“Ich wuerde mich gerne zur Konferenz anmelden” is not likely to mean much to most people. However, in German this means, “I would like to register for the conference.”

Choice Translating and Interpreting in Charlotte, NC, assists companies involved in international business. With more than 6,000 languages worldwide, a need exists for understanding others when doing business across cultures.

Interpreters commonly serve at business meetings and social events among people from different countries. Their bilingual and multilingual skills require careful interpretation of intended messages in conversations.

Translators convert written documents from one language to another. Translators commonly work on letters, contracts, technical manuals, and other business documents. The European Commission maintains a staff of 1,500 translators who handle more than a million pages of text each year.

THINK CRITICALLY
1. Why are Interpreters and Translators important to international business?
2. How can a person best prepare for a career as an interpreter or translator?
Cultural and Political Environment of International Business

PROJECT OBJECTIVES

I Develop knowledge of the components of culture that affect international business relationships
I Become aware of the influence of language and nonverbal communication on international business activities
I Explain the actions that governments can take to encourage and discourage international trade among countries

GETTING STARTED

Read through the Project Process below. Make a list of any materials you will need. Decide how you will get the needed materials or information.
I Create a list of culture and language factors that exist in different countries and societies.
I Describe how government actions can encourage or discourage trade with other countries.

PROJECT PROCESS

Part 1 LESSON 2.1 Discuss the components of culture that can differ among countries when conducting business. Give examples from your research or travel experiences.

Part 2 LESSON 2.2 Describe how verbal and nonverbal language patterns could affect business encounters for international trade.

Part 3 LESSON 2.3 Explain how government actions increase or decrease political risks for companies involved in international business activities.

CHAPTER REVIEW

Project Wrap-up Prepare a brief in-class presentation (with a written summary) that communicates influences of culture, language, and government on global business relationships and international trade activities.
LESSON 1.1
INTERNATIONAL CULTURE

EXPLAIN the components of a culture
DESCRIBE how culture affects international business activities

CULTURE AND SOCIAL ORGANIZATIONS

Some people have their evening meal at five o’clock. Others eat at nine or ten in the evening. This is just one example of differences in culture. A culture is a system of learned, shared, unifying, and interrelated beliefs, values, and assumptions. Beliefs are statements about the nature of a person, thing, or concept. Values are the positive and negative ideals, customs, and institutions of a group. Assumptions are statements that are taken for granted as fact. A subculture is a subset or part of a larger culture. A subculture may have some values, beliefs, and assumptions that differ from the larger culture of which it is part.

Cultural beliefs, values, and assumptions are directly and indirectly acquired throughout a lifetime. They are accepted and valued by other members of a society. They cause group members to respond in similar and usually predictable ways. Culture is a mindset or a way of thinking that is acquired over time. To members of a particular culture, their ways are logical and reasonable. To outsiders, their ways may seem strange. Some parts of

ON THE SCENE

René Collier recently returned from a trip to France and Spain. During the seven days she was there, René visited several museums, art galleries, and other cultural attractions. While this trip was a vacation, she also hoped to gain a better understanding cultural influences on business in these countries. As she was telling others about her trip, she realized that most of her time was spent in tourist areas. What additional experiences might have helped René better understand the cultures of these countries?
culture are taught in homes, in schools, in religious institutions, and at work. Still other parts are learned indirectly through experiences. Members of cultural groups often do not share their cultures willingly with outsiders.

Cultures influence the ways in which societies organize themselves. Social organization includes the relationships between the family unit and the culture’s education, gender roles, family-work relationships, mobility, and class system. These components affect not only the entire society but also many other institutions—including the business community.

**FAMILY UNITS**

Most societies are at least partially organized around family units. A nuclear family is a group that consists of a parent or parents and unmarried children living at home. An extended family is a group that consists of the parents, children, and other relatives living together. Other relatives might include married children, grandchildren, the parents’ parents, the brothers and sisters of the parents, and others. Many countries have societies organized around extended families.

**FAMILY-WORK RELATIONSHIPS**

Family ties to business are weak in some cultures and strong in others. In Canada, the United States, and most northern European countries, links between family and business are weak. Often there is no connection at all. However, in most of the remainder of North and South America, much of southern Europe, most of Asia, northern Africa, and the Middle East, family ties to business are strong. Quite often, employees of businesses, especially smaller ones, in these areas are family members.

