POLITICAL RISK AS A VARIABLE IN INTERNATIONAL BUSINESS DECISIONS

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ABSTRACT

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Quinnipiac College 1980

Many systematic procedures for investigation of foreign markets have been proposed, mostly by academicians, which usually include evaluation of variables such as political stability, market opportunity, economic condition, cultural unity, legal barriers, physiographic barriers, etc. Although world conditions with respect to the aforesaid variables have changed significantly from the 1960s through the 1970s and now into the 1980s, the most dramatic change of all has occurred with respect to political stability. With the crises in Iran and other political trouble spots such as Yugoslavia, the 1980s harbinger further political turmoil of vital consequence to international trade and investment decisions.

This paper, therefore, examines in depth the paramount role of political risk in international trade and investment decisions. Furthermore, it examines several methodologies for political analysis already available from published sources. This research should help in the development of staff expertise on the subject among U.S. corporations.

APPROVAL PAGE

POLITICAL RISK AS A VARIABLE IN
INTERNATIONAL BUSINESS DECISIONS

This thesis is approved as a creditable and independent investigation by a candidate for the degree of Master in Professional Studies, and is acceptable as meeting the thesis requirements for this degree, but without implying that the conclusion reached by the candidate are necessarily the conclusions of the major department.

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A CONCEPTUAL FRAMEWORK FOR INTERNATIONAL BUSINESS DECISIONS

1-1 Introduction

A major challenge facing an international business executive is to develop an objective and explicit procedure for analyzing political risk as a variable in his international trade and investment decisions. Political risk implies surprise and potentially catastrophic losses to him. He must evaluate this risk as a necessary part of his decision process. Political risk has been defined as:

> "The risk or probability of occurrence of some political event or events that will change the prospects for profitability of a given investment."[1]

For the purpose of this study the subject of political risk has been examined in the context of decisions related to less developed countries (LDCs) and not the developed countries. The assumption here is that the developing countries are by definition undergoing fundamental and substantive changes having an impact on their political stability. Iran is the most outstanding current example of this phenomenon, where the overthrow of the Shah of Iran has been attributed

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[1] "The Measurement of Political Risk and Foreign Investment Strategy: A Summary Report," Ed. Dan Haendel et al. Foreign Research Institute, Pennsylvania, Aug. 1975.

at least partially to such fundamental and substantive changes as he forced upon the country in a relatively short period of time.

To constitute a risk the changes in the business environment must have a potential for affecting the profit or other goals of the corporation. The decision maker must be able to isolate the more significant events from among the multitude of occurrences in the political environment of the country of interest. There are many other variables besides political risk which make up the business environment, such as economic, cultural, legal and geographic factors. The interest on the part of a business executive is to determine how hospitable (or inhospitable) the environment of a country is to his firm's operations. The political factor is basic to the stability and hospitality of a business environment.

Past efforts in determining the hospitality of a particular environment tended to be subjective and not sufficiently explicit. One of the first attempts to formalize such an evaluation was presented by Professors Litvak and Banting through their article entitled "A Conceptual Framework for International Business Arrangement."[1] Interestingly enough, political stability appears at the top of their list of relevant environmental variables.

An examination of the political dimension invariably

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[1]S. Prakash Sethi and Jagdish N. Sheth, Multinational Business Operations: Marketing Management (California: Goodyear Publishing Company, Inc., 1973), pp. 85-95.

includes assessment of the attitudes of the present and prospective host governments toward foreign business interests in their country. Understandably, host governments are apprehensive of possible conflict of interest between their national purpose and the impact of the operations of the foreign firm in their country. This is particularly true of those developing countries which have emerged from their erstwhile colonial status. For example, India still appears to harbor the so-called "East India Company complex"--the East India Company originally entered the country for trade purposes but later subjugated India politically. Such fears are not unknown even among developed countries like France as evidenced by the influential book, The American Challenge by Jean Jacques Servan-Schreiber.

Despite this historical suspicion of foreign business interests among developing countries, there is the realization among them that in order to modernize their economies they must obtain goods, services and technology from developed countries out of necessity. Even the Peoples' Republic of China, one of the most insularized societies in the world, has opened its doors, however slightly, in their plans for the so-called "four modernizations."

The rest of this chapter presents the subject of political analysis in two parts: an overview of international business considerations and a conceptual framework for international business decisions.

1-2 An Overview of International Business Considerations

International business can be defined as "profit oriented" business relationships conducted across national boundaries. The types of business activities that would fall into this category of "international business" are: the buying and selling of goods; the investments in industries such as oil, mining and manufacturing; and the supply of services. In other words, business activities one would be acquainted with domestically only in a broader geographic area.

The field of international business operates in a broad area of study within the context of the world environment. It draws on the contribution of a number of fundamental characteristics, such as geography, history, politics, law, economics and anthropology and incorporates them into international fields of marketing, management and finance. All of these basics interplay in an important role in the conduct of the international business executive.

There are obviously important differences between the international and domestic operation of a business particularly in the areas of political risk, currency, interest rates, inflation, taxation systems, language, and cultural and economic barriers. The matter of currency exchange rates plays an important part in today's world economics. It is something we are continually attuned to by means of the media. The dollar is worth less and less than the Yen, Mark or Pound and more dollars are needed to match the soaring price of gold.

When commodities cross a country's border they are subjected to a different set of laws as tariffs, quotas, and licenses that may make it more difficult, if not impossible, to ship goods across that international boundary. In an extension of domestic business the principles that one learns in any of the functional areas of domestic operations remain basically unaltered, although specific application may call for adjustment. When one begins to operate internationally the principles remain the same but specific practices must be altered in order to correspond with different environmental variables. Cultural factors, physiographic barriers and the like which we take for granted as nonexistent have to be contended with. The assessment of these variables is a difficult task at best. Managers are all too often prone to make an incorrect assumption that foreign reactions to a business practice will be the same as at home. The foreign sector is much more complex and difficult. Then how could a manager possibly break out of his domestic shell and reap the benefits of potential markets? Outside of a costly trial and error method, there must be a better way.

1-3 A Conceptual Framework for International Business Decisions

A reference was made earlier in this chapter to an article by Professors Isaiah A. Litvak and Peter M. Banting who assembled "A Conceptual Framework for International Business Arrangement" in the fall of 1968. This vanguard article identifies the information needed to guide the international businessman in making a calculated decision.

Prior to the availability of this conceptual framework or tool, investigation of overseas markets for export or investment were either not sufficiently systematic or included too many variables. This tool has been developed out of empirical data collected through interviews with manufacturers, manufacturers' agents and merchant middlemen in Canada, the United States and South Africa.

The Litvak-Banting model not only suggests to the business executive strategic factors of a very complex subject but it also allows for a plan of study for those interested in international business or those desiring to enter the international business arena. The model helps rate the business environment of a country on a temperature gradient ranging from hot to cold. The model defines "hot" countries as those which are high in market opportunity, politically stable, economically developed and culturally united, and low in legal barriers, physiographic barriers and geo-cultural distance from the United States. The factors are defined by Litvak and Banting as follows:

> 1) Political Stability--a system of government which permits representation of the major segments of its society, enjoys the confidence of its people, generates conditions for continuity of business operations, and is sympathetic to private enterprise.
>
> 2) Market Opportunity--a sufficient number of customers with incompletely satisfied needs and the necessary resources with which to satisfy those needs for the product or service in question.
>
> 3) Economic Development and Performance--the level of a country's economic growth, efficiency, equity and stability, which shape the environment for private enterprise.

4) Cultural Unity--the values, goals, attitudes, social relationships and interactions between distinct segments within a country's people in terms of shared heritage, unassailed by competing groups.

5) Legal Barriers--a proliferation of public measures in the form of laws and regulations which either deliberately or unintentionally restrict or discourage existing business activities and the future environment for private enterprise.

6) Physiographic Barriers--the obstacles to the development of efficient business operations created by the physical landscape or land forms of the country.

7) Geo-Cultural Distance--barriers created by geographical separation, cultural disparities between countries and problems of communication resulting from differences in social perspectives, attitudes and language.[1]

Table 1 is a ranking of countries in the Litvak-Banting article once the conceptual framework can be used. The ranking is based on temperature gradients. (See page 8.) The hypothesis behind such a classification structure is that a firm will tend to go beyond the manufacturer's agent into its own marketing organization in the foreign country as the business develops by stages. Also it gives the firm greater control on the marketing channel activities as the environment changes. Also the firm will tend to obtain greater control on its distribution activities as the "temperature" of the country gets "warmer."

The data collected should be reviewed inasmuch as the rankings of countries will change as time progresses. For

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[1]Isaiah A. Litvak and Peter M. Banting, "A Conceptual Framework for International Arrangement," in S. Prakash Sethi and Jagdish N. Sheth, Multinational Business Operations: Marketing Management (California: Goodyear Publishing Company, Inc., 1973), pp. 87-88.

example the ranking of a country may be presently "hot" but could change if there was a drastic change in governmental policy toward nationalization or total expropriation. Or the reverse could happen like trading with China which was previously impossible, at least for American companies.

TABLE 1

THE COUNTRY TEMPERATURE GRADIENT
A CLASSIFICATION SYSTEM OF ENVIRONMENTAL CHARACTERISTICS[1]

Degree of Environmental Characteristics	HOT Country	MODERATE Country	COLD Country
Political Stability H-L	High	Medium	Low
Market Opportunity H-L	High	Medium	Low
Economic Development and Performance H-L	High	Medium	Low
Cultural Unity H-L	High	Medium	Low
Legal Barriers L-H	Low	Medium	High
Physiographic Barriers L-H	Low	Medium	High
Geo-Cultural Distance L-H	Low	Medium	High

Change of ratings should be a basis for determining the appropriate degree of involvement. The degrees would range from a safe principal's wholly owned manufacturing subsidiary to distributor's licensing or agents' wholly

[1]Ibid., p. 88.

owned manufacturing operation. The degree of control which a principal can operate in the host country is related to the hot to cold temperature classification and offers adventages of long-range planning and expansion decisions.

Although this conceptual framework is not a perfect instrument, it provides considerable insight into the relevance of a select set of variables. In this day of political turmoil in the world the most obvious variable to examine in some depth would be the political dimension. What is more, there have been cases where there has been a suddenness of political change in countries as Chile, Portugal and Iran. There is a need for a mechanism which evaluates sudden changes in stability. Countries such as Chile and Iran were at one time rated as "hot" in terms of political stability but required re-rating to "cold" causing reevaluation of the international's position in trade and investment. Therefore, how have these actions of a country like Iran affected the weight of political stability as a variable in international business decisions?

CHAPTER 2

POLITICAL RISK ANALYSIS - NORMATIVE PROCEDURES

2-1 Historical Review

For nearly five hundred years countries have engaged in trade and other business climates in the lesser developed sectors of the world and from the nineteenth century onward they were joined by other industrialized states, in particular the United States and Japan. The business climate which U.S. corporations presently encounter in the so-called developing countries is influenced by these prior interactions between westernized countries and the more "traditional" cultures of the Americas, Africa, and Asia. The political consequences have varied enormously over the years but Robinson[1] suggests the major trends may be thought of as falling into five historical eras.

