**International Marketing**
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**Lecture – 4**
**Introduction to International Marketing**

Good afternoon. Welcome back. So, we will have now the module lecture 4, where we will discuss where we have left in the previous class, the balance of payment. So, we will balance of trade and we will discuss that here in this chapter, balance of trade and balance of payment and what are the differences with that clear.

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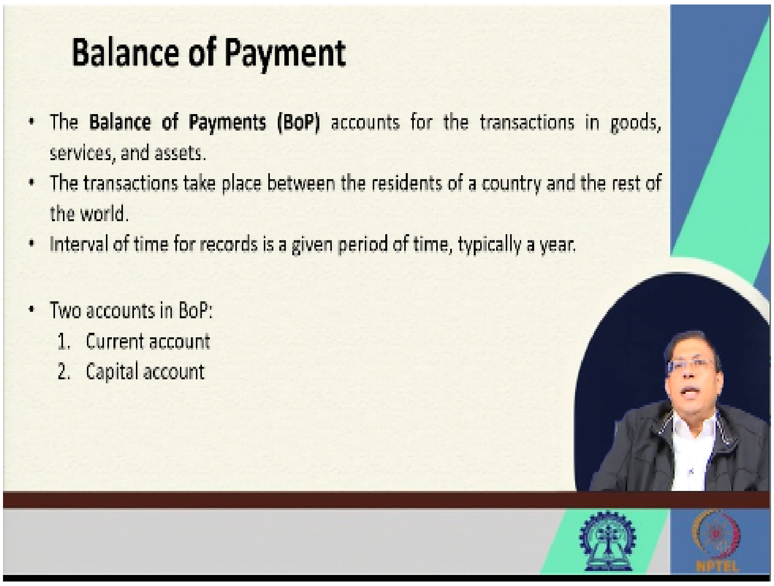


So, the balance of payment is the transaction in goods and services and assets. So, remember the 3 things, it has come now, the goods, transaction, assets. The transaction takes place between the residents of a country and the rest of the world. The interval of time for record is given period time typically one year. There are 2 types of balance of payment. One is a current account and other is a capital account.

So, we have discussed balance of trade in the previous class, which is the difference between the exports and the imports. And now, we are discussing balance of payment. So, there are 2 different terminologies. Balance of payment is the account transactions of goods, services and assets. And there are 2 different types of balance of payment. One is current account; another is a capital accounts. So, from the name you can very well understand.

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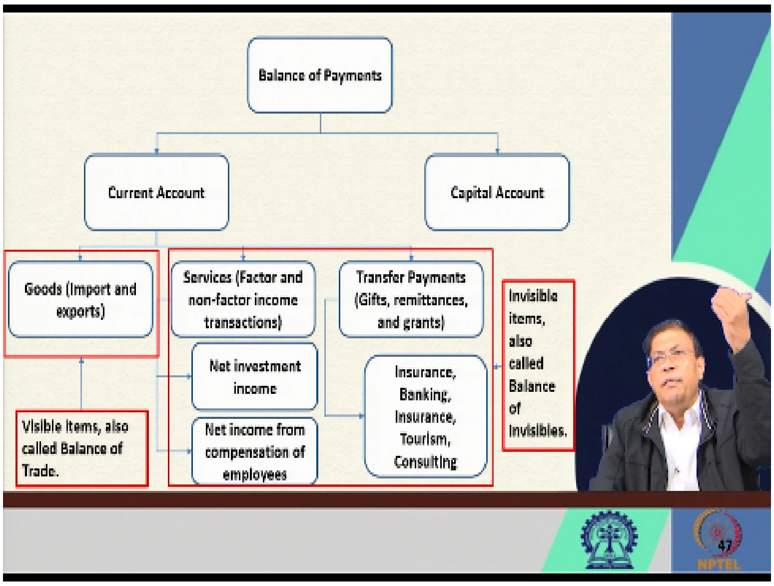


So, I will give you an example here. So, the balance of payment is typically 2 slots, 2 blocks. One is a current account and other is a capital account. So, what is current account? What are the components comes in the current account is a goods what we import and export. So, what we typically do from the country, what we export and what we import are typically the goods coming into the accounts of that goods are coming into the current account.

