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AN EMPIRICAL INVESTIGATION OF U.S. FDI IN LATIN AMERICA

Balasundram Maniam, Sam Houston State University

ABSTRACT

Due to the many changes since the late eighties in terms of financial liberation, privatization, trade agreements and other policy changes (both national and international) have a significant influence on the changes that occur in the business environment in Latin America, providing incentives for investment decisions, not only for companies already operating in the region, but for new entrants as well. Currently, foreign direct investment (FDI) flows are the outcome of a combination of factors, including the international environment, national policies, and corporate strategies. Thus, this study evaluates the volume of FDI inflows into the region; the factors that attract them, including incentives and regulations; and their contribution, economical and societal, to Latin American development. This research also explores some of the potential costs of FDI, and its implications on policy options. Using an econometric model, this study evaluates the determinants of FDI into this region and base of the results draws some general conclusions.

INTRODUCTION

Of total FDI inflows to emerging economies, a significant proportion flows to Latin America. Latin American countries generally accept the fact that their benefits from FDI depend on the assumptions they make about the effect of this type of foreign investment on such variables as growth, employment, taxes, and trade. As is true for the world as a whole, Latin American countries' attitude toward FDI has become more positive since the 1980's. In fact, the Executive Secretary of the United Nations Economic Commission for Latin America and the Caribbean (ECLAC), has frequently noted that the use of FDI is the only way the region could close its economic gap with the rest of the world. Nevertheless, Latin American countries' liberalization policies, market reforms, and inflows of FDI have varied with each other and over time. Country demographics, political attitudes, and macroeconomic conditions have, and continue to strongly influence what reforms these countries enact and the success of those reforms. These determinants in turn influence companies' perceptions of countries, and consequently FDI movements. Yet, no one knows exactly what combination of foreign direct investment policies maximizes these inflows. Nevertheless, since large FDI flows do not guarantee poverty alleviation, or positive growth effects, the mobilization of domestic resources is frequently found to be more important than attracting FDI for financing investment and stimulating economic growth.

LITERATURE REVIEW

Amiti (2003) explains that the effects of FDI depend on country characteristics, and argues that investment liberalization is expected, at least in theory, to stimulate FDI. Considering that country characteristics and trade costs change in the long term, therefore so too does the impact of investment liberalization on trade.

Albuquerque (2003) analyzes the increase of foreign direct investment to emerging market economies, and evaluates the relationship between globalization and capital market liberalization. The analysis reveals that the global factors leading to FDI have increased in importance over time for both, developed and developing countries.

Bailey (2004) describes how the combined effects of recent economic and political crises in Latin America has forced companies active in the region to make dramatic shifts in their asset positions and capital structures, and how this environment puts the region at a disadvantage in the global competition for capital.

Capital Markets Consultative Group (2003) underscores that motivations for investing in emerging markets and determinants of investment location differ among countries and across economic sectors. The report also provides considerable information on the region's recent economic and political crises, and the impact these have on FDI prospects.

Cuadros (2000) argues that FDI, rather than the amount of exports, is an important vehicle for the transfer of technology; contributing relatively more to growth than domestic investment and having a significant influence on the overall balance of trade.

Dijkstra (2000) examines the effects of trade liberalization on the industrial development in Latin America. The study mainly explores the impact of trade policies, and whether these policies indeed can be expected to enhance host countries' short, as well as long term economic development. Economic Commission for Latin America and the Caribbean, ECLAC, (1999) states that FDI has become one of the most important components in the globalization process of the international economy, and describes how a combination of factors determine where FDI flows to. The ECLAC 2003 report gives a thorough explanation of the current trends and investment environment in Latin America, and explains the reason as to why current corporate strategies and national policies used are hindering growth and development in the region.

Farrel (2004) makes the argument that both, incentives used to attract foreign direct investment and the restrictions placed on it, are largely ineffective. This particular research demonstrates that regardless of policy regime or the industry, FDI can benefit developing countries greatly. To make the most of it, however, these countries must strengthen the foundation of their economies, including infrastructure, their legal and regulatory environments, and the level of competition in their local markets.

Harrison (2003) analyzes how foreign firms that borrow heavily from domestic banks crowd local firms out of domestic markets. The results of this study show that foreign investors certainly ease credit constraints for firms with foreign investment, but firms that do not receive foreign investment become more credit constrained.

Hermes (2003) argues that the positive effects of FDI on economic growth can only be successful given certain characteristics of the environment in the host country. Primarily, the development of the financial system of the recipient country is an important precondition for FDI to have a positive impact on economic growth.

International Center for Trade and Sustainable Development, ICTSD, (1998) describes how FDI has played a significant role in the development of new national policies among Latin American countries, and how these developments continue to change the business environment in that region. Kossik (2001) reveals some of the disadvantages or potential costs brought onto by FDI, and suggests that a combination of these factors presents a serious threat to the region's future economic development. The author also encourages Latin American countries to adopt other forms of capital in order to promote economic growth.

Loungani (2001) recommends that countries trying to expand their access to international capital markets should concentrate on developing credible enforcement mechanisms before even trying to attract FDI. The author suggests that countries that concentrate on improving their investment environment are most likely to be rewarded with increasingly efficient overall investments, as well as with more capital inflows.

Morrow (2003) maintains that Latin American countries must increase expenditures on social protection in order to offset the negative aspects of actively participating in the global marketplace. Most important of all, the author suggests that Latin American countries need to create a more highly skilled and competitive labor force in order to grow more rapidly.

Simmons (2003) discusses how a country's corporate tax regime has a significant influence on the level of FDI going to that country, and how FDI then becomes an important consideration in the design of national tax policies. The main question addressed by the author is whether corporate tax policy is an appropriate instrument to attract FDI.

Trevino (2002) concludes that there are three different types of market oriented reforms currently taking place in the region, and how the benefits of policies brought onto by these reforms vary among countries. Furthermore, the author suggests that although countries may increase their FDI inflows by instituting market oriented reforms, such as trade liberalization and privatization; such inflows do not necessarily optimize their economic goals.

Willem te Velde (2003) emphasizes that while FDI may be good for development, different countries with different policies and economic factors derive different benefits and costs of FDI.

More specifically, this article positions FDI in the debate of persistent income inequality in Latin America.

FOREIGN DIRECT INVESTMENT IN LATIN AMERICA

During the late 1990's, Latin America experienced strong growth among the distribution of world FDI flows between developing countries. Within the region, foreign direct investment flows have been largely confined to a small group of countries, mainly Brazil, Mexico, Argentina, Chile, Colombia, and Venezuela (ECLAC, 1999). Historically, foreign investment in Latin America was concentrated on manufacturing activities to supply highly protected domestic markets. To date, regional economies have been opened up and liberalized, and massive inflows of FDI have gone toward non-tradable service activities, such as telecommunications, energy, transportation and banking. Also of significance, are activities related to the exploitation of natural resources, formerly under state control, and manufacturing plants (ICTSD, 1998).

The United States has been the main source of FDI flows into the region. More recently, however, investment from Europe, mainly Spain and the United Kingdom, have grown substantially. European investors have been particularly active as participants in privatizations of state owned energy and telecommunication enterprises, and as buyers of local private banks (ECLAC, 1999).

FACTORS AFFECTING THE TYPE, AMOUNT, AND EXPECTATIONS OF FDI

Typically, determinants of investment location differ among countries and across business sectors. Nevertheless, certain general factors consistently determine which countries attract the most FDI. Overall, these factors include: growth size of the market, efficiency gains, political and social stability, macroeconomic stability, foreign investment legislation, cost and skilled manpower, quality and availability of infrastructure, availability of raw materials, tax and other incentives, corruption and quality of bureaucracy, and free trade and regional trade integration (Capital Markets Consultative Group, 2003). These factors can, in turn, be grouped into three main categories: (1) national policies, (2) corporate strategies, and (3) international environment.

