telecommunications infrastructures. Poor topographies are significant hindrances to economic development. Climate and geography determine not only access to resources but also how easily new technologies, ideas, and lifestyles diffuse through regions and nations. Natural barriers such as mountain ranges, deserts, and oceans can isolate nations and limit their learning potential.[3]

REGIONAL DEVELOPMENT IN THE WORLDWIDE CONTEXT

The world has more that 200 countries and more than 6 billion people. Of these nations, fewer than 45 are fully industrialized, and they are mainly to be found in North America and Western Europe. The others are at various stages of economic development. Of the major economies in Eastern Europe, Latin America, the Middle East, Africa, and Asia, only Japan stands out economically, though South Korea, Taiwan, Singapore, and China are emerging as Asian powerhouses.

Most of the world's countries, then, are in the process of industrializing. But development is slow, and major differences still exist between the developed and developing worlds with respect to industrial output and the populations that output must support. Some of the differences are shown in Table 4.1.

North America, Western Europe, and Australasia (Australia and New Zealand) together account for over 63 percent of the world's GDP (31.3 percent, 30.8 percent, and 1.8 percent, respectively), but they have less than 12 percent of the world's population. At the other end of the spectrum, Latin America, the Middle East, Africa, and Asia account for about one-third of the world's GDP (33.2 percent, but only about 24 percent without Japan), but have more than 83 percent of the world's population (more than 5 billion people). Asia in particular carries much of the population burden at over 60 percent, but accounts for only 23 percent of global GDP and about 13 percent without Japan.

Population projections in Table 4.1 suggest that this situation is not likely to change much in the future. For instance, Africa and Asia show steep increases in population. Their excess labor supply situations make them attractive to international corporations as manufacturing sites, especially for labor-intensive operations. They also represent significant potential for long-term market growth. Industrially advanced countries are attractive because of their immediate market potential, as well as their educated populations and advanced technologies.

It is apparent that the world's major regions—North America, Latin America, Western Europe, Eastern Europe, the Middle East, Africa, and Asia—have developed unevenly, but why? In the following section, we look at the geographic and historical shapers of regional development, and the major factors influencing commercial development.

NORTH AMERICA

Geographic Characteristics

North America, for the purposes of this book, consists of the United States and Canada (see Figure 4.2). Although Mexico and the Central American countries are geographically part of North America, their culture and history make them part of Latin America.

TABLE 4.1 **World and Regional Analyses: Major Markets, Gross Domestic Products, and Populations**

	2006 Gross Domestic Product ($bn)	2006 Average GDP per Capita ($)	Range per Capita ($)	Population Estimates and Projections (Millions)		
				2005	2025	2050
Africa	$916 2.0%	$1,006	$107 (Burundi) to $6,696 (Libya)	905 14.1%	1,344	1,936
Middle East	$1,355 2.9%	$7,130	$586 (Yemen) to $43,110 (Qatar)	190	N/A	N/A
Asia	$10,566 22.8%	$3,201	$219 (Myanmar) to $35,757 (Japan)	3,905* 60.7%	4,728	5,217
North America	$14,506 31.3%	$43,668	$39,610 (Canada) to $44,110 (U.S.)	330 5.1%	388	437
Latin America	$2,555 5.5%	$5,500	$478 (Haiti) to $18,062 (Bahamas)	561 8.7%	696	782
Western Europe	$14,270 30.8%	$35,719	$18,070 Portugal) to $71,260 (Norway)	400 6.2%	398	368
Central & Eastern Europe	$1,343 2.9%	$4,634	$364 (Tajikistan) to $16,986 (Slovenia)	310 4.8%	309	285
Australasia	$840 1.8%	$33,975	$25,420 (NZ) to $37,720 (Australia)	25 0.4%	33	37
Totals	$46,351 (100%)			6,436 (100%)	7,905	9,075

*Includes Middle East

Sources: Adapted from "Indicators of Market Size," *Country Monitor*, December 25, 2006, 1–12; *OECD Observer* Paris, December 2006; United Nations, *World Population Prospects*, available at http://esa.un.org/unpp; and *World Almanac and Book of Facts 2006* (Mahwah, NJ: World Almanac Books, 2005), 838–839.

