

The International Economic Environment

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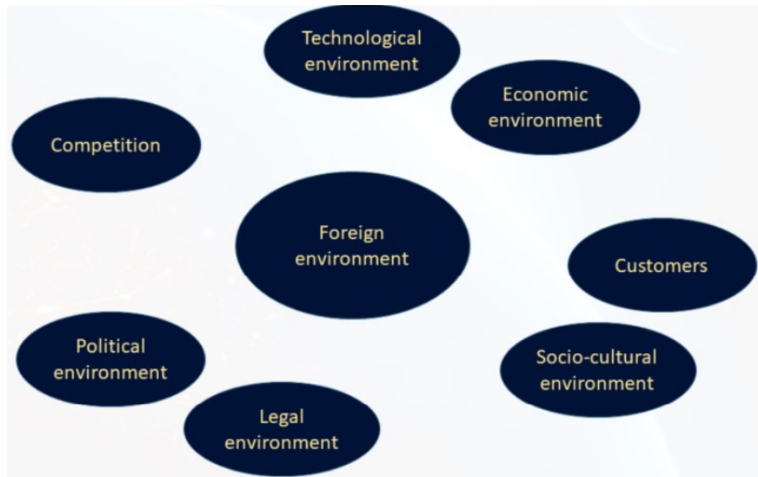
- **Textbooks**

- Chapter 4, 5, Simon Collinson, Rajneesh Narula, Alan M. Rugman and Amir Qamar, *International Business*, 8th Edition, Pearson Education, 2020
- Chapter 2, 3, and 4, John D. Daniels, Lee H. Radebaugh and Daniel Sullivan, *International Business, Global Edition*, 17th Edition, Pearson Education, 2021
- *Chapter 2 and 3*, John J. Wild and Kenneth L. Wild, *International Business: The Challenges of Globalization, Global Edition*, 9th Edition, Pearson Education, 2019

- The Economic Environments Facing Businesses
- International politics
- Legal Systems
- International Culture

Which elements affect the international environment facing businesses?

The International Environments Facing Businesses



Source: Adapted from Griffiths and Wall (2013)

How do they affect?

Market Analysis: Some examples how they affect

● Customers:

- Are needs different to home customers?
- Can the market be segmented?
- Who are we targeting?
- How do customers shop (online/physically)?
- What channel do we use to reach them?

● Political/Legal:

- Working hours legislation?
- Rule of law and development of legal system?
- Respect property rights?
- Environmental legislation?
- Political stability?
- Is the legal/political system going to change?

● Socio-cultural Aspects:

- Any particular taste we should consider?
- Products to avoid?
- Brand name likely to be culturally accepted?
- Specific subcultures?
- How do cultural values affect business operations?

● Economic Environment (Macroeconomy):

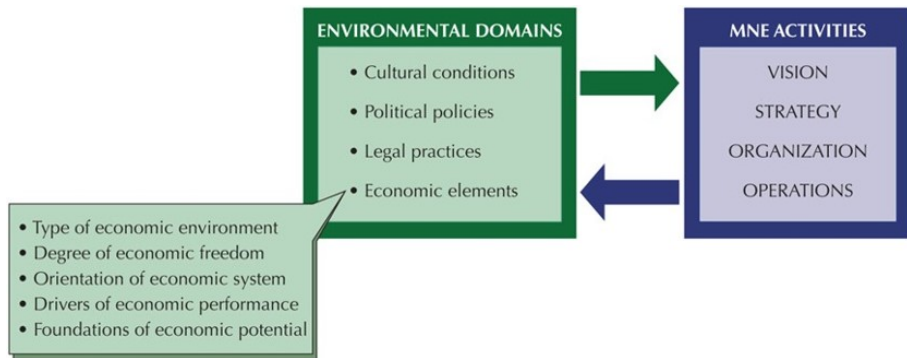
- State of economic indicators?
- Education and labour skills?
- Stability?
- Incentives for inward investment?

● Technological:

- Internet access per head?
- Data network speeds?
- Taste for technological products?
- Attitude to adopt innovations?
- Willingness to pay for innovation?
- Use of social media?

● Competition (Microeconomy):

- What is the nature of competition?
- How many competitors? How powerful?
- Are there barriers to entry?
- How will existing firms react to entry?
- What would be the relationship with the supply chain?
- Is our product differentiated?



Economic Factors Affecting International Business Operations

- **Developed economy**

- A developed economy has a robust economic environment marked by wide-ranging activities, efficient capital movement, stable institutions, extensive infrastructure, international trade and investments, advanced technologies, and higher economic freedom.

- **Developing economy**

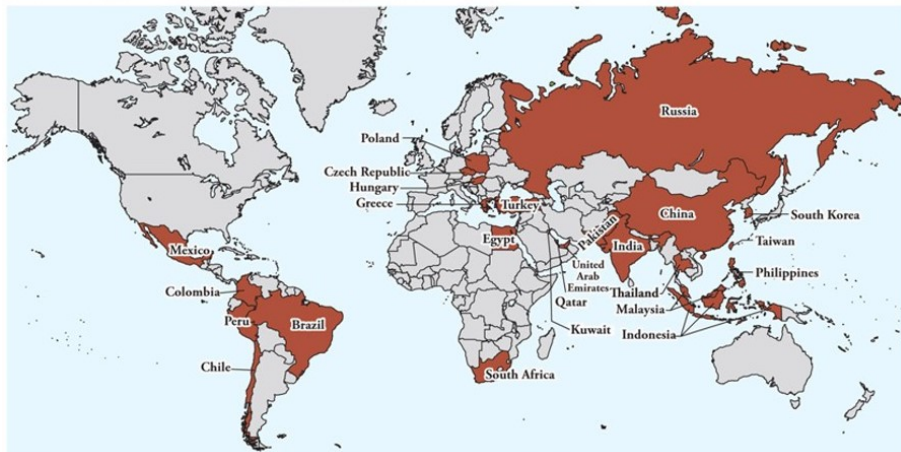
- Generally, a developing economy has an uneven economic environment that is marked by narrow market activities, inefficient capital movement, resistance to foreign ownership, trade restrictions, imperfect competition, unstable institutions, limited infrastructure, sketchy technologies, and lower economic freedom.

- **Emerging economy**

- Emerging economies exhibit improving productivity, rising income, and growing prosperity, particularly relative to slower growing developing economies.

Emerging Economies of the World:

<https://www.msci.com/market-classification>



Source: MSCI Emerging Markets Index. Retrieved January 22, 2020, from <https://www.msci.com/market-classification>

- **What is economic freedom?**

- Economic freedom is the “absolute right of property ownership, fully realized freedoms of movement for labor, capital, and goods, and an absolute absence of coercion or constraint of economic liberty beyond the extent necessary for citizens to protect and maintain liberty itself.”

- Measuring economic freedom- The Economic Freedom Index

- **Play Video** <https://www.heritage.org/index/>

- **See link for methodology** <https://www.heritage.org/index/>

Dimensions of the Economic Freedom Index (1 of 2)

Category	Component	Measure
Rule of Law	Property Rights	Ability of individuals to accumulate, use, trade, and sell private property, protected and safeguarded by clear, specific, and explicit laws that are fully and fairly enforced by the state.
	Government Integrity	How does corruption, in forms such as cronyism, extortion, graft, bribery, patronage, nepotism, and self-dealing, by creating insecurity, coercion, uncertainty, and opportunism, subvert economic transactions, activities, and relationships.
	Judicial Effectiveness	Degree that the judicial system impartially interprets the legal framework and justly applies the law in order to sustain the public's confidence that the legal system operates with an absence of bias against parties.
Limited Government	Fiscal Health	Extent that a government institute systematic policies that manage taxation, public revenues, and public debt to support and sustain stable economic conditions.
	Government Spending	The burden imposed on the economic system by the monies spent by government agents in acquiring goods, providing services, and transferring income payments to its citizens.
	Tax Burden	The proportion of total income and profits that residents and companies pay, in the form of taxes such as income, payroll, consumption, tariff, sales, and property, to the local, state, regional, and federal government.
Regulatory Efficiency	Labor Freedom	The legal codes and regulatory policies that influence workers' rights in the workplace on matters such as occupational safety and health, wages and hours of work, collective bargaining, and employment discrimination.
	Business Freedom	The legal, regulatory, infrastructure contexts that influence an enterprise's efficient management of matters such as the ease of starting, operating, and closing a business.
	Monetary Freedom	Measure of price stability and scale and scope of price controls in terms of their support and distortion of market activity.
Open Markets	Trade Freedom	The openness of an economy to the export and imports of goods and service as moderated by the scale and scope of tariff and nontariff barriers applied by the government to regulate trade.
	Investment Freedom	The absence of investment restrictions, such as burdensome bureaucracy, private property regulation, and foreign exchange controls, that complicate or control an individual's choice to allocate resources to activities and opportunities.
	Financial Freedom	The independence an individual or company attains that buffers, defends, and protects them from interference by government agents, officials, and policies.

