Chalimbana University

Integrity. Service. Excellence

SCHOOL OF LEADERSHIP AND BUSINESS MANAGEMENT

INTERNATIONAL BUSINESS

First Edition 2021

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ACKNOWLEDGEMENTS

The Directorate of Distance Education wishes to thank Ms Euphrasia Ng'andwe for writing the International Business module.

MODULE OVERVIEW

Pre-requisite: None

Introduction

Welcome to the course 'International Business' This course intends to equip you with knowledge, and business management skills, which are important elements for management of business enterprises. Hope you will enjoy the course and contribute positively to national development.

Rationale

Globalization has resulted in the widening and deepening of interdependent relationships among people from different nations. The global connections between supplies and markets result from activities of IB, which are all commercial transactions that take place among countries. International Business makes up a large and growing portion of the world's business.

Aim

The aim of this course is to equip learners with the necessary knowledge, attitude and skills needed to issues business, and how nations, businesses and individuals can arise and take up sustainable business and investment opportunities.

Outcomes

By the end of this course, you will be able to;

- Distinguish the different types of companies from international companies
- Discuss modes of operations
- Discuss sources of resources and were they can be sold
- Understand governmental policies that support international business
- Explain the best approach for conducting business.
- Explain why culture, especially national culture is important in IB but tricky to assess.
- Grasp the major causes of national culture formation and change.
- Discuss major behavioral factors influencing countries business practices.
- Recognize the complexities of cross-cultural communications.
- Analyze guideline for cultural adjustment
- Explain how political and laws influence the business.
- Appraise the principles and practices of the political environment.
- Discuss the contemporary state of political freedom
- Interpret the political risk
- Appraise the principles and practices of the legal environment
- Describe key legal issues facing international companies

- Relate the ideas of political law and the business environment

Prescribed Readings

Daniels, Radebaugh & Sulivan (2019) International Business: Environments & Operations. Pearson: Harlow

Reed L., Shedo P.J., Pagnattoro M. A., & Morehead J. W. (2010) The Legal and Regulatory Environment of Business**.** McGrawhill Irwin: Boston

Recommended Readings

Wilson N. & Stokes D. (2017) Small Business Management and Entrepreneurship 7th .
Canada: CENCAGE Learning

Jones, R. Gareth et al, (2000) *Contemporary Management*, Boston: Irwin/McGrawHill.

Laudon, K.c and Traver, C.G. (2012). *E-Commerce: Business* 8th ed. Boston: Pearson

STUDY SKILLS

As an adult learner, your approach to learning will be different to that of your school days: you will choose when you want to study, you will have professional and/or personal motivation for doing so and you will most likely be fitting your study activities around other professional or domestic responsibilities.

Essentially you will be taking control of your learning environment. As a consequence, you will need to consider performance issues related to time management, goal setting, stress management, etc. Perhaps you will also need to acquaint yourself with areas such as essay planning, searching for information, writing, coping with examinations and using the internet as a learning resource.

Your most significant considerations will be *time* and *space* i.e. the time you dedicate to your learning and the environment in which you engage in that learning.

It is recommended that you take time now —before starting your self-study— to familiarise yourself with these issues. There are a number of excellent resources on the web. A few suggested links are:

http://www.how-to-study.com/

The "How to study" website is dedicated to study skills resources. You will find links to study preparation (a list of nine essentials for a good study place), taking notes, strategies for reading text books, using reference sources, test anxiety.

http://www.ucc.vt.edu/stdysk/stdyhlp.html

This is the website of the Virginia Tech, Division of Student Affairs. You will find links to time scheduling (including a "where does time go?" link), a study skill checklist, basic concentration techniques, control of the study environment, note taking, how to read essays for analysis, memory skills ("remembering").

TIMEFRAME

You are expected to spend at least 26 hours of study time on this module. In addition, there shall be arranged contact sessions with lecturers from the University during residential possibly in April, August and December. You are requested to spend your time judiciously so that you reap maximum benefit from the course.

NEED HELP?

In case you have difficulties during the duration of the course, please get in touch with your lecturer for routine enquiries during working days **(Monday-Friday)** from 08:00 to 17:00 hours on Cell: +260963804004**; E-mail: adsikalumbi@gmail.com; website: www.chau.ac.zm.** You can also see your lecturer at the office during working hours as stated above.

You are free to utilise the services of the University Library which opens from 07:00 hours to 20:00 hours every working day.

It will be important for you to carry your student identity card for you to access the library and let alone borrow books.

ASSESSMENT

In this course you will be assessed on the basis of your performance as follows:

Continuous Assessment		**50%**
Assignment	10%	
Project	15%	
2 Tests of equal weight	25%	
Final Examination		**50%**
Total		**100%**

Contents

UNIT ONE

International Business and Globalization

1.0 Introduction to International Business

Welcome to the first unit in this module international business. This unit lays a fundamental basis for this module that will help you to understand issues relating to IB. This unit will give you an understanding into why you should study IB, the different operating modes, and why a company's external environments affect the internal operations.

Objectives

By the end of this unit, you will be able to:

- Relate globalization and International Business

- Grasp the forces driving globalization and IB
- Discuss the major criticisms of globalizations
- Define and illustrate the different operating modes for companies to accomplish their international objectives

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Time Frame

You are expected to spend a minimum of 2 hours' study time in this unit.

1.1 Why study about Globalization, IB, and their relationship?

Globalization is the widening and deepening of interdependent relationships among people from the different nations. The term sometimes refers to the elimination of barriers to international movement of goods, services, capital, technology and people that influence the integration of world economies. Throughout history, expanded human connections have extended peoples access to more varied resources, products, services, and markets. We've altered the way we want and expect to live and we've become more deeply affected (positively and negatively) by conditions outside our immediate domains. Industries have expanded to distant places to gain supplies and the markets. As consumers we know from Made in labels that we commonly buy products from all over the world but these labels do not tell us everything. For instance, a Belgian Neuhaus bonbon and an American ford automobile contain so many different components, ingredients, and specialized business activities from diverse countries that pinpointing where they were made is challenging. Although Apple ships its iPhones from China and they appear to be Chinese products, less than 4 percent of their value is created in China. Globalization enables us to get more variety, better quality, or lower prices. Our meals contain spices that are not grown domestically and fresh produce that may be out of season in the local climate. Our cars cost less than they would if all the parts were made and the labor performed in one place.

1.2 How does IB Fit in?

The Relation to Globalization: The global connections between supplies and markets result from the activities of IB, which are all commercial transactions (including sales investments and transportation) that take place among countries. Private companies undertake such transactions for profit, governments may undertake them either for profit or for other reasons.

1.3 The Study of IB

Why should you study IB?

i. Simply it makes up a large and growing portion of the world business.
ii. Global events and competition affect almost all industries and companies, large and small.
iii. Not only do companies sell output and secure supplies and resources abroad, they compete against products, services and companies from foreign countries.

Thus, most managers need to take into account IB when setting their operating strategies and practices. As a manager in almost any company you'll need to consider

- where you can obtain the best inputs at the best possible price for your production and
- where you can best sell the product or services you've put together from those inputs.

1.4 Understanding the environment/Operations Relationship

The best way to do business abroad may not be the best same as the best way within your domestic market. Why?

First when your company operates internationally, it will engage in modes of business, such as exporting and importing, which differ from those it uses domestically. Second, physical, institutional, and competitive conditions differ among countries and affect the optimum ways to conduct business. Thus international companies have more diverse and complex operating environment than purely domestic ones.

Making nonbusiness decisions even if you never have direct IB responsibilities understanding some of the complexities may be useful to you. Companies international operations and their governmental regulations affects overall national conditions economic growth, employment, consumer prices, national security as well as the success of individual industries and firms. A better understanding of IB will help you make more informed decisions, such as where to work and what governmental policies to support.

1.6 The Forces Driving Globalization and IB

Measuring globalization is problematic especially for historical comparisons. First a country's interdependence must be measured indirectly. Second, when national boundaries shift, such as in the breakup of ukranie domestic business transactions can become international ones and vice versa.

Nevertheless, various reliable indicators assure us that economic interdependence has been increasing, although sporadically, at least since the mid twentieth century. Currently, about a quarter of world production is sold outside its country of origin compared to about 7 percent in 1950.

Restrictions on imports have generally been decreasing and output from foreign owned investments as a percentage of world production has increased. In periods of rapid economic growth such as most years since world war II world trade grows more rapidly than world production. However, in recessionary periods, global trade and investment shrink even more than the global economy.

Granted these measurement address only economic aspects of globalization. Various studies have made more comprehensive comparisons by including say people to people government relationships and acceptance and adaptions technological interchanges government to government relationships and acceptance and adaptation of attributes from foreign cultures such as words from other languages. The study's results have several commonalities including;

1. Size of countries—Smaller countries tend to be more globalized than larger ones mainly because there are smaller land masses and population permit a lower variety of production.
2. Per capital income – Countries with higher per capita incomes tend to be more globalized than those with lower ones because their citizens can better afford foreign products travel and communications.
3. Variance among globalization aspects – Although a country may rank as highly globalized on one dimension it may be low on another such as the United States being high on technological scales but low on economic ones.

1.5 Factors in increased Globalization

What factors have contributed to the growth of globalization in recent decades? Most analysts cite the following interrelated factors.

1. Rise in and application of technology
2. Liberalization of cross border trade and resources movement
3. Development of the services that support IB
4. Growth of consumer pressures
5. Increase in global competition
6. Changes in political situations and government policies
7. Expansion of cross national cooperation

1.7 Liberalization of Cross Border Trade and Resource Movements

To protect its own industries every country restricts the entry and exit of not only goods and services but also the resources worker's capital, tools and so on needed to produce them. Such restrictions of course set limits on IB activities and because regulations can change at any time contribute to uncertainly. Over time however most government have reduced such restrictions primarily for three reasons

- Their citizens want a greater variety of goods and services at lower prices.
- Competition spurs domestic producers to become more efficient.
- They hope to induce other countries to lower their barriers in turn.
- Services that support IB Companies and governments have developed services that facilitate global commerce.

1.6 The Criticisms of Globalization

Although we've discussed interrelated reasons for and the benefit from the rise in IB and globalization the consequences of the rise are controversial. Anti-globalization forces regularly protest international conferences and government policies sometimes violently. We focus here on three issues; threat to national sovereignty, environmental stress and growing income inequality and personal stress.

1.6.1 Threats to National Sovereignty

You have probably heard the slogan ***"Think globally act locally "***which means to accommodate local interests before global ones. Some observers worry that the proliferation of international agreements particularly those that undermine local regulation on how goods are produced and sold will diminish a nation sovereignty-its freedom to act locally and without externally imposed restrictions.

The Question Objectives and Policies

Countries seek to fulfill their citizen's objectives by setting policies reflecting national priorities such as those governing worker's protection and environmental practices. However, critics argue that these priorities are undermined by opening borders to trade. For example, if a country has stringent regulations on labor conditions and requires clean production methods it may not be able to compete with countries that have less rigorous rules. By opening its borders to trade it may either have to forgo its labor and environmental priorities to be competitive or face the downside of fewer jobs and economic output.

The Question of Small Economies Overdependence

Critics complain that economically small countries depend too much on larger ones for supplies and sales. Thus they are vulnerable to foreign mandates including everything from defending certain UN positions to supporting a larger economy foreign military or economic actions. Noble economist George Akerlof has noted that this dependence is intensified by poor countries inadequate administrative capacity to deal with globalization. Similarly, critics complain that large international corporations are powerful enough to dictate their operating terms say by threatening to relocate, exploit legal loopholes to avoid political oversight and taxes, and counter the small economies best by favoring their home countries political and economic interests. The question of cultural homogeneity Finally critics changers that globalization homogenizes merchandise production methods social structures and even language thus undermining the cultural foundation of sovereignty. In essence they argue that countries have difficulty maintaining the traditional ways of life that unify and differentiate them. Fundamentally they claim helpless in stopping the incursion of foreign influences by such means as satellite television print media and internet sites.

1.7.3 Environmental Stress

Much critique of globalization revolves around the economic growth it brings. One argument is that growth in both production and international travel consumes more nonrenewable natural resources and increase environmental damage despoliation through toxic runoff into river and oceans air pollution from factory and vehicles emissions and deforestation that can affect wealth and climate in addition critics contend that buying from more distant location increases transportation hence increasing the carbon footprint which refers to the total set of greenhouse gases emitted. They point further to the more than 1000 container ships plying the seas and relying on heavy oil as a fuel each pollutes as much as 50 million cars do.

The Argument for Global Growth and Global Cooperation

However other factions assert that globalization is a positive for conserving natural resources and maintaining an environmentally sound planet the former by fostering superior and uniform environmental standards and the latter by promoting global competition that encourages companies to seek resource saving and eco-friendly technologies. A case in point is the automobile industry that has progressively produced cars that used less gas and emit fewer pollutants. The positive effects of pursuing global interests may nevertheless conflict with national interests. Consider the effect of global pressure on Brazil to help protect the world's climate by curtailing logging activity in the Amazon region. Unemployed Brazilian workers have felt that job creation in the logging industry is more important than climate protection outside Brazil.

1.7.4 Growing Income Inequality and Personal Stress

In terms of economic well-being we look not only at our absolute situations but also compare ourselves to others. We generally don't find our economic status satisfactory unless we're doing better and keeping up with others. Income inequality

By various measurement income inequality with some notable exceptions has been growing both among and with many countries. Critics claim that globalization has affected this disparity by helping to develop a global superstar's system creating access to a greater supply of low-cost labor and developing competition that leads to winner and losers. The superstar system is especially apparent in sports where today's global stars earn far more than the average professional player or professionals less popular sports. The system carries over to the professions such as in business where charismatic leaders can commander many time what others can. Although globalization has brought unprecedented opportunities for firms to profit by gaining more sales and cheaper or better supplies critics argues that profit have gone disproportionately to the top executive rather than to the rank and file. Noble economist Robert Solow has supported this criticism by arguing that greater access to low-cost labor in poor countries has reduced the real wages growth of labor in rich countries and even if overall worldwide gain from globalization are positive there are bound to be some absolute or relative loser (who will probably oppose globalization). The speed global technological and competitive expansion create more winner and losers along with changing the relative position of individuals, companies, and countries.as any example manufacturing and foreign sales growth in china and India have helped them to grow more rapidly than the United States thus lessening the relative economic leadership of the United States over those countries likewise some workers have lost economic and social standing as manufacturing jobs have shifted to other countries. The challenge there is to maximize the gain from globalization while simultaneously minimizing the costs borne by the losers. Personal stress Some repercussion of globalization can't be measured in strictly economic terms such as people's stress from real and potential loss of relatives economic and social position. Further stress if widespread goes hand in hand with costly social unrest. Although few of the world's problems are brand new we may worry about them more now because globalized communication brings exotic sagas of misery into living rooms everywhere.

