Chapter 4

GOVERNMENT AND GLOBAL BUSINESS

4-1 Politics and Global Business

4-2 How Government Discourages Global Business

4-3 How Government Encourages Global Business
The United States exports many products. These include agricultural goods such as popcorn, apples, poultry, seafood, and even frozen convenience dinners. The Foreign Agricultural Service (FAS), an agency of the U.S. Department of Agriculture (USDA), assists farmers in exporting their products. Several other state and federal government agencies also promote and assist with exporting. The FAS is responsible for U.S. agricultural, livestock, and processed food products and commodities worldwide.

The FAS provides various export marketing services for U.S. companies. The agency conducts international market research to find the best foreign markets for U.S. food products. In addition, it maintains a database on more than 20,000 foreign buyers of food and agricultural products. The agency also distributes foreign trade leads to U.S. suppliers and promotes U.S. food and agricultural products at trade shows in Europe, Asia, the Middle East, and Latin America.

This agency of the USDA also guarantees payment to U.S. banks that make loans to foreign governments wanting to purchase U.S. agricultural products such as wheat, soybeans, and corn. The USDA has trade offices in more than 80 countries, all of which are major foreign markets for U.S. agricultural and food products.

**Think Critically**

1. Why do you think the U.S. government spends tax dollars to promote the export of U.S. agricultural and food products?
2. How might foreign countries benefit by the actions of the Foreign Agricultural Service?
Discuss various political systems around the world.

Explain the political environment for a company’s host and home countries.

GOALS

**TYPES OF POLITICAL SYSTEMS**

A country’s economy usually reflects its political system. A political system is the means by which people in a society make the rules by which they live. Political systems vary around the world, ranging from democracy to totalitarianism.

**DEMOCRACY**

In a democracy, all citizens take part in making the rules that govern them. A democracy emphasizes the importance of the individual’s needs and interests. In this political system, the people have equal rights, including the right to vote for political leaders. They also have many freedoms, including freedom of speech and freedom of religion.

A democracy’s emphasis on individual rights and freedoms extends to its economy. In a democratic society, people have the freedom to own and operate private businesses. Democratic societies, therefore, usually have a market economy. In a country with a market economy, there is little or no government ownership or central planning of business and industry. Individuals or groups of individuals run most businesses. Companies, therefore, either succeed or fail based on their owners’ abilities to compete effectively in a market. The United States is basically a market economy.
TOTALITARIANISM

In a totalitarian system, most people are excluded from making the rules by which they live. In this system, political control is held by either one person or a small group of people. There are different kinds of totalitarian systems. For example, in a military dictatorship, a member of the armed forces makes all the decisions. In a pure monarchy, the right to absolute rule for life is based on heredity. In another totalitarian system, one political party holds all the power and prohibits others from participating. In a totalitarian system, people’s rights and freedoms are restricted. People may not be allowed to travel freely outside the country or to practice the religion they choose.

Totalitarian systems tend not to have market economies, but command economies. In a command economy, the national government owns and controls almost all businesses. Individuals may be allowed to own a small one-employee business—using a somewhat mixed-economy approach. But the government owns all larger businesses, industries, farms, utilities, transportation, and mining operations. Traditional communist countries, such as Cuba, are basically command economies.

MIXED SYSTEMS

In reality, there is no pure form of either a democracy or a totalitarian system. Most political systems are considered mixed. That means they have characteristics of both systems and fall somewhere in between. In the same way, economic systems of most countries are considered mixed systems. In most countries, the majority of businesses are privately owned, and some key industries are owned and run by the government. Key industries include steel production, mining, national airlines, and telephone and public utilities. Many European countries are mixed economies.

THE VIEW FROM CHINA

International businesspeople must be cautious when classifying the political system of a country. They must do their own research because the classification claimed by the country itself can be misleading. For example, China’s full name is The People’s Republic of China. However, the people of China have very little representation in the actual governing body, and the government is not responsible to elected representatives. In that sense, China is not a republic.

Think Critically
From the description above, would China be considered a democracy or a totalitarian system?

Work As A Group
Discuss how key industries are owned in your country. Discuss the advantages and disadvantages of this type of ownership for the industries and the citizens.
Imagine a city of 200,000 people with a well-planned road system, production facilities, beautiful art, and ball courts for sports. This sounds like a modern city of today. However, the city of Teotihuacan, located about 40 kilometers (25 miles) northeast of Mexico City, declined into ruins over 1,300 years ago.

