Chapter 2

THE POLITICAL, LEGAL, AND TECHNOLOGICAL ENVIRONMENT

OBJECTIVES OF THE CHAPTER

The environment that international managers face is changing rapidly. The past is proving to be a poor indicator of what will happen in the future. Changes are not only more common now but also more significant than ever before, and these dramatic forces of change are creating new challenges. Although there are many dimensions in this new environment, most relevant to international management is the economic environment that was covered in the last chapter and the cultural environment covered in the chapters of Part Two. However, the political, legal and regulatory, and technological dimensions of the environment also bear on the international manager in highly significant ways. The objective of this chapter is to examine how the political, legal and regulatory, and technological environments have changed in recent years, and how these changes pose challenges and opportunities for international managers. In Chapter 10, we return to some of these themes, especially as they relate to political risk and managing the political environment. Some major trends in the political, legal, and technological environment that will shape the world in which international managers will compete are presented in Chapter 2. The specific objectives of this chapter are:

1. **INTRODUCE** the basic political systems that characterize regions and countries around the world and offer brief examples of each and their implications for international management.
2. **PRESENT** an overview of the legal and regulatory environment in which MNCs operate worldwide, and highlight differences in approach to legal and regulatory issues in different jurisdictions.
3. **REVIEW** key technological developments, including the growth of e-commerce, and discuss their impact on MNCs now and in the future.

The World of *International Management*

Google's China Gamble

In early 2010, Google, the most used search engine and a large, increasingly diversified technology company, reported that it had been the target of a cyber attack emanating from China, the goal of which was to penetrate the e-mail accounts of Chinese human rights activists. In response, the company said it would no longer censor its results in China, effectively closing down its active operations in China.

Google and the Chinese Market

For several years, Google has served Chinese Internet users through its search engine based in the U.S. In 2006, Google directly entered the Chinese market with a local search engine, Google China (www.google.cn). At the time, Google agreed to the Chinese government's stipulations that Google China censor search results on banned topics.

Google China struggled with the self-censorship restrictions demanded by the Chinese government, but it did not encounter any major problems until 2009. That year, the Chinese reprimanded Google China for having inappropriate content on its sites and began completely blocking Google's video sharing site, YouTube. Also, in September 2009, the head of Google China, Kai-Fu Lee, left the company. Nevertheless, by the third quarter of 2009, Google China had gained 31.3 percent of the Chinese search-engine market, although it still trailed the leader in search, Baidu, which had garnered 64 percent of the market.

The Chinese market appeared to have high growth potential. China has the highest number of Internet users in the world, with 384 million Chinese people online as of January 2010, according to Reuters. *The Wall Street Journal* reported that China's "massive number of Internet users has made it strategically important for Google, as it tried to extend its dominance in search and search advertising around the globe."

Cyber Attack

On January 12, 2010, Google announced that it had suffered a "highly sophisticated and targeted attack on our corporate infrastructure originating from China" in mid-December. Google's investigation revealed that "a primary goal of the attackers was accessing the Gmail accounts of Chinese human-rights activists," according to *The Wall Street Journal.* Hackers also stole some of Google's source code.

Although China has taken steps in recent years to become a more free-market economy, the Chinese government still severely limits the civil liberties of its citizens. Freedoms that people enjoy in the U.S., such as the freedom of speech, are restricted in China. The Chinese government still remains totalitarian, in that it seeks to control its citizens' lives by silencing dissenters. In response to the cyber attacks, Google China announced on its site that "we are no longer willing to continue censoring our results." Google warned that it could potentially exit China as a result of the hacking of its infrastructure.

The Wall Street Journal noted that Google is not the first foreign company to encounter censorship challenges in China; yet, despite "the limitations and challenges faced by foreign companies in China, [managers believe] the market is too big to walk away from."

Google's Decision

On March 22, 2010, Google closed www.google.cn and started directing Chinese users to its uncensored search engine in Hong Kong (www.google.com.hk). David Drummond, the Chief Legal Officer at Google, explained Google's decision in a Google blog post:

> We want as many people in the world as possible to have access to our services, including users in mainland China, yet the Chinese government has been crystal clear throughout our discussions that self-censorship is a non-negotiable legal requirement. We believe this new approach of providing uncensored search in simplified Chinese from Google.com.hk is a sensible solution to the challenges we've faced—it's entirely legal and will meaningfully increase access to information for people in China. We very much hope that the Chinese government respects our decision, though we are well aware that it could at any time block access to our services.

This move appeared to have angered Chinese officials. The Chinese government-controlled news agency reported that one official said, "Google has violated its written promise it made when entering the Chinese market by stopping filtering its searching service and blaming China in insinuation for alleged hacker attacks." The *New York Times* reported that Google had traced the cyber attacks to two Chinese universities.

The Wall Street Journal acknowledged that Google has become "the most high-profile Western company in recent years to draw a line under the kind of compromises it is prepared to make." Human-rights activists applauded Google's decision.

Others, however, were skeptical about whether Google had acted for altruistic reasons. *Bloomberg BusinessWeek* quoted a businessman in China who asserted that Google China's management has been "in turmoil" since Kai-Fu Lee left in 2009. "By leaving now and citing the hacking problems, Google can end its agony and repair its image," according to *Bloomberg BusinessWeek.* Closing the Google China search engine had a limited impact on Google's bottom line.

Somewhat coincidentally, Google's overall license to operate in China was to be reviewed in early July. Fearing the revocation of that license and the implication for Google's ability to operate in the country, Google subsequently amended the initial response by creating a new Google.cn page that asked users to remember its new Web address, Google.com.hk, rather than being automatically redirected to the new site.

Implications of the Decision

Google's decision "ends a nearly four-year bet that Google's search engine in China, even if censored, would help bring more information to Chinese citizens and loosen the government's controls on the Web," according to the *New York Times.* Many Chinese students and professionals are concerned that they will lose access to

Google's immense resources. In January 2010, when Google first warned of its potential departure from China, Chinese young people "placed wreaths at the company headquarters in Beijing as a sign of mourning."

Moreover, the *New York Times* described Google's decision as "a powerful rejection of Beijing's censorship but also a risky ploy in which Google, a global technology powerhouse, will essentially turn its back on the world's largest Internet market." Some saw Google's decision as the mark of a deteriorating business climate in China for foreign companies. In early July 2010, China's government renewed a license the company needed to continue using its Chinese Web address, despite tensions over censorship requirements and Google's decision to redirect traffic to its Hong Kong site. This tenuous compromise appeared to temporarily ease tensions.

Google's initial decision and the broader debate over official government censorship has sparked a global debate for international managers. Ed Black, CEO of the Computer & Communications Industry Association, was quoted in *Bloomberg BusinessWeek* as saying, "A lot of businesses around the world are now realizing they have to think through and figure out how to respond to these kinds of [government] controls—not just in China but in other parts of the world."

Fortunately, international managers have resources to assist them in making decisions in this area. One such resource is the Global Network Initiative. According to the Global Network Initiative website, "All over the world—from the Americas to Europe to the Middle East to Africa and Asia—companies in the Information & Communications Technology (ICT) sector face increasing government pressure to comply with domestic laws and policies in ways that may conflict with the internationally recognized human rights of freedom of expression and privacy. In response, a multi-stakeholder group of companies, civil society organizations (including human rights and press freedom groups), investors, and academics spent two years negotiating and creating a collaborative approach to protect and advance freedom of expression and privacy in the ICT sector, and have formed an Initiative to take this work forward."

Representatives from Google, Microsoft, and Yahoo sit on the Global Network Initiative's board of directors. (See www.globalnetworkinitiative.org for more information on this Initiative.)

It is important for international managers to think through these complex, political, legal and technological issues so that they are prepared for potential challenges, such as those faced by Google in China.

The experience of Google in China highlights how government policies toward a wide array of business practices may vary around the world and how these policies can have serious ramifications for international management. Google is one of the most successful Internet companies in the world and the global leader in online search. Its ability to rapidly facilitate information transfer, including information that may be perceived as damaging to or inconsistent with Chinese government policies, apparently caught the attention of Chinese authorities. While Google had in the past conceded to Chinese policies that limited access to many sites, an effort to penetrate the company's security protection resulted in its decision to leave China—at least temporarily. Government policies toward the dissemination of information that may be viewed as a threat to national security are longstanding (not only in China); what is new is that advances in information and communication technology make such policies more difficult to enforce without active use of those very same technologies. The breach of Google's security was the last straw that caused the company to change its censorship policies and effectively exit the country, but there are many other firms that have sought to work more collaboratively with governments as new laws, policies, and regulations are introduced. Managing the political and legal environment will continue to be an important challenge for international managers, as will the rapid changes in technological environment of global business.

Political Environment

Both domestic and international political environments have a major impact on MNCs. As government policies change, MNCs must adjust their strategies and practices to accommodate the new perspectives and actual requirements. Moreover, in a growing number of regions and countries, governments appear to be less stable; therefore, these areas carry more risk than they have in the past. The assessment of political risk and strategies to cope with it will be given specific attention in Chapter 10, but in this chapter we focus on general political systems with selected areas used as illustrations relevant to today's international managers.

The political system or system of government in a country greatly influences how its people manage and conduct business. We discussed in Chapter 1 how the government regulates business practices via economic systems. Here we review the general systems currently in place throughout the world. Political systems vary greatly between nation-states across the world. The issue with understanding how to conduct international management extends beyond general knowledge of the governmental practices to the specifics of the legal and regulatory frameworks in place. Underlying the actions of a government is the ideology informing the beliefs, values, behavior, and culture of the nation and its political system. We discussed ideologies and the philosophies underpinning them above. Effective management occurs when these different ideologies and philosophies are recognized and understood.