National Policies

Generally, Latin America have experienced three types of market oriented reforms that have over time contributed to the increase, or decrease, of FDI flows into the region: microeconomic, macroeconomic, and institutional. Microeconomic reforms have, for the most part, decentralized economic decision making in the region by shifting it from the state to the private sector, so that market forces drive competition. To carry out these reforms, governments have lowered trade barriers, reduced price controls, and relaxed capital account restrictions on companies' market entry and exit. Macroeconomic reforms, on the other hand, have mainly reduced inflation and stabilized exchange rates, while institutional reforms have changed the states' role from producer to facilitator, so that the private sector is encouraged and empowered to make investments (Trevino, 2002). Thus, the significant results of national policies brought onto by foreign direct investment include: macroeconomic stabilization, the opening up of trade and finance, economic deregulation, large-scale privatization, and the liberalization of regulations applying to private investments and regional integration processes. Accordingly, investment opportunities have been made public in sectors where private enterprises in general and for foreign companies in particular, were formerly subject to restrictions. In addition, the patterns of competition produced by financial and trade liberalization have awoken the interest of new entrants, and obliged multinational companies already operating in the region to rethink their corporate strategies. Many U.S. companies have also been able to capitalize on the advantages offered by export processing zones, low wages, and U.S. tariff preferences by investing or forming partnerships with local businesses. Yet, rather than being the result of new national policies, FDI reflects a major change in U.S. corporate strategies and most recently, of European firms, in sectors where there is intense competitive pressure in domestic markets (ICTSD, 1998).

Corporate Strategies

In addition to national policies, corporate strategies strongly affect the type and amount of FDI flowing to a region. There are at least four main corporate motivations for FDI, ranging from the most traditional, such as the search for natural resources and markets for goods and services, to more modern and complex goals, such as the search for efficiency through international operations, and the pursuit of strategic assets relating to the presence of superior, more advanced technologies. Yet, gaps sometimes emerge between host countries' expectations and the problems associated with these different corporate strategies (ECLAC, 2003).

With regard to FDI associated with market seeking strategies, the main expectations held by the government of recipient countries focus on the creation of new productive activities, improvements to the economy's overall competitiveness, employment to locals, promotion of new productive linkages, greater local business development, and costs and quality of local services. There is a considerable mismatch in the region between the expected benefits and those that have effectively been materialized in the case of FDI driven by natural resource seeking strategies, and an even larger one in the case of FDI motivated by the search for markets (ECLAC, 2003).

In relation to multinational corporations that seek efficiency, host countries aspire to improve the competitiveness of their manufactures' exports, gain access to new technologies, train their human resources, deepen production linkages, boost domestic business development, and evolve from assembly platforms into manufacturing centers. And yet the experiences considered in the region suggest that there are specific problems associated with efficiency seeking strategies including: stagnation at the level of basic assembly, concentration in static rather than dynamic advantages, limited linkages, strong dependence on imported inputs, slow progress toward the formation of production clusters, and the crowding out of local businesses. Furthermore, problems arise in relation to efficiency strategies based on cheap labor: the advantages that initially attract FDI are not sustainable over time, and the countries involved risk falling into the "low-value added trap" (ECLAC, 2003).

International Environment

One of the most notable features of economic globalization has been the increased importance of foreign direct investment around the world. The large increase in FDI flows and its distribution across countries are associated with increased importance of global factors among industrial and developing countries. This relationship is further linked to an increased integration of world capital markets following the many reforms and liberalization programs of the mid 1980's and 1990's. Most significantly, the link between FDI and globalization proves that these two variables reinforce each other. While globalization has led to higher FDI flows to a number of emerging economies, its benefits and the opportunity of receiving a greater share of global FDI flows has, among other things, motivated a number of countries to undertake further financial and trade liberalization policies (Alburquerque, 2003).

GOVERNMENT INCENTIVES AND REGULATIONS ON FDI

Countries that really want FDI do a lot of work to attract it. Different countries spend different amounts on investment promotion. Most of the time developing countries think they must not only offer incentives to attract this type of capital, but also protect their local economies by restricting the way multinationals operate. Typically, incentives include: tax breaks, import duty exemptions, and subsidized land. Yet, even as developing nations give out lucrative incentives to attract foreign investment, they are often wary of multinational companies. Research finds, however, that both, incentives and the restrictions placed on foreign capital, are largely ineffective. They are frequently counterproductive, costing governments millions of dollars annually, protecting inefficient players, and lowering living and productivity standards (Farrel, 2004).

CONTRIBUTIONS OF FDI TO DEVELOPMENT AND ECONOMIC GROWTH

The contribution to host countries from FDI can take several forms, such as the transfer of technology, human capital development, increased competition in domestic markets, and the generation of corporate tax revenues, among others. In principle, therefore, through these various channels, this type of capital should contribute to investment and growth in host countries. However, while foreign investment may be good for development, different countries with different policies and economic factors tend to derive different benefits from it (Loungani, 2001).

The massive inflows of foreign capital into Latin America, especially to the larger economies, have helped relieve the severe balance of payments pressure experienced by many of the region's economies. In most cases, economic authorities have looked to this type of foreign capital as a relatively stable source of financing to cover external deficits, and as a mechanism for modernizing production systems, thereby improving productivity and international competitiveness (ICTS, 1998). Foreign direct investment has certainly transformed Latin America, modernizing manufacturing sectors and improving many of its services and part of its infrastructure. Examples of these are Mexico's and Costa Rica's export platforms, Brazil's much improved telecommunication networks, Argentina's financial services, and Chile's airport services and highway networks, among others (ECLAC, 2003). Privatization programs implemented in most of these economies have also provided governments with additional revenue that has helped finance their structural reform process by reducing external tensions (ECLAC, 1999). Foreign direct investment seems to have also played a significant role in influencing the size of exports, imports, and trade balance in the region (Cuadros, 2000). Local companies have furthermore benefited by copying and building on the activities of foreign competition, as foreign companies often look for local distributors and suppliers (Farrel, 2004).

POTENTIAL COSTS OF FDI

Although there is substantial evidence that foreign direct investment benefits host countries, its potential impact should be assessed carefully and realistically; developing countries should be cautious about taking too uncritical an attitude toward the benefits of FDI. Foreign direct investment is not only a transfer of ownership from domestic to foreign residents, but also a mechanism that makes it possible for foreign investors to exercise management and control over host country firms. This transfer of control may not always benefit the host country because of the circumstances under which it occurs, problems of adverse selection, or excessive leverage (Harrison, 2003). Through FDI, foreign investors gain crucial inside information about the productivity of the firms under their control. Foreign direct investors could inevitably take advantage of superior information to retain high productivity firms under their control and sell low productivity firms to uninformed investors. As with other adverse selection problems of this kind, this process may lead to overinvestment by foreign direct investors (Harrison, 2003).

IMPLICATIONS AND POLICY OPTIONS

There are still many areas in which governments and businesses could do more to improve the positive effects of FDI in Latin American countries. The variables suitable to policy action include: quality of the labor force, infrastructure, and in particular, public institutions. A government may use education, training, infrastructure, trade and investment promotion policies to improve the developmental impact of FDI. Similarly, businesses can use pay, training, industrial relations, and supplier development policies (Willem te Velde, 2003). Thus, from a development perspective, long run consequences of policies are more important than their short term effects (Dijkstra, 2000). Given that governments directly influence investment costs, a clear understanding of the implications of investment and trade liberalization is more likely to further facilitate successful progress toward negotiations affecting national policies concerning FDI (Amiti, 2003).

RECENT TRENDS OF FDI INTO THE REGION

According to the ECLAC 2003 report, inflows of direct foreign investment to Latin America have continued to shrink for the fourth year running. Since there is still no consensus on the effectiveness of the current strategies and policies used toward FDI, the region has been characterized by abrupt institutional changes. With the latest decline in 2003, Latin America turned the worst performance of any world region. The decrease in FDI inflows into Latin America has varied across subregions and countries. For instance, in Mexico and the Caribbean Basin, inflows have diminished less, while South America has been more strongly affected. Within South America, inflows were quite stable in the Andean Community, but were down sharply in MERCOSUR and particularly so in Brazil (ECLAC, 2003). Furthermore, investments in selected sectors have been hurt more by recent events. In particular, FDI in utilities and in the banking sector have been affected by greater perceptions of regulatory risks, as well as by lower than expected profits and growth prospects (Capital Markets Consultative Group, 2003).

