can enter into import export trade.

Many advantages such as profits, dominance, pride, in the world business necessitates to go in for import export trade.

An example of the same is of Japan and now China. In the 60s and 70s Japan rehabilitated its economy due to Patriotic nature of Japanese people.

As it is well known Japan was destroyed by Americans during the 2nd World Ward. Similarly Chinese Economy was a closed one till it was opened up in 1974 and now it dominates the world.

International Marketing is affected by many factors such as socials, economy, risks, etc.

Different country applies different methods in International Marketing. In the past developing countries impose tariffs to make foreign goods costly in domestic market.

Thus, promoting domestic goods. International Marketing will be on the upswing in the years to come.

The attack by Terrorist on World Trade Centre left an impact on Global Economy.

However, inspire the slowdown, International Marketing is growing at a high rate. Some facts like growing technology, competitive spirit amount organization, growth of information technology

· out sources in the service sector, globalizations there to stay. 5. What problems are faced in International Marketing

INTERNATIONAL MARKETING ENVIRONMENT

Learning Objectives:

1. To understand Global Economic Environment influencing International Marketing;

2. To understand socio cultural environment influencing International Marketing;

3. To understand the political environment that influence Global Trade;

4. To develop and understanding on legal and regulatory environment that influence World Market;

5. To have a brief understanding of Trade Barriers and trading Blocs that influence international trading;

6. To understand the Organization, Role, Functions And the recent developments at WTO;

7. To have a brief understanding of the financial environment including role of IMF, IBRD, IDA, IFC.

(i): GLOBAL ECONOMIC ENVIRONMENT

A business firm closely interacts with its economic environment. Economic environment is generally related to those external forces, which have direct economic effect upon business. Economic environment is a sum total of:

- Economic conditions in the foreign market
- Economic policies of the government.
- Economic system of the country

(a) Economic Conditions in the Market The economic conditions consist of demand factors on one side and supply factors on the other side.

The demand factors include:

• Level of income

• Level of savings

• Level of spending The Supply factors include:

• Number of suppliers

• Extent of competition

• Nature of supply (regular or irregular) The economic conditions relating to market have a direct impact on the profitability of any enterprise. In a developing country like India, 15 the low per capita income is one or the reasons for low demand in the market.

A business firm can stimulate demand by supplying goods at reduced or reasonable price. Again, due to low income and low savings people find it difficult to buy expensive items such as consumer durables. So firms can come up with various schemes to increase the sales such as:

• Sales promotion techniques like free gifts, discounts, sale on instalment basis, trial offers, etc. • Hard sell advertising where reasons are given to buy and benefit from the purchase of goods.

• Extended warranties.

• Penetration pricing strategies, especially in the case of FMCG items and even in case of consumer specially items like footwear, clothing etc. This is because; Indian customers are price sensitive. • Effective after sale-service etc.

A study of supply factors will help the existing firms to plan properly in respect of expansions of markets, introduction of new products and so on.

It can also help a potential business firm to take a decision in respect of whether to enter in the market or not, in which market to enter, which product to sell, and so on.

b) Economic Policies: The economic policies of the Government have a direct effect on the working of a business unit.

Therefore, business firms need to understand the implications of the various government policies such as:

- **Industrial Policy**
- **Fiscal policy**
- **Monetary policy**
- **Export import policy, etc. The economic policies provide a framework of economic environment and business firms are expected ·to operate within the prescribed limits.**

A minor change in the economic policies can bring about a major shift in business decisions.

c) Economic Systems: The economic systems are classified. on the basis of freedom enjoyed by private businessman.

A good knowledge of economic system of various countries helps importers and exporters to plan their foreign trade activities more effectively. Mainly there are three economic systems, such as:

- **Free market economy or capitalist economy**
- **Centrally planned or socialist economy**
- **Mixed economy. 16 In a free economy an entrepreneur is free to invest and produce goods of his choice. The government exercises minimum control in Planning and regulating the working of market. In case of centrally planned or socialist economy,**

the government has absolute control over various factors of production and its allocation among various units.

The government in centrally planned economy decides what to produce and what should be consumed.

The concept of communist economy is becoming a thing of past. The downfall of Soviet Union has brought an end to communist philosophy, with an exception of China and Cuba. Mixed economy is a combination of capitalist and communist economic system.

This type of system allows investments by private and public sectors, India has adopted the mixed economy as a system for economic development.

(ii): SOCIAL AND CULTURAL ENVIRONMENT Culture is a set of traditional beliefs, norms, values and customs that are transmitted and shared in a given society. Culture is also the total way of life and thinking patterns that are passed from generation to generation. The cultural environment affects:

- **The consumption patterns**
- **The thinking processes**
- **The communication processes an analysis of the cultural environment helps to frame marketing these strategies.**

An organization considering to enter a foreign location should assess a wide variety of cultural factors. The following are the cultural factors:

1. Values and Attitudes: Values are shared beliefs or group norms that have been internalized by individuals. Attitudes' · are evaluations of alternatives based on these values. ·Some countries like Japan, feel that buying foreign product is unpatriotic.

Thus, it becomes difficult for the international marketers to sell their products in such a cultural environment.