A political system can be evaluated along two dimensions. The first dimension focuses on the rights of citizens under governments ranging from fully democratic to totalitarian. The other dimension measures whether the focus of the political system is on individuals or the broader collective. The first dimension is the *ideology* of the system, while the second measures the degree of individualism or collectivism. No pure form of government exists in any category, so we can assume that there are many gradations along the two extremes. The observed correlation suggests that democratic societies emphasize individualism, while totalitarian societies lean toward collectivism.[1]

Ideologies

Individualism Adopters of **individualism** adhere to the philosophy that people should be free to pursue economic and political endeavors without constraint. This means that government interest should not solely influence individual behavior. In a business context, this is synonymous with capitalism and is connected to a free-market society, as discussed in Chapter 1, which encourages diversity and competition, compounded with private ownership, to stimulate productivity. It has been argued that private property is more successful, progressive, and productive than communal property due to increased incentives for maintenance and focus on care for individually owned property. The idea is that working in a group requires less energy per person to achieve the same goal, but an individual will work as hard as he or she has to in order to survive in a competitive environment. Simply following the status quo will stunt progress, while competing will increase creativity and progress. Modern managers may witness this when dealing with those who adopt an individualist philosophy and then must work in a team situation. Research has shown that team performance is negatively influenced by those who consider themselves individualistic; however competition stimulates motivation and encourages increased efforts to achieve goals.[2]

individualism
The political philosophy that people should be free to pursue economic and political endeavors without constraint.

The groundwork for this ideology was founded long ago. Philosophers such as David Hume (1711–1776), Adam Smith (1723–1790), and even Aristotle (384–322 BC) contributed to these principles. While philosophers created the foundation for this belief system long ago, it can be witnessed playing out through modern practice. Eastern Europe, the former Soviet Union, areas of Latin America, Great Britain, and Sweden all have moved toward the idea that the betterment of society is related to the level of freedom individuals have in pursuing economic goals, along with general individual freedoms and self-expression without governmental constraint. The well-known movement in Britain toward privatization was led by Prime Minister Margaret Thatcher during her 11 years in office (1979–1990), when she successfully transferred ownership of many companies from the state to individuals and reduced the government-owned portion of gross national product from 10 to 3.9 percent.[3] She was truly a pioneer in the movement toward a capitalistic society, which has since spread across Europe.

International managers must remain alert as to how political changes may impact their business, as a continuous struggle for a foothold in government power often affects leaders in office. For example, Britain's economy improved under the leadership of Tony Blair; however, his support of the Iraq War severely weakened his position. Conservative David Cameron, elected Prime Minister in 2010, has sought to integrate traditional conservative principles without ignoring social development policies, something the Labour party has traditionally focused on. Government policy, in its attempt to control the economic environment, waxes and wanes, something the international manager must be keenly sensitive to.

Europe has added complexity to the political environment with the unification of the EU, which celebrated its 50th "birthday" in 2007. Notwithstanding the increasing integration of the EU, MNCs still need to be responsive to the political environment of individual countries, some due to the persistence of cultural differences, which will be discussed in Chapter 5. Yet, there are also significant interdependencies. For example, the recent economic crisis in Greece has prompted Germany and France to mobilize public and private financial support, even though the two largest economies in the euro zone have residual distrust from earlier eras of conflict and disagreement.[4] Europe is no longer a group of fragmented countries; it is a giant and expanding interwoven region in which international managers must be aware of what is happening politically, not only in the immediate area of operations but also throughout the continent. The EU consists of countries that adhere to individualistic orientations as well as those that follow collectivist ideals.

collectivism
The political philosophy that views the needs or goals of society as a whole as more important than individual desires.

Collectivism **Collectivism** views the needs and goals of society at large as more important than individual desires.[5] The reason there is no one rigid form of collectivism is because societal goals and the decision of how to keep people focused on them differ greatly among national cultures. The Greek philosopher Plato (427–347 BC) believed that individual rights should be sacrificed and property should be commonly owned. While on the surface one may assume that this would lead to a classless society, Plato believed that classes should still exist and that the best suited should rule over the people. Many forms of collectivism do not adhere to that idea.

Collectivism emerged in Germany and Italy as "national socialism," or fascism. *Fascism* is an authoritarian political ideology (generally tied to a mass movement) that considers individual and other societal interests inferior to the needs of the state and seeks to forge a type of national unity, usually based on ethnic, religious, cultural, or racial attributes. Various scholars attribute different characteristics to fascism, but the following elements are usually seen as its integral parts: nationalism, authoritarianism, militarism, corporatism, collectivism, totalitarianism, anticommunism, and opposition to economic and political liberalism.

We will explore individualism and collectivism again in Chapter 4 in the context of national cultural characteristics.

socialism
A moderate form of collectivism in which there is government ownership of institutions, and profit is not the ultimate goal.

Socialism **Socialism** directly refers to a society in which there is government ownership of institutions but profit is not the ultimate goal. In addition to historically communist states such as China, North Korea, and Cuba, socialism has been practiced to varying degrees in recent years in a more moderate form—"democratic socialism"—by Great Britain's Labour Party, Germany's Social Democrats, as well as in France, Spain, and Greece.[6]

Modern socialism draws on the philosophies of Karl Marx (1818–1883), Friedrich Engels (1820–1895), and Vladimir Ilyich Lenin (1870–1924). Marx believed that governments should own businesses because in a capitalistic society only a few would benefit, and it would probably be at the expense of others in the form of not paying wages due to laborers. He advocated a classless society where everything was essentially communal. Socialism is a broad political movement and forms of it are unstable. In modern times it branched off into two extremes: communism and social democracy.

Communism is an extreme form of socialism which was realized through violent revolution and was committed to the idea of a worldwide communist state. During the 1970s, most of the world's population lived in communist states. The communist party encompassed the former Soviet Union, China, and nations in Eastern Europe, Southeast Asia, Africa, and Latin America. Cuba, Nicaragua, Cambodia, Laos, and Vietnam headed a notorious list. Today much of the communist collective has disintegrated. China still exhibits communism in the form of limiting individual political freedom. China has begun to move away from communism in the economic and business realms because it has discovered the failure of communism as an economic system due to the tendency of common goals to stunt economic progress and individual creativity.

Some transition countries, such as Russia, are postcommunist, but still retain aspects of an authoritarian government. Russia presents one of the most extreme examples of how the political environment affects international management. Poorly managed approaches to the economic and political transition resulted in neglect, corruption, and confusing changes in economic policy.[7] Devoid of funds and experiencing regular gas pipeline leaks, toxic drinking water, pitted roads, and electricity shutoffs, Russia did not present attractive investment opportunities as it moved away from communism. Yet more companies are taking the risk of investing in Russia because of increasing ease of entry, the new attempt at dividing and privatizing the Unified Energy System, and the movement by the Kremlin to begin government funding for the good of society including education, housing, and health care.[8] Actions by the Russian government over the past few years, however, continue to call into question the transparency and reliability of the Russian government. BP, Shell, and Ikea have each encountered de facto expropriation, corruption, and state-directed industrialization.

One of the biggest problems in Russia and in other transition economies is corruption, which we will discuss in greater depth in Chapter 3. The 2009 *Corruption Perception Index* from Transparency International ranked Russia 146th out of 180 countries, falling behind Libya, Pakistan, and Honduras.[9] Brazil, China, and India, part of the BRIC emerging markets block, consistently score higher than Russia. In the 2010 Heritage Foundation's *Index of Economic Freedom,* Russia's overall rating in the measurement of economic openness, regulatory efficiency, the rule of law, and competitiveness decreased to 50.3 this year, ranking it only 0.3 points away from being a repressive economic business environment.[10] As more MNCs invest in Russia, these unethical practices will face increasing scrutiny if political forces can be contained. To date, some multinationals feel that the risk is too great, especially with corruption continuing to spread throughout the country. Despite the Kremlin's support of citizens, Russia is in danger of becoming a unified corrupt system. Still most view Russia as they do China: Both are markets that are too large and potentially too lucrative to ignore.

Social democracy refers to a socialist movement that achieved its goals through nonviolent revolution. This system was pervasive in such Western nations as Australia, France, Germany, Great Britain, Norway, Spain, and Sweden, as well as in India and Brazil. While social democracy was a great influence on these nations at one time or another, in practice it was not as viable as anticipated. Businesses that were nationalized were quite inefficient due to the guarantee of funding and the monopolistic structure. Citizens suffered a hike in both taxes and prices, which was contrary to the public interest and the good of the people. The 1970s and 1980s witnessed a response to this unfair structure with the success of Britain's Conservative Party and Germany's Christian Democratic Party, both of which adopted free-market ideals. Margaret Thatcher, as mentioned previously, was a great leader in this movement toward privatization. Although many businesses have been privatized, Britain still has a central government that adheres to the ideal of social democracy. With Britain facing severe budget shortfalls, Prime Minister David Cameron, elected in 2010, has proposed a comprehensive restructuring of public services which could further alter the country's longstanding commitment to a broad social support program.[11]

It is important to note here the difference between the nationalization of businesses and nationalism. The nationalization of businesses is the transference of ownership of a business from individuals or groups of individuals to the government. This may be done for several reasons: The ideologies of the country encourage the government to extract more money from the firm, the government believes the firm is hiding money, the government has a large investment in the company, or the government wants to secure wages and employment status because jobs would otherwise be lost. Nationalism, on the other hand, is an ideal in and of itself whereby an individual is completely loyal to his or her nation. People who are a part of this mindset gather under a common flag for such reasons as language or culture. The confusing thing for the international businessperson is that it can be associated with both individualism and collectivism. Nationalism exists in the United States, where there is a national anthem and all citizens gather under a common flag, even though individualism is practiced in the midst of a myriad of cultures and extensive diversity. Nationalism also exists in China, exemplified in the movement against Japan in the mid-1930s and the communist victory in 1949 when communist leader Mao Tse-tung gathered communists and peasants to fight for a common goal. This ultimately led to the People's Republic of China. In the case of modern China nationalism presupposes collectivism.

Political Systems

There are two basic anchors to political systems, each of which represents an "ideal type" that may not exist in pure form.

democracy
A political system in which the government is controlled by the citizens either directly or through elections.

Democracy

Democracy, with its European roots and strong presence in Northern and Western Europe, refers to the system in which the government is controlled by the citizens either directly or through elections. Essentially, every citizen should be involved in decision-making processes. The representative government ensures individual freedom since anyone who is eligible may have a voice in the choices made.

A democratic society cannot exist without at least a two-party system. Once elected, the representative is held accountable to the electorate for his or her actions, and this ultimately limits governmental power. Individual freedoms, such as freedom of expression and assembly, are secured. Further protections of citizens include impartial public service, such as a police force and court systems which also serve the government and, in turn, the electorate, though they are not directly affiliated with any political party. Finally, while representatives may be re-elected, the number of terms is often limited, and the elected representative may be voted out during the next election if he or she does not sufficiently adhere to the goals of the majority ruling. As mentioned above, a social democracy combines a socialist ideology with a democratic political system, a situation that has characterized many modern European states as well as some in Latin America and other regions.

totalitarianism
A political system in which there is only one representative party which exhibits control over every facet of political and human life.