Geographically, Canada and the United States extend from the frozen Arctic to the semi-tropical states of Florida, Texas, and California. In terms of area, Canada is the second-largest country in the world (smaller than Russia but larger than China), and the United States is the fourth-largest nation. The two countries share a 3,000-mile border, but because of the rigorous climate in northern Canada, almost 80 percent of Canadians live within 100 miles of the U.S. border. Canada has abundant raw materials and is one of the world's largest gold and uranium producers. It is also second in oil reserves (at 178 billion barrels, behind Saudi Arabia, though extraction costs are a factor), ranks third largest in silver, and fourth in

The key advantages of the balanced scorecard are that

- Goals and measures are looked at *as a package*, giving management more complete pictures of corporate performance.
- Goals and measures can be custom built to suit corporate needs.
- Goals and measures relate to marketplace, competitive needs, and employees' daily activities.

Corporate goals and feedback. Even "the best-laid plans of mice and men often go awry" sums up the situation many companies face when goals are not met. One study found that at the corporate level, 55 percent of firms went back and reformulated both objectives and strategies, 24 percent revamped strategies but maintained their original goals, 15 percent adjusted their goals but maintained their original strategies, and the few remaining companies maintained both original goals and strategies.[11]

> It is a bad plan that admits no modification.
>
> *Publilius Syrus, 1st-century, BC, writer of Latin maxims*

At subsidiary levels, when supply chain goals are not met (dips in quality control, service levels, lengthy new product development times, etc), local managements get the interested parties together to solve the problem. If this does not work, regional or head office help is sought and experts brought in from other parts of the company.

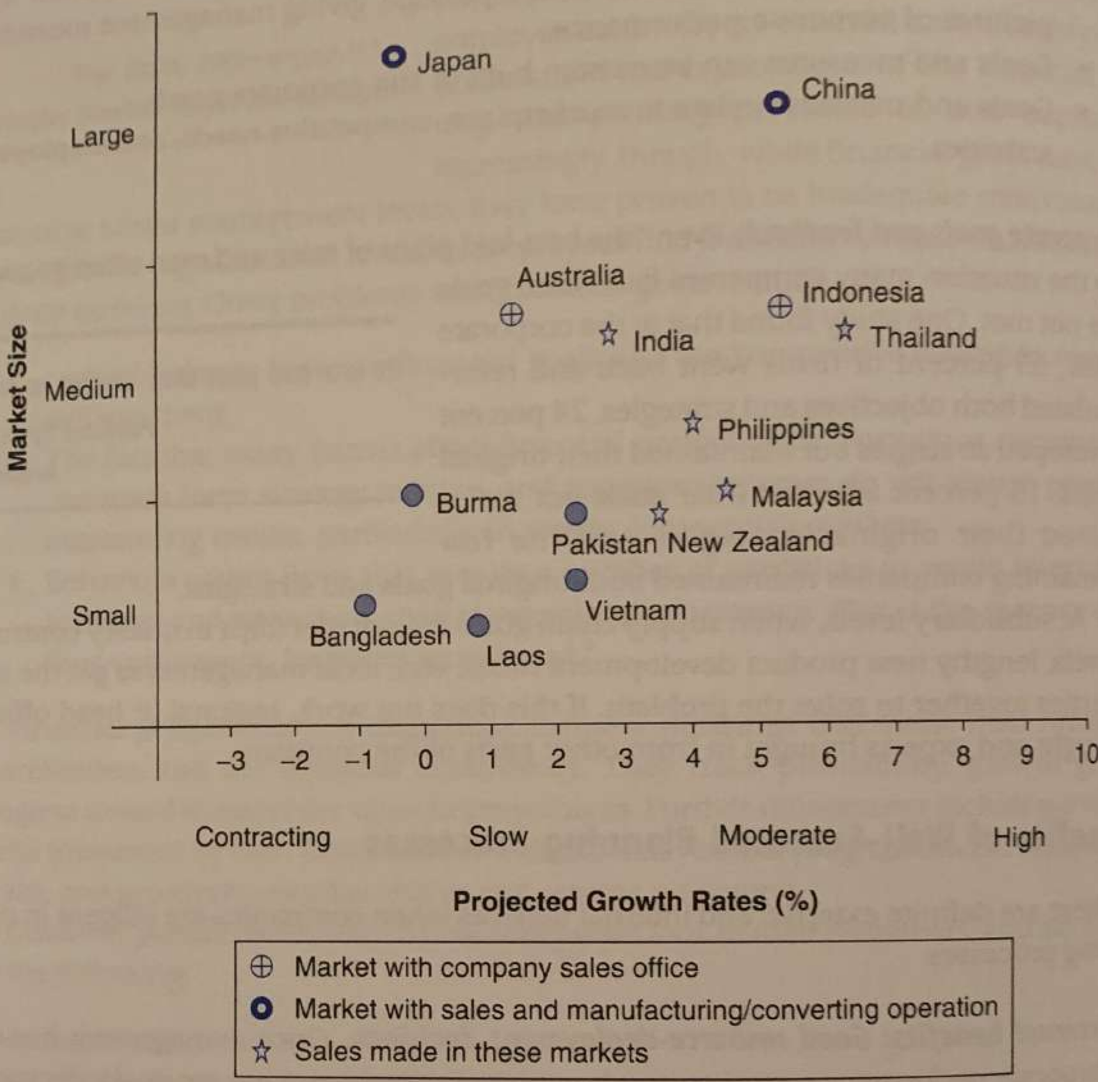
The Benefits of Well-Executed Planning Processes