**PRODUCT OFFERINGS — THE SAME OR DIFFERENT?**

When a company does business in another country, it must decide whether to use a standardized product or a customized product. While some products can be sold the same way throughout the world, such as with cameras, computers, and motor vehicles. Other products must be adapted to a culture. McDonald’s menu differs from country to country based on tastes, customs, and religious beliefs. In the Philippines and other countries, Tide detergent is sold in three forms—powder, liquid, and bar. The detergent bar is used for clothes washing by hand in areas that do not have washing machines. Global companies must also decide whether to standardize or adapt other business activities. Advertising that is successful in one country might be offensive in another. Or a company may not be able to use the hiring and firing process in all countries because of differences in customs, tradition, and family relationships.

**THINK CRITICALLY** What factors would affect a company’s decision to offer a standardized or customized product in various areas of the world?
EDUCATION
The family unit provides the early education of its younger members. In economically developed societies, the family often shares responsibilities for providing later education with other cultural institutions. Religious groups often provide moral and spiritual education. Schools provide formal education, which prepares people to function productively as members of a society. Businesses sometimes provide specialized work-related training.

GENDER ROLES
In most cultures family members are assigned different roles to fulfill. Sometimes these roles are assigned based upon gender. In some cultures only males or females are allowed to fill certain roles. In some societies females are the primary workers outside the household. In others, males are the primary workers away from home. In still other societies, both males and females are employed outside the home.

Viewpoints vary worldwide about the roles males and females can fill in business. In the United States women increasingly participate in international business activities as equals with men. In Japan women traditionally had inferior workplace opportunities when compared to men. Japanese women participated in the international business activities of Japanese companies only as translators and interpreters. In Libya, women have limited workplace opportunities as well. They do not typically participate in international business activities.

MOBILITY
People in some cultures have relatively little attachment to a geographic location. They are mobile and willing to relocate for better employment opportunities. In other cultures the ties to birthplace or region are much stronger. Members of these cultures would almost never consider moving away.

CLASS SYSTEM
Cultures also organize their members beyond the family unit. A class system is a means of dividing the members of a cultural group into various levels. The levels can be based upon such factors as education, occupation, heritage, conferred or inherited status, or income. In some cultures you can move from one class to another. This is true to a great extent in the United States, where the class system is weak.

Sometimes the levels are based upon lineage. Then you are locked into your class. It is very difficult or impossible for you to change classes. In the United Kingdom bloodline still influences to a significant degree class and occupational choices.

What social organizations commonly affect a culture?
Values are ideas that people cherish and believe to be important. Values tend to vary around the world, often creating major differences among cultures. Some of the more important fundamental values involve individualism versus collectivism, technology, leadership, power, authority, religion, and time.

**INDIVIDUALISM AND COLLECTIVISM**

**Individualism** is the belief in the individual and her or his ability to function independently. Self-reliance, independence, and freedom are closely related to individualism in the United States. However, many other cultures see individualism as undesirable. These cultures do not approve of the negative aspects of self-centeredness and selfishness. Instead, they prefer **collectivism**, the belief that the group is more important than the individual.

The Japanese culture has a strong collective orientation. It has a saying that translates: “The nail that stands out is soon pounded down.” This means that individuals should not stand out from the group. If they do, the group will force these individuals to conform to the expectations of the group. Japanese businesspeople tend to function collectively. Consequently, they do not make decisions without achieving consensus or group agreement. Group harmony is more important to them than individual gain.

No culture is based entirely on individualism or collectivism. All cultures have degrees of both, but most lean toward one or the other. Cultures that lean toward individualism are apt to value the entrepreneurial spirit. That means they are willing to accept some risk for possible personal gain.

**TECHNOLOGY**

Fundamental beliefs about technology also vary from culture to culture. Some cultures embrace technology as a means of providing more and better material objects. Most developed countries view new ways of doing things as positive. In contrast, a less-developed country may have business culture that resists improvements in technology. Sometimes they view technology negatively for cultural or religious reasons. For example, attitudes toward technological change are generally positive in France. In India, they are mixed. India tries to balance the use of technology so that it doesn't intrude on important spiritual beliefs and displace people from menial tasks.

**LEADERSHIP, POWER, AND AUTHORITY**

Different cultures have different values related to leadership, power, and authority. These values are shared among a number of different people and institutions in democratic societies. For example, in the U.S. the power to govern is divided among the legislative, judicial, and executive branches of government. That way no individual or group has too much power. In authoritarian societies, leadership, power, and authority are granted to a few. Much of the power seems to be in the chosen person, not in the institution.

In the People's Republic of China, leadership, power, and authority are concentrated in the hands of a few older leaders, who govern without...
question. They make the major decisions, which are carried out by middle-aged bureaucrats. The younger generation has essentially no power. Their protests for more freedom are viewed as threatening the time-honored Chinese tradition of respect for the wisdom of age, a major cultural value.

