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Strategic Responses Arising From Divergent Foreign Policy and Trade Perspectives

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Abstract

This article examines the underlying theoretical rationale for different perspectives of foreign policy: Marxism, Wilsonian Idealism, neoconservative idealism, national interest, nationalism, isolationism, and theocracy. Various forms of trade policy are also examined as a function of foreign policy. A technique is suggested for analyzing actionable strategic responses based on foreign policy risks and resource availability. Several strategic responses are presented.

Introduction

Much understanding of international business relations has been developed around cultural differences and how to adapt to them on a person-to-person level (Hofstede, 1980; 2007). Executives, however, may need additional understanding at a strategic or policy level in order to assist them in making strategic decisions for their firms. Such understanding is particularly necessary in an age of international political change, when global dynamics create ongoing debates about the proper ideological foundation of trade and foreign policy among various nations (Ish-Shalom, 2006). In the 1990's, the reconfiguration of the Soviet Union and its allies into new political states represented an important turning point that signaled the end of cold war politics and superpower rivalry (Luttwak, 1995). Foreign policy in the U. S. and other parts of the world has a long, rich, and diverse history quite distinct from the superpower rivalry of those times. A variety of views characterize the foundations of various foreign policies favored by different leaders and different times throughout history (Barnes, 2008; Copley, 2006; Kissinger, 1994; Mao, 2007). It is important for managers to understand these views as global business interactions take place in the years ahead. The global financial crisis of 2008 is just one event that is indicative of the economic interdependency among nations. Fundamental trade and foreign policy decisions are factors that underlie how different nations may approach business relations in the future ("Back in Business," 2008; Garten, 2008a; 2008b; Kerler, 2008; McCusker, 2008; Omestad, 2008; Ostava; 2008).

The purpose of this article is to provide guidelines for making strategic decisions in the context of complex international relations. It examines dominant views of international relations, their corresponding foreign and trade policies, and their impact on

various organizational constituencies. It provides several strategic responses for managing risk and resources.

Level of Analysis

In order to limit the complexity of this article, the level of analysis is taken from the perspective of a U. S. business enterprise that may have operations or interests on a global scale. We choose to define the relationships from a U. S. business perspective for one main reason. The nature of international relationships is essentially dyadic¹ in that an enterprise operates within the perspective of its own domestic policies as well as within the policies of a host country. An analysis based on each and every binary combination of ideologies in which businesses operate would be impossible.

Ideological forces and the dynamism of foreign policies

The goal of this paper is to articulate various “official” foreign policies and understand how they affect a business’s operation in a foreign setting. Like “culture,” foreign policy in practice sustains certain “fuzzy” characteristics. Foreign policies are generally based on certain ideologies and assumptions about human nature (Wiegel, 1994), assumptions that are complex and cannot be proven. The foreign policies that derive from them are also complex and can be inconsistent with their implementation in the real world. Ideology is a “generic term applying to general ideas that are potent in specific situations of conduct” (Chai, 2003:164). For purposes of theoretical and organizational integrity, foreign policies described in this article are actually “ideal types,” that is, a set of desirable practices based on a simplified interpretation of a complex world. Like business strategy, which includes intended strategy and realized strategy (Hill, 1990), the formulation of foreign policy is based on intentions, but realized policy may be quite different as events help shape responses in the real world. Furthermore, many nations, especially democracies, develop actual policy with input from numerous viewpoints, while hoping to emphasize a single one. Such practices often result in inconsistent or “polyglot” policy in practice.

Views of International Relations and their Implication for Foreign Policy and Trade Policy

A literature review shows that seven views of international relations represent the current spectrum of themes expressed in the debate about foreign policy (“An Exchange,” 2008; Baran, 2005; Behreandt, 2004; Burman, 2008; Butora, 2007; Chai, 2003; Copley, 2006; Fischer, 2007; Green, 2008; Guskova, 2006; Heilbrunn, 2008; Hurst, 2004; Ish-Shalom, 2006; Karabell, 1996; Khanna, 2007; Kegley, 1993; Kissinger, 1994; Legvold, 2001; Mao, 2007; McDonnell Twair, 2004; Melnikov, 2008; Pavlov and Alekseeva, 2007; “Politics,” 2008; Steigerwald, 1994; Wiegel, 1994, Zasloff, 2003). They are loosely associated with political ideologies on a spectrum from far left to far right, but may deviate substantially from these political wings, depending on how situations shape opinion within each wing. For taxonomic and organizing purposes, however, we choose to illustrate them along with their typical political wing, as shown in

¹ Dyadic – twofold; of or relating to two individuals or units regarded as a pair
From: *The American Heritage College Dictionary, 3rd ed.*