1.7 Why Companies Engage in IB

Let's now focus on some of the specific ways firms can create value through IB. Take another look at figure

- Sales expansion
- Resource acquisition
- Risk reduction Normally these three objectives guide all decisions about whether where and how engage in IB.

1.8 Sales Expansion

A company sales depend on consumer's demand. Obviously there are more potential consumers in the world than in any single country. Now higher sales ordinarily create value but only if the costs of making the additional sales don't increase disproportionately. In fact, additional sales from abroad may enable a company to reduce its per unit cost by covering its fixed costs-say up-front research costs-over a larger number of consumers. Because of lower unity costs it can boost sales even more. So increased sales are major motive for expanding into international market and many of the world's largest companies derive more than half their sales outside their home countries. Bears in mind though that IB is not the purview only of lager companies. In the United States 97 percent of exporters are small firms. Further many sell products to larger companies which instill them in finished products slated for sale abroad.

1.9 Resource Acquisition

Producers and distributers seek out products services resources and components from foreign countries sometime because domestic supplies are inadequate such as industrials diamonds in the United States they are also looking for anything that will create a competitive advantage. This may mean acquiring any resources that cuts costs. For instance, Rawlings's relies on labor in costa Rice a country that hardly plays basketball to producer basketball. Sometimes firms gain competitive advantage by improving product quality or differentiating their products from those of competitors in both cases they are potentially increasing market share and profit. Most automobile manufactures for example hire design companies in northern Italy to help either styling. Many companies establish foreign facilities to tap additional scientific resources. Indian firms have recently followed foreign acquisitions strategies to gain knowledge needed to compete globally. Further by operating abroad companies gain diversity among their employees that can bring them new perspectives.

1.10 Risk Reduction

Selling in countries with different timing of business cycle can decrease swings in sales and profit (e.g increasing sales stability through operation in countries that enter and recover from recessions at even slightly different times). Moreover, by obtaining supplies of products or components both domestically and internationally companies may be able to soften the impact of price swing or shortage in any one country. Finally, companies often go international for defensive reasons. Perhaps they want to counter competitor's advantages in foreign market that might hurt them elsewhere. By operating in Japan for instance Procter and Gamble delayed potential Japanese rival's foreign expansion by slowing their amassment of the resources needed to enter into other international market where was active. Similarly, Tredegar industries followed its main U.S customers into the Chinese market so as to prevent its customers from finding an alternative supply who might threaten Tredegar's U.S position.

1.11 IB Operating Modes

When pursuing IB an organization must decide on suitable modes of operations. They include the following:

i. Merchandise Exports and Imports

   Exporting and importing are the most popular IB modes especially among smaller companies. Merchandise exports and imports are tangible products goods that are respectively sent out of and brought into a country. Because we can actually see these goods they are sometimes called visible exports and imports. For most countries the export and import of goods are the major sources of international revenues and expenditures.

ii. Service Exports and Imports

The terms export and import often apply only to merchandise. For non-merchandise international earning the terms are services exports and imports and are referred to as invisibles. The provider and receiver of payment makes a service export the recipient and payer makes a service import. Services constitute the fastest growth sector in international trade and take many forms.

1.12 Types of International Organizations

Basically an international company is any company operating in more than one country but variety of term designate ways of operating. The term collaborative arrangements denote companies working together-in joint ventures, licensing agreements, management contracts, minority ownership and long term contractual arrangements.

The term strategic alliance is sometimes used to mean the same but it usually refers either to an agreement that is of critical importance to a partner or one that does involve joint ownership Multinational Enterprise a Multination enterprise (MNE) usually signifies any company with foreign direct investment. This is the definition we use in this text. However, some writers use the term only for a company that has direct investment in some minimum number of countries. The term multination cooperation or multination company (MNC) is often used as a synonym for MNE while the united nations use the term transnational company (TNC).

Does size matter? Some definitions require a certain size –usually gain. However, a small company can have foreign direct investment and adopt any of the operating modes we have discussed. Not though that if successful small companies become medium or large ones. Vista print is a good example. Founded in 1995 it sales grew to $6.1 million in 2000 and to over $1 billion by 2012 with operation mainly in north America and Europe.

1.13 Why company’s external environment affect how they may best operate abroad?

Let's now turn to the condition in the company's external environment that may affects its international operations. Although there are many anecdotes illustrating operation problems when companies have failed to consider foreign environmental differences these differences are not so doubting that they prevent success. First some of the anecdotes are merely myths that have been repeated so often their validity is seldom challenged. Second gaining start up success domestically is also problematic almost everywhere in the world. Thus when companies look objective at their domestic opportunities and risks foreign entries may seem less formidable. Third a good understanding of what one will encounter helps reduce operating risks and smart companies develop the means to implement international strategies but examining the following conditions abroad that can affect their success.

- Physical factors such as (geography and demographic)
- Institutional factors such as (culture, political, law and economy)
- Competitive factors such as (the number and strength of supplier, customers and rival firms)

In examine these categories we delve into external conditions that affect partners of company's behavior in different parts of the world and that influence companies to outer what they do democratically to fit the foreign needs.

1.13.1 Physical Factors

Physical factors can affect how companies and produce and market products, employee personnel and even maintain accounts. Remember that any of these factors may require a company to alter its operation abroad compared to domestically for the sake of the performance. Geographical influence Managers who are knowledgeable about geography are in a position to better determined the location quantity, quality and availability of the world's natural resources and conditions.

There are an even global distribution helps explain why different products and services are produced in different places. Again take sports. Norway fares better in the winter Olympics than in the summer Olympics because of it climate and excepted for the well-publicized Jamaican bobsled team whose members actually lived in Canada you seldom hear of tropical countries competing in the winter Olympics. East Africa domination in distance race is due in part to their ability to train a higher altitude than most others runners. Geographic barriers mountains deserts jungles and land-locked areas-often communications and distribution channels. And the chance of natural disasters and adverse climatic condition can make business riskier in some areas than in others while affecting supplies, prices, and operating conditions in far-off countries. Keep in mind also that climatic conditions may have short or long term cycles. For instance, recent melting of Arctic ice floes along with new ship technologies have allowed more ships to use a Northwest passage to cut transport costs by saving as many as 15 years at a sea. Demographic influences Finally countries populations differ in many ways such as density, education, age distribution and life expectancy. Their differences impact IB operations such a market demand and workforce availability.

1.13.2 Institution Factors

Institutions refer to systems of established and prevalent social rules that structure social interactions. Language, money, law, systems of weights and measures table manners and firms and other organizations are thus all institutions we will now examine a sample of these. Political policies Not surprisingly a nations political influence how and if IB take place.

Activity

1. Recognize why national differences in company's external environments affect how they may best improve their IB performance.

2. Discuss the effect of globalization on international business
3. Explain the significance of studying international business

Unit Summary

In this unit we focused our attention on looking at international business and globalization. As much as possible we tried to justified and highlight the signifies that studying this course brings to a business student and how business should consider investing in other countries for business success.

UNIT TWO

CULTURE

2.0 Introduction

In the previous unit, we looked at international business and globalization, laying a fundamental basis for this module. In this unit, we shift focus to gaining an understanding of culture, the major causes of national formation and change and how it influences how business is conducted in different countries.

2.1 Unit Outcomes

After studying this chapter, you be able to

- Explain why culture, especially national culture is important in IB but tricky to assess.
- Grasp the major causes of national culture formation and change.
- Discuss major behavioral factors influencing countries business practices.
- Recognize the complexities of cross-cultural communications.
- Analyze guideline for cultural adjustment.

Time Frame

You are expected to spend a minimum of 2 hours' study time in this unit.

2.2 IB National Cultures as a Point of Reference

Values are learned and all individuals have them. They are reflected in their attitudes beliefs and actions. Their core values are so strong that they are not negotiable whereas their peripheral value are less dominant and more pliable. The shared values attitudes and beliefs of a group of individuals constitutes a culture.

Culture is an elusive topic to study partly because people belongs to multiple cultures based on their nationality ethnicity religion gender work organization profession age and income level. We emphasize national cultures but also discuss how major cultural memberships differ among countries. The nation provides a workable definition of culture because similarity among people is both a cause and effect of national boundaries. Within a nation's borders people chiefly share such essential attributes as values and language. The feeling of casts foreigners as they national identity is perpetuated through rites symbols and respect for national heroes while the preservation of national sites document monuments and museums promoters a common perception.

The Nation as cultural Mediator

Obviously not everyone in a country shares all the same values nor is each country unique in all respects. National include various subcultural and a nation must be flexible enough to accommodate and mediate its diversity those that fail sometimes dissolve. Yet a nation's shared and mediated characteristics constitute the same time, same people probably a growing number are bicultural or multicultural meaning that they have internalized more than one national culture because of having dual or multiple citizenships parents or spouses from another country or lived abroad at an impressionable age. Groups can hold more similar attitudes with likes groups abroad than with dissimilar groups in their own countries. For instance, urban people in country a may have more in common with urban people in country B than with rural people in their own country. As a consequence, when comparing nations culturally one must be careful to examine relevant groups differentiating between say the typical attitudes of rural and urban dwellers or between managers and production workers.

2.4 The People Factor IB

Involves people from different national cultures which affects every business function managing a workforce, marketing and transporting output, purchasing supplies, dealing with regulators, securing culture diversity as nationalities come together through project and teams, their diverse perspectives and experiences often enable business to gain a deeper knowledge of how to create and deliver products and services. However successful cultivation of diversity is difficult because individuals may interact as they do within their own cultures. Fortunately, there is an emerging body of research on nationally diverse teams that help to make them more effective. For instance, problem occur when some nationalities are accustomed to compete with team members while others are accustomed to cooperate, when some await precise directions while others take self-initiative and when some expect to divide tasks while others seek a cooperative solution to each. Similarly, language differences inhibit a common understanding of team roles, priorities and sentiment s. the more successful teams work to understand each other's cultures before dealing with tasks at hand. When there is an expectation of diversity, team members are more prone to realize the need to prepare to deal with differences, keep open minds, and develop a nonthreatening atmosphere, especially for dealing with others who may feel insecure in the language or threatened when expressing minority and divergent viewpoints.

Cultural Collision

When contact among divergent cultures creates problems, the situation is known as cultural collision. Such collision may result in a company implementation of practices that are less effective than intended and to its employees' distress because of difficulty in adjusting to behavior abroad. Our opening case illustrates both problems the publisher failed to meet its sales objectives and its sales reps become distressed because they wrongly assumed their potential Saudi customers would be punctual and give them their undivided attention.

2.4 Building Cultural Awareness

A firm doing business abroad must determine which foreign business practices differ from its own and then decide what adjustments, if any it should make. Some cultural differences such as acceptable attire are fairly obvious others aren't. and people often react to given situations by expecting the same responses they would likely get in their own countries. Most culture variables-daily routines and rules, codes of social relations, language, emotive expression, concepts of luck exist everywhere; however, the forms they take differ among cultures. Every national culture for instance, features dancing but types of and participation in dancing vary among and even within cultures. No foolproof methods exist for building cultural awareness. Travelers remark on cultural differences expert write about them and international managers note how they affect operations. Even so people disagree on what they are whether they're widespread or limited, and whether they are caused by core versus peripheral values. Some people have an innate ability to say and to do the right thing at the right time, while others offend unintentionally or seem ignorant. Experts note, however that businesspeople can improve their awareness and sensitivity and by educating themselves enhance the likelihood of succeeding abroad. Although research on another culture can be instructive one must assess information carefully to determine if it perpetuates unwarranted stereotypes covers only limited segments of a country's culture or is obsolete. One should also observe the behavior of those people who have garnered the kind of respect and confidence they themselves will need. Of course cultural variations are too numerous to memorize completely. Just consider one the many different ways to address people. Should you use a given name or a sue name? if so, is it taken from a parent's first or last name? if so, is it from one or both parents? Note also that many countries use pronouns and verb forms (familiar and polite) that reflect status and familiarity. Mistakes that may seem minor can be perceived as ignorance or rudeness thus jeopardizing a business deal. Fortunately, can consult guidebooks and speak with knowledgeable people at home and abroad. In addition, there are many recent studies on cross cultural attitudes and practice that concern businesspeople. Nevertheless, many attitudes, practices, and cultures remain insufficiently studied.

2.5 Shortcomings in Cultural Assessments

Too often when we can't explain some difference say why the Irish consume more cold cereal than the Spanish do we attribute it to culture without probing why perhaps the difference is simply that cereal companies have marketed more in Ireland. Nor is it easy to isolate culture from economic and political conditions. Entrepreneurial practices for example could be influenced not only by risk taking values but also by current economic conditions. China's changing preference for male versus female offspring offers an example of cultural and economic interaction. When china had its one child policy, millions of families aborted female fetuses and put girls up for adoption. Why? Because males could carry on a family name cultural helps work field in rural economic and care for parents in old age cultural and economic. Recently however china has seen a shift toward preference for female offspring. Why? Because urbanization requires fewer male workers on farms economic while rising property values economic have taken a toll on families’ tradition cultural of buying living quarters for sons before they can marry. We should also emphasize a few common shortcomings in interpreting cultural research.