The civilization of Teotihuacan began about 200 B.C. and flourished until about 650 A.D. During this period, the city was an influential commercial and religious center. The people of Teotihuacan developed many art forms into a high degree of elegance, including sculpture, ceramics, stone masks, and murals. In addition, major monuments were constructed, including the Pyramid of the Moon and the Pyramid of the Sun—one of the largest structures built by Native Americans.

The people of Teotihuacan had close contact with the Mayan culture in the Yucatan area of Mexico and Guatemala. They were also a strong influence on later Mexican cultures, such as the Aztecs.

Today Teotihuacan is an archaeological site. It contains the remains of the largest pre-Columbian city in the Western Hemisphere. The Avenue of the Dead, the city’s main roadway, can still be seen passing through the ruins of temples and other structures.

**Think Critically**

1. Conduct an Internet search for Teotihuacan to obtain information about the commercial activities in this ancient city. Prepare a one-page report of your findings.
2. How did Teotihuacan influence our culture of today?
International business can be affected dramatically by political developments that take place in our rapidly changing world. Businesses have different perceptions of their responsibilities to the countries in which they operate.

GLOBAL COMPANIES OPERATING IN HOST COUNTRIES

A host country is the country in which a multinational enterprise is a guest. Multinational enterprises fulfill a number of positive roles in host countries while operating within the existing economic, social, and legal constraints.

Multinational enterprises stimulate economic activity. Whenever feasible, they purchase land, goods, and services locally. They provide employment for citizens of the host country. Often they introduce more advanced technologies that help the economic development of the host country.

Host countries expect multinational enterprises to comply with societal expectations and standards. Social responsibility is key to the success or failure of a multinational enterprise. Social responsibility is the process whereby people function as good citizens and are sensitive to their surroundings. For example, a multinational enterprise that pollutes the host country’s environment is not operating in a socially responsible manner. It is failing to meet the set standards regarding the environment. The multinational enterprise is harming the environment and its inhabitants.

To have the right to operate within a host country, a multinational enterprise must substantially benefit the host country. The company must be able to document that it operates in full compliance with the local social and legal standards. If a multinational enterprise does not meet these conditions, then the host country may restrict or deny its right to conduct business. In rare cases where the offensive actions are long-standing and serious, the government of the host country might seize the assets of the multinational enterprise.

GLOBAL COMPANIES’ RELATIONSHIPS WITH HOME COUNTRIES

A home country is the country in which a multinational enterprise is headquartered. As a domestic corporation in its home country, a multinational enterprise is expected to comply with the home country’s social, economic, and legal mandates.

The home country expects multinational enterprises based within its borders to demonstrate social responsibility. They must comply with societal expectations and standards and meet both the spirit and the letter of the laws of the home country.

Improper actions could jeopardize the right of the multinational enterprise to exist and to be headquartered in the country. If the offensive actions are long-standing and serious, the home country could restrict or deny the multinational enterprise the right to engage in business and to be headquartered within the country.

What is social responsibility, and why is it important?
REVIEW GLOBAL BUSINESS TERMS

Define each of the following terms.

1. political system
2. democracy
3. totalitarian system
4. host country
5. social responsibility
6. home country

REVIEW GLOBAL BUSINESS CONCEPTS

7. How are businesses owned in a democracy?
8. How are businesses owned in a totalitarian system?
9. What relationship does a global company have with a host country and its home country?

SOLVE GLOBAL BUSINESS PROBLEMS

For each of the following descriptions, determine whether the country is a democracy, totalitarian system, or mixed system.

10. Farmers must produce a required quantity of crops to meet government requirements.
11. Citizens are free to start and operate any kind of business.
13. Government regulates some large businesses in the essential industries, but the businesses are mostly privately owned.

THINK CRITICALLY

14. Would a totalitarian system of government encourage or discourage trade with other countries?
15. Explain how a host country might put political pressure on a global company operating within its borders.

MAKE CONNECTIONS

16. HISTORY Obtain information about changes in the past ten years to the political systems operating in various eastern European countries.
17. CULTURAL STUDIES Describe the incentives workers have to achieve high standards of production in a totalitarian system.
Describe laws and trade barriers that can discourage global business.

Explain how political risks can disrupt global business activities.

Identify the major types of taxes that governments impose around the world.

Have you ever heard of “government red tape”? For centuries, businesspeople have complained about government reports, licenses, permits, and forms they must obtain or complete. Every day businesses throughout the world must comply with thousands of government laws and regulations. These laws directly affect how businesses operate.