**RELIGION**

Religious beliefs also regulate the business behaviors of members of many cultural groups. Such beliefs influence how people view the world. Some cultural groups are dominated by one religion. This is the case in Iran, for example, which is strongly influenced by Islam. Businesspeople there must follow Islamic practices. Some countries, such as the United States, have several major religions. Businesspeople there must respect the value choices of various religious practices. In some countries, such as the United Kingdom, religion is not a major social force. The relationship between religions and business is controversial.

**TIME**

Time is another factor to which different cultural groups attach different meanings. In most developed countries, time is commonly viewed by the clock or in the mechanical sense. Time is seen as a scarce resource that must be carefully spent. It is viewed this way in both Canada and the United States. In most less-developed countries, time is often viewed in a natural or fluid sense. Time relates to the unending cycles of day and night and the seasons. Time is viewed this way in many parts of Latin America.

**ETHNOCENTRISM**

Individuals and businesses must make cultural adjustments to show respect for others when dealing with them. These changes will help to minimize the differences that separate the cultural groups. Businesses that operate in other countries also make cultural adjustments.

Ethnocentrism is the belief that one's culture is better than other cultures. Ethnocentrism is a major obstacle to conducting successful international business. Cultures and subcultures are different worldwide. However, different does not mean that one is better than the other. Different simply means that the cultures are not alike.

When you engage in international business, you will frequently have to deal with other cultures. Interacting with a person from another culture is called a cross-cultural experience. As an international businessperson, you will have many cross-cultural experiences. With patience and practice, you can learn how to adapt to other cultures.

**CHECKPOINT**

What values in a culture can affect international business activities?
CHAPTER 2 THE INTERNATIONAL BUSINESS ENVIRONMENT

THINK CRITICALLY
1. Why is knowledge of culture important for success in international business?

2. How are education and social class related in many countries?

3. Describe actions a person might take to reduce ethnocentrism.

MAKE CONNECTIONS
4. TECHNOLOGY Describe situations in which the use of technology could help to preserve and destroy cultures.

5. GEOGRAPHY Conduct library or Internet research to find examples of businesses that have adapted their business practices to local cultural conditions. Explain why the company decided to use this international business strategy.

6. COMMUNICATION Interview someone who has lived in or worked in another country. Ask questions such as, How do business activities differ in that nation? What aspects of culture influence business relationships? Prepare a visual presentation with a summary of your interview.

7. HISTORY Research a country that has a monarch—a king or queen. Explain how this affects the nation’s class system and economic development.
CHAPTER 2  THE INTERNATIONAL BUSINESS ENVIRONMENT

LESSON 2.2

GLOBAL BUSINESS COMMUNICATION

EXPLAIN the difference between direct and indirect communication
DISCUSS the elements of non-verbal communication

LANGUAGE AND COMMUNICATION STYLES

All cultures use languages to communicate. Communication through language facilitates international business transactions. Without languages, conducting business would be very difficult. Many languages are used in conducting business. However, English is widely considered to be the language of international business. More people use English to transact international business than any other language. English is not the language spoken by the most people in the world, however. That distinction belongs to Mandarin Chinese. The other major world languages include Spanish, French, German, Arabic, Hindi, Japanese, Russian, Portuguese, and Bengali.

As a language for conducting business, English has some advantages over other languages. It contains many words drawn from other tongues, and ideas can be expressed in many ways. It also has a large number of business-related words. Further, English can be concise and precise. Often, it takes

ON THE SCENE

René Collier was born in Canada. Her primary language is English but she also has a basic knowledge of French. Each summer she travels to various parts of Canada, and she also has been to Europe. René plans to continue her international business studies in college with a goal of working in various foreign countries. What additional language training might be appropriate for René? How might she decide which language to study?
fewer words to send the same message in English than to send it in other major languages. For example, the French version of a message may be 20 percent longer than the English version. The Spanish version may be 30 to 40 percent longer than the English version. The Russian version may be 35 percent to 50 percent longer than the English version.

LEARNING A SECOND LANGUAGE FOR BUSINESS

Being a native speaker of English is both an advantage and a disadvantage. It is an advantage because you already know the major language of international business. It is a disadvantage because you may decide wrongly that there is little need to learn another language. Because people often prefer to transact business in their native language, learning a second language may help your chances of succeeding in business.

You may wonder which foreign language is most useful for business purposes. The answer to this is not easy. All languages have use in some business situations. The languages most frequently recommended to native U.S. English speakers by representatives of multinational companies include Japanese, French, Spanish, German, Chinese, Russian, and Arabic.