1. The Commercial Era, from the age of the great explorers, about 1500 to well into the European Revolution to approximately 1850.

2. The Exploitative Era, from about 1850 up to the years just prior to World War I.

3. The Concessionary Era, from the immediate pre-World War I period to the end of World War II.

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[1]Richard D. Robinson, International Business Policy (New York: Holt, Rinehart and Winston, 1964), pp. 2-3.

4. The National Era, from World War II to about 1970.

5. The International Era, from about the later 1960s to sometime after the end of the century.

The early explorers were often out for their own gain, acting under the sanction of a Crown to bring back exotic goods to sell in their home countries. The desire for greater control over the sources of supply in time led to the establishment of trading posts. As the country grew in power in Western Europe, governments sought control over these mercantile activities to the point where "charters" were granted, setting forth certain rights of the trading company which not only encompassed commercial matters but dealt with military and political functions as well.

The advent of the Industrial Revolution in England brought about a thirst for raw materials which changed the character of overseas business. At first, the need for these materials led to direct investment in mines and related railroads and infrastructure facilities needed to service these endeavors. The government of the host country assisted the exploiter by investing in not only the development of the business but distribution, insurance, banking, transportation, and communication facilities.

Beginning just prior to World War I, and continuing at an accelerated rate through World War II, the ability of the industrialized states to maintain control over the raw material producing areas began to erode. Now, industrialists wished to preserve their sources of raw materials not disrupted by war and sought long-term concession agreements.

In a great many countries the environment after war in which American business must operate today is aggravated by the highly charged feelings of nationals regarding the history and equity of many of these concession agreements.

Although most of early U.S. direct investment overseas was in mining and subsequently petroleum, U.S. manufacturers began to develop manufacturing centers. This development was further kindled by the war years when growing walls of legal barriers as tariffs made it increasingly difficult to serve markets by export from the United States. After the War there was an ever increasing demand for industrial and consumer goods throughout the world and the United States, with the only intact production system, was able to take advantage of it. U.S. investment was generally not only welcomed but solicited, often with tax incentives as well as other enticements.

This can be illustrated by India's attempts to encourage investments in high priority industries by reducing corporate taxes, ending price controls and even exempting foreign technicians from income taxes.[1]

A relatively recent phenomenon has been the emergence of what has come to be called the Multinational Enterprise, which raises diversity and complexity to new levels and makes new and unprecedented demands on top management with respect to business strategy as well as structure and behavior. As

[1]Philip R. Cateora and John M. Hess, International Marketing (Illinois: Richard D. Irwin, Inc., 1975).

defined by Drucker, "The multinational corporation brings together in a common venture management people from a great many countries with different languages, cultures, traditions, and values and unites them in a common purpose." An example of a more successful multinational type corporation is the Ford's Pinto which gets its engine from Ford's German company, its transmission from Ford's British company and much of its electrical system from Ford's Canadian company, but is sold exclusively in the United States and by Ford's American company.

The imposition of Western business enterprise upon non-Western societies has generated forces which have accelerated pressures for political change but, at the same time, the businesses' operating practices frequently inhibited change or distorted the direction in which change could occur. A businessman deciding on entering a foreign market seeks political stability in a form favorable to his interests in order that he can function effectively in that country.

A foreign investor exposes himself to pressures for nationalization when his role as a provider of technology becomes obsolete because he no longer has something special or unique to offer in the form of technology, skilled labor or capital investment. Political risk as a factor does not apply to all businesses to the same degree because those businesses whose technology is prized by the host country are likely to be subject to a lower political risk than those whose technology is not so considered. Therefore one should examine the relationship of political risk to the degree of involvement with the host as categorized in the following areas.

The first general category is selling. Sales are affected by political stability in the host country and could be affected on a local level but would not be affected by nationalization. Selling can afford the greatest flexibility with the least amount of risk exposure. However with this convenient arrangement also comes risk of another nature: the risk of the market being closed off to foreigners as a protectionist move to assist a forming national industry.

The second area is lending. Having somewhat of a personal interest in this area it seems both internationally and individually that the lender has a distinct advantage by having a "specific horizon" of involvement, that is, the terms of lending and the desire of the receiver to maintain good credit standing. This area too has its negative side in that bankers have had problems of economic failure, then political conditions causing failure to pay.

The third category, and perhaps the most significant, is investing. Here, foreign investors are subject to all of the different types of risk. The exposure of risk depends on the sensitivity of the industry to nationalization, how capital intensive the particular industry is, and the return on capital investment.

Natural resource development companies as oil and mining seem to be most prone to nationalization since the developing country feels that it is theirs not to be exploited. The escalation of oil prices has given the oil-producing countries the wealth to pay for the cost of nationalization. The technology needed to keep things going is now on a management-contract basis. The effective trend after nationalizing these essential industries is to affect retail trade and agriculture followed up by lesser technological industries.

This era of international cooperation appears not at an end due to lesser developed nations still desiring to keep up with the more developed countries. For instance an advertisement presented by Mexico in the November 5, 1979 issue of Business Week shows that its President José López Portillo has offered a worldwide proposal that would "assure an orderly, progressive, integrated and just transition from one age of man's history to the next."[1] His five part proposal would:

1. Guarantee the full and permanent sovereignty of each nation over its own natural resources--a sometimes touchy theme among some oil-producing nations which fear intervention by the great powers.

2. Provide technical and financial help in the exploration, production, distribution and conservation of today's sources of energy, especially the hydrocarbons.

3. Increase and encourage development of other sources of energy, particularly solar, wind, atomic and the seas.

4. Help all nations with energy plans consistent with

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[1]"A Binding World Energy Plan Proposed by Mexico's President at United Nations," Business Week, Nov. 5, 1979, Mexico: Special Advertising Section, p. 24.

world policy, thus insuring the effectiveness of these objectives.

5. Encourage establishment of auxiliary industries in energy production, particularly of capital goods.

President López Portillo further expressed to the United Nations his concern for developing such resources to bridge the gap between the extremes of the powerful and those who have no other means of insuring their survival and self-determination. History will eventually repeat itself even with this Mexican proposal. That is, it is probable that they will maintain domination over the resources to their advantage and not a utopian control over transnational structures which no longer feel any social obligation.

It is obvious that certain risks can be favorable and there can be a trade-off between risk and return. This aspect of political risk analysis seems to be more dominant in executives' awareness in business. Business, at least in the oil industry, is extensively interested in the payback period or in how many years an investment is paid back before the political risk is escalated. Minimizing political risk does not stop once the feasibility study is undertaken and the investment is made but is a continuous process requiring a structure for the gathering, processing and evaluating of political or other data. Even after the "roof falls in" much can be done to minimize losses caused by certain political decisions and to make a candid evaluation of one's bargaining position.

2-2 Evaluation Procedures

The greater the apparent political stability, the greater the instability a sudden change might bring about. One of the major concerns of international firms is that the political climate will change in such a way that their operating positions deteriorate. Political actions may adversely affect company operations through government take-overs of property either with or without any compensation. These actions obviously may have a profound impact on a company; however, if they are anticipated sufficiently in advance, then there are opportunities to alter policies in order to minimize risk. Kennecott Copper's management was able to foresee the probability of Chilean nationalization of copper mines nearly twenty years before the event took place and, as a result, fared substantially better than its competitor, Anaconda.[1] Unfortunately changes in the political climate are still difficult to predict, but some approaches are emerging which promise future improvement in this respect.

An observation made on addressing the problem of political exposure in general and the other of a more trendy nationalization has suggested a means of gathering and analyzing the data as opposed to weighting as presented by Litvak and Banting.[2] This involves the reading of statements

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[1]Theodore H. Moran, "Transnational Strategies of Protection and Defense by Multinational Corporations: Spreading the Risk and Raising the Cost for Nationalization in Natural Resources," International Organization, Spring, 1973, pp. 273-87.

[2]Herbert Kahn, "The Political Exposure Problem: An Often Overlooked Investment Decision," Worldwide P & I Planning, May-June 1972, pp. 20-22.

made by political leaders both in and out of office in order to determine their philosophies on business in general, foreign input to business, means of effecting economic changes, and toward given foreign countries. Although published items are fairly readily available, they may appear too late for your business to have time to react.

Further, one should analyze the context of statements to determine whether they express true intentions or were made merely to appease particular interest groups. At times political leaders tend to make emotional appeals to the poor based on allegations that foreign business is draining wealth from the country while they are in fact negotiating entry and giving incentives to new foreign firms. Thus examination of investment plans offers further insights to the political climate.[1]

Visits to the country in order to "listen" are very important in order to determine opinion and attitudes.

Embassy officials and other foreign and local businessmen are useful for obtaining opinions as to the probability and direction of change. In addition labor leaders, similarly entrenched businesses, jobbers, and middle-level local government authorities will usually reveal their own attitudes, which are often reflective of changing political conditions that may affect the business sector desired.

The greater the political instability, the greater the possibility of change in the political climate. Unfortunately

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[1]Ibid.

it is difficult to reach a consensus or magic matrix as to what constitutes dangerous instability or, more important in this day and age, how can such instability be predicted. Political parties may change rapidly at times with little or no effect on business, yet considerable change may occur without a change in government. One measurement of political stability during a relevant time period is the Hot to Cold method as previously described. Perhaps one could incorporate into this spectrum components of institutionally prescribed election, fall of cabinet, significant groups outlawed, execution or desire to execute significant political figure, assassinations, coup d'état with violence, and civil war.[1]

The degree of government regulation, the desire for national rather than foreign control, and for public rather than private ownership, are closely related to the type of industry. Generally, government takeovers, except in a few countries, have been selective and usually involve land, natural resources, and utilities. For instance in Peru which was once thought to be a "hot" country to develop, mining interests of Cerro and ITT's telephone company have been nationalized; however, Cerro still maintains several manufacturing companies and ITT a hotel there.

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[1]Ivo K. Feirabend and Rosalind L. Feirabend, "Aggressive Behavior in Politics: A Cross-national Study," <u>Journal of Conflict Resolution</u>, Fall 1966, pp. 249-71.

2-2-1 Events and Effects

Political aspects of overseas investment are usually considered only after the occurrence of some dramatic political event that somehow affects the investor directly. Castro's nationalization of U.S. concerns in Cuba, Allende's policies in Chile, and lately the takeover in Iran illustrate the serious risks to investing overseas. To the investor political risk connotes catastrophic losses over which he has little control. The focus in this paper is on political risk as a variable in international business and what the investor must consider as political events as well as the risk associated with such a factor.

