

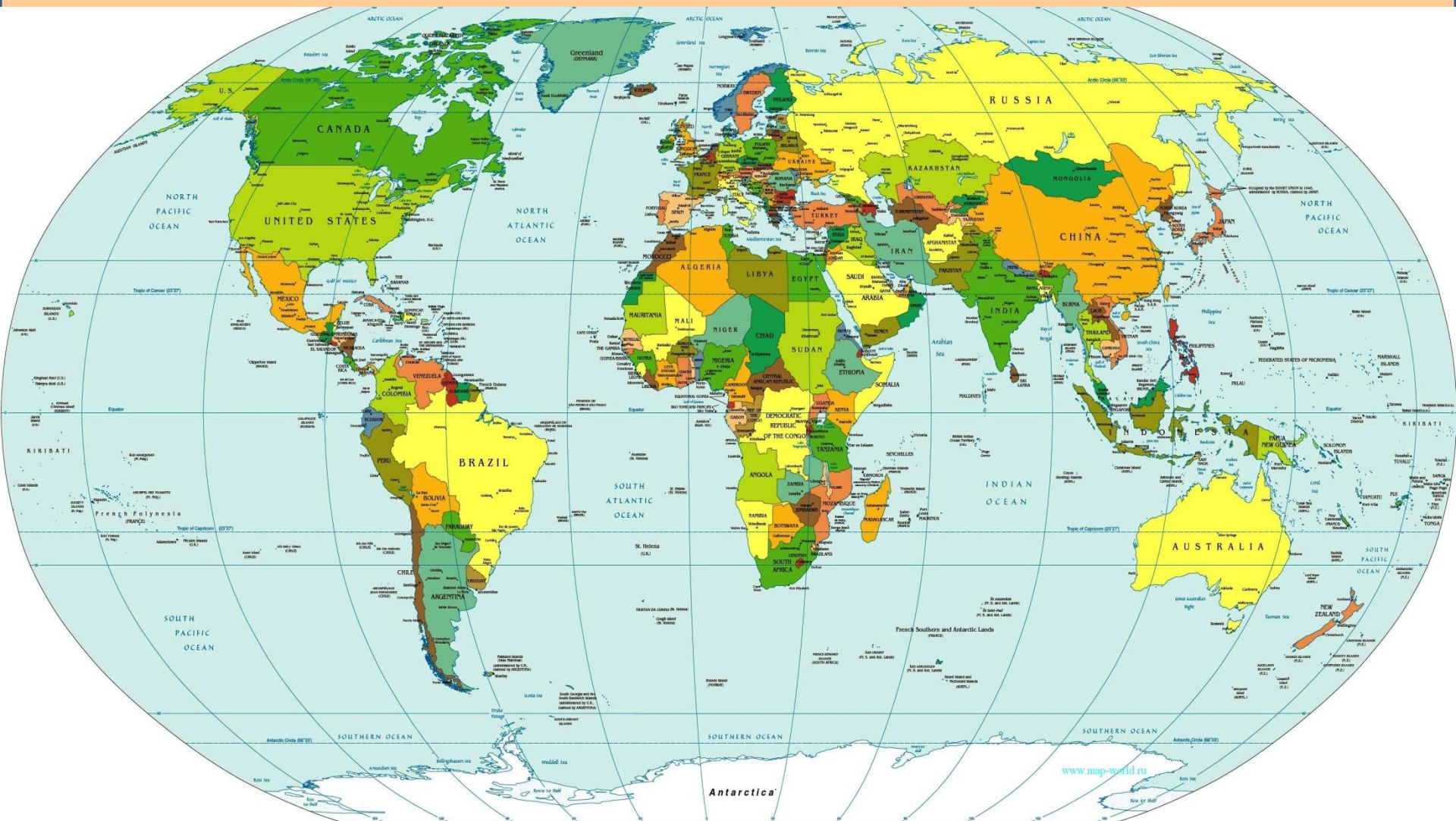
International Marketing

Chapter 6

The Political Environment: A Critical Concern

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Sovereignty of Nations



Stability of Government Policies



- Five main political causes of international market instability
 - Some **forms of government** seem to be inherently unstable
 - Changes in political parties during elections can have major effects on trade conditions
 - Nationalism
 - Animosity targeted toward specific countries
 - Trade disputes themselves

Political Risks of Global Business



- **Confiscation** – the seizing of a company's assets without payment
- **Expropriation** – where the government seizes an investment but makes some reimbursement for the assets
- **Domestication** – when host countries gradually cause the transfer of foreign investments to national control and ownership through a series of government decrees
 - Mandating local ownership
 - Greater national involvement in a company's management
 - An example of domestication is given on the next slide

