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Volume 5 Number 3 November 2017
www.ijbed.org

Contents

Articles	Page no.
The US won the global currency war against Europe and Japan: Their retaliation likely helped elect Trump Stephen P. Magee; Hua Chen	1
The Factors affect equity investors in India Hossein Niavand; Farzaneh Haghghat Nia	12
An Examination of Market Entry Perspectives in Emerging Markets Marvin O. Bates; Tom A. Buckles	19
The Cultural Genogram: n International Cross-Cultural Case Study on Entrepreneurship Khasadyahu Zarbabal; J. D. Rolle; Iris Billy; Jacqui Kisato; Roberto Acevedo	30
Interface between marketing, policy and development in emerging economies. An exploratory study and evaluation Rodney Oudan	38
Policy, market size, trade openness & natural resources endowment impact on foreign direct investments; A Meta-analysis of MENA Oil Producing Countries Sahar Hassan Khayat	49

The US won the global currency war against Europe and Japan: Their retaliation likely helped elect Trump

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Key words

Currency War, the Euro, the Dollar, Quantitative Easing, 2008, the Great Recession, Monetary Policy

Abstract

The United States financial community, lax regulations and the Fed started a global currency war in 2002. The inadvertent cheapening of the US dollar was a by-product of what became the US subprime lending crisis and the financial collapse in 2008. From 2002-2008, the Fed created so much liquidity that the dollar fell 33% relative to the yen and 40% relative to the euro. In response to the 2008 crash, the Fed had to ramp up US money creation again, generating \$4 trillion in money creation by 2014. World interest rates fell and raw materials and commodity producers in emerging markets borrowed nearly \$5 trillion. Overproduction and the slowdown of China caused a Third World oil and commodity market collapse around 2015.

Beginning in 2014, other advanced countries retaliated and declared a global currency war of their own against United States. They created their money with a vengeance. Just as the US had done, this made the currencies of Europe, Japan and Britain 20 to 25% cheaper and their goods became more competitive relative to US goods.

As a result, the US became the importer of last resort for cheap foreign goods from 2014 until the election in November of 2016. Only time will tell whether the US currency war that we won from 2002-2014 and the retaliation war we lost from 2014-2016 helped Trump get elected.

The parallel is inescapable that the US also started the world tariff and trade war in 1930 with the passage of the Smoot Hawley tariff, which extended the length of the Great Depression. The US currency war pushed Japan even further into recession and weakened Europe. US quantitative easing became a beggar-thy-neighbor policy against our trading partners.

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1. Introduction

The Great Recession after 2008 was the greatest global downturn since the Great Depression of the 1930s. This paper recounts the US and the European currency wars. It explains why US monetary quantitative easing (QE) was more successful than Europe's. Currency wars are like a track meet: start early and you win the race. Quantitative easing is country expansion of its money supply designed stimulate the home economy.

The US started “printing money” in 2002 which was the beginning of the subprime lending crisis. US money supply changes were more dramatic after 2008. There were sizable increases in the US money supply relative to Japan both post-2002 and post 2008 and significant effects on the yen to dollar exchange rate. Japan seems to be the biggest casualty of US quantitative easing.

Even though the dollar dropped a lot relative to both the euro and the yen, neither retaliated and began quantitative easing in earnest until 2014, five years after the United States. Because fiscal deficits were a constraint on most economies post 2008, monetary quantitative easing was the only feasible macro policy tool. Recovery was difficult everywhere because of drops in the velocity of money after 2008. Thereafter, monetary authorities were pushing on a string -- borrowers were afraid to borrow and banks were scared to lend. Banks and the public became more risk-averse and were hoarding money. That explains the drop in the velocity of money and part of the ineffectiveness of QE.

The US currency war from 2008 to 2014 is a contemporary parallel to the beggar thy neighbour trade war that the United States started in 1930 with the Smoot-Hawley tariff (see Magee, Brock and Young, 1989, chp 13), Like the 1930s, retaliation against the US finally occurred and so it happened today. The dollar was very cheap compared to the yen, euro and the pound when the crisis occurred in 2008 and it stayed cheap until mid 2014. Then retaliation began in mid-2014 with aggressive quantitative easing by both Europe and Japan. Like the US from 2002-2008, these countries “printed money” with a vengeance.

As a result of currency war retaliation, the US dollar rose in value about 25% relative to both the euro and the yen from 2014 until the US election in November of 2016. Our statistical analysis indicates that increases of that magnitude the real dollar exchange rate has a significant negative effect on the US trade balance. And this was going on for two years before the US election. While trade, imports, immigration and “foreign currency manipulation” were all issues in the campaign, there is no definitive way to know how much the currency wars mattered.

In response to the currency war started by the United States, the head of the European Bank, Europe’s Mario Draghi and his counterpart at the Central Bank of Japan were understandably aggressive at employing quantitative easing in self-defence. They cheapened their currencies which pushed up the dollar, cheapening the prices of their exports to then to United States. This currency war by Europe and Japan was an additional US political burden top of China’s historically cheap exports to the United States.

Another disadvantage to Europe and Japan of entering the currency war late is that if many countries are printing money, the stimulative exchange rate effects are cancelled out. E.g., if Europe and Japan both increase their money supplies by 20%, then the yen to euro exchange rate does not change so neither country gets an advantage in international trade vis-a-vis each other.

The post-2008 currency war by the US was successful only until mid-2014. A strong economy usually helps the incumbent party holding the White House, which in this case was the Democrat, Hillary Clinton. But Donald Trump successfully made the 2016 US election campaign about lost jobs to immigrants, globalization and ironically foreign currency manipulation. While the US won the war from 2009-2014. Europe and Japan achieved large decreases in their exchange rates relative to the dollar thereafter. It is ironic that the US won the currency war from 2009-2014 but after 2015, all three of our major trading partners succeeded in dropping the value of their currencies by 20 to 25 percent The result of that retaliation was the following increases in the value of the US dollar in the 2½ years before the US election:

In yen:	+25%
In UK pounds	+23%
In Euros	+20%

Those made US goods less competitive, hurting US exports and making US imports from those countries cheaper by roughly the same percentage points above. For the Europe and Japan, these currency retaliations were necessary because they had suffered the most since 2008 at the hands of the US dollar. But all three of those currencies were overvalued relative to the dollar in 2015 and needed to be cheaper irrespective of their history. Their depreciations pushed up the value of the dollar from 2014 to 2016.

The US clearly won the post 2008 currency war based on the macroeconomic results compared to Europe. The US had 8 quarters of positive real growth from 2009-2013 while Europe had 8 quarters of zero to negative growth. The United States was lucky in getting help from its high-tech sector expansion after the crash. In 2006, Microsoft was the only high-tech firm in the largest 5 US companies. By 2016, the 5 largest market cap firms in the United States were all high tech and fast growing: Amazon, Alphabet (owns Google), Amazon and Facebook along with Microsoft again. While high-tech was unrelated to the currency war, it gave an economic advantage to the United States over our other trading partners.

The United States financial community, lax regulations and the Fed started the large monetary expansion in 2002 that was directed domestically. From 2002-2008, the Fed created so much liquidity that the dollar fell 33% relative to the yen and nearly 40% relative to the euro. When things collapsed in 2008, the Fed ramped money creation up again to a new level, generating another \$4 trillion in M2 quantitative easing by 2014. World interest rates then plummeted and raw materials and commodities in the emerging markets borrowed nearly \$5 trillion. Overproduction and the slowdown of China caused a Third World oil and commodity market collapse in 2015. At about the same time, other advanced countries retaliated and declared a currency war of their own against United States. As foreign advanced countries were doing their own QEs, just as the US had done earlier, the near bankrupt emerging markets now had to pay even 20% more to repay their dollar and euro-based loans. With the rest of the non-US world in dire financial straits and awash with cheap currencies, the importer of last resort became the United States with its strong currency. So, imports became very attractive in the United States in 2015 and 2016.

But with foreign retaliation, in 2015 and 2016, foreign central bankers gave Donald Trump a gift: cheap foreign imports. Trump ran a presidential campaign against foreign trade, immigration and foreign currency manipulators.

The United States won the currency war and Trump won the election.

2. US Domestic Quantitative Easing 1, 2002-2008

Academic studies have shown for decades that the number one determinant of a country's demand for money is domestic real gross domestic product, GDP. For the United States, for example the bulk of monetary transactions are in dollars. Thus, US money growth in excess than US GDP growth measures the net stimulation of the economy provided by domestic monetary policy above the demand for money.

Quantitative easing is colloquially called printing money. For the United States, we call QE 1 "domestic quantitative easing" It was large-scale creation of liquidity by Fed Chairman Alan Greenspan to stimulate the domestic US economy. Technically, quantitative easing is large-scale asset purchases by the central bank that generate both liquidity and reduce interest rates on government bills and bonds. This places more cash and purchasing power into the economy. The theoretical foundation of quantitative easing is the quantity theory of money equation popularized at the University of Chicago by Milton Friedman and others in the 1970s. The equation is

$$\text{Money Supply} * \text{Velocity} = \text{Price Level} * \text{Real GDP}$$

Where GDP is real gross domestic product. Studies had shown that velocity and prices had been historically stable in the US before 2008, except for the late 1970s. In periods in which velocity and prices are relatively constant, then a hypothetical doubling of the supply of dollars M by the US central bank

would double spending on real goods, Q in the medium run. That is called the “domestic effect” of monetary quantitative easing, because it jump starts domestic real spending and equivalently, real gross domestic product. Greater liquidity in the economy increases bank lending which increases economic growth and investment. One study found that QE was eventually effective in the US after 2008, moderating the decline in US output and slowing the declines in prices (Martin and Costas, 2012).

Figure 1 presents evidence from 1971 through 2006 supporting the efficacy of domestically targeted quantitative easing, which we call QE 1 and the empirical validity of the quantity theory equation above. The figure shows that growth in the United States money supply M2 (the lighter line) precedes (Granger causes) growth in US real gross domestic product (the darker line). Historically this chart affirms that printing money can successfully increase real GDP in the domestic economy.

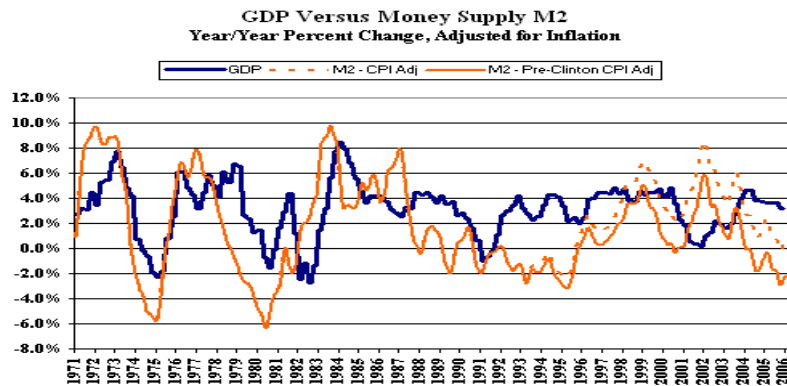


Figure 1: Money Supply Increases Precede US Real Economic Growth, 1971-2006

Following the 2008 crash, QE 1 was engaged immediately by the United States a view other country. The FED increased the US money supply M2 by 50% from \$8 trillion to \$12 trillion in the first few years after 2008. Such an increase would have been large historically and would have had a substantially stimulated the US economy. However, the desired stimulation of the US economy was slow to take hold. Economists noticed that the US velocity of money was steadily declining. Velocity is simply the number of times a dollar bill changes hands every year in a transaction. Velocity has hovered historically around 2, meaning that the entire US money stock is spent twice a year. But the 2008 crash generated a great deal of fear so that people suddenly clutched their money, saving more and spending less. This drop-in velocity greatly weakened the initial domestic economic effects of QEs in the US, Europe and other major economies.

Figure 2 shows historical moves in the US money supply relative to money demand. In effect, this is excess monetary liquidity in the economy. Money demand is best proxied by real gross domestic product. Almost all the charts in this paper are plotted in natural logarithms. The virtue of that is that if you subtract any number from any other, you know the percentage change between the points. For example, the US money supply to GDP ratio is $-.38$ in 2000 and $-.09$ at its peak in 2009. That is a rise of $.29$ which is a 29 percent in the excess supply of money above the demand for money. That number alone gives insight into why we had a subprime lending crisis. The Fed had created 29% more money than was demanded (GDP in the denominator representing demand). This gives some insight into what can happen when too much liquidity is available.

3. US Quantitative Easing I, 2002-2008: Unintended Exchange Rate Consequences

Domestic quantitative easing was in vogue in the 1960s and 1970s. But with the explosion of globalization in the 1980s, the economists realized that the closed economy model was out of date. The idea behind international quantitative easing or QE 2 is that printing money makes one's home currency cheaper which stimulates the country's exports. When the United States does a QE and prints dollars, then the price of dollars falls on global foreign exchange markets. It will require fewer euros to purchase a dollar hence it is easier for Europeans now to buy US goods.

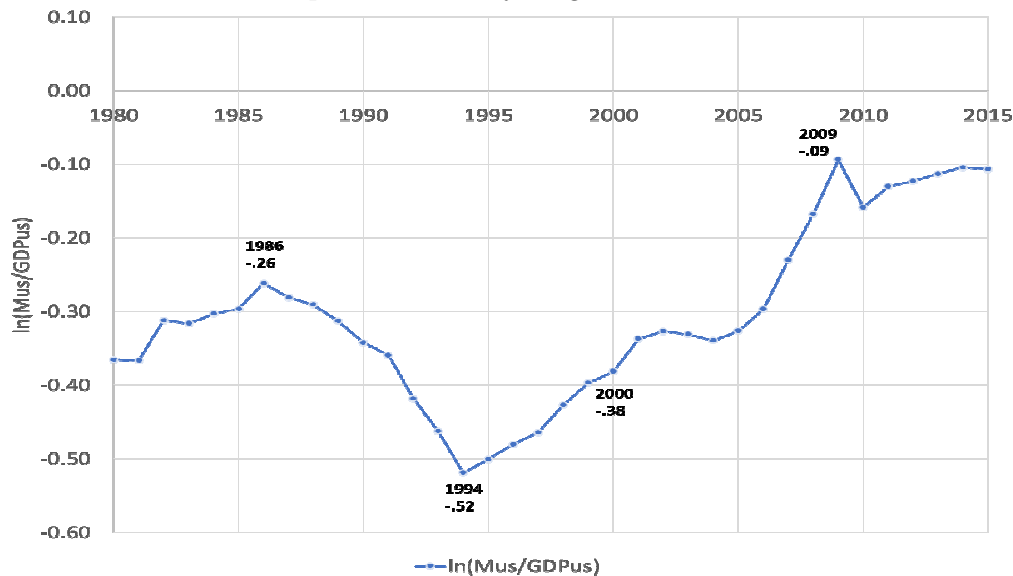


Figure 2: The Ratio of US Money to Money Demand (GDP) Measures Net Domestic QE 1 Stimulation

Figure 3 shows the most extreme consequence QE I occurred with respect to Japan because the US is large compared to Japan. Notice in Figure 3 that the ratio of the US money supply to Japan's money supply increased by 62%. That flooding of dollars onto the market caused the yen price of the US dollar to fall by 33%. This strong increase in the competitive position of the United States against Japan could not have happened at a worse time. Japan was still struggling in the second decade of its long recession that began in 1990. This also made the United States globally stronger and Japan weaker entering 2008 when the great global stock crash occurred.

Figure 4 shows that US QE1 had less extreme monetary consequences with respect to Europe. Notice in the figure that the logarithm of the US to European money supply dropped from .33 in 2001 to .29 in 2008. That is a 4% drop (the fractions are percentages). While the United States did not cause the exchange rate to drop using the money supply, it did drop dramatically for other reasons; we believe counterintuitive changes in relative velocity.

Figure 5 shows this paradoxical 40% decline in the value of the dollar in terms of the euro (euros per dollar).

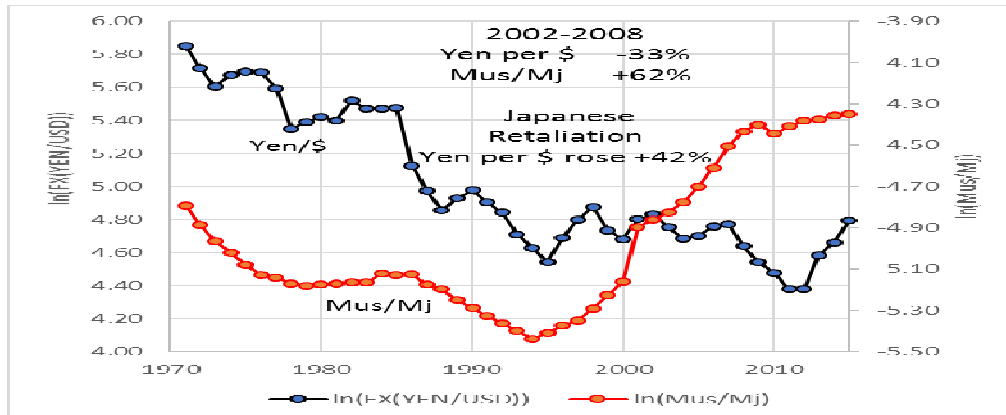


Figure 3: The FED’s Aggressive QE1 in 2002-2008 Caused the US Money Supply to Rise 62% Compared to Japan’s, Resulting in a 33% Decline in the Price of the Dollar

Consider now Figure 6. We focus there on whether changes in foreign exchange rates have real impacts on the economy. Remember that if euros per dollar decline, the other side of the coin is that euros necessarily become more expensive. The number of dollars required to purchase a euro is now higher which discourages Americans from buying European goods. Notice that there are two simulative benefits to having the Fed produced more dollars through quantitative easing: the US can export more products and at the same time the US will not have to compete with as many imports into the United States. Should. We saw strong empirical evidence above that domestic quantitative easing was effective in stimulating the domestic US economy. European retaliation caused the \$ to rise 23% from 2014-1 to 2016-3

Figure 6 shows changes in the dollar through US quantitative easing have effects on the economy. Printing dollars cheapens the real foreign currency cost of the US dollar, meaning that the United States will export more and import less. Tests using the data in that figure show that there is a statistically significant positive effect of a cheaper dollar increasing US net exports. That is illustrated on the left side of the diagram where the ratio of net exports to gross domestic product is high and the real dollar is cheap.