Figure 1. At the far left is the view of intellectual circles that describes Marxist ideology (Birnbau, 1996; Butora, 2007; Chai, 2003; Curtis, 1981; Dionne, 1991; Hobsbaw, 1994). A more moderate position on the left is defined by President Wilson’s idealism following World War I (Kissinger, 1994). The neoconservative view is to the right of Wilsonian idealism, but has many elements in common with it (Burman, 2008; Heilbrunn, 2008; Mazarr, 2003; McDonnell Twair, 2004; Owens, 2007; Weigel, 1994). A view often associated with moderate right-wing libertarianism is one that is grounded in the idea of national interest and geopolitical realism (Heilbrunn, 2008; Kissinger, 1994; Steigerwald, 1994; Zasloff, 2003), and the extreme right is characterized by views espousing nationalism (Barnes, 2008; Behreandt, 2004; Hurst, 2004), nativist isolationism (Fromkin, 1995; Green, 2008; Kauffman, 1995; Mao, 2007) or theocratic dominance (Fischer, 2007; Pieretti, 2008; Weigel, 1994).

Marx’s Dialectical Materialism

Though Marxism has lost some of its prominence since the collapse of the Soviet Union in the 1990’s, the competitive and stressful nature of transitioning to a capitalist economy has reawakened its appeal to some constituencies in former communist nations (Butora, 2007). Furthermore, several national leaders, such as those in Venezuela, Ecuador, North Korea, and Cuba, hold steadfastly to Marxist ideals (Hawley, 2008). By its nature, Marxist ideology is mistrustful of any capitalist organization, therefore, the intentions of enterprises in the world’s most powerful capitalist economies are particularly suspect. A major goal is to overthrow capitalism, and its ideological dissemination has left populations deeply mistrustful of businesses and conscious of exploitation (Hobsbawm, 1994).

Figure 1
Spectrum of Views of International Relations

Political Ideology	Far Left	Moderate Liberal	Neo-conservative	Moderate Conservative	Far Right
World View	Marxism/ Dialectic Materialism	Wilsonian Idealism	Idealism w/o Illusion	Richelieu’s National Interest	Nationalism/ Isolationism/ Theocracy
Policies	Overthrow Capitalists	Fourteen Points: Ethnic Self-Determination; Open Agreements; World Body (United Nations); Human Rights		Balance of Power; Alliances of the Like-Minded; “Realpolitik”	Protect constitutional freedoms and basic values
View of Power	Liberation from Imperialists	Collective Security	Benevolent Hegemony	Spheres of Influence	Assert in defense of liberties
Trade	Exploitation; Capitalists get wealthy at expense of poor nations	International Free Trade, WTO, Globalization		Trade Blocs	Subsistence or fair trade; wealthy nations suffer at hands of poorer nations
War Rationale	Territorial expansion is desire of capitalists	Moral imperatives: Human rights, sovereignty, weapons nonproliferation; treaty obligations		Keep aggressors in check to maintain balance of power	Self-defense; remain free of “foreign entanglements”

Inconsistency or Relational Difficulty	Acceptance of idea that free trade can be mutually beneficial	Variable Levels of Development in World; Trade Sanctions Used to Enforce Ideals.	Differential Trade Conditions between Bloc Members and Non-members	Regulations and protectionist trade barriers
Employees	Consciousness-raising about exploitation may create low motivation and risk-taking	Highly competitive, unstable, stressful working conditions must be reconciled with idealism	Pressures to reduce differential conditions within bloc	Union activity and protectionist interventions may be unintended consequence
Owners and Investors	Ownership by state. Capital as stored-up labor--sense of obligation toward employees	Highly competitive capital markets must be reconciled with idealism to create worldwide prosperity	Capital flow advantage to bloc partners may reduce outsider's comparative advantage	Policies limiting foreign ownership and capital inflow must be resolved with desire for <i>domestic</i> prosperity
Customers	Planned economy and employee-centered society has little understanding of customer needs	Extremely demanding customers have much choice and power as consumers. Must reconcile free market with idealist desires for consumer protections	Tariffs on products from outside bloc may create high pricing and low competitiveness on some products	Customer could have less choice and competitive pricing. Must reconcile lower innovation rates with desire for national glory
Competitors	State ownership creates monopolistic behavior and low rates of innovation	Intense competition, frequent failures, must reconcile with ideal of prosperity for all	Within-bloc labor/environment differentials create potential for within-bloc conflict about fairness	Concentration and regulation can be a problem. Lower rates of innovation must be resolved with desire for <i>domestic</i> prosperity.

Marxists see capitalist institutions as organs of domination and oppression whose purpose is to allow continued exploitation of the weak by the powerful (Curtis, 1981; Palmer and Colton, 1984). Marxist explanations extend to relations between nations. While Marx had prophesied that Communism would spread across the globe, and nations would "wither away" under a classless society (Curtis, 1981), in reality non-Marxist states have flourished since the first Communist Revolution. Lenin's writings view capitalist states as antagonistic imperialists bent on exploiting underdeveloped nations. His view is that capitalist nations must seek other nations to exploit as their own markets become saturated and their own resources become depleted. Trade is viewed as a zero-sum game in which wealthier nations benefit at the expense of poorer nations (Birnbaum, 1996). Beyond trade relations, most acts of war are viewed as territorial encroachments designed to protect scarce resources (such as oil) for the use of wealthy nations.