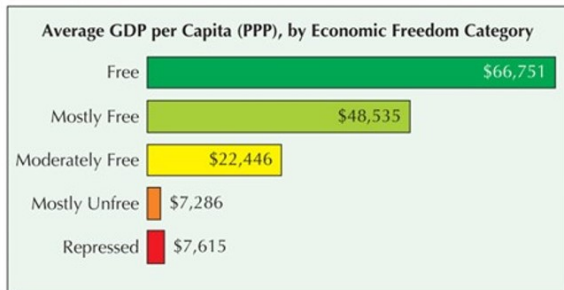
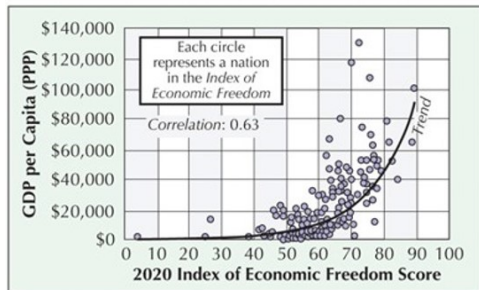
Adapted from "Methodology," 2019 Index of Economic Freedom, The Heritage Foundation, in partnership with the Wall Street Journal, from www.heritage.org/index/pdf/2019/book/methodology.pdf and TCdata360, The World Bank, from <https://tcdata360.worldbank.org/>, retrieved September 13, 2020

Dimensions of the Economic Freedom Index (2 of 2)

Economic Freedom Score	Class	General Characteristics	Representative Nations
80-100	Free	<ul style="list-style-type: none"> Companies, both domestic and foreign, face none to few restrictions making or selling products. Government institutes enforces extensive property rights. Negligible government interference in the marketplace. Slight corruption or risk of expropriation. Government endorse openness to international trade and investment. Regulation is minimal and centers on improving transparency, fairness, and firm conduct. 	Australia, Hong Kong, New Zealand, Singapore, Switzerland, Ireland
70-79.9	Mostly Free	<ul style="list-style-type: none"> Limited state interference in the movement of labor, capital, and goods. Property rights are acknowledged and protected. Foreign companies are subject to few discriminatory restrictions. Judicial system is subject to delays and may inconsistently enforce contracts. Corruption is unusual; the risk of expropriation is low. Sizable government ownership of companies in key sectors. Inflexible, often rigid, labor regulations. Inward and outward capital movements face restrictions. Moderate government interference in economic affairs. 	Canada, Chile, Colombia, Estonia, Israel, Lithuania, South Korea, St. Lucia, Sweden, Taiwan, United States
60-69.9	Moderately Free	<ul style="list-style-type: none"> Regulations are somewhat burdensome and costly. The government exercises ownership and control of significant economic sectors. The judiciary may be unduly influenced by public officials and private agents. 	Azerbaijan, Belgium, Botswana, Ghana, Italy, Jamaica, Kazakhstan, Kuwait, Mexico, Morocco, Oman, Peru, Philippines, Rwanda, Saudi Arabia
50-59.9	Mostly Unfree	<ul style="list-style-type: none"> Considerable state action interferes with individual choice. Government owns or controls some to many companies. Foreign companies are subject to curative policies. Regulations restrict repatriation of funds foreign headquarters. Private use of capital faces significant barriers. Laws are often opaque and arbitrarily enforced. The court system is inefficient and subject to delays. The State hinders the free flow of foreign commerce. 	Bangladesh, Brazil, Cambodia, Cameroon, China, Ethiopia, Fiji, Greece, India, Lebanon, Nepal, Nicaragua, Pakistan, Russia, Sri Lanka, Swaziland, Tunisia, Vietnam
0-49.9	Repressed	<ul style="list-style-type: none"> An oppressive bureaucracy administers burdensome regulations. Corruption is pervasive and endemic. Foreign companies, if permitted, navigate extensive barriers to entry and mobility. Private property ownership is, at best, weakly protected, at worst, outlawed. Supervision and regulation restrict, if not eliminate, personal choice in the marketplace. The State owns some to all property and directly produces goods and services. Coercion and constraint pervade an unfair market system. 	Angola, Argentina, Belarus, Burma, Bolivia, Chad, Ecuador, Iran, North Korea, Turkmenistan, Venezuela, Zimbabwe

Sources: Adapted from Terry Miller, Anthony B. Kim, James M. Roberts, and Patrick Tynel, 2020 Index of Economic Freedom, The Heritage Foundation.

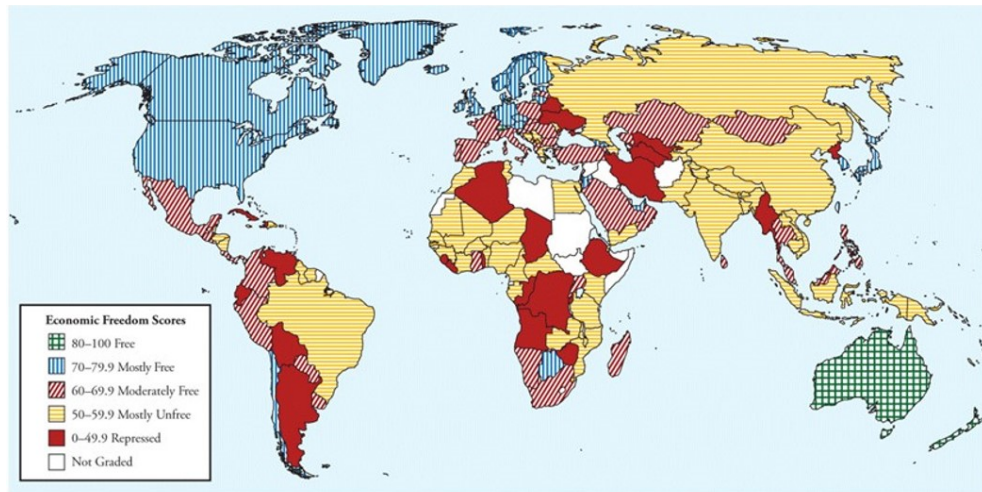
Chart on Economic Freedom and Standard of Living



Sources: Terry Miller, Anthony B. Kim, James M. Roberts, and Patrick Tyrrel, 2020 Index of Economic Freedom (Washington: The Heritage Foundation, 2020), <http://www.heritage.org/index> and International Monetary Fund, World Economic Outlook Database <https://bit.ly/3eWOIHI> (accessed July, 20, 2020).

Map of Economic Freedom (1 of 2)

What conclusions/tendencies can you make/see?



Source: Terry Miller, Anthony B. Kim, James M. Roberts, and Patrick Tyrrel, 2020 Index of Economic Freedom (Washington, DC: The Heritage Foundation and Dow Jones Co., Inc., 2020).

Map of Economic Freedom (2 of 2)

The development status of an economic environment significantly influences managers' freedom to make investments, build operations, and run businesses. The higher the score, as we see below, the greater the freedom an individual has in that domain.