Despite strengthening currencies, soaring stock markets, and falling country risk premiums, many countries across Latin America are less able today to enact the needed reforms and the economic policies required to sustain growth in the long run, than they were just a few years ago (Bailey, 2004). Furthermore, initial reforms generated high expectations that in many countries have not yet been matched by growth in real wages, employment, and public services. Many of these reforms have, in fact, directly contributed to the economic insecurity of certain population groups. Trade liberalization has exposed firms to more intense competition and hence to pressure for cost efficiencies (Morrow, 2003). Most important of all, the vast majority of the population in the Latin American region feels apprehensive to current market reforms because of their inability to obtain adequate education for their children, increasing crime, and in many cases, the rising prices of essential goods and services previously subsidized by their local governments. Perhaps most responsible for this insecurity is the fear of unemployment (Morrow, 2003). Consequently, the population's discontent with persistent inequality despite a decade of reforms, combined with the recessions that hit many countries, have fractured political consensus regarding market oriented policies. Unfortunately, this political volatility places Latin America at a disadvantage in the global competition for capital (Bailey, 2004).

DATA AND METHODOLOGY

In order to determine the factors that influence FDI into this region, a literature search was conducted to identify independent variables that need to include in this empirical analysis. We identified Maniam (2005) econometric model which seems to have work well in the Asian region, hence we decided to use the same model for this analysis with some modifications.

The data will be collected from secondary sources for the period 1975-2003, including various issues of Balance of Payment Yearbook, International Financial Statistics, and Department of Commerce's Bureau of Economic Analysis. Online material from sources such as Data Stream and various others will also be used to gather the most recent information and data. The data will be analyzed in a number of ways as described below.

The econometric model is as follows:

$$RFDI = \beta_0 + \beta_1 GDP + \beta_2 CGDP + \beta_3 TB\text{-}1 + \beta_4 ER + \epsilon_t, \text{ where}$$

RFDI is the dependent variable, which measures the U.S. (home country) foreign investment and GDP ratio. The independent variables capture some demand and supply determinants of the U.S. investments in host country and home country.

GDP =	GDP in dollars that measures the market size of host country which is expected to be positive.
CGDP =	Annual real growth rate of GDP that measures the growth rate of market size of the host country which is expected to be positive.
TB-1 =	Trade balance of the host country measured in U.S. dollars which is equal to the total export minus total imports lagged one year and it is expected to have an ambiguous sign.
ER =	Real exchange rate which measures the real exchange rate of domestic currency in terms of U.S. dollars and it is expected to have a negative sign. It is the average rate at year-end.
ϵ_t =	Stochastic disturbance term, is assumed to be white noise.

The test will be conducted using the observation period (1975-2003) to ascertain the determinants of U.S. FDI into these Latin American countries. Any serial correlation or auto correlation will be corrected and the model should provide a good indication of the variables that are significant determinants of U.S. FDI in these countries. The countries chosen are Argentina, Bolivia, Brazil, Chile, Ecuador, and Venezuela. These six countries were chosen because of data set limitations as well as these are largest recipients of U.S. FDI

RESULTS AND DISCUSSION

To examine the significance of each of the determinants, multiple regression analyses using the ordinary least square (OLS) were done. The above equation was used to test the hypothesis that GDP, growth rate of GDP, trade balance of the host country, and real exchange rate fluctuations have a significant effect on U.S. FDI in six Latin American countries, Table I and II provides the coefficients and their corresponding t-values for the entire testing period (1975 to 2003), as well as the R^2 value, adjusted R^2 and F-statistics for each country in the model.

Table I: Regression Analysis of the Determinants of U.S. FDI in Latin America from 1975 to 2003

Coefficients	Argentina	Bolivia	Brazil
β_0	21.975 (0.075)	18.187 (0.123)	11.715 (0.012)
β_1	0.859 (3.265)**	0.141 (1.187)	2.347 (4.103)**
β_2	0.128 (2.546)**	0.171 (1.615)	2.167 (2.923)**
β_3	-0.673 (2.178)**	2.116 (2.874)**	2.832 (2.621)**
β_4	-0.1.878 (-2.256)**	-0.177 (-0.627)	-1.918 (-2.311)**
R^2	0.8824	0.6381	0.8123
Adjusted R^2	0.8613	0.6111	0.7871
F-Statistics	31.114**	23.223**	32.269**

** and * indicate significance at the 1% and 5% levels respectively

The OLS estimation shows that all the estimated coefficients have correct theoretical signs, although some of them are not significant. In the case of Argentina and Brazil, the GDP, CGNP, TB, and ER variables are significant at the one percent level. For Chile and Ecuador the GDP variables is significant at the one percent level. For Chile, the exchange rate (ER) variable is also significant at one percent level. For Bolivia and Venezuela, the TB variables are significant at the one percent. Therefore it is safe to say that the market size (GDP) is significant in four countries, except Bolivia and Venezuela, meaning that the OLS analysis provide compelling statistical evidence that the market size hypothesis is valid for FDI in these four, as suggested in the literature.

It is surprising that market size is not significant for Bolivia and Venezuela for they are much larger country than Ecuador where it was significant. The only possible explanation is that Ecuador attract an amount large FDI of this currency stability. It is not surprising that annual real growth rate of GDP measured by CGDP is only significant for any the two largest economies, Argentina and Brazil. In other words, the growth of the market, do exert significant influence in the inflow of U.S. FDI in these two countries. The trade balance variable, lagged by one period is significant for Argentina, Brazil, Bolivia and Venezuela but not for Chile and Ecuador.

Table II: Regression Analysis of the Determinants of U.S. FDI in Latin America from 1975 to 2003

Coefficients	Chile	Ecuador	Venezuela
β_0	0.005 (0.085)	38.837 (0.116)	21.857 (0.025)
β_1	1.341 (3.561)**	2.151 (2.317)**	1.001 (1.227)
β_2	1.342 (2.126)**	2.177 (2.111)**	0.051 (0.0895)
β_3	-0.781 (1.456)	1.564 (1.112)	2.918 (2.991)**
β_4	-0.718 (-3.210)**	-0.114 (-0.901)	-0.728 (-1.112)
R^2	0.9012	0.5412	0.6115
Adjusted R^2	0.8813	0.5285	0.5901
F-Statistics	41.182**	36.673**	41.563**

** and * indicate significance at the 1% and 5% levels respectively

On the other hand, the regression analysis provided some support that there is a strong link between the movement of real value of the host country currency and the inflow of U.S. FDI, as suggested by Froot and Stein (1991). But only three out of the six countries, Argentina, Brazil and Chile had a significant exchange rate coefficient. It is interesting to note that Argentina had some volatile exchange rate regime in the nineties.

Table I also shows that the estimated adjusted R_2 is quite high for the three countries (Argentina, Brazil, and Chile), meaning the large variation of the dependent variable (RFDI) is explained by the regression. This means that these three regression equations are good fit. This model is not as good predictor of determinants for US FDI in Bolivia, Ecuador, and Venezuela. Hence, we may be omitting other important variables in these countries. But looking at the F-statistics, it is significant at a one percent for all countries, which implies that these independent variables explain well about the dependent variable and its impact on these economies.

DISCUSSION AND OBSERVATIONS

The results do shed some interesting light on the determinants of FDI into these Latin American countries. Obviously the free trade arrangements that some of these countries have with the U.S. must also provided some added impetus for growth in U.S. FDI into this region. Although the econometric model does indicate that some of these independent variables as significant determinants of U.S. FDI into these countries, but at the same time the low adjusted R in some countries indicate that more thorough literature search need to be performed in order to get a better model.

On the other hand, although this result does indicate that the econometric model is not truly capturing all the determinants of U.S. FDI in these countries. Hence, we need to further study this issue in the future by first deriving a more comprehensive model as well as using the most recent data.

Foreign direct investment in emerging markets is perhaps the most controversial form of globalization. Possibly the biggest benefit of foreign direct investment, and one seldom discussed, is its ability to raise local standards of living. Local consumers are without a doubt, the biggest beneficiaries of this form of investment. Generally, they enjoy lower prices or a better selection of goods and services, or both after foreign companies arrive. Prices fall because foreign players improve a sector's efficiency and productivity by bringing in new capital, technology, management skills, and by forcing less efficient domestic companies either to improve their operations or to exit the local markets.