For organizations hoping to establish business relations with individuals or nations holding the Marxist view of international relations, the dominant difficulty is gaining acceptance of the idea that trade can be mutually beneficial. Even when business relations can be established with particular individuals or government officials, other associates may be suspicious of the relationship since economic exploitation is seen as the primary motive for trade with capitalists. This problem is compounded in regions where personal connections served as the primary mechanism for gaining advantage when private property had been abolished (Smith, 1990; Bjeletic, 1996). On a more practical level, consciousness-raising about exploitation, along with monopolistic government ownership of enterprises has left employees with low work motivation and little desire for risk-taking. Under Marxism, organizations were created with a sense of obligation toward employees, but the planned economies associated with communism left little incentive for developing knowledge about customer needs (Birnbau, 1996).

Wilsonian Idealism and Neoconservative “Idealism without Illusion”

Wilsonian Idealism and neoconservative foreign policies are described together in this section because of their similarities. Critical differences between them will also be highlighted.

Wilsonian idealism is considered by many to be a particularly American type foreign policy (Barnes, 2008; Khanna, 2008; Kissinger, 1994; Lind, 1996; Lipset, 1996; Wiegel, 1994). It takes a very positive view of human nature and uses the founding principles of America, along with the universal moral claims embedded in them, to lay the foundation for foreign policy (Heilbrunn, 2008). Foreign policy “realists” who view idealists as “utopian” (Kristol & Kagan, 1996) have turned to “idealism without illusion,” the neoconservative claim that ideals can be used to develop foreign policy, but they must be tempered with prudent analysis and implementation. The essential difference, then, between Wilsonian idealists and neoconservative idealists is that neoconservatives believe moral skill must be used to apply principle to circumstance (Wiegel, 1994). Wilsonian idealists are more apt to assume the application of their universal principles is straightforward.

President Woodrow Wilson hoped to establish an entirely new system of international relations following the devastation of World War I. Wilson, along with Thomas Jefferson, believed that nations had an obligation to act as secular moral agents in the same manner as individuals (Tucker and Hendrickson, 1865; Kissinger, 1994). The foreign policy of a nation is to be judged by a universal set of standards derived through democratic consensus. Wilson’s universal standards are expressed in his Fourteen Points of the Treaty of Versailles and include: the establishment of ethnic self-determination, open agreements, a League of Nations to develop and enforce international law, and protection of basic human rights (Heilbrunn, 2005; Kissinger, 1994). Wilson’s foreign policy is one of absolute right and wrong, with war to be fought only in the case of egregious violation of universal standards, such as, violation of human rights, dangerous arms proliferation, gross treaty violation, totalitarian governance, and violation of another nation’s sovereignty. War is to be a measure of last resort, with a League of Nations (United Nations today) serving as the mechanism for working out conflicts among nations interested in “collective security” (Gordon, 2005; Kissinger, 1994). Morality, rather than economic domination, is the primary motivation for foreign involvement.

An important distinction between Wilsonians and neoconservatives is in their view of power. While Wilsonians strongly believe in working toward collective consensus in which all nations have equal voice, neoconservatives believe that righteous nations may act in a benevolent hegemonic fashion in some circumstances (“An Exchange,” 2008; Kristol and Kagan, 1996; Mazarr, 2003; Pavlov and Alekseeva, 2007; “Politics,” 2008; Wiegel, 1994). Such actions are to be constrained, however, by guiding principles of universal acceptance, such as those found in *just war* theory (Wiegel, 1994). Nonetheless, many critics believe marrying Wilsonian Idealism with military force is an imprudent abomination (Burman, 2007; Heilbrunn, 2008; McDonnell Twair, 2004; Owens, 2007).

An essential characteristic of Wilson’s foreign policy is the establishment of interdependence because it acts to create increased motivation for building consensus and maintaining peace. Free trade creates an element of interdependence (Barber, 1992; Kono, 2007; Lavin, 1996), with the assumed benefits of mutual economic progress and world peace. Idealists see the comparative advantage of nations as a way to synergistically create greater wealth for all through trade on a worldwide basis (Muller, 1993, Kono, 2007). Trade policy supported by idealists constitutes such activities as negotiating *worldwide* free trade in the form of a General Agreement on Tariffs and Trade, GATT, enforced by the World Trade Organization (WTO) (Bhagwati, 1997; Gordon, 2005).