Dimension		Developed Economies	Emerging Economies	Developing Economies ²⁹
Overall Economic Freedom Score		73.3	66.9	57.1
Rule of Law	Property Rights	82.9	61.1	45.3
	Judicial effectiveness	72.1	52.6	34.3
	Government Integrity	76.7	45.8	34.3
Government Size	Tax Burden	62.7	79.9	79.5
	Fiscal Health	82.2	75.1	61.4
	Government Spending	43.3	71.1	66.9
Regulatory Efficiency	Labor Freedom	65.7	61.5	57.9
	Business Freedom	81.6	70.9	59.0
	Monetary Freedom	82.6	76.4	73.5
Open Markets	Trade Freedom	85.9	80.1	71.1
	Investment Freedom	82.5	59.8	52.0
	Financial Freedom	73.8	56.5	42.5

Note: Scores range from zero (no freedom) to 100 (full freedom).

Source: Terry Miller, Anthony B. Kim, James M. Roberts, and Patrick Tyrrel, 2020 Index of Economic Freedom (Washington, DC: The Heritage Foundation and Dow Jones Co., Inc., 2020).

Measuring Government Spending

- **Formula:**

$$GE_i = 100 - a \times (\text{Expenditures}_i)^2$$

where:

- GE_i : government spending score for country i
 - Expenditures_i : average total government spending as % of GDP over last 3 years
 - $a = 0.03$: adjustment coefficient
-
- **Example:**
 - If Country X has government spending = 30% of GDP:

$$GE_X = 100 - 0.03 \times 30^2 = 100 - 0.03 \times 900 = 100 - 27 = 73$$

→ Score = 73 (moderate government spending).

Measuring Tax Burden

- **Formula:**

$$\text{Tax Burden}_{ij} = 100 - a \times (\text{Sub-factor}_{ij})^2$$

where:

- Tax Burden_{ij}: tax burden score for sub-factor *j* in country *i*
 - Sub-factor_{ij}: value as % (0–100 scale) for:
 - Top marginal tax rate on individual income
 - Top marginal tax rate on corporate income
 - Total tax burden as % of GDP
 - $a = 0.03$
- **Example:**
 - For Country Y: Individual = 40%, Corporate = 30%, Total = 25% of GDP.
Scores:

$$100 - 0.03 \times 40^2 = 52.8; 100 - 0.03 \times 30^2 = 73; 100 - 0.03 \times 25^2 = 81.25$$

- Average tax burden score:

$$(52.8 + 73 + 81.25)/3 \approx 69$$

- **Components:**

- Average deficits as a % of GDP over 3 years (80% weight)
- Debt as a % of GDP (20% weight)

- **Formula for each sub-factor:**

$$\text{Sub-factor Score} = 100 - a \times (\text{Sub-factor})^2$$

where $a = 2$ for deficits and $a = 0.01$ for debt.

- **Example:** Country A:

- Deficit = 4% of GDP: $100 - 2 \times 4^2 = 100 - 32 = 68$
- Debt = 50% of GDP: $100 - 0.01 \times 50^2 = 100 - 25 = 75$
- Overall fiscal health score: $0.8 \times 68 + 0.2 \times 75 = 54.4 + 15 = 69.4$

- **Components:**

- Weighted average tariff rate (bounded between 0 and 50)
- Qualitative evaluation of non-tariff barriers (NTBs) to reflect restrictions like import quotas, licensing, cumbersome customs procedures, etc.

- **Formula:**

$$\text{Trade Freedom} = 100 \times \left(\frac{\text{Tariff}_{\max} - \text{Tariff}}{\text{Tariff}_{\max} - \text{Tariff}_{\min}} \right) - \text{NTBs}$$

- **Example:** Country B:

- Weighted tariff rate = 20%
- $\text{Tariff}_{\min} = 0$, $\text{Tariff}_{\max} = 50$
- NTBs penalty = 10 points
- Score: $100 \times \frac{50-20}{50} - 10 = 100 \times 0.6 - 10 = 60 - 10 = 50$

Trump's Reciprocal Tariff Formula

- **Reciprocal tariff rate** for country i :

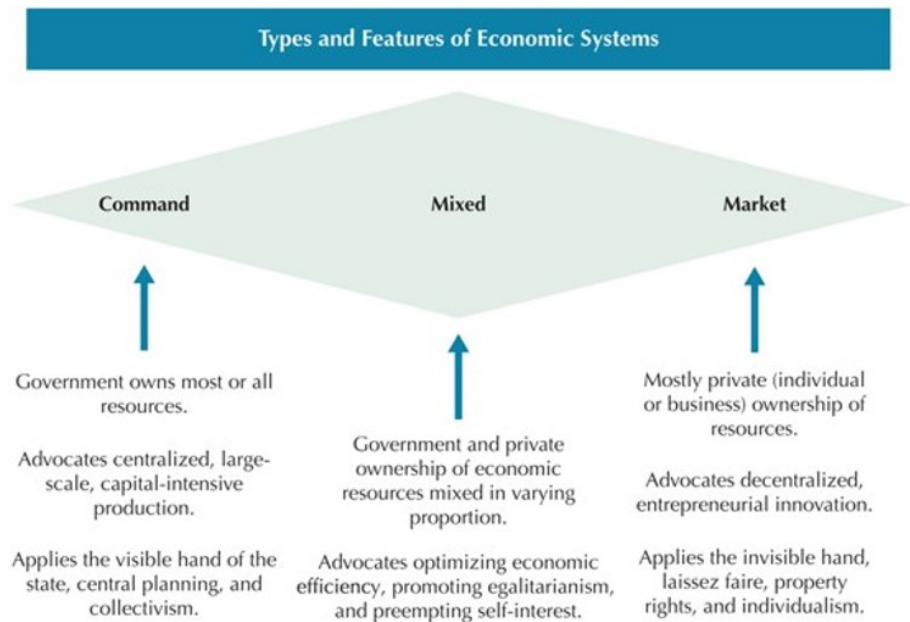
$$t_i = \frac{1}{2} \times \left(\frac{\text{U.S. trade deficit in goods with } i}{\varepsilon\varphi * (\text{U.S. imports from } i)} \right)$$

- Elasticity factors $\varepsilon \times \varphi$ set to -1, so the result stays positive
- Example for ****China**** (2024 figures):

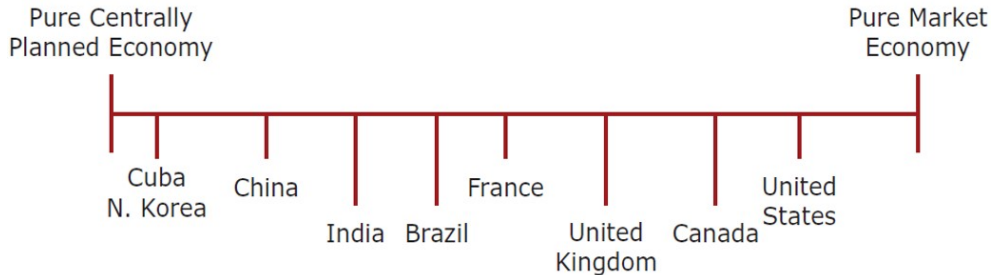
Deficit = \$295bn, Imports = \$439bn

$$\frac{295}{439} \approx 0.67 \Rightarrow \text{tariff} \approx 33.5\%$$

Types of Economic Systems



Range of Economic Systems: Some examples



Ways to measure an economy

- Monetary
 - GNI (Gross National Income)
 - GDP (Gross Domestic Product)
 - GNP (Gross National Product)

Improving economic analytics

- Rate of economic growth
- Population size
- Purchasing Power Parity
- The shadow economy

Assessing Economic Development, Performance, and Potential: The 10 Largest Economies, GDP Adjusted for Purchasing Power Parity

Rank	Country	Population (millions)	GDP by PPP (US\$ trillions)	Percent of World Economy	Economic Freedom Score
1	China	1,341	29.47	21.62	58.4
2	United States	322	22.32	16.38	76.8
3	India	1,267	12.36	9.07	62.2
4	Japan	127	5.89	4.32	72.1
5	Germany	83	4.59	3.37	73.5
6	Russia	142	4.52	3.32	58.9
7	Indonesia	252	4	2.93	65.8
8	Brazil	203	3.6	2.64	51.9
9	United Kingdom	63	3.24	2.38	78.9
10	France	64	3.16	2.32	63.8
—	World	7,556,278	\$135.24	68.34	—

Sources: International Monetary Fund 2019 and the 2019 Index of Economic Freedom.