Totalitarianism

Totalitarianism refers to a political system in which there is only one representative party which exhibits control over every facet of political and human life. Power is often maintained by suppression of opposition, which can be violent. Media censorship, political repression, and denial of rights and civil liberties are dominant ideals. If there is opposition to government, the response is imprisonment or even worse tactics, often torture. This may be used as a form of rehabilitation or simply a warning to others who may question the government.

Since only one party within each entity exists, there are many forms of totalitarian government. The most common is communist totalitarianism. Most dictatorships under the communist party disintegrated by 1989, but as noted above, aspects and degrees of this form of government are still found in Cuba, North Korea, Laos, Vietnam, and China. The evolution of modern global business has substantially altered the political systems in Vietnam, Laos, and China, each of which has moved toward a more market-based and pluralistic environment. However, each still exhibits some oppression of citizens through denial of civil liberties. The political environment in China is very complex because of the government's desire to balance national, immediate needs with the challenge of a free-market economy and globalization. Since joining the WTO in 2001, China has made trade liberalization a top priority. However, MNCs still face a host of major obstacles when doing business with and in China. For example, government regulations severely hamper multinational activity and favor domestic companies, which results in questionable treatment such as longer document processing times for foreign firms.[12] This makes it increasingly difficult for MNCs to gain the proper legal footing. The biggest problem may well be that the government does not know what it wants from multinational investors, and this is what accounts for the mixed signals and changes in direction that it continually sends. All this obviously increases the importance of knowledgeable international managers.

China may be moving further away from its communist tendencies as it begins supporting a more open, democratic society, at least in the economic sphere. China continues to monitor what it considers antigovernment actions and practices, but there is a discernible shift toward greater tolerance of individual freedoms.[13] For now, China continues to challenge the capabilities of current international business theory as it transitions through a unique system favoring high governmental control yet striving to unleash a more dynamic market economy.[14]

Though the most common, the totalitarian form of government exhibited in China is not the only one. Other forms of totalitarianism exhibit other forms of oppression as well. Parties or governments that govern an entity based on religious principles will ultimately oppress religious and political expression of its citizens. Examples are Iran or Saudi Arabia, where the laws and government are based on Islamic principles. Conducting business in the Middle East is, in many ways, similar to operating a business in the Western world. The Arab countries have been a generally positive place to do business, as many of these nations are seeking modern technology and most have the financial ability to pay for quality services. Worldwide fallout from the war on terrorism, the Afghanistan and Iraq wars, and the ongoing Israel–Arab conflicts, however, have raised tensions in the Middle East considerably, making the business environment there risky and potentially dangerous.

One final form of totalitarianism, sometimes referred to as "right-wing," allows for some economic (but not political) freedoms. While it directly opposes socialist and communist ideas, this form may gain power and support from the military, often in the form of a military leader imposing a government "for the good of the people." This results in military officers filling most government positions. Such military regimes ruled in Germany and Italy from the 1930s to 1940s and persisted in Latin America and Asia until the 1980s when the latter moved toward democratic forms. Recent examples include Myanmar, where the military has ruled since the suspension of democracy in 1962.

Legal and Regulatory Environment

One reason why today's international environment is so confusing and challenging for MNCs is that they face so many different laws and regulations in their global business operations. These factors affect the way businesses are developed and managed within host nations, so special consideration must be paid to the subtle differences in the legal codes from one country to another. Adhering to disparate legal frameworks sometimes prevents large MNCs from capitalizing on manufacturing economies of scale and scope within these regions. In addition, the sheer complexity and magnitude of bureaucracies require special attention. This, in turn, results in slower time to market and greater costs. MNCs must take time to carefully evaluate the legal framework in each market in which they do business before launching products or services in those markets.

There are four foundations on which laws are based around the world. Briefly summarized, these are:

Islamic law
Law that is derived from interpretation of the Qur'an and the teachings of the Prophet Muhammad and is found in most Islamic countries.

socialist law
Law that comes from the Marxist socialist system and continues to influence regulations in countries formerly associated with the Soviet Union as well as China.

common law
Law that derives from English law and is the foundation of legislation in the United States, Canada, and England, among other nations.

civil or code law
Law that is derived from Roman law and is found in the non-Islamic and nonsocialist countries.

1. **Islamic law.** This is law derived from interpretation of the Qur'an and the teachings of the Prophet Muhammad. It is found in most Islamic countries in the Middle East and Central Asia.
2. **Socialist law.** This law comes from the Marxist socialist system and continues to influence regulations in former communist countries, especially those from the former Soviet Union, as well as present-day China, Vietnam, North Korea, and Cuba. Since socialist law requires most property to be owned by the state or state-owned enterprises, MNCs have traditionally shied away from these countries.
3. **Common law.** This comes from English law, and it is the foundation of the legal system in the United States, Canada, England, Australia, New Zealand, and other nations.
4. **Civil or code law.** This law is derived from Roman law and is found in the non-Islamic and nonsocialist countries such as France, some countries in Latin America, and even Louisiana in the United States.

With these broad notions serving as points of departure, the following sections discuss basic principles and examples of the international legal environment facing MNCs today.

Basic Principles of International Law

When compared with domestic law, international law is less coherent because its sources embody not only the laws of individual countries concerned with any dispute but also treaties (universal, multilateral, or bilateral) and conventions (such as the Geneva Convention on Human Rights or the Vienna Convention of Diplomatic Security). In addition, international law contains unwritten understandings that arise from repeated interactions among nations. Conforming to all the different rules and regulations can create a major problem for MNCs. Fortunately, much of what they need to know can be subsumed under several broad and related principles that govern the conduct of international law.

principle of sovereignty
An international principle of law which holds that governments have the right to rule themselves as they see fit.

Sovereignty and Sovereign Immunity The **principle of sovereignty** holds that governments have the right to rule themselves as they see fit. In turn, this implies that one country's court system cannot be used to rectify injustices or impose penalties in another country unless that country agrees. So while U.S. laws require equality in the workplace for all employees, U.S. citizens who take a job in Japan cannot sue their Japanese employer under the provisions of U.S. law for failure to provide equal opportunity for them.

nationality principle
A jurisdictional principle of international law which holds that every country has jurisdiction over its citizens no matter where they are located.

territoriality principle
A jurisdictional principle of international law which holds that every nation has the right of jurisdiction within its legal territory.

International Jurisdiction International law provides for three types of jurisdictional principles. The first is the **nationality principle,** which holds that every country has jurisdiction (authority or power) over its citizens no matter where they are located. Therefore, a U.S. manager who violates the American Foreign Corrupt Practices Act while traveling abroad can be found guilty in the United States. The second is the **territoriality principle,** which holds that every nation has the right of jurisdiction within its legal territory. Therefore, a German firm that sells a defective product in England can be sued under English law even though the company is headquartered outside England. The third is the **protective principle,** which holds that every country has jurisdiction over behavior that adversely affects its national security, even if that conduct occurred outside the country. Therefore, a French firm that sells secret U.S. government blueprints for a satellite system can be subjected to U.S. laws.

Doctrine of Comity The **doctrine of comity** holds that there must be mutual respect for the laws, institutions, and governments of other countries in the matter of jurisdiction over their own citizens. Although this doctrine is not part of international law, it is part of international custom and tradition.

Act of State Doctrine Under the **act of state doctrine,** all acts of other governments are considered to be valid by U.S. courts, even if such acts are inappropriate in the United States. As a result, for example, foreign governments have the right to set limits on the repatriation of MNC profits and to forbid companies from sending more than this amount out of the host country back to the United States.

Treatment and Rights of Aliens Countries have the legal right to refuse admission of foreign citizens and to impose special restrictions on their conduct, their right of travel, where they can stay, and what business they may conduct. Nations also can deport aliens. For example, the United States has the right to limit the travel of foreign scientists coming into the United States to attend a scientific convention and can insist they remain within five miles of their hotel. After the horrific events of 9/11, the U.S. government began greater enforcement of laws related to illegal aliens. As a consequence, closer scrutiny of visitors and temporary workers, including expatriate workers from India and elsewhere who have migrated to the United States for high-tech positions, may result in worker shortages.[15]

Forum for Hearing and Settling Disputes This is a principle of U.S. justice as it applies to international law. At their discretion, U.S. courts can dismiss cases brought before them by foreigners; however, they are bound to examine issues including where the plaintiffs are located, where the evidence must be gathered, and where the property to be used in restitution is located. One of the best examples of this principle is the Union Carbide pesticide plant disaster in Bhopal, India. Over 2,000 people were killed and thousands left permanently injured when a toxic gas enveloped 40 square kilometers around the plant. The New York Court of Appeals sent the case back to India for resolution.

protective principle
A jurisdictional principle of international law which holds that every country has jurisdiction over behavior that adversely affects its national security, even if the conduct occurred outside that country.

doctrine of comity
A jurisdictional principle of international law which holds that there must be mutual respect for the laws, institutions, and governments of other countries in the matter of jurisdiction over their own citizens.

act of state doctrine
A jurisdictional principle of international law which holds that all acts of other governments are considered to be valid by U.S. courts, even if such acts are illegal or inappropriate under U.S. law.

Examples of Legal and Regulatory Issues

The principles described above help form the international legal and regulatory framework within which MNCs must operate. In the following we examine some examples of specific laws and situations that can have a direct impact on international business.

Financial Services Regulation The global financial crisis of 2008–2010 underscored the integrated nature of financial markets around the world and the reality that regulatory failure in one jurisdiction can have severe and immediate impacts on others.[16] The global contagion that enveloped the world was exacerbated, in part, by the availability of global derivatives trading and clearing and the relatively lightly regulated private equity and hedge fund industries. The crisis and its broad economic effects have prompted regulators around the world to consider tightening aspects of financial services regulation, especially those related to the risks associated with the derivatives activities of banks and their involvement in trading for their own account. In the United States, financial reform legislation was approved in July of 2010, although the degree to which that legislation would prevent another crisis remained hotly debated.[17] The nearby Closer Look box provides a comparison of proposed financial reform approaches in the EU and United States.