Developing and developed countries generally seem to agree on the benefits and desirability of foreign direct investment. There is now consensus among governments that this type of investment is desirable, even essential, for economic growth and poverty reduction. Normally, however, the problem seems to be defined as not getting enough of it. Just more volume, however, is not likely to deliver sustainable growth. Foreign direct investment could, without a question, be a potential factor in promoting development. However, the exploitation of this potential requires an appropriate economic climate. In the absence of such a climate, FDI can thwart rather than promote growth; it may serve to enhance the private rate of return to investment by foreign firms, while exerting little impact on social rates of return in the recipient economy. Without proper governance and management, FDI can additionally generate a high toll in environmental, health, and other social costs, and may not even deliver much in long term economic benefits. Thus, the benefits of FDI are neither exclusive, not necessarily positive. Furthermore, while positive outcomes from FDI in host countries are likely, they are far from automatic or guaranteed. Receiving countries should therefore, not only worry about attracting this type of capital, but must also pay close attention to its potential costs.

Moreover, the fact that tax reductions or incentives are effective in attracting FDI does not automatically mean that governments should pursue these policies. More specifically, Latin

American nations should abandon their incentives and regulations toward FDI, and concentrate instead on improving the quality of their institutions, labor force, and infrastructure. Although there are many variables beyond the control of policymakers that influence where FDI flows to, the quality of a host country's institutions clearly play a prominent role in determining where that investment ultimately goes. Of similar importance is reducing economic insecurity through the implementation of better policies and programs that increase social protection and improve key social services. Within the region, there is growing recognition that competitiveness in the global economy and rapid technological change require a well educated and dynamic workforce. Thus, improving education throughout Latin America is crucially important in both economic and political terms.

SUMMARY AND CONCLUSION

Foreign direct investment has increased rapidly across the world in recent years, and Latin America has been no exception. However, different countries have had very different degrees of success in attracting and benefiting from this type of investment. While competing for FDI by offering tax and other incentives can sometimes be effective in attracting investors, improving the quality of a country's institutions appears to have a much greater impact. Perhaps most importantly, competing by addressing such fundamental issues as educational and institutional development affects the type of FDI that comes into a country, and the benefits the country derives from those investments. Clearly, there are causal relationships between the economic determinants, hosts countries' expectations, and the problems that arise from corporate strategies. Latin American countries should therefore, define what they expect from FDI, and the role it will play in the context of their national productive development by setting priorities, designing appropriate policies, establishing appropriate institutions for meeting their primary goals, and targeting specific types of foreign direct investment.

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INVESTMENT PROMOTION AGENCIES ON THE INTERNET: EVALUATING PROMOTION TACTICS AND WEB PRESENCE

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ABSTRACT

This article presents a comparison between the main pages of websites from several investment promotion agencies (IPAs) from countries in different regions of the world. Using content analysis, the study assesses and contrasts the communication and positioning tactics embedded in each main page based on the value-added and purpose of the websites, and the effect that cultural dimensions may have on these tactics.

INTRODUCTION

The popularity of Investment Promotion Agencies (IPAs) in developing and developed countries has been on the rise over the past decade. Foreign Direct Investment (FDI) inflows have spurred competition, transferred technology, and know-how and have allowed countries greater access to international markets. As a result governments are genuinely funding investment promotion activities. Governments acknowledge that FDI plays an important role in a country's economy, and that it is desirable to undertake investment promotion efforts via organized, official agencies. At a time when FDI amounts are allegedly stagnating (UNCTAD 2003) and when global competition is increasing, the role these agencies come to play is perhaps vital.

Our interest here is to examine the use of websites for investment promotion purposes on the part of IPAs. As an initial step, our focus is on the communication challenges that posting/publishing a website may present on an IPA's efforts to market a country for FDI. Our study uses content analysis to examine the present ways in which selected IPAs are marketing their countries via websites. Our intention is to focus on the content and design of an IPA's website's main (or home) page to compare and contrast the communication and positioning tactics used by IPAs from different countries in different stages of economic development and from different parts of the world. First, we present an overview of the role and functions of IPAs. We then describe our methodology, followed by preliminary findings of our study.

FUNCTIONS OF AN IPA

The mission of an IPA is to successfully promote a country to outside investors in order to stimulate foreign investment flows. An IPA typically undertakes a series of functions ranging from the promotion and building of a country's image, to investor targeting and facilitation (pre-investment-decision) and "aftercare" (post-investment decision).

Wells and Wint (1990, 2000) and Lozada and Fishler (2005) identify four main functions for IPA's: *image building, investor facilitation and servicing, investment generation,* and *policy advocacy*. As an image builder, an IPA makes every effort to improve a country's image to attract foreign investment. Public relations events and targeted advertising are typically undertaken to deliver the image of the country as an advantageous location to invest.

As an investor facilitator, an IPA also normally provides prospective investors with necessary information that will be useful during the processes of investment decision and setting-up. The IPA will assist in establishing a business by providing regulatory and legal requirements to facilitate investments and to expedite the process as much as possible. In addition, the IPA will also offer aftercare activities, such as monitoring and consultation for ongoing investment operations to keep them in good standing. This is understandable given the importance of reinvesting funds in the country generated by the foreign business community. An IPA can also take up the role of advocate on behalf of private sector companies.

As an investment generator an IPA works to target investors, promoting specific sectors and industries to potential investors. Tools such as direct mailing or investor forums and conferences would be used to target specific investors both at home and abroad (UNIDO 2003).

The last recognized role is policy advocate. As business-friendly environments are a determinant of whether foreigners decide to invest, IPAs often focus on policy formulation and proposal aimed at improving the country's investment climate. Ultimately the role and functions an IPA must undertake will depend on the country's stage of development and thus its specific needs.

IPAs and the Internet

The Internet is a strategic application of information technology that has the potential to change the rules by which organizations do business via a new means for marketing communications, sales, customer service, logistics, and business communications of (Jarvenpaa & Todd 1996; Rayport & Sviokla 1996). Becker (2002) asserts that the Internet provides opportunities to access international markets that in the past were virtually unattainable for many organizations.

The Internet is a helpful tool for governments and their agencies. It is used to disseminate information to a country's citizens and could be a valuable device to promote a country for tourism, and most recently, for investment opportunities. It is now a common practice for an IPA to run a website in which it portrays a first look into a country as an investment target. The most common information presented relates to the business environment, and it may include elements such as regulatory issues and incentives pertaining to investments, statistics concerning investment flows and economic indicators as well as particular sectors of importance (UNCTAD 2001).

An Internet presence offers IPAs the opportunity to improve the quality of the functions performed and to service investors in a timely manner. Via a website an IPA is able to reach wider audiences year round and at any time of the day; it may be also a cost efficient gateway to access investors worldwide. Having a website offers investors a way to obtain easy customized service and remote access to database services. An IPA's website serves as a window into a country's economic and commercial prospects. Because of this, the website's content should reflect the role and functions of the IPA. Given the perspective that investors could most likely begin their research on the Internet for potentials sites where to invest, the presentation of the country on an IPA's website should play a crucial role. A website intended to promote FDI should include relevant investor information and most importantly must be effectively updated. Obviously, this communication process may be curtailed by economic considerations and by cultural variables from both the IPA's and the potential investors' point of view. That is, it could easily be assumed that some of the cultural characteristics of those designing and managing the website will find their way into the content and design of the site. By the same token, it seems fair to state that those accessing a website tend to read and evaluate its contents and design from their own cultural standpoint.

Recently, the Western control of communications, the Internet and electronic commerce has generated discussions about the "imperialism of the Internet." According to Aizu (1996), the Japanese traditions can suffer from the intrusion of websites originating mostly from the United States. Hedley (1999) establishes that the Internet opens the possibility of large-scale cultural imperialism. Hongladarom (1998) asserts that the Internet is a globalizing agent and as such, it exports a cosmopolitan culture that produces a homogenizing force. These arguments stem from the fact that the Internet was created and has developed mainly in the United States and Western Europe, and, therefore, tends to illustrate the values and norms of industrialized countries. The value system that is embedded in the Internet favors a model of rationality, technology, progress, speed and economy of time, profitability, impersonality, individuality, freedom of authoritarian control, and political democracy (Sackmary & Scalia 1999).

