2

REVIEW OF LITERATURE

2.1 INTERNATIONAL TRADE THEORIES

Various trade theories have been put forward who has change over the years. The Classical theories put forward by Adam Smith's (1937) "theory of Absolute Advantage" and David Ricardo's (1981) "theory of Comparative Advantage," focussed on countries ability to produce goods and export more efficiently than others. The focus of these theories was on the country or nation and it's resources and other characteristics, which contribute to the competitiveness of the country. As trade theories evolved, focus shifted to the industry and product level. Authors, Eli Heckler (1949) and Bertil Ohlin (1933), with their "theory of Factor Proportions", built up on the classical theories, leading to an understanding of the factors of production and associated costs. They argued that countries would tend to specialise in the production of good and services that use their abundant resources most intensively.

One interesting development was the Leontief Paradox (Leontief, 1953), which defied basic assumptions of the factor proportions theory, that all products are manufactured with the same technology and therefore same proportions across countries. Later studies, by authors such as Staffan Linder (1961), Raymond Vernon (1966) and Krugman (1985, 1994) found that this is possible in our imperfect world. According to Linder, countries of similar per capita income levels would trade most intensively having overlapping product demands. Raymond Vernon came with a slightly different view, the 'Product Life Cycle theory', in which he focussed on the product rather than the country. As the product and the market for the product mature and changes, the countries of its production and export change. Paul Krugman's theories on Imperfect markets and trade, explain changing trade patterns, including intra-industrial trade based on the imperfection of both factor markets and product markets. He focussed on two types of economies of scale, viz., internal economies of scale and external economies of scale.

More recent theories focussed on the role of Governments, and even private industries in aiding the competitiveness of a firm. Authors like Caves (1971) and Hymer (1976) noted that many of the government policies causes imperfections such as tariffs and quotas, tax policies and so on. Authors like, Frieden and Lake (1995) and Griffin and Pustay (1996) gave the "Game theory" logic for the attraction of strategic trade policy for governments and industry. By subsidising domestic companies, Governments may deter entry of foreign competitors and thus shift excess profits in this industry to the home country. Research of Buckey and Casson (1976) and Dunning (1977) focussed on the nontransferable sources of competitive advantage, viz., proprietary information possessed by firms.

Porter (1990), argued that what drives and sustains competitiveness is innovation. He was of the view that companies gain competitive advantage from having strong competitors, aggressive suppliers and demanding customers. In order to demonstrate his "theory of Competitiveness", he used a diamond with Four Corners. Dunning (1993a) argued that Porter's Diamond neglected the impact of International production. According to him, it would be wrong to underestimate its role in determining national competitiveness. Dunning (1993b) also distinguished between three types of companies based on their strategies as (i) resource seekers, which depend on inputs from particular parts of the World; (ii) efficiency seekers, driven to increase economies of scale and scope and (iii) market seekers, which are driven by brands. Each of these theories has their weak points but they help to understand why firms go for international trade.

2.2 INTERNATIONAL MARKETING

The previous section dealt with "why " and under "what" conditions; countries and more specifically firms trade and do business internationally. This section discusses the previous work done in the field of International marketing.

International marketing, according to Terpstra and Sarathy (1997), is finding out what customers around the world want and satisfying those wants well than other domestic or international competitors. The focus of attention now a days is on decisions such as the choice of country to enter, mode of operations, extent of standardization or adaptation of products and so on (Keegan, 1969; Cavusgil and Nevin, 1981).

Levitt (1983) differentiates between the multinational company and the global corporation. The multinational company operates in a number of countries and adapts its products and practices in each. Michael Porter (1986) refers to these companies as "multi-domestic". Whereas, the global corporation, basically operates the same way everywhere. According to Levitt the multinational corporations are outdated and global corporations will seek to force standardised practices and practices all over the world. Hamel and Prahalad (1985) and Kogut (1985) emphasised the need for some flexibility or need for a broader product portfolio, with many product varieties in order to share the technologies and distribution channels.

One of the early stages of global marketing process is deciding the sequence to enter different markets. There are a variety of ways in which companies can enter different markets (Dicken 1992; Griffin and Pustay 1996). It may be through Exporting; Licensing; Franchising; Foreign Direct Investment (FDI); Acquisition; Joint venture and Strategic alliances. Recently, the last two methods, viz., Joint ventures and strategic alliances, are gaining in importance and popularity. Michael Dickens (1992) and Dunning (1993a) has given detailed accounts of the theoretical explanations of why firms choose to engage in Foreign Direct Investment. These include the 'Ownership advantage theory' of Stephen Hymer and Charles Kindleberger, which argues that firms have competitive advantage over other firms because of market imperfections. John Dunning and his 'Eclectic theory' argues that FDI by firms occurs when three sets of factors are present, viz., OLI, which is short for Ownership-specific advantages, Location specific advantages and Internalisation incentive advantages. Joint ventures and strategic alliances allow companies to reduce their risks as compared to going in alone and also help to access new markets, reduce innovation time and also help to obtain complementary technology developed elsewhere (Dunning 1993b; Griffin and Pustay 1996).

