Chapter 6

The Political Environment:

A CRITICAL CONCERN

CHAPTER OUTLINE

CHAPTER LEARNING OBJECTIVES

What you should learn from Chapter 6:

LO1 What the sovereignty of nations means and how it can affect the stability of government policies

LO2 How different governmental types, political parties, nationalism, targeted fear/animosity, and trade disputes can affect the environment for marketing in foreign countries

LO3 The political risks of global business and the factors that affect stability

LO4 The importance of the political system to international marketing and its effect on foreign investments

LO5 The impact of political and social activists, violence, and terrorism on international business

LO6 How to assess and reduce the effect of political vulnerability

LO7 How and why governments encourage foreign investment

Global Perspective

WORLD TRADE GOES BANANAS

Rather than bruising Chiquita Bananas, the wrath of politics instead hammered Prosciutto di Parma ham from Italy, handbags from France, and bath oils and soaps from Germany. These and a host of other imported products from Europe were all slapped with a 100 percent import tariff as retaliation by the U.S. government against EU banana-import rules that favored Caribbean bananas over Latin American bananas. Keep in mind that no bananas are exported from the United States, yet the United States has been engaged in a trade war over the past seven years that has cost numerous small businesses on both sides of the Atlantic millions of dollars. But how can this be, you ask? Politics, that's how!

One small business, Reha Enterprises, for example, sells bath oil, soaps, and other supplies imported from Germany. The tariff on its most popular product, an herbal foam bath, was raised from 5 percent to 100 percent. The customs bill for six months spiraled to $37,783 from just $1,851—a 1,941 percent tax increase. For a small business whose gross sales are less than $1 million annually, it was crippling. When Reha heard of the impending "banana war," he called everyone—his congressperson, his senator, the United States Trade Representative (USTR). When he described his plight to the USTR, an of cial there expressed amazement. "They were surprised I was still importing," because they thought the tariff would cut off the industry entirely. That was their intention, which of course would have meant killing Reha Enterprises as well.

In effect, he was told it was his fault that he got caught up in the trade war. He should have attended the hearings in Washington, just like Gillette and Mattel, and maybe his products would have been dropped from the targeted list, just as theirs were. Scores of European products, from clothing to stoves to glass Christmas ornaments, dolls, and ballpoint pens, that were originally targeted for the retaliatory tariffs escaped the tariff. Aggressive lobbying by large corporations, trade groups, and members of Congress got most of the threatened imported products off the list. The USTR had published a list of the targeted imports in the Federal Register, inviting affected companies to testify. Unfortunately, the Federal Register was not on Reha's reading list.

In that case, he was told, he should have hired a lobbyist in Washington to keep him briefed. Good advice—but it doesn't make much sense to a company that grosses less than $1 million a year. Other advice received from an of cial of the USTR included the off-the-record suggestion that he might want to change the customs number on the invoice so it would appear that he was importing goods not subject to the tariff, a decision that could, if he were caught, result in a hefty ne or jail. Smaller businesses in Europe faced similar problems as their export business dried up because of the tariffs.

How did this banana war start? The European Union imposed a quota and tariffs that favored imports from former colonies in the Caribbean and Africa, distributed by European rms, over Latin American bananas distributed by U.S. rms. Chiquita Brands International and Dole Food Company, contending that the EU's "illegal trade barriers" were costing $520 million annually in lost sales to Europe, asked the U.S. government for help. The government agreed that unfair trade barriers were damaging their business, and 100 percent tariffs on selected European imports were levied. Coincidentally, Chiquita Brands' annual political campaign contributions increased from barely over $40,000 in 1991 to $1.3 million in 1998.

A settlement was nally reached that involved high tariffs on Latin America bananas and quotas (with no tariffs) on bananas from Europe's former colonies. But the bruising over bananas continued, and not in a straightforward way! In 2007 the issue shifted to banana bending. That is, bananas from Latin America tend to be long and straight, while those from the non-tariff countries are short and bent. Because the latter are not preferred by the shippers or retailers (the bendier ones don't stack as neatly and economically), the bananas from the former colonies were still not preferred. And new regulations were adopted by the European Commission that mandated that bananas must be free from "abnormal curvature of the ngers." So the bendy banana producers threatened to renege on the whole agreement. Circa 2007 everyone involved found this prospect very unappealing.

The tale does have a happy ending though. In 2009, after marathon meetings among all parties in Geneva, the 16-year banana split was nally healed: The European Union cut import tariffs on bananas grown in Latin America by U.S. rms.

Sources: "U.S. Sets Import Tariffs in Latest Salvo in Ongoing Battle over Banana Trade," *Minneapolis Star Tribune*, March 4, 1999; Timothy Dove, "Hit by a $200,000 Bill from the Blue," *Time*, February 7, 2000, p. 54; Jeremy Smith, "EU Heading for Trade Crunch over Bananas," *Reuters*, November 14, 2007.

No company, domestic or international, large or small, can conduct business without considering the influence of the political environment within which it will operate. One of the most undeniable and crucial realities of international business is that both host and home governments are integral partners. A government reacts to its environment by initiating and pursuing policies deemed necessary to solve the problems created by its particular circumstances. Reflected in its policies and attitudes toward business are a government's ideas of how best to promote the national interest, considering its own resources and political philosophy. A government controls and restricts a company's activities by encouraging and offering support or by discouraging and banning or restricting its activities—depending on the pleasure of the government.

International law recognizes the sovereign right of a nation to grant or withhold permission to do business within its political boundaries and to control where its citizens conduct business. Thus, the political environment of countries is a critical concern for the international marketer. This chapter examines some of the more salient political considerations in assessing global markets.

The Sovereignty of Nations

LO1

What the sovereignty of nations means and how it can affect the stability of government policies

In the context of international law, a *sovereign state* is independent and free from all external control; enjoys full legal equality with other states; governs its own territory; selects its own political, economic, and social systems; and has the power to enter into agreements with other nations. **Sovereignty** refers to both the powers exercised by a state in relation to other countries and the supreme powers exercised over its own members.[1] A state sets requirements for citizenship, defines geographical boundaries, and controls trade and the movement of people and goods across its borders. Additionally, a citizen is subject to the state's laws even when beyond national borders. It is with the extension of national laws beyond a country's borders that much of the conflict in international business arises. This reasoning is especially true when another country considers its own sovereignty to be compromised

Nations can and do abridge specific aspects of their sovereign rights to coexist with other nations. The European Union, North American Free Trade Agreement (NAFTA), North Atlantic Treaty Organization (NATO), and World Trade Organization (WTO)[2] represent examples of nations voluntarily agreeing to give up some of their sovereign rights

[1] For those interested in learning more about the concept of sovereignty, see Stephen D. Krasner (ed.), *Problematic Sovereignty* (New York: Columbia University Press, 2001).

[2] "Global Trade Talks Founder on Farm-Subsidy Issues," *The Wall Street Journal Online*, June 21, 2007.

THUMBS-UP: U.S. President Barack Obama, Italian Prime Minister Silvio Berlusconi, and Russian President Dmitry Medvedev mugged for the camera during a group photo after an April G-20 summit in London aimed at fixing the crises-wracked global economy. All leaders of the G20 nations signed a joint communiqué promising to "resist protectionism." Their April 2009 agreement marked the nadir of the world trade bust (a decline of more than 12 percent) that marked the year. The celebration symbolizes their successful dodging of the Smoot-Hawley tariff bullet that dramatically exacerbated the Great Depression of the 1930s.

to participate with member nations for a common, mutually beneficial goal. The leaders of the G20 nations ceded some sovereignty in their hugely important April 2009 agreement to "reject protectionism" at the nadir of the 2009 crash, when world trade had declined more than 12 percent. The bad memories of the Smoot-Hawley disaster of the Great Depression apparently made the decision one to celebrate, as the accompanying picture shows.

As indicated in Exhibit 1.4 (page 24), the United States's involvement in international political affiliations is surprisingly low (i.e., it is largely sovereign). Indeed, when it comes to participation in international treaty regimes, the United States is ranked near the bottom of the 72 countries included in *Foreign Policy* magazine rankings, tied with Iran and Israel (at 68th) and ahead of only Hong Kong and Taiwan.[3] Most notably, the Kyoto Protocol on global climate change and the International Criminal Court were rejected by the Bush administration, along with lesser known treaties such as the Basel Convention on the Control of Transboundary Movement of Hazardous Wastes. This apparent lack of international political engagement is particularly hard to understand given the wide acceptance that such agreements lead to peace and mutual understanding.[4] Fortunately, President Obama has now set a more positive tone for international cooperation and agreements, one welcomed by the rest of the world.

Countries that agree to relinquish some of their sovereignty often are subject to a nagging fear that too much has been given away. For example, the WTO is considered by some as the biggest threat so far to national sovereignty. Adherence to the WTO inevitably means the loss of some degree of national sovereignty, because the member nations have pledged to abide by international covenants and arbitration procedures that can override national laws and have far-reaching ramifications for citizens. Sovereignty was one of the issues at the heart of the spat between the United States and the European Union over Europe's refusal to lower tariffs and quotas on bananas (see the Global Perspective). And critics of the free trade agreements with both South Korea and Peru claim America's sacrifice of sovereignty is too great.

Foreign investment can also be perceived as a threat to sovereignty and thus become a rallying cry by opposing factions. The Chinese national oil company's proposed purchase of Unocal was opposed on such grounds. As American banks struggled to maintain liquidity during the 2008 home mortgage debacle, huge investments from overseas were solicited and received from one class of foreign investors that U.S. politicians particularly disfavored—the so-called "sovereign wealth funds" that entail vast pools of money controlled by foreign governments from China and the Middle East.[5] At the same time, members of the U.S. Congress have demanded that China raise the value of its currency, but that would make it even easier for Chinese firms and their government to buy American assets.[6] Of course, the Chinese resist the latter political pressure as a threat to their sovereignty. Ironically, Americans have criticized Mexico for hindering similar sorts of American investments. That is, Mexico badly needs privately financed electricity generating plants to meet electrical power demands and to upgrade the country's overloaded transmission network. The Mexican government entered into an agreement with a Belgian company to build a power plant that would bypass the state electricity monopoly and sell electricity directly to large Mexican manufacturers. But the Mexican constitution limits private ownership of utilities, and any exception requires a two-thirds vote of the legislature. The Institutional Revolutionary Party (PRI) saw the attempt to open Mexico's protected energy industry as an assault on Mexican sovereignty and blocked the agreement. What all this conflict highlights is that national sovereignty is a critical issue in assessing the environment in which a firm operates.