Foreign Corrupt Practices Act During the special prosecutor's investigation of the Watergate scandal in the early 1970s, a number of questionable payments made by U.S. corporations to public officials abroad were uncovered. These bribes became the focal point of investigations by the U.S. Internal Revenue Service, Securities and Exchange Commission (SEC), and Justice Department. This concern over bribes in the international arena eventually culminated in the 1977 passage of the **Foreign Corrupt Practices Act (FCPA),** which makes it illegal to influence foreign officials through personal payment or political contributions. The objectives of the FCPA were to stop U.S. MNCs from initiating

Foreign Corrupt Practices Act (FCPA)
An act that makes it illegal to influence foreign officials through personal payment or political contributions; became U.S. law in 1977 because of concerns over bribes in the international business arena.

Comparing European Union (EU) and U.S. Financial Reform

Preventing More Tax-Funded Bailouts

The G20 wants to end the belief among banks that they are "too big to fail" by requiring resolution mechanisms and "living wills" for speedy windups that don't destabilize markets. The U.S. Senate has set up an "orderly liquidation" process. The EU, a collection of 27 states with no common insolvency laws, faces a much harder task of thrashing out a pan-EU mechanism even though cross-border banks dominate the sector. EU executive European Commission will publish a policy outline on resolution funds so that banks pay for future bailouts with legislation due in 2011. Internal splits exist over what to do with money raised.

Winners/Losers: Banks face an extra levy on top of higher capital and liquidity requirements. Taxpayers should be better shielded. Messy patchwork for global banks which will come under pressure to "subsidiarize" operations in different countries.

Over-the-Counter Derivatives

The G20 agreed that derivatives should be standardized where possible so they can be centrally cleared and, if appropriate, traded on an exchange by the end of 2012. The U.S. Senate wants to go much further by requiring banks to spin off their swaps desk to isolate risks from depositors but it is unclear if this will make it to the final law.

The EU was scheduled to promulgate its draft law on derivatives by summer of 2010 and will focus on mandatory clearing of contracts. It is less fixated on mandatory exchange trading and won't look at the issue until much later in the year. It has no appetite so far to force structural changes on bank swap desks. The EU and the United States are likely to agree to exemptions for companies who hedge but there could be differences in scope.

Winners/Losers: Global banks could shift some trading from the United States to the EU. Corporates face costlier hedging as there will be heavier capital charges on uncleared trades but differences in exemption scope could be exploited.

Bonuses

The G20 has introduced principles to curb excessive pay and bonuses, such as requiring a big chunk of a bonus to be deferred over several years with a clawback mechanism. The United States and the EU are applying these principles and taking their own actions, such as a one-off tax in Britain.

Winners/Losers: Harder to justify big bonuses in the future.

Credit Ratings Agencies

The G20 agreed that ratings agencies should be required to register, report to supervisors, and show how they manage internal conflicts of interest. An EU law to this effect comes into force later this year and the bloc is looking at how it could be toughened up. U.S. reform plans are similar so no real differences are expected. The EU is beefing up its rules and was scheduled to introduce pan-EU supervision in summer 2010 and make it easier for new entrants to come into the sector.

Winners/Losers: Ratings agencies will have to justify what they do much more in the future. The "Big Three"—Fitch, S&P, and Moody's—may face more competition in the EU. The sector faces more efforts to dilute their role in determining bank capital requirements.

Hedge Funds/Private Equity

The United States and the EU are working in parallel to introduce a G20 pledge to require hedge fund managers to register and report a range of data on their positions. U.S. law is in line with G20 but exempts private equity and venture capital. The EU wants to go much further by including private equity and requiring third-country funds and managers to abide by strict requirements if they want to solicit European investors, a step the United States says is discriminatory. Managers of alternative funds in the EU would also have curbs on remuneration, an element absent from U.S. reform.

Winners/Losers: U.S. hedge fund managers may find it harder to do business in the EU. European investors may end up with less choice. Regulators will have better data on funds. EU managers may decamp to Switzerland, though also for tax reasons.

Banks Trading

The U.S. Senate has adopted the "Volcker rule" which would ban risky trading unrelated to customers' needs at deposit-insured banks though it is unclear if it will be in the final law. Key EU states are against the rule as they want to preserve their universal banking model.

Winners/Losers: Some trading could switch to the EU from the United States inside global banks.

Systemic Risk

The G20 wants mechanisms in place to spot and tackle systemwide risks better, a core lesson from the crisis. The U.S. Senate bill sets up a council of regulators that includes the Federal Reserve but the U.S. House wants a bigger role for the Fed. The EU is approving a reform that will make the European Central Bank the hub of a pan-EU systemic risk board.

Winners/Losers: ECB is a big winner with an enhanced role that many see as a platform for a more pervasive role in the future. Banks will have yet another pair of eyes staring down at them.

Bank Capital Requirements

The push to beef up bank capital and liquidity requirements is being led by the global Basel Committee of central bankers and supervisors, which is toughening up its global accord as requested by the G20. It will take effect from the end of 2012. The U.S. bill directs regulators to increase capital requirements on large financial firms as they grow in size or engage in riskier activities.

The EU is approving new rules to beef up capital on trading books and allow supervisors to slap extra capital requirements if remuneration is encouraging excessively risky behavior. It will debate a further set of rules at the turn of the year to toughen up definitions of capital and introduce leverage caps.

Winners/Losers: Bank return on equity is set to be squeezed. Regulators will have many more tools to control the sector. Higher costs are likely to be passed on to consumers investors. There could be timing issues as the EU has been more willing than the United States in the past to adopt Basel rules.

Fixing Securitization

The U.S. Senate bill forces securitizers to keep a baseline 5 percent of credit risk on securitized assets. The EU has already approved a law to this effect.

Winners/Losers: Banks say privately the 5 percent level is low enough not to make much difference and that the key problem is restoring investor confidence into the tarnished sector.

Source: "Factbox: Comparing EU and U.S. Financial Reform," Reuters, May 19, 2010.

or perpetuating corruption in foreign governments and to upgrade the image of both the United States and its businesses abroad.

Critics of the FCPA feared the loss of sales to foreign competitors, especially in those countries where bribery is an accepted way of doing business. Nevertheless, the U.S. government pushed ahead and attempted to enforce the act. Some of the countries that were named in early bribery cases under the law included Algeria, Kuwait, Saudi Arabia, and Turkey. The U.S. State Department tried to convince the SEC and Justice Department not to reveal countries or foreign officials who were involved in its investigations for fear of creating internal political problems for U.S. allies. Although this political sensitivity was justified for the most part, several interesting developments occurred: (1) MNCs found that they could live within the guidelines set down by the FCPA and (2) many foreign governments actually applauded these investigations under the FCPA, because it helped them crack down on corruption in their own country.

One analysis reported that since passage of the FCPA, U.S. exports to "bribe prone" countries actually increased.[18] Investigations reveal that once bribes were removed as a key competitive tool, more MNCs were willing to do business in that country. This proved to be true even in the Middle East, where many U.S. MNCs always assumed that bribes were required to ensure contracts. Evidence shows that this is no longer true in most cases; and in cases where it is true, those companies that engage in bribery face a strengthened FCPA that now allows the courts to both fine and imprison guilty parties. In addition, stepped up enforcement appears to be having a real impact. A report from the law firm Jones Day found that FCPA actions are increasingly targeting individual executives, not just corporations, and that penalties imposed under the FCPA have skyrocketed, and violations have spurred a number of collateral civil actions.[19]

Bureaucratization Very restrictive foreign bureaucracies are one of the biggest problems facing MNCs. This is particularly true when bureaucratic government controls are inefficient and left uncorrected. A good example is Japan, whose political parties feel more beholden to their local interests than to those in the rest of the country. As a result, it is extremely difficult to reorganize the Japanese bureaucracy and streamline the ways things are done, because so many politicians are more interested in the well-being of their own districts than in the long-term well-being of the nation as a whole. In turn, parochial actions create problems for MNCs trying to do business there. The administration of

Prime Minister Junichiro Koizumi of Japan tried to reduce some of this bureaucracy, although the fact that Japan has had five different Prime Ministers from 2006 to 2010 has not helped these efforts. Certainly the long-running recessionary economy of the country is inspiring reforms in the nation's antiquated banking system, opening up the Japanese market to more competition.[20]

Japanese businesses are also becoming more aware of the fact that they are dependent on the world market for many goods and services and that when bureaucratic red tape drives up the costs of these purchases, local consumers pay the price. These businesses are also beginning to realize that government bureaucracy can create a false sense of security and leave them unprepared to face the harsh competitive realities of the international marketplace.

In many developing and emerging markets, bureaucratic red tape impedes business growth and innovation. The World Bank conducts an annual survey to determine the ease of doing business in a variety of countries around the world. The survey includes individual items related to starting a business, dealing with construction permits, employing workers, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts, and closing a business. A composite ranking, as shown in Table 2–1, ranks the overall ease of doing business in these countries. Although developed countries generally rank better (higher), there are some developing countries (Georgia, Malaysia) that do well, and some developed economies (Greece) that do poorly.

In Table 2–1 economies are ranked on their ease of doing business, from 1 to 183, with first place being the best. A high ranking on the ease-of-doing-business index means the regulatory environment is conducive to the operation of business. This index averages the country's percentile rankings on 10 topics, made up of a variety of indicators, giving equal weight to each topic. The rankings cover the period June 2008 through May 2009.

Privatization Another example of the changing international regulatory environment is the current move toward privatization by an increasing number of countries. The German government, for example, has sped up privatization and deregulation of its telecommunications market. This has opened a host of opportunities for MNCs looking to create joint ventures with local German firms. Additionally, the French government has put some of its businesses on the sale block. Meanwhile, in China the government has ordered the military to close or sell off between 10,000 and 20,000 companies that earn an estimated \$9.5 billion annually. Known collectively as PLA Inc., the Chinese Army's business interests stretch from Hong Kong to the United States and include five-star hotels, paging services, golf courses, and Baskin-Robbins ice cream franchises. When the government cut the military budget during the early 1990s, it allowed the army to make up the shortfall by earning commercial revenue. However, now the government has decided that the army must exit this end of the business and let the free market take over.[21]

According to one source, in 2010, Poland intensified its efforts to privatize more than 300 state-owned enterprises by the end of 2011; Turkey had issued various privatization tenders in the energy and electricity sectors; Nigeria was set to privatize three of the Power Holding Company of Nigeria successor companies by the end of 2011; and Pakistan had privatized 167 state-owned enterprises since its inception, yielding US\$9 billion in proceeds to the government.[22] As described in the International Management in Action box in Chapter 1, "Brazilian Economic Reform," many developing countries are privatizing their state-owned companies to provide greater competition and access to service.