There are definite external and internal benefits when companies are diligent in their planning processes.

External benefits: Good resource-deployment decisions. Once management has evaluated corporate performance, market trends, and projections, and has set goals, decisions about resource deployments must be finalized and market priorities established. A good starting point is to map out current resource allocations and prioritize them according to market attractiveness criteria (usually market size and market growth rates). Figure 7.8 illustrates the process for the Asian division of a hypothetical international corporation. Current deployments show that this company has manufacturing/converting and sales facilities in Japan and China, and corporate sales subsidiaries in Australia and Indonesia. In addition, corporate sales are made in India, Thailand, the Philippines, Malaysia, and New Zealand. Reviewing the situation, management has a number of options:

- Expand manufacturing in the rapid-growth China PRC market.
- Consider adding corporate sales offices in Thailand, India, and possibly the Philippines to gain insights into these markets. If prospects look promising, manufacturing/converting operations might be added if sales volumes can support such investments.
- Evaluate market prospects in Pakistan and Vietnam and consider appointing import/distributors. Burma (Myanmar) might be considered pending a move away from its 1990s military junta to a democratic form of government.

FIGURE 7.8 Plotting Company Resource Deployments on a Market Size–Growth Matrix (e.g., Asia)



Internal benefits of a well-executed international planning process include

- Defining the strategic direction of the corporation. Corporate mission statements, core competency definitions, and business unit analyses guide R&D priorities, business unit portfolio adjustments, and mergers and acquisitions strategies.
- Providing insights into competitor strategies and how best to compete against industry rivals, globally, regionally, or on a national market basis.
- Systematic incorporation of political, economic, societal, and technological industry change drivers into global, regional, and national strategies.
- Concise guidance for geographic strategies and international resource commitments: which regions and countries to emphasize and, based on market potential and country risk assessments, what sorts of commitments should be made.

- Providing direction at the subsidiary level by identifying performance criteria for product lines and by benchmarking competitor strengths and weaknesses.

Most important, planning processes help identify what strategies are effective in the international marketplace and, along with competitor analyses, suggest new strategic options for management consideration.

MARKET SCREENING AND RISK ASSESSMENTS

Once managements have assessed past and present company performances and looked at future opportunities within their given industries, they must assess the relative risks of operating in different countries. This involves evaluating country risks on a comparative basis (i.e., using the same criteria) and, for individual markets, to gain critical insights about how to operate and manage risk in those countries. This is a daunting task. Over 200 national markets proliferate in the global landscape, of which about 150 are economically significant (i.e., excluding island states and other tiny countries), and of which about 60 are mainstream markets with significant business potential. Initially, most firms use data from commercial vendors of business risk information. Seven types of risk are usually assessed: political, economic, operational, financial, legal, taxation, and security factors.