[3]"Measuring Globalization," *Foreign Policy*, November/December 2007, pp. 68–77.

[4]John L. Graham, "The Big Secret of World Peace," *Journal of Commerce*, February 13, 1995, OPED page; John L. Graham, "Trade Brings Peace," in J. Runzo and N. Martin (eds.), *War and Reconciliation* (Cambridge: Cambridge University Press, 2011); Thomas L. Friedman, *The World Is Flat* (New York: Farrar, Straus, and Giroux, 2005).

[5]Peter S. Goodman and Louise Story, "Overseas Investors Buying U.S. Holdings at Record Pace," *The New York Times*, January 20, 2008, pp. 1, 14.

[6]"Lost in Translations," *The Economist*, January 19, 2008, pp. 73–75.

Stability of Government Policies

The ideal political climate for a multinational rm is a stable, friendly government. Unfortunately, governments are not always stable and friendly, nor do stable, friendly governments always remain so. Radical shifts in government philosophy when an opposing political party ascends to power,[7] pressure from nationalist and self-interest groups, weakened economic conditions, bias against foreign investment, or con icts among governments are all issues that can affect the stability of a government. Because foreign businesses are judged by standards as variable as there are nations, the stability and friendliness of the government in each country must be assessed as an ongoing business practice.

At the top of the list of political issues concerning foreign businesses is the stability or instability of prevailing government policies. Governments might change[8] or new political parties might be elected, but the concern of the multinational corporation is the continuity of the set of rules or codes of behavior and the continuation of the rule of law—regardless of which government is in power. A change in government, whether by election or coup, does not always mean a change in the level of political risk. In Italy, for example, more than 50 different governments have been formed since the end of World War II. While the political turmoil in Italy continues, business goes on as usual. In contrast, India has had as many different governments since 1945 as Italy, with several in the past few years favorable to foreign investment and open markets. However, much government policy remains hostile to foreign investment. Senior civil servants who are not directly accountable to the electorate but who remain in place despite the change of the elected government continue with former policies. Even after elections of parties favoring economic reform, the bureaucracy continues to be staffed by old-style central planners in India.

Conversely, radical changes in policies toward foreign business can occur in the most stable governments. The same political party, the Institutional Revolutionary Party (PRI), controlled Mexico from 1929 to 2000. During that period, the political risk for foreign investors ranged from expropriation of foreign investments to Mexico's membership in NAFTA and an open door for foreign investment and trade. In recent years, the PRI created a stable political environment for foreign investment, in contrast to earlier expropriations and harassment. Beginning with the elections in 2000, however, a new era in Mexican politics emerged as a result of profound changes within the PRI brought about by then-president Ernesto Zedillo. Since 1929, the Mexican president had selected his successor, who, without effective challenge, was always elected. President Zedillo changed the process by refusing to nominate a candidate; instead he let the nomination be decided by an open primary—the rst in seven decades. From a eld of four candidates, the PRI selected Labastida Ochoa, and the opposing party PAN[9] selected Vicente Fox who, though considered a long shot, won the presidency. Although the PAN had gained strength for several years in the congress and among state governments, its presidential candidates never had a winning chance until the 2000 election.

Some African countries are unstable, with seemingly unending civil wars, boundary disputes, and oppressive military regimes. Even relatively stable and prosperous Kenya fell victim to political violence in 2008 that greatly disrupted growth in commerce in the entire region.[10] Sierra Leone has had three changes in government in ve years; the most recent coup d'etat ended the country's brief experiment with democracy. Shortly after the coup, a civil war erupted, and UN peacekeeping forces have had to maintain the peace. Central Africa, where ethnic wars have embroiled seven nations, is one of the most politically unstable regions in the world. Thus, Africa is trapped in a vicious cycle: For its nations to prosper, they need foreign investment. But investment is leery of unstable nations, which

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[7]Sabrina Tavernise, "Debate Intensi es in Turkey over Head Scarf Ban," *The New York Times*, January 19, 2008, p. A5.

[8]Sebastian Moffett, "Japanese Prime Minister Steps Down after Less than One Year in Of ce," *The Wall Street Journal Online*, September 12, 2007.

[9]PAN stands for Partido Accion National. PAN and PRI are the largest of eight political parties in Mexico.

[10]Michela Wrong, "Kenya's Turmoil Cuts off Its Neighbors," *Los Angeles Times*, January 14, 2008, p. C4.

CHAOTIC CONDITIONS: On the first Sunday after the quake, at 9:00 a.m., the streets of downtown Port-au-Prince are filled with people scavenging. Onlookers add to the crowd.

is the status of much of Africa.[11] A recent World Bank study showed that the 47 nations of sub-Saharan Africa were attracting less than $2 billion annually in direct foreign investment—about one-tenth of what a developing nation such as Mexico attracts.

If there is potential for profit and if permitted to operate within a country, multinational companies can function under any type of government as long as there is some long-run predictability and stability. PepsiCo, for example, operated profitably in the Soviet Union when it had one of the world's most extreme political systems. Years before the disintegration of the USSR's Communist Party, PepsiCo established a very profitable countertrade business with the USSR. The company exchanged Pepsi syrup for Russian vodka, thus avoiding the legally complicated financial transactions of the time.[12]

Socioeconomic and political environments invariably change, as they have in the Soviet Union and Mexico. There are five main political causes of instability in international markets: (1) some forms of government seem to be inherently unstable, (2) changes in political parties during elections can have major effects on trade conditions, (3) nationalism, (4) animosity targeted toward specific countries, and (5) trade disputes themselves.

Forms of Government

LO2

How different governmental types, political parties, nationalism, targeted fear/animosity, and trade disputes can affect the environment for marketing in foreign countries

Circa 500 BC, the ancient Greeks conceived of and criticized three fundamental forms of government: rule by one, rule by few, and rule by many. The common terms for these forms in use today are monarchy (or dictatorship), aristocracy (or oligarchy), and democracy. About the same time in history Cyrus the Great, monarch of Persia, declared that the purpose of government was to serve the people, not vice versa. Cyrus's notion is embedded in the constitutions of most modern nations. Following the collapse of colonialism beginning with World War II and communism circa 1990, the world seemed to have agreed that free-enterprise democracy was the best solution to all the criticisms of government since the time of Aristotle, Cyrus, and the others.[13]

Thus, of the more than 200 sovereign states on the planet, almost all have at least nominally representative governments with universal suffrage for those 18 years and over. In

[11]Visit http://www.eiu.com for abstracts of the Economist Intelligence Unit's country reports of current political and economic data. Some information on this site is available for a fee only, but other sources are free.

[12]Visit the Pepsi Web site in Russia for a history of Pepsi in Russia, Pepsi advertising in Russia, and other information: http://www.pepsi.ru.

[13]Francis Fukuyama, *The End of History and the Last Man* (New York: The Free Press, 1992).

Exhibit 6.1
A Sampling of Government Types

Source: http://www.cia.gov/cia/publications/factbook/, 2008.

Country	Government Type
Afghanistan	Islamic republic
Belarus	Republic in name, though in fact a dictatorship
Bosnia and Herzegovina	Emerging federal democratic republic
Burma (Myanmar)	Military junta
Canada	Confederation with parliamentary democracy
China	Communist state
Congo, Democratic	Dictatorship, presumably undergoing a transition to representative government
Cuba	Communist state
Iran	Theocratic republic
Libya	Jamahiriya (a state of the masses) in theory, governed by the populace through local councils; in fact a military dictatorship
North Korea	Communist state, one-man dictatorship
Saudi Arabia	Monarchy
Somalia	No permanent national government; transitional, parliamentary federal government
Sudan	Authoritarian regime—ruling military junta
United Kingdom	Constitutional monarchy
United States	Constitutional federal republic
Uzbekistan	Republic; authoritarian presidential rule, with little power outside the executive branch
Vietnam	Communist state

about 10 percent of the nations voting is required; in the rest it is voluntary. A few countries have some unusual rules for suffrage: In Bolivia, you can vote at 18 if you are married and at 21 if single; in Peru, police and military personnel cannot vote; in Croatia, you can vote at 16 if employed; in Lebanon, only women with at least an elementary education can vote (though all men can vote); and Saudi Arabia precludes women from voting. The last appears to be the only state still completely in the dark ages with regards to suffrage. Exhibit 6.1 lists a sampling of the countries that are currently taking a different approach to the conventional wisdom of representational democracy. More troubling though is the apparent backsliding of some countries toward autocracy and away from democracy, such as Nigeria, Kenya, Bangladesh, Venezuela, Georgia, and Kyrgyzstan.[14] Haiti's government has been literally crushed by the great earthquake of 2010.[15] Indeed, according to the Heritage Foundation, the United States experienced its biggest drop in "economic freedom" because of the controlling impact of the economic stimuli of 2008–2009.[16] Meanwhile, we can all witness perhaps the world's greatest experiment in political and economic change: the race between Russian "big-bang" reform and Chinese gradualism as communism is left further behind in both countries.[17]

The Central Intelligence Agency[18] claims to have taken a look beyond the facade of constitutions in their descriptors. For example, Iran (modern Persia) is de ned as a "theocratic republic," recognizing that the constitution codi es Islamic principles of government as interpreted from the Koran. Although political parties are allowed to function, they hold little political power. Instead, the Supreme Leader controls all-important decisions of the government, including who is allowed to run for president in Iran.

[14]"Crying for Freedom ," *The Economist*, January 16, 2010, pp. 58–60.

[15]Marci Lacey, "Haiti's Icon of Power, Now Palace for Ghosts," *The New York Times*, January 23, 2010.

[16]Terry Miller, "The U.S. Isn't as Free as It Used to Be," *The Wall Street Journal*, January 20, 2010, p. A17.