1. Comparing countries by what people say can risky. Responses may be colored by the very culture one tries to understand. Some groups may happiest when they’re complaining; some respond with what they think questioners want to hear. In responding to degrees of agreement say on a scale of one to five, some cultures are more apt to select the middle point, others the extremes.
2. Researching focusing on national differences in terms of averages may overlook variations within countries. For instance, the average Scandinavian may be uncomfortable with bargaining but assuming that a Swedish buyer for IKEA doesn’t expect to bargain on prices could be a grave mistake. Nevertheless, there is a marked differences make some people outliers in their own cultures with no certainty that they’ll eventually integrate and conform to their national norms. Nevertheless, there is a marked difference among countries in the extent that people conform close to the countries average. When most people are close to the average, it is known as cultural tightness. When people are not, it is known as cultural looseness.
3. Because cultures evolve research may be outdated. Our opening case for instance details some changing Saudi practices toward gender differences.

2.6 Influences on Cultural Formation and Change

Culture is transmitted in various ways from parent to child, teacher to pupil, social leaders to follower, peer to peer. Developmental psychologists believe that most people acquire their basic values systems, especially core values as children, including such concepts as evil versus good, dirty versus clean, ugly versus beautiful, unnatural versus natural abnormal versus, normal, paradoxical versus logical, and irrational versus rational.

2.7 Sources of Change

Examining individual and collective evolution of values helps explain how cultures come to accept or reject certain business practices are useful examination for companies attempting to introduced their business practices abroad. The important thing here is willingness to accept a change which may result from either choice or imposition.

i. Change a Choice

Change by choice may occur because social and economic situations present people with new alternatives. When rural people choose to accept factory jobs for example they change some basic customs notably by working regular hours they give up work time social interactions that farm work allowed.

ii. Change by imposition

Change by imposition sometimes called cultural imperialism involves imposing certain elements from an alien culture such as a forced change in a laws by a dominant country that over time becomes part of the subject culture. As a rule, contact among countries brings change know as cultural diffusion. When the change results in mixing cultures we have creolization. For example, the U.S. popularity of Mexican tortillas is a result of cultural diffusion. Subsequent U.S. innovations to adapt them to U.S. taste such as tortilla chips and burritos are creolization.

2.8 Language as Both a Diffuser Stabilizer of Culture

Language is probably the most noticeable aspect of culture because it limits contact among people who can’t communicate with each other. Although a nation may have a single official language the reality is much more complex. Many nations contain multiple languages of which more than one may be official. In fact, the official language may not even be the most prevalent. Further many people are bilingual or multilingual. Nevertheless, language is at the heart of social identity. When people from different countries speak the same language culture spread more easily among them. Commerce also expand, because a common language fosters a sense of shared identity and on a practical level, there is less need to translate everything. When a group especially one with few people has a language not spoken elsewhere people therein either learn other language or they become isolated.

2.9 Religion as a Cultural Stabilizer

Religion has a cultural stabilizer because centuries of religious influence continue to shape cultural values even in these societies where practice of religion has been declining. The role of religion in shaping behavior is even stronger among people and countries with strong religious convictions. Religions such as Buddhism, Christianity, Hinduism, Islam and Judaism influence specific belies that affect business. Each religion is too complex to make meaningful brief realistic generalizations about it so be cautious in accepting cultural explanation that rely very heavily on simplification. Nevertheless, religious pervasiveness cause companies to make operating adjustments.

For instance, Mcdonald’s limits sales of beef and pork in India to keep from offending, respectively, its Hindu and Muslim populations. In fact, religion has an impact on almost every business function. To be viewed legitimately, companies must take religious beliefs into account. But not all nations with some dominant religion impose the same business constrains. For example, Friday is a day of worship in Islam but turkey a secular Islamic country has Friday as a workday to adhere to the Christian work calendar and keep in step with European business activity. Where rival religion vie for political control strife can cause business upheaval. Unfortunately, the problem is substantial in recent years' religious violence has erupted in such countries as India Iraq Sri Lanka Sudan and Syria.

2.9 Major Behavioral Practices Affecting Business

Cultural variable is sometimes defined differently and with various names given to slightly different and sometimes overlapping concepts. Because of these nuances there are thousands of possible ways to relate culture to business far too many to cover in one chapter. We'll settle for hitting the highlights.

2.9.1 Issues in Social Stratification

Every culture ranks people. Such social stratification creates hierarchies and influences a person's class status and financial rewards within that culture. In business this practice may entail ranking members of managerial groups more highly than production group members. Social stratification is determined by individuals' achievements and talents and their group memberships.

2.9.2 Work Motivation

Highly motivated employees toward work are normally more productive than workers who aren't. Further highly worker's productivity impacts company's efficiency and countries economic development. We now summarize major studies showing some differences in how and why nations differ in this motivation. Materialism and motivation when developing is protestant work ethic theory, Max Weber observed that predominantly protestant countries were the most economically developed. He attributed this to un outgrowth of the protestant Reformation in sixteenth-century Europe, which reflects the ethic that work is a pathway to salvation and that material success does not impede redemption. Although we no longer strictly accept this distinction for protestants we do tend to adhere to some of Weber's understanding notions namely that self- discipline hard work honesty and a belief in a just world foster work motivation and thus economic growth.

2.9.3 Relationship Preferences

So far we've discussed two categories of behavioral practices factors affecting business. Social stratification systems and work motivation. Next we examine some of the values underlying interpersonal differences behavior. Power distance is a measurement of employee performances of interaction between superiors and subordinates. Evidence suggests that people perform better when these interactions fit their preferences, thus companies should consider aligning relationship styles effectively. With high power distance people prefer little consultation between bosses and subordinates. They also prefer management styles that are either autocratic ruling with unlimited authority or paternalistic regulating subordinates conduct by supplying their needs.

2.9.4 Guidelines for Cultural Adjustment

After managers identify key cultural differences abroad, must they alter their customary practices to succeed there?

Can people overcome culturally related adjustment problems when working abroad?

There are no easy answers to these questions, but the following discussion highlights four issues that affect degrees of successful adjustment:

i. The extent to which a culture is willing to accept the introduction of anything foreign.

ii. Whether key culture differences are small or great

iii. The ability of individuals to adjust to what they find in foreign culture

iv. The general management orientation of the company involved The following sections address each of these issues in the same depth.

2.9.5 Company and Management Orientations

Whether and how a company and its managers adapt abroad depend not only on the host countries culture but also on their own attitudes. The following section discuss three such attitudes or orientations polycentrism, ethnocentrism and geocentrism.

i. Polycentrism a polycentric organization believes it should act abroad like companies there. Give the uniquely publicized problems of not adapting to foreign cultures, company's development of polycentric perspective is not surprising. However, polycentrism may be an overly cautious response to cultural variety, causing a firm to shy away from certain countries or avoid transferring home-country practices or resources that will actually work well abroad. Look at it this way. To compete effectively, an international company must usually perform some functions differently from its competitors abroad in order to have an advantage over them. They may, for instance, need to sell or market new products or produce old ones differently. Thus, the overly polycentric firm may rely too heavily on imitating proven host country practice and, in the process, lose the innovative edge it has honed at home.

ii. Ethnocentrism, reflects the conviction that one's own practices are superior to those of the other countries. In IB, the term is usually applied to a company (or individual) so strongly committed to the principle of "what works at home will work abroad" that its foreign practices ignore differences in cultures and market. In turn, it underestimates the complexity of introducing new management methods, products, or marketing means, which likely leads to poor performance. However, ethnocentrism isn't entirely an inappropriate way of looking at things. Obviously, much of what works at home will in fact work abroad. Further, concentrating on national differences in terms of averages overlooks specific variations within countries. A company may be able to deal with outliers even though the average person in the country has a strong cultural bias against what the company does. For example, although the average person in Indian has a strong cultural bias against eating meat, a company could sell meat products to the many Indians who do eat meat. Likewise, a company may identify partners, suppliers, and employees among a populations minority whose attitude don't fit the cultural average (there are always individualists in even the most collectivist society).

iii. Geocentrism between the extremes of polycentrism and ethnocentrism, geocentrism integrates homes and host country practices as well as introducing some entirely new ones. In floors, in our opening case, saks Fifth Avenue adjusted to Saudi customs by setting aside woman only floors, introduced many home-country merchandising practices, and introduced the new practice of providing lounges for the drivers of female customers. Geocentrism requires companies to balance information knowledge of their own organizational cultures with home and host country needs, capabilities, and constrains. Because it encourages innovations and improves the likelihood of success, geocentrism is the preferred approach for most companies to succeed in foreign cultures and markets

2.9.5 Strategies for Instituting Change

As we've seen, companies may need to compete by operating differently in some ways from other companies abroad (i.e., they introduce some degree of change into foreign markets). Thus, they need to bear in mind that people don't always accept change very readily. The methods they choose for managing such change are important for ensuring success. Fortunately, we can gain a lot of insight by examining the international experience of both for-profit and not-for-profit organizations.

Unit Activity

1. Discuss the effect of culture on international business.
2. Explain the need for investors to comprehend national cultures for business success

Unit Summary

Managing a successful business empire requires for business people to fully understand and grasp the factors that may hinder success if not well handled. This unit has discussed culture in realt8ion to international business. Its importance cannot be over emphasized. In the next unit we shall look at government and legal systems.

UNITY THREE

Governmental and legal systems

2.0 Introduction

Welcome to the third unit in this module IB. The role of government in international business, cannot be over emphasized at this point. The manner in which business is conducted in countries is largely affected by the legal systems of different nations. It is for this reason why in this unit I will take you through a number of issues including politics and law, principles and practices, including legal environment and others. I urge you to follow the contents of this module.

Unit Outcomes:

After studying this unit, you will be able to

- Explain how political and laws influence the business.
- Appraise the principles and practices of the political environment.
- Discuss the contemporary state of political freedom
- Interpret the political risk
- Appraise the principles and practices of the legal environment
- Describe key legal issues facing international companies
- Relate the ideas of political law and the business environment

Time Frame:

You are expected to spend a minimum of 3 hours' study time in this unit.

2.1 The Political Environment

Whether targeting Afghanistan, Zimbabwe or any of the 200-plus markets in between, managers study a nations political system namely structural dimensions and power dynamic of the government that;

1. Specify institutions, organizations, and interest groups and
2. Define the norms and the rules that govern political activities.

The mission of a political system is clear-cut to integrate different groups into functioning self-governing society likewise its test sustaining society in the face of divisive viewpoints. Success supports peace and prosperity as we see in Australia Botswana and Sweden. Failure leads to instability insurrection and fragility of the sort seen in Afghanistan Haiti Libya and Yemen.

As such, explaining the similarities and differences of political system has intrigued a long line of thinkers beginning with Plato and Confucius and moving on to Herodotus, Machiavelli Smith Rousseau, Marx Gandhi and Friedman. Each wrestled with enduring philosophical issues. How should society balance individual rights versus the needs of the community to sustain a rational righteous and harmonious system? What is the basis of the state's authority over its citizens? Should society guarantee an individual the freedom to pursue economic self-interest? Does society fare better when individual rights are subordinated to collective goals? Should society champion equality or institute hierarchy? Are individual rights inalienable or conferred by the collective? Engaging these and like-minded questions vital to interpreting political environment, directs our attention to the ideas of individualism and collectivism.

3.3 Individualism

The doctrine of individualism emphasizes the primacy of individual freedom, self-expression and personal independence think of the stipulation in the U.S. Declaration of independence that we all have certain individualism champion the exercise of one’s ambitions while opposing regulations that constrain them. The government protects the liberty of individuals to act as they wish as long as their action do not infringe upon the liberties of others. The business implications of individualism are direct every person has the right to make decision free of onerous rules and regulations. Countries with an individualistic orientation such as Australia Canada the Netherlands and the United States shape their market placed with the idea of laissez faire French for let go it holds that the government should not interfere in business affair. Rather the market operates according to the neoliberal principles of free market fundamentalism whereby people regulate themselves in promoting economic prosperity and act fairly and justly to maximize personal performance without threatening the welfare of society. In practice gaps between philosophical ideals and opportunistic behavior fan an adversarial relationship between governments and business in individualistic societies.

Apprehension that some maximize self-interest at the expense of collective welfare leads governments to apply regulations to reduce market inefficiencies such as deficient consumer knowledge or excessive producer power presently ongoing market problems in countries suffering anemic growth and social tension have led governments to restrain individualism to protect collective welfare.

3.4 Collectivism

The doctrine of collectivism emphasizes the primacy of the collective (e.g. a group party, community class society or nation) over the interest of the individual. No matter the importance of those who compose it the whole of the collective trumps the sun of its individual parts.

Today collectivism strongly influences politics in a range of countries including Argentina China Vietnam Japan south korea Egypt brazil Taiwan and Mexico. Collectivism in the business world holds that the ownership of assets the allocation of resources the structure of industries the conduct of companies and the action of managers share a common goals make decisions and conduct activities that improve the welfare of the collective.

A collectivist outlook encourages political systems to develop regulations that promote social equality, labor rights, income equality and workplace democracy. Then the welfare of the nation takes precedence over the selfishness of the individuals. In extreme cases such as Venezuela, Iran, or Saudi Arabia political leaders limit individual property rights and police mass media in order to enforce collective standards. Private ownership of satellite dishes for instance is illegal in Iran and Saudi Arabia given the state's view that they let people access media that promotes anti-Islamic individualism.

1.5 Political Ideology

A nation's orientation towards individualism or collectivism anchors its political system and hence its predominant political ideology. In theory an ideology is an integrated vision that defines a holistic conception of an abstract ideal and its normative thought processes.

For example, the ideal of freedom the foundation of democratic ideologies carries with it ideas about related principles doctrines goals practices and symbols. Practically a political ideology stipulates how society ought to govern itself and outline the methods by which it will do so. An effective political ideology moves beyond describing a vision of a better brighter future it specifies the means to achieve that ideal.

A common theme anchors how managers interpret a political ideology namely its vision of political freedom. The nation of political freedom originated in the practice of politics in ancient Greece and has since been inseparable from interpreting the play of politics and laws.

Political freedom is the degree to which fair and competitive elections occur, the extent to which individual and group freedom are guaranteed the legitimacy ascribed to the rules of law and the existence of freedom of expression. Rather than an inalienable right, the ideal degree of political freedom is open to debate. Some like the United States champion a lot other like Saudi Arabia advocate a little. Consequently, the matters of where how and why a company invests and how it manages operations are alienable freedom subject to the prevailing political ideology.