Political Risks

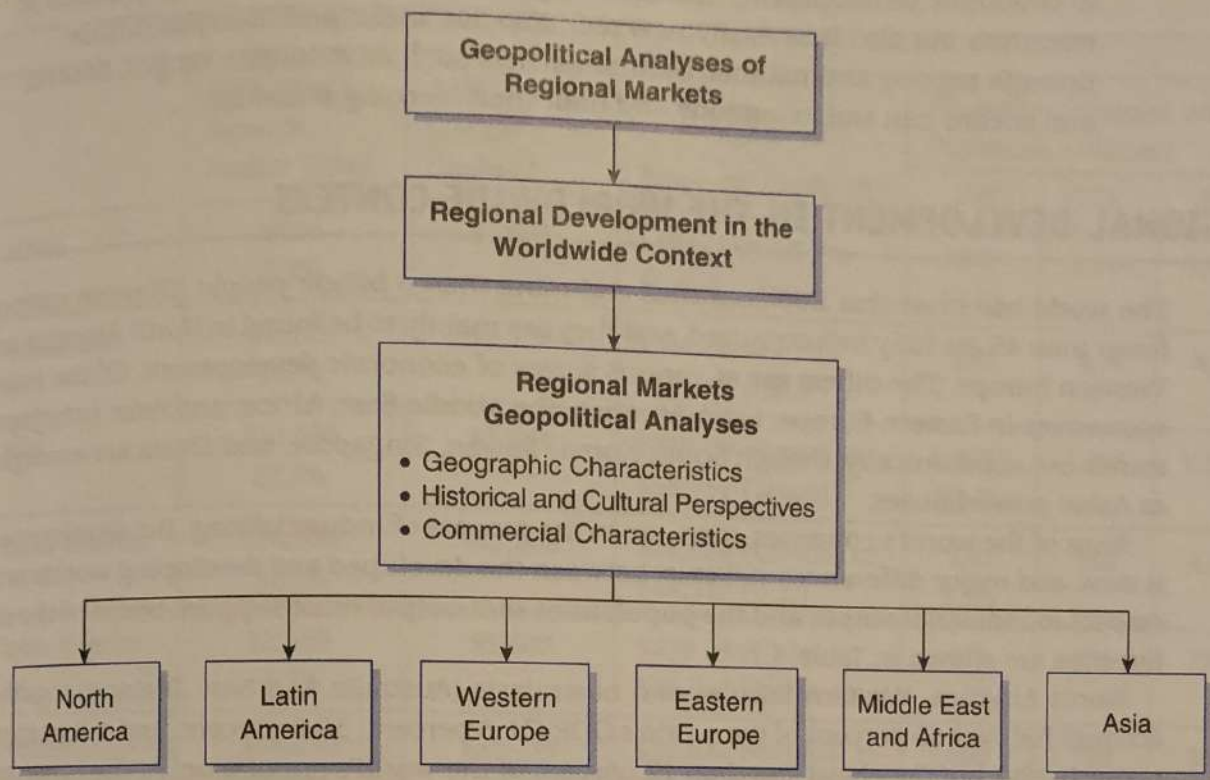
Most companies focus first on political risks because governments are major influences on national economic performance; exchange rates; and legal, taxation, and security systems. Governmental change, through elections or other means, often signals new directions in national policies.

Country governance systems vary in broad terms from full, mature, stable democratic systems to nations engulfed in civil or international strife with little or no political direction. Primary causes of political risk are

- Fractionalization of the political spectrum (multiple parties or political power groups).
- Numerous linguistic, ethnic, and religious factions (Middle East, Africa, Asia).
- Restrictive means of retaining power (dictatorships).
- Evidence of xenophobia, nepotism, or corruption.
- Poor social conditions (e.g., uneven distributions of wealth).
- Existence of radical, especially leftist, political movements.

Symptoms of political risk include civil conflicts (strikes, demonstrations), destabilizing elements (assassinations, kidnappings, guerilla movements), ethnic rivalries (e.g., those in Africa, Asia), religious conflicts among Muslim factions (e.g., Sunni and Shi'ite groups in Iraq) or conflicts between religions (Muslim–Christian conflict in Nigeria), wars (the breakup of the

FIGURE 4.1 Geopolitical Analyses of Regional Markets: Topic Overview



THE IMPORTANCE OF GEOPOLITICAL STUDIES

Geopolitical studies relate a region's geographic circumstances and history to its economic development and present-day situation. Its importance stems from the need to understand how a region evolved and what factors influenced that evolution. Exposure to globalization influences has been a key factor in regional development. For businesspeople, regional knowledge provides valuable background for

- Recognizing what historic factors have impacted regional development, and gives insights into the regional forces affecting economic and cultural development of nations within the regional grouping.
- Understanding regional and national ethnic and linguistic compositions. Africa, for example, has over 2,500 ethnic groups. Cameroon, Chad, Ghana, Nigeria, the Sudan, and Tanzania each have over 100 ethnic groups. This affects regional efforts to integrate economically and politically, and national efforts to unite economically and culturally.[2]
- Understanding how climates and topography can affect communications and infrastructure development. Climatic variability affects food production. Good topographies with few major geographic obstacles facilitate road, rail, and

former Yugoslavia; civil wars in the Democratic Republic of the Congo, Angola, Sudan in Africa), and so on.