[17]Brian Bremmer, "The Dragon's Way or the Tiger's?" *BusinessWeek*, November 20, 2006, pp. 55–62; N. Mark Lam and John L. Graham, *Doing Business in China Now, The World's Most Dynamic Market* (New York: McGraw-Hill, 2007).

[18]http://www.cia.gov/cia/publications/factbook/, 2010.

EYES ON THE POLLS: Portraits of Ayatollah Ali Khamenei (the Supreme Leader) and the late Ayatollah Ruhollah Khomeini loom over Iranian women lined up to vote at a mosque south of Tehran. As mandated by law, women and men waited in separate lines at polling places with more than one ballot box. The current government also specifies the public dress of the women pictured.

Political Parties

For most countries around the world, it is particularly important for the marketer to know the philosophies of all major political parties within a country, because any one of them might become dominant and alter prevailing attitudes and the overall business climate.[19] In countries where two strong political parties typically succeed one another in control of the government, it is important to know the direction each party is likely to take.[20] In Great Britain, for example, the Labour Party traditionally has been more restrictive regarding foreign trade than the Conservative Party. The Labour Party, when in control, has limited imports, whereas the Conservative Party has tended to liberalize foreign trade when it is in power. A foreign rm in Britain can expect to seesaw between the liberal trade policies of the Conservatives and the restrictive ones of Labour. Of course, in the United States, the Democratic Congress was reluctant to ratify free trade pacts negotiated by George Bush's Republican administration in the White House.[21]

An astute international marketer must understand all aspects of the political landscape to be properly informed about the political environment. Unpredictable and drastic shifts in government policies deter investments, whatever the cause of the shift. In short, a current assessment of political philosophy and attitudes within a country is important in gauging the stability and attractiveness of a government in terms of market potential.

Nationalism

Economic and cultural nationalism, which exists to some degree within all countries, is another factor important in assessing business climate. **Nationalism** can best be described as an intense feeling of national pride and unity, an awakening of a nation's people to pride in their country. This pride can take an anti–foreign business bias, where minor harassment and controls of foreign investment are supported, if not applauded.[22] Economic nationalism has as one of its central aims the preservation of national economic autonomy, in that residents identify their interests with the preservation of the sovereignty of the state in

[19]Paul M. Vaaler, Burkhard N. Schrage, and Steven A. Block, "Counting the Investor Vote: Political Business Cycle Effects on Sovereign Bond Spreads in Developing Countries," *Journal of International Business Studies* 36, no. 1 (2005), pp. 62–88.

[20]Joy C. Shaw, "Taiwan's KMT Wins Big in Legislative Elections," *The Wall Street Journal Online*, January 12, 2008.

[21]Steven R. Weisman, "Bush in Accord with Democrats on Trade Pacts," *The New York Times*, May 11, 2007, pp. 1, C7.

[22]David Pierson, "China Pursues Oil on U.S. Turf," *Los Angeles Times*, October 22, 2009, pp. B1, B4.

CROSSING BORDERS 6.1 Coke's Back, and It Still Has the Secret

For almost 100 years, the formula for making Coca-Cola has been a closely guarded secret. Then the government of India ordered Coca-Cola to disclose it or cease operations in that country. A secret ingredient called 7-X supposedly gives Coke its distinctive flavor. The government's minister for industry told the Indian parliament that Coca-Cola's Indian branch would have to transfer 60 percent of its equity shares to Indians and hand over its know-how by April 1978 or shut down.

Indian sales accounted for less than 1 percent of Coca-Cola's worldwide sales, but the potential market in India, a country of 800 million, was tremendous. The government refused to let the branch import the necessary ingredients, and Coca-Cola—whose products were once as abundant as the bottled drinking water sold in almost every Indian town of more than 50,000—packed up its bags and left the country. The minister for industry said that Coca-Cola's activities in India "furnish a classic example of how multinational corporations operating in a low-priority, high-profit area in a developing country attain run-away growth and . . . trifle with the weaker indigenous industry."

Sixteen years later, India's attitudes toward foreign investment changed, and Coca-Cola reentered the market without having to divulge its formula. During Coke's 16-year exile, however, Pepsi Cola came to India and captured a 26 percent market share. Not to worry; there is plenty of growth potential for both, considering that India's per capita consumption is just 3 eight-ounce bottles a year, versus about 12 for Pakistan and over 500 in Mexico. To forestall further political vulnerability, Coke sold 49 percent of its Indian bottler subsidiary to institutional investors and employees. The company hopes this move will put to rest an issue that concerned the Indian government, which wanted Indians to own part of Coke's local operation—in other words, Coke took steps to domesticate its operations.

But India is still a tough market. Most recently, a water quality dispute, domestic price competition, a pesticide scare, and cool weather have hurt Coke's sales in India, despite a general global rebound in revenues and profits. And, after Coke's failed first entry into the Indian energy drink market with a new brand called "Shocker," let's hope it doesn't get burned with its second try, "Burn!"

Sources: Craig Simons, "India Coke Plant Still Closed as Water Woes Argued," *Atlanta Journal-Constitution,* December 16, 2007, p. F1; "Coke India Chief Bullish on India Becoming Top 5 Global Market," *Asia Pulse,* January 15, 2008; "Coca-Cola: A Second Shot at Energy Drinks," *MarketWatch: Global Round-Up*, January 2010, p. 39.

which they reside. In other words, national interest and security are more important than international relations.

Feelings of nationalism are manifested in a variety of ways, including a call to "buy our country's products only" (e.g., "Buy American"), restrictions on imports, restrictive tariffs, and other barriers to trade. They may also lead to control over foreign investment, often regarded with suspicion, which then becomes the object of intensive scrutiny and control. Generally speaking, the more a country feels threatened by some outside force or the domestic economy declines, the more nationalistic it becomes in protecting itself against intrusions.

During the period after World War II, when many new countries were founded and many others were seeking economic independence, manifestations of militant nationalism were rampant. Expropriation of foreign companies, restrictive investment policies, and nationalization of industries were common practices in some parts of the world. During this period, India imposed such restrictive practices on foreign investments that companies such as Coca-Cola, IBM, and many others chose to leave rather than face the uncertainty of a hostile economic climate. In many Latin American countries, similar attitudes prevailed and led to expropriations and even con scation of foreign investments.

By the late 1980s, militant nationalism had subsided; today, the foreign investor, once feared as a dominant tyrant that threatened economic development, is often sought as a source of needed capital investment.[23] Nationalism comes and goes as conditions and

[23]Muammar el Qadda , the leader of Libya, has changed his approach to international relations from supporting terrorism to supporting trade, for example. See "Rehabilitating Libya," *The New York Times* (editorial), January 8, 2007, p. 14.

attitudes change, and foreign companies welcomed today may be harassed tomorrow and vice versa.

Although militant economic nationalism has subsided, nationalistic feelings can be found even in the most economically prosperous countries. When U.S. negotiators pushed Japan to import more rice to help balance the trade de cit between the two countries, nationalistic feelings rose to a new high. Deeply rooted Japanese notions of self-suf ciency, self-respect, and concern for the welfare of Japanese farmers caused Japan to resist any change for several years. It was only after a shortfall in the Japanese rice harvests that restrictions on rice imports were temporarily eased. Even then, all imported foreign rice had to be mixed with Japanese rice before it could be sold.

Targeted Fear and/or Animosity

It is important for marketers not to confuse nationalism, whose animosity is directed generally toward *all* foreign countries, with a widespread fear or animosity directed at a particular country. This confusion was a mistake made by Toyota in the United States in the late 1980s and early 1990s. Sales of Japanese cars were declining in the States, and an advertising campaign was designed and delivered that assumed the problem was American nationalism. However, nationalism was clearly not the problem, because sales of German cars were not experiencing the same kinds of declines. The properly de ned problem was "Americans' *fear* of Japan." Indeed, at the time, Americans considered the economic threat from Japan greater than the military threat from the Soviet Union. So when Toyota spent millions on an advertising campaign showing Camrys being made by Americans in a Toyota plant in Kentucky, it may well have exacerbated the fear that the Japanese were "colonizing" the United States.

Best-selling titles in France, including *The World Is Not Merchandise*, *Who Is Killing France? The American Strategy*, and *No Thanks Uncle Sam*, epitomize its animosity toward the United States. Although such attitudes may seem odd in a country that devours U.S. movies, eats U.S. fast foods, views U.S. soap operas, and shops at U.S. Walmart stores, national animosity—whatever the cause—is a critical part of the political environment. The United States is not immune to the same kinds of directed negativism either. The rift between France and the United States over the Iraq–U.S. war led to hard feelings on both sides and an American backlash against French wine, French cheese, and even products Americans thought were French. French's mustard felt compelled to issue a press release stating that it is an "American company founded by an American named 'French.'" Thus, it is quite clear that no nation-state, however secure, will tolerate penetration by a foreign company into its market and economy if it perceives a social, cultural, economic, or political threat to its well-being.

Trade Disputes

Finally, narrow trade disputes themselves can roil broader international markets. At the beginning of the chapter we discussed our favorite example—bananas. Among several hot issues circa 2010 were undervalued Chinese currency, the ban on beef imports into Japan, Chinese subsidies in apparent violation of WTO rules, farm subsidies in developed countries, and the long-simmering AIRBUS–Boeing battle over subsidies. Any of these disputes might boil over and affect other aspects of international trade, but at least at this writing, cooler heads seem to be prevailing—along with the WTO dispute resolution processes.

Political Risks of Global Business

LO3

The political risks of global business and the factors that affect stability

Issues of sovereignty, differing political philosophies, and nationalism are manifest in a host of governmental actions that enhance the risks of global business. Risks can range from con scation, the harshest, to many lesser but still signi cant government rules and regulations, such as exchange controls, import restrictions, and price controls that directly affect the performance of business activities. Although not always of cially blessed initially, social or political activist groups can provoke governments into actions that prove harmful to business. Of all the political risks, the most costly are those actions that result in a transfer of equity from the company to the government, with or without adequate compensation.