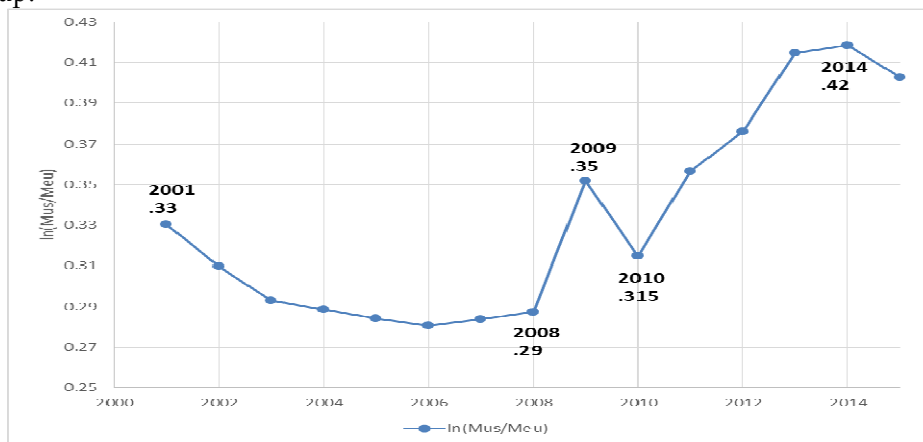
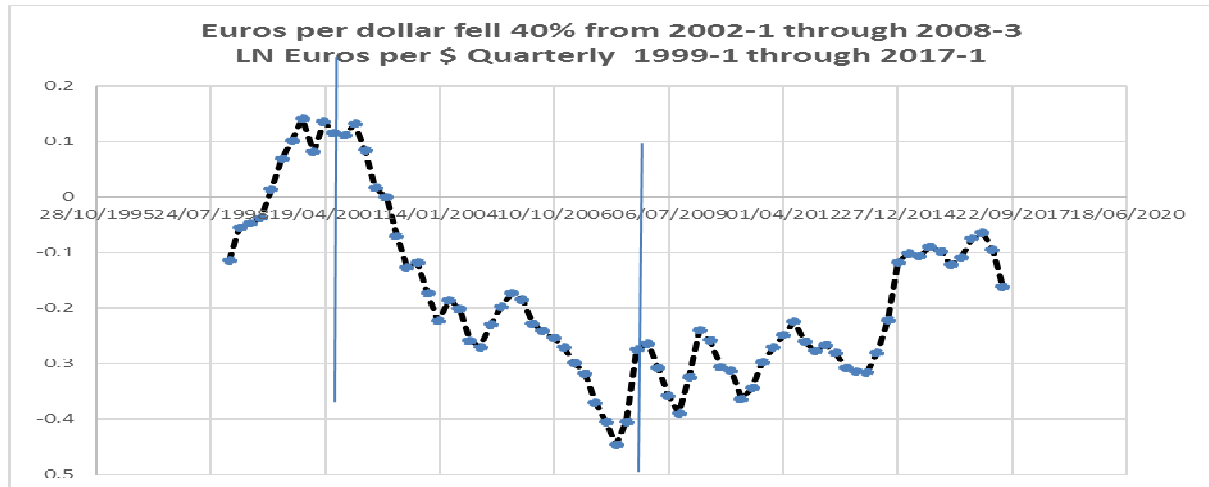


Figure 4: The International Consequences of the US QEs Are Measured by Changes in the Ratio of the US Money Supply to Each Foreign Country’s Money Supply



**Figure 5: US Money Growth Was Modest Relative to Europe
 But Other Factors Caused a 40% Drop in the Euro Price of the Dollar**

The yen moved counter intuitively until 1995 and then the 130% rise in the US money supply relative to Japanese yen supply drove the yen per dollar down from 2002-2008 (the subprime US QE period)¹

International quantitative easing operates through a country’s foreign exchange rate. Printing money makes the country’s currency cheaper and easier for the country to sell its goods globally. Foreign exchange markets are sizable: there is nearly \$5 trillion a day transacted on global foreign exchange markets. This compares to an annual US gross domestic product of \$19 trillion. So how effective are foreign exchange rates in affecting the real economy?

Figure 6 is consistent with a negative relationship between the real US dollar and United States net exports (exports minus imports) as a percent of US GDP. We found that there was a strong statistically significant relationship in the expected direction. That is, as the US real exchange rate got it more expensive (to the right in the figure) the US net exports declined. When the real US dollar was cheap, US net exports increased as shown in the top left northwest corner of the diagram.

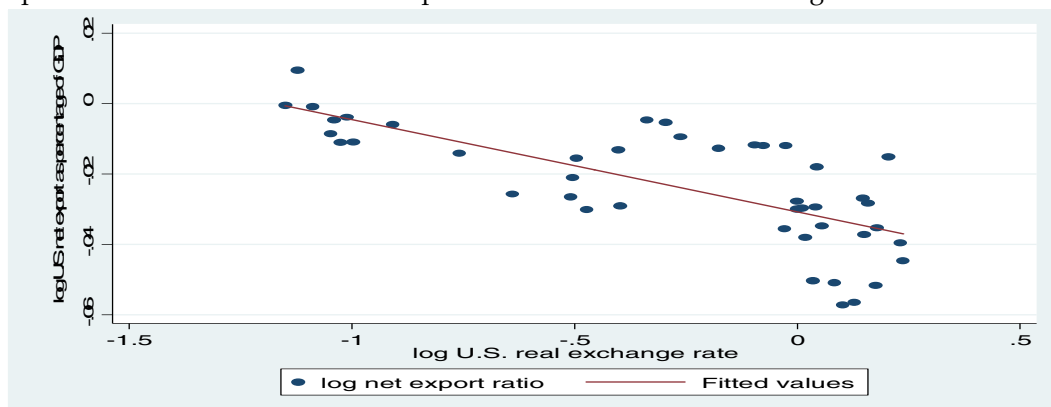


Figure 6 The Cheaper the Real Dollar, the Larger the US Export Surplus²

¹ The chart data source is @Magee Data v5 (10-02) Japan final chart 1B1 chart (Y and a).

Figure 7 showing the trade weighted US dollar indicates that monetary expansion was well underway by 2002. Even though Alan Greenspan meant for that to stimulate the domestic US economy after the 2001 recession, it actually had the unintended consequence of cheapening the trade weighted US dollar which fell by 25% from 2002 until 2008. This had to have a negative impact on most of our trading partners.

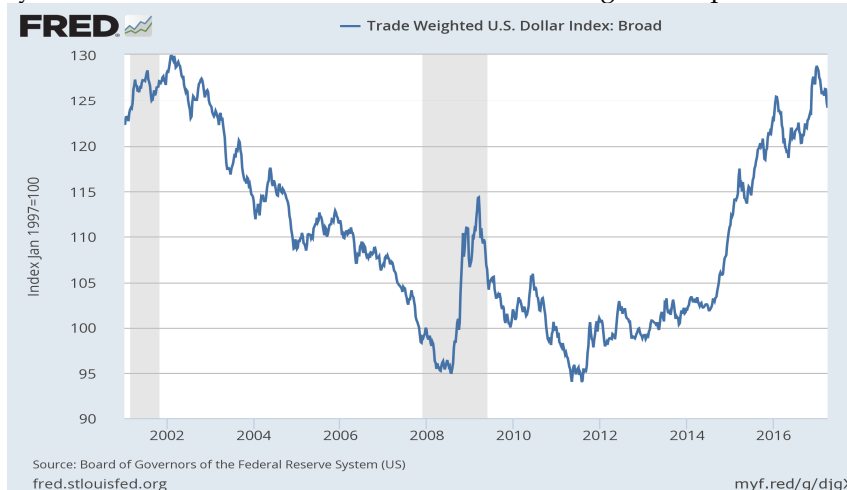


Figure 7 The Subprime Lending Prelude Caused the Trade-Weighted Dollar (foreign currency/dollar) to Fall 25% From 2002 to 2008. Unintended but Turned Globally into US QE 2

4. US Currency War 2 From 2009-2014 and European and Japanese Retaliation War 2015-2017

The US monetary expansion stimulated US exports and retarded imports, including with Europe. Monetary expansion plus fiscal expansion and spending for the Iraq war caused the United States economy in 2008 to be stronger than Europe's economy. The Obama administration ran a \$1.3 billion government fiscal deficit in 2009. Note in the figure that there was a spike in the value of US dollar in 2009. The rise in the dollar was partly caused the decline in the euro driven by Europe's own economic collapse and panic over the weakness in Greece. Following that, the dollar dropped from its 2009 high and stayed moderately low until nearly 2015. This post 2008 low value for the dollar helped the United States economy but slowed recovery in Europe. US exports were higher and imports were lower than they would've been otherwise. The reverse was true in Europe.

To summarize, in the period from 2002-2008, the US over-expanded its money supply which created the subprime lending bubble that led to the 2008 crash. The decline in the value of the US dollar and the resulting rise in the euro were indications of the excessive expansion of US money supply. The consequence was that the value of the real euro rose from below 100 in 2000 to around 135 in 2008 (the real euro captures both price levels and exchange rate effects relative to other countries). The increasing and high euro made Europe's goods less competitive outside of Europe. This strong euro is the mirror image of the US quantitative easing. The real euro dropped after 2008 from \$1.35 to as low as \$1.12 in 2011. But then the euro rose back to \$1.40 in 2014. The increasingly high euro caused by US QE hurt Europe's exports and caused increases of its imports. In that period, the US was winning the initial currency war.

² A regression of the Y variable in the figure on the X variable using 44 observations was highly significant with an R squared of .52 and an F ratio significance value of .0000.

Europe reversed its monetary policy and started pushing the Euro down beginning in the second quarter of 2014. Mario Draghi's European central bank quantitative easing began caused the dollar value of the Euro to fall from \$1.40 around the second quarter of 2014 until \$1.10 in late 2016.

5. The US Five-Year US QE 2 Slowed Europe's recover

Figure 8 shows that as a result of starting earlier and having more aggressive monetary and fiscal policy, the US had 8 quarters from 2009-III through 2013 III with annualized growth of at least 2.5% while Europe only had 2 quarters with growth that high. Similarly, the US had only one quarter of negative growth over that period while Europe had seven quarters of negative growth.

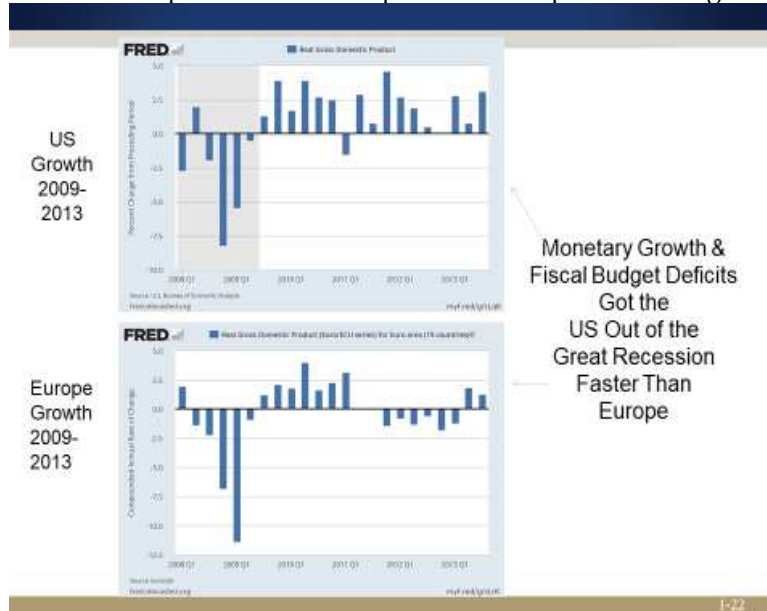


Figure 8: Successful US vs European growth, 2009-III to 2013-III

The US Had 8 Quarters of Annualized Growth Above 2.5% - But Europe Only 2

In the period immediately after 2009, the European economy was weak. By late 2012, only Germany had a real GDP above 2008 levels. In late 2012, the entire Euro area was 2.5% lower than 2008; France was 1% lower; Spain was 6% lower; and Italy was 7% lower. The quantitative easing the US started to get out of the great recession generated very low dollar interest rates. As result, capital-intensive extractive industries such as oil, copper and other raw materials industries in the emerging markets borrowed over \$5 trillion in dollar-denominated debt post 2008. Because of their high capital costs, it was prudent for these industries to borrow in such periods of low interest rates. Borrowing also seemed like a sure bet since China was the target market and it was still growing rapidly until 2015.

However, a perfect storm descended on the emerging markets: China had overproduced and cut back its orders; the emerging markets had overproduced oil and many other raw materials. Extensive oil fracking in the United States also increased the supply of global energy. As a result, oil prices plummeted to \$60 by May 2015 and stayed around \$40 a barrel thereafter.

The bottom line was that same US financial community that had created the subprime lending crisis in 2002 – 2008 then created a cure in 2009 and after that created even a bigger global financial crisis including the emerging markets. They borrowed, overproduced, the prices of their raw materials plummeted, and their exchange rates fell with this economic weakness. With less revenue and cheaper

exchange rates, these countries now had to repay their dollar-denominated debt. That debt was skyrocketing because QE retaliation by the other advanced countries after mid-2014 was reducing their exchange rates but driving up the dollar exchange rate. The Third World countries attempting to repay their dollar debts now faced 25% increases in repayments thanks to the strengthening dollar.

The strong dollar after 2015 made the United States the import market of last resort. Advanced countries as well as the Third World were desperate to export to the United States. The dollar being expensive meant that the United States was hampered from exporting and a haven for increased US imports.

6. The Mathematical Model of the Effect of US International Quantitative Easing (QE 2) 2009-2014 on the Value of the US Dollar

The second avenue discussed above by which quantitative easing can stimulate the domestic economy is through the “foreign exchange rate” effect. This is more intricate than the straightforward domestic economic effect. There are drivers of the supply and demand for dollars in the United States and another set of factors driving the supply and demand for euros in Europe. The supply of each currency, M , is controlled by each region’s central bank. Whichever central bank can grow its currency the fastest has the most stimulative “foreign exchange rate” effect due to changes in the money supply, i.e., a QE advantage. In periods in which the US increased its money supply faster than Europe, the US dollar has fallen in value relative to the euro. An analogy is the market for potatoes. When the supply of potatoes increases, the price of potatoes falls. Similarly, when the US Fed increases the supply of dollars faster than Europe increases the supply of euros, the dollar gets cheaper on foreign exchange markets – i.e., it takes fewer euros to buy dollars. Hence the price of US goods falls: US exports rise and US imports contract.³

With the dollar cheaper, Europeans want to buy more US exports, which increases export production in the US economy. That increases US real national income, or gross domestic product, GDP. There is another positive effect on the US import side. A cheaper dollar means the euro is more expensive so it takes more dollars to buy euros than before. This raises the dollar price of European goods so Americans will buy fewer of them and more US goods, which also raises US income. Higher US income results both from greater exports and reduced imports. These are the stimulative foreign-exchange rate effects of quantitative easing.

The mathematical model for the closed economy for QE I was a simple one equation model. But for an open economy model that uses exchange rates to stimulate trade, things are more complex. We rewrite the quantity theory equation

$$MV = PQ \quad [1]$$

M money supply V velocity of money P price level Q real GDP

Expressing the natural logs of the variables as lower case, [1] can be rewritten as

$$m + v = p + q \quad [2]$$

We convert this to an open economy model by tying two countries together using purchasing power parity (PPP) which links a foreign country, say Europe (e) and US (u) price levels through the level of the foreign exchange rate, F (eg., Euros per dollar):

$$P_e = F * P_u \quad [3]^4$$

³ The US import reduction occurs because the QE lowered euros per dollar meaning dollars per euro increases and thus more expensive for Americans to buy European goods.

⁴ Notice that $F = P_f / P_u$ and that the units for F are euros/\$ and the units for P_f / P_u are also euros/\$. The reason is that $P_f / P_u = \text{euros per good} / \$ \text{ per good} = \text{euros}/\$$ since the goods in the numerator and denominator cancel out. We now do our empirical test of the exchange rate model equation 7 above

Expressed as natural logs [3] can be rewritten

$$f = p_e - p_u \tag{4}$$

Attaching the subscripts to Europe and the US in equation [2] yields

$$\begin{aligned} m_e + v_e &= p_e + q_e & m_u + v_u &= p_u + q_u \\ m_e + v_e - q_e &= p_e & m_u + v_u - q_u &= p_u \end{aligned} \tag{5}$$

Substituting the prices from [5] into the PPP equation [4] yields

$$m_e + v_e - q_e = f + m_u + v_u - q_u \tag{6}$$

Rearranging [6] yields the final foreign exchange rate equation f in logs

$$f = \underbrace{(m_e - m_u)}_A + \underbrace{(v_e - v_u)}_B + \underbrace{(q_u - q_e)}_C \tag{7}$$

- f euros/\$
- m money supply
- v velocity of money
- q real GDP

(all lower case variables are in natural logarithms)

The intuition behind equation [7] is as follows: our foreign exchange rate f in any period will have a value (in euros per dollar) equal to A + B + C.

Three important observations. One, only one of the three terms, $(m_e - m_u)$, relates to quantitative easing. The other two are control terms. Second, foreign exchange rate QE effects are all *relative*. Third, be aware that from equation [4] that purchasing power (PPP) is assumed to hold. But [4] will hold on average only over long periods of time. Thus, the natural logarithm of the foreign exchange rate, f, wanders around through time within the long run bounds of $p_e - p_u$ in equation [4]. That is called reversion to the mean.

7. The QE Foreign Exchange Rate Model: A Statistical Test of Equation [7]

We turn now to a statistical test of the foreign-exchange rate model in [7] applied to the US vis-a-vis three foreign countries. The dependent variable in the regressions is foreign currency per dollar for the euro, the Japanese yen and the British pound. We test whether the relative money supply differences in equation [7] have statistically significant effects in explaining movements the value of the dollar.

According to equation 7, a necessary condition for a successful QE of the US lowering the price of the dollar is that the term $(m_e - m_u)$ is negative (ie., the US has created dollars faster than Europe created euros because m_u is larger than m_e). But that is not sufficient.

A sufficient condition for the US to lower f in any period is that the US must increase its money supply m_u enough to make the monetary term A in [7] sufficiently negative so that the sum of A + B + C is negative. That is a tall order and cannot be done over long periods.

Table 1. Regression Estimation of Equation [7] for the Value of the US Dollar, Regressions explaining the value of the dollar relative to Europe, Japan and the UK:

A rise on foreign currency per dollar is a strengthening of the \$

Regressions+	Foreign Country		
	Europe	Japan	United Kingdom
Currency >	Euro*	Yen	UK pound
Dependent variable f >	LN (euros/\$)	LN (yen/\$)	LN (pounds/\$)

LN (Money f/Money us)	2.708** (1.175)	0.9732*** (0.1540)	0.3893*** (0.1198)
LN(GDP us/GDP f)	5.519*** (1.739)	1.5007*** (0.4631)	1.5265*** (0.5518)
LN (Velocity f / Velocity us)	2.964*** (0.949)	-1.8087*** (0.0984)	-0.5901*** (0.1422)
Constant	.0661* (0.330)	0.5433 (1.1214)	-2.2763* (1.1712)
R-squared	.576	0.901	0.6131
Observations adj	52	45	45
Data	quarterly	annual	annual
Period of estimation	2004-I - 2016-4	1971-2015	1971-2015

* Europe estimates lag 1 qtr; + Robust standard errors in parens. below coefficients.
Newey-West adj of st.
errors,
adjusting for 4 lag qtrs.

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The factors affect equity investors in India

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Key Words

Equity Investor, Equity Financing, Behavioral Finance, Indian equity Markets, Stock Market.