Learning any language will help you understand the culture of those who speak it. Some people say a language represents the highest form of a group’s culture. As you learn the language, you learn how things are done where the language is spoken. You learn the beliefs, values, and assumptions of that society.

DIRECT AND INDIRECT COMMUNICATION

One important feature of communication is its ability to be direct or indirect. Contexting refers to how direct or indirect communication is. A low-context culture is one that communicates very directly. These cultures value words and interpret them literally. The cultures of both Germany and the United States are relatively low context. Members of these groups convey information fairly directly. A high-context culture is one that communicates very indirectly. These cultures attach little value to the literal meanings of words and interpret them figuratively. The general and business subcultures of both Japan and Iraq are relatively high context. Members of these groups convey information indirectly.

The concept of face-saving or minimizing personal embarrassment is directly related to contexting. In low-context cultures people are not too concerned about being personally embarrassed. In high-context cultures, however, personal embarrassment must be avoided at all costs. If you cause a Japanese business partner to lose face, you have blundered badly. You have jeopardized your personal and business relationship with that person.

What languages are commonly recommended for international business success?
CHAPTER 2  THE INTERNATIONAL BUSINESS ENVIRONMENT

NONVERBAL COMMUNICATION

Greetings vary from culture to culture. Appropriate greetings range from shaking hands, bowing, and hugging, to kissing on the cheek, rubbing noses, sticking out your tongue, and spitting at the feet.

Not all communication takes place with language. Nonverbal communication is communication that does not involve the use of words. You probably have heard the saying that actions speak louder than words. Actions are an example of nonverbal communication.

BODY LANGUAGE

One type of nonverbal communication is body language. Body language refers to the meaning conveyed by facial expressions, upper and lower body movements, and gestures. All cultures and subcultures use body language. However, they do not always attach the same meanings to body language. The meaning of body language is not universal. For example, in Japan, you should cross your legs only at the knees and ankles. You should not rest your foot on your knee. The Japanese believe this position is offensive. They believe the bottom of a foot is unclean and should not be exposed to view.

APPEARANCE

In the international business world, your appearance counts. Your clothing has no voice, but it can communicate. Although people dress differently in various parts of the world, they may dress similarly when conducting international business. As a U.S. businessperson, you should dress in a conservative manner when dealing with international partners. You might, for instance, wear dark-colored suits and white shirts or blouses.

Of course, clothing should be clean and well-pressed. Your body should be carefully groomed. Your business associates will be favorably impressed if you always dress and behave in a professional manner. If you care about your appearance, you are also likely to care about business.

EYE CONTACT

Eye movements vary from culture to culture. They are another means of nonverbal communication. In the United States, you should have direct eye contact with the person to whom you are speaking. That is not the case in South Korea. There you show respect for the person speaking by looking downward, away from the eyes of the speaker. This is also true in many other Asian cultures.

TOUCHING

Touching behavior is another part of nonverbal communication. The kinds of touches that are acceptable vary worldwide. In Arab countries business associates hug and kiss each other when they meet. They also may hold hands as they discuss business matters. Such behaviors may be considered inappropriate for business in other regions of the world.

PERSONAL SPACE

Different cultural groups use space differently for communication purposes. Jordanians confer very close to each other. Only a few inches separate them. People in the United States require more distance. They often confer at arm’s length from each other. The Japanese prefer even more distance between speakers than do people in the United States. When businesspeople with different
space requirements interact, they must remember to respect the space needs of others. If they don’t, they may find themselves dancing around the room. As one moves forward, the other steps back.

**COLOR**

Color is another form of nonverbal communication. For example, the U.S. culture values dental products that produce white teeth. However, in Southeast Asia, teeth blackened by chewing betel nuts are valued. This value could pose a problem for a U.S. company trying to sell toothpaste in that area.

**NUMBERS**

Numbers also communicate. In the United Kingdom and continental Europe the first floor is the floor above the ground floor. The first floor in a building in the United States is customarily the ground floor. Numbers can confuse businesspeople because they sometimes carry different meanings in different cultures and subcultures.

**EMBLEMS**

Emblems or other symbols communicate. A Canadian could wear a cross-shaped necklace in many countries. However, in a country that accepts only another religion, doing so would be culturally insensitive. In fact, it is illegal to display non-Islamic religious symbols in Saudi Arabia.

**SMELLS**

Smells are another means of nonverbal communication. Natural body odors are considered unacceptable in the United States. Selling such products as deodorants and colognes, is big business. In most African and Middle Eastern countries, body odors are accepted as being natural and distinctive. People there do not try to hide them. Consequently, the market for deodorants and colognes in those regions is much smaller.