Confiscation, Expropriation, and Domestication

LO4

The importance of the political system to international marketing and its effect on foreign investments

The most severe political risk is **confiscation**, that is, the seizing of a company's assets without payment. Two notable confiscations of U.S. property occurred when Fidel Castro became the leader in Cuba and later when the Shah of Iran was overthrown. Confiscation was most prevalent in the 1950s and 1960s when many underdeveloped countries saw confiscation, albeit ineffective, as a means of economic growth.

Less drastic, but still severe, is **expropriation**, where the government seizes an investment but makes some reimbursement for the assets. For example, in 2008 the Chavez regime in Venezuela expropriated Mexico's CEMEX operations, paying a negotiated price.[24] Often the expropriated investment is nationalized; that is, it becomes a government-run entity. A third type of risk is **domestication**, which occurs when host countries gradually cause the transfer of foreign investments to national control and ownership through a series of government decrees that mandate local ownership and greater national involvement in a company's management. The ultimate goal of domestication is to force foreign investors to share more of the ownership, management, and profits with nationals than was the case before domestication.

Rather than a quick answer to economic development, expropriation and nationalization have often led to nationalized businesses that were inefficient, technologically weak, and noncompetitive in world markets. Risks of confiscation and expropriation appear to have lessened over the last two decades (with exceptions in Latin America, particularly Venezuela),[25] because experience has shown that few of the desired benefits materialize after government takeover.[26] Today, countries often require prospective investors to agree to share ownership, use local content, enter into labor and management agreements, and share participation in export sales as a condition of entry; in effect, the company has to become domesticated as a condition for investment.

Countries now view foreign investment as a means of economic growth. As the world has become more economically interdependent, it has become obvious that much of the economic success of countries such as South Korea, Singapore, and Taiwan is tied to foreign investments. Nations throughout the world that only a few years ago restricted or forbade foreign investments are now courting foreign investors as a much needed source of capital and technology. Additionally, they have begun to privatize telecommunications, broadcasting, airlines, banks, railroads, and other nationally owned companies as a means of enhancing competition and attracting foreign capital.

The benefits of privatizing are many. In Mexico, for example, privatization of the national telephone company resulted in almost immediate benefits when the government received hundreds of millions of dollars of much needed capital from the sale and immediate investment in new telecommunications systems. A similar scenario has played out in Brazil, Argentina, India, and many eastern European countries. Ironically, many of the businesses that were expropriated and nationalized in earlier periods are now being privatized.

Economic Risks

Even though expropriation and confiscation are waning as risks of doing business abroad, international companies are still confronted with a variety of economic risks that can occur with little warning. Restraints on business activity may be imposed under the banner of national security to protect an infant industry, to conserve scarce foreign exchange, to raise revenue, or to retaliate against unfair trade practices, among a score of other real or imagined reasons. These economic risks are an important and recurring part of the political environment that few international companies can avoid.

Exchange Controls. Exchange controls stem from shortages of foreign exchange held by a country. When a nation faces shortages of foreign exchange and/or a substantial amount of capital is leaving the country, controls may be levied over all movements of capital or selectively against the most politically vulnerable companies to conserve the

[24]Steven Bodzin, "Cemex Handing Plants to Chavez," *The Globe and Mail*, August 28, 2008, p. B5.

[25]Simon Romero, "Chavez Takes over Foreign-Controlled Oil Projects in Venezuela," *The New York Times*, May 2, 2007, p. A3.

[26]Marla Dickerson, "Woes Mount for Mexico's State Oil Titan," *Los Angeles Times*, January 2, 2008, pp. C1, C4.

Exhibit 6.2
How Complicated Things Can Get!

Exchange controls also are extended to products by applying a system of multiple exchange rates to regulate trade in specific commodities classified as necessities or luxuries. Necessary products are placed in the most favorable (low) exchange categories, while luxuries are heavily penalized with high foreign exchange rates. Myanmar (formerly known as Burma), for example, has three exchange rates for the kyat (Kt): the official rate (Kt6:U.S.$1), the market rate (Kt100–125:U.S.$1), and an import duty rate (Kt100:U.S.$1). Because the kyat is not convertible—that is, not officially exchangeable for currencies that can be spent outside the country—investors are severely affected by tax liability, and their ability to send profits outside the country is diminished. Under such exchange rates, tax liability can be very high. For instance, a profit of Kt135,000 is worth U.S.$22,500 at the official exchange rate of Kt6 to U.S.$1, but at the market rate, the investor has earned only U.S.$1,000. The exchange rate difference means that the investor has to pay tax on U.S.$21,500 of nonexistent, unearned income. It seems not much makes sense in Myanmar these days.

Sources: "Myanmar's Crumbling Kit," *Asiaweek*, March 2, 2001, p. 8; Michael Vatikiotis, "Neighbors Lean on Myanmar," *International Herald Tribune*, February 2, 2005, p. 7; "Myanmar Military Confirms No Change in Fuel Rations," *Dow Jones International,* December 31, 2007.

supply of foreign exchange for the most essential uses. A recurrent problem for the foreign investor is getting profits in and out of the host country without loss of value, which can occur when a currency is devalued. Exhibit 6.2 illustrates how exchange controls can affect an international company's profits. Many countries maintain regulations for control of currency, and should an economy suffer a setback or foreign exchange reserves decline severely, the controls on convertibility are imposed quickly.

Local-Content Laws. In addition to restricting imports of essential supplies to force local purchase, countries often require a portion of any product sold within the country to have local content, that is, to contain locally made parts. Thailand, for example, requires that all milk products contain at least 50 percent milk from local dairy farmers. Contrary to popular belief, local-content requirements are not restricted to Third World countries. The European Union has had a local-content requirement as high as 45 percent for "screwdriver operations," a name often given to foreign-owned assemblers, and NAFTA requires 62 percent local content for all cars coming from member countries.

Import Restrictions. Selective restrictions on the import of raw materials, machines, and spare parts are fairly common strategies to force foreign industry to purchase more supplies within the host country and thereby create markets for local industry. Although this restriction is an attempt to support the development of domestic industry, the result is often to hamstring and sometimes interrupt the operations of established industries. The problem then becomes critical when there are no adequately developed sources of supply within the country.

Tax Controls. Taxes must be classified as a political risk when used as a means of controlling foreign investments. In such cases, they are raised without warning and in violation of formal agreements. India, for example, taxes PepsiCo and the Coca-Cola Company 40 percent on all soda bottled in India. And, using a different angle of attack, India is attempting to collect $40 million in taxes on travel tickets sold online from Sabre's (an airlines reservations service) data center in Tulsa, Oklahoma. The Indian government contends that Sabre has a permanent establishment in India in the form of data flows between Sabre's Tulsa processing center and the desktop computers of travel agents in India. To underdeveloped countries with economies constantly threatened with a shortage of funds, unreasonable taxation of successful foreign investments appeals to some government officials as the handiest and quickest means of finding operating funds. As the Internet grows in importance, countries will surely seize on Internet transactions as a lucrative source of revenue.

Price Controls. Essential products that command considerable public interest, such as pharmaceuticals, food, gasoline, and cars, are often subjected to price controls. Such controls applied during inflationary periods can be used to control the cost of living. They also may be used to force foreign companies to sell equity to local interests. A side effect on the local economy can be to slow or even stop capital investment.

The consequences of the U.S. embargo of Cuba: A brand new German Mercedes for a foreign diplomat (black plate), a relatively new Chinese Chery Q (red provisional plate), and one of the newest American cars you can find on the island, a 1957 Chevy (yellow citizen's plate), certainly with a refurbished engine. A variety of other European and Asian brands ply the streets of Havana, almost all recent models. No new American models are in sight.

Labor Problems. In many countries, labor unions have strong government support that they use effectively in obtaining special concessions from business. Layoffs may be forbidden, profits may have to be shared, and an extraordinary number of services may have to be provided. In fact, in many countries, foreign firms are considered fair game for the demands of the domestic labor supply. In France, the belief in full employment is almost religious in fervor; layoffs of any size, especially by foreign-owned companies, are regarded as national crises. We should also note that some multinational companies are more powerful than local labor unions. Walmart closed a store in Quebec rather than let it be unionized.

Political Sanctions

In addition to economic risks, one or a group of nations may boycott another nation, thereby stopping all trade between the countries, or may issue sanctions against the trade of specific products. The United States has long-term boycotts of trade with Cuba and Iran and has come under some criticism for its demand for continued sanctions against Cuba and its threats of future sanctions against countries that violate human rights issues.[27]

History indicates that sanctions are almost always unsuccessful in reaching desired goals, particularly when other major nations' traders ignore them. For example, the Chinese recently signed an agreement with Iran that will bring $70 billion of natural gas to China. Please see Crossing Borders 6.2 for more on this issue. This lack of success is the case with Cuba, North Korea, and Iran, where the undesirable behavior that the sanctions were imposed to change continues, and the only ones who seem to be hurt are the people[28] and companies that get caught in the middle.

[27]Ginger Thompson, "Imposing Conditions, OAS Lifts Its Suspension of Cuba," *Washington Post*, June 4, 2009, online.

[28]Barbara Demick, "North Koreans' Misery Amplified a Hundredfold," *Los Angeles Times*, February 3, 2010, pp. A1, A7.

CROSSING BORDERS 6.2

Trade Does Not Work as a Stick, Only as a Carrot

It was 1807 when Thomas Jefferson proposed trade sanctions as an innovation in diplomacy. The donkeys he endeavored to persuade were quite big and quite stubborn—England and France. The goal was to get these warring nations to leave American ships alone on the high seas. Lacking a competitive navy, our third president dreamed up the trade embargo; rather than using trade as a carrot, he planned to withhold trade and use it as a stick. However, instead of changing French or English policies and behaviors, Jefferson's policy actually endangered New England traders. They complained:

> Our ships all in motion, once whiten'd the ocean;
> They sail'd and return'd with a Cargo;
> Now doom'd to decay, they are fallen a prey,
> To Jefferson, worms, and EMBARGO.

Jefferson's embargo fell apart in just 15 months. Only the War of 1812 settled the problems with English aggression at sea.