METHODOLOGY

Content Analysis

Content analysis is a research method focusing on the quantitative, systematic, and objective description of the content of communication (Berelson 1952). According to Berelson, content analysis is used to determine the values, themes, roles, norms of conduct and other elements of a culture. Researchers usually must develop a coding scheme to analyze the content, although at times some of the existing schemes may prove valuable. Krippendorf (1980) identified four main advantages of content analysis: it is unobtrusive, it could be used on unstructured material, it is sensitive to context and it is capable to process symbols. Content analysis can be used in international marketing to monitor technological, cultural, economic, and social environments in which the marketing organization works or expects to operate (Wheeler 1988). Several content analysis studies of the Internet have demonstrated that it is a completely functional research method that could be used to analyze online marketing communication messages (Baron 2001; Okazaki & Alonso Rivas 2002; McMillan 2000).

Framework/Variables

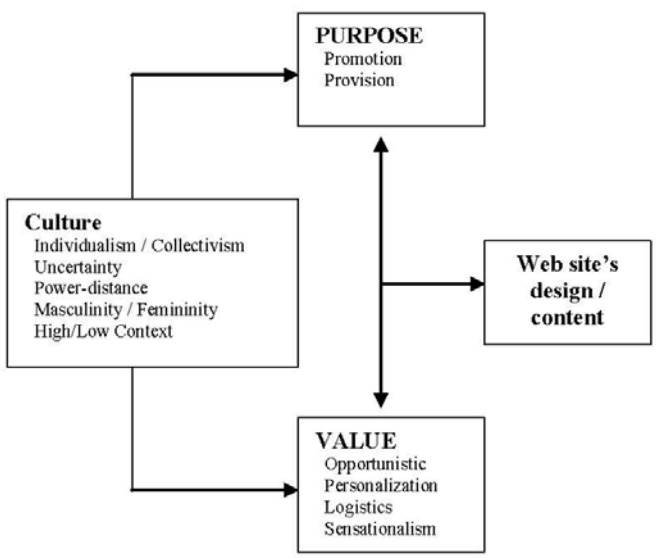
Figure 1 presents the basic model upon which we build our research. We propose that national culture affects the value-purpose of a web page, and therefore, its design. In our specific case, since all IPAs would communicate with venture capitalists, we would expect a homogenizing effect; that is, the basic structure of the website should be similar across the board, although the content, for obvious reasons may vary. Our focus will be on determining if IPAs' websites reflect different perspectives that could be associated with cultural variants. In particular, we will engage in a content analysis based on Ho's (1997) value-purpose combinations and Hofstede's (1980, 1997) cultural dimensions in terms of individualism, uncertainty, masculinity, and power-distance.

Purpose-Value Added. Ho (1997) analyzed several commercial websites from a perspective of purpose and value-added to customers. It is our intention to base our analyses on the same typology to evaluate the information offered in IPAs' websites. Ho categorized the business purposes of commercial websites in three types: *Promotion* of product, *provision* of data and information and *Processing* of business transactions. However, due to the nature of the marketed product in question in the case of IPAs (countries), the emphasis will be on Ho's first two types of purpose, namely *promotion* and *provision*.

Promotion refers to investment opportunities; investment incentives; start-up information; access to secondary resources: online databases (export registries and search options) and personalized reports (possibility of logging in with user name and password); Hosting (workshops, general information seminars, trade shows, industry conferences); country profile: labor statistics, legislation pertinent to investments, macroeconomic statistics.

Provision refers to general search option; press releases; general info (privacy policy, latest news, upcoming events); financial data of agency (annual report); description of agency ("about us"); links (to government, chambers of commerce, private entities); *communicability:* use of graphics, video, downloadable presentation, site availability in multiple languages, frequently asked questions; *Requests:* ability to email for additional information, order forms, site map; feedback from serviced companies (i.e. "what they say" links)

FIGURE 1
ROLE OF CULTURE IN THE DESIGN OF AN IPA'S WEB SITE



Regarding the four types of value-creation, Ho identifies them as *Timely*, *Custom*, *Logistic*, and *Sensational*. Timely value applies to time-sensitive information, and not to the speed of its delivery. In our context, this would be indicated by how frequently the information on the website is updated, or whether the most current information is included. Custom and logistic values arise from specific intent on the part of the visitor to a Website. Custom value is predicated on predisposed preferences of the visitor. Providing options to the visitor so that s/he may find the information wanted or needed creates custom value. Logistic value is predicated on preprogrammed propositions on the Website. Providing information on, for example, the amount of time it would take to evaluate a proposal and to provide feedback may generate logistic value. In Ho's perspective, the proceedings of a custom value-adding feature generate a profile of the visitor while the proceedings of a logistic value-adding feature generate a profile of the business of the Website. Sensational value is totally subjective. It refers to the effect that a web page may have on the first time surfer. Sensational value is judged against the level of expectation that the visitor would have.

Culture. According to Hofstede (1980, 1997, 2001) culture is reflected through four dimensions: individualism/collectivism, power distance, uncertainty avoidance, and masculinity/femininity. Hall (1973, 1976) classifies culture as high versus low context. We choose to follow Singh, Zhao and Hu's (2003) perspective, in which they combine both models as the most viable framework because they both provide the analytical flexibility that is most helpful in measuring culture (see also Pollay 1983). We expect cultural dimensions to manifest themselves as indicated below.

The Individualism/Collectivism dimension focuses on an individual's relationship with society and with other individuals. Categories of interest here include community relations, chat rooms, newsletter, family theme, symbols and pictures of national identity, and links to local websites.

Hofstede (1980) states that the bipolar power distance dimension indicates how different societies treat inequities among its members. In our case, the use of animation as introduction to a website is associated with a higher prestige, and therefore, a higher power distance. We also expect that national symbols would be more visible in the websites of countries of having a higher power distance score.

Uncertainty avoidance is the degree to which societies can tolerate uncertainty and ambiguity, something that varies among cultures (Hofstede 1980). Singh, Zhao and Hu (2003) assert that because the Internet is a new medium for communications and transactions it has a certain degree of uncertainty and risk. Individuals from certain cultures may be more skeptical and insecure of the Internet in general, and the information on its web pages in particular. The content of a web page, therefore, is likely to reflect the culture's operating level of uncertainty avoidance.

The Masculinity/Femininity dimension explains how gender roles are allocated in different cultures (Hofstede 1980). Masculine cultures value assertiveness, ambition, success, and performance. Feminine cultures value beauty, nature and nurturance, and the ambiguity of gender roles. We expect more aggressiveness in promotion, clear privacy policies and terms and conditions for investment in the websites of countries ranking high on masculinity.

Context is the information surrounding an event and it connected to what the event means. In high context cultures, the information is already rooted in the communication context and little is explicitly coded. Low context cultures emphasize directness and clarity in communication.

Our intention in following this framework is to ascertain whether there is a degree of cultural divergence present in the different IPAs' websites or whether a level of convergence exists.

The Study

Our aim is to compare a wide range of communication tactics utilized by IPAs from different countries at different stages of development to ascertain whether some level of homogenization has been achieved, given that all of these sites compete for the same pool of potential venture capital. Table 1 shows a list of the Regional Groupings that were formed for the purposes of this study. Most of the countries included are listed also as members of the World Association of Investment Promotion Agencies (WAIPA; www.waipa.org). We selected one IPA website out of each of the 16 regions in Table 1. Our first task was to verify that the country selected had an accessible website for its IPA. We define accessible as being able to open a web page without an error message; pages "under construction" are considered accessible. However, if the selected site for the region is under construction, the rule was to select an additional website. Once Ireland was selected, we decided to draw a second country from Western Europe, and that was Germany. After determining that the Gambian site was under construction, we selected another country from Western Africa (Senegal). The selected websites were then reclassified according to the World Bank Income Groups (see Table 2). Our sample size for this initial study ended up being 18. Our unit of analysis was the main (or home) page of an IPA's website. Given the type of website that we are investigating, we expected that most, if not all, will have a main page in English, or a link to an English-version of the website.