For many good reasons, politics and economics have to be held together in the analysis of basic social mechanisms and systems. The principal activities of government are heavily economic: taxation, national defense, education, energy conservation and administration, transportation and communications, social security, economic stabilization, and promotion of growth. The study of politics has been largely the study of conflict and its resolution. But government is not merely or even primarily a conflict resolver. It is conflict over the control of government itself, over the terms of man's cooperation in government, and over the purposes of that cooperation. Government engages in vast economic tasks: supporting an army, building railroads and the like, stimulating business enterprises to produce and taxing to finance the economic activities it undertakes. That is why there is so much to conflict about and such a great stake in the outcome.

Basically in all the political systems of the world, much of politics is economics, and most of economics is also politics. What then is the difference between the two? Simplistically, "economics" refers to a certain kind of activity, whether it is undertaken by individuals, enterprisers, or governments. More precisely, "economics" refers to activities, which may simultaneously be political activities, looked at in a particular way.

By defining the term politics or further in this case, the risk of such politics or "political risk," the problem is structured in order to analyze the phenomenon. Furthermore once the many elements comprising the complex phenomenon have been aired, the decision maker can decide which data must be acquired and the relationship and outcome of such data.

The investor has to keep in mind the political events that may occur as well as the risk associated with such an event. The need to constantly update and re-evaluate data could be critical in this area. In order to be able to forecast the occurrence of political events the investor must appreciate the relationship between various political processes and political events. For instance, in less developed countries as in Latin America one may not dwell on the training process of military officers or compare it to that of other nations but one should look in this direction since these officers could be future leaders of the state and subsequently establish future investment climate.

Measures unfavorable to the foreign investor are varied and numerous and may involve a change as a political program seeking to maximize its gross national product, and such a program may adversely affect the foreign investor. Such measures are a product of the workings of the host country's political system and provide an indication of governmental goals, as expropriation of public utilities, government investment in and subsidy of similar industries, requirements or restrictions on reinvestment of profits, and on the ratio of foreign-to-domestic equity, not to mention measures already enacted to restrict imports, exports, and limitations on participation in various sectors of the economy.

One of the more feared avenues the host country has against the investor is that of expropriation. Expropriation as opposed to nationalization is distinguished from the latter since it is focused at a particular company or group of companies instead of a general type of industry or section of the economy. Industries involved with natural resources may become susceptible to nationalization as the country becomes more developed as has tended to be the case with oil producing countries or those with oil deposits and the potential of production, with the philosophy that such a resource should only be exploited for the benefit of that country. In today's globally industrialized system host countries tend to use other options over expropriation or complete takeover. A policy of domestication may be enacted whereby the host requests the foreign-owned or operated enterprise to "surrender" various percentages of control and ownership to nationals, or to comply with export quotas.

In Peru, for example, they have laws requiring that the government will buy at least two-thirds interest in all the basic industries for resale to nationals, and within a short time the foreign investors in other industries will have to sell "majority" control to Peruvian nationals and will be limited to twenty-five percent ownership in the industry. This changed policy is quite different to that environment enjoyed by foreigners in the past.[1]

2-2-2 Analytical Tools

Stefan H. Robock in an article presented in the Columbia Journal of World Business presents a conceptual framework solely for political risk as opposed to treating this as one segment. The framework ranges from sources of political risk through their effect of political risk on business but does not discuss what gives rise to these events. An interesting item presented in his presentation is the distinction between macro-political risk and micro-political risk. The macro risk being aimed at all foreign enterprises with micro risks aimed at certain fields or foreign enterprises with certain characteristics similar to the expropriation/nationalization distinction.

Robock suggests the following definition of risk:

> Political risk in international business exists (1) when discontinuities occur in the business environment, (2) when they are difficult to anticipate

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[1]Dolph Warren Zink, The Political Risks for Multinational Enterprise in Developing Countries: With a Case Study of Peru (New York: Praeger, 1973).

> and (3) when they result from political change. To constitute a "risk" these changes in the business environment must have the potential for significantly affecting the profit or other goals of a particular enterprise.[1]

He further notes that while all political environments are dynamic, changes which are sometimes gradual and progressive are neither unexpected nor difficult to anticipate and do not constitute political risk. A further distinction between political instability and political risk is:

> Political fluctuations which do not change the business environment significantly do not represent risk for international business. . . . Political instability, depending upon how it is defined, is a separate although related phenomenon from that of political risk.[2]

While Franklin R. Root notes that the foreign investor faces risk as a

> possible occurrence of a political event of any kind (such as war, revolution, coup d'etat, expropriation, taxation, devaluation, exchange controls and import restrictions) at home or abroad that can cause a loss of profit potential and/or assets in an international business operation.[3]

Robock does offer a framework for examining political risk (see Table 3) while Root prefers to use a "Classificatory Matrix of Political Risks" (see Table 2 below).

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[1]Stefan H. Robock, "Political Risk: Identification and Assessment," Columbia Journal of World Business, July-Aug. 1971, p. 7.

[2]Ibid., p. 8.

[3]Franklin R. Root, "Analyzing Political Risks in International Business," in The Multinational Enterprises in Transition: Selected Reading and Essays, ed. A. Kapoor et al. (New Jersey: The Darwin Press, 1973).

TABLE 2

Classificatory Matrix of Political Risks[1]

	Political/Economic Risks	Political/Social Risks
Transfer Risks	X	
Operational Risks	X	
Ownership Control Risks		X

Although the use of a model as stated appears to be somewhat of an academic concept, it can be of value to the international manager or decision maker to perceive political circumstances and events in the host country. He groups risks on a functional level as: transfer, operational, and ownership-control. The "transfer" risks are resultant from uncertainty with respect to the host government's actions that restrict transfer of goods, products, capital in or out of the country. "Operational" risks are resultant from laws and administrative procedures that constrain operations insofar as marketing, production, and other function of business. "Ownership-control" risks are resultant from shifts in the treatment of foreign owned businesses and restriction of a class of business to more favored nations or even nationals.

[1]Root, "Analyzing Political Risks."

TABLE 3*

OUTLINE OF ROBOCK'S CONCEPTUAL FRAMEWORK FOR POLITICAL RISK

Sources of Political Risk	Groups Through Which Political Risk Can Be Generated	Effects of Political Risk on Business
Competing political philosophies (nationalism, socialism, communism)	Government in power & its operating agencies	Confiscation (loss of assets without compensation
Social unrest & disorder	Parliamentary opposition groups	Expropriation with compensation (loss of freedom to operate
Vested interests of local business groups	Nonparliamentary opposition groups (guerrilla movements)	Operational restrictions (market shares, product characteristics, employment policies, etc.)
Recent & impending political independence	Nonorganized common interest groups (students, workers, peasants, minorities, etc.)	Loss of transfer freedom (financial, goods, personnel or ownership rights)
Armed conflicts & internal rebellions for political power	Foreign governments or intergovernmental agencies such as the EEC	Breaches of or unilateral revisions in contracts & agreements
New international alliances	Foreign governments willing to enter into armed conflict or to support internal rebellion	Discrimination (taxes, compulsory subcontracting, etc.)
		Damage to property or personnel from riots, insurrections, revolutions & wars

*Stefan H. Robock, "Political Risk: Identification and Assessment," Columbia Journal of World Business, July-Aug. 1971, p. 7.

Root's "political/economic" risks are directed toward actions of the host government that are basically unanticipated changes in the national economy. As pointed out, sooner or later the government has to come to terms with these economic realities or step aside for a "new government" that will impose such changes. In contrast the "political/ social" risks are responses to noneconomic changes in the national society and government policy changes to other mechanics as Japan has done with joint-ventures.

The political environment affecting the investor will somewhat hinge on how he defines the nature of his business. Properly defined as Drucker would, or defined according to profitability as more customarily sought, the investor may view profitability in terms of the market share obtained within the host country. Therefore the investor may be more concerned with the political events affecting repatriation of profits. In any event the "nature" of the investment is most likely to be the catalyst in determining which events are of interest. For instance, manufacturers or investors whose action depends on component import or product export will be directed toward trade restrictions. Concerns that use factors available in the host country and serve local markets would be sensitive to political instability.

2-2-3 Ranking Methodologies

There are a number of approaches to the screening of political risk which fit into two general categories: those aggregating subjective assessments through a Delphi type method and those relying on quantified indicators as social, economic, and political factors. Perhaps the better known of the former are Haner's "Business Environmental Risk Index" or BERI[1] and the "Business International" or BI[2] index. Both the BERI and BI indexes attempt to assess the general investment climate in a number of countries by using the Delphi technique to poll panels of experts. Haner states that his objective of BERI is to evaluate the business environment of a nation one half to one year in the future, and consists of the following variables: (1) political stability, (2) bureaucratic delays, (3) monetary inflation, (4) attitudes toward foreign investors and their economic growth, (5) balance of payments, and (6) nationalization. The BI index weights political stability of a nation quite similarly by investigating: (1) long-term stability guaranteed, (2) strong government but vulnerable constitution, (3) active internal faction, and (4) strong probability of overthrow (from both within country and without).

The components of both indices attempt to assess and evaluate the environment systematically. They do provide a holistic rating independent of the firm and rely on a panel who may rate differently in how they conceptualize the phenomenon being evaluated. Although this method of indexing is subjectively based, it tends to imply a precise

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[1] F. T. Haner, "Business Environmental Risk Index," Best's Review (Property/Liability ed.), July 1975, pp. 47-50.

[2] Business International (New York: Business International Corporation, 1969).

mathematical evaluation that really is not there.[1]

Another illustration uses quantitative indices by reviewing existing models or indicators of political risk in terms of their "magerial utility." Haendel and West,[2] through what they termed the Political System Stability Index (PSSI), composed fifteen indicators of the systems stability/adaptability grouped into socioeconomic, governmental processes, and societal conflict. (See Tables 4 and 5.)

Although there have been found inherent limits, since it ignores industry and firm specific factors, it does offer a foundation for a systematic assessment of the political environment. But, these methods discussed were developed to assist international businessmen with assessing political environment. They lean toward political instability rather than the future or possible impact of political stability upon the investigating firm.

2-2-4 Conclusion

The problem appears to go beyond a model or index since the schemes reviewed show that "political risk" and political instability are distinct phenomena, and it further appears that not enough is known on how political instability affects political risk to produce "good" predictive models.

