THE NATURE AND PERCEPTION OF POLITICAL RISK FOR THE INTERNATIONAL CORPORATION: AN EXPLORATORY ANALYSIS WITH SPECIAL REFERENCE TO BRAZIL

Thesis for the Degree of Ph. D.

MICHIGAN STATE UNIVERSITY
ETIENNE F. CRACCO

1972

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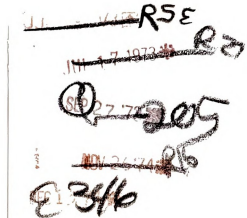

ABSTRACT

THE NATURE AND PERCEPTION OF POLITICAL RISK FOR THE INTERNATIONAL CORPORATION: AN EXPLORATORY ANALYSIS WITH SPECIAL REFERENCE TO BRAZIL

By

Etienne F. Cracco

Political risk has become a by-word among the executives of international corporations. This research attempts to conceptualize the nature of political risk and test its perception, at the same time laying a more objective foundation for future analyses of this element of risk facing the international firm.

The study tackled the objectives in a dual manner: on one hand, a conceptual framework was built around available knowledge; on the other, field research analyzed the applicability of the conceptual framework developed. Finally, concluding remarks discuss the managerial implications of using this approach.

The field research covered five manufacturing industries (motor vehicle, chemicals, electrical, metal working and office machine equipment industries) at their American and European headquarters and at their Brazilian subsidiaries.

Etienne F. Cracco

The author defines political risk as the subjective probability that certain political decisions will be taken (or certain events occur) which will perceptibly change the existing business environment. The research shows that two aspects of political risk, conceptual and operational, co-exist, and dominate in different degrees the thinking of those at the two levels of the corporation, the headquarters and the subsidiaries.

The research emphasizes three major variables in the analysis of political risk: the host country, product characteristics and firm characteristics.

The analysis of the host country and particularly its level of economic development underlines the importance of nationalism as a source of political influence.

The research demonstrates that products are submitted to varying degrees of political pressure which appear to be functions of the level of technological transferability, complexity of product use and market size.

The executive's discernment of the obstacles he faces appear to be more a function of the firm's resources and managerial philosophies than of its nationality and only minor variations in perception were found between home office and operating subsidiary levels.

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To the Escola de Administração das Empresas de São Paulo, and particularly to the former director, Professor Gustavo de Sa e Silva, to the current director, Professor Carlos Malferrari, and to Professor Alysson Mitraud and the school's secretaries who made this research feasible, I offer my appreciation.

To the companies that agreed to participate in this research and their executives who spent several hours in interviews; to the Division of Research, Graduate School of Business Administration, Michigan State University, and its members who, by their constant support, made this research possible; and to Elizabeth Marcus who performed

the invaluable function of editing, listening, and offering advice as the manuscript took shape, I am most grateful.

My greatest debt is to my wife, Gilberte, who accepted the rivalry of the research and, with her moral support, helped me finish the dissertation.

TABLE OF CONTENTS

	Page
ACKNOWLEDGMENTS	ii
LIST OF TABLES	vii
LIST OF FIGURES	ix
Chapter	
I. INTRODUCTION TO THE NATURE OF POLITICAL RISK	1
Defining Political Risk	1
Models and Frameworks for Political Risk Analysis	11
Models for Specific Risks	12
Nehrt's Model	18
Techniques for Analysis of Political Risk	19
The NICB Studies	22
Model for Political Risk Analysis	23
Research Methodology	32
Research Assumptions	32
Hypotheses	33
The Sample	36
Data Collection	40
Scope of the Study	42
Organization of the Dissertation	43
II. THE HOST COUNTRY	45
The Political System	45
Political Socialization	46
Interest Articulation	47
Political Communication	48
Sources of Political Influences	48
Politico-Ideological Influences	49
Nationalism	50
Socio-Political Influences	64
Summary	106

Chapter		Page
III.	THE PRODUCT	109
	Introduction	109
	Measuring Technological Transferability	109
	The Product--Its Political Meaning and Attributes	113
	The Literature	114
	Industry's Perception of Political Pressures	124
	Subsidiaries and Headquarters' Perception of Political Pressures	131
	Political Risk and Technological Transferability	136
	Spectrum of Political Pressures	137
	Transferability of Product Technology	138
	Transferability of Component Technology	141
	Summary	142
IV.	THE FIRM: I. NATIONALITY AND POLITICAL RISK ANALYSIS	147
	Attributes of a Firm	149
	The Firm and its Nationality	150
	Historical Importance of Nationality	150
	Interview Results Reflecting the Importance of Nationality	154
	Firm's Size and the Pursuit of Total Subsidiaries' Control	167
	Managerial Practices: The Firm's Analysis of Political Risk	170
	Reporting Political Risk	170
	Analysis of Political Risk	171
	Sources of Information	175
	Summary	177
V.	THE FIRM: II. PERCEPTION OF POLITICAL RISK	180
	Comparison of the Cracco (1970) and 1961 Robinson Study	181
	Overall Perception of Obstacles	185
	Economic Policies	190
	Interference With Remittance Policy	191
	Local Capital Participation	193
	Other Obstacles	194
	Emerging Obstacles	195
	Debt Limitation	198
	Expropriation and Corruption	199
	Analysis by Functional Areas	201
	Financial Obstacles	202

Chapter Page

Management Risks 207
Marketing Obstacles 207
Perception of Political Risk by
Organizational Level 212
Headquarters' Perception of Political Risk. 212
Subsidiaries' Perception of Political Risk. 212
Comparative Analysis of the Viewpoints . . 215
Comparative Analysis of the Results by
Nationality 216
Summary 220

VI. CONCLUSIONS: MANAGERIAL IMPLICATIONS AND
RECOMMENDATIONS 222

Managerial Implications 223
The Nature of Political Risk 223
Two Types of Political Risk 224
Orientations of Political Risk Analysis . 226
The Political Risk Triad 227
The Host Country 228
The Product 232
The Firm 233
Planning for Political Risk 235
Planning the Objectives 235
Planning Strategies 240
An Illustration 241
A Look at Brazil 243
Summary 245
Recommendation for Future Research 246

BIBLIOGRAPHY 250

APPENDICES 264

LIST OF TABLES

Table		Page
1-1.	Firm and host country characteristics	24
1-2.	Conceptual framework of the political process	26
1-3.	Sample size of companies interviewed	37
1-4.	Sample of firms by nationality	38
1-5.	Number of executives interviewed	39
2-1.	Structural influences on business environment as shown by frequency of occurrences of major obstacles.	
2-2.	Coups and revolutions in Brazil, 1922-1964	70
2-3.	Frequency of coups per country in Latin America	72
2-4.	Motivation for strikes in 1952 in Brazil	87
3-1.	Managerial implications of the product taxonomy	144
4-1.	Nationality issue. Question 1: Are there advantages or disadvantages for a corporation in being a citizen of a large economic power?	155
4-2.	Foreign concentration issue. Question 2: Is it advantageous or disadvantageous to have a large group of firms of the same nationality in the same foreign country?	161
4-3.	Home country's international role issue. Question 3: What are or have been the repercussions of the home country's role in international events upon your business environment?	166

Table		Page
4-4.	Sources of information for the international business environment	176
5-1.	Comparative ranking of obstacles by headquarters	182
5-2.	Ranking of obstacles to foreign investment .	186
5-3.	Ranking of financial obstacles	203
5-4.	Ranking of management and production obstacles	208
5-5.	Ranking of marketing obstacles	209
6-1.	Box analysis of the sources of political influences and strategic planning . . .	237
6-2.	Marketing box analysis of the political strategic planning	238
6-3.	Management production box analysis of the political strategic planning	239

LIST OF FIGURES

Figure		Page
1-1.	Investment climate analysis	19
1-2.	Simple model of political interaction . .	24
2-1.	Nationalism as measured by managerial restrictions and the level of economic development in 69 countries	63
2-2.	Obstacles to foreign investment as a function of the level of economic development	90
2-3.	Obstacles to foreign investment as a function of the level of economic development	91
2-4.	Latin American imports from Great Britain and the United States and the incidence of coups, 1854-1910.	97
2-5.	Coups in Latin America: five-year moving average, 1823-1966	99
2-6.	Probability of a military coup as a function of the Latin Business Cycle . .	100
2-7.	Brazil's economic fluctuations and coups d'etat	102
3-1.	Curves of ISO--importation and threshold of production for electrical material .	112
3-2.	Evaluation of obstacles to foreign investment by industry	125
3-3.	Evaluation of obstacles to foreign investment by industry subsidiaries . .	132
3-4.	Evaluation of obstacles to foreign investment by industry headquarters	134
3-5.	Spectrum of political pressures	139
3-6.	Dimensions of a product	143

Figure Page

5-1. Evaluation of obstacles to foreign investment by all industries headquarters, subsidiaries and by nationality 189

5-2. Evaluation of obstacles to foreign investment by headquarters (U.S. and foreign) and by subsidiaries (U.S. and foreign) . 214

CHAPTER I

INTRODUCTION TO THE NATURE OF POLITICAL RISK

Assume one is responsible for investment policy in a multinational firm. He has been provided with the following resumés of newspaper clips from countries A, B, and C. Would he invest in:

> Country A, where five political leaders have been assassinated in the last eight years, which has been involved for the last seven years in a major international conflict, where unemployment and inflaction are at their post World War II all-time high, and where strikes, student riots, and bombings are common events?
>
> or Country B, where political stability has been the rule despite some street riots, where the country has been involved in two international conflicts during the last eight years, where unemployment, although stabilized, is still a problem, and which has not devalued its currency in the last five years?
>
> or Country C, where military dictatorship is said to have prevailed since April 1964, where since that time inflation has run between 20 and 35 percent, where devaluation is a bimonthly event, and where repatriation of earnings is limited to 12 percent of the registered capital?

Based on the above data, Country B would appear to offer the least political risk. However, many observers in possession of a wider array of facts would consider it the least attractive. The above newspaper-type descriptions

could simply reflect the politico-economic situations of the United States, India, and Brazil. Clearly, political risk from the multinational firm's viewpoint is not merely a function of political instability but also incorporates a wide range of other elements; consequently, there is a need to develop a framework for its analysis.

Defining Political Risk

Political risk has been equated with political instability by many writers, with revolution by political scientists, with nonbusiness risk by economists, who claim the discount rate accounts for it, or with the probability of expropriation by many neophytes in international business.

Lee Nehrt's study, Political Climate for Private Investment[1] views the investment climate as a composite of economic, social, administrative, and political factors. The political climate encompasses a variety of risks--of nationalization or expropriation, of being forced out of business by deliberate government action, of forceful government participation in the ownership of a company, and the risk of future direct competition from a publicly-owned company.

Nehrt indicates that it is the administrative climate about which investors voice the most frequent

[1] L. Nehrt, Political Climate for Private Investment (New York: Praeger, 1970).

complaints, including exchange controls, import permits, restrictions on the use of foreign personnel, corruption, and price controls. Apparently Nehrt does not see any relationship between the political and administrative climates, although the latter could very well be dependent on the former.

The United States Agency for International Development (AID) guarantee programs offer investment guarantees through application of insurance which covers specific and extended risks. Specific risk coverage encompasses inconvertibility and expropriation, and war, insurrection, or revolution; extended risk coverage encompasses both business and nonbusiness risks, including currency devaluation and creeping expropriation not insured by the specific risk coverage.[2]

Stefan Robock believes political risk exists when "(a) discontinuities or radical changes occur in the business environment, (b) which are difficult to anticipate and (c) which result from political fluctuations and

---

[2]These programs cover only countries which have entered into bilateral agreements. See David B. Zenoff and Jack Zwick, International Financial Management (Englewood Cliffs, N.J.: Prentice Hall, Inc., 1969), pp. 109-111. Also AID, Specific Risk Guaranty Handbook (Washington, D.C.: 1966); AID, Extended Risk Guarantees of Loans for Private Projects (Washington, D.C.: 1964); Marina Von Neumann Whitman, Government Risk Sharing in Foreign Investment (Princeton: Princeton University Press, 1965).

disturbances."[3] He states that these three considerations are necessary, and should potentially affect the profit picture of the enterprise, or one of its other goals. A few lines later, however, he modifies his definition, writing that in some cases "the difference between normal business risk and political risk may be a matter of degree and it becomes difficult to draw the line between continuity and discontinuity, between certainty and uncertainty and to determine that political forces are dominant."[4]

Franklin R. Root defines political risks as those "beyond normal business risks that are generated by the attitudes, policies, and overt behavior of host governments and other local power centers such as rival political parties, labor unions, and nationalist groups."[5] This approach to political risk broadens the above-mentioned definitions but tends to infer that government and local power centers are the sources of political influence, a view which, as will be explained later in the chapter, appears incomplete.

These definitions reflect widely held views concerning political risk, but they do not define its nature.

---

[3]Stefan H. Robock, "Political Risk: Identification and Assessment," Columbia Journal of World Business, VI, No. 4 (July-August, 1971), 6-20.

[4]Op. cit., pp. 7-8.

[5]Franklin R. Root, "U.S. Business Abroad and the Political Risks," MSU Business Topics, XVI, No. 2 (Winter, 1968), 72.

Expropriation or nationalization are extreme events, but they will occur long after other symptoms appear. Quite often expropriation may be a relief for the harassed firm. The heart of political risk seems to lie in events which culminate in these major obstacles; when expropriation takes place, it is too late to react. Political risk encompasses smaller risks which taken as a whole, might become an important political risk. If these definitions are stretched far enough it might be possible to incorporate everything into them. However, definitions alone do not supply a conceptual framework of analysis, which is necessary for understanding the political process and/or for planning for political risk.

What is political risk? Political refers to the system of governing a nation, that is, the means which public authorities, charged with preserving the independence of their nation, use to reach their socio-economic goals, which may vary over time. Risk refers to objective uncertainty. T. D. Hammond, in analyzing the meaning and measurement of risk, writes:

> Risk has been equated with uncertainty and with chance of loss, with different writers giving to the concept different meanings . . . uncertainty of loss . . . a psychological phenomenon that is meaningful only in terms of human reactions and experiences . . . objective doubt concerning the outcome in a given situation . . . . If taken to mean something that

> is measured by a probability statement, there is the problem of accurate inputs for the statement.[6]

Frank H. Knight, in Risk, Uncertainty and Profit, stresses that a

> change of some kind is prerequisite to the existence of uncertainty . . . that we live in a world full of contradiction and paradox, a fact of which perhaps the most fundamental illustration is this: that the existence of a problem of knowledge depends on the future being different from the past, while the possibility of the solution of the problem depends on the future being like the past . . . . The significance of change is that it gives rise to the problem of control of action, and in this respect the difference between predictable and unpredictable change is conspicuous. The fundamental difference is one of degree only, and consists in the greater unpredictability of some actual progressive changes.[7]

Thus, political risk is defined in this study as the subjective probability that certain political decisions will be taken (or certain political events will occur) which will perceptibly change the present business environment; it is the possibility of change in a government's behavior which affects the business environment.

The implications of such a definition are numerous. The political outcome could lead to favorable or unfavorable changes in the business environment. Political risk in the traditional prejudicial sense for one corporation

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[6] J. D. Hammond, Essays in the Theory of Risk and Insurance (Glenview, Ill.: Scott, Foresman and Co., 1968), p. 3.

[7] Frank H. Knight, Risk, Uncertainty and Profit (New York: Kelley and Millman, Inc., 1957), pp. 313-315.

could be political opportunity for another; from that perspective political risk and opportunity are two sides of the same coin. The author recognizes that, in general, more emphasis is placed on the unfavorable possibility. Political risk is not equated with political instability. Although there might be some relationship between economic development and coups d'état, political risk in international business is only concerned with changes in the business environment. A country that has ten different presidents in as many years because of coups d'état or political crises does not present ipso facto more political risk than a country that has democratically elected a new president every four years.

This approach to political risk broadens considerably the too narrow concept used in the past which encompassed only extreme situations: expropriation; nationalization; risk of being forced out of business; forced government participation in the ownership of a company; risk of future direct competition from a publicly owned company; and the like. It encompasses such politico-economic decisions as product-line control, minimum export quotas, price controls, foreign personnel restrictions, local capital participation, local and foreign debt limitation, and discriminatory practices in administrative action or legislation.

Political risk analysis focuses, then, on the sources of political influence and on the channeling institutions which translate influence into political decisions which affect the business environment. Expropriations, minimum export quotas, and discriminatory legislation, commonly called obstacles to foreign investment, are only symptoms, or outcomes, of these changes in the sources of political influence. These sources are varied, ranging from ideological to social and/or economic. Political risk analysis, from that vantage point, is closely related to the study of socio-economic changes that might disrupt the present equilibrium of forces in the long run.

Changes in the business environment brought about by political decisions may maintain,[8] regulate, or modify the business environment. Changes need not be abrupt or radical. Quite often a multitude of small changes ultimately creates a worse business environment than a radical change. India is a case in point; continuous accumulation of petty harrassments has transformed India's business environment into a "nightmare for any multinational corporation" in the words of an executive interviewed in this study.

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[8]To artificially maintain a status quo in an environment that usually was under constant change is a definite change in the environment.

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Objectives and Value of the Research

The basic objective of the research is to provide more insight into the nature of political risk and to develop a framework for its analysis. Thus, if successful, a decrease in the level of emotionalism and uncertainty hopefully would be achieved. In the process, communication problems between multinational corporations and governments are pointed out. As Nehrt observes, "in addition to myth and misinformation, the political climate of a country is surrounded by vagueness and uncertainty . . . the basic problem in evaluating the political climate for private investment is a lack of mutual understanding."[9] Some governments, responding to the accusation that their unstable political system led to uncertainty, stated that

> political differences that would pass at home as natural discord become disturbing imbalances when viewed by investors in a distant country. The political struggles that take place within a parliamentary regime should not be mistaken for political instability.[10]

Misunderstanding concerning political risk often leads to poor evaluation of investment opportunities, which has two effects. On the one hand, the multinational corporation might discard good investment opportunities;

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[9] Nehrt, op. cit., pp. 9-10.

[10] National Industrial Conference Board, Obstacles and Incentives to Private Foreign Investment 1962-1964 (New York: Studies in Business Policy No. 115), p. 10.

on the other, the host country may become the victim of a vicious circle;

> The developing countries urgently need foreign capital investment to promote their economic growth, which is a fundamental factor of stability and the only opportunity for training skilled labor. But precisely because of the lack of stability and the shortage of skilled labor, the foreign investment escapes from these areas.[11]

The secondary objectives of the research are directly derived from the primary one. First, the researcher attempts to describe and explain the different elements in the nature of political risk, namely, the host country, the firm, and the product. Secondly, the study examines the question of whether perception in the analysis of political risk introduces any built-in bias? Professor Emile Benoit writes that most multinational corporations instinctively tend to think in nationalistic frames of reference, which are inappropriate for conducting the business of international corporations.[12] An investigation of built-in bias seeks to explain the often widely varying opinions regarding the investment climate in a given country, that is, the same obstacle may be appraised quite differently by two corporations.

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[11] NICB, op. cit., p. 10.

[12] East-West Trade Hearings before the Subcommittee on International Finance of the Committee on Banking and Currency, United States Senate, Ninetieth Congress, 2nd session on Senate Joint Resolution 169, June 4, 13, 27; July 17, 24, 25, 1968.

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The analysis intends to pinpoint differences not only among products, but also between firms of different nationalities, and within the same multinational corporation at different levels of operations (headquarters versus subsidiaries). The awareness of such a bias could lead to a re-evaluation of political risk, and consequently to a decrease in the level of host government-international corporation conflicts.

Models and Frameworks for Political Risk Analysis

A survey of the literature reveals that obstacles to foreign investments which are only some symptoms of political risk have been widely recognized and described. However, very few research results have achieved any breakthrough in devising tools or developing theories to forecast the risk under consideration. The major problems covered in the literature are: foreign exchange rate problems (devaluation, controls); expropriation and nationalization; political instability; obstacles to foreign investment; and conflicts between the multinational firm and the nation-state. Only relatively recently have general frameworks of analysis appeared, among them Lee Nehrt's schema of the political climate in North Africa, and Robert Stobaugh's suggested techniques for evaluating the foreign investment climate.

Models for Specific Risks

Foreign exchange control and devaluation.--As a potential risk, foreign exchange control and devaluation derives mainly from a country's economic situation. This topic has always been at the forefront of international trade, and institutional arrangements have been developed to cover such risks. The foreign exchange market provides facilities for hedging anticipated or actual claims by using forward contracts which enable a firm to cover its exchange risks. Theories and descriptions of the foreign exchange market and controls abound in the literature.[13]

At the level of the multinational corporation, where a sizeable investment is made in fixed assets and working capital, and where a flow of earnings is expected, forecasting methods and defensive measures have been devised.[14] Bernard Lietaerd suggests the use of a computer model incorporationg expected risk (the probability distribution of a devaluation) and cost (importance of the

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[13] Charles P. Kindleberger, International Economics, 3rd ed. (Homewood, Ill.: Richard D. Irwin, 1963), Chapter 3, pp. 47-62; Chapter 15, pp. 289-309.

[14] Mordechai E. Kreinin, International Economics, A Policy Approach (New York: Harcourt, Brace, Jovanovitch, 1971), pp. 120-137. International Monetary Fund, A Report on Exchange Restrictions (Washington, D.C.: published annually since 1950), gives a country by country recount of existing regulations.

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devaluation).[15] The optimizing model is similar to Markowitz's portfolio investment model. Zenoff and Zwick suggest a three-step approach to forecasting inflation and devaluation:[16] (1) identification of the relevant environmental variables; (2) the businessman next reaches tentative conclusions regarding the steps he would take if he were the government policy maker in the executive branch; and (3) step 2 is reanalyzed to reflect how the politician in the legislative branch is likely to react to the same information.

Expropriation, nationalization, and forced sales.-- Since the Cuban crisis and the emergence of new, politically unstable nations in search of national identity, expropriation, nationalization, and forced sales have been back in the international business limelight. The most authoritative study on the subject is John F. Truitt's "Expropriation of Private Foreign Investment: A Framework to Consider the Post-World War II Experience of British and American Investors."[17] Truitt's framework is

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[15] Bernard Lietaerd, "Managing for Exchange Risk," Harvard Business Review, March-April, 1970.

[16] David B. Zenoff and Jack Zwick, International Financial Management (Englewood Cliffs, N.J.: Prentice Hall, Inc., 1969), Chapters 3 and 4.

[17] John F. Truitt, "Expropriation of Private Foreign Investment: A Framework to Consider the Post World War II Experience of British and American Investors," unpublished Ph.D. dissertation, Indiana University, 1969.

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essentially a bi-dimensional model where propensity of, and vulnerability to expropriation is analyzed as a function of the host nation's and the firm's characteristics. The firm's three most important characteristics are the nature of its economic activity (that is, extractive, manufacturing), its strategic vulnerability, and its foreign exchange activity. The five most important national characteristics are the GNP per capita, the ideology of the ascendant elite, the public-private sector mix, the supply or character of domestic entrepreneurs, and the degree and frequency of internal political crises.

As the author points out:

> The study is essentially a taxonomic study of national and firm characteristics which might indicate the propensity of a nation to expropriate and the vulnerability of an investment to be expropriated . . . . The framework suggests in a systematic way to explain, if not predict, expropriations.

The study also has an extensive bibliography on the different aspects of the subject. Other studies merely describe U.S. business experiences and the extent of expropriation,[18] attempt to provide clues to avoid

---

[18]Franklin Root, "The Expropriation Experience of American Companies: What Happened to 38 Companies," Business Horizons, April, 1968.

expropriation,[19] or offer models for expropriation settlement.[20]

The multinational corporation and the nation state.--Consideration of the interaction between the multinational corporation and the nation-state has been widely popularized by Jean-Jacques Servan Schreiber's American Challenge,[21] but especially studied by Raymond Vernon's "Multinational Enterprise and National Sovereignty,"[22] and many other writers.[23] This approach to

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[19] William R. Hoskins, "How to Counter Expropriation," Harvard Business Review, XLVIII, No. 5 (September-October, 1970).

[20] David K. Eiteman, "A Model for Expropriation Settlement," Business Horizons, April, 1970, pp. 85-91.

[21] Jean Jacques Servan Schreiber, Le Défi Americain (Paris: Editions Denoel, 1967).

[22] Raymond Vernon, "Multinational Enterprise and National Sovereignty," Harvard Business Review, March-April, 1967, pp. 156-163; also "The Multinational Enterprise; Power versus Sovereignty," Foreign Affairs, July, 1971, pp. 736-751.

[23] Jack N. Behrman, National Interests and Multinational Enterprises (Englewood Cliffs, N.J.: Prentice Hall, Inc., 1970); Jack N. Behrman, U.S. International Business and Governments (New York: McGraw Hill, 1971); Charles P. Kindleberger, American Business Abroad (New Haven: Yale University Press, 1969), Lecture 6; Charles P. Kindleberger, The International Corporation: A Symposium (Cambridge: M.I.T. Press, 1970); Stephen Hymer, "The Efficiency (contradictions) of Multinational Corporations," American Economic Review, Papers and Proceedings, LX, No. 2, 1970; Rainer Hellmann, The Challenge to U.S. Dominance of the International Corporation (New York: Dunellen, 1971), 348 p.; Raymond F. Mikesell and

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the problem of political risk limits itself to a description of corporation practices and host nation reactions.

The basic points of conflict have been summarized by Detlev Vagts:

> (1) The MNE [multinational enterprise] has a structure and orientation which allows it to develop a strategy that is more nearly global in viewpoint than that of any previous business entity, that is, one which pays less heed to national frontiers in pursuit of its objectives; (2) the MNE's emphasis on technology makes it both a formidable competitor or antagonist and a highly desirable guest; and (3) the MNE is a large scale enterprise with many readily available resources and frequently a commanding market position.[24]

Political instability.--Political instability as a political risk has been studied principally by political scientists. Although businessmen acknowledge its importance, few studies have been undertaken to show the impact of political instability upon business climate. Vivian and Terry correlate military coups and business cycles.[25] On the other hand, over a greater period of

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others, Foreign Investment in the Petroleum and Mineral Industries: Case Studies of Investor-Host Country Relations (Baltimore: Johns Hopkins Press (for Resources for the Future), 1971); Detlev F. Vagts, "The Multinational Enterprise: A New Challenge for Transnational Law," Harvard Law Review, LXXXIII, No. 4, 1970.

[24] Op. cit., p. 19.

[25] T. M. Vivian and C. J. Michelsen Terry, "The Military Coup in Latin Politics," Worldwide P & I Planning, November, December, 1970, pp. 16-24.

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[26] Warren De
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[28] Bruce M.
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[29] Arthur S.
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time (1823-1966), Warren Dean could not prove definitely any economic-"golpes" relationships.[26] Nevertheless, none of the studies correlate coups with expropriations or other obstacles to private foreign investment. In a research study analyzing the key factors in the economic development process, Adelman and Morris showed that socio-political factors are relatively more important than economic ones. The impact (or multiplier) of political stability on economic development ranks in only eleventh place behind such other factors as extent of literacy, dualism, social mobility, importance of the indigeneous middle class, and so forth.[27]

Some political scientists have tried to develop indexes measuring the extent of political instability. Bruce Russett used as an index the number of deaths from domestic group violence per million population.[28] Arthur Banks and Robert Textor used political instability ratings.[29] Two Feierabend developed an index based on

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[26] Warren Dean, "Latin American Golpes and Economic Fluctuation, 1823-1966," Social Science Quarterly, June, 1970, pp. 71-80.

[27] Adelman and Morris, "An Econometric Model of Socio-Economic and Political Change in Underdeveloped Countries," American Economic Review, LVIII, No. 5, Part 1 (December, 1968), 1184-1217.

[28] Bruce M. Russett, World Handbook of Political and Social Indicators (New Haven: Yale University Press, 1964), p. 99.

[29] Arthur S. Banks and Robert B. Textor, A Cross-Polity Survey (Cambridge: M.I.T. Press, 1963).

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32 Ibid., pp

the occurrence of socio-political events.[30] These indices suffer from a severe limitation: their lack of relevance to business executives.

Nehrt's Model

Lee Nehrt's study, Political Climate for Private Investment, develops its own framework of analysis: the investment climate is composed of the economic, social, administrative, and political climate (see Figure 1-1).[31]

The elements of Nehrt's model of the political climate (as defined in footnote 31) for private investment are policy statements, actions, and the historical context in which political statements turn into political facts. As the author puts it: "The model is very simple. The key to its application is a systematic study which changes rumors into facts and facts into understanding."[32]

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[30] Ivo K. Feierabend and Rosalind L. Feierabend, Cross National Data Bank of Political Instability Events (San Diego: Public Affairs Research Institute, 1965).

[31] Lee Nehrt, Political Climate for Private Investment (New York: Praeger, 1970); Economic Climate (A): country's current economic situation and its prospects for future economic growth. Economic Climate (B): institutional framework for doing business in the country. Social Climate: "labor climate" but broader in content and importance. Administrative Climate: practices from the local administration and bureaucracy. Political Climate: the risk of nationalization or expropriation, the risk of being forced out of business by deliberate government action, the risk of forceful government participation in the capital of a company, and the risk of future direct competition from a publicly owned company.

[32] Ibid., pp. 15-16.

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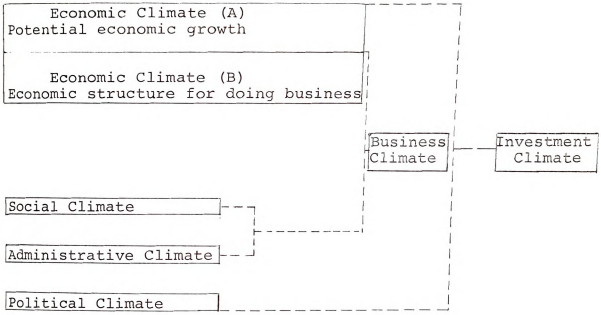

Figure 1-1.--Investment climate analysis.

Source: L. Nehrt, Political Climate for Private Investment (New York: Praeger, 1970), p. 2.

Nehrt's main goal is to develop and test a model by which the political climate for a newly independent underdeveloped country can be evaluated.[33]

Techniques for Analysis of Political Risk

Robert B. Stobaugh, Jr., in "How to Analyze Foreign Investment Climates," describes four techniques for

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[33] Ibid., p. 8.

[34] Robert B. Stobaugh, Jr., "How to Analyze Foreign Investment Climates," Harvard Business Review, September-October, 1969, pp. 100-108.

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[35] Ibid., p.

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dealing with the "tricky questions of economic and political stability."[35] These four are the go-no go, the premium for risk, the range of estimates, and the risk analysis techniques.

The first involves the consideration of one or more factors for the go-no go decision, these factors being wholly arbitrary and intuitive, based on previous bad experience, managerial philosophy, or principle.

The premium for risk analysis involves, in general, the development of a type of scale for rating countries by their investment climates. The elements analyzed are basically obstacles to foreign investment such as local capital participation, capital repatriation, currency instability, tariff protection, inflation, local financial structure, and political instability. Although such models are rather superficial, they are widely used in international business.[36]

The range of estimates technique rests on the evaluation of the variables that will affect the project's

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[35] Ibid., p. 100.

[36] F. T. Haner, special adviser to Litton Industries, developed a more comprehensive "environmental risk index" incorporating fifteen environmental factors that could be grouped into six categories: cultural compatibility; attitude toward foreign investment and incentives; political stance of governments; ability to enforce contracts; probability of takeover or destruction; and delays in approvals, construction time, and so forth. See "Evaluating the Risks in Investment Decisions: The Environmental Risk Index," Business "Latin America", November 7, 1968, pp. 353-354.

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profitability. The major flaw of this approach is that it looks at the problem only at the time of investment, not on a continuing basis, and underlying assumptions are not explicit.

Finally, the risk analysis technique is an application of probability theory. Estimates of the probable outcome of political decisions are made, are plugged into a probability tree, and the "right" information is provided if the right data were searched for to start with.

The major drawback of these approaches is that they assume the information is readily available, which generally is not the case. The underlying assumptions are not made explicit, and little insight is provided into the analysis of political risk. The risk analysis technique could appear to be the final phase in the lengthy research on political risk, but, unfortunately, study in this field is just beginning. The general flaw in all these techniques is their static nature and their initial aim of evaluating the political risk facing a particular project. Such approaches are not concerned with on-going analysis, but are merely tools used to make a summary presentation of information for a final decision.

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The NICB Studies

A major study of private foreign investment was undertaken jointly in 1961 by the National Industrial Conference Board (NICB) and the Stanford Research Institute.[37] The objectives were to explore the motivations behind the flow of investments. "One of the major findings is the difference between what businessmen and governments regard as major factors influencing decisions to invest."[38] The study asked several questions: What promotes foreign investment? What determines location? How are foreign investments financed? What government policies attract investment? What government policies deter investment? The results laid the basic foundations for the descriptive aspects of political risk.

In 1965 and 1969 the NICB pursued its earlier effort by publishing Obstacles and Incentives to Private Investment, which were updated reviews of major obstacles to private foreign investment in different countries.[39] Although these studies do not provide a framework for

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[37] Harry J. Robinson, The Motivation and Flow of Private Foreign Investment (Menlo Park, Calif.: International Development Center, Stanford Research Institute, 1961), Investment Series #4.

[38] Ibid., p. 1.

[39] NICB, Obstacles and Incentives to Private Foreign Investment, 1962-64 (New York: NICB, 1965); and Obstacles and Incentives to Private Foreign Investment 1967-68, Vol. I and II (New York: NICB, 1969).

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analysis, they do give valuable insights into the nature of political risk as perceived by businessmen.

Model for Political Risk Analysis

The two major factors involved in the framework developed in the present study are the host country and the firm. Their main characteristics are shown in Table 1-1. The basic approach to political risk is to consider the host country as a processor, the firm's decisions and resources as inputs, and the firm's results, as compared to the objectives, as outputs (see Figure 1-2). The variation between results and objectives derives from two types of risks: market and political. Variations due to market risks are not considered in this study, but these include discrepancies due to mismanagement of corporate resources and general economic fluctuations independent of political influence.

The host country may be viewed as a dynamic processor which evolves over time. Its dynamics are due to two sets of forces: external influences (for example, ideological, geographic, and economic) and internal (such as political, social structure) as in Table 1-1. On the other side, the firm has its characteristics as its product, its nationality, its managerial philosophies,

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TABLE 1-1.--Firm and host country characteristics.

Firm Characteristics	Host Country Characteristics	
Product	External:	Economic Dependency
Nationality		Ideological Dependency
Managerial Philosophy		Geographic Dependency
Human Resources	Internal:	Political Structure
Technological Resources		Social Structure
Financial Resources		Economic Structure
Relative Size of Investment for the host country		Ideological Trends
		Level of Socio-Economic Development
Managerial Resources		Natural Resource Endowment
		Demographic Factors

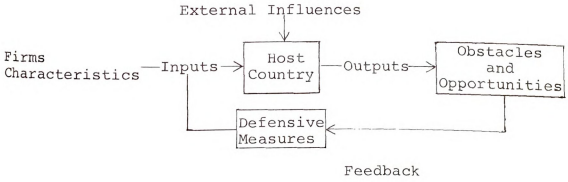

Figure 1-2.--Simple model of political interaction.

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Host country.--The host country's internal forces, which influence the business environment, do so in a three-step political process (Table 1-2): (1) there is a change in the sources of political influences which exert political pressure; (2) these political pressures are channeled and filtered through the political institutions; and (3) these political institutions, by their decisions, affect the business environment by regulating, modifying, or maintaining its present structure. Such political decisions create risks for some corporations, opportunities for others.

The three sources of political influence in the host country are social, ideological, and economic (see Table 1-2). These socio-ideologico-economic interactions shape a country's political decisions concerning the business environment. Chile is a good example of a country in which social pressure groups are forcing the marxist-dominated government to follow democratic principles, although the government still has many ways

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[40]Either from the same nation, or from other countries. It is true, nevertheless, that the greater the number of firms of a given nationality, greater will be the fears of economic imperialism by that home country which are expressed in the host country.

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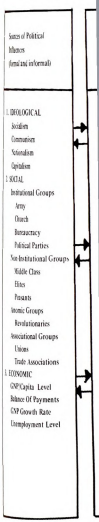
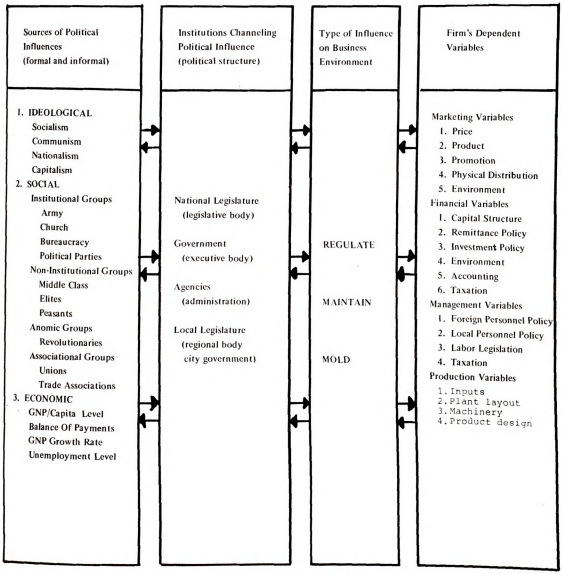


TABLE 1-2.--Conceptual framework of the political process.



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It can be said that, in general terms, politico-ideological influences are of a liberal, socialist, communist, and/or nationalist nature. Their character and strength is often substantially affected by external influences: for example, Cuba's influence in Latin America, Nasser's influence in Africa, and Red China's influence in Asia. Ideological influences will mold the economic structure and philosophy of the host country.

Social influences reflect the vested interests of groups as well as the host country's social structure. The society's historical evolution is important to determine any trend in that structure. In general, military, bureaucratic, middle class, bourgeois, aristocratic, intellectual, elitist, and religious organizations play major roles in the political process. Numerous studies have analyzed the role of the military in South America, but its influence is also great in Africa and Asia, where it has also been used to take over government by force or threat.

During a country's developmental process, economic influences tend to isolate the country from external

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and internal pressures. The resulting measures influence the business environment. Charles P. Kindleberger, in Foreign Trade and the National Economy, shows the effects of growth on trade and the resulting impact on trade expansion or contraction.[41] Concurrent with the growth of internal demand and decline in the importance of foreign trade which has been the source of foreign exchange, a developing country needs an inflow of capital and a relative diminution of imports. Most developing countries fall into that category, and trade contractions are accentuated by declining terms of trade at a time when they need an increase in export revenues. An understanding of the requirements of the economic development process leads to a better analysis and understanding by the international corporation of the significance to the host country of exchange control, import restrictions, incentives for accelerating import substitution, foreign personnel restrictions, and export promotion.

Political institutions channel, filter, and translate these ideological, social, and economic influences into political decisions. These, in turn, regulate, maintain, or mold the business environment by influencing directly the dependent variables of the firm (that is,

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[41]Charles P. Kindleberger, Foreign Trade and the National Economy (New Haven: Yale University Press, 1962), pp. 177-194.

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marketing, financial, production, and managerial variables). The institutions channeling political influences can also affect the sources of those influences (for example, the executive body or governmental institutions may affect pressure groups, and suppress an overt type of political influence). Institutions which channel political influences exist on four levels: the national legislature (political parties included); the executive body; governmental agencies (administrative); and the local legislative and administrative bodies (regional bodies or city government). Depending upon the political structure in the country, there will be from one to four active levels of institutions.