Fields (1992) and Silverstein (1992) talked about the difficulties in marketing to developing countries and success not only depend on market conditions but on the commitment and management focus of the firms. Gurcharan Das (1993) view was that winners in the new borderless economy would be brands and companies that make best use of the richness that they get from geographical diversity. He said that local insights with a universal character could quickly become global. Many authors looking at different strategies of companies going international, stressed the need for flexibility (Douglas and Craig 1989; Villanueva 1997; Warren 1998). Strategy formulation in international markets is an evolutionary process. The international levers and consequently the key decisions vary at each phase of involvement in international operations. International marketing strategy starts with assessment of potential markets for entry and later selective expansion in those which have potential. The restructuring of corporations and redistribution of work has given rise to the decentralisation of production, research, design, marketing and management globally. Strategic planners including marketers, look at strategic issues such as the best way to move into a new market, being first with a product or service, learning from the experiences of the first entrant to the market and so on. Being first to the market usually provides a significant, sustained market-share advantage over later entrants (Czinota, Ronkainen and Moffett 1999; Gurumurthy 1999). Even so, later entrants can still succeed by adopting distinctive positioning and marketing strategies. The ideal strategy would be to standardise the marketing program as much as possible without compromising the basic task of marketing, i.e., to satisfy the needs and wants of the target market. In fact, the issues that many international companies face today are more complex than those faced by companies contemplating initial foreign market entry. The unique advantages provided by multinational character of operations are the key to formulation of a successful strategy in a global market. International marketing strategies in the future would be a suitable blend of various marketing practices.

2.3 AUTOMOBILE INDUSTRY IN MALAYSIA

Review of literature revealed that though some studies have been carried out on the Automobile Industry in Malaysia, negligible studies have been carried out from the International marketing perspective. Sim (1979) and Keat and Li (1998) pointed out obstacles to production efficiency in local motor vehicle assembly operations and also in the marketing of automobiles in Malaysia. This includes diseconomy of scale associated with production oriented to a domestic market of limited size and lack of Customer focus. Others talked about the role of Government policies and favourable domestic economic conditions on the automobile industry in Malaysia (Sim 1979; Chau 1995). Proton had been able to silence its critics who initially thought that it was irrational to establish an automobile industry in Malaysia. The development of the local motor vehicle industry has had useful economic functions-generation of employment and has helped establishment of supportive industries. Quite recently, Proton expansion plans, especially the acquisition of Lotus Engineering in 1996, have been the focus of many studies (Johnstone 1997;Shari 1998). It shows the company's intention to upgrade the engineering skills of the company and aims to be the largest Asian car maker outside of Japan, and one of the few to compete on the international stage.

The Asian crisis revealed the weaknesses of the Malaysian Auto market The various companies had to come up with different strategies in order to survive. Fortunately, since 1999, the demand for motor vehicles has grown after relaxation of hire purchase regulations and also on account of lower interest rates and intensive promotion by car dealers (MMTA Web-site 1999; Hassan 1999, 2000).

2.4 MARKETING IN INDIA

Due to its huge size, ethnic and cultural diversity, India represents a quite interesting and at the same time, challenging market for marketers. Work done by various authors' show that, India provides immense opportunity for all kinds of marketing. Its large and diverse population, along with its value system, may create not only a challenge, but also a wealth of untapped marketing potential. Quite recently, India has been witnessing a boom in consumer spending fueled by a number of factors, ranging of course from rising prosperity to the emergence of a thriving consumer finance business. According to a study by the National Council of Applied Economic Research, *Indian Market Demographics Report 1998*, consumer preferences are moving away from low value items toward the higher-priced products (Merchant 1999; The India Info. Inc. 1999)

India being a vibrant country where democracy is very much alive and failing to take care of public opinion can have disastrous results. Besides the four P's there is a need to include "Politics" and "Public opinion" to the marketing mix (Spaeth 1989; Nasierowski 1991; Kotler 1996). Winning the support of various interest groups influencing the entry decision is essential. Porter illustrates the point by using the market entry strategy of Pepsi Co. in India. Marketers need to adjust their marketing strategies in India.

2.5 THE INDIAN CAR INDUSTRY

Being one of Asia's last unsaturated automobile markets, there is intense competition among various auto manufacturers in India. Most of the companies planning to go in, do their own feasibility studies. Academic research is mostly focussed on the behaviour of consumers. Maruti Udyog Ltd., which was formed as a joint venture between Suzuki and the Indian government, and is now the market leader. Suzuki profited much from the joint venture with the Indian Government but new competitors are coming in and it has had a hard time maintaining their market share (Economist 1997a; Times of India 1999). While many feel that the market has a lot of potential as the people get richer, some are not so optimistic and feel that there are too many players in the market already (Chrysler 1998).

The Korean car companies such as Hyundai and Daewoo are noted for their aggressive strategies in any new market and India is no exception (Sidhva 1998; Wehrfritz and Takayama 1999; Business Times 1999a). Indian customers are also suddenly becoming more demanding. Many manufacturers had miscalculated the demand for mid-size cars and have realised that the small car segment is the most lucrative. The Indian consumer is cost-conscious and status-symbol cars are losing out to the small cars. Still various studies have also revealed that car customers in India are more concerned with timely services rather than the cost of the service(JD Power Web-site 1999). Proton and Perodua need to consider the results of previous studies in mind before they decide to move into the country and start their operations.