MK 333/326
International Marketing
Chapter 6 & 7

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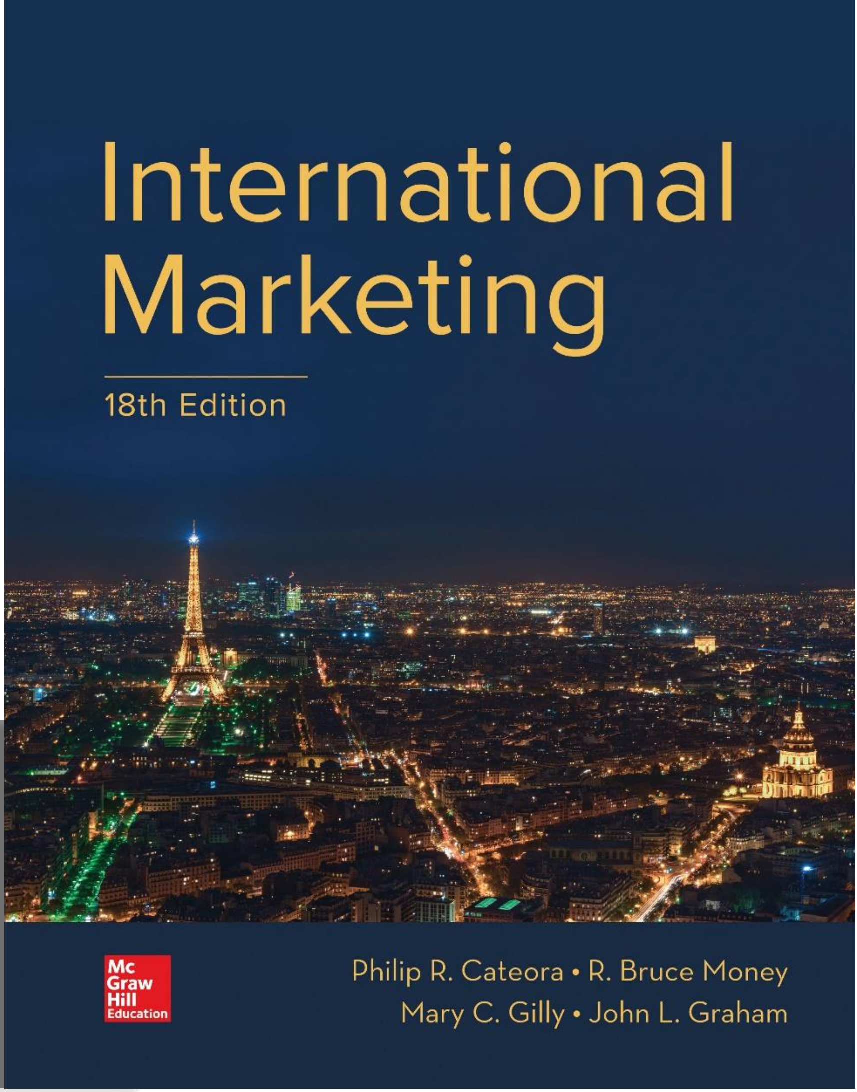

Chapter 6

The Political Environment: A Critical Concern

Learning Objectives

6-1 What the sovereignty of nations means and how it can affect the stability of government policies

6-2 How different governmental types, political parties, nationalism, targeted fear/animosity, and trade disputes can affect the environment for marketing in foreign countries

6-3 The political risks of global business and the factors that affect stability

Learning Objectives

6-4 The importance of the political system to international marketing and its effect on foreign investments

6-5 The impact of political and social activists, violence, and terrorism on international business

6-6 How to assess and reduce the effect of political vulnerability

6-7 How and why governments encourage foreign investment

The Sovereignty of Nations

Sovereignty

- Powers exercised by state in relation to other countries
- Supreme powers exercised over country's own members
- Characteristics of a sovereign state
  - Enjoys full legal equality with other states
  - Independent and free from all external control
  - Governs its own territory
  - Selects own political, economic, and social systems
  - Has power to enter into agreements with other nations

Stability of Government Politics

Political Climate

- The ideal climate for multinational firm is stable and friendly government
- Causes of instability
  1. Inherent instability
  2. Political shifts during elections impact trade conditions
  3. Nationalism
  4. Animosity toward specific countries
  5. Trade disputes

Chaotic Conditions

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On the first Sunday after the quake, at 9:00 a.m., the streets of downtown Port-au-Prince were filled with people scavenging. Onlookers add to the crowd. Eight years after the 2010 earthquake, the misery in Haiti continues.