Sustainability in Economies

- Green Economics
- Sustainability
 - Net National Product (NNP)
 - Genuine Progress Indicators (GPI)
 - Human Development Index (HDI)

Stability in Economies

- Happynomics
 - Your Better Life Index (YBLI)
 - Gross National Wellness (GNW)
 - Gross National Happiness (GNH)
 - Happy Planet Index (HPI)

Does it make sense talking about GDP anymore?

- **Green economics** holds that an economy is a component of, and dependent on, the natural world.
- **Human Development Index (HDI)** and its primary components: longevity, knowledge, and standard of living.
- **Genuine Progress Indicators (GPI)** adjusts GDP for the corresponding costs of reduced environmental quality, health and hygiene, livelihood security, equity, free time, and educational attainment.
- **Happynomics or welfare economics encourages incorporating elements of psychology, health, security, and sociology.**
 - **OECD Regional Well-Being** How does your region perform when it comes to education, environment, safety and other topics important to your well-being?
 - **OECD Your Better Life Index (YBLI)** advocates evaluating economic performance in terms of matters that people worldwide believe are important (e.g., social relationships, health, work–family balance, education) but that fall beyond the narrow scope of monetary measures.
 - **The Gross National Wellness Index (GNWI)** measures a country's capacity to promote individual well-being in terms of mental, health, work, income, social relations, economic etc.
 - **Gross National Happiness Index (GNHI)** emphasizes collective happiness and well-being of the population.
 - **Happy Planet Index (HPI):** A utilitarian view holds that people aspire to live long, healthy, ecologically sensitive lives.

Elements of Economic Analysis (1 of 2):

Dimension	Specification	Implication
Balance of Payments (BOP)	Summary of an economy's trade and financial transactions, as conducted by individuals, businesses, and government agencies, with the rest of the world.	Indicates if a country has sufficient savings to pay for its imports as well as if it produces enough income to finance growth.
Deflation	General decline in prices, often caused by a reduction in the supply of money or credit or declining aggregate demand.	Slows economic growth; anticipating lower prices, consumers defer purchases, thereby risking a deflationary spiral. Increases the real value of debt.
Foreign Direct Investment	Controlling ownership in a business enterprise in one country by an entity based in another country.	Promotes development, job expansion, industrialization, and exports. Transfers skills and technologies.
Income Distribution	The distribution of income among a nation's population; estimated by the GINI coefficient.	Equality stabilizes society and opens opportunities; inequality promotes debt, stress, and risks.

Elements of Economic Analysis (2 of 2):

Dimension	Specification	Implication
Misery Index	The sum of a country's inflation and unemployment rates. The higher the sum, the greater the economic misery.	Higher misery discourages spending and investment in the face of growing austerity.
Poverty	Multidimensional condition whereby a person or community lacks the essentials for a minimum standard of well-being and life.	Persistent poverty destabilizes performance and constrains potential. Creates stress points that challenge civil society.
Public Debt	The total of a state's financial obligations; measures what the government borrows from its citizens, foreign organizations, foreign governments, and international institutions.	Decreasing debt opens growth opportunities. Growing debt signals increasing austerity, rising taxes, and, if uncontrolled, debt crises that impose political, economic, and social costs.
Unemployment	The share of out-of-work citizens actively seeking employment for pay relative to the total civilian labor force.	People gainfully employed testify to the competency of policymakers to sustain a productive economy. Persistent unemployment indicates government ineptitude.

- Other elements of economic analysis for IB managers to consider
 - Global Competitiveness Index (GCI)
 - The Global Competitiveness Index (GCI) integrates relationships among 110 variables spanning 12 “pillars of competitiveness”.
 - **World Competitiveness Index (WCI)**
 - Assesses a nation's ability to set and sustain a business environment that enables enterprises to compete, prosper, and create wealth.
 - **Global Innovation Index (GII)**
 - The Best Countries Index (BCI)
 - **The Where-To-Be-Born Index (WTBBI)**
 - **The Good Country Index**
- **Which element would you look first if you decide to go international?**

Economic Freedom, Innovation, and Competitiveness (1 of 2)

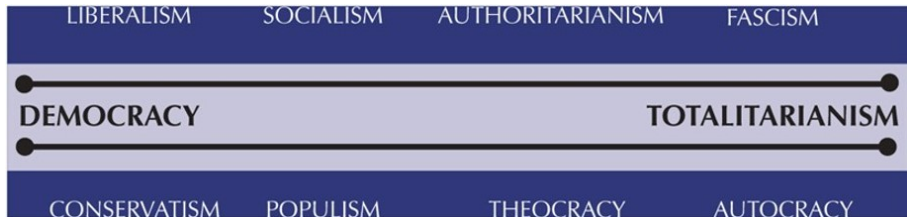
Nation	Economic Freedom Score	Type of Economy	Global Competitiveness Index, Rank	World Competitiveness Index, Rank	Global Innovation Index, Rank	Best Countries Index, Rank	Where-To-Be-Born Index Rank
Singapore	89.4	Developed	1	1	8	15	6
Switzerland	81	Developed	5	3	1	1	1
Australia	80.9	Developed	16	18	22	7	2
Canada	77.1	Developed	14	8	17	3	9
United States	76.2	Developed	2	10	3	8	17
Sweden	75.2	Developed	8	6	2	6	4
Malaysia	74	Emerging	27	27	35	38	36
Germany	73.5	Developed	7	17	9	4	16
South Korea	72.3	Developed	13	23	11	22	19
Japan	72.1	Developed	6	34	15	2	25
Poland	67.8	Emerging	37	39	39	33	33

Economic Freedom, Innovation, and Competitiveness (2 of 2)

Nation	Economic Freedom Score	Type of Economy	Global Competitiveness Index, Rank	World Competitiveness Index, Rank	Global Innovation Index, Rank	Best Countries Index, Rank	Where-To-Be-Born Index Rank
Colombia	67.3	Emerging	57	54	63	66	42
Indonesia	65.8	Emerging	50	40	85	43	71
Mexico	64.7	Emerging	48	53	56	35	39
Philippines	63.8	Emerging	64	45	54	50	63
Saudi Arabia	60.7	Developing	36	24	68	32	38
Russia	58.9	Emerging	43	50	46	24	72
China	58.4	Emerging	28	20	14	16	49
South Africa	58.3	Emerging	60	59	63	*	53
India	55.2	Emerging	68	43	52	27	66
Brazil	51.9	Emerging	71	56	66	28	37

International politics

The Political Ideology Spectrum



An ideology is a set of integrated beliefs, theories and doctrines that helps direct the actions of a society. Political ideology is almost always intertwined with economic philosophy.

● Political systems

- **Democracy:** A system of government in which the people, either directly or through their elected officials, decide what is to be done.
- **Totalitarianism:** A system of government in which one individual or political party maintains complete control and either refuses to recognize other parties or suppresses them.
- **Communism:** A political system in which the government owns all property and makes all decisions regarding production and distribution of goods and services.
- **Theocratic totalitarianism:** A system of government in which a religious group exercises total power and represses or persecutes non-orthodox factions.
- **Secular totalitarianism:** A system of government in which the military controls everything and makes decisions that it deems to be in the best interests of the country.