Regulation of Trade and Investment

The regulation of international trade and investment is another area in which individual countries use their legal and regulatory policies to affect the international management environment. The rapid increase in trade and investment has raised concerns among countries that others are not engaging in fair trade, based on the fundamental principles

Table 2–1
Ease-of-Doing-Business Ranking among Select Countries

Economy	Ease of Doing Business (Overall) Rank	Starting a Business	Dealing with Construction Permits	Employing Workers	Registering Property	Getting Credit	Protecting Investors	Paying Taxes	Trading Across Borders	Enforcing Contracts	Closing a Business
Singapore	1	4	2	1	16	4	2	5	1	13	2
United States	4	8	25	1	12	4	5	61	18	8	15
United Kingdom	5	16	16	35	23	2	10	16	16	23	9
Georgia	11	5	7	9	2	30	41	64	30	41	95
Japan	15	91	45	40	54	15	16	123	17	20	1
Finland	16	30	47	132	27	30	57	71	4	8	5
Mauritius	17	10	42	36	66	87	12	12	19	66	73
Sweden	18	43	19	117	20	71	57	42	7	51	18
Korea, Rep.	19	53	23	150	71	15	73	49	8	5	12
Bahrain	20	63	14	13	22	87	57	13	32	117	26
Switzerland	21	71	36	16	15	15	165	21	39	29	38
Malaysia	23	88	109	61	86	1	4	24	35	59	57
Germany	25	84	18	158	57	15	93	71	14	7	35
United Arab Emirates	33	44	25	50	7	71	119	4	5	134	143
South Africa	34	67	52	102	90	2	10	23	148	85	76
Poland	72	117	163	76	88	15	41	151	42	75	85
Turkey	73	56	133	145	36	71	57	75	67	27	121
Pakistan	85	63	105	146	119	61	27	143	78	158	56
Vietnam	93	116	69	103	40	30	172	147	74	32	127
Kenya	95	124	34	78	125	4	93	164	147	126	79
Greece	109	140	50	147	107	87	154	76	80	89	43
Argentina	118	138	168	101	115	61	109	142	110	46	86
Russian Federation	120	106	182	109	45	87	93	103	162	19	92
Brazil	129	126	113	138	120	87	73	150	100	100	131
India	133	169	175	104	93	30	41	169	94	182	138
Algeria	136	148	110	122	160	135	73	168	122	123	51
Iran, Islamic Rep.	137	48	141	137	153	113	165	117	134	53	109
Ecuador	138	163	86	160	69	87	132	77	125	101	134
Gambia, the	140	114	79	85	117	135	172	176	81	67	123
Philippines	144	162	111	115	102	127	132	135	68	118	153
Uzbekistan	150	92	142	95	133	135	119	178	174	44	125
Zimbabwe	159	145	179	142	84	113	119	131	167	78	156
Afghanistan	160	23	148	69	164	127	183	55	183	164	183
Venezuela,R.B.	177	142	94	181	97	177	178	182	166	74	151
Central African Republic	183	159	147	144	138	135	132	179	181	171	183

Source: www.internetworldstats.com.

International Management in Action

The United States Goes to the Mat

www.aitimes.com

Many suggest that the trade relationship between the United States and China is "unbalanced." In 2009, the United States accumulated a $227 billion deficit with China, with U.S. politicians and trade officials claiming that an undervalued yuan and government subsidies and regulations that favor Chinese MNCs were the main sources of the problem. This is not the first time the United States has voiced complaints. For a number of years, the United States has negotiated with China in an attempt to open its markets. The United States holds some leverage in these exchanges, since about 60 percent of China's exports are produced from companies that are in whole or part owned by foreign investors; however, the emerging economy still does not operate on a purely market-based economy.

U.S. administrations have pushed hard to level the playing field for trading with China. The main strategy has been threats to impose tariffs on Chinese imports. In 2006 the United States and the European Union joined forces to file a complaint that tariff policies in China unfairly block foreign-made auto parts and U.S. imports. Independently, the United States decided to focus responses on specific industries.

NewPage Corporation of Dayton, Ohio, initiated a "countervailing duty" case in 2006 against both Shandong Chenming Paper Holdings and Gold East Paper of China over glossy paper exports. NewPage claimed that government subsidies not only boosted exports, but made those exported goods unfairly inexpensive. WTO rules strictly prohibit governments from using subsidies as a way to support exports; however, China's "non-market" economy status had previously provided some protection from these actions.

In September 2006, the United States and China announced they had created a "strategic economic dialogue" to provide an overarching framework for bilateral economic dialogue and future economic relations. Bilateral issues such as pressing China for floating exchange rates, greater intellectual property rights, and increasing market access were at the top of the U.S. agenda for this forum, which was added to a range of existing mechanisms for addressing trade and economic issues between the United States and China, including the Joint Commission on Commerce and Trade (JCCT) between the U.S. Department of Commerce, the U.S. Trade Representative, and the Chinese vice premier responsible for trade and the Joint Economic Committee between the U.S. Department of the Treasury and the Chinese Ministry of Finance. In January 2009, Treasury Secretary designate Timothy Geithner used some of the sharpest language yet regarding China's management of its currency, suggesting the government was "manipulating" the yuan. By April of 2010, however, Geithner had softened the rhetoric, indicating that it was China's choice as to whether and when to revalue the currency.

The future of these claims and disagreements is uncertain. The United States believes that continued undervaluation of the yuan and subsidies or regulations that favor domestic Chinese companies and protect them from foreign competition maintain a very unlevel playing field. There is evidence of monopolies in aviation, steel, and telecommunications, but the United States has begun chipping away at other, more manageable fields. The United States also recognizes that China is an economic powerhouse and that an excess of tariffs could result in a trade war. It is evident that the EU and the United States would like to break down trade walls and be a part of the lucrative Chinese market, but they may need the added support of the WTO for effective negotiations.

The steps being taken by the U.S. government and the EU are important in opening up the Chinese market. Much needs to be done, however, and the U.S. government believes that success in this area will require it to "go to the mat" with China. The outcome promises to be interesting and vital to the success of world trade.

of international trade as specified in the WTO and other trade and investment agreements. Specifically, international trade rules require countries to provide "national treatment," which means that they will not discriminate against others in their trade relations. Unfortunately, many countries engage in government support (subsidies) and other types of practices that distort trade. For example, many developing countries require that foreign MNCs take on local partners in order to do business. Others mandate that MNCs employ a certain percentage of local workers or produce a specific amount in their country. These practices are not limited to developing countries. Japan, the United States, and many European countries use product standards, "buy local" regulations, and other policies to protect domestic industries and restrict trade.

In addition, most trade agreements require that countries extend most-favored-nation status such that trade benefits accorded one country (such as tariff reductions under the WTO) are accorded all other countries that are parties to that agreement. The emergence of regional trade arrangements has called into question this commitment because, by definition, agreements among a few countries (NAFTA, EU) give preference to those specific members over those who are not part of these trading "blocs." As discussed in Chapter 1, many countries engage in antidumping actions intended to offset the practice of trading partners "dumping" products at below cost or home market price, as well as countervailing duty actions intended to offset foreign government subsidization. In each case, there is evidence that many countries abuse these laws to protect domestic industries, something the WTO has been more vigilant in monitoring in recent years.

Technological Environment and Global Shifts in Production

Technological advancements not only connect the world at incredible speed but also aid in the increased quality of products, information gathering, and R&D. Manufacturing, information processing, and transportation are just a few examples of where technology improves organizational and personal business. The need for instant communication increases exponentially as global markets expand. MNCs need to keep their businesses connected; this is becoming increasingly easier as technology contributes to "flattening the world." Thomas Friedman, in his book *The World Is Flat,* writes that such events as the introduction of the Internet or the World Wide Web, along with mobile technologies, open sourcing, and work flow software distribution, not only enable businesses and individuals to access vast amounts of information at their fingertips in real time but are also resulting in the world flattening into a more level playing field.[23]

Trends in Technology, Communication, and Innovation

The innovation of the microprocessor could be considered the foundation of much of the technological and computing advancements seen today.[24] The creation of a digital framework allowed high-power computer performance at low cost. This then gave birth to such breakthroughs as the development of enhanced telecommunication systems, which will be explored in greater depth later in the chapter. Now, computers, telephones, televisions, and wireless forms of communication have merged to create multimedia products and allow users anywhere in the world to communicate with one another. The Internet allows one to obtain information from literally billions of sources.

Global connections do not necessarily level the playing field, however. The challenge of integrating telecom standards has become an issue for MNCs in China. Qualcomm Corporation had wanted to sell China narrowband CDMA (code division multiple access) technology; however, Qualcomm was initially unsuccessful in convincing the government that it could build enough products locally. Instead, China's current network, the world's largest mobile network, uses primarily GSM technology that is popular in Europe.[25] By 2009, however, CDMA had gained a foothold in China. According to statistics released by market research firm Sino-MR, sales volume of CDMA handsets topped 1.29 million during December 2008, up 33.6 percent year on year and 183 percent month on month, marking a five-year high.[26]

Furthermore, concepts like the open-source model allow for free and legal sharing of software and code, which may be utilized by underdeveloped countries in an attempt to gain competitive advantage while minimizing costs. India exemplifies this practice as it continues to increase its adoption of the Linux operating system (OS) in place of the global standard Microsoft Windows. The state of Kerala is shifting the software of its 2,600 high schools to the Linux system, which will enable a user to configure it to his or her needs with the goal of creating a new generation of adept programmers. In 2008, Microsoft unveiled DreamSpark, a software giveaway for an estimated 10 million-plus qualified students in the country. DreamSpark will provide students access to the latest Microsoft developer and designer tools at no charge to unlock their creative potential and set them on the path to academic and career success. The program is aligned to Microsoft Unlimited Potential, the company's global effort to creating sustained social and economic opportunity for everyone.[27] More broadly, a number of for profit and nonprofit firms have been aggressively working to bring low cost computers into the hands of the hundreds of millions of children in the developing world who have not benefited from the information and computing revolution.