Then the services; the factor and non factor income transaction, net investment income, net income from the compensation of the employees, then transfer payments, gift remittance grants, insurance banking, insurance, tourism consulting, all the tourism wherever the international travels and all those, these are all coming into that current account. Then comes, this is a very; if you see now the red block, these are the visible items which we discussed previously is a balance of trade.

So, balance of trade is only the difference between the exports and imports. As I said if the export is more, import is less, then is a positive balance of trade. If the inport is more, less export is a negative balance of trade and balance of trade is equal means when exports and imports are equal, same. So, here from this current account from this block, you can find it out that these are typically the goods import and export at typically the balance of trade.

Then comes the next part, these are invisible items, also called balance of invisible. What is that? Services; net investment income, net income from the compensation, transfer payments like the gifts, remittance, grants, you are gifting some money to or gifting somebody in foreign country or someone is gifting you here; all those things are in the transfer payments, gifting, insurance banking. These are all invisible items in this foreign currency .

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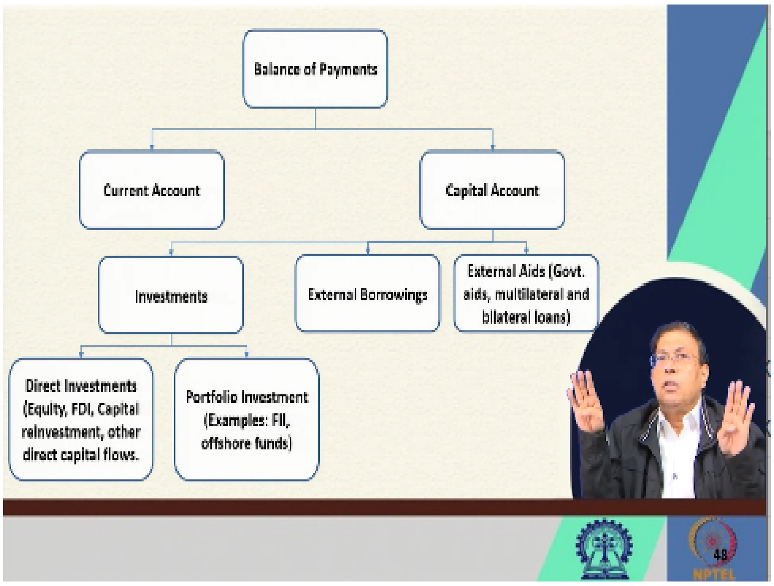


So, the current account: what are the components of balance of payment in current account? We have explained to you. Now, comes the capital account. So, what are the balance of payment in the capital account? The capital account is typically the investments like the direct investment like equity or FDI, foreign direct investment, capital reinvestment and other direct capital inflows which comes to the country is typically the capital account direct investment.

Portfolio investments like means FII, foreign institutional investors, offshore funds they come and make portfolio investment in the country. External borrowings, the country's borrowings; external aids, these are all comes to the capital account. So, balance of payment between current account and capital account are the 2 different blocks. So, I have explained what are the components in current account in the previous slide. In this slide, I am explaining what are the components which includes the capital account.

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So, here, we will talk about the basic definitions so that we will clarify the balance of trade is a finite, you remember, balance of trade is a financial statement that captures the nation's import and export of communities with the rest of the world. But balance of payment is a financial statement that keeps track of all economic transaction by the nation that means capital and current account with the rest of the world.

What does it really deal with? The balance of trade deals with the net profit and loss that a country incurs from the import and export of goods and imbalance of payment deals with the proper accounting of the transaction conducted by the nation. Fundamental difference, balance of trade is a difference that is obtained from the export and import remember, again remember the fundamental differences the BOT, balance of trade is a difference between the export and import of the goods.

The balance of payment is a difference between the inflow and outflow of foreign exchange . So, these are totally different types of transaction. Transaction related to the goods are included in balance of trade; transaction related to the transfer of goods, services are included in balance of payment. Are capital included in balance of trade? No, in balance of trade, no capital investment, yes, capital investments are included in balance of payments.

So, what is the net effect? The net effect is that balance of trade can be either positive or negative or zero. The net effect of balance of payment will be always zero . So, balance of trade can be either negative more imports less exports; can be positive, more exports less imports can be negative; can be zero if imports and exports are same, but balance of payment the net effect of balance of payment will be always zero. So, that is the basic difference .