Abstract

Financial specialist conduct is a focal idea in the behavioral fund which breaks down the impact of different factors on singular value speculator basic leadership. The nature and centrality of these factors on financial specialist basic leadership can be unique and intriguing in different nations. This investigation, thusly, looks at the impact of financial, and behavioral, factors in molding the venture conduct of value speculators in India.

The factor incorporates advocate suggestion, unbiased data, individual back requirements, bookkeeping data, established riches expansion and mental self-view/firm-picture incident. The examination found the solid impact of mental self-portrait/firm-picture occurrence, unbiased data, and supporter suggestion on value speculator basic leadership. While, no impacts of variables like great riches amplification, bookkeeping data, and individual budgetary needs are found on value financial specialist's basic leadership with regards to India.

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1. Introduction

Financial market enhancement empowers institutional and singular speculators to put resources into a more noteworthy scope of budgetary items. It additionally encourages financial specialists to choose and pick among different venture choices. To choose diverse speculations alternatives, the choice of speculator depends on financial matters and behavioral variables. These behavioral variables are thought about of the field of the behavioral back.

Behavioral back increased amazing consideration lately in clarifying financial specialist conducted and its impact on venture basic leadership. Studies clarifying the individual financial specialist's conduct were initially developed around 1970's. Behavioral fund researches the basic leadership handle that arrangements in purchasing or offering of money related resources and gives the sound behind basic leadership prepare. Its fundamental concentrate is on mental principals utilized by a financial specialist to settle on speculation choice. The Behaviorists believes investors may behave irrationally while making investment decisions. Behavioral financed is relatively a new concept that has challenged many old held beliefs of traditional finance. Shefrin (1999) defined behavioral finance as "a rapidly developing area that contracts with the influence of psychology on the behavior of financial professionals". Many studies in

behavioral finance have examined the factors that influence investor behavior. A different set of factors has been used in various studies that influence equity selection process of the individual investor. Nagy and Obenberger (1994) used seven classifications: social relevance, self-image/firm-image coincidence, neutral information, classic wealth maximization, accounting information, advocate recommendation, and personal financial needs. Major concentrations of the past examinations are on institutional financial specialist, and less consideration has been provided for retail value speculator conduct. Also, dominant parts of these investigations are about on created nations with constrained concentrate on creating nations. This study fills this gap by analyzing the factors that influence the decision-making process of retails equity investors in India. This study helps to understand these factors and enable the policy makers to understand the individual investor behavior and draw their future policies in the light of the findings of this study.

The following research questions addressed in this study:

To what extent advocate suggestion factors like opinions of the firm's majority stockholder and Broker's recommendation effects investor decision making?

To what extent unbiased data factors affect investor decision making?

To what extent individual back requirements needs factors like diversification needs and attractiveness of non-stock investment effects investor decision making in India?

To what extent bookkeeping data factors like financial statement condition and stock marketability affect investor decision making?

To what extent established riches expansion factors affect investor decision making in India?

To what extent mental self-view/firm-picture occurrence factors affect investor decision making of retails equity investors in India?

Rest of the paper is composed as takes after; Section (2) contains the survey of writing, theoretical model and research speculation. Section (3) expounds the exploration system including test and inspecting, estimation and instrumentation and strategy. Section (4) gives results and dialog s in the light of past inquiries about. At long last, conclusion is provided along with some policy implications.

2. Review of Literature

Various examinations have concentrated on the significance of behavioral factors on the value financial specialist basic leadership process. Warren et al. (1990) likewise analyzed the speculation decisions of individual speculators depends on statistic qualities and way of life properties. Shleifer, A. (2000) saw showcase proficiency with regards to financial specialist's behavioral variables. Riley and Chow (1992) hold that as salary, age, instruction, and riches builds hazard avoidance tend to diminish. Nagy and Obenberger (1994) likewise broke down components influencing the conduct of individual financial specialist and gave that speculator favor riches boost. They likewise hold that characteristics, for example, company's moral conduct, universal and nearby business, track record identifying with the earth are given superficial consideration by singular value financial specialists. Besides, proposals of relatives, companions, collaborators, business houses, and stockbrokers are likewise not given much consideration by financial specialists. Epstein and Freedman (1994) gave that individual financial specialist consider the social data is given in the yearly broad report or CSR report with respect to enterprise item quality and well-being data, and exercises identify with the earth in their speculation basic leadership. Krishnan and Booker (2002) gave that financial specialist's choice to settle on a choice to offer or hold stock utilizing examiner's suggestions.

Malmendier and Shanthikumar (2003) found that significant speculators of securities exchange make uncommon volumes of exchanges utilizing positive proposals of a related expert. Little financial specialists apply unpredictable purchasing strengths after every single accommodating proposal, and

furthermore, use associated experts' suggestions. Hodge (2003) inspected speculator's understanding of examiner freedom, the advantages of evaluated money related explanations, and income equality. He gave that lower perception of profit is identified with bigger reliance on examined money related reports of the firm and examination of reports when choosing about the venture. Kadiyala and Rau (2004) examined merchants' reaction to association occasion revelations and gave that financial specialists underestimate past data and data gave. Nagy and Obenberger (1994) gave that most of the financial specialists in the model offer significance to factors identified with bookkeeping data. Nagy and Obenberger (1994) clarified that a large portion of the speculators selects stocks on the premise of subjective criteria. This displays a disturbing test to a venture society acquainted to quantitative examination and declaration of the near costs of the securities.

Nagy and Obenberger (1994) deduced in their examination that the vast majority of the financial specialists depend on the skill of the experts, yet numerous speculators are additionally mindful of this sort of data sources. Jiaqin Wei et al. (2012) the consider a value filed annuity (EIA) financial specialist who needs to decide when he should surrender the EIA with a specific end goal to augment his logarithmic utility of the riches at surrender time. Robert Vermeulen (2013) ponder that researchers universal value speculators' remote portfolios earlier and amid the money related emergency by assessing a gravity demonstrate for 22 sources and 42 goal nations amid 2001–2009. Buerhan Saiti et al. (2014) likewise hold that the expansion profits by Islamic speculation amid the budgetary turmoil.

Bülent Tekçe, Neslihan Yılmaz & Recep Bildik (2016) investigates behavioral biases among Turkish individual stock investors during 2011. they Used transaction data and analyzed how common disposition effect, familiarity bias, representativeness heuristic, and status quo bias are, what factors affect these biases and how these biases relate to each other including overconfidence and return performance, find that biases were common among investors. Male, younger investors, investors with lower portfolio value, and investors in low income, low education regions exhibit more familiarity bias, there results in higher trade performance, Familiarity bias has a non-monotonic effect on return; lower (higher) levels of familiarity bias have a negative (positive) effect on return. Jeewon Jang (2017) Stock Return Anomalies and Individual Investors in the Korean Stock Market ,Negative cross-sectional relation between the probability of future price crashes and subsequent returns in the Korean stock market, the used precise information on retail trading in the Korean stock market and find that stocks with a high crash probability have a relatively high proportion of retail trading, the result of not find of negative relationship between the probability of jackpot payoffs and subsequent returns in Korea, unlike in the United States, even among stocks with a high proportion of retail trading.

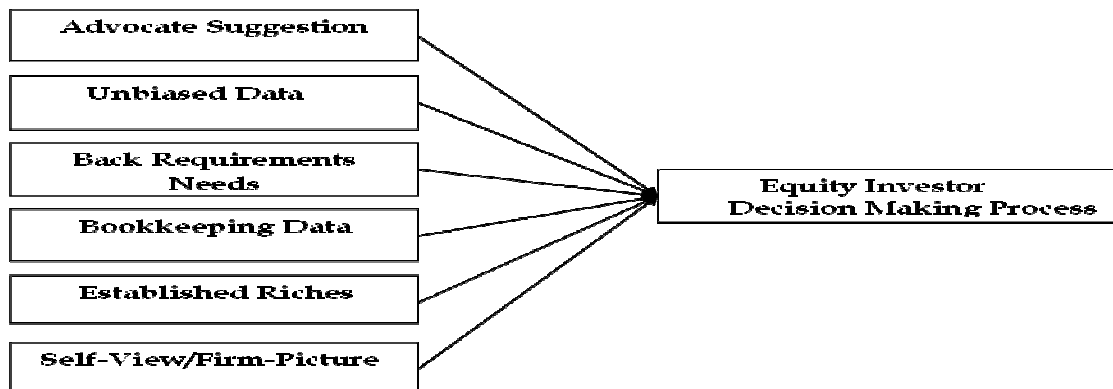
3. Hypothesis Development

Based on research gap and research questions the following research hypotheses are constructed for this study:

- H1:** equity investor decision-making in India is influenced by advocate suggestion.
- H2:** equity investor decision- making in India is influenced by unbiased data.
- H3:** equity investor decision-making is influenced by back requirements needs in India equity markets.
- H4:** equity investor decision-making in India is influenced by bookkeeping data.
- H5:** equity investor decision-making in India is influenced by established riches expansion.
- H6:** equity investor decision-making in India is influenced by mental self - view/firm-picture occurrence.

Research Model

Figure.1. Equity Investor Decision Making Model.



4. Research Methodology

4.1 Sampling

The target population in the study is the investor participating in three different stock exchanges of India. There are three stock markets in India namely; National Stock Exchange of India (NSE), Mumbai Stock Exchange (MSE), and Cochin Stock Exchange (CSE). NSE is the largest stock exchange in India and has a total market capitalization of more than US\$1.41 trillion, which was awarded best stock exchange and 12th largest stock exchange in the world in 2016. NSE was set up by a group of leading Indian financial institutions at the behest of the government of India to bring transparency to the Indian capital market.

In order to collect data 150 questionnaires were distributed to investors in all these three stock exchanges included NSE, MSE & CSE, we have for every stock exchange 50 questionnaires. The lists of equity investors were obtained from stock brokers and survey questionnaires were mailed to the respondents. The personally administered survey was also conducted to enhance the response rate. Investors from diverse backgrounds were incorporated in order to generalize the findings of the study.

4.2 Measurement

An adjusted survey is utilized to look at the impact of various monetary, behavioral and statistic factors on financial specialist value choice process in Indian securities exchanges. Six variables incorporated into the survey are established riches amplification, bookkeeping data, mental self-portrait/firm-picture fortuitous event, unbiased data, advocates suggestion and individual money related necessities. The autonomous factors utilized as a part of this examination are exemplary riches augmentation which comprises of four things, bookkeeping data comprises of four things, mental self-portrait/firm picture comprises of eight things, unbiased data comprises of seven things, advocate suggestion comprises of four things and individual back necessities comprises of four things. Every one of these things is measured on a 5-point Likert scale (1= slightest powerful to 5= generally persuasive). Subordinate variable utilized as a part of this investigation is basic leadership which comprises of five things measured on a 5-point Likert sort scale (1= unequivocally differ to 5 = emphatically concur).

4.3 Procedure

This is an exploratory study based on primary data. The data has been collected from equity investors. The data was collected through structured survey questionnaire which was mailed and

personally administered. The collected data was entered SPSS sheet for onward analysis. The reliability analysis was conducted through SPSS. Structural equation modelling (SEM) technique is adopted to test the hypotheses. AMOS latest version is used for path analysis and structural equation modelling approach. SEM is very popular technique owing to its data sensitivity and objectivity. SEM allows development of a conceptual model, development of hypotheses and testing of hypotheses to scientifically prove the study.

5. Results

This section contains the interpretation of data analysis and discussions of these results in the light of previous literature. The analysis used in this study includes, reliability analysis to check the health of data for analysis and, regression analysis to test hypotheses. The regression analysis is conducted through structural equation modelling technique. SEM technique incorporates results of model fit, path analysis, and the model.

The result of reliability analysis shows the value of Cronbach's alpha (0.716), which is quite satisfactory. The data is considered reliable is the value of Cronbach's alpha is equal or greater than (0.7). The data for reliability analysis consisted of the total of 36 items of both independent variables and the dependent variable.

The results of model fit analysis also produced satisfactory results. although values of model fit do not meet all required standards, but a model can be accepted overall. The results obtained from the model fit in this research depicts the probability level as (0.231), which confirms the model fit as adequate, as the P value of should be bigger than (0.1). The Table two provides the regression weights and acceptance or rejection of the developed hypotheses.

To accept any hypothesis, the P value of should be equal or less than (0.05). Interestingly advocate suggestion including recommendations from family members, friends and co-workers and stock brokers are also having strongest and significant influence on investor's decision making. The P value of in this case is 0.019, resulting in acceptance of our H1 as well. unbiased data like current economic conditions, financial press reports, price trends of securities and corporations and commitment towards social responsibility is also having the significantly positive influence on investor's decision making. The P value of 0.021, leaving our H2 as accepted. The back requirements needs are having no influence on equity investor's decision making with a P value of 0.815; we reject our H3, therefore. bookkeeping data also does not influence on investor behavior as a P value of 0.289, therefore, we reject our H4 as well.

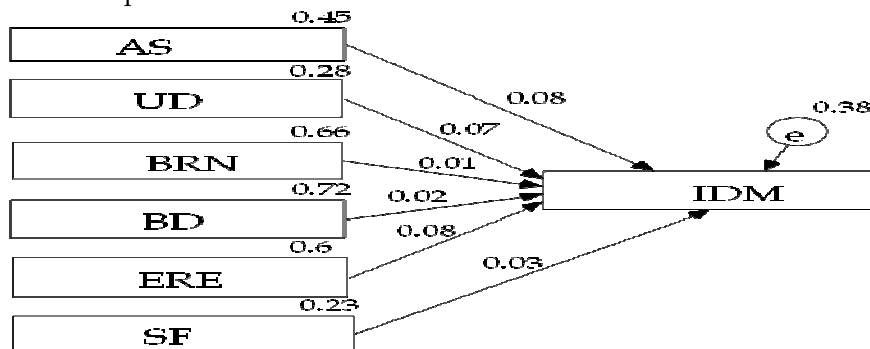
Our H5 states that investor's decision making is influenced by established riches expansion factor, but analysis do not statistically approve this hypothesis. The P value of 0.239, which is far greater than (0.05), therefore rejects our H5. This finding also depicts that investor does not behave rationally in the Stock Markets of India. Rational investors tend to incorporate accounting information such as financial statements, higher dividends, expected corporate earnings in their investment decision making. Finally, the study found the significant mental self-view/firm-picture occurrence on investor decision making as a P value of 0.029, therefore accept our H6. The results are quite logical and are in line with many of previous studies on investor behavior.

Table.1. Regression Analysis

Hypotheses	DV	Direction	IV	Estimate	S.E.	C.R.	P	Decision
H1	IDM	<---	AS	0.299	0.128	2.345	0.019	Accept
H2	IDM	<---	UD	0.403	0.185	2.179	0.021	Accept
H3	IDM	<---	BRN	-0.025	0.105	-0.233	0.815	Reject
H4	IDM	<---	BD	0.107	0.101	1.061	0.289	Reject
H5	IDM	<---	ERE	0.130	0.111	1.178	0.239	Reject
H6	IDM	<---	SF	0.392	0.179	2.190	0.029	Accept

Figure two shows the structural model of this study, the model shows the nature of the relationship between the independent variables i.e. the factors affecting equity investor's decision making, the dependent variable of this study

Figure.2. Structural Equation Model



5. Conclusion

The main objective of this research is to examine the influence of prescribes factors on investor's decision-making process. The factor includes advocate suggestion, unbiased data, individual back requirements, bookkeeping data, established riches expansion and mental self-view/firm-picture incident. There is very less amount of literature available on investor behavior in the context of India. Therefore, this study provides a guideline for future researchers in this field. It also provides some policy implications for corporations, and investment professionals and the investors of course. The study found a significantly positive influence of self-image/firm-image coincidence, neutral information, and advocate recommendation on investor's decision-making process. Whereas, no influence is found for classical wealth maximization, accounting information, and personal financial needs. This explains that equity investor in India are not rationale as they base their decision-making on the recommendations of family, friends, companions, colleagues, co-workers and stock brokers authorities, who should actively work for investors' education regarding investment. The higher the investor's tendency towards opinion and recommendation of others, the higher will be chances of market manipulation and speculation. Further, the higher of risk in the market the less the chances that ordinary person invest in such stock market, but if the low risk in a market the more than chance, person invest in some stock market. Finally, it is reminded for investors they must be able to make the right decisions when deciding all factors must be

taken into account and according to different circumstances, make the right and informed choices and avoid emotional decisions without careful examination.

6. Limitations and Future Research

This paper is limited to the investigation, thusly, looks at the impact of financial, and behavioral, factors in molding the venture conduct of value speculators in India, the scope of the research was limited to three markets in India include that: MSE, NSE & CSE, and other markets were not considered, Future study should consider another impact of factors and some markets in other countries. Future study should also the relationship between Asia markets.

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An examination of market entry perspectives in emerging markets

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Key Words

Market Entry, Emerging Markets, BoP, Base of the Pyramid

Abstract

Purpose – The purpose of this article is to describe the marketing-oriented market entry approaches that businesses are currently using across the three levels of the world economic pyramid (i.e., WEP). These levels are the Top-tier, the Middle-tier, and the Base of the Pyramid-tier (i.e., BoP-tier).

Methodology – The literature of the BoP was reviewed, and market entry approaches were itemized across the three WEP levels. Secondly, BoP strategic theorists including Prahalad identified the need for a BoP marketing focus replacing the traditional 4Ps marketing approach (i.e., Product, Price, Place and Promotion) with the BoP-specific 4As marketing approach (i.e., Awareness, Affordability, Access and Availability). This 4As marketing approach is discussed.

Findings – New marketing-oriented market-entry approaches are proposed for each of the three WEP levels. These approaches are based on where in the WEP the firm currently exists, and where in the WEP the firm desires to refocus market-entry activities; identified approaches include: inter-country expansion, intra-country entry, adjacent market entry, and extended market entry. Secondly, the absence of a clearly articulated marketing strategy for middle-tier markets was observed.

Practical implications – This article has two specific applications. First, it summarizes the evolving market entry perspectives to provide a context for future market research in both emerging markets and the pre-emerging BoP markets. Second, the future requirement for an articulated marketing strategy for middle-tier markets is suggested.

Originality – This article examined existing market entry approaches across all three levels of the WEP, inclusive of the BoP economic level. The language used to clarify market entry movements was extended, providing a specificity of description not previously found in either the existing market entry or BoP literature.

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1. Introduction and Purpose

Having found their mainstream markets saturated in the 1990's, Multinational Corporations (MNCs) began focusing their attention on perceived market opportunities in the newly emerging middle-

class markets of Africa, Asia, the Caribbean, China, Eastern Europe, and India, (Letelier, Flores & Spinosa, 2003). Continuing into this decade, Sheth (2011) observed that while the 1900's focused on marketing in the advanced economies, this century is focusing on marketing in the emerging markets. A challenge faced by MNCs includes the lack of a standardized emerging market typology, resulting in several questions:

What criteria should be used to define an emerging market?

Which countries were emerging markets?

Which countries were optimal target markets for market entry?

