CHAPTER 5

National Market Analysis

International Retailers Doing Their Homework

Anytime international firms enter new markets, they must do their homework. Companies that don't will face all sorts of costly and unpleasant surprises. Take international retailers, for example. They must deal with the full quota of foreign obstacles as they assemble store delivery systems and product mixes to appeal to local consumers.

Geography is important. U.S. retailers used to North American conditions must often downsize stores to accommodate smaller foreign sites. This has affected mass retailers in France as well as KFC franchises in Japan. K-Mart had to site its Singapore stores in high-rent mall locations, considerably raising its fixed costs.

Legal and regulatory constraints must be assessed. In predominantly English-speaking Canada, the province of Quebec requires French labeling and advertising. In Europe, EU franchises receive more legal protection than elsewhere, causing control problems for companies like McDonald's.

Financial infrastructures vary, as do consumer payment means. In France, "carte bleu" debit cards are popular, but non-French cash registers often do not accept this form of payment.

Cost structures are affected by minimum-wage levels that are $6.55 in the United States but rise to $10+ in France.

Even when stores are set up and ready to operate, they must have done enough market research to understand consumers. Restaurant menus and decor must be acceptable. Store layouts must be logical. Clothing must fit. For women, form-fitting garments that are popular in Southern Europe are not preferred in Northern Europe. And smaller garment sizes are needed in parts of Mediterranean Europe and much of Asia.

Once global and regional analyses are complete, managers are in positions to analyze individual markets in which they have special interests. For international companies entering new markets, there are no excuses for not knowing all about local operating conditions and customer tastes. Early mistakes make critically bad first impressions. Getting it right (or close to right) gets new businesses off to a good start.[1]

Hence, in this chapter you will learn

- How the study of a country's history helps managers understand national political and cultural environments.
- The importance of geographic factors such as country location, climate, resources, and topography in national development and how such factors aid assessments of

infrastructure facilities such as energy sources, transportation, and communication systems.

- The importance of political, economic, and international analyses in evaluating current circumstances and how balance-of-payments analyses help managers understand country interactions with the world economy.
- The ways that firms dissect commercial environments with analyses of national industries (market size, structure, characteristics); market demand (customers, segments, market profiles); supply chain considerations (suppliers, manufacturing site decision making); and business environments, including financial aspects and legal infrastructures (ownership restrictions, intellectual property rules, consumer and environmental laws).
- The sorts of factors used to give managers overviews of national cultures, including country backgrounds, interpersonal relations, lifestyles, and general attitudes.

There are many excellent sources of country data, including the following websites:

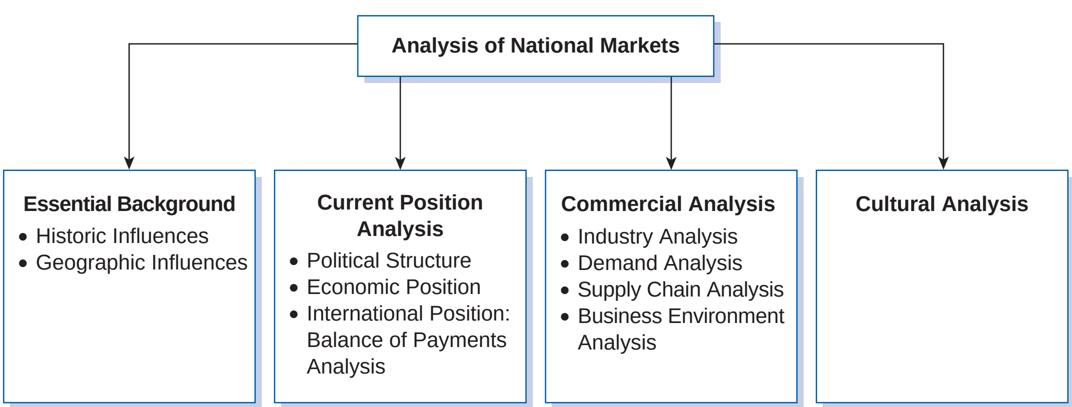
www.countryreports.org

The 2008 World Factbook at www.cia.gov/cia/publications/factbook

The Library of Congress Country Studies at http://lcweb2.loc.gov/frd/cs/cshome.html

www.countrywatch.com

FIGURE 5.1 National Markets Analysis: Topic Outline



INTRODUCTION

Understanding national markets begins with examination of countries' historic and geographic characteristics to gain insights into their political, economic, and cultural heritages. These analyses (summarized in Figure 5.2) give managers the background to assess current conditions and commercial situations, and they yield key insights as to how nations developed as well as the power bases underpinning current political, economic, and cultural structures.

ESSENTIAL BACKGROUND

Historic Influences on National Culture Development

History is a primary shaper of national cultures. It records how countries have responded to internal frictions and external pressures and influences, including the following:

Political trends, power bases, and sensitivities. As countries industrialize and develop national identities, political institutions and power bases evolve. Initially (and in many developing nations today), hereditary monarchies and feudal institutions based on aristocracies and land ownership provided political leadership. As industrialization occurred, these powerful families or groups leveraged their resources and landowning interests into commercial companies, enabling them to maintain their leadership positions in the political and economic arenas. These family-based interests are still major factors in Latin America, Asia, the Middle East, and to a lesser extent in Western Europe.

> Study history, study history. In history lies all the secrets of statecraft.
>
> *Sir Winston Churchill*

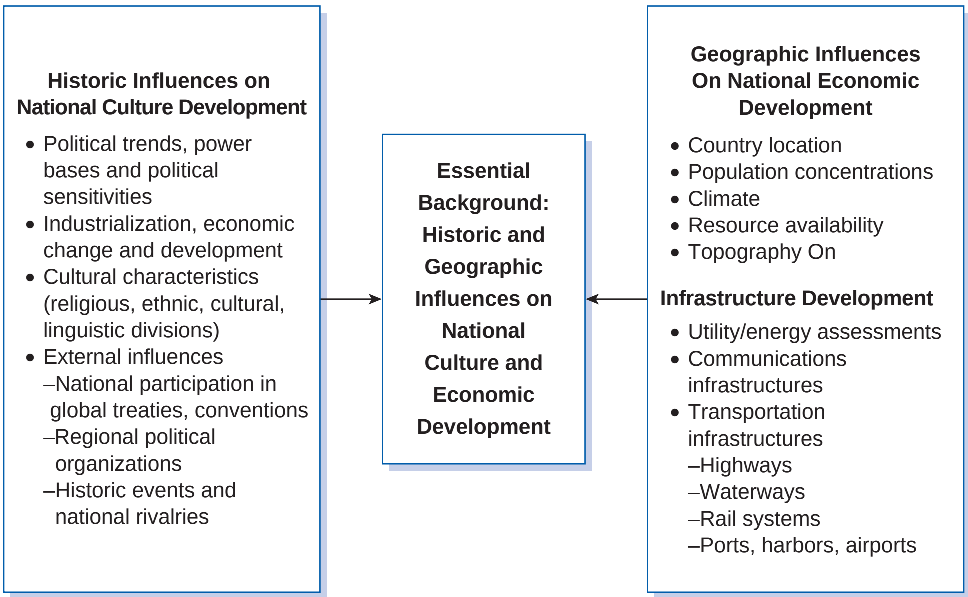
But as development occurs, populations become educated and political democracies start to emerge. In many countries, key personalities emerge to engineer political and economic change (for example, Nelson Mandela in South Africa, Deng Xiaoping in China, and Mikhail Gorbachev in the former USSR). Once these changes occur, the old power bases slowly erode, democracies take root, and political power diffuses to the national citizenry.

Industrialization, economic change, and development. Industrial revolutions like those that transformed Western Europe and North America between the 18th and 20th centuries now affect many emerging nations.

The transitions from agricultural to industrial to service economies are natural evolutions, but they cause major dislocations as national populations adjust to perpetually

> **The Global Web**
>
> For country developmental statistics (highest to lowest, greatest to least) about geography, people, the economy, communications, transportation, and the military, see www.globastat.com.

FIGURE 5.2 Overview of Historic and Geographic Influences on National Culture and Economic Development



changing economic sectors. Agricultural-industrial-service sector breakdowns are key indicators of economic development. Countries with heavy agricultural emphases tend to be at the lower stages of development, while dominnt service sectors indicate maturing economies. Table 5.1 shows the evolution of the agricultural, industrial, and service sectors as nations develop. The job of national governments is to provide educational and social welfare systems to support the technological and labor needs of the marketplace, as well as the legal frameworks to regulate the increasingly complex and competitive economy.

How governments and countries respond to these challenges, and how well these changes are accepted, are primary determinants of the business and economic climates that international firms must face. Excessive change and major economic dislocations can result in voter backlashes and reactionary political movements away from market capitalism and toward communist, socialist, labor, or social democratic parties. The recent elections in Latin America of a number of left-wing governments over 2002–2006 are symptomatic of such movements.

TABLE 5.1 Business Sector Compositions and Economic Development

Low———————————————————Economic Development———————————————High

	Agricultural Economy	*Industrial Economy*	*Service Economy*
Percentages employed in each sector	80% are employed in agricultural or food-gathering sector	Gradual mechanization of agriculture as urban–rural population shifts occur	Agribusiness develops
	Minority are in manufacturing tools, implements	Urban factory systems take root. Infrastructures develop and regional/national markets appear	Mechanization and automation transforms manufacturing
		Service sector develops—retailing, banks, etc.	Majority employment in service sectors (U.S.—80% in service sector)

> At the heart of racism is the religious assertion that God made a creative mistake when He brought some people into being.
>
> *Friedrich Otto Hertz, 20th-century German philosopher*

Cultural development. National cultures may be relatively homogeneous, with few differences among country citizens. Common languages and religions and few or no differences among ethnic groups are key homogenizing factors. This tends to be the case in many developed nations, and such homogenizing influences should be catalogued and understood. At the other end of the spectrum, many countries, particularly in the developing world, have a variety of ethnic, cultural, and linguistic differences that must be evaluated. Historically, invasions, wars, and politics have typically determined country borders and ethnic compositions within nations. Today, linguistic and cultural diversity within nations are causes of ethnic rivalries and civil unrest (e.g., ethnic rivalries in Africa, religious conflict in India, etc.). Such diversities and conflicts affect political stability. Management's task is to assess how such problems affect operations, both in the short term (impacts on day-to-day operations) and over the long term.

External influences on country behaviors. Three sets of external factors influence national behaviors. The first two are memberships in international and regional organizations and the third is past histories with individual nations.

National participation and membership in global treaties and conventions: This includes memberships in UN organizations such as the IMF, the WTO, the World Bank, IMO, ICAO, and so on. These memberships show the extent of national participation in the world economy as well as country acceptance of global conventions covering world commerce. China's entry into the WTO in 2001 was important. Similarly, not being signatories to international protocols, treaties on environmentalism, human rights, intellectual property rights, and so forth signals non-accountability regarding global conventions (for example, the United States opting out of the Kyoto Agreement on Global Warming).

Participation in regional political organizations: Many parts of the world have political bodies to address regional issues. In the Western Hemisphere, there is the Organization of American States (OAS); in Africa, there is the Organization of African Unity (OAU). In other cases, economic issues dominate and trade bloc organizations such as the EU or ASEAN move nations toward regional disciplines based on commercial as well as political interests.