Stability of Government Politics

Forms of Government

- Monarchy/dictatorship – rule by one
- Aristocracy/oligarchy – rule by few
- Democracy – rule by many

Sovereign States

- Most have nominally representative governments with universal suffrage
  - Some countries backsliding from democracy toward autocracy

Exhibit 6.1 A Sampling of Government Types

Country	Government Type
Afghanistan	Presidential Islamic Republic
Bosnia and Herzegovina	Emerging federal democratic republic
Canada	Confederation with parliamentary democracy
Cuba	Communist state
Iran	Theocratic republic
Libya	Transitional government
Saudi Arabia	Absolute monarchy
Sudan	Presidential republic
United States	Constitutional federal republic

Source: http://www.cia.gov/cia/publications/factbook/, 2012.

Stability of Government Politics

Political Parties

- Important for international marketer to:
  - Know **philosophies** of all major political parties within a country
    - Dominant party will alter attitudes and overall business climate
  - Know **direction** each party is likely to take after shift in power
  - Understand all aspects of the political landscape
    - Be able to **respond** to drastic policy shifts

Iran Parliamentary Election

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An Iranian woman passes in front of an election billboard displaying Iranian Supreme Leader Ayatollah Ali Khamenei casting his own vote in the city of Karaj in the Alborz Province in central Iran. Voting is often done in mosques or schools. As mandated by law, women and men wait in separate lines to cast their ballots. The current government also specifies the public dress of the woman pictured.

Stability of Government Politics

Nationalism

- Intense feeling of **national pride and unity**
  - National interest and security more important than international relations
  - Minor harassment and controls of foreign investment are supported
    - Restrictions on imports, tariffs, other barriers to trade
    - Encouragement of citizens to buy domestic products only

Stability of Government Politics

Targeted Fear and/or Animosity

- Important distinction
  - Nationalism: directed generally to all foreign countries
  - Targeted animosity: directed toward a particular country
- National well-being most important

Trade Disputes

- WTO dispute resolution process

Political Risks of Global Business

Economic Risks

- **Exchange controls**
- **Local-content laws**
- **Import restrictions**
- **Tax controls**
- **Price controls**
- **Labor problems**

The Consequences of the U.S. Embargo of Cuba

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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.

Political Disaster Strikes Kenya

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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.

Political Risks of Global Business

Cyberterrorism and Cybercrime

- Growing potential with rise of the Internet
- Can inflict real harm
  - Viruses can spread and do damage quickly before being stopped
- Hard to determine the source of attack
- Reasons may be espionage, robbery, political punishment, and potential national security attacks

Assessing Political Vulnerability

Some companies more vulnerable than others

- Vulnerable companies
  - Subject to political attention
  - May face unpredictable government restrictions
- Less vulnerable companies
  - Often are in high-priority industry for host country
  - Excused from taxes, duties, quotas, controls

Exhibit 6.5 20 Most Fragile States
(ranked in order of closest to failure)

1. South Sudan
2. Somalia
3. Central African Republic
4. Yemen
5. Sudan
6. Syria
7. Democratic Republic of Congo
8. Chad
9. Afghanistan
10. Iraq
11. Haiti
12. Guinea
13. Nigeria
14. Zimbabwe
15. Ethiopia
16. Guinea-Bissau
17. Burundi
18. Pakistan
19. Eritrea
20. Niger

Source: *Foreign Policy*, “Fragile States Index,” 2016, online.

Lessening Political Vulnerability

Many believe foreign investors are self-serving

- Exploit country’s wealth at expense of population
- Relations between governments and MNCs are generally positive if the investment:
  - Improves country’s balance of payments
  - Uses locally produced resources
  - Transfers capital, technology, and skills
  - Creates jobs
  - Makes tax contributions
- Corporate philanthropy

Lessening Political Vulnerability 2 of 2

Strategies to reduce political vulnerability and risk

- **Joint ventures**
- **Expanding the investment base**
- **Licensing and franchising**
- **Planned domestication**
- **Political bargaining**
- **Political payoffs** (bribery)

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 1 of 2

Reasons a government encourages foreign investment:

- Accelerate development of economy
- Create local employment
- Transfer technology
- Generate export sales
- Stimulate growth and development of local industry
- Conserve foreign exchange