Economic problems occur as development and economic restructuring cause high unemployment or lack of job-creation capabilities. Economic change and industrialization cause population shifts (rural to urban), the opening up of countries to market forces–based competition (e.g., the Asian financial crisis), and significant disruptions as social and cultural changes accompany economic growth. Additional problems occur as high inflation rates erode consumer purchasing power and push economies into downward spirals.

As nations experience problems, the likelihood of governmental change increases. From a commercial perspective, some changes are positive as pro-business governments come to power with mandates to reduce trade barriers and investment restrictions and facilitate money transfers into and out of the country. In other cases, anti-business governments gain power (as in South America) and trade protection, investment restrictions, and limits on financial transfers occur. Monitoring political events in perhaps 150 countries is a difficult task for even the largest of international corporations. Hence, many subscribe to commercial services that monitor and analyze political risk. A New York–based company, Political Risk Services, provides abbreviated and in-depth political coverage of major markets that shows which political party (or leader) is in power, the extent of political turmoil, and who is likely to be in power in 18 months' and 5 years' time. Prospects for foreign investments (e.g., restrictions, ownership questions), trade (tariffs, taxes, import restrictions), and financial transfers (hard currency availability, foreign exchange restrictions) are evaluated. Key economic indicators (inflation, economic growth, trade balances) are monitored; and expert commentaries provide in-depth coverage for individual markets.

Economic Risks

Economic risk assessment involves evaluating the stability, openness, and market forces orientations of national economies. Advanced capitalistic countries with stable economic performance indicators and convertible currencies rate highly. Closed economies suffering major economic fluctuations (e.g., hyperinflationary environments) are rated poorly. The greatest economic risks relate to political mismanagement of the economy and include persistent government budget deficits (overspending), inflationary tendencies (overstimulating the economy, or printing too much money), excessive or corruptive influences in financial or product markets (e.g., nepotism or protectionism), and so on.

Financial and Foreign Currency Risks

These measure a country's ability to meet its foreign financial obligations—that is, the likelihood that convertible currencies are available to pay for the importation of goods, materials, or profit repatriation needs. One company, Business Risk Services (BRS), uses four factors in this evaluation:

1. Legal frameworks for profit, dividend, fees, and capital repatriation are evaluated: as written and as practiced.

2. Balance-of-payments analyses as currency movements into and out of a country determine its ability to generate foreign exchange. Trade, current account, and capital accounts are scrutinized to evaluate trends. Key factors are the crude trade balance (exports–imports) and the current account performance (trade inflows [imports], outflows [exports], service inflows and outflows, profit and personal income flows, and government-oriented flows). Net outflows are assessed negatively and inflows are positively graded. Capital flows (foreign direct investments, portfolio investments, and other capital flows) are also assessed. Overall surpluses (financial inflows) are good indicators as foreign exchange accumulates. Negative financial outflows (balance-of-payments deficits) are more problematic in developing nations that lack financial reserves and large, strong economies.
3. International reserves are countries' stocks of foreign currencies accumulated from exports and capital inflows, and their gold holdings—both normally held at the IMF. Countries holding plentiful reserves of hard currency (dollars, yen, euros, etc.) receive high ratings. Those with few hard currency reserves get lower ratings. Country gold holdings are assessed alongside convertible currency positions to give overall evaluations of nations' abilities to pay import bills.
4. Foreign debt assessments are evaluations of foreign debt relative to country gross domestic product, with creditor nations receiving the highest rating. Also included are foreign debt obligations in relation to hard currencies earned through exports.

Operations Risks

Operations environmental risks are those associated with day-to-day management of foreign enterprises. BRS includes evaluations of

- Political policy continuity, and whether governmental changes have major effects on national policies.
- Attitudes toward foreign investors and profits.
- Degree of nationalization (i.e., government ownership of economic assets).
- Bureaucratic delays: corruption, bribes.
- Use and enforceability of contracts.
- Labor cost and availability, including inclusiveness or exclusiveness of education opportunities.
- Availability of professional services and contractors.
- Quality and cost of local communications.
- Infrastructure availability: roads, rail, water systems; energy sources.
- Caliber of local managers, partners.
- Financial institutions and the availability of short-, medium-, and long-term financing.