1.6 Democracy

Abraham Lincoln held that democracy is a government of the people by the people for the people. Modern day democracies translate this ideology into the principles that all citizens are politically equally entitled to freedom of thought opinion belief speech and association and command sovereign power over public officials. A democratic government protects personal and political rights. Civil liberties fair and free elections and independent courts of law. These principles and practices institutionalize political freedoms and civil liberties that by endorsing equality liberty and justice support individualism. Different legacies shape the performance of democracy in a nation. Practically the scale and scope of modern society impose logistical constraints particularly when the size of the population precludes all voters from participating directly. Notwithstanding variance all advocate the authority of the many over the few. The future may see a resurgence of direct democracy. Evolving technologies increasingly support a virtual assembly of citizens who express their voters directly through electronic signature gathering or on line polling processes.

Business implications in a democracy MNE have the freedom to invest and operate based on economic not political standard. Managers and consumers are free to do as they see fit in a business environment that promotes commerce and encourages trade. The signaling devices of the market activities not bureaucratic regulation organize resource floes. In political terms freedom sanction rights and liberties. In economic terms it legitimizes profit and prosperity.

3.5 Totalitarianism

A totalitarian system subordinates the interest of the individual to that of the collective. An agent in whatever form such as an individual a committee an assembly a junta or a party monopolizes political power and uses it to regulate many if not all aspects of public and private life. The agent whether idealistic or delusional believes it has noble intentions protecting people from the hazard of individual choice. Fair game includes regulating resident's occupation income level, interests, religion and eve family structure. A totalitarian government eliminates dissent through indoctrination, persecution, surveillance, propaganda, censorship and violence.

It tolerates few if any ideas interest or activities that oppose state ideology. In extreme situation personal survival is linked to that of the ruling profile types of totalitarian systems. The dynamic of change in a totalitarian state highlight the means used to enforce its ideology. rejecting preceding forms of society as corrupt immoral and beyond reform a single leader advocates a new society that corrects wrongs redresses injustice and creates harmony.

In place of private property, the state allocates power and status to reward supporters who often monetize privileges through corruption. It uses propaganda indoctrination and incarceration to coerce citizens. State-controlled media filters information state-controlled education filters ideas and state-controlled courts, police, and security suppress dissent, in extreme cases the cumulative result is a virtual mind prison that fuse leader and the state. An individual conforms or cast out.

3.5.1 Business Implication

Managers totalitarian system face radically different market than those found in democracies. Prevent enterprise if permitted, support state control of the economy. For instance, the Chinese government, under the direction of the CCP, owns and manages large swathes of its economy. The state is the majority owner of many of the largest publicly rested Chinese companies some of which are among the biggest film in the world. Similarly conglomerates finance, media, mining, metals, transportation, communication and so on answers to the CCP. Likewise, Chinese provincial and municipal official control tens of thousands of medium size and smaller ones. Add it all up and you have an authority system that rejects many of the practices found in democracy. Managers operating in these sorts of markets adjust decision-making to the fact that government's imperative is sustaining state power, and it sees the market as a powerful tool to do so.

Political risks affect all companies, but typically hit foreign investors hardest. The state favors local companies at the expense of foreign competitors, providing them with advantageous financing, special tax programs relaxed work regulations, and other benefits. The states manipulate markets for political purposes, thereby distorting resource valuations and blurring risk-return relationships. For example, china requires foreign enterprises to accept, if not facilitate, setting up communist party cells in their local operations. Local governments can insist private companies contribute a share of their payrolls to finance party activities. The cells then direct companies to behave lawfully, fulfill their social responsibilities, promote harmonious labor relations, and maintain social stability.

3.6 The State of Political Freedom

Since 1972 freedom home has annually assessed the state of political freedom around the world. It declares that ‘’freedom is possible only in democratic political systems in which the governments are accountable to their own people; the rule of law prevails; and freedom of expression, association, and belief, as well as respect for the rights of minorities and women, are guaranteed.’’ Freedom home applies measures derived from the universal declaration of human rights a landmark document that defines the 30 rights to which all human beings are inherently entitled, including freedom of speech, religion, from fear, and from want. Freedom House assesses the rights and freedom enjoyed by individuals rather than those proclaimed by governments. Performance places a country into one of three classes.

- A free country exhibits the open political competition respect for civil liberties independent civic life and independent media. There are inalienable freedoms of expression assembly association, education and religion. Examples include Australia, Brazil, India, the United State and Zambia.
- A partly free country exhibits limited political rights and civil liberties, corruption, weak rule of law ethnic and religion strife unfair elections and censorship. Often democracy is a convenient slogan for the single part that dominates within a façade of regulated pluralism. Example include Guatemala, Pakistan, and Tanzania.

- A not free country has few to no political rights and civil liberties. The government allows minimal to no exercise of personal choice relies on the rule of man as the basis of law constrains religious and social freedom and control a large share if not all of business activity. Example include China, Russia, Saudi Arabia and Iran.

3.7 The Prevalence of Political Freedom

The second half of the twentieth century saw the steady diffusion of democracy worldwide. Between 1950 and 2014 the number of electoral democracies grew from 22 to 120 countries. Many had been totalitarian states of some form but had begun developing democratic governance. This shift signified the so-called Third wave of democratization a global movement that expanded individual freedom and civil liberties. Societies began building just institutions fair property rights independent media and impartial judiciaries. As a result, by 2000 nearly half of the worlds' population more than at any time in history lived in a democracy of the same sort. Beginning in the mid 1970 a confluence of trends began fueling engines that powered the third wave of democratization. Ultimately they culminated in toppling the Berlin Wall, undoing the Communist Bloc and closing the Cold War. First the growing failure of totalitarian regimes to deliver prosperity eroded their legitimacy. Aggrieved citizens weary of declining standards of life rebelled. Formerly communist countries shifting to freer markets endorsed entrepreneurialism. Shift from collectivism to individualism promoted civil liberties and encouraged political freedom. Second, improving communications technologies eroded totalitarian regimes' power to control information. Whereas once it took weeks if ever for word of the mouth protests to spread improving connections quickly circulated news. Images of resistance and rebellion had snowball effect inspiring pro-democracy campaigns worldwide. People increasingly aware of their rights and the global march to freedom challenged the injustice of state control. Expanding access to uncensored news in light of Thomas Jefferson’s belief that information is the currency of democracy fortified calls for liberties. Finally, freedom yielded economic dividends helping people move from poverty to prosperity. The median per capita gross domestic products a measure of the standard of living was nearly seven times greater in free versus not free countries. Growing prosperity supported property rights the rule of law education opportunities gender equality media vigilance and social tolerance.

An expanding middle class freed from the tyranny of ceaselessly seeking sustenance shelter and security hand growing resources to support the ideals of individuality, justice and liberty. Rising prosperity supported the political stability and faith in a brighter future that anchors democratic ideologies. As the twentieth century came to close the multi decade march toward greater political freedom and expansive civil liberties fueled a belief in the inevitability of democracy. Some saw this surge symbolizing the end of history. Whereby the universalization of western liberal democracy representing the endpoint of humanity ideology evolution and the final stage of human government.

This megatrend had huge consequences for IB.

- Democratic governance stabilized business environments both at home and abroad.
- Growing stability encouraged MNEs to expand their investment horizon to include market such as China Russia and Eastern Europe that had previously been off-limits given extreme political risks. Steadily industries developed middle classes emerged globalization accelerated and freedom flourished worldwide.

3.8 The Struggles of Political Freedom

Democracy the most successful political idea of the twentieth century has worldwide allure its ideal champion human rights promote prosperity and support peace. Troubling data however question it momentum in the twenty-first century. In 2008 its showing momentum suggested a democracy recession. By 2012 data signaled democracy's retreat worldwide. By 2015 retreat has given way to reversals in many countries and as freedom house warned the return of the iron fist. Increasingly managers qualify interpretation of rising political risks with the possibility that history rather than ending, is just beginning.

Granted, the gains in electoral democracies seen during the third wave of democratization have not been erased. Individuals and institutions however, struggle to promote free elections, defend human rights, constrain state power, and safeguard integrity in public policy. In their place, sham elections, police crackdown, kangaroo courts, and persecution of dissident gain traction. All speak to the stance taken by president Lukashenka of Belarus, who declared on the heels of a rigged election victory," There will be no more mindless democracy in this country." Worldwide, influential totalitarian regimes impose "forceful measures designated to suppress democratic reformers, international assistance to those reformers, and ultimately the very idea of democracy itself." As a result, 2015 marked the ninth consecutive year that political freedom declined worldwide, the longest consecutive period of setbacks in modern times. Gauging the scale of struggle: the texture of democracy, narrowly defined, is easily achieved if merely holding elections were sufficient, virtually every country would qualify. The economist intelligence unit (EIU) resolves this distortion, gauging the electoral process but also assessing the degree that day-to-day life support political freedom. Specifically, the EIU evaluates the "texture of democracy in a country in terms of its public institution political processes public attitudes pluralism civil liberties political participation and political culture.

Classification Characteristics and Examples Full Democracy Flawed Democracy Hybrid Regime include the following:

- Mature political culture promotes and protects political freedom and civil liberties.
- Government discharges responsibility transparently.
- An effective system of checks and balances regulates politics.
- The judiciary is independent its decisions are impartially enforced and the rule of law prevails.
- Media are independent, vigilant and diverse.
- The state respects basic civil liberties.
- Free and fair elections regularly occur but experience fraud or media restrictions.
- Government problems and low political participation make for a weak political culture.
- Leadership and policy change occur frequently.
- Electoral irregularities undermine freedom and justice.
- Government limits opposition parties and candidates.
- Judicial culture, public administration, and political participation struggles.
- Corruption is extensive, civil society fades, and media are regulated.

Authoritarian Regime

- Political pluralism is absent or repressed by the state.
- Democratic institutions may exist, but have little substance and the state uses them to legitimate single-party rule.
- Elections, if they do occur, are neither fee nor fair.
- The state systematically disregards civil liberties.

- There is no independent judiciary and the rule of man prevails.
- Censorship suppresses criticism of the state and propaganda promotes the state ideology. Afghanistan, Chad, China, Guinea, Kazakhstan, Kuwait, Nigeria, Russia, Saudi Arabia, Swaziland, Zimbabwe.

3.9 Political Risk

MNEs face the risk that the political events in the host country will adversely affect its operational objectives strategic goals and profitability. Technically political risk is the risk that political decisions events or conditions change a country's business environment in ways that force investors to accept lower rates of return, cost them some or all of the value of their investment or threaten the sustainability of their operation. Various trends increase political risk worldwide. First many emerging markets are rife with flashpoints. Arbitrary laws fragile institutions volatile societies and corrupt regimes fuel uncertainty.

Often foreign investors must compete with state-run rivals whose political orientations complicate economic situations. Aggravating matters is the fact that political risks differ from market to market. In Venezuela managers face economic nationalism, in Brazil a manager must understand congress's multiparty alliances in China the task is interpreting the power and play of the CCP in Saudi Arabia a manager must decipher the internal dealings of the ruling family. Hence operating in many emerging market differs significantly from the comparatively predictable politics in Western democracies. Analytics that work in one country often travel poorly to others. Second dealing political freedom increases political risks. The Third Wave of Democratization began stabilizing the play of politics across markets. As countries developed democracies often in the context of the Washington Consensus managers could reasonably assume that the principles of Western style political economy not authoritarian outlooks would shape national affairs. Flagging political freedom by boosting the uncertainty of local politics increases political risks.

3.10 Classifying Political Risk

The evaluation of political risk often applies a macro-micro criterion. Macro risks affect all companies both domestic and foreign alike in a given country. Micro risks are agent specific actions that affect individual usually foreign owned companies. Three major categories are discussed below;

1. Systemic political risk

A country political aim is not to punish companies arbitrarily. Few would hazard the investment otherwise. Rather, investors commonly face political risk that follows from shifting public policy. Newly elected officials, for instance, adopt policies that differ from their predecessors- say increasing individual tax rates to improve collective welfare. Similarly, a government may target a sector that it sees dominated by foreign interests, such as Venezuela's program to nationalize energy companies. In both situation, politically motivated polices alter the macro environment, thereby creating systemic political risks that affect all firms. Systemic political risks do not necessarily reduce potential profits. Policy shifts also create opportunities. Newly elected governments in Vietnam, Malawi, Estonia, and Guinea, for instance, deregulated previously state-controlled economies. Investors who accepted the risk of a policy reversal prospered as freer markets emerged.

2. Procedural Political Risk

People product, and resources ceaselessly travel through the global market. Each move creates a procedural transaction between individual's subsidiaries companies, institutions, or countries. Political policies sometimes impose frictions that slow or stop these transactions. Corrupt officials, for instance might pressure a firm to pay additional monies to clear goods through customs or obtain a permit to open a factory political interference escalates expenses thereby lowering returns. Procedural political risk is a micro risk that is it affects some but not all companies. Monitoring industry development, minding the relative contribution of their firms to the local economy and promoting solid citizenship help MNEs manage it.

3. Distributive Political Risk

Countries see successful foreign investors as agents of innovation and sources of prosperity. Often as MNEs generate greater profits in the local economy the host government questions its share of the rewards. Many conclude they should receive a larger cut and impose policies to reset the distribution.

3.11 Types of Legal Systems

A country's legal system officially regulates the conduct of business transaction, the rights and obligations of those doing business, and the legal redress open to those who believe they have been wronged. It is the mechanism for conceiving, stipulating, interpreting and enforcing the laws in a formal jurisdiction. Understanding its nuances pushes executives to assess a variety of issues.

1. Are laws based on abstractions or practicality?
2. Do judges or juries pass judgment?
3. Is justice based on objective principle or seen as the province of divinity?
4. Do personal connections trump case facts?

Peculiar as these question sound, IB put managers into different situation wherein different interpretation of these issues result in different standards that situations wherein different interpretation of these issues result in different standards that regulate the legality of their actions. The globalization of business drives the standardization of laws across countries. Modern legal systems evidence three components;

Common Law

A common law system relies on tradition, judge-made precedent, and usage. It respects established case law in resolving disputes. Judicial officials refer to statutory codes and legislation, but only after considering the rules of the court, custom, judicial reasoning, prior court decisions, and principles of equity. The doctrine of stare decisis is a distinguishing feature, it obliges judges to respect the precedent established by prior court ruling. Common law has Anglo-American legacies; it prevails in among others, Australia, Canada, England, Hong Kong, India, New Zealand, and the United States.