Now, we will teach another very important economic subject, economics subject which is gross domestic product and gross national product. I am sure all of you must know this. Just to recap this if you have still need to brush your knowledge, please take go through any of the standard economics books and there is a very basic definitions of the gross domestic product and gross national product.

So, gross domestic product what it takes? Takes into understand very clearly , the entire domestic production irrespective of the fact whether the production is from domestic resources or foreign, it describes the economic activities within the boundaries borders of the country, it is measured at the market prices as well as the factors cost and GNP is the value of the goods and services produced during the year from the country of resources.

It refers to all the economic output produced by nations normal residents. It is also measured at market prices as well as at the factor cost.

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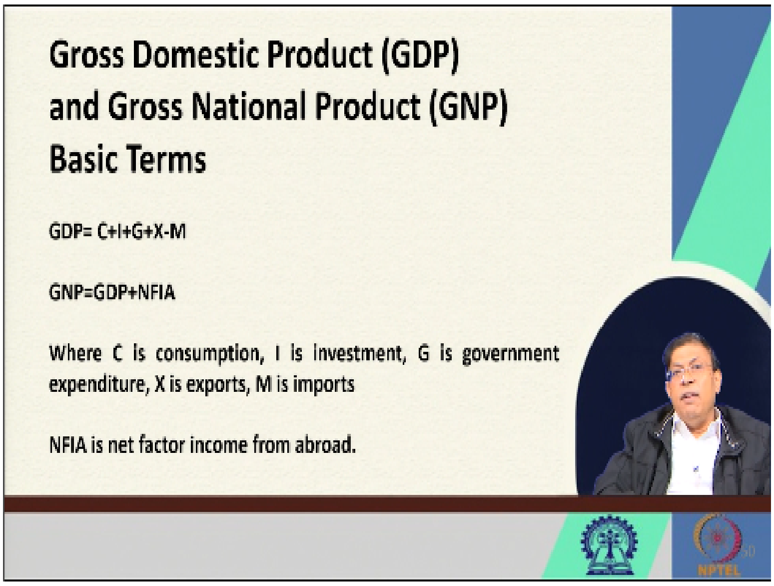


So, if you look at the formula, what is GDP? GDP = C + I + G + X + M. What is C? C is the consumption; I is the investment; G is the government expenditure; X is the export; M is imports . So, that is known as the GDP. So, clearly, if you remember this that whatever is the consumption in the country, whatever the investment, government expenditure, exports and imports, these 5 components put together is GDP.

If GDP is very high of a country, why this is important for an international market here, because if the GDP is growing that means a consumption of the country's growing the consumption is growing; I is another company investments are coming to that country. Government expenditure is more that means there is a lot of economical activity happening in that country. And GDP is growing very high, very fast rate of growth of GDP. And that is a real market for you to consider.

So, GDP is, why important for an international market here, because GDP gives you about a country when you look at your target country, look at their GDP, look at their each of these components, what is the consumption, investment, government expenditure and then as I taught you in the very beginning, what is the exports and imports? Look at that and then see how what is the absolute value of the GDP and how the GDP is growing year on year in that particular country.

If there is a very high growth of GDP like China, India, these are the countries where the GDP rate is growth is very, very high. That is why you see huge foreign investments are coming to India, China and all these countries because the GDP growth is very, very high. So GDP is a very essential parameter for you to understand and to measure whether you should invest in that country or not.

If GDP is very flat, GDP is not growing very much, GDP absolute value is also very small, you may not be interested to go to that country . And GNP = GDP + NFIA. NFIA is a net factor income from the abroad.