May it be clarified that a true "sophisticated

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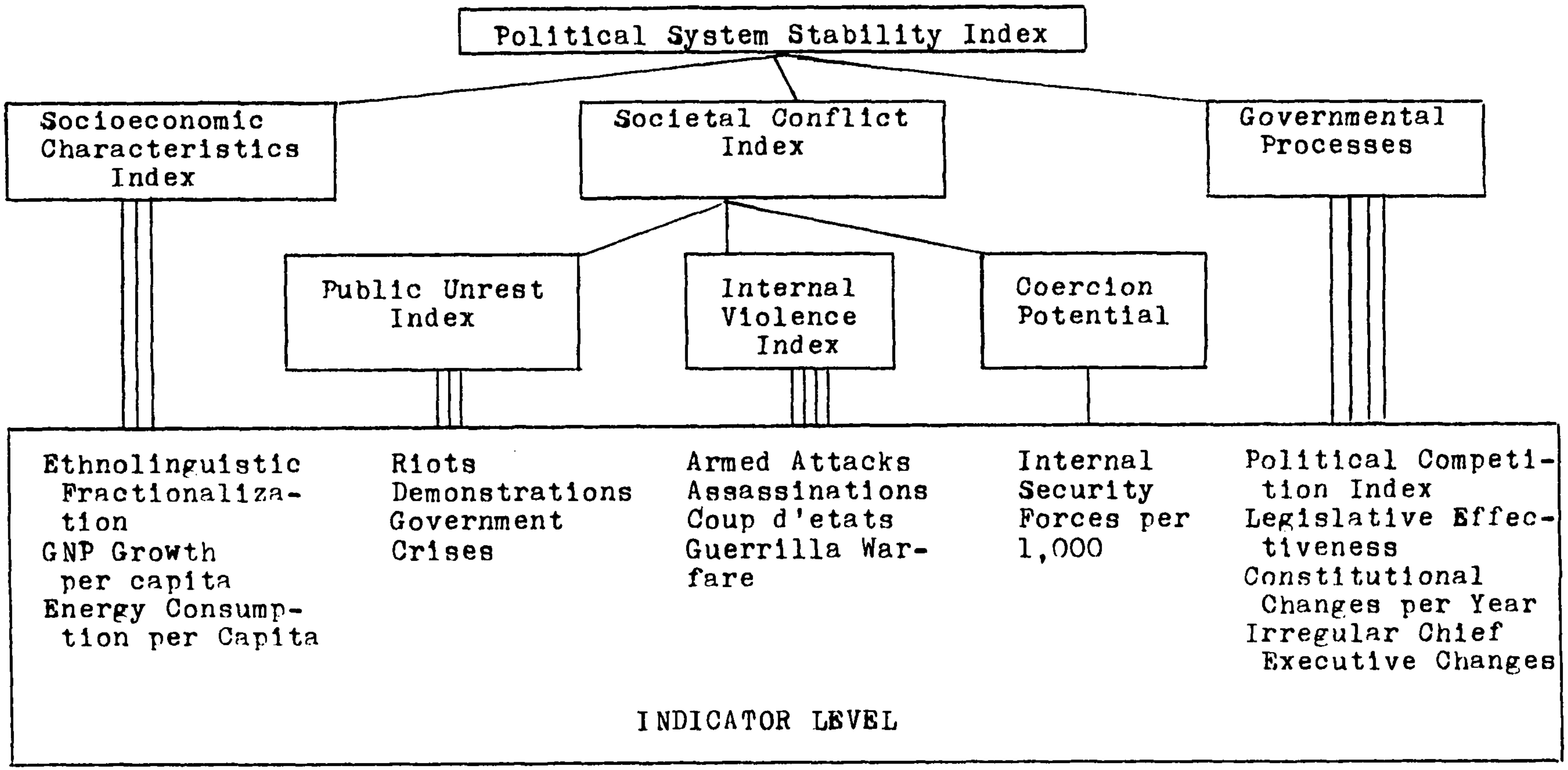
[1]Louis Kraar, "The Multinationals Get Smarter About Political Risks," Fortune, March 24, 1980, pp. 85-100.

[2]Dan H. Haendel, Gerald T. West, and Robert G. Meadow, Overseas Investment and Political Risk (Philadelphia: Foreign Policy Research Institute, 1975).

TABLE 4*

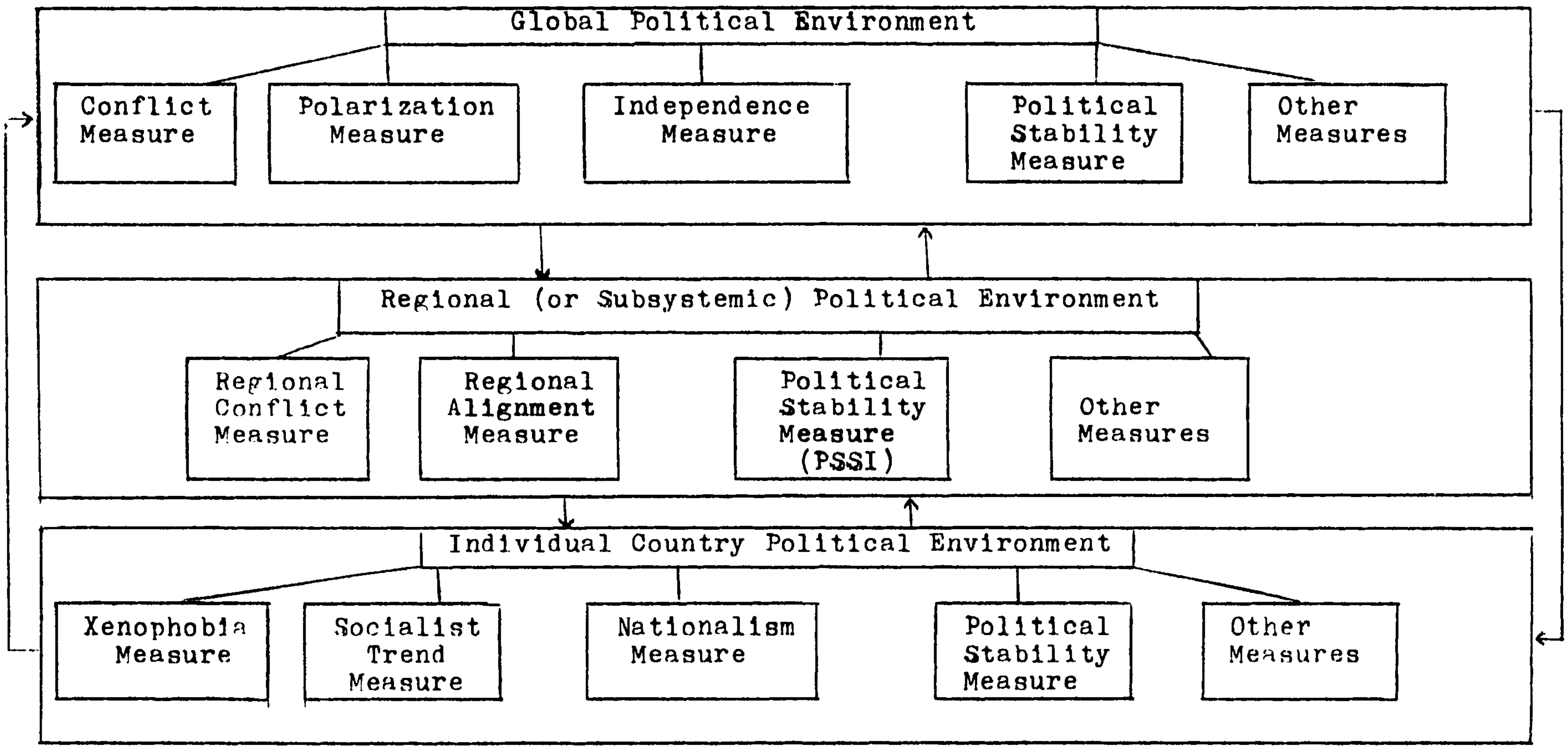
FORMATION OF POLITICAL SYSTEM STABILITY INDEX (PSSI)



*Dan H. Haendel, Gerald T. West, and Robert G. Meadow, The Measurement of Political Risk (Philadelphia: Foreign Policy Research Institute, 1975), p. 126.

TABLE 5*

LEVELS OF ANALYZING POLITICAL RISK



*Dan H. Haendel, Gerald T. West, and Robert G. Meadow, <u>The Measurement of Political Risk</u> (Philadelphia: Foreign Policy Research Institute, 1975), p. 125.

analysis" is not equated to a mathematical model but a voluminous and systematic approach to obtaining data for evaluating political risk. Extremist groups may throw everything out of scale as has happened in Iran by taking action against the "foreign investor."

Pre-isolation and identification of those political factors that can be detrimental to the foreign investor are quite difficult. Be that as it may, each factor must be measured and aggregated to allow for further forecasting and determining what factors affect the way the assessment and evaluation process is organized and executed, and to make accurate political risk estimates, and to minimize the influence of uncertainty in overseas investment decisions.

CHAPTER 3

POLITICAL RISK ANALYSIS - APPLICATIONS IN THE REAL WORLD OF BUSINESS

3-1 From the Normative to the Real World

How, with any degree of certainty, can the modern day chief executive decision maker of a multinational company assess the impact of political risk? Today's strategic planner might be accurate in saying that there is no certainty except uncertainty. The developing countries of the world seem to offer the greatest potential for expansion for U.S. corporations but simultaneously be subject to the greatest political risk, as similarly pointed out in a different area of this report. Japan, Canada, and European countries are not lacking in political risk but changes seem to be more or less predictable.

The failure of the decision makers to assess the political climate in which they intend or are presently doing business can have disastrous implications ranging from simple work stopages to the ultimate--expropriation of property and loss of life. Whatever the form, the potential loss from political risk can be astronomical. For instance, Lebanon suffered civil strife which resulted in a loss of more than 60,000 lives and some $3 billion in damages.[1]

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[1]R. J. Rummel and David A. Heenan, "How Multinationals Analyze Political Risk," Harvard Business Review, Jan.-Feb. 1978.

One important question the executive should ask is, has business dealt with political risk as opposed to how has it dealt with political risk. Taking the first part first, business has definitely dealt with political risk since they are already operating abroad. They have experienced the spectrum of being nationalized, taxed or regulated out of existence; they have been caught up in conflicts and wars and have had their executives kidnapped or kneecapped. These represent examples of how political risk has regulated business as opposed to how business has dealt with political risk.

Clearly business decisions based on first impressions and more notorious but insignificant events are likely to lead to faulty international policy. For some multinationals, the effect has been to avoid potentially attractive markets for the wrong reasons; for others, supposedly safe countries as Iran have erupted. Then there is the related problem of focus. In dealing with the political risk factor, most corporations are engaged in response rather than initiation. Typically they spend a good deal more energy analyzing how to encounter expropriation once it has come about instead of trying to predict its happening ahead of time and thus not suffer its consequences as greatly.

In the past, that is subsequent to World War II and the fifties, executives could expect only limited assistance in determining the "destiny" of the developing foreign markets. Now, there are techniques and tools available for assessing political risk. Unfortunately assessment is only half of the problem. Making use of the forecasts and evaluation is the remainder.

Perhaps it could be argued that many of the corporations dealing multinationally do so because they are "forced" to do so rather than because they want to. Gas and oil producers seem to be abroad or at least offshore because that is the nature of the business, and the business dictates their locating in other countries.