Civil Law

A civil law system relies on the systematic codification of accessible, detailed law. It assigns political officials, rather than government-employed judges, the responsibility to translate legal principles into a compendium of regulatory statutes. Rather than create law, as they do in the common law system, judges apply the relevant statutes to resolve disputes. In contrast to stare decisis, judicial officers in a civil law system are not bound by precedent. Statutory codes, however, constrain their authority. Similarly, notaries public play minor roles in certificates law countries, but are important gatekeepers as well as regulators of contracts and certificates in civil law systems. Civil law is the most widespread type of legal system in the world; we find it in approximately 150 countries including France, Germany, Japan, and Mexico.

Theocratic Law

A theocratic law system relies on religious doctrine, precepts, and beliefs. Ultimate legal authority is vested in religious leaders, who regulate business transaction and social relations based on their interpretation of a sacred text. For instance, Iran's president Hassan Rouhani defers to the final say of Iran's Supreme Leader, cleric Ayatoll All Khamenei. Theocratic law sees no separation of church and state, government, law, and religion are one. The most prevalent theocratic system, Muslin or Islamic law, sharia, is based on the qur'an (Koran), the Sunnah (decisions and sayings of the prophet Muhammad), the writing of Islamic scholars, and the consensus of legal communities in Muslim countries. Muslim law prevails in Middle East and northern Africa. However, modernists (e.g., Turkey, Indonesia), traditionalists (e.g. Kuwait, Malaysia), and fundamentalists (e.g. Iran, Saudi Arabia) advocate different interpretations of Shari'.

Customary Law

A customary law system reflects the wisdom of daily experience or, more formally, enduring spiritual legacies and time-honored philosophical outlook. It anchors legal systems in many indigenous communities, defining the rights and responsibilities of members. Legitimacy follows not from the stamp of a powerful person or institution, but from individuals recognizing the benefits of complying with community standards. Offenses are treated as torts (e.g. private wrongs or injuries rather that crimes against the state or society). Customary law prevails in many developing countries, particularly in Africa. Few nations operate under a wholly customary legal system. Rather, this type often plays a role in countries that have a mixed legal system.

Mixed System

A mixed legal system results when a nation uses two or more of the preceding types. One finds most mixed legal systems in Africa and Asia the Philippines, south Africa, and Guyana, and Zambia for instance, follow a blend of civil and common law. Nigeria, Malaysia, and Kenya mix common, theocratic, and customary law. Bangladesh, Singapore, and Pakistan blend common and theocratic law. Indonesia, Djibouti and Oman Conversely blend theocratic law with civil codes

Unit Activity

1. With the use of practical examples, discuss the impact of authoritarian type of government on international business.
2. Give a detailed account of the modern legal systems, state the one that is more applicable to Zambia
3. How does the political environment affect MNCs

Unit Summary

This unit has discussed at length a number of issues surrounding the governance and political environments in nations and how it affects business and investments. We looked the types of governments, political risks and legal systems in different states. In unit four we look at economic systems and markets.

UNIT FOUR

Economic Systems and Market Methods

4.0 Introduction

In chapter one we started by looking at the changing environmental conditions, that promote and has a constrain globally, chapter two focused on changing cultural identities and then chapter three emphasized changing political ideologies. In this unit, we shall focus on the changing economic environments of IB create opportunities and impose constraints.

Unit Outcomes

By the end of this unit, you will be able to;

- Explain the values of economic analysis
- Differentiate the types economic environments
- Explain the idea of economic freedom
- Differentiate the types of economic systems
- Interpret indicators of economic development, performance and potential
- Profile elements of economic analysis.

Time Frame

You are expected to spend a minimum of 2 hours' study time in this unit.

4.1 International Economic Analysis

In the IB realm, cultural, political, and legal systems influence a company's decision on where, when, and how to do business. Developing an understanding of the global business environment is a fascinating challenge. Think about the scale and scope of the task. Resource constraints require managers prioritize options, targeting markets that offer the greatest return with the least risk. Improving the odds of success depends on assessing the development, performance, and potential of an economy.

Economics identifies a range of rigorous tools that help systematize evaluation. Familiar metrics, such as gross domestic product, interest rates, inflation, and unemployment, estimate important features. Integrating analysis taps scientific principles, like production functions, marginal analysis, and the general equilibrium model, as well as behavioral assumptions, like rationality and market activity. The combined mix of objective and subjective analytics support insightful interpretations. Still, challenges emerge on several fronts.

4.1.1 Complexity

Economic environments are dynamic systems. The intricacy of the simplest economic system defies straightforward specification. Stipulating models that definitively represent a country's economic performance and potential as well as work reliably in all types of economic environments is difficult. Hence, managers wrestle with identifying valid measures for developed, developing and emerging economic, then modeling their relationships, mapping them onto a particular market, and monitoring their reliability.

Confounding matters is the fact that managers are inundated with rawer knowledge, accessible information, and clever insights than ever before.

Rather than improving analysis, expanding data streams often make a hard task harder.

4.1.2 Dynamism

Market changes can make today's valid measures dubious tomorrow. Evolving circumstances, compounded by disruptive situation and puzzling trends, generate anomalies and exceptions that convert comebacks into collapses. For instance, analytics anchored in the politically free markets commonly found in the west poorly translate to the state sponsored capitalism at play in the East. Likewise, product development strategies in affluent developed countries struggle to fit the profound poverty often found in developing economies. In the former, customers prefer robust product often found in developing economies. In the former, customers prefer robust product functionality, whereas inexpensive simplicity matters more in the latter. Managers' economic instincts, tried and tested for the past decades in developed economic, adapt to the changing, often contradictory circumstances in emerging markets. The characteristics of an economic environment determine which, where, and when each approach makes sense.

4.1.3 Interdependence

Just as no one is an island, no country is isolated. The consequence of cross-national connections means actions here influence outcomes there. For instance, growing political control of economic processes improves efficiencies in developing economies, but lessens them in their developed counterparts; recycling foreign-exchange reserves means capital is too cheap here, but too expensive there; greater competition for scarce resources raises the prices of commodities, but lowers the costs of manufactured good; and poverty falls in developing economics, but rises in their developed counterparts. Cross-national interdependencies moderate the forces of supply, demand, and their pricing signals. Adjusting analysis for action and reaction across an expanding scope of markets complicates interpretation.

4.2 Who is who in the Global Business Environment?

Managers track economies, evaluating events and trends to spot and preempt risks. The global business environment influences nearly every aspect of business, including the nature of consumer's demand, organization of productive activity, attitudes towards foreign investors, regulatory transparency, sophistication of market system, and the freedom one has to make effective and efficient business decisions. Hence, estimating the attractiveness of a country as a place to do business and, once there, making smart investment and operational decisions depends on how well managers understand its economic environment. We follow the lead of the United Nations (UN) to identify who's who. Based on a wide range of dimension, it classifies a nation as a developed economy, developing economy, or an economy in transition.

4.2.1 Developed economies

A developed economy has a robust economic environment marked by wide – ranging activities, efficient capital movement, stable institutions, extensive infrastructure, international trade and investments, advanced technologies, and higher economic freedom. Developed economies generally have high income levels, extensive industrialization, advanced technological infrastructure, and high standard of living. The

UN classifies Australia, Canada, japan, New Zealand, Norway, Switzerland, United State, members of the European union, and the like as developed economies. Generally, each relies on a broad mix of manufacturing and services to generate high income and deep wealth. Today, approximately 16 percent of the world's population (about 1.2 billion people) lives in developed economies. Collectively, they generate more than 60 percent of the current gross would product of $78 trillion; as recently as 2002, their share was nearly 80%. In 2016, the five largest developed economies were the United States, japan, Germany, the United Kingdom and France.

4.2.2 Developing Economies

Generally, a developing economy has an uneven economic environment that is marked by narrow market activities, inefficient capital movement, resistance to foreign ownership, trade restrictions, imperfect competition, unstable institutions, limited infrastructure, sketchy technologies and lower economic freedom. Developing economies generally have low income levels, slight industrialization, incomplete infrastructure and lower standards of living. Emerging economies exhibit improving productivity, rising income and growing prosperity, particularly relative to slower growing developing economies. In some developing economies, such as Angola, Ethiopia, Indonesia, and Pakistan, 30 to 90 percent do. The UN classifies approximately 150 countries as developing; they span Africa, Asia, Eastern Europe, Latin America, the Middle East, and South America. Today, roughly 85 percent of the world's population resides in developed economies. Collectively, they generate about 40 percent of gross world product. In 2016, the five largest developing economies were China, India, Russia, Brazil, and Indonesia.

4.2.3 Economies in Transition.

Great range marks the economic performance among developing economies precisely because different economies experience different levels of development at different rates. The term emerging economies is often used in place of economies in transition. One also see terms such as frontier markets and newly industrializing countries. At the low end, countries marred by fragile political institutions heavy indebtedness, poorly performing markets, and ongoing conflict (e.g., Afghanistan, Democratic Republic of Congo, or Timor Leste) average per capita income in the low hundreds (US$).

Besides poverty, there sorts of economies contend with governments overcome by sovereign responsibilities. In contrast, at the high end of developing economies, we find faster growing, quickly industrializing countries such as China, Mexico, Indonesia, and the Philippines. Increasingly, these countries are referred to as economies in transition, emerging markets, frontier markets, or newly industrializing countries; generally, description defaults to emerging economies. When one speaks of the emerging economies, many point to Brazil, Russia, India, and China (referred to the **BRIC**s); officially, emerging economies are developing countries, but the pace of their performance leads to distinguishing them. Table 4.2 identifies other groupings. Although much larger in scale and scope than other emerging economies, many see the

Acronym	Specification
BRIC	B for Brazil, R for Russia, I for India, C for China
BASIC	Add AS for South Africa, Removes R for Russia
BIC	Removes R for Russia

BRICA	Add A for Arab countries—Saudi Arabia, Qatar, Kuwait, Bahrain, Oman, and the United Arab Emirates
BRICET	Add E for Eastern Europe, T for Turkey
BRICIT	Add I for Indonesia, T for Turkey
BRICK	Add K for South Korea
BRICS	Add S for South Africa
BRIC	Add I for Indonesia
BRIMC	Add M for Mexico
CARBS	Canada, Australia, Russia, Brazil, South Africa
CIVETS	Colombia, Indonesia, Vietnam, Egypt, Turkey, South Africa
MIST	Mexico, Indonesia, South Korea, Turkey
N-11 (*the next 11*)	Bangladesh, Egypt, Indonesia, Iran, Mexico, Nigeria, Pakistan, Philippines, South Korea, Turkey, Vietnam
PPICS	Peru, Philippines, Indonesia, Colombia, Sri Lanka

Source: Daniels, Radebaugh & Sulivan (2019) International Business: Environments & Operations. Pearson: Harlow

4.3 Economic Freedom

Economic freedom holds that one has the right to work, produce, consume, save, and invest in the way that one prefers. Economic freedom measures the absence of government coercion or constraint on the production, distribution, or consumption of goods and services beyond the extent necessary for citizens to protect and maintain liberty.

4.3.1 The Value of Economic Freedom

Economic freedom delivers ongoing dividends, supporting higher growth in the short (5years), medium (10 years), and long -term (20 years). Today the average income in economically free countries is more than double the worldwide average and four times higher than that found in mostly unfree and repressed economies. Freedom lets managers better balance risk and return over economic cycles, particularly given confidence in efficient capital markets and prudent monetary policy.

The **economic freedom index** estimates economic freedom in a particular nation. In principles this index measures the degree that a nation accepts Adam Smith's thesis that" basic institutions that protect the liberty of individuals to pursue their own economic interest results in greater prosperity for the lager society." In practice it set key categories and disaggregates those into dimensions that then organize measures.

4.4 Navigating Challenges

Figure 4.1 shows how managers navigate those challengers. It holds that economic condition that guide shape country development, performance and potential. It highlights the element that guide assessment and emphasizes that change in one causes change in others. Clarifying interaction among these features, no matter if the context is a development, developing or emerging economy assists with mapping path and estimating.

Figure 4.1 Economic factors affecting international business operation.

Source: Daniels, Radebaugh & Sulivan (2019) International Business: Environments & Operations. Pearson: Harlow

Figure 4.1 endorses a systems perspective that qualifies interpretation in teams of.

1. The type of economic environment in terms of its state of development.
2. The economic freedom managers have to make investments and run operations.
3. The orientation of the economic systems that shapes its path of development, performance and potential.
4. The drivers of economic change particularly the moderators of productivity, innovation and competitiveness.

4.5 Types of Economic Systems

Wherever they go managers question how the host government might regulate the market authorize property right implement fiscal and monetary policies and interpret standards of economic freedom. Evaluating the particular type of economic system in a country enhance analysis. This perspective spotlights drivers of supply and demand their implication to resource allocation and the consequence to managers' economic freedom. Presently, we see variations of three types of economic systems namely the market, mixed and command economies.

4.5.1 The Market Economy

An economic system whereby individuals rather than the government make most decisions is a **market economy.** It is anchored in the doctrine of **capitalism** and its thesis that private ownership confers inalienable property rights that legitimize the profits earned by one's initiative, investment and risk. Optimal resources allocation follows from consumers exercising their freedom of choice and producers responding accordingly. Market economies are commonly found in developed economies such as Australia, Canada, Hong Kong, Singapore, Switzerland and United States. Each grants its citizens wide-ranging freedom to decide where to work, what to do and for how long, how to spend or save money and whether to consume now or later.

The market economy champion the "invisible hand" of economically free self- interested consumers as the driver of productive efficiency. Consumes through their interactions with producers, shape aggregate growth thereby optimally determining the relationships among price, quantity, supply, and demand.