Historic events and national rivalries: A country's past inevitably affects present-day relations. Some historic animosities are relatively short-lived (e.g., Germany and Europe). Others go back decades or centuries and still linger in national memories (e.g., China and Taiwan, Korean and Chinese attitudes toward Japan, Arab and Israeli animosities). Colonial influences continue to be controversial throughout the Americas, Africa, and Asia. Protagonists claim that European colonization contributed to country development by establishing basic infrastructures, opening up trade routes, and exposing developing nations to alternative lifestyles. Antagonists have branded colonizers as exploiters of countries' natural resources and destroyers of local cultures. Unfavorable foreign interventions have left their marks on national cultures through distrust of foreigners and xenophobic tendencies (e.g., in the Middle East, Africa, and Asia).

> Man is a history-making creature who can neither repeat his past nor leave it behind.
>
> *W. H. Auden, 20th-century English-born U.S. poet*

In summary, the more business managers know about national histories, the better they can appreciate and understand present-day behaviors, values, and attitudes, and the more likely they are to implement effective strategies within national markets.

Geographic Influences on National Culture Development

Country geography has two major impacts on corporate strategies. First, just as geography has impacted regional cultures and development (especially in the Middle East, Africa, and Asia), so it affects culture and development at the national level. Second, geographic characteristics are major influences on national infrastructure development, and affect business and supply chain operations within markets.

Geographic influences on national development include country location (the physical location of a nation on the world map), population concentrations within countries, climate, resource availability, and topography.

Country location affects politics, trade relationships, the exchange of ideas, and cultural interactions. Proximity to oceans and sea-based trade has historically either facilitated or limited exposures to international commerce. Much of Western Europe's early development came from the spread of industrial technologies via trade. Latin America's proximity to the United States and Asia's to Japan have encouraged commercial interactions and technology transfers. The opposite is also true. The relative isolation of China and Japan from Western influences throughout much of the 20th century contributed to the maintenance of their traditional cultures.

Climate affects both human behaviors and country development. Adverse (i.e., excessively hot or cold) climates affect population concentrations (where people choose to live; for example, 80 percent of Canada's population lives in the southern-most part of the country), agricultural pursuits (types of crops and regularity of harvests), and how long people can work (e.g., afternoon siestas are taken in Latin America). In harsh environmental conditions (e.g., monsoons, desert conditions), the dominance of Mother Nature can adversely affect national and individual mind-sets, resulting in fatalistic attitudes toward life in general and inabilities to progress economically. For example, the effects of Central America's climatic fluctuations (e.g., 1997–1998 flooding due to El Nino was followed by drought and crop failures in 2000) have dulled regional attitudes toward economic progress.

International companies can use their expertise and technologies to adapt to or nullify the effects of extreme climates. For example, genetically modified (GMO) seeds have been used to bolster crop yields in countries such as Pakistan to counter adverse climatic conditions. Also, product redesigns; customized logistics networks for distribution; and recognition of seasonal demand variations for clothes, food, and so forth are all ways that managers work around climatic extremes.

Population concentrations and ethnic compositions affect market demand and the locations where manufacturing and physical distribution resources are sited. Populations and ethnic concentrations, the residue of history, must be mapped out for target marketing purposes. For example, Indonesia's 240 million people are divided into 250 ethnic groups, though 60 percent of the national population lives on Java, one of the 13,000 islands comprising the nation. While Nigeria's 250 ethnic groups are spread out over 90 million people, four groups dominate: the Hausa and Fulani in the north, the Yorubas in the southwest, and the Ibos in the southeast. Knowledge of ethnic groupings aids the tailoring of marketing strategies (e.g., literacy and linguistic needs for brand names, labeling, and promotions. Localized marketing issues are fully discussed in Chapter 13, Localization Strategies.).

Resources facilitate economic development and trade. Countries need three types of resources to develop effectively. First, they need regular harvests to ensure adequate food supplies. Where food production is limited to specific areas, nationwide distribution facilities are necessary (not easy in geographically large nations such as Russia). Second, countries need energy supplies such as coal, oil, or hydroelectric power to aid industrialization. Energy sources must be both available and accessible. National governments often use international corporations to tap petroleum, natural gas, coal, and nuclear or other energy sources, and to build energy infrastructures for national distribution. Third, nations need access to metals and minerals for industrial development. International firms are often both key providers of extraction technologies and contact providers for global distribution or procurement.

> Pray to God for a good harvest, but don't stop hoeing.
>
> *Bohemian proverb*

Topography deals with the surface features of countries and often impacts language and cultural divisions. Globally, topography dictates population movements and settlements. Three-quarters of the Earth's surface has sparse populations due to arctic and subarctic areas (extreme cold); desert and dry grassland (lack of moisture); rugged highlands (steep slopes and high altitude); and tropical forest, where excessive heat, moisture, dense forestation, and infertile soils inhibit fixed settlements (e.g., Latin America, Asia).[2] At the country level, mountain ranges form natural divisions within nations, most notably in Switzerland where they effectively divide German, French, Italian, and Romansh cultures. In Colombia, the Andes separate four regions, each with its own language, dialects, and discernable climate.

Geographic influences on infrastructure development. For most industrialized countries, infrastructure analyses are unnecessary. Energy grids are established, as are water systems, sanitation facilities, and transportation systems (seaports, airports, roads). But with increasing emphases on developing markets, infrastructure facilities cannot be taken for granted. In these markets, companies must thoroughly evaluate national infrastructures, including the following.

Utility and energy assessments: These take in water, sewer amenities, energy generation systems (e.g., power station locations), and energy grids to determine what proportions of populations receive electricity, gas amenities, and so forth. For example, such assessments have determined that only 5–10 percent of Uganda's 22 million residents have electricity. Energy costs are also important considerations in factory designs (what energy sources are most cost-effective) and for consumers (for example, gasoline taxes in Western Europe promote public transportation use).

Communication infrastructures need careful review as they affect corporate communications systems within markets, contacts with other countries, and corporate promotional efforts within markets. In the telecommunications area, the number of telephones, telephone units per 1,000 population, and technological level (e.g., older analog systems vs. fiber-optic technology) should be evaluated. Increasingly today, wire-based grids have become less necessary for voice communications, with wireless cell phones now capable of transmitting and receiving voice and data inputs, and with abilities to reach remote parts of emerging markets.

Radio and TV station availability and the degree of government ownership of media are important indicators of mass media potential. Other media options (newspapers, magazines, direct mail possibilities) are essential for products with mass media dependencies (e.g., consumer products).

Transportation infrastructures include road networks (from major highways down to dirt roads), rail systems, seaports, airports and waterways, and bus systems.

- National highway systems vary enormously within countries. For most countries, links between urban centers are well developed, as are connections with coastal areas. Countries with large landmasses (e.g., Russia, African countries) tend to be most variable, given the resources required to complete national highway systems. It must be remembered that it was not until the

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For some interesting links to worldwide broadcast media, see http://archive.comlab.ox.ac.uk/publishers/broadcast.html.

There are three things that make a nation great and prosperous—a fertile soil, busy workshops, and easy conveyance for men and commodities.

Sir Francis Bacon, 16th- and 17th-century English philosopher

1950s and 1960s that national highway systems were built in the USA and Western Europe. Natural impediments to transportation such as climate and topography are influential factors here, as are flooding, earthquakes, and hostile terrains.

- Waterways were major means of goods transportation prior to the industrial revolutions in North America and Europe, and are still important in many nations today. In North America, the Great Lakes, St. Lawrence, and Mississippi waterways are still important trade corridors, as is the Rhine River in Western and Central Europe. In South America, the Amazon is an important commercial waterway. In India and Pakistan, respectively, the Ganges and the Indus Rivers are important commercial conduits, and in China, the Yangste River is a major arterial waterway linking the Chinese interior with the commercially developed coastal areas.
- Rail systems are important where commodities or bulk shipments are necessary (e.g., chemicals, autos, industrial equipment). Most nations have rail systems, though their efficacy is variable. Railways are well developed in Western Europe where they provide competition to road systems in moving goods between urban centers. As competition among transportation modes has intensified, government-owned rail systems have been privatized and streamlined in many parts of the world, including China, Mexico, Philippines, Botswana, Ukraine, and Korea.
- Ports, harbors, and airport locations must be mapped out and assessed. Port facilities are evaluated for their deepwater capabilities (i.e., ability to service major freight-carrying fleets) and freight-loading/unloading facilities (e.g., degree of mechanization, equipment, labor efficiencies, etc.). Airport locations and proximity to commercial centers and major population groups are also evaluated, along with available facilities. For example, Afghanistan has 44 airports, of which 11 have paved runways. Of these, 3 have runways over 3,000 meters long.[3]

Table 5.2 shows an example of how key historic and geographic factors have influenced China's development. Further discussion of the Chinese economy and general situation can also to be found in Short Case 5.3.

CURRENT POSITION ANALYSIS

Once historic and geographic factors have been reviewed, managers turn their attention to present-day conditions. This involves examining a country's political, economic, and international positions (summarized in Table 5.3).

The Current Political Situation

Businesspeople cannot know too much about how political systems work within nations, and what factors drive policy decisions. Corporate analyses of political structures usually include the following elements.

TABLE 5.2 Geographic and Historic Analysis of China

Geographic Factors	*Effects*
Third-largest nation in the world, 3.7 million square miles, 2,000 miles east–west	Hard to coordinate initially, though north–south Grand Canal (7th century AD, 1,100 miles) helped unite China. Hard to defend, so the Great Wall (3,800 miles long) was built. Distance from the West limited European colonists until the 19th century
Four Chinas: (1) Agricultural China, (2) treeless plains, (3) desert China (Gobi), (4) ice-capped China	Rice-growing south, grain production in north, population concentrations in northeast and southern China; 950 million farmers make agriculture a "sensitive" industry
Rivers dominate early transportation (Yellow, Yangste, and West Rivers)	River transportation still a major form of internal transportation
Historic Factors	*Effects*
4,000 years of continuous culture and language, philosophy, writing, painting	Pride in China and ethnocentrism; disdain for inferior "outsiders"
Innovators • Iron Foundry, 800 BC • Printing, 105 AD • Compass, 1st century AD • Astronomy, 2nd century AD • Ink, 3rd century AD • Wood block printing, 8th century AD • Gunpowder, 9th century AD • Moveable type, 1050 AD • Leaders in crossbows, wheelbarrows, porcelain, mechanical clocks • 15th century Junk galleys 400 feet long, 4 decks • 1405–1440: 36 countries visited	Lack of imperial interest in colonization, trade because little to learn from other cultures at that time. Foreign travel only confirmed Chinese cultural superiority
Imperial Dynasty: Emperor absolute ruler	Respect for social hierarchies; social class differences
Teachings of Confucius • Contentment with station in life • Importance of tradition • Obedience to authority • Rules, rites, etiquette in regular life • Responsibilities to family and society	• "Striving," "trying" inappropriate • Still apparent today • Harmony, conflict avoidance important • Deeply respectful and sincere in personal relationships • For 1,400 years (600 AD–present), knowledge of Confucian classics prerequisite for government posts