**GLOBAL INTERNET ENTREPRENEURS** All you need is a computer, a modem, a phone line, a printer, a scanner, a credit-card business account, and a delivery service. Then what do you have? You now have an online business capable of competing with any major organization worldwide. Online, big and small companies look alike. Take away the big buildings, fancy offices, and well-dressed employees, and what's left? A company's image is judged by its web site content and features.

**THINK CRITICALLY** What are the benefits of conducting international business online?

**CHECKPOINT**

What are common components of nonverbal communication?
THINK CRITICALLY
1. What factors should a person consider when deciding what second language to learn?

2. How would business activities differ in a high-context culture from those in a low-context culture?

3. Describe situations in which nonverbal communication might improve or detract from an international business relationship.

MAKE CONNECTIONS
4. TECHNOLOGY The web sites of most international companies present information in several languages. Locate an example of such a web site. Explain what might have influenced the company's choice of the languages presented. Describe possible cultural influences on the format, features, or content of the web site.

5. VISUAL ART Research the major languages in the world or the languages most recommended by business managers. Prepare a graph or chart displaying the main languages from your research.

6. COMMUNICATION Select a country with a high-context culture. Research the nation's culture to obtain information about its business culture. Write a paragraph explaining the culture. Also describe examples of non-verbal communication in that culture.
LESSON 2.3
INTERNATIONAL BUSINESS LAW

GOVERNMENT ACTIONS AFFECT INTERNATIONAL BUSINESS

International business can be dramatically affected by political developments throughout the world. People have different perceptions about the degree of responsibility in the countries these organizations operate.

A host country is one in which a multinational enterprise is a guest. Multinational enterprises fulfill a number of positive roles in host countries while operating within existing economic, social, and legal constraints.

Multinational enterprises stimulate economic activity. Whenever feasible, they purchase land, goods, and services locally. They provide employment for citizens of the host country. Often they introduce more advanced technologies, which help the economic development of the host country.

ON THE SCENE

After completing her education, René Collier is planning to work for a company involved in international business. As a result of her travels, René has observed several laws in other countries that differ from those in her country. What are some types of government regulations that might be encountered in other countries? Why do governments sometimes pass laws that can encourage or discourage business activities?
A home country is the one in which a multinational enterprise is headquartered. As a domestic corporation in its home country, a multinational enterprise is expected to comply with the home country’s social, economic, and legal mandates. The home country expects multinational enterprises based within its borders to demonstrate social responsibility. They must comply with societal expectations and standards and meet both the spirit and the letter of the laws of the home country.

**ENCOURAGE GLOBAL BUSINESS ACTIVITIES**

Specific actions by governments can directly support and promote international business activities. Governments around the world encourage domestic industries to export by providing export counseling and training, export insurance, and export subsidies and tax credits. Governments view exporting as an effective way to create jobs and foster economic prosperity. Common efforts to encourage international trade include free-trade zones, most favored nation status, free-trade agreements, and common markets.

**Free-Trade Zones** To promote international business, governments often create free-trade zones in their countries. A free-trade zone is a designated area, usually around a seaport or airport, where products can be imported duty-free and then stored, assembled, and/or used in manufacturing. Only when the product leaves the zone does the importer pay duty.

**Most Favored Nation** A government can also encourage international trade by granting most favored nation status to other countries. Countries with most favored nation (MFN) status can export into the granting country under the lowest customs duty rates. Products imported from countries without MFN status are charged a higher tariff rate.

**Free-Trade Agreements** A growing trend throughout the world is for countries to establish free-trade agreements with other nations. Under a free-trade agreement, member countries agree to eliminate duties and trade barriers on products traded among them. This results in increased trade between the members. For example, the United States, Canada, and Mexico created the North American Free Trade Agreement (NAFTA) in 1993. This pact eliminates taxes on goods traded among the three countries and eases the movement of goods. NAFTA is designed to enlarge the markets and economic bases of the countries involved.

**Common Markets** Some countries join together in a common market to promote more trade among them. In a common market, members eliminate duties and other trade barriers, allow companies to invest freely in each member’s country, and allow workers to move freely across borders. Common market members also have a common external duty on products being imported from nonmember countries. Examples of common markets include the European Union (EU) and the Latin American Integration Association (LAIA). The goals are to further trade among member nations and to promote regional economic integration.
To protect local businesses from foreign competition, governments may establish trade barriers that make it difficult to trade across borders. Governments that establish trade barriers are considered protectionist. Protectionism is a policy of protecting local or domestic industries from foreign competition. Governments may restrict foreign competition by taking various actions.