Consider the track record of trade sanctions in the last century. In 1940 the United States told the Japanese to get out of China, and the ensuing embargo of gasoline and scrap metal led directly to the Pearl Harbor attack. Since 1948 Arab countries have boycotted Israel. Given that countries trade most with their close neighbors, you have to wonder how much this lack of trade has promoted the continuing conflicts in the area. Israel is still there. In 1959 Fidel Castro took over Cuba, and for the next 50+ years, the United States has boycotted sugar and cigars, but Castro remained in charge. OPEC's 1973 oil flow slowdown was intended to get America to stop supporting Israel. However, the dollars still flow fast to Israel and now Egypt as well.

In 1979 the United States told the Soviets to get out of Afghanistan. They refused. America boycotted the Moscow Olympics and stopped selling the Soviets grain and technology. The Soviet response: They continued to kill Afghans (and, by the way, Soviet soldiers) for another 10 years. Moreover, in 1984 they and their allies' athletes stayed away from the Olympics in Los Angeles. And the high-tech embargo didn't work anyway. A San Diego division of Caterpillar lost millions of dollars in service contracts for Soviet natural gas pipelines in the mid-1970s. These revenues were lost permanently, because the Soviets taught themselves how to do the maintenance and overhauls. In 1989 a Moscow weapons research facility had every brand of computer then available in the West: IBMs, Apples, and the best from Taiwan and Japan as well.

Perhaps the 1980s' multilateral trade sanctions imposed on South Africa hastened apartheid's demise. But look how well the world's 10-year embargo of Iraq changed policy there. Using trade as a weapon killed kids while Saddam Hussein celebrated at $12 million birthday parties. Indeed, the best prescription for Middle East peace (and American taxpayers' wallets, by the way) is all sides dropping all embargoes.

The end of the last century witnessed great strides in the elimination of ill-conceived trade sanctions. Perhaps most important was the U.S. Senate's and President's approvals of permanently normalized trade relations (PNTR) with China. However, other important steps were the relaxation of some of the trade restrictions on Vietnam, North Korea, Iran, and Cuba. Indeed, as a result of President Clinton's diplomacy, North and South Koreans marched together at the Sydney Olympics; Americans can now buy pistachio nuts and carpets from Tehran, and U.S. firms can sell medical supplies and services in Havana. Remarkable!

These same kinds of carrots need to be thrown in the direction of the other countries on America's blacklist—Myanmar, Angola, Libya, Sudan, and Syria. Be certain that the chorus of criticism regarding human rights, freedom of the press, and democracy should continue, loud and clear. But instead of dropping bombs (or threatening to), we should be selling them computers and Internet connections. The cost of a cruise missile is about the same as 2,000 Apple computers! And at the most fundamental level, coercion does not work. Exchange does.

Source: John L. Graham, "Trade Brings Peace," in Joseph Runzo and Nancy M. Martin (eds.), *War and Reconciliation* (Cambridge, MA: Cambridge University Press, 2011).

Political and Social Activists and Nongovernmental Organizations

Although not usually of cially sanctioned by the government, the impact of **political and social activists** (PSAs) can also interrupt the normal ow of trade. PSAs can range from those who seek to bring about peaceful change to those who resort to violence and terrorism to effect change. When well organized, the actions of PSAs can succeed.

The most entertaining protest technique was pioneered by French farmers. Perhaps they were inspired by that American export, *Animal House*. In any case, French farmers like to throw their food. Here they tossed tomatoes and such at McDonald's; they've also lobbed lamb chops at their own trade ministers.

THE NEW POWER OF PEACEFUL PROTESTS

I like to believe that people in the long run are going to do more to promote peace than our governments. Indeed, I think that people want peace so much that one of these days governments had better get out of the way and let them have it.

—Dwight D. Eisenhower

We believe that peace happens because people want it to, not because politicians ordain it so. Our ideas are not new. Karl Popper's *Open Society*[29] and Jonathan Schell's *Unconquerable World*[30] make the same kinds of arguments. We just think in today's world of punitive trade sanctions and military muscle, it is important to remind folks that there are more viable alternatives for international relations and global persuasion.[31]

The organizers (PSAs) of these various demonstrations understand that two things are important in protests: (1) getting large numbers of people to show up and

Apparently they pay attention in Taiwan. Most recently, fishermen pitched perch in Taipei to protest the Japanese fishing fleet's presence in their waters.

PROTESTING MILK PRICES: A farmer sprayed milk on police forces during a protest against falling milk prices outside the European Commission headquarters in Brussels. European dairy farmers are seeking more aid to cope with a sharp drop in milk prices. An udderly fantastic shot!

BARING THEIR DISMAY: Members of the Pirate Party parade through Berlin's Tegel Airport in their underwear to protest government plans to test full-body scans as an invasion of citizens' privacy.

(2) producing memorable pictures.
On these pages are some of our favorite pictures. Please note that to the extent that the Sea Shepherd Conservation Society activists used force to board the Japanese ship (below), we cannot condone their methods. Property damage and violence are never justified; and their use demonstrates a pathetic lack of creative thinking about integrated marketing communications (see Chapter 16).

Activists of the Bharatiya Janata Party wearing "evil" masks shout antigovernment slogans near the Union Carbide plant in the central Indian city of Bhopal on the eve of World Environment Day. The activists protested to draw the attention of the government to chemical waste and demanded the cleanup of hazardous waste in the area. The leak from the Union Carbide pesticide plant in 1984 was one of the world's worst industrial accidents, killing 3,000 people and leaving thousands of others with lifetime illnesses.

They were "pirates" to some, "hostages" to others. But two anti-whaling activists (an Australian and a Briton from the Sea Shepherd Conservation Society) who drew global attention by forcibly boarding a Japanese harpoon ship in Antarctic waters have demonstrated how the emotional clash over Japan's annual whale hunt can disrupt even the best international friendships.

[29]Karl R. Popper, *The Open Society and Its Enemies*, 5th ed. (Princeton, NJ: Princeton University Press, 1966).

[30]Jonathan Schell, *The Unconquerable World: Power, Nonviolence, and the Will of the People* (New York: Metropolitan Books, 2003).

[31]Taken from John L. Graham, *Trade Brings Peace*, 2011.

LO5

The impact of political and social activists, violence, and terrorism on international business

In the previous pages, the protesters use creativity to make a point. We do not recommend the destructive sort of protest previously represented.

One of the most effective and best-known PSA actions was against Nestlé due to the sale of baby formula in Third World markets. The worldwide boycott of Nestlé products resulted in substantial changes in the company's marketing. More recently, activists of the Free Burma Campaign (FBC) have applied enough pressure to cause several U.S. garment companies to stop importing textiles from Myanmar. Furthermore, activists on several U.S. college campuses boycotted Pepsi Cola drinks and PepsiCo-owned Pizza Hut and Taco Bell stores, saying that the company's commercial activities contributed to the abysmal human rights in Myanmar. The results of the boycott were serious enough that PepsiCo sold its stake in its joint venture in Myanmar and withdrew from that market. The concern was that potential losses in the United States outweighed potential pro ts in Myanmar. Holland's Heineken and Denmark's Carlsberg beer companies withdrew from Myanmar for similar reasons.

The rather broad issue of globalization is the also the focus of many PSA groups. The demonstrations in Seattle during a 1999 WTO meeting and in Washington, DC, against the World Bank and the International Monetary Fund (IMF), along with similar demonstrations in other countries, re ect a growing concern about a global economy. Whether (or not) misguided, uninformed, or just "wackos," as they have been described, PSAs can be a potent force in rallying public opinion and are an important political force that should not be dismissed, as companies such as Nike, McDonald's, and Nestlé know.

The Internet has become an effective tool of PSAs to spread the word about whatever cause they sponsor. During protest rallies against the U.S.–Iraq war, organizers were able to coordinate protest demonstrations in 600 cities worldwide and to disseminate information easily. A Google search for "peace protest" during that time (2003) resulted in 788,000 entries (about 660,000 in 2008), including news briefs, Web sites for peace organizations, online petitions for peace, where to show up with your placard, where to send your dollars, and how to write your member of Congress.

Often associated with political activism, **nongovernmental organizations** (NGOs) are increasingly affecting policy decisions made by governments.[32] Many are involved in peaceful protests, lobbying, and even collaborations with governmental organizations.

[32]Hildy Teegen, Jonathan P. Doh, and Sushil Vachani, "The Importance of Non-Governmental Organizations (NGOs) in Global Governance and Value Creation: An International Business Research Agenda," *Journal of International Business Studies* 35, no. 6 (2004), pp. 463–83.

POLITICAL DISASTER STRIKES KENYA: In the Nairobi slum of Kibera, supporters of opposition leader Raila Odinga tear up a key railway that ran from the coast to Uganda. As many as 12 people were killed in the associated clashes. Of course, this destruction will do great damage to commerce and progress to all the countries in Eastern Africa. Let's hope the highway and international airport south of Nairobi stay intact, as they supply all of Europe with flowers from the burgeoning greenhouses in the area, and flower exports are a key source of revenue for the formerly thriving Kenyan economy.

Exhibit 6.3
U.S. State Department Travel Warnings (in order of date of posting, most recent first)

Source: http://travel.state.gov/travel/, 2010.

Haiti	Chad	Colombia
Pakistan	Mali	Guinea
Sudan	Sri Lanka	Lebanon
Somalia	Nepal	Cote d'Ivoire
Mauritania	Algeria	Philippines
Burundi	Indonesia	Colombia
Cote d'Ivoire	Yemen	Philippines
Somalia	Nepal	Afghanistan
Iraq	Syria	

Many also are involved in mitigating much of the human misery plaguing parts of the planet. Some NGOs have received global recognition—the Red Cross and Red Crescent, Amnesty International, Oxfam, UNICEF, Care, and Habitat for Humanity are examples—for their good works, political in uence, and even their brand power. [33]

Violence, Terrorism, and War

Although not usually government initiated, violence is another related risk for multinational companies to consider in assessing the political vulnerability of their activities. The world continues to be victimized by thousands of terrorist attacks each year.[34] Terrorism has many different goals. Multinationals are targeted to embarrass a government and its relationship with rms, to generate funds by kidnapping executives to nance terrorist goals, to use as pawns in political or social disputes not speci cally directed at them, and to in ict terror within a country, as did the events of September 11, 2001.