These questions suggested a sense of uncertainty and confusion in the marketplace, with a lack of clarity among market-oriented business aspiring to optimize their marketing actions in potential emerging markets. This article initially examines emerging markets from two major perspectives. First, financial institutions (e.g., investment banks) perceived this market uncertainty, recognizing a tremendous opportunity for both innovative investment products and related financial consulting and corporate advisement services. Based on a variety of financial growth criteria including the country's GDP growth, 2001 to 2013 saw the proliferation of seven major definitions of emerging markets originating in the financial services industry. Goldman Sachs led this proliferation with their seminal and widely accepted *BRIC* grouping.

Second, economists adopted a different methodology, focusing on a classification of the economic levels of countries around the globe. This economic level perspective focused on the formal classification of economic levels in emerging markets. These economic classifications led to the development of the world economic pyramid (i.e., WEP), ultimately with three global categories - the Top, Middle and Bottom of the Pyramid (BoP) markets. The WEP's lowest level, initially labelled as the Bottom of the Pyramid, was later rebranded as the Base of the Pyramid (i.e., BoP)

A 2006 study by the World Resources Institute (i.e., WRI) and the International Finance Corporation (i.e., IFC) estimated that the BoP consumer market had \$5 trillion in purchasing power parity, representing a huge untapped market opportunity (Hammond, Kramer, Katz, Tran & Walker, 2007; World Resources Institute, 2006). With the introduction of the BoP economic framework, MNCs became aware of the significant sales and profit opportunities in these previously unrecognized and untapped markets.

The focus of this paper is to identify the marketing directions that have been successfully employed by both MNCs and local businesses in their current markets (i.e., market penetration), and as these businesses move outside their current markets into lower economic markets (i.e., downward market development). Additionally, some companies in identified emerging markets were observed moving their marketing activities upward into more advanced economic markets (i.e., upward market development), or downward into pre-emerging markets (i.e., downward market development). And finally, some companies in pre-emerging markets were observed moving their marketing activities upward into emerging markets, and even into the most advanced economic markets (i.e., extended market development).

Additionally, BoP strategic theorists including Prahalad (2005; 2012) identified the need for a BoP marketing focus replacing the traditional 4Ps marketing approach (i.e., Product, Price, Place and Promotion) with the BoP-specific 4As marketing approach (i.e., Awareness, Affordability, Access and Availability). This 4As marketing approach was reviewed for its use across the three WEP economic levels.

2. Evolving Perspectives of Emerging Markets

Historically several perspectives have been used to define and describe emerging markets. Two of the more commonly employed perspectives are first a financial growth perspective, and second an economic levels perspective.

2.1. Financial Growth Perspective

Financial institutions focused on financial growth characteristics to identify emerging markets for both the benefit of their clients, and as a basis for their own competitive advantage in the financial industry. Investment and stock equity portfolios were created to capitalize on the expected growth in these emerging markets. The historical sequence of the Financial Growth perspective in emerging market groupings is presented below.

BRICs – In 2001, Jim O’Neill of Goldman Sachs, identified and labeled the four largest emerging markets with the fastest growing GDPs as the BRIC countries – Brazil, Russia, India and China (O’Neill, 2001). The BRIC countries were identified as the economic growth opportunities of the future with the potential for substantial future development.

Next 11 – In late 2005, Goldman Sachs identified and labeled the next set of large-population countries beyond the BRICs as the Next 11 countries – Bangladesh, Egypt, Indonesia, Iran, Korea, Mexico, Nigeria, Pakistan, Philippines, Turkey and Vietnam (Wilson & Stupnytska, 2007). The Next 11 were identified as a secondary pool of emerging markets.

BRICS – As a result of the tremendous interest in the innovative BRIC acronym, the four BRIC countries began to engage in joint economic development activities. In 2006 the BRIC foreign ministers met in New York, with the first annual BRIC Summit taking place in Russia in 2009 (Kramer, 2009). In 2010 South Africa was invited to attend the annual BRIC Summit as a guest member, and at the 2011 BRIC Summit South Africa formally joined, establishing the BRICS grouping.

CIVETS – In 2009, Robert Ward of *The Economist Intelligence Unit* identified six emerging market countries with large and young populations, diversified economies, relative political stability and decent financial systems: Colombia, Indonesia, Vietnam, Egypt, Turkey and South Africa (Economist, 2009).

EAGLES – In November 2010, *Banco Bilbao Vizcaya Argentaria, S.A.* (BBVA), the second largest bank in Spain, created the *Emerging and Growth-Leading Economies* (EAGLES). EAGLES were selected as those countries expected to contribute more to global GDP growth than the average of the six largest developed economies (excluding the U.S.) each year for the next ten years (Garcia-Herrero, Navia & Nigrinis, 2010). The initial ten EAGLES included: Brazil, Russia, India, China, Egypt, Indonesia, South Korea, Mexico, Taiwan, and Turkey.

MIST – In January 2011, Jim O’Neill of Goldman Sachs presented a new tier of large rapidly growing emerging economies called MIST countries: Mexico, Indonesia, South Korea and Turkey (Gupta, 2011). The MIST countries shared the three common traits: a large population and market, a big economy with each ~1% of global GDP, and membership in the G20.

MINT – In May 2011, Fidelity International identified new emerging market investment opportunities, which it labeled the MINT countries: Mexico, Indonesia, Nigeria & Turkey (Bamford, 2011).

The Financial Growth perspective in emerging market countries is presented below.

Market Name	BRIC	Next 11	BRICS	CIVETS	EAGLES	EAGLES	MIST	MINT
Year of Origin	2001	2005	2006 to 2011	2009	2010 & 2011	2012 & 2013	2011	2011
Source	Goldman Sachs	Goldman Sachs	BRIC Countries	Econ. Intel. Unit	BBVA	BBVA	Goldman Sachs	Fidelity

Countries								
Brazil	In		In		In	In		
Russia	In		In		In	In		
India	In		In		In	In		
China	In		In		In	In		
South Africa			In (2011)	In				
Bangladesh		In						
Colombia				In				
Egypt		In		In	In	Delisted (2013)		
Indonesia		In		In	In	In	In	In
Iran		In						
Korea		In						
Mexico		In			In	In	In	In
Nigeria		In						In
Pakistan		In						
Philippines		In						
South Korea					In	In	In	
Taiwan					In	In		
Turkey		In		In	In	In	In	In
Vietnam		In		In				

Table 1. Financial Growth Perspective of Emerging Markets

2.2. Economic Levels Perspective

Economists adopted a different methodology, initially focusing on classifying the economic levels of emerging markets. Hoskisson, Eden, Lau and Wright (2000) identified emerging economies as low-income, rapid-growth countries using economic liberalization as their primary engine of growth. Hoskisson *et al.*, (2000) divided these emerging economies into two major categories: (1) *developing countries* as found in Asia, Latin America, Africa, and the Middle East, and (2) *transition economies* as found in the former Soviet Union and China.

2.2.1. The first-generation BoP: The Bottom of the Pyramid.

Prahalad and Hart (2002) observed that MNCs were realizing neither the expected product sales nor the resulting financial and marketing benefits from the identified middle-class emerging markets. Prahalad & Hart stated that the “prospect of millions of ‘middle class’ consumers in developing countries, clamoring for products from MNCs, was wildly oversold” (2002, p. 1). The authors proposed that the MNCs had incorrectly focused on middle-class consumers, when they should have focused on “the billions of *aspiring poor* who are joining the market economy for the first time” (2002, p. 1).

In defining the economic levels of the BoP market, Prahalad utilized the framework of the world economic pyramid (WEP). Prahalad utilized the economic measure of Purchasing Power Parity (PPP) to compare the economic states of multiple countries (Prahalad, 2005; Prahalad & Hammond, 2002). Prahalad’s early conceptualizations of the BoP progressed through several iterations, ultimately solidifying into a conceptual structure with five tiers of economic income levels (Prahalad, 2005; Prahalad & Hammond, 2002; Prahalad & Hart, 2002).

Tier 1: At the top of the WEP were 75 to 100 million affluent global consumers (1.7% of the global population) predominantly in the developed countries, with an annual income level greater than \$20,000 in PPP.

Tier 2 and Tier 3: These two tiers represent 1.5 to 1.75 billion people (29.9%): poor consumers in developed nations and the rising middle class in developing countries, with an annual income level of \$1,500 to \$20,000 in PPP.

Tier 4 and Tier 5: The bottom of the WEP represents 4.0 billion people (68.4%) at literally the bottom of the pyramid: poor consumers in developing countries, with an annual income level of less than \$1,500 in PPP.

2.2.2. Core benefits of the BoP approach.

Prahalad and Hart (2002) proposed two core benefits. First, the benefits to the MNCs included substantially increased product sales growth and revenues. The increases in revenues were attributed to improved operating efficiencies, the use of technologies, and the identification of new sources of innovation (Hammond & Prahalad, 2004; Prahalad & Hammond, 2002). Second, the potential for global poverty alleviation was identified as an obtainable goal. Prahalad's approach was based on "doing well" financially, while simultaneously "doing good" for those in the BoP (Prahalad & Hammond, 2002).

2.2.3. The second-generation BoP: The Base of the Pyramid.

In 2006, the World Resources Institute (WRI) and the International Finance Corporation (IFC) released an in-depth comprehensive study of the world's socioeconomic structure (Hammond *et al.*, 2007; World Resources Institute, 2006). The WRI and the IFC examined aggregate data in four developing regions – Africa, Asia, Eastern Europe, and Latin America with the Caribbean; they examined 110 countries for which household data was available. The resulted in three population segments.

The Top of the Pyramid: the high-income population segment contained annual incomes above \$20,000 (in 2002 PPP).

The Middle of the Pyramid: the mid-market population segment contained annual incomes above \$3,000 and up to and including \$20,000 (in 2002 PPP).

The Base of the Pyramid: The BoP population segment was defined as those annual incomes up to and including \$3,000 (in 2002 PPP).

Extending the initial Prahalad model, London and Hart (2011) defined a second generation of approaches with both evolutionary orientations and value propositions. This second-generation approach defined a fortune creating perspective with an emphasis on co-creating new business models, technology solutions, and value propositions with the BoP (London & Hart, 2011).

2.2.4. Opposing views challenging the BoP perspective

While beyond the scope of this paper to resolve challenges to the BoP approach, these differing perspectives are recognized. First, the existence of a BoP market opportunity is foundationally based on the capability of the people in the BoP to be *consumers* of products (Prahalad & Hart, 2002). The fundamental existence of this potential for *BoP consumption* faced ongoing challenges from several authors (Karnani, 2007; Walsh, Kress, & Beyerchen, 2005). The BoP market opportunity based on BoP consumption received the strongest challenge from Karnani, who utilized an *economic* perspective to directly challenge Prahalad's belief that consumption in the BoP market could effectively alleviate poverty, stating "their problem is that they cannot afford to consume more". (Karnani, 2007).

Second, Karnani also challenged Prahalad's estimation of the size of the BoP market opportunity, stating "not only is the BOP market quite small, it is unlikely to be very profitable, especially for a large company" (Karnani, 2007). Karnani attributed the lack of profitability to multiple factors, including 1) an

initial overestimation of the size of the BoP market and 2) the high marketing and distribution costs associated with serving the poor who are geographically dispersed.

Third, BoP marketing has been recognized since its inception as an instrumental process for driving poverty alleviation on a global basis, described as “lifting billions of people out of poverty and desperation” (Prahalad & Hart, 2002). BoP for poverty alleviation again received its strongest challenge from Karnani, who raised both political-philosophical and economic challenges to Prahalad’s BoP approach for poverty alleviation. Karnani labelled Prahalad’s BoP approach as a *libertarian model* which proposed that free markets reduce poverty (2008b, 2008c, 2010). Karnani’s political-philosophical viewpoint had fundamental criticisms of Prahalad’s BoP approach; 1) there was too little emphasis on the legal, social and regulatory mechanisms to protect the vulnerable poor consumers, and 2) there was an over-emphasis on microcredit, and an under-emphasis on creating employment opportunities (Karnani, 2008a, 2008c, 2008d, 2010).

And finally, a viewpoint supporting the status quo of existing business models was raised by Garrette and Karnani (2010) who examined three case studies, and concluded that while the context in BoP markets is different from the context found in well-developed markets, the existing business principles continue to be an effective guide to strategy development in a BoP market.

2.2.5. Distinct Characteristics of the BoP Market

Early research identified BoP markets as possessing unique characteristics, specifically existing as non-homogeneous market segments both within and across countries (London, 2007). With increasing awareness of the BoP market as a potentially attractive and viable market, marketers seeking a competitive advantage BoP market and the superior financial performance that accompanies that competitive advantage, began to study the BoP market. Kennedy and Novogratz (2011) identified five unique factors that describe the BoP markets:

There are many unaddressed needs at the BoP, both government provided and those neglected needs because people are perceived to be too poor.

BoP markets are beset by poor infrastructure with inadequate distribution networks and poor access to both education and information.

Corruption is common, sapping economic value from the system.

Low purchasing power makes it difficult for new goods and services to enter the market.

There is a lack of equity capital, as traditional capital providers typically bypass BoP entrepreneurs.

2.2.6. Marketing in the BoP

To successfully introduce goods and services into BoP markets, traditional marketing theories will need to be validated for applicability. With the articulation of the WEP framework and the recognition of the inherent bias of the MNCs’ in their strategic approach to the BoP market, Prahalad proposed an alternative to the traditional 4Ps: the 4As (Prahalad, 2005; 2012). His 4As include:

Awareness of the product and service so that the BoP consumer knows what is available, and how to use the product or service.

Affordability of the product or service for the BoP consumer.

Access to the product or service, even for those consumers in remote geographical areas.

Availability of the product or service with an uninterrupted or continuous supply of the product or service.

2.2.7. Strategic Approaches to BoP Markets

Topics that have received substantial focus in the BoP literature are management strategy, strategic development and strategic approaches for doing business in the BoP markets. Ricart, Enright,

Ghemawat, Hart and Khanna (2004) found that the BoP highlighted significant limitations in the approaches to global and emerging market strategies; these authors found that attempts to leverage existing MNC capabilities are inadequate in entering BoP markets.

3. New capabilities and new business models

The BoP requirement for new MNC capabilities has been identified by multiple studies. Seelos and Mair (2007) reviewed the initial BoP strategic literature identifying the requirement to develop new capabilities and business models to foster marketing success in BoP markets. Olsen and Boxenbaum found that the BoP market requires the development of new business approaches “related to buying, manufacturing, packaging, marketing, distributing and advertising products” (2009, p. 103).

Wright, Filatotchev, Hoskisson and Peng (2005) identified four new market entry strategies and introduced a strategic framework employing two categories of markets: well developed and emerging markets. The four market entry strategies include: 1) firms from developed economies entering emerging economies, 2) domestic emerging market firms competing within their own emerging market, 3) emerging market firms entering other emerging markets, and 4) emerging market firms entering developed economies. Ramamurti and Singh (2009) developed a four-quadrant approach for entry into emerging markets with factors including existing technological capabilities, location and level of foreign direct investment.

3.1. Marketing-oriented market entry approaches

Figure 1 presents a marketing-based approach to examine market entry strategies. This current marketing-oriented approach identifies the options a firm has for market expansion and market entry in the three world economic pyramid levels – Top, Middle and Base. Firms, irrespective of their market of origin have four market expansion and market entry choices, specifically:

- Intra-country expansion.
- Inter-country entry.
- Adjacent market entry.
- Extended market entry.

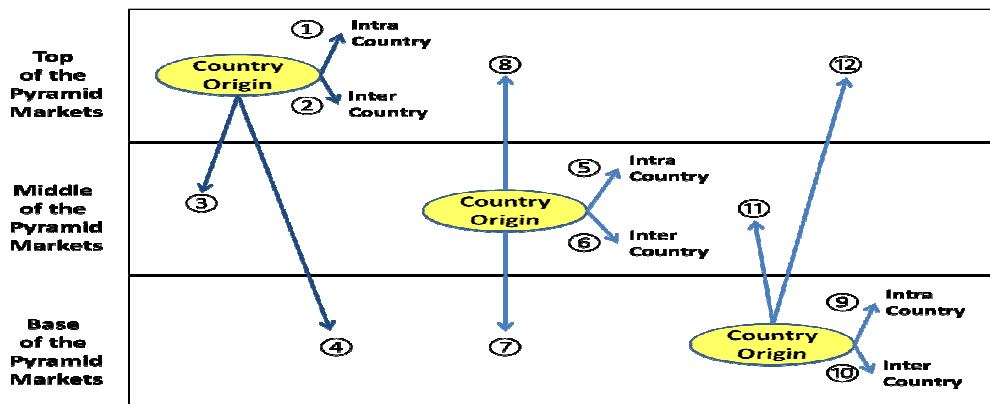


Figure 1. Global Economic Levels & Strategic Market Entry Approaches

As depicted in Figure 1, across the three WEP levels there are twelve market expansion and market entry approaches, which are presented briefly below with examples of these approaches.

3.1.1. Top-tier Market Approaches

This tier has annual incomes greater than \$20,000.

Approach 1 - Intra-country expansion. A Top-tier market firm expands into additional markets in its Top-tier home country. In a traditional marketing approach, this would be identified as Market Penetration.

Approach 2 - Inter-country entry. A Top-tier market firm enters into an additional Top-tier country outside its home country. In a traditional marketing approach, this would be identified as Market Development.

Approach 3 - Adjacent market entry. A Top-tier market firm enters into the Middle-tier market. In a traditional marketing approach, this could be identified as downward Market Development. Showing ongoing international market entry in a downward direction, the U.S. based firms McDonald's (2013) and Starbucks (2012) opened additional stores in the Middle BRIC market countries including Brazil (GDPpC \$12,100), Russia (GDPpC \$18,000), India (GDPpC \$3,900), or China (GDPpC \$9,300).⁵

Approach 4 - Extended market entry. A Top-tier market firm enters into the Base-tier market. In a traditional marketing approach, this could be identified as downward Market Development. An example is McDonald's with stores in 118 countries, including Base market countries such as Pakistan (GDPpC \$2,900).

3.1.2. Middle-tier Market Approaches

This tier has annual incomes from \$3000 to \$20,000.

Approach 5 - Intra-country expansion. A Middle-tier market firm expands into additional markets in its Middle-tier home country (i.e., Market Penetration). For example, the Brazilian firm The Marfrig Group (2013), a food product company including Marfrig Beef and Seara Foods, opened additional stores in Brazil (GDPpC \$12,100).

Approach 6 - Inter-country entry. A Middle-tier market firm enters an additional country outside its home country, while still within its Middle-tier Market (i.e., Market Development). The Marfrig Group (2013), a Brazilian firm, distributes its products in China, another Middle market country (GDPpC \$9,300).

Approach 7 - Adjacent market entry downward. A Middle-tier market firm enters the Base-tier market (i.e., downward Market Development). Lenovo (2013), is a US\$30 billion Chinese middle market personal technology company and the world's second-largest PC vendor. Lenovo distributes its computer products into Base market countries including Nigeria (GDPpC \$2,800), Sudan (GDPpC \$2,600), and Bangladesh (GDPpC \$2,100).