Nations and individuals who believe in Wilsonian Idealism are among the least difficult in establishing business relations. The greatest difficulty may occur when nations cannot agree on the universality of a right, or when there is disagreement over which right has greater priority when two rights are in conflict. Free trade suggests low protectionism, little government intervention, and little regulations, so employees, investors, customers, and competitors may have little recourse when harshly competitive conditions emerge. Huntington (1996) points out that “[h]ypocrisy and double standards are the price of universalists’ pretensions.” For example, some nations believe that economic well-being is a basic human right (Wiegel, 1994; Steele, 1995), particularly when different levels of economic development exist among nations. Others believe only that nations are obliged to create lawful democracies that lead to opportunities for economic prosperity. A second difficulty occurs when two equally desirable ideals violate one another. This dilemma leads to charges of hypocrisy since often there is a gap between principle and practice (Huntington, 1996; Neier, 1996). An example is the conflict between the free trade ideal and human rights ideal, as when China was held to standards of basic human rights’ standards before being granted entry to the World Trade Organization (Ludema, 2002). Among employees, investors, customers, and competitors, a number of ideal conflicts can occur.

National Interest

In contrast to Wilsonian Idealism, international relations based on national interest assume international life means struggle, and Darwin’s theory of survival of the fittest is a better guide to history than personal morality (Kaplan, 2000). This is primarily a European Enlightenment idea espoused by Cardinal de Richelieu, First Minister of France from 1624 to 1642, and adopted by Americans Morgenthau and Niebuhr in the 20th century (Wiegel, 1994). *Raison d’etat* (national interest) replaces the medieval concept of universal moral values as the operating principle of foreign policy. It is

similar to Madison's argument that various political "factions" selfishly pursuing their own interests would, by a kind of automatic mechanism, forge a proper domestic harmony. Applied to international relations, national interest guarantees that each state, in the pursuit of its own self interest, restrains excess and thereby serves the international common good. With nations functioning in pursuit of their own national interest, the ambitions of the most aggressive members of the international community are kept in check by a combination of the others; in essence, through the operation of a balance of power. The natural order of things is reflected in the concept of "spheres of influence," which is a system of balance where preponderant influence over large regions evolves to specific powers. Various combinations of like-minded nations within a "sphere of influence" represent a balance that is to be left undisturbed; those who would disturb that peace are fair game for military action (Copley, 2006; Kissinger, 1994).

The most likely trade arrangement when national self-interest prevails is the formation of trade blocs to create a balance of power. One basis of trade bloc formation is regional, but another formation springs from political and economic like-mindedness. Currently, many trade blocs have been established: the European Union, North American Free Trade Agreement (NAFTA), the Association of Southeastern Asian Nations (ASEAN), and MERCOSUR, to name a few (King, 2002; Sims, 2000). Trade blocs have a history of cooperation and enforcement that is somewhat stronger than that of the GATT and its governing body, the World Trade Organization (WTO). While trade bloc agreements are subsumed under a clause of the GATT, which can legitimately overrule certain parts of an agreement, research findings show that the trade bloc provision of the GATT is only loosely enforced (Bognano & Ready, 1993).

Trade blocs are often arranged to remove most trade barriers internally while allowing member countries to have barriers with non-member countries; they, in effect, discriminate against non-bloc members in favor of bloc members (Belous & Hartley, 1990; Bognanno & Ready, 1993; *Economist*, 1996; Gordon, 2005; Iritani, 1999a; 1999b; Kanabayashi, 2000; Kim, 1993; Kono, 2002; Lustig, Bosworth, & Lawrence, 1992; Thatcher, 2005). The dominant difficulty in establishing business relations with individuals or countries that follow balance of power as foreign policy is to overcome the differential trade conditions between bloc members and non-members. Non-member countries are often subject to investment restrictions, higher tariffs, greater import licensing requirements, local labor content laws, and member-country subsidies (Ready, 1993). Business difficulties within trade blocs often involve pressures to level labor and environmental conditions so that competition within the blocs is fair (Angrisani, 2003; Forero and Andrews, 2005; Grigg, 2005; Guggenheim, 2001).

Nationalism

Nationalism can best be described as the political and military expression of a form of group identity attached to an existing state, or to a community which is not yet a recognized nation-state but which believes that it should become one. "Nationalism is an emphasis upon ...distinctness at the expense of the similarities of [humankind] as a whole, and for that reason easily becomes an aggressive attempt to impose the difference as a superiority" (Pfaff, 1993: 54). Exceptionalism is expressed on the basis of ethnicity, blood ties, tribal association, or national origin, and leaders often prefer to act in a unilateral fashion to support the conviction of its group's superiority (Hayes, 1993). Nationalism often exists as an undertone among nations and populations experiencing

malaise due to difficult political and economic transitions (Butora, 2007), but can be expressed quite vigorously among ethnically mixed groups, as in the case of the former Yugoslavia (Kaplan, 2000; Pfaff, 1993). Foreign policy does not always exist in an official capacity, but plays an important role in an unofficial capacity.