Laws that Protect Workers and Consumers

Why do governments regulate businesses? Often it is to protect the health and safety of workers. Many countries establish occupational protection laws to protect workers from dangerous conditions on the job. For example, in many countries, the law requires factory workers to wear safety equipment such as protective eye goggles, hard hats, and earplugs. Other worker protection laws prohibit employing children as farm or factory workers. Today there is growing interest in establishing new safety requirements for office employees who use computers all day.

In addition to occupational protection laws, governments establish consumer protection laws to ensure that products are safe to use. For example, most developed countries require that all food ingredients be listed on product labels. And most developed countries have electrical safety standards to protect consumers from purchasing faulty electrical appliances, such as hair...
dryers and toasters. Laws also exist to protect consumers from deceptive or false advertising practices, such as claiming a particular medicine can cure the common cold.

Complying with worker and consumer protection laws usually increases the cost of doing business for companies. These increased costs may make a product less competitive with products manufactured in countries that do not have such laws. In general, occupational and consumer protection laws are not as strict in poor developing countries as they are in major industrialized countries. A product made in Canada will probably cost more than a similar product made in Mexico, even if both are marketed in Ireland.

## TRADE BARRIERS

Specific actions by governments can directly discourage or prevent the growth of international business. To protect local businesses from foreign competition, governments may establish trade barriers. Trade barriers are government actions or policies that make it difficult to trade across borders. Governments that establish such trade barriers are enforcing protectionism. Protectionism is a government policy of protecting local or domestic industries from foreign competition. Several ways are used by governments that may restrict foreign competition.

- Establishing tariffs or customs duties to increase the price of imported products
- Placing quotas on the importing of certain products
- Requiring domestic companies to boycott particular countries
- Enacting restrictive licensing requirements for importers

**Tariffs** A government can place a tariff, or duty, on imported products. A tariff, or duty, is a tax placed on products that are traded internationally. Duties raise the cost of the product to the importer, which discourages consumers from buying the imported product. Duties are the most common trade barriers.

### GLOBAL BUSINESS EXAMPLE

**CONSUMER PROTECTION LAWS AROUND THE WORLD**

In recent years, the following laws existed in various countries.

- In Canada, the packages and labels of all consumer products must be printed in both French and English.
- In Venezuela, the price of every retail product must be clearly marked, together with the date on which the price was marked.
- In Belgium, laws limit how loud a lawn mower engine can be.
- In Australia, children’s nightclothes must be labeled to indicate the degree of fire hazard or flammability.
- In Greece, advertising toys on television is not allowed.

**Think Critically**

1. Conduct an Internet search to locate examples of laws in various countries that are designed to protect consumers. Present your findings to the class.

2. How might the consumer protection laws of a country affect international business activities?
In the past, exporting to Pakistan was very difficult. The country’s import customs duties ranged from 20 to 90 percent. All imports were also subject to a 5 percent education tax, a 6 percent import license fee, a 12.5 percent sales tax, and a 10 percent import surcharge tax. A product costing $100 before entering Pakistan could cost the equivalent of $223.50 after clearing the Pakistani Customs Office.

**Quotas**
Governments also may place quotas on certain imported products. A quota is a limit on the quantity, or monetary amount of a product that can be imported from a given country. Once the quota has been met, no more of that product can be imported for a certain period of time. The quota creates a limited supply of the imported good. This protects domestic products from too much foreign competition. Import quotas have been used to protect the textile, shoe, automobile, and steel industries in some countries.

**Boycotts**
Sometimes a government issues an absolute restriction on the import of certain products from certain countries. This is called a boycott. For example, in India, the importation of many consumer goods is banned. This ban forces foreign companies that want to sell consumer goods in India to invest in India and manufacture the products locally. In Japan, the government maintains a nearly complete ban on the import of rice. This action protects Japanese rice farmers from foreign competition. Norway protects its apple and pear producers by allowing imports only after the domestic crop has been sold.

**Licensing Requirements**
Some governments control imports by requiring that companies have a government import license. The license grants permission to import a product. This license can be withdrawn at any time.

**CheckPoint**
What are four trade barriers governments use to directly discourage international business?
Government actions or political policies can change at any time, thereby adversely affecting foreign companies. This is called political risk. Major political risks to international business include trade sanctions, expropriation, economic nationalism, and civil unrest or war. These risks are shown in Figure 4-1. All of these actions can temporarily or permanently disrupt global business activities.

**TRADE SANCTIONS**
Governments can impose trade restrictions against another country to protest that country’s behavior. This use of trade barriers is usually the direct result of political disputes between countries. For example, in August 1993, the United States banned the sale of high-technology equipment to China. The United States was protesting China’s apparent sale of missile technology to Pakistan, which violated an international arms-control agreement.

