



Session objectives

- The risks of global business and the factors that affect stability
- To understand the impact of various macro environments in the international markets
- Assessing and reducing the effect of vulnerability derived from macro environmental factors

Sovereignty

- Sovereignty refers to both the powers exercised by a state in relation to other countries and the supreme powers exercised over its own members
- A sovereign state is independent and free from all external control; enjoys full legal equality with other states; and governs its own territory

Stability of Government Policies

- Radical shifts in government philosophy can occur when
 - An opposing political party ascends to power
 - Pressure from nationalist and self-interest groups
 - Weakened economic conditions.
 - Bias against foreign investment or conflicts between governments
- A change in government, whether by election or coup, does not always mean a change in the level of political risk
- Radical changes in policies toward foreign business can occur in the most stable governments as well

Nationalism

- Nationalism refers to feelings of national pride and unity
- Feelings of nationalism are manifested by
 - Call to “buy our country’s products only,” e.g., “Buy American”
 - Restrictions on imports, restrictive tariffs, and other barriers to trade

Confiscation, Expropriation, & Domestication

- Confiscation, the most severe political risk, is the seizing of a company’s assets without payment
- Expropriation is where the government seizes an investment, but some reimbursement for the assets is made; often the expropriated investment is nationalized to become a government run entity
- Domestication occurs when the government mandates local ownership and greater national involvement in a foreign company’s management

Economic Risks

- Governments can impose restraints on business activity to
 - Protect national security
 - Protect an infant industry
 - To conserve scarce foreign exchange
 - Raise revenue
 - Retaliate against unfair trade practices

Other Political & Economic Risks

- Political sanctions
- Political and social activists
- Violence and Terrorism
- Cyberterrorism

Assessing Political Vulnerability

- No absolute guidelines to assess if a firm faces political risks
- No specific guidelines to determine a product's political vulnerability, but some generalizations
- Politically sensitive products include those that:
 - effect on the environment,
 - exchange rates
 - national and economic security
 - affect public health, e.g., genetically modified (GM) foods

Reducing Political Vulnerability

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 skill
- ↳ creates jobs, and/or
- ↳ makes tax contributions

Reducing Political Vulnerability

MNC's can use the following strategies to minimize political vulnerability and risk:

- ↳ Joint Ventures
- ↳ Expanding the Investment Base
- ↳ Licensing
- ↳ Planned Domestication
- ↳ Political Payoffs

The Legal Environment

- No single, uniform international commercial law governing foreign business transactions exists
- International marketers must comply with the laws of each country within which it operate
- The legal systems of different countries are so disparate and complex

Bases for Legal System

- **Common law**
 - Derived from English law and found in England, the United States, Canada, and other countries once under English influence
- **Civil or code law**
 - Derived from Roman law and found in Germany, Japan, France, and in non-Islamic and non-Marxist countries
- **Islamic law**
 - Derived from the interpretation of the Koran and found in Pakistan, Iran, Saudi Arabia, and other Islamic states
- **Socialist law**
 - A commercial legal system in the Marxist-socialist economies of Russia and the republics of the former Soviet Union, Eastern Europe, China, whose legal system is based on the economic, political, and social policies of the state

Jurisdiction in International Legal Disputes

- Determining whose legal system has jurisdiction when a commercial dispute arises is another problem of international marketing.
- The World Court at the Hague and the International Court of Justice resolve international disputes between sovereign nations of the world rather than between private citizens.
- Legal disputes can arise in three situations:
 - Between governments,
 - Between a company and a government,
 - Between two companies

Jurisdiction in International Legal Disputes

- The World Court can adjudicate disputes between governments, but disputes in situations 2 and 3 must be handled in the courts of the country of one of the parties involved or through arbitration.
- When international commercial disputes must be settled under the laws of one of the countries concerned, the paramount question in a dispute is: Which law governs?
- Jurisdiction is generally determined in one of three ways:
 - On the basis of jurisdictional clauses included in contracts
 - On the basis of where a contract was entered into, or
 - On the basis of where the provisions of the contract were performed

International Dispute Resolution

- Conciliation (also known as mediation) is a nonbinding agreement between parties to resolve disputes by asking a third party to mediate differences
- The arbitration procedure calls for the parties involved to select a disinterested and informed party or parties as referee to determine the merits of the case and make a judgment that both parties agree to honour
- In most countries, decisions reached in formal arbitration are enforceable under the law
- Litigation deals with filing a lawsuit to settle commercial disputes
- Lawsuits should be avoided for many reasons including cost, frustrating delays, and extended aggravation, and fear of creating a poor image, damaging public relations, fear of unfair treatment in a foreign court

Marketing Laws

- All countries have laws regulating marketing activities in promotion, product development, labeling, pricing, and distribution channels
 - In Austria, premium offers, free gifts, or coupons are considered as cash discounts and are prohibited
 - Premium offers in Finland are allowed as long as the word free is not used
 - French law permits sales only twice a year, in January and August

IPR, Counterfeiting & Piracy

- Brand & Trademark counterfeiting
- Healthcare industry
 - Product and process patent
- Inadequate protection from products being counterfeited or pirated as many countries do not recognize trademarks and patents registered in other countries
 - Piracy and counterfeiting leads to lost sales from the unauthorized use of patents, trademarks, and copyrights which amount to about \$60 billion annually in US only as well as lost jobs





Cyberlaws

- Protection of domain names, taxes, jurisdiction in cross-border transactions, and contractual issues
- Cybersquatters
- Collection of taxes on sale of products

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