**Tariffs** A government can place a tariff or duty on imported products. A tariff or duty is a tax on products that are traded internationally. Duties raise the cost of the product to the importer, which discourages consumers from buying the imported products. Duties are the most common trade barriers.

**Quotas** Governments also place quotas on certain imported products. A quota is a limit on the total number, quantity, or monetary amount of a product that can be imported from a given country. Once the quota has been met, no more of that product can be imported for the rest of a set period (often, a year). The quota creates a limited supply of the imported good. This protects domestic products from too much foreign competition. Import quotas often protect the textile, shoe, automobile, and steel industries.

**Boycotts** Sometimes a government issues a boycott, which is an absolute restriction on the import of certain products from certain countries. For example, in India, importing many consumer goods is banned. This forces foreign companies that want to sell consumer goods to invest in India and manufacture the products locally. In Japan, the government maintains a nearly complete ban on the import of rice. This action protects Japanese rice farmers from foreign competition. Norway protects its apple and pear producers by allowing imports only after the domestic crop has been sold.

**Licensing Requirements** Some governments control imports by requiring companies to have a government import license. The license grants permission to import a product. Such a license can be withdrawn at any time.

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**Checkpoint**

What actions can governments take to encourage and discourage international trade?

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**BUSINESS MATH CONNECTION**

Calculate the final price of an imported product costing $200 that is subject to a tariff of 30 percent and an import license fee of 4 percent.

**SOLUTION**

The formula for calculating productivity is

\[
\text{Final price} = \frac{\text{Cost of item}}{1 + \text{Tariff} + \text{License fee}}
\]

\[
= \frac{$200}{1 + (0.30 \times $200) + (0.04 \times $200)} = $268
\]

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**WORKSHOP**

As a class, discuss the actions a country may take to encourage or discourage international business activities. Divide into two teams to debate the benefits of these two types of action.
Why do governments regulate businesses? Often, it is to protect the health and safety of workers. Many countries establish occupational protection laws to protect workers from dangerous conditions on the job. For example, in many countries, factory workers must wear safety equipment, such as protective eye goggles, hard hats, and earplugs. Other worker protection laws prohibit the use of children as agricultural laborers or factory workers.

Governments also establish consumer protection laws to ensure products are safe. For example, many countries require that food ingredients be listed on product labels. And, most developed countries have electrical safety standards to protect consumers from purchasing faulty electrical appliances, such as hair dryers and toasters.

Complying with worker and consumer protection laws usually increases the cost of doing business for companies. These increased costs may make a product less competitive with products manufactured in countries that do not have such laws. In general, occupational and consumer protection laws are not as strict in poor, developing countries as they are in the major industrialized countries—such as the United States, Canada, Japan, and the countries of Western Europe. A product made in Canada will probably cost more than a similar product made in Mexico, even if both are marketed in Ireland.

Intellectual properties are valuable assets for many companies. Create a list of businesses and the types of intellectual property each possesses. Prepare a short report that communicates the problems that might occur when intellectual properties are not protected when doing international business.

Another area requiring legal protection involves intellectual property, which involves the technical knowledge or creative work created by a person or organization. These items can often be the most important assets of businesses. Computer software companies, clothing designers, film companies, and book publishers are concerned with protecting their intellectual property rights. When these rights are not protected, dishonest competitors can steal knowledge to make products similar to the original product and deceive consumers into buying them.

The World Intellectual Property Organization (WIPO) is part of the United Nations. This agency, with more than 160 member nations, coordinates various international treaties designed to protect patents, trademarks, copyrights, and other intellectual property. Piracy, the illegal use of intellectual property, is a major concern for the companies that first developed these products. As trade becomes more global, the protection of intellectual rights will be a major focus of international law.

Patents A patent is the exclusive right of an inventor to make, sell, and use a product or process. To be protected, a product or process must be new and useful. Once a patent expires in the United States, it cannot be renewed unless a new improvement or design is incorporated into the idea or product. Patent rights are limited by time that ranges from five to twenty years in different countries.
Trademarks

A trademark is a distinctive name, symbol, word, picture, or combination of these that is used by a business to identify its services or products. Trademark protection was designed to protect the good reputation of a business's services and goods. It prevents competitors from representing their products as being those of another business. Such a practice of misrepresenting is deceptive to the public and unfairly takes business away from reputable companies.

The symbol ® indicates that a name is a registered trademark in the United States. Most labels of brand-name products include the symbol identifying the name as a registered trademark. To remain protected, a trademark must be in continual use and must continue to be identified with the original business. Once a term becomes accepted to mean all things of that kind, it is no longer protected. For example, T-shirt and aspirin were once trademarks, but they are no longer protected by trademark because they have become everyday terms.