Domestication - Example



- A good example of domestication can be seen in the nationalization of Air-India (formerly called as Tata Airlines). Tata owned and operated Air-India and Indian Airlines until they were nationalized by the Indian Government, much to Tata's chagrin. Very recently, the Indian government has asked Mr. Ratan Tata, chairman of the Tata group, to head an advisory panel to revive Air India.

http://www.bloomberg.com/apps/news?pid=newsarchive&sid=ag_NJBLk6TVo

Economic Risks (1 of 2)



- Exchange controls
 - Stem from shortages of foreign exchange held by a country
- Local-content laws
 - Countries often require a portion of any product sold within the country to have local content
- Import restrictions
 - Selective restrictions on the import of raw materials to force foreign industry to purchase more supplies within the host country and thereby create markets for local industry

Economic Risks (2 of 2)



- Tax controls
 - A political risk when used as a means of controlling foreign investments
- Price controls
 - Essential products that command considerable public interest
 - Pharmaceuticals , Food, and Gasoline
- Labor problems
 - Labor unions have strong government support that they use effectively in obtaining special concessions from business

Political and Social Activists (PSAs)



- Not usually government sanctioned
- Can interrupt the normal flow of trade
- Range from those who seek to bring about peaceful change to those who resort to violence and terrorism to effect change
 - Worldwide boycott of Nestle products
- The **Internet** has become an effective tool of PSAs to spread the word
 - Protest rallies against the U.S. – Iraq War

Nongovernmental Organizations (NGOs)



- Nongovernmental organizations (NGOs) are increasingly affecting policy decisions made by governments
 - Protests
 - Lobbying
 - Collaborations with governmental organizations
- Many also are involved in mitigating much of the human misery plaguing parts of the planet
 - Red Cross and the Red Crescent
 - Amnesty International
 - Oxfam
 - UNICEF
 - Care and Habitat for Humanity

Violence and Terrorism



- International warfare is fast becoming obsolete as the number of wars have declined steadily since the end of the Cold War
- The greatest threat to peace and commerce for the twenty-first century remain civil strife and terrorism
- Tourism and International education are two industries that have been affected by terrorism.
- The latest fresh wave of terrorism is seen in the attacks by Sudanese terrorists on ships that sail in what has become known as the “horn of Africa.”

Cyberterrorism and Cybercrime (1 of 2)



- The internet is a vehicle for terrorist and criminal attacks to inflict damage on a company with little chance of being caught
 - By foreign and domestic antagonists
- It is hard to determine if a cyber attack has been launched
 - By a rogue state
 - A terrorist
 - A hacker as a prank

Cyberterrorism and Cybercrime (2 of 2)



- Each wave of viruses
 - Gets more damaging
 - Spreads so rapidly that considerable harm is done before it can be stopped
- Tools for cyberterrorism - can be developed to do considerable damage
 - To a company,
 - An entire industry
 - A country's infrastructure
- Mounting concern over the rash of attacks
 - Business leaders and government officials addressed a Group of Eight conference

Politically Sensitive Products and Issues



- Politically sensitive products
 - Are perceived to have an effect on the environment, exchange rates, national and economic security, and the welfare of people
 - Are publicly visible or subject to public debate
- Health is often the subject of public debate, and products that affect or are affected by health issues can be sensitive to political concern
- The European Union has banned hormone-treated beef for more than a decade

Lessening Political Vulnerability (1 of 2)



- Relations between governments and MNCs are generally **positive** if the investment
 - Improves the balance of payments by increasing exports or reducing imports through import substitution
 - Uses locally produced resources
 - Transfers capital, technology, and/or skills
 - Creates jobs
 - Makes tax contributions
- **Political parties** often focus public opinion on the negative aspects of MNCs whether true or false
 - As **scapegoats** for their own failure
 - To serve their own interests

Lessening Political Vulnerability (2 of 2)



- **Strategies** that MNCs use to minimize political vulnerability and risk
 - Joint ventures
 - Expanding the investment base
 - Licensing
 - Planned domestication
 - Political bargaining
 - Political payoffs

Government Encouragement

- Most important reason to encourage foreign investment
 - To accelerate the development of an economy
- U.S. government motivated for economic as well as political reasons
 - Encourages American firms to seek business opportunities in countries worldwide including those that are politically risky
 - Department of Commerce
 - International Trade Administration
- Agencies that provide assistance to U.S. companies
 - Export-Import Bank (Ex-Im Bank)
 - Foreign Credit Insurance Association (FCIA)
 - The Agency for International Development (AID)
 - The Overseas Private Investment Corporation (OPIC)