The Distribution of Democracy: The Texture of Democracy: Types, Characteristics, and Examples

Type	Characteristics ⁴⁶	Examples
Full Democracy	<ul style="list-style-type: none">• Mature political culture promotes and protects political freedoms and civil liberties.• Government discharges responsibilities transparently.• An effective system of checks and balances regulates politics.• The judiciary is independent, its decisions are impartially enforced, and the rule of law predominates.• Media are independent, vigilant, and diverse.	Australia, Austria, Costa Rica, Denmark, New Zealand, Norway, Switzerland, Uruguay
Flawed Democracy	<ul style="list-style-type: none">• The State respects basic civil liberties.• Free and fair elections regularly occur but experience fraud or media restrictions.• Governance problems and low political participation make for a weak political culture.• Leadership and policy change occur frequently.	Brazil, Estonia, Hungary, India, Indonesia, Mexico, Senegal, Singapore, South Africa, South Korea, United States, Taiwan

Do you agree with the distribution? Why?

The Distribution of Democracy: The Texture of Democracy: Types, Characteristics, and Examples

Type	Characteristics ⁴⁶	Examples
Hybrid Regime	<ul style="list-style-type: none">• Electoral irregularities undermine freedom and justice.• The state limits opposition parties and candidates.• Judicial bias favouring the “man” undermines the rule of law.• Political culture, public administration, and political participation struggles.• Corruption is extensive, civil society fades, and media are regulated.	Bangladesh, Cambodia, Honduras, Kyrgyzstan, Nigeria, Pakistan, Tanzania, Thailand, Ukraine
Authoritarian Regime	<ul style="list-style-type: none">• Political pluralism is absent or repressed by the state.• Democratic institutions may exist but the state uses them to legitimate single-party rule.• Elections, if they do occur, are neither free nor fair.• The state systematically disregards civil liberties.• There is no independent judiciary and the rule of man predominates.• Media are typically state-owned or controlled by groups connected to the state.• Censorship suppresses criticism of the state.• Propaganda promotes the state ideology.	Afghanistan, Belarus, China, Gabon, Kuwait, Nicaragua, Mozambique, Russia, Saudi Arabia, Zimbabwe

Is freedom under threat?

Freedom Struggles: Freedom in the World: Gains and Declines by Country



Source: "Freedom in the World 2019: Democracy in Retreat".

- See data <https://freedomhouse.org/explore-the-map?type=fiw&year=2024>

Classifying Political Risk: Classes and Characteristics

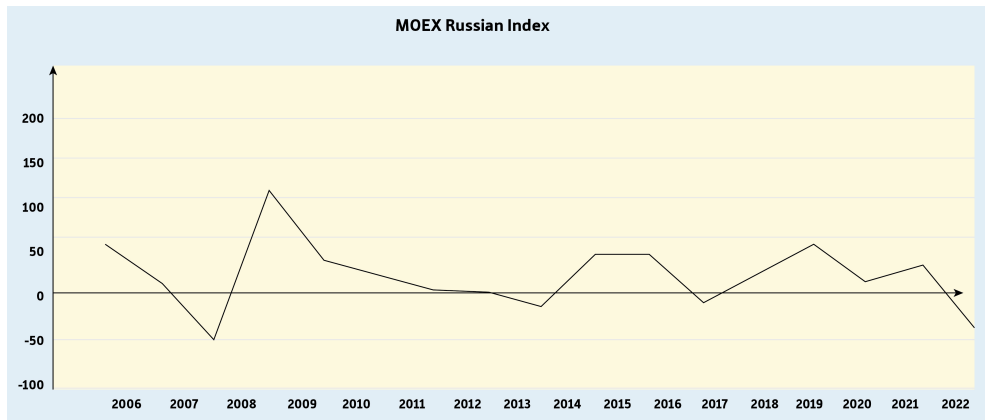
Scale	Class	Type	Outcome
Micro ↑ ↓ Macro	Systemic	Financial Anomalies	Regulatory policies that make it difficult for the company to get credit or arrange overseas loans.
		Competing Perspectives	The host government's policies on, for instance, human rights, labor conditions, or environmental sustainability, create public relations problems for a foreign company at home.
		Unilateral Breach of Contract	The host government repudiates a contract negotiated with a foreign company or approves a local firm's doing the same.
	Procedural	Tax Discrimination	A foreign company is saddled with a higher tax burden than a local competitor.
		Restrictions on Profit Repatriation	The host government arbitrarily limits the amount of profit that a foreign company can remit from its local operations to the home office.
	Distributive	Destructive Government Actions	Unilateral trade barriers, often via local-content requirements, interfere with the distribution of products to local consumers.
		Harmful Action Against People	Local employees of a foreign company are threatened by kidnapping, extortion, or terrorist actions.
		Expropriation/Nationalization	The host government or a political faction seizes a company's local assets. Compensation, if any, is usually trivial. Resurgent totalitarianism and resource nationalism increase this risk.
	Catastrophic	Civil Strife, Insurrection, War	Military action damages or destroys a company's local operations.

Sanctions Imposed on Russia

- Russia became the most sanctioned country globally (13,000 restrictions as of 2023), surpassing North Korea, Iran, and Cuba combined.
- Key sanctions imposed by USA, UK, EU, Japan, Canada include:
 - Ban on secondary trade in Russian government bonds.
 - Ban on economic interactions with Russian banks.
 - Ban on exports of key technologies to Russia.
 - Travel bans for Russian elites.
- Sanctions also targeted Russia's Central Bank, freezing access to foreign reserves held abroad.
- Major impact: isolated Russia from technologically advanced economies and disrupted international business ties.

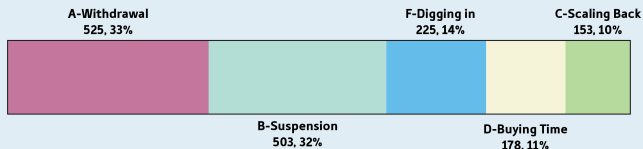
- **How has Russia been affected by the sanctions placed on it by other countries?**
- **Why has the economic impact of sanctions on Russia been less significant than we might expect? Could this change over the longer-term?**
- **How have MNEs, with investments already in Russia, reacted to these sanctions and the broader political tensions, and why have they changed their approach to Russia?**

Reduction in Russian equities 2018–22



Source: Moscow Exchange, accessed via Haver Analytics. Deloitte insights. Collinson et al (2024)

Proportion of MNCs leaving vs staying, 2023



A. WITHDRAWAL : Companies making a clean break/permanent exit from Russia or and or leaving behind no operational footprint.

B. SUSPENSION : Companies temporarily suspending all or almost all Russian operations without permanently existing or divesting.

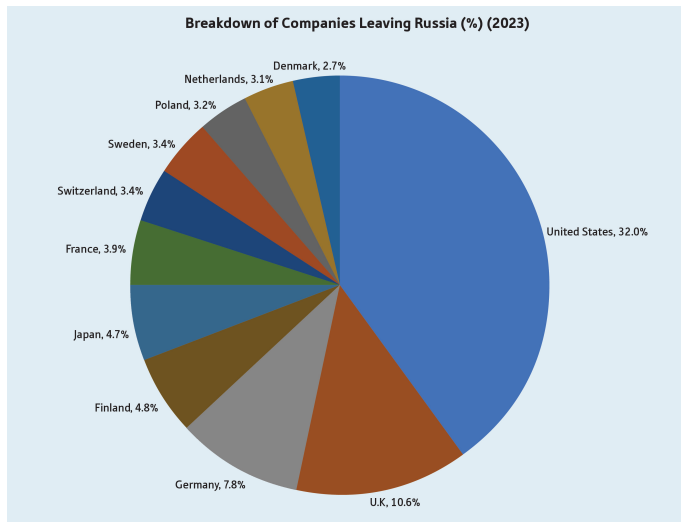
C. SCALING BACK : Companies suspending a significant portion (but not all) of their business in Russia.

D. BUYING TIME : Companies pausing new investments/minor operations in Russia but largely continuing substantive business in Russia.