Table 1
Regional Groupings

Region	Countries
North America:	Bahamas, Bermuda, Canada, Mexico, United States
Central America:	Belize, Costa Rica, El Salvador, Guatemala, Honduras, Panama
Caribbean Basin:	Cayman Islands, Cuba, Dominican Republic, Haiti, Jamaica, Martinique
South America:	Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, French Guiana, Guyana, Surinam, Peru, Paraguay, Uruguay, Venezuela,
Western Europe:	Ireland, United Kingdom, France, Switzerland, Portugal, Spain, Netherlands, Belgium, Germany, Austria, Norway, Sweden, Denmark, Italy, Luxembourg
Central and Eastern Europe:	Poland, Czech Republic, Slovakia, Hungary, Romania, Ukraine, Moldova, Belarus, Russia, Estonia, Latvia, Lithuania;
The Balkans and South-Eastern Europe:	Croatia, Slovenia, Bosnia, Serbia, Macedonia, Greece, Turkey, Bulgaria, Albania;
Central Asia:	Kazakhstan, Kyrgyzstan, Tajikistan, Uzbekistan, Turkmenistan, Azerbaijan, Armenia, Georgia;
Middle East:	Saudi Arabia, Syria, Iraq, Iran, Jordan, Israel, Oman, Yemen, United Arab Emirates, Kuwait;
South Asia:	India, Pakistan, Thailand, Bangladesh, Myanmar, Laos, Viet Nam, Cambodia, Nepal, Sri Lanka;
Oceania:	Malaysia, Singapore, Indonesia, Philippines, Papua New Guinea, Australia, New Zealand, Brunei;
North Asia:	China, Mongolia, North Korea, South Korea, Taiwan, Hong Kong, Japan;
Northern Third of Africa:	Egypt, Somalia, Ethiopia, Sudan, Libya, Tunisia, Algeria, Morocco, Sudan, Mali, Mauritania, Western Sahara;
Western Africa:	Senegal, Gambia, Guinea, Liberia, Cote d'Ivoire, Ghana, Nigeria, Cameroon, Central African Republic, Sierra Leone, Togo, Benin, Burkina Faso;
Central Africa:	Chad, Niger, Central African Republic, Democratic Republic of the Congo, Uganda, Gabon, Congo Republic
Southern and Southeastern Africa:	Kenya, Tanzania, Angola, Zambia, Malawi, Zimbabwe, Botswana, Namibia, Mozambique, South Africa.

Table 2
Country Classification According to Income
High-Income Economies: ▪ Australia, www.investaustralia.gov.au/ (Oceania) ▪ Canada, www.investincanada.gc.ca/ (North America) ▪ Germany, www.invest-in-germany.de (Western Europe) ▪ Ireland, www.idaireland.com (Western Europe)
Upper-Middle-Income Economies ▪ Argentina, www.inversiones.gov.ar/ (South America) ▪ Costa Rica, www.cinde.or.cr/ (Central America) ▪ Poland, www.paiz.gov.pl (Central and Eastern Europe)
Lower-Middle-Income Economies ▪ Algeria, www.andi.gov.dz/ (Northern Third of Africa) ▪ Bosnia, www.fipa.gov.ba/ (The Balkans and South-Eastern Europe) ▪ China, http://www.fdi.gov.cn (North Asia) ▪ Dominican Republic, www.cei-rd.gov.do/ (The Caribbean Basin) ▪ Kazakhstan, www.kazinvest.kz/ (Central Asia) ▪ Jordan, www.jordaninvestment.com/ (Middle East) ▪ Thailand, www.boi.go.th (South Asia)
Low-Income Economies ▪ Democratic Republic of the Congo, www.anapi.org/ (Central Africa) ▪ Gambia, www.gipfza.gm/ (Western Africa) ▪ Senegal, www.investinsenegal.com/ (Western Africa) ▪ Tanzania, www.tic.co.tz/ (Southern and Southeastern Africa

To use content analysis, the content (information) in a web page should be codified in order for the researcher to identify the salient characteristics of the electronic communications via a website. Weare and Lin (2000) assert that this codification is critical; the development of a code sheet that is comprehensive and mutually exclusive is one of the most important components of any content analysis. In our case, the code sheet needed to include Hofstede's cultural dimensions and Ho's purpose-value-added variables. In preparing our code sheet, we followed Marcus and Gould's (2000) guidelines regarding how cultural dimensions might affect user-interface designs. Table 3 summarizes the factors that were explored. Please note that an a priori judgment on whether the site was from a high-context or a low context country.

The cultural dimensions were evaluated from the standpoint of their purpose (promotion and provision) and value-added (timely, custom, logistic, and sensational). Our point of departure is Hofstede's (1980, 1997, 2001) classification of countries on the basis of the four dimensions and the World Bank's country classification according to income. Our code sheet presents a combination of nominal scales to ascertain the presence or absence of variables (YES/NO) or a general count of a specific factor (in four categories). The study was conducted over a span of three weeks in September 2005.

TABLE 3
Cultural Dimensions in Internet Websites

Individualism vs. Collectivism	Individualistic	Collectivist
Motivation based on personal achievement:	Maximized (expect the extraordinary)	Underplayed (in favor of group achievement)
Success:	Demonstrated through materialism and consumerism	Achievement of social-political agendas
Rhetorical style:	Controversial/argumentative speech and tolerance or encouragement of extreme claims	Official slogans and subdued hyperbole and controversy.
Imagery:	Youth and action	Aged, experienced, wise leaders and states of being
Social Prominence:	Emphasis on individuals	Products shown by themselves or with groups.
Goals:	Extrinsic, personal goals emphasized	Intrinsic or official group goals
Morality:	Emphasis on truth	Emphasis on relationships
Change:	What is new and unique	Tradition and history.
Privacy:	Willingness to provide personal information	Protection of personal data differentiating the individual from the group.
Power Distance	High	Low
Access to information:	Highly structures	Less-highly structured
Hierarchies in mental models:	Tall	Shallow
Emphasis on social and moral order:	Significant/frequent use	Minor/infrequent use
Focus on expertise, authority, experts, official stamps, or logos:	Strong	Weak
Prominence of leaders:	Strong	Weak
Prominence of citizens, customers, or employees.	Weak	Strong
Importance of security, restrictions/ barriers to access	Explicit, enforced, frequent restrictions on users	Transparent, integrated, implicit freedom to roam
Social roles used to organize information:	Frequent	Infrequent

Uncertainty Avoidance	
High	Low
Simplicity, with clear metaphors, limited choices, and restricted amounts of data	Complexity with maximal content and choices
Attempts to reveal or forecast the results or implications of actions before users act	Acceptance (even encouragement) of wandering and risk, with a stigma on "over-protection"
Navigation schemes intended to prevent users from becoming lost	Less control of navigation; for example, links might open new windows leading away from the original location
Mental models and help systems that focus on reducing "user errors"	Mental models and help systems might focus on understanding underlying concepts rather than narrow tasks
Redundant cues (color, typography, sound, etc.) to reduce ambiguity.	Coding of color, typography, and sound to maximize information (multiple links without redundant cueing)
Masculinity/Femininity	
High Masculinity	High Femininity
Traditional gender/family/age distinctions	Blurring of gender roles
Work tasks, roles, and mastery, with quick results for limited tasks	Mutual cooperation, exchange, and support, (rather than mastery and winning)
Navigation oriented to exploration and control	
Attention gained through games and competitions	Attention gained through poetry, visual aesthetics, and appeals to unifying values
Graphics, sound, and animation used for utilitarian purposes	

FINDINGS

When evaluating the various websites, the judges had to assess a range of factors. First and foremost, was this website (as exemplified by its entry point (main page) clear, concise and easy to use? Next, was all pertinent information readily accessible without having to go through multiple links and screens? Then, aesthetically, was the site laid out in a manner where information is jumbled together difficult to view, or is it presented in a manner in which it is easy to view? And finally, was the website a direct reflection on the society it represents? All of these factors had to be weighed against the presumed biased that we in the Western industrialized nations possess. This section presents our findings based on income groups and our preliminary findings on the Individualism/Collectivism dimension.

