

THE POLITICAL AND ECONOMIC ENVIRONMENT

A. THE POLITICAL/LEGAL ENVIRONMENT

- 1. Home country environment
 - home country political environment can constrain the intl operations of a company by limiting the countries the intl company may enter (e.g. South Africa–US, Germany, Japan)
 - triple-threat political environment European firms doing business in Cuba, Nestle's problems with its infant formula controversy were most serious in a third market the USA





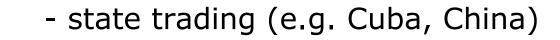
LAUREA

 bribery and corruption – what are the reasonable ways of doing business internationally?

- programmes by governmental organizations to promote exporting – export subsidies? Export subsidies are to the export industries what tariffs are to domestic industries
 - financial activities export credit agencies (e.g.

FINNVERA) offer exporters the opportunity of transferring some of the risk to governmental organizations

- information services
- export-facilitating activities
- promotion by private organizations





Host country environment

- Political risks
- 1) Ownership risk, which exposes property and life

2) Operating risk, which refers to interference with the ongoing operations of a firm

3) transfer risk, which is mainly encountered when companies want to transfer capital between countries



- political risk can be the result of government action or it can be outside the control of the government: import restrictions (on raw materials, machines, spare parts), **local-content laws** (e.g. the EU has a 45 per cent local-content requirement for foreign-owned assemblers), exchange controls, market control (US government threatened to boycott foreign firms trading with Cuba), price controls (can be used by a government during inflationary period; pharmaceuticals, food, petrol, cars), tax controls (a political risk when used as a means of controlling foreign investments), labor restrictions (strong labor unions), change of government party, nationalization/ LAURE EXPROPRIATION



3.

- Trade barriers from home country to host country Why do countries impose trade barriers to exports/imports?
 - tariffs and non-tariff barriers (quotas, embargoes, administrative delays, local-content requirements)

4. Political risk-analysis procedure

Step 1: Issues of relevance to the firm

Determine critical economic/business issues to the firm. Assess the relative importance of these issues.





Step 2: Potential political events

Determine the relevant political events Determine their probability of occurring Determine the cause and effect relationships Determine the government's ability and willingness to respond

Step 3: Probable impacts and responses

Determine the initial impact of probable scenarios

Determine possible responses to initial impacts

Determine initial and ultimate political risk





THE ECONOMIC ENVIRONMENT

- 1. Exchange rates
 - weak currency (valued low relative to other currencies) strong currency (valued high relative to other currencies)
 What is the impact on exports/imports?
 - devaluation/revaluation
 - depreciation/appreciation
 - stable exchange rates improve the accuracy of financial planning
 - methods for insuring against adverse exchange rate movements are often too expensive for SMEs





2. Regional economic integration

- Countries have wanted to engage in economic cooperation and to provide large markets for member-country producers
- Free trade area all barriers to trade among member countries removed, each member country has own trade policy towards non-members
- Customs union all barriers to trade among member countries removed, common trade policy towards non-members
- Common market same as above + factors of production move freely among members; Single European Act 1987
- Economic union same as above + integration of economic policies; members harmonize monetary policies, taxation and government spending, common currency





QUESTIONS TO BE DISCUSSED

- Why is political stability so important for international marketers?
- Explain the importance of common European currency to firm selling goods to the European market.
- Describe the ways in which foreign exchange fluctuations affect a) trade b) tourism.
- Why a country's balance of trade may be of interest to an international marketer?