Copyrights

A copyright protects the original works of authors, composers, playwrights, artists, and publishers. In the United States, a copyright gives the originator exclusive rights to publish, sell, and exhibit his or her creative work for his or her lifetime plus 70 years. The copyright symbol © followed by the name of the copyright owner and the date of publication, must be prominently displayed on the publication. Anyone who uses work protected by copyright without the creator's permission can be subject to legal action.

The Berne Convention of 1986 established the International Union for the Protection of Literary and Artistic Works. More than 65 countries, including all members of the European Union, participate in this agreement.

Political Risks in International Business

The possibility always exists that government actions or political policies may adversely affect foreign companies. This is called political risk. Major political risks to international business include trade sanctions, expropriation, economic nationalism, and civil unrest or war. All of these actions can temporarily or permanently disrupt global business activities.

Trade Sanctions

Governments may impose various trade restrictions against another country to protest that country's behavior. This use of trade barriers as sanctions is usually the direct result of political disputes between countries. For example, in August 1993, the United States imposed a trade sanction that banned the sale of high technology equipment to China. The United States was protesting China's apparent sale of missile technology to Pakistan, which violated an international arms-control agreement. Trade sanctions range from tariffs to boycotts. A country can impose a trade embargo against another country and stop all import-export trade with that country. In recent years, the United States issued a trade embargo against several countries due to various political differences such as acts of international terrorism. These embargoes banned the export of any goods, technology, or service from the United States to these countries.
Expropriation  In extreme cases, a host government could confiscate, or expropriate, a company’s foreign location. Expropriation is when a government takes control and ownership of foreign-owned assets and companies. This happened in 1990 as a result of the breakup of the Soviet Union. Some cities in the new republics took over property and assets of the ruling communist party of the former Soviet Union.

Economic Nationalism  Economic nationalism is a political force that can also create political risk for companies conducting international trade. Economic nationalism refers to the trend of some countries restricting foreign ownership of companies and establishing laws that protect against foreign imports. Economic nationalism is a form of protectionism. Protectionist governments may encourage their people to “buy domestic” instead of purchasing imported products.

Civil Unrest or War  Evidence of the following factors signals the possibility of civil unrest in a country.

- Social disorder
- Extreme income unevenness, with a few very rich people and a massive number of poor people
- Frequent changes in the structure and activity of political parties

Civil unrest interrupts production, sales, and other business activities. Transportation of goods may be hindered, and people may not be able to shop because of gunfire and riots.

Protection from Political Risk  U.S. companies can protect their international sales and assets by using the services of two U.S. government agencies—the Export-Import Bank of the United States (EXIM) and the Overseas Private Investment Corporation (OPIC).

EXIM is the U.S. government agency that helps finance the export sales of U.S. products. It provides export loans, export loan guarantees, and export credit insurance. An exporting company can purchase an export credit insurance policy from EXIM that will provide 100 percent political risk protection for international sales. This includes protection from foreign governments that refuse to convert local currency to dollars. It also covers damage or destruction of a shipment caused by wars, revolutions, and civil disorders.

The Overseas Private Investment Corporation (OPIC) provides investment insurance to U.S. companies that establish operations in developing countries. A U.S. company can protect its overseas investment by purchasing OPIC insurance. This shields the company from several types of political risk, including expropriation and damage or destruction caused by war, revolution, terrorism, and sabotage. If any of these political actions occur, the U.S. company can file a claim with OPIC to recover its losses.

**CHECKPOINT**

What are common political risks faced by companies involved in international business?
THINK CRITICALLY
1. How does a host country differ from a home country?

2. How might taxes be used by a government to encourage or discourage international business activities?

3. Why is intellectual property a valuable asset for many companies?

4. What problems might an international company have when trying to do business in a country that is fighting a civil war?

MAKE CONNECTIONS
5. CULTURAL STUDIES Describe situations in which cultural differences could create disagreements among countries involved in free-trade agreements or common markets. Prepare a summary of your analysis.

6. LAW If you were creating a legal system to protect intellectual property rights, what features would you have in these government regulations?

7. HISTORY Find examples of war or civil unrest that resulted in a company having buildings taken away or destroyed. Describe your examples.

8. TECHNOLOGY Go to the web site for Transparency International (www.transparency.de) and Transparency USA (www.transparency-usa.org) to obtain information about political risk in other countries. Describe your findings.
CHAPTER SUMMARY

LESSON 2.1 International Culture
A. The components that commonly influence a culture include family units, family-work relationships, education, gender roles, mobility, and class systems.
B. Global business activities are affected by cultural values such as individualism vs. collectivism, technology, leadership and authority, religion, and time.