Political decisions resulting from political influences and affecting the business environment are of three different types, and are not mutually exclusive: those which regulate the environment (for example, minimum quality standards in marketing); those which maintain it (for example, temporary price controls or a surcharge tax); or those which mold it (for example, new import restrictions, expropriations, local capital participation requirements). A political decision, as in the case of local capital participation (see Table 1-2), could come from different sources of influence such as nationalists, aristocrats, army factions, unions, balance of payments

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Political decisions, in this dissertation, are viewed as the result of the interactions of different political influences deriving from ideological, social, or economic sources. The government will not always search for popular decisions, but it will do so in the long run if it wants to remain in power. The framework incorporates implicitly the destruction of wealth by guerrilla action, riots, revolutionary take over, and so forth, which would be a case of direct influential action by anomic groups, for example.

The writer intends to show the relevance of the elements in the framework, indicate their impact, and evaluate the relative importance of various political obstacles. If information on the possible relationships between various economic, social and ideological forces were available, certain hypothetical changes within the environment could be posited, different political

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[42]Truitt,

situations and responses could be conjectured, and their likely repercussions upon the business environment analyzed.

The firm.--The major characteristic of the firm is the nature of its economic activity, of which the product is the essential element. The product can become so important in the public mind that the firm's past contributions to the country become secondary. The product is so important that in many cases it comes to have an existence of its own, independent of the firm producing it. This extreme case, writes Truitt, could result only from "a real failure on the part of . . . companies to develop a public relations effort that at least attempts to explain and justify the role of private foreign investment in the host economy."[42]

Most firms do not produce a single product, but a product line and political pressure may be exercised on

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[42]Truitt, op. cit., p. 221.

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one, on some, or, on all segments of the entire line. A firm in the electrical industry, for example, could be under great pressure to locally produce small, but not large, transformers. Furthermore, the product, by its very nature, indluences key host country characteristics such as the foreign exchange situation, investment growth, new employment opportunities, and so forth.

Other firm characteristics create a whole of which individual parts are less visible in many ways than the product. Such elements as nationality, managerial philosophies, and corporate resources are interrelated, and particularly important for the perception of political risk. Franklin R. Root, in "Attitudes of American Executives Towards Foreign Government and Investment Opportunities," emphasizes the human element and notes that a gap exists between "images" held by executives about foreign investment opportunities, on the one hand, and the "actual" situation, on the other.[43]

Research Methodology

Research Assumptions

The basic assumptions underlying this research are that:

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[43]Franklin R. Root, "Attitudes of American Executives Towards Foreign Governments and Investment Opportunities," Economics and Business Bulletin, XIX (December, 1967).

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(1) Political risk analysis can be developed under some form of rational approach whereby sources of political influence and the importance of obstacles can be scrutinized and evaluated with a minimum of emotional reaction.

(2) All firms are subject to some definite patterns of political risk, with variations depending upon the characteristics of the product they manufacture.

(3) Planning against political risk is possible on a continuing basis by analyzing the host country environment and adjusting managerial philosophies and strategies.

The framework is only a beginning, but lays the groundwork for the development of future analytical research in this field of inquiry.

Hypotheses

Within the framework, five hypotheses which are related to the firm's nationality, the product, and the country's level of economic development are tested:

Hypothesis 1: There is an identifiable pattern of obstacles to foreign investment which are a function of the level of economic development.

Hypothesis 2: Nationalism is not related to the level of economic development, although its expression may vary from one country to another.

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Hypothesis 3: Changes in economic activity are relatively more important in influencing the business climate than is the absolute level of economic activity.

Hypothesis 4: (a) Different products are subject to varying degrees of political pressure. The more transferable the product technology, the greater will be the pressures for local production.

(b) The less transferable the product technology, the greater will be the pressures for producing one or more components which are technologically transferable.

Hypothesis 5: The greater the past and present power of the firm's home country, the greater will be the harassment.

Hypothesis 1 has been researched by analyzing the frequency of occurrence of certain obstacles (managerial restrictions, exchange controls, devaluation, price controls, restriction on repatriation of earnings) as a function of economic development. The data base for such research was secondary sources.

Hypothesis 2 deals with the problem of nationalism, which is perceived by many businessmen as a major political risk. What is it? Is it limited to developing countries? Is it a function of economic development? Or is everyone simply trying to be as nationalist as possible? Countries with greater dependence on others, such as Belgium, Netherlands, Luxembourg, Ireland, Ivory Coast, Portugal,

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New Zealand, Tunisia, and Morocco, should be less nationalist. To test this hypothesis, the writer relied upon interviews and library research.

Hypotheses 3, 4, and 5 are exclusively based on semistructured interviews with executives of international business firms, relating company experiences with the hypotheses. Hypothesis 3 was mainly intended to examine the importance of business cycles from a political standpoint, and the perception by businessmen of such possible cyclical patterns of political pressure. Hypothesis 4 aimed at analyzing the importance of a manufactured product in the total political environment. According to conventional wisdom, extractive, petroleum, public utilities, and agricultural industries are "risky" and "politically sensitive" investments. Very little research has investigated the manufacturing industries. Within or among manufacturing industries are there any differences, and in such cases where are they vulnerable? Five industries were chosen for this study: the automotive (including earth moving equipment), chemical, electrical, metal working, and office machine equipment industries.

Hypothesis 5 sought a relationship between the firm's nationality and its home country's involvement in international politics and the repercussions this could have upon the business environment. Do French corporations have any problems, such as loss of sales or markets,

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The Sample

As noted, five different groups of manufacturing firms were selected: automotive, chemical, electrical, metal working, and office machine equipment industries. They were selected to represent a cross-section of what is commonly called manufacturing industries. The automotive industry covers the whole motor vehicle sector: trucks, passenger cars, engines, earth moving equipment machines, tractors, and so forth. The chemical industry includes the whole range of chemical production (with the exception of the petroleum industry and its related activities): plastics, fertilizers, dyes, paints, and basic chemicals. Firms studied in the sample also produced pharmaceutical products, but in the interviews questions and responses were directed to the former product line. The electrical industry's product line ranges from consumer products, such as light bulbs or hi-fi equipment, to industrial products, such as simple resistors and electrical motors to turbines and telecommunication centers. The metal working industry incorporates a product line ranging from steel tubes and cans to machine tools. The office

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machine equipment industry covers such products as typewriters, calculators, computers, and adding machines.

The firms were chosen on the basis of their international orientation, that is at least 25 percent of their sales take place outside their home countries. Some corporations do more than 90 percent of their business in foreign countries, others barely 27 percent. The absolute size of the firms varies considerably. Despite this variation all firms were in the top 500 U.S. corporations or in the top 100 European corporations. The sample of the firms by industry is illustrated in Table 1-3. Interviews were conducted at headquarters and subsidiary levels to analyze any difference in conceptualization of political risk.

TABLE 1-3.--Sample size of companies interviewed.

	Headquarters	Brazilian Subsidiaries
Automotive	4	6
Chemical	5	6
Electrical	6	7
Metal Working	4	5
Office Machine Equipment	6	5
TOTAL	25	29

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The firms were divided into two nationality groups: European (German, French, Belgian, Italian, Dutch, and Swiss) and American. European companies were chosen because of their long time involvement in international trade. The distribution by nationality is seen in Table 1-4.

TABLE 1-4.--Sample of firms by nationality.

	Headquarters	Brazilian Subsidiaries
Foreign*	12	16
U.S.	13	13

*Mostly European

Brazil was chosen as the foreign country for study for two major reasons: the characteristics of the country, and the relationship existing between Michigan State University and the Fundação Getulio Vargas, São Paulo. Brazil is a country of 100 million inhabitants, and its market size, if not its potential, eliminates most market risks. The political history in Brazil has been highlighted at one time or another by coups, both rightist and leftist, expropriations, high inflation rates, and a forceful import substitution policy. The institutional relationship

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between Michigan State University and the São Paulo Business School (E.A.E.S.P.) allowed enormous savings in time. The Fundação provided general assistance to the author, including entree to necessary persons and secretarial help, and the Brazilian field research was completed in less than two and one-half months.

The number of executives interviewed (Table 1-5) in the field is greater than the number of firms visited. For control purposes, the writer interviewed the same company executive twice, or other executives in the same firm to cross validate responses. The list of questions related to the framework and the hypotheses asked during the interviews are presented in Appendix A.

TABLE 1-5.--Number of executives interviewed.

	Headquarters	Brazilian Subsidiaries
Foreign*	28	24
U.S.	23	21
TOTAL	51	45

*Mostly European

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Data Collection

Time constraints made a complete case study of Brazil impossible. The writer limited himself to directly available data in the libraries and in institutions such as the Banco do Brasil, Banco Central do Brasil, Fundação Getulio Vargas, Fundação I.B.G.E., and the Ministerio da Fazenda (Ministry of Finance).

The field research data from Europe were collected from 1 July to 26 August 1970; in the United States from 15 September to 15 October 1970; and in Brazil from 26 October to 27 December 1970. The European interviewing was the most difficult because of European inefficiency, relative inaccessibility, and because appointments are rather difficult to make or maintain during the summer vacation months. The procedure for the interviews is explained in Appendix B.

All but one interview was recorded, and as added insurance the researcher transcribed on paper answers given during the interview and on the questionnaire. Interviews, which ranged from one and one-half to four hours, with a mean of two and one-half hours, are stored on 100 hours of tape.

Obstacles to foreign investments were evaluated by executives at both the headquarters and subsidiary levels on the following five point scale:

Very Important	Important	Occasionally Important	Rarely Important	Not Important
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In order to control the quality of data (to guard against responses which could reflect the interviewer's personal bias rather than the corporation's viewpoints) the researcher established some controls.

(1) Some executives were interviewed in the pretest stage and were reinterviewed six months later. During the first interview the executives did not know they would be reinterviewed.

(2) In some international corporations, two top executives were interviewed within one week, with the second executive not being advised that the first had been interviewed.

(3) Some corporations with investments in Brazil were interviewed at the headquarters level only. Other corporations which formerly operated in Brazil and have since withdrawn were also interviewed; these interviews represent 10 percent of the sample.

(4) At the subsidiary level the researcher interviewed corporations which were not included in the headquarters' selection.

When the results were compared in each case, the author found an amazingly similar pattern of responses, despite some significant environmental changes in Latin

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Scope of the Study

The major limitation of this study is its data base, which limits the use of statistical techniques. In the automotive or office machine equipment industries it is difficult to find more than ten major international manufacturers. Such a small number and the nonrandom selection process prevented the writer from developing nonparametric tests, such as a Chi Square. Furthermore, firms within the same industry are not homogeneous; they are engaged in different economic activities reflecting their diverse product lines.

Other major constraints were time (one and one-half years), the limited data available (limited quantity and uneven quality) for the analysis of the sources of political influences, and the huge scope of the topic itself. The writer had to limit himself to constructing a foundation or general framework. Hopefully these incursions into the nature of political risk will indicate areas for further research.

Other problems arose in the process of collecting data. The danger of personal bias on the part of the interviewees has been mentioned, but another possible bias could stem from the personality differences existing

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between staff and line executives. Several times a line executive called attention to the fact that the writer had interviewed a staff executive at headquarters. In other instances, some businessmen refuse to look at the situation in a different light than the one to which they are accustomed, which created problems of communication between the researcher and the executive. "Businessmen think a different way" was a common attitude and difficult to overcome, but a rewarding part of the interview. Finally, in a few cases, some executives were inaccessible because of prior commitments or were away on holidays.

Organization of the Dissertation

The approach followed is developed in the framework of political risk. The host country is analyzed: sources of political influences are examined, nationalism is defined, and obstacles as a function of economic eevelopment are investigated in Chapter II. The nature of the product is so important that this element is studied separately in Chapter III, in particular the relative vulnerability of industries and the importance of technological transferability from a politico-economic vantage point. In Chapter IV, the firm's nationality, managerial resources, and philosophy are analyzed in relation to the host country. In Chapter V, the investigation is pursued: What is the importance of nationality? What is the

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CHAPTER II

THE HOST COUNTRY

In the preceeding chapter the framework for a study of political risk has been laid, and the limits and intentions of the study have been presented. Three major variables emerged from the model: the host country, the product, and the firm. Is the host country an element so unknown that the international corporation must be completely deterministic about analyzing political risk? Or can the host country be analyzed in a rational manner? The writer's approach to the concept of political risk is to analyze the elements of the system and show how they contribute to the host country's socio-economic objectives. In that perspective an attempt will be made to define nationalism, its impact upon the business environment, and to determine the effect of the host country's level of economic development upon the frequency of occurrence of obstacles to private foreign investment.

The Political System

The main thrust of this study is not to analyze or develop a political model. Instead, as Ira Adelman and Cynthia Tafts Morris have said, "since there are no firmly

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validated theories of the process of socio-economic political change . . . we let the data specify the model."[1]

Almond and Coleman write that

> The political system is that system of interactions to be found in all independent societies which performs the functions of integration and adaptation (both internally and vis-a-vis other societies) by means of the employment, or threat of employment, of more or less legitimate physical compulsion. By system, we mean to attribute a particular set of properties to these interactions. Among these properties are: (1) comprehensiveness, (2) interdependence, and (3) existence of boundaries. By interdependence, the authors mean that a change in one subset of interactions produces changes in all the other subsets.[2]

A change in the ideological, social, or economic structure will influence the political subset. Our objective, therefore, is to pinpoint the major sources of political influence which might lead to a change in a political system and which, in turn, would modify, maintain, or regulate the business environment.

Political Socialization

Different political structures have emerged from different economic and social structures, political influences, and historical accidents. This process of

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[1] Ira Adelman and Cynthia Taft Morris, "An Econometric Model of Socio-Economic and Political Change in Underdeveloped Countries," American Economic Review, LVIII, No. 5, Part 1 (December, 1968), 1134.

[2] Gabriel Almond and James S. Coleman, The Politics of the Developing Areas (Princeton, N.J.: Princeton University Press, 1960), pp. 7-8.

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[3] Ibid.

transmitting political heritage is called political socialization, and it tends to perpetuate cultures and structures through time. It achieves this by means of the socializing influences of the primary and secondary structures (that is, family and the educational system) through which the young of the society pass in the process of maturation. The state of political socialization reflects the degree of political inertia within the system. Brazil's clientelistic politics, for example, tend to isolate the population from the government, which partially explains Goulart's failure in developing receptive and efficient mass politics. Political decisions are influenced by the different interests which are articulated within the society.

Interest Articulation

Almond and Coleman write that four main types of structures may be involved in interest articulation:[3] (1) institutional interest groups (such as legislatures, political executives, armies, bureaucracies, and churches); (2) nonassociational interest groups represented by their leaders (such as kinship and lineage groups, or riots and demonstrations); (3) associational interest groups (such as trade unions, organizations of businessmen or industrialists, and anomic groups). The articulation of

[3] Ibid., p. 33.

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Political Communication

The political communication function is an important element, essential to the development and/or maintenance of an active and effective electorate and citizenry. Political communication constitutes the institutional channeling of political influences. Poor political communication might jeopardize the regime and generate a coup. A communication system not actively and effectively maintained with the army, even under a benevolent military dictatorship, can lead to dangerous political tensions.

Such a situation could easily develop in Brazilian politics within the next five years. As an executive pointed out, there appears to be poor political communication between "old" generals and "young" colonels. Although this may be an example of a universal generation gap, the fact remains that rumors concerning potential dissension within the army do circulate among politically informed persons.

Sources of Political Influences

Political influences stem from three sources: ideological, social, and economic.

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Politico-Ideological Influences

A country cannot isolate itself from ideological influences. In order to simplify the exposé, it can be said that three major ideologies exist presently, namely, liberalism, socialism, and communism, although they may be modified by nationalism or internationalism and democratic or totalitarian philosophies.[4] Other ideologies do exist, such as anarchism and feudalism, but their importance is minimal.

Internationalism and nationalism are two philosophies pervasive throughout the above-mentioned ideologies. The former is related to the laissez-faire ideology of the liberalization of world trade and international movement of factors of production (capital, labor, and other inputs). Nationalism is more complex. It refers to the feeling of collectivity, and is the expression of a collective search for identification during the nation-building process. The dictionary defines it as "devotion to the interests of a particular nation." Nationalism if so important to the perception of political risk that the next section is exclusively dedicated to that concept.

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[4]An illustration of the participation of the public sector in developing economies is seen in I. Sachs, Public Sector in Underdeveloped Countries (New York: Asia Publishing House, 1961); and H. Landau, "Direct Foreign Investment in Developing Countries," International Business Law, University of Washington Press, 1970.

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Nationalism

The concept of nationalism appears to be more nebulous in international business executives' minds than the one of political risk, and it seems to be the most misunderstood.

Definition.--In the literature, nationalism historically has been associated with hatred of foreigners who ruled or oppressed a group of persons with similar geographic, social, and cultural attributes. Is nationalism "an escape from triviality," or a noble struggle which "dignifies a man's sufferings, and gives him a hopeful direction in which to work," or a "political movement depending on a feeling of collective grievance against foreigners"?[5]

Kindleberger describes "pure" nationalism as "the uneasiness that many people instinctively have when they contemplate the fact that the activities of institutions within their economy and polity are controlled from outside the political unit."[6] Business International describes and defines nationalism as

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[5]K. R. Minoque, Nationalism (London: B. T. Batsford, Ltd., 1967), pp. 25, 32.

[6]Charles P. Kindleberger, American Business Abroad (New Haven: Yale University Press, 1969), p. 5.

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> a universal phenomenon, in the sense of national consciousness exalting one nation above all others and placing primary emphasis on promotion of its interests as opposed to those of other nations. It is an important element in nation-building (or nation-changing), and as such can be a constructive force. The same is true of economic nationalism, which may be defined as the force that aims to maximize and develop the economic resources and potential of the nation and the well-being of its people.[7]

Although some executives realize that they may benefit from nationalist policies, they only use the term nationalism to refer to the foreign nation's policies which have a negative effect on their profit picture and/or market shares. Nationalism whether reflected in political or economic policies, is necessary for nation-building in order to pull together an aggregate of people who fought a common enemy and drove the former controlling power out, and is in some ways a necessary catalyst for a country. Most of these decisions are made to promote and control the development of local economic resources, and their motivation has generally not been to drive foreigners out of business.

To be all inclusive, nationalist policies should be defined as all those having as objectives the promotion, control, and identification of the socio-economic

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[7]See Business International Latin American Round Table, "Corporate Response to Nationalism in Latin America," Miami, December 3-6, 1969, Briefing paper (unpublished), p. 4.

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development of a nation. Nationalism is composed of a set of aspiration levels orienting policies "for themselves," not "against the foreigners." These various aspiration levels can be identified as those related to national interests, national sovereignty and national identity.

National interests.--National interests give rise to political decisions which aim at providing a minimum level of subsistence to politically independent nations and bringing guarantee of economic survival. In this case, the overriding rationale is mainly economic, and to a lesser extent ideological.

From an economic viewpoint, foreign investment will be accepted as long as it accelerates economic growth and increases the economic autonomy of the nation; similarly, import restrictions will help rapid industrialization and secure local supply of certain products. In the case of Red China and Taiwan, for example, for the sake of national interests from an ideological standpoint, the former will try to prevent firms which are willing to trade with her from engaging in business relationships with Taiwan, even at a cost to Red China.

Economic nationalism is similar to national interest, although it does not cover social, political, and cultural issues. Acting in the national interest, the

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government is responsible for achieving what is best for the host country's development. To this end the host government pursues a set of objectives which, in the socio-economic realm, aim at full employment, price stability, improvement of the balance of payments, improvement of the allocation of the factors of production, satisfaction of collective needs, and the security of a supply of essential goods. Different governments of course have different priorities, and these priorities change over time. The determination of a public economic policy, in the pursuit of national interest objectives, is usually a rational process where the compatibility of objectives and appropriateness of instruments are very much emphasized.

National sovereignty.--The need or desire to be maître chez soi is the basic underlying motivation of national sovereignty conflicts. The needs of people within a country to feel they belong to an entity which is their own relates to national sovereignty. A host government must prove to its citizens that they belong to a nation which "they" control and must develop. Sovereignty, or the ability to control, is challenged not only by a foreign country's economic or political influence exercised through its corporations abroad, but also by the potential economic power (indirect political influence) that these foreign

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At the national sovereignty level, social influences are becoming more important if not predominant. The general level of education of the population, the middle class, the bureaucracy, and labor are key variables. The development of social influences is in some ways the ratification by the citizens of the nation-building process, and will involve controlling strategic industries and participating in growing national industries.

With that perspective, and from an economic standpoint, countries will try to push reinvestment of earnings rather than see them repatriated to another country. The relative size of the foreign investment and the social significance of the economic sector in which it is invested determine the strategic importance for investment control. The usual sectors clearly involved are public utilities, extractive industries, banking, agriculture, insurance, transportation, and petroleum. From a social vantage point, some nativization of personnel (such as directors and skilled personnel) and capital are prime objectives at that national aspirational level.

National identity.--A country's need for fulfillment or self-actualization within the concert of nations is reflected in national identity. Such self-actualization

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must be perceived by the citizens as a national identity among other countries. The national identity aspiration level requires recognition from the outside world. For a certain period, Brazil soccer performed the role of a national identity symbol, especially in view of the three world championships the team has won. In developed countries, such as in France or Great Britain, national identity could be sought through the development of a national electronic industry at any cost, with subsidies to the production process or by impeding foreign corporations from market penetration through discriminatory purchasing policies as where the government buys only national products.

Lack of understanding of national identity aspirations on the foreign executive's part may lead to the very subjective perception that xenophobia exists in the host country, that is that the government is objecting to, resisting, or combatting the entry of the presence of a foreign company simply because it is foreign, irrespective of any violation of the national interest, or the issue of extra-territorial application of foreign laws. The executive should understand that what is involved is loyalty to the host country, cultural empathy, and solidarity of one group against another. National identity boils down to a feeling of participation in a national struggle "for themselves" (as a president of a U.S. subsidiary in Brazil put it) in order to protect one's way of life, pride, and

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independence. It is translated into a bias in favor of local nationals.

The hierarchy of these motivations (interests, sovereignty, and identity) does not imply that one must be completely fulfilled before the next becomes important. Each level seems to be present in any country, but at a particular point in time one level would prevail over the others, and basic trends can be predicted.

Nationalism as perceived by international business executives in Brazil.--"What is nationalism" was one of the open-ended questions asked during the interviews in Brazil; responses varied tremendously among executives, ranging from synonyms to examples of manifestations: pride in local product, independence in economic decisions, a turn to the left, creation of conditions for development, sovereignty, restrictions on flow of capital goods and manpower, nationalization of product content, what's best for the country; feelings of the weaker position, self-interest, nation-building, local ownership of fundamental resources or industries, recognition of one's adulthood as a nation, price in community participation, and more vertical integration of industries than is economically justifiable. In other words, most executives had their own description derived from their own experiences.

These definitions do have four common elements. First, in each definition is the direct or indirect

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allusion to nationalism's negative effect on foreign investment. Second, in general, executives felt that nationalism was motivated by a drive for national development, but this drive usually was unsuccessful. Third, the self-perceived adulthood of some countries often leads them to want more control and participation. The fourth element, less often stated, but implicit in many responses, was the irrational behavior of some governments and their hatred for foreigners. Comments such as, "prejudice against foreigners," "social not economic reasons," "turn to the Left," and "feelings of the weaker position" are some illustrations of that point. Curiously enough, 90 per cent of the executives of subsidiaries in Brazil did not characterize Brazil as a strongly nationalist country despite its laws concerning visas, work permits, quotas for foreign personnel, limitations on repatriation of earnings, the "law of similars,"[8] which protects local production, and foreign investment restrictions in certain economic sectors (for example, petroleum refining, railways, and electricity).

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[8]This refers to the policy originally introduced in the 1890's of tariff protection against the importation of items locally produced in sufficient quantity and quality to supply the local market; the policy has since been generalized and is commonly referred to as the "law of similars." For more details see Lincoln Gordon and Englebert Grommers, United States Manufacturing Investment in Brazil (Boston: Division of Research, Harvard University, 1962), pp. 13, 21-27, 35-39, 147-148.

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Nationalism as perceived by headquarters.--The definitions of nationalism at the headquarters' level were very similar to those provided by subsidiary personnel. However, at headquarters the discussion turned quickly to nationalism in general and to examples other than in Brazil. When the vice-president of a major European chemical firm was asked "What is nationalism?" his emotional reaction was: "You, Americans, you are the most nationalist country in the world. We should ask you that question!" Curiously enough, the four most nationalist countries mentioned, in order of response frequency, were not developing countries, but were Japan, the United States, Germany, the United Kingdom, followed by Mexico, and India.

The way in which nationalism is expressed in different countries is also interesting; the more developed a country, the more subtle and the less visibly nationalist are its policies. The situation in Japan is well known, but often mentioned as nationalist strategies of the United States were the American selling price in the chemical industry, safety standards, anti-trust legislation, the "peril point clause," government purchasing practices, customs and FDA (Food and Drug Administration) regulations, lengthy visa procedures, and the exclusive use of English in correspondence. Technical standards in the United Kingdom were also often mentioned, and

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government purchasing policies and research and development subsidies were the two major complaints against West Germany.

Nationalism as a function of the level of economic development.--Hypothesis 3, enunciated in the first chapter, was: Nationalism is not related to the level of economic development, but its expressions may vary from one country to another. In the preceding paragraphs, these variations were described. It remains to be seen whether nationalism can be directly or inversely related to, or is independent from, the level of economic development.

In choosing a sample, the GNP per capita appeared to be the simplest and most easily understood and accepted indicator of economic development, despite its weaknesses and the availability of other indicators.[9] The 69 countries examined are subdivided into 6 groups by geometrically decreasing level of GNP per capita. The first group includes all countries having GNP per capita of U.S. $2,000 and over; the second, all those between $1,000 and $2,000; the third between $500 and $1,000, and the sixth all those under $125. Table 2-1 shows the percentage of countries in each group where the following obstacles to foreign investment were in effect during the periods 1962-64 and 1967-68: price controls, devaluation, repatriation of

[9]See Appendix C "Country Classification."

TABLE 2-1.--Structural influences on business environment as shown by frequency of occurrences of major obstacles.

OBSTACLES / COUNTRIES	PRICE CONTROL		DEVALUATION		REPATRIATION OF EARNINGS		MANAGERIAL RESTRICTIONS		EXCHANGE CONTROL	
	62-64	67-68	62-64	67-68	62-64	67-68	62-64	67-68	62-64	67-68
n=4	Per cent of countries imposing obstacles									
Group I Under $125	0	0	0	0	0	0	75	75	0	0
n=13 Group II $125-$250	15	15	0	38	15	23	54	54	54	46
n=10 Group III $250-$500	30	20	30	60	20	40	50	60	80	60
n=15 Group IV $500-$1000	47	60	27	33	40	47	60	87	87	87
n=16 Group V $1000-$2000	25	44	31	12	50	44	62	69	62	62
n=11 Group VI $2000 and over	27	27	27	18	55	73	73	82	73	91

SOURCES:
N.I.C.B.: "Obstacles and Incentives to Foreign Investment 1962-1964", New York, N.I.C.B., 1965.
N.I.C.B.: "Obstacles and Incentives to Foreign Investment 1967-1968", Vol. 5, N.I.C.B., 1969.
Business International: "Indicators of Market Size for 140 Countries", New York, 1970.

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arnings, exchange controls, and managerial restrictions.[10] he later obstacle requires further explanation.

It was felt that nationalism could be quantified by the use of the two proxies most often mentioned by executives, or their frequency of occurrence of two obstacles: foreign personnel restrictions and required local capital participation. These two obstacles have been grouped into one index, which is termed "managerial restrictions." This indicator of nationalism contains a major weakness. Foreign personnel restrictions may have a very different significance for the firm in developed and in developing countries. Switzerland, for example, has foreign personnel restrictions, but their importance for the firm may be very different than similar restrictions in Malawi, where the pool of local manpower has a completely different mix of talent and skills. Similarly, required local capital participation in Canada could create quite different problems than a similar requirement in Bolivia or Ecuador. In Canada, the alternatives vary from floating equity in the local capital market to direct placement with private investors, or with Canadian corporations. In Bolivia, the choice might be limited to sale to

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[10] Periods before 1962 were avoided due to the number of countries who achieved their independence in the late 1950's and very early 60's. The data were gathered from the NICB reports "Obstacles to Foreign Investment," and Business International Newsletters.

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a wealthy social class or the government, both of which options might increase the political risk confronting the multinational enterprise.

The managerial restrictions index is shown graphically in Figure 2-1 where the major feature is the almost U shaped line through the different groups of countries in 1962-64, but a relatively more horizontal one in 1967-68. Between the two periods, only Group IV, countries from $250 to $500 GNP per capita, had an upward movement. This is due mainly to an increasing concern among these countries to accelerate local capital formation and the number of local entrepreneurs in order to become less dependent on foreign corporations and their technology (as was the case in Mexico, Peru, Chile, and Algeria). Another interesting feature is the high frequency (75%) among developed countries of an attitude which could be illustrated by Switzerland's policy toward foreign personnel, and Canada's move against foreign capital participation in the economy. Although this indicator is by no means totally representative of nationalism, it nevertheless gives a strong indication of the universal nationalistic drives of every country in the world.

If the level of economic development is not a major determinant of nationalism, the explanation lies in the country's other characteristics: size of the population, natural resources, and dependence (geographic,

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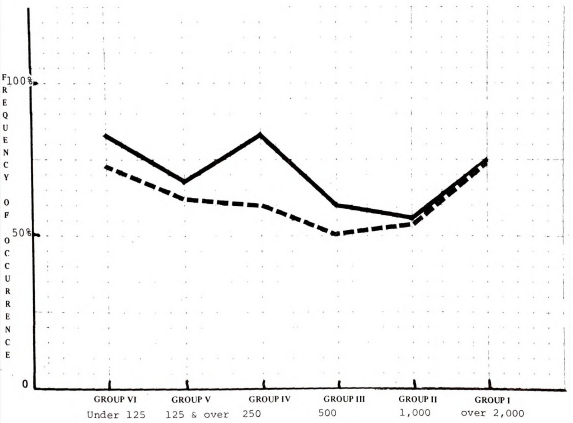

SOURCES: *N.I.C.B.: "Obstacles and Incentives to Foreign Investment 1962-1964", New York, N.I.C.B., 1965.*
N.I.C.B.: "Obstacles and Incentives to Foreign Investment 1967-1968", Vol.5, New York, N.I.C.B., 1969.
Business International, "Indicators of Market Size for 140 Countries", New York, 1970.

Figure 2-1.--Nationalism as measured by managerial restrictions and the level of economic development in 69 countries.

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political, and economic) upon other nations. Every country seems driven toward preserving its sovereignty, identity, and wealth, and toward developing its own resources. If this is true, then a nation with a potential for a certain level of self-sufficiency because of its natural resources or manpower reserves should tend toward more nationalistic policies in the long run. If such a statement is valid, then the most nationalist countries in the world would be those like the United States, China, Russia, Brazil, and India, and, to a lesser extent, Australia, Mexico, Canada, and South Africa. Countries that could not afford to be nationalistic in the long run would be, for example, Japan, Belgium, Netherlands, United Kingdom, France, the Scandinavian countries, Ecuador, Bolivia, and Paraguay.

Socio-Political Influences

Pressures from social groups force governments to act to keep themselves in office and win public or electoral support. Such political activity is universal, and no country or political leader fails to follow that pattern. A key element of that pressure is interest articulation which, as we mentioned earlier, emerges from motivational, nonassociational, anomic, and associational interest groups. The characteristics of these groups will be reviewed with special reference to Brazil.

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Institutional interest groups.--The quasi-universal institutional interest groups are the church, the army, bureaucracies, political executives, and legislatures.

(1) The church. The church always has had a direct or indirect influence upon leaders. In the past it was synonymous with conservatism and the status quo, with "helping to maintain an anachronistic social system and economic under-development--low level of education, a rigid class system, disinterest in economic achievement and valuation of order and tradition."[11]

> Yet today in Latin America no institution is changing more rapidly than the Catholic church, and in directions that have important implications not only for defining new relationships between Christianity and the values of society, but also for the role that the church will play in the region's development.[12]

A major distinction should be introduced here: a difference exists between the mass of the people who are Catholic by tradition and the elite who have a greater understanding of what their religious commitments are. The elite are composed of priests, bishops, intellectuals, and businessmen whose educational level, position, and status in the society permit them to make significant social decisions according to Catholic teaching, and to influence their environment.

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[11]Thomas G. Sanders, "The Church in Latin America," Foreign Affairs, January, 1970, p. 286.

[12]Ibid.

George I. Blankstein underlies the fact that for a long time the church pursued political objectives, and in some cases its functions resemble those of a political party.[13] Only recently in Latin America have church and state begun to separate. Published assessments of the church as an interest group are rare, but, in general, the Pope enunciates broad principles and the local church adopts and adapts these principles to its environment. Recent changes in the outlook of the church (its more social orientation) have produced a wide reaction among the elite. The Catholic elites are under two influences:[14] (1) the various interpretations of social responsibility prevalent in the Catholic community; and (2) nonreligious factors (such as relatives, social classes, economic interests, and other educational influences) which shape the values and responses of an individual.

Brazil typifies this break with tradition. In early 1964, two divergent Catholic viewpoints appeared. On the one hand was the traditional Catholic view that communism and corruption should be fought to save the world; on the other, a new generation of Catholics preoccupied with the issues of underdevelopment and social

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[13]Almond and Coleman, op. cit., p. 502.

[14]Sanders, op. cit., p. 287.

injustice joined Leftist movements. Today the church is most vocal in its opposition to the government, and many clergymen have been jailed and tortured. The Pope has told Bishop Helder Camara of Recife: "The Church will no longer tolerate the commission of atrocities and tortures in a country that calls itself Christian."[15]

The concept of conscientização (awakening of consciousness), developed in radical Brazilian circles in the 1960s, describes very well the new movement of the church, which separates itself from the traditional state.

From one politico-economic standpoint, many Catholics now hold a set of convictions that may be shared by communists and many noncommunists alike: (1) development requires control of vital national resources by Latin Americans; (2) public control of key sectors of the economy is preferable to private control; (3) Latin Americans must unite to prevent violations of their sovereignty based on ignorance of local reality; (4) the majority of the population should acquire a critical awareness and establish organizations through which they, rather than the minority, can exert political pressure on issues of public policy.[16]

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[15] H. J. Steiner and David M. Trubek, "Brazil--All Power to the Generals," Foreign Affairs, XLIX, No. 3 (April, 1971), p. 473.

[16] Sanders, op. cit., p. 299.

Nevertheless, as an institution (composed of individual members with diverse motivations) with a position, the church seems certain to share in the regional consensus favoring nonviolent change.

(2) The military. In Latin America "the last step in a military career is the presidency of the republic."[17] The experience of most Latin American republics confirms this statement and it seems to have held also for many countries in the world at one time or another: Lamusse and Ongania in Argentina, Franco in Spain, Mobutu in Congo, Lon Nol in Cambodia, Boumedienne in Algeria, Nasser in Egypt, DeGaulle in France, and Amin in Uganda. Everywhere high-ranking army officers are, or may come to be, important politicians.

A new trend is taking place, however, as the new generals move to the Left, as in Argentina, Bolivia, and Peru. In Africa, the pattern is somewhat different: the country wins its independence; opposition is suppressed and a one-party state is created; African socialism is introduced, partly for reasons of ideology and partly to buy time and popular support; opposition grows as policies are slow to produce results and there is increasing Africanization in the army; then, if there is enough

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[17]See Almond and Coleman, op. cit., p. 503.

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tribalism and corruption, the civilian government is replaced by a military one.[18]

In Latin America, the preferred military way is a mixture of "isms," combining capitalism, socialism, and communism, and with a leading role given to nationalist ideologies. These ideas are based on communitarianism preached by radical priests, influenced by the Christian philosophy and the social traumas their nations face: "It is perfectly logical to men whose ancestors rode in the Crusades--and to whom 1492 was also the year Catholic kings drove the Moors from Spain."[19] It may be noted that Adelman and Morris found that the political strength of the military had, overall, a neutral effect on economic development:[20] on the one hand it positively influences industrialization; on the other, it increases the probability of coups and revolutions, which play a negative role in the country's capacity for economic growth.

This situation is reflected in the Brazilian experience: since 1922 every coup has been supported or executed by the military (see Table 2-2). The influence

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[18]"Uganda May Not be the Last," The Economist, January 30, 1971, p. 15.

[19]J. M. Vivian and C. J. Michelson Terry, "The Military Coup in Latin Politics," Worldwide P & I Planning, November-December, 1970, p. 15.

[20]Adelman and Morris, op. cit., p. 1210.

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TABLE 2-2.--Coups and revolutions in Brazil, 1922-1964.

Date	Main Location	Group
1922, July 5	Rio de Janeiro	Military
1923, January 25	Rio Grande do Sul	Civil and military
1924, July 5	Sao Paulo	Military
1924, October 28	Rio Grande do Sul	Military
1924-1927	Sao Paulo--Rio Grande do Sul	Coluna Prestes
1926, October 24	Rio Grande do Sul	Naval
1930, October 3	Rio Grande do Sul	Civil and military
1932, July 9	Sao Paulo	Civil and military
1935, November 23	Rio de Janeiro--Natel	Civil and military
1937, November 10	Rio de Janeiro	Civil and military
1938	Rio de Janeiro	Civil and military
1945, October 29	Rio de Janeiro	Civil and military
1954, August 24	Rio de Janeiro	Civil and military
1955, November 11	Rio de Janeiro	Military and civil
1961, August	Brasilia	Military and civil
1964, April 1	Brasilia	Military and civil

Source: Octavio Ianni, Crisis in Brazil (New York: Columbia University Press, 1970), p. 11.

of the military in Chile is the exception. In 130 years, Chile has had a long history of a noninvolved military, except for its role as warden of political institutions. Chile has had twelve coups d'etat since 1823, but most of them occurred between 1823 and 1830, or 1924 and 1926. Since 1930, all governmental changes have been democratic. If the history of coups (or golpes) is analyzed, we see

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they do not take place at regular intervals, as Table 2-3 indicates.

In an analysis of coup frequency, the important factor for the business environment is not the number of coups, but any concomitant, significant shifts in national politico-economic policies. A coup is not a necessary or sufficient condition for a change in national economic directions. Furthermore, there is the problem of defining a coup: Allende's election in Chile is surely not a coup in the traditional sense, but from a national politico-economic viewpoint the election created a discontinuity in policies. A coup could be a military takeover, as in Bolivia, or a civilian revolution, as in Tunisia. The relevance of coups should be analyzed from the standpoint of impact, importance, and long-term repercussions upon the business environment. Political analysis (by businessmen) should pay less attention to people, and more to the significance of events.

In Brazil, the role of the military is constitutionally established to maintain law and order within the country's borders and on its external boundaries. Socially, the military is an instrument of upward social mobility for less privileged people. Such upward mobility led to the building of middle-class societal values. Much dissatisfaction in the army stems from low pay (for example the "Memorial of the Colonels" submitted in 1954

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TABLE 2-3.--Frequency of coups* per country in Latin America.