Geographic Factors	*Effects*
Lao Tzu: Taoism	• Rejection of self assertiveness, competitiveness • Living with nature • Encouragement of selflessness, cleanliness, emotional calm • Avoidance of desire, revulsion, grief, joy, anger—wasted emotions
19th–20th centuries: Conflicts with outsiders • 1839–1842, 1st Opium War: Lost • 1856–1860, 2nd Opium War: Lost • 1884–1885, French Conflict: Lost • 1894–1895, Japanese Conflict: Lost	Chinese discontent with foreign influences • 1900 Boxer Rebellion • 1911 Overthrow of Imperial Dynasty—1,200 years of rule by emperor ended by Dr. Sun Yat-sen
1925: Dr. Sun Yat-sen dies	Civil war between Chinese Nationalists and Communists/regional warlords
1930s: Japanese invasion and atrocities (e.g., Rape of Nanking)	Distrust of Japanese
1949: Nationalists beaten by communists—go to island of Formosa and establish Taiwan ROC; Mao Tse-tung comes to power	Ongoing tensions between China and Taiwan; China officially becomes a communist state
1950s: Economy stabilized, landed gentry/lords destroyed	Destroyed old aristocracies and archaic economic institutions
1960s: Great Leap Forward: Industrialization efforts fail; universities, schools closed, Red Guard brutality; disrespect for elders	Disillusionment mounts with communism; USSR–China disagreements; attacks on schools and education considered "un-Chinese"
1976: Mao Tse-tung, Chou En-lai die	Communism loses founding fathers, loses impetus
1981: Deng Xiaoping and moderates gain control 1982: New Constitution: More personal freedom, room for individual initiatives 1985: Younger generation replaces old guard 1989: Tiananmen Square massacre 1997: Major restructuring of Chinese economy, emphasizing capitalistic methods 1999: Deng Xiaoping dies 2001: China admitted into World Trade Organization	Ongoing internal struggles between old-line communists and new generation of market forces–oriented politicians Gradual introduction of market forces–based principles and entry into the global economy

Sources: Compiled from *Library of Nations: China* (Alexandria, VA: Time-Life Books, 1985); J. M. Roberts, *History of the World* (London: Penguin Books, 1997); *Timetables of History* (New York: Random House, 1996); and Huston Smith, *The World's Religions* (San Francisco: HarperCollins, 1998).

TABLE 5.3 Effects of Political, Economic, and International Factors on Business Activities

Political, Economic, and International Factors	*Significance for Business*
Political Factors Political System: Authoritarian to multiparty democratic system; political history Parliamentary Assemblies: Elections for head of state, national assemblies, e.g., every 2, 4, or 6 years Key Political Parties: Philosophies, key issues	Gives insights as to political risk of doing business (pro- or anti-business); likelihood of political change due to elections, internal frictions, external influences, economic or political problems The greater the policy differences among parties, the greater the potential for change following democratic elections
Economic Changes Comparative Economic Analysis: Against regional rivals' GDP size GDP per capita GDP growth Inflation Trade balance Foreign debt Currency situation	Relative attractiveness of regional markets; regional differences/similarities among affluence levels, growth potential; government trade policies (free trade/protectionist)
Country Economic Analyses (over time) General Economic Indicators: GDP size and GDP per capita Public sector finances (government income/expenditures, deficits, overall debt) Inflation and price movements (wholesale, consumer, general); money supply (usually M2) Wage movements, unemployment Private Sector Performance Public versus private consumption Splits among agriculture, industry, and service sectors Private Sector Analysis: Key industries: construction, retail sales, and stock market activity	Market size and affluence indicator Responsible government economic management Problematic if high, rising General indicators of economic well-being Extent of governmental influence on the economy Indicators of level of economic and sector development Key indicators of economic growth, activity and consumption levels
International Economic and Trade Policy Membership in WTO, trade blocs, international trading agreements	Key shaper of national trade policies and indicator of free trade orientations

Political, Economic, and International Factors	*Significance for Business*
International Position	
Exchange rate regime and national currency trends/movements	Currency stability over time
Balance-of-Payments Analysis	
—Balance-of-trade position	Competitiveness of country as a manufacturing base Persistent deficits indicate increased likelihood of depreciating currency or governmental action
—Balance of payments on current account	
Investment flows (inflows, outflows, foreign direct investments, portfolio investments, money flows	Attractiveness as an investment site
Foreign debt situation: External (hard currency) debt; debt–service ratio (% export earnings that go toward debt repayment)	Problems when high % export earnings-to-service ratio
Foreign Currency Reserves (foreign exchange, gold, SDRs)—measured by number of months of import coverage	Low reserves are warning signs for currencies

> No man is good enough to govern another man without the other's consent.
>
> *Abraham Lincoln, U.S. president (1860–1865)*

Political system. While about 70 percent of peoples live under functioning democratic systems, some nations retain high degrees of authoritarianism in their political systems. Then there are democratic countries that have retained authoritarian characteristics, for example, when one party is reelected most or all of the time. Examples include the PRI party that ruled Mexico for 71 years (until 2000), the Liberal Democrat Party in Japan that has held office almost continually since 1945, and various family political dynasties that have dominated Asian and Middle Eastern politics over generations (e.g., Egypt, Indonesia, India, Pakistan, Bangladesh).

Parliamentary assemblies. In addition to presidents and political figureheads, most democracies have elected assemblies. Many, like the United States and Japan, have two chambers of representatives. In Japan's case, there is the powerful House of Representatives, numbering 480 members who are elected to 4-year terms, and the 242-member House of Counselors who are elected to 6-year terms.[4]

Key political parties. Profiling major parties and political philosophies provide insights into political and economic policy formulation. In most democracies, there are right-wing parties that represent pro-business interests (e.g., the Conservative and Republican Parties in the UK and the United States), and those that support broader interests (e.g., Labor and Democratic Parties in those same countries). Where governments are formed out of coalitions, managers must assess how robust (or fragile) the coalition is. A 15- to 20-party coalition Bharatiya Janata Party (BJP) was elected to power in India in 1999, only to be overturned by a traditional Indian powerhouse, the National Congress Party, in 2004.

Political risk, elections and the likelihood of political change. These are important topics for international executives, particularly where there are major philosophical differences among political parties. While general methods of political and environmental risk assessments will be laid out in Chapter 7, four specific analyses are necessary for in-depth country evaluations.

> There is no more evil thing in this world than race prejudice. . . . It justifies and holds together more baseness, cruelty and abomination than any other sort of error in the world.
>
> *H. G. Wells,*
> *19th- and 20th-century English author*

Internal frictions heighten the probability of political change. In countries with major ethnic or religious differences, rivalries among diverse groups create political and civil discontent. For example, the breakup of Yugoslavia in the mid-1990s resulted in political turmoil in Bosnia-Herzegovina as rival Serbian, Croatian, and Muslim groups sought to maintain their ethnic identities. In South Africa, rival tribal groups and widespread poverty contributed to over 18,000 murders in 2006,[5] and religion continues to be a divisive factor in countries such as Sri Lanka, Nigeria, Malaysia, and India.

External influences from the global political and economic marketplace affect country politics. Privatization movements in the formerly communist-controlled countries of Eastern Europe have produced backlashes where the benefits of market forces–based economies have been slow to benefit national electorates. In recent years, China, South Korea, and other Asian countries have experienced major labor unrest as privatization reforms have produced layoffs and become major threats to the "iron rice bowl" philosophy of job security and permanent employment.

Economic problems often cause political change, and political risk analysts routinely include key economic indicators alongside political assessments. Downturns in economic growth limit job creation and affect politically sensitive unemployment statistics. Inflation erodes consumer purchasing power. National trade performance is monitored as exports create jobs, while imports are perceived as taking them away (and promoting protectionist tendencies). Severe trade imbalances between exports and imports indicate the need for foreign exchange rate adjustments.

Political problems to be addressed over the short and medium term are sources of internal unrest. Conflicts over government funding priorities are common, including welfare and benefit support levels (Western Europe), investment priorities (labor- or capital-intensive industries), taxation levels ("no new taxes") and government expenditures plans. The relative strengths of pro- and anti-business factions affect developments in company laws; intellectual property rights; environmental, competition, and taxation policies; issues in foreign trade, currencies and capital markets; human resource legislation; and increasingly these days, factors affecting electronic commerce.

The Current Economic Position

Comparative economic analyses. It is difficult and dangerous to review national economic performance in isolation. A first step therefore is to assess country economic performance in its regional context. Short Case 5.2 examines Brazil's economic performance in its Latin American context. GDP. size, GDP per capita, inflation rates, and trade performance are assessed for individual and surrounding markets to assess their relative performance. Such evaluations not only help economic assessments, but they also provide indicators of business potential for company products in neighboring markets. Where trade blocs are in operation, such analyses aid corporate assessments of regional investment prospects, as well as potentials for cross-border branding and manufacturing scale economies.

Country-specific economic analyses focus on three areas:

1. General economic indicators must be assessed.
   - GDP size and GDP per capita must be evaluated over time to assess trends in market affluence. GDP per capita measures come in two formats: (a) *GDP per capita at nominal rates* expresses per-head income rates at prevailing market exchange rates; (b) *GDP per capita at PPP (purchasing power parity) rates* adjusts per-capita incomes according to national price levels to reflect more accurately what incomes can buy. In Japan's case, its market prices are significantly above international levels, so its nominal GDP per capita is *above* its PPP per capita rate. For many developing countries, national price levels are substantially below international levels, so their nominal per-capita income levels are *below* the GDP per capita levels, adjusted for PPP differences. Other key indicators include economic growth and unemployment rates.
   - Public sector finances are also subject to scrutiny as to whether government income and expenditures are in balance and (if not) how public finance deficits are managed. Stable public finances breed political stability, stable economic growth, and international confidence in national currency values.

> The only good budget is a balanced budget.
>
> *Adam Smith,*
> *18th-century Scottish economist*

   - Inflation indicators are important in emerging markets where aggregate supply and demand imbalances cause price fluctuations during industrialization. For example, triple-digit inflation plagued Turkey's economic performance throughout the 1990s as successive governments battled to contain price increases.[6] Inflation can be monitored in three ways: at general, retail, or wholesale levels; through upward shifts in wages levels; and through money supply indicators. Chaotic increases in M2 money supply (currency, demand deposits, and government bills) are causes for concern. Inflationary tendencies have major adverse effects on economic performance, economic policy, political stability, and foreign exchange rates, particularly in less stable, emerging market contexts.
2. Analysis of private sector performance is needed to determine how specific industries and sectors are performing.
   - Splits between public and private expenditures show the extent of government influence in the national economy.

- Divisions among agriculture, industry, and services show the extent of development, with basic economies having extensive agrarian interests and mature countries having heavy service components.
- Other useful indicators include construction statistics (key indicators of economic growth), retail sales (as yardsticks of consumer demand), and stock market activity (as general indicators of business confidence levels). Managers should examine as broad an array of economic indicators as possible, and should supplement statistical data with expert economic analyses.

3. International economic and trade policies must be evaluated because they affect tariff levels and country trading policies. For example, Egypt, a member of the WTO, has most favored trading status with the United States and Israel (meaning that trade with these nations is "normal"); it signed an agreement to phase in free trade with the EU by 2014. Egypt is a member of the 19-state Arab Common Market. It has achieved free trade with 8 of the 21 states in the Common Market of Eastern and Southern Africa (COMESA), and is a member of the Islamic Group of Eight to establish a free trade area across the Middle East and parts of Asia.[7]

International Position: Analyzing Country Balance of Payments

How nations interact financially with the rest of the world is examined through balance-of-payments analyses. The balance of payments of a country, simply stated, is an accounting record of all economic transactions between residents of that nation and foreign residents during some specific time (usually a year). The International Monetary Fund standard balance-of-payments presentation has four sections: (1) current accounts, (2) capital account, (3) financial account, and (4) net errors and omissions. Table 5.4 summarizes key concepts in balance-of-payments analysis.