Trade sanctions range from tariffs to boycotts. A country can impose a trade embargo against another country and stop all import-export trade with that country. In recent years, the United States issued a trade embargo against several countries due to various political differences, one of those being acts of international terrorism. These embargoes banned the export of any goods, technology, or services from the United States to those countries.

**EXPROPRIATION**
In extreme cases, the host government of a company could confiscate, or expropriate, the subsidiary. Expropriation occurs when a government takes control and ownership of foreign-owned assets and companies. This happened in 1990 as a result of the breakup of the Soviet Union. Some cities in the new republics took over property and assets of the ruling communist party of the former Soviet Union.

**ECONOMIC NATIONALISM**
Economic nationalism is a political force that can also create political risk for companies conducting international trade. Economic nationalism refers to the trend of some countries to restrict foreign ownership of companies and to establish laws that protect against foreign imports. Economic nationalism is a form of protectionism. Protectionist governments may encourage their people to “buy domestic” instead of purchasing imported products.

**TYPES OF INTERNATIONAL POLITICAL RISK**

- Trade sanctions due to foreign policy
- Expropriation
- Growth of economic nationalism
- Civil war, revolution, uprisings within the country
- War with other countries

*Figure 4-1* Business must be aware of the forms of international political risk.
CIVIL UNREST OR WAR
Evidence of the following factors signals the possibility of civil unrest in a country.

- social disorder
- extreme income unevenness, with a few very rich people and a massive number of poor people
- frequent changes in the structure and activity of political parties

Civil unrest interrupts production, sales, and other business activities. Transportation of goods may be hindered, and people may not be able to shop because of gunfire and riots. When unrest escalates to war, there is often massive destruction of property and goods.

INTERNATIONAL TAXES
Second to complaints about government “red tape,” businesses worldwide complain that their governments tax them too much. Governments collect revenues to pay for welfare programs, to build roads and bridges, to provide health care insurance, and to support military forces, among many other things. Revenue to pay for these programs comes from many types of taxes. There are taxes on purchases, property, income, and wealth.

CUSTOMS DUTY
A customs duty, or import tax, is a tax assessed on imported products. While sometimes used by governments as an import trade barrier, customs duties are also collected specifically to raise revenue to pay for government programs.
SALES TAX
A sales tax is a tax on the sale of products. The consumer pays it at the time of purchase. Sales taxes are considered regressive taxes because the same rate of tax is charged to all consumers, no matter what their income level. Some countries, such as Singapore and Canada, have taxes similar to sales taxes called consumption taxes or goods and services taxes (GST).

EXCISE TAX
An excise tax is a tax levied on the sale or consumption of specific products or commodities—such as alcoholic beverages, tobacco, telephone service, airline tickets, gasoline, and motor vehicles. For example, the United States collects gasoline excise taxes for highway construction and repair. These taxes are often based on the “benefits received” principle, meaning that only automobile drivers, who would receive the most benefit from well-maintained highways, are assessed the tax.

PAYROLL-RELATED TAX
Payroll-related taxes are those taxes that are automatically deducted from an employee’s pay. Typical payroll taxes in the United States include taxes to pay for Social Security, Medicare, and unemployment insurance—all matched by the employer.

VALUE-ADDED TAX (VAT)
A value-added tax (VAT) is a tax assessed on the increase in value of goods from each stage of production to final consumption. The tax on each stage is levied on the value that has been added before moving the product to the next stage. Value-added taxes are used in most European countries. VAT is similar to a national sales tax.

INCOME TAXES
A tax on the amount of income a person or corporation earns, minus allowable deductions and credits, is called an income tax. Income tax is usually a progressive tax because the percentage a person pays increases, or progresses, the more income a person makes. This tax is based on the “ability to pay” principle—the more income a person has, the more tax that person is able to pay.
Corporations also pay income tax, which is based on corporate annual income, minus allowable business deductions and tax credits. Governments may give companies various tax credits to enable them to purchase new equipment, invest in research and development, and employ new people.
A corporate income tax is viewed as an indirect business tax on consumers. Corporations pass along the cost of the tax indirectly to the consumer by charging a higher price for the goods or services sold or produced by the company.

WORK AS A GROUP
Describe the characteristics of what most people would consider a “fair” tax.

CHECKPOINT
What are the common types of taxes paid by consumers and businesses?
4-2 HOW GOVERNMENT DISCOURAGES GLOBAL BUSINESS

REVIEW GLOBAL BUSINESS TERMS
Define each of the following terms.