One initiative—One Laptop Per Child (OLPC)—is a U.S. nonprofit organization set up to oversee the creation of an affordable educational device for use in the developing world. Its mission is "to create educational opportunities for the world's poorest children by providing each child with a rugged, low-cost, low-power, connected laptop with content and software designed for collaborative, joyful, self-empowered learning." Its current focus is on the development, construction and deployment of the XO-1 laptop and its successors, notably the release of the so-called XO-3, the long-awaited upgrade to the nonprofit's XO, the so-called "hundred-dollar laptop" launched in 2007. The organization is led by chairman Nicholas Negroponte and Charles Kane, President and Chief Operating Officer. OLPC is a nonprofit organization funded by member organizations such as AMD, eBay, Google, News Corporation, Red Hat, and Marvell. As of March 2010, there are 2 million free books available for OLPC computers. Most recently, the One Laptop Per Child foundation's aim is to create the world's most innovative tablet computer for the developing world, priced at less than $100. The new device is modeled in part on the education-focused Moby tablet Marvell introduced earlier in 2010, with modifications to keep the price low ($100 or less) and make the device usable in challenging environmental conditions.[28]

There also exists a great potential for disappointment as the world relies more and more on digital communication and imaging. The world is connected by a vast network of cables which we do not see because they are either buried underground or under water. One disruption occurred off the shores of Asia on December 26, 2006, when undersea cables were destroyed by rock slides, cutting phone and Internet connections in Taiwan, China, South Korea, Japan, and India. The fact that so many were reliant on a mere 4-inch-thick cable shows the potential risks associated with greater global connectivity. Restoration of some services to most of the affected areas was accomplished within 12 hours of the earthquake by rerouting digital traffic through Europe to the United States with other network cables.[29]

We have reviewed general influences of technology here, but what are some of the specific dimensions of technology and what other ways does technology affect international management? Here, we explore some of the dimensions of the technological environment currently facing international management, with a closer look at biotechnology, e-business, telecommunications, and the connection between technology, outsourcing, and offshoring.

In addition to the trends discussed above, other specific ways in which technology will affect international management in the next decade include:

1. Rapid advances in biotechnology that are built on the precise manipulation of organisms, which will revolutionize the fields of agriculture, medicine, and industry.
2. The emergence of nanotechnology, in which nanomachines will possess the ability to remake the whole physical universe.
3. Satellites that will play a role in learning. For example, communication firms will place tiny satellites into low orbit, making it possible for millions of people, even in remote or sparsely populated regions such as Siberia, the Chinese desert, and the African interior, to send and receive voice, data, and digitized images through handheld telephones.
4. Automatic translation telephones, which will allow people to communicate naturally in their own language with anyone in the world who has access to a telephone.

5. Artificial intelligence and embedded learning technology, which will allow thinking that formerly was felt to be only the domain of humans to occur in machines.
6. Silicon chips containing up to 100 million transistors, allowing computing power that now rests only in the hands of supercomputer users to be available on every desktop.
7. Supercomputers that are capable of 1 trillion calculations per second, which will allow advances such as simulations of the human body for testing new drugs and computers that respond easily to spoken commands.[30]

The development and subsequent use of these technologies have greatly benefited the most developed countries in which they were first deployed. However, the most positive effects should be seen in developing countries where inefficiencies in labor and production impede growth. Although all these technological innovations will affect international management, specific technologies will have especially pronounced effects in transforming economies and business practices. The following discussion highlights some specific dimensions of the technological environment currently facing international management.

Biotechnology

The digital age has given rise to such innovations as computers, cellular phones, and wireless technology. Advancements within this realm allow for more efficient communication and productivity to the point where the digital world has extended its effect from information systems to biology. **Biotechnology** is the integration of science and technology, but more specifically it is the creation of agricultural or medical products through industrial use and manipulation of living organisms. At first glance, it appears that the fusion of these two disciplines could breed a modern bionic man immune to disease, especially with movements toward technologically advanced prosthetics, cell regeneration through stem cell research, or laboratory-engineered drugs to help prevent or cure diseases such as HIV or cancer.

biotechnology
The integration of science and technology to create agricultural or medical products through industrial use and manipulation of living organisms.

Pharmaceutical competition is also prevalent on the global scale with China's raw material reserve and the emergence of biotech companies such as Genentech and the new Merck, after its acquisition of Swiss biotech company Serono. India is emerging as a major player, with its largest, mostly generic, pharmaceutical company Ranbaxy's ability to produce effective and affordable drugs.[31] While pharmaceutical companies mainly manufacture drugs through a process similar to that of organic chemistry, biotech companies attempt to discover genetic abnormalities or medicinal solutions through exploring organisms at the molecular level or by formulating compounds from inorganic materials that mirror organic substances. DNA manipulation in the laboratory extends beyond human research. As mentioned above, another aspect of biotech research is geared toward agriculture. Demand for ethanol in the United States is on the rise due to uncertain future oil supplies, making corn-derived ethanol a viable alternative. Yet, using corn as a fuel alternative will not only increase the cost of fuel but also create an imbalance between consumable corn and stock used for biofuel.[32] For this and many other reasons, global companies like Monsanto are collaborating with others such as BASF AG to work toward creating genetically modified seeds such as drought-tolerant corn and herbicide-tolerant soybeans.[33] Advancements in this industry include nutritionally advanced crops that may help alleviate world hunger.[34]

Aside from crops, the meat industry can also benefit from this process. The outbreak of mad cow disease in Great Britain sparked concern when evidence of the disease spread throughout Western Europe; however, the collaborative work of researchers in the United States and Japan may have engineered a solution to the problem by eliminating the gene which is the predecessor to making the animal susceptible to this ailment.[35] Furthermore, animal cloning, which simply makes a copy of pre-existing

DNA, could boost food production by producing more meat or dairy-producing animals. The first evidence of a successful animal clone was Dolly, born in Scotland in 1996. Complications arose, and Dolly aged at an accelerated rate, indicating that while she provided hope, there still existed many flaws in the process. While the United States is the only country that allows cloned animal products to be incorporated in the food supply, other countries actively cloning animals include Australia, Italy, China, South Korea, Japan, and New Zealand.[36] The world is certainly changing, and the trend toward technological integration is far from over. Whether one desires laser surgery to correct eyesight, a vaccine for emerging viruses, or more nutritious food, there is a biotechnology firm competing to be the first to achieve these goals. Hunger and poor health care are worldwide issues, and advancement in global biotechnology is working to raise the standards.

E-Business

As the Internet becomes increasingly widespread, it is having a dramatic effect on international commerce. Table 2–2 shows Internet penetration rates for major world regions, illustrating the dramatic increase from 2000 to 2009 and the accompanying growth in penetration rates, with Asia exhibiting the highest rate at more than 40 percent. Figure 2–1 shows the absolute number of Internet users in major regions as of 2009, with a total of 1.8 billion users worldwide, more than 760 million of whom are in Asia.

Tens of millions of people around the world have now purchased books from Amazon.com, and the company has now expanded its operations around the world. So have a host of other electronic retailers (e-tailers) which are discovering that their home-grown retailing expertise can be easily transferred and adapted for the international market.[37] Dell Computer has been offering B2C (electronic business-to-consumer) goods and services in Europe for a number of years, and the automakers are now beginning to move in this direction. Most automotive firms sell custom cars online.[38] Other firms are looking to use e-business to improve their current operations. For example, Deutsche Bank has overhauled its entire retail network with the goal of winning affluent customers across the continent.[39] Yet the most popular form of e-business is for business-to-business (B2B) dealings, such as placing orders and interacting with suppliers

Table 2–2
World Internet Usage and Population Statistics

World Regions	Population (2009 Est.)	Internet Users Dec. 31, 2000	Internet Users Latest Data	Penetration (% Population)	Growth 2000–2009	Users % of Table
Africa	991,002,342	4,514,400	86,217,900	8.7%	1,809.8%	4.8%
Asia	3,808,070,503	114,304,000	764,435,900	20.1	568.8	42.4
Europe	803,850,858	105,096,093	425,773,571	53.0	305.1	23.6
Middle East	202,687,005	3,284,800	58,309,546	28.8	1,675.1	3.2
North America	340,831,831	108,096,800	259,561,000	76.2	140.1	14.4
Latin America/ Caribbean	586,662,468	18,068,919	186,922,050	31.9	934.5	10.4
Oceania/Australia	34,700,201	7,620,480	21,110,490	60.8	177.0	1.2
WORLD TOTAL	6,767,805,208	360,985,492	1,802,330,457	26.6	399.3	100.0

NOTES: (1) Internet Usage and World Population Statistics are for December 31, 2009. (2) Demographic (Population) numbers are based on data from the US Census Bureau. (3) Internet usage information comes from data published by Nielsen Online, by the International Telecommunications Union, by GfK, local Regulators and other reliable sources.

Source: www.internetworldstats.com.

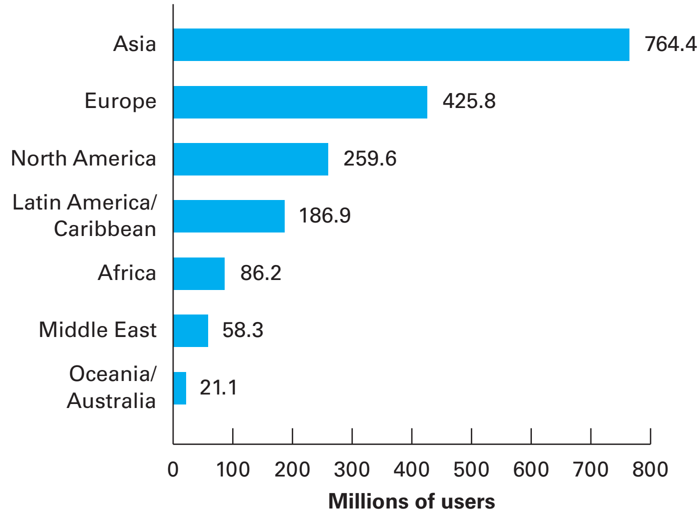


Figure 2–1

Internet Users in the World by Geographic Regions–2009

Source: Internet World Stats—www.internetworldstats.com/stats.htm. Estimated Internet users are 1,802,330,457 for December 31, 2009. Copyright © 2010, Miniwatts Marketing Group.

worldwide. Business-to-consumer (B2C) transactions will not be as large, but this is an area where many MNCs are trying to improve their operations.