1. The *current account* consists of four parts:

   A. *The merchandise trade balance* is the first component and comprises manufacturing exports and imports and goods for processing. When country product exports exceed imports, the nation has a balance-of-trade surplus. When it imports more than it exports, it has a trade deficit. Generally, the crude trade balance (as it is known) is an important indicator of a country's manufacturing competitiveness in international trade.

   B. *The goods and services balance* is the second part of the current account, and includes not only merchandise exports ("credits," or "inflows" of money) and imports ("debits," or "outflows" of money) but also freight, insurance, and shipping charges paid out by a country's residents (debits) or received by its residents (credits). These two sectors combined comprise the goods and services account.

   C. *The income account* is the third component. This is made up of outflows and inflows of corporate profits and individual earnings from the resident country to foreign sources (outflows, or debits), and profit and income repatriations from foreign-based companies and individuals back into the resident country (inflows, or credits). For example, worker remittances comprise 24 and 20 percent, respectively, of

TABLE 5.4 Balance-of-Payments Digest: Definitions and Impacts on National Economies and Companies

Balance-of-Payments Components	*Country/Company Effects*
Current Account	
Merchandise Trade Balance Merchandise exports—merchandise imports Inflows/Credits: Payments to country for exports Outflows/Debits: Payments by country for imports Exports > Imports: trade balance surplus Imports > Exports: trade balance deficit	*Country Effects:* (1) Shows how internationally competitive the country's manufacturing base is. Net exporter is good; net importer is not so good. (2) Persistent negative trade balances may result in government devaluations of national currencies or allowing national currencies to depreciate in value according to market forces (more national currency units per dollar/euro/yen) *Company Effects:* Persistent negative trade balances can result in governments offering export incentives or placing restrictions on imports (tariffs, quotas, etc.)
Trade in Services (freight, insurance, shipping) Inflows/Credits: Payments by foreigners to national service providers Outflows/Debits: Payments by national firms to foreign service providers	Country restrictions on carriers: e.g., exports or imports must use domestic carriers
Income (corporate profits, individuals repatriating income or salaries) Inflows/Credits: Foreign subsidiary profits or expatriates repatriating income or salaries Outflows/Debits: Foreign profits or salaries made in the domestic market repatriated out of the country to home market	Where outflows of profits or income are deemed excessive/disruptive, restrictions may be applied or taxes placed on dividend, royalty, or profit repatriations
Unrequited (one-time) Payments (government aid, foreign military expenditures, embassy expenditures, etc.)	Government aid may have "strings" attached requiring contracts to go to home market contractors or be used for specific purposes
Capital Account	
Capital Equipment Account Inflows/Credits: Payments made by foreign companies in the domestic market for capital equipment purchases Outflows/Debits: Equipment purchases made by national firms in foreign markets	

(Continued)

TABLE 5.4 (Continued)

Balance-of-Payments Components	*Country/Company Effects*
Financial Account	
Direct Investments: In factories and plant Inflows/Credits: Foreign investments in the national economy Outflows/Debits: National companies making investments in foreign markets	*Inflows* show the attractiveness of the national market to foreign investors as a manufacturing site *Outflows* demonstrate national company interest in producing in foreign markets. May show diminishing competitiveness of the national market as a manufacturing or export site
Portfolio investments are investments made in companies without the intent of outright ownership or control (e.g., <10 percent control or buying shares through stock markets) Inflows/credits are foreign investments in the national stock markets Outflows/debits are investments in foreign stock markets	*Inflows* show the attractiveness of the domestic stock market to foreign investors. They occur during economic growth periods ("boom times"), as national economies and stock markets demonstrate growth and superior returns *Outflows* demonstrate how attractive foreign stock markets are to domestic investors. They may occur during economic downturns/recessions, or as political risk factors increase (strikes, wars, civil unrest)
Financial Derivatives Assets: Inflows of financial instruments transferring foreign exchange, equity, interest rate, and commodity risks into the home market Liabilities: Outflows of financial instruments transferring foreign exchange, equity, interest rate, and commodity risks out of the home market	Use of financial derivatives increases when outside risks in foreign markets increases relative to the home market (assets, inflows); liabilities (outflows) increase when home market uncertainties make hedging in overseas markets prudent options
Monetary transactions comprise money movements among international financial institutions to take advantage of exchange rate and interest rate differences Inflows/Credits: Foreign money movements into domestic financial markets and institutions Outflows/Debits: Domestic money movements into foreign financial markets or institutions	Financial flows among countries are very much influenced by national interest rates and government monetary policies. Governments may increase national interest rates to attract foreign capital or prevent "capital flight" out of countries due to economic slowdowns. Low national interest rates on government bonds/certificates of deposit discourage buildups of foreign "speculative" capital

Balance-of-Payments Components	*Country/Company Effects*
Net errors and omissions are items not included under other headings or unaccounted financial flows or money movements	
Overall Balance of Payments Balance of payments on current account + capital account + net errors and omissions	Overall surpluses on balance of payments mean that incoming payments exceed outgoing payments. This may result in excess demand for the home currency and pressures for currency appreciation (fewer national currency units per euro/dollar/yen) Overall deficits mean that currency outflows (supply) exceed inflows (demand), resulting in pressures for currency depreciation (more national currency units per dollar/euro/yen)

Nicaraguan and Indian GDPs.[8] The goods, services, and income balances show the net inflows/outflows resulting from these activities.

D. *Unrequited (one-time) transfers* are the fourth current account component and comprise transfers by foreign governments into the resident country (inflows, or credits) and resident government transfers out of the country (outflows, or debits). Together, these four items comprise the balance of payments on a current account.

2. *The capital account* consists of outflows and inflows of capital equipment. Credit items are foreign companies bringing equipment into the resident country. Debit payments are money outflows as resident firms send machinery into foreign markets.

3. *The financial account* comprises direct investments, portfolio investments, financial derivatives, and other investments. Items listed under the financial accounts are labeled "assets" and "liabilities." Outgoing investments are capital outflows, which then become "assets" in foreign markets. Incoming investments are inflows but represent foreign "liabilities" in capital accounts.

There are four parts:

A. *Direct investments* in factories with plant and machinery constitute the first part. Incoming direct investments by foreigners are credits (inflows), and country resident investments made abroad are debits, or outflows.

B. *Portfolio investments* comprise purchases of corporate securities, bonds, or equities. These are made of minority holdings in individual companies (share purchases—less than 10 percent—without the intent to participate in the company's management), stock market investments made by residents in foreign markets (outflows, or debits), and those made by foreigners in the resident country (inflows, or credits).

C. *Financial derivatives* comprise the third component. These are financial instruments that transfer risks in foreign exchange, equities, interest rates, and commodity prices among financial intermediaries in more than one market. That is, financial institutions in more than one nation share foreign exchange or other risks in return for a share of the risk premium (the price of insuring the risk).

D. *Other investments* are the fourth part and comprise currency transactions from monetary authorities (e.g., the IMF) and the government; deposits, loans made among international banks; and investment inflows/outflows, often trade credits. Payments made into the resident country are inflows, or credits, and outflows (debits) are from resident-nation financial institutions into foreign markets.

4. *Net errors and omissions* are items that do not fall under mainstream balance-of-payments headings. The balance of payments on a current account (trade + services + income + current transfers) plus the capital account not included elsewhere (machinery and equipment transactions) plus financial accounts (direct, portfolio investment, financial derivatives, and other investments) plus net errors and omissions comprise the *overall balance of payments.* Positive balances of trade signify net inflows of monies ("surpluses"); negative numbers indicate net money outflows ("deficits").

5. *Reserves and related items* accounts show how balance-of-payments surpluses are used (generally, they are added to foreign convertible currency reserves), or how deficits are financed (usually by decreases in convertible currency reserves). Where deficits are significant and continuous, "exceptional financing" packages are used, usually consisting of IMF loans.

   A. *Overall balance of payments* shows four minor deficits (1999, 2002–2005) and three minor surpluses (2000–2002). This suggests that against world currency generally, supply and demand for U.S. dollars are about equal and the dollar should be quite stable. The increasing deficits on the current account (goods, services, income and transfers) from 1999–2005 are offset by major inflows of investments on the financial account (comprising direct, portfolio, financial derivatives, and other investments).

   B. *The trade balance:* With the exception of 2001 (and the 9/11 disturbance), the trade balance (export minus imports) shows increasing deficits over 1999–2005. This reflects a steady deterioration in the United States' position as a world manufacturing and export base. Exports over 1995–2001 show a 30 percent increase while imports increased by over 60percent. It also demonstrates U.S. appetites for foreign sourced products (e.g., autos, retail consumer goods).

TABLE 5.5 Analysis of the U.S. Balance of Payments: 2001–2005

U.S. Balance/Payments	*2001*	*2002*	*2003*	*2004*	*2005*
Goods: Exports f.o.b.	721.84	685.93	716.70	811.03	896.43
Goods Imports f.o.b.	–1,145.93	–1,164.74	–12,60.75	–1,472.96	–1,674.29
Trade Balance	–424.08	–478.81	–544.04	–661.93	–777.86
Services: Credit	285.30	291.34	305.86	340.42	375.79
Services: Debit	–223.94	–233.72	–256.63	–296.07	–321.55
Goods/Serv. Balance	–362.73	–421.18	–494.81	–617.58	–723.62
Income: Credit	288.30	270.79	309.83	379.53	468.66
Income: Debit	–263.12	–260.77	–263.53	–349.09	–467.11
Gds/Serv/Inc Balance	–337.55	–411.16	–448.51	–587.14	–722.07
Current Transfers: Credit	8.53	11.99	14.69	17.92	17.80
Current Transfers: Debit	–60.44	–76.03	–85.86	–98.85	–100.70
B/P on Current Account	–389.45	–475.21	–519.68	–668.07	–804.96
Capital Account					
Capital Account: n.i.e.	–1.22	–1.36	–3.21	–1.65	–5.65
Capital Account: Credit	1.04	1.07	1.10	1.13	1.15
Capital Account: Debit	–2.27	–2.44	–4.32	–2.78	–6.80
Financial Account n.i.e.	405.15	504.00	559.12	581.79	786.87
Direct Investment Abroad	–142.35	–154.46	–140.58	–252.01	–21.48
FDI: Home Market	167.02	80.84	67.09	106.83	128.63
Portfolio Invest: Assets	–90.64	–48.57	–156.06	–102.38	–155.24
Equity Securities	–109.12	–16.95	–114.19	–83.20	–136.66
Debt Securities	18.48	–31.61	–41.88	–19.18	–18.79
Portfolio Invest: Liabilities	428.24	427.61	538.83	762.70	941.59
Equity Securities	121.46	54.07	34.97	61.91	89.03
Debt Securities	306.88	373.54	503.86	700.79	852.56

(Continued)

TABLE 5.5 (Continued)

U.S. Balance/Payments	*2001*	*2002*	*2003*	*2004*	*2005*
Financial Deriv's: Assets	0	0	0	0	0
Financial Deriv's: Liabilities	0	0	0	0	0
Other Investment Assets	−144.71	−87.32	−33.28	−503.92	−329.10
Monetary Authorities	0	0	0	0	0
General Government	0.49	−0.35	0.54	1.22	7.58
Banks	−135.71	−38.26	−9.57	−356.13	218.16
Other Sectors	−8.52	−49.40	−24.24	−149.00	−118.52
Other Investment Liabilities	187.50	285.89	283.12	570.58	222.47
Monetary Authorities	35.29	72.19	38.64	52.77	39.64
General Government	−4.78	2.66	1.99	1.39	5.98
Banks	88.40	117.63	145.32	392.96	200.01
Other Sectors	68.58	93.41	97.17	123.46	56.12
Net Errors and Omissions	−9.55	−23.73	−37.76	85.13	9.64
Overall Balance	4.93	3.69	−1.53	−2.80	−14.10
Reserves and Related Items	−4.93	−3.69	1.53	2.80	14.10
Reserve Assets	−4.93	−3.69	1.53	2.80	14.10
Fund Credit and Loans	0	0	0	0	0
Exceptional Financing	0	0	0	0	0

Note: f.o.b. = free on board; n.i.e. = not included elsewhere.