Approximately one hundred of the Fortune 500 corporation annual reports have been reviewed, and it would be safe to say that most have overseas operations. Also, an observation has been made by an investment firm dealing with these companies that before getting involved in a foreign operation they do not analyze the political risk factor in a very sophisticated manner, and when confronted with political problems business is often not flexible enough to evaluate its bargaining position candidly. An exception is ITT and the way they handled their governmental takeover. Franklin R. Root pointed out that this problem could be viewed by converting the uncertainties in the environment to probability terms and that political risk provides a mechanism for the objective evaluation of foreign investment climates.

Despite the value of risk analysis, recent surveys[1] indicate that few multinational corporations have developed

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[1]Dan Haendel and Gerald T. West. Overseas Investment and Political Risk (Philadelphia: Foreign Policy Research Institute Monograph Series, Nov. 21, 1975).

systematic approaches for determining the political fortunes of their overseas markets. So, why is the level of political analysis often so unsophisticated from the corporate viewpoint? The political dimension remains to be one of the most misunderstood and misinterpreted facets of multinational operations and only of late has the impact been felt where a greater emphasis is realized. Perhaps the main reason that it is unsophisticated is that political risk is generally considered too difficult and too full of uncertainty to be properly analyzed where assessment appears to be based on first impressions and current events. The decision makers often place considerable importance on more dramatic events as non-military riots or political kidnappings as opposed to the events previously discussed. Many businessmen feel a qualitative judgment, rather than quantitative analysis, is unavoidable when it comes to political risk. This approach results in a form of "elevated guesswork," wherein a haphazard combination of various "feelings" along with some knowledge or research on recent history is used.

Indeed, multinational business decisions based on these first impressions or hunches are most likely to result in faulty international policy. The effect of hunch decisions could be the avoidance of potentially attractive markets for the wrong reasons, and supposedly safe havens have become economic nightmares. Typically, for example, executives spend a good deal more time analyzing how to encounter expropriation once it has occurred instead of attempting to predict its likelihood ahead of time.

Executives would favor a country because it had a long history of political stability and policies that were attractive to the foreign investor since it could be assumed that this situation would continue, although the possibility of a coup could not be completely excluded. Until recently, this would be the most likely avenue, since the executives could expect only limited help in determining the future of their foreign market. Now, using tools and techniques once under control of economists, multinational planners are discovering how to use the variety of ways to assess political risk. Perhaps they also did not explore these methods until people like Litvak and Banting conceptualized foreign risks and business felt more comfortable with analytical tools.

Unfortunately there is no single answer to how one should approach political risk. A banker, an international business professor or a businessman approaches the assessment of political risk quite differently. The nature of the investing firm and its purposes along with the country in which it intends to operate and a multitude of considerations all affect how political risk should be best approached as a variable in international business decisions.

A multinational corporation invests in a plant in an African country and, during the fourth year there, just as maximum profits are attained and are expected to be realized for a number of years, a radical takeover of the government results in the nationalization of the plant. Multinational corporations considering overseas investment would do well to make use of a political forecasting system that assesses the stability of foreign governments. Thus, this turn of events could have been forecasted. If possible political obsolescence had been taken into consideration and a thorough evaluation system used, the situation might have been anticipated and avoided. The capital would have been allocated to a less risky political climate and profits would still be flowing.

3-1-1 What Motivates Investors?

It is no longer realistic or practical to use only commercial and technological assessments as planning inputs, for the life of any investment could be cut short by a political disruption. Executives are becoming aware that political forecasts made at the time of the investment decision are critical to the continuing success of international operations. Experiences in the 1970s and now into the 1980s with nationalization and regulation changes that seriously cut profits highlight the need for greater precision in predicting political conditions. As mentioned before, events in Iran, the takeover of ITT by the regime in Chile and, as discussed in class, the "Indianization" scheme which caused IBM and Coca-Cola to leave India are examples of this need.

The motivation of corporate foreign investment can be explained only by the corporate objective behind such investment. Foreign investments are actively managed by the parent firm as part of a global or regional enterprise system. MNCs invest overseas in the pursuit of strategic corporate objectives such as growth or diversification with their foreign investment plans based upon strategy motivation as raw materials seekers, low cost production seekers, and market or market share seekers.

Perhaps a reversal of these factors would interplay as in the case of Emerson. Emerson continues to focus on U.S. export sales as an important opportunity for growth since the following factors have changed considerably in the last five years to improve competitiveness of U.S. exports.[1]

1. The declining U.S. Dollar has made U.S. products more competitive.

2. Foreign labor costs have increased faster than those in the United States and have been compounded by national legislation increasing employee benefits.

3. The competitiveness of foreign manufacturing facilities has been reduced as governments have introduced legislation designed to limit management's ability to control costs in line with output.

4. Since most foreign tax rates are comparable to the statutory U.S. tax rate, sale through Domestic International Sales Corporations have further increased U.W. export competitiveness.

Raw materials seekers are committed to investing overseas in order to maintain supplies to their own industrial needs. They try to retain as much of the materials as possible without selling a great quantity to the host country.

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[1]Emerson Electric, Annual Report, 1978.

Low-cost production seekers invest in a particular country in order to produce at a lower cost than if they had to manufacture domestically. These lower cost goods are then sold at home or to third world markets.

Market seekers have entirely different motivation which accounts for most of the foreign investment. The objective of the market seeker is to promote corporate growth by developing market share or by exploiting foreign markets either aggressively or defensively. The defensive market seekers are basically trying to hold onto a market that can no longer be exploited by exports from the home country. Governmental interaction through import restrictions or the increase of local competition is usually the cause of such an investment response. On the other hand, aggressive market seekers invest in a foreign nation in order to obtain new markets previously unobtainable through direct exports or licensing.

Understandably these three groups are affected differently by the country's environmental factors. Especially their perceptions of political risk are likely to be reviewed differently depending on their own needs. Raw material and low-cost production seekers are more apt to glut the economy by not selling back a larger portion of resources or materials. They are not prone to be interested in the growth, size or other aspects of the host's economy. Their interest is in stability of production rather than in political stability.

Market seekers are definitely concerned with the host economy and more specifically with the local markets or potential of local markets. Also their investment into the locale is greater, thus the sensitivity to specific political risks as expropriation, strikes, civil unrest is greater and they are likely to have different opinions toward these risks.

Though corporations engaged in international corporations have been in existence for many years, because of the growing awareness of increasing economic interdependence in the world today, multinationals have only recently become the subject of intense general interest. It is known that multinational corporations contribute in many ways to help meet the complex needs of the world through providing capital, technology and management skills. However, those countries in which such firms operate have expressed concern about problems they think are often caused by these companies.

Considerable literature on various aspects of corporations is available but little deals with the corporation's policy-making processes and the set of values and ethics within which it operates. International multinational corporations are viewed, especially in developing countries, as intruders in the host economy. As pointed out in a class presentation by Caterpillar Tractor Company, a company may be seen as a disruptive force for doing any one or a combination of the following: paying wages in excess of the going rate in an area; introducing labor-saving technology when there is unemployment in the country; making some national enterprises noncompetitive; increasing local incomes, thus increasing demand for import of goods; and remitting substantial dividends to the host. In the meantime market share or protection of market has been accomplished, with such an accomplishment resulting in profitable returns to the corporation.

3-1-2 Utilization of Political Data by Business

To gain insight of the extent to which the United States corporations utilize foreign political data and analysis, a questionnaire was sent to 187 parent companies that have investments in manufacturing facilities outside of the United States and Canada. These investments represent more than 80 percent of all private-direct investment in manufacturing by U.S. firms in those areas.[1] The questions raised in the Zink article are found on Table 6. He tried to obtain information on the company's sources of political data, the evaluation of data and the practices used in operation. The respondents were asked to rate them in importance, similarly to ratings used in matrixes, as I = Important, O = Occasionally Important, and U = Unimportant. Interestingly enough he received seventy-nine responses with results as shown on Table 7.

The most common sources from which political data is received are from reports from the employees in the country and general news sources. Surprisingly there was a low

[1]Dolph Warren Zink, The Political Risks for Multinational Enterprise in Developing Countries (New York: Praeger, 1973), pp. 37-41.

TABLE 6

ENTERPRISE IN DEVELOPING COUNTRIES*

Questionnaire Regarding the Use of Political Intelligence in Business

SOURCES OF POLITICAL DATA (please rate as:
I - Important; O - Occasional; or
U - Unimportant or unused)

Upon what sources does your company rely for the procurement of political data relative to foreign countries in which you operate or are considering?

1. U.S. government agencies _____
2. Financial institutions _____
3. Outside consultants on a continuous retainer _____
4. Special contracted studies _____
5. Industry associations _____
6. Other companies operating in market _____
7. General news sources _____
8. Internal staff charged with political analysis _____
9. Reports from employees in the country _____
10. Other

    ______________________________ _____

    ______________________________ _____

    ______________________________ _____

EVALUATION OF POLITICAL DATA (answer "yes" or "no")

Does your company:

1. attempt continuous political forecasting? _____
2. employ a full time political scientist/s? _____

TABLE 6 (cont.)

3. employ outside political consulting services? ____

4. have established procedures for feeding political data into the decision-making process? ____

OPERATIONAL RAMIFICATIONS (answer "yes," "no," or "qualified")

Are your foreign managers permitted to:

1. contact host government officials on other than administrative matters? ____

2. participate in local political affairs? ____

3. utilize U.S. embassy assistance in resolving conflicts with host governments? ____

4. employ host country nationals for representation with the government? ____

Do you find that host country political affairs are requiring increased attention by top management?

*Zink, pp. 148-149.

percentage of companies that dealt with an internal staff charged with political analysis, which could be due to their not believing it necessary to have political specialists on the payroll. Also the use of outside consultants on a contractual basis is limited. In speaking with Fafnir Bearing, this philosophy was utilized by them. They received feedback from employees "over there" who might supply wrongful or misleading data.

TABLE 7

Enterprise in Developing Countries[1]

	I	O	U
	Percent		
Reports from employees in the country	79	21	0
General news sources	61	30	9
Financial institutions	56	42	2
U.S. Government agencies	43	44	13
Other companies operating in markets	32	55	13
Industry associations	31	42	27
Internal political staff	23	23	54
Outside consultants on a continuous retainer	6	22	72
Special contracted studies	1	32	67
Other	18	--	--

3-1-3 Framework for Forecasting

The application of political forecasting to corporate planning should involve:

1. Predicting political conditions in a country for which an investment is proposed or will be operating for a

[1]Zink, p. 38.

period of years (the payback period).

2. Estimating probabilities for seriously modified conditions, such as a coup d'état, the election of a radical government or war.

3. Determining the effect on profit performance of the investment if a serious change in assumed political conditions occurs.