Approach 8 - Adjacent market entry upward. A Middle-tier market firm enters into the Top-tier market (i.e., upward Market Development). Showing ongoing international market entry in an upward direction, The Marfrig Group (2013) distributes its products into Top markets including the United Kingdom (GDPpC \$37,500).

3.1.3. Base of the Pyramid Markets

This tier has annual incomes up to and including \$3,000.

Approach 9 - Intra-country expansion. A Base-tier market firm expands into additional markets in its Base-tier home country (i.e., Market Penetration). Showing ongoing domestic expansion, Grameen

⁵Note: all GDPpC data is from *The World Factbook*, Central Intelligence Agency, 2013

Bank, a micro-lender and bank founded in Bangladesh, opened additional bank offices and locations in Bangladesh (GDPpC \$2,100).

Approach 10 - Inter-country entry. A Base-tier market firm enters into an additional country outside its home country, while still within the Base-tier market (i.e., Market Development). Showing ongoing international market entry into an equivalent Base market level, Grameen Bank opened additional banking locations in other Base countries like Nigeria (GDPpC \$2,800), and Uganda (GDPpC \$1,460).

Approach 11 - Adjacent market entry. A Base-tier market firm enters into the Middle-tier market (i.e., upward Market Development). Showing ongoing international market entry in an upward direction, Grameen Bank entered into several Middle markets including India (GDPpC \$3,900), China (GDPpC \$9,300), and Mexico (GDPpC 15,600).

Approach 12 - Extended market entry. A Base-tier market firm enters into the Top-tier market (i.e., upward Market Development). Showing ongoing international market entry in an upward direction into Top markets, Grameen Bank has entered into a Top market in Saudi Arabia (GDPpC \$31,800).

4. Unique markets require unique articulated strategies

The economic level perspective defined three unique levels of the world economic pyramid - Top, Middle and Base of the Pyramid. These three economic levels can be viewed as three unique markets. These three markets are relatively large markets with the BoP as the largest, with a population exceeding four billion people.

Table 2 highlights the distinction between the three-major global economic level markets, and the historic marketing strategies of the traditional 4Ps approach applied to the Top of the Pyramid market, and the relatively new 4As approach of Prahalad applied to the BoP market.

What is currently missing is the fully articulated marketing strategy tailored for the unique needs of the Middle of the Pyramid. The marketing strategy for the Middle of the Pyramid has not yet been defined. There are several strategic approaches which could be applicable in this Middle market. First, a blended strategy might be optimal, blending the 4Ps of the Top market strategy with the 4As of the Base market strategy. This blended approach has not yet been fully described and articulated. A second approach would be to develop a new innovative market strategy that would be tailored specifically for the unique market characteristics of the Middle market. This innovative approach has not yet been crafted by marketing practitioners and strategists. This undefined strategy can be illuminated through future market research.

WEP-based Global Economic Markets	Articulated Marketing Strategy
Top of the Pyramid Per capita annual income > \$20,000	4Ps: Product Price Place Promotion
Middle of the Pyramid Per capita annual income ≤ \$20,000, and > \$3,000	Undefined: Potential mixed 4Ps & 4As strategy? Potential new innovative strategy?
Base of the Pyramid (BoP) Per capita annual income ≤ \$3,000	4As: Awareness Affordability Access Availability

Table 2. WEP-based Global Economic Markets & Articulated Marketing Strategies

5. Conclusion and potential for future studies

This article describes the marketing-oriented market entry approaches that businesses are using across the three levels of the WEP to provide a context for future market research in both emerging markets and the pre-emerging BoP markets. The growth in both emerging Middle markets and BoP markets has dramatically influenced global marketing practices. Marketers in existing Top-tier market economies have become extremely proficient at marketing in other Top-tier market economies. Marketers have commonly identified these approaches as market penetration (i.e., selling more current products in an existing market), or market development (i.e., selling current products in a new market). Now, these same Top-tier marketers are being asked to develop innovative marketing approaches for those Middle-tier and BoP-tier market economies. This paper has identified four potential market entry approaches applicable across all three global economic levels – the Top-tier, Middle-tier and BoP-tier markets. New marketing-oriented market-entry approaches were found for each of the three WEP levels. These approaches are based on where in the WEP the firm currently exists, and where in the WEP the firm desires to refocus market-entry activities. These identified approaches include: intra-country expansion, inter-country entry, adjacent market entry, and extended market entry.

The identification of these approaches is descriptive in nature, based on a review of global literature. The language used to clarify market entry movements was extended, providing a specificity of description not previously found in either the existing market entry or BoP literature. These strategic market entry models will assist future market research initiatives with an enhanced organization, leading to additional insights.

Economists have long examined foreign direct investment (i.e., FDI) from Top-tier EU markets into emerging Middle-tier markets, and have identified the influence of location factors on these investments (Crescenzi, Pietrobelli, & Rabellotti, 2016). Additional motivating factors identified include the appropriation of strategic assets, including technology, management, and strategic skills, brands, and commercial knowledge (Buckley et al, 2007; Ramamurti, 2012). Future research is needed to identify other WEP specific factors that initiate, control and influence the identified market-entry movements, specifically as businesses move in the three WEP economic levels, especially into the BoP-tier. Additionally, an examination of the strengths of these factors by WEP level would identify the unique influences these factors exert in each of the three unique WEP economic levels.

Secondly, this review also identified the use of the traditional 4Ps (i.e., Product, Price, Place and Promotion) marketing strategy widely practiced in the Top-tier markets. Prahalad's 4As (i.e., Awareness, Affordability, Access and Availability), although relatively new to marketing initiatives, appear to be applicable for success in the BoP-tier markets. After the selection of the most appropriate market entry strategy, an articulated marketing strategy must be utilized to develop the tactical tools required for success across the WEP. What remains to be defined is the most appropriate marketing strategy for the Middle-tier markets. This Middle-tier approach may be a downward extension of the Top-tier 4Ps, an upward extension of the BoP-tier 4As, or it may be an amalgamation of both the Top-tier 4Ps and the BoP-tier 4As strategies. Future research is needed to exam a variety of marketing-based strategies to determine the optimal approach for the Middle-tier markets.

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The cultural genogram: An international cross-cultural case study on entrepreneurship

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Key words

Entrepreneurship, innovation, experiential learning, culture, global.

Abstract

Experiential entrepreneurship has become a significant pedagogy in preparing American students to compete in the dynamic and consolidating global economy. Whereas the model of experiential learning facilitates collaboration between industry experts, entrepreneurs and community stakeholders, it is imperative to look at entrepreneurship from a global perspective. Medgar Evers College has a mission for social justice and socio-economic transformation. Through the Entrepreneurship & Experiential Learning (EEL) lab, students are exposed to industry leaders, faculty and other stakeholders to the benefits of global entrepreneurship and experiential learning.

This paper is a case study that discusses lessons learned on innovation, culture and entrepreneurship from students and faculty's exposure to innovation and international entrepreneurs from Kenya, Chile, Costa Rica, Jamaica, Dominican Republic, China, London, Paris, Japan and Thailand. Additionally, the paper addresses the implications on entrepreneurial learning by encouraging diverse perspectives and practice for the student entrepreneurs in the 21st century. The originality of the paper is in its diversity of perspectives – it is a collaboration of faculty and staff on three different continents and three academic institutions.

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1. Introduction

Entrepreneurship and Innovation

Scholars globally have proposed that there are two major ways an entrepreneur is made; through nature or nurture. Proponents of the nature ideology believe that an entrepreneur is born with the right genetic makeup to succeed in building a business. On the other hand, the nurture school of thought proposes that anyone can become an entrepreneur if they learn the relevant skills and put effort into it. Although no clear-cut theory has been agreed upon, researchers believe that cultural genome plays a significant role in the propensity of an individual to become an entrepreneur. While the issues continue to

be debated, labor, production and other macro-economic growth outcomes are affected by both innovation and the ability to leverage entrepreneurship skill sets. The ability to globally scale up entrepreneurship outcomes for income equity and other socio-economic challenges is impacted by diverse cultural norms.

Regardless of a nature or nurture root, innovations are fundamental in the pursuit of entrepreneurship. Innovation has been defined as the synergistic relationship between invention and an entrepreneurial process, which creates new economic and social value for a target stakeholder (Segerstrom, 1991). Innovation therefore results in new ideas that are transformed through economic activity, into sustainable value-creating outcomes.

In a rapidly changing global economy, innovation and entrepreneurship are essentially inseparable. As entrepreneurs avoid “me too” types of businesses, they innovate to meet their target market needs and wants in a more creative way. Within this innovative entrepreneurship, the cultural genome still plays an important role in the pursuit of social justice and economic empowerment (Rolle, Billy, & Pittman, 2015).

It is evident that cultural genome is a major ingredient in the entrepreneurial process. Culture has been defined broadly as the set of preferences, values, and beliefs that exist in a community, country or region. The makeup of a cultural genome can come from family background, community way of life, political landscape or even religious beliefs. For instance, many traditional African communities are mainly social in nature where day to day activities such as agriculture, raising children, trade, and worship were carried out as communal activities. A common adage of traditional African communities is “It takes a village to raise a child”.

Cultural norms are complex and difficult to categorize. Culture in the US, for example, appears to be more inclined towards capitalism and individualism. Each person pursues his/her own success and does not need communal participation to succeed. In China and many Asian cultures, norms encouraged a more socialist approach, where family is valued above all else and family honor is fundamental to the posterity of an individual. Yet, a deeper look will show varying subsets in US culture, with a high degree of group economics and cooperation being practiced amongst elite circles (Callero, 2013).

For successful entrepreneurship therefore, various scholars have posited that an entrepreneur’s preferences and beliefs are influenced by information that is received from one’s micro and macro environments: our parents, friends and the national culture. It has also been argued that the more homogenous an individual’s immediate environment is, the more likely such an individual is to pursue a given career line (Gianetti and Simonov, 2004). Reality though, is more complicated due to the interactions of a global community that have allowed for virtual proximity and synergy across regions. In addition, experiential entrepreneurship has resulted in interactions of budding entrepreneurs with their contemporaries across different countries. It is against this backdrop that we discuss the cultural genome in student entrepreneurship through various countries in Africa, Asia and the USA.

2. Literature Review

Entrepreneurship and Innovation

Entrepreneurship has been viewed as an engine to economic growth for the knowledge based economy. On one hand, it connotes the ability of an individual to identify and act on an opportunity, become risk taker and create a new value proposition that a customer is willing to pay for. On the other hand, a plethora of different reasons have been fronted to explain why an individual ventures into entrepreneurship. One key variable which results in differential entrepreneurial activity across countries is the cultural variable (Freytag and Thurik, 2010).

Schumpeter, a leading scholar in entrepreneurship, proposed that the entrepreneur can drive economic progress, in countries that would otherwise be subject to decay. In his discourse, Schumpeter's highlighted the entrepreneurial spirit as an integral ingredient that helps in identifying an economically viable opportunity and that are geared to creation of value for a target customer. Schumpeter further argues that successful entrepreneurship sets off a chain reaction, which creates opportunities for other entrepreneurs to iterate upon and ultimately innovate better products or services for a target client (Schumpeter, 1911& 1934). This chain of activities leads to creative destruction that defines a country's entrepreneurial spirit.

Whereas Schumpeter views an entrepreneur as an agent of change within the larger economy, Peter Drucker, posits that an entrepreneur is not necessarily an agent of change, but rather, a proactive and resilient individual who exploits opportunity for a profit. Drucker further states that, an entrepreneur always searches for change, responds to it, and exploits it as an opportunity ((Drucker, 1985). Scholars have also reported that an individual's propensity to become an entrepreneur is correlated to the national culture of their respective countries (Mueller and Thomas, 2000). This cultural genome within a country is said to influence the choices of university students to becoming job creators or job seekers.

Interestingly, a student who has personal characteristics of an entrepreneur such as identifying opportunities, resilience in pursuit of business and the willingness to take risks, is not viewed as an entrepreneur if he/she failed miserably in a venture. An entrepreneur is only acknowledged as such, when he/she finally succeeds at something. All his/ her prior failures are viewed in retrospect as the work of a serial entrepreneur only after the occurrence of his first success. In many of these cases the role of family and friends cannot be underestimated in ensuring entrepreneurial success.

Various scholars have posited that entrepreneurship tends to run in families. In the USA for instance, research has shown that 50% of entrepreneurs were second-generation business owners (Lentz and Laband, 1990). It was also observed that an intergenerational correlation of entrepreneurial tendencies was evident among French entrepreneurs (Colombier and Masclet, 2008). Additionally, Van der Zwan et al., 2010) reported that children with entrepreneurial parents were more likely to pursue self-employment careers. However, an important omitted variable that may also explain inter-generational entrepreneurship, is inter-generational wealth and access to capital. In his chapter on cultural capital, Callero states, "To understand how class inequality is reproduced and legitimated under capitalism, we must distinguish between 'economic capital' and 'cultural capital'." In the US, 90% of business ownership is passed down through inheritances exclusive to only 10% of the US population (Callero, 2013, p. 97).

It is probable that entrepreneurial traits and skills are passed from parents to their children in the course of their upbringing. These studies suggest a potential correlation between nurture and the propensity to become self-employed, thereby reinforcing the cultural genome as pertains to family. (Nikolaou and Shane, 2009; Zhang et al., 2009).

It is evident therefore, whether the student entrepreneur is an innovator or an early opportunity exploiter, theorists universally associate entrepreneurship with opportunity seeking. Entrepreneurs are believed to have an exceptional ability to identify new opportunities, pursue them, and take calculated risks that are associated with such a venture. Scholars have studied individual determinants that result in entrepreneurial behavior in different countries, but little comparison across cultures has been done in this field (Parker, 2009). Our discussion will look at innovative entrepreneurship at its nascent stage among the student entrepreneurs in different continents and attempt to describe what cultural genome ~~that~~ influenced the entrepreneurial ventures.

Many of the students we serve, both in the survey, and at our home institutions are first generation college students and first-generation entrepreneurs. Therefore, our challenge is both academic and experiential in developing skill sets and characteristics that may be unfamiliar to our target population. However, our experience has shown us, that many do not have employment as an option and must develop entrepreneurial skills for survival – anything less – is not sustainable globally.

3. Purpose of the study

Entrepreneurship creation and innovation is being recognized as a key factor for economic development in a dynamic 21st century global economy. In the USA and other countries, the youth and non-Asian minorities have formidable challenges in getting employment as well as becoming successful entrepreneurs. Entrepreneurship capacity building in institutions that serve minorities in the USA has been a challenge with few sustaining outcomes (Rolle, Billy & Pittman, 2015). Medgar Evers College, City University of New York (MEC-CUNY), a recognized Institution for economic development & entrepreneurship, launched partnerships with both Industries and Universities on a global basis to mitigate these challenges among their students and understand the cultural perspectives that enhance business across different countries.

Although considerable advances have been made in explaining the correlation between innovation and entrepreneurship, a comprehensive understanding is still lacking concerning the interface among innovation, entrepreneurship and culture. Since an entrepreneur is only considered one when he/she succeeds, it is a challenge defining a “real” student entrepreneur. This *ex post* definition of who an entrepreneur *is*, further complicates the description of real entrepreneurs among the university students. The questions that arise are; is entrepreneurship simply the ability to identify an opportunity and act on it? Or, must the venture become successful for one to be considered an entrepreneur?

The main objective of this paper, however, is to address the cultural genome of innovative student entrepreneurship in Africa, Asia and the USA by highlighting case studies of entrepreneurial ventures among university students in Kenya, Chile, China and the USA. This paper will look at cases of student entrepreneurial ventures, whether at their embryonic stages or profitability levels, through various cultural genome variables of gender, family and socio-cultural lenses. We hope to shed light on the underpinning cultural genome across these countries that create innovative entrepreneurship among university students. The important implication of this paper is to enrich the Medgar Evers entrepreneurial pursuit for her students and mitigate the employment disparity in minority groups.

4. Research Question

There has been an increasing empirical interest on the correlation between culture and entrepreneurship. Scholars have proposed that we make decisions that are deeply rooted in our social identity and attempted to explain new, networked approaches of innovation and entrepreneurship in various contexts. (Autio, Pathak and Wennberg, 2010; Freytag and Thurik, 2010). This paper investigates some variables in the cultural genome that influence student entrepreneurship in the USA, Kenya and Chile.

5. Design/Methodology Employed

In 2016, MEC-CUNY successfully organized and launched two international conferences on Corporate Social Responsibilities and Social Entrepreneurship empowerment with the participants representing academia and industry from Kenya, Jamaica, Chile and the USA. In addition, MEC-CUNY developed a comprehensive and integrative approach that combines multiple co-curricular activities including entrepreneurship training; business plan pitching; and study abroad to countries such as China, Thailand, Japan, Kenya, Jamaica and Dominican Republic.

The entrepreneurship programs were designed for intimate intellectually stimulating workshops, balanced with study abroad tours by the student entrepreneurs and faculty to appreciate the cultural and entrepreneurs' diversity in these countries. Interview schedules and questionnaires were used to collect data from 26 student innovators and entrepreneurs from Kenya, Chile, China, Japan and the USA. In addition, ad hoc interviews were carried out for selected business practitioners in some of these countries, to explore the cultural challenges and opportunities for entrepreneurship for these students. The findings across various countries were summarized and collated to deduce take away lessons for faculty and the student entrepreneurs.

Cultural Genome- The Gender Variable

One of the key demographic concerns in the cultural genome was to understand the correlation between gender and entrepreneurship in the countries visited. Gender is viewed differently in various cultures. In the many African cultures, the woman is frowned upon if she is aggressive, very proactive and possessing the "dare devil" kind of mentality. In contrast to this, Western culture is relatively more accepting of women to being aggressive in the work place and standing in leadership positions (Rolle, Billy & Pittman, 2015). Since entrepreneurship requires an individual to be a risk taker, the study sought to investigate the gender of the student entrepreneurs in the USA, Kenya and Chile. This data is summarized in Diagram 1.

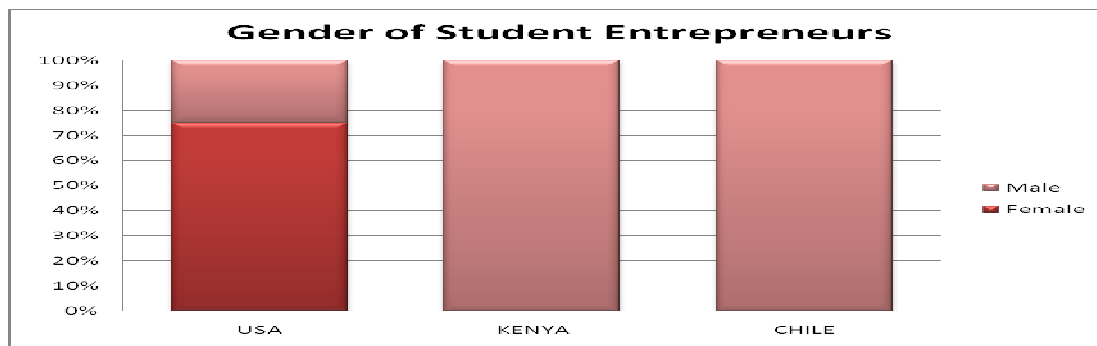


Figure 1: Gender of Student Entrepreneurs

The results showed that 75% of student entrepreneurs from the USA were female while 25% were male. In Kenya and Chile, all the student entrepreneurs were male. This finding corresponds with the cultural values pertaining to the values that are associated with gender choice in careers. It has been argued that since cultural values are typically determined in an individual's younger years, it is highly likely that such individuals will tend to follow the accepted norm in their society (Mueller and Thomas, 2000). This supposition is likely to explain why the study found fewer or no females pursuing entrepreneurship among Kenyan and Chilean University students, while the American counterparts had more women undertaking entrepreneurial activities.