A major concern of nationalists is the protection of what is seen as its subjugated populations. Nationalists often see themselves as victims of hegemonic rulers who can only be stopped by becoming hegemonic themselves within their own "historical territory" (Karabell, 1996; Pfaff, 1993). Building the domestic economy through strict regulation and protectionism may be an early priority for propping up their populations, but when nationalists exhaust other processes for nationalization, they may see war as the only remaining option to achieve their goals. Trade and economic rationality is a secondary consideration which may involve rather frenzied activity to acquire strategic resources and military goods. Unrestrained use of natural and financial resources, both legally and criminally, fuels military build-up (Lavin, 1996). Government-to-government economic agreements may also be prominent during such phases (Kaplan, 2000). Trade can be quite lucrative to suppliers under such circumstances, but long term agreements and investments are quite risky. Economic sanctions imposed by outsiders in the form of an "asphyxiation strategy" (Lavin, 1996: 140) impede financial flows, exports, imports, and innovation.

Isolationism

A unique form of nationalism takes its shape in the expression of isolationism. Few nations enjoy the luxury of isolating themselves from the rest of the world; however, the United States was once such a nation, at least in its official rhetoric (Koch and Peden, 1944, "Politics," 2008). A long established tenet of American foreign policy was the avoidance of "foreign entanglements," as the precursor of taxes and armies and all other "instruments for bringing the many under the domination of the few" (Tucker and Henrickson, 1865). In rejecting the "balance of power" politics that seemed to maintain Europe in the state of constant turmoil, early isolationists hoped to enjoy a stable democracy and hold it up as an example for others to follow (Kissinger, 1994). Such a policy could exist in the luxury of geographical isolation that characterized early America.

More recently, isolationists have become skeptical of foreign involvement because of what they view as pandering to the interests of a few large institutions and unworthy foreign entities (Grigg, 2005; Johnson, 1995; Schwarz, 1996). To them, America is uniquely faithful to its peoples in providing freedom and democracy. The major thrust of its military policy is defense of these freedoms, and power is rightfully asserted in defense of these rights (Fromkin, 1995; Green, 2008; Mao, 2007). Isolationists believe that all too often, poorer nations assault the rectitude of wealthy democratic nations by demanding equal economic access rather than looking to their own corrupt systems as the cause of their poverty (Grigg, 2005; Kauffman, 1995).

Local economic self-sufficiency appeals to isolationists because of its fit with republican virtue and political participation. Some isolationists, however, recognize that without a consolidated state to forge and sustain a continental market, the nation will, like the antebellum south, be dependent on the international economy and vulnerable to its ravages (Schwarz, 1996). Beard (1939) argued that a foreign policy of "true national interest" -- as opposed to the interests of international business and finance -- would

require stringent "domestic planning and control" coupled with international economic transactions by the state. Redistribution of wealth and massive public works projects to sustain buying power among the people would eliminate the need to export goods and capital (Schwarz, 1996). Modern-day isolationists prefer trade within the constraints of regulation or "fair trade" practices. A common criticism of free trade is that "enlightened" nations must compete on an "unlevel playing field" with those nations that provide little social protection for workers, poor environmental regulation, and poor enforcement of anti-corruption laws (Grigg, 2005; Kim, 1993; Leiken, 1996). Unlike those who favor free trade as creating mutual benefit for all involved parties, "fair traders" see wealthier nations suffering at the hands of poorer ones. The greatest difficulty in establishing business relations with isolationists is penetrating protectionist trade barriers erected to avoid the "lower standards" of other nations.

Theocracy

Religious authority has a long tradition of governance in many cultures, where theological imperatives were paramount, and states were seen as social constructs with little or no recognition (Huntington, 1996).. A centralized religious authority often presided over disputes between secular interest groups within the larger community of believers. Those who failed to submit to religious moral authority were believed to be "outsiders," "infidels," or "heathens." The primary obligation toward those who did not share religious beliefs was to proselytize for their conversion or to excommunicate and avoid them (Karabell, 1996).

While many of the nations of the world became secularized during and after the Enlightenment period, the modern age is not without major influence from theocratic institutions (Fischer, 2007). The most important and influential theocracy at the beginning of the twenty-first century is the Islamic religion. Because of its currency and importance, our foreign policy discussion will center on this particular mode of theocracy; however, it should be recognized that other religions may play a role in governance in many parts of the world.