A market economy pushes producers spurred by the profit motive to make products that consumers spurred by their quest to maximize utility buy. Consequently, by virtue of what they buy-and for that matter do not-consumers direct the efficient allocation of resources and the optimal valuation of assets

An enduring bias toward minimal government intervention anchor market economies. The less visible the ''hand'' is due to government intervention, the more efficient is the market. Fundamentally, a market economy endorses the ideal of **laissez-faire,** which can be literally translated as'' let do'' and more broadly advises'' let it be'' or'' leave it alone.'' Laissez-faire opposes governmental interference in economic affairs beyond the minimum necessary to maintain property rights, safety, and peace. The consequence, as Adam Smith reasoned, is a market whereby'' Every man, as long as he does not violate the laws of justice, is left perfectly free to pursue his own interest his own way, and to bring both his industry, and capital into competition with those of any other man or order of men.'' Still, the need for public goods (e.g, traffic lights, clean air national defense) and regulatory protections (e.g., minimum wage, product safeguards, and environmental standards) requires governmental involvement. Therefore, a market economy looks to the state to enforce contracts, protect property rights, ensure fair and free competition, regulate certain activities, and provide general safety and security.

4.5.2 The Command Economy

In theory, communism champions state ownership of resources and control of economic activity. Nominally a political ideology, communism calls for an egalitarian, classless, and ultimately stateless society based on the government's command of the economy (the instrumentality of attaining the Marxian mandate, '' from each according to his ability, to each according to his need''). Implementing this system requires the state adopt a **command economy** in which it owns and controls the factors of production (namely, land, labor, capital, and entrepreneurship). Public officials, not private agents, decide what products to make, in what quantity, at what price, and in what way. For example, in a market economy, if the government needs automobiles, it collects taxes and buys cars at market prices from privately held carmakers. In a command economy, the visible hand of the government, with little regard for price, orders state-owned carmakers to produce them.

Command economic can outperform free markets for short periods. Controlling everyone and everything lets the state mobilize idle resources, usually labor, to generate high growth spurts. High productivity continues as long as the state competently manages the supply of slack, low-cost resources. Improving performance often moves state officials to proclaim that the command economy is superior to a free market. History, however, shows otherwise. Central planning commonly proves counterproductive, given that officials, no matter how astute, cannot consistently predict consumers' preferences, craft incentives for entrepreneurs, or efficiently allocate resources. Far more typically, command economies struggle in the face of diminishing productivity, along with growing inefficiency, inequality, cronyism, corruption, and, ultimately, failure to meet rising expectations.

4.5.3 Mixed Economy

Most economies, broadly labeled **mixed economies,** fall between the market and command types. A mixed economy is a system in which economic decisions are principally market driven and ownership is largely private, but the government intervenes, from a little to a lot, in valuing assets, allocating resources, regulating activities, and organizing markets. Put simply, the state reasons that it is the government's responsibility to make strategic decisions about strategic industries.

The mixed economy blends elements of the command and market systems. On one hand, the state intermingles ownership of some resources, centralizes certain planning functions, and regulates market systems. On the other hand, the state authorizes a range of economic freedoms to individuals and companies. Fundamentally, the interaction of supply and demand, signaled to producers through the choices that consumers make, rather than public dictate, organizes production. For example, in a mixed economy the government may partially own a carmaker. Rather than instruction it on the type, quantity, and style of cars to make, the government authorizes the firm to decide. Generally, a mixed economic system falls short of the productivity of a market economy, but outperforms a command economy. Presently, countries classified as mixed economies include South Africa, Japan, South Korea, Sweden, Austria, France, Brazil, Germany, and India. They typically fall in the'' mostly'' and '' moderately'' free categories of the Economic Freedom Index.

Democracy promotes a market economy. Communism promotes a command economy similarly; **socialism** promotes a mixed economy. The notion of ‘’ mix’’ follows from the state letting the market allocate resources, as does capitalism, but directly channeling their use given political goals, as does communism. Philosophically, socialism holds that a fair and just employment, prevents the consolidation of wealth and privilege, helps the impoverished by fairly redistributing income, stabilizes society by mediating market failures, and protects the public by limiting abuses of market power. Advocates of socialism, and by extension a mixed economy, reason that governments more conscientiously promote an egalitarian ethos that deters the opportunistic individualism found in a market economy as well as prevents the oppressive collectivism found in a command economy.

4.6 Assessing Economic Development, Performance and Potential

Managers tap a broad portfolio of macro and micro measures to assess a country’s development, performance and potential. Some measures may be informal or idiosyncratic, such us the number of wireless subscriptions, internet searches for telltale terms scale of family owned conglomerates or prevalence of military officers controlling companies. Typically, convention dominates practice and managers use monetary metrics to estimate productivity, income and wealth. Improving their understanding leads them to augment analyses with measures of sustainability and stability.

4.7 Monetary Measures

Comprehensive single-item monetary measures are incisive indicators of whether an economy is expanding or contracting, or needs a boost or should be constrained and is threatened by inflation or recession. Taking the temperature of a patient is a simple procedure for instance but it quickly highlights the performance of vital activities that are essential to life. The same holds true for single-item monetary measures. Standards, notably gross the national income gross domestic product or gross national product, efficiently summarize the economic activity of households, businesses and governments in terms of their consumption, investment spending and trading. Furthermore, tracking real change in an aggregate measure like GDP, models overall production, maps the direction of the market and indicates the health of the country's economy. Some see for instance the GDP statistic as "truly among the large inventions of the 20 century a beacon that helps policymakers steer the economy toward key economic objectives.

4.8 Gross National Income (GNI)

GNI is the broadest measure of a country's economic performance. It has four components; personal consumption, business investments, government spending, and net exports of goods and services. It measures the values of all production in the domestic economy together with the income that the country receives from other countries in the form of profits, interest and dividends less the same sorts of payments that it has made to other countries. For example, the value of a Samsung TV built in South Korea as well as the values of a Samsung TV made in Japan using Samsung's resources is counted in South Korea's GNI. Similarly, the of a Sony TV built in South Korea using Sony's resources counts in the GNI of Japan. Too if Samsung's Japanese subsidiary repatriate's profits to headquarters in Seoul it increases South Korea's GNI.

For most countries income received by the country versus payments made to the rest of the world typically offset each other; hence there is little difference between GNI and other macro estimators like GDP. For instance, GNI for the United States in 2014 was only about a percent higher than its GDP. For some countries MNEs play an outsized role and consequently, flows are uneven. Large-scale repatriation of profits from a country's MNEs foreign subsidiaries for instance can drop GDP well below GNI, thereby understanding a nation's economic performance. In 2014 for instance Japan's GDP was $4.61 trillion while it's GNI hit $5.34 trillion.

4.9 **Gross Domestic product (GDP)**

is the total market value of all output produced within a nation's borders, no matter whether it is generated by a domestic or foreign-owned enterprise over a fixed period of time. It estimates the output from a sample of businesses in every part of a nation's economy from agriculture to social media. Each sector's weight reflects its relative importance in the national economy. As such as GDP measures the total value of finished goods and services that have been produced for consumer's business and government in that nation. Measuring the flow of economic activity in terms of producing goods and services not simply its stock of productive assets indicates if an economy is expanding or contracting. Presently GDP is the most commonly used prosperity.

Technically GDP plus the income generated from exports, imports and the international activities of a nation's companies equal its GNI. For instance, smartphone made Samsung and Sony in South Korea contributes to South Korea's GDP. A computer made in japan by Samsung a South Korean MNE does not. Instead it contributes to Japan's GNI. Therefore, GDP better estimates performance in these market such as South Korea, Ireland or China, where foreign MNEs local output is a significant share a total activity.

4.10 Gross National Product (GNP)

begins by estimating the market value of goods and services produced in a given year by the labor assets and capital supplied by the resident of a country. It then adds the income that its citizens earned working abroad but removes the income earned by foreigners working domestically the latter counts towards their home nation's GNP. Effectively GNP estimates economic performance in terms of the location of ownership including production done locally as well as when the country capital or labor produces value outside of its borders.

As such GNP count the production by citizen and companies of a nation- even if this production occurs in another country. In contrast GDP centers on the geographical location of production namely that done by any and all workers within a country's borders. GDP by tracking only national production, supports short-term monitoring and analysis as well as facilitates cross national comparisons. Countries began emphasizing GDP in the 1960 and by 1990 it had eclipsed GNP as the superior estimator of productivity and performance.

4.11 Improving Economic Analytics

GNI, GDP and GNP estimate an economy's absolute performance. Despite strengths they can distort country comparison. For example, economic power like United States, Japan and Germany consistently claim the top ranking in the league tables for GNI, GDP, and GNP. Some may mistakenly conclude that they are also more productive and faster growing than lower-ranked countries. Often the opposite is true. Therefore, we improve the usefulness of macro estimators by adjusting for the rate of economic growth, size of the population and purchasing power of the local currency.

Rate of Economic Growth

monetary aggregate takes a static snapshot of an economy at a point in time. Hence they do not capture its rate of change. Interpreting present and forecasting future performance prompted considering any economy growth rate. In the short term an expanding economy indicated by positive growth in say GDP means that the business job and personal income are growing. Longer term GDP growth rate estimates a country economic potential; if it is growing faster or slower than the growth rate of its population then the country standards of living are rising or falling.

The growth rate of aggregate measures helps managers identify promising business opportunities. Look at the 214 countries that compose the global business environment one finds as expected a wide range of growth rate. For instance, GDP in many developing economies is rising at two to five times the rate of per capita growth in the world richest countries. China has been one of the fastest growing economies over the past three decades it has expanded by 9.8 percent on average since 1995. Commensurately its GDP has gone from about $600 billion then with population of 1.2 billion to $10.35 trillion in 2014 with a population of 1.34 billion. Its expanding market has created many jobs boosted worker’s income increased aggregated demand attracted foreign investors and raised living standards.

Population Size

managers routinely adjust indicators by the number of people who live in a country. This conversion is sensible given how unevenly the world’s population of 7,514,656 is distributed e.g. from a high of 1.383 billion in china to a low of 56 in the Pitcairn Islands. Adjusting GNI by population therefore lets managers qualify a country’s performance for its demographic. For instance, china is the world second largest economy when ranked by aggregate GNI. Adjusting its performance for its population of 1.34 billion people however move it to the lower middle income tiers. Similarly, in 2014 Norway GNI hit $103,630. By comparison the United States with its 320 million citizens reported GNI per capita of $55,200 ranking seventh.

4.12 Purchasing Power Parity

The prices of goods and services vary from country to country due to among others things differing factor endowments productivity rates and regulations. Some prices vary little, say, from one developed economy to another developed economy. Some vary a lot, say a developed country to a developed country. One can buy a liter of gasoline, for instance, Kuwait for $. 23 or in Malaysia for $.39; the same liter of gas costs $59, $11.49 and $1.73 in the United States, the United Kingdom and Norway respectively. As such, simple comparisons cannot tell how many goods and services one can buy with a unit of income in one country (e.g., India) versus how much one can buy with an equivalent unit of income in another country (e.g., the united states). Likewise, measures like GNP per capita presume a dollar of income in Mumbai has the same purchasing power as a dollar of income in Miami, even though the cost of living differs dramatically between India and the United States. Overlooked price differences distort the usefulness of macro estimators.

4.14 Elements of Economics Analysis

Narrow (e.g., GNI, GDP, and GNP) and abroad (e.g., HDI, HPI and NPP) estimators profile absolute and relative economic conditions in developed, developing and emerging economies. Partial equilibrium analysis, for instance, encourages assessing a restricted range of discrete indicators in order to refine analyses and elaborate interpretation, for instance, Central banker’s monetary policies directly influence interest and inflation rates, hence, managers keen to the performance of capital markets concentrate on those indicators.

The Global Competitiveness Index (Gci)

The world Economic Forum holds that providing increasing prosperity hinges on how well a country developed institutions, regulates activity and uses resources to improve productivity. A country’s proficiency managing these domains determines its international competitiveness. The GCI summarizes the performance and relationship among 110 variables that compose 12 so-called ‘pillars of competitiveness within a nation. These pillars tap dimensions like financial market development, macroeconomic environment, technological readiness market efficiency, and innovation driven, for instance its determined by factors endowments of labor and natural resources in developing economies like Ghana, Nigeria, or Cambodia. Ultimately, the GCI links to a broad sets of economic indicators, effectively integrating macroeconomic and microbusiness aspects of competitiveness into a single, summary index.

Today’s top 10 competitive economies are a diverse bunch. Switzerland, annual ranked first since 2010, countries to set the standards. It is followed by Singapore and the United States. Rounding out the top 10 are Germany, the Netherlands, japan, Hong Kong, Finland, Sweden and the United Kingdom. Of the big emerging economies, china and India steadily move up the rankings. Smaller markets, notably Qatar, Malaysia and the United Arab Emirates are rising quickly.

The global innovation index (GII)

Countries increasingly look to brainpower for innovations that boost productivity, fortify competitiveness and increase prosperity. The growing power of ideas and insights in the global market makes a country capacity for innovation a key determinant of its economic performance and potential. Rather than focus on the scale of research and development the GII estimates a nation's capacity to imagine ideas, leverage them into pioneering products and in the process, generate knowledge competitiveness and wealth. The GII anchors analysis in terms of inputs and output which promote and enable innovation include institution and policies human capacity infrastructure, technological sophistication, business market and capital. Outputs include knowledge competitiveness and wealth. Collectively these indicators measure a county's competency in promoting technologies, expanding human capacities, streamlining organizational capability and improving institution responsiveness. The GCI indicates that those who do well consistently transform neat ideas into real innovations.

Presently developed countries claim the top spot in the GII standings; Switzerland is the global leader followed by Sweden, Singapore, Finland the United Kingdom, the Netherlands, Denmark, Hong Kong, Ireland, and the United States. Accelerating innovation in Asia sees India, turkey, and china rising in rank. Collectively the data show more Asian countries shifting from practices that had optimized industrial efficiency to policies that improve the environment for innovation.

The World Competitiveness Index (WCL)

The world competitiveness project assesses a nation's ability to set and sustain a business environment that enable enterprises to compete, proper and create wealth. Four factors determine a nation's competitiveness: each economic performance government efficiency, business efficiency and infrastructure. Each category has sub-measure that tap dimensions such as international trade, employment prices business legislation productivity and management practices. Ultimately the WCI evaluates more than 300 criteria to summarize a nation's performance.