C. *Balance on goods and services* is negative but less so than the crude trade balance, reflecting U.S. service credits in shipping, insurance, and other services. Similarly, incoming repatriated profits and personal incomes from U.S. companies and personnel overseas are greater than outgoings from the United States, bringing the goods, services, and income deficit down overall.

D. *The financial account* (direct investments, portfolio investments, financial derivatives, and other investments) shows significant capital inflows into the U.S. economy. Closer examination shows the following to be true:

- *Direct investments:* Over the 2001–2005 period, foreign investors found the United States to be an attractive market after 9/11 (from 2002 onward) as its economy recovered. U.S. investments overseas were quite consistent from 2000–2003 but showed some erratic behavior over 2004–2005.
- *Portfolio investments:* More striking is the portfolio investments made in U.S. equity and other debt securities, with non-U.S. investors injecting 6 to 7 times as much in the U.S. stock market as U,S, investors are putting into foreign stock markets. This reflects the relative attractiveness of the U.S. economy and stock market over this period. Interestingly, U.S. investors are more likely to invest in foreign equity markets than in debt securities. Foreign investors prefer U.S. bonds, debentures, notes, and other debt instruments over stock market equity options.
- *Other investments:* These show the increasing importance of international money movements—transactions in currencies, bank deposits, loans, and trade credits. Banks are particularly active in transferring monies into and out of the U.S. economy. Other sectors (mainly consisting of trade credits) are also increasing in importance as U.S. trade expands and trade credits become a competitive tool in the global marketplace.

Conclusion: Looking at the U.S. balance of payments as a whole, the adverse trade account is being offset by capital inflows, providing some stability for the value of the dollar against other world currencies. But this is an economically fragile situation, for the U.S. dollar becomes vulnerable if/when the U.S. economy and capital market suffers an economic downturn or becomes less attractive to foreign capital. If this occurs, capital inflows would fall, and the United States' adverse trade and current account balance would cause a significant balance-of-payments deficit, resulting in a likely depreciation of the U.S. dollar.

How Managers Use Balance-of-Payments Data

Balance-of-payments accounts show a country's financial interactions with the rest of the world. As well as being general indicators of a country's international well-being, they also provide a number of other useful indicators.

Merchandise trade balance: Imports and exports. In many, particularly developing countries, merchandise trade tends to be the most important component of the national balance of payments. Persistent balance-of-trade deficits (imports > exports) invite governments to (a) limit imports through protectionist measures (tariffs, non-tariff barriers, quotas); (b) encourage exports (e.g., by making them value-added tax exempt as in the EU, or making export activities prerequisites for direct investment permissions); or (c) devalue home currencies to make export prices more competitive and limit the price effectiveness of imports. Maintaining exports is important because developing market governments use convertible foreign exchange to finance imports and economic growth.

Services. Where nations have significant deficits on items like shipping, insurance, and so forth, they are prone to enact laws requiring foreign firms to use domestic shipping for exports or imports, or to use local companies as insurance carriers.

Investments. Few countries today restrict outgoing or incoming investments. Occasionally, however, during economic crises such as the 1997–1999 Asian financial crisis, governments restrict outgoing capital ("capital flight") to stabilize national currencies.

Balance-of-payments effects on currency values. Where nations allow their currencies to float according to market supply and demand, home country exchange rates are affected by their balance-of-payments situations. National balance-of-payment figures show currency inflows (demands for the home currency) and currency outflows (supplies of home currency going out and demand for foreign currencies). Where countries have overall *balance-of-payments surpluses,* demand for the home currency (foreign currency conversions into the home currency) is greater than supply (home currencies leaving the country to be converted into foreign currencies). Overall, this means that the domestic currency should appreciate against world currencies (i.e., there should be more foreign currency units per domestic currency unit). *Balance-of-payments deficits* indicate that more domestic currency is leaving the country than is being demanded. Consequently, the home currency should depreciate (i.e., there should be fewer foreign currency units per domestic unit).

Inflation rate effects on balances of payments and currency values. Where price rises are excessive (i.e., above those in the international economy generally), exports and imports become less competitive and governments are prone to devaluing their currencies (i.e., increasing the number of national currency units per dollar/euro/yen). Where imports are essential and nonresponsive to upward price movements, further inflation can result. At the same time, severe inflation makes international companies wary of making investments and may result in capital flight as domestic residents seek to preserve purchasing power by converting assets and monies into strong currencies such as the dollar or euro. From a practical standpoint, managers can expect national currencies to depreciate in proportion to the rise in domestic prices (i.e., a 25 percent inflation rate is likely to result in a 25 percent devaluation of the currency).

COMMERCIAL ANALYSES

Once analyses of past and current political and economic conditions are complete, managers must evaluate industry and operating conditions within markets. This involves commercial assessments of national industry structures, demand analyses, and supply chain issues, as well as analyses of business environment factors, including financial elements (capital markets, taxation, and currency issues) and legal infrastructures.

Industry Analysis

While global industry analyses focus on worldwide consumption, production, major players, and trends, analyses of individual markets are in-depth assessments of industry size, growth rates, market structures, and sector characteristics. International and national industry associations, trade magazines, websites, and news services are useful sources for compiling industry and corporate business profiles. Assessments should include

- Market size and growth rate; principal segments
- Market structure: Number of firms and sizes
  - National competitors—global, regional, national, and local firms
  - Industry concentration—percent total output of largest companies
  - Industry profitability
  - Primary competitive platforms, e.g., low-cost vs. differentiation options
  - Pace of technological and marketplace change (technologies, customer preferences)
  - Key success factors: What it takes to become a market leader
  - Degree of vertical integration (e.g., ownership levels of suppliers and channels).
  - Industry characteristics: Scale economy effects in manufacturing (e.g., costs) and in marketing (advertising, selling, R & D, new product development costs)

The industry situation directly impacts how firms choose to service and compete in individual markets. In particular, market size, growth rates, and competitive intensity are key factors in market entry and servicing options (discussed fully in Chapter 9).

Demand Analysis: Customer and Marketing Considerations

Customer concentrations. Customers are focal points of corporate marketing efforts. As such, the starting points for demand analyses are geographic concentrations of customers. For consumer goods firms, towns and urban concentrations are important as (a) developed and many developing countries have high urban populations; (b) urban consumers tend to be affluent and better educated; and (c) towns tend to have superior infrastructures, particularly in developing nations. For industrial companies, industry clusters often develop in particular areas, reflecting skilled labor availability (e.g., Silicon Valley, California) or raw material availability (as needed for extractive industries, glass-making companies, chemical industries).

> There is only one valid definition of business purpose: to create a customer.
>
> *Peter F. Drucker*

Customer segmentation issues. Firms normally go to great lengths to profile national, regional, and local populations with respect to income, occupation, education, and other demographic and lifestyle (attitudes, interests, and opinions) factors. In India, for example, Hindustan Lever consumer goods company profiles villages, including dialects, education levels, religions, literacy rates, and even the number of bank balances above specific levels.[9]

Where profiles are similar to those in other markets, product and service transfers from those markets (the basis of global and multimarket strategies) can be contemplated. Product and service mix options include transferring product or service concepts from home markets or from other subsidiaries (e.g., from other Asian affiliates for a new Asian start-up company). Where significant variations exist in customer profiles (affluence, education, the presence of multiple ethnic or language groups, or differences in religious affiliations), firms are careful about product and service transfers and may customize their marketing approaches. This may involve major adaptations to product or service transfers or creating new items for use in the market. In most cases, market research and customer testing is necessary.

Fifty percent of Japanese companies do not have a marketing department, and ninety percent have no special section for market research. The reason is that everyone is considered to be a marketing specialist.

Hiroyuki Takeuchi,
U.S. educator and business writer

The Global Web

For some listings of market research firms worldwide, regionally and by country, see www.imriresearch.com.

Marketing research services. Many firms outsource data-gathering activities, particularly in unfamiliar markets, to locally based companies that are aware of the problems associated with doing market research in their locales. These problems include unusual social class categories (such as the UK's A–E lifestyle classifications), unreliable government statistics, and data collection problems (focus group usefulness, obtaining reliable samples of consumers, uncooperative respondents, telephone research biases, mailing list problems, etc.). Fortunately, market research organizations have become increasingly global, often following major clients into foreign markets. Ten out of the top 20 are U.S. firms, with IMS health at number 2 with $1.75 billion from over 75 countries. Six other top-20 global research organizations are European, with VNU (Dutch), Taylor Nelson Sofres (UK), and Germany's GFK Group rounding out the top 4. All have over 30 foreign locations and receive over half their revenues from foreign operations.[10] Some of the services they offer include brand image measurement and tracking; advertising research—messages, pretests, post-tests; new product testing; customer satisfaction and relationship measures; attitudinal/lifestyle research; media exposure data and expenditures; and consumer panels.

Supply Chain Analyses

Supplier considerations. Availability and quality of local suppliers determine what can be sourced within the market and what must be sourced internationally. Where there are problems with in-market suppliers, options include (a) upgrading local suppliers through training programs, (b) acquiring and managing local suppliers, or (c) encouraging foreign suppliers to invest locally. Other factors affecting localized supply chain will be discussed in Chapter 13. Where international sourcing looks likely, national trade policies are examined (including balance of trade and payments situations), along with any problems involved in obtaining timely supplies (including infrastructure facilities, especially for just-in-time manufacturing). Tariff and non-tariff barriers must be assessed. Discussions with importers can alert companies to non-tariff barriers such as special product designs or quality requirements, government subsidies to local industries, variations in customs valuations, administrative delays (e.g., product inspections procedures), or xenophobic buying habits (e.g., "Buy American" laws in some U.S. states, or requirements that imports should be carried on domestic ships or airlines). Discussions of global and multimarket sourcing strategies are continued in Chapter 11.