September 11 has raised the cost of doing business domestically and internationally. The dominance of the United States in world affairs exposes U.S. businesses to a multitude of uncertainties, from the growing danger of political violence to investment risks in emerging markets. In the past 30 years, 80 percent of terrorist attacks against the United States have been aimed at American businesses. Since September 11, McDonald's, KFC, and Pizza Hut combined have been bombed in more than 10 countries, including Turkey, Saudi Arabia, Russia, Lebanon, and China; most attacks have been linked with militant Islamic groups. There are reasons to expect that businesses will become increasingly attractive to terrorists, both because they are less well defended than government targets and because of what they symbolize. Based on the threats of terrorism and other violence, the U.S. State Department posts travel warnings on its Web site (see Exhibit 6.3 for a

[33]See the excellent book by John A. Quelch and Nathalie Laidler-Kylander, *The New Global Brands: Managing Non-Governmental Organizations in the 21st Century* (Mason, OH: South-Western, 2006).

[34]John M. Glionna, "Twin Hotel Blasts Kill 9 People in Indonesian Capital," *Los Angeles Times*, July 17, 2009, p. A25.

The communist government of Cuba disallows private advertising. Here at the corner of 23rd and L, the "Times Square" of Havana, the only signage you can see are the names of the movies and a political ad about the Cuban 5. Pictured are five Cuban nationals being held in American prisons, convicted of espionage against the United States. The Cuban government considers the five to be heroes that were infiltrating terrorist groups in south Florida, intent on attacking Cuba.

recent listing). However, many international travelers appear to regularly ignore those warnings.[35]

Finally, we note strong reasons to believe that international warfare is fast becoming obsolete. The number of wars has declined steadily since the end of the Cold War. Even though politicians in almost all countries use xenophobia to consolidate their own political power, the threat of one country attacking another is declining fast. Some predict a coming war in space, with satellites used as weapons, but the multinational collaboration on the International Space Station makes such a possibility seem remote.[36] In 1996, political scientist Samuel Huntington[37] notoriously predicted a clash of civilizations. In his vision, the world was already divided up into nine civilizations (or cultural groupings): Western, Latin America, African, Islamic, Sinic, Hindu, Orthodox, Buddhist, and Japanese. This prediction reminds us of several others in the early 1990s who suggested the world would soon devolve into three spheres of in uence based on trade, dominated by Japan, the European Union, and the United States. There may be some sense to the latter classi cation; time zones exercise an important in uence on trade patterns that favor north–south exchanges. However, both theories oversimplify power and trade relations as they are unfolding. Both theories also ignore the successes of the World Trade Organization and the fast multiplying bilateral trade agreements, such as that between the United States and South Korea. And certainly the facts included in Exhibit 6.4 suggest that these warnings about a new clash of civilizations are off the mark. Although three of the six wars ongoing in 2010 were international ones (in Afghanistan/Pakistan, Yemen/Saudi Arabia, and Iraq/U.S.), the other three are better examples of civil wars (in Somalia, Sudan, and the drug war in Mexico). Rather than state-to-state or civilization-to-civilization military action, the greater threats to peace and commerce for the twenty- rst century remain civil strife and terrorism. Finally, we note with some hope that civil con icts can be settled through negotiation: Consider as

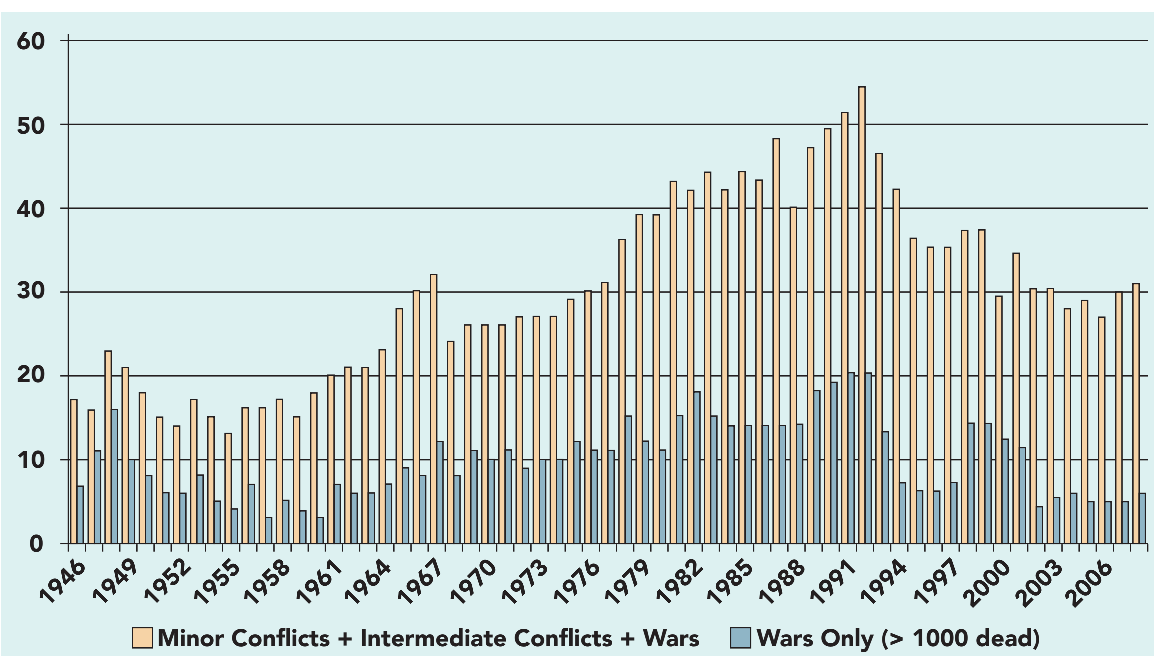
[35]"Who Do We Trust?" *Condé Nast Traveler*, March 2005, pp. 53–62.

[36]"Disharmony in the Spheres," *The Economist*, January 19, 2008, pp. 25–28.

[37]Samuel P. Huntington, *The Clash of Civilizations and the Remaking of the World Order* (New York: Simon and Schuster, 1996); Fouad Ajami, "The Clash," *The New York Times*, January 6, 2008.

Exhibit 6.4

Armed Conflicts Around the World



Source: The International Peace Research Institute, Oslo, http://www.prio.no 2010.

examples the recent histories of the relatively peaceful dissolution of the Soviet Union, the divorce of the Czech and Slovak Republics, the marriage of East and West Germany, the Hong Kong handover to China by the United Kingdom, the current trade overtures between China and Taiwan,[38] and the ongoing discussions between the United Kingdom and Scotland.[39]

Cyberterrorism and Cybercrime

Always on the horizon is the growing potential for cyberterrorism and cybercrime.[40] Although still in its infancy, the Internet provides a vehicle for terrorist and criminal attacks by foreign and domestic antagonists wishing to in ict damage on a company with little chance of being caught. One problem in tracing cyberterrorists and criminals is that it is hard to determine if a cyberattack has been launched by a rogue state, a terrorist, or a hacker as a prank. The "I Love You" worm, which caused an estimated $25 billion in damage, was probably just an out-of-control prank. However, the Melissa virus and the denial of service (DoS) attacks that overloaded the Web sites of CNN, ZDNet, Yahoo!, and Amazon.com with a ood of electronic messages, crippling them for hours, were considered purposeful attacks on speci c targets. Most recently, the government of China has been criticized for blocking text messaging in strife-torn regions and disrupting the local operations of Google.[41]

Each wave of viruses gets more damaging and spreads so rapidly that considerable harm is done before it can be stopped. The "Slammer," for example, brought Internet service to a crawl. It doubled its numbers every 8.5 seconds during the rst minute of its attack and infected more than 75,000 hosts within 10 minutes.[42] After infecting hundreds of thousands of computers in Europe and North America, the "Goner worm" traveled to Australia overnight and brought down government agencies, nancial and manufacturing sites, and at least 25 MNCs. Whether perpetrated by pranksters or hackers out to do harm, these incidents show that tools for cyberterrorism can be developed to do considerable damage to a company, an entire industry, or a country's infrastructure.

Because of mounting concern over the rash of attacks, business leaders and government of cials addressed a Group of 8[43] conference convened to discuss cybercrime, expressing the urgent need for cooperation among governments, industry, and users to combat the growing menace of cybercrime. As the Internet grows, "it's only a matter of time before every terrorist, anarchist, thief, and prankster with a PC and a phone line will be waging a virtual war and in icting real harm." [44]

Assessing Political Vulnerability

LO6

How to assess and reduce the effect of political vulnerability

There are at least as many reasons for a company's political vulnerability as there are political philosophies, economic variations, and cultural differences. Some companies appear to be more politically vulnerable than others, in that they receive special government attention. Depending on the desirability of a company, this special attention may result in positive actions toward the company or in negative attention.

Unfortunately, a marketer has no absolute guidelines to follow to determine whether a company and its products will be subject to political attention. Countries seeking investments in high-priority industries may well excuse companies from taxes, customs duties, quotas, exchange controls, and other impediments to investment. In a bid to attract foreign investment and increase exports, India announced a new trade policy that eases restraints and offers tax breaks for companies developing and maintaining infrastructure. Conversely, rms either marketing products not considered high priority or that fall from favor for some other reason often face unpredictable government restrictions.

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[38] "Reuni cation by Trade?" *The Economist*, August 8, 2009, pp. 37–38.

[39] "Straining at the Leash," *The Economist, The World in 2009*, November 19, 2009, p. 98.

[40] "Overseas Security Threats to U.S. Business Cited," *Los Angeles Times*, December 28, 2007, p. C2.

[41] Johanna Neuman, "Google's China Move Wakes Washington," *Los Angeles Times*, January 15, 2010.

[42] For more information, see http://www.silicondefense.com.

[43] The Group of 8 (G8) Nations consisted of government representatives from Britain, Canada, France, Germany, Italy, Japan, Russia, and the United States who convene periodically to examine issues that affect the group. Most recently the group has been expanded to the G20.