Income Groups

After viewing and evaluating IPA websites from different income groups, it is clear there is an apparent direct relationship between the country's economic status and its IPA website. The poorer nations have simple, elementary and basic websites that provide little to not- pertinent information about 1) the society, 2) the economic statistics and status and 3) the reasons to invest in that nation. A perfect example of this would be the Democratic Republic of the Congo (DRC; www.anapi.org). This site was basic, at best, and bland. It provided no information for potential investors interested in the country's status. Aesthetically, it lacked animation, there was no creativity; there was nothing that caught one's eye. With no pictures, or graphs or charts, it was difficult to get "excited" about opportunities possibly available in the DRC.

On the flip side, when reviewing the websites of the high-income nations it was immediately clear how and why a potential investor would develop an interest, or a positive first impression regarding the investment potential in any of the four countries. Aside from the economic status of each of these countries, and the technological advancements each has made, the attention to detail and the precision shown in these sites was unambiguous. These websites provided in their main page a greater assortment of information relevant to investment, direct links to various questions a potential investor might have when debating about whether or not to invest in that country. Both judges found it interesting that of the four countries in the high-income group, the only one that blatantly uses a tag line as a branding technique is Ireland ("Ireland, knowledge is in our nature"); the other three seem to rely on the strength of the country's name as a differentiator. The overall design of the pages for these four countries was found to be similar, and both judges found the main pages informative and "easy on the eyes." These sites presented all relevant information on the main page, without being cluttered or difficult to use.

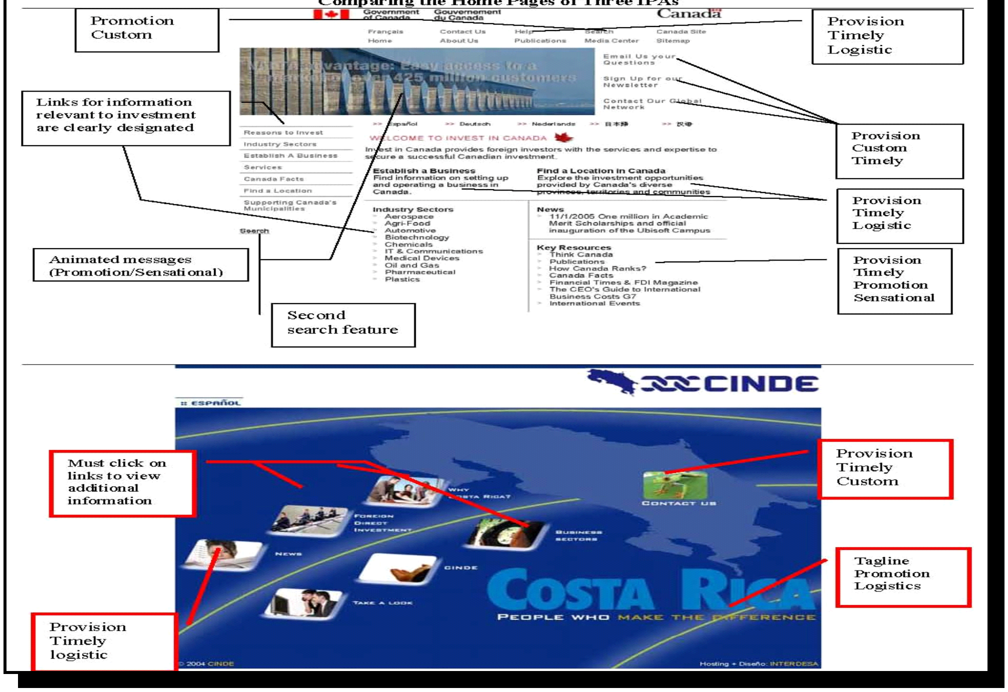
What is interesting is the divergence within the higher-middle-income websites. For example, The Polish Information and Foreign Investment Agency (PAIZ; www.paiz.gov.pl), provides all the basic and necessary information needed by a potential investor, but requires the use of many links and much time to access that information. The PAIZ website also uses the tag line PoLand of Opportunities, utilizing the national colors (red and white) to frame their presentation, and an animated map in which the country's geographical position in Eastern Europe is highlighted. The main pages for Costa Rica's CINDE and Argentina's Agencia de Desarrollo de Inversiones are very basic, consisting mostly of links to other pages, although CINDE forwards the tag line "Costa Rica: People Who Make the Difference."

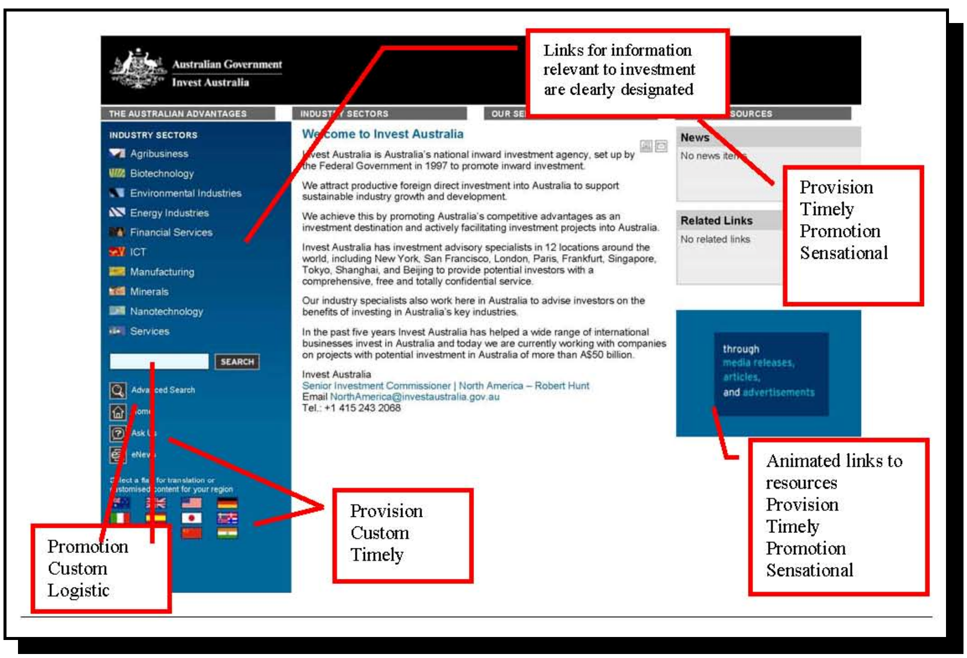
In the lower-middle-income group, China's website (Invest in China) was found to be informative and generally well designed, although one of the judges pointed out that the amount of information included may overwhelm the visitor. Thailand's site (Board of Investment) uses a tag line similar to Poland's: "ThaiLand of Investment: Double Your Chances." The judges agreed that Thailand's web site was easy to navigate and easy on the eyes. Like Australia's website, Thailand's not only provides the necessary information for potential investors but it uses pictures and videos as an enhancement and to capture the visitor's attention. This is a major draw, especially with society relying heavily on video today. In addition to the pictures and videos, the judges pointed out that the website for Bosnia-Herzegovina, although generally having a nice design, overuses animation to the point where the site is difficult to read. Kazakhstan's website was very basic, while Jordan's was very plain. Algeria and the Dominican Republic have websites in French and Spanish, respectively, with no English version. Despite this, the general impression of the judges was that Algeria's seems to be more basic than the Dominican Republic's. The content of these sites will be evaluated in future research.

Individualism vs. Collectivism

Zandpour, Campos and Catalano (1994) suggest that this is the main dimension for cultural variability. Countries with a high level of individuality (Australia, Canada) value independence, self-exposure and autonomy. These are low context cultures for which the verbal communication is expected to be explicit, direct, personalized and not ambiguous. An example of the analysis performed on the homepages based on our criteria is presented in Table 4. When comparing the homepages for Invest in Australia, Invest in Canada, and CINDE (Costa Rica's IPA) we can see that despite the fact that all three sites are targeting a "global customer" (i.e., a potential investor), their approach is quite different. The Costa Rican site requires an additional step for provision of information, that is, a more involved visitor. Costa Rica is ranked as a collectivist society by Hofstede. Therefore, a long-term commitment to the member 'group,' be that a family, extended family, or extended relationships, and loyalty are paramount, and over-ride most other societal rules and regulations. It may be harder, culturally, to open up the country to the world in economic terms via the Internet, which is what these websites must do. The Australian and Canadian homepages are very clear insofar as the investment that they are attempting to attract.