4. Judging the net impact of political change on predicted cash flow from the investment for the period selected.

The political forecasting system outlined here[1] could help corporations avoid the potential disasters of political change. Such a system, illustrated by F. T. Haner, involves the examination of ten variables--eight causes and two symptoms--at the present time and at two points in the future. The evaluation is done from the foreign investor's viewpoint. Ratings represent a total of "scores" for the ten variables and tend to be much more accurate than a broad subjective judgment for a particular country. The political situation in a given country is estimated by applying numbers on a scale of zero (no problem) to seven (prohibitive problems) to the eight causes and two symptoms. (See Table 8.)

The political risk rating system involves two steps. Initially the ten variables are rated from 0-7 for three separate periods (see bottom of framework), the present and two future periods as five and ten years into the future.

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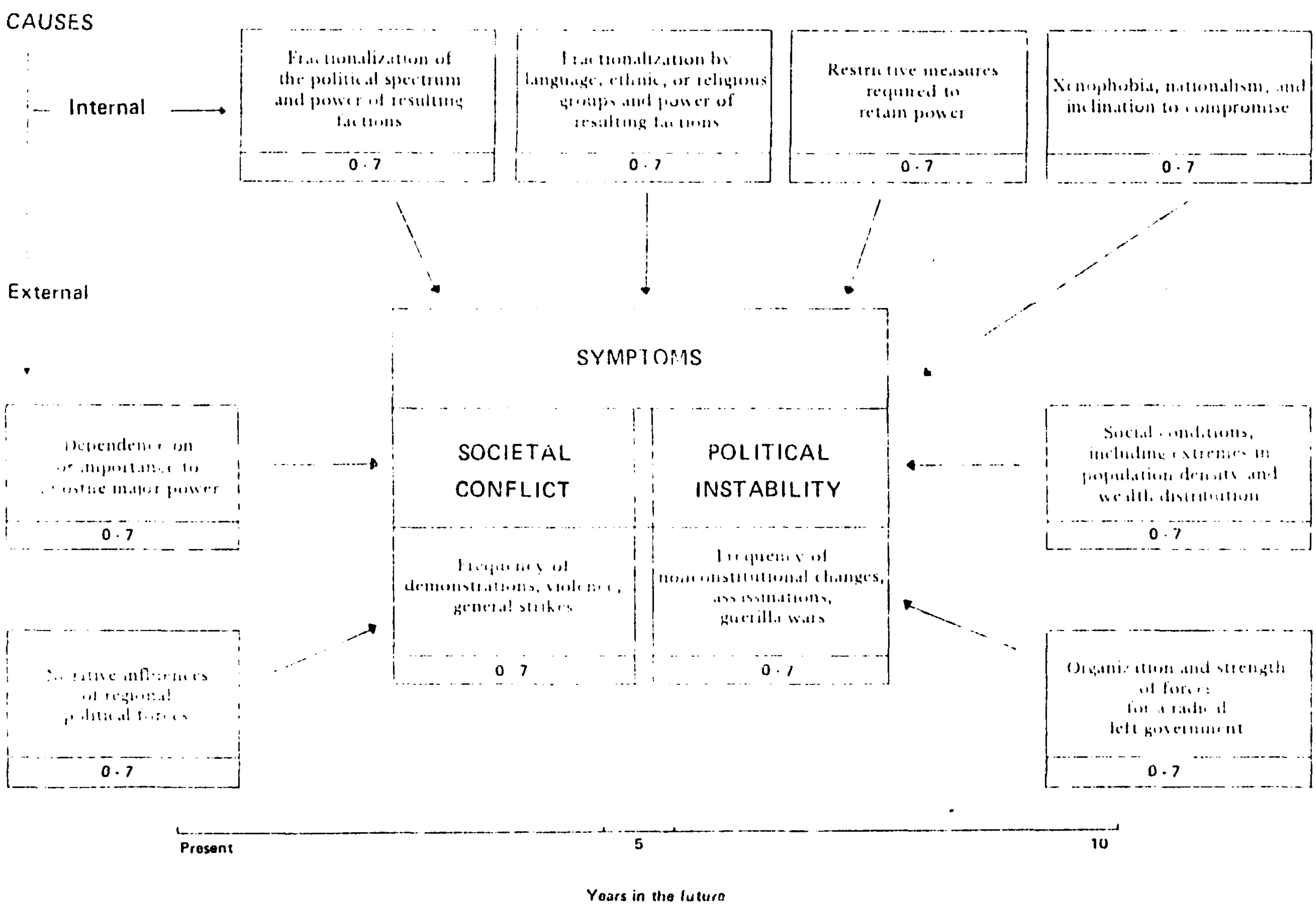
[1]F. T. Haner, Multinational Management (Ohio: C. E. Merrill, 1973).

TABLE 8*



A Framework for Political Risk Evaluation

*F. T. Haner, "Rating Investment Abroad," Business Horizons, April 1979, p. 20.

In this case, the higher the score the worse the investment conditions are. The result will range from no political risk to completely prohibitive risk for each of the three periods.

Obviously in using such an alternative framework, the training and experience of the evaluating personnel are crucial to the success of the ratings. The evaluators should be familiar with not only the political aspect but have a background knowledge of the other variables presented by Litvak and Banting. Thus the quality of the ratings increases when the rators have had more experience and have spent time monitoring a country's sociopolitical situation.

In observation, corporate assessment of political risk can be complemented by the use of a rating system that examines variables within variables, rather than formulating ratings of political risk as a single category.

3-2 When It Is Too Late

Basically discussed to this point of political risk analysis is what can you do before getting involved. Perhaps the lender or investor can protect himself against political risk by acquiring OPIC insurance or, in the case of finance, by obtaining an Export-Import Bank guarantee. The Overseas Private Investment Corporation operates the Investment Insurance Program and deals with a limited type of business, namely, United States investors overseas. The term United States investor is defined as a U.S. organized company that is more than 50 percent owned by United States citizens along with United States investors and foreign subsidiaries more than 95 percent owned by United States investors. Further OPIC only insures new investments and that investment project must assist the development of the entire country.

Although it is impossible to transfer all political risk to an insurer, OPIC does cover three different kinds of political risk. First, it protects the risk of inconvertibility, the risk that the investor will not be able to convert his local earnings into U.S. currency. Second, OPIC does insure against the risk of the dreaded expropriation but with limitation. OPIC requires that two things be present in order for them to be liable for a takeover: a governmental action and some kind of effect. Either on the project itself, which would not allow it to operate, or on the investor's rights as an investor under the security that he has received. Third, OPIC insures against war, revolution or insurrection. Here the physical property of the project is insured.

What if this is a situation where OPIC will not insure? What can be done to manage against expropriation? International managers may think that a thorough knowledge of a country's political situation in the past will prevent expropriation, but it can happen. For example, by October 1968, Juan Velasco's revolutionary regime had toppled the democratic government of Peru.[1] Western investment, which had prospered in the country for many years, was suddenly

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[1]D. W. Zink, The Political Risks for Multinational Enterprise in Developing Countries: With a Case Study of Peru (New York: Praeger, 1973).

threatened by a military junta bent on proving its nationalist virility. Within thirteen months the vast sugar empire of W. R. Grace was seized.

Despite the political rumblings in Peru since the early 1960s, Grace had gambled on the stability of the government, adding a chemical plant and a paper mill to its present sugar operations. Events proved this to be a serious gamble costing some $50 million in losses. Another "gamble" was taken by the Chrysler Corporation, but this like ITT met up with a somewhat different situation. In 1964 the company constructed a large car and truck plant. Fortunately this investment outlived the Velasco regime, and the plant continues to operate as a Chrysler subsidiary, provided that Chrysler remains operative.

Data collected based upon responses from 187 U.S. parent companies that are estimated to account for 80 percent of all private direct investment by U.S. companies with manufacturing facilities outside of the United States indicate that 35 U.S. firms owned 47 operating manufacturing subsidiaries in Peru as of 1967. These 47 operating ventures were those remaining of 57 that had been started prior to 1968 in the following industries:[1]

Meat and dairy	4
Other food and beverages	8
Chemical	14
Drugs	7

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[1]United Nations, Department of International Economic and Social Affairs, Statistical Yearbook, 1977 (New York: United Nations, 1978).

Soaps and cosmetics	3
Petroleum	2
Rubber and tires	2
Stone, Clay, and glass	1
Primary metal	3
Fabricated metal	3
Nonelectrical machinery	1
Household appliances	1
Electrical machinery	1
Motor vehicles	4
Other transportation equipment	1
Instruments and precision goods	1
Other	1

Thirty of the subsidiaries were identified as newly formed or descendants of former subsidiaries and nineteen as acquired. Six were expropriated and two were subsequently sold. Twenty-eight were wholly-owned at their inception, seventeen majority-owned and seven minority-owned. Five of the joint ventures subsequently became wholly-owned and in four instances the parent significantly decreased its ownership after the initial entry.

The following list is of companies taken from recent State Department reports which have been cited as having experienced some sort of foreign government interference since 1960, most of which suffered an overt expropriation. Without going into detail of each company's story, you may recognize the episode associated with the particular company.

Alcan
ALCOA
Allied Artists
Allied Chemical
American Eastern Tankers
Amerada Hess
American Insurance
American International Insurance
American Life Insurance
American Metal Climax
American Smelting and Refining
Aminoil
Anaconda
Argentine Southeastern Drilling
Armco Steel
Atlantic Richfield
Bank of America
Bethlehem Steel
Boise Cascade
Brown & Root
California Asiatic Oil
Cargill

Cerro
Chase Manhattan Bank
Citibank
Cities Service
Coca-Cola
Columbia Pictures
Continental Oil
Continental Telephone
Corning Glass Works
Crown Cork & Seal
Diamond Distributors
Dow Chemical
Dresser Industries
E.I. DuPont de Nemours
El Paso Natural Gas
Engelhard Minerals & Chemicals
Exxon
Firestone Tire & Rubber
Ford Motor
General Cable
General Electric
General Mills
General Motors
General Tire & Rubber
Georgia-Pacific
Getty Oil
Giddings & Lewis
Goodyear Tire and Rubber
W. R. Grace
Grace Petroleum
General American Insurance
Gulf Oil
Gulf Resources & Chemical
Hanover Insurance
Hartford Fire Insurance
H. J. Heinz Starkist
Holiday Inns
Home Insurance
Hunt International Petroleum
International Basic Economy
International Flavors & Fragrances
International Railways of Central America
International Telephone & Telegraph
Johns-Manville
I. S. Joseph
Kaiser Industries
Kellogg
Kennecott Copper
Kerr-McGee
Marathon Oil
Marcona
Marine Construction & Design
Metro-Goldwyn-Mayer
Mobil Oil
Morgan Guaranty Trust
Morrison-Knudsen
NCR
Occidental Petroleum
Olin
Panamerican Sulfur
Paramount Pictures
Parsons & Whittemore
Phelps Dodge
Phillips Petroleum
Procter & Gamble
Ralston Purina
Raytheon
RCA
Republic Steel
Reynolds Metals
Sinclair
Singer
Standard Oil of California
Standard Oil (Indiana)
Sterling Drug
Sun Company
Tenneco
Texaco
Textron
Twentieth Century-Fox Film
Union Carbide
Union Oil
Uniroyal
U.S. Steel
Universal Pictures
Warner Brothers
H. B. Zachry

The Peruvian episode provides two lessons for the interested decision maker responsible for assessing and evaluating the risks of expropriation. The <u>first</u> is the extreme difficulty of political risk forecasting, even for the established overseas investor, as W. R. Grace who maintained operation since the 1850s could surely claim to know and have a feel for the country's politics as well as any multinational corporation can know any host government.