PERIODS / COUNTRIES	1823-1965 a		1930-1970 b		1956-1966 a	
	Frequency	Ranking	Frequency	Ranking	Frequency	Ranking
Haiti	29	1	8	7	5	1
Dominican Republic	28	2	6	12	5	1
Ecuador	27	3	12	1	2	4
Peru	27	3	10	4	1	10
Bolivia	26	5	11	2	1	10
El Salvador	21	6	8	7	2	4
Guatemala	21	6	8	7	2	3
Paraguay	21	6	10	4	0	16
Mexico	21	6	1	18	0	16
Honduras	16	10	4	14	2	4
Nicaragua	16	10	3	16	1	10
Chile	16	10	0	20	1	10
Venezuela	15	13	6	12	2	4
Argentina	14	14	8	7	1	10
Colombia	11	15	3	15	0	16
Costa Rica	11	17	10	4	2	4
Uruguay	8	18	1	18	0	16
Cuba	7	19	8	7	1	10
Panama	5	20	7	11	0	16

*Definition of Coups: "Overthrows of an executive, not simply an ephemeral one." 1 indicates the highest frequency, i.e., the least 'stable' country. (Dean's definition) Vivian-Terry do not define a coup.

Sources:
a-1823-1966-Dean Warren, "Latin American Golpes and Economic Fluctuation, 1823-1966", Social Science Quarterly, June 1970, p.72.

b-1930-1970-J.M. Vivian and C. J. Michelsen Terry, "The Military Coup in Latin Politics:, Worldwide P&I Planning, Nov.-Dec. 1970, p.18.

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to the Brazilian Ministry of War, and the mutiny of Tanzania's army in 1964)[21] or idleness.

Many writers believe the military's political power is activated when the country's objectives (as perceived by the military) are not pursued. This situation might arise when extremist policies are followed by the government, or when the system does not enable the political structure to respond to civic and economic emergencies, or when electoral procedures are slow. As Octavio Ianni writes concerning Brazilian political life: "On the occasions of important historic events, the military forces come forth as a decisive power to lead, to expedite, or to expound the events."[22]

The military is not a homogeneous group. Every ideology is found among its members, but an authoritarian philosophy of the world predominates. In many cases, as in Argentina and Brazil, the military schools are among the best in the nation and produce the country's intellectual leaders and technocrats. H. J. Steiner and David Trubek emphasize the fact that

> many of Brazil's officers were drawn to the philosophical camp of positivism with its stress upon efficiency and material progress, discipline and order. The army developed among its officers

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[21] Octavio Ianni, Crisis in Brazil (New York: Columbia University Press, 1970), p. 131, and "Uganda May Not be the Last," op. cit., p. 15.

[22] Ianni, op. cit., p. 132.

> technocratic skills in advance of most of the civilian world. Through its recruitment from different regions, the training given its officers, and its large public works, the army represented one of the significant "national" forces in Brazilian life.[23]

Therefore, it is important to analyze the dynamics of the military in a country. This involves distinguishing the different cliques, determining how they are formed, and discovering how communication flows from lower to higher echelons in the military. Certain ranks--major, lieutenant, colonel--appear to be particularly important in the military. The relationship between the different military branches also is important, although the army is usually the most important. In Brazil, the navy has been directly responsible for only one of sixteen coups--on 24 October 1926.

The increasing influence of the military in Brazilian politics is the result of the increasing tension and antagonism between economic interests and social classes struggling for power. The lack of order surrounding these struggles, especially under João Goulart on the eve of the 1964 revolution, facilitates military intervention. The military has not entered politics as a single massive body, but is as divided as the civilians. Nevertheless, it has succeeded in appearing united and through compromises

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[23]H. J. Steiner and David M. Trubek, "Brazil--All Power to the Generals," Foreign Affairs, XLIX, No. 3 (April, 1971), p. 468.

has managed to act en bloc. The 1 April 1964 revolution was a military coup, backed by technocrats and women, and tacitly accepted by the middle class and cheered by business. Its four-fold objectives were to restore economic integrity, reintegrate Brazil into the capitalist system under the technocratic leadership of Roberto Campos, control inflation while developing the economy, and eliminate the risk of adopting a Leftist policy which might have created a break between Brazil and the United States.

(3) The bureaucracy. In many ways, the bureaucracy is the backbone of many regimes: politicians come and go, but the bureaucracy remains. Performance of their day-to-day operations is fundamental in the implementation of government policies. If bureaucracies are not involved in a revolution, it is unlikely that changes will occur. Bureaucrats are from the middle class in most nations, and generally have rebelled when salary conditions deteriorated sufficiently to threaten their economic security and stability. This was one of the major factors for the middle-class support given the 1964 Brazilian revolution.

Bureaucracies usually play a buffer role. Their inertia makes them a conservative force, but they also are an economic stabilizer in most countries. Belgium and Italy, for example, have experienced periods of economic prosperity without governments, and business executives

with long Brazilian experience often mention the stability of the bureaucracy and its importance in times of crisis. Headquarters of corporations interviewed generally agreed that the role of bureaucracy in countries with volatile governments was beneficial. They believe the danger lies in changes in ideological trends which affect society's basic structure, especially when the bureaucracy is actively involved. This is seen as a political point of no return.

Robert Daland enunciates four major functions of Brazilian bureaucracy:[24] (1) to provide a channel for upward mobility for the educated middle class, which can assert itself through its skills rather than personal wealth; (2) to provide permanent incomes for that portion of the middle class which supports the regime; (3) to provide a low level of certain services; and (4) to provide opportunities for private entrepreneurship based on the powers attaching to certain offices. Daland continues:

> these functions are essentially political in nature . . . . It would be a mistake, however, to regard the bureaucracy as dependent on the political elite in power at a particular time. The bureaucracy has succeeded in insulating itself from all but the most chaotic changes of political direction . . . . The bureaucracy has a will of its own and a more or less independent base of power is underlined . . . .

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[24] Robert T. Daland, Brazilian Planning, Development, Politics and Administration (Chapel Hill: University of North Carolina Press, 1967), p. 210.

> The bureaucracy comprises a set of vested interests established and protected by the law.[25]

(4) Political parties. Political parties as institutional interest groups represent groups within society who share similar ideologies, aims, or interests. As such they are an institutionalized communication system for the articulation of certain objectives. Political parties are characterized not only by their ideological content, but also by their attitudes and ways of pursuing their objectives.[26]

In the Brazilian case, two political parties, ARENA (majority) and MDB (opposition), have such similar objectives that the voters can barely see the difference. In fact, many Brazilians suggest that the opposition is merely a gimmick of the dictatorship, which wants to project an image of democracy. These parties have very little power, cannot criticize major governmental issues, and their representatives must be officially approved. Actually, politics has always been subordinate to three cults: soccer, loteria esportiva (lottery), and carnival. The Brazilian government has, in effect, "closed down

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[25] Ibid., pp. 211-212.

[26] Vivian and Terry, op. cit., p. 20; the authors compare various Latin American political parties in relation to the ways and means they pursue their political objectives.

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politics but opened up the economy."[27] Real opposition does not come from such institutional interest groups.

Nonassociational interest groups.--Social classes and regional, familial, religious, and status groups are nonassociational interest groups. Their interest articulation structure is informal, and their importance varies over time. The two most important are the middle class and the elite. Labor, for the most part, is organized into unions, and is represented by associations. Other groups are the peasants and students, and the tribes or other less universal groups, depending on the country. The role of the middle class is considered by many as the most important.

(1) The middle class. The importance of the middle class is underlined in the Adelman and Morris study,[28] which showed its contribution to socio-economic integration, and its support in enlarging the country's developmental capacity. Their research indicated the size of the middle class is the sixth most important political factor; it is the primary impetus for development and economic opportunities, which further the possibility of social mobility.

The political importance of the middle class increases geometrically as its numbers increase. Larger

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[27] Steiner and Trubek, op. cit., p. 470.

[28] See Adelman and Morris, op. cit., p. 1201.

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Latin American countries like Mexico, Brazil, Argentina, and Venezuela bear this out, and the middle classes in those countries is a cornerstone for any political party. The attitudes of this group are not homogeneous, but certain basic nationalistic trends emerge from the heterogeneity. This nationalism is not blind, and emphasizes the concept of national interest, that is, the maximum benefits for the nation and cooperation with other nations as long as the benefits generated are superior to the negative aspects. The middle class tends to favor law, order, and effective management in the private and public sector, and this spirit exists in every economic sector. The civil service constitutes the backbone of the class, although the middle echelon of the army, as well as skilled and semi-skilled workers share the same views. In some ways, the emergence of the middle class leads to a political positivism, and development and firm commitment to it become the major focuses. This is illustrated by the Brazilian revolution of 1964 which was made possible and successful partially by the tacit acceptance of "the middle classes prizing their greater economic security."[29]

(2) The elites. Another group or class which does not share universal tendencies is the elite. In

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[29]Steiner and Trubek, op. cit., p. 464.

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some countries (for example, Chile) the elite plays a decisive role; in others, such as Mexico, its role is minimal. There are three major classes of elites: the traditional, composed of rich families who accumulated their wealth by land exploitation; the business or industrial, the new rulers in many nations, who participate in and enhance economic development; and the intellectual, an aggregate of professionals such as lawyers, doctors, and university professors. The only common element of these elites is their limited membership. Their political influence is spiritual or intellectual, and the majority of them are not understood by the masses and isolate themselves politically. In morocco, for example, there is some freedom of the press, but because of limited literacy the impact of the elite through the press is greatly reduced.

The political importance of the different elites depends on the socio-economic structure. A rural, export-oriented economy will tend to be linked to the traditional elite of landowners. This is a normal phenomenon in countries with low population density, a relatively small urban population, and an embryonic industrial structure. The business elite's importance is a direct function of the development of the country's industrial structure. The intellectuals have no definite patterns of influence

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but to some extent their impact depends upon the general level of education. Few in number, they exert pressure through printed words, which may influence the government indirectly, through shaping public opinion, or directly.

Although their impact is difficult to assess, the elites usually can be found in one of three groups: in opposition to foreign investment, which they regard as a new type of culturo-economic colonialism; in favor of programs or policies which derive from a Marxist-Leninist approach to society; or in favor of foreign investment if it benefits society's development.

The Brazilian case aptly illustrates the relative importance of these elements over time. Bresser Pereira, in his book Desenvolvimento e crise no Brasil, describes the evolution of the different social classes and their politico-economic influences.[30] Situated between the agrarian-commercial oligarchy and the large mass of workers,[31] was a middle class, barely vocal, but growing. At the time of Brazilian independence its role increased because administrative and military slots had to be filled.

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[30] See L. C. Bresser Pereira, Desenvolvimento e crise no Brasil (Sao Paulo: Edition Brasiliense, 1970), p. 77ff.

[31] The commercial aristocracy was mainly based on an export-import type of enterprise with very little productive functions.

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This middle class was linked with the traditional elite and worked for their objectives.

As urban areas expanded, the role of the middle class increased correspondingly with the development of new urban activities, small business, new jobs, the army, the police, and the civil service. The growth of the middle class, writes the author,[32] occurred as the Brazilian economic conditions allowed it. At the beginning, the middle class was mainly composed of distant relatives of wealthy families, and they naturally multiplied through the years. They lived, as Helio Jaguaribe mentions, as parasites on the productive class of the society, and this dependence prevented them from being politically active.[33] Only in the early 1920s were some voices heard, and the revolution of the lieutenants in 1930 marked a turning point for the middle class.

Curiously enough, in Brazil there has not been any large political involvement of the masses except during the last five years of the democratic regime which ended in 1964. Brazilian politics are such that each of these groups have their own personalistic leaders, and each avoids any permanent alliance which would dilute his primary

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[32]Bresser Pereira, op. cit., p. 78.

[33]Helio Jaguaribe, O Nacionalismo na Actualidade Brasileira (Rio de Janeiro: Instituto Superior de Estudos Brasileiro, 1958), p. 41.

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loyalty. A consequence of this political pattern is the system's failure to provide sizeable support for any one national policy or leader through the democratic pursuit of interest groups' objectives.

Daland stresses the fact that

> the elites of Brazil have not remained polarized around distinct interests. The political battle is pre-eminently a struggle for access to power rather than for ideology, policy or protection of a particular interest. This broad backdrop explains why development policies found general acceptance among Brazil's ruling elites.[34]

The influence of the elite is accentuated by the lack of mass participation (except in extreme cases), which results in politics among political elites who are relatively free in their actions, but who are sanctioned tacitly by the military and the middle class.[35]

The political arena is limited to the circle of governmental executives, professional politicians, and those journalists who have been proven to be relatively independent and nation conscious. The ability of politicians to separate the total electorate from political life is reflected in the 1960 election results: a hippopotamus from the zoo of Sao Paulo received more write-in protest votes than any of the candidates. This

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[34] See Daland, op. cit., p. 207.

[35] See also Nathaniel H. Leff, Economic Policy Making and Development in Brazil 1947-1964 (New York: John Wiley and Sons, 1968), p. 135ff.

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did not happen during the last elections under the military régime, but at the height of the "mass" politics. Such attitudes do not reflect a lack of democracy, but rather some a acultural characteristic which could lead the unwary observer to wrong conclusions.

(3) The students. A noninstitutional although vocal group, students have relatively little power. They tend to support intellectuals, and labor and the lower classes regard them with suspicion. They are basically a nationalist group, and almost always oppose foreign investment. Nevertheless, the students constitute an energetic, potential political force, and they could serve as catalysts in a radical solution of a complacent society's dramatic social ills.

When President João Goulart was overthrown by the military, however, the students reacted very little. Octavio Ianni stresses that point when he shows that the Left found its greatest success with the core of the university youth, and went beyond the university milieu only with difficulty.[36] Despite independent and disunited student activity in nationalistic and reform movements, their impact has been felt in their immediate surroundings (for example, university reforms and agitation for amnesty for political prisoners).

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[36]Ianni, op. cit., p. 107.

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(4) Workers. In Latin America, the workers' role has not been as important as in developed countries (possible exceptions may be countries with large urban areas, such as Argentina).[37] This is due to several factors: (1) the considerable percentage of its members whose cultural and interest levels are at an absolute minimum; (2) the rural origins of a large number of workers who have the opportunity to return to their rural homes in extreme cases; (3) the individualist and fatalistic peasant mentality of workers, who have no interest in social quarrels; (4) the small participation of women in the labor force; (5) the relatively privileged situation of workers in relation to peasants; and (6) the lack of labor legislation enforcement and the prohibition of labor strikes.

The Latin American revolution has been developed by the bourgeoisie, and labor still plays a secondary role. Nevertheless, it constitutes a regulating force which prevents extreme solutions. The unions still must prove they represent social interests, and that they can attract forces able to generate active participation in urban and rural areas. Workers' influence on economic policies has been minimal, reflected in the little space reserved to that topic in Nathaniel Leff's or L. C. Bresser Pereira's books.

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[37] Victor Alba, "Labor in Latin America," in Latin American Politics, ed. by Robert T. Tomesek (New York: Anchor Books, 1970), p. 198ff.

Associational interest groups.--

(1) Labor unions. Unions have not been successful in attracting a large number of members for reasons mentioned above. In Brazil the number of strikes increased as industrialization progressed, but their frequency indicated more the strength of the proletariat and the salaried workers in general in defending the buying power of their salary than the power of unions. Union political affiliation exists only to the extent that Leftist groups have helped them in their organization. In union activities such as strikes, economic, rather than political reasons are basically the most important. In the words of Octavio Ianni (Table 2-4): "Even strikes bearing a deliberate political stamp, such as the general strike of July 6, 1962, are not free from immediate and explicit economic objectives."[38] Such motivations are fundamental to any actions.

(2) Industrial interests. Industrial interests, represented by industry associations or Chambers of Commerce, were hampered by the fact that politicians pushing them followed "clientelistic" politics. They also met some resistance from government and the general Brazilian political culture, which believes in policies designed for the general interest of the nation. Such an

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[38]Ianni, op. cit., p. 96.

TABLE 2-4.--Motivation for strikes in 1952 in Brazil.

Motivation	Number of Strikes	Percent
Salary increase	96	36.3
Payment of back salary	38	14.4
Sympathy with other workers	27	10.2
Improvement of working conditions	13	4.9
Payment of Christmas bonus	9	3.4
Warnings	7	2.6
Against shortages	7	2.6
Against government for the minimum salary	3	1.1
Various reasons or no information	64	24.2
TOTAL	264	100.0

Source: Jover Telles, O Movimento Sindical no Brasil (Rio de Janeiro: Editorial Vitoria, 1962), p. 8 in Octavio Ianni, Crisis in Brazil (New York: Columbia University Press, 1970), p. 97.

approach is valid even today, and was reflected in every interview with every executive mentioning his view that top government executives were open to any modifications in their policies which would benefit the nation as a whole.

Unfortunately, as a few businessmen interviewed put it, business interests customarily come in contact with the Brazilian government only when they need favors or adjustments in their favors. This general attitude has limited the sphere of influence and the national interest

credibility of trade associations. Recently, some members of the American Chamber of Commerce in Brazil mentioned the need for adoption of a more open policy, and they intend to suggest and give opinions on matters not directly relevant to their own interests as long as they feel their participation might contribute to the "national interest."

Anomic interest groups.--Anomic interest groups generally are found at the local level, or constitute small revolutionary cadres, such as guerilleros or communist groups. Their influence has been minimal: they have not succeeded, for example, in rallying popular support, despite the worldwide publicity given the kidnapping of the U.S. and Swiss ambassadors in Brazil, or the Tupamaros' actions in Uruguay.

One main characteristic in the social dimension of Brazilian politics is the long-run, pacifist outlook. Bloody violence and repression is found in Brazilian political history, but the general note is one of conciliation.[39] Conciliation seems to be an end rather than a means. Brazil is an exception in this respect, and generalizations about conflict resolution in Brazil are not likely to be true for other countries.

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[39]José Honorio Rodrigues, Conciliação e Reforma no Brazil: Um Desafio Histórico-Cultural (Rio de Janeiro: Ed. Civilizacao Brasileira, 1965), p. 237ff.

Politico-Economic Influences

Two major circumstances influence political decisions and, in turn, have an impact upon the business environment: structural and cyclical politico-economic influences.

Structural influences refer to those economic policies which the host country must devise in order to develop in the long run. This requires fundamental long run political decisions associated with necessary short-term politico-economic policies. These policies, which have varying effects on the business environment, are: price controls, devaluation, repatriation of earnings, exchange controls, and import restrictions. Although many corporations perceive these policies as obstacles to foreign investment and consider them political risks, they are natural concomitants of the economic evolution of developing countries. C. P. Kindleberger summarized the structural relationship in his book, Foreign Trade and the National Economy.[40] The frequency of occurrence of these obstacles as a function of economic development in the 69 countries shown in Table 2-1 is discussed in the next four sections and shown graphically in Figures 2-2 and 2-3.

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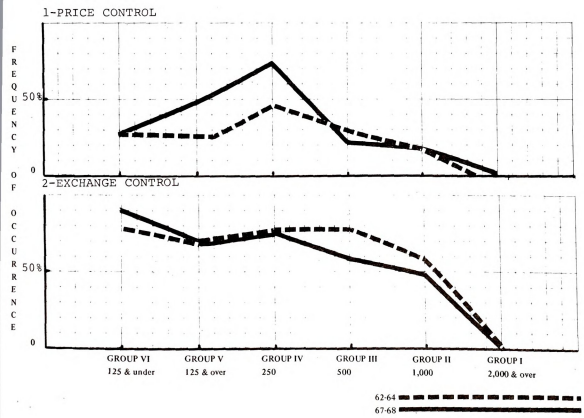
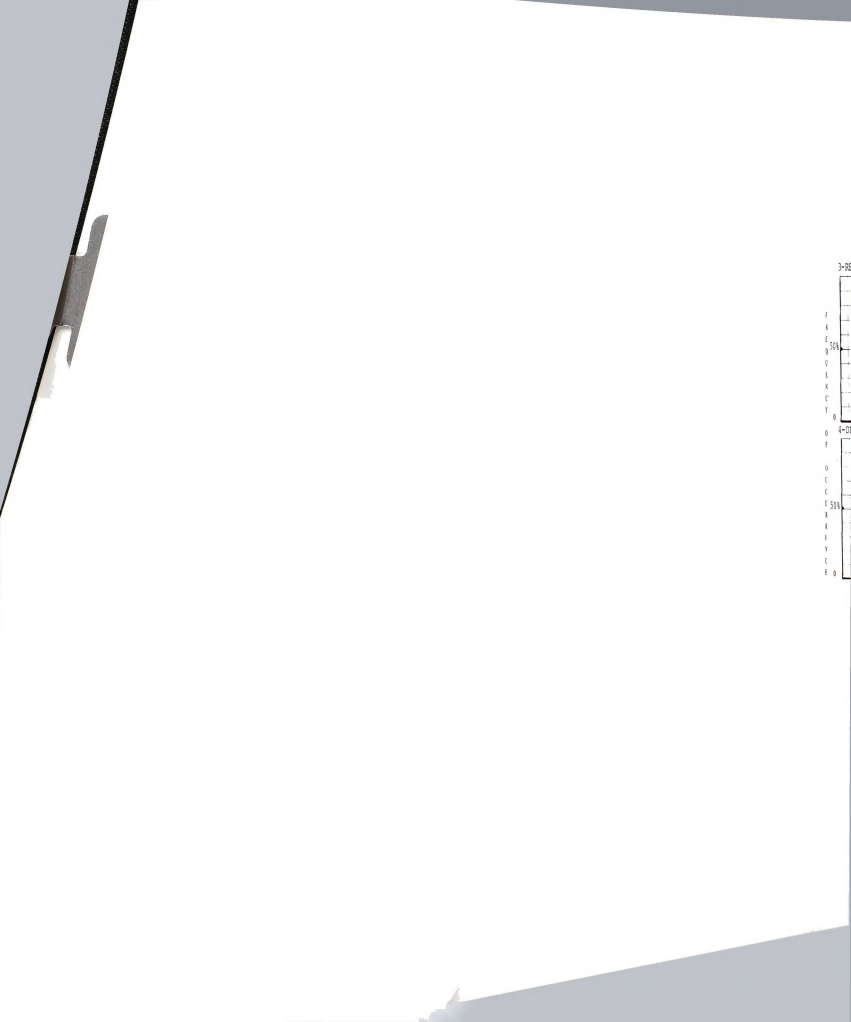
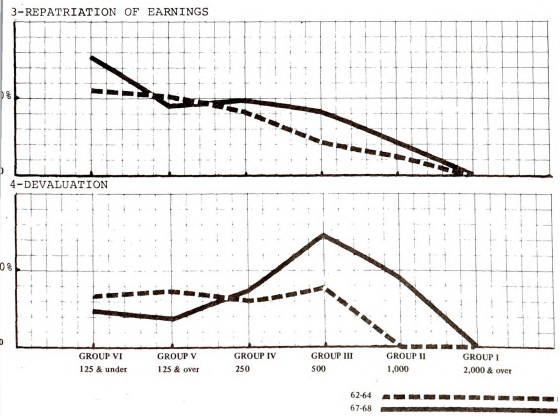
[40]The table showing the structural relationships has been briefly discussed previously, see Chapter I.



SOURCES: *N.I.C.B.: "Obstacles and Incentives to Foreign Investment 1962-1964", New York, N.I.C.B., 1965.*
N.I.C.B.: "Obstacles and Incentives to Foreign Investment 1967-1968", Vol.5, New York, N.I.C.B., 1969.
Business International, "Indicators of Market Size for 140 Countries", New York, 1970.

Figure 2-2.--Obstacles to foreign investment as a function of the level of economic development.





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Business International, "Indicators of Market Size for 140 Countries", New York, 1970.

Figure 2-3.--Obstacles to foreign investment as a function of the level of economic development.

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Price control.--Corporations perceive price controls as a major political obstacle despite the fact that it occurs less frequently than other obstacles (see Table 3-1).[41] Although this government intervention might be beneficial for everyone, it also could lead to a price control squeeze, that is, where there is strict price control for final products which are more visible to the mass of consumers, and a soft one for semi-furnished products or suppliers. Such a policy generally is used to combat an inflationary situation in a given country but it may limit a company's income while the costs of its labor, material, and overhead continue to rise because they are not, or are not as well, controlled. Of major importance is the degree of enforcement of price controls and the nature of their contribution to the economy.

The results of the research clearly indicate an identifiable pattern in the frequency at which price controls occur. Graph 1 shows a somewhat bell-shaped frequency curve. The mode for both periods under analysis (1962-64 and 1965-67) is Group IV, that is, those countries having a GNP per capita between $250 and $500. Price controls are used mainly to combat inflation, which erodes the balance of payments situation during periods when the greatest efforts are being made toward investment in capital and human resources in the economic infrastructure (for

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[41] Perception of political risk will be reviewed in Chapter 5.

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Exchange controls.--Exchange controls (see Figure
-2) can take many forms, but usually involve regulations
n the entry of capital for investment, limiting the avail-
bility of foreign exchange for certain kinds of imports,
r the obligation to export. Even the transfer of salaries
nd savings of foreign nationals working in a given country
an be submitted to controls. Multiple exchange rates,
ith different rates applied to different priority uses of
ources of funds, are another form of exchange control.
he graph on exchange controls shows that the less developed
country is, the more likely it will be to make use of
xchange controls. Such controls exist in 50 percent of
he countries with GNP between $1,000 and $2,000 dollars,
ut 75 percent of the countries with GNP from $500 to $1,000
ollars practice some sort of exchange control. Of the
hree lowest groups, 90 percent have such obstacles.

Limitation of repatriation of earnings.--Restric-
ions related to the repatriation of earnings vary from
omplete to partial restrictions (a dimension which is not
ncorporated in these data), and could apply to royalties
nd patents. These limitations serve to restrict the out-
low of foreign currencies needed by the host country, but

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lso to accelerate capital formation. In 1962-64 and 967-68, as shown in Figure 2-3, the frequency of use of uch policies was inversely related to the level of eco- omic development, reflecting efforts to increase capital ormation, modify the economic structure, and/or solve the alance of payments problem among the less developed ountries.

Devaluation.--During the first period studied 1962-64), the probability of encountering the devaluation leterrent was almost nonexistent in industrialized coun- ries, and could be estimated at 30 percent for the remain- ng groups (see Figure 2.3). In 1968 the pound sterling as devalued, which accounts for the great discrepancy etween the curves representing the 1962-64 and 1967-68 eriods. Such a discrepancy shows the influence of cur- ency areas, and also indicates a strong economic depend- ence among the countries within the same currency area (the pound sterling in this case).

Devaluation may be massive, and can occur fairly suddenly, as in the British (1968) and the French (1969) cases, or may be minor, as in the case of Brazil. The latter kind lends itself to easier planning and less risky financial management. When the British pound devalued in November 1968 by 17.5 percent, about 30 countries followed suit; the shift in the value for

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roup II from 0 to 38 percent is an indication of the reat economic interdependence of these countries. The ggregate figures do not pinpoint differences among geo- raphical and political regions concerning traditional ethods (or economic policies) for devaluation. South merican countries devalue more often than most others. he latter's currencies usually are pegged to a major cur- ency, and devaluation is contained by stricter price ontrols, restrictions on repatriation of earnings, and xchange controls. Devaluation is also used by certain ountries as a tool for economic development: making heir products relatively cheaper leads some countries o devalue even in the absence of problems of structural economic inbalance.

Politico-economic influences.--Fluctuations in economic activity which affect the political climate may, in turn, affect the business environment; the following analysis of such influences is divided into three sec- tions--an investigation of the literature, Brazil's post- World War II experience, and interviews with executives of subsidiaries in Brazil.

(1) The literature. The two major articles on Latin American politico-economic interaction are "Latin American Golpes and Economic Fluctuations, 1823-1966,"

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y Warren Dean, and "The Military Coup in Latin Politics," y J. M. Vivian and C. J. Michelsen Terry.[42] Dean attempted o identify a pattern in the occurrence of the 351 Latin merican coups between 1823 and 1966. His thesis was that he coups are accompanied by short-term economic fluctuation, nd that both the golpes and economic fluctuations are elated to international trade cycles. Dean noticed that he coups did not occur at regular intervals, and that ast frequency of coups is a poor predictor for the future ($R^2 = .06$).[43] Interestingly, he found that no one country ad a pattern of occurrence similar to others.

Figure 2-4 shows Dean's effort to correlate economic fluctuation and coup frequency. Fluctuations are represented by the level of Latin American imports; from 1854 to 1904 there is a slight correlation between the two but after 1904, the correlation is rather loose. Such a relationship is explained by the dependence of governments on export revenues. "However, it is not possible to establish the direction of the causal linkage between contractions in the export trade and coups because

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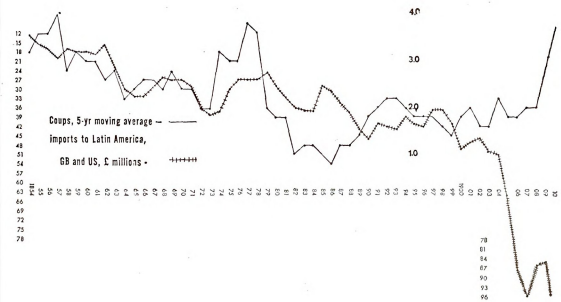
[42] See J. M. Vivian and C. J. Michelsen Terry, op. cit.; and Warren Dean, "Latin American Golpes and Economic Fluctuations, 1823-1966," Social Science Quarterly (June, 1970), pp. 70-80.

[43] See Dean, op. cit., p. 73.



SOURCE: Dean Warren, "Latin American Golpes and Economic Fluctuations: 1823-1966", Social Science Quarterly, June 1970, p.76.

Figure 2-4.--Latin American imports from Great Britain and the United States and the incidence of coups, 1854-1910.

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insurrectionist activities were sometimes a contributing cause of the business slump.[44]

The post-war increase in coup frequency (see Figure 2-5) could partially be explained by a decrease in the level of investment per capita. "In 1930, U.S. investment in Latin America amounted to $56 per inhabitant; in 1965, it was only $39, although the real value of the dollar had fallen by about 75 percent.[45] Coup frequency during the post-war period seems to be in phase with U.S. business cycles. The economic factors, as Dean stresses, cannot fully explain coup frequency, but social factors such as societal transformation and rapidly growing urban areas add more complex variables to the analysis.

The Vivian and Terry view of the probability of military coups as a function of business cycles are shown in Figure 2-6. In their opinion,

> When coups do take place, their cause, and life span are remarkably similar. The Coup Cycle is a mirror image of the Business Cycle, but a little behind and greatly exaggerated.
>
> Coup probability is slight as business expands. But with the boom, demand for imports grows and inflation increases. Racing inflation, foreign companies repatriate profits and service foreign debt. The shaky trade balance declines, precipitating a financial crisis. Then perhaps the IMF forces a devaluation and the government loses popularity. With devaluation, importers stop buying, and foreign firms slow capital investment.

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[44] Ibid., p. 78.

[45] Ibid., p. 80.

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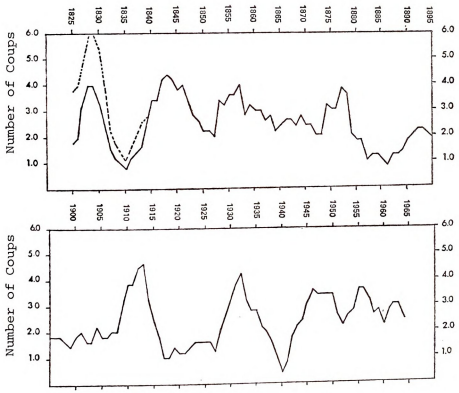

SOURCE: Dean Warren, "Latin American Golpes and Economic Fluctuations: 1823-1966", Social Science Quarterly, June 1970, p.74.

Figure 2-5.--Coups in Latin America: five-year moving average, 1823-1966.

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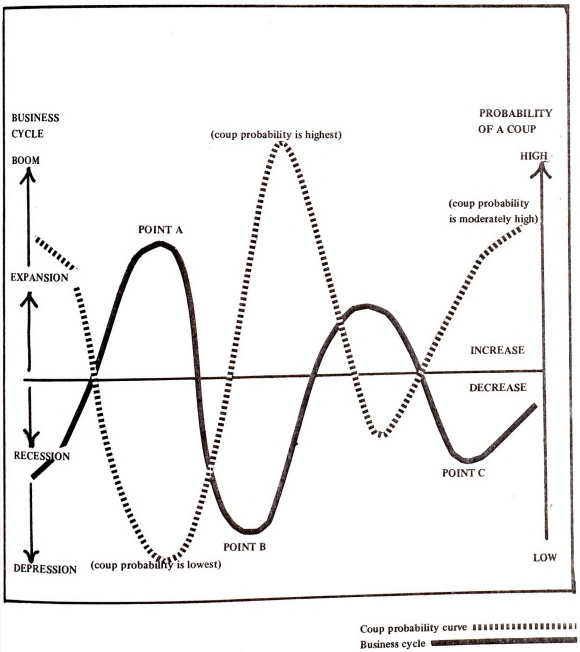

SOURCE: J. M. Vivian and C. J. Michelsen Terry, "The Military Coup in Latin Politics", Worldwide P & I Planning, Nov.-Dec. 1970. p.23.

Figure 2-6.--Probability of a military coup as a function of the Latin Business Cycle.

> Inflation skyrockets. Local production continues to fall and a recession is at hand. At this point some unforeseen calamity usually occurs: government corruption is exposed; the world price for the country's major agricultural export suddenly declines; increased anti-U.S. political activity results in a reduction of U.S. foreign aid. Lacking adequate planning capability, the government decrees drastic and highly unpopular austerity measures. The probability of a coup is now at its highest (Point B in the Figure).[46]

The authors also base their analysis of political risk on the role of "personalistic vacuums" in the respective Latin American countries.

One point the above researchers did not mention is that economic fluctuations might influence executive changes, but executive changes (that is, coups d'etat) do not necessarily mean a modification in the business climate or creation of economic fluctuations.

(2) The Brazilian experience. Brazilian history from 1948 to 1967 does not disprove that coup probability is low when business expands (see Figure 2-7). The coups in 1954, 1955, 1961, and 1964 did not occur during a business expansion.

In 1953, when the economic growth rate was negative, nothing was done by the opposition, led by President Vargas (who less than a year later committed suicide). The 1954 episode, however, can barely be considered a coup. The coup d'etat of 11 November 1955 is closely related to

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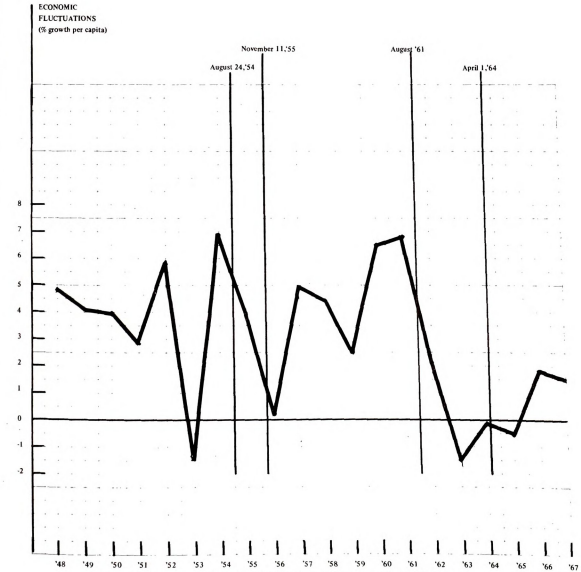
[46]Vivian and Michelsen Terry, op. cit., p. 22.



SOURCE: Fundação - IBGE, "Brasil Séries Estatísticas Retrospectivas - 1970", Rio, Brasil, 1970, p.216.

Figure 2-7.--Brazil's economic fluctuations and coups d'etat

President Vargas' suicide: his succession was contested and the military intervened to re-establish Brazilian democracy. Thomas Skidmore refers to such a move as "a coup for legality."[47] The third coup, in August 1961, resulted when Janios Quadros' sudden resignation left the country in complete disorganization and an unexpected presidency to Vice-President João Goulart, a populist disliked by the military. At the time of the resignation, Goulart was visiting Communist China, and the three military ministers of war, Minister of the Army General Odilio Denys, Minister of Air Brigadier Moss, and Minister of the Navy Admiral Silvio Heck, held effective power and declared martial law. The result of the confrontation of the three military ministers and the legalists, who were pursuing legality to the extreme, was a compromise. It was made possible because Goulart was supported by one dissident military commander, General Machado Lopez, commander of the Third Army, backed by the governor of Rio Grande do Sul province, Leonel Brizola (who happened to be Goulart's brother-in-law).

The last coup, perhaps the only one that could be named coup, which happened on the night of 1 April 1964, emerged from a combination of systemic weaknesses and historical accidents which had led to widespread

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[47]Thomas E. Skidmore, Politics in Brazil: 1930-1964: An Experiment in Democracy (New York: Oxford University Press, 1967), p. 154.

disillusionment with Goulart and the political system. A drastic change was needed. The middle class suffered from skyrocketing inflation (140 percent the last quarter before the coup); the traditional political balance was threatened; Goulart's regime was trying to buy off social groups with new programs and a rise in the minimum wage; and the military was afraid of a possible shift to the extreme Left. All these factors led to the 1964 revolution, which was backed by the technocrats, the middle class, the industrial sector, and, of course, the military.

Beyond any doubt, economic factors have had a strong influence on the occurrence and social acceptability of Brazilian coups. Furthermore, a "coup for legality" appears to be the general rule in Brazil. The latest coup is merely the exception which confirms the rule; nevertheless, it translated the desires of a broad spectrum of the population which were not developed through the normal political channels.

(3) The interviews. Executives at the subsidiary level were asked: "Do the periods of economic slow-down or economic difficulties aggravate the obstacles which are naturally present in the process of economic development?" Of those interviewed, 87.4 percent agreed strongly with the statement, although one businessman claimed that his operations grew at a minimum rate of 20 percent and that

ne never felt any major change due to obstacles. The respondents agreeing with the statement did so without making distinctions about the sources of economic fluctuations (internal or external to the host country). The internal fluctuations were relatively more important.

Corporations in Brazil were asked to enumerate the difficult business periods during their stay. If Hypothesis 3 is correct (see Figure 2-6), some additional political pressures should have existed in 1953 (negative growth rate), 1956 (2 percent growth rate), 1963-1964-1965 (negative growth rate), and possibly in 1959 (decline in growth rate from 4.6 to 2.5 percent). Curiously, every corporation but one mentioned the difficult times encountered during the Goulart regime. This was particularly due to the inability (probably the inexperience) of the corporations to conduct business in such an inflationary environment. Furthermore, inexperience may have been involved, and most corporations (60 percent) affirmed that if similar inflationary pressures occurred today they would be able to cope with and offset most of the financial distress.

The author asked: "What were the other difficult periods for your corporation?" Some executives answered they did not know because they only recently had arrived in Brazil (10 out of 45 executives had lived in Brazil an average of 1 to 3 years). Other executives mentioned the

initial production period without mentioning political cause-effect relationships, or some other, independent of the political situation, and caused most often by past "mismanagement of the corporation," as one executive said. The author examined the chronology of official decrees; although their time frequency or numbers are not a very good index, he noticed a significant increase in official decrees published during those slow down periods which would not support the corporation's answers. During the 1953-1956 period, there had been the decrees establishing a Brazilian automotive and electrical industry. The "law of similars" was also enforced more strictly as a Brazilian official of the Banco do Brasil mentioned during one interview. There are several plausible explanations: corporations may have a short memory for past history; or perhaps management does not believe experience could be gained by analyzing past corporate history when a new officer takes office; or, finally, at one time corporations may have misread government actions (as in the electrical or automotive case), and later realized that the apparent obstacles actually offered a competitive asset in the long run.

