The Political Environment

- Political cultures provide context
  - Governing party’s attitude toward
    - Sovereignty
    - Political risk
    - Taxes
    - Threat of equity dilution
    - Expropriation
- Ideal world: respect for each other

Nation-States and Sovereignty

- Stage of Development
  - Protectionist laws - lesser developed
  - Free trade - advanced development

- Political and economic
  - Cronyism
  - Market vs. Non-market

- Political Risk
  - Define
  - Causes
  - Consequences
Political Risk

- What is it?
- Causes
- Symptoms
- Consequence

Categories of Political Risk

<table>
<thead>
<tr>
<th>EIU</th>
<th>Business Environment Risk Intelligence</th>
<th>PRS Group World Political Risk Forecasts</th>
</tr>
</thead>
<tbody>
<tr>
<td>War</td>
<td>Fractionalization of the political spectrum</td>
<td>political turmoil probability</td>
</tr>
<tr>
<td>Social unrest</td>
<td>Fractionalization by language, ethnic, and/or religious groups</td>
<td>Equity restrictions</td>
</tr>
<tr>
<td>Orderly political transfer</td>
<td>Restrictive/coercive measures required to retain power</td>
<td>local operations restrictions</td>
</tr>
<tr>
<td>Politically motivated violence</td>
<td>Mentality (xenophobia, nationalism, corruption, nepotism)</td>
<td>Taxation discrimination</td>
</tr>
</tbody>
</table>

Taxes

- Government taxation policies
  - High taxation can lead to growth in a black market
- Corporate taxation
  - Companies attempt to limit tax liability by shifting location of income
Seizure of Assets

- Expropriation – governmental action to dispossess a foreign company or investor
  - Compensation should be provided in a “prompt, effective, and adequate manner”
  - When no compensation is provided, it is called confiscation
- Nationalization - a government takes control of some or all of the enterprises in an entire industry
  - Acceptable according to international law if
    - Satisfies public purpose
    - Includes compensation

International Law

- The rules and principles that nation-states consider binding among themselves → property, trade, immigration
- Disputes between nations are issues of public international law
  - Judicial arm of the United Nations
  - World Court or International Court of Justice (ICJ)

Common Law vs. Civil Law

- Common Law country
  - Disputes are decided by reliance on the authority of past judicial decisions
  - Companies are legally incorporated by state authority
- Civil Law country
  - Legal system reflects the structural concepts and principles of the Roman Empire
  - Companies are formed by contract between two or more parties who are fully liable for the actions of the company
- Islamic Law
  - Legal system in many Middle Eastern countries
  - Based on the sharia - a comprehensive code governing Muslim conduct in all areas of life
    - Koran: Holy Book
    - Hadith: Based on life, sayings, and practices of Muhammad; identifies forbidden practices “haram”
Sidestepping Legal Issues: Jurisdiction

- Refers to a Court’s authority to rule on particular types of controversies arising outside of a nation’s borders or to exercise power over individuals or entities from different countries.
- Employees of foreign companies should understand the extent to which they are subject to jurisdiction of host-country courts.
- Courts have jurisdiction if it can be demonstrated that the company is doing business in the state the court sits.

Sidestepping Legal Issues: Intellectual Property

- Intellectual property must be registered in each country where business is conducted.
  - Patent – gives an inventor exclusive right to make, use, and sell an invention for a specified period of time.
  - Trademark – distinctive mark used to distinguish it from competing products.
  - Copyright – establishes ownership of a written, recorded, performed, or filmed creative work.

Infringement of Intellectual Property

- Counterfeiting – unauthorized copying and production of a product.
- Associative Counterfeit/Imitation – product name differs slightly from a well-known brand.
- Piracy – unauthorized publication or reproduction of copyrighted work.
Protecting Intellectual Property

- International Convention for the Protection of Industrial Property
  - Paris Convention
  - Honored by 100 countries
  - Facilitates multi-country patent registration, ensures that once a company files, it has a "right of priority" in other countries for 1 year from that date
- Patent Cooperation Treaty
- European Patent Convention

Antitrust

- Designed to combat restrictive business practices and to encourage competition
  - Enforced by FTC in the US, Fair Trade Commission in Japan, European Commission in European Union
  - Example: The Sherman Act of 1890 prohibits certain restrictive business practices including fixing prices, limiting production, allocating markets, or any other scheme designed to limit or avoid competition. Law applies to US companies outside US borders and to foreign companies operating in the US

 Licensing and Trade Secrets

- Contractual agreements in which a licensor allows a licensee to use patents, trademarks, trade secrets, technology, and other intangible assets in return for royalty payments or other forms of compensation
- Important considerations
  - What assets may be licensed
  - How to price assets
  - The rights granted
- Trade secrets are confidential information or knowledge that has commercial value and is not in the public domain and for which steps have been taken to keep it secret
- To prevent disclosure
  - Use confidentiality contracts
Bribery and Corruption

- Foreign Corrupt Practices Act
  - Requires publicly held companies to institute internal accounting controls that would record all transactions
  - Makes it a crime for a US corporation to bribe an official of a foreign government or political party to obtain or retain business
  - Prohibits payments to third parties when there is reason to believe it may be channeled to foreign officials

2003 Corruption Rankings

7 ‘cleanest’ countries
1. Finland
2. Iceland
3. Denmark
4. New Zealand
5. Singapore
6. Sweden
7. Netherlands

7 most corrupt countries
1. Bangladesh
2. Nigeria
3. Haiti
4. Paraguay
5. Myanmar
6. Tajikistan
7. Georgia

Conflict Resolution

- Litigation
- Formal arbitration
  - Settles disputes outside of court
  - Groups agree to abide by panel’s decision
  - Most important treaty regarding international arbitration
Conflict Resolution

<table>
<thead>
<tr>
<th>Country</th>
<th>Lawyers per 100,000 people</th>
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</thead>
<tbody>
<tr>
<td>USA</td>
<td>290</td>
</tr>
<tr>
<td>Australia</td>
<td>242</td>
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<tr>
<td>United Kingdom</td>
<td>141</td>
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<tr>
<td>France</td>
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<td>Germany</td>
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<td>Hungary</td>
<td>79</td>
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<tr>
<td>Japan</td>
<td>11</td>
</tr>
<tr>
<td>Korea</td>
<td>3</td>
</tr>
</tbody>
</table>

The Regulatory Environment

- Agencies, both governmental and non-governmental, that enforce laws or set guidelines for conducting business
- Marketing activities affected by international and regional economic organizations
  - EU
  - WTO