The Role of Marketing in The Economic Development of Eastern European Countries

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Abstract

This paper deals with the role of marketing in Eastern Europe's economic development. Economic miracles do not happen simply by democratization alone. The vital role that marketing plays in the economic development must be clearly understood and marketing practices must be adhered to. Unless the public and bureaucrats are indoctrinated about marketing their dreams of achieving economic prosperity may simply remain as dreams. Several barriers to marketing in Eastern European countries are enumerated, and these barriers must be removed as early as possible in order to make marketing work.

Introduction

By creating a cycle of mass production, distribution, and consumption in economies marketing plays a paramount role in a country's economic development process. In rich developed countries that enjoy high standards of living, marketing's role is well-understood by all and is practiced widely in all phases of life.

It is interesting to note that countries that have failed to acknowledge the significance of marketing to economic development are suffering with high rates of inflation, unemployment, and an economic break-down. On the contrary, countries that cherish marketing like South Korea, Taiwan, and Singapore have become rich in a short time just by practicing successful export marketing. Undeniably, their use of marketing knowledge and skills have paid them off handsomely. As a result, they are able to 'position' their low-cost high-quality products quite competitively in the world markets.

Purpose of the Paper

The primary purpose of this paper is to emphasize the significance of marketing to the economic development of Eastern European countries. To achieve this, marketing education must be imparted to the public at all levels before any substantial financial assistance is rendered to these countries. Also, the barriers that currently exist preventing marketing productivity must be removed. The second purpose of this paper is to

discuss the problems related to the democratization process within in the context of the first objective.

Marketing and Economic Development

Research shows that marketing is crucial to economic development (Reddy 1989, p. 405). In developed economies of the U. S., Western Europe, and other countries marketing has reached a level of great significance. These countries not only understand the significance of marketing but also constantly expand their marketing techniques and strategies. On the contrary, in many less developed countries of Asia, Africa, and Latin America marketing is less understood. Producers and sellers control the consumers here, and therefore, marketing's role is limited to physical distribution in these countries.

In some respects the Eastern European countries resemble Less Developed Countries (LDCs). First, their economies are still in the take-off stage. Furthermore, like in many LDCs, under socialism, the government controls the economy; it forecasts demand and then plans to produce products and services accordingly. In this process, however, the individual choice is restricted. People cannot get what they want or the government cannot or will not provide the necessary goods and services. Often basic commodities like meat, milk, and bread or durables like cars, telephones, and refrigerators are scarce or unavailable.

Second, exports are the major source for foreign exchange earnings. The exchange reserves are usually in short supply since most East European countries barter with each other and with the free world. In addition, the country's currency may not be freely convertible to purchase goods in international markets.

Finally, government policies and procedures are somewhat similar to the democracies of the less developed countries where mixed economies exist. In India and Brazil, for example, state ownership of major heavy and strategic industries has not proved any better. Due to lack of profit incentive, more often these industries become inefficient and burdensome to their national economies.

The Liberation of Eastern Europe

The sudden liberation of Eastern Europe came like a bolt from the blue. Consequently, East Germany, Czechoslovakia, Poland, Hungary, Yugoslavia, Rumania, and Bulgaria are going through a whirlwind of changes - social, political, economic, and cultural -- ever since they were allowed to be free from the domination by the Soviet Union in November 1989.

After forty years of political and economic subjugation, these countries are free at last to do whatever they want -- to become democracies and to pursue economic prosperity through capitalism, or to retain the existing socialistic form of government. So far, most of the countries have opted for a democratic form of government that will promote and sustain a free enterprise system. Perhaps, some of these nations think that democratization is a quick route to much wanted economic prosperity. Unfortunately, the road to prosperity is laid with hurdles. With the exception of East Germany that is now unified with West Germany, the rest of the countries may have to encounter many

surprises and hardships before achieving their objectives.

When nations switch their political philosophy and make a complete turn around, it takes a while for the public and bureaucrats to unlearn the past and adapt to new ways of life. After all, the differences between capitalism and communism are quite dramatic like the difference between the day and night. Under capitalism, individuals have freedom and owning private property is respected whereas government controls almost every facet of human life under communism.