The area of e-business that will most affect global customers is e-retailing and financial services. For example, customers can now use their keyboard to pay by credit card, although security remains a problem. However, the day is fast approaching when electronic cash (e-cash) will become common. This scenario already occurs in a number of forms. A good example is prepaid smart cards, which are being used mostly for telephone calls and public transportation. An individual can purchase one of these cards and use it in lieu of cash. This idea is blending with the Internet, allowing individuals to buy and sell merchandise and transfer funds electronically. The result will be global digital cash, which will take advantage of existing worldwide markets that allow buying and selling on a 24-hour basis.

Some companies, such as ING DIRECT, the U.S.'s largest direct bank, are completely "disintermediating" banking by eliminating the branches and other "bricks and mortar" facilities altogether. ING has more than 7.6 million savings customers and $89.7 billion in assets. ING DIRECT has developed a comprehensive social media "Savers Community," including Twitter, Facebook, and its "We, the Savers" blog. And so far, not one of the 275-plus bank failures in the U.S., since the financial crisis began in 2008, have been online banks.[40] HSBC and other global banks are learning from ING's success and growing their Internet banking globally. AirAsia, a growing regional airline in Southeast Asia, has distributed tickets electronically since its inception, demonstrating that even in regions where Internet penetration had not been extensive, electronic distribution is possible and profitable (see the In-Depth Integrative Case after Part Three).

Telecommunications

One of the most important dimensions of the technological environment facing international management today is telecommunications. To begin with, it no longer is necessary to hardwire a city to provide residents with telephone service. This can be done wirelessly, thus allowing people to use cellular phones, pagers, and other telecommunications services. As a result, a form of technologic leapfrogging is occurring, in which regions of the world are moving from a situation where phones were unavailable to one where cellular is available everywhere, including rural areas, due to the quick and relatively inexpensive installation of cellular infrastructure. In addition, technology is merging the telephone and the computer. As a result, Growing numbers of people in Europe and Asia are now accessing the Web through their cell phones. Over the next decade, the merging of the Internet and wireless technology will radically change the ways people communicate.[41] Wireless technology is also proving to be a boon for less developed countries, such as in South America and Eastern Europe where customers once waited years to get a telephone installed.

One reason for this rapid increase in telecommunications services is many countries believe that without an efficient communications system their economic growth may stall. Additionally, governments are accepting the belief that the only way to attract foreign investment and know-how in telecommunications is to cede control to private industry. As a result, while most telecommunications operations in the Asia-Pacific region were state-run a decade ago, a growing number are now in private hands. Singapore Telecommunications, Pakistan Telecom, Thailand's Telecom Asia, Korea Telecom, and Globe Telecom in the Philippines all have been privatized, and MNCs have helped in this process by providing investment funds. Today, NYNEX holds a stake in Telecom Asia; Bell Atlantic and Ameritech each own 25 percent of Telecom New Zealand; and Bell South has an ownership position in Australia's Optus. At the same time, Australia's Telestra is moving into Vietnam, Japan's NTT is investing in Thailand, and Korea Telecom is in the Philippines and Indonesia.

Many governments are reluctant to allow so much private and foreign ownership of such a vital industry; however, they also are aware that foreign investors will go elsewhere if the deal is not satisfactory. The Hong Kong office of Salomon Brothers, a U.S. investment bank, estimates that to meet the expanding demand for telecommunication service in Asia, companies will need to considerably increase the investment, most of which will have to come from overseas. MNCs are unwilling to put up this much money unless they are assured of operating control and a sufficiently high return on their investment.

Developing countries are eager to attract telecommunication firms and offer liberal terms. This liberalization has resulted in rapid increases in wireless penetration, with more than 550 million wireless devices in circulation in China and 360 million in India. Between 2000 and 2005 the total number of mobile subscribers in developing countries grew more than fivefold—to nearly 1.4 billion. Growth was rapid in all regions, but fastest in sub-Saharan Africa—Nigeria's subscriber base grew from 370,000 to 16.8 million in just four years.[42] And mobile users are increasingly relying on their devices for e-mail and data communications. According to the International Telecommunications Union, in 2008, the number of users accessing the Internet from mobile devices exceeded those accessing the Internet via PCs. Nokia, one of the world's largest telecommunications providers, has been aggressive in penetrating the emerging markets of China and India, and these two countries are now the two largest markets for the provider of mobile devices and other communications technologies. Unfortunately, counterfeit products continue to erode markets for authentic products in China and other developing and emerging markets.[43]

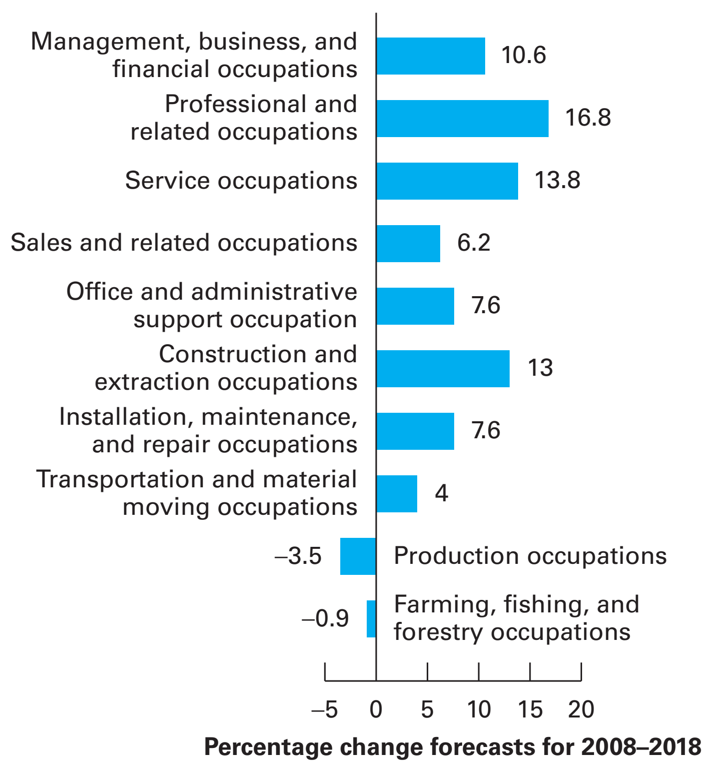
Technological Advancements, Outsourcing, and Offshoring

As MNCs use advanced technology to help them communicate, produce, and deliver their goods and services internationally, they face a new challenge: how technology will affect the nature and number of their employees. Some informed observers note that technology already has eliminated much and in the future will eliminate even more of the work being done by middle management and white-collar staff. Mounting cost pressures resulting from increased globalization of competition and profit expectations exerted by investors have placed pressure on MNCs to outsource or offshore production to take advantage of lower labor and other costs.[44] In the past century, machines replaced millions of manual laborers, but those who worked with their minds were able to thrive and survive. During the past three decades in particular, employees in blue-collar, smokestack industries such as steel and autos have been downsized by technology, and the result has been a permanent restructuring of the number of employees needed to run factories efficiently. In the 1990s, a similar trend unfolded in the white-collar service industries (insurance, banks, and even government). Most recently, this trend has affected high-tech companies in the late 1990s and early 2000s, when after the dot-com bubble burst, hundreds of thousands of jobs were lost, and again in 2008–2010, when many jobs were lost in finance and related industries as a result of the financial crisis and global recession. According to the U.S. Bureau of Labor Statistics, on a net basis, more than 400,000 finance jobs were lost in the U.S. from July 2008 to June 2009, and nearly 1.5 million jobs were lost in professional and business services.[45]

Some experts predict that in the future technology has the potential to displace employees in all industries, from those doing low-skilled jobs to those holding positions traditionally associated with knowledge work. For example, voice recognition is helping to replace telephone operators; the demand for postal workers has been reduced substantially by address-reading devices; and cash-dispensing machines can do 10 times more transactions in a day than bank tellers, so tellers can be reduced in number or even eliminated entirely in the future. Also, expert (sometimes called "smart") systems can eliminate human thinking completely. For example, American Express has an expert system that performs the credit analysis formerly done by college-graduate financial analysts. In the medical field, expert systems can diagnose some illnesses as well as doctors can, and robots capable of performing certain operations are starting to be used.

Emerging information technology also makes work more portable. As a result, MNCs have been able to move certain production activities overseas to capitalize on cheap labor resources. This is especially true for work that can be easily contracted with overseas locations. For example, low-paid workers in India and Asian countries now are being given subcontracted work such as labor-intensive software development and code-writing jobs. A restructuring of the nature of work and of employment is a result of such information technology; Figure 2–2 identifies some winners and losers in the workforce in recent years.

The new technological environment has both positives and negatives for MNCs and societies as a whole. On the positive side, the cost of doing business worldwide should decline thanks to the opportunities that technology offers in substituting lower-cost



Source: U.S. Bureau of Labor Statistics, www.bls.gov/opub/mlr/2009/11/art5full.pdf.

Figure 2–2

Winners and Losers in Selected Occupations: Percentage Change Forecasts for 2008–2018

machines for higher-priced labor. Over time, productivity should go up, and prices should go down. On the negative side, many employees will find either their jobs eliminated or their wages and salaries reduced because they have been replaced by machines and their skills are no longer in high demand. This job loss from technology can be especially devastating in developing countries. However, it doesn't have to be this way. A case in point is South Africa's showcase for automotive productivity as represented by the Delta Motor Corporation's Opel Corsa plant in Port Elizabeth. To provide as many jobs as possible, this world-class operation automated only 23 percent, compared to more than 85 percent auto assembly in Europe and North America.[46] Also, some industries can add jobs. For example, the positive has outweighed the negative in the computer and information technology industry, despite its ups and downs. Specifically, employment in the U.S. computer software industry has increased over the last decade. In less developed countries such as India, a high-tech boom in recent years has created jobs and opportunities for a growing number of people.[47] Additionally, even though developed countries such as Japan and the United States are most affected by technological displacement of workers, both nations still lead the world in creating new jobs and shifting their traditional industrial structure toward a high-tech, knowledge-based economy.

The precise impact that the advanced technological environment will have on international management over the next decade is difficult to forecast. One thing is certain, however; there is no turning back the technological clock. MNCs and nations alike must evaluate the impact of these changes carefully and realize that their economic performance is closely tied to keeping up with, or ahead of, rapidly advancing technology.