The second lesson is realized from the very different treatment given Grace and Chrysler. Usually revolutionary governments do not nationalize foreign investments indiscriminately. Instead governments select their expropriation targets. The threat of expropriation appears to be more serious at this point in time than at any time since the 1960 Cuban seizures. The number of expropriations in 1975 was four times that of 1970 and fifty times that of 1961. Given this trend, international managers must properly assess the risks their properties face in the future.

What can be done under the circumstances of expropriation? There are various strategies and tactics. Strategies are the lines of action that lead to certain changed relationships which are applied when the proverbial roof falls in. There are five strategies that one should consider at this point. First, there is image improvement. Second, there is negotiated readjustment of the terms and conditions of the presence of the direct foreign investor in the host country. Third is accommodation to the new situation. Adopt a change on the corporate side where the government's attitude remains constant. Fourth is a walkout whereby the corporation folds up, leaving the investment to salvage; and finally, the firm can counterattack or at least retain a hold on what it has done or can do in the future.

Here too are five steps to improve stability of government. <u>First</u>, seek out joint ventures with local private parties that will have some influence on government policy but will not be highly partisan nationals likely to go with the governmental tide.

<u>Second</u>, insure that each future investment is economically dependent on the parent corporation. This can be achieved by establishing the parent as the sole supplier of essential materials or the sole purchaser of finished products. Hopefully to the point where the parent maintains control of any step in the production or marketing process which neither the foreign government nor the open market can provide. <u>Third</u>, as in the case of Coca-Cola, avoid local branding. Establish a single, global trademark that cannot easily or legally be duplicated by an expropriating government. It has been evidenced in the international law courses that most countries, even lesser developed countries, will respect international trademark laws.

<u>Fourth</u>, concentrate research, product development and process technology in the United States. This may require staying away from licensing agreements with foreign multinationals who could later become managers of the expropriated properties. <u>Fifth</u>, adopt a low profile, multiplant strategy with a number of investments spread throughout several countries. This policy not only reduces the probability of expropriation for any one plant, but insures that all of the plants will not be nationalized at once.

Aside from all of the above, and perhaps the most powerful of deterrents to expropriation, is the vertical integration of a multinational in which the parent controls either the supply channels or the market outlets. This is somewhat of a combination of the factors mentioned. Foreign governments recognize the futility of seizing a plant that can be shut down from the United States simply by halting the flow of parts or materials or by refusing to market the finished goods. The Peruvian subsidiaries of W. R. Grace and Chrysler are once again good examples. In 1972 the subsidiary assembled 5,100 trucks and 4,200 cars and its gross revenues were $42 million. Yet the Velasco regime "passed over" the plant since it understood Chrysler's stranglehold on the supply of essential materials. In structuring the investment, Chrysler managers allowed only 50 percent of the auto and truck parts to be manufactured in Peru. The remainder, such as the more technically manufactured parts as engines, transmissions, sheet metal and most accessories, were imported from Chrysler's Detroit plant or its Argentinian and Brazilian subsidiaries. Nationalization of Chrysler's Peruvian operation would make sense only if the government were willing to give up automobile and truck production.

The expropriation of the W. R. Grace sugar concern in Peru shows that the parent multinational had its domination as long as it retained control over the markets for its subsidiary's products. However, by the late 1960s the worldwide commodity exchange had become a ready market for the local sugar. Thus there was no technological advantage or marketing obstacle that the Velasco regime faced in marketing sugar from Grace's expropriated industry.

Multinationals must adjust to an international environment which many of them will find distasteful and at times dangerous. For

> a foreign investor's ability to survive and prosper is directly related to its attainment of a "legitimacy" within the host country and acceptance as a legitimate entity is abetted to the extent that the investor can conform his objectives with those of the host society recognizing always that his innovativeness and his foreignness will inevitably result in a certain amount of conflict.[1]

Some of the more uncompromising may well choose to venture into the developed markets where competition is greater, but where the business is not likely to be endangered by changes in government. Confronting the timid and unchallenging will be a number of challengers who will accept the political risks and compromises necessary in dealing with the developing world. They will realize that the developing nations need technology, capital and experience <u>but</u> they will be increasingly sensitive about companies which want to run the whole show themselves.

They may still find themselves being nationalized but will rely on a gentler pressure with the help of insurance. They will still be motivated by profit but amounts will be altered by retaining smaller profits out of the developing world and thus make it less difficult for sophisticating governments, thereby creating a sort of "social responsibility."

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[1]Zink, p. 145.

3-3 Operating in the 1980s

Mark Twain has been credited with the remark that he was concerned about the future because he was going to spend the rest of his life there. If he were alive today he would have good reason to be concerned. Things are changing at an ever increasing pace.

Technological advances can increase so rapidly that by the time one decides to invest in something it may already be too late. For example in 1960, the United States had the largest tape recorder business in the world; in 1970, excepting for some hi-fi type tapes, not a single magnetic tape was manufactured in this country. Although changes occur rapidly, still relevant is Drucker's question, "What business is it we are really in?" In 1915 a producer of fabrics was in the weaving business; in 1940, the textile business; and in 1960, the chemical business.

The 1950 age of the computer has made possible considerable advances for industry, including the computer itself. Changes will continue to take place. How far away is the flexible work schedule, the four or three day week. "Predicting" the future, especially at the end of a decade, is now the trend. What economic systems as they are now known will continue, and for how long? What devices or frameworks will we be using? Will the frameworks themselves be adaptable?

Most better-known futurists as Herman Kahn, Daniel Bell and Alvin Toffler agree that the future has already been determined.[1] They concur that the future will be a "continuation." But what about organization design in the 1980s. Organization redesign will become a continuing function. Managers will face the same challenges they face today. Matrix and perhaps other forms will be used when appropriate, and design flexibility will be the key. The variables presented by Litvak and Banting provide the foundation for the present as well as the future. Perhaps the importance of one or more variables should be considered and taken further into a conceptual framework or matrix by itself.

Presently the matrix is used by companies

> 1. when it is absolutely essential that they be highly responsive to two sectors simultaneously, such as markets and technology;
> 2. when they face uncertainties that generate very high information processing requirements; and
> 3. when they must deal with strong constraints on financial and/or human resources.[2]

In our case the matrix serves a purpose in that the company faces uncertainties that generate very high information processing requirements. Since no organization design or method of management design or method of management is "perfect," problems may arise out of the matrix design itself. Because the matrix is a relatively new form, companies have made use of it on a trial and error basis. The errors as well as the successes have been informative to other companies who have "jumped on the band wagon." The

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[1] W. J. Reddin, "Profits of the Future: Management Effectiveness in the 1980's," Business Horizons, Aug. 1974.

[2] Stanley M. Davis and Paul R. Lawrence, "Problems of Matrix Organization," Harvard Business Review, May-June, 1978, p. 134.

matrix's basic advantage over the more common or functional structure is that it facilitates a rapid management reaction to changes.

An example of one who is successfully using a matrix form is General Electric. They have used it since it offers a betterment over the typical "pyramid" form of management. They now have better control or at least can predict with greater accuracy components not under their direct control. General Electric contributes to the success of the system, since it allows for

> a better preparation of an individual to run a huge diversified institution like General Electric--where so many complex, conflicting interests must be balanced--than the product and functional modes which have been our hallmark over the past twenty years.[1]

The problems arise in the more conventional organizations and, not like the exception of General Electric, the matrix may not be the absolute answer to all companies, but when it can apply, it can be an effective managerial tool.

Such tools are needed now and for the future. Measurement of political risk will continue, for this is the age of the nation-state. Nations as Chile and Portugal have exhibited "survivability" in the face of pressures of taking over and developing at the same time. Thus one should be concerned with the political climate and the likely course of political evolution of the targeted country.

In the words of Joseph Tunney who is a vice president and country-risk manager of Chemical Bank about such concern:

[1]Ibid., p. 132.

> Iran was a watershed, making us appreciate that our kind of liberal-arts approach to political analysis had to change. Political readings can no longer be an ancillary part of our risk reports.[1]

A new era of awareness is upon us. No longer can we feel totally "safe," but political risk can be anticipated and plans designed for dealing with such political risks.

We all have trouble with the future, not because it is impenetrable to reason, but because there may be too many plausible futures. Just so long as we recognize our limitations and realize that the forecasting of political risks associated with overseas investment is not to predict exactly what will happen in a targeted foreign country, but to provide an analytical framework that assists the decision maker to understand better the general direction in which the country is moving. That is to ask the right questions, to devise ways of heading off problems before the roof falls in and to interpret signals of change a bit earlier in order to shape environmental trends for a better and peaceful world.

3-3-1 Articles in *Fortune* and *Dun's Review*

During the month of March, 1980 there were two articles published, one each in *Fortune* and *Dun's Review*. The respective titles were "The Multinationals Get Smarter About Political Risks" and "Doing Business in Unstable Countries."[2] Both

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[1]Louis Kraar, "The Multinationals Get Smarter About Political Risks," *Fortune*, March 24, 1980, p. 95.

[2]Ibid, pp. 86-100; Niles Howard, "Doing Business in Unstable Countries," *Dun's Review*, March, 1980, pp. 48-55.

articles stress the need for a better means of assessing political risks of corporations and point out that executives of major corporations are admitting to this need. Business can no longer operate on a hit or miss basis; a systematic approach for anticipating changes overseas is necessary.

Business needs "good information" for decision making. It is not so much a problem of obtaining information as knowing what to do with it. They realize there are no "secret plans" or formulas to use but that they must attune the businessman's "feel" for problems. Both articles referred to rating systems Business Environment Risk Index (BERI) and Business International (BI) service, previously explained on page 28 of this paper, as an aid. Mainly pointed out is that business is becoming increasingly aware of the value of political risk as an important variable in international business decisions.

3-3-2 An Empirical Study

A study was conducted by Professor Stephen Kobrin of the Sloan School at MIT, Professor Joseph LaPalombara of Yale and other authors.[1] They sent out a questionnaire to 455 U.S. firms in order to assess and evaluate the emergence of non-market variables as an important management function.

The research concluded that the majority of firms that have formalized their analysis function do it on a part-time basis. Also the study found a "considerable variation"

[1]MIT, Research Program on International Business, "Notes on International Business Research," October, 1979, No. 17.

in methods used by the assessors. Only 46 percent used some sort of structured methodology, and only 19 percent used a quantitative approach.

