

# SECURITY INSIGHTS



## *International Marketing: An Imperative for Southeast Europe*

*By Michael Czinkota and Valbona Zeneli*

The science of international marketing is new to Southeast Europe, though 2013 marked the 75th anniversary of the founding of this academic field. The field of international marketing developed in response to differences in markets across the world and the growing propensity to exchange goods and services between them. Marketing has shifted over time from a strictly domestic focus to a global one, linking together all the world's markets. Globalization, through its forces of communication, technology, and economic liberalization, has become the driving force for growth and development across borders.

Recent crises and recessions in the world have slowed the very fast pace of globalization of the last two decades and have also reduced the global penetration of international investment. Most crucial at this time is the fact that reductions in trade and investment flows are not just a matter of money and finance, but also of policy and trust.

Under the aegis of industrial policies, a growing number of countries have introduced new non-tariff barriers and hidden restrictions to trade and investments. Trade protectionism is not currently promulgated as a key public sector goal, however in reality an interventionist approach to globalization is in place in most countries and often leads, directly or indirectly, to inhibitions in internationalization and a rise in protectionism.

Governments' role in international marketing has again begun to grow. Countries are trying to erect new global regulatory and restrictive barriers between one

another. Policy makers, non-governmental organizations, businesses, and consumers have become more selective about with whom they trade or from whom they buy, how much access they want to give to foreign investors, and what sort of capital they invest and admit. Regional trade agreements have reduced the overall liberalization of trade, since—other than multilateral agreements, which at least appear to permit everyone to be a winner in negotiations—the selective reduction of barriers implies that there are winners and losers in the trading process.

Regionalism is on the rise everywhere, with more than 330 foreign trade agreements (FTAs) in force in 2014. This trend is further strengthened by the two biggest regional agreements currently being negotiated: the TPP (Transpacific Partnership Agreement) and TTIP (Transatlantic Trade and Investment Partnership).

However, it might be too limited a view to see regionalism as the opposite of globalization. After all, in light of the very slow and limited progress in multilateral negotiations by the World Trade Organization (WTO), the free trade agreements negotiated and in force over the last decade might be seen as a blessing in these difficult days for the global economy. They have at least boosted liberalization, by cutting barriers, especially in new regions, and by encouraging action in multilateral talks. Above all, though regional in nature, they can boost innovation, growth, and development by creating a level playing field for all competitors.

*International marketing consists of the activity, institutions, and processes across national borders that create, communicate, deliver, and exchange offerings that have value for stakeholders and society. International marketing has forms ranging from export-import trade to licensing, joint ventures, wholly owned subsidiaries, turnkey operations, and management contracts. The focus is on stakeholders and society, whose present positions are to be improved.*

Returning to the science of international marketing, one needs to acknowledge that today's new reality was not even anticipated or addressed by most market forces or marketing sages. In a similar fashion, there is now a newly emerging emphasis in marketing: restoring trust and coaxing development through new tools synchronized with international economic health. Drawing lessons from the crises early in this new century, the new generation of marketers, whether in their old marketplaces or areas of new opportunities, should address the necessity of overall welfare and inclusive development. It will be important to accept that international economic cooperation and integration have become imperative, if one is to meet the new global challenges.

### ***Why is International Marketing Important for Southeast Europe?***

In the small region of Southeast Europe (SEE), marketing is mainly taught in the context of the domestic market and is taught only to business executives. International marketing is not even considered to be an important part of governments' strategies for development. However, we believe that a small market requires that both firms and governments stride beyond their traditional confines, giving them new perspectives as well as new forms of doing business. Hence, international marketing is important to businesses, government, and also the individual (both from a consumer as well as a producer perspective).

Unfortunately, inbound international marketers have shown little interest in this small region to date. SEE is burdened by an image characterized by a history of conflicts, wars, regional disputes, and mistrust among neighbors, as well as high levels of organized crime and corruption. Though Southeast Europe offers unique opportunities in terms of strategic position, natural resources, relatively cheap labor, and the youth of the population, it still attracts less than three percent of global foreign direct investment (FDI). Among the main concerns of potential foreign investors are various political and economic issues, including small market size, political instability, an inefficient regulatory environment, low growth rates, macroeconomic instability, high levels of corruption, and low quality of labor. All of these factors increase the risk of exposure (both real and perceived) for businesses considering investing in Southeast Europe.

In light of recent economic crises that have reinvigorated the role of the governments in the economy, boosting a new development paradigm, it's time for the governments of the countries in SEE to understand the benefits coming from international marketing and make this activity a top priority.

### ***Freedom***

International marketing is a notion of freedom that removes boundaries between nations and grants more choices to citizens. It offers broad opportunities. The notion of freedom is particularly important for the former socialist countries of

SEE. Since the beginning of the transition, all of the countries in this region embraced free trade regimes, liberalized their economies, and also achieved membership in the WTO. However, the culture of international economic cooperation and the linkage effects of interdependence are new phenomena for these economies. International marketing opens up opportunities not only for exposure to other cultures but also the chance to gain knowledge. Market competition offers consumers more choices, higher quality goods, and better prices, as well.