Government Encouragement 2 of 2

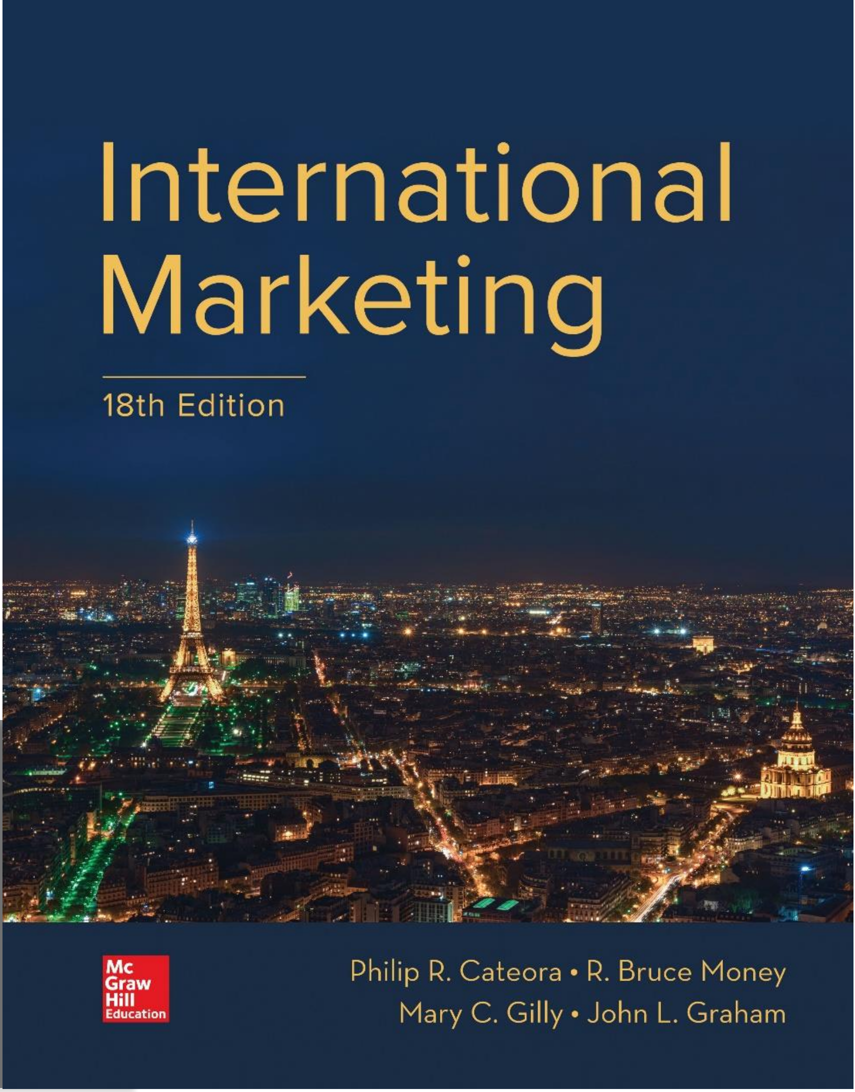
Ministry of Commerce

U.S. government and other agencies help companies seek opportunities worldwide

- Department of Commerce
- International Trade Administration
- Export-Import Bank
- Foreign Credit Insurance Association
- Agency for International Development
- Overseas Private Investment Corporation

Chapter 7

The International Legal Environment: Playing By the Rules



Bases for Legal Systems 4 of 6

Common Law	Code Law
• Based on tradition	• Based on system of written rules
• Not all-inclusive	• Catchall provisions with broad interpretations possible
• Ownership of intellectual property based on use	• Ownership of intellectual property based on registration
• Agreements binding as long as proof of agreement is established	• Agreements not enforceable unless properly notarized or registered
• Acts of God interpreted as unforeseeable occurrences of nature	• Acts of God interpreted as unforeseeable occurrences of nature and human acts

Islamic Law and Banking

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Banking in Dubai, UAE, requires an understanding of Islamic law and customs. Prohibition against the payment of interest and prohibition against investments in businesses dealing with alcohol and gambling are two of the tenets of Islamic law that affect banking.

Microsoft and Censorship in China

© Ng Han Guan/AP Images

Potential customers visit a Microsoft booth in Beijing. When Chinese bloggers use Microsoft's service to post messages and type in such terms as "democracy," "capitalism," "liberty," or "human rights," they get a yellow light and a computer warning: "This message includes forbidden language. Please delete the prohibited expression." Microsoft has agreed to this sort of censorship, explaining that it is just following local laws and that the company still provides a most useful service to its Chinese clients.

Sale of Human Organs

© Pat Roque/AP Images

In the Philippines and other developing countries, you can buy yourself a kidney on the black market—the global price is around $2,000. However, U.S. laws prohibit the buying and selling of human organs.

Dual-Use of Technology Exports

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China successfully test-fired a new type of long-range ground-to-ground missile within its territory as tensions between China and Taiwan continue to rise and wane. Additionally, China and the United States have both shot down their own “errant” satellites with missiles. Much of the electronic technology used in long-range missiles is dual-use; that is, the technology can be used for both nonmilitary and military applications. It is the exporter’s responsibility to ensure that the final user of restricted dual-use products complies with export restrictions.