Islam, like other theocracies of the past, takes as its dominion the regions inhabited by the *umma*, or "community of believers" (Baran, 2005; Karabell, 1996). The states that make up these regions are seen as entities created by outsiders during a period of colonialism, therefore, they are given little or no authority in addressing policy questions of importance to religious rulers. Conflict between states within Islam's dominion are usually viewed as internal matters, therefore, foreign policy is most often concerned with non-Islamic forces. Karabell (1996) states Islamic foreign policy has several discernible characteristics: an embrace of the unity of the *umma*, a refusal to respect the sovereignty of secular states within the *umma*, a rejection of Western hegemony within the Muslim world, and an animus toward Zionism. The primary motive for rejecting Zionism and Western hegemony is fear that such influence will undermine the moral unity within the *umma*. Foreign policy centers on limiting the influence of these outsiders. If the West attends to such issues as domestic defense and global economic prosperity, its influence is not seen as a threat. If, however, it seeks to instill Western principles at odds with Islamic ideology (like women's rights, separation of church and state, etc.), Islamic rulers view that action as a direct threat to the unity of the *umma* (Baran, 2005; Karabell, 1996).

Within Islamic societies, trade, in general, is viewed as an acceptable practice. In fact, in its oil-rich regions, where other resources are at a minimum, trade is seen as a

solution to the entrenched poverty of the past (Shirley, 1995). *Restraint* of trade has also been used as a tool when the West is seen as exerting too much influence or violating the territorial claims of Islam's believers, as in the oil embargo of 1973. Furthermore, because of the overwhelming influence of Western capitalism in the global economy, efforts to overcome this influence often center on criticizing the materialist values associated with the West (Karabell, 1996). Religious rhetoric, then, may work to curb trade with "outsiders," but religious authorities rarely reject trade in and of itself.

Two dominant difficulties exist in establishing business relations within Islamic territories. First, many enterprises must subsume their own laws and beliefs out of respect for Islamic institutions. An example of such practices would be adhering to a dress code and gender separation to observe rules on relations between men and women. A second difficulty is that while Islamic leaders do not recognize the importance of states within their dominion, most "outsiders" do. Foreign policy and trade is conducted on the basis of international institutions developed for states, therefore, governments and individuals negotiate with secular officials, not religious authority. A conflict arises when states within Islam's dominion violate the sovereignty of each other, as in the case of Kuwait and Iraq, or of Shiites, Sunnis, and Kurds. While Islamic leaders would view such a conflict as an internal affair, "outsiders" tend to treat them as state affairs or as matters involving separate states. Failure to understand the fundamental difference between these views creates uncertainty for business enterprises attempting to assess the political future for investment potential. Arabs share a strong desire to return to the unified normalcy espoused by Islam, while "outsiders" view each state as a separate entity at odds with the others.

Foreign Policy and Strategic Response

One technique for developing a strategic response to different foreign and trade policies begins with environmental scanning to identify official foreign and trade policies. Developing appropriate actions in anticipation of some effect on the organization or vice versa (Wood & Jones, 1996) is the next step. Four main types of difficulties are of importance as businesses develop an understanding of emerging issues and appropriate responses:

1. *Ideological differences between a businessperson's country of origin and the host country*, as when a person emerging from the internationalist perspective of Wilsonian Idealism fails to understand that trade may not necessarily be viewed as mutually beneficial by others.

2. *A shift in foreign policy as one governmental administration replaces another*. For example, though American foreign policy retains some stability from one administration to another, important differences emerge when an administration shifts from an idealist internationalist perspective to a realist "national interest" perspective. Such a shift is likely to occur when a Wilsonian-Idealist Obama presidency replaces the neoconservative Bush presidency. Such differences are even more dramatic when *coup d'etat's* take place.

3. *A shift in foreign policy that takes place in response to another nation's action*. An example of such a shift is evident in the response of Arab nations during the Iraq-Kuwait dispute, with more open internationalism replacing the close-knit characteristics of the *umma* during that period. That shift was followed by a return to strengthening of

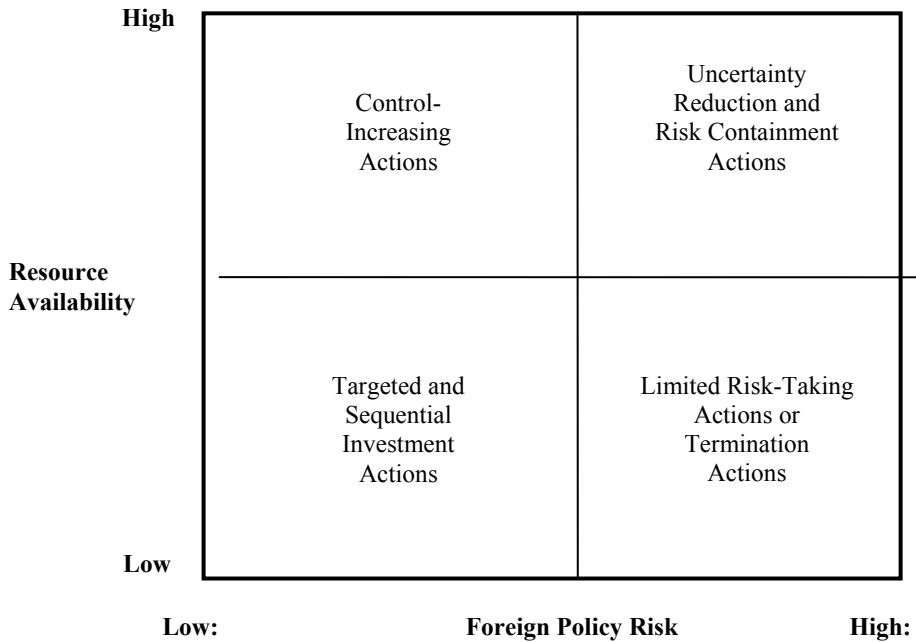
the *umma* when the second conflict with Iraq resulted in its occupation by Western forces.