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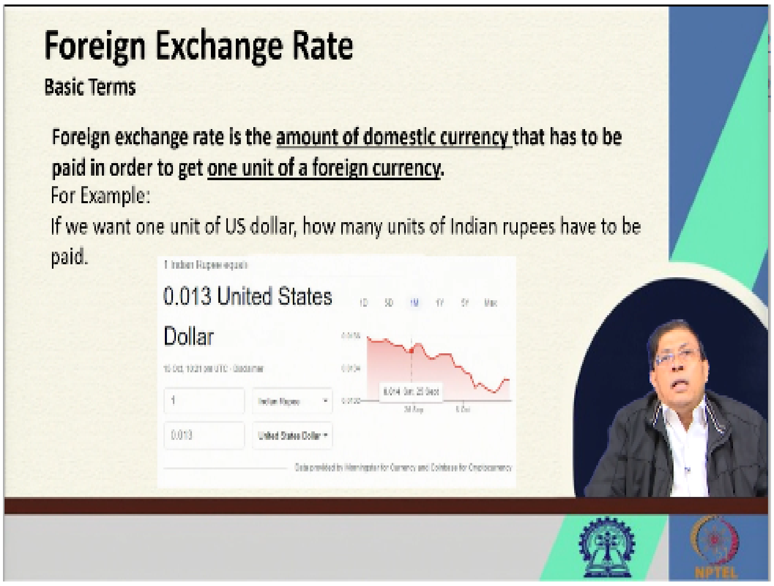


Then comes, I will explain about this GDP little bit, in a before I come to the foreign exchange, I will little bit explain about the GDP in the terms also . So, GDP can be done in the 2 ways and the methods of calculating GDP are 2 ways. One is the expenditure method and other is income method. So, the expenditure method, I have already explained to you that is the consumption plus investment plus government, what is called government expenditure and export minus import that is typically known as expenditure method.

So, you can do the same expenditure method. GDP can be also done, calculation can be done income approach where the GDP is calculated by adding up the factors, the GDP of the national income statistical discrepancy and capital consumption allowance; it can be also calculated. So, there are 2 approaches of measuring the GDP. One is the expenditure approach and other is an income approach.

You can do that and you can study it any of the standard economics textbook, you can study that. And GNP is also known as a gross national product which I have described in the previous slide is the total value of the goods and services produced by the residents of a country during a financial year. It takes the income earned by the citizens of the country present within and outside the country into consideration.

It excludes the income generated by the foreign nationals who are residing in the country; it can be calculated as GDP + NR - NP where GDP is a gross domestic product NRI, NR is a net income received; NP is the net outflow of the foreign assets. So, that is known as GNP. So, I hope you understand between GDP and GNP. So, GDP you will always remember that GDP is extremely important for you to understand.

GNP for the foreign expansion international marketing is not that crucial item for you. But for you GDP is a very, very important item for you. And GDP is the value of goods and services produced within the geographical boundaries of the nation that I have explained to you. And the GNP is the value of goods and services produced by the citizen of a nation irrespective of the geographical limits in the financial year known as GNP.

What does it measure? GDP measures a domestic production and a GNP measures the national production emphases, GDP emphasises on the production that is obtained domestically . And GNP, it emphasises on the production that is achieved by the citizens living in different nations. Highlights: it highlights the strengths of country's economy. GDP is the main parameter which highlights the country's economy.

And GNP is the highlights of the contribution of the residents of a developed economy. Scale of operation: GDP is a local scale of operation. GNP is an international scale. It excludes; what GDP excludes? GDP excludes the goods and services that are produced outside the economy are excluded. That means the services, goods and services which are produced outside the economy are excluded.

And what it in GNP excludes what? GNP excludes the goods and services that are produced by the foreigners living in the country are excluded. Okay, the foreigners who are living in the country their earning is excluded from the GNP that is the big difference between the GDP and GNP, clear. Now, the last and the another most critical item is a foreign exchange.

As you know, you have to deal with an international business, your local currency will not be applicable, because you have to deal with an international currency and typically the international currencies are the Euro, US dollar. These are the international currencies. Japanese Yen typically the international currency. Most widely used international currencies are typically US dollar and euro and British pound are typically the currencies which are mostly used.

So, foreign exchange: how it is the foreign exchange rates are determined? So these are very, very complex, but you do not have to really go into much detail into that because as an international marketer, this is not really very means you should not really go into in depth to study as an economics student, but you need to understand the basics of that . So, what is the basics of this international currency?

The foreign exchange rate is the amount of domestic currency that has to be paid to get one foreign currency that means, how much what domestic amount of domestic currency, I should pay to get one unit of foreign currency. For example, one unit of US dollar how many units of Indian rupee have to be paid, so, that is typically known as foreign exchange .