[44] Mark Mazzetti, "Senators Warned of Terror Attack by July," *The New York Times*, February 3, 2010, p. A6.

As a case in point, Continental Can Company's joint venture to manufacture cans for the Chinese market faced a barrage of restrictions when the Chinese economy weakened. China decreed that canned beverages were wasteful and must be banned from all state functions and banquets. Tariffs on aluminum and other materials imported for producing cans were doubled, and a new tax was imposed on canned-drink consumption. For Continental Can, an investment that had the potential for profit after a few years was rendered profitless by a change in the attitude of the Chinese government.

Politically Sensitive Products and Issues

Although there are no specific formulas to determine a product's vulnerability at any point, there are some generalizations that help identify the tendency for products to be politically sensitive. Products that have or are perceived to have an effect on the environment, exchange rates, national and economic security, and the welfare of people (and particularly children—recall the story of Barbie in Saudi Arabia from the previous chapter) or that are publicly visible, subject to public debate, or associated with their country of origin are more likely to be politically sensitive.

Fast-food restaurants, which are intended to be visible, have often been lightning rods for groups opposed to foreign companies. Authorities closed a KFC restaurant for health reasons (two flies were seen in the kitchen) after months of protesters arguing that foreign investment should be limited to high technology. "India does not need foreign investment in junk-food," said the leader of a protesting farmers' group. The store was later reopened by court order.

Health is often the subject of public debate, and products that affect or are affected by health issues can be sensitive to political concerns. The European Union has banned hormone-treated beef for more than a decade. There is a question about whether the ban is a valid health issue or just protection for the European beef industry. The World Trade Organization concluded in 1989 that the ban had no scientific basis; nevertheless, Europe has yet to lift the ban. Reluctance to respond to the WTO directive may have been the result of the outcry against genetically modified (GM) foods that has, for all practical purposes, caused GM foods to be banned in Europe. Public opinion against Frankenfood has been so strong that Unilever announced that it would stop using GM ingredients in all its products in Britain. Additionally, 11 leading restaurant chains, including McDonald's, Pizza Hut, Wimpy, and Burger King, have gone GM-free. The issue in the United States has not risen to the same level of concern as in Europe; to forestall such adverse public opinion, many U.S. companies are slowing the introduction of GM foods. Fearing a strong public reaction as in Europe, McDonald's has decided to stop using genetically modified potatoes for its french fries in its U.S. stores.

Forecasting Political Risk

In addition to qualitative measures of political vulnerability, a number of firms are employing systematic methods of measuring political risk.[45] Political risk assessment is an attempt to forecast political instability to help management identify and evaluate political events and their potential influence on current and future international business decisions. Perhaps the greatest risk to international marketers is the threat of the government actually failing, causing chaos in the streets and markets. *Foreign Policy* magazine uses 12 criteria to rank countries on its "Failed States Index."[46] The list of criteria includes demographic pressures, human flight, uneven development, and the like. (See Exhibit 6.5.)

[45] See http://www.prsgroup.com for a wealth of information on political risk assessments.

[46] "The Failed States Index," *Foreign Policy*, July/August 2007, pp. 54–65.

Exhibit 6.5

Top 20 States in Danger of Failing (ranked in order of closest to failure)

Source: From *Foreign Policy*, "Failed States Index," May/June 2009, online. Copyright 2009 by Foreign Policy. Reproduced with permission of *Foreign Policy* via Copyright Clearance Center.

Somalia	Central African Republic	Nigeria
Zimbabwe	Guinea	Ethiopia
Sudan	Pakistan	North Korea
Chad	Ivory Coast	Yemen
Dem. Rep. of Congo	Haiti	Bangladesh
Iraq	Burma	East Timor
Afghanistan	Kenya	

CROSSING BORDERS 6.3 When States Fail: Dodging the Bullet in Former Yugoslavia

One pundit suggested that nations with McDonald's don't attack one another. Perhaps Yugoslavia was the exception that proves the rule?

During most of the 78-day air war against Yugoslavia in 1999, McDonald's kept the burgers flipping while NATO kept the bombs dropping. After only one night of air strikes, mobs of youths, whipped to patriotic fervor by the state-controlled media's attacks on the "NATO criminals and aggressors," targeted six McDonald's stores, smashing windows and scribbling insults on doors and walls. McDonald's Corporation was forced to temporarily close its 15 restaurants in Yugoslavia. Weeks later, when local managers flung the doors open again, they accomplished an extraordinary comeback using an unusual marketing strategy: They put McDonald's U.S. citizenship on the back burner.

Within a week after the attacks, they had launched a campaign to identify the plight of ordinary Serbs with the Mac. "McDonald's is sharing the destiny of all people here," read a sign at one branch. A key aspect of the campaign was to present McDonald's as a Yugoslav company. Restaurants promoted the McCountry, a domestic pork burger with paprika garnish, and lowered its price. Pork is considered the most Serbian of meats.

In a national flourish to evoke Serbian identity and pride, McDonald's produced posters and lapel buttons showing the golden arches topped with a traditional Serbian cap called the *sajkaca* (pronounced shy-KACH-a). The managing director said McDonald's needed to get Serbs to view the company as their own. He masterminded the campaign to "Serbify" McDonald's. It was in this vein that he and his team decided to redesign the logo with the Serbian cap cocked at a haughty angle over one arch. Traditional national emblems, like the *sajkaca,* a strong, unique Serbian symbol, had undergone a revival in recent years with the rise of Serbian nationalism. "By adding this symbol of our cultural heritage, we hoped to denote our pride in being a local company."

Additionally, more than 3,000 free burgers were delivered to the participants of the Belgrade marathon, which was dominated by an anti-NATO theme. At the same time, the company announced that for every burger sold, it would donate one dinar (about a nickel) to the Yugoslav Red Cross to help victims of NATO's air strikes. It also handed out free cheeseburgers at anti-NATO rallies.

Once the war was over, the company basked in its success. Cash registers were ringing at prewar levels. McDonald's restaurants around the country were thronged with Serbs hungry for Big Macs and fries. And why not, asks 16-year-old Jovan Stojanovic, munching on a burger. "I don't associate McDonald's with America," he says. "Mac is ours." This claim is music to McDonald's ears. "We managed to save our brand."

And in 2009, McDonald's began negotiations to open its first store in previously war-torn Bosnia/Herzegovina. May the peace persist.

Sources: Robert Block, "How Big Mac Kept from Becoming a Serb Archenemy," *The Wall Street Journal*, September 3, 1999; John Kozak, "McDonald's Can't Serve Up World Peace," *The Guardian,* April 26, 2005, p. 27; "McDonald's Arrives in Sarajevo, Bosnia and Herzegovina," *Property Xpress*, October 9, 2009, online.

Risk assessment is used to estimate the level of risk a company is assuming when making an investment and to help determine the amount of risk it is prepared to accept. In the former Soviet Union and in China, the risk may be too high for some companies, but stronger and better financed companies can make longer-term investments in those countries that will be profitable in the future. Additionally, one study found that compared with American and Japanese managers, French managers' market entry decisions appear to be more influenced by concerns about political risk in foreign markets.[47] Early risk is accepted in exchange for being in the country when the economy begins to grow and risk subsides.

During the chaos that arose after the political and economic changes in the Soviet Union, the newly formed republics were eager to make deals with foreign investors, yet the problems and uncertainty made many investors take a wait-and-see attitude. However, as one executive commented, "If U.S. companies wait until all the problems are solved, somebody else will get the business." Certainly the many companies that are investing in the former Soviet Union or China do not expect big returns immediately; they are betting on the future. For a marketer doing business in a foreign country, a necessary part of any market analysis

[47]Jennifer D. Chandler and John L. Graham, "Relationship-Oriented Cultures, Corruption, and International Marketing Success," *Journal of Business Ethics* 92, no. 2 (2010), pp. 251–67.

is an assessment of the probable political consequences of a marketing plan, since some marketing activities are more susceptible to political considerations than others.

Lessening Political Vulnerability

Although a company cannot directly control or alter the political environment of the country within which it operates, a specific business venture can take measures to lessen its degree of susceptibility to politically induced risks.

Foreign investors frequently are accused of exploiting a country's wealth at the expense of the national population and for the sole benefit of the foreign investor. This attitude is best summed up in a statement made by a recent president of Peru: "We have had massive foreign investment for decades but Peru has not achieved development. Foreign capital will now have to meet government and social goals." Such charges are not wholly unsupported by past experiences.

As long as these impressions persist, the political climate for foreign investors will continue to be hostile. Companies must manage external affairs in foreign markets to ensure that the host government and the public are aware of their contributions to the economic, social, and human development of the country. Relations between governments and MNCs are generally positive if the investment (1) improves the balance of payments by increasing exports or reducing imports through import substitution; (2) uses locally produced resources; (3) transfers capital, technology, and/or skills; (4) creates jobs; and/or (5) makes tax contributions.

In addition to the economic contributions a company makes, corporate philanthropy also helps create positive images among the general population. Many MNCs strive to benefit countries through their social programs, which polish their image as well. For example, Microsoft, recognizing that developing countries need sophisticated technical assistance, pledged more than $100 million in technology and training as part of a deal to put government services online in Mexico. Cisco Systems, the leading maker of Internet hardware, relies on nonprofit organizations to run its 10,000 networking academies, which train college and high school students to create computer networks in 150 countries. In China, Procter & Gamble is helping local schools and universities train and educate leaders. And in Malaysia, Motorola and Intel have instituted training programs to enhance the skills of local workers.

Merck, the pharmaceutical company, has developed a pill to fight river blindness in Africa and Latin America. River blindness is a parasitic disease transmitted to humans through the bite of the black fly commonly found along the riverbanks in some African countries. The parasite infiltrates, multiplies, and spreads throughout the body for as long as 15 years, causing acute skin rashes, terrible itching, and sometimes disfigurement or blindness. The pill is taken just once a year and has been proven to prevent the disease. Merck contributed millions of doses to fight the disease in developing countries.[48]

Although companies strive to become good corporate citizens in their host countries, political parties seeking publicity or scapegoats for their failures often serve their own interests by focusing public opinion on the negative aspects of MNCs, whether true or false. Companies that establish deep local roots and show by example, rather than meaningless talk, that their strategies are aligned with the long-term goals of the host country stand the best chance of overcoming a less than positive image. "In times like these," says one executive, "global citizenship is perhaps more important than ever."[49] An effective defense for the multinational company is to actively participate in improving the lives of local citizens.