According to some experts, a country's stage of economic growth can often influence the public attitudes towards production, distribution, and consumption (Main 1989, pp. 101-6). The implication here is that countries that are going through the early stages may not be cognizant of modern management and marketing concepts that are so well understood and practiced in the highly developed nations.

The U. S. Trade with Eastern Europe at a Glance

Since they communist bloc countries, the Eastern European countries along with the U. S. S. R. and China were not viewed as important in the U. S. foreign trade. A cursory glance at the 1988 U. S. trade with Eastern Europe, as shown in Table 1, reveals that the U. S. exports to Eastern Europe were less than a billion dollars while the imports were only just over one-and-a-half billion dollars. In fact, the U. S. trade with China and the U. S. S. R., was slightly more than the trade with East Europe during the same period.

The Democratization Process

The democratization process in the former communist Eastern European countries is a welcome change. However, is democratization alone the answer for

Table 1. U.S. Foreign Trade With Eastern Europe, China, and Russia - 1988
(f.a.s. Value - IN MILLIONS OF DOLLARS)

	Exports	Imports
EASTERN EUROPE	882	1,580
Bulgaria	127	27
Czechoslovakia	55	88
East Germany	109	110
Hungary	78	294
Yugoslavia	531	847
CHINA	5,033	8,512
U. S. S. R.	2,767	578

Source: U. S. Foreign Trade Highlights 1988.

economic revival and prosperity? The response to this question is not simple.

The concept of democracy is not new. Originated in ancient Greece and widely practiced by Romans, the concept quickly spread to the Western world, and now throughout much of the free world.

It is incorrect to think that becoming a democracy alone can guarantee economic prosperity. Although democracy and capitalism usually co-exist, achieving economic prosperity is an altogether different issue. For example, there are countries like India, Egypt, and Brazil that are democracies but are having chronic economic difficulties.

For one reason or another, economic prosperity seems to be elusive to many democratic but poor nations. Instead of prosperity, many LDC democracies are riddled with problems of corruption, inflation, and gross mismanagement of resources. On the other hand, there are successful democracies like the U. S., Canada, Australia, and Japan that seem to enjoy economic prosperity consistently for several years.

In any event, three things are important preconditions for the democratization process: first, the population should have a high literacy rate so that the citizens can understand their rights and responsibilities in a democracy. Second, there should be respect for individual freedom, private property, and equal justice. Third, perhaps a system something similar to that of the U. S. that clearly divides the power and holds it in check among the executive, judiciary, and legislative bodies must be established.

Transition to Capitalism

Transition to capitalism can be challenging. Initially, people may become enchanted with the idea. But, as time passes, they will realize that to become democratic and also adopt capitalistic ways of life all at the same time can be an arduous task -- especially for the citizens who were used to the communist type of government where individuals did not have to make any decisions. The transition problem can be threefold.

First, the people must "unlearn" the past ways of life, and then learn about the democratization process. They must forget the practices of socialism and change their attitudes about capitalism. Under the socialist form of government, the citizens do not have to compete to get good education, employment, health care, etc. that are usually provided free by the state, whereas under capitalism one has to compete and be willing to pay for

get these services. In other words, one has to work harder to have a decent life under capitalism, and the citizens who were not accustomed to such culture will find it difficult to adapt to a new life under capitalism.

Second, it is difficult to persuade the well-entrenched bureaucrats to switch from the socialistic ways of operating the government to democratic ways of doing it overnight. The entire governmental administrative mechanism needs to be overhauled.

Third, incentives for acquiring private property, wealth, and income need to be established. Also, procedures to collect taxes by the federal, state, and city governments need to be established. New laws must be developed by the elected members, and these laws must have the majority approval before they are implemented. Similarly, a host of policies and programs in various areas including such items as raising revenues through various taxes (income, sales, excise, customs duties, etc.) to policies and procedures on how to maintain a balanced budget needs to be freshly established.