4. *Differences that arise from actions appropriate for an articulated foreign policy and those that actually take place under the real pressures of interacting in a complex world (intended vs. real foreign policy differences).* An example of such a difference is illustrated by rhetoric raised against protectionist measures when, in fact, the U. S. may have in place various methods of supporting particular industries (e. g., aerospace) that are more subtle than outright subsidization (Post, Lawrence, and Weber, 1999).

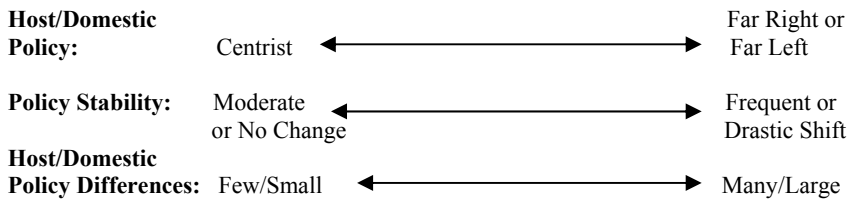
Figure 2 serves as a guideline for selecting actionable strategic responses as managers observe shifting policies at home or in existing host countries, or as they initially assess potential investments. Two factors are of particular importance when making such decisions – resource availability (vertical axis) and policy risk (horizontal axis).

Research has shown that resources limitations impose reasonable constraints on firms operating in international environments. Few firms can successfully marshal the resources to engage in every opportunity that arises in international markets (Miller & Eden, 2007; Rugman & Verbeke, 2007), but if they are resource rich, they have more options for achieving large-scale investments and increasing control (Antoine, Frank, Murata, and Roberts, 2003; Li, 2004; Zimmerman, 2007). Management of foreign policy risk is also of importance when assessing international opportunities. Risky international investments often carry the promise of better returns (Pantzalis, 2001), but they also carry the possibility of huge losses (Kwok and Tadesse, 2006)

Figure 2
Strategic Response to Foreign and Trade Policies



Risk Conditions –



Risky foreign and trade policy conditions are listed below the graph on Figure 2. The lowest risk occurs when all three conditions listed on the left are present. Host and domestic policies that are centrist are most supportive of free trade, either in the form of global agreements or trade blocs (Thatcher, 2005). If those policies are well established and not likely to change dramatically, then the risk of uncertainty is greatly reduced (Pett and Wolff, 2003, Rugman and Girod, 2003). Third, if policies among international partners are mostly “like-minded,” misunderstandings and hostility are less likely to impose greater risk (Kwok, et al., 2006; Yu, Lau, Bruton, 2007). The introduction of any one condition from the right increases risk to some degree. For example, if two entities operate within mostly stable centrist policy conditions, but they differ because one entity is more supportive of trade blocs, whereas the other is more supportive of global free trade, the global free trade entity risks becoming an “outsider” if a trade bloc agreement excludes them at some time in the future (Kanabayashi, 2000). The conditions on the right are significantly more risky. Far left and far right policies tend to be more hostile or indifferent to foreign trade and investment in general. Second, if change in policies is dramatic or frequent, the uncertainty creates risk, and third, the greater the policy differences between partners, the greater the risk of misunderstanding and hostility (Miller and Eden, 2006; Rugman, and Girod, 2003).

The appropriate strategic response when assessment shows resource availability is low and risk is low (lower left quadrant) is to target investments to limited regional opportunities (Rugman and Girod, 2003; Westney, 2006) and to enter new arrangements sequentially (Chung and Song, 2004). Research shows that focus on a particular region of the world, whether because of regional closeness or policy similarity, allows a firm to better use its limited resources to understand fewer markets (Ludema, 2002, Pett and Wolff, 2003; Rugman and Girod, 2003; Westney, 2006). Firms with limited resources are most successful when they enter regional markets sequentially, beginning with their strongest lines of business, in markets with which they are most familiar (Chung and Song, 2004). With limited resources and low risk, the mode of entry that is most successful might involve cost-sharing. For example, partnered exporting, licensing, and strategic alliances built on trust (Huff and Kelley, 2003; Jagersma, 2005; Madhok, 2006; Peng and Shenkar, 2002; Robins, Tallman and Fladmoe-Lindquist, 2002) are frequently used with great success (Farzad, 2007).