Legal Risks

Legal risks are important where companies rely heavily on contracts (e.g., military, industrial, commodity markets) and when legal recourse may be necessary (e.g., counterfeit goods, medical or pharmaceutical products or processes). Legal risks range from nations with clear, mature, and nonarbitrary legal systems to those where judicial and enforcement systems are politically influenced, arbitrary, incoherent, and unclear, and where civil and constitutional liberties are nonexistent.

Taxation Risks

Companies that move financial assets, money, products, and components extensively throughout world markets are aware of needs to satisfy national tax authorities. Taxation risks range from those with well-developed and equitable tax frameworks with clear dispute resolution mechanisms to those where taxation systems are highly inequitable and arbitrarily implemented.

Security Risks

For firms that depend on expatriates in their management of local subsidiaries, personal security must be evaluated. Low levels of crime, little or no terrorism, and freedom to demonstrate are associated with low-risk nations. Civil strife, ethnic tensions, high crime rates, and kidnapping risks are problematic in some countries (e.g., Colombia, Peru, South Africa), making them poor risks for personal security.

Business Risk Evaluation Methodologies

Take calculated risks. That is quite different from being rash.

General George S. Patton

As managers review market risk assessments, they should be aware of how such evaluations are derived. To illustrate differences in risk research methodologies, two commercial services, Business Risk Services (BRS), and World Markets Online (WMO), are contrasted.

Markets covered: BRS covers about 50 markets; WMO takes in about 150 countries.

Business risks evaluated: BRS assesses 15 factors in its operations risk index and weights them differentially (e.g., policy continuity has a 3 weighting, economic growth and currency convertibility a 2.5, professional contractors 0.5) to add up to 25. A permanent panel of +/- 105 experts then rates country conditions from 0 (unacceptable conditions) to 4 (superior conditions) to total 100, the perfect operating environment. Similar procedures are used in BRS's political risk index (10 factors) and its R factor (4 factors). The summation of these three factors results in an aggregate score that is converted into a profit opportunity recommendation (POR). These range from 1A to 1C (investment quality markets) through to 2A–2C (trade, technology, and assistance contracts), to 3A–3B (trade only), to 4A (no business transactions). All risk and POR scores are projected for 1 and 5 years into the future and historical data is presented.

WMO provides measures of six dimensions: political, economic, legal, tax, operations, and security. Each dimension is rated in each market on a 1–5 rating, with 1 representing minimal risk and 5 being prohibitive risk. The sum and average of all six dimensions yields an

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

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

What are the major similarities among these markets?

What are the major differences?

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

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

(Continued)

overall assessment of country risk, varying from 1.00–1.99 (insignificant to low risk) to 4.00–5.00 (very high to extreme risk).

For individual market evaluations, political and economic risks are weighted at 25 percent each, legal and tax risks at 15 percent, and operational and security risks at 10 percent.

Using commercial risk assessment services. Risk services such as BRS and WMO are useful for three reasons. First, they are excellent indicators of overall market conditions. Second, they allow countries to be compared using the same criteria. Third, they are useful in identifying potential problem areas that need further investigation. For example, low scores on bureaucracy or negative attitudes toward foreign direct investment should invite further research to ascertain effects on business strategies. Similarly, low scores on civil unrest or excessive ethnic or religious strife should trigger further evaluations of these problems.

There are three major drawbacks to general market assessments. First, they are complete evaluations of country markets, and as such are more suited to foreign direct investment projects. Firms wishing to trade or to license products need only assess specific aspects of environmental analyses (e.g., currency payments affecting trade or contract enforceability for franchise or licensing agreements).

Second, assessments focusing on environmental factors often gloss over cultural aspects of doing business. Separate evaluations of cultural environments are needed to identify necessary business protocols—the importance of relationships, religious impact on commerce, social class hierarchies, and so forth.

Third, individual industries have specific needs in their market evaluations, and generalized assessments have limited uses under these circumstances.