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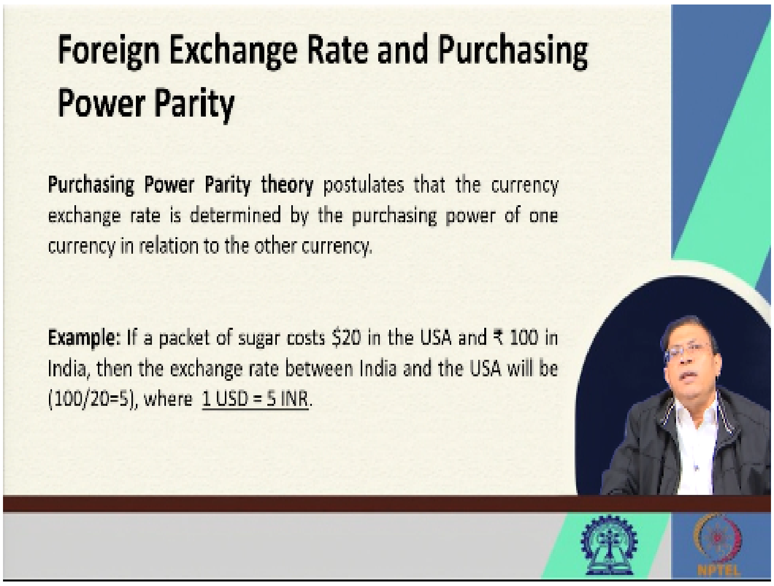


So, the foreign exchange rates are defined based on the exchange rate and purchasing power parity. So, purchasing power parity theories: what is that? It postulates that the currency exchange rate is determined by purchasing power of one currency in relation to the other currency and simple example, if a packet of sugar cost 20 dollar in US and rupees 100 in India, then the exchange rate between India and US will be 100 divided by 20 that one US dollar is equal to 5. This based on the purchasing power parity.

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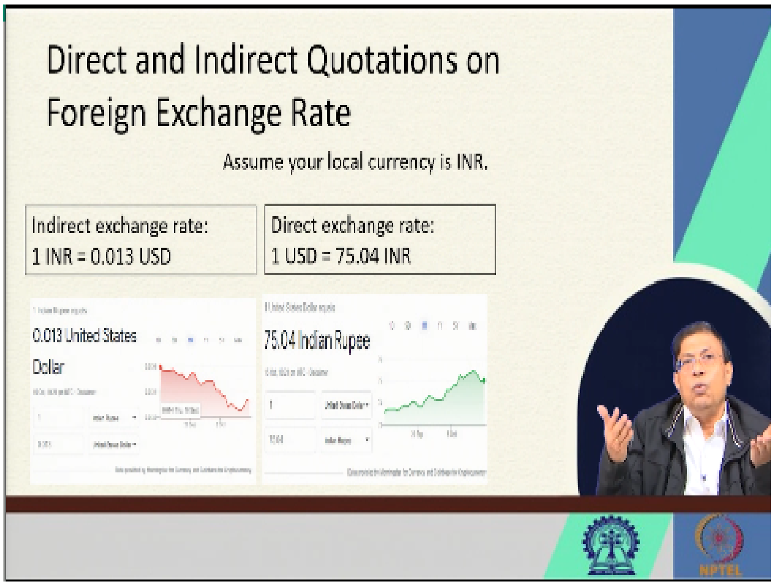


There are 2 different quotes and there is known as direct quote and indirect quote of the foreign exchange. So, what is direct quote and indirect quote? Direct exchange rate is typically, suppose the rate which how much Indian rupees I have to pay to buy one US dollar. So, these typically one US dollar in today's exchange if I take, it is typically 75 rupees 04 paisa.

So, typically the one US dollar is a direct exchange rate. And what is indirect exchange rate? Indirect exchange rate is just opposite or reciprocal of a direct quote and also known as the price quotation which expresses the price of one unit of a foreign currency in terms of variable number of units of the domestic currency clear. So, here you see the indirect exchange rate is what is basically the reciprocal or opposite of a direct quote. So, see here, I need with one INR, I will get 0.013 US dollar is a reciprocal rate clear.