In 2015 the United States on the strength of its business efficiency financial sectors innovation and infrastructure topped the WCI scoreboard. Hong Kong and Singapore moved up overtaking Switzerland which dropped to fourth place. Canada, Luxembourg, Norway, Denmark, Sweden and Germany in sequence completed the top 10. Cross national commonalities highlight the decisive importance of business productivity. Country movement both up and down the rankings follows the performance moving into higher values added activities improving business efficiency and promoting international connectivity.

The Where To-Be-Born Index (WTBBI)

Finally looking a bit further into the future the WTBBI holds that how well a country provides opportunities for a healthy safe and prosperous life helps explain its current and future economic environment. The WTBBI evaluates 11 indicators such as geography, demography, quality of life per capital income and life expectancy. Presently the lucky baby league table comprising 80 countries is topped by Switzerland followed by Australia, Norway, Sweden, and Denmark. Smaller nations dominated the top performers accounting for top 15 countries in the lottery of life. Large, wealthy countries notably the United States, japan, France and Great Britain populate the next tier. Emerging and developing economies run from the middle down to the bottom of the ranking.

Unit Summary

We have looked at issues surrounding economic systems and market methods. We looked further looked at elements of economic analysis. In unit five we shall look and focus the trade and factor theory.

Unit Activity

1. Discuss the different types of market systems.
2. Critically discuss the different elements of economic analysis

UNITY FIVE

Trade and Factor Mobility Theory

5.0 Introduction

Well done for coming this far. We will now discuss the trade and mobility theory. First we will examine theories that endorse great government intervention in the trade movement (mercantilism and neomercantilism) versus a laissez-faire approach of no governmental intervention (free-trade theories of absolute advantage and comparative advantage). It will then look at theories to explain trade patterns how much countries depend on trade in what products and with whom, including theories of country size factor proportions and county similarity.

Unit Outcomes

By the end of this unit, you will be able to;

- Understand why policymakers rely on international trade and factors mobility theories that help achieve economic objectives.
- Illustrate the historical and current rationale for interventionist and free trade theories.
- Describe theories that explain national trade patterns.
- Explain why a country export capabilities are dynamic.

- Summarize the reasons for and major effects of international factor movement.
- Assess the relationship between foreign trade and international factor mobility.

Time Frame

You will be required to spend a minimum of 2 hours

5.1 interventionist and Free Trade Theories

At one extreme of trade policies governments intervene a great deal in trade. Let's began with mercantilism because it is the oldest trade theory out of which neo-mercantilism has more recently emerged.

5.1.1 Mercantilism

Mercantilism holds that a country's wealth is measured by its holdings of treasure which usually means its gold. This theory which formed the foundation of economic thought from about 1500 to 1800 holds that countries should export more than they import run a trade surplus and if successful receive gold from countries that run deficits. Nation-states emerged during this period and gold empowered governments to raise armies and invest in national institutions that helped to solidify people's primary allegiance to the new nations.

5.1.2 Government Policies

To run a trade surplus government restricted imports and subsidized noncompetitive production. Countries with colonies imported commodities from them that they would otherwise have to purchase from elsewhere. They monopolized colonial trade in order to force the colonies to export less highly valued raw materials to them and import more highly valued manufactured products from them. This way the colonies ran deficits that they paid off with gold.

As mercantilist policies weakened after about 1800 government seldom directly limited their colonies' development of industrial capabilities. However, their home-based companies had technological leadership ownership of raw material production abroad and usually some degree of protection from foreign competition-a combination that continued to make colonies dependent on raw material production and tie their trade to their industrialized mother countries.

5.1.3 The Concept of Balance of Trade

Some mercantilist terminology has endured. For example, a **favorable balance of trade** also called a **trade surplus** still indicates that a country is exporting more than it imports. An unfavorable balance of trade also known as a trade deficit indicates the opposite. These terms are misnomers because the word favorable implies benefits and the word unfavorable suggests impairment. In fact, running a trade surplus is not necessarily beneficial nor is running a trade deficit necessarily detrimental. A country with a favorable balance of trade is suppling people in foreign countries with more than it receives from them. In the mercantilist period the deficit was paid by a gold transfer. Today the surplus country say china grants credit to the deficit country say the United States by holding its currency U.S. dollars or investment denominated in U.S. dollars. If that credit cannot eventually buy sufficient goods and services, the so-called favorable trade balance actually may turn out to be disadvantageous for the county with the surplus.

5.3 Neomercantilism

Neomercantilism is the running of a favorable balance trade to achieve some social or political objectives. For example, a country may reduce unemployment by encouraging its companies to produce in excess of the home demand and send the surplus abroad. Or it may attempt to maintain political influence in an area by sending more merchandise there than it receives such as a government granting merchandise aid or loans to a foreign government.

5.4 Free Trade Theories

Why do countries need to trade at all? Why can’t Taiwan or any other country be content with the goods and services it produces? To begin with no nation has all the natural resources geographic conditions and technology necessary to produce everything we consume today. In addition, two free trade theories further help answer this question absolute advantage and comparative advantage.

Both theories hold that nations should let the market determine producers' survival based on what consumers choose buy. Both theories also imply specialization. Just as individuals and families produce an excess of specialized goods and services and exchange them for others' excess specialized goods and services nations export their specialized surplus and pay for imports with their export earnings.

5.5 Theory of Absolute Advantage

In 1776 Adam Smith declared that a country's well-being is its citizens' access to goods and services rather than the mercantilism concept of its ownership of gold. His theory of absolute advantage holds that different countries produce different things more efficiently than others and that consumers should not have to buy domestically produced goods when they can buy them more cheaply from abroad. Smith reasoned that unrestricted trade would lead a country to specialize in those products that gave it a competitive advantage. Its resources would shift to the efficient industries because it could not compete in the inefficient ones. Through specialization it could increase its efficiency for three reason.

1. Labor could become more skilled by repeating the same tasks.
2. Labor would not lose time in switching production from one kind of product to another.
3. Larger amounts of production would provide incentives for developing more effective working methods.

Natural Advantage

a country natural advantage in production comes from climatic condition access to certain natural resources or availability of certain forces. A country like Taiwan export tea, which it has advantages in producing because its high elevations give its cool long tea a unique which taste. Taiwan imports wheat. If it were to increase its wheat production for which its climate and terrain are less suited it would have to use land now devoted to tea as well as workers in some of its high-tech industries thus reducing those earnings.

Conversely the United States produces a small quantity of tea. To become self-sufficient in tea production would require diverting resources away from products such as wheat for which its climate and terrain are naturally suited. Trading tea for wheat achieves more efficiency than if these two countries were to try to become self-sufficient in the production of both. The more the two countries natural advantages differ the more likely they will favor trade with one another.

Variation among countries in natural advantages also help explain where certain manufactured or processed items might best be produced particularly if a company can reduce transportation costs by processing an agricultural commodity or natural resource prior to exporting. Processing tea leaves reduces bulk and is likely to reduce transport costs on tea exports producing bottle of a prepared tea drink would add weight, lessening the industry internationally competitive edge.

Acquired Advantage

Most of today’s world trade is in manufactured goods that compete through an acquired advantage usually in either product or process technology. A product technology enables a country to produce a unique product or one that easily distinguished from those of competitors. For example, Denmark exports silver tableware, not because there are rich Danish silver mines but because Danish companies have developed distinctive product. A process technology enables a country to efficiently to produce a homogeneous product (one not easily distinguished from that of competitors). Iceland now exports tomatoes grown near the Arctic Circle, while Brazil exports quality wine produced near the equator –both of which were impossible until the countries developed fairly recent process technology. Countries that develop product or process technologies have acquired advantages, but only until producers in another country emulate or surpass them successfully. Such dynamics are commonplace as new product replace old ones, as new uses develop for old products and as different ways of production c0me into play.

How Does Specialization Increase Output?

We can demonstrate absolute trade advantage by examining two countries and two commodities. Because we are not yet considering the concepts of money and exchange rates we define the cost of production in term of the resources needed to produce either commodity. This example is realistic because real income depends on the output of goods compared to the resources used to produce them.

Say that Taiwan and the United States are the only two countries and each as the same amount of resources land, labor and capital to produce either tea or wheat. In Taiwan as figure 5.2 let's say that 100 units of resources are available in each country. In Taiwan assume that it takes 4 units to produce a ton of tea and 10 units per ton of wheat. The purple Taiwan production possibility line shows that Taiwan can produce 25 tons of tea and no wheat 10 tons of wheat and not tea or some combination of the two.

In the United States it takes 20 units per ton of tea and 5 unites per ton of wheat. The green U.S. production possibility line indicates that the country can produce 5 tons of tea and no wheat 20 tons of wheat and no tea, or some combination of the two. Taiwan is more efficient in tea production that is required fewer resources to produce tea while the United States is more efficient in wheat production.

How can production be increased through specialization and trade? Let's say the two countries have no foreign trade. We could start from any place on each production possibility line for convenience let's assume that if each country devotes half of its 100 resources to production of each product Taiwan can produce 12.5 tons of tea divide 50 by 4 and 5 tons of wheat divide 50 by 10 show as point A in figure 5.2 while United States can produce

Unit Activity

1. Compare and contrast free trade theories and theories of absolute advantage

Unit Summary

We examined theories that endorse great government intervention in the trade movement versus a laissez-faire approach of no governmental intervention. As much as possible we tried to look at theories to explain trade patterns how much countries depend on trade in what products and with whom, including theories of country size factor proportions and county similarity

UNITY SIX

Major Instruments of Trade Control

6.0 Introduction

In this unit, we discuss major instruments of trade control. In seeking to influence export or imports government choice of trade control instrument is crucial because each may incite different responses from domestic and foreign groups. One way to understand these instruments is by distinguishing between those that directly influence export price and these that limit the amount of good that can be traded. Let’s review these instruments.

Unit Outcomes

By the end of this unit, you should be able to:

- Explain trade control
- Describe the major instruments of trade control
- Classify how companies deal with governmental trade influences

Time Frame

You are expected to spend a minimum of 3 hours' study time.

6.1 Tariffs: Direct Price Influences

Tariff barriers directly affect prices and nontariff barriers may directly affect either price or quantity.

A **tariff** (also called a **duty**) is a tax levied ion a good shipped internationally. That is governments charge a tariff on a good when it crosses an official boundary- whether it be that of a nation or a group of nations that have agreed to impose a common tariff on goods crossing the boundary of their bloc. A tariff assed on a per-unit basis is a specific duty on a percentage of the item value an ad valorem duty and on both a compound duty.

Tariffs collected by the exporting country are called **export tariffs;** if there collected by a collected by a country through which the goods pass, they're **transit tariffs;** if they're collected by importing, countries, they're **import tariffs.** Because import tariffs are by far the most common, we discuss them in some detail. **Import tariffs** unless they're optimum tariffs (discussed earlier in the chapter), import tariffs raise the price of imported goods by taxing them thereby giving domestically produced goods a relative price advantage. Although consumer is often unaware of the cost increase from tariffs on imports, they learn very quickly when encountering duty-free shops in international airports and at cruise ship stopovers. (see the following photo.

6.2 Tariffs as sources of revenue

Tariffs also generate governmental revenue, but revenue is of little importance to developed countries collection costs usually exceed the yield. In many developing countries, though, they are a major source of revenue because they are often more easily collected than income taxes. Although revenue tariffs are most commonly collected on imports, some countries charge export tariffs on raw materials. Transit tariffs were once a major source of countries' revenue, but governmental agreements have nearly abolished them.

6.3 The effective tariff controversy

Raw materials (say, coffee beans) from developing countries frequently enter developed countries free of duty; however, if they are processed (say, instant coffee), developed counties free of duty; however, if they are processed (say, instant coffee), developed countries then assign an import tariff. Because ad valorem tariff is based on the total value of the product (say, 10 percent on a $5 jar of instant coffee), the raw materials and the processing combined (say, $2.50 for the coffee beans and $2.50 for the processing) pay $.50. developing countries have argued that the effective tariff on the manufactured portion turn out to be higher than the published tariff rate because the manufactured portion is effectively charged 20 percent. This anomaly further challenges developing countries to find export markets for products that use their raw materials.

6.3 Nontariff Barriers: Direct Price Influences

Now that we have shown tariffs raise prices lets discuss other ways that governments alter product prices to affect their trade.

i. **Subsidies** offer direct assistances to companies to boost their competitiveness. Although this definition is straightforward disagreement on what constitutes a subsidy causes trade frictions. In essence not everyone agrees that companies are being subsidized just because they lose money nor that all types of government loans or grants are subsidies. One long running controversy involves commercial aircraft. Airbus industries and the EU claim that the U.S. national and state governments subsidize Boeing through R and D contracts for military aircraft that also have commercial applications and through the granting of incentives to influence their location decisions. Further because the U.S. ex-IM bank offers loans guarantees to foreign buyers Delta Air Lines has argued that this gives non- U.S. airlines an advantage not available to U.S. airlines. Meanwhile Boeing and the U.S. government claim that the EU subsidizes Airbus Industries through low interest government loans.

   An area that may well raise future questions about subsidies is governmental support to shore up floundering companies and industries especially during global recessions. For instance, government have bailed out banks granted generous consumer loans to support their auto companies eliminated taxes on their company's export earnings and invested in an ownership share of key companies. In turn these actions alter international competitiveness.

ii. **Agricultural subsidies**

   The one area in which everyone agrees that subsidies exist is agriculture especially in developed countries. The official reason is that food supplies are too critical to be left to chance. Although subsidies lead to surplus production they are argued to be preferable to the risk of food shortages. Further to counter overproduction the United States pays additional subsidies to farmers so that they do not produce as much. However, this official reason does not explain agricultural subsidies for nonfood products such as U.S. cotton subsidies that Brazil claims to disadvantage its competitiveness.