Barriers to Marketing

In Eastern Europe, it may take several decades for marketing to reach the level of sophistication it has achieved in the Western world due to the following barriers:

1. Lack of education about capitalism. Many of these East European economies were under the rule of monarchies before they were forced to become socialist under Soviet domination since World War II. Without educating the public about capitalism through scholarly exchanges and developing a forum for free enterprise system, the West cannot expect a sudden success for democracy in Eastern Europe. It is essential to have a well-functioning democracy for marketing to work.

2. Lack of infrastructure and legal and contractual framework. Infrastructure relates to the availability of a good network of roads, railways, air transportation system, banking, insurance, post and telegraph, radio, television, newspaper, etc. The newly liberated East European economies severely lack sufficient infrastructure to facilitate physical distribution and advertising. Potential consumers are not accessible because of a poor or nonexistent distribution network. Legal and contractual framework to do business is totally absent. These deficiencies must be addressed.

3. Lack of convertible currency. Generally, the convertible feature of a country's currency depends on

the trade balances, internal budget deficits, and a host of other factors including how its currency is regarded by other countries. With the exception of East Germany, that was able to convert its currency into W. German marks, other countries have not been able to convert their currencies to hard currencies to pay for imports. Poland, Yugoslavia, and Hungary seem to be moving towards a currency conversion system to deal with foreign trade. In the absence of convertibility, East European countries will have to resort to barter system (Matthews 1987, pp. 30-34), not an efficient method for quick progress.

4. Lack of business culture appropriate for market-driven economies. In market-driven economies like the U. S., both sellers and buyers are aware of their roles individually and collectively so there is no confusion in initiating and closing business deals. In the socialist economies of Eastern Europe, due to limited number of business transactions, ordinary citizens may not be familiar with business practices that are necessary for conducting trade. A population struggling for survival tends to overlook the importance of private ownership of personal property. Business needs standards of integrity, honesty, expertise and quality if it is to expand (Cateora 1990, p. 303).

5. Lack of demand forecasting mechanisms similar to capitalist countries. Researching the potential market in centrally planned economies is difficult. Limited contact with final users and a dearth of available data are common problems (Kahler 1983, p. 36). In Eastern Europe, the demand for commodities and services is estimated by the centrally planned government, and the government tries to satisfy demand based on availability of products and services. Since consumption is subject to production in these economies, people learn to live in a seller's economy. In socialist countries, national goals for economic development are more crucial determinants of pricing policies than are market conditions. Further, because of centralized planning, most trade is often conducted by various government-owned-and-operated state trading organizations rather than by individual, profit-oriented end-users (Cateora 1990, p. 312).

6. Difficult to conduct marketing research. People are either ignorant of the significance of marketing research or may consider consumer surveys as methods whereby the government tries to collect derogatory information about the citizens. Because of these fears, it is difficult to expect cooperation from the people in collecting valuable marketing research information. Although such fears might have lessened somewhat, people still fail to see the critical role of marketing research partly due to

fundamental suspicions about answering questions for strangers.

7. Lack of minimum level of technology. The existence of low levels of technology might prevent centralized reservation systems in hotels, motels, air-ticket bookings, etc. The degree of computer usage is very limited in these countries; this prevents them from performing as well as the market-driven economies in the West. Information collection, storage, retrieval, and analysis is vital for marketing effectiveness.

8. Lack of legal mechanisms for rapid expansion of businesses. The legal system in Eastern Europe is limited to crimes against the state (political) and other persons (criminal) and those related to property rights (civil). It can take several years to develop business laws and legal systems.

9. The attitude of dependence on the Soviet Union takes some time to disappear. Since World War II, Russia has patronized these economies to the extent that they have become dependent on Soviet Russia for essentials like oil, food items, and so forth. The feeling of independence and responsibility to provide for their own basic needs will be difficult and time consuming.