F. DIGGING IN : Companies defying demands for exit or reduction of activities largely doing business-as-usual.

Source: <https://fortune.com/2023/07/11/the-feckless-400-these-companies-are-still-doing-business-in-russia-funding-putins-war-sonnenfeld-tian/>

MNCs fully leaving Russia, 2023



Source: <https://fortune.com/2023/07/11/the-feckless-400-these-companies-are-still-doing-business-in-russia-funding-putins-war-sonnenfeld-tian/>

- **How has Russia been affected?** Heavy sanctions imposed: trade bans, financial restrictions, and asset freezes. Russia responded with capital controls and interest rate hikes, cushioning short-term impacts. Long-term effects (e.g., reduced investment, higher prices) are emerging.
- **Why limited impact so far?** Russia's energy exports and high global prices offset shocks. Limited trade interdependence beyond energy. But future effects may be more severe as Europe reduces dependency and financial isolation deepens.
- **MNE reactions:** Many MNEs suspended or exited operations due to sanctions and reputational risks, reducing investment and impacting future Russian growth.

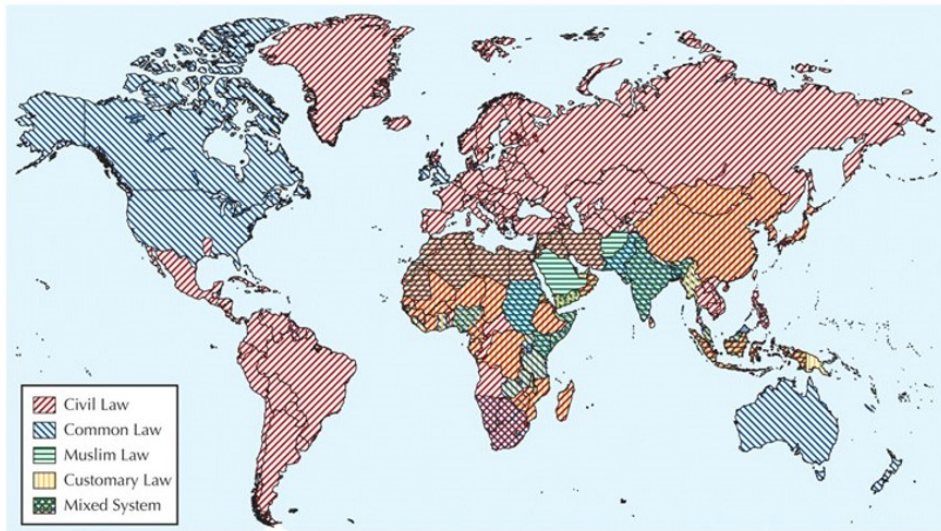
Legal Systems

- **Legal System:** Set of laws and regulations, including the processes by which a country's laws are enacted and enforced and the ways in which its courts hold parties accountable for their actions.
- A country's political system also influences its legal system.
- Legal systems are frequently influenced by political moods and upsurges of nationalism.

Do you know the legal system of your country?

Click link to see: www.juriglobe.ca/eng/index.php

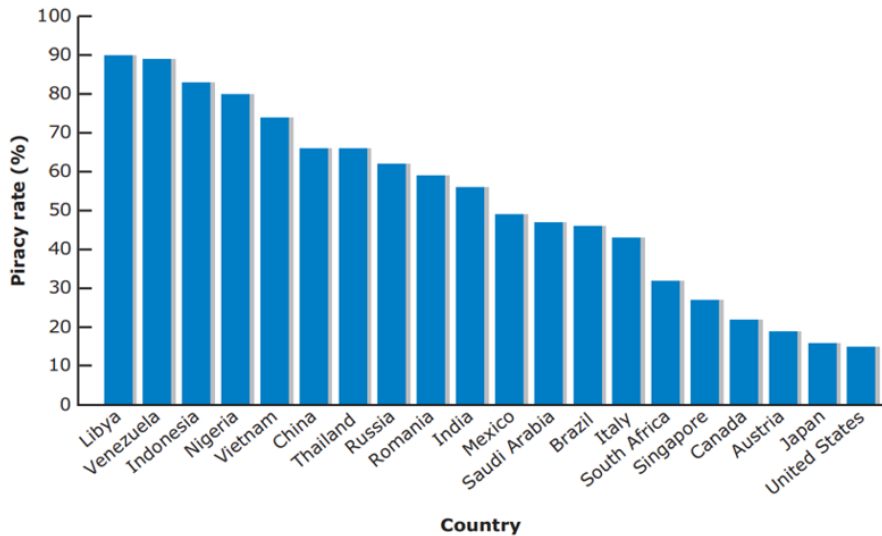
Types of Legal Systems



Source: University of Ottawa, "World Legal Systems," retrieved January 15, 2020, from www.juriglobe.ca/eng/index.php

- Intellectual Property
 - Property Rights
 - Industrial Property
 - Patents (granted to the inventor of a product or process that excludes others from making, using, or selling the invention)
 - Trademarks (property right in the form of words or symbols that distinguish a product and its manufacturer)
 - Copyright (property right giving creators of an original work the freedom to publish or dispose of it as they choose)
- Product Safety and Liability
 - Responsibility for damage, injury, or death
- Taxation
 - Income, sales, consumption, and VAT
- Antitrust Regulations
 - Prevent market sharing, price fixing, and unfair advantage

Business Software Piracy



Source: Wild (2023)

Doing Business 2020 report

Country	Ranking	Country	Ranking
New Zealand	1	Timor-Leste	181
Singapore	2	Chad	182
Hong Kong SAR, China	3	Congo, Dem. Rep	183
Denmark	4	Central African Republic	184
South Korea	5	South Sudan	185
United States	6	Libya	186
Georgia	7	Yemen	187
United Kingdom	8	Venezuela	188
Norway	9	Eritrea	189
Sweden	10	Somalia	190

Source: Doing Business 2020. The World Bank. Retrieved January 29, 2020 from <https://archive.doingbusiness.org/en/doingbusiness>

Corporate Social Responsibility (CSR)

- The practice of going beyond legal obligations to actively balance commitments to investors, customers, other companies, and communities; includes activities such as giving to the poor, building schools in developing countries, and protecting the global environment.
- Traditional Philanthropy
- Risk Management
- Strategic CSR

Key Issues

- Bribery and Corruption
- Labor Conditions and Human Rights
- Fair Trade Practices
- Environment
 - Carbon footprint

Philosophies of Ethics and Social Responsibility

- **The Friedman view** argues that a company's sole responsibility is to maximize profits for its owners (or shareholders) while operating within the law.
 - Many people disagree with this argument and say the discussion is not whether a company has CSR obligations but how it will fulfill them.
- **The cultural relativist view** says that a company should adopt local ethics wherever it operates because right and wrong are determined within a cultural context.
 - "When in Rome, do as the Romans do" captures the essence of this view.
- **The righteous moralist view** argues that a company should maintain its home-country ethics wherever it operates because the home-country's view of ethics and responsibility is superior.
 - If headquarters instructs a subsidiary manager to refrain from bribing local officials, it imposes its righteous moralist view on the local manager.
- **The utilitarian view** says that a company should behave in a way that maximizes "good" outcomes and minimizes "bad" outcomes wherever it operates.
 - A utilitarian manager will take the action that produces the best outcome for all affected parties.

Which philosophy of companies do you believe is the most predominant?

Government control of assets

- **Privatisation:** The process of selling government assets to private buyers.
 - Divestiture: A process by which a government or business sells assets.
 - Contract management: A process by which an organisation (such as the government) transfers operating responsibility of an industry without transferring the legal title and ownership.
- **Nationalisation:** A process by which the government takes control of business assets, with or without remuneration to the owners.