Manufacturing investment and site location decisions. This involves evaluating many factors, including the following:

Investment permissions: Many nations, particularly in the developing world, require approvals from one or more government ministries. In Malaysia, for example, investment approvals must be obtained from the Malaysian Industrial Development Authority. This body screens potential investments to ensure a suitable fit with national industrial development goals, a process that normally takes 6 weeks to 2 months. Well-planned proposals must include job creation opportunities, estimates of sales and profits, raw material and component needs—locally sourced or imported, and export contributions.[11]

Investment incentives: Many governments are keen to direct new investments to specific parts of the country and offer location incentives. For investments sited in underdeveloped parts, Egypt provides regional incentives, including profit tax exemptions for 10 or 20 years, free land, and government-supplied infrastructures (e.g., roads, energy, water supplies).[12] Within the European Union, EU project assistance varies according to whether areas are classified as backward, in long-term industrial decline, or in need of economic diversification away from agricultural pursuits. Incentives also vary by company size, with large firms receiving the fewest benefits.[13]

Industry-specific incentives encourage development in individual sectors. Peru's priority sectors include basic foodstuffs, medicines, and industrial machinery. In addition, mining, gas and oil industries can qualify for tax exemptions, credits, and foreign exchange allowances.[14]

Where countries wish to promote export, re-export, or product processing bases, they establish foreign trade zones (FTZs). These are specially designated customs-free areas where companies can assemble, store, package, and otherwise process goods without being subject to national tariffs, duties, quotas, and permits. Products remain unaffected by customs laws unless they are sold within the country where the FTZ is located. The United States has over 200 such FTZs.

Infrastructure connections. However, despite the generosity of government regional incentives, firms must be assured that locations will meet operational requirements, including access to energy needs and good communications infrastructures (roads, rails, air, sea, and telecommunications facilities). Other infrastructure factors include ready access to raw materials, suppliers, or customers.

Labor quality and availability are key issues in choosing where to manufacture. Supplies of skilled and unskilled labor are essential for many industries. The quality of national educational infrastructures is also important, as general education levels and the availability of trade and vocational colleges affect the supply of skilled labor. Likewise, the quality of college and university educations affects supplies of managers (e.g., graduates of business schools), and technical personnel (engineers, scientists).

> Labor is the great producer of wealth; it moves all other causes.
>
> *Daniel Webster, 19th-century U.S. statesman*

Labor laws and their enforcement affect management relations and corporate cost structures. Most nations have labor laws such as Mexico's 1969 Federal Labor Law that covers labor contracts, wages, hours of work, legal holidays, paid vacations, trade union rights and regulations, strikes, and dismissal procedures and compensation. Within these general codes and laws, specific issues are given prominence, such as health and safety codes; collective bargaining rules (who may strike and who may not) and rules for arbitration; minimum wages and fringe benefits (which in Mexico add 70–100 percent to base payroll expenses); workweek lengths, shift work, and maternity leave benefits (Mexico allows 12 weeks of maternity leave and additional benefits); rules and rights of part-time and temporary labor; employment termination; and employment of foreigners.[15]

Information technology and e-commerce issues. Supply chain coordination has become a key issue for international firms, and managers today routinely evaluate the status of information technology (IT) development within nations as it affects supply chain coordination (with suppliers and distributors), sales (the extent to which transactions can be conducted directly with consumers), and internal coordination (corporate Internet communications). While e-commerce is well developed in the industrialized nations, there is considerable variability in developing countries, where infrastructure deficiencies and poverty are key obstacles. Mexico's Internet user rate rose from under 3 million in 2000 to over 17 million in 2006 under the impetus of an ambitious national program named e-Mexico;[16] in Pakistan's case, poor infrastructure, limited computer use, and a state-owned telecommunications monopoly has slowed e-commerce development.[17]

> It is only when they go wrong that computers remind you how powerful they are.
>
> *Clive James, British journalist*

Cost chain considerations. Cost chains are financial breakdowns for supply chain activities and include supplier costs, labor, manufacturing and distribution costs, capital depreciation, and taxes affecting customer prices. Of these, firms have the least influence over labor, depreciation, and taxation costs, as these tend to be market- or government-controlled.

Wage rates are normally subject to national minimums and are market-determined above that level. In Peru, the minimum wage in 2006 was 460 Ns (Nuevo Sol—about $120) per month. Industry variations were from 1,400 Ns per month for construction to about 4,200 Ns in the mining sector. Additional wage differences relate to skill status (blue collar—unskilled, semiskilled, skilled, white collar—graduates, junior, senior management).[18] Additional costs accrue with social security, pension, and payroll taxes that can add 20–100 percent onto basic wage and salary rates.

Depreciation allowances. Most countries operate on straight-line (i.e., nonvariable) methods for assessing depreciation of various asset types. Egyptian rates are 2–5 percent for buildings, 10–15 percent for plants and machinery, 6–15 percent for furniture and fixtures, and 12.5–20 percent for office and accounting machinery.[19]

Value-added, sales, and excise taxes. Many nations have value-added taxes that are assessed on monetary value added in the manufacturing process (as in the EU, where it averages about 15 percent); general sales taxes assessed at point of purchase (often with many exemptions for foods, medicines, etc.); and special excise taxes that are levied on specific sectors such as alcohol, tobacco, and petroleum.

Business Environment Analyses

Outside of industry, demand, and supply chain factors, two other areas require expert analysis: financial aspects and legal infrastructures.

Financial aspects: Capital markets, taxation policies, and currency issues. These consist of the following areas.

National capital markets: These need evaluating to ensure assess to local capital. While many international companies prefer to fund their own subsidiaries to maintain control and minimize local shareholder interference, there are times when raising capital locally is the preferred option. (The pros and cons of international versus local financing will be fully discussed in Chapter 8.) Where local long-term financing is used, national stock markets must be evaluated, or where these prove deficient, other financing options can be contemplated. Medium- and short-term capital needs are more likely to be locally sourced. Medium-term funds are used for projects such as additional facilities (e.g., warehouses) or financing special research projects. Short-term capital is necessary to finance inventories, exports, and the like. In both cases, local banking facilities and cost of capital factors weigh heavily in financing decisions.

Corporate taxation and taxes affecting international operations: Most nations tax profits (exceptions include island states such as Bermuda or the Cayman Islands). Most often, these are in the 30–40 percent range (Peru's base rate is 30 percent, Mexico's is 35 percent, and Egypt's is 32 percent). Some countries, to attract investment, grant international firms "tax holidays" (partial or complete exemption from taxation) for specific time periods. Other taxes that must be factored in for international companies include those on profit remittances, capital loans, royalties, and fees. Taxes on royalties and fees differ by country. Withholding taxes up to 30 percent are common in Latin America, but in most countries, there are few or no restrictions. Mexican authorities routinely scrutinize "excessive" transfers to ensure that no advantage is being taken of legal allowances; and the Chinese government varies its taxes on royalties and fees to encourage technology transfers in specific industries.

> In this world, nothing can be said to be certain, except death and taxes.
>
> *Benjamin Franklin*

Currency considerations: National currency values and behaviors are key issues for international firms as they affect foreign sourcing abilities; export potential; asset valuations for corporate balance sheets; and repatriation of profits, fees, royalties, and the like. Two prime issues top management's currency concerns. The first is currency convertibility—whether the country's currency is acceptable outside of its national borders. Where national currencies are soft (i.e., inconvertible/unacceptable), international companies must often generate hard/convertible currencies—often through exports—to help money repatriation efforts. Where nations have persistent balance-of-payment problems, excessive imports, rapidly depreciating currencies, or major capital outflows, restrictions on currencies are likely.

The second issue is currency value. Movements in currency values depend on what exchange rate arrangement the country uses (common currency, currency board, fixed rates, managed or freely floating—see Chapter 2). Stable exchange rates facilitate planning with regard to trade, investments, asset valuations, and money movements in and out of countries. But as is often the case with developing nations, depreciating exchange rates (i.e., increasing numbers of national currency units per dollar or euro) are often "normal." Depreciating exchange rates aid exports, make imports more expensive, and force in-market subsidiaries to earn increasing profits locally to generate respectable incomes for parent companies. In general, depreciating exchange rates complicate financial planning for international firms.

Legal infrastructures. These define permissible behaviors for international companies and cover a wide range of business areas, some of which are included in the following.

Industry ownership limitations: Most countries have industry sectors that are "off-limits" to foreigners, or where foreign participation is restricted to joint ventures. In Vietnam's case, foreign banks are allowed only 49 percent ownership of local banks for the first 9 years. In 2002, the country expanded the number of industry sectors where foreign ownership is permitted from 12 to 35; and in 2006 it lifted the 30 percent minimum foreign ownership limit for joint ventures.[20] In Thailand, foreign ownership is prohibited in media (newspapers, TV, radio), agriculture, historic relics, and real estate.[21]

Monopoly and anti-trust laws: In many countries and regions, governments are wary of the abilities of international firms to build powerful marketplace positions, and most have laws in place to limit monopoly-threatening strategies. In the European Union, for example, the Directorate-General for Competition is the antitrust enforcement agency. Assisted by national bodies (including the United States' antitrust commission), this agency has the power to investigate mergers that have the potential to limit competition within the EU. In Thailand, the 1995 Takeover Code requires firms to inform the Thai Securities and Exchange Commission of intentions to purchase over 25 percent of a company's shares and to notify all relevant parties.[22]

Intellectual property laws: These are important for high-tech firms and companies wishing to maintain control over brand names, logos, manufacturing processes, and the like in foreign markets, as "pirating" and counterfeiting are problematic in many countries. Worldwide, counterfeiting accounted for about $456 billion in 2003 or about 7 percent of global exports, and pirated computer software accounts for about 70 percent of the markets in the Middle East, Africa, and Latin America.[23]

Protection for intellectual property can occur at the supranational or (more frequently) at the national level. At the multi-country level, for example, there is the European Patent Convention (EPC), established in 1978. The EPC does not grant Europe-wide patents. Rather, it grants a bundle of national patents that differ according to each contracting country's laws. While the EU's eventual aim to have regionwide patent protection under a harmonized law, progress toward this goal has been sporadic, though a number of EU directives have been issued covering semiconductors, computer programs, medical products, authors' rights, and databases.[24]

Most companies rely on national laws for protection of intellectual property rights. This simplifies registration and gives firms accountability through national legal systems. Problems occur in countries where (a) legal systems are not sufficiently developed to include meaningful intellectual property protection laws; (b) laws are in place but enforcement is problematic due to ineffective policing or corruption; or (c) judicial systems are slow, corrupt, or subject to manipulation (e.g., xenophobic tendencies).

China's situation is typical among many industrializing countries. While the nation is a signatory to the major global patent conventions and has constantly amended its intellectual property laws since the early 1980s, significant problems exist in its enforcement policies. Much software is pirated, as are computer and video games. Estimates put U.S. counterfeiting losses at between $2.5 and $3.8 billion in sales. In addition, consumer products such as infant cereals have encountered increasing incidences of trademark violations.[25]

Consumer protection laws: Almost all nations have laws protecting consumers against unscrupulous business practices. These cover product/service warranties and performance guarantees; truth-in-advertising legislation (what is or is not deceptive advertising); restrictions on sales promotions; rules on predatory pricing; and distributor contracts, rights, and obligations.

Caveat emptor—Let the buyer beware.

Environmental laws: These cover many areas. In the Czech Republic, for example, major efforts have been made to upgrade environmental protection to conform to EU standards. Particular attention has been paid to air, water, and soil pollution standards; waste recycling, sewage treatment, and water pollution from agricultural pesticides, and the draining of industrial waste into waterways have been identified as problem areas.[26] Heavy industry, such as metal smelting and manufacture, and chemical companies are particularly affected by national environmental policies.