10. Lack of consumer orientation. So far advertising has been used in these countries mainly to propagate socialism or communism. But it is hard to predict how to use advertising to generate demand for consumer products, especially since people are not used to such product-oriented advertising. Moreover, the consumer advertising industry is in itself still in its infancy. For rapid market-orientation, the presence of a reasonably sophisticated advertising industry is essential.

11. The ability of these countries to prosper quickly depends on the perception by the West. Much of the initial capital, know-how, and technology has to be imported from the Western countries. With the exception of East Germany where West Germany has quickly stepped into action, it is difficult to predict the fate of the other countries in terms of attracting foreign capital and know-how. Sheer dependence on the U. S. might not be enough as the U. S. needs to invest substantial amounts of money in Panama, Nicaragua, and other Latin American countries in the Western hemisphere that are immediate neighbors rather than to worry about distant Eastern Europe. The U. S. should not get its priorities mixed up.

12. Lack of basic resources to produce needed

consumer products. Such basic resources as capital, skilled labor, and technology are very limited in these countries. Hence, they will not be able to produce and market consumer goods in abundance in the immediate future. Until oil, energy, housing, clothing, shelter, education, and health are taken care of, it will be futile to think of manufacturing and marketing consumer products in abundance.

13. The prevailing attitudes of other countries in the region may not be favorable for economic development. The unified Germany now looks after its own interests first. Second, the European Community (EC) is busy protecting its markets from the U. S. and Japanese competitors (Quelch, et. al. 1990) Third, the Soviet Union is busy trying to feed and clothe its own citizens properly. Thus, in an environment of self-interest first, unless the East European countries mobilize their own strength and unify even if it takes a long time as it did in the case of EC 1992; it is difficult to expect that other countries will help. On the contrary, other countries might like to control competition from the less experienced East European countries in the newly expanding markets.

14. Competition from Multinational Corporations (MNCs) can prevent the formation and growth of independent Eastern European firms. MNCs from the U. S., Japan, and Europe have vast resources. They quickly establish subsidiaries and joint ventures preventing the formation and development of independent East European firms. With enormous capital at their disposal, some large MNCs are able to play political games to achieve their selfish objectives. Also, MNCs that have mastered the four Ps (product, preparation, persistence, and patience) are quickly succeeding in other socialist countries like China (Larson 1988, pp. 79-90). For these MNCs, Eastern Europe is another testing ground. However, this is not to be seen as totally negative yet, particularly in view of the geographic location of East European countries to E. C. and other Western Europe, the second largest consumer market in the world.

15. Global markets are already flooded with goods from DCs, LDCs, and NICs. To generate capital, East European economies need to sell their products to other countries for profit. But, global markets today are already flooded with numerous goods from the developed countries, less developed countries, and newly industrialized countries.

Conclusions

First of all, unfortunately, the democratization of

Eastern Europe did not come at the best of times. The U. S. and other Western democracies themselves are in an economic dilemma to balance their internal and external budgets by reducing spending and cutting imports. Also, the demand for help from many countries all at one time limits the economic aid. However, there is a glimmer of hope through self-help. The Eastern European countries must quickly learn how the market-driven economies operate. In that they must understand the role that marketing plays to stimulate rapid economic development.

Second, countries that are offering financial aid to Eastern Europe must make sure that the citizens of these countries understand the concepts of capitalism, democracy, and marketing thoroughly. These concepts must be explained via education at high schools, colleges, and universities and through various adult education programs. The fact that these concepts are not necessarily parallel makes them difficult to grasp, and to understand that marketing is crucial to economic development.

Finally, the burgeoning East European democracies should be cognizant of the fact that democracy is not a free ticket to economic prosperity. This is clearly evident from the experiences of many LDC democracies such as India and Brazil where either high corruption and/or public debt have been the prominent reasons for lack of economic progress. Thus, surely, there are lessons for the Eastern European countries from the experiences of democracies in LDCs, and the extent to which these lessons are learned and applied will determine the extent to which their economic development takes place. Marketing must play a significant role in the economic development, and emphasis should be placed on removing barriers and promoting changes that will allow marketing to best perform its critical function.

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