1. protectionism
2. duty
3. quota
4. boycott
5. trade embargo
6. expropriation
7. economic nationalism

REVIEW GLOBAL BUSINESS CONCEPTS

8. Why do governments establish trade barriers to discourage international business?
9. What political risks could companies encounter when doing business in other countries?
10. What is the “ability to pay” principle of taxation?

SOLVE GLOBAL BUSINESS PROBLEMS

Decide if the following situations would increase or decrease the political risk faced by companies involved in international business.

11. A country reduces custom duties on imports.
12. A trade embargo has been created by a nation against several of its major trading partners.
13. The ruling party in a country has changed three times in the past five years.
14. A host country expands its use of expropriation.
15. The government of a country eliminates import quotas.

THINK CRITICALLY

16. What problems might an international company have when trying to do business in a country that is fighting a civil war?
17. How can taxes be used by the government to encourage or discourage the use of a certain good or service?

MAKE CONNECTIONS

18. HISTORY Find examples of war or civil unrest that resulted in a company having buildings taken away or destroyed.
19. CULTURAL STUDIES Go to the web site for Transparency International and Transparency USA to obtain information about the political risks in other countries.
20. LAW Go to the web site of the Internal Revenue Service (www.irs.gov) to obtain information about current tax rates for U.S. taxpayers.
GOALS

- Explain government actions that can encourage global business activities.
- Discuss U.S. government agencies that can help reduce international risk.
- Describe how tax incentives encourage global business.

ENCOURAGING INTERNATIONAL BUSINESS

Specific actions by governments also can directly encourage and promote international business. Governments around the world encourage domestic industries to export by providing export counseling and training, export insurance, and export subsidies and tax credits. Governments view exporting as an effective way to create jobs and foster economic prosperity. Governments encourage business through a number of techniques.

- Establishing free-trade zones
- Granting most-favored-nation status
- Establishing free-trade agreements
- Providing export insurance to exporters to guarantee against foreign commercial and political risks
- Providing free or subsidized export marketing assistance to exporters to help research foreign markets, promote their products overseas, and find foreign buyers
- Providing tax incentives for foreign companies to invest and to locate manufacturing plants in their countries
- Reducing or eliminating trade barriers such as tariffs, import licenses, and quotas
Free-Trade Zones To promote international business, governments often create free-trade zones in their countries. A free-trade zone is a designated area, usually around a seaport or airport, where products can be imported duty-free and then stored, assembled, and used in manufacturing. Only when the product leaves the zone does the importer pay duty.

Most Favored Nation A government can also encourage international trade by granting most-favored-nation status to other countries. Most-favored-nation (MFN) status allows a country to export into the granting country under the lowest customs duty rates. Products imported from countries without MFN status are charged a higher rate.

Free-Trade Agreements A growing trend throughout the world is for countries to establish free-trade agreements with each other. Under a free-trade agreement, member countries agree to eliminate duties and trade barriers on products traded among members. This results in increased trade between the members. For example, the United States and Canada formed a free-trade agreement in January 1989. During the phase-in period of this agreement, duties on U.S. and Canadian products were eliminated between the two countries.

Another example of a free-trade agreement is the Latin American Integration Association (LAIA). Its members include Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, Uruguay, and Venezuela. The goal of LAIA is to further trade between member states and promote regional economic integration. The member countries of LAIA are shown in Figure 4-2.

Common Markets Some countries join together in a common market to promote more trade among members. In a common market, members eliminate duties and other trade barriers, allow companies to invest freely in each member’s country, and allow workers to move freely across borders. Common-market members also have a common external duty on products being imported from non-member countries. Examples of common markets include the European Union (EU) and the Southern Cone Common Market (Mercosur) consisting of Argentina, Brazil, Paraguay, and Uruguay.

Figure 4-2 The Latin American Integration Association took over from the Latin American Free Trade Association in 1981.

Checkpoint What are four ways governments can encourage global business?
How can a company protect itself from international political risk? U.S. companies can protect their international sales and assets by using the services of two U.S. government agencies—the Export-Import Bank of the United States (EXIM) and the Overseas Private Investment Corporation (OPIC).

EXIM is the U.S. government agency that helps to finance the export sales of U.S. products. It provides export loans, export loan guarantees, and export credit insurance. An exporting company can purchase an export credit insurance policy from EXIM that will provide 100 percent protection from political risk for international sales. This includes protection from foreign governments that refuse to convert local currency to dollars. It also covers damage or destruction of a shipment caused by wars, revolutions, and civil disorders. If these political actions occur, the exporter can then file a claim with EXIM for 100 percent reimbursement of all export sales losses.