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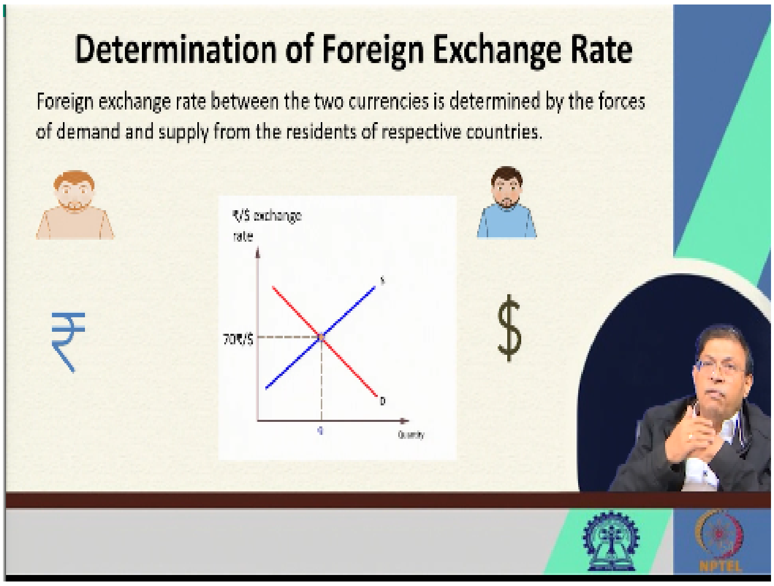


So, determination of how the foreign exchange rate is determined. Foreign exchange rate is determined basically based on demand and supply. How much foreign exchange is we need demand is there and how much foreign exchange is supplies there; based on that is a foreign exchange and typically basic economics demand supply curve, if you see and where these particular demand supply curve curves in that particular point is the exchange rate.

So, foreign exchange rate between the 2 currencies determine the forces of demand and supply. So, how much really the foreign exchange there need to import and how much foreign exchange that supply is there from export and my reserves so, that typically known as demand and supply. Based on this demand and supply, the foreign exchange rate is fixed clear.

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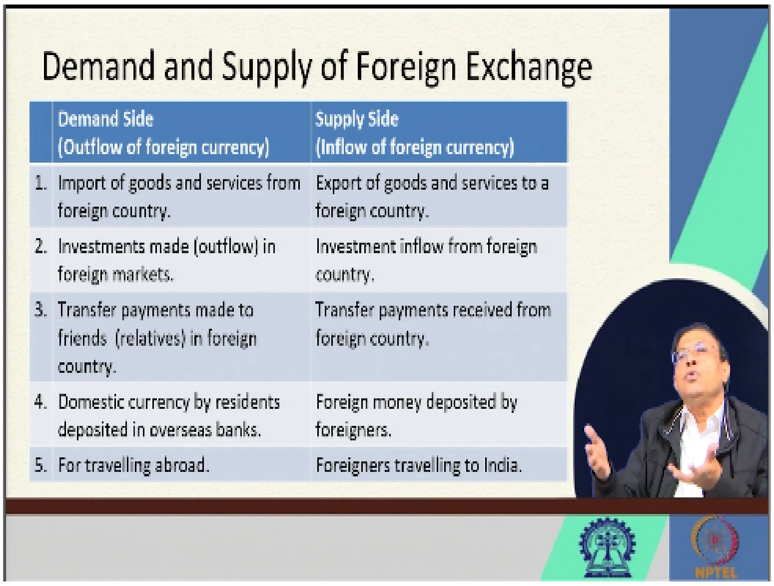


And in India, the demand side is, what are the on the demand side of a foreign exchange import of goods and services from the foreign currency because you have to buy the foreign goods in paying the foreign exchange dollar. So, here your demand side, these are the typically the outflow of foreign exchange, the demand side, demand side means outflow of the foreign exchange.

Investments: you make the investment in the foreign country where the foreign exchange outflow is there. Domestic transfer of payments made through relatives frame is there because you are making payment to; your making sending some remittance to your friend in abroad. This is also an outflow of foreign exchange. Domestic currency by residents deposited in overseas bank or for travelling abroad, these are all from the outflow of the foreign currency.

Supply side: inflow export because when you export and you get paid in foreign currency, so, you export your goods to a foreign country and you get payment to a foreign currency. So, the foreign currency is one of the supply side. What are the other supplies investment of the foreign firm? The foreign firms make investment in the country. So, that is the another supply side.