Summary

The political process in the host country results from the interactions of ideological, social, and economic influences. These influences are channeled into the business environment through the political institutions,

which act as filters and catalysts. Nationalism is manifested in any policy decision which favors the host country's socio-economic goals, aiming at national identity, national sovereignty, or national interest. Nationalism, as measured by personnel restrictions and local capital participation, appears not to be directly related to the level of economic development.

Social influences are articulated through different groups which, depending on the country, have varying degrees of power. These groups include the church, bureaucracy, army, middle class, labor, elites, and intellectuals. The church is both a progressive and conservative element: some members favor the traditional structure, while others preach Christianity modified by local needs and situations. The involvement of the bureaucracy in any change is an important factor if the long-term political and economic policies of a new government are to be implemented. The army plays a major role in every country, with or without civilian support. The middle class plays a major role in achieving political stability in any country.

Politico-economic influences could result from structural factors (such as the level of economic development), or from fluctuations in economic activity. There is some evidence of an identifiable pattern of obstacles resulting from structural factors. On the other hand, the evidence accumulated by researchers who tried to

correlate economic activity and coups has limited value, and further research should be done in this area. It is most important to analyze the effects of broad changes in economic policy rather than changes of personnel in executive offices. Analysis of the political situation seems feasible, but there is no universal body of theory. A corporation, therefore, must periodically study each individual country if it wants to develop sensitivity to political processes. The automotive and electrical industries have been mentioned as being subjected to political pressures in the mid-1950s, and the significance of the product (nature of economic activity) from the political standpoint will be investigated in the following chapter.

CHAPTER III

THE PRODUCT

Introduction

This chapter centers its attention on the product, its political visibility, and its technological transferability. Two hypotheses are specifically studied:

1. Different products may be subject to varying degrees of political pressures.

2. a. The greater the transferability of product technology, the greater will be the pressures for local production.

   b. The less transferable a product technology is, the greater will be the pressures to produce a component which is technologically transferable.

The first hypothesis has a high face validity when one compares different industries such as petroleum, mining, and manufacturing. The research tries to pinpoint differences within manufacturing industries, which many writers generally put under one category.[1]

Measuring Technological Transferability

Superficially, it seems valid to say that political pressures are a function of the level of technological

[1] See for example Stefan H. Robock, "Political Risk: Identification and Assessment," Columbia Journal of World Business, VI, No. 4 (July-August, 1971), 10.

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transferability, but problems in the measurement of a product's technological transferability prevented the author from categorically confirming the hypothesis.

As the interviews reveal, the level of technological transferability depends not only on the complexity of its manufacture, but also the market size of the country where local manufacture is contemplated and on a product's technological complexity of use. Certain chemical products, for example, are very easy to use, but their production is quite complicated. Large market size will permit economies of scale in the production process. Another example is the production of pharmaceutical products, which is a multi-stage process. The first phases of production are quite complex and require a high level of technology, but the last phase is similar to the assembly operation in the automotive industry, and is simple and standardized. Computers are an extreme example: both the production process and product use require a high level of technology. At the other extreme is the textile industry, where production process and product use are easily transferable.

Very little research has been done in this field, and the measurement of technological transferability has not gone very far, especially when inter-product comparisons have to be made. Some iso-technological transferability product curves should be developed for this purpose.

Albert J. Jadot, a Belgian economist, has shown (see Figure 3-1) a relationship between local manufacturing of electrical material of different level of technological complexity, and the market size, using as variables the gross national product per capita and the population.[2] The graph indicates the threshold for local manufacturing of small electrical goods. Double logarithmic coordinates have been used along the axes in order to incorporate countries small in population or per capita income. The vertical axis shows the income per capita in Belgian francs (50 Belgian francs = $1 U.S.). The horizontal axis indicates the population; the indices beside the country's name indicate the level of imports per capita of electrical products. The threshold curves separate producers from nonproducers, and, in general, countries close to that threshold are countries where production is relatively recent: those under the curve are countries where production could be planned or forecast. Typical is the case of Thailand, which established its first electrical manufacturing facilities in 1959. The curve done on the basis of 1952-57 data would have helped executives in developing long-term planning. Similar approaches could be developed for other products and help public policy planners in devising economic development policies and executives in screening new markets.

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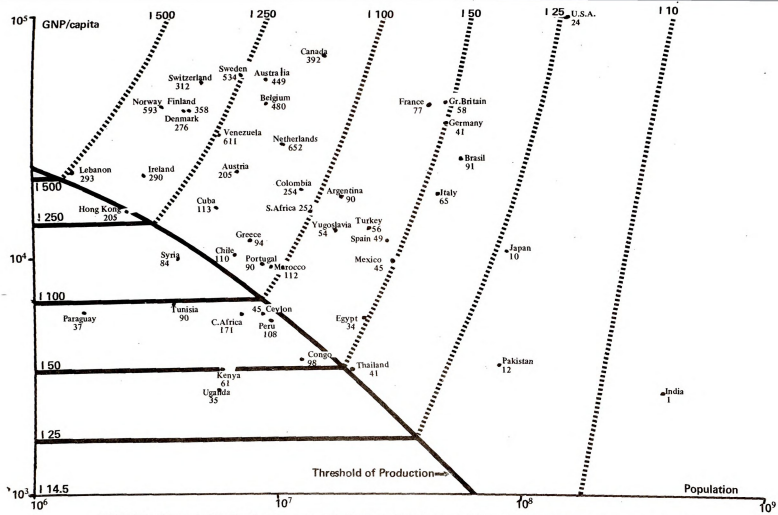
[2]Albert J. Jadot, "Le Comportenent des Importations des Produits Manufactures a travers le Developpement Ecomonique," Unpublished dissertation, Universite Catholique de Louvain, 1959-1960.



SOURCE: Albert Jadot, "Le Comportement des Importations des Produits Manufacturés à travers Le Développement Economique", Université Catholique de Louvain, 1959-1960, (unpublished dissertation), p.61.

Figure 3-1.--Curves of ISO--importation and threshold of production for electrical material.

Refinements in the research for iso-technological transferability product curves associated with market potential could provide a valuable tool for foreign investment strategy. The size of the market potential creates the political visibility and viability of governmental action aiming at some technological transferability, but the size of the market potential also is determined by the two dimensions of the product, namely, its use and production. Thus, political pressures for technological transferability will be exerted on these two dimensions.

Therefore, the researcher developed an indirect approach by which products were analyzed in function of their political meaning, and transferability was analyzed in cases where comparability was feasible.

The Product--Its Political Meaning and Attributes

The product in many cases is seen by the sources of political power more as a fulfiller of national needs than as a satisfier of consumer wants.[3] Every product contributes not only to the consumers' satisfaction, but also has an impact on a country's economic, social, and political goals which could supersede individual consumer interests.

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[3]A first major consequence of this approach is that economic rationale based for example on the law of comparative advantage might not be the most attractive and convincing argument when a multinational corporation or a government negotiate with the host country.

The local manufacture of products, even if it does not provide the best allocation of resources, could still be undertaken for social or ideological reasons.

The Literature

John F. Truitt has advanced the hypothesis that the risk of expropriation is related to the area of economic activity in which the firm is engaged.[4] The results of the Truitt study showed that among 28 cases of expropriations of U.S. corporations, 12 extractive industries, 4 service industries, 6 manufacturing, and 6 public utilities firms were involved; 65 percent concerned extractive industries or public utilities.

If the experience of British and U.S. firms are combined, the vulnerability in each sector, in descending order, is: (1) insurance; (2) export-import trade and commercial banking; (3) petroleum distribution; (4) other extractive industries; (5) public utilities; (6) manufacturing; (7) other service industries; and (8) agricultural and non-extractive industries. These figures are biased because many expropriations occurred after the

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[4]John F. Truitt, "Expropriation of Private Foreign Investment: A Framework to Consider the Post World War II Experience of British vnd American Investors," unpublished Ph.D. dissertation, Indiana University, 1969, pp. 168-222.

decolonization period in British colonies; a more meaningful tabulation would be by each act of expropriation by industry effected.

Truitt maintains that "high profiled" distribution, that is, highly visible distribution network industries, were a major factor in expropriation, but the data could be interpreted differently. First, most nationalized service industries were the result of sweeping nationalization (such as banking and insurance) on the basis of socialist ideals. Second, other distribution networks were nationalized along with small manufacturing facilities as the result of external events (for example, the Middle East crisis). Third, in most African and Asian countries the degree of firms' involvement is so limited that the distribution network represents almost the only sizeable foreign investment. Fourth, the low expropriation rate in agriculture is due to the fact that expropriations occurred before World War II; since that time agricultural investment has declined sharply.

On the other hand, Vernon mentions that chronicles concerning raw materials development are filled with examples of the struggles between foreign investors and host governments.

> On the record the foreigner who invests in raw materials exploitation in the less developed countries has no reason to hope for long-run tranquility and stability. The investments of foreigners in tropical plantations, popular during the late 19th and early 20th century have almost passed into history. The investments in minerals and petroleum are under

> constant pressure. But there appears to be system and order in the timing and effectiveness of the pressure. Those undertakings that have least to offer in the way of capital, technology and markets appear to be the most vulnerable.[5]

The Vernon and Truitt studies aptly summarize the conventional wisdom about product-host government relationships. These views, nevertheless, consider only the two extreme cases of expropriation and of royalties in the extractive industries, which may often be considered as creeping expropriation. For example, manufacturing industries, listed as sixth in vulnerability to expropriation, could be more subject to internal pressures (because sales are mostly oriented towards the domestic market), than are extractive industries (whose output is externally oriented and beyond the control of the host nation as soon as it leaves port).

A Taxonomy

Products have different images or roles which may influence the host government's actions. In this perspective, the product is viewed as: (1) an economic good; (2) a social good; (3) a prestige symbol; or (4) a neutral good.

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[5] Raymond Vernon, "Foreign Enterprise and Developing Nations in the Raw Materials Industries," Proceedings of the December 27-30, 1969 Conference of Allied Social Sciences Association, New York, pp. 255-276.

The product as an economic good.--A product's image may be perceived by political sources in relation to the economic expectations that could be derived from its local production. Its utility could lie in the economic growth or the economic self-sufficiency (or independence) it would promote.

(1) Economic growth. The produce contribution to economic growth relates to the national interest aspiration level, and could be evaluated in several terms: its contribution to the GNP growth per capita, the forward-backward linkages its production creates in the industrial structure; its public revenue effect; its growth generating effect; and its allocational effect in terms of inflow and development of new technology as well as a foreign exchange earner. The economic good aspect of a product appears based on sound economic reasoning. Most import-substituting industrialization falls in the economic growth category. Albert Hirschman notes that the import-substitution concept has stemmed from four impulses:[6] (1) wars and depressions; (2) balance of payments difficulties; (3) growth of the domestic market; and (4) an official development policy.

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[6]Albert O. Hirschman, "The Political Economy of Import-Substituting Industrialization in Latin America," The Quarterly Journal of Economics, LXXXII, No. 1 (February, 1968), 1-32.

Import-substitution policies are implemented through four instruments: protective duties; an assortment of credit and fiscal policies; other political pressures for local manufacturing such as non tariff barriers; and development of state-owned enterprises, regional development corporations, or banks which have specific priority projects.

Balance of payments difficulties, as mentioned in previous paragraphs, were also one of the major factors necessitating conscious economic development policies. Import-substitution policies frequently led to frustration in the long run because imports of some products were easily substitutable at the beginning, but the process became increasingly difficult as opportunities were exhausted. These policies resulted in distorted factor prices within the domestic market, and did not improve the balance of payments problem; in addition, of course, they led to poor world-wide allocation of resources.

With that problem in mind, developing countries are increasingly imposing the export test. Export development programs have become the latest weapon for pressuring foreign corporations into local manufacturing, to serve not only the internal, but also external markets. Such a governmental policy may have severe repercussions if applied in countries with rather small markets and with no unique factor endowments.

(2) Economic self-sufficiency. The economic self-sufficiency aspect of a product relates to the country's national sovereignty aspiration level. It is translated into an import-substituting industrialization strategy mainly for products whose supply is uncertain in the event of wars or depressions, or whose technology is seen as a cornerstone for economic independence. In addition, providing a level of employment which does not depend upon foreign economic conditions also becomes an objective. Small manufacturing in Brazil and Argentina, for example, developed mainly in reaction to the Great Depression.

Corporations which entered a market with the intention to serve only the local demand could find themselves in difficult positions one day. For example, if, to reach economic efficiency protective tariffs in a country were lowered; some local manufacturing, which caters to a small, protected market, is exposed to import competition, the resulting outcome is obvious; either the plant must be closed, or its capacity increased in order to compete, but then it becomes necessary to export. Such a situation occurred in Colombia's chemical industry. Mexico, Brazil, and Colombia are trying to implement such a policy, and other countries are expected to follow suit. The effect will be to make the old law of comparative advantage relevant to multinational corporations within their international sales networks.

The chemical industry in Brazil is perceived presently by the government as an economic good not only to insure self-sufficiency but particularly to create forward and backward linkages in the industrial structure. As such, the chemical industry should be the industry which is most pressured by the Brazilian government. On the other hand, the automotive and the electrical industries have been forced to produce 100% locally, and the companies now operating in Brazil have chosen to remain in the market and are now subject to less pressures than the chemical industry. Due to technological complexity metal working and office machine equipment industries are apparently not at the same level of priority in the government industrialization plans and consequently the pressures applied to them should be the least important at the present time.

The product as a social good.--A social good refers to the product's role in the social system, and the concept is closely related to the national sovereignty aspiration level. It is a good which society believes it should control for its well-being. This control may be exerted through regulatory practices (such as public utilities in the United States), joint ventures with government (such as som banks in France, Belgium, and other countries), state-owned enterprises (such as insurance in India, or petroleum refineries in Brazil), or the requirement that the sector

be locally owned or controlled (such as broadcast corporations in the United States, or agriculture in Brazil).

The main sectors usually involved in this social aspect are industries closely associated with the economic infrastructure, or with public health (such as banking, transportation, public utilities, pharmaceuticals, and staple foods). A social good is a necessity for the social system as a whole, and strategic goods for defense purposes also could be classified among these.

Of the industries analyzed, two industries might be indirectly concerned: the chemical industry because it supplies raw materials to the pharmaceutical industry, and the electrical industry as a supplier of products for the regulated or state-owned electricity enterprises which produce social goods. Consequently, a government might find it essential to control a vertically integrated industry, or by its price control of the end product the government might induce a reduction in the derived demand. A decline in the reinvestment or the investment of public utilities due to a squeeze on profits, or due to a high probability of expropriation, can lead to a lack of demand for turbines, transformers, and so forth. Brazil experienced such a situation in the late 50's and early 60's.

The product as a prestige symbol.--A steel mill complex, a national airline, or an automobile factory are

typical showcase industries producing products which serve as prestige symbols. The prestige aspect does not exclude the economic good concept, but many developing countries have established steel mills in order to show they are industrialized, despite the lack of sufficient internal market demand, human resources, or capital. The prestige symbol fulfills the need of a country to identify itself as a member of the concert of modern nations. Fortunately, in the case of the automotive industry, most Latin American nations are realizing their error and are limiting the number of manufacturers, as in Colombia and Chile. Only Brazil has succeeded in developing a vertically integrated automobile industry, which is expected to become one of the world's most important. The Brazilian experiment began in 1956 under harsh criticism from industry executives and the world press. Since then, automotive executives have reversed their opinions, but still are dubious about governmental policies of export promotion. Private enterprise is generally unwilling to invest in prestige-oriented ventures without investment and revenue protection.

As a prestige symbol, exports of goods are becoming very important. The exports of automotive products, some metal products, as well as some electrical products as appliances, for example, seem particularly good targets for pressures.

The product as a neutral good.--The neutral good category includes nonclassifiable items whose impact--emotional, social, economic, or strategic--is marginal. Such products, in general, do not appear on investment priority lists, and do not receive any special attention. The government does not care what foreign corporations do as long as they operate within general legislative constraints. In that category are products whose technology is beyond the foreseeable reach of the host country, or whose market is limited. Some products in the electrical industry field, such as tape recorders, or completely integrated computers, in office machine equipment field constitute neutral goods for the short and medium term.

From this taxonomy it can be expected, in the Brazilian case, that the chemical industry will be subjected to the most pressure. The metal working and electrical industries are logically second in the level of pressures. The automotive industry should be less vulnerable due to its past experience and its vertically integrated local production, while office machine equipment is presently less susceptible because of its high technology and because it will be asked to produce only components.

The taxonomy provides only an approach for a general country analysis. Two countries could have a different set of products in each category, and the categories could vary over time. There is, however, correlation with

the level of economic development. In the case of Brazil, the automotive industry constitutes an economic good which generates growth, while the steel industry is more related to the self-sufficiency aspect of an economic good. The Brazilian steel industry evolved from a prestige symbol into an economic good, although the recent pressure to export at any cost recategorizes it as a prestige industry.[7] Public utilities and the petroleum industry in Brazil fall into the category of social goods.

Industry's Perception of Political Pressures[8]

To the question: "Will there be any perceived differences in pressures among manufacturing industries?" most industries in the sample (automotive, chemical, electrical, metal working, and office machine equipment) showed relatively similar reactions to obstacles confronting them. Figure 3-2 depicts graphically the overall evaluation (headquarters and subsidiary) of political pressures while Figures 3-3 and 3-4 show the perception at subsidiary and headquarter levels respectively (see

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[7]The Brazilian government has recently concluded a contract with several firms requiring them to export 16,500 tons of steel (bars) monthly, even in the event of shortages in the domestic market, despite Brazilian prices higher than world prices. See Brazilian News Briefs, No. 28, July 19, 1971, p. 9.

[8]For the analysis of the interviews, when no country is specifically mentioned, the author is referring at the Brazilian environment.

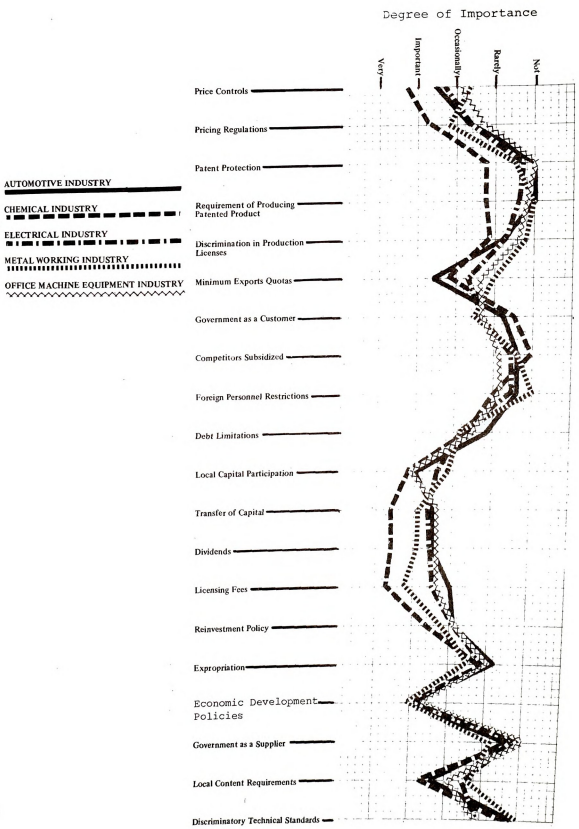

Figure 3-2.--Evaluation of obstacles to foreign investment by industry.

Appendix D, I and E for details and numerical scores). The one major exception to the trend were attitudes about licensing restrictions in the chemical and metal working industries where license fees and royalties are particularly important. This could be explained by the nature of the industries, whose secret formula or methods are the key to profit in their manufacturing processes.

The chemical industry.--The chemical industry appears subject to the greatest pressures, and is the one relatively most sensitive to marketing obstacles such as price controls, patent protection, discrimination in distributing production licenses, and minimum export quotas (although in the latter case the automotive industry believes it is exposed to a greater risk). Executives in the chemical industry also believes it is exposed to extreme pressures concerning financial management, in particular local capital participation and restrictions on remittances policies (such as direct transfer of capital, repatriation of earnings, dividends, and licensing and management fees). The industry's reinvestment policy is also under pressure. In the production area, it seems that chemicals are very vulnerable to import restrictions.

Curiously enough, the chemical industry is less subject to small obstacles, or nuisance policies. It is least subject to pressures from government as a customer

and as a supplier of inputs, or to indirect discrimination through subsidies given to competitors.

The office machine equipment industry.--At the other extreme is the office machine equipment industry, which suffers least from political pressure. Only in the case of indirect discrimination through subsidies or other means, such as government purchasing policies, is this industry affected.

Interviews pointed out that discrimination was present only in developed countries, and was a means to counteract the American challenge. Although England was submitted to particularly severe criticism from interviewees, it appeared that indirect discrimination was the rule in most other European countries such as Belgium, Germany, France, or Holland. Discrimination is rationalized on the grounds that a local computer industry should be developed. If there is a national corporation, that firm enjoys special governmental protection and market, as in the United Kingdom. If the country does not host a computer industry, corporations are wooed with subsidies, tax holidays, and preferential treatment in government markets.

The industry does fear legislation that might force local capital participation, and another matter of concern is the emerging discriminatory pattern of technical

standards in developed countries. There is a tendency to favor a local product which is the only one to benefit from a patent or specific characteristics, such as a special typewriter keyboard (as in one Brazilian state that required additional keys which were a standard item for a local manufacturer) or an electrostatic filter (as in Sweden).

Office equipment considers itself little influenced by the role government plays as a supplier, by governmental economic development policies, by restrictions on remittance of earnings, by reinvestment policy legislation, by patent protection legislation, or by pricing rules.

The electrical industry.--After the chemical industry, the electrical industry is the most pressured. In most areas it fared in the middle range with the exception of discriminatory standards, which were applied to electrical and office machine equipment companies primarily by developed countries. The industry is also very sensitive to economic development policies because most basic electrical investment projects are government planned and authorized. Government economic policies will determine the profitability of public utilities through rate regulation, which influences the derived demand in the industry. Government purchasing policies are also a weapon governments might use against electrical companies.

The metal working industry.--The metal working industry, including steel machinery and pipes, is subject to average pressure. Its treatment is more similar to that of the office machine equipment industry than that of the electrical or the chemical industries. Metal working does not consider itself much influenced by technical standards, patent protection, or a minimum export quota. It seems less sensitive to price controls, although in some instances rules not allowing for freedom in establishing profit margins were considered dangerous by the companies.

The industry seems to have little difficulty staffing foreign subsidiaries, but there is fear of expropriation, nationalization, or forced sales, and the belief is somewhat stronger than average that the industry is subject to pressure from the government as supplier. The government as a customer is also a problem, and some discrimination occasionally occurs in favor of local national producers. Import restrictions and minimum export quotas seem to be applied to this industry less than others, possibly because metal working industries are considered prestige symbols. Only a small number of items are produced locally, and because of the small economies

of scale and the high protective barriers, no one could dream of exporting, except in products where the domestic market allows economies of scale.

Quite often the nature of the product creates some built-in vulnerability. In most cases steel machinery manufacture requires highly skilled labor and a large market, and very few countries possess the necessary combination of factor endowment, capital, human resources, and markets. The size of the required investment in the metal working industry forces firms to find locally as many reliable financial resources as possible, and to keep equity investment at a minimum. Such characteristics would lead to a negative reaction to any restriction concerning the capital structure, as is evidenced by the answers to Question 31 in Appendix F on limitations of the debt structure.

The automotive industry.--The automotive industry perceives itself as more susceptible to political pressure than the office machine equipment industry, but less susceptible than the metal working industry. The obstacles it fears most are local capital participation, minimum export quotas, and local content and economic development policies, all of which are also reflected in the present Mexican situation. The industry is relatively unconcerned about expropriation, forced sales, nationalization,

reinvestment policies, and licensing and management fees, although these are considered serious impediments. Restrictions on capital structure (Question 31) and patent protection legislation rarely are problems.

Subsidiaries and Headquarters' Perception of Political Pressures

The Brazilian subsidiary levels.--The immediate environment is reflected at the subsidiary level (see Figure 3-3). In Brazil, the key role economic policies play in the development of the economy, the predominance of price controls, and the recent governmental drive toward the opening of corporate capital in the local stock exchange are of particular concern.

An acute problem for the automotive industry is the forced development of an export market through the requirement of a minimum export quota, given that every country desires to produce locally and export. The automotive industry, which, within its world-wide strategy, has catered its manufacturing policies to the South American market, fears particularly in Brazil the long-run consequences of building up capacity for exports outside the LAFTA area if financial incentives are withdrawn.

Although it is not a serious problem elsewhere, the office machine equipment industry in Brazil faces a difficult decision if the government forces more local

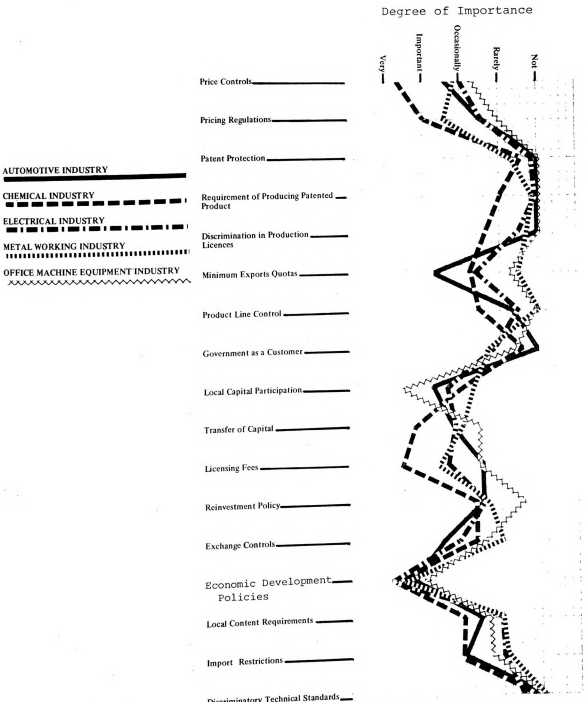

Figure 3-3.--Evaluation of obstacles to foreign investment by industry subsidiaries.

capital participation. Some of the companies interviewed fear that their bargaining power in the issue of "opening the capital to the Brazilian people" issue is weak, and a major change in company policies must occur if they want to remain in the country in the long run. At the subsidiary level, discriminatory technical standards are not as important for office machine equipment, but the spread between the electrical and other industry's shrunk significantly.

The headquarters level.--Headquarters appear to take a more global approach (see Figure 3-4). This is reflected by headquarters attenuating certain important risks but in compensation by increasing the number of potentially critical obstacles. The major concerns are finances and production. Financial concerns in particular are local capital participation, transfer of capital, licensing fees, exchange controls, and economic policies. These obstacles interfere directly with profits, managerial freedom, and are conceptual in nature. For example, the metal working industry at the headquarters level is extremely concerned about limitations on repatriation of earnings and the transfer of capital. Local content requirement and import restrictions prevent the international movement of goods, and might force local assembling or manufacturing despite the fact it is not the best allocation of resources. For these reasons, they constitute a major conceptual obstacle.

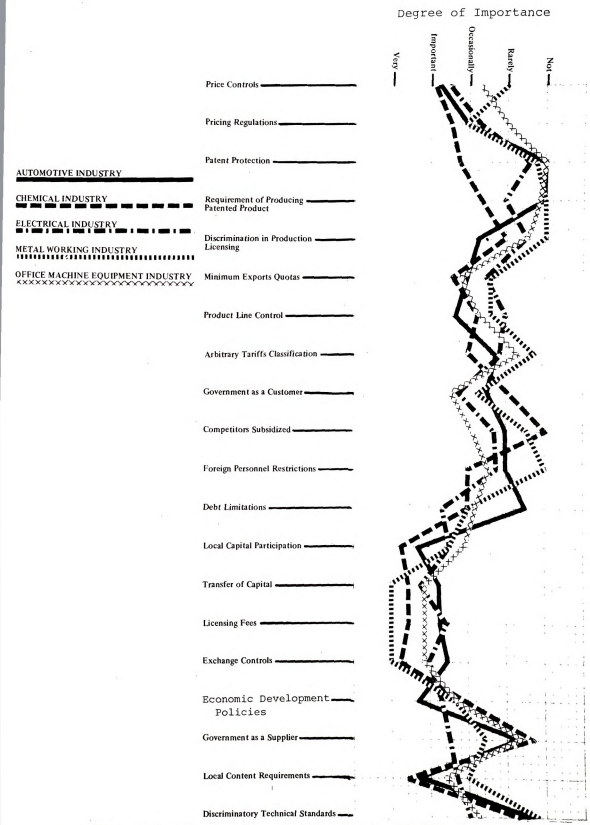

Figure 3-4.--Evaluation of obstacles to foreign investment by industry headquarters.

Foreign personnel restrictions, although actually not an important obstacle as shown in Figure 3.4, are nevertheless perceived in some headquarters as significant. Discriminatory technical standards are clearly more important than in other industries, and are so perceived at headquarters. Government as a customer is significantly more important at the headquarters level, perhaps because of the peculiar pro-private enterprise attitude the Brazilian government takes in managing the country. The office machine equipment industry fears government as a purchaser or customer in developed countries but in Brazil at present such a risk is remote, since the Brazilian market is large and is expanding. Discrepancies in obstacle perception are visible by comparing Figures 3-3 and 3-4. Thus, headquarters executives perhaps project their apprehension of the government as customer in developed nations onto the Brazilian situation; executives in Brazil, however, are more realistic in viewing the risk of government as customer as minor.

The emerging problem of minimum export quotas is becoming a serious one for foreign investment in general. Some executives believe that it is the political risk of the future, and consider it more significant than price controls. Many pointed out, however, that such export requirements quite often are accompanied by subsidies and

tax benefits, and that they could offer larger financial returns than domestic sales. Therefore, the risk of not participating in such a scheme will increase as time goes by. From a managerial viewpoint, this will lead to rethinking the corporation's intended strategy in terms of a world-wide country segmentation. Each country would specialize in specific products and in exchange allow import privileges for the corporate product line.

Some products by their production or marketing characteristics could be particularly vunlerable to some obstacles which might be entirely inoffensive to other products. For instance, in the chemical industry patent protection is essential for survival, and it is reflected in headquarters' perception of the evaluation of obstacles. The same obstacle is perceived differently at the subsidiary level, where the problem is considered of rather limited importance. Differences in vulnerability to political pressures do exist among products; they are the result of product characteristics and of their impact on the goals of the general policies followed by the government.

Political Risk and Technological Transferability

Hypothesis 4 stated: (a) The more transferable the product technology, the greater will be the pressures for

local production; (b) the less transferable the product technology, the greater will be the pressures for producing a component which is technologically transferable.

Every corporate executive but one agreed with the two hypotheses. Thus, there is a high face validity. The executive who disagreed mentioned that it is possible to manufacture anywhere in the world if the corporation is free of governmental interference. Such a statement does not invalidate the hypotheses, since they are not concerned with the feasibility of creating technological wonders in the middle of the Sahara, with everything--labor, technicians, and equipment--imported. Rather, they are concerned with what is actually done, and on what products or production processes the host governments are putting pressure. They intuitively agree with the hypothesis, but none explicitly incorporates this evident phenomenon into long range planning.

Spectrum of Political Pressures

Governments quite often apply political pressure by simultaneously using positive and negative incentives, which may reinforce each other. As described by most executives, there is a chronological pattern in the application of

government pressure (Figure 3-5). Initially, government bureaucrats informally inquire about a corporation's future plans, and casually suggest a need for investment in a particular economic sector. In general, they add that such a move will be greatly appreciated by all concerned. During this phase there usually are small administrative delays, with the subtle indication that compliance could solve some of the problems.

The second stage is presentation of overt governmental opinions and suggestions, couched in broad directives for investment in the national plan. Subsequently, the "law of similars," or an equivalent system, is established for priority investments. Governments try to attract further investment by providing better incentives, such as subsidies and tax advantages. A failure of these positive incentives may open the door to a multitude of negative pressures, among them limitation on foreign personnel, import restrictions, increased local content requirements, deadlines for different levels of content requirements, and the threat of state-owned enterprise.

Transferability of Product Technology

The automotive industry is quite familiar with the pattern just outlined. Foreign manufacturing in developing countries begins at the assembly plant level: the next step is the requirement that local content incorporated in

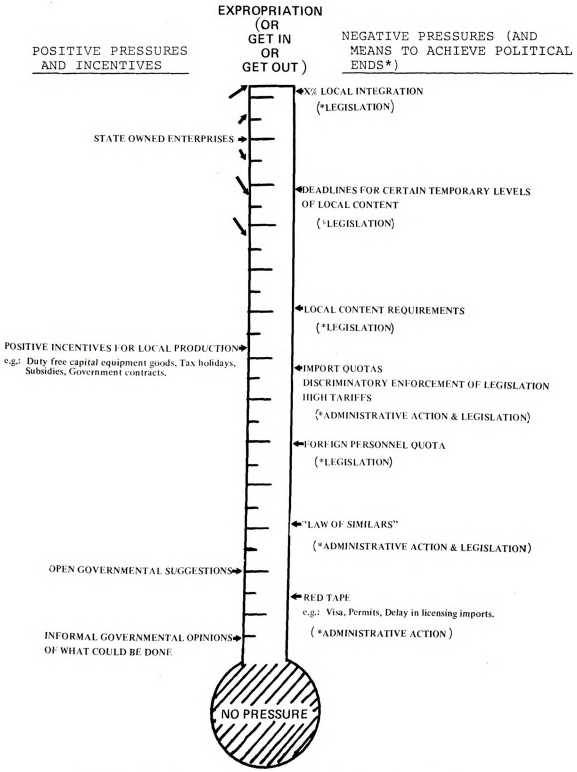

Figure 3-5.--Spectrum of political pressures.

the vehicles be gradually increased by developing more technologically simple products. Government then applies pressure for maximum local content by enacting laws requiring a minimum percentage of local products by weight or value.

This was the process in Brazil. In June 1956, a decree was issued directing the creation of a local automotive industry.[9] The implementation of that plan followed the prediction of the hypothesis, and in July 1956 jeeps,[10] pickups, vans, and trucks,[11] were affected, followed in 1957 by cars. The difference in content requirement reflects the market and technological characteristics of the product.

Deadline	Minimum local content requirement, percent of weight	
	Pickup	Truck
31 December 1956	40	35
1 July 1957	50	40
1 July 1958	65	65
1 July 1959	75	75
1 July 1960	90	90

A similar process operates in other industries, and was described as follows by an electrical executive: The electrical industry is first required to assemble simple electrical equipment, such as resistors and

[9] Decree 39412, June, 1956.

[10] Decree 39676A, July 30, 1956.

[11] Decree 39568, July 12, 1956.

cables, then the assembly of simple small electrical products such as radios, small engines, and transformers follows. Thereafter, the complexity of the required product develops as a function of the voltage and power of the equipment needed. The transfer of electronic components is the most difficult process. Some countries eliminate certain steps because national planning priorities de-emphasize the less prestigious products.

Transferability of Component Technology

In the case of highly technologically complex products, parts of the product are imported, others are manufactured locally, and the whole is assembled locally. This is the case in the production of large electrical equipment such as high voltage transformers. In the office machine equipment industry, where import of new technology is an important bargaining factor with many products, political pressure might be applied to locally produce secondary goods such as carbon paper, ribbons, cards, paper, or typewriter keys. That industry indicated that local manufacturing had generally increased the growth rate in the value of imports of thier product line.

The majority of corporations (78 percent) mentioned that such pressures forced them to make investment decisions four or five years in advance of their economic justification in order to benefit from long-term governmental

advantages such as tax benefits and subsidies, which, in turn, provide a competitive advantage. Interestingly enough, strategic moves of the corporation activated by political pressures are perceived more as the result of a dynamic competitive situation than of the government's arm twisting; thus, the fear of losing market access was a prime motivation.

Summary

From a managerial vantage point, the product can be studied in three dimensions: its political meaning, its technological transferability, and the governmental pressures exerted upon it (Figure 3-6). Political pressures vary among products as a result of product characteristics (economic, social, or prestige goods) and of the general policies followed by the government.

The perceived relative vulnerability reveals that even in countries where political risk is presently low, there is fear of certain risks which are reflected overall. The priority given various risks might differ among corporations and industries, but all are concerned in some degree with the following political risks:

(1) Capital restrictions (local participation, repatriation of earnings, and so forth);

(2) Economic development policies;

(3) Price controls;

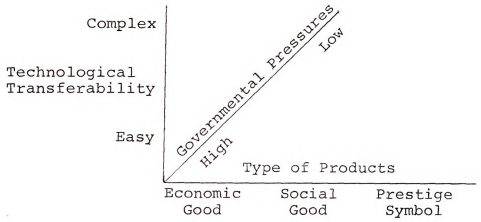

Figure 3-6.--Dimensions of a product.

(4) Import restrictions and/or local content requirements; and

(5) Minimum export quotas.

From the complex mix of industries and products, major risks emerge: in the developed countries, in the name of safety, discriminatory technical standards are enacted; in the developing countries in the name of economic growth and efficiency some governments are fostering requirements for minimum export quotas (in value or quantity, for either parts, or finished product).

Superficially, it seems valid to say that political pressures are a function of the level of technological transferability, but problems in the measurement of a product's technological transferability prevent the author from categorically demonstrating the hypothesis. In any case, this "evident" phenomenon is not integrated into

TABLE 3-1.--Managerial implications of the product taxonomy.

Taxonomy	Consequences	Corporate Strategy	Bargaining Advantage Held By
Economic Goods			
1. Economic Growth	-"law of similars" -local content requirements -import restrictions	-balance potential consequences of competitive moves and market potential.	-Short term corporation -Long term society
2. Economic self-sufficiency	-protectionism -Local capital participation	-Seek long term guarantees	-Corporation
Social Good	-price control -nationalization	-insure a minimum level of returns	-Society
Prestige Good	-subsidies -tax holidays	-take advantege of opportunities	-Corporation
Neutral Good	-no governmental interferences	-find profit opportunities	-None

corporate planning. Further, it appears worthwhile to develop a scheme which portrays the cycle of industry pressures for different countries at different levels of economic development in order to plan investments and their timing in a worldwide strategy.

From a managerial standpoint, the porduct taxonomy leads to development of specific strategies where the firm enjoys varying leverages at the bargaining table (see Table 3-1). Economic goods which are intended to lead to economic growth should reach economic efficiency in the long run, that is, the best national allocation of resources (for example, cars in Brazil). Goods produced locally with the purpose of national self-sufficiency are generally manufactured by companies dependent upon governmental aid or protection for survival. But the political importance of their survival is such that government stands ready to support part of the economic costs. Social goods are more prone to local control through price controls (for example, pharmaceutical products), nationalization (for example petroleum industry), or majority local capital participation (for example, banking industry). The corporation has to submit itself to society's regulations. Prestige goods require active support of the government if this activity is to be continued; in such a case the corporation has a better bargaining position for investment negotiations.