The Overseas Private Investment Corporation (OPIC) provides investment insurance to U.S. companies that establish operations in developing countries. A U.S. company can protect its overseas investment by purchasing OPIC insurance. This shields the company from several types of political risk—including expropriation and damage or destruction caused by war, revolution, terrorism, and sabotage. If any of these political actions occur, the U.S. company can file a claim with OPIC to recover its losses.

For what types of political risks does the Overseas Private Investment Corporation provide protection?
TAX INCENTIVES

A basic practice of companies is to treat all business taxes as regular business costs. Companies recover those costs by increasing the price of the products they sell. The actual burden of tax payment, therefore, is usually shifted to the consumer in the form of higher prices.

In conducting international business, U.S. companies want to avoid being taxed twice on income they earn from their foreign operations. The U.S. government allows companies a corporate tax deduction on income earned by their foreign subsidiaries.

In addition, the U.S. government has double-taxation avoidance treaties with some countries. This provides relief from double taxation of U.S. multinational corporations. This is a tax incentive that foreign governments use to attract U.S. companies to invest in their countries and create local jobs. U.S. companies are more likely to invest in countries with a favorable tax environment.

A Question of Ethics

PAYING FOR SPECIAL FAVORS

Aggressive companies in some regions of the world commonly use payoffs to gain access to new markets. Some countries consider bribes to be tax-deductible business expenses. However, U.S. companies can face hefty fines and prison sentences when U.S. laws are violated.

Sometimes companies cave in to local customs. A U.S. computer company offered Chinese journalists the equivalent of $12 to attend its news conferences. The company said the money was for taxi fares; however, the amount was equal to a week’s pay for some journalists.

Think Critically

According to the guidelines for ethical analysis, are the payments to Chinese journalists ethical?
As a further tax incentive, many foreign governments provide a foreign company with a tax holiday. A tax holiday means the corporation does not pay corporate income taxes if it invests in their country. These tax holidays may last for as long as ten years.

Think Critically
1. Using one or more of the web sites above, obtain specific information that would be useful to a company involved in exporting or in international trade.
2. How do these web sites benefit businesses, consumers, and society?
REVIEW GLOBAL BUSINESS TERMS

Define each of the following terms.

1. free-trade zone  
2. most-favored-nation (MFN) status  
3. free-trade agreement  
4. common market  
5. tax holiday

REVIEW GLOBAL BUSINESS CONCEPTS

6. Why do countries join in free-trade agreements?  
7. How do U.S. government agencies help reduce political risks for companies involved in international business?  
8. Why do governments give tax incentives to foreign companies to invest in their countries?

SOLVE GLOBAL BUSINESS PROBLEMS

For the following situations, name the type of action being taken to encourage international business among countries.

9. Countries in Africa decide to join together to eliminate tariffs and other trade barriers.  
10. A country in eastern Europe attempts to attract foreign investors by eliminating their taxes for the next seven years.  
11. The U.S. agrees to allow imports from selected countries at the lowest customs duty rates.  
12. Mexico and Israel agree to eliminate certain tariffs and trade barriers on products sold between the two countries.  
13. A Middle Eastern country designates an area for manufacturing with no import duties.

THINK CRITICALLY

14. What actions might a government take to attract foreign companies to do business in its country?  
15. How does a common-market agreement benefit citizens of a member country?

MAKE CONNECTIONS

16. GEOGRAPHY How might the natural resources in a region encourage countries to join together to create a common market?  
17. TECHNOLOGY Locate a web site for your state department of commerce or other state government agency that promotes international trade by companies in your state. Find out what tax and financial incentives are available to attract foreign companies to invest in your state.
Chapter 4 ASSESSMENT

CHAPTER SUMMARY

4-1 POLITICS AND GLOBAL BUSINESS

A The main political systems operating in the world are democracies, totalitarian systems, and mixed systems.

B A multinational company must operate within existing economic, social, and legal constraints of a host country. In addition, the company is expected to comply with the social, economic, and legal mandates of its home country.

4-2 HOW GOVERNMENT DISCOURAGES GLOBAL BUSINESS

A A government can discourage international trade with protectionism policies, tariffs, quotas, boycotts, and licensing requirements.

B Political risks can disrupt global business activities through trade sanctions (such as embargoes), expropriation, economic nationalism, and civil unrest or war.