Government–business cooperation

- Whether governments are privatising or nationalising assets, they need to maintain a range of controls and mechanisms for coordination and cooperation in place to connect public policy with private sector investments and decision making. National and regional industrial strategies aim to focus investment into key sectors where local advantages either help attract inward investment or support export-led growth.
- **PPP? Thoughts on this? Examples**

The establishment of transnational rules and regulations that enhance economic trade and cooperation among countries (Can lead to **Trade creation** or **Trade diversion**).

- **Free Trade Area:** Barriers to trade (such as tariffs) among member countries are removed (e.g. NAFTA).
- **Customs Union:** Tariff between member countries are eliminated and a common trade policy toward non-member countries is established.
- **Common Market:** Elimination of trade barriers among member countries, a common external trade policy and mobility of factors of production among member countries.
- **Economic union:** A deep form of integration characterized by free movement of goods, services, and factors of production among member countries and full integration of economic policies.
- **Political union:** An economic union in which there is full economic integration, unification of economic policies and a single government.

Examples of economic integration

- **European Union (EU):** A treaty-based institutional framework that manages economic and political cooperation among its 27 members (issues Brexit, why?).
- **European Free Trade Association (EFTA):** A free trade area currently consisting of Iceland, Liechtenstein, Norway, and Switzerland.
- **Andean Community:** An economic union that consists of Bolivia, Colombia, Ecuador, Peru, and Venezuela.
- **Mercosur:** A free trade group that consists of Argentina, Brazil, Paraguay, and Uruguay.
- **Asean:** Founded by Indonesia, Malaysia, the Philippines, Singapore, and Thailand.
- **FTAA:** A free trade agreement of the Americas that has not yet been implemented.

- **The civil society** is a group of individuals, organisations, and institutions that act outside the government and the market to advance a diverse set of interests, including opposition to global business.
- **Non-governmental organisations (NGOs)** are private sector groups that act to advance diverse social interests.

Good or bad for business? Thoughts?

International Culture

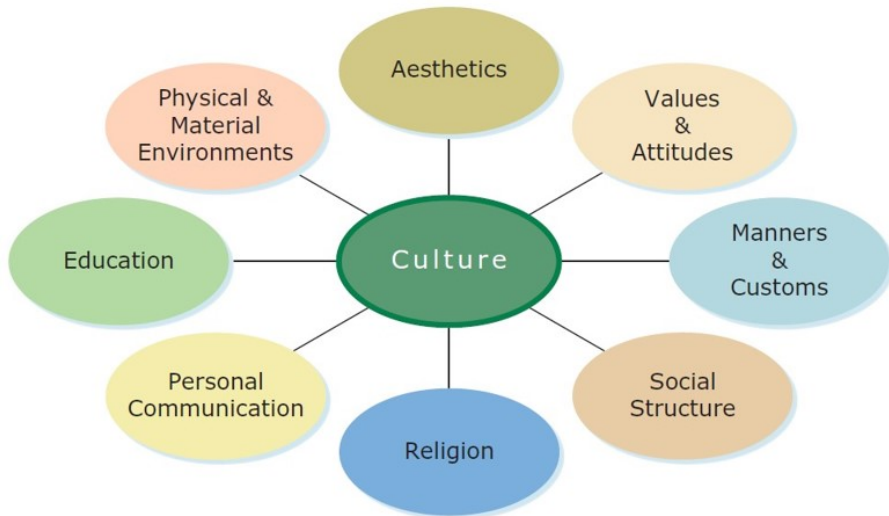
- What is culture?
- The importance of culture in different business contexts
- National stereotypes and key dimensions of culture
- Cross-cultural management
- Culture embodied in national institutions.

What is Culture?

- **Culture:** “The sum total of the beliefs, rules, techniques, institutions and artefacts that characterise human populations” or “the collective programming of the mind.”
- **Socialisation Process:** The process of enculturation or the adoption of the behaviour patterns of the surrounding culture.

Can you name a few components of culture?

Components of Culture



- **Corporate culture** is a term used to characterize how the managers and employees of particular companies tend to behave.
- Corporate culture is also used by human resource managers and senior management in their attempts to proactively shape the kind of behavior (“innovative”, “open”, “dynamic”, etc.) they hope to nurture in their organizations.
- Promoting a distinctive corporate culture is also expected to enhance the sense of community and shared identity that underpins effective organizations.

Major Behavioral Practices Affecting Business

Social stratification

- Individual qualifications and their limitations
- Ethnic and racial groups
- Gender-based groups
- Age-based groups
- Family-based groups

Information and task processing

- Perception of cues
- Low and high context cultures
- Information processing
- Monochronic and polychronic cultures
- Idealism vs. Pragmatic

Work motivation

- Materialism and motivation
- Expectation of success and reward
- Performance and achievement
- Hierarchy of needs

Relationship preferences

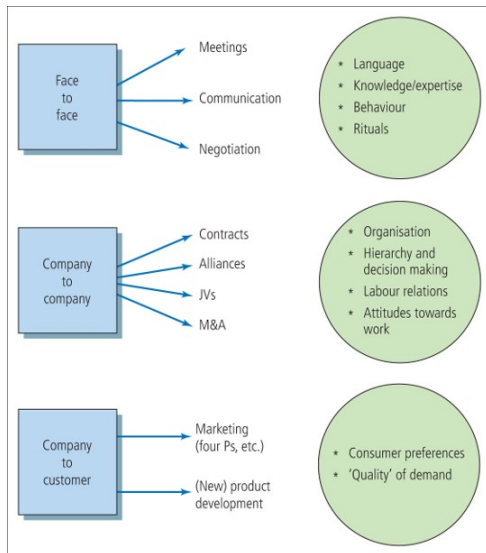
- Power distance
- Individualism versus collectivism
- Risk-taking behavior
- Uncertainty avoidance
- Trust
- Future orientation
- Fatalism

- **Work attitudes**
 - for example, work ethics, organization commitment, etc.
- **Achievement motivation**
 - the desire to accomplish objectives and achieve success.
- **Time and future**
 - for example: punctuality, decision-making time constraints, time expectations on implementation of plans, etc.
- **Ethics**
 - standards of conduct and morality.

Culture and Strategic Management

- Cross-cultural management issues arise in a number of situations, including:
 - **Within a firm:** Work attitudes, achievement motivation, time and future, ethics, etc.
 - **Between firms:** M&As, joint ventures, alliances, buyer–supplier relationships.
 - **Between a firm and customers:** Dealing with customers.

Compare this discussion of cross-cultural management issues to issues that arise when dealing with national institutions (e.g., regulatory bodies, governments, etc.), which may raise different or related cultural challenges.



Cross-cultural business contexts

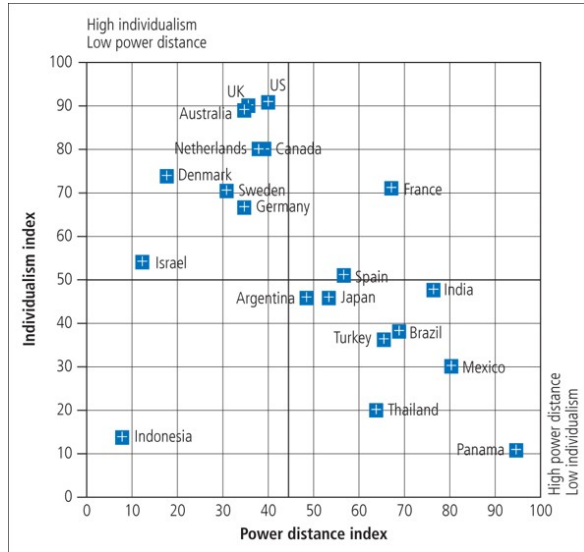
National stereotypes and key dimensions of culture

- Two different approaches to looking at culture:
 - **The psychic or psychological level**, which focuses on the “internalized” norms, attitudes, and behavior of individuals from a particular culture;
 - **The institutional level**, which looks at national (or group) culture *embodied* in institutions (government, education, economic institutions as well as in business organizations).