In strategy development, the most evident is most often easily forgotten. A firm has to evaluate periodically its product line position and its bargaining power and adjust its strategy accordingly. In the Brazilian case, the automobile industry which began on a "prestige" basis became an economic good, and it is conceivable that it will become a prestige industry in the near future. Some products in the metal working industry which started as economic goods, with a self-sufficiency objective, are becoming prestige goods. As the environment changes, priorities change and affect the exports and local production of goods.

CHAPTER IV

THE FIRM:
I. NATIONALITY AND POLITICAL RISK ANALYSIS

In addition to the product, the firm's other variables are important in determining vulnerability to political risk. A permanent challenge to private enterprises in international business results from continuing government intervention without clear-cut delineation between the public and private domain. One of the major reasons for this conflict is the developmental aspect of the politico-economic structure of the economy in most developing countries. In industrialized countries, government limits itself largely to regulating competitive practices; in developing countries, the competitive environment is non-existent, and many governments think unassisted and undirected development too slow and inefficient.

Certain industries require a minimum size for economy of scale, and some countries, such as African and South American nations, cannot afford local, competitive, economic structures. The solution is creation of a monopoly situation for an enterprise within the country, or a public

enterprise, or a combination of both. The problem is further complicated by serious imperfections in the market and in price mechanisms due to the narrowness of the market and the prevalence of monopolistic conditions. The narrowness of the market may make governmental presence indispensable when a massive volume of capital is required, as was true in the development of petrochemical complexes in Brazil and Venezuela. Therefore, the role that a private enterprise is expected to play in international business might be quite different from the one it plays at home.

In most developing countries, the foreign firm has more of a developmental function; it must create new jobs, develop the industrial structure, train skilled workers, and so forth. An enterprise must be conceived of as an effective instrument for socio-economic organization, and not simply as a means for profit. The aggregate of variables which influence the achievement of this developmental role are contained within the firm. This chapter focuses on the general importance of certain attributes of the firm such as its nationality, size, or managerial policies which might influence the firm's political environment and its perception of that environment.

Attributes of a Firm

All firms in the world share certain common attributes: they have a nationality, financial and technological resources, and their own managerial philosophies.

The firm's nationality is one of its most controversial attributes. Does it have any bearing on the conduct of business? During the colonial period, nationality was a passport into any colony for a firm from the metropole, but independence supposedly changed that. Is there still systematic preferential treatment for certain nationalities? Some answers will be provided in the next section.

A firm's financial resources determine basic international business strategies. Most European companies, lacking funds after World War II, invested in developing countries not because they had surplus, but as a competitive move against the new American invasion which, by producing locally, put the Europeans out of their traditional export markets. In those circumstances joint venture was preferred to wholly owned subsidiaries for solely financial reasons, which might explain the greater number of joint ventures among European than American corporations. The size of the firm's financial resources also determines the possibility of external financing during periods of inflation, under monetary restraints, or during investment expansion.

Managerial philosophies reflect the flexibility of the firm toward the foreign environment. Managerial practices, such as personnel policy, might be a significant reflection of a firm's perception of political risk. The turnover policy of foreign personnel, among other decisions, could influence automatically the environmental perspective within the firm; high turnover, for example, could create a short-term perspective, and a low turnover might give managers more cultural insights and experience.

Local managerial resources both determine and reflect the extent to which foreign enterprises tap the local manpower market in staffing. Managerial resources of a corporation influence its strategies. For example, Most U.S. corporations see little political risk in governmental legislation limiting foreign personnel. Yet, these corporations face a serious shortage of skilled Americans willing to expatriate themselves, and are actively looking for local nationals who have the added advantages of knowing the culture, speaking the local language, and requiring lower salaries.

The Firm and its Nationality

Historical Importance of Nationality

Nations endowed with great economic power have always been the emotional target (for example, "Yankee Go Home") of underprivileged nations. This economic strength

was quite often linked with political power. The assumptions in this study were that corporations from economically powerful countries might be subject to more harrassment because of the political threat they represent to the host country. The importance of these interrelationships is reflected in statements (and concommitant policies) such as "trade follows the flag," and "tied foreign aid," and terms such as "political blocks."

Trade follows the flag.--The philosophy that trade followed the flag prevailed during the nineteenth century and until the pre-World War II period. Countries sought a position of influence in nations throughout the world under the pretext of opening markets for the home country. Spheres of influence followed in general a north-south direction: U.S.-South America, France-Africa, United Kingdom-Africa and Asia (which is an exception to the rule). Every developed country considered these spheres important sources of raw materials and purchasers of goods and services. This period coincides with the height of Western colonization, which institutionalized the existing relationship.

World War II marked the beginning of the accession to independence of most colonized nations. In general, independence was granted in exchange for help received by the home country during the war. The period also witnessed

a series of wars of liberation. Independence meant nation building, and the concomitant desire for an economic structure more appropriate for a sovereign nation. With some exceptions, that need coupled with hatred of the dominant nation led to waves of expropriation. Prime targets were economic sectors with social and self-sufficiency overtones, and areas where colonialists possessed an absolute monopoly. Specific sectors usually nationalized were public utilities, agriculture, mining, and export-import trade of key items. The assistance of the metropole during the decolonization period took the form of cultural and technical assistance, economic aid, and sometimes military aid, in which case the countries forged stronger political links. Often a different country replaced the metropole.

Tied foreign aid.--Economic aid can take many forms: bilateral, multilateral, commercial credits, or trade agreements. Most bilateral aid is tied aid--one country provides financial resources to another in exchange for the purchase of goods from the donor country. In general, such aid is favored by large donor countries because it secures a captive export market for products and their servicing. Multilateral aid, in general, allocates aid from many nations among donee countries, in which case donors lose their controlling power.

Other means of granting aid are through governmental export credit insurance programs; low, long-term interest rate loans (export-import bank); or trading agreements wherein one country agrees to buy at a fixed price the leading crop of another (for example, the French purchase of wine from Algeria and Tunisia), with the understanding that the proceeds of the sale are used to buy goods in the purchasing country. In most cases, the assistance provided by the colonial power has been replaced by this kind of aid. In some countries the original colonial power has been replaced by a larger one: the United States replaced France in Indochina, Belgium in the Congo, and the Netherlands in Indonesia; Russia replaced the United States in Cuba and the United Kingdom in Egypt.

Cultural ties.--Another important factor of nationality is language, which, when shared by nations, might create cultural ties. In general, language and cultural similarities stem from a period of close politico-economic ties, such as existed between Spain and parts of South America, Portugal and Brazil, and France and Quebec. Cultural ties normally should bring nations together. If so, does this create any advantages for a company associated with that culture?

Sharing of political ideology.--Do countries discriminate against products coming from a country with a

different ideology? If generalized, this constitutes another element of nationality since most economic groupings develop strong trade links which are based on politico-economic grounds, such as COMECON, LAFTA, and the Common Market.

Interview Results Reflecting the Importance of Nationality

The previous section highlights the various reasons that could explain the importance of the firm's nationality. It could also be perceived as a home country's agent rather than a socio-economic organization existing for the mutual betterment of the host country and the parent corporation. The nationality question asked interviewees had three purposes: to reflect the importance of nationality in general; to determine how the nationality factor interacted with sizeable economic powres in the form of economic concentration; and to assess the impact upon the firm's business environment of the home country's involvement in world affairs.

Question 1: Are there advantages or disadvantages for a corporation in being a citizen of a large economic power? The summary of the interview results are presented in Table 4-1, which show the mean score on a five-point scale of executive responses.

TABLE 4-1.--Nationality issue.* Question 1: Are there advantages or disadvantages for a corporation in being a citizen of a large economic power?

	All Companies	Headquarters	Subsidiaries
By Industry			
Metal Working	2.00	1.50	2.40
Electrical	2.47	2.14	2.75
Chemical	2.60	2.80	2.40
Automotive	2.90	2.75	3.00
Office Machine Equipment	3.36	3.67	3.00
All Industries	2.67	2.62	2.72
By Nationality			
U.S.	2.85	2.86	2.83
Foreign	2.52	2.33	2.65

*Measurement: 5-point scale system
1.00 Many advantages
2.00 Few advantages
3.00 Neutral
4.00 Few disadvantages
5.00 Many disadvantages

The overall pattern of response shows that being the citizen of a large economic power does offer some advantages. Although not revealed in Table 4-1, it is curious that companies from smaller countries such as Belgium, Holland, and Switzerland were satisfied to be citizens from their

nations; in the sample they were outnumbered by companies from large economic powers and, due to aggregation, such results do not show. Thus, everyone seems to be satisfied with his nationality.

There is, nevertheless, one major exception in that pattern: the office machine equipment industry feels that nationality is an important variable, especially for governmental contracts. One executive mentioned the fact that the French government first gives preference to a French manufacturer, then to a European, and last to an American. Such a deviation from the general pattern could be explained by the fact that the sample had a slight American bias and the office machine equipment (especially computers) industry is the heart of the American challenge. The American computer industry is presently under pressure not in the developing countries, but in industrial countries. Such pressures are in most cases automatically U.S. oriented due to their quasi-monopoly in that area.

At the headquarters level, American and German metal working and electrical industries considered it an advantage (from few for the electrical industry to many for the metal working industry) to be citizens of a large economic power. The reason might be the financial backup the home country could provide to these capital-intensive industries. Chemical and automotive industries from large economic powers show a very slight advantage. The

difference in the results between this group of industries (automobile and chemical) and the previous (metal working and electrical) could be explained by the difference in absolute size of the enterprises which have a higher flow of internal revenue and an easy access to the capital markets. Among the advantages deriving from nationality, access to governmental aid in the form of long-term credit or investment guaranty programs were mentioned by several executives. The executives underlined the fact that their industries were dominated by foreigners and the differential advantage came from their home government policies. The chemical industry is close to the neutrality level; the slight advantage is mainly explained by financial considerations.

As one would expect, at the headquarters level the office machine equipment industry is especially negative about any advantage. That industry feels that, in most cases on the basis of nationality, government is trying to develop a local computer industry at any cost, despite the fact that those countries are developed (the United Kingdom, Germany, and France), and some manufacturing usually is done locally.

Generally, at the subsidiary level, it seems the influence of nationality decreases. Office machine equipment executives felt that foreigners were treated fairly because of the lack of local Brazilian producers. The

same attitude was prevalent in most industries interviewed. The majority of executives said that "manufacturers (foreign or Brazilian) are not discriminated against as long as they produce locally." A slight exception might be the chemical industry; the minor discrimination in Brazil is against foreigners in general rather than a specific group, or rather against foreigners who are avoiding joint ventures at any cost. Such a policy is in line with national development plans and open governmental opinions.

When the analysis is done by nationality rather than by industry, it appears that overall for U.S. corporations there is little difference between the subsidiary and headquarter view. The results show a very slight advantage given to corporations from a large economic power.

Non-U.S. corporations, on the other hand, give more importance to nationality, especially at the headquarters level. They evaluate the nationality factor, on a five-point scale, .53 lower than their U.S. counterparts, while at the subsidiary level the difference is only .18. The difference may be explained by three attitudes. European corporations perceive U.S. enterprises as "without financial limits." Second, there is the feeling that developing countries would prefer technology from the United States, "the most powerful country in the world," rather than settle for second best. Third, there is an

opinion that countries receiving aid from the United States fear the consequences if they refuse or restrict American private investment; to reject a company from a smaller nation has fewer consequences.

In some ways American companies benefit by the association with the image of American power and the quality of its technology. At the financial level, this benefit by association is perceived by other foreign corporations as translated into easier credit and lower interest rates. Some executives observed that nationality advantages could vary from country to country. In the automotive group, one executive noted that the United States might have an advantage in Brazil or Argentina, but not in Chile. Another top executive estimated that in Latin America his company's chances for holding a privileged manufacturing position were 60/40, in French-speaking Africa 70/30, and in English-speaking Africa 30/70.

The view was expressed that the image of the firm was perhaps more important than its nationality. Along the same line, the executive of a major U.S. firm in Brazil stated that the corporation, despite its internationally known name, was perceived by the Brazilians as a Brazilian corporation. This surprising opinion was investigated. Fifty different Brazilians in three different towns, ranging from janitors, cab drivers, civil servants, students, and professors to executives were polled; not

Brazilian agreed. Admittedly, the sample was not random, but it clearly indicates that the executive, who could not speak Portuguese despite a one-year stay in Brazil, had misinterpreted his company's image.

All industries seem to agree there is an overall advantage for corporations from a large economic power, with a slight decrease in importance at the Brazilian subsidiary level.

Question 2: Is it advantageous or disadvantageous to have a large group of firms of the same nationality in the same foreign country? This question attempted to determine what advantage, if any, one nationality might have if the combined economic power of its subsidiaries was important and visible.

The results of the interviews (Table 4-2) show an overall pattern of an almost neutral effect for national clusters. The chemical and office machine equipment industries had a particularly neutral position (3.00). All other industries were within .25 of the neutral effect on the rating scale, but always with a slight tendency toward a high concentration being advantageous.

At the headquarters level, two industries perceived such situations as a disadvantage: the chemical and the office machine equipment industries. The latter showed a decrease (3.67 to 3.17) from the first question, that is,

TABLE 4-2.--Foreign concentration issue.* Question 2: Is it advantageous or disadvantageous to have a large group of firms of the same nationality in the same foreign country?

	All Companies	Headquarters	Subsidiaries
By Industry			
Metal Working	2.75	2.50	3.00
Electrical	2.80	2.71	2.88
Automotive	2.80	2.75	2.83
Office Machine Equipment	3.00	3.17	2.80
Chemical	3.00	3.20	2.80
All Industries	2.87	2.88	2.86
By Nationality			
U.S.	3.04	3.14	2.92
Foreign	2.71	2.58	2.81

*Measurement: 5-point scale system.
1.00 Many advantages
2.00 Few advantages
3.00 Neutral
4.00 Few disadvantages
5.00 Many disadvantages

there was less disadvantage in high concentration than in being a national of a large power. In fact, this indicates a greater feeling of neutrality. The chemical situation is somewhat different: some executives felt that a high

concentration of corporations of the same nationality might be perceived as a danger to national sovereignty in the long run.

Other industries all moved closer to the neutral position. The metal working industry moved up one point on the rating scale (from 1.50 to 2.50); the electrical up .63 point (from 2.14 to 2.71); and the automotive remained unchanged. This overall upward movement might be explained by two different attitudes.

The first was summarized by an executive in these words: "It doesn't matter who breaks the politically allowable, as long as it is foreign," that is, the foreign component of economic power is more important than the nationality component. The second attitude reflected an inherent dual problem: "On one hand, you have a greater bargaining position toward the host and the home government; on the other hand, you become a greater threat to the local government, who might think that you may become too powerful."

The better bargaining position toward the home government is translated into more economic aid and technical assistance from home. It was also reflected in the Brazilian case, as many executives indicated, in a lobbying effort by American corporations through the Chamber of Commerce to revise U.S. policies against Brazilian coffee. Relative to the host country, a large number of

corporations of one nationality facing the government are in a better bargaining position. At the same time, a too strong bargaining position threatens the government and might lead to conflicts. The resulting situation was summarized by the vice-president of a European corporation in the following words: "These two forces offset each other and you are in a neutral equilibrium, but you find yourself in a lot more unstable situation than before."

At the Brazilian subsidiary level, where two nations, the United States and West Germany, have a very important proportion of private investment in many economic sectors (for example, in the automotive, chemical, and steel industries), the pattern of response, when compared with those of the nationality issue question, indicates a broad trend toward neutrality with the exception of the automotive and office machine equipment industries. On the five-point scale, the metal working industry indicates a greater neutrality (up to 3.00 from 2.40); the chemical and electrical industries show a smaller increase (up to 2.80 and 2.88 from 2.40 and 2.75); while the office machine equipment and automotive industries indicate a slight downward trend, that is, a high concentration is relatively more advantageous (down to 2.80 and 2.83 from 3.00). The explanation for this downward trend was not revealed through the interviews, and this writer hypothesizes that the prevailing high foreign concentration creates a feeling

of security among industry executives that local national production would not be undertaken, or foreign manufacturing properties expropriated.

The overall analysis of industries confirms clearly the broad trend toward neutrality (from 2.67 to 2.87) in the question concerning the foreign concentration issue. Also, the headquarters-subsidiaries spread in the overall measurement decreased (from .10 to .02).

On an analysis by nationality, a broad upward movement toward neutrality is observed; all U.S. and foreign corporations moved up respectively by .19. U.S. headquarters felt that a one-nation foreign concentration would create some disadvantages; they moved from 2.86 to 3.14, which indicates a switch from there being a slight advantage for corporations from large economic power to there being a slight disadvantage when one nation has a too high economic concentration in the host country.

Foreign corporations moved up by .25, from 2.33 to 2.58, which still indicates a small advantage for a one-nationality economic concentration. This slightly opposite view was not directly apparent during the interviews, and this writer can only explain this divergence by assuming that foreign (European) corporations might perceive that issue as one element of the U.S. corporation's success abroad.

The headquarters-subsidiary spread decreased slightly (from .32 to .23), while among U.S. corporations it increased (from .03 to .22). In either case there was an upward movement, greater among headquarters than among subsidiaries (.25 versus .14). It is also interesting to note that the spread of U.S.-foreign headquarters did not change very much (.56 versus .53). The question elicited three comments. First, there is a time dimension involved: high nationality concentration in the past and present was and is an advantage; in the future it will be a disadvantage. Second, any advantage existing when certain political circles are in power might be lost when other political forces take over. In Brazil, for example, many executives speculated about the situation should the generals presently in power (mostly pro-foreign and pro-American) be replaced by the young colonels (mostly nationalist and anti-foreign). Third, managerial philosophies are important. The credibility of corporations, not the level of concentration, appears to be more significant.

Question 3: What are the repercussions of the home country's role in international events upon your business environment?

The general pattern of responses (Table 4-3) indicates that, with some exceptions, repercussions are not important. Exceptions, as executives mentioned, include

TABLE 4-3.--Home country's international role issue.*
Question 3: What are or have been the repercussions of the home country's role in international events upon your business environment?

	All Companies	Headquarters	Subsidiaries
By Industry			
Electrical	4.13	3.14	5.00
Chemical	4.80	4.60	5.00
Office Machine Equipment	4.82	4.67	5.00
Metal Working	4.89	4.75	5.00
Automotive	4.90	4.75	5.00
All	4.67	4.27	5.00
By Nationality			
U.S.	4.88	4.79	5.00
Foreign	4.45	3.67	5.00

*Measurement
1.00 Great repercussions
2.00 Many repercussions
3.00 Some repercussions
4.00 Infrequent repercussions
5.00 No repercussions

the decolonization period, the Middle East crises and reactions of some Arab countries, and the Vietnam War's effect on Sweden. The greater spread between foreign headquarters' perceptions, in the electrical and other industries are due to biases stemming from the

decolonization period. The Middle East crises led to waves of confiscation of European and American properties in many Arab countries. In Sweden, some longshoremen refused to unload American vessels, and some companies mentioned possible loss in sales, but with minor effects on the local volume of sales. At the subsidiary level in Brazil no effect was seen.

In conclusion, it seems that Hypothesis 3, "the greater the past and present power of the firm's home country, the greater will be the harrassments," is neither confirmed nor denied. Nationality does not seem to provide the advantages or disadvantages it provided during colonial periods. In general, nationality leads to repercussions only when the firm operates with or within countries closely involved in the conflicts.

Firm's Size and the Pursuit of Total Subsidiaries' Control

In his study, The Joint Venture Process,[1] James Tomlinson devoted much attention to the relationship between the size of the corporation and its attitude toward control. He found "a significant relationship between size of foreign firms and their attitudes toward

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[1] James W. C. Tomlinson, The Joint Venture Process in International Business: India and Pakistan (Cambridge: M.I.T. Press, 1970).

equity control."[2] As the size of the parents in assets or sales increased, the corporate attitude toward equity control moved toward a necessary total control over the subsidiary.

Other authors reached similar conclusions. Michael Kidion commented that "a big international company is more likely to demand and get control of a new joint venture than any other."[3] The NICB study of joint ventures stated that "the large internationally aggressive company . . . feels in a position to demand majority ownership in a joint venture, and, as a matter of policy will seek it out."[4]

The results of this present study tend to confirm that phenomenon: the smaller firms in international business that were interviewed had a more open attitude about the public sale of stock or joint ventures with private enterprise or the government. One executive of a small electrical corporation said: "We would love to have partners, or open our capital, but nobody knows us as well as the others; we don't have any drawing power." Tomlinson stated:

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[2] Ibid., p. 74.

[3] Michael Kidion, Foreign Investment in India (London: Oxford University Press, 1965), p. 270.

[4] Karen B. Bivens and Enid B. Lovell, "Joint Ventures with Foreign Partners," New York, National Industrial Conference Board, 1966, p. 6.

> in general terms, the need or desirability for control by the foreign parent of a joint venture's operations varies with different types of industry and activity. This is partly a function of the complexity of the technology involved and of its strangeness to the host environment. It depends too on the level of sophistication of the host environment . . . the study revealed that in the chemical group, 14 out of 15 cases, the executives felt that control was necessary or desirable . . . the most relaxed in their attitudes toward control, appear to be companies in the engineering, electrical, vehicles, and metal categories.[5]

From the evidence presented by Tomlinson for very large international corporations,[6] 64 percent entered into joint ventures because of governmental pressures.

If international corporations had their choice, the great majority would prefer wholly owned subsidiaries, but governmental actions prevent that, and corporations settle for a policy of second best. This writer found in the Brazilian case that a vast majority of electrical, transportation, and metal working executives were against joint ventures, or even to opening their capital for trading in the stock market. The attitude reflected a rigid policy coming from headquarters.

This general corporate opposition to governmental pressure for local capital participation increases the risk of violent government reaction. "Dragging one's feet," as an executive noted, "may not be a bad solution, but a

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[5] Op. cit., pp. 95-99.

[6] Op. cit., p. 75.

corporation must judge when compromise is on the agenda." The accuracy of this information might depend upon the firm's ability to analyze political risk.

Managerial Practices: The Firm's Analysis of Political Risk

The importance of political risk is reflected by the booming literature and many seminars dealing with that topic, including government-business relationships, multinational firm-host country conflicts, and the issues of nationalism. The relative importance attached to political risk, for example, is reflected in priorities used in the selection of directors.[7] Political factors are pervasive throughout every decision area of a corporation: political factors influence the structure of an economy as well as the workings of it, and might prevent the development of profitable operations. Surprisingly, political risk is not a decisive factor in decision-making, but is still present in every major decision.

Reporting Political Risk

It emerges from interviews that political risk seems to be a factor which is thoroughly analyzed at the headquarters level at the time of first investment, or in special cases such as the recent Chilean election of

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[7] See Nils C. Salander, "The Business of the Board," Management Today, June, 1970, p. 97.

marxist president, Salvador Allende, or the Peruvian political situation.

Subsidiaries are not specifically required to report to headquarters on the political situation periodically. Executives in Brazil said that when reporting economic developments they would include information about government actions which might have an impact upon the business environment. The most sophisticated provide an idea of the politico-economic philosophies of the different ministers in power. One top executive mentioned that in his annual report to headquarters he volunteered a synopsis of the political situation as he perceived it. Other executives said that such tasks were not required, and that headquarters kept in touch with what was going on by reading newspapers or through personal contacts.

Analysis of Political Risk

Political risk can be analyzed under two different situations: at the time of a new investment, and on a continuing basis.

New investment.--At the time of a new investment, political risk becomes a constraint: it constitutes a go-no go situation. Some companies require a political risk analysis at first screening of the investment opportunity and others as a last check in the investment analysis, but the end results are similar. Such analysis

is a necessary, but not the sole, consideration. Other major factors are market size (present and potential), economic conditions, legal environment, and competition. In general, political factors mentioned by respondents, include: political stability,[8] prevailing ideologies, political structure, political parties, and representativeness of the people. In most cases, an historical and current analysis is done. Under that kind of screening, political risk is determined by the subjective feelings that corporate executives gather reading through the report.

The second step in the analysis is a trip to the country under investigation. Top company officials meet with governmental representatives, the president, and their local counterparts (both nationals and expatriates) and within two or three days the situation has been evaluated. This second step appears to be given great weight. In one case an executive mentioned that "the corporation was investing in some African countries despite a 'dark' political report, because the President likes Africa and we are all over!" In another case, a corporation invested in Brazil because it was there that the corporation's president received "his only warm welcome during his South

[8]This factor was most often mentioned but no one could give a clear-cut meaning.

American tour!" Another corporation mentioned that they would "be present in as many countries as there are United Nations members," and that political risk was a secondary consideration in most cases, except when sizeable investments were undertaken.

From the interviews it appeared that political risk analysis has more of a historical than a projective emphasis. Very few of these reports speculate about the likely impact on politics of certain social changes that might occur. Even fewer indicate the factors to look for in the future, and procedures for collecting information at regular intervals. A reason for this neglect of politics is the pervasive feeling among businesmen "that business is in business to do business, not for studying politics." Corporate executives are reluctant to gather social or political information for "fear of being called C.I.A. agents," which might also explain their negative attitude toward their local representatives doing the research.

On-going operations.--The general feeling at the subsidiary level, but particularly at headquarters, is that "there is nothing we can do now, we are in the boat." This deterministic view is pervasive among most executives: "We are married, for the best and the worst, and the only thing we try to avoid is expanding the family by investing more." If everything goes well, expansion is considered.

Otherwise, the subsidiary lives with what it has, plowing back some earnings to satisfy present demand, but it invests no new capital.

At the subsidiary level, the local manager reports only the unusual, on a voluntary basis. Subsidiaries believe that headquarters have better information than they have, and occasionally learn something from headquarters about the local situation. Nevertheless, headquarters feels it is important to hire or appoint politically influential local people.

From the interviews it appears that many major corporations try to buy as much political information (perhaps even protection) as possible through appointing generals to their boards of directors, senators for counseling purposes, and influential lawyers for handling legal matters. Experience has shown these practices could be of short-term validity, however. In Brazil one company is still in a precarious position due to political "protection" purchased before the revolution. Furthermore, the quality of information is quite important. Corporations might buy information which comes from a minority position, "the group in power," which has a vested interest in the system and might have a biased view of the political situation. It became clear that not one corporation interviewed had any framework for the analysis of political risk, or ever hired

a Brizilian political scientist, even on a consulting basis, for such analysis.

Sources of Information

The key to the analysis of political risk becomes the sources of information.[9] Warren J. Keegan, in his analysis of the process of acquiring information concerning the international business environment, found that the most important media development in international environmental scanning is the "jet aircraft," and not the electronic media. He found (Table 4-4) that the international division executive abroad gathered most of his information and was the best suited to provide that information. The author cites two executives:

> They [executives abroad] know the local scene and they know our business. Therefore, they are an excellent source. They know what we are interested in learning, and because of their local knowledge, they are able to effectively cover available information from all sources.
>
> Our manager there has his own staff which includes in addition to the usual business functions, a man in government affairs. The manager himself sees people in government, other companies, and of course the physical setting.[10]

The next most important source of data are service organizations, which provide technical information (on new

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[9] Most data in this section are drawn from Warren J. Keegan, "Scanning the International Business Environment: A Study of the Information Acquisition Process," unpublished Ph.D. dissertation, Harvard University, 1967.

[10] Op. cit., p. 92.

TABLE 4-4.--Sources of information for the international business environment.*

Source Type	Source Location: Inside Corporation	Source Location: Outside Corporation
Personnel	International Division (1) Executive Abroad Executive Headquarters Product Executives Corporate Executives	Competitors Local Persons Embassy Government Officials (2) Service Organizations
Documentary	Reports (4) Letters Information Storage	(3) Publications Service Organization Reports

Source: Warren J. Keegan, "Scanning the International Business Environment: A Study of the Information Acquisition Process," unpublished Ph.D. dissertation, Harvard University, 1967.

*The numbers indicate the most important source in each cell, and the overall ranks of these most important cells.

rulings, new financial decisions on foreign exchange, the import-export situation), general investment climate information, and competitive intelligence. Of the documentary sources, the Wall Street Journal and the New York Times are the most important. If we add the information services to these publications, they become as important a source as the executives abroad. Correspondence is the single most important internal documentary source to the firm, although it seems of minor significance. It is

also interesting to note that two respondents in Keegan's study mentioned reading foreign newspapers, and "the reported reading was confined almost exclusively to English language publications which were, with the exception of the Economist, almost entirely of domestic origin."

Summary

In addition to the product, the firm's other variables--nationality, size, managerial practices--are an important element influencing political risk.

During the colonial period, nationality did provide "closed" markets to corporations. The importance of nationality does not stem from its power, but rather from the economic and financial assistance the home country can provide. Nevertheless, corporations from smaller countries do not seem apprehensive over this situation. Most corporations believed that size of home nations was lreatively unimportant. The metal working industry, and to a smaller extent the electrical industry, mentioned the economic advantages that can result from the aid the home country can provide.

High economic concentration of a nationality is perceived by most corporations not as a nationality problem, but as a national sovereignty problem from a host country vantage point. Most corporations felt that advantages offset disadvantages, and the result was a more unstable equilibrium. Many of the discrepancies between U.S. and

European corporations might be attributed to some kind of inferiority complex felt by non-U.S. corporations.

The home country's role in international events as a source of political risk to the firm is regarded as of no consequence except where the firm operates with countries closely involved in the conflicts.

Managerial practices for the analysis of political risk are at a primitive stage or nonexistent. Political risk becomes a maximum hurdle or a ceiling not to be exceeded. Major analyses of political risk are done at the headquarters level, with subsidiaries reporting periodically on economic development and including some "relevant" political information. In general, political risk for new investment is undertaken, but not on a continuing basis, which prevents planning the political game.

Corporations, according to Keegan's study, tend to rely on the international division executives abroad for information, but these executives do not seem to have formal methods of information gathering or communication processes related to political risk. Many subsidiaries enroll generals, senators, or lawyers to perform this information gathering function despite the fact they might be part of the group in power and communicate biased information based on vested interests.

The next chapter deals with the firm's perception of political risk, of which information source and quality are main elements.

CHAPTER V

THE FIRM:

II. PERCEPTION OF POLITICAL RISK

As defined in the first chapter, political risk is the subjective probability that a certain political event (that is, political decision) will occur which will change (that is, modify, maintain, or regulate) the business environment. Such changes constitute either obstacles or opportunities for international business. They reflect the overall business climate. To understand the nature and relative importance of those obstacles is a first step toward pinpointing problem areas and planning for solutions.

In this chapter, the obstacles are ranked and compared with the 1961 results of Harry J. Robinson's study. The results show financial factors are the main obstacles in international business, although marketing restrictions are emerging as a new constraint. During this phase of the study, three other facts emerged. In general, headquarters executives perceive the world as having greater risk than do the executives in their Brazilian subsidiaries.

Furthermore, some obstacles appear to cluster in specific areas of the world, or are characteristic of level of development in countries. Finally, American and foreign corporations seem to differ slightly in the perception of political risks.

Comparison of the Cracco (1970) and 1961 Robinson Study

In 1961 Harry J. Robinson undertook a study of international corporations' policies related to foreign investments.[1] There were 205 responses to the questionnaire (178 U.S. companies, 19 European, and 8 Japanese firms): Robinson made no distinction as to the type of industries involved, and dealt only with headquarters. To keep the comparison more valid, the present researcher took into consideration only the results coming from headquarters.

The ranking of obstacles are shown in Table 5-1. Interestingly enough, some obstacles have completely disappeared from the ranking. These include: burdensome social security legislation, discriminatory enforcement of laws, government-owned competitors, and special taxation on foreign enterprises. Other obstacles, such as

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[1]Harry J. Robinson, The Motivation and Flow of Private Foreign Investment, International Development Center, Stanford Research Institute, Menlo Park, California, 1961.

TABLE 5-1.--Comparative Ranking of Obstacles by Headquarters.

Cracco Study (1970)	Robinson Study (1961)
1. Transfer of Capital	1. Import Restrictions
2. Repatriation of Earnings	2. Repatriation of Earnings
3. Exchange Rate Policies	3. Licensing, Management Fees
4. Licensing, Management Fees	4. Local Equity Participation
5. Reinvestment Policy	5. Burdensom Social Security Legislation
6. Local Capital Participation	6. Governmental Limitations on Flexibility of Management
7. Import Restrictions	7. Transfer of Capital
8. Economic Development Policies	8. Special Taxation on Foreign Enterprises
9. Price Controls	9. Discriminatory Enforcement of Laws
10. Expropriation	10. Multiple Exchange Rates
11. Minimum Exports Quotas	11. Government Owned Competitors
12. Debt Limitation	12. Price Controls, Limitations on Profits
13. Pricing Regulations	
14. Government as a Customer	
15. Product Line Control	
16. Discriminatory Technical Standards	

Source: Harry J. Robinson, The Motivation and Flow of Private Foreign Investment, International Development Center, Stanford Research Institute, Menlo Park, California, 1961, pp. 5-6.

transfer of capital, price controls, and multiple exchange rates climbed the rankings, while others, such as import restrictions, dropped. New obstacles also appeared: discriminatory technical standards, product line control, and minimum export quotas.

The explanations for such differences are many:

(1) The foreign environment has changed since 1961; among various reasons, the period of import-substitution at any cost is passé, which makes such items as import restrictions relatively less relevant.

(2) One executive interviewed, reflecting the majority opinion, stated that "what was previously perceived as discrimination against foreigners was, in fact, against large firms, most of which were foreign. The issue is actually a general one of large versus small corporations and in any country of the world the small are able to avoid taxes or legislation which the highly visible large firm cannot afford to disobey."

(3) Many corporations in the early sixties were going multinational for the first time, and through ignorance or lack of planning were unprepared to face foreign environments with legal, social, economic, and political structures quite different from their own. They learned by experience, often with bitter results.

(4) Foreign countries have become more sophisticated and have adjusted their policies to their needs and objectives. Foreign investment is welcomed, but is channeled into high-priority investment areas under certain predetermined conditions such as local capital participation, export requirements, local content requirements, and product line controls. This shift in governmental policies, although occurring in other countries, is particularly apparent in South America.

(5) It should be noted that variations could derive from the samples of the two different studies. This researcher's sample included only manufacturing industries, while Robinson included 17 companies in agriculture, mining, and petroleum, and 20 companies in the tertiary sector out of 205 cases, that is, nearly 20 percent of the sample. Then, among the 168 manufacturing firms in the sample, Robinson's coverage of industries is wider than the five manufacturing industries of the 1970 study. Variations could also have been introduced in the typology of obstacles studied: for example, governmental limitations on flexibility of management could incorporate all the marketing variables and personnel policy. Another explanation could be the omission of certain variables in the first study; the number of items was smaller, but some blank

lines were left for restrictions not specified, for the respondent to add his own.

(6) The different blend of U.S. and foreign corporations in the two studies also could have changed the pattern somewhat, but that likelihood is remote.

(7) The present list of obstacles is by no means exhaustive. Some of the obstacles mentioned in Robinson's study are present, but their importance is minimal, varying from rarely important to not important. Nevertheless, a comparison of the results points out some similarities in the importance of some obstacles, as well as an evolution in their relative standings.

Overall Perception of Obstacles

This study analyzes the perception of obstacles by corporations not only in the aggregate, but also disaggregated by the headquarters and subsidiary level viewpoints (Table 5-2). The tables show only the ranking, with the absolute value of the obstacles shown in the Appendix and in Figure 5-1. Within each level of analysis, marketing, financial, production, and management obstacles are reviewed to pinpoint their relative, absolute, and accidental values. Table 5-2 presents a ranking of the 19 most important obstacles as perceived

TABLE 5-2.--Ranking of Obstacles to Foreign Investment.

Overall Obstacles	Overall Rankings		
	All	U.S.	Foreign
Economic Development Policies	1	3	1
Transfer of Capital Dividends	2	1	3-4
Management & Licensing Fees	3	2	3-4
Local Capital Participation	4	5	2
Exchange Rates	5	4	6
Price Controls	6	7-8	5
Reinvestment Policies	7	6	9-10
Import Restrictions	8	7-8	8
Pricing Regulations	9	9	7
Minimum Export Quotas	10	10	9-10
Debt Limitations	11	11	11
Government As a Customer	12	14	12
Expropriation	13	13	13
Product Line Control	14	12	14
Corruption	15	15	17
Discriminatory Technical Standards	16	18	--
Arbitrary Tariff Classifications	17-18	19	16
Discriminatory Taxation	17-18	--	--
Gov't. Owned Banking Services	19	17	--
Competitors Subsidized	--	16	--
Foreign Personnel Restrictions	--	--	15
Discrimination in Production Licences	--	--	18
Politics & Labor	--	--	19

TABLE 5-2.--Continued.

Overall Obstacles	Overall Rankings		
	All	U.S.	Foreign
Transfer Capital Dividends	1	1-4	1
Exchange Rates	2	1-4	4
Management & Licensing Fees	3	1-4	6
Reinvestment Policy	4	1-4	9-10
Local Capital Participation	5	5-6	2-3
Import Restrictions	6	5-6	5
Economic Development Policies	7	7-8	2-3
Price Controls	8	10	8
Expropriation	9	7-8	13
Minimum Export Quotas	10	12	9-10
Debt Limitations	11	15	7
Pricing Regulations	12	13	11
Government As a Customer	13	9	17-18
Product Line Control	14	11	16
Discriminatory Technical Standards	15	16	17-18
Discriminatory Taxation	16	--	14
Arbitrary Tariff Classifications	17	--	15
Competitors Subsidized	18-19	14	--
Corruption	18-19	17	--
Gov't. Owned Banking Services	--	18	--
Foreign Personnel Restrictions	--	--	12

TABLE 5-2.--Continued.

Overall Obstacles	Overall Rankings		
	All	U.S.	Foreign
Economic Development Policies	1	1	1
Local Capital Participation	2	2-3	2
Price Controls	3	4	3-4
Management & Licensing Fees	4	5	3-4
Transfer of Capital	5	2-3	5
Pricing Regulation	6	6	6
Exchange Rates	7	8	7
Minimum Export Quotas	8	7	8-9
Debt Limitations	9	9	11
Import Restrictions	10	10	10
Reinvestment Policy	11	11	8-9
Government As a Customer	12	16	12
Corruption	13	13	13
Product Line Control	14	12	14
Discrimination in Production Licences	15	17-18	15
Policies & Labor	16	--	16
Expropriation	17-18	--	17
Arbitrary Tariff Classifications	17-18	14	--
Gov't. Owned Banking Services	--	15	--
Limited Patent Protection	--	17-18	--
Discriminatory Taxation	--	--	18

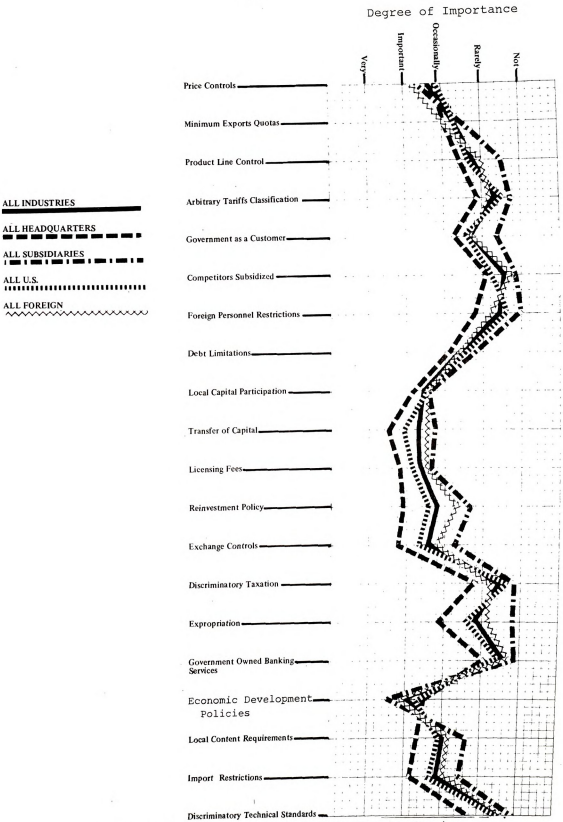

Figure 5-1.--Evaluation of obstacles to foreign investment by all industries headquarters, subsidiaries and by nationality.

by headquarters and/or subsidiaries of both U.S. and foreign firms.