The strength of agricultural interests is also important. Within Japan the United States and the EU rural areas have a disproportionately high representation in government decision making. For instance, Japanese rural interests have been able to force a 778 percent tariff on rice. In the United States there is one senators per 300,000 people in Vermont a state with a 68 percent rural population and one senator per 19 million in California which is 93 percent urban. Agriculture account for 38 percent of the EU budget even though it composes only 7 percent of GDP. The result is that internal politics effectively prevent the dismantling of such instruments as price support for farmer's government agencies to improve agricultural productivity and low interest loans to farmers.

What is the effect?

Although some developing countries such as India are also major agricultural subsidizers many are deprived from fully serving the developed markets with competitive agricultural products. Further much surplus production from developed countries is exported at very low prices thus distorting trade and further disadvantaging developing countries production.

6.5 Overcoming market imperfections

Most countries offer potential exporters many business development services such as market information trade exposition and foreign contacts.

This type of subsidization is less contentious than tariffs because the actions seek to overcome rather than create market imperfections. Further collecting and disseminating information widely is less costly than if each potential exporter were to work individually.

Aid and loan

When governments require foreign aid and loan recipients to spend the funds in the donor country a situation known as tied aid or tied loan some otherwise noncompetitive output can compete abroad. For instance, tied aid helps win large contracts for infrastructure such as telecommunications railways and electric power projects.

However, tied aid and loans sometimes require the recipient to use output and suppliers that may not be the best. They may also slow the advancement of local suppliers in developing countries. These concern led OECD members to unties financial and to developing countries. However, china is using tied aid for nearly all its foreign infrastructure projects.

Customs valuation

Import tariffs assessments depend on the product price and origin which tempts exporters and importers to declare these wrongly to pay a lower duty tempts governments to declare wrongly as a protectionist measure.

What is the import worth?

Most countries have agreed to use import invoice information unless customs doubt its authenticity. Agents must then appraise on the basis of the value of identical or similar goods arriving at about the same time. Customs must appraise similarly when goods enter for lease rather than purchase because there is no invoice. Critics especially companies and governmental authorities from exporting countries complain that agents in importing countries too often use discretionary power to levy higher duties such as on Philippine cigarettes imported into Thailand.

What is a product?

Misclassifying a product (by accident or internally) is an easy way to change its corresponding tariff. Administering more than 13,000 categories of product (with new products coming onto the market all the time) means a customs agent must use discretion to determine, say, if silicon chips should be considered ‘’ integrated circuits for computes’’ or ‘’ a form of chemical silicon.’’ In our opening case, we say the controversy over whether china lifted restriction over REEs and whether they lifted the restriction on other strategic materials like tungsten. The difference between the elements in terms of production use are also minute. For example, the U.S. tariffs on athletic footwear are different from those on sports footwear, and these are subcategorized by whether the sole overlaps the upper part of the shoe or not. Each type of accessory and reinforcement of the shoe’ uppers is a different category.

Although classification differences may seem trivial, the disparity in duties may cots or save companies millions of dollars. Some contentious examples include whether the French company Agatec’s laser leveling device would be used primarily indoors or outdoors, whether marvel’s X-men wolverines were toys or dolls, and whether sport utility vehicles such as the Suzuki samurai and the land rover- were cars or trucks.

Where Does the product originate?

Because of different trade agreements, customs must determine products’ origins. For example, red meat products may involve animals born in one country, raised in a second, and slaughtered in a third. U.S. customs requires traders to provide details on these stages of production, thus adding documentation costs above those for meat products of a 100 percent U.S. origin. Officials have also uncovered many instances of product transshipment and document falsification to avoid or lessen restrictions. For instance, U.S. customs fined staples, officemax, and target for mislabeling the country of origin of pencils in order to avoid paying antidumping duties assessed on Chinese imports.

Other Direct-price influences

countries use other practices to affect import prices, including special fees be placed in advance of shipment, and minimum price levels at which goods can be sold after they have cleared customs.

6.6 Nontariff Barriers: Quantity Controls

Governments' regulation and practices affect the quantity of imports and exports directly let's a look at the various forms these typically take.

Quotas A **quota**

Limits the quantity of a product that can be imported or exported in a given time frame, typically par year. Import quotas normally raise prices because they

(1) limit supplies and

(2) provide little incentive to use price competition to increase sales.

A notable difference between tariffs and quotas is their effect on revenues. Tariffs generate revenue for the government. Quotas generate revenue only for those companies that obtain and sell a portion of the intentionally limited supply of the product at prices higher than what competitive prices would be. (sometimes governments allocate quotas among countries based on political or market conditions.)

To circumvent quotas, companies sometimes covert the product into one for which there is no quota. For instance, the United States maintains sugar import quotas that result in it is no quota. For instance, the United States maintains sugar import quotas that result in its sugar prices averaging more than the world market price. as a result, some U.S. candy producers have moved plant to Mexico and Canada where they can buy lower-cost sugar and import the candy duty free to the united states.

A country may establish export quotas to provide domestic consumers a sufficient supply of goods at a low price, to prevent depletion of natural resources, or to attempt to raise abroad by restricting foreign supply.

Voluntary export restraints

A voluntary export restraint (**VER**) is a quota variation whereby essentially country. A asks country B to voluntarily reduce its companies ex- with Mexican tomato exports. The term voluntarily is misleading typically either country B agrees to reduce its export or else country A may impose tougher trade restrictions. Procedurally, VERs have unique advantages. They are much easier to switch off than an import quota and the appearance of a voluntary choice by a particular country to constrain its shipments can do less damages to political relations than an import quota.

Embargoes

A specific type of quota that prohibits all trade is an embargo. As with quotas a country or group of countries may place embargoes on either imports or exports on particular products regardless of origin or destination on specific products with certain countries or on all products with given countries. Government impose embargoes in an effort to use economic means to achieve political goals thus they are a type of trade sanction which we discuss in our point-counterpoint section.

Buy local legislation

buy local legislation sets rules whereby governments give preference to domestic production in their purchases. Given the enormity of government sectors in most economies this preference can be substantial sometimes government s such as the U.S. government specify a domestic content restriction that is a certain percentage of the product must be of domestic origin. Sometimes government favor domestic producers through price mechanisms such as permitting an agency to buy a foreign made product only if the price is a predetermined margin below that of a domestic competitor. Sometimes government favor domestic purchase indirectly, such as the U.S prohibition of foreign Medicare payments for elderly Americans except in emergency situation----a regulation that limits U.S foreign purchases in the fast growing area of medical tourism.

Standards and labels

Countries can devise classifications, labeling, and testing standards to allow the sale of domestic products while obstructing foreign made ones. Consider product labels. The requirement that companies indicate products' Origins informs consumers who may prefer buying domestic products.in our opening case, we saw that the U.s catfish industry sought country of origin labeled on fish. Countries also may dictate that companies place contents information on their packaging, which differs from what is required elsewhere. These technicalities may seem trivial, but they add to a firm's costs, particularly if the labels must be translated for different export markets. In addition, raw materials, components, design, and labor increasingly come from many countries, so most products today are of such mixed origin that they are difficult to sort out.

The professed purpose of standards is to protect safety or health, but some companies argue they are just a means to protect domestic producers. For example, some U.S and Canadian producers have contended that EU regulations and labeling requirements on genetically engineered corn and canola oil are merely means to keep out the products until their own technology catches up. In another case following U.S publicity about contaminated Chinese foods, china retaliated by upping its rejection of foodstuffs from the United States, citing contamination with drugs and salmonella. In reality, there's no way of knowing to what extent products are kept out of countries for legitimate safety and health reasons versus arbitrarily protecting domestic production. Rejecting shipments for health and safety reasons, particularly those from developing countries, may cause a negative image for the exporting countries other products, causing them to lose sales and lower their exports price.

Specific permission requirements

countries may require that importers or exporters secure governmental permission (an import or export license) before transacting trade. A company may have to submit samples to government authorities to obtain such a license. The procedure can restrict imports or exports directly by denying permission or indirectly because of the cost, time, and uncertainty involved. A foreign exchange control requires an importer to apply to a government agency to secure the foreign currency to pay for the products. As with an import license, failure to grant the exchange, not to mention the time and expense of completing forms and awaiting replies, obstruct foreign trade.

Administrative delays

closely akin to specific permission requirements are administrative customs delays that may be caused by intention or inefficiency. In either case, they create uncertainty and raise the cost of carrying inventory. Intentional delays may occur not only to protect domestic procedures, but also for political reasons. Japanese companies reported such delays in china after japan and china clashed over ownership of islands in the East China Sea.

Reciprocal requirements

importing countries sometimes require that whole or partial payments be made to exporters in merchandise rather than fully in currency, a transaction known as barter trade. The World Trade Organization estimates that 15 percent of world trade involves some type of barter.

Countertrade in countertrade or offsets, a government in the importing country requires the exporter to provide it with additional economic benefits such as jobs or technology as part of the transaction. Critics in exporting countries contend that large defense contractors, by participating in these arrangements, shift purchases from smaller domestic contractors, to those in foreign countries, thus weakening these domestic suppliers and the exporting country’s future defense capabilities.

Problem for exporters

Reciprocal requirements necessitate that exporters assess the value and find markets for good outside their expertise, engage in complicated operating arrangements, and undertake activities outside their proficiency. Raytheon, which makes such products as missiles and radar systems, had to undertake shrimp farming to gain a Saudi Arabian contact. All things being equal, companies avoid these transactions. However, some have developed competencies in these types of arrangements in order to gain competitive advantages. Others rely on specialized companies that handle barter transaction.

Restriction on services

service is the fastest growing sector in international trade. In deciding whether to restrict service trade, countries typically consider four factors: *essentiality, not-for-profit service, standards,* and *immigration.*

Essential Government sometimes prohibit private companies, foreign or domestic from operating in some sectors because they feel the service are essential and provide social stability. In other cases, they set prices controls or subsidize government owned services organizations that create disincentives for foreign private participation. Some essential services in which foreign firms might be excluded are media, communications, banking, utilities and domestic transport.

Not-for-profit service mail, education and hospital health services are often not for profit sectors in which few foreign firms complete. When a government privatizes these industries, it customarily prefers local ownership and control.

Standards and policies. Some services require face to face interaction between professionals and clients, and government limits entry into many of them to ensure practice by qualified personnel. The licensing requirements include such professionals as accountant, actuaries' architects, electrician's engineers, gemologists, hairstylists lawyers, medicals personnel, real estate brokers and teachers.

At present there is little reciprocal recognition in licensing because countries occupational standards and requirements differ substantially. Thus an accounting or legal firm from one country faces obstacles in another, even to serve its domestic clients' needs. The firm must hire professionals within each foreign country or else have its domestic professionals earn certifications abroad. The latter option is problematic because of having to take examinations and learn new materials, sometimes in a foreign language. There also may be lengthy prerequisites for taking an examination such as internships, time in residence and course work at a local university.

Immigration satisfying the standards of a particular country is no guarantee that a foreigner can then work there. In addition, governmental regulation often requires an organization domestic or foreign to research extensively for qualified personnel locally before it can even apply for work permits for personnel it would like to bring in from abroad.

6.7 How Companies deal with Governmental Trade Influences

When companies are threatened by import competition they have several options four of which stand out:

1. Move operation to other country.
2. Concentrate on market that attract less international competition.

3. Adopt internal innovations such as greater efficiency or superior products.
4. Try to get governmental production.

Each option entails costs and risks therefore different companies make different choices for example competition from Japanese imports spurred the U.S. automobile industry to move some production abroad such as subcontracting with foreign suppliers for parts develop niche market through the sale of minivan and sport utility vehicles (SUVs) that initially had less international competition and adopt innovations such as lean production techniques to improve efficiency and product quality. They also successfully sought VERs from japan and general motors and Chrysler eventually received substantial government founding to survive.

6.8 Tactics for Dealing with Import Competition

Granted these methods are not realistic for every industry or company. Companies may lack the resources to shift their own production or find suppliers abroad. They may be able to identify more innovative or profitable product niches. Even if they do foreign competitors may quickly emulate them. In such situation companies often ask their governments to restrict imports or open export markets

6.9 Convincing Decision-Makers

Government cannot try to help every company that faces tough international competition. Likewise helping one industry may hurt another. Thus as a manager you may propose or oppose a particular protectionist measure. Inevitably the burden falls on you and your company to convince officials that your situation warrants particular policies. You must identify the key decision-makers and convince them by using the economic and noneconomic arguments presented in this chapter. You must also put forward the types of restrictive mechanisms most likely to help your situation and convey to public officials that voters and stakeholders support your position.

6.10 Involving The Industry and Stakeholders

A company improves the odds of success if it can ally most if not all domestic companies in its industry. Otherwise officials may feel that its problems are due to its specific inefficiencies rather than the general trade challenges. Similarly involving stakeholders such as taxpayers and local merchants can help. Finally, it can lobby decision-makers and endorse the political candidates who are sympathetic to its situation.

6.11 Preparing for Changes in The Competitive Environment

Companies take different approaches to deal with changes in the international competitive environment. Frequently their attitudes toward protectionism are a function of the investments they have made to implement their international strategy. Those that depend on freer trade and or have integrated their production and supply chains among countries tend to oppose protectionism. In contrast those with single or multi domestic production facilities such as a plant in japan to serve the Japanese market and a plant in Taiwan to serve the Taiwanese market tend to support protectionism.

Companies also differ in their confidence to compete against imports. Thus when companies recommend protection for their industries typically one or more companies in that industry oppose it. The opposition usually comes from companies with commanding competitive advantages in terms of scale economies supplies relationships or differentiated products. Thus they reason that not only can they successfully battle international rivals they also stand to gain even more as their weaker domestic competitors fail to do so.

Unit Activity

1. Discuss the tactics for dealing with import competition. Give relevant examples were necessary
2. Distinguish tariff and non-tariff barriers
3. Explain how companies deal with government trade influences

Summary

Congratulations! You have come to the end of the module. In this module we have looked at pertinent issues that relate with international business. In unit one, we looked at the fundamental issues in international business and globalization. In unit two we discussed the changing nature of culture and how it affects the business environment. Unit three focused on government and legal system while in unit four economic systems and markets. Unit five took us through trade and mobility theory and finally unit six we conclude by looking at the major instruments of trade control. Now I encourage you to attempt all the activities given in all the units in order for you to test your understanding.

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