Transfer a payment received from the foreign country, foreigners money deposited by foreign money deposited by foreigners and foreigners travelling to India; when they come in India, the spending dollars and those dollars are on by government of India so, the supply side so, it increase. So, I have explained you what are the outflow of foreign exchange; what is the inflow of the foreign exchange.

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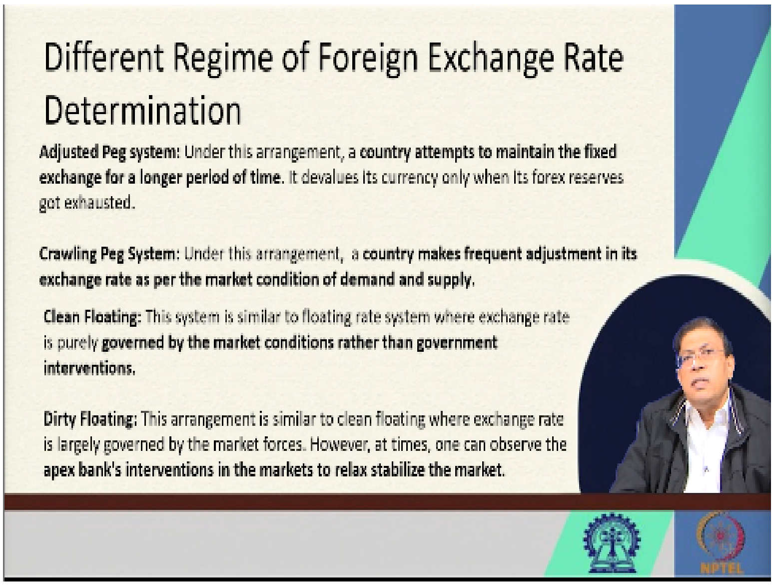


So, determination of regime of a foreign exchange rate: there are 3, 4 different rates are there just go through that is not very crucial for you but just for the fundamentally you need to understand. Adjusted Peg system: under this agreement a country attempts to maintain the fixed exchange for a longer period of time. It devalues its currency only when the foreign exchange get exhausted. This is known as adjusted Peg system.

Crawling Peg system: under this arrangement, a country makes forgein adjustment in its exchange rate as per the market condition of the demand and supply clear. Clean floating rate: the system is similar to a floating rate system where the exchange rate is purely governed by the market conditions rather than government intervention. So, it is left totally to the market, not any government intervention. This is known as a clean floating system.

Dirty floating system: the arrangement is similar to clean floating system where exchange rate is largely governed by the market force however, at times, one can observe the apex bank intervenes in the market to relax to stabilise the market. So, sometimes the apex bank like Reserve Bank of India, the apex bank intervenes in the market to relax to stabilise the market. This is known as a dirty floating system.

So, there are 4 different regime of foreign exchange rate determination; adjusted Peg system, crawling Peg system, clean floating and dirty floating. These are the 4 different things.

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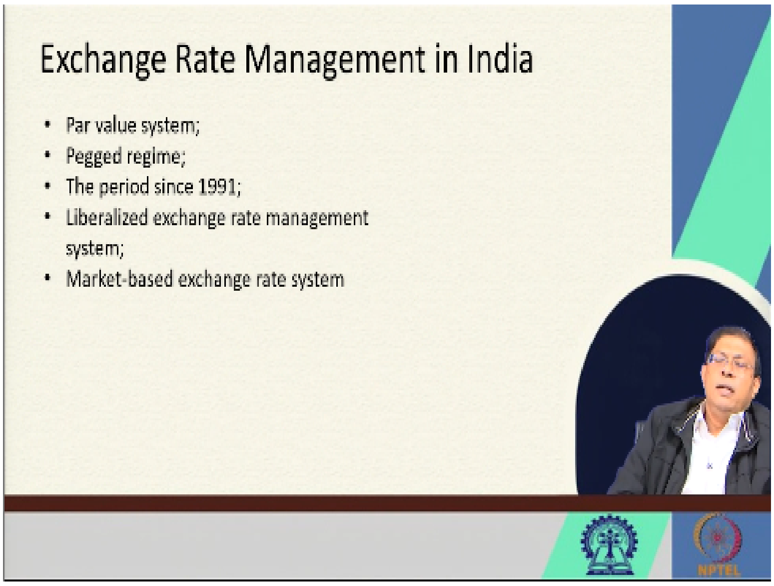


In India, how do we manage? It was previously managed at par value system, then it became a pegged regime which I explained in the previous slide, then the period since 1991 as you know, the economy was opened during 1991 and is a lever is extended management and today, it is a market based exchange rate. So, this today, the entire the foreign exchange rate is based on the market exchange rate. So, it is not intervened by anybody; it is by market exchange rate .