Economic Policies

Economic policies appear to be the most important single obstacle or incentive to foreign investment. Corporations appear to pay very much attention to national development plans. As one top executive of a European electrical firm observed: "National plans are [that is give us] our sales forecast." Nevertheless, this result was quite unexpected because most developing countries present overly optimistic national plans. The importance of economic policies cannot be underemphasized. As the world planning director of an automotive corporation pointed out: "Most countries in the world have relatively small markets and the impact of economic policies could turn a 'decent' market into a 'nightmare' overnight."

The Brazilian experience illustrates the importance of this factor. A truck manufacturer indicated that immediately prior to the March 1964 revolution when the uncertainty over the economic policies was greatest, his company sold only 11 trucks in one week. On the other hand, the Brazilian economy, presently is very responsive to economic policy incentives and executives often use the traditional characterization of Brazil as "the country of the eternal future." Many executives and Brazilian

professionals attribute the recent economic boom to the economic policies devised by the Minister of Finance, Dr. Delfim Netto.

Economic policies are a key element in long term planning, which should be flexible enough to integrate unexpected investment opportunities due to changes in the immediate investment climate. They may favor investments to which a high priority has been assigned by providing attractive incentives such as subsidies, tax advantages, and duty free imports of capital goods. Similarly, they may discourage low-priority investment by suppressing financial incentives such as low interest loans, subsidies, and imports restriction, or by making the availability of foreign personnel more difficult through red tape for work permits and visas for highly technical personnel. From a managerial standpoint, it is important to know if your product might fall in a high-priority period in order to take advantages (financial, legislative) of a temporary nature.

Interference With Remittance Policy

The second major obstacle is governmental interference with corporation's remittance policy, which includes repatriation of earnings, transfer of capital, dividends, royalties, and licensing and management fees. In Brazil

a limit is established on annual repatriation of earnings up to a maximum percentage of the firm's "registered" capital, which means the officially invested equity of the firm in the country as recognized by the Brazilian government. Such registered capital is in general below the economic value of the investment because the administration "processes very slowly" the re-evaluation of the initial investment.

Such practices reduce the attractiveness of borrowing as a means of financing investment if equity is the basic standard for repatriation. Because of currency devaluation periodic re-evaluation of a corporation's equity base is at a certain lag with its economic value. In recent years, the maximum percentage varied between 8 and 14 percent. Thus, for 1970 the Brazilian government permitted a firm to repatriate up to 12 percent, but there was the possibility of the ceiling being raised to 14 percent. In absolute terms, those limitations would not be restrictive, but in practice, due to the lag in re-evaluating the equity base, the registered capital could be as low as 50 percent of its current economic value in dollar terms, which means a maximum repatriation rate of 4 to 7 percent.

Another issue is the recognition of royalties, and licensing and management fees as deductible tax

expenses. Most developing countries are presently denying this right if more than some stated percentage of the local subsidiary's equity is owned by the foreign corporation holding the patents or the human skills. These policies are particularly important for the chemical industry, for example, where research and development are important and royalties are a major source of revenues.

Local Capital Participation

Local capital participation is a very emotional issue which centers around the national sovereignty of the host country. It involves a conflict between the multinational corporation, which wants complete control over its operations, and the host nation, which tries to force the corporation to make decisions in the best interests of the country. There is a spectrum of alternatives ranging from minority local participation in a joint venture to complete nationalization of the foreign corporation which is then involved only through management contracts or licensing agreements.

Although some corporations reject categorically any type of joint venture, many compromise and enter with the local partner taking a minority position. The case of the local partner having a majority position, in general, is *a priori* not acceptable. However, when a

"cooperate or get out" situation appears to be the only alternative open, the high opportunity cost of losing a market, especially to a competitor, pushes some corporations over this important emotional and managerial hurdle.

Other Obstacles

The next five obstacles--exchange rates, price controls, reinvestment policies, import restrictions, and pricing regulations--have been standard politico-economic obstacles for some time, although perhaps the adoption of reinvestment policy guidelines for foreign subsidiaries by host country appears to be a recent development. One form of such "guidelines" is to restrict the amount of repatriation of earnings and then force the remainder into local investment. To stimulate the development of the Brazilian Northeast, the government provides substantial tax advantages to a corporation investing in that region.

Many corporations have found the above policies "full of opportunities and pitfalls." Some have been very successful and others not; the factors of success are not very well-known. In Brazil, as many U.S. executives complained, a danger in these tax exemptions is the lack of fiscal agreement between the host and the home country. In the United States, those re-invested earnings (or

"Brazilian taxes") are considered profits, not taxes paid; in Brazil they are regarded as taxes fully paid. Such international fiscal conflicts are quite difficult to iron out, and, as a U.S. executive observed, create "more headaches than profits."

Exchange rate fluctuations, import restrictions, and price controls have long been on the international business scene and are not likely to disappear soon. In Chapter III, the relationship between level of economic development and price controls, devaluations, and imports restrictions was discussed. Those obstacles have not prevented international business from expanding exponentially for the last twenty years, and are not likely to do so in the future. It is interesting to note that European corporations that have experienced price controls in their home country tend to fear this form of restriction slightly more than U.S. corporations in relative as well as absolute terms.

Emerging Obstacles

Minimum exports quotas (ranked 10th), government as a customer (ranked 12th), and product line control (ranked 14th) are the emerging marketing obstacles in international business, particularly in developing countries. By distributing production licenses, host

governments can favor corporations presenting projects that are export oriented. This, in turn, can provide financial rewards through greater allowance for repatriation of earnings (especially those derived from exports), incentives for exports (at the finished product level) through exemption from domestic sales tax, (at the production level), through subsidies or duty free imports of capital goods, government contracts, and, perhaps, a monopoly position in the domestic market.

Economic policies can always change. Import restrictions which were in governmental favor in the 1950s and early 1960s have attracted and protected many small investments. They now appear in danger of losing their tariff protection due to the "export test" that many developing countries are instituting. As the vice-president of a German chemical firm explained: "When Colombia lowered some of its tariff barriers, some small-size investment was forced out of business; we also had to close because our plant was tailored to the Colombia market." Brazil is cutting some of its tariffs; one executive noted that the Brazilian tire industry is no longer very well protected and foreign competition from imports, especially from Japan, is strong.

Government as a customer indicates the key role it plays in many economic sectors, especially in socialist

oriented and developing nations, in generating growth by developing high-priority investments. In most of these countries hospitals, insurance companies, banking, school systems, highway construction, and the transport and petroleum industries are government-run. From the Brazilian interviews it appears that the government is not considered a high default risk, but it has other shortcomings. It is a slow payer, a tough bargainer, and asks for more fringe benefits (for example, credits in time and in absolute amounts, with low or no interest rates). As a German executive observed: "Handling the situation requires special skills and continuous complaints to, and harrassment of, the right individual in the hierarchy."

Product line control, on the other hand, is effected in two ways. The government may provide subsidies to the "pioneer" of a new industry or product, such as tax incentives, which give the corporation a long-term competitive hedge (from five to ten years). As is the case for some products in the Brazilian electrical industry, any subsequent competitors must be ready to face that kind of competition. If the market is too small for many competitors, the government may allocate to various enterprises the products to be manufactured on the basis of their proposals. Brazil adopts the first alternative, while Chile, Colombia, and Peru favor the latter.

These obstacles are beginning to replace the more egative types such as outright import restrictions. Local roducers whether national or foreign have no alternative ut to face competition in the domestic market with many mall firms, none large enough for economies of scale. he newer measures are more selective, and could be adapted o different industries according to their technological omplexity. They suggest that developing countries are aking a more sophisticated approach toward attracting oreign investment, while promoting industrial development y other means than plain import restrictions.

ebt Limitation

Another obstacle now emerging in international usiness is debt limitation, which tends to regulate the se of local and foreign debt relative to the amount of quity. Some countries, such as South Africa, are not llowing repatriation of earnings as long as local debt s outstanding. The Banco do Brasil discriminates in the orm of interest rates or borrowing ceilings against oreign corporations which do not have a specified mini- um of Brazilian capital in the venture. Most corporation executives there said they were satisfied with the system, ut that it could represent a threat if misused.

Many executives pointed out that such restrictions could become one of the most important pressures in

veloped as well as developing countries as a means of
rcing multinational corporations to use outside capital
ther than dry up the local financial market. Such
strictions are intended to develop a long-term, equity-
sed growth in lieu of a highly leveraged one. A major
ropean newspaper, Le Monde, printed the General Motors
velation that it expanded its European operations with
e investment dollar coming from the U.S. Such statements,
executive mentioned, although satisfying most U.S.
nators at the hearings on the impact of foreign direct
vestment on the balance of payments, are irritating to
ny Europeans, and are stimulating drives toward greater
strictions on debt structure and local capital partici-
tion.

xpropriation and Corruption

The two most emotion-laden obstacles--expropriation
anked 13th) and corruption (ranked 15th)--were the most
fficult to deal with during the interviews. Many
rinciples or taboos are associated with them: they are
e antithesis of the free enterprise system, based on
e concept of private property, or are contrary to the
ristian ethic of honesty or equity. Nevertheless, after
otion subsided, most interviewees discussed the topic,
me saying that expropriation could be viewed in two
ys: "It meant the loss of a battle for the principle

he free enterprise system," but especially "the finale
a foreign venture which may have been doomed from the
y beginning." Executives often mentioned that expro-
ations are not always aimed at profitable ventures,
the expropriation of the venture could be a "happy"
ution terminating a "dragging" profit center in the
tinational corporation.

Executives mentioned in every case that expropri-
on was the end of a battle, when other politically
sed obstacles such as royalties, repatriation of earn-
gs, price controls, and administrative barriers had
ined the investment climate. These measures sometimes
ad to such losses that expropriation is even hoped for.
might, as an executive at the headquarters level said,
ome more as a life saver than a slaughter."

Corruption is rarely important as an obstacle.
me executives, both at the subsidiary and the head-
arters levels, think that local subsidiaries or sales
rsonnel use the excuse of corruption of others to cover
eir loss of a contract or sale to competitors. Some com-
nts from interviewees were: "Don't tell our competitors,
we never use corruption even for very important invest-
nts or contracts; they will not believe it but it is
e"; "We would rather lose a contract than go through
e corruption] with it"; and "We have to live with it."

ne executive said, "for corruption, you need two persons, to give, the other to receive; both are as corrupt." ther said: "I don't see any difference; we might lose e sales in the short run, but in the long run we have uired an image of seriousness and are more successful n others who practice such methods at every occasion."

Corruption is a minor factor in international iness, but it should be specified that we are referring high-level corruption. As a Dutch executive clearly ex- essed it, the payment of small gratuities to a low-level vil servant to gain admittance to his superior's inner fice is traditional in some societies and is not viewed corruption by any international executive.

Analysis by Functional Areas

When the rankings are analyzed by functional areas--rketing, finance, production, and management--certain ints come to mind. First, obstacles of a financial ture are overwhelmingly important (all 11 are in the top). Second, no risks related to personnel management pear in the top 19 obstacles. Third, marketing is the cond highest source of risk, and appears to have the ious honor of becoming the political risk of the future. rth, discriminatory technical standards, although ranked elatively low 16th, are emerging as a device being used developed countries to protect local producers.

inancial Obstacles

Interviewees were asked if financial obstacles Table 5.3) are overemphasized. During the interviews, any reflected their view that foreign investments were a long-term growth factor in the corporation and that they were reinvesting all of their earnings to generate further growth. At the statement: "Thus, you don't give too much weight to restrictions on repatriation of earnings," one executive, who reflected the majority opinion, quickly changed position. He said: "It isn't that we don't care, of course it matters, but we want to be sure that if we wanted to, we could repatriate our earnings, we want to have the complete freedom to reinvest all our earnings within or outside of the country."

Then they are confronted with the dilemma of "should we stick to our principles or analyze their real impact on our strategies?" From that standpoint, many corporations maintained that remittance policy interference was their major risk although during the interviews, significantly more time was spent discussing strategies to cope with local capital participation and unpredictable short-term economic policies. In this writer's judgment, then, their real political risk would have been other issues such as unpredictable economic policies and local capital participation requirements. This statement is valid for almost

TABLE 5-3.--Ranking of Financial Obstacles.

Obstacles	All	U.S.	Foreign
	Ranking Overall		
Economic Development Policies	1	3	1
Transfer of Capital Dividends	2	1	3-4
Management & Licensing Fees	3	2	3-4
Local Capital Participation	4	5	2
Exchange Rates	5	4	5
Reinvestment Policy	6	6	6
Debt Limitations	7	7	7
Expropriation	8	8	8
Corruption	9	9	10
Discriminatory Taxation	10	11	9
Gov't. Owned Banking Services	11	10	11
	Headquarter Rankings		
Transfer of Capital Dividends	1	1-4	1
Exchange Rates	2	1-4	4
Management & Licensing Fees	3	1-4	5
Reinvestment Policy	4	1-4	7
Local Capital Participation	5	5	2-3
Economic Development Policies	6	6-7	2-3
Expropriation	7	6-7	8
Debt Limitations	8	8	6
Discriminatory Taxation	9	11	9
Corruption	10-11	9	11
Gov't. Owned Banking Services	10-11	10	10

TABLE 5-3.--Continued.

Obstacles	All	U.S.	Foreign
	Subsidiary Rankings		
Economic Development Policies	1	1	1
Local Capital Participation	2	2-3	2
Management & Licensing Fees	3	4	3
Transfer of Capital Dividends	4	2-3	4
Exchange Rates	5	5	5
Debt Limitations	6	6	7
Reinvestment Policy	7	7	6
Corruption	8	8	8
Expropriation	9	10	9
Gov't. Owned Banking Services	10	9	11
Discriminatory Taxation	11	11	10

75 percent of the corporations interviewed. Some corporations were even repatriating earnings simply because of the principle involved or to establish a precedent. The rest of the corporations, particularly those in the chemical industry, were repatriating earnings in order to finance the research and development program of the parent corporation, or because they had no plans for expansion locally, or because no good investment opportunity was in sight.

Local capital participation is another issue where principles have rendered many executives completely blind to alternatives available, and transformed that issue into a struggle between the power of the multinational firm and the sovereignty of the host country. Who is the loser? In the short run, perhaps the host country, but in the long run the odds would seem to be against the multinational corporations. Consider the Brazilian situation, which is probably one of the most favorable cases in the developing world. Brazil has opted for development along the lines of free enterprise; during the last seven years the country has succeeded in recovering from economic chaos, and for the last three years has enjoyed an economic boom comparable to the Japanese experience.

During these three years, the government tried with substantial success to develop a local capital market, especially a stock market, in order to channel savings

from the whole population. In that time the volume of stock market transactions on a daily basis increased more than tenfold, as did the index of value of shares traded. A problem still is the relatively limited number of corporations listed on the exchanges, although that number also increased tremendously. The government asked foreign corporations informally to open their capital to local investors, but the results have been meager despite some light governmental incentives. Executives interviewed in Brazil replied: "We analyze the situation"; "We drag our feet"; "We will enter within two years"; "We are waiting for more incentives"; "We are basically for a wholly owned subsidiary and we don't want anyone to sneak into our business"; or "Investors might be foolish to invest in our corporation, we are not distributing dividends, we are reinvesting everything."

Although some executives at the local level are worried about the situation that "good citizens" are creating, they insist that the headquarters are unresponsive to their warnings. Some corporations are even reducing their joint ventures by buying up shares from their Brazilian partners who prefer to invest in other businesses or in the stock market.

What will be the government's next move--more incentives or regulations? It is faced with corporations

that believe in the capitalist system, but will not promote it; who prefer a joint venture with a few wealthy industrialists rather than trying to spread ownership to a growing middle class.

Management Risks

Management risks (Table 5.4) seem to have been solved. There is very little governmental interference in the selection and firing of employees. The two most burdensome obstacles, rated between rarely important and not important, are foreign personnel restrictions, such as visas and entry for highly skilled personnel, and the involvement of local labor in politics. As mentioned in the following section, the evaluation of the obstacles results from the corporation's managerial policies, and from a certain lack of planning which makes foreign personnel restrictions more difficult to face. Some executives stated that they were advised to hire the son of an influential politician, but hardly regarded this as a liability since if the person did not work out, they could always find a way to get rid of him politely.

Marketing Obstacles

Marketing obstacles (Table 5.5) are presently viewed as of middling consequence, ranging from the occasionally important to the rarely important. Out of

TABLE 5-4.--Ranking of Management and Production Obstacles.

Obstacles	All	U.S.	Foreign
Overall		Overall	
Local Content Requirement	1	1	1
Discriminatory Technical Standards	2	2	3
Foreign Personnel Restrictions	3	5	2
Politics & Labor	4	3	4
Gov't. As a Supplier	5	4	5
Headquarters		Headquarters	
Local Content Requirement	1	1	1
Discriminatory Technical Standards	2	2	3
Foreign Personnel Restrictions	3	5	2
Gov't. As a Supplier	4	3-4	4
Politics & Labor	5	3-4	5
Subsidiary		Subsidiary	
Local Content Requirement	1	1	1
Politics & Labor	2	2-3	2
Discriminatory Technical Standards	3	2-3	3
Gov't. As a Supplier	4	4-5	4
Foreign Personnel Restrictions	5	4-5	5

TABLE 5-5.--Ranking of Marketing Obstacles.

Obstacles	All	U.S.	Foreign
Overall		Overall	
Price Controls	1	1	1
Pricing Regulations	2	2	2
Minimum Export Quotas	3	3	3
Government As a Customer	4	5	4
Product Line Control	5	4	5
Arbitrary Tariff Classifications	6	7	6
Discrimination in Production Licenses	7	8	7
Competitors Subsidized	8	6	9
Limited Patent Protection	9	9	8
Headquarters		Headquarters	
Price Controls	1	2	1
Minimum Export Quotas	2	4	2
Pricing Regulations	3	5	3
Government As a Customer	4	1	6
Product Line Controls	5	3	5
Arbitrary Tariff Classifications	6	7	4
Competitors Subsidized	7	6	9
Discrimination in Production Licenses	8	8	8
Limited Patent Protection	9	9	7

TABLE 5-5.--Ranking of Marketing Obstacles.

Obstacles	All	U.S.	Foreign
Overall		Overall	
Price Controls	1	1	1
Pricing Regulations	2	2	2
Minimum Export Quotas	3	3	3
Government As a Customer	4	5	4
Product Line Control	5	4	5
Arbitrary Tariff Classifications	6	7	6
Discrimination in Production Licenses	7	8	7
Competitors Subsidized	8	6	9
Limited Patent Protection	9	9	8
Headquarters		Headquarters	
Price Controls	1	2	1
Minimum Export Quotas	2	4	2
Pricing Regulations	3	5	3
Government As a Customer	4	1	6
Product Line Controls	5	3	5
Arbitrary Tariff Classifications	6	7	4
Competitors Subsidized	7	6	9
Discrimination in Production Licenses	8	8	8
Limited Patent Protection	9	9	7

TABLE 5-5.--Continued.

Obstacles	All	U.S. Subsidiary	Foreign
Price Controls	1	1	1
Pricing Regulations	2	2	2
Minimum Export Quotas	3	3	3
Government As a Customer	4	6	4
Product Line Controls	5	4	5
Discrimination in Production Licenses	6	7-8	6
Arbitrary Tariff Classifications	7	5	7-8
Limited Patent Protection	8	7-8	7-8
Competitors Subsidized	9	9	9

*See Key for Table 5-2.

9 marketing related obstacles, 6 appear in the top 19. Among them, in order of importance, there are all financially related price controls and pricing regulations; marketing strategy obstacles, such a minimum export quotas, government as a customer, and product line control; and institutional problems, such as arbitrary tariff classifications. In the latter category, we could also classify marketing-production obstacles such as discrimination in production licensing, subsidization of competitors, and limited patent protection.

Marketing obstacles are becoming key elements in developing a profitable, international business strategy. Although not as visible as others, their presence can spell success or failure for an investment. These neglected elements of the political game in international business could lead to the development of worldwide marketing planning, which would allocate to selected countries responsibility for the production of certain items, with governmental blessings, and could minimize costs. Such a strategy would eliminate certain countries, but some worldwide market segmentation will have to be done, dropping unworkable markets because they are too inaccessible, too small, or too expensive to reach.

Perception of Political Risk by Organizational Level

Headquarters' Perception of Political Risk

Risks viewed from the head office are relatively more principle oriented than from the subsidiary. More importance is given to the concepts of profit,[2] the free enterprise system, and free trade. From that perspective (see Table 5-2) economic development policies should rank lower, while expropriations, import restrictions exchange rates, and dividend policies should rank higher from the point of view of U.S. headquarters. Table 5-2 indicates that these suppositions are correct.

The worldwide strategy of multinational firms fosters such a conceptual perception of political risk: the political climate for many executives becomes a constraint requiring a go-no go decision for the exploitation of market opportunities. Such an approach has been reflected throughout the interviews, and could explain the relatively little attention executives paid to changes in the investment climate when no new investments were planned.

Subsidiaries' Perception of Political Risk

The emphasis at this corporation level is placed on the operational aspects of political risk (see Table 5-2

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[2]See Victor H. Umbricht, "The Main Obstacle is Risk," CERES, April, 1969.

and Figure 5-2). Because managers are evaluated on the basis of annual results, they view political risk as those obstacles which might tarnish their record as managers. In the Brazilian case at present, the two major factors are economic policies (the fight against inflation and move toward an expansionary economy) and the possible requirement of local capital participation (ranked second). Price controls, of course, are more important at the subsidiary level; there they are ranked third, while at the headquarters level they appear in eighth position. Then, subsidiary executives rank the most important financial obstacle (licensing fees rating even higher than repatriation of earnings and exchange rate control), followed by the emerging marketing obstacle, that is, the minimum export quotas.

The second major factor from the subsidiary viewpoint is the influence of the environment. The general optimism about Brazil's future, for example, eliminates risks which might have been in top five ranking less than a decade ago. Expropriation, corruption, and labor involved in mass politics are not considered "rarely important," but are rated as "not important." The political risk created by the surrounding environment, in the author's opinion, could lead to extreme shifts of position by the parent corporation if the political and economic

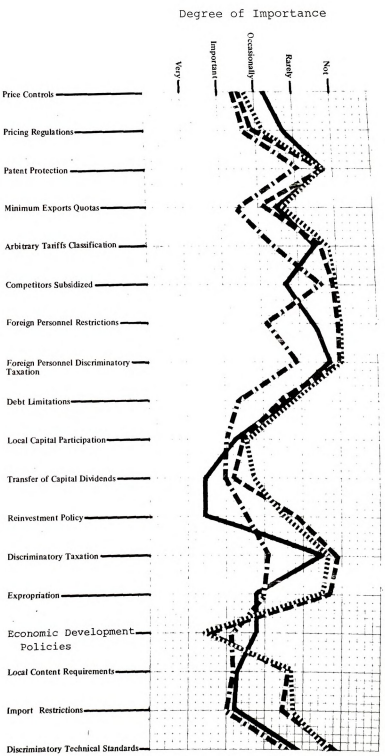

Figure 5-2.--Evaluation of obstacles to foreign investment by headquarters (U.S. and foreign) and by subsidiaries (U.S. and foreign).

climate changes and assuming that local managers communicate this political information to the home office.

Would you invest in São Paulo if you knew that there are more than 1500 bomb threats and explosions a year? Probably not, but a U.S. executive would not hesitate to invest in California where such a situation prevailed last year, to say nothing of other crimes. Distance, lack of understanding of the political situation, cultural differences, ignorance, and emotional and partial reporting by news services tend to project half truths. From reading the New York Times only, one might easily get the impression that in 1970, Brazil was living through an inquisition.

Comparative Analysis of the Viewpoints

The two major results of the analysis of headquarters' and subsidiaries' views were mentioned in the previous two sections: political risk may be perceived from a conceptual (at headquarters) or from an operational (at the subsidiary level) standpoint. In the headquarters view, the market determines the attractiveness of a foreign investment; the recognition of the basic free enterprise principles, that is, of the concept of profit and its free repatriation, by the host government constitutes a minimum level for a good investment climate. At the operational or subsidiary level, governmental economic

policies are seen as providing the general business climate, and these may create opportunities or risks regardless of adherence to the principles of free enterprise.

The immediate environment also influences the overall perception of risk. It tends to overshadow any possibility of a negative outcome during boom periods, and vice versa when a poor political climate prevails. The repercussions of over- or underevaluating political risks by foreign investors can be detrimental to developing countries, especially when foreign investment constitutes a major source of growth. Perception tends to be exaggerated positively and negatively, and economic effects--during recession as well as during boom periods--aggravate the unemployment problem, or add fuel to the inflation spiral. The Brazilian government finds itself in recent years in a boom period--every foreign corporation wants to invest--although in 1964 and 1965 the reverse was true.

Comparative Analysis of the Results by Nationality

At present, it is virtually impossible to state that foreign corporations perceive more risks than their U.S. counterparts; more evidence is needed. It appears that foreign corporations have a tendency to perceive political risk in the middle range compared to U.S. corporations. This is shown clearly in Table 5-2 at the

headquarters and subsidiary levels, where U.S. corporations tend more toward extreme evaluation.

Foreign corporations have a more operational conceptualization than U.S. corporations. Foreign headquarters rank economic development policies 2-3 in Table 5-2, while U.S. headquarters rank them 7-8. Reinvestment policy is ranked 9-10 among foreign headquarters, and 1-4 by U.S. corporations, at the same absolute level as remittance policies and exchange rate fluctuations. The explanation for such a phenomenon could be the relatively smaller size of foreign corporations, which places them closer to their subsidiary and, therefore, makes them more responsive to its problems. Another explanation could be that past experience, mainly in exports, may have oriented them to paying more attention to local economic development policies, which had a direct effect upon headquarters. This reasoning is supported by the fact that import restrictions are ranked slightly higher for foreign corporations headquarters. Perhaps many European executives, through education or business experience, are still basically influenced by a long history of heavy reliance on exports, and adjust more slowly to a new world environment. If the sample had included Japanese corporations, this explanation might have had further support.

Foreign corporations mentioned that foreign personnel restrictions occasionally could be significant

obstacles. A lack of manpower reservoir could indicate that they are relatively smaller corporations, or that they lack long-term personnel planning. Another explanation is that many potential managers would rather study business in the United States than in Europe. If this is the case, U.S. corporations would have better access to more qualified managers, drawing from a domestic and foreign pool, than would European corporations. Finally, a possible explanation is that many young nations, recalling the colonial period, resent managers from the former colonializer, who looks like "the same old imperialist" under a new hat.

U.S. headquarters rank risks involving proprietary principles quite high. Among these are: expropriation (7th as opposed to 13th), corruption (17th but not ranked in the top 19 by foreign firms), subsidization of competitors (14th, but not mentioned by foreigners), and government as a customer (9th, but ranked 17th by foreigners). One explanation could be a basic difference in managerial philosophy, but this should also hold at the subsidiary level, which is not the case. Another possibility is that U.S. headquarters have a true worldwide view of the business, and cannot pay too much attention to the routine operational kinds of risks. Finally perhaps they are more subject to react emotionally to such risks as

corruption and expropriation, and the other two risks--competitors subsidized and government as a customer--are particularly found in European countries. The other foreign headquarters, because of their priviledged nationality, did not suffer from discriminatory subsidies or actions of the government as a customer. Further research in this area could reveal the bases of these differences.

At the subsidiary level (see Figure 5-2), we find a great similarity between U.S. and foreign corporations. Nevertheless, one difference did emerge: foreign corporations during the interviews showed a broader view of the business situation than did U.S. subsidiaries. Several foreign executives mentioned past experience, and although they considered the recurrence of similar events in the future unlikely, they did not discount the possibility. this broader view also was reflected slightly in their ranking of government as a customer, politics and labor, and expropriation. Some U.S. executives have only a one- or two-year experience in the foreign country. This view of the environment is mainly due to the personnel policy followed by foreign corporations, which tend to develop nativization, consciously or unconsciously, and let managers integrate into the society.

Summary

This research on the ranking of obstacles confirms previous studies, especially that of Harry J. Robinson for the NICB, and indicates new developments in this area. Some obstacles have disappeared from the list of important ones, including burdensome social legislation and discriminatory enforcement of taxation, while others have emerged, such as minimum export quotas, product line control, and discriminatory technical standards.

The firm's managerial policies influence its perception, especially the extent of its worldwide outlook and its personnel policy. Nationality influences the perception of political risk basically through the inherited cultural, social, and economic concepts of a business philosophy.

At the organizational level, headquarters have a more conceptual, principle-oriented view of political risk, while the subsidiary views it more from an operational vantage point. In general, headquarters perceives the world as riskier than do their Brazilian subsidiaries. Furthermore, some obstacles are mainly confined to specific areas of the world, as in the discriminatory technical standards in developed countries. American and European corporations seem to differ slightly in the perception of political risk, particularly at the Brazilian subsidiary

level. It seems that the immediate environment overshadows the perception of the political risk, especially at the subsidiary level.

Of the political risks perceived, the most important obstacles are the financially related ones: economic policies, remittance policy interference, exchange rate fluctuations, local capital participation requirements, and reinvestment policies. Marketing obstacles are secondary, but are increasing in importance. These include: price controls and regulation (which are closely related to financial variables), minimum export quotas (the emerging political risk), product line control, and the government as a customer. Last in rank are production-oriented obstacles such as import restrictions (also closely related to financial variables), and discriminatory technical standards (especially in developed countries).

CHAPTER VI

CONCLUSIONS: MANAGERIAL IMPLICATIONS AND RECOMMENDATIONS

Political risk has become a by-word among multinational corporations' top executives. In an effort to dispel the dramatic and emotional atmosphere surrounding the terms, this research has attempted to lay objective foundations for future political risk research.

The major objective was to avoid the purely descriptive, illustrative approach, which contrasts the power of the multinational firm with the sovereignty of host countries, by using a more conceptual and analytical approach to the problem. The research tackled the solution in a dual manner: on one hand, a conceptual framework was built around available knowledge; on the other, interviews were used heuristically in order to analyze the concept of political risk from an operational viewpoint, and to discover the applicability of the conceptual framework developed. The concluding remarks of this chapter first discuss managerial implications, and then avenues for future research.

Managerial Implications

One of the questions basic to the analysis of political risk was whether it is a really important factor. By the responses the corporations have given to this research, political risk must be considered an important factor in decision making. While many executives deny this directly, intuitively they incorporate it into other variables, but on a highly subjective basis. Furthermore, their answers to the questionnaire showed the importance they pay to political issues related to the business environment.

The Nature of Political Risk

A major area of confusion lay in the lack of a definition for political risk. The author has suggested as a definition the subjective probability that certain political decisions will be taken or certain political events will occur) which will perceptibly change the present business environment. This change could be favorable or unfavorable to the international corporation. A political, negative risk for one corporation may be an opportunity risk for another. More emphasis always has been placed on the negative aspects of risk, although it has its positive sides.

This change due to political decision can occur within a politically stable or unstable environment. The

important feature is that some influences of an economic, social and/or ideological nature have forced the institutions which channel and filter those influences into changing the present business environment. The final results generally are considered obstacles to or incentives for foreign investment. The objective of political risk analysis is to heuristically search for those sources of political influence which create the most important obstacles. Thus, the imposition of import restrictions could stem from ideological reasons (for example, trade with an enemy country), from economic reasons (for example, a deficit of the balance of payments, or the policy of import substitution, or economic growth), or others from social reasons (for example, safety standards).

Two Types of Political Risk

Using this general definition, the research has shown that two aspects of political risk, conceptual and operational, co-exist, and dominate the thinking of those at the two levels of the corporation, the headquarters and the subsidiary offices and could be explained by the different perspectives that executives have in decision making.

The major focus of conceptual political risk, usually present at the headquarters level, is on the subjective probability that the current business environment may be

disrupted by certain political decisions which repudiate or erode the basic principles of a free enterprise system. Such basic principles include the recognition of the concept of profit, right of repatriation of earnings, freedom to manage, and respect for the commercial legislation as the law of contracts. This approach basically takes a long-term view of political risk. Primary obstacles from the vantage of conceptual political risk are interference in remittance policy (dividends, earnings, royalties, management or licensing fees), transfer of capital, reinvestment policies, and the imposition of national partners through legislation or discriminatory practices forcing local capital participation.

Operational political risk, found mainly at the subsidiary level, is influenced by the immediate environment. It involves the subjective probability that governmental decisions will affect the profit picture or the operations of the subsidiary. This view takes a basically short- or medium-term approach to the analysis of political risk. In the Brazilian case, particular attention was given to governmental economic development policies and the local capital participation issue. The present economic boom is credited to economic policies very favorable to the business community. Government also would like to see foreign enterprises more prone to developing joint venture

for new investment, and to opening their capital in the local stock exchange. At the moment these are only informal wishes, but the government could develop policies to achieve these aims.

These two different conceptualizations of political risk could lead to mismanagement due to misunderstandings in line communication.

Orientations of Political Risk Analysis

Most definitions of political risk narrowed it to forceful political disruptions, but the broader ideological aspect, is more important. Expropriation, nationalization, and direct governmental competition are some more blatant aspects of risk, but corporations should be interested in the full spectrum of sources of political influences, particularly in changes within the social structure and in ideological tendencies.

Interviews revealed that political analysis was undertaken only when investment was first considered, or in a time of crisis, by which time it is generally too late.[1] None of the corporations interviewed had any socio-ideological orientation in their analysis of political risk, which was limited to economic trends, to the evaluation of

[1]Such statement is restricted to manufacturing industries, but some oil and mining companies are developing models analyzing changes in the overall socio-political situation of a country.

governmental attitudes toward private foreign investment, and to changes in the personnel of government and their political significance. No general political report or information was periodically sought by the home office, and specific political information was only requested in the event of serious deterioration in the political climate. Thus, subsidiaries, who are capable of gathering socio-ideological information, restrict themselves to operational reports mainly oriented toward economic issues concerning profitability, while headquarters, conceptually oriented toward the analysis of socio-ideological trends, does not seek such information.

In addition, the information system developed by most multinational corporations tends to foster misinformation. Major sources--executives on the scene and services organizations--generally are "foreign-sourced" or home-culture bound. No in-depth research analyzing basic social and ideological trends is undertaken.

The two conceptualizations of political risk require two different sets of data if, at every level, decision making is to be fed with the right information. It seems that very little is done in the manufacturing industries to fulfill this informational gap.

The Political Risk Triad

Political risk derives from the interaction of the host country with the product and the foreign firm.

The Host Country

The basic premise is that every country is different, and only a general framework of analysis can be provided. However, every country has three sources of political influence--economic, social, and ideological factors. They, in turn, are channeled through a country's political institutions, which filter those influences and translate them into political decisions. These mold the business environment by modifying, maintaining, or regulating it, which affects the profitiability of the foreign enterprise, and are commonly called obstacles (or incentives) to foreign investment (although local private corporations also are affected by them).

Multinational corporations perceive economic factors as the major source of political influence. Curiously, it seems that major obstacles (for example, exchange controls repatriation of earnings, price control, and devaluation) are related to a country's level of economic development, and, consequently, firms should expect such obstacles in a country at certain stages of its development. One economic disequilibrium, such as the deficit of the balance of payments, can lead to different political decisions: import restrictions, minimum export quotas, devaluation, exchange controls, or incentives for new foreign investment. The political decision attempting to solve that problem will

reflect social and ideological influences, but in any case will lead to a change in the business environment.

Social sources of political influence can be categorized within institutional groups (such as the army, church, bureaucracy, and political parties), noninstitutional groups (such as social classes, the middle class, elites, and farmers), and anomic groups (such as revolutionaries) or associational groups (such as trade associations and labor unions). The relative importance of any such group obviously varies from country to country. In the Brazilian case, the military plays an overwhelming role along with the bureaucracy and the middle class. The church seems to play an important role, but very little research has been oriented toward its impact on the business environment. More academic research by economists and political scientists should be directed toward gathering such information.

Among the major political ideologies--liberalism, socialism, communism, all of which are modified by nationalism--it seems that the least understood is nationalism. It is even more nebulous in the minds of international business executives than the concept of political risk. Nationalism, in our definition, means levels of national aspiration (national interests, national sovereignty, and national identity) which develop policies more for the benefit of the host country than to the detriment of foreigners.

National interests, adopting an analogy from Maslow's hierarchy of motives to the three levels, include all political decisions which aim at providing a minimum level of subsistence to the country and which guarantee survival. The over-riding rationale is mainly economic and, to a lesser extent, ideological. From an economic viewpoint, foreign investment will be accepted as long as it accelerates economic growth; similarly, import restrictions will foster rapid industrialization. Ideologically, as in the case of Red China and Taiwan, the former, for reasons of national interest will try to prevent firms willing to trade with them from engaging in business with Taiwan in order to economically weaken the latter, her ideological enemy.

National sovereignty involves a people's need to feel they belong to an entity which is their own. The need or desire to be maitre chez soi is the basic underlying cause of national sovereignty conflicts. A host government must prove to its citizens that they are part of a nation they can control and develop. At this national aspiration level, social influences are predominant. The general level of education of the population, the middle class, the bureaucracy, and labor are key variables. National sovereignty is in some ways the ratification by the people of the nation-building process; it involves controlling

socially important industries and participating in growing national industries. From an economic standpoint, countries will try to insure reinvestment of earnings rather than see them repatriated to another country. From a social vantage, some nationalization of the personnel, directors, skilled personnel, and capital are objectives.

National identity reflects the country's need for fulfillment or self-actualization within the concert of nations. Such self-actualization is perceived by the citizens as their national identity among other countries. This aspiration cannot be achieved within one's nation, but must involve the outside world. In the case of Brazil, soccer plays a role in national identity, especially in view of the three world championships the national team has won. In developed countries national identity would be involved, for example, in the development of a national electronic industry at any cost, or in preventing foreign corporations from stepping in by adopting discriminatory purchasing policies.

These three levels of national aspiration do not have to be reached in succession. Each is present in any country, but at a particular point in time one prevails over the others; depending on which one, basic trends should be predictable.

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The Product

From a managerial viewpoint, it is necessary to evaluate the importance of product characteristics as they are related to the political, social, or economic objectives of the country. Pressures for local production of a good (or local ownership of the production facilities) will depend on its prestige status (for example, the steel or automotive industry), its integrative impact upon the economic system by creating backward-forward linkages (for example, the chemical industry), the market requirements for its economic production (for example, the electrical supplies industry), its level of technological complexity and its politico-social strategic importance (for example, banking, mining, and public utilities), and the country's factor endownments (natural resources or human skills).