C The main taxes governments impose are customs duties, sales taxes, excise taxes, payroll-related taxes, value-added taxes, and income taxes.

4-3 HOW GOVERNMENT ENCOURAGES GLOBAL BUSINESS

A A government can encourage international business with free-trade zones, most-favored-nation status, and free-trade agreements.

B The Export-Import Bank of the United States (EXIM) provides export loans, export loan guarantees, and export credit insurance. The Overseas Private Investment Corporation (OPIC) provides investment insurance to U.S. companies that establish operations in developing countries.

C A government can encourage international business with tax incentives such as tax credits on foreign income, double-taxation avoidance treaties, and tax holidays.

GLOBAL REFOCUS

Read the Global Focus at the beginning of this chapter, and answer the following questions.

1. You are the manufacturer of Grandma’s Original Jams and Jellies. In what ways could the USDA help you develop export markets for your products?

2. Why would the USDA guarantee payment to U.S. banks that make loans to foreign governments wanting to buy U.S. agricultural commodities?

3. The USDA also provides export subsidies, or grants, to U.S. farmers who export. How could this be viewed as an obstacle for a foreign farmer who doesn’t receive export subsidies from his or her own government but is trying to export?
REVIEW GLOBAL BUSINESS TERMS

Match the terms listed with the definitions that follow.

1. A government system in which political control is held by one person or a small group of people.

2. A tax on imported products.

3. A limit on the amount of a product that can be imported from a given country.

4. Government policy used to protect local, or domestic, industries from foreign competition.

5. The country in which a multinational enterprise is headquartered.

6. Designated area where products can be imported duty-free.

7. Designation given to certain countries that allows their products to be imported into the granting country under the lowest customs duty rates.

8. An arrangement between countries that eliminates duties and trade barriers on products traded among members.

9. A policy of restricting foreign ownership of local companies and hindering foreign imports.

10. The process whereby people function as good citizens and are sensitive to their surroundings.

11. Complete ban on any trade with a particular country.

12. A political system in which all people take part in making the rules that govern them.

13. A country in which a multinational enterprise is a guest.

14. Member countries eliminate trade barriers, encourage investment, and allow workers to move freely across borders.

15. Means by which people in a society make the rules by which they live.


17. Absolute restriction on the import of certain products from certain countries.

18. Tax incentive used by governments to attract foreign investment where a corporation does not pay income taxes for a time after investing.

a. boycott  
b. common market  
c. democracy  
d. duty  
e. economic nationalism  
f. expropriation  
g. free-trade agreement  
h. free-trade zone  
i. home country  
j. host country  
k. most-favored-nation (MFN) status  
l. political system  
m. protectionism  
n. quota  
o. social responsibility  
p. tax holiday  
q. totalitarian system  
r. trade embargo
MAKE GLOBAL BUSINESS DECISIONS

19. As a consumer, why might you object to your government creating import trade barriers, such as high customs duties or restrictive import quotas?

20. How could the study of international affairs and world current events help a company anticipate and evaluate potential political risks around the world?

21. How effective do you think trade embargoes are as a method of "punishing" another country for its actions?

22. What factors, other than tax incentives, should companies evaluate before deciding to invest in a particular country?

23. What services are provided by the U.S. government to help promote the export of nonagricultural products, such as manufactured products and consumer goods?

GLOBAL CONNECTIONS

24. TECHNOLOGY What types of laws might be needed to protect workers and consumers as a result of the expanded use of computers?

25. GEOGRAPHY Conduct research to obtain information about various free-trade agreements, such as the European Union, MERCOSUR, and ASEAN. Prepare a map that shows the countries involved in these organizations.

26. COMMUNICATIONS Interview a small business owner about the actions of government (local, state, and federal) that influence business activities. What ways has government made it more difficult to do business? What ways has government helped business?

27. CULTURAL STUDIES Talk to people who have lived in or visited other countries. How do political freedoms differ in those countries compared to the freedoms in the United States?

28. LAW Prepare arguments in favor of and in opposition to legislative actions for the creation of trade barriers, such as higher tariffs and import quotas.

29. MATHEMATICS One household has an annual income of $40,000 while another has an annual income of $80,000. Each household spends $10,000 a year on food. If the sales tax on food is 5 percent, show how this would be an example of a regressive tax.

30. CAREER PLANNING Conduct library research about another country’s government regulations of wages, employment opportunities, and occupational safety.