Assessments are motivated by a need to augment present investment plans rather than actively evaluate overseas political and social environments. They tend to use host country information. While it may be correct in nature, it does not provide an overall independent and objective analysis. Most interesting is the finding that corporations realize there is a need for evaluation and independent assessment, and political stability and foreign investment climate are important facets of investing overseas.

CHAPTER 4

PERSONAL INTERVIEWS

4-1 Textron, Inc., Fafnir Bearing Division

On December 11, 1979 Mr. Gary Fappiano, International Business Administrator of the Fafnir Bearing Division of Textron was interviewed. Generally Textron is an international company comprised of four product groups of aerospace, consumer, industrial and metal products. Also it has twenty-six divisions dealing with and operating throughout the world. Their international operations constitute a considerable contribution to overall volume, namely 31%.[1] Since most of their manufacturing is within the United States, they are not as susceptible to the threats of expropriation; however, political risk still plays an important role in their overall picture as in the case of Iran.

In December 1978 the Government of Iran terminated its contract with Textron for the helicopter co-production program because of "force majeure" events--civil unrest, political and economic instability. Although they have not yet determined the net cost of termination, they believe that the loss would be minimal to the contract's advance funding provisions. Also Textron is entitled to reimbursement of certain costs absorbed during 1978 and to profits to the

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[1]Textron, Inc., Annual Report, 1978.

date of termination for which it believes it can make claim to the Iranian Government.

The Fafnir Division of Textron is aware of the variables presented in the Litvak-Banting framework due to their involvement with the International Business program at Quinnipiac College. Although they are aware of the variables they do not explicitly employ the variables as presented. Since they do and plan to continue to produce within the United States when possible, they do not concern themselves with the variables unless directly affected. The Fafnir Division, like the hardware division of Emhart, is only in its beginning stages and likewise is narrowing the gap through formal educational exposure.

4-2 Emhart Industries, Inc., Hardware Division

On December 12, 1979 Mr. Frederick M. Hollfelder, President of the Hardware Division of Emhart Industries, Inc., was interviewed. Generally Emhart is a multinational corporation headquartered in Farmington, Connecticut, engaged principally in metalworking manufacture. Principal products are machinery, fasteners and industrial components, hardware products, chemical and allied products and store equipment. Two product lines are headquartered abroad in the United Kingdom and Switzerland. Production and Marketing are undertaken on a worldwide product line basis with operations encompassing over thirty nations. Principal industries include automotive construction, footware, metalworking, glass containers, rubber and plastics, and food. In addition the company's products are distributed through its sales force direct to customers and through distributors and independent sales representatives. One can see by the "economic bottom line" described in Emhart's 1978 Annual Report (see Table 9) that international and worldwide revenues constitute some 44% of overall revenue.

President Hollfelder had been transferred to the Berlin operation three months ago after being President of the Canadian operation, thus shedding personal international insight in the interview.

When asked if he was familiar with the Litvak-Banting model, he was unfamiliar but exhibited considerable interest upon seeing it. The division as the other divisions of Emhart are profit motivated. They favor entering on a "safer" route by acquiring preexisting corporations, when necessary licensing and joint ventures. Their own export marketing division within the division is in the "infancy period" and exports through their own distributors where possible abroad. (See bottom of Table 9 for encompassing countries.)

Political risk as such does not present an overall problem to Emhart since they only enter safer countries. If there are unstable conditions, they do not enter. His concern was to the degree of governmental support of labor. Now it is becoming a requirement of at least European countries that labor is represented on the Board of Directors and labor decisions have government support. Another inherent "political risk" of concern is currency fluctuation

TABLE 9*

illions of Dollars)	1978		1977		1976		1975		1974	
	Amount	**% of Total**	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
VENUES										
United States	**$ 749.7**	**56**	$ 689.6	58	$ 635.4	57	$267.9	76	$245.8	76
International	**596.7**	**44**	509 5	42	470.9	43	87.5	24	78.0	24
Continental Europe	**306.8**	**23**	264.6	22	237.7	21	68.7	19	61.9	19
United Kingdom	**155.5**	**11**	133.1	11	116.2	11	4.4	1	3.6	1
Other	**134.4**	**10**	111 8	9	117 0	11	14.4	4	12.5	4
Worldwide	**1,346.4**	**100**	1,199.3	100	1,106.3	100	355 4	100	323.8	100
ERATING INCOME										
United States	**81.1**	**50**	85 5	58	74.1	68	26.4	63	14 9	50
International	**80.9**	**50**	61.2	42	35.8	32	15.4	37	14.9	50
Continental Europe	**42.7**	**26**	33 3	23	22 3	20	13 5	32	13.1	44
United Kingdom	**22.9**	**14**	20.2	14	4 3	4	6	2	.3	1
Other	**15.3**	**10**	7.7	5	9.2	8	1 3	3	1.5	5
	162.0	**100**	146.7	100	109.9	100	41.8	100	29 8	100
Corporate Expense	**18.8**		18.8		17.6		5.6		4 8	
Worldwide	**143.2**		127.9		92 3		36.2		25.0	
ENTIFIABLE ASSETS										
United States	**387.0**	**54**	347.1	55	334.6	55	142.6	67	159.1	73
International	**331.2**	**46**	287 6	45	274.7	45	71.2	33	59.6	27
Continental Europe	**167.7**	**23**	144.1	23	140.8	23	61 9	29	50 7	23
United Kingdom	**94.7**	**13**	84.1	13	74.8	12	1.2	1	1.5	1
Other	**68.8**	**10**	59.4	9	59.1	10	8.1	3	7.4	3
	718.2	**100**	634.7	100	609.3	100	213.8	100	218 7	100
Corporate	**68.0**		63.1		44.9		80.7		59.3	
Worldwide	**786.2**		697.8		654.2		294.5		278.0	

e merger with USM Corporation is responsible for the increases in 1976 in the United States and all international areas.
erarea and export sales are not significant.
e extension of LIFO in 1978 reduced operating income in the United States by $5.8 million, Continental Europe by $8.3 million, United Kingdom by .4 million and other areas by $.7 million.
ntinental Europe encompasses Austria, Belgium, Denmark, Finland, France, Italy, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and est Germany. United Kingdom comprises England and Ireland. Other areas include Australasia, Canada, Mexico, South Africa, South America and e Far East

*Emhart Industries, Inc., Annual Report, 1978.

since it affects overall earnings and presents itself as a constant worry. They feel they have circumvented this problem by having checks drawn on U.S. banks. The rapidity of exchange is implemented by numerous Telex hookups, thus reducing the time in which fluctuations may affect transactions.

In conclusion he was concerned with the variables of Litvak-Banting only as they seemed to affect profitability. He realized the problems this method could present but expressed the opinion that variables such as economic development, cultural unity, and geo-cultural distance were not important and he offered no comment. He verified the existence of a gap between the normative and the actual and did express concern, since they are directly venturing into the export arena and attempting to narrow this gap through formal training in the international context.

4-3 Dr. John Lazar, Problems of Economics

On November 15, 1979, The New Britain National Bank invited Dr. John Lazar, Professor of Economics, University of Hartford, to lecture on the future of "Investments in the World Today." Besides teaching at the University of Hartford, Dr. Lazar is a consultant to business and is a prominent lecturer. The lecture was presented to an audience of lawyers, accountants, insurance executives, and bankers.

He generalized that the trends that will affect the future are based on political/economic trends. The future lies in each country's ability to deal with the rest of the world. For there has to be a working relationship, one not necessarily out of love. He focused on monetary policies of countries and their control over policy. An analogy drawn was that in the past we rode out drastic swings, such as recession; now we are like ships on a strong ocean subjected to weather and other elements, but under control of the captain.

His involvement with international economics has led to only questions, not answers. When asked if he was familiar with the Litvak-Banting model, he responded that he was, and it is utilized as part of our national policy today. He noted that the model was brought to the attention of Henry Kissinger near its inception and that the government recognized its potential and adapted it into the international policy decision process.

He agreed that political stability is perhaps the most important factor in investment decisions.

CHAPTER 5

SUMMARY AND CONCLUSIONS

In summary, this paper represents an attempt to evaluate the importance of political risk and its application in business. The multivariate method of Litvak and Banting offers the overseas businessman an analytical model of overseas business expansion. Further, secondary data has become increasingly available as governments and independent producers make it readily available, and it can be meaningfully utilized if one first derives such a conceptual framework.

The model itself has to offer flexibility and adaptability in order to alter the weight of each factor. The in-depth analysis of political risk as a variable in international business has only verified its importance in the future of international business in the 1980s.

It may be concluded that business executives are being formally trained to function in the international context. They are becoming aware of the existence of analytical tools available and express interest in their intended results. However, what they employ as compared to what is available seems to be quite different. That is, what was found in real life tended to be much more pragmatic.

The company representatives do utilize a relatively "safe" method of entry as opposed to an in-depth analysis of each country to be entered as such a framework could provide. Agreement was made on the importance of political risk. Also there is an inherent fear that changes in the political environment will affect profits to the point where market entry by either distributor or manufacturing would no longer be feasible. Changes in the political environment can also affect profit by damage to the plant and equipment as a result of civil insurrection or strike. Profit can also be affected through changes in governmental policy as expropriation, production restrictions, and taxation.

Obviously political risk analysis can be critical to international business in reaching a "go" or "no go" decision. International business is not helpless in confronting political risk since it possesses the option of entering another country in most cases. In this awakening era there are a range of options available to minimize the effects and magnitude of such risks.

An entry decision may be delayed to a more opportune occasion. A wholly owned subsidiary might be adapted to local regulations such as forming a joint venture. The investment could be protected by some type of insurance such as OPIC or a contractural arrangement, as in the case of helicopter production with Iran; provision could be made to protect the investor, even in supposedly "hot" countries.

The activities of the subsidiary can be altered to production of a safer item, one that would not be subjected to expropriation but reap profitable benefits from the host country. Corporations such as Coca-Cola have retained their secret formulas and IBM its technological secrets. These two firms have maintained control where expropriation would be self-defeating for the host country because it would cut off the essentially needed technological know-how. Finally, the investing company can consider procurement of local raw materials and labor in order to act as a "buffer" against governmental interference because the host country too would suffer if one of their "customer's" operations was disrupted.

The international manager must learn to cope with political uncertainties both at home and abroad just as he must learn to cope with market and economic fluctuations. However, the modern international manager makes his judgments of the host government's action based on information, history, experience or intuition, all of which have considerable weaknesses. But how many managers have training for political analysis compared to more customary business analysis?

The international manager operates in many political environments whose systems differ in philosophy and form from those of his own country. Without a process for systematic evaluation of political risks, the chances increase that the international businessman will invest in a country when he should not or not invest in a country when he should. Those who have realized the importance of assessing and minimizing political risk are in a far better position to deal successfully with the problem and uncertainties found in the international business environment.

Clearly the significance of political risk is an important element in the choice of strategies for international business decisions.

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