In Africa, and Kenya in particular, a more assertive woman is viewed with disdain and as such very few female students choose entrepreneurship due to the nature of this career choice. As a result, there is a lower likelihood of female students at the universities to pursue job creation as a career (Rolle, Billy, Acevedo & Kisato, 2016). This finding contrasts with the USA where more female students are taking the initiative to venture into entrepreneurship while at the university.

Cultural Genome- The Family Background

Although it has been proposed that entrepreneurship tends to run in families, it should be noted that an entrepreneur is attracted to the suboptimal equilibrium, where s/he identifies an opportunity that can be exploited for financial gain. It is probable that a student entrepreneur is more likely to create novel products or services due to their inherent set of personal characteristics of becoming a problem solver rather than complacent (Acs, Z.J., & Szerb, L., 2010). Such an individual is proactive in altering the unpleasant equilibrium by providing solutions at a profit, albeit in a risky nature. With this background in mind, the student entrepreneurs across these countries were asked whether any of their parents or family members were entrepreneurs. The findings from USA, Chile and Kenya were tabulated in Figure 2.

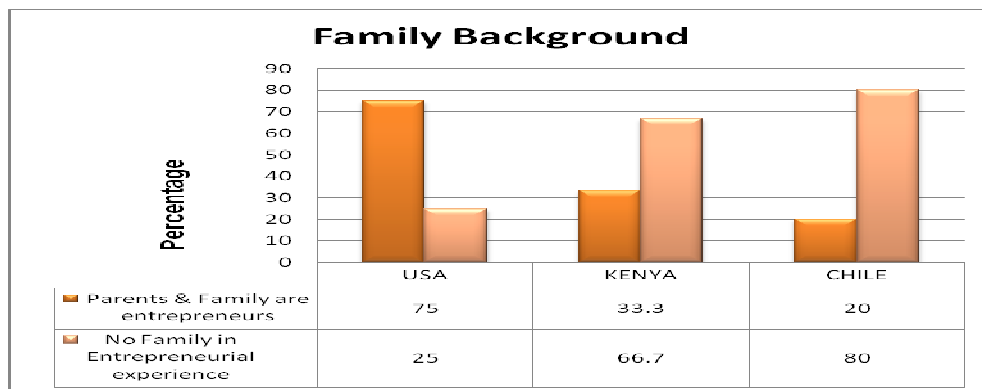


Figure 2. Entrepreneurial background of parents and family members

Results showed that the parents and family entrepreneurial background did not have a significant influence on the entrepreneurship propensity of students from Kenya and Chile. In fact, Chile student entrepreneurs had only 20% of their parents or family members being entrepreneurs while the Kenyan counterparts had a 33.3% representation of parents & family member being entrepreneurs. However, the USA student entrepreneurs had more family with prior entrepreneurial experiences.

Some researchers have proposed that career shifts may take place inter-generationally in societies undergoing economic transforming, experiencing the youth population budge and the high unemployment rates in the Kenyan demography, where it is estimated that 70% of the population in under the age of 35 years. It is therefore not surprising that by examining the family background context as a cultural genome there are disparities in the levels of entrepreneurship across these countries.

In contrast, the USA student entrepreneurs and their Chinese counterparts have good support structures from family and thus will tend to monetize their entrepreneurial ventures faster. This inherent trait in entrepreneurship from family members creates leverage for budding student entrepreneurs and thereby increases the incidences of entrepreneurial venture from students in the USA and Chinese universities as opposed to their contemporaries in the other two countries.

Cultural Genome-Socio-Cultural Factors

Sutter (2009) reported that entrepreneurship varies in countries and regions due to latent and unobserved variations in social, economic, cultural and political climates. Social or cultural attitude towards entrepreneurship is an important barometer to the success of entrepreneurial venture. The appreciation of entrepreneurship or lack of it, in essence, shapes the career choices of many university students. Since it is pragmatic to state that the national culture shapes the minds and career pursuits of university students, it was imperative to assess the views of these students as regards to the socio-cultural

attitude towards entrepreneurship in their various countries. To investigate this, the student entrepreneurs were asked their views on whether their individual socio-cultural views promoted entrepreneurship. The student entrepreneurs were asked to rank on a scale of 1 to 5 the level of significance the social/ cultural view had on their attitude towards entrepreneurship (1 was least significant and 5 was most significant).

Table 1: Social/ Cultural attitude towards Entrepreneurship

Social/ attitude towards Entrepreneurship	Level of Appreciation					Total %
	Not appreciated	Somewhat Appreciated	Appreciated	Fairly appreciated	Highly appreciated	
USA(n=8)*	25%	12.5%	12.5%	12.5%	12.5%	100
Kenya (n=9)	22.2%	44.%	22.2%	0	11.1%	100
Chile(n=9)	10%	30%	50%	10%	0	100

*n= 26

From the data in table 1, 25% of the respondents from USA felt that entrepreneurship was not highly appreciated in their society. As a result, these student entrepreneurs faced the highest barrier to entry as they ventured into job creation. The social cultural legitimization could be due to family or cultural influences where white collar jobs were preferred to entrepreneurship. Although a higher social status is conferred on entrepreneurs in certain societies, most families are skeptical about the success rates due to the high risk involved in any entrepreneurial venture.

In Chile, only 10% of the student entrepreneurs felt that the social or cultural attitude does not appreciate entrepreneurship. This result may be explained by the business and political environment in Chile. "Chile is arguably the best performer in the Latin American region in terms of a stable macroeconomic environment, lack of political risk and clear and transparent access to information, which gives the confidence to invest and provides a healthy environment for entrepreneurs. The country has a set of positive characteristics that makes it the most recommended place in the region to start and run a business" (Jiménez, 2012)

Societal or cultural approval of job creation claims that there are higher incidences of entrepreneurial behavior in cultures where entrepreneurs are highly esteemed (Etzioni, 1987). In this regard, there is more emphasis on entrepreneurial education and a conducive startup environment exists to encourage business start-ups. In most countries, many governments have put into place mechanism to encourage an entrepreneurial growth among students at the university level (Billy, I, Egbe, E., Rolle, J.D., et.al, 2016).

Although these theoretical explanations may not be conclusive, it is evident that, at the macro level, entrepreneurship is viewed with a lot of skepticism, and many students who choose to venture into entrepreneurship dare the odds in a culture that is predominantly non-entrepreneurial. For a student entrepreneur to succeed therefore, they need to have a disruptive nature that overlooks the social /cultural legitimization to succeed in their venture (Freytag and Thurik, 2010)

6. Conclusions and recommendations

It was evident that inter-generational collaborations for curriculum development leveraged by industry insights are vital to create a successful 21st century entrepreneur. Additionally, engagements diversity across cultures and disciplines yield opportunities for social change as well as business success

over the spectrum of global markets. With regards to the entrepreneurial spirit and proclivities, the MEC-CUNY students reported similarities in the “disruptive nature “of entrepreneurs across the different countries. These entrepreneurs seemed to defy cultural norms to create products or services that would satisfy a need or want whilst generating revenue.

Challenging cultural norms, however, is not valued or encouraged equally across the various business settings that the MEC-CUNY EEL has directly engaged with. Notably, in China there was a sharp divide between business students who valued cultural unity and traditions versus those who sought to embrace and leverage the global Americanization trend. Generation-Y students from MEC were an inspiration helping change-tradition transition naturally difficult to a heritage just beginning to birth its own generation-X entrepreneurially. Witnessing the shift in China’s cultural genome emphasized to minorities from MEC-CUNY that being divergent is an asset to the entrepreneur; the confidence often shaken by the American minority experience was strengthened.

A very different but equally valuable experiential learning exchange is the relationship between MEC-CUNY and the Chandaria Business Innovation and Incubation Center at Kenyatta University in Nairobi. While China thrives on efficiencies of large-scale and group endeavors, the student entrepreneurs in Kenya displayed a knack for generating creative solutions individually and planning small-scale execution strategies. Undeterred by financing challenges, a spirit of optimism grounded by the motivation of necessity is producing a technology-based approach to monetizing everyday life solutions. Kenya is quite diverse and their wide cultural genogram encourages innovation, while ironically China builds much of Kenya’s larger scale infrastructure. Poetically, Kenyatta’s Innovation and Incubation Center sits on the Thika road super-highway constructed by China.

7. Practical Implications

We believe that curriculum, as it exists without adequate experiential learning opportunities, will not prepare the students of the future for the global economy. There is a need for dynamic program reviews that forecast the demand for new skills / opportunities and in tandem we must provide a faculty capable of delivering such to the millennial students we serve. Such a change requires re-adapting a system from the bottom up to include industry, government and the academy. Since entrepreneurs and innovators are “disruptors”, faculty and student entrepreneurs can leverage technology while creating global communities to solve the most pressing global problems. An entrepreneur needs to build products with the global village in mind; cultural differentiation to suit different market niches is important, and this is only attainable when entrepreneurship learning incorporates the cultural variables.

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Interface between marketing, policy and development in emerging economies. An exploratory study and evaluation

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Keywords

Marketing, emerging economies, policy, development, production.

Abstract

This paper explores the role of marketing, policy, and development for emerging economies moving toward a market-driven economic environment. A historical review provides a foundation, then deductive analyses from theoretical reviews and transcripts reveal that such marketing is still in the developmental stages and has become necessary for the future direction of these economies. Following the findings, the paper provides managerial marketing implications and highlights how a market orientation and market-driven approach is necessary for the greater social good in a global economy.

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Introduction

“What we are engaged in today is essentially a race between the promise of economic development and the threat of international worldwide class war. The economic development is the opportunity of this age. The class war is the danger. Both are new. Both are indeed so new that most of us do not even see them yet. But they are the essential economic realities of this industrial age of ours. And whether we shall realize the opportunity or succumb to the danger will largely decide not only the economic future of this world—it may largely decide its spiritual, its intellectual, its political, and its social future.”

– Peter F. Drucker, *Parlin Memorial Lecture on Marketing and Economic Development*, June 6, 1957

Drucker’s prediction, made 60 years ago, is upon us today as a stark reality. Dholakia and Dholakia (1984) argue that while there has been significant economic development on a global scale, it has been skewed heavily in favor of the already affluent sections of the world population. The discontentment due to this increasing disparity in economic development has multiplied because of the widespread progress in communications. The television and telephone have reached where bread has not. Seeing life in developed societies as depicted on TV raises expectations initially, but over time, it results in frustration. The unfulfilled promise of development is creating huge populations of frustrated people, who take recourse to violence, militancy, terrorism, extortion, and vengeance. Drucker’s class war is at our doorstep, but there is still time to avert it through positive action. Drucker (1954) argued that marketing can go a long way to promoting economic development in developing countries. This study shows that marketing can be a very valuable tool in bringing the benefits of economic development to developing countries, and that it can contribute significantly to optimizing the utility of these benefits.

Several scholars (Drucker, 1958; Rostow, 1964; Bartels & Jenkins, 1977; and Cundiff & Hilger, 1982) have examined marketing’s role in fostering development in emerging global economies.

“Development” is the process of raising the level of prosperity and material living in a society by increasing the productivity and efficiency of its economy. Conventionally, in less industrialized regions, this process is believed to be achieved by an increase in industrial production and a relative decline in the importance of agricultural production. Development of a region or a country gains urgency based on the disparity it suffers in comparison with the more affluent or developed countries nearby or that it has active bilateral relations with. Now, given the speed and ease of instantaneous electronic communications, the global world has become very small, in that there is nothing the peoples of one country do not know about the life and economic condition of people of distant lands. This knowledge has many advantages, but also breeds frustration and unrest among people living in less advanced countries. This unrest, when allowed to persist, may transform into frustration and militancy. As a result, many emerging countries must open their economies to a market-driven approach and to trade liberalization, as, historically, experiments with communist and socialist systems have failed to lift the economies of these countries to global levels. On the other hand, they have become victims of government and business corruption and inefficiency. This has resulted in the gap between the “haves” and “have nots” increasing to a dangerous level.

Another aspect of life in emerging countries is the rapid growth of population, which absorbs whatever resources are available for the economic advance of its existing population. The increase in population introduces large numbers of young people into the job market. In most cases this population growth is faster than the growth of jobs, resulting in ever-increasing unemployment (Kinsey, 2001). This increase in population growth and trade liberalization has now made these countries attractive markets for foreign investment and marketing.

A market economy gives a free hand to individuals and groups of individuals to compete freely in the marketplace. Of course, this requires effective regulation, both of businesses and of the marketplace, by government agencies. The market determines what the customer desires, and a business tries to meet those desires, leading to profits and growth. It is in this context that the marketing concept assumes such overarching importance, and clearly, it is very important for any business in this type of economy to define its market orientation. In the last four decades, researchers have established that companies with a better market orientation perform better financially and are more popular with their customers, employees, and shareholders.

In 1958, Peter Drucker stressed the role of marketing in economic development from several perspectives, and noted the absence of marketing in planned economies within totalitarian forms of governments. In the 1980s, developing nations aspired, more than ever, for economic growth, trade, and better standards of living. Schneider (2005) argues that marketing stimulates growth and development and is difficult to understate. Imports bring additional competition and variety to domestic markets, benefiting consumers, and exports enlarge markets for domestic production, benefiting businesses. Trade exposes domestic firms to the best practices of foreign firms and to the demands of discerning customers. It also gives firms access to improved capital inputs such as technology, encouraging greater efficiency and productivity that provide new opportunities for growth and innovation.

Kotler (1987), stresses that marketing has played a major role in helping today’s leading economies arrive at their current levels of development, and that emerging economies need to import modern marketing ideas to ignite their economic growth. According to Kotler, marketing may be the coordination of resources and activities directed at satisfying customer needs and wants. Marketing is the business function that identifies unfulfilled needs and wants, defines and measures their magnitude, determines which target market the organization can best serve, decides on the appropriate products, pricing, and promotion programs to serve these markets, and calls upon everyone to think of and serve

the customer. From a societal point of view, marketing is the link between a society's material requirements and its economic patterns of response (Kotler, 2009). Marketing has acquired an important place for the economic development of the whole country. It has also become a necessity for attaining the object of social welfare. Because of it, marketing is the most important activity in a business enterprise while at the early stage of development it was the last activity. For convenience, the importance of marketing may be explained as under delivery of standard of living to the society and the satisfaction of needs and wants (Kotler, 2012).

Marketing can stimulate economic and social development by promoting economic growth through foreign direct investment (FDI) (Kindra, 1984). Before more fully exploring various aspects of marketing's role in economic development, it is useful to review some definitional and conceptual issues regarding the terms "marketing" and "development." According to Kotler, marketing is the analysis, planning, implementation, and control of carefully formulated programs designed to bring about voluntary exchanges of values with target markets for achieving organizational objectives. He argues that it relies heavily on designing the organization's offering in terms of the target market's needs and desires, and on using effective pricing, communications, and distribution to inform, motivate, and service the markets (Kotler, 1982). The second definition, given by the American Marketing Association, states that "marketing is the process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods, and services to create exchanges that satisfy individual and organizational objectives" (American Marketing Association, 1985, p. 1). The Chartered Institute of Marketing 2008 defines marketing as the managerial process of identifying and satisfying customers' needs and requirements.

Ellis (2005) argues that the marketing concept is measured in terms of specific business activities and institutions with a market orientation that tend to perform better in the market place. However, Ellis (2004) states that market orientation will be affected by the size and level of development of the host market. Marketing is a process of exchange that furthers societal goals.

Government's Role

In the past, governments in most emerging economies minimized the need for scientific marketing principles. The economy was one that concentrated on the production of raw materials and scarce resources for export. The economy's prosperity was historically based on the production-driven strategy (Kinsey, 1988). Early studies by Cook (1959) and Boyd (1959, 1961) discussed the role governments can play to increase market demand and minimize marketing expenditure through incentives that help firms achieve economies of scale. They emphasized the need to reduce foreign controls that repatriate profits to home nations and to reduce the number of small-scale, inefficient traders that give rise to marketing inefficiencies.

According to Kotler (1987), the government must play four major roles—planner, facilitator, regulator, and entrepreneur—in a way that demonstrates market-based thinking and action. The government's emphasis and involvement with each role varies from country to country, based on the state of development of its economy in general and of different components. For example, in highly developed economies, the government needs to act as an effective facilitator and regulator, because the private sector is sufficiently developed to do its own planning and entrepreneurship. The government becomes, mainly, a regulator of fair practices. It also facilitates those sectors of business which need support due to circumstances beyond their control or which have a direct bearing on issues of national importance. On the other hand, in less developed economies, the government may play a major role in planning the national economy to guide it along a path of growth towards the nation's wellbeing. It may need to take on the role of entrepreneur in sectors that the private sector does not find attractive due to low profits and long gestation periods. However, as the economy grows and the private sector develops financial

strength, the government's role as planner and entrepreneur should decrease, and the roles as facilitator and regulator must strengthen.

As a planner, the government must define the direction that the developing economy should move in. The government must search for value-adding opportunities so that the economy is less dependent on world commodities prices. This requires careful marketing research and data analysis. The government must evolve plans and policies that exert a formative influence on the economy. The plan must revolve around an "action strategy" (Varadarajan, 1984, p. 125). Planning for an effective marketing and distribution infrastructure is another important government function in developing countries, where the size of existing businesses does not permit the business community to undertake development of such infrastructure. This includes an efficient network of surface, air, and sea transportation, specialized storage facilities, and data banks.

As a facilitator, the government needs to create and kindle entrepreneurial energy in society. The current liberalization and globalization of economies in developing countries has increased the responsibilities and activities of governments in encouraging and facilitating the growth of business (Mallampally and Sauvart, 1999, p. 37). Issues like market entry, foreign ownership, and coherence between FDI and trade policies have become critical to economic development. Governments also play an important role in developing marketing education, market research, and tools such as large databases to facilitate economic development (Varadarajan, 1984, p. 126). Another aspect of facilitating business is the framing of market credit policies and the control of prices through subsidies and price controls where required (Varadarajan, 1984, p. 125). The influence of these measures on macro-marketing systems in a developing economy is vital as the costing, pricing, and market competition systems in these countries are still underdeveloped.