The product has varying political and social visibility, and by the nature of its production process and requirements it is subject to government pressures. It appears that the greater the transferability of product technology, the greater will be the pressures for local production; the less transferable the product technology, the greater the pressures on producing a component which is technologically transferable. Consequently, some industries are more subject to pressure than others.

All industries have their Achilles' heel. At the present time the chemical industry fears product price controls, patent regulation (especially of pharmaceutical products), remittance of earnings, licensing fees, and import restrictions. The electrical industry is most disturbed by technical standards, governmental economic development policies, and the government as a customer. The metal working industry is apprehensive about the government as a supplier, expropriation, and restrictions on capital structure (especially a limited use of debt), and the automotive industry fears minimum export quotas and local capital participation requirements. Finally, the office machine equipment industry is not particularly bothered by local capital participation pressures, but suffers from government as a customer and indirect discrimination caused by large subsidies.

Interestingly enough, developed countries appear to discriminate through technical standards or subsidies at the production level, while developing countries use cruder methods, such as import restrictions, local capital participation, or restrictions on remittance of earnings.

The Firm

The firm regards political risks derived from economic influences as the most important. These include: price controls and inflation; deficit in the balance of

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payments and exchange rate fluctuations; and import restrictions and minimum export quotas. These economic influences, to a certain degree, are related to the level of a country's economic development.

The firm's perception of political risk is involved with three influences: the firm itself, its nationality, and its organizational levels.

In fact, the objectives of the firm are themselves becoming constraints: for example, a total refusal to admit local capital participation ultimately will force the firm to stay out of certain markets. The firm's resources influence its methods of entry; limited financial resources will favor a joint venture, for example. Limited human resources also create perception of high risk in the presence of foreign personnel restrictions. Thus, the personnel policy pursued will also influence the perception of political risk. The extent of a corporation's worldwide outlook about its investments also determines the attention a firm pays to daily incidents.

The nationality of the firm per se is not important vis-à-vis the host country, but it colors the firm's perception of political risk because of inherited cultural, social, and economic concepts of a business philosophy. Furthermore, nationality is relevant as far as bilateral economic aid creates some closer ties with the host country, thus providing a greater feeling of security.

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At the organizational level, headquarters have a more conceptual, principle-oriented view of political risk, while the subsidiaries' more operational view is influenced by the firm's managerial policies and resources.

The firm considers the most important obstacles to be those directly related to finance--economic development policies, remittance policy interference, exchange rate fluctuations, local capital participation, and reinvestment policies. Of secondary importance are marketing obstacles--price controls and pricing regulations (also closely related to financial variables), minimum export quotas (the emerging political risk), product line control, and the government as a customer. Production-oriented obstacles are tertiary--import restrictions and local content requirements (also closely related to financial variables), and discriminatory technical standards (especially in developed countries). The ranking of these obstacles confirms the results of previous studies, and shows some new ordering.

Planning for Political Risk

Planning the Objectives

The author's basic premise is that countries will try to attain, over the long run, as high a national aspiration level as they can afford, given their present and future needs and their particular characteristics. For example, a country such as Belgium cannot afford to be

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negatively nationalistic (that is, force a corporation into producing locally as opposed to attracting local production with sweeteners such as subsidies and tax incentives) because of her poor endowment in natural resources and capital, and a relatively small market. On the other hand, India or Brazil can use more negative nationalist policies due to their enormous market potential, abundant natural resources, and cheap labor pool.

The second step in planning for political risk is to evaluate the importance of the "product" characteristics as they are related to the political, social, or economic objectives of the country.

The third step is to evaluate the interrelationship which exists between the three elements of a nationalist policy (national interest, sovereignty, and identity), the functional areas of the corporation (financial, marketing, management, and production), and the three sources of political influence (economic, social, and ideological). Tables 6-1, 6-2, and 6-3 illustrate examples within each functional area of achievable national objectives, related to political decisions, with the likely sources of influence.

On some political issues the foreign corporation and the host country are fundamentally in conflict because of different objectives pursued. With respect to local

TABLE 6-1.--Box Analysis of the Sources of Political Influences and Strategic Planning.

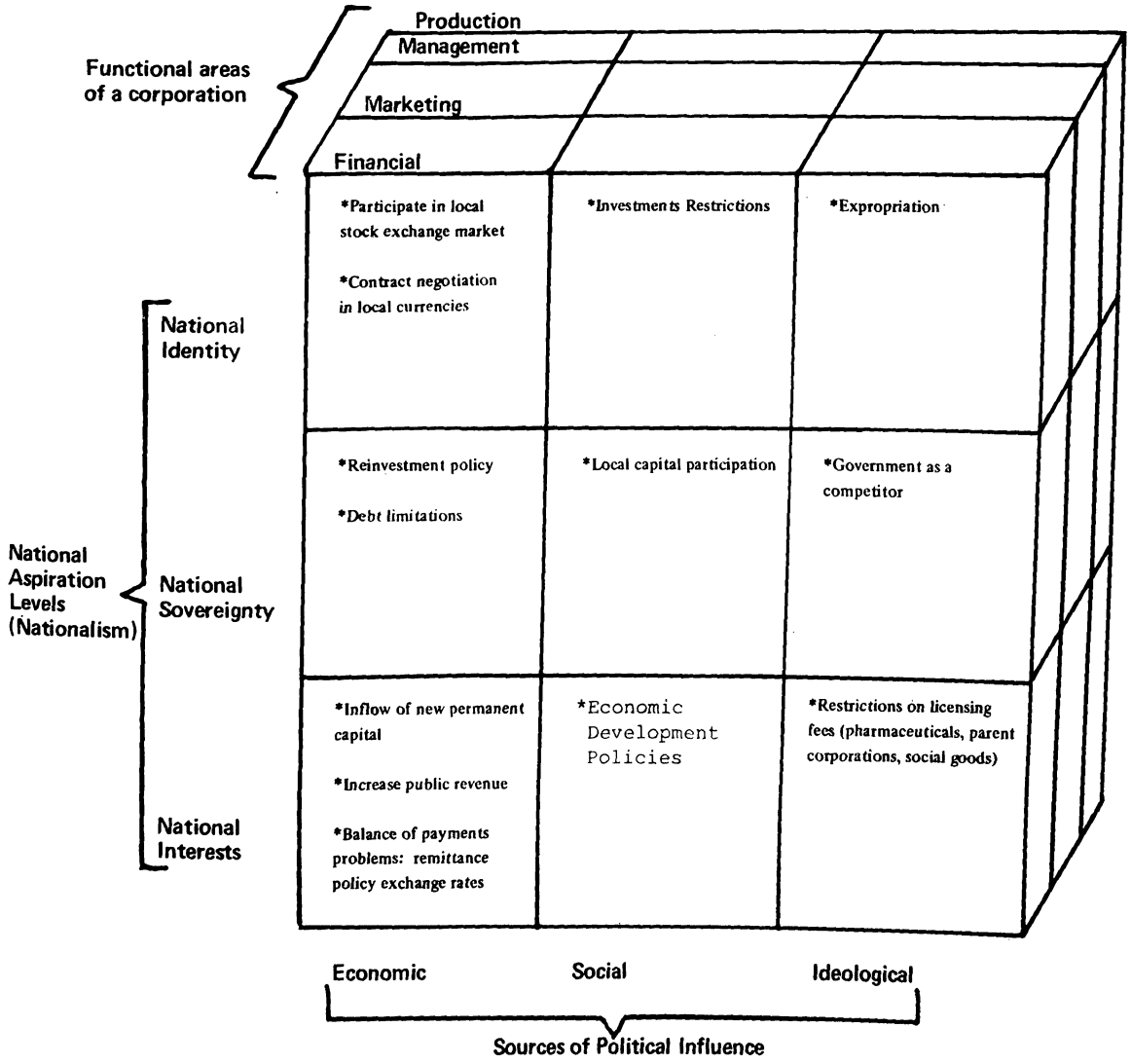

TABLE 6-2.--Marketing Box Analysis of the Political Strategic Planning.

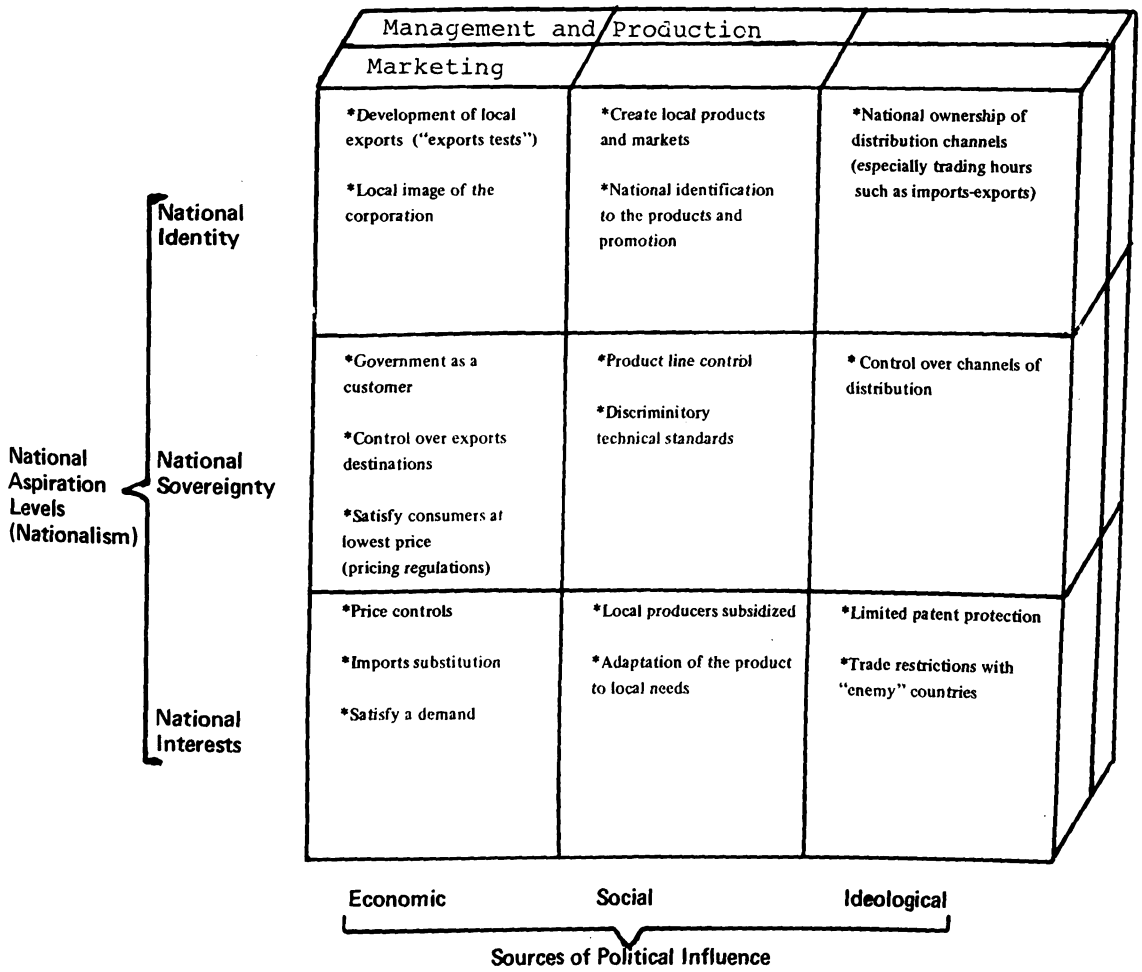

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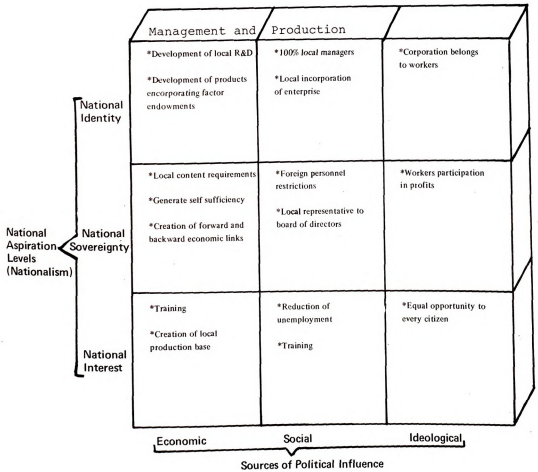
TABLE 6-3.--Management Production Box Analysis of the Political Strategic Planning.



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capital formation and the corporation's capital structure, for example, national interest would favor 100 percent foreign equity in order to attract new permanent capital, while national sovereignty or identity would demand local capital participation up to a local majority to increase domestic control. Such inherent conflicts are vividly present in most developed as well as underdeveloped countries. Therefore, the multinational corporation has to determine for each country, by product and functional areas, what will be the most nationalist policies the country can afford to demand of it. With these long-term eventualities in mind, the multinational corporation then will have to devise alternative short- and long-run strategies to cope with them.

The importance attached to each political issue will vary over time, and international corporations should analyze the country's present situation, evaluate the likelihood that weights given to the different factors might change, anticipate the types of measures that government is prone to use to reach the new objectives, and develop alternative strategies to cope with the new situation.

Planning Strategies

Although it is necessary to recognize that no rules exist for developing political risk strategies in every

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country, the author believes the following illustration indicates that alternate strategies do exist, that they are limited only by the creativity of the planners, and that they could be operational if they are the results of well-prepared, in-depth analysis of a particular country's characteristics.

An Illustration

A developing country with a small market has been accepting every foreign investor in order to save on foreign exchange. In the beginning the effects of this import substitution policy were successful, but presently things seem to be at a standstill. Local manufacturing production is basically a series of assembling operations, and the government believes that some vertical integration of production is necessary. What are the government's alternatives? The first is to nationalize and develop a national industry (as Algeria did with the automotive industry). The second is to limit the number of assemblers, limit the products to one or two per corporation in order to create a mass market for each, and force firms into more integrated local production (as in the Peruvian and Colombian cases). The last alternative would be simply to decree, for example, that the local content requirement for the product should be 50 percent within 3 years, 75 percent within 5 years, and 100 percent within 7 years,

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and that imports would be prohibited to local producers who do not comply with the local content schedule (as in Mexico or Brazil).

What are the company's strategies? The first would be to do nothing, to wait and see. Unfortunately a strategy, frequently has extreme consequences--nationalization, expulsion, or withdrawal. Another alternative would be to foresee such a development and be among the first to secure entry to a mass market by asking the government for its help in such a project, possibly through tariff protection, subsidies, or advantages usually associated with similar ventures. The corporation might seek an interregional agreement with two or three countries in order to create a mass market.

Such a move requires not one corporation project, but an industry-wide approach. A consortium of chemical firms might divide production facilities among countries and corporations; one country would produce polyethylene and export it to the other, another country would specialize in fertilizers, and a third would develop a petroleum refinery to fulfill the needs of the three countries participating in the agreement. Although this approach seems very attractive, international political instability makes the risk of agreement violation substantial.

The emerging policy of forcing corporations to export for reasons of national pride, or because of a deficit

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in the balance of payments, is adding another dimension to the problem. Multinational corporations, in the long run, must establish a worldwide profit maximizing strategy of country segmentation so that they will be able to live with minimum export quotas. In some countries they will continue to assemble and export to other countries, in others they will abandon markets which cannot be tapped due to local production requirements, and in others they will have a worldwide integration of production. For example, engines might be produced in Brazil and car bodies in Germany, small cars might be designed in Japan and large ones in the United States, and upholstery might be manufactured in India.

A Look at Brazil

Brazil has opened itself to business, and economics is the overriding criteria for every governmental action. In terms of long-range planning, this does not mean that the social and ideological aspects should be ignored, but only that for the time being they play a secondary role. In the context of economics, national interests would dictate a long-term inflow of permanent capital, a decrease of the balance of payments instability, price controls in order to fight inflation, the creation of a local production base, and the training of skilled workers. Repatriation of

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earnings are limited, but are still acceptable. Import restrictions are automatically introduced with the "law of similars."

At the national sovereignty level, restrictions are minimal except for slight discriminatory incentives for debt limitations and some minor problems with control over the destination of exports. Product line control, local capital participation especially or social implications such as product line control are the hot issues. Foreign personnel restrictions and local representation on boards of directors are less of a problem. At the national identity level is the exports test. Brazil must prove it can export Brazilian products. In contrast, other factors are less important or totally negligible.

The João Goulart period offers an example of a time when ideological or social aspects were more important. There were expropriations of foreign public utilities, foreign personnel restrictions were enforced, government economic policies were completely labor oriented, restrictions on repatriation of earnings were imposed, and the exchange rates were artifically maintained. Price controls were enforced on every social good. Simply because the emphasis now is on economic objectives, however, does not mean that these other factors can be ignored.

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A marketing problem hardly can be disassociated from a general socio-ideological problem where local capital participation and nativization of managers and production are intertwined. As the president of a multinational corporation observed: "People don't realize that economical policies are devised by political men under pressures." The point is that it is better to continuously anticipate and even initiate change rather than wait for the fait accompli which inevitably allows only belated reaction and palliative measures. One need not panic and envision the political scene in constant unpredictable turmoil. Most changes are predictable and can be anticipated, and, therefore, can be prepared for. Knowing that practice is likely to differ from policy also calls for developing the negotiating skills necessary to deal with those who will implement the latter.

Summary

International business corporations should deemphasize the view that political risk is a subjective element in managerial decisions. There are economic regulations everywhere in the world, often less stringent in developing than developed countries. Host governments have roles to play in the nation-building process, and while multinational firms are searching for profitable markets, they must realize they have to conform to the socio-political norms

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of the country in which they invest. Less and less will the society adjust to them. Therefore, the objective of the firm will dictate the limits of what is desirable and feasible. The adequate analysis of political risk will establish criteria and guidelines which are instrumental for a multinational business strategy. In the long run, product control and minimum export quotas may lead to a multinational strategy which need not include every market, but should concentrate on the most profitable pattern of worldwide country segmentation, with the understanding that for every political risk there are political opportunities.

Recommendation for Future Research

(1) This exploratory research tried to develop an operational concept of political risk, but has raised more questions than it has answered. It has shown the imperative need for international business research to develop techniques to quantify the relationship between social and economic indicators and the level of political risk and obstacles to foreign investment. Such inquiry not only would tackle the problem of measuring the level of economic development, but also would investigate indicators measuring shifts in pressure groups and their importance, influence, and ideological trends.

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(2) Greater emphasis should be paid to the analysis of nationalism from a business standpoint. A country study, based on a box analysis, appears to be a short-term research topic promising relatively high returns. In the process it will be necessary to develop techniques for analyzing the implications on business of the different national aspiration levels, and analyze the interrelationships between them, the sources of political influences, and the various expressions of nationalism.

(3) The second major area of research lies in the development of measurement techniques that will enable comparison of the political risks to which different product technologies (economic activity) are subject. Unfortunately, the two product dimensions, production and utilization, make such attempts very difficult. In addition, wide product lines of corporations make comparisons of the total corporate exposure to political risk difficult, or perhaps even impossible as in the case of a firm which is simultaneously in the electrical, real estate, automotive, and service industries. Without great difficulty, an executive cannot look at the problem from one single viewpoint. In the area of products and their technological transferability, it might be interesting to develop more local production threshold curves for more products, and see to what extent political pressures can force an industry to enter manufacture of a product sooner.

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Such information would also be very useful in the screening of worldwide market opportunities.

(4) At the firm level, future research should investigate the implications of the findings herein of different perceptions of political risk at headquarters and subsidiary levels. Is there any real breakdown of communication, and, if so, what is its extent? What is the significance of sources of information in the perception of political risk? How does one evaluate sources of information? Where and what kind of information should a corporation solicit for the analysis of political risk?

(5) Further investigation might include the impact of perception of political risk upon the host country's economy. Brazil has data available on flow of foreign investment, and such a study of the impact of the behavior of foreign direct investment for the period 1961-1970 would be feasible. Do foreign corporations accentuate business cycles, thus increasing political instability? These questions raise important issues related to the benefits of foreign investment. It also appears necessary to devise some means of analyzing objectively the corporation's attitude toward the host country as perceived by local government officials. Some executives appeared to have a distorted idea of how their corporation is perceived by nationals.

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(6) The author believes it is possible to reduce uncertainty by improving planning in and analysis of the foreign environment, but political science is not yet sufficiently advanced to enable us to do so. Any advance in the studies of political risk seems to be heavily dependent upon a joint research effort by business and political science, in conjunction with other disciplines such as anthropology.

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APPENDICES

APPENDIX A

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APPENDIX A

Interview Questions

The interview was conducted on a very informal basis and followed a semi-structured questionnaire. The answers were recorded on a mini-cassette tape recorder, and the researcher also took notes on the key information provided.

Part I: Product Oriented Questions. The first series of questions concerned the corporation's product line, and were open-ended.

a) What are the different groups of products you manufacture?

b) Where do you export those products?

c) Where do you manufacture them?

d) Where do you assemble them?

e) What are the major reasons for going overseas?

(Many of these questions were quickly answered by the interviewee handing the interviewer a brochure or a handout describing worldwide operations.)

In Brazil, the questions were phrased differently:

a) What are the products that you manufacture locally?

b) What are the products that you do not import or manufacture locally, but which are still in the main product line of the corporation? What are the reasons for the discontinuance?

c) What are the products you still import?

d) What are the creating factors for local production?

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e) What were the most difficult periods of the Brazilian operations? What were the reasons, factors, and consequences? The interviewer mentioned 1950, 1953, 1956, and 1962-63 as an aid to recollecting "bad" years.

Part II: Nationality and Nationalism. This series of questions on the importance of the firm's nationality ended with an open question which allowed the interviewee to relax and speak freely.

Question 1: Are there advantages or disadvantages to being citizens of a large economic power?

Question 2: Are there advantages or disadvantages in having a large group of firms of the same nationality in the same host country?

Question 3: What are the repercussions of the home country's role in international events upon your business environment (for example, World War II, Algeria, and Vietnam)?

Open Question: What is Nationalism? What are the different ways nationalism is expressed in various countries of the world? Are there any differences between developed and underdeveloped countries?

Part III: Obstacles to Foreign Private Investment. This series of questions is subdivided into four categories: marketing, management, finance, and production. Its objectives are to analyze the relative importance corporations give to different obstacles mentioned in the literature. Executives were asked to elaborate on differences existing over time, and among countries and/or different products.

Obstacles Related to Marketing Variables:

Price

Question 4: What is the importance you assign to price controls?

Question 5: Would you consider pricing regulation, or restrictive pricing rules, as important an obstacle as price controls?

Question 6: Is weak enforcement politically motivated, or difficult because of administrative procedure?

Promotion

Question 8: Is the local content requirement for promotional activities an obstacle? If yes, how important is it?

Question 9: Does the government as owner of mass media create any obstacle? How important is it?

Question 10: Is there any discriminatory promotional taxation?

Question 11: What is the importance of weak trademark protection?

Distribution

Question 12: Are there any obstacles arising from public ownership of mass transportation? What are their importance?

Question 13: Is there legislation preventing or discriminating against a corporation's own transportation system? What is its impact?

Product

Question 15: What are the repercussions of limited patent protection? Is it an important obstacle for the firm?

Question 16: Some countries do require that a firm should produce locally patented products with a no-compliance penalty of losing the patent rights? How much does or would such legislation affect you?

Question 17: To what extent does discrimination in distributing production licences exist, and how much does it affect you?

Question 18: Some countries are requiring of every foreign investment the creation of a certain minimum of exports. Would such minimum export quotas affect you in your future decisions? in your present operations? How important an effect is it?

Question 19: How important an obstacle is or would be product line control from the host government?

Question 20: Is arbitrary tariff classification an important obstacle? Is it discriminatory or due to lack of understanding?

Environment

Question 21: Do you feel that the government as one of your customers creates some obstacles or restrictions upon your operations? Does the government discriminate against firms?

Question 22: How important is indirect discrimination through subsidization of competitors?

Question 23: How important is a nationalistic campaign aiming at the purchase of locally manufactured products by the host country's consumers?

Obstacles Related to Management Variables:

Foreign Personnel

Question 24: How important for your operations are foreign personnel restrictions, through lengthy red tape and/or temporary visas?

Question 25: How important are the restrictions on the number of foreign personnel in your operations (at the lower or upper echelon)?

Question 26: How important are, or would be, restrictions on the remuneration of foreign personnel?

Politics and Labor Legislation

Question 27: Is there any political interference in hiring and firing practices? How important is it?

Question 28: Does labor legislation, such as social security, salary level, and training requirements, discriminate against foreign corporations?

Question 29: Is there any discriminatory enforcement of labor legislation against foreign forporations?

Politics and Labor

Question 30: Are workers actively involved in politics? Does the government favor it? How important is or could be that obstacle for your corporation?

Obstacles Related to Financial Variables:

Capital Structure

Question 31: How important are debt limitations (should loans be foreign or locally sourced) for the corporation? How frequently are they applied?

Question 32: How important an obstacle is local capital participation? Is there any difference between minority and majority local capital participation?

Remittance Policy Interference

Question 33: How important an obstacle is restriction on the transfer of capital?

Question 34: How important is the issue of repatriation of earnings to your corporation? How important an obstacle is restriction on repatriation of earnings?

Question 35: How important are restriction on dividends?

Question 36: Are restrictions on management fees an obstacle? What are their importance?

Question 37: Are restrictions on licensing fees major obstacles?

Question 38: Are restrictions on royalties significant obstacles?

Question 39: What is the importance of government in reinvestment policies such as constraints, incentives, subsidies, and tax benefits?

Question 40: What are the importance of exchange control restrictions through multiple exchange rates and mandatory restraints?

Governmental and Administrative Behavior

Question 41: Are there any discriminatory practices in taxation or in accounting?

Question 42: Is exportriation important?

Question 43: Do state-owned banking services create some restrictions or discrimination in the business environment? How important is it?

Question 44: Is corruption important?

Question 45: What is the importance of economic policies followed by the government? By economic policies I mean national development plans and fiscal, trade, and monetary policies. (Such questions could overlap with several others, among them local content requirement, price controls, and minimum export quotas).

Obstacles Related to Production Variables:

Question 46: Does the fact that government is the supplier of some of your input materials constitute an obstacle? How important is it?

Question 47: How important is a local content requirement for your industry?

Question 48: Are import restrictions a major obstacle? How important are they?

Question 49: Are discriminatory technical standards an obstacle to foreign private investment? How important are they?

APPENDIX B

APPENDIX B

The Planning of the Interviews

1. Send letter requesting interview--letter 1 and 2.
2. Send letter for confirmation of interview appointment with a summary of topics that will be covered during the interview--letter 3.
3. Interview:
   a. Brief presentation of interviewer, Michigan State University, and the research (time-5 minutes).
   b. Brief presentation of interviewee, position in the corporation, international experience (time-5 minutes).
   c. Brief description of the corporation--which already had been analyzed during the sample selection process (time-5 minutes).
   d. First part of interview open questioned related to the products of the corporation (time-15-25 minutes).
   e. Second part of interview four questions related to the nationality of the firm and the meaning of nationalism (time-10 minutes).
   f. Third part of interview evaluation of obstacles affecting international corporations (time-75-100 minutes).
   g. Fourth part of interview political reports to headquarters (time-15 minutes).
   h. Fifth part of interview does the interviewee have any questions for the interviewer (time-10 minutes)?
4. Post interview: a letter thanking cooperation for its help in the research--letter 4.

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June 24, 1970

Dear

This is to introduce Mr. Etienne Cracco, a member of our staff who is conducting research on the climate for international business firms in developing countries. The purpose of the research is to provide a conceptual framework which reveals the interaction that takes place between the international corporation, its business environment, and the political process. Hopefully it will be possible to develop a tool useful in planning foreign investment and operations. We have selected a group of representative companies, including yours, for this project and will appreciate greatly your cooperation.

The study will be based largely on personal interviews which Mr. Cracco will carry out in Europe between July 1, and August 25 of this year. Subsequently, he will be interviewing South American subsidiaries of international corporations and North American parent companies. The interview covers obstacles which your firm confronts overseas in marketing, finance, production, and management as well as the changes over time in the production and distribution of some of your products. The data secured, of course, will remain completely confidential and under no circumstances will company names be divulged. Results of the study will be made available to the participating companies at no cost.

We believe this study will make a significant contribution to the activities of international business firms and we will deeply appreciate your cooperation. Would you please advise Mr. Cracco, at the address in Belgium shown below, the two most convenient periods during the coming months of July and August when an interview with you or one of your assistants might take place.

Sincerely,

Dr. Dole A. Anderson
Professor of Business Administration
and Director

Please use this European address:

Mr. Etienne Cracco
72, Blijde Inkomst Straat
3000, Leuven Belgium

Ph. 016/27670

LETTER 2

Dear Sir:

The institute of International Business and Economic Development Studies at Michigan State University, is conducting a research on "The International Corporation and the Business Climate." The objectives of the study are to devise a conceptual framework which will reveal the interactions that take place in the political process, the business environment and the international corporation.

The headquarters of the Brazilian subsidiaries involved in the study have already been interviewed and have agreed to the pursue of the interviews in Brazil. In New York, we had the pleasure to meet Mr.
We would very much appreciate having an interview with you or a member of your staff between November 23 and December 4, 1970. Would you please indicate to us the two most convenient time for such a meeting? The arrangements can be made by letter or directly by telephone with my secretary Margarete at the Fundação Getulio Vargas, Sao Paulo, tel. 288-0011, ext. 225.

In complete agreement with the headquarters, names of the corporations and of its officers interviewed will be under no circumstances, mentioned in the report. Further, the study will only report aggregate results and they will be made available free of charge to the participating corporations.

Thank you very much for your continued cooperation and I look forward to hearing from you soon.

Sincerely yours,

Etienne F. Cracco
Research Assistant
Division of Research
Michigan State University

LETTER 3

LEUVEN, 1970

Dear Sir:

I thank you very much for the attention you paid to our request for interview.

This letter confirms that I will visit you on Monday, August 24, 1970 at 9:30 a.m. if this is convenient for you.

Herein I include the more detailed objectives of the study as well as a list of questions that will be covered during the interview.

Thank you very much for your cooperation.

Etienne F. CRACCO,
Blijde Inkomststraat, 72,
3000-LEUVEN.
(Belgium).

LETTER 4

Dear Sir:

I have enjoyed very much discussing with you the topic of political risk. Our meeting was most interesting and your help will greatly contribute to out research efforts. Please don't hesitate calling upon us if we can be of any help.

Thank you very much for your cooperation.

Sincerely yours,

Etienne F. Cracco

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Addenda to Letters 1 and 2

The International Corporation and the Business Climate

The objectives of the study are to devise a conceptual framework which will reveal the interactions that take place among the political process, the business environment, and the international corporation. The conceptual framework is shown in exhibit 1. Risk is subdivided into three types of influences: one is derived from ideological reasons, another from social pressures, and the last from economic imperatives. Political influences are then chanelled (formally or informally) through institutional means into the business environment, which must adapt to those changes. A series of hypotheses (see exhibit 2) and questions are derived from the conceptual framework. These can be grouped in three categories:

1. What is the specific nature of the dependent variables, their importance for the enterprise, and their variations as functions of the products of the corporation or of the countries in which the firm operates?

2. Are there any variations of these variables over a period of time?

3. What is the importance of a firm's nationality for its business climate?

The questions that will be covered during the interview are the following:

A. What are the products now manufactured locally that you previously imported? What products do you no longer handle that you were importing?

B. What are the factors that made you manufacture those products locally? When have those factors been into effect? What have been the most difficult periods (from a business climate point of view) for your corporation?

C. What are the nature and importance of the following obstacles (examples based on your experience or concerning any other firms are extremely helpful)?

1. Marketing obstacles:

   a. Price:
      -Price controls?
      -Restrictive pricing rules?
      -Weak enforcement of exchange contracts?

   b. Promotion:
      -Local promotion content requirement?
      -Restrictions due to government as owner of mass media?
      -Discriminatory promotional taxation?
      -Weak trademark protection?

   c. Physical distribution:
      -Restrictions due to government as owner of means of transportation?
      -Restraints due to required licensing?

   d. Product:
      -Limited patent protection?
      -Requirement to produce patented products?
      -Discrimination in distributing production licences?
      -Minimum export quotas?

-Product line controls?
-Arbitrary tariff classifications?

e. Environment:
-Restrictions due to government as a purchaser?
-Discrimination due to nationalistic propaganda or subsidies given to competitors?

2. Management obstacles:

a. Foreign personnel restrictions:
-Restrictions concerning their physical presence (visas . . .)?
-Restrictions concerning their number?
-Restrictions concerning their remuneration?

b. Politics and labor legislation:
-Restraints related to selection practices of the foreign personnel?
-Discriminatory legislation (social security, salary, training requirements . . .)?
-Discriminatory enforcement of labor legislation?

c. Politics and labor:
-Are there any major obstacles due to unions and workers' involvement in politics?

3. Financial obstacles:

a. Capital structure limitations:
-Restraints on allowed foreign or local debt?
-Requirements of local capital participation?

b. Remittance policy interference:
-Are there any limitations in the transfer of capital? repartiation of earnings, dividends . . . ?
-Are there restrictions concerning management fees, royalties, licensing fees?

-Are there any limitations in the investment policy?
-What is the importance of the exchange control restrictions?

c. Governmental and administrative behavioral obstacles:

-Is there any discrimination in profit taxation?
-Did you experience a nationalization, expropriation, or forced sale?
-What is the importance of corruption from a political standpoint?
-Are there any restrictions or obstacles if the government owns the local financial services?

4. Production variables:

-What is the importance of the government as a supplier?
-What are the implications of import restrictions and the local input requirements?
-How important are discriminatory technical standards?

D. What are the advantages and disadvantages of being a citizen of a major political power? of a major economic power?

Do you feel that the Vietnam war is detrimental to U.S. corporations?

Do you feel that the Algerian war has been detrimental to French corporations?

Do you feel that a relatively higher concentration of firms of the same nationality will attract more or less harassments from the government?

APPENDIX TABLE B1.--Conceptual Framework of the Political Process.

Sources of Political Influences (Formal and Informal)	Institutions Channeling Political Influence	Type of Influence of Business Environment	Dependent Variables
1. Political	National Legislative [legislative body]		Marketing Variables 1. Price 2. Product 3. Promotion
Socialism Communism Nationalism Capitalism	Government [executive body]	Regulate	4. Physical Distribution 5. Environment
2. Social			Financial Variables
Unions Army Bureaucracy Religious Organizations Traditional Groups Revol. Elite Entrepreneur	Agencies [administration] Local Legislature [regional body city government]	Maintain Mold	1. Capital Structure 2. Remittance Policy 3. Investment Policy 4. Environment 5. Accounting 6. Taxation
3. Economic			Management Variables 1. Foreign Personnel Policy 2. Local Personnel Policy 3. Labor Legislation 4. Taxation
Balance of Payments Budget Deficit Investment Rate Unemployment GNP/capita growth			Manufacturing Variables 1. Inputs Restrictions 2. Industrial Legislation 3. Environment

APPENDIX C

APPENDIX C

Country Classification

Although countries can be grouped in a number of ways for international purposes, there are two basic methods of classification. One is to focus on external environmental variables, and the second is to use criteria internal to the firm, specifically for forecasting use, such as the number of telephones, radios, or cans of beer produced.

For obvious reasons only the external variables have been taken into account in this study. Classification of countries on such a basis can be done using a single criterion, such as income per capita, or a number of indicators related to one major variable, such as the level of economic development. There is no one framework that is universally acceptable. Three different factors measure the level of economic development:

1. Economic = GNP per capita
2. Socio-economic = Liander-Sherbini-Terpstra-Young[1]
3. Social = Donald V. McGranahan[2]

In the author's opinion, the single criterion chosen, namely the GNP per capita, provides a good approximation and

[1]Bertil Liander & al, Comparative Analysis for International Marketing (Boston: Allyn and Bacon, Inc., 1967.

[2]Donald V. McGranahan, "Analysis of Socio-Economic Development through a system of Indicators," The ANNALS of the American Academy of Political and Social Science, January 1971, pp. 65-81.

a reliable framework, although the level of economic development reflected by the GNP per capita can appear rudimentary and oversimplified. Before selecting this criterion, different methods of grouping were studied, particularly the developmental approach through cluster analysis presented by A. A. Sherbini in his book Comparative Analysis for International Marketing. Sherbini differentiates countries into five progressive levels of resource development. In order to define those levels he used the basis of a previous study by Brian T. L. Berry.[3] Through factor analysis, almost 100 countries were compared on 43 indices of economic and technological development. A basic technological pattern was revealed which, by synthesizing the composite indices, has been summarized on a single dimension (see Table 1).

By utilizing only the GNP per capita in a degressive ranking order, a roughly similar distribution has been obtained (see Table 2).

This does not imply that the deficiencies of relying on a single variable in measuring development should be overlooked. The shortcomings of the GNP per capita are known and have been demonstrated, the most important of which probably is its expression in terms of averages which

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[3]Brian T. L. Berry, "Patterns of Economic Development," In N. Ginsburg's Atlas of Economic Development (Chicago: University of Chicago Press, 1961), p. 110.

APPENDIX TABLE C1.--Comparison of Three Indices Measuring Economic Development.

APPENDIX TABLE C1.--Comparison of Three Indices Measuring Economic Development.

	GNP/capita	Socio-Economic Indicator	Social Indicator
Index Calculation	Sum of production/ population	Composite index economic	Composite index social
	Based on world price markets	Social	
Advantages	Readily available data	Measure standard of living	Measure social satisfaction, welfare
	Updated preiodically		
	Universally understood and commonly used		
Disadvantages	Unreliable statistics, political instrument	Too complex	Too complex
	World market prices, not necessarily meaningful	Not universally understood	Not universally understood
	Only an economic measure	Updating is difficult and expensive	Updating is difficult and expensive
	Does not take into account income distribution, regional discrepancies	Poor quality of data and unreliable	Poor quality of data, even more unreliable
			Poor data base

APPENDIX TABLE C2.--Comparison of the Three Classification Results.

	GNP per Capita	Socio-Economic	Social
Group 1	United States		
	Sweden	Sweden	U.K.*
	Canada		Canada
	Switzerland	U.K.*	Sweden
Group 2	Australia	Switzerland*	Switzerland*
	Denmark	Belgium	NewZealand
	France	West Germany	Australia
	New Zealand	Denmark	Norway
	Norway	Netherlands	Belgium
	West Germany	Norway	Netherlands
	Belgium	France	Denmark
	United Kingdom	Finland	West Germany
	Finland	Japan	France
	Netherlands	Israel	Finland
	Israel	Italy	Japan
	Italy	Argentina*	Italy
	Japan		Argentina*
Group 3	Venezuela	Uruguay	Venezuela
	Argentina	South Africa	Spain
	Trinidad & Tobago	Venezuela	Greece
	Libya	Chile*	Chile*
	Greece		
	Spain		
	Singapore		
	South Africa		
	Uruguay		
	Cyprus		
Group 4	Mexico	Greece*	Portugal
	Chile	Costa Rica	Costa Rica
	Jamaica	Portugal	China (Rep.of)
	Portugal		Colombia
	Costa Rica		Jamaica
	Peru		Brazil
	Guatemala		
	Colombia	Colombia	Peru
	Malaysia	Mexico	Dominican Republic

APPENDIX TABLE C2.--Continued.

