Political Environment In International Marketing Essay, Research Paper

THE POLITICAL ENVIRONMENT: The critical concern Political environment has a very important impact on every business operation no matter what its size, its area of operation. Whether the company is domestic, national, international, large or small political factors of the country it is located in will have an impact on it. And the most crucial & unavoidable realities of international business are that both host and home governments are integral partners. Reflected in its policies and attitudes toward business are a governments idea of how best to promote the national interest, considering its own resources and political philosophy. A government control’s and restricts a company’s activities by encouraging and offering support or by discouraging and banning or restricting its activities depending on the government. Here steps in international law. International law recognizes the right of nations to grant or withhold permission to do business within its political boundaries and control its citizens when it comes to conducting business. Thus, political environment of countries is a critical concern for the international marketer and he should examine the salient features of political features of global markets they plan to enter. THE SOVEREIGNITY OF NATIONS From the international laws point of view a sovereign state is independent and free from external control; enjoys full legal equality; governs its own territory; selects its own political, social, economic systems; and has the power to enter into agreements with other nations. It is extension of national laws beyond a country’s borders that much of the conflict in international business arises. Nations can and do abridge specific aspects of their sovereign rights in order to coexist with other countries. Like the European Union, North American Free Trade Agreement (NAFTA) are examples of nations voluntarily agreeing to give up some of their sovereign rights in order to participate with member nations for common, mutually beneficial goals. For example the “pajama game” discussed in global perspective is not unusual for multinational corporations. The pajama caper was a controversy arose over a US embargo forbidding US businesses to trade with Cuba. Wal-Mart was selling Cuban made pajamas in Canadian market. When Wal-Mart officials in US came to know about this, they ordered all offending Cuban pajama’s as it was against US law. Canada was incensed with the obtrusion of US law on Canadian citizens. The Canadian citizen’s felt that they should be able to buy Cuban-made pajama’s if they wanted to. Wal-Mart was caught between a Canada-US foreign policy feud. Wal-Mart Canada was breaking US law if it continued to sell pajamas, and was subject to a million-dollar fine and possible imprisonment. However, if it did pull out pajamas from Canadian market it was subject to 1.2 million dollar fine under Canadian law. The ideal political climate for a multinational firm is stable, friendly environment. Unfortunately, that is never really the case, it’s not always friendly and stable. Since foreign businesses are judged by standards as variable as there are nations, the friendliness and stability of the government in each country must be assessed as an ongoing business practice. STABILITY OF GOVERNMENT POLICIES The most important of the political conditions that concern an international business is the stability or instability of the prevailing government policies. Political parties may change or get reelected but the main concern for MNCs is the continuity of the set rules or code of behavior regardless of the party in power. A change in the government does not always mean change in the level of political risks. In Italy the political parties have changed 50 times since the end of World War II but the business continues to go on as usual inspite of the political turmoil. In comparison is India, where the government has changed 51 times since 1945 but however much of the government policies remain hostile to foreign investments. Conversely, radical changes in policies toward foreign business can occur in the most stable of the governments. Some of the African countries are among the unstable with seemingly unending civil wars, boundary disputes and oppressive military regimes. Like one of the region with the greatest number of questions concerning long-term stability is Hong Kong as since China has gained control, the official message is that nothing will change and thus everything is seemingly going smoothly but the political analysts say that it is too early to say how will the business climate change, if it will. If there is potential for profit and if given permission to operate within a country, MNCs can function under any type of government as long as there is some long-term predictability and stability. POLITICAL PARTIES Particularly important to the marketer is the knowledge of all philosophies of all major political parties within a country, since anyone might become dominant and alter prevailing attitudes. In those countries where there are two strong political parties where usually one succeeds the other, it is important to know the direction each of the parties is likely to take. Changes in direction a country may take toward trade and related issues are caused not only by political parties but also by politically strong interest groups and factions within different political parties, which cooperate to affect trade policies. NATIONALISM Economic nationalism that exists to some degree in all countries