As a regulator, the government must establish rules and regulations to encourage trade. In this role, the government must create a legal and administrative framework to enforce business ethics, and develop regulations to ensure a level playing field and protect consumer rights and welfare. The laws and agencies created to enforce these regulations must deter malpractices and foster a healthy competition (Varadarajan, 1984, p. 127). A universal system of metrics, audits, and regulatory bodies form the backbone of the regulatory system. In the case of some basic commodities, price controls and price regulation fall under the umbrella of regulation of business.

As an entrepreneur, the government should determine which business industries it will own and operate (Kotler, 2003). According to the IMF, governments in developing countries have, during the past decade, begun liberalizing their national policies to establish a hospitable regulatory framework by relaxing rules regarding market entry and foreign ownership and are moving away from being centrally planned towards being market driven. In developing countries, the establishment of marketing boards, trading houses, and marketing cooperatives becomes essential until the private sector can undertake macro-marketing functions on a gradually increasing scale (Varadarajan, 1984, p. 127).

Role of Multinationals in Developing Countries

The multinational variable is an active force for introducing marketing principles and methods and applying them to emerging economies (Kinsey, 1988, p. 24). According to IMF and World Bank (2007) statistics, global marketing has shown a consistently increasing trend, from 3% of the world GDP in 1970 to nearly 30% in 2005. This accounts for 54,000 multinational corporations doing business globally (Mallampally & Sauvart, 1999).

Multinationals bring with them a treasure of funds, knowledge, expertise and work culture, which can literally change not only the marketing systems, but also the entire business environment of the country. With reference to the contribution of Sears, Roebuck, and Co., then the world's largest retailing

chain, to economic development in Latin America, Drucker (1958) notes that the entry of Sears into the Latin American market forced spectacular changes in retailing over wide surrounding areas such as store modernization, customer credit, retailers' attitude towards customers, selection and training of sales personnel, vendor development, assortment and quality of merchandise, pricing, inventory control, advertising, and sales promotion. Sears, by selling goods manufactured in these countries, has helped in the establishment of hundreds of local manufacturers who were assured of a market for their product where previously there was none. Sears's insistence on high standards of workmanship, quality, service, and delivery is reported to have accelerated the adoption of more progressive management techniques.

Another example is Hindustan Lever, a subsidiary of Unilever, which in India is like a state within a state. In 1984, when the Indian economy had not yet been opened fully to foreign companies, Hindustan Lever had the most extensive production and retailing network in the country, with 22 factories and 400 salesmen covering 220,000 retail outlets in 3,600 markets. In an interesting study on the role of multinationals, Dawson (1980) suggested that profitable relationships can be realized if multinational corporate strategies are compatible with national development plans, reflect social responsiveness, provide for local enterprise participation, reflect understanding of inter-regional differences, preserve national identity and culture, and adapt to rapid changes (Dawson, 1980, p. 182).

Kaynak (1982) commented on the effectiveness of multinationals and their importance and relevance to these economies. He indicated that most emerging nations see multinationals as reducing the cost of imports and improving the standard of living. Kinsey (1988) referred to the impact of multinationals on the removal of protectionist policies and a market driven approach by selected emerging economies in the last 30 years. She indicates that products marketed in developed countries become suitable for new markets elsewhere, notably in developing countries, by using effective marketing strategies to target markets.

Role of the Commercial Sector

In emerging markets, the commercial sector is highly underdeveloped. Kinsey (1988, p. 124) made the point that "there are very few indigenous marketers in these countries, if the marketer is defined as someone who understands and applies marketing to create, build, and maintain beneficial relationships with target markets. Most of the commercial sector in developing countries is production oriented, neglecting market research and marketing planning." In order to move away from this situation, the indigenous marketer must adapt to a marketing system approach.

Early researchers like Holton (1953) and Hirsch (1961) noted that the macro-profit sector of economic development devoted almost exclusive attention to the problems of increasing industry production levels, correcting unfavorable balances of trade, and reducing capital shortages. They investigated the universally applicable marketing principles of profit growth through expansion of buying, selling, risk taking, credit extension, and sorting goods in the distribution channels. Abbott (1963) and McCarthy (1963) investigated inefficiencies in the marketing institutions that bridge the gap between producers and consumers. They concluded that not only are more wholesalers and retailers needed, but also more effective and efficient marketing systems and orientation.

Marketing Orientation and Development - Conceptual Model

The "marketing concept" is a business philosophy that holds that the key to achieving organizational goals. It consists of determining the needs of target markets and delivering the desired outcome more effectively and efficiently than competitors. Also, a marketing concept starts with a well-defined market, focuses on customer's needs, coordinates all activities that will affect customers, and produces profit by creating customer satisfaction (Kotler, 2005). Marketing is the business function that identifies unfulfilled needs and wants, defines and measures their magnitude, determines which target

market the organization can best serve, decides on the appropriate products, pricing, and promotional programs to serve these markets, and calls upon everyone to think of and serve the customer.

“Market orientation” is the implementation of the marketing concept (Narver & Slater, 1990). Jaworski and Kohli (1993) defined market orientation as the organization-wide generation of market intelligence about the current and future needs of customers, forces in the environment, and the dissemination of and responsiveness to information across different departments in the organization. The result is a business culture committed to creating superior value for customers through improvement in the firm’s performance.

There is a large body of research that asserts a positive relationship among market orientation, organizational performance, and economic growth. There has also been a great interest in market orientation as an intangible factor that has an effect on macro organizational performance that can lead to development (Homburg, Krohmer, & Workman, 2004).

Shapiro (1988) conceptualized market orientation as an organizational decision-making process starting from information and proceeding to execution. At the heart of this process is a strong commitment by management to share information interdepartmentally and to practice open decision-making between functional and divisional employees. The main thrust of Shapiro’s (1988) position is that markets and customers must be understood, information needs to permeate into every corporate function, firms’ ability to make strategic and tactical decisions is important, there must be an open decision-making process, decisions must be well coordinated, and strengths and weaknesses of competitors must be understood.

Two years later, Kohli and Jaworski (1990) developed the intelligence perspective of market orientation, after their extensive review of the literature. They argued that market orientation involves behavioral processes including the generation of market intelligence pertaining to current and future needs of the customer, and the dissemination of and responsiveness to intelligence within the organization. Kohli and Jaworski (1990) believe that a measure of market orientation need only assess the degree to which a company is market oriented, that is, the degree to which its market orientation permeates the culture and generates intelligence, disseminates intelligence, and acts accordingly (see also Jaworski and Kohli, 1993; Wood and Bhuian, 1993). They argue that organizations must innovate in every aspect of their business operations to compete and survive in a competitive marketplace (Kohli and Jaworski, 1990).

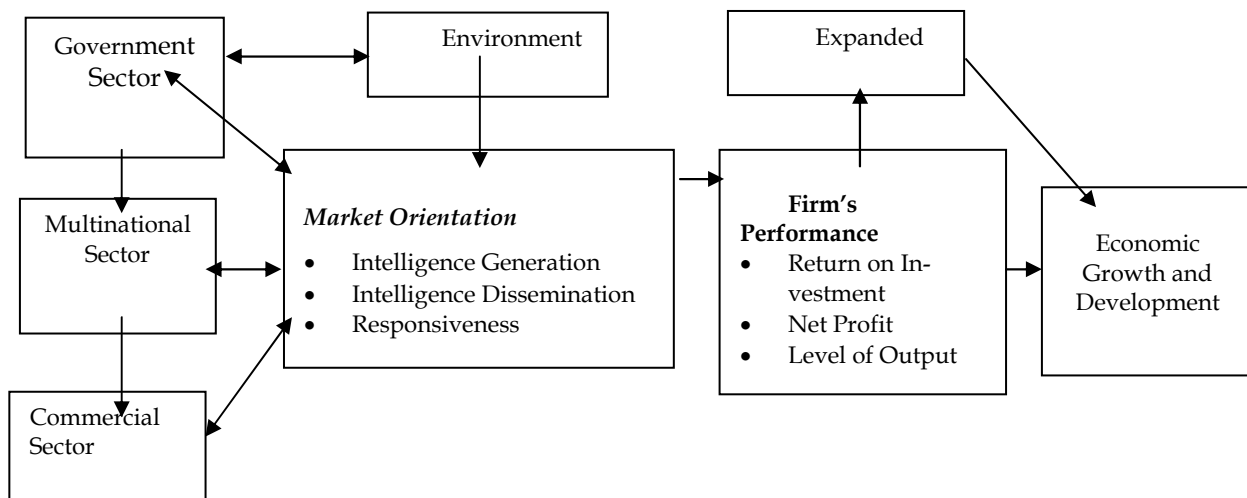
Environmental evaluation and analysis is a major antecedent of market orientation. It enables the enterprise to take advantage of opportunities in the environment while planning for threats. All firms do a kind of environmental scanning and analysis. This allows them to re-orient their focus and short-term objectives, especially with regards to customers. Areas covered include general economic factors, competition in the industry and the entire market, and the socio-political and technological environments (David, 2009; Pearce and Robinson, 2009). A market-oriented organization must have a system to monitor rapid changes in the environment against the customer's needs and desires and place their concerns at the highest level of organizational structure. This will result in customer-oriented, competitor-oriented, and inter-functional coordination activities such as determining the impact of the changes to the customer's satisfaction, improving product innovation, and implementing strategy that could develop superiority to compete (Kotler and Keller, 2009). To achieve this, intelligence generation, intelligence dissemination, and responsiveness to this intelligence are essential to achieving the firms’ objectives (Blankson et al., 2006). Similarly, Narver and Slater (1990), define market orientation as “as the organizational culture that most effectively and efficiently creates the necessary behaviors for the creation of superior value for buyers and thus, continuous superior performance for the business.” It is a business culture that produces

performance by creating superior value to customers. According to them, market orientation consists of the three behavioral components including customer orientation, competitor orientation, and inter-functional coordination. In this perspective, market orientation also involves having a long-term focus for growth (Narver, 1990). They find a positive relationship (Slater and Narver, 2000) between market orientation and business profitability where market orientation is primarily concerned with learning from various forms of contact with customers and competitors in the market.

Slater and Narver's findings (1995) suggested that a market-oriented culture is the prerequisite to developing a set of core competencies that will lead to a sustainable competitive advantage. Webster (1992) presaged this concept, stating that "marketing as culture is a set of values and beliefs about the central importance of the customer that guides the organization, is primarily the responsibility of leadership." Deshpande (1993) suggested that a company's customer orientations and organizational culture determines its business performance. Slater and Narver (2000) focused on the values and beliefs that a market orientation encourages, such as the continuous cross-functional learning about customers' needs, expressed and latent, and the development of competitive capabilities and strategies.

There has also been increasing interest in the use of market information for strategic purposes. Choe (2003) argues that external factors, such as competition, uncertainty, and needs, are the driving forces for strategic applications and provide a competitive advantage when understood and applied effectively. Despite an increase in research and the growing importance of market orientation in marketing literature, there are few comparative studies have been done regarding emerging countries. This limits the understanding how marketing is carried out in these markets. Deshpande and Webster (1989) pointed out the lack of comparative studies between countries. Increasing attention given to market orientation by both researchers and practitioners assumes that market orientation improves organizational performance and does not rely solely on the concept of competitive orientation (Choe, 2003).

Conceptual Model Showing Relationships Between Variables and the Outcome of Economic Growth and Development



Summary and Future directions

Most emerging countries seek a better standard of living and are experiencing some degree of industrialization and urbanization. Many have abandoned protectionist policies in recent years

(Vamvakidis, 2002) and are adopting a market-driven approach towards economic development. Marketing, if used effectively, can ensure that economic development is promoted, since it is concerned with the satisfaction of needs and wants and the optimum allocation of resources. Even though marketing concepts evolved in the advanced world, their most basic purpose is to serve and satisfy human needs and wants, which can be found in any cultural context. Thus, marketing may be considered a strategic element in the structure of any society, since it directly allocates resources and has an important impact on other aspects of economic and social life. Consequently, its relevance to economic development would seem clear (Kinsey, 1988).

Second, marketing is the process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods, and services to create exchanges that satisfy individual and organizational objectives. Irrespective of its level of development, every economic system is suffused with marketing activities, carried out by private firms, governments, and individuals (Kaynak, 1986). Third, the adoption of new marketing and distribution methods is vital; as productive capacity increases it will not only yield higher standards of living in developing countries but will also help to create an important source of investable capital to support industrialization (Woodruff, 1958). Finally, since globalization has increased significantly in the past two decades, most developing countries have begun liberalizing their economic policies to establish hospitable environments for foreign investments.

Based on this review of the literature, it is evident that marketing's role in development, and market orientation, is a complex process. This survey suggests that there exists a strong need for increased marketing in emerging countries, and that market orientation can contribute to increased production and improvement of consumption. The literature also suggests that a challenging opportunity awaits the marketing profession and that development calls for interpretations and application of marketing concepts. Most of the authors agree that emerging countries cannot rely on a production system alone, but that a sophisticated marketing system is necessary to achieve global competitiveness. While there are broad general prescriptions being made for the utilization of marketing in emerging countries, what needs to be done is to address what this means in practice. The literature indicates that marketing is currently practiced in some form in these countries, but the extent and effectiveness of marketing and development remain to be studied.

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Policy, market size, trade openness & natural resources endowment impact on foreign direct investments; A Meta-analysis of MENA Oil Producing Countries

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Keywords

Foreign Direct Investments, Market Size, Trade Openness & Natural Resources

Abstract

Purpose: To assess the impact of policy, market size, trade openness & natural resources endowment on foreign direct investments in MENA countries. **Methods:** Meta-analysis has been incorporated that has combined data from multiple studies. It has systematically assessed the results of previously conducted researches for obtaining accurate results. The study has incorporated incomplete and unbalanced data from 17 MENA countries between the years 1960 and 2012.

The data was obtained from World Development Indicators, World Bank, and Energy Information Administration. **Results:** The results have identified that oil reserves have a negative influence on FDI inflows. Trade openness was positive and significant at 5%. Similarly, the impact of market size, measured as GDP constant, was also positive and significant at 10%. **Conclusion:** It has been evaluated that market size, trade openness, and natural resource have a positive impact on foreign direct investments among MENA countries. **Originality Statement:** The study is based on certain factors for assessing their impact on FDIs. Such originality has a closer relevance to assess market size, trade openness and natural resources among oil producing countries.

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Introduction

Foreign Direct Investment (FDI) is considered as a significant source for funding capital projects in the economies of different countries. FDI is defined as the capital that is provided by an investor for acquiring long-term interest in the venture (Bekhet & Al-Smadi, 2014; Mottaleb & Kalirajan, 2010). FDI is responsible for the constitution of largest source of capital flows, and has gained significant importance as compared to trade. FDI has decreased due to unstable economic climate over the period 1980-2003, mainly after 9/11 incident. However, there was approximately 450% increase in the real world FDI flow (Abbott and De Vita, 2011). It also plays a significant role in economic growth of the developing countries that have limited capital investment and resources, which greatly influence their economy. Specifically, FDI generates increased levels of productivity through stimulation of economic growth, technology, capital, and skills (Mottaleb & Kalirajan, 2010). In developing countries, FDI is favored as it results in higher exports, substitution of bank loans, rich source of finance, and access to international markets and currencies.

The higher levels of productivity can be achieved through stimulation and economic growth by attracting maximum inflow of FDI. The technological advancements, capital, and skills also contribute to achieve high productivity level (Mottaleb & Kalirajan, 2010). The maximum inflow of FDI within a country renders various positive outcomes. For instance, it facilitates access to technological advancements and skills, entry to global markets, and respond to different market opportunities through FDI from multi-national enterprises (MNEs). FDI is encouraged in developing countries by providing incentives to MNEs. This initiative is usually taken by the policymakers within the country, and it positively affects the host countries by the establishment of different companies or plants within the country (Bekhet & Al-Smadi, 2014; Denisia, 2010).

Various researches have been conducted to evaluate the determinants of FDI, role of firm heterogeneity in affecting choice of foreign entry mode, and growth enhancing effects of FDI (Mottaleb & Kalirajan, 2010; Bekhet & Matar, 2013). However, limited attention has been given to the exchange rate regimes that influence the flow of FDI between different countries. Therefore, this study has investigated the influence of various factors including policy, market size, trade openness, and natural resources endowment on FDI.

Many countries solved problems of modernization of national economies by means of foreign direct investments (FDI). Foreign investments have played a certain role in economic growth of many countries of Asia, Latin America, and Africa. FDI does not only change the technological profile of national economies. They allow to receive modern corporate management, stable tax payments to generate a segment of the national market of qualitative production and to receive an export gain. Foreign investments as a resource are limited, segmented on the countries considering risks; therefore, between the states there is a competition for their flow. The so-called investment climate became a competition, which conditioned the entry and exit of the capital (percentage and no percentage incomes), presence of natural and labor forces, a tax press, preferences from the state, home market capacity, currencies volatility, etc.

So, developing economy actively uses FDI in reception of modern technologies. For countries with natural resources (for example, oil-extracting), it is a certain exchange of "the natural factor" on a hi-tech profile of those branches, which can make a diversified national economy portrait.

The present study focused on the analysis of influence of macroeconomic and natural factors, as policy, market size, trade openness and natural resources on FDI flow. The study has shown high correlation of the first group of these factors and FDI and low to the second. The object of research is the MENA countries during 1960–2012. Research leans against World Bank statistics, International Energy Agency, and modern scientific researches. It suggested that positions and article conclusions are correct and it is possible to agree with them.

FDI significantly contributes towards the promotion of competitiveness among local firms. In MENA countries, the introduction of FDI may help in building strong association with different countries, international corporations, and international monetary agencies. It would also help in advancement of new technologies by gaining expertise in managing production, transport, market expansion, communication network, and employment. Likewise, in MENA countries, the access to natural resources and foreign direct investment is considered as a significant factor.

The flow of foreign direct investment in MENA countries is resource seeking. Therefore, the study has aimed to analyze the policies, market size, trade openness, and natural resources endowment, which have impact on foreign direct investments among the MENA oil producing countries.

Theoretical Framework

FDI is considered as an important factor that is positively associated with achievement of global strategic targets and market opportunities through multinational enterprises (Denisia, 2010). It not only benefits the country through increase in the amount of capital in host country, but it also imposes spillover effects that are beneficial for the host developing countries (Bekhet & Matar, 2013).