When resources availability is high and policy risk is low (upper left quadrant), expansion can proceed to larger numbers of markets. Frequently, resource availability coupled with low foreign policy risk allows greater economies of scale and global integration through free trade (Elango and Pattnaik, 2007; Lawrence, Morse, and Fowler, 2005). Because high levels of competition might be present, securing a strong presence is required (Antoine, Frank, Murata, and Roberts, 2003). The mode of entry most likely to provide that strength is direct investment through the establishment of a wholly-owned subsidiary (Zimmerman, 2007), which maximizes control. In highly competitive free markets, such control protects proprietary techniques, intellectual property, and established relationships (Li, 2004).

Low resource, high risk (lower right quadrant) strategic responses are quite limited. In rare cases, a risk-tolerant firm may be able to find unique opportunities in difficult markets. Firms may choose to take such actions because research suggests that firms competing in risky markets can have high returns (Pantzalis, 2001). An example of such a strategy is the supply of scarce goods to countries such as Columbia (Farzad, 2007).

Risk-averse firms, however, may be wise to terminate interest in such international opportunities. Failing to terminate may result in significant losses as hostile forces act to implement their policies. The expulsion of H. J. Heinz's Venezuela processing plant by Marxist President Hugo Chavez exemplifies the consequences of dramatic policy shifts that are unsupportive of capitalist free trade (Hawley, 2008).

High resource, high risk (upper right quadrant) conditions spawn a number of uncertainty reduction and risk containment choices. Uncertainty reduction often involves working with domestic or host governments to restrain policies that increase risk (Ring, Bingley, D'ainno, and Khanna, 2005; Rodriguez, Uhlenbruck, and Eden, 2005). Where differences are not too divergent, this response may be highly effective. For example, Keidanren, a big-business lobby in Japan, issued a proposal to the Japanese government to legislate to remove the "disadvantage of not having bilateral or regional deals with other countries" (Kanabayashi, 2000). Japanese business leaders felt hampered by trade blocs, such as NAFTA, that excluded Japanese participation. As a consequence, the Japanese government launched its own bi-lateral free trade negotiations with Singapore, South Korea, and Mexico (Iritani, 1996a). Where such tactics are not so successful, responses may extend to risk-containment actions. These actions would be particularly pertinent where policy differences are great, as when an idealist free-trader attempts to establish relations with a theocrat or Marxist. Such actions would include:

1. Establishing stakeholder-relations management, such as employee training and two-way constituency communications (Post, Lawrence, and Weber, 1999);
2. Engaging in strategic alliances that make use of a trusted local partner to represent the combined interest of the two entities (Farzad, 2007; Huff and Kelley, 2003)
3. Increasing control by negotiating strict contractual obligations within a joint venture agreement (Madhok, 2006); or
4. Lowering an investment bid price to account for the greater uncertainty associated with the transaction (Ludema, 2002).

Conclusion

International relations and their associated foreign policy play an important role in defining the international business environment. American business representatives are often stunned to learn how important history and international relations are to the everyday lives of citizens in other nations (Kaplan, 2000). For this reason alone, understanding foreign and trade policy, which, by its official nature is more discernible than culture and other international factors, is an important first step for the international business traveler. Generating appropriate strategic responses to operating in a variety of perspectives is the important second step. This article describes a variety of foreign policy perspectives, along with a technique for analyzing potential issues of importance when evaluating investment and commercial risk. A major purpose of the paper is to define types of strategic responses that result in actions commensurate with an assessment of resource availability and risk. Astute business strategists will use these techniques prior to engaging in long term relations with international business partners.

This article also provides some basis for developing new theories of international business relationships based on foreign policy practices. It anticipates the need for businesses to understand employment, global competition, and capital flows in the years

ahead. It also provides some direction for understanding different problems likely to develop in different societies. As ongoing debates illustrate, a common agreement about such ideas and institutions as free trade, globalization, the World Trade Organization, and International Monetary Fund is not yet forthcoming (Bernstein, 2000; Miller, 2000).

Among scholars, the importance of this paper is in laying a foundation for future discussion and research. Scholarship must center on the obligations of businesses operating under foreign policy that differs from its own domestic foreign policy. To what extent must an enterprise be loyal to its country of origin in fulfilling the intended foreign policy of that country? Are there universal standards of business conduct that should be developed? To what extent should businesses attempt to influence foreign policy in their country of origin and in their host countries?

Foreign policy is at the forefront of a new era. Its evolution must become a part of the knowledge necessary to understand global business practices. Failure to understand international perspectives can only be a grave disadvantage for those confronting an uncertain global future.

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