31. TECHNOLOGY Use the Internet to find examples of trade barriers in use around the world today.

32. TECHNOLOGY Use the Internet to find a list of all the current members of a free-trade zone or a common market.

33. POLITICAL SCIENCE Create a list of ten countries. Using information collected on the Internet, classify each country’s government as a democracy, totalitarian system, or mixed.
ASSESSING POLITICAL RISK AND LEGAL RESTRICTIONS

As a company considers doing business in another country, the political and legal environment must be assessed. To help evaluate the advantages and disadvantages, as well as the risks, of making such an expensive investment, companies collect specific information about the “investment climate” of the country. The more favorable the climate, the more likely the company will profit from the investment.

Using your international business file and research skills, gather information on the investment climate for a country. Prepare a written or short oral report with information on the following topics.

1. Political stability of the country and possible civil disruptions.
2. Labor laws, labor costs, and occupational safety laws.
3. Trade barriers or investment restrictions.
4. Tax and other investment incentives to foreign companies.
5. Laws concerning establishing or restricting investment.
6. Other information you think is important to making an investment decision.

Compare the investment climate of your chosen country with those of other students. Which countries would be the best locations for manufacturing plants?

Sources of information to research the country may include the following.

- reference books such as encyclopedias, almanacs, and atlases
- current newspaper articles from the news, business, and travel sections
- current news and business magazine articles, including news stories, company profiles, and advertisements
- Internet search for country information
- interviews with people who have lived in, worked in, or traveled to the country
UNIT 1

GLOBAL CROSS-CULTURAL TEAM PROJECT

Compare International Business Environments

Each day, millions of people work in teams to plan and implement business activities. The activities of these teams range from creating new products for international markets to cross-cultural negotiations for a joint venture agreement. While many teams involve people from the same country or similar cultures, other work groups require interaction among people with different backgrounds.

GOAL
To compare similarities and differences among various regions of the world in relation to factors that affect business activities.

ACTIVITIES
Working in teams, select a geographic region you will represent—Africa, Asia, Europe, Latin America, Middle East, or North America.
1. Conduct research about the geography, culture, and business activities of several countries in your region. Obtain information on the Web, from library materials, and by talking to people who have lived in or visited that area.
2. Identify geographic factors that are unique to your region, such as climate, terrain, and natural resources. Describe how they might affect business activities.
3. List customs, traditions, and cultural behavior unique to your region. How might they affect business activities among people from different geographic regions? For example, how should business cards be exchanged? What types of gifts are considered appropriate to exchange with business partners?
4. Research the economic systems and conditions in the region. What economic influences on business in the region differ from those in other regions?
5. Describe political situations and business regulations in your region. How do these compare with the political and legal situations in other regions?
6. Global Business Decision An international organization plans to do business in various countries. What can it do to ensure success? What products or services might be most successful in your region?

TEAM SKILL Benefits of Cross-Cultural Teams
Discuss with your team members the benefits of working on cross-cultural teams for both employees and business organizations. How might team activities and decision-making differ in your region from those in other regions?

PRESENT
• Prepare an individual report with a written summary of your regional findings and your experiences working on this simulated cross-cultural team.
• Create and present a team summary comparing the business environments in different regions using an in-class presentation, video, web site, newsletter, poster, photo display, slide presentation, or display of items (maps, clothing, food, music, packages, money) from the various geographic areas.
International Business Plan Event

International trade has opened new opportunities for increased business profits. Multinational companies realize the value of locating in more than one country. Some companies complete different phases of their business process in countries that are the most cost effective.

You will write an international business plan for conducting business in a country other than the United States. You will apply marketing skills in an international setting. This project requires you to research the demographics of the country where you will locate your business. You must also consider customs, political conditions, trade regulations, currency exchange, and other cultural factors that will influence your business in another country. Your international business plan must follow the guidelines outlined in the DECA Guide.

The competition consists of two parts: the written document and the oral presentation. The written document will account for 70 points and the oral presentation will account for 30 points.

PERFORMANCE INDICATORS EVALUATED

■ Define the reasons for locating your business in a foreign country.
■ Define the demographics of the country.
■ Explain special considerations for locating a business in a foreign country.
■ Explain the management function of your business.
■ Describe the political, social, and economic factors to consider for your international business venture.
■ Develop financial statements that project the financial results of your business.
■ Describe how the workforce in the foreign country is suited for your business.
■ Explain training, development, and management of your workforce.

For more detailed information about performance indicators, go to the DECA web site.

THINK CRITICALLY

1. Why do U.S. businesses move to other countries?
2. Why is more research required before deciding to locate a business in another country?
3. Why are demographics so important to consider for international business?
4. How will you satisfy U.S. workers concerned about jobs leaving the U.S?