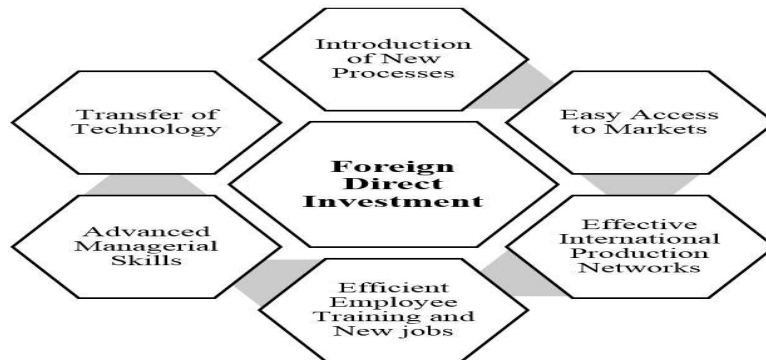


Figure 1: Theoretical Framework representing Benefits of Foreign Direct Investment

Figure 1 has described the features of foreign direct investment, which includes the introduction to new processes, easy access to markets, effective international production networks, efficient employee training and new jobs, advanced managerial skills and transfer of technology. It is important to investigate the association between FDI and its determinants in the developed host countries. A bi-directional casual association has been found between short-run and long-run FDI inflows and employment in manufacturing sector (Wong & Tang, 2010; Bekhet & Al-Smadi, 2014). Moreover, a study conducted by Sethi et al. (2003) investigated the association between FDI inflow and its determinants by using wages, political stability, gross national product, economic stability, and cultural influence as independent variables. The results revealed that all the independent variables are positively associated with flow of FDI within the country. There are various reasons that guard the entrance of firms into a particular market including:

- Resource related factors
- Market related factors
- Seeking efficiency

The major factor for restrained FDI flow can be related with financial and economic instability within the host country. This instability induces an uncertainty within the country, which may distort the perception of investors towards future profitability (Bekhet & Al-Smadi, 2014). The main attraction of FDI within a country is the industrial sector, private enterprises, and industrial free zones. The agricultural, transport, health, tourism, and building sectors are also responsible for attracting maximum FDI inflow. The understanding of FDI trends and its determinants is necessary, as it is an important part of investment. The examination of relationship between flow of FDI within the country and its determinants including unemployment rates, economic freedom, and per capita income revealed significant association between FDI and its determinants (Pearson et al., 2012).

The relationship between FDI and its determinants prevailing in host countries has been investigated by Seetanah and Rojid (2011). The study evaluated the determinants of FDI including, economic openness, market size, TAX, labor cost and educational level; however, the results showed positive association between the determinants of FDI and its flow within the country. Another study conducted by Kok and Ersoy (2009) investigated different determinants of FDI in the developing

countries. The study utilized fixed effect model for the analysis of FDI determinants including; total debt, trade, inflation, and electric power consumption. However, the results depicted positive association between the determinants, excluding the electric power consumption and inflation rate. The electric power consumption and inflation were investigated to impose negative impact on the FDI inflow (Kok & Ersoy, 2009).

The MENA countries can attract maximum foreign investment by MNEs (Multinational Enterprises) through advancement in technology, gaining new expertise in management, expansion of markets, production benefits, and efficient communication networks. The flow of FDI within a country related to natural resource-rich countries is mostly comprised in the natural resource sector. Moreover, the exploration of natural resources in a country needs a large capital and cash inflow (Asiedu & Lien, 2011).

As far as the features of FDI inflows are concerned in the MENA regions, the regional cross border investments are of great importance. Since 2000, FDI has served as the main factor of regional economic integration. It has been strengthened much rapidly than trade and it is cross-cutting the regions in a manner that trade has never been organized and managed. The development and growth has been pronounced specifically since the year 2005, but it has been observed highly irregular. During the past years, the massive excesses in oil producing countries accumulated in the sovereign wealth funds. More than one-third part in the region was intra-MENA concerned with FDI.

Methodology

Meta-analysis approach has been used, which has combined the data from multiple studies. It has systematically assessed the results of previously conducted researches for obtaining accurate results. The theoretical base for association between FDI and its determinants depend on the institutional dimension, location dimension of Dunning, and new theory trade. Moreover, the study has incorporated incomplete and unbalanced data from 17 MENA countries (Table 1.A Appendix) between the years 1960 and 2012. The study has utilized the rate of inflation of consumer prices in percentage, as it is considered among significant control variables for FDI inflow (Onyeiwu & Shrestha, 2004).

The trade openness was measured as the sum of exports and imports and expressed in percentage of real GDP to assess the impact of trade opened on FDI. The annual data was obtained from different sources including; World Development Indicators, World Bank, and Energy Information Administration. The macro-economic variables used as determinants of FDI are market size, inflation, real interest rate, economic growth, and real exchange rate. The analysis of the study is carried out by adopting FDI inflow regression approach as a function of independent variables. The occurrence of natural resources within a country has been used to analyze the investment profile, which helped in evaluating the effect of natural resources and investment profile on FDI inflow.

The model of international capital redistribution (*V.Leontieff model*), characterizes functioning of two groups of the countries, which includes developed and developing, donors and recipients. Communication of the countries has been carried out not only by means of a trade turnover, but also by mutual flows of investments. With reference to the developed and emerging economy, it is reduced to two parities that include the principles of the multiplier and accelerator. The combination of these principles allows defining influence on GDP investments, norm of accumulation (investment), and gain (accelerator) investments. Two models for the donor and the recipient to define streams, volumes of investments.

The second method used was the *P. Welfens and P. Jasinski*, which estimates the influence of FDI on GDP considering the saved up foreign capital, sizes of export, degree of development of market institutes, weight of the import goods in GDP, scales and a level of development of local fixed capital, labor.

The third model reflects the interaction of local and foreign investments, their mutual influence, cooperation, and division of labor. The model allows to consider weight, a role of foreign sector in a

branch, which is divided in several indicators, including volume and rates of manufacture, the relation of rates of foreign and local manufacture, share FDI in a total volume of investments, a gain of foreign and local investments, a share of investments in GDP, elasticity of rates of increase of GDP.

Results and Discussion

The study has used baseline estimation model and econometric methodology, which was completely based on the literature review. Empirical models were formulated to address the main objectives effectively. A major macroeconomic variable determinant was included in regards of FDI for developing and developed countries, which included market size. The study has further extended the empirical model by including natural resources and investment profile; therefore, it can be said that the focus of this research is twofold. Initially, the study has analyzed the significance of natural resources, while controlling other variables; and secondly, the study has also analyzed the effects of natural resources on foreign direct investment. Based on such aspects, the study has modeled FDI inflows as a function of trade openness and natural resources, as presented in equation 1.

$$FDIIN_{it} = \alpha_0 + \beta_1 TRADE_{it} + \beta_2 NATURAL\ RESOURCES_{it}$$

In the above equation, FDIIN is net inflows as a percentage of (GDP) gross domestic products and is the dependent variable. The independent variables are TRADE as % of GDP in the natural logarithm form; and Natural Resources that employ five measures, which are:

The share of fuel in total merchandise exports in natural logarithmic form

Oil rents % GDP

Oil production in thousands of barrels per day

Oil reserves in billions of barrels per day

Oil production in millions of barrels per day relative to oil reserves in millions of barrels per day

In accordance with the findings, fuel is used as the measure of natural resources; however, oil rents are used as the alternative measure of natural resources in models 3 and 4. The study has measured the impact of market size on FDI. The study has measured that there was a positive and significant relationship at 1% in models 1 and 2; similarly, it was also positive and significant at 5% in models 3 and 4. Such findings have supported by the past studies, conducted by Hisarciklilar et al, (2014) and Asiedu, (2013). Thus, MENA countries with large markets size have the capability to attract more FDI.

The study has also developed fixed effect results, which have been presented in Table 1. It has been evaluated that the main significant variables were included as oil production, which was at 5% in the first model and had a negative impact. Such findings were in contrast with Dunning's (1980) hypothesis, which explained that oil resources usually attract natural resource-seeking FDI. However, the extracted outcomes were in line with Asiedu and Lien (2011) that explained that energy reserves in MENA countries are dominated by state-owned entities. The findings have further indicated that the oil reserves are commonly used as a proxy for natural resources. These results have identified that oil reserve is the second common approach as a proxy for natural resources that has a negative influence on FDI inflows. Rogmans and Ebbers (2013) have suggested that oil-rich countries did not encourage foreign direct investment in MENA countries. However, such countries have better financial resources and foreign currency, which is preferred through contractual arrangement and licensing as compared to share foreign investment in terms of natural resources.

Table 2 presents the random-effects GLS without any interaction between investment profile as a proxy for institutional quality and oil as a proxy for natural resources. It has been evaluated that trade openness was positive and significant at 5%. The findings have suggested that countries with higher GDP are associated with increased FDIs. A diverse range of past studies have supported such outcomes

(Blonigen, 2005; Hisarciklilar et al. 2006). The results have confirmed that natural resources and trade openness are the main determinants of FDI in MENA countries. Similarly, different types of natural resources have been observed in the study. The findings also suggested that diverse effects were noted on foreign direct investment in regards of natural resources among MENA countries.

The Durbin-Wu-Hausman Test, which was used in the study, allowed the comparison of the models of different hypotheses estimated by different methods. A zero hypothesis-model factors are endogeneity along with the external factors, which are predetermined. Alternative are endogenous; whereas, the internal factors essentially influence economy development, industrial- technological, commercial activity.

Regressor	(1)	(2)	(3)	(4)	(5)	(6)
Ln TRADE	2.210*	0.507	1.240	0.429	0.754	0.390
OIL (production)	(0.070)	(0.791)	(0.314)	(0.827)	(0.509)	(0.848)
OIL (reserves)	-0.002**	-0.0004				
	(0.045)	(0.239)				
OIL (relative_production)			-0.046	-0.016*		
			(0.105)	(0.066)		
					-109.99	-105.63
					(0.316)	(0.338)
Ln GDP	5.953**	5.441**	5.575**	5.138**	5.384**	5.132**
	(0.027)	(0.013)	(0.031)	(0.010)	(0.033)	(0.012)
INFLATION	0.0787*	0.088**	0.0713	0.083**	0.067	0.077**
	(0.086)	(0.027)	(0.118)	(0.025)	(0.148)	(0.028)
INFRASTRUCTURE		-0.0360		-0.028		-0.051
		(0.687)		(0.745)		(0.601)
HUMAN CAPITAL (Education)	--0.039		-0.047		-0.046	
	(0.313)		(0.247)		(0.255)	
INSTITUTION (Investment profile)	0.213	0.120	0.206	0.107	0.214	0.103
	(0.397)	(0.585)	(0.431)	(0.616)	(0.429)	(0.636)
CONSTANT	-147.26**	-132.54**	-135.30**	-124.94**	-129.98**	-125.04**
	(0.024)	(0.013)	(0.029)	(0.011)	(0.031)	(0.013)
Collinearity diagnostics (VIF)						
TRADE	3.17	2.43	3.16	2.40	2.91	2.22
OIL (production)	2.21	2.25				
OIL (reserves)			1.90	2.05		
OIL (relative_production)					1.16	1.04
GDP constant	3.47	3.28	3.06	2.84	2.09	1.65
INFLATION	1.56	1.45	1.52	1.45	1.49	1.45
INFRASTRUCTURE		1.54		1.55		1.60
HUMAN CAPITAL (Education)	1.85		1.88		2.12	
INSTITUTION (Investment profile)	1.67	1.62	1.70	1.64	1.71	1.63
Mean VIF	2.32	2.09	2.20	1.99	1.91	1.60
N. Observations	194	266	190	262	189	261
N. Countries	14	15	14	15	13	14
F test	4.59**	20.14***	10.31***	13.84***	5.04***	16.51***
	(0.0102)	(0.000)	(0.0003)	(0.0000)	(0.0085)	(0.0000)
Hausman test	11.29*	16.25**	6.92	11.98*	13.68**	27.43**
	(0.0797)	(0.0125)	(0.3285)	(0.0625)	(0.0334)	(0.0001)

Table 1: Inward FDI Percentage of GDP, Panel Analysis, Country Fixed-Effects (Model Model Based on Correlation Matrix). Impact of Oil Production, Oil Reserves, and Oil Relative_Production

Regressor	(1)	(2)	(3)	(4)	(5)	(6)
Ln TRADE	2.638** (0.044)	1.466 (0.388)	2.256* (0.074)	1.354 (0.427)	3.548** (0.016)	2.40* (0.098)
OIL (production)	-0.001* (0.099)	-0.0006 (0.158)				
OIL (reserves)			-0.0370 (0.112)	-0.027** (0.029)		
OIL (relative_ production)					-161.03 (0.209)	-98.01 (0.299)
Ln GDP	4.640** (0.011)	3.003*** (0.009)	4.019*** (0.009)	2.88*** (0.003)	1.404*** (0.000)	0.564 (0.161)
INFLATION	0.071* (0.0.088)	0.088** (0.018)	0.063 (0.117)	0.083** (0.012)	0.054 (0.165)	0.072** (0.024)
INFRASTRUCTURE		0.0297 (0.708)		0.040 (0.611)		0.010 (0.870)
HUMAN CAPITAL (Education)	-0.093 (0.321)		-0.029 (0.329)		-0.009 (0.597)	
INSTITUTION (Investment profile)	0.285 (0.313)	0.292 (0.258)	0.298 (0.320)	0.258 (0.301)	0.437 (0.214)	0.384 (0.173)
CONSTANT	-118.88** (0.010)	-78.91** (0.013)	-103.21*** (0.009)	-75.21*** (0.007)	-50.04*** (0.001)	-25.51* (0.094)
N. Observations	194	266	190	262	189	261
N. Countries	14	15	14	15	13	14
Wald Chi2	30.13*** (0.000)	26.61*** (0.0002)	34.85*** (0.000)	48.74*** (0.000)	47.46*** (0.000)	36.37*** (0.0004)
Hausman test	11.29* (0.0797)	16.25** (0.0125)	6.92 (0.3285)	11.98* (0.0625)	13.68** (0.0334)	27.43** (0.0001)

Table 2: Inward FDI Percentage of GDP, Panel Analysis, Country Random-Effects (Model Based on Correlation Matrix). Impact of Oil Production, Oil Reserves, and Oil Relative_ Production

Regressor	(1)	(2)	(3)	(4)	(5)	(6)
Ln TRADE	2.305* (0.069)	1.357 (0.421)	2.089 (0.112)	1.281 (0.460)	3.656** (0.020)	2.38 (0.112)
OIL (production)	0.001 (0.574)	-0.001*** (0.007)				
OIL (reserves)			0.024 (0.418)	-0.030 (0.010)		
OIL (relative_ production)					181.96 (0.506)	-48.31 (0.782)
Ln GDP	4.312*** (0.006)	3.366*** (0.000)	4.004*** (0.004)	3.053*** (0.001)	1.411*** (0.000)	0.610 (0.155)
INFLATION	0.073* (0.089)	0.084** (0.031)	0.073 (0.101)	0.0824** (0.026)	0.055 (0.169)	0.072** (0.025)
INFRASTRUCTURE		0.022 (0.767)		0.036 (0.641)		0.011 (0.867)
HUMAN CAPITAL (Education)	-0.031 (0.279)		-0.032 (0.273)		-0.009 (0.592)	
INSTITUTION (Investment profile)	0.482 (0.167)	0.205** (0.557)	0.459 (0.177)	0.231 (0.507)	0.454 (0.212)	0.385 (0.188)
INTERACTION3 (Investment profile*production)	-0.0002 (0.219)	0.00003 (0.446)				
INTERACTION4 (Investment profile*reserves)			-0.006 (0.129)	-0.0003 (0.882)		
INTERACTIONS5 (Investment profile*relative production)					-55.55 (0.388)	-8.10 (0.848)
CONSTANT	-111.61*** (0.006)	-86.27** (0.002)	-52.55*** (0.004)	-78.69* (0.003)	-50.79*** (0.002)	-26.54 (0.101)
N. Observations	194	266	190	262	189	261
N. Countries	14	15	14	15	13	14
Wald Chi2	27.90*** (0.0002)	220.48*** (0.000)	52.70*** (0.0000)	144.68*** (0.0000)	100.69*** (0.0000)	432.33*** (0.0000)
Hausman test	21.47*** (0.0031)	15.56** (0.0164)	12.26* (0.0923)	9.68 (0.2072)	15.20** (0.0188)	27.72*** (0.0001)

Table 3: Inward FDI Percentage of GDP, Panel Analysis, Country Random-Effects (Model Based on Correlation Matrix). Impact of Oil Production, Oil Reserves, and Oil Relative_ Production with Interaction

Table 3 presents oil production, which is relative to the oil reserves in regards of natural resources. The empirical outcomes have shown that oil production had negatively influenced FDI inward at 1%. However, trade openness was positive and significant at 5%. Increasing trade openness by 1% increased foreign direct investment in MENA countries by 2.30%. At the same time, the impact of market size, measured as GDP constant, was also positive and significant at 10%. Therefore, it can be said that market size, trade openness, and natural resource have a direct impact on foreign direct investments among MENA countries.

The influence of natural resources changes in MENA countries on the inflow of FDI. The natural resources like oil reserves, oil production, trade, oil, GDP, inflation, infrastructure, institutions, and human capital may negatively influence the FDI inflow. The fuel exports are probable to attract the maximum FDI in MENA countries. The significant determinants in MENA countries, associated with FDI are trade openness, GDP, market size, inflation rate and investment profile. It is measured with the institutional quality and the type of resource examines the influence of investment profile on FDI. According to a study by Khayat (2017) there is negative association between the inward flows and fuel exports of FDI in MENA countries. The importance of natural resources has also been highlighted and it has been suggested that the liberalization policy measures must be implemented in MENA countries along with the implementation of privatization program.

SWOT Analysis

Economic growth and macroeconomic stability are important and essential factors for the promotion of economic development. The most important indication for the corporate as well as foreign investors are those that influence their balance sheet directly, such as inflation, GDP, population growth and the toll of education.

Strength	Weaknesses
Investment in resources is a valuable opportunity for foreign investors There are favorable geographical locations in most regions The competition is relatively low in resident firms, so it is easier to promote the firm.	Lack of safety and peace Low income per capita Weak financial sector Problems for foreign investors due to informal economy
Opportunities	Threats
Central and local government can create opportunities of foreign investors Foreign investors can invest in all sectors of the economy Rebuilding infrastructure	Competition of neighboring countries Scarcity of economic stability Instability of safety and laws

Conclusion

This study has assessed the empirical determinants in regards of FDIs, using panel data from 17 MENA countries over the period 1960–2012. Findings have suggested that different types of natural resources have diverse range of impacts on foreign direct investment in MENA countries. Regarding the impact of explanatory variables, the findings have shown that trade openness and institutional quality are important determinants of IFDI, depending on the models used. Therefore, these results have suggested that natural resources undermine the positive effects of investment profiles on foreign direct investment flows.

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Appendix

Table 1.A: MENA Countries chosen for the study analysis

MENA Countries	
17 MENA Countries that are recruited in the study to evaluate policy, market size, trade openness & natural resources endowment impact on Foreign Direct Investments	Algeria Djibouti Egypt Iran Iraq Jordan Kuwait Lebanon Libya Morocco Oman Qatar Saudi Arabia Syria Tunisia United Arab Emirates Yemen

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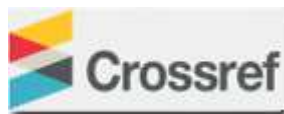
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Articles

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Stephen P. Magee; Hua Chen

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Hossein Niavand; Farzaneh Haghghat Nia

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Marvin O. Bates; Tom A. Buckles

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Khasadyahu Zarbabal; J. D. Rolle; Iris Billy; Jacqui Kisato; Roberto Acevedo

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Rodney Oudan

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Sahar Hassan Khayat