LESSON 2.2 Global Business Communication
A. Direct communication occurs in a low-context culture when people’s words are interpreted literally. Indirect communication occurs in a high-context culture in which the situation influences the meaning of the spoken words.
B. Nonverbal communication includes body language, appearance, eye contact, touching, personal space, color, numbers, emblems, and smells.

LESSON 2.3 International Business Law
A. Governments encourage trade with free-trade zones, most-favored nation status, free-trade agreements, and common markets. International trade may be discouraged by tariffs, quotas, boycotts, and licensing requirements.
B. Common political risks faced by companies include trade sanctions, expropriation, economic nationalism, civil unrest, and war.

VOCABULARY BUILDER
Choose the term that best fits the definition. Write the letter of the answer in the space provided. Some terms may not be used.

1. A designated area where products can be imported duty-free and then stored, assembled, and/or used in manufacturing
   - a. boycott
   - b. class system
   - c. collectivism
   - d. culture
   - e. ethnocentrism
   - f. expropriation
   - g. free-trade agreement
   - h. free-trade zone
   - i. individualism
   - j. quota

2. A limit on the total number, or amount of a product that can be imported from a given country.

3. Dividing the members of a cultural group into various levels

4. The belief that the group is more important than the individual.

5. A system of learned, shared, unifying, and interrelated beliefs, values, and assumptions

6. An absolute restriction on importing certain products from a country.

7. Government action to take control and ownership of foreign-owned assets and companies

8. The belief in the individual and her or his ability to function relatively independently

9. An arrangement between countries to eliminate duties and trade barriers on products traded among members.

10. The belief that one’s culture is better than other cultures
REVIEW CONCEPTS

11. What is culture?

12. How does a nuclear family differ from an extended family?

13. What are benefits of individualism and collectivism?

14. How does a low-context culture differ from a high-context culture?

15. How does personal space differ in different cultures?

16. Why do countries join trade agreements?

17. Why do governments establish barriers to discourage international business?

18. Name some examples of intellectual property.

19. How do U.S. government agencies help reduce political risks for companies involved in international business?
APPLY WHAT YOU LEARNED

20. What evidence suggests that geographic attachment (lack of mobility) is weak in the U.S. culture compared to other countries?

21. Why might a strong class system in a country affect economic development?

22. How does knowledge of more than one language affect a person’s potential for success in international business?

23. What actions could a person take to better understand the nonverbal communication in another culture?

24. What are some responsibilities an international company might have to a host country?

25. As a consumer, why might you oppose import trade barriers such as high custom duties or import quotas?

26. As an international business manager, what actions could you take to avoid various political risks?
### MAKE CONNECTIONS

**27. BUSINESS MATH** For each of the following situations, use the tariff rate to calculate the final price for the items listed. Create a spreadsheet for these calculations.

<table>
<thead>
<tr>
<th>Item</th>
<th>Imported price</th>
<th>Tariff rate</th>
<th>Final price</th>
</tr>
</thead>
<tbody>
<tr>
<td>DVD</td>
<td>$20</td>
<td>10 percent</td>
<td>$_______</td>
</tr>
<tr>
<td>towels</td>
<td>$8</td>
<td>17 percent</td>
<td>$_______</td>
</tr>
<tr>
<td>radio</td>
<td>$34</td>
<td>35 percent</td>
<td>$_______</td>
</tr>
<tr>
<td>shirt</td>
<td>$28</td>
<td>22 percent</td>
<td>$_______</td>
</tr>
</tbody>
</table>

**28. TECHNOLOGY** How might technology and the Internet help you better understand another culture or learn a different language?

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____________________________________________________________________

**29. CAREERS** Interview a person who has worked in another country. Ask how culture and language affected their business relationships?

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____________________________________________________________________

**30. GEOGRAPHY** How might the natural resources in a region encourage countries to join together to create a common market?

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____________________________________________________________________

**31. ETHICS** In many countries, businesses will sell unauthorized versions of famous products or sports clothing that has been printed illegally. Prepare a one-page report explaining how these counterfeit products affect businesses and consumers.

**32. VISUAL ART** Look for examples of trademarks and brand names of products sold around the world. Present these examples in a display, along with an original idea for a trademark and brand that might be used for international business.

**33. LAW** Prepare arguments in favor of and in opposition to legislative actions for the creation of trade barriers, such as higher tariffs and import quotas. Prepare a one-page paper on your arguments.