Local company organization: When firms establish subsidiaries, they must conform to local statutes concerning organization and shareholder/owner responsibilities. Taiwan's laws are typical and have four basic formats: the unlimited company, where at least two shareholders have unlimited liability for its obligations; the unlimited company where some shareholders have limited liability; limited share companies whose owners' liabilities are limited to the proportion of shares they own; and limited companies whose owners are liable only to the extent of the capital they contribute. These different formats vary according to the capital requirements, board of director appointments and duties, financial disclosure, voting rights, dividend payment preferences, and other criteria.[27]

CULTURAL ANALYSES

All countries tend to develop differently, and cultural differences, particularly at the national levels, continue to be important. As national cultures are too numerous for exhaustive categorizations, managers can obtain good overviews of national cultures through specialized sources (e.g., Brigham Young University's *CultureGram* series). *CultureGram* guides include:

The Global Web

An excellent website on business travel is www.globalroadwarrior.com.

First click on one of the continents on the map. Then choose from the "Select a Country" pull-down menu where you will find lots of country details. Registration is required for this site.

- *General national background* including land size, climate, history, economy, government, education, population, religion, language, and health system details.

> Culture is not just an ornament; it is the expression of a nation's character, and at the same time it is a powerful instrument to mould character.
>
> *Somerset Maugham, 19th- and 20th-century English novelist*

- *Interpersonal relations:* The importance of the family unit; dating and marriage customs; personal appearance (how casual, fashionable, formal); visiting formalities (punctuality, gift giving); greetings (degree of formality, handshakes, embraces, bows, physical space); eating habits (use of hands, utensils, finishing/leaving food, compliments about food, when to begin eating); tipping (whether to tip, how much); attitudes and behaviors toward the opposite gender and children (appropriate greetings); gestures and body language (hand movements, use of right hand in the Middle East, pointing, not showing sole of foot in certain countries, whistling, winking, public displays of affection).
- *Lifestyles:* Eating in/out; recreational habits (national sports, movie and TV watching habits, dance, concerts); diet (major meats, food groups, taboo foods, specialty items, degree of spiciness); recreational refreshments (alcohol, tea, coffee, etc.); and business hours (including siestas).
- *General attitudes* are important, particularly those toward family, friends; punctuality, modesty, humility, surprises, embarrassment, degree of materialism, fatalistic or go-getter attitudes, religiosity, social classes, ethnic identities, cleanliness, and male–female relations (such as degree of chauvinism).

Key Points

- Thorough examinations of national markets entail reviewing background information on country history and geography; assessing the current political, economic, and international situations; and evaluating the commercial environment and national culture.
- Historical background traces national political development and economic change (including industrialization processes). It also includes national country profiles; internal divisions; ethnic, religious, and cultural conflicts; and how external factors such as global and regional institutions and national rivalries moderate national policies.
- How geographic factors such as country location, climate, population concentrations, resources, and topography affect national development,. They also affect infrastructure development (utilities, energy, communications and transportation).
- Managers then examine the current political, economic, and international situations. Political analyses include assessing political systems, assemblies, party and personality profiles, and what factors contribute to political risk and the likelihood of political change.
- National economic positions should be assessed in their regional context first, and then through examinations of economic indicators, private sectors, and memberships in international organizations.
- Analyses of country balance of payments show how nations are performing in international trade in products and services, income flows, and government

money movements on the current account, as well as country investment inflows and outflows in machinery, direct investments, portfolio investments, and money movements. Merchandise trade balances are indicators of future trade policies, and overall balances of payments indicate pressures on national currencies to appreciate or depreciate against world currencies.

- Commercial analyses comprise examinations of national industry conditions, and evaluations of national demand (customers, segments), supply chain factors, (including supplier considerations), and various influences on manufacturing site selection such as investment permissions, incentives, infrastructure availability, labor, information technologies, and cost chain considerations.
- Business environment analyses review general factors affecting operations in foreign markets, including financial elements (capital markets, taxation, and currencies), and national legal infrastructures (limits on ownership; anti-trust laws; and legal regulations on intellectual property, consumer protection, environment, and local company organization).
- Cultural analyses look at national backgrounds and behaviors, including interpersonal relations, lifestyles, and general attitudes.

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SHORT CASE 5.1 The Japanese Economy: Historical Perspectives and Current Situation

Japan is known as the "land of the rising sun." In Japanese mythology, the two major islands that became Japan were created from gods, Izanagi and Izami. It was their daughter, Amaterasu, the sun goddess, who has come to symbolize Japan's long and proud history dating from 600 BC. Its emperors, starting with Jimmu (Amaterasu's grandson), have remained constitutional figureheads to the present day with Emperor Akihito. Throughout Japanese history, power struggles between the emperor and the powerful clan-based families; the shoguns (feudal lords) dominated the country until the late 19th century when the emperor regained effective control after the Meiji Restoration in 1868. Japan's religion, Shinto, supplemented with Buddhism, Confucianism, and Taoism, reinforced the hereditary-based emperors and shoguns with a conformist and respect-based culture that emphasized tradition and obedience to authority.

Japan's geography can be said to have contributed to its national culture and development. Asia's geographic distance from the West ensured that European influences on Japanese culture were muted during the 16th- to 19th-century colonization period, and shogun actions in expelling all foreigners from the country in 1639 contributed to Japan's isolation. Their fear was both faith-based (Christianity challenged the indigenous Japanese religion) and military, as Japanese swords and bows were no match for Western gunpowder-based weapons. The country's island status further insulated Japan until the United States' Admiral Perry arrived in 1853 and compelled Japan to open its doors to the West. This began, especially after the 1868 Meiji Restoration (in which the emperor reasserted control over Japan), with a modernization process that led to its establishment as a world power in the early 20th century. The country's folk-based Shinto religion was reoriented to emphasize the nation-state ("State Shinto") with the emperor as a god. A unified patriotic Japan began to assert itself as the first modern industrial state of Asia. Imperial aspirations led to occupations of Korea (from 1910) and China (during the 1930s) and led ultimately to the country's ill-fated participation in World War II.

After 1945, and a brief occupation by U.S. military forces, Japan emerged with a new constitution. Its post-war focus on economic development paid off with rapid industrialization and modernization. The country's lack of natural resources (coal had been its major energy source until the early 20th century), and lack of cultivatable land (only 11 percent) had caused major dependencies on imports to sustain its economic prosperity. This led to a sustained drive to export that exists to the present day. Its trading companies, founded in the 16th century, became export powerhouses, and the 1970s to 1990s saw Japan emerge as the world's second-largest free market economy.

However, the 1990s saw a gradual reversing of Japanese economic fortunes. As world markets opened up under the impetus of global capitalism, Japan's market became embroiled with accusations of protectionism and a closed market mentality. The Liberal Democratic Party (LDP), which had monopolized Japanese politics since 1945, came under external pressures to open up the domestic economy to the full forces of international competition. Successive LDP leaders tried to institute reforms to break up the country's traditional *keiretsus*—the interlocking ownership patterns that insulated industrial conglomerates from open competition and made them less accountable to profit-seeking shareholders. Government finances went into disarray as public spending to jumpstart the economy failed, and inadequate revenues caused embarrassing budget deficits. Ultra-low interest rates lowered operating costs for companies whose capital structures were debt- rather than equity-based, but this resulted in slim margins for financial institutions. All it took was a few bad debts, and some financial institutions showed severe losses. The Asian "iron rice bowl" tradition of full employment came under pressure as unemployment rose from under 3 percent to 5.4 percent in 2002.

But global skeptics will have their say. Japan, they claim, is not in that bad an economic shape. Its unemployment rate is similar to that of the United States, and it is significantly below European levels. The country's trade performance continues to be very positive. If Japan has economic woes, the argument goes, they are self-inflicted.

Questions for Discussion

1. Review Japan's geography and brief history. Japan has been profiled as ethnocentric (feelings of home country superiority) and nationalistic; protectionist, xenophobic, and very wary of Westernization; very export-oriented; and a culture characterized by social distinctions and deferential respect for superiors. What factors do you think have contributed to this profile?
2. Below are some current statistics on the Japanese economy (Tables A and B). What is your assessment?
3. Evaluate Japan's balance of payments (Table C). What do you see? Do you see any connections with Japan's national history?

TABLE A Comparative Economic Indicators: 2007

Economic Indicator	*Japan*	*USA*	*Germany*	*China*
GDP (US$ bn)	4,384	13,840	3,322	3,251
GDP/head (PPP US$)	33,600	45,800	34,200	5,300
Inflation (%)	0.0	2.9	2.3	4.8
Current Account Balance (US$ bn)	212.8	−738.6	185.0	360.7
Merchandise Exports ($ bn)	676.9	1,149.0	1,334.0	1,217.0
Merchandise Imports ($ bn)	572.4	1,965.0	1,089.0	901.0
Foreign Trade (% GDP)	28.5	23.0	72.9	65.1

TABLE B Selected Japanese Economic Indicators: 2004–2007

Economic Indicator	*2004*	*2005*	*2006*	*2007*
GDP per capita ($ at PPP)	29,142	30,404	32,080	33,603
GDP (% real change per year)	2.6	1.8	2.3	2.1
Government Expenditures (% GDP)	17.9	18.10	17.60	17.5
Household Consumer Expenditures (bn yen)	284,428	285,936	290,719	293,393
Public (government) Debt (% GDP)	163.3	173.1	177.1	179.0
Consumer Prices (% change per annum)	–0.01	–0.30	0.12	0.10
Unemployment (%)	4.7	4.4	4.1	3.8
Interest Rate: Certificates of Deposit %	0.006	0.009	0.414	0.687
Exchange Rate: yen/$	108.2	110.2	116.3	117.7
Foreign Exchange Reserves ($ bn)	835.2	835.5	880.9	954.1

TABLE C Japan's Balance of Payments: 2001–2005

Japan Balance of Payments	*2002*	*2003*	*2004*	*2005*	*2006*
Goods: Exports f.o.b.	395.58	449.12	539.00	567.57	615.81
Goods: Imports f.o.b.	–301.75	–342.72	–406.87	–473.61	–534.51
Trade Balance	93.83	106.40	132.13	93.96	81.30
Services: Credit	65.71	77.62	97.61	110.21	117.30
Services: Debit	–107.94	–91.47	–135.51	–134.26	–135.56
Goods/Serv. Balance	51.60	92.55	94.23	69.91	63.05
Income: Credit	91.48	95.21	113.33	141.06	165.80
Income: Debit	–25.71	–23.97	–27.63	–37.62	–47.65
Gds./Serv/Inc. Balance	117.37	163.79	179.93	173.36	181.20
Current Transfers: Credit	10.04	6.51	6.91	9.74	6.18
Current Transfers: Debit	–14.96	–14.02	–14.78	–17.31	–16.87
B/P on Current Account	112.45	156.28	172.06	165.78	170.52
Capital Account					
Capital Account: n.i.e.	–3.32	–4.00	–4.79	–4.88	–4.76
Capital Account: Credit	0.91	0.39	0.44	0.83	.75
Capital Account: Debit	–4.24	–4.39	–5.23	–5.71	–5.51
Financial Account: n.i.e.	–63.38	71.92	22.50	–121.74	–102.34
Direct Investment Abroad	–32.02	–28.77	–30.96	–45.44	–50.17
FDI in Home Market	9.09	6.24	7.80	3.21	–6.78
Portfolio Invest.: Assets	–85.93	–176.29	–173.77	–196.40	–71.04
Equity Securities	–37.28	–4.47	–31.47	–22.97	–25.04
Debt Securities	–48.65	–171.82	–142.30	–173.43	–46.00
Portfolio Invest.: Liabilities	–20.04	81.18	196.72	183.13	198.56
Equity Securities	–16.69	87.78	98.28	131.32	71.44
Debt Securities	–3.35	–6.59	98.44	51.81	127.12