The World of International Management—Revisited

Political, legal, and technological environments can alter the landscape for global companies. The chapter opening The World of International Management described how Google's responses to these environments affected its ability to operate in China and its global reputation more generally, both positively and negatively. Now more than ever, international managers need to be aware of how differing political, legal, and technological environments are affecting their business and how globalization, security concerns, and other developments influence these environments. Changes in political, legal, and environmental conditions also open up new business opportunities but close some old ones.

In light of the information you have learned from reading this chapter, you should have a good understanding of these environments and some of the ways in which they will affect companies doing business abroad. Drawing on this knowledge, answer the following questions: (1) How will changes in the political and legal environment in China affect U.S. MNCs conducting business there? (2) How might rules governing data privacy and free speech affect future investment by Internet companies such as Yahoo? (3) How does technology result in greater integration and dependencies among economies, political systems, and financial markets?

SUMMARY OF KEY POINTS

1. The global political environment can be understood via an appreciation of ideologies and political systems. Ideologies, including individualism and collectivism, reflect underlying tendencies in society. Political systems, including democracy and totalitarianism, incorporate ideologies into political structures. There are fewer and fewer purely collectivist or socialist societies, although totalitarianism still exists in several countries and regions. Many countries are experiencing transitions from more socialist to democratic systems, reflecting related trends discussed in Chapter 1 toward more market-oriented economic systems.
2. The current legal and regulatory environment is both complex and confusing. There are many different laws and regulations to which MNCs doing business internationally must conform, and each nation is unique. Also, MNCs must abide by the laws of their own country. For example, U.S. MNCs must obey the rules set down by the Foreign Corrupt Practices

Act. Privatization and regulation of trade also affect the legal and regulatory environment in specific countries.

3. The technological environment is changing quickly and is having a major impact on international business. This will continue in the future with, for example, digitization, higher-speed telecommunication, and advancements in biotechnology as they offer developing countries new opportunities to leapfrog into the 21st century. New markets are being created for high-tech MNCs that are eager to provide telecommunications service. Technological developments also impact both the nature and the structure of employment, shifting the industrial structure toward a more high-tech, knowledge-based economy. MNCs that understand and take advantage of this high-tech environment should prosper, but they also must keep up, or ahead, to survive.

KEY TERMS

act of state doctrine, *43*
biotechnology, *51*
civil or code law, *42*
collectivism, *37*
common law, *42*
democracy, *40*
doctrine of comity, *43*
Foreign Corrupt Practices Act (FCPA), *43*
individualism, *36*
Islamic law, *42*
nationality principle, *42*
principle of sovereignty, *42*
protective principle, *43*
socialism, *38*
socialist law, *42*
territoriality principle, *42*
totalitarianism, *40*

REVIEW AND DISCUSSION QUESTIONS

1. In what ways do different ideologies and political systems influence the environment in which MNCs operate? Would these challenges be less for those operating in the EU than for those in Russia or China? Why or why not?
2. How do the following legal principles impact MNC operations: the principle of sovereignty, the nationality principle, the territoriality principle, the protective principle, and principle of comity?
3. How will advances in technology and telecommunications affect developing countries? Give some specific examples.
4. Why are developing countries interested in privatizing their state-owned industries? What opportunities does privatization have for MNCs?

INTERNET EXERCISE: HITACHI GOES WORLDWIDE

Hitachi products are well known in the United States, as well as in Europe and Asia. However, in an effort to maintain its international momentum, the Japanese MNC is continuing to push forward into new markets while also developing new products. Visit the MNC at its website www.hitachi.com and examine some of the latest developments that are taking place. Begin by reviewing the firm's current activities in Asia, specifically Hong Kong and Singapore. Then look at how it is doing business in North America. Finally, read about its European operations. All of these are available at this website. Then answer these three questions: (1) What kinds of products does the firm offer? What are its primary areas of emphasis? (2) In what types of environments does it operate? Is Hitachi primarily interested in developed markets, or is it also pushing into newly emerging markets? (3) Based on what it has been doing over the last two to three years, what do you think Hitachi's future strategy will be in competing in the environment of international business during the first decade of the new millennium?

In the International Spotlight

Vietnam

Located in Southeast Asia, the Socialist Republic of Vietnam is bordered to the north by the People's Republic of China, to the west by Laos and Cambodia, and to the east and south by the South China Sea. The country is a mere 127,000 square miles but has a population of almost 86.2 million. The language is Vietnamese, and the principal religion Buddhism, although there are a number of small minorities, including Confucian, Christian (mainly Catholic), Caodist, Daoist, and Hoa Hao. In recent years, the country's economy has been up and down, but average annual per capita income still is in the hundreds of dollars as the peasants remain very poor.

One of the reasons that Vietnam has lagged behind its fast-developing neighbors in Southeast Asia, such as Thailand and Malaysia, is its isolation from the industrial West, and the United States in particular, because of the Vietnam War. From the mid-1970s, the country had close relations with the U.S.S.R., but the collapse of communism there forced the still-communist Vietnamese government to work on establishing stronger economic ties with other countries. The nation recently has worked out many of its problems with China, and today, the Chinese have become a useful economic ally. And Vietnam is well on its way in establishing a vigorous trading relationship with the United States. Efforts toward this end began over a decade ago, but because of lack of information concerning the many U.S. soldiers still unaccounted for after the war, it was not until 1993 that the United States permitted U.S. companies to take part in ventures in Vietnam that were financed by international aid agencies. Then, in 1994, the U.S. trade embargo was lifted, and a growing number of American firms began doing business in Vietnam.

Caterpillar began supplying equipment for a $2 billion highway project. Mobil teamed with three Japanese partners to begin drilling offshore. Exxon, Amoco, Conoco, Unocal, and Arco negotiated production-sharing contracts with Petro Vietnam. General Electric opened a trade office and developed plans to use electric products throughout the country. AT&T began working to provide long-distance service both in and out of the country. Coca-Cola began bottling operations. Within the first 12 months, 70 U.S. companies obtained licenses to do business in Vietnam. Besides the United States, the largest investors have been Singapore, Taiwan, Japan, South Korea, and Hong Kong, which collectively have put over $22 billion into the country. Intel Corp, the world's largest chipmaker, began operation of its $1 billion assembly and testing plant in 2010. The plant is expected to manufacture US$120 million worth of products in its first year of operation, and the annual output will gradually reach $15 billion when it reaches full capacity. Over the past couple of years, Vietnamese authorities have acted swiftly to implement the structural reforms needed to modernize the national economy and to produce more competitive exports for sale in the global economy. In July 2000 the United States and Vietnam signed a bilateral trade agreement that opens up trade and foreign investment in Vietnam and gives Vietnamese exporters access to the vast U.S. market. The treaty, which entered into force near the end of 2001, resulted in dramatic increases in foreign direct investment from the United States.

As in China, many U.S. firms have found doing business in Vietnam frustrating because of the numerous and ever-changing bureaucratic rules enacted by the communist government officials; but these concerns are beginning to subside with the induction of Vietnam into the World Trade Organization on January 11, 2007. After 11 years of preparation, with eight years of negotiation, Vietnam finally became the 150th member of the WTO. As a result, Vietnam is experiencing continued economic stimulus through its liberalizing reforms. Overall, this opportunity may open the market to foreign investors who were unsure of the risks involved in entering Vietnam. Vietnam's accession to the WTO provides a context of greater certainty and predictability in the business and broader economic environment. As one measure, Vietnam received more than US$85.5 billion in foreign direct investment in 2008 and 2009, exceeding the total of US$83.1 billion in the previous 20 years. U.S.-based AES Corporation, a builder of power plants, invested US$2.147 billion in Mong Duong thermal power plant project in Quang Ninh province, one of many FDI projects across Vietnam in a range of industries and sectors.

http://vietnambusiness.asia/

Questions

1. In what way does the political environment in Vietnam pose both an opportunity and a threat for American MNCs seeking to do business there?
2. Why are U.S. multinationals so interested in going into Vietnam? How much potential does the country offer? How might Vietnam compare to China as a place to do business?
3. Will there be any opportunities in Vietnam for high-tech American firms? Why or why not?

You Be the International Management Consultant

A Chinese Venture

The Darby Company is a medium-sized communications technology company headquartered on the west coast of the United States. Among other things, Darby holds a patent on a mobile telephone that can operate effectively within a 5-mile radius. The phone does not contain state-of-the-art technology, but it can be produced extremely cheaply. As a result, the Chinese government has expressed interest in manufacturing and selling this phone throughout its country.

Preliminary discussions with the Chinese government reveal some major terms of the agreement that it would like to include: (1) Darby will enter into a joint venture with a local Chinese firm to manufacture the phones to Darby's specifications; (2) these phones will be sold throughout China at a 100 percent markup, and Darby will receive 10 percent of the profits; (3) Darby will invest $35 million in building the manufacturing facility, and these costs will be recovered over a five-year period; and (4) the government in Beijing will guarantee that at least 100,000 phones are sold every year, or it will purchase the difference.

The Darby management is not sure whether this is a good deal. In particular, Darby executives have heard all sorts of horror stories regarding agreements that the Chinese government has made and then broken. The company also is concerned that once its technology is understood, the Chinese will walk away from the agreement and start making these phones on their own. Because the technology is not state-of-the-art, the real benefit is in the low production costs, and the technological knowledge is more difficult to protect.

For its part, the Chinese government has promised to sign a written contract with Darby, and it has agreed that any disputes regarding enforcement of this contract can be brought, by either side, to the World Court at the Hague for resolution. Should this course of action be taken, each side would be responsible for its own legal fees, but the Chinese have promised to accept the decision of the court as binding.

Darby has 30 days to decide whether to sign the contract with the Chinese. After this time, the Chinese intend to pursue negotiations with a large telecommunications firm in Europe and try cutting a deal with it. Darby is more attractive to the Chinese, however, because of the low cost of producing its telephone. In any event, the Chinese are determined to begin mass-producing cellular phones in their country. "Our future is tied to high-tech communication," the Chinese minister of finance recently told Darby's president. "That is why we are so anxious to do business with your company; you have quality phones at low cost." Darby management is flattered by these kind words but still unsure if this is the type of business deal in which it wants to get involved.

Questions

1. How important is the political environment in China for the Darby Company? Explain.
2. If a disagreement arises between the two joint-venture partners and the government of China reneges on its promises, how well protected is Darby's position? Explain.
3. Are the economic and technological environments in China favorable for Darby? Why or why not?