In addition to corporate activities focused on the social and economic goals of the host country and good corporate citizenship, MNCs can use other strategies to minimize political vulnerability and risk.

Joint Ventures

Typically less susceptible to political harassment, joint ventures can be with locals or other third-country multinational companies; in both cases, a company's financial exposure is limited. A joint venture with locals helps minimize anti-MNC feelings, and a joint venture with another MNC adds the additional bargaining power of a third country.

[48] David Shook, "Merck Is Treating the Third World," *BusinessWeek Online*, October 10, 2002.

[49] Susan E. Reed, "Business; Technology Companies Take Hope in Charity," *The New York Times*, March 23, 2003, p. 17.

Expanding the Investment Base

Including several investors and banks in financing an investment in the host country is another strategy. This approach has the advantage of engaging the power of the banks whenever any kind of government takeover or harassment is threatened. This strategy becomes especially powerful if the banks have made loans to the host country; if the government threatens expropriation or other types of takeover, the financing bank has substantial power with the government.

Licensing

A strategy that some firms find eliminates almost all risks is to license technology for a fee. Licensing can be effective in situations in which the technology is unique and the risk is high. Of course, there is some risk assumed, because the licensee can refuse to pay the required fees while continuing to use the technology.

Planned Domestication

In those cases in which a host country is demanding local participation, the most effective long-range solution is planned phasing out, that is, planned domestication. This method is not the preferred business practice, but the alternative of government-initiated domestication can be as disastrous as confiscation. As a reasonable response to the potential of domestication, planned domestication can be profitable and operationally expedient for the foreign investor. Planned domestication is, in essence, a gradual process of participating with nationals in all phases of company operations.

Political Bargaining

Multinational companies clearly engage in lobbying and other sorts of political bargaining to avoid potential political risks.[50] Mattel issued an extraordinary apology to China over the recall of Chinese-made toys, saying the items were defective because of Mattel's design flaws rather than faulty manufacturing.[51] In doing so, Mattel was (1) protecting the huge and all-important head of its value chain; (2) recognizing that it would be easier to fix its design and inspection routines than quickly affect manufacturing practices in China; and (3) uniquely for an American firm, publicly admitting its own very real culpability. On the other side of the Pacific, Toyota once considered raising prices of its cars in the American market to "help" its ailing American competitors.[52] The Japanese government has set quotas on auto exports in the past as American car companies have struggled. And in the face of growing American and European criticism, China has agreed to put quotas on its exports of textiles and to float its currency. Now the question remains, when? Finally, a cynical way to look at the motivation behind corporate social responsibility in general is its use as a bargaining chip with foreign publics and governments.[53]

Political Payoffs

One approach to dealing with political vulnerability is the political payoff—an attempt to lessen political risks by paying those in power to intervene on behalf of the multinational company. This choice is not an approach we recommend in any way. However, your competitors may use such a tactic, so beware. Political payoffs, or bribery, have been used to lessen the negative effects of a variety of problems. Paying heads of state to avoid confiscatory taxes or expulsion, paying fees to agents to ensure the acceptance of sales contracts, and providing monetary encouragement to an assortment of people whose actions can affect the effectiveness of a company's programs are decisions that frequently confront multinational managers and raise ethical questions.

Bribery poses problems for the marketer at home and abroad, because it is illegal for U.S. citizens to pay a bribe even if it is a common practice in the host country. Political payoffs may offer short-term benefits, but in the long run, the risks are high, and bribery is an untenable option. This issue is discussed in more detail in Chapters 5 and 7.

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[50] Amy J. Hillman and William P. Wan, "The Determinants of MNE Subsidiaries' Political Strategies: Evidence of Institutional Duality," *Journal of International Business Studies* 36, no. 3 (2005), pp. 322–40.

[51] "Mattel Apologizes to China over Recall," *Associated Press*, September 21, 2007.

[52] "Toyota May Raise Prices to Avoid Backlash," *Associated Press*, April 26, 2005.

[53] Daniel Franklin, "Just Good Business," *The Economist*, January 18, 2008, pp. 1–24.

POLITICAL AND ECONOMIC AID IN ACTION, WHERE EVERYBODY WINS: The Japanese government has paid for the construction of a new highway that connects key safari tourism areas in Tanzania. Foreign tourism becomes more efficient, comfortable, and profitable for the Tanzanian company (and others) pictured—Kibo is one of the best in the country. The Japanese designers, consultants, and contractors involved make money on the work. And the road ultimately pays for itself in the form of lower warranty expenses on the armada of Toyota Land Cruisers that regularly ply the path between the Makuyuni and Ngorongoro animal preserves.

Government Encouragement

LO7

How and why governments encourage foreign investment

Governments, both foreign and U.S., encourage foreign investment as well as discourage it. In fact, within the same country, some foreign businesses may fall prey to politically induced harassment, while others may be placed under a government umbrella of protection and preferential treatment. The difference lies in the evaluation of a company's contribution to the nation's interest.

The most important reason to encourage foreign investment is to accelerate the development of an economy. An increasing number of countries are encouraging foreign investment with speci c guidelines aimed toward economic goals. Multinational corporations may be expected to create local employment, transfer technology, generate export sales, stimulate growth and development of local industry, conserve foreign exchange, or meet a combination of these expectations as a requirement for market concessions. Recent investments in China, India, and the former republics of the Soviet Union include provisions stipulating speci c contributions to economic goals of the country that must be made by foreign investors.

The U.S. government is motivated for economic as well as political reasons to encourage American rms to seek business opportunities in countries worldwide, including those that are politically risky. It seeks to create a favorable climate for overseas business by providing the assistance that helps minimize some of the more troublesome politically motivated nancial risks of doing business abroad. The Department of Commerce (DOC) at www.doc.gov is the principal agency that supports U.S. business abroad. The International Trade Administration (ITA) at www.ita.gov, a bureau of the DOC, is dedicated to helping U.S. business compete in the global marketplace. Other agencies that provide assistance to U.S. companies include:

- Export-Import Bank (Ex-Im Bank) underwrites trade and investments for U.S. rms. www.exim.gov
- Foreign Credit Insurance Association (FCIA), an agency of the Ex-Im Bank, provides credit insurance that minimizes nonpayment risk caused by nancial, economic, or political uncertainties. It includes insurance against con scation, civil disturbances, and the cancellation or restriction of export or import licenses. www.fcia.com
- The Agency for International Development (AID) provides aid to underdeveloped countries and has limited protection in support of "essential" projects in approved countries and for approved products. www.usaid.gov
- The Overseas Private Investment Corporation (OPIC) provides risk insurance for companies investing in less-developed countries. www.opic.gov

Summary

Vital to every marketer's assessment of a foreign market is an appreciation for the political environment of the country within which he or she plans to operate. Government involvement in business activities abroad, especially foreign-controlled business, is generally much greater than business is accustomed to in the United States. The foreign rm must strive to make its activities politically acceptable, or it may be subjected to a variety of politically condoned harassment. In addition to the harassment that can be imposed by a government, the foreign marketer frequently faces the problem of uncertainty of continuity in government policy. As governments change political philosophies, a marketing rm accepted under one administration might nd its activities undesirable under another. An unfamiliar or hostile political environment does not necessarily preclude success for a foreign marketer if the company becomes a local economic asset and responds creatively to the issues raised by political and social activists. The U.S. government may aid an American business in its foreign operations, and if a company is considered vital to achieving national economic goals, the host country often provides an umbrella of protection not extended to others.

Key Terms

Sovereignty
Nationalism
Con scation
Expropriation
Domestication
Political and social activists (PSAs)
Nongovernmental organizations (NGOs)

Questions

1. De ne the key terms listed above.
2. Why would a country rather domesticate than expropriate?
3. "A crucial fact when doing business in a foreign country is that permission to conduct business is controlled by the government of the host country." Comment.
4. What are the main factors to consider in assessing the dominant political climate within a country?
5. Why is a working knowledge of political party philosophy so important in a political assessment of a market? Discuss.
6. How can a change in the political party in power affect an investor? Discuss and give examples.
7. What are the most common causes of instability in governments? Discuss.
8. Discuss how governmental instability can affect marketing.
9. What are the most frequently encountered political risks in foreign business? Discuss.
10. Expropriation is considered a major risk of foreign business. Discuss ways in which this particular type of risk can be minimized somewhat as a result of company activities. Explain how these risks have been minimized by the activities of the U.S. government.
11. How do exchange controls impede foreign business? Discuss.
12. How do foreign governments encourage foreign investment? Discuss.
13. How does the U.S. government encourage foreign investment?
14. What are the motives behind U.S. government encouragement for foreign investment? Explain.
15. Discuss measures a company might take to lessen its political vulnerability.
16. Select a country and analyze it politically from a marketing viewpoint.
17. The text suggests that violence is a politically motivated risk of international business. Comment.
18. There is evidence that expropriation and con scation are less frequently encountered today than just a few years ago. Why? What other types of political risks have replaced expropriation and con scation in importance?
19. You are an executive in a large domestic company with only minor interests in international markets; however, corporate plans call for major global expansion. Visit the home page of Control Risks Group (CRG) at www.crg.com. After thoroughly familiarizing yourself with the services offered by CRG, write a brief report to management describing how its services could possibly help with your global expansion.
20. Visit the Web site www.politicalresources.net/ and select the Political Site of the Week. Write a brief political analysis highlighting potential problem areas for a company interested in investing in that country.
21. Search the Web for information about the activities of PSAs outside the United States and write a brie ng paper for international management on potential problems.
22. Discuss ways the companies discussed in the Global Perspective could have minimized their losses in the banana wars.
23. Discuss any ethical and socially responsible issues that may be implied in the Global Perspective.