(Continued)

TABLE C (Continued)

Japan Balance of Payments	*2002*	*2003*	*2004*	*2005*	*2006*
Financial Derivs.: Assets	77.25	64.96	56.44	230.59	143.48
Financial Derivs.: Liabilities	–74.77	–59.38	–54.04	–237.12	–141.03
Other Investment Assets	36.41	149.89	–48.01	–105.66	–86.24
Monetary Authorities	0	0	0	0	0
General Government	0.92	4.49	3.87	15.22	3.48
Banks	1.59	140.78	3.24	–29.80	–7.50
Other Sectors	33.90	4.62	–55.12	–91.08	82.22
Other Investment Liabilities	26.63	34.10	68.31	45.94	–89.12
Monetary Authorities	0	0	0	0	0
General Government	0.06	5.14	0.99	12.24	–25.44
Banks	22.46	–26.22	42.73	–9.38	–48.83
Other Sectors	4.11	55.17	24.59	43.07	–14.85
Net Errors & Omissions	0.39	–37.05	–28.92	–16.84	–31.44
Overall Balance	46.13	187.15	160.85	22.33	31.98
Reserves and Related Items	–46.13	–187.15	–160.85	–22.33	–31.98
Reserve Assets	–46.13	–187.15	–160.85	–22.33	–31.98
Fund Credit and Loans	0	0	0	0	0
Exceptional Financing	0	0	0	0	0

SHORT CASE 5.2 Looking at Brazil in Its Latin American Context

You are an executive in a large consumer goods corporation that is looking at entering the Latin American market. Brazil looks to be a prime market, but as part of your preliminary examination, you are reviewing some basic statistics about the major nations in the region. Your assistant has brought you the following data.

Comparative Economic Indicators, 2007				
	Brazil	*Argentina*	*Mexico*	*Venezuela*
Population (million)	189	40	108	27
GDP ($ bn PPP)	1,836	524	1,345	334
GDP per head ($PPP)	9,695	13,307	12,381	12,261
Consumer price inflation (%) Unemployment (%) Economic Growth (%)	3.6 9.3 5.4	8.8 8.5 8.7	4.0 3.7 3.3	18.7 8.5 8.4
Gov't revenues ($ bn) Gov't expenditures	244.0 219.9	48.99 61.33	209.2 209.2	65.83 58.9
Export of goods ($ bn)	168.6	55.9	271.8	69.2
Import of goods ($ bn)	120.6	44.8	282.9	45.5
External debt ($ bn)	224	135.5	179.7	41.1
Exchange rate/$	1.95 reals	3.1 pesos	10.90 pesos	2.15 bolivars
GDP by occupation (%) Agriculture Industry Services	20 14 66	16 20 64	18 24 58	13 23 64
Specific Economic Indicators	*2004*	*2005*	*2006*	*2007*
Brazil GDP per capita (PPP) GDP real growth %	 8,280 4.2	 8,610 1.7	 9,080 2.3	 9,700 4.0
Inflation (general prices) % Household Consumer Expenditures (m reals)	6.6 1,160,611	6.9 1,294,230	4.2 1,407,940	3.6 1,557,544
Government Finances (m reals)				
Fiscal Balance (Gov't income— expenditures [%])	−2.4	−2.9	−3.0	−2.3

(Continued)

(Continued)

	Brazil	*Argentina*	*Mexico*	*Venezuela*
Public sector debt % GDP	49.3	46.7	45.7	45.1
Money supply (m reals)				
M1 (currency + demand deposits)	127,946	144,778	174,345	231,430
M2 (M1 + government bonds/bills)	493,497	582,464	661,500	781,280
M3 (M2 + savings deposits)	988,622	1,166,502	1,377,794	1,617,617
M4 (M3 + time deposits)	1,109,519	1,312,399	1,558,607	1,884,847
Interest rates—CDs %	17.14	18,76	14.38	11.50
Labor force				
Total (m)	86.9	88.8	92.8	96.0
Unemployment rate %	11.5	9.8	9.9	9.3
Global trade/investment	*2004*	*2005*	*2006*	*2007*
Exports ($ m fob)	96,475	118,308	137,807	N/A
Imports ($ m fob)	–62,809	–73,606	–91,350	N/A
Balance ($ m)	33,666	44,703	46,458	N/A
Current Account	11,738	13,984	13,620	N/A
Financial Account ($ m)	–3,333	13,144	15,113	N/A
Of which: portfolio investment	–4,751	4,884	9,574	N/A
Direct investment	8,695	12,549	9,420	N/A
Overall Balance of Payments	6,599	27,566	30,569	N/A
Exchange Rate/$	2.92	2.43	2.17	1.95
Foreign Exchange Reserves ($ m)	52,935	53,799	85,839	N/A

Sources: International Financial Statistics: IMF, June 2008; www.economist.com/countries/Brazil.

Questions for Discussion

1. How does Brazil compare to other Latin American nations in its regional context?
2. How would you assess Brazil's economic performance?
3. How would you evaluate its balance-of-payments situation?

SHORT CASE 5.3 Comparing Market Profiles for the United States, Brazil, and China

You are a Europe-wide manufacturer of earthmoving equipment who is contemplating international expansion, and you have narrowed your initial choices down to the USA, Brazil, and China. Your assistant has prepared general 2005 market profiles for these three countries. Critique these profiles.

What are the major similarities among these markets?

What are the major differences?

What other information would you require in preparing a preliminary report on these countries?

Market Factor	*USA*	*Brazil*	*China*
Background	Became independent in 1776; civil war 1861–1865; very large, steady growth economy	Became independent in 1822 after three centuries of Portuguese rule. Largest country in South America. Vast natural resources and large labor pool	One of world's first civilizations; controlled by emperors until 1911; civil/international strife until 1949 when became communist until capitalist reforms in 1980s
Total Area (square kilometers)	9,372,558	8,511,965	9,596,960
Climate	Varies from frozen tundra in the north (Alaska) to semitropical in the south. Much of United States is temperate and ideal for agriculture	Mostly tropical, temperate in south	Diverse: tropical in south, subarctic in north
Terrain	Mountainous in the west giving way to vast central plains that merge with the hills and low mountain ranges of the east	65% forests	Much of China is covered by mountains and desert; populations live in the East, where agriculture is productive
Natural Resources	Coal, copper, lead, phosphates, uranium, bauxite, gold, iron mercury, zinc, silver, potash, petroleum, natural gas, timber	Bauxite, gold, iron ore, manganese, nickel, phosphates, platinum, tin, uranium, petroleum, hydropower, timber	Coal, iron ore, petroleum, natural gas, mercury, tin, tungsten, many other minerals, much hydroelectric potential
Land Use: Arable Permanent crops Permanent pastures Forests, woodlands	19% 0% 25% 30%	5% 1% 22% 58%	10% 0% 43% 14%

(Continued)

(Continued)

Market Factor	*USA*	*Brazil*	*China*
Environmental Issues	Air pollution, acid rain, largest emitter of carbon dioxide	Deforestation of Amazon Basin, air/water pollution in urban areas, land degradation/pollution caused by mining	Air pollution, acid rain, water shortages and pollution, deforestation, soil erosion, desertification
Population (millions)	278	160	1,273
Infant Mortality: Deaths/1,000 live births	6.76	36.96	28.08
Life Expectancy (years)	77	63	72
Fertility: Children/ woman	2.06	2.09	1.82
Ethnic Groups	White 83%; African American 12.4%; Asian 3.3%; American Indian 0.8%	Whites (European ancestry) 55%; mixed races 38%; Black 6%; 200,000 indigenous peoples	Han Chinese 92%
Religions	Protestant 56%; Roman Catholic 28%	Roman Catholic	Confucian, Taoist, Buddhist
Literacy	97%	83%	82%
Languages	English spoken; 1/7 speaks non-English language in the home; native American Indians speak a vast variety of languages and dialects	Portuguese mainly spoken; 100+ native languages	70% speak Mandarin; regional dialects: Wu (Shanghai); Cantonese; Kejia; local dialects in central/ southern China
Government	Federal Republic: 50 states	Federal Republic: 26 states	Communist State: 23 provinces, 5 autonomous regions
Elections	President/Vice President elected every 4 years	President/Vice president elected every 4 years	President/Vice President elected by National Congress every 5 years

Market Factor	*USA*	*Brazil*	*China*
Legislative Branch	Senate 100 seats, 6-year terms; House of Representatives, 435 seats, 2-year terms	National Congress, 81 seats, 8-year terms; Chamber of Deputies, 513 seats, 4-year terms	National Congress, 2,979 members elected/nominated by municipal, regional, and peoples' congresses
Political Parties	Two major parties	11 major parties	One main party: Chinese Communist
Pressure Groups	Numerous	Catholic Church, landless workers, labor unions	Few/none internally; international pressure groups (e.g., Human Rights Watch)
Economy (General)	$10 trillion economy; largest and most powerful in world	High inflation up to 1994, when "Real Plan" was implemented	Quadrupling of economy since 1978; second-largest recipient of foreign direct investment globally (including Hong Kong); world's second-largest economy (GDP)
General Affluence (GDP per capita)	$36,200	$6,500	$3,600
Inflation	3.4%	6%	0.4%
Economic Growth	3.5%	4.5%	9%
Government Budget	Mounting deficit ($250 billion+)	Slight deficit (<2% budget)	In surplus
Economic Sectors (%) Agriculture Industry Services	2% 18% 80%	9% 29% 62%	50% 24% 26%
Income Distribution % Below Poverty Level Consumption of Top 10%	12.9% 30.5%	17.4% 47%	10% 30.4%
Balance of Payments	$700 billion trade deficit (imports > exports)	Current account deficits countered by surpluses on capital account	Significant surplus: Exports > imports and significant capital inflows from foreign direct investments

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Market Factor	*USA*	*Brazil*	*China*
Currency	US$ is strong but value is weakening against other world currencies	Real: 1.954/$ in 2001 to 2.43 in 2005	Yuan has strengthened from 8.27 per US$ to 7.5 in 2005
Military Expenditures	$430 billion (3.2% GDP)	$13.4 billion (1.9% GDP)	$12.66 billion (1.2% GDP)
Infrastructure			
Energy: Electricity	3.678 trillion kWh; 70% from fossil fuels	337.44 billion kWh; 90+% from hydroelectric sources	1.173 trillion kWh; 80% from fossil fuels and 19% from hydroelectric sources
Telephone: Lines Cellular	194 million 69 million	17 million 4.4 million	135 million 65 million
Radio Stations	10,000	1,600 (mainly AM)	650
Radios	575 million	71 million	417 million
Television Stations	1500+	138	3,240 (?)
Televisions	219 million	36.5 million	400 million
Internet Users	148 million	8.65 million	22 million
Railways (kilometers)	225,750	30,539	67,524
Highways (million kilometers)	6.3 (90% paved)	1.98 (10% paved)	1.4 (20% paved)
Waterways (kilometers)	41,009	50,000	110,000
Airports (number) Paved Runways Paved Over 3,047 Meters	14,720 5,174 182	3,264 570 5	489 324 27