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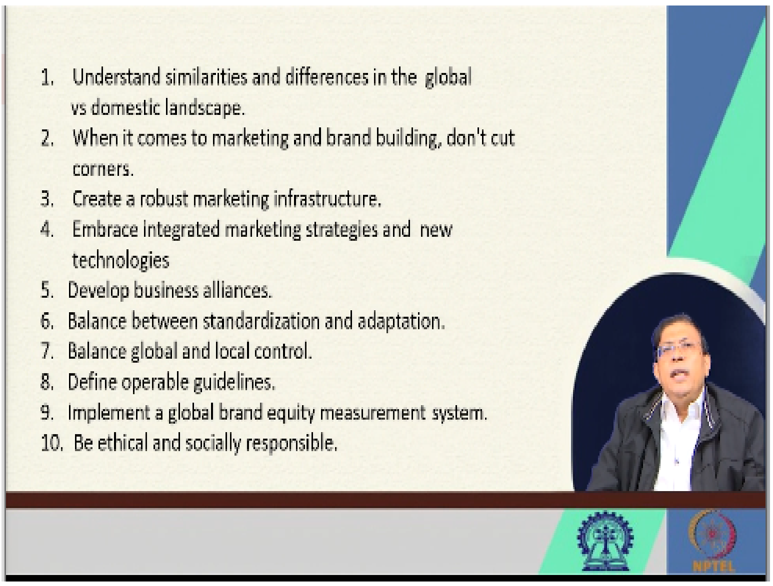

So, what we have discussed here to summarise; we understand the similarities between the global and domestic landscape. So, we have understood what is domestic marketing, what is a global marketing; then when it comes to the marketing brand building, do not cut any corners, create a robust marketing infrastructure, embrace integrated marketing strategy new technology, develop business alliances, balance of standardisation and adaption, balance of global and local control, define operable guidelines, implement a global brand equity measurement system, be ethical and socially responsible. Very, very important part is the last one which is be ethical and socially responsible.

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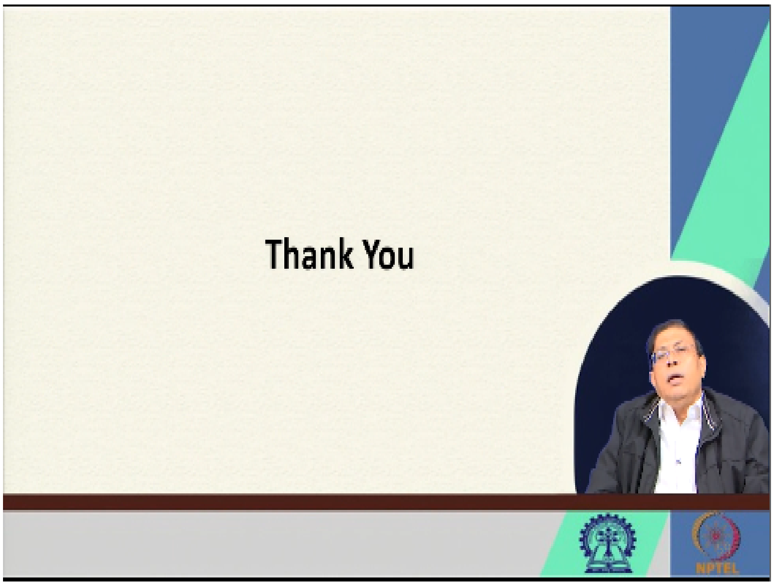


So, to summarise, in this whole session, we have learned till now, the very basics of international marketing, a little bit of terminologies between the international marketing, global marketing. And then we have also learned about the little bit about the very basics of economics about the GDP, GNP, balance of trade, balance of payment, all those.

I would always sincerely request you to study these textbooks also, which I have referred in the course and also basic textbooks of economics, which will give you a very good robust understanding of the subjects which I have taught. That is all from my side for this. Thank you very much. Thanks a lot.