### ***Opportunity and Contentment***

International marketing is the best way to increase national strength and status for those nations of limited territory and resources. This key activity strengthens both individuals and nations. The countries of SEE are small and inexperienced in international business competition. They lack resources: financial, technological, know-how, and products. Only by engaging in the international market will companies gain the necessary skills that they still lack. Also, in a global economy, every country is somewhat the same size when decisions are made on a one country one vote basis, as in the World Trade Organization.

Remodeling the economies of SEE should be done by engaging new drivers of growth, toward a more export-oriented and foreign investment driven growth, through creating a favorable environment, and developing and using effective cross linkages. Growth needs to be driven by investment, productivity, competitiveness, and regional economic integration.

### ***Prosperity and Innovation***

International marketing rewards excellence. It encourages higher quality and enhances standards of living. Due to international marketing, many countries have significantly increased their standards of living and wealth over the last two decades. A good example is the region of Central Europe, which successfully transitioned from state-controlled economies to free and fair market economies. Market allocations typically result in more options and a better utilization of skills. Markets leverage capabilities and resources that already exist in a country and offer more opportunities for improvement.

The countries of SEE lack technology, innovation, and know-how. They rank very low in terms of innovation in the Global Competitiveness Report. Some economies are improving, such as Croatia, while others, like Albania, still lag behind. These economies also do not have the necessary financial and human resources to invest in research and development (R&D), but they can attract innovation and technology into their markets through international marketing, especially through FDI, which encourages technology transfer. However, it is not so easy to absorb and integrate new technologies. Countries need to invest in improving their absorptive capacities in order to attract and reap the full benefits of foreign investments and trade. Research in the region has shown that FDI, in particular, has been vital for growth, development, and improved skills.

New growth strategies need to be based on knowledge, education, and innovation. Countries should develop an environment friendly to quality FDI in sectors that encourage further domestic investments and promote sustainable growth. FDI has been one of the main promoters of economic growth. The Euro-Atlantic agenda has made some countries more attractive than others. Individually, these states are too small and weak to attract desirable high technology investment on their own, so the SEE states should work together in a pooled competition for FDI.

International marketing gives hope to countries by offering better job prospects and improved skills. When considering entrance to a new foreign market, the quality and performance of institutions is what most worries investors. Hence, governments should engage in creating a friendly business environment and curbing rampant corruption in all sectors of their economy.

## **Culture**

International marketing helps us to better understand our fellow human beings. When people feel their own culture is being preserved, they find it easier to accept cultural differences and also to accept and adapt new ideas into their own cultures. Such outreach enables individuals to think and evaluate from a much broader perspective. This is a very important factor, considering the cultural diversity of the Balkan region as well as the historically difficult relations between these countries.

## **Fairness**

States that trade are more interdependent. Markets have a watchdog role to play in reducing the likelihood of exploitation. Markets themselves are a form of democracy. Consumer reaction will reinforce societally desirable behavior on the part of firms and punish acts that are deemed locally and even globally unacceptable. Corporate networks and multinational firms also develop efficiency-based frameworks. Among the indirect positive effects of FDI in the host market are the organization's behavior and adherence to corporate responsibility standards. Yet, to obtain the benefits of international marketing, political stability and economic reforms are crucial.

## **Export Promotion**

The current trade performance of Southeast European countries is disappointing, with exports extremely low and concentrated mainly in natural resources and light manufacturing sectors. Exports and trade in general declined even more during the recent crisis, which hit the region through a double dip recession.

In their exports, domestic firms face many challenges, starting with information acquisition, market research, and trade financing. Southeastern Europe's firms struggle with shortfalls in organizational behavior, human capital and know-how, technology, service provision, and quality orientation. The cost of products from the region is also high because of low productivity and high logistics costs. Products made in SEE

also do not have a location-specific reputational advantage in the international market.

At this point, government export assistance can help firms in their export endeavors. Public sector involvement is useful at least in the first few years. This is done through providing information on potentially profitable markets to which to export and offering low-cost credit. This is public money well spent. Research shows that every dollar spent on export promotion gives back a return of up to forty dollars. Export assistance providers should be deeply involved with the international marketing environment, both in terms of learning from as well as shaping it.

Governments, even of small states with small economies, can shape the international environment through directly engaging in trade negotiations and free trade agreements in order to break down barriers to entry. Regional integration is vital for facilitating trade relations, but also for increasing the significance of the region in the global market. The Central European Free Trade Agreement has substantially lowered tariffs and eased procedures. Unfortunately, this framework is still insufficiently implemented. Intra-regional trade levels are very low, at around 33 percent. The most problematic issues lie in non-tariff barriers, lengthy procedures, extensive corruption, and the absence of political will to cooperate.