is another factor that affects international environment. Nationalism is intense feelings of national pride and unity, an awakening of nation’s people to take pride in their own country. This pride can take an anti-foreign business bias. One of the central aims of economic nationalism is the preservation of national economic anatomy where national interest and security are more important than international considerations. POLITICAL RISKS OF GLOBAL BUSINESS CONFISCATION, EXPROPRIATION AND DOMESTICATION The most severe political risk is confiscation, which is seizing of company’s assets without payment. Less severe is however, expropriation, which requires reimbursement, for the government seized investment. A third type of risk is domestication, which occurs when host country takes steps to transfer foreign investments to national control and ownership through series of government decrees. A change in the government’s attitudes, policies, economic plans and philosophies toward the role of foreign investment is the reason behind the decision to confiscate, expropriate or domesticate existing foreign assets. ECONOMIC RISKS International companies are often faced with many economic risks most of which arise without any prior warning. Economic risks are an important and a recurring part of political environment that a few companies can avoid. ? Exchange controls stems from shortage of foreign exchange held by the country. When this happens, controls may be placed upon all movements of capital or selectively against most politically vulnerable companies. Exchange controls are extended to cover products by applying a system of multiple exchange rates to regulate trade. ? Local-content laws- companies often require a portion of any product sold in a country to have a local content. ? Import restrictions- selective restrictions on import of certain raw materials, machines and spare parts are common strategies used to force foreign companies to purchase more materials within host country creating markets for local products. ? Tax controls- taxes are a classified risk when used as a means of controlling’ foreign investments. They are often raised without warning and in violation of formal agreements. ? Price controls- essential products that command considerable public interest are often subject to price controls. ASSESSING POLITICAL VULNERABILITY Some products are more politically vulnerable than others, in that they receive more government attention. This special attention may result in positive or negative actions towards the company. Unfortunately there are no absolute guidelines for marketer’s to follow whether the product will receive government attention or not. POLITICALLY SENSITIVE PRODUCTS. There are some generalizations that help to identify the tendency for products to be politically sensitive. Products that have an effect upon the environment exchange rates, national and economic security, and the welfare of the people are more apt to be politically sensitive. For products judged non essential the risk would be greater, but for those thought to be making an important contribution, encouragement and special considerations could be available. FORECASTING POLITICAL RISKS A number of firms are employing systematic methods of measuring political risk. Political risk assessment can: ? Help managers decide if risk insurance is needed ? Devise and intelligence network and an early warning system ? Help managers develop a contingency plan ? Build a database of past political events for use by corporate management ? Interpret the data gathered and getting forewarnings about political and economic situations REDUCING POLITICAL VULNERABILTY Even though the company cannot directly control or alter the political environment, there are measures with which it can lessen the susceptibility of a specific business venture. GOOD CORPORATE CITIZENSHIP A company can reduce its political vulnerability by being a corporate citizen and remembering: – 1. It is a guest in the country and should act accordingly 2. The profits are not it’s solely, the local employees and the economy of the nation should also benefit. 3. It is not wise to try and win over new customers by totally Americanizing them. 4. A fluency in the local language helps making sales and cementing good public relationships. 5. It should train its executives to act appropriately in the foreign environment. STRATEGIES TO LESSEN POLITICAL RISKS MNCs can use other strategies to minimize political risks and vulnerability. They are: – ? Joint ventures ? Expanding the investment base ? Marketing and distribution ? Licensing ? Planned domestication ? Political payoffs GOVERNMENT ENCOURAGEMENT OF GLOBAL BUSINESS FOREIGN GOVERNMENT ENCOURAGEMENT Governments also encourage foreign investment. The most important reason to encourage investment is to accelerate the development of an economy. An increasing number of countries are encouraging investments with specific guidelines toward economic goals. MNCs may be expected to create local employment, transfer technology, generate export sales, stimulate growth and development of the local industry. US GOVENRMENT ENCOURAEMENT The US government is motivated for economic as well as political reasons to encourage American firms to seek opportunities in the countries worldwide. It seeks to create a favorable climate for overseas business by providing the assistance by providing the assistance that helps minimize some of the troublesome politically motivated financial risks of doing business abroad.

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