Special Case: Evaluating Emerging Markets[12]

The importance of emerging markets and their rapid rate of change pose difficulties for businesspeople evaluating market potential in these countries. As such, emerging country assessments emphasize many developmental characteristics that get lost in broader evaluations. Markets to which these criteria apply include "big emerging markets" (BEMs) such as China, Hong Kong, Taiwan, Indonesia, Malaysia, the Philippines, Singapore, Thailand, Brunei, Vietnam, India, South Korea, Argentina, Mexico, Brazil, Turkey, South Africa, Chile, Venezuela, Greece, Israel, Portugal, the Czech Republic, Hungary, and Russia.

The Global Web

For an updated evaluation of emerging market listings, visit http://globaledge.msu.edu/ibrd/marketpot.asp.

Which markets are labeled "the best" and "the worst" according to the Michigan State criteria?

One approach to estimating emerging-market attractiveness has been to evaluate BEMs on seven weighted criteria. These are

Market size: Measured by country populations (20 percent weighting).

Market growth rate: Average industry growth rate (15 percent weighting).

(Continued)

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

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

(Continued)

(about one-fifth of the average U.S. Wal-Mart shopper). As a result, Chinese stores experience high traffic. In the more affluent Korean market, cars are used, refrigeration is widespread, and consumption patterns are similar to those in the United States. Commentators saw Korea as a rapid expansion market for Wal-Mart, but consumers were unresponsive and the company had to sell its Korean stores in 2006. However, Asia's development record makes the region an attractive market, and China and Korea in particular have been targeted by Carrefour, UK retailer Tesco, and Germany's Metro.

Wal-Mart's ventures into the highly competitive retail market of Western Europe have also been learning experiences, as the region is home to 14 of the world's hypermarket retailers. In Germany, Wal-Mart bought the 21-unit Wertkauf chain in 1997 and the 74-unit Interspar group in 1998. There was resistance on various fronts: from vendors who did not take to Wal-Mart's centralized warehouse system, from German managers who resented English-only–speaking U.S. executives telling them how to run things, and from the German Cartel Office that objected to Wal-Mart's everyday low pricing philosophy that priced staple food products below cost. In 2006, the company sold its German stores to arch rival Metro. In Britain, the firm's takeover of ASDA was less controversial. Wal-Mart gave local managers freedom to run the businesses their way, but gave ASDA stores access to its global purchasing system, and better technology for tracking store sales and inventories. Also, dialogs there were two-way. ASDA's efficient food-replenishment system was brought back to the United States for implementation, as were some product lines and management methods.

Question for Discussion

You are Wal-Mart's new advisor on screening for new retail markets. From your international business knowledge and Wal-Mart's experiences in Latin America, Asia, and Western Europe, prepare a list of factors and information you would use for screening potential retail markets. For each, say why it is important.

Sources

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SHORT CASE 7.3 Managing Risk in Emerging Markets

> Unless you enter the lion's den, you cannot take the cubs.
>
> *Japanese proverb*

There are risks attached to all business ventures, even in domestic situations where managers are thoroughly familiar with customers and markets. In home markets, executives use their experience, supplemented by research, to counter these risks.

It is not so different in international markets. The more managers know about country markets, the better able they are to manage the risks associated with them. International companies are present in virtually all world markets, even those classified as high risk. If industry competitors or other international firms are present in high-risk markets, the signal is that such country risks are manageable. The task of international managers, therefore, is to understand risks, but not to be afraid of them. The role of commercial risk evaluators is to identify what risks are present; the role of the manager is to manage them.

Global Insight's risk analyses rank nations and regions on a 1–5 scale, with lower scores indicating less risk on political, economic, legal, taxation, operational, and security measures. Based on these, the NAFTA nations and Europe emerge as low risk in 2005 at less than 2.00 aggregate scores. CIS and sub-Saharan African countries average about 3.4 (significant risk), while Middle Eastern, North African, and Asia-Pacific nations come out with scores of 2.8. Yet North Africa had about one-third of all African foreign direct investment (FDI) at about $85 billion, and the Middle East had $150 billion of FDI, one-tenth of that in the remainder of Asia. Clearly there are other factors at work influencing foreign direct investment decisions other than country and regional risk.