The starting point for any regional integration has to be the recognition by the SEE countries that jointly they can achieve more on the international stage than as single actors. They are too weak and small to generate sufficient scale and capacity to attract productive investment. They do not have sufficient skilled workers, local financial capacity, or the ability to attract and sustain economic clusters. A new SEE economic space would mean new opportunities in terms of resource exploitation, new markets, and new trade partners. It would give the countries support to develop international competitiveness in a globalized world. New investment policies should assure a stable macroeconomic environment, fair treatment of foreign and domestic companies, and institutional support for private competitiveness by supporting firms with specialized expertise.

There are some dimensions that should guide export assistance efforts, in particular for new and growing businesses. All of the countries in SEE have established export promotion agencies, however difficulties are still encountered in implementation. Governments need to determine what they want export assistance to achieve. The assistance should have the decisive goal of benefiting their citizens through increased employment and a better standard of living. The time frame should be long-term and reinforce the export assistance process.

Export assistance needs to achieve either a reduction in risks or an increase in profits. The measurement of success should be based on the involvement of the firms focusing on the number of customers, transactions, and locations served. Coordination is crucial in this process. Governments should avoid assisting well established industry sectors with

relatively low employment effects and instead focus on sunrise industries. They should also prioritize new growth industries that currently have insufficient market support as international business ventures. Analyses of past export assistance programs have demonstrated that the greatest effectiveness has resulted from determining the current level of international involvement by the firm and then delivering assistance appropriate to the firm's needs.

For international marketers, change is a key opportunity. Curative marketing, which aims to make up for past inequities, can help us all by overcoming past shortcomings and managing future adversities. The biggest challenge will be for politicians, whose performance will propel or delay development. They and the managers of firms should take an entirely different perspective in learning, thinking, and acting. They can learn from the mistakes of other economies and not repeat them. They should demonstrate leadership on the regional and global levels through their understanding of ethics, sustainability, and personal involvement. They should be involved in fostering new international business, with the main goal of fostering inclusive development.

### ***The Way Ahead for SEE***

By adopting an international marketing perspective, SEE will also make choices regarding the four critical pillars of globalization success, which are competition, risk, profit, and retention of ownership. In today's quite diverse societies, there is no uniformity of thought regarding the steps acceptable for success in the international market. Starting with the dimension of competition, we need to recognize that the core implication of the concept is an abundance of demand, paired with some limitation on supply, where different parties intend to secure the supply for themselves. However, other players might believe that there should be no "shortage" and therefore no need for competition, thus neglecting the further benefits of competition, be it in the allocation and shift of resources, the efficiency of investments, or the quality of supply.

Regarding the issue of risk, the implication, co-derived from competition, is that in their striving to obtain resources, some will succeed while others will fail. Those that succeed are likely to be content, but those who lose repeatedly might begin to doubt the concept of risk acceptance, particularly in a winner takes all society. History tells us that particularly in an encounter between successful and unsuccessful players, the less trained ones tend to lose, but also build up a storehouse of resentment against the winners. Profit implies that there will be a payment flow to the organizer of business activities and that such flow is often above the level which others obtain as their compensation. Therefore, there is again the possibility of a growth of societal discontent against the "profiteers." Finally,

there is the issue of ownership retention, where individuals are given the right to accumulate resources and wealth, with a reasonably contained threat of being plundered by others.

The business world today recognizes the precariousness of economic progress. Many of its members have learned to appreciate that even after winning a competition, former opponents will not necessarily accept one's fundamental tenets. This is particularly the case under conditions where others have now seen what they have missed out on. Rather than admiration, resentment and envy can develop; sometimes there is even an expectation of obtaining personal resources that have little relationship with the willingness to engage oneself in the creation of such resources.

It is therefore not just altruism but also a quite enlightened self interest that lets nations at a high level of economic performance encourage and support the acceptance of international marketing criteria by nations with less wealth. Such acceptance helps to not only create a buffer zone against economic adversaries, but also encourages the tilting of the global support for existing business practices. In any case, it is worth remembering what opportunities are lost from not engaging in international marketing. Globalization can dramatically improve the wellbeing of populations if the trend to greater openness and cooperation will continue. However, time is of the essence.

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### ***About the Authors***

***Dr. Michael Czinkota*** teaches international business and trade in the Graduate School of Business at Georgetown University. Professor Czinkota's current research focuses on trade policy, global market entry and expansion strategies, and export development policies. Dr. Czinkota's latest book, written with Ilkka Ronkainen, is *International Marketing* (10th edition), published in 2013.

***Dr. Valbona Zeneli*** is a professor of national security studies at the Marshall Center. Professor Zeneli's current teaching and research interest include international economy, Southeast European security issues, institutional reforms, and good governance.

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**Unit 24502, APO AE 09053**

**DSN: (314) 440-2783, DSN FAX: (314) 440-2452**

**Gernackerstrasse 2, 82467 Garmisch-Partenkirchen, Germany**

**CIV: +49 (0) 8821 750-2469, CIV FAX: +49 (0) 8821 750-2452**