The more rooted values and attitudes, the more cautiously the international marketer has to move. Attitude towards change is basically positive in industrialized countries, whereas in more tradition bound societies, change is viewed with great suspicion, especially when it comes from a foreign entity.

2. Manners and customs: Changes occurring in manners and customs must be carefully monitored, especially in cases that seem to indicate narrowing of cultural differences between people.

Understanding manners and customs is especially important in negotiations, because interpretations based on one's own frame of reference may lead to a totally incorrect conclusion.

To negotiate effectively abroad, one needs to read correctly all types of communication.

The international marketer must also be concerned with the different ways the products are used. For example, Tang is positioned as a breakfast drink in the U.S. whereas in France, orange juice is not usually consumed at breakfast.

Tang is positioned as its refreshment. Thus, the international marketer should have a knowledge or such cultural variables to survive in the international market.

3. Language: Language difficulties have been the source of many problems in the way of effective international marketing.

Language provides people with an important means of communication. The issue of how to communicate when different languages are spoken is a key question that international companies must address. Communication would take place at many levels in the organization i.e., communication between:

a) headquarters and managers in foreign locations

b) headquarters and foreign partners

c) headquarters and foreign suppliers

d) headquarters and foreign creditors

e) foreign managers and employees, etc. Each of these is likely to involve more than one language.

4. Religion: Religion is closely associated with the development of cultural values and affects many day-to-day activities in a society.

International companies, therefore, need to understand the role of religion in the societies where they operate.

In a country where religion plays a relatively minor role, people will be more flexible in terms of religious adherence and tolerant of religious mistakes that foreigners make Converse may be true in the country where religion plays a fundamental role.

This factory may affect the company's activities - e.g., scheduling extra work on religions day is possible in the former case but may not be possible in the latter.

Companies therefore. should investigate the religious make up of any country where they expect to conduct business.

18 5. Education: Education plays a major role in international marketing.

This is visible in a Company's relationships with employees. When a company decides on stalling policies, local educational systems will determine availability of prospective employees with desired skills they will define the degree and type of training that must be undertaken, they will influence the degree of decentralization that is possible and the communication systems that are employed.

It also plays a major role in decisions regarding customers of consumers.

6. Social Systems: It includes diverse activities such as courting and marriage rituals, entertaining practices, interaction amongst people of higher and lower classes, etc.

Global Companies have to function within the confines or the established social systems in a particular location.

This means accommodating these systems or attracting local employees who are willing to accept alternative systems.

The manager needs to gather information on the social systems in foreign locations, assess the impact on operations, then decide if and how much to adopt the organization's traditional practices to accommodate the new social systems.

(iii): POLITICAL ENVIRONMENT Political Environment is a comprehensive term and includes political system, political parties, government agencies, and pressure groups that influence and control individuals and organizations in a society. These factors may vary considerably between different nations. So, the international marketer has to consider the political environment in the domestic, foreign and international markets.

• Political System: A country can have either Parliamentary (open) form of government or Absolutist (closed) form of government. - Parliamentary governments consult with citizens from time to time for knowing their opinion and preferences.

Most industrialized nations follow this pattern.

- Absolute system dictates government policy without considering citizen needs and opinions. Mostly, the newly formed nations or those undergoing some kind of political transition adopt this system.

However, there are many countries' political systems that do not fall under either of the above categories, e.g. Saudi Arabia and North Korea.

• Number of Political Parties: On the basis of number of political parties, there are four types of government: two-party system, multi-party system, single-party system and dominated one party system.

- In a two-party system, there are several political parties, none take turns in controlling the government, although other parties are allowed,

- In a multiparty system, there are several political parties, none of which are strong enough to gain control of the government.

- In a single party system, there may be several parties, but one party is so dominant that there is little opportunity for others to elect representatives to govern the country.

- In a dominated one-party system, the dominant party does not allow any opposition, resulting in no alternative for the people. Such a system may easily transform itself into a dictatorship.

• Economic Systems: Economic Systems provide another base for classification of governments. There can be three economic systems:

i) Capital Economy.

ii) Socialist Economy,

iii) Mixed Economy

• Political Risks: An international marketer may be faced by a number of political risks such as: -

- Confiscation is a process of a government's taking ownership of a property with some compensation. Expropriation involves government ownership and it is the government that operates the business being taken over

- Nationalization involves government ownership and it is the government that operates the business being taken over. - Domestication is a political risk wherein foreign companies relinquish control and ownership either. completely or partially to the nationals.

- General Instability Risk is a related to the uncertainty about the future viability of a host country's political system.

- Operation Risk proceeds from the uncertainty that a host government might constrain the investor's 20 business operations in all areas including production, marketing and finance.

- Transfers Risk applies to any future acts by a host government that might constrain the ability of a subsidiary to transfer payments, capital or profits out of the host country back to the parent firm.

An international marketer may be tempted to enter a foreign market where there is political stability.

Democratic political system is a pre-requisite for political stability.

The sources of political instability include: ·

- **Social unrest in the country;**
- **Inhospitable attitude of the nationals;**
- **Unfriendly foreign policies of the government.**

As an AIU student you can apply this to the study at AIU by putting topic in the course into practice and also concentrating and practicalizing it

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