Hofstede's four dimensions of culture

- **Power distance** measures the degree to which less powerful members of organizations and institutions accept the fact that power is not distributed equally.
- **Uncertainty avoidance** measures the extent to which people feel threatened by ambiguous situations and have created institutions and beliefs for minimizing or avoiding those uncertainties.
- **Individualism vs. collectivism**
 - **Individualism:** The tendency of people to look after themselves and their immediate family only.
 - **Collectivism:** The tendency of people to belong to groups who look after each other in exchange for loyalty.
- **Masculinity vs. femininity**
 - **Masculinity:** The degree to which the dominant values of a society are success, money, and material goods.
 - **Femininity:** The degree to which the dominant values of a society are caring for others and the quality of life.

Hofstede's four dimensions of culture (Continued)



Hofstede's power distance against individualism for 20 countries

Trompenaars' Seven Dimensions of Culture

1 Universalism vs. particularism

- **Universalism:** The belief that ideas and practices can be applied everywhere in the world without modification.
- **Particularism:** The belief that circumstances dictate how ideas and practices should be applied and something cannot be done the same everywhere.

2 Individualism vs. collectivism centers on whether individual rights and values are dominant or subordinate to those of the collective society.

3 Neutral culture vs. emotional culture:

- **Neutral culture:** A culture in which emotions are held in check.
- **Emotional culture:** A culture in which emotions are expressed openly and naturally.

4 Specific vs. Diffuse: measures whether work relationships (e.g. the hierarchical relationship between a senior manager and a subordinate) are workplace “specific” or extend (diffuse) into the social context outside the workplace.

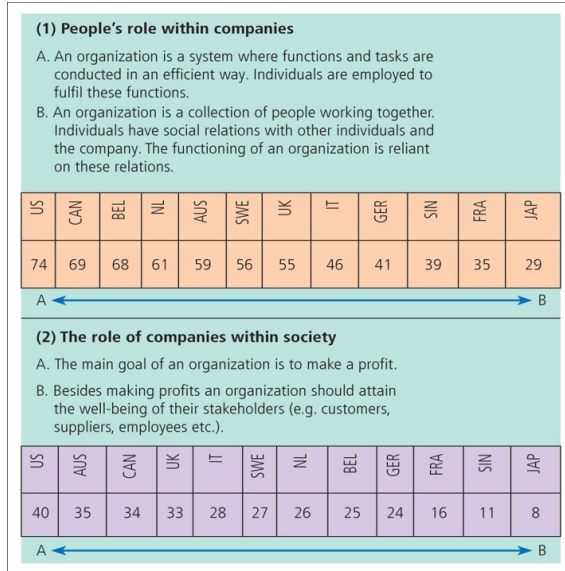
5 Achievement vs. Ascription: measures whether one’s status within organizations is based on merit (“achieved”) or on class, gender, education, or age (“ascribed”).

6 Attitudes toward time

- **Sequential:** Cultures that view time in a sequential or linear fashion; order comes from separating activities and commitments.
- **Synchronic:** Cultures that view events in parallel over time; order comes from coordinating multiple activities and commitments.

7 Attitudes toward the environment measures the emphasis a particular culture places on people’s relationship with nature and the natural environment.

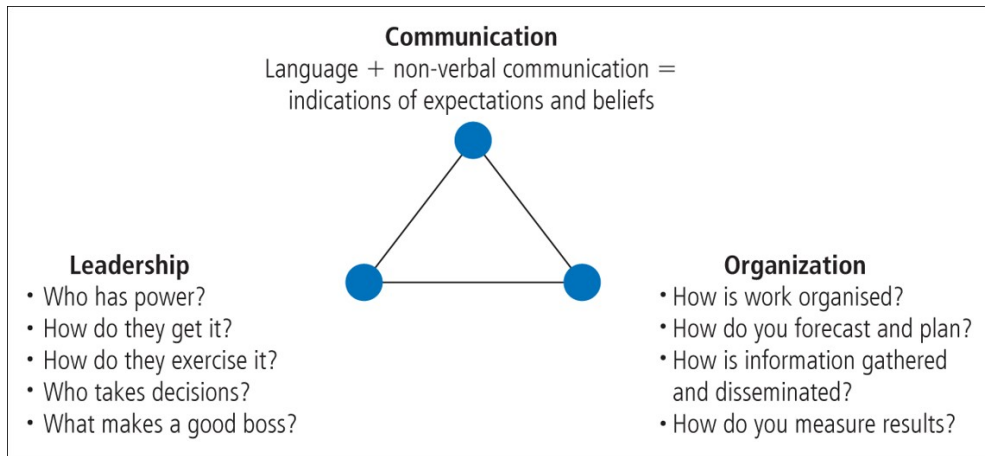
Excerpts from Trompenaars' cultural attitudes survey



Source: Adapted from C. Hampden-Turner and F. Trompenaars, *The Seven Cultures of Capitalism: Value Systems for Creating Wealth in the United States, Britain, Japan, Germany, France, Sweden and the Netherlands* (New York: Doubleday, 1993).

The GLOBE Project's Nine Dimensions of Culture

- 1 **Assertiveness.** The quality of being confident to defend the right point of view.
- 2 **Future orientation:** A propensity for planning, investing and delayed gratification.
- 3 **Gender differentiation:** The degree to which gender role differences are maximized.
- 4 **Uncertainty avoidance:** A reliance on societal norms and procedures to improve predictability, a preference for order, structure, and formality.
- 5 **Power distance.**
- 6 **Institutional collectivism:** Individualism vs. collectivism.
- 7 **In-group/family collectivism:** A pride in small-group membership, family, close friends, etc.
- 8 **Performance orientation:** (much like achievement orientation).
- 9 **Humane orientation:** An emphasis on fairness, altruism, and generosity.



Management dimensions of culture

- **Some useful strategies for managing cultural diversity:**

- Recognize diversity.
- Build diversity issues into recruitment, HRM planning, strategy, location decisions, alliances, and partnerships.
- Identify where and to what degree local divisions should be encouraged or empowered to take the lead in expressing and managing diversity.
- Encourage cross-border discussion and interaction as well as focused training.
- Aim for a cultural balance in particular areas of strategic and tactical decision making.
- Lead from the top.

Multinational Organization Structures: Imperialist or Independent?

- **Ethnocentric:** Top management is dominated by home-country nationals and procedures, and management styles are “transferred” from the head office and “imposed” on regional subsidiaries in place of local “ways of doing things”.
- **Polycentric:** Firms tend to act like a federation of semi-autonomous organizations with financial controls or strict reporting structures holding them together.
- **Geocentric:** An equal sharing of power and responsibility between headquarters and subsidiary.

	Imperialist	Interventionist	Interactive	Independent
Organisation	Ethnocentric	Ethnocentric	Geocentric	Polycentric
Structure	Steep hierarchy	Flat hierarchy	Network	Federation
Strategy	Dictated	Centrally decided	Jointly specified	Locally specified
Decision making	Centralised	Distributed	Shared	Devolved

Table: Organization types reflecting cultural predispositions

Framework for studying cultural differences along six dimensions, such as focus on past or future events and belief in individual or group responsibility for personal well-being

- Do people believe that their environment controls them, that they control the environment, or that they are part of nature?
- Do people focus on past events, on the present, or on the future implications of their actions?
- Are people easily controlled and not to be trusted, or can they be trusted to act freely and responsibly?
- Do people desire accomplishments in life, carefree lives, or spiritual and contemplative lives?
- Do people believe that individuals or groups are responsible for each person's welfare?
- Do people prefer to conduct most activities in private or in public?

Applying the Kluckhohn-Strodtbeck framework:

- 1 Japanese believe in a delicate balance between people and environment that must be maintained.
- 2 Japanese culture emphasizes the future.
- 3 Japanese culture treats people as quite trustworthy.
- 4 Japanese are accomplishment-oriented—not necessarily for themselves, but for their employers and work units.
- 5 Japanese culture emphasizes individual responsibility to the group and group responsibility to the individual.
- 6 The culture of Japan tends to be public.

Can you apply this to your own country?