	GNP per Capita	Socio-Economic	Social
Group 4 (cont.)	Turkey Iran Dominican Republic Algeria Brazil China (Rep. of)	Brazil	Turkey Iran U.A.R.* Ecuador* Libya*
Group 5	Iraq S. Rhodesia Ecuador Tunisia Ghana Angola Morocco Philippines Syria Zambia Bolivia Ceylon U.A.R. Cambodia Thailand	Turkey* Peru* Ecuador Guatemala* Iraq Bolivia Algeria* Philippines Syria Ghana Ceylon U.A.R. Thailand	Guatemala* Ceylon Ghana Morocco Philippines
Group 6	Kenya Vietnam Indonesia Congo (Rep. of) Guinea India Pakistan Sudan Algeria Tanzania Burma	Indonesia Congo India Pakistan Sudan Algeria Burma Morocco* Iran*	

*Indicates the country falls in a different classification on socio economic or on social than on GNP.

may conceal wide variations between regions or between economic class. Since its weaknesses are widely known, the GNP per capita may have an important advantage because everyone has a better grasp of its meaning. The classification presented in this appendix is derived from the 1967 data reported by the World Bank, and is divided into six groups. We began by arbitrarily creating a group of countries with GNP per capita of over U.S. $2,000. The lower limit of the next interval was obtained by dividing $2,000 by 2, which also created the upper limit of the following interval, and so forth (see Table 3).

Sixty-nine countries have been studied. All communist bloc countries have been excluded, as well as all countries with a population less than 2,000,000. Some extreme cases have been eliminated because of their atypicality (such as Hong Kong), but most were excluded because data was unavailable.

APPENDIX TABLE C3.--Country Classification.

Countries		GNP/capita	
		Lower Boundary	Upper Boundary
Group I	4 countries	More Than $2,000	
Group II	13 countries	$1,000	$2,000
Group III	10 countries	$ 500	$1,000
Group IV	15 countries	$ 250	$ 500
Group V	15 countries	$ 125	$ 250
Group VI	11 countries		Less Than $ 125
TOTAL	68 countries		

APPENDIX D

APPENDIX TABLE D1.--Summary Results of the Obstacles to Foreign Investment.

Level of Analysis Functional Areas	Overall All	Overall U.S.	Overall Foreign	Headquarters U.S.	Headquarters Foreign	Headquarters All	Subsidiary U.S.	Subsidiary Foreign	Subsidiary All
Finance									
Capital Structure									
Debt restrictions	3.39	3.58	3.21	3.71	2.36	3.12	3.42	3.76	3.62
Local capital participation	2.35	2.38	2.32	2.29	2.09	2.20	2.50	2.47	2.48
Remittances									
Transfer of capital, repatriation of earnings, dividends	2.24	1.96	2.48	1.50	1.92	1.69	2.50	2.88	2.72
Management fees licensing fees, royalties	2.29	2.08	2.48	1.50	2.25	1.85	2.75	2.65	2.69
Reinvestment policy	2.87	2.58	3.14	1.50	2.45	1.92	3.83	3.59	3.69
Exchange rates	2.53	2.24	2.83	1.50	2.13	1.73	3.18	3.19	3.19
Discriminatory taxation	4.38	4.68	4.11	4.50	3.09	3.88	4.91	4.76	4.82
Expropriation	3.89	3.73	4.04	2.79	3.00	2.88	4.83	4.65	4.72

Government owned banking services	4.44	4.35	4.54	4.07	4.09	4.08	4.67	4.82	4.76
Corruption	4.22	4.15	4.29	4.00	4.18	4.08	4.33	4.35	4.34
Economic policies	1.98	2.23	1.75	2.79	2.09	2.48	1.58	1.53	1.55
Management									
Foreign Personnel									
Access & Stay restrictions	4.46	4.69	4.25	4.43	3.09	3.84	5.00	5.00	5.00
Number constraints	4.47	4.73	4.22	4.50	2.90	3.82	5.00	5.00	5.00
Labor Legislation									
Selection practices									
Discriminatory legislation	NO PERCEIVED RISK		that is 5.0 U.S. subsidiaries reflected a feeling of pressures against the "wealthy" countries/companies.						
Discriminatory enforcement									
Politics and Labor									
Workers involvement in politics	4.56	4.64	4.48	4.43	4.30	4.38	4.91	4.59	4.71

APPENDIX TABLE D1.--Continued.

Level of Analysis Functional Areas	Overall All	Overall U.S.	Overall Foreign	Headquarters U.S.	Headquarters Foreign	Headquarters All	Subsidiary U.S.	Subsidiary Foreign	Subsidiary All
Production									
Government as supplier	4.70	4.68	4.72	4.43	4.25	4.36	5.00	4.94	4.96
Local content requirement, imports restrictions	3.00	2.88	3.11	2.29	2.20	2.25	3.64	3.65	3.64
Discriminatory technical standards	4.36	4.36	4.36	3.93	3.55	3.76	4.91	4.88	4.89
Marketing									
Price Controls	2.71	2.88	2.55	3.14	2.42	2.81	2.58	2.65	2.62
Pricing regulations	3.11	3.27	2.97	3.57	2.75	3.19	2.92	3.12	3.03
Physical Distribution	NO PERCEIVED RISK except requirements to ship by national flag lines, although ways exist to minimize the impact.								

Promotion	NO PERCEIVED RISK		However, in a political crisis, executives recognize the difficulties of defending against government changes.						
Product									
Limited patent protection	4.63	4.77	4.50	4.79	4.00	4.44	4.75	4.82	4.79
Discrimination in production licenses	4.46	4.62	4.32	4.50	4.09	4.32	4.75	4.47	4.59
Minimum export quotas	3.21	3.28	3.14	3.43	2.45	3.00	3.09	3.59	3.39
Product line control	3.90	3.72	4.08	3.29	3.44	3.35	4.27	4.41	4.36
Arbitrary tariffs classification	4.38	4.50	4.26	4.43	3.30	3.96	4.58	4.82	4.72
Environment									
Government as a customer	3.83	3.80	3.86	3.07	3.55	3.28	4.73	4.06	4.32
Competitors subsidized	4.54	4.20	4.85	3.64	4.70	4.08	4.91	4.94	4.93

APPENDIX E

APPENDIX E

Key to Appendices E, F, G, H, I

A. Classification of Industries

Industry 1: Automotive Industry

Industry 2: Chemical Industry

Industry 3: Electrical Industry

Industry 4: Metal Working Industry

Industry 5: Office Machine Equipment Industry

B. Measurement: Based on a five-point scale

Questions 1-2	Question 3	Question 5-on
1.00--Many Advantages	1.00--Great	1.00--Very Important
2.00--Few Advantages	2.00--Many	2.00--Important
3.00--Neutral	3.00--Some	3.00--Occasionally Important
4.00--Few Disadvantages	4.00--Infrequently	4.00--Rarely Important
5.00--Many Disadvantages	4.00--None	5.00--Not Important

C. Symbol Representation

(A)-- Arithmetic mean of executives' responses.

(STD)-- Standard deviation of responses.

(-.--)--Extremely small standard deviation.

Interview Results: By Industries

	1	2	3	4	5
Question 1					
A	2.90	2.60	2.47	2.00	3.36
STD	0.56	0.51	0.91	0.86	0.80
Question 2					
A	2.80	3.00	2.80	2.75	3.00
STD	0.78	0.66	0.94	0.70	0.63
Question 3					
A	4.90	4.80	4.13	4.89	4.82
STD	0.31	0.63	1.55	0.33	0.40
Question 4					
A	2.50	1.80	2.80	3.33	3.09
STD	1.26	1.13	1.32	1.80	1.51
Question 5					
A	3.30	2.30	3.33	2.78	3.64
STD	1.15	1.05	1.63	1.48	1.28
Question 6					
A	5.00	4.78	4.71	4.11	4.82
STD	0.00	0.66	0.61	1.36	0.40
Question 8					
A	5.00	4.50	5.00	5.00	5.00
STD	0.00	0.97	0.00	0.00	0.00

	1	2	3	4	5
uestion 9					
A	5.00	5.00	4.93	4.78	5.00
STD	-.--	-.--	-.--	-.--	-.--
uestion 10					
A	5.00	4.70	4.93	5.00	5.00
STD	-.--	-.--	-.--	-.--	-.--
uestion 11					
A	4.90	4.80	5.00	5.00	5.00
STD	0.31	-.--	-.--	-.--	-.--
uestion 12					
A	5.00	4.90	4.80	4.67	4.91
STD	-.--	-.--	-.--	-.--	-.--
uestion 13					
A	5.00	4.89	5.00	5.00	5.00
STD	0.00	0.33	0.00	0.00	0.00
uestion 15					
A	5.00	3.70	4.79	4.56	5.00
STD	0.00	1.56	0.42	0.72	0.00
uestion 16					
A	5.00	3.70	4.62	5.00	4.91
STD	-.--	1.33	0.96	-.--	0.30
uestion 17					
A	4.30	3.80	4.57	4.89	4.73
STD	1.15	1.47	0.64	0.33	0.64

	1	2	3	4	5
estion 18					
A	2.60	2.90	3.21	4.00	3.45
STD	1.50	1.20	1.36	1.51	1.63
estion 19					
A	3.60	3.33	4.23	4.25	4.00
STD	1.83	1.50	1.10	1.48	1.34
estion 20					
A	4.50	4.00	4.36	4.44	4.55
STD	0.84	1.73	1.01	0.88	0.68
estion 21					
A	4.40	4.50	3.43	3.50	3.45
STD	1.26	0.97	1.22	1.51	1.69
estion 22					
A	4.60	5.00	4.46	4.63	4.09
STD	0.69	-.--	0.96	0.74	1.13
estion 23					
A	4.80	4.90	4.57	5.00	5.00
STD	0.63	0.31	1.08	-.--	-.--
estion 24					
A	4.60	4.00	4.50	5.00	4.27
STD	0.84	1.41	0.94	-.--	1.34
estion 25					
A	4.60	4.10	4.50	5.00	4.27
STD	0.84	1.44	0.94	-.--	1.34

	1	2	3	4	5
Question 26					
A	5.00	4.50	4.79	5.00	4.45
STD	-.--	1.26	0.57	-.--	1.29
Question 27					
A	4.80	5.00	4.62	5.00	5.00
STD	0.63	-.--	0.65	-.--	-.--
Question 28					
A	4.90	5.00	4.69	4.89	5.00
STD	0.31	-.--	0.75	0.33	-.--
Question 29					
A	4.70	4.60	4.85	4.89	4.82
STD	0.48	0.69	0.37	0.33	0.60
Question 30					
A	4.70	4.40	4.38	4.63	4.73
STD	0.67	1.07	0.86	0.74	0.64
Question 31					
A	3.90	3.30	3.29	3.11	3.36
STD	0.87	1.63	1.26	1.45	1.28
Question 32					
A	2.00	2.10	2.57	2.89	2.10
STD	0.47	1.28	1.22	1.45	1.32
Question 33					
A	2.50	1.60	2.33	2.11	2.55
STD	1.07	0.69	1.04	1.53	1.03

	1	2	3	4	5
Question 34					
A	2.50	1.60	2.40	2.11	2.55
STD	1.07	0.69	1.05	1.53	1.03
Question 35					
A	2.50	1.60	2.40	2.11	2.55
STD	0.70	0.69	1.05	1.53	1.03
Question 36					
A	3.00	1.40	2.53	1.78	2.55
STD	1.33	0.51	1.24	1.39	1.21
Question 37					
A	3.00	1.40	2.47	1.78	2.55
STD	1.33	0.51	1.12	1.39	1.21
Question 38					
A	3.00	2.30	2.33	1.78	2.55
STD	1.33	1.05	1.23	1.39	1.21
Question 39					
A	3.10	2.33	3.00	2.75	3.09
STD	0.87	1.32	1.41	1.58	1.57
Question 40					
A	2.44	2.33	2.64	2.50	2.64
STD	0.52	1.32	1.15	1.64	1.28
Question 41					
A	4.70	4.30	4.14	4.63	4.25
STD	0.67	1.49	0.86	1.06	1.19

	1	2	3	4	5
estion 42					
A	4.20	3.70	3.93	3.50	4.00
STD	1.22	1.05	1.59	2.07	1.48
estion 43					
A	4.20	4.60	4.40	4.13	4.82
STD	1.22	0.96	1.29	1.24	0.40
estion 44					
A	4.10	4.80	3.93	4.13	4.27
STD	0.99	0.42	0.88	1.12	0.90
estion 45					
A	1.80	2.10	1.73	2.00	2.36
STD	0.63	1.28	1.16	1.06	1.43
estion 46					
A	4.60	4.90	4.69	4.29	4.90
STD	0.69	0.31	0.85	0.95	0.31
estion 47					
A	2.70	2.20	3.50	3.57	3.00
STD	1.25	1.31	1.28	1.51	1.34
estion 48					
A	2.50	2.20	3.36	3.57	2.91
STD	1.17	1.31	1.21	1.51	1.30
estion 49					
A	4.80	4.60	3.93	4.86	4.00
STD	0.42	0.96	1.33	0.37	1.00

APPENDIX F

Interview Results: By Industry Headquarters

	1	2	3	4	5
Question 1					
A	2.75	2.80	2.14	1.50	3.67
STD	0.50	0.44	1.21	1.00	1.03
Question 2					
A	2.75	3.20	2.71	2.50	3.17
STD	1.25	0.44	1.38	1.00	0.40
Question 3					
A	4.75	4.60	3.14	4.75	4.67
STD	0.50	0.89	1.86	0.50	0.51
Question 4					
A	2.25	2.20	2.57	4.00	3.17
STD	0.95	1.30	0.97	1.41	1.72
Question 5					
A	3.00	2.60	3.14	3.00	4.00
STD	1.63	1.14	0.97	1.82	1.26
Question 6					
A	5.00	4.50	5.00	3.75	4.83
STD	0.00	1.00	1.46	1.89	0.40
Question 8					
A	5.00	4.00	5.00	5.00	5.00
STD	0.00	1.22	0.00	0.00	0.00

	1	2	3	4	5
Question 9					
A	5.00	5.00	4.86	4.50	5.00
STD	0.00	0.00	0.37	1.00	0.00
Question 10					
A	5.00	4.40	4.86	5.00	5.00
STD	0.00	1.34	0.37	0.00	0.00
Question 11					
A	5.00	4.60	5.00	5.00	5.00
STD	0.00	0.54	0.00	0.00	0.00
Question 12					
A	5.00	4.80	5.00	4.75	5.00
STD	0.00	0.44	0.00	0.50	0.00
Question 13					
A	5.00	4.80	5.00	5.00	5.00
STD	0.00	0.44	0.00	0.00	0.00
Question 15					
A	5.00	2.80	4.67	4.75	5.00
STD	0.00	1.78	0.51	0.50	0,00
Question 16					
A	5.00	3.40	4.00	5.00	4.83
STD	0.00	1.67	1.41	0.00	0.40
Question 17					
A	3.25	4.00	4.67	5.00	4.50
STD	1.25	1.73	0.51	0.00	0.83

	1	2	3	4	5
Question 18					
A	3.00	2.60	3.17	3.50	2.83
STD	2.30	1.34	1.47	1.91	1.83
Question 19					
A	2.75	3.25	4.00	3.50	3.17
STD	2.06	1.50	1.00	1.91	1.32
Question 20					
A	3.75	3.00	3.83	4.75	4.33
STD	0.95	2.30	1.16	0.50	0.81
Question 21					
A	3.50	4.00	2.83	3.25	2.67
STD	1.73	1.34	1.16	1.25	1.86
Question 22					
A	4.00	5.00	3.80	4.50	3.33
STD	0.81	0.00	1.30	1.00	1.03
Question 23					
A	4.50	4.80	4.00	5.00	5.00
STD	1.00	0.44	1.54	0.00	0.00
Question 24					
A	4.00	3.00	3.83	5.00	3.67
STD	1.15	1.41	1.16	0.00	1.63
Question 25					
A	4.00	3.20	3.83	5.00	3.67
STD	1.15	1.64	1.16	0.00	1.63

	1	2	3	4	5
Question 26					
A	5.00	4.00	4.50	5.00	4.00
STD	0.00	1.73	0.83	0.00	1.67
Question 27					
A	4.50	5.00	4.20	5.00	5.00
STD	1.00	0.00	0.83	0.00	0.00
Question 28					
A	5.00	5.00	4.60	5.00	5.00
STD	0.00	0.00	0.89	0.00	0.00
Question 29					
A	5.00	4.80	4.80	5.00	5.00
STD	0.00	0.44	0.44	0.00	0.00
Question 30					
A	4.50	4.00	4.20	4.75	4.50
STD	1.00	1.41	1.09	0.50	0.83
Question 31					
A	4.50	3.00	2.33	3.00	3.17
STD	1.00	2.00	0.51	1.82	1.72
Question 32					
A	1.75	1.20	2.50	2.50	2.83
STD	0.50	0.44	0.54	1.73	1.47
Question 33					
A	2.25	1.40	1.86	1.00	1.83
STD	0.50	0.54	0.69	0.00	0.75

	1	2	3	4	5
Question 34					
A	2.25	1.40	2.00	1.00	1.83
STD	0.50	0.54	0.81	0.00	0.75
Question 35					
A	2.25	1.40	2.00	1.00	1.83
STD	0.50	0.54	0.81	0.00	0.75
Question 36					
A	2.25	1.40	2.43	1.00	1.83
STD	0.50	0.54	1.39	0.00	0.75
Question 37					
A	2.25	1.40	2.29	1.00	1.83
STD	0.50	0.54	1.11	0.00	0.75
Question 38					
A	2.25	1.40	2.14	1.00	1.83
STD	0.50	0.54	1.21	0.00	0.75
Question 39					
A	2.50	1.40	2.43	1.00	1.83
STD	0.57	0.54	1.39	0.00	0.75
Question 40					
A	2.33	1.25	2.00	1.00	1.83
STD	0.57	0.50	0.89	0.00	0.75
Question 41					
A	4.25	3.60	3.67	4.25	3.83
STD	0.95	1.94	1.03	1.50	1.47

	1	2	3	4	5
Question 42					
A	3.25	3.00	3.17	1.00	3.17
STD	1.50	1.00	1.60	0.00	1.60
Question 43					
A	4.00	4.20	3.71	3.33	4.83
STD	1.41	1.30	1.70	1.52	0.40
Question 44					
A	3.50	4.80	4.00	3.67	4.17
STD	1.00	0.44	1.00	1.52	0.98
Question 45					
A	1.75	3.00	2.29	2.67	2.67
STD	0.50	1.22	1.49	1.52	1.21
Question 46					
A	4.25	4.80	4.20	3.33	4.80
STD	0.95	0.44	1.30	1.57	0.44
Question 47					
A	1.75	1.40	2.83	3.00	2.33
STD	0.50	0.54	1.16	0.00	1.03
Question 48					
A	1.75	1.40	2.50	3.00	2.17
STD	0.50	0.54	0.54	0.00	0.75
Question 49					
A	4.50	4.40	3.00	4.67	3.17
STD	0.57	1.34	1.41	0.57	0.40

APPENDIX G

Interview Results: By Industry Subsidiaries

	1	2	3	4	5
Question 1					
A	3.00	2.40	2.75	2.60	3.00
STD	0.63	0.54	0.46	0.54	0.00
Question 2					
A	2.83	2.80	2.88	3.00	2.80
STD	0.40	0.83	0.35	0.00	0.83
Question 3					
A	5.00	5.00	5.00	5.00	5.00
STD	0.00	0.00	0.00	0.00	0.00
Question 4					
A	2.67	1.40	3.00	2.80	3.00
STD	1.50	0.89	1.60	2.04	1.41
Question 5					
A	3.50	2.00	3.50	2.60	3.20
STD	0.83	1.00	1.85	1.34	1.30
Question 6					
A	5.00	5.00	4.50	4.40	4.80
STD	0.00	0.00	0.75	0.89	0.44
Question 8					
A	5.00	5.00	5.00	5.00	5.00
STD	0.00	0.00	0.00	0.00	0.00

	1	2	3	4	5
Question 9					
A	5.00	5.00	5.00	5.00	5.00
STD	0.00	0.00	0.00	0.00	0.00
Question 10					
A	5.00	5.00	5.00	5.00	5.00
STD	0.00	0.00	0.00	0.00	0.00
Question 11					
A	4.83	5.00	5.00	5.00	5.00
STD	0.40	0.00	0.00	0.00	0.00
Question 12					
A	5.00	5.00	4.63	4.60	4.80
STD	0.00	0.00	0.51	0.89	0.44
Question 13					
A	5.00	5.00	5.00	5.00	5.00
STD	0.00	0.00	0.00	0.00	0.00
Question 15					
A	5.00	4.60	4.88	4.40	5.00
STD	0.00	0.54	0.35	0.89	0.00
Question 16					
A	5.00	4.00	5.00	5.00	5.00
STD	0.00	1.00	0.00	0.00	0.00
Question 17					
A	5.00	3.60	4.50	4.80	5.00
STD	0.00	1.34	0.75	0.44	0.00

	1	2	3	4	5
Question 18					
A	2.33	3.20	3.25	4.50	4.20
STD	0.81	1.09	1.38	1.00	1.09
Question 19					
A	4.17	3.40	4.38	5.00	5.00
STD	1.60	1.67	1.18	0.00	0.00
Question 20					
A	5.00	4.80	4.75	4.20	4.80
STD	0.00	0.44	0.70	1.09	0.44
Question 21					
A	5.00	4.60	3.88	3.75	4.40
STD	0.00	0.54	1.12	1.89	0.89
Question 22					
A	5.00	5.00	4.88	4.75	5.00
STD	0.00	0.00	0.35	0.50	0.00
Question 23					
A	5.00	5.00	5.00	5.00	5.00
STD	0.00	0.00	0.00	0.00	0.00
Question 24					
A	5.00	5.00	5.00	5.00	5.00
STD	0.00	0.00	0.00	0.00	0.00
Question 25					
A	5.00	5.00	5.00	5.00	5.00
STD	0.00	0.00	0.00	0.00	0.00

	1	2	3	4	5
Question 26					
A	5.00	5.00	5.00	5.00	5.00
STD	0.00	0.00	0.00	0.00	0.00
Question 27					
A	5.00	5.00	4.75	5.00	5.00
STD	0.00	0.00	0.35	0.00	0.00
Question 28					
A	4.83	5.00	4.75	4.80	5.00
STD	0.40	0.00	0.70	0.44	0.00
Question 29					
A	4.50	4.40	4.88	4.80	4.60
STD	0.54	0.89	0.35	0.44	0.89
Question 30					
A	4.83	4.80	4.50	4.50	5.00
STD	0.40	0.44	0.75	1.00	0.00
Question 31					
A	3.50	4.60	4.00	3.20	3.60
STD	0.54	1.34	1.19	1.30	0.54
Question 32					
A	2.17	3.00	2.63	3.20	1.40
STD	0.40	1.22	1.59	1.30	0.54
Question 33					
A	2.67	1.80	2.75	3.00	3.40
STD	0.81	0.83	1.16	1.58	0.54

	1	2	3	4	5
Question 34					
A	2.67	1.80	2.75	3.00	3.40
STD	0.81	0.83	1.16	1.58	0.54
Question 35					
A	2.67	1.80	2.75	3.00	3.40
STD	0.81	0.83	1.16	1.58	0.54
Question 36					
A	3.50	1.40	2.63	2.40	3.40
STD	1.51	0.54	1.18	1.67	1.14
Question 37					
A	3.50	1.40	2.63	2.40	3.40
STD	1.51	0.54	1.18	1.67	1.14
Question 38					
A	3.50	1.40	2.50	2.40	3.40
STD	1.51	0.54	1.30	1.67	1.14
Question 39					
A	3.50	3.20	3.50	3.80	4.60
STD	0.83	0.44	1.30	0.83	0.54
Question 40					
A	2.50	3.20	3.13	4.00	3.60
STD	0.54	1.09	1.12	0.00	1.14
Question 41					
A	5.00	5.00	4.50	5.00	4.80
STD	0.00	0.00	0.53	0.00	0.44

	1	2	3	4	5
Question 42					
A	4.83	4.40	4.50	5.00	5.00
STD	0.40	0.54	1.41	0.00	0.00
Question 43					
A	4.33	5.00	5.00	4.60	4.80
STD	1.21	0.00	0.00	0.89	0.44
Question 44					
A	4.50	4.80	3.88	4.40	4.40
STD	0.83	0.44	0.83	0.89	0.89
Question 45					
A	1.83	1.20	1.25	1.60	2.00
STD	0.75	0.44	0.46	0.54	1.73
Question 46					
A	4.83	5.00	5.00	5.00	5.00
STD	0.40	0.00	0.00	0.00	0.00
Question 47					
A	3.33	3.00	4.00	4.00	3.80
STD	1.21	1.41	1.19	2.00	1.30
Question 48					
A	3.00	3.00	4.00	4.00	3.80
STD	1.26	1.41	1.19	2.00	1.30
Question 49					
A	5.00	4.80	4.75	5.00	5.00
STD	0.00	0.44	0.46	0.00	0.00

APPENDIX H

Interview Results: By Nationality, Headquarters, and Subsidiaries

Question		U.S. Headquarters	U.S. Subsidiaries	Foreign Headquarters	Foreign Subsidiaries
1	A	2.86	2.83	2.33	2.65
	STD	1.16	0.57	1.07	0.49
2	A	3.14	2.92	2.58	2.81
	STD	0.36	0.51	1.31	0.54
3	A	4.79	5.00	3.67	5.00
	STD	0.57	0.00	1.55	0.00
4	A	3.14	2.58	2.42	2.65
	STD	1.40	1.56	1.24	1.57
5	A	3.57	2.92	2.75	3.12
	STD	1.39	1.24	1.35	1.53
6	A	4.93	4.82	4.30	4.65
	STD	0.26	0.40	1.33	0.70
8	A	4.93	5.00	4.67	5.00
	STD	0.26	0.00	0.88	0.00
9	A	5.00	5.00	4.75	5.00
	STD	0.00	0.00	0.62	0.00
10	A	5.00	5.00	4.67	5.00
	STD	0.00	0.00	0.88	0.00
11	A	5.00	4.92	4.83	5.00
	STD	0.00	0.28	0.38	0.00

Question		U.S. Headquarters	U.S. Sub-sidiaries	Foreign Headquarters	Foreign Subsidiaries
12	A	4.93	4.83	4.92	4.76
	STD	0.26	0.38	0.28	0.56
13	A	5.00	5.00	4.90	5.00
	STD	0.00	0.00	0.31	0.00
15	A	4.79	4.75	4.00	4.82
	STD	0.42	0.62	1.61	0.39
16	A	4.57	4.73	4.20	4.88
	STD	0.93	0.64	1.39	0.48
17	A	4.50	4.75	4.09	4.47
	STD	0.85	0.62	1.37	0.94
18	A	3.43	3.09	2.45	3.59
	STD	1.60	1.13	1.57	1.37
19	A	3.29	4.27	3.44	4.41
	STD	1.32	1.61	1.74	1.00
20	A	4.43	4.58	3.30	4.82
	STD	0.75	0.79	1.56	0.52
21	A	3.07	4.73	3.55	4.06
	STD	1.68	0.46	1.29	1.24
22	A	3.64	4.91	4.70	4.94
	STD	1.08	0.00	0.67	0.00
23	A	4.64	5.00	4.64	5.00
	STD	1.08	0.00	0.67	0.00

Question		U.S. Headquarters	U.S. Sub-sidiaries	Foreign Headquarters	Foreign Subsidiaries
24	A	4.43	5.00	3.09	5.00
	STD	0.85	0.00	1.44	0.00
25	A	4.50	5.00	2.90	5.00
	STD	0.85	0.00	1.37	0.00
26	A	4.79	5.00	3.90	5.00
	STD	0.57	0.00	1.66	0.00
27	A	4.93	5.00	4.50	4.94
	STD	0.26	0.00	0.84	0.24
28	A	5.00	4.83	4.80	4.88
	STD	0.00	0.38	0.63	0.48
29	A	4.93	4.42	4.90	4.82
	STD	0.26	0.66	0.31	0.52
30	A	4.43	4.91	4.30	4.59
	STD	0.85	0.30	1.15	0.71
31	A	3.71	3.42	2.36	3.76
	STD	1.32	0.79	1.50	1.14
32	A	2.29	2.50	2.09	2.47
	STD	1.13	1.44	1.22	1.12
33	A	1.50	2.50	1.92	2.88
	STD	0.65	1.00	0.66	1.16

Question		U.S. Headquarters	U.S. Sub-sidiaries	Foreign Headquarters	Foreign Subsidiaries
34	A	1.50	2.50	2.00	2.88
	STD	0.65	1.00	0.73	1.16
35	A	1.50	2.50	2.00	2.88
	STD	0.65	1.00	0.73	1.16
36	A	1.50	2.75	2.25	2.65
	STD	0.65	1.35	1.13	1.45
37	A	1.50	2.75	2.17	2.65
	STD	0.65	1.35	0.93	1.45
38	A	1.50	2.75	2.08	2.59
	STD	0.65	1.35	0.99	1.50
39	A	1.50	3.83	2.45	3.59
	STD	0.65	0.93	1.12	1.00
40	A	1.50	3.18	2.13	3.19
	STD	0.65	0.98	0.83	1.04
41	A	4.50	4.91	3.09	4.76
	STD	0.94	0.30	1.37	0.43
42	A	2.79	4.83	3.00	4.65
	STD	1.67	0.38	1.15	0.99
43	A	4.07	4.67	4.09	4.82
	STD	1.26	0.65	1.44	0.72

Question		U.S. Headquarters	U.S. Sub-sidiaries	Foreign Headquarters	Foreign Subsidiaries
44	A	4.00	4.33	4.18	4.35
	STD	0.96	0.77	1.07	0.86
45	A	2.79	1.58	2.09	1.53
	STD	1.18	0.66	1.22	1.00
46	A	4.43	5.00	4.25	4.94
	STD	0.85	0.00	1.03	0.24
47	A	2.29	3.64	2.20	3.65
	STD	0.82	1.43	1.22	1.32
48	A	2.21	3.45	2.00	3.65
	STD	0.69	1.50	0.81	1.32
49	A	3.93	4.91	3.55	4.88
	STD	0.99	0.30	1.43	0.33

APPENDIX I

Interview Results: For All Industries, All Headquarters, All Subsidiaries, and by Nationality

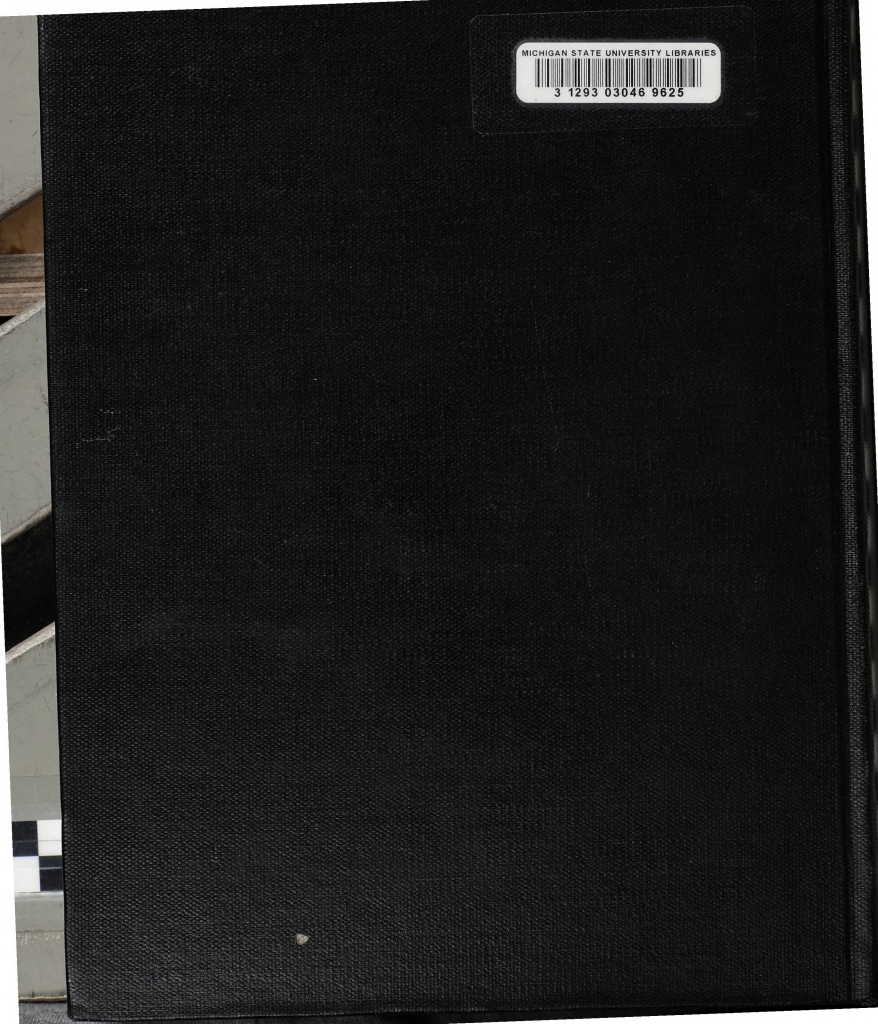
Question		All Industries	All Head-quarters	All Sub-sidiaries	All U.S.	All Foreign
1	A	2.67	2.62	2.72	2.85	2.52
	STD	0.86	1.13	0.52	0.92	0.78
2	A	2.87	2.88	2.86	3.04	2.71
	STD	0.75	0.95	0.52	0.44	0.93
3	A	4.67	4.27	5.00	4.88	4.45
	STD	0.92	1.25	0.00	0.43	1.18
4	A	2.71	2.81	2.62	2.88	2.55
	STD	1.44	1.35	1.54	1.47	1.42
5	A	3.11	3.19	3.03	3.27	2.97
	STD	1.39	1.41	1.40	1.34	1.45
6	A	4.69	4.67	4.71	4.88	4.52
	STD	0.75	0.91	0.59	0.33	0.97
8	A	4.91	4.81	5.00	4.96	4.86
	STD	0.44	0.63	0.00	0.19	0.58
9	A	4.95	4.88	5.00	5.00	4.90
	STD	0.29	0.43	0.00	0.00	0.40
10	A	4.93	4.85	5.00	5.00	4.86
	STD	0.42	0.61	0.00	0.00	0.58
11	A	4.95	4.92	4.97	4.96	4.93
	STD	0.22	0.27	0.18	0.19	0.25

Question		All Industries	All Headquarters	All Subsidiaries	All U.S.	All Foreign
12	A	4.85	4.92	4.79	4.88	4.83
	STD	0.40	0.27	0.49	0.32	0.46
13	A	4.98	4.96	5.00	5.00	4.96
	STD	0.13	0.20	0.00	0.00	0.19
15	A	4.63	4.44	4.79	4.77	4.50
	STD	0.87	1.15	0.49	0.51	1.10
16	A	4.63	4.42	4.82	4.64	4.63
	STD	0.88	1.13	0.54	0.81	0.96
17	A	4.46	4.32	4.59	4.62	4.32
	STD	0.96	1.10	0.82	0.75	1.12
18	A	3.21	3.00	3.39	3.28	3.14
	STD	1.45	1.63	1.28	1.40	1.53
19	A	3.90	3.35	4.36	3.72	4.08
	STD	1.43	1.46	1.25	1.51	1.35
20	A	4.38	3.96	4.72	4.50	4.26
	STD	1.04	1.26	0.64	0.76	1.25
21	A	3.83	3.28	4.32	3.80	3.88
	STD	1.38	1.51	1.05	1.52	1.25
22	A	4.54	4.08	4.93	4.20	4.85
	STD	0.85	1.05	0.26	1.04	0.45
23	A	4.83	4.64	5.00	4.80	4.86
	STD	0.64	0.90	0.00	0.81	0.44

Question		All Industries	All Head-quarters	All Sub-sidiaries	All U.S.	All Foreign
24	A	4.46	3.84	5.00	4.69	4.25
	STD	1.05	1.31	0.00	0.67	1.29
25	A	4.47	3.83	5.00	4.73	4.22
	STD	1.06	1.34	0.00	0.66	1.31
26	A	4.74	4.42	5.00	4.88	4.59
	STD	0.85	1.21	0.00	0.43	1.11
27	A	4.87	4.75	4.97	4.96	4.78
	STD	0.44	0.60	0.18	0.18	0.57
28	A	4.89	4.92	4.86	4.92	4.85
	STD	0.42	0.40	0.44	0.27	0.53
29	A	4.77	4.92	4.66	4.69	4.85
	STD	0.50	0.28	0.61	0.54	0.45
30	A	4.56	4.38	4.71	4.64	4.48
	STD	0.80	0.96	0.59	0.70	0.89
31	A	3.39	3.12	3.62	3.58	3.21
	STD	1.29	1.53	1.01	1.10	1.44
32	A	2.35	2.20	2.48	2.38	2.32
	STD	1.19	1.15	1.24	1.26	1.15
33	A	2.24	1.69	2.72	1.96	2.48
	STD	1.05	0.67	1.09	0.95	1.08
34	A	2.25	1.73	2.72	1.96	2.52
	STD	1.05	0.72	1.09	0.95	1.08

Question		All Industries	All Head-quarters	All Sub-sidiaries	All U.S.	All Foreign
35	A	2.25	1.73	2.72	1.96	2.52
	STD	1.05	0.72	1.09	0.95	1.08
36	A	2.29	1.85	2.69	2.08	2.48
	STD	1.27	0.96	1.39	1.19	1.32
37	A	2.27	1.81	2.69	2.08	2.45
	STD	1.23	0.84	1.39	1.19	1.27
38	A	2.24	1.77	2.66	2.08	2.38
	STD	1.26	0.86	1.42	1.19	1.32
39	A	2.87	1.92	3.69	2.58	3.14
	STD	1.31	0.99	0.96	1.41	1.17
40	A	2.53	1.73	3.19	2.24	2.83
	STD	1.15	0.76	1.00	1.16	1.09
41	A	4.38	3.88	4.82	4.68	4.11
	STD	1.06	1.33	0.39	0.74	1.22
42	A	3.89	2.88	4.72	3.73	4.04
	STD	1.46	1.45	0.79	1.61	1.31
43	A	4.44	4.08	4.76	4.35	4.54
	STD	1.07	1.32	0.68	1.05	1.10
44	A	4.22	4.08	4.34	4.15	4.29
	STD	0.90	0.99	0.81	0.88	0.93

Question		All Industries	All Head-quarters	All Sub-sidiaries	All U.S.	All Foreign
45	A	1.98	2.48	1.55	2.23	1.75
	STD	1.14	1.22	0.86	1.14	1.10
46	A	4.70	4.36	4.96	4.68	4.72
	STD	0.67	0.90	0.18	0.69	0.67
47	A	3.00	2.25	3.64	2.88	3.11
	STD	1.37	0.98	1.33	1.30	1.45
48	A	2.90	2.13	3.57	2.76	3.04
	STD	1.33	0.74	1.37	1.26	1.40
49	A	4.36	3.76	4.89	4.36	4.36
	STD	1.02	1.20	0.31	0.90	1.12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