Russia, too, has slowly emerged as a more attractive market for investments, moving from $32 billion of FDI in 2000 to over $197 billion in 2006. Business Risk Services noted numerous operating and political weaknesses for the former communist superpower (xenophobia, degree of nationalization, inflation, infrastructure, capital markets, left-wing orientations of the Dumas Parliament, etc.). Recent problems stemmed from the currency crash of 1998, when Russia caught the Asian financial "flu" and saw its currency depreciate from 7 rubles per dollar to 27. Many international firms left or put their expansion plans on hold, especially in the financial sector. But many foreign financial concerns stayed on as Russian banks took a battering, with some going belly-up. One of them, Bank Austria Creditanstalt, used the crisis to cement relations with its corporate clients and provide high-quality links with foreign markets through its multilingual services. The bank also built up its relationships with the emerging Russian middle classes, investing their savings, opening new branches in Moscow, and delivering new products and services such as Visa debit cards, ATMs, and telebanking.

For some countries, solving one major problem is the key. In Brazil's case, the introduction of a new currency, the Real Plan in 1994, and a massive economic austerity program were the keys to prosperity. Inflation dropped from 2,500 percent in 1993 to 4 percent in 1997. But Brazil has always been a market to test a company's patience. Stock market volatility, trade restrictions, corruption, and bureaucracy have all been ongoing concerns. However, despite everything, international companies have flocked to Brazil, with foreign direct investments rising from $42 billion in 1995 to $164 billion in 1999 to $221 billion in 2006. The Brazilian government during this period has been stable under the watchful eye of the Real Plan creator, President Cardozo, and the country's progress has been the mainstay of the Mercosur trading bloc. However, the election of leftist President Lula de Silva in 2003 caused some concerns among Western companies, with a consequent slowdown of incoming foreign direct investments.

Mineral-rich Africa includes many countries labeled as high risk. Risks multiply when mining firms form joint ventures with governments. Where governments are democratic and honest, there are few problems. When governments are undemocratic, or unstable, problems accrue. Political instability often goes hand-in-hand with economic, legal, and personal security problems. Economic mismanagement, government budget deficits, and inflation have been common occurrences. Infrastructure problems, with power supply restrictions, fuel shortages, corrupt officials, and import restrictions, become part of everyday life. To counter and manage these sorts of problems, dependable and influential local representatives are essential.

Personal security is a problem in over 70 countries, according to the U.S. government, and of these, over 30 have civil wars or rebel groups that can threaten expatriates or international company facilities. Firms in Algeria spend 8–9 percent of budgets on security (fences, guards, security systems). In Colombia, this figure is 4–6 percent. Expatriate houses in Lagos, Nigeria, or Johannesburg, South Africa, often resemble

(Continued)

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

stockades. Companies must often tutor executives in safety codes: how to deal with car-jackers (cooperate, don't make sudden moves, etc.), defensive driving (lock doors, vary routes), and even rape counseling and prevention for female expatriates in Africa. Other basic measures to bolster security include

- The projecting of favorable corporate images, with proactive public relations and participation in local community projects and affairs.
- Checking out local businesspeople surreptitiously to avoid those associated with crime, e.g., the Russian Mafia.
- In bribery situations, insisting that "someone else" makes the decision, and never going to such meetings alone.
- Using home market or international standards for environmental policies.
- Protecting employees and offering above-average wages and work conditions.
- Using local subcontractors, suitably supervised, for delicate operations.

In today's Internet world, corporate information technology (IT) systems have become security issues for foreign-based corporate affiliates. Normal security measures such as encryption codes must often be registered with national governments. This allows governments to "look in" or steal corporate information. Countries such as Russia and others in Asia openly acknowledge that they steal business information, and in South America, there are problems with internal espionage or embezzlement. These sorts of problems easily intimidate inexperienced firms, but seasoned companies take many precautionary measures: performing extensive background checks on new employees, providing extensive training, building internal "walls" among departments, and instituting stringent security precautions including biometric access (fingerprints, retinal checks) to sensitive areas and periodic security sweeps by experts. In addition, many use couriers to move sensitive data and documents.

Ultimately, the adaptable and careful international corporation can operate almost anywhere in reasonable safety. But sensitivity to market conditions and knowledge of the local culture are prerequisite for successful risk management.

Questions for Discussion

1. Why do firms operate in high-risk countries (give specific examples)?
2. What sorts of risks are uncontrollable? Why?
3. You are traveling to a country (a) with a reputation for kidnapping rich international executives, (b) where business activities often have criminal connections, and (c) that has active guerilla movements. What precautions would you take and why?

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