TABLE 4
Comparing the Home Pages of Three IPAs





CONCLUSION

Our article presents a study using content analysis to compare the main pages of IPAs in different parts of the world, with different income classification. Ours is a first attempt to understand the attributes, content and appearance being presently used in efforts to use the Internet as a tool to attract potential investors and to ascertain whether income and cultural dimensions play a role in the way that these websites are designed. Our findings indicate that countries enjoying a higher level of economic development tend to maintain better website functionality and demonstrate higher effectiveness in communicability. It seems that, not only for investors but anyone visiting a website, aesthetics and presentation are crucial. Relatedly, given that IPAs all target world venture capitalists, yet Western influence permeates the Internet environment, in general, we also found a level of convergence and homogenization in the content of their websites based on Western influence, even in those from countries in the lower-income group. The next stage of this project will focus on the cultural dimensions from the standpoint of purpose and value-added for the home pages of each of the sixteen IPAs in our sample.

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CONDUCTING INTERNATIONAL CONSUMER ETHNOCENTRISM SURVEYS

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ABSTRACT

As a factor in consumer behavior, the construct of consumer ethnocentrism has been empirically established through the development and use of the CETSCALE instrument. The original research by Shimp and Sharma (1987) has been replicated and validated through numerous studies using samples from cultures around the world. In the current study, the role of native language presentation in measuring consumer ethnocentrism is explored; specifically, whether presentation of the survey in a subject's native language has the effect of increasing their expressed level of consumer ethnocentrism. Over 1,300 undergraduate and graduate students enrolled in programs in business, law, and computer science at a private university in Reykjavik, Iceland were invited to participate in an electronic survey using CETSCALE. Subjects were randomly assigned to one of three experimental conditions: Icelandic language only, English language only, or side-by-side Icelandic and English language presentations of the CETSCALE. Approximately 25% of the sample participated. Statistical analysis showed that native language presentation did not have an impact on the respondent's level of consumer ethnocentrism. Study limitations are also discussed.

INTRODUCTION

With the growth of world trade and the importance of new, international markets to businesses of virtually all sizes, gathering reliable and valid market and consumer research is crucial. As firms move into unfamiliar countries and cultures the potential of missteps increases. To paraphrase the Hippocratic Oath for marketing research purposes, investigators must first, "introduce no bias."

Although the use of English in business is widespread it cannot be assumed to be universal. English is spoken by far fewer potential consumers than many businesses would like in an effort to standardize processes, packaging, and of course, marketing research instruments. Even if English were to be spoken in ever increasing numbers of consumers across the globe it would remain for most a second or even third language learned.

As market researchers attempt to learn more and more about consumers, as they do so they would benefit from understanding the role that native or first-learned language plays in survey responses. This article explores one dimension of this question using an established instrument to see whether language presentation does have an effect on responses, namely consumer ethnocentrism.

CONCEPT DEVELOPMENT AND EVOLUTION

Ethnocentrism, as a concept originally developed by Sumner (1906) in the early part of the last century is a strictly sociological factor, one that distinguishes differences between so-called "in-groups," which an individual identifies with and "out-groups," regarded as antithetical to the in-group by the individual. The concept has been extended to the field of psychology, (Levine and Campbell 1972), linking it to individual-level personality systems as well as to more broad-based cultural and social-analytic frameworks. The in-group perspective has value for individuals who tend to view it as a salient standard for cognitive decision-making (Hogg and Turner 1987; Ray and Lovejoy 1986). The boundaries used for forming the in-groups and out-groups however, vary depending on the issue (Forbes 1985).

In general terms, the concept of ethnocentrism represents the tendency of individuals to view their own group as the "center of the universe", to interpret other social groups from the perspective of their group, and to reject persons who are culturally dissimilar – while blindly accepting those who are culturally like themselves (Booth 1979; Worchel and Cooper 1979; Brislin 1993). Empirical research has linked ethnocentrism with other concepts such as nationalism (Levinson 1957) and patriotism (Chesler and Schumuck 1964). As Levine and Campbell (1972) noted, this tendency can lead individuals to regard the symbols and values of their ethnic or national group as objects of pride and form attachment, whereas symbols of other groups may be regarded with contempt or even scorn.

In the latter 1980s, Shimp and Sharma (1987) expanded the discussion of ethnocentrism by investigating whether ethnocentric tendencies affected individual purchase behaviors. Their economic version of the original concept, consumer ethnocentrism, is a term coined to represent the beliefs, held by American consumers, about the appropriateness, and indeed the morality, of purchasing foreign-produced products. Reasons for such tendencies range from beliefs about the quality of imported goods to a patriotic bias against things foreign (Bikley and Nes 1982; Netemeyer, Durvasula, and Lichtenstein 1991). To individuals who are strongly consumer ethnocentric, buying imported goods is wrong because, from their perspective, it has a negative effect on the domestic economy, results in job loss, and is unpatriotic. Conversely, for those who are not strongly consumer ethnocentric, they believe foreign (i.e. out-group) products should be evaluated on their own merits without consideration to where they are produced. In functional terms, Shimp and Sharma asserted that consumer ethnocentrism provides the individual with a sense of identity, feelings of belongingness, and as they pointed out most importantly, an understanding of what purchase behavior is acceptable or unacceptable.

While the groundbreaking research of Shimp and Sharma (1987) asserted the link between ethnocentric tendencies and purchase behaviors, it was presented within the context of the American experience. Other researchers have explored the universality of the concept (e.g. in Mexico, Luque-Martinez, Ibanez-Zapata, and Barrio-Garcia, 2000; in Israel, Shoham and Brencic, 2003; and in Canada and Russia, Saffu and Walker, 2005).

The ethnocentric tendencies of Polish and Russian consumers were investigated to determine the link between these feelings and their purchase intentions (Good and Huddleston, 1995). A 1997 study (Marcoux, Filiatrault, and Cheron) surveyed Polish university students and found that patriotism is a dimension of ethnocentrism related to the preference toward Polish products. In a later study, differences between high, moderate, and low ethnocentrism groups revealed systematic country-based biases in product evaluations and attitudes toward purchase (Brodowsky, 1998).

The Brodowsky (1998) study is part of a larger group of studies that sought to shed light on the role of country-of-origin in the consumer purchase process and its relations to consumer ethnocentrism. The "country-of-origin" effect, asserts that consumers are influenced by their beliefs about the country where a product is manufactured, assembled, or branded (Tse and Gorn, 1993). The nation of manufacturer has the strongest effect on consumer preference provided the physical source is recognized by consumers (Wall and Heslop, 1986). Additional research indicates that purchasers represent the country-of-origin in stereotypical fashion, forming a relatively stable schema (Kochunny et al., 1993). Purchasers use this stereotype to judge the desirability of products from the country in question (Bilkey and Nes, 1982; Cattin, Jolibert, and Lohnes, 1982; Strutton, Pelton, and Lumpkin, 1994). In general, customers have a higher regard for market offerings from more highly developed countries and those that are perceived as more similar to their own (Cordell 1991; Lang and Crown, 1993; Wang and Lamb, 1983), as well as from their own country (Narayana, 1981; Wall and Heslop, 1986).

The implications of a consumer ethnocentric tendency have been explored in a number of settings affecting international business. For example, Lanciaux (1991) explored the impact of ethnocentrism in U.S.-Japanese trade policy negotiations. Walle (1990) in addition to Calof and Beamish (1994) investigated issues related to American manager's opinions of foreign cultures and management. In a study with potential impact on the future of global business, Grant and Wren (1993) found that student ethnocentrism was associated with negative attitudes toward the importance and propensity to enroll in courses in international business, foreign language, and business ethics.

THE CETSCALE

By use of a preliminary study, followed by an exhaustive panel screening process, and numerous purification studies, Shimp and Sharma (1987) constructed and refined a seventeen item scale, termed the CETSCALE, to measure an individual consumer's ethnocentric tendencies as they related to purchasing foreign-made versus American-made products (see Exhibit 1).

Exhibit 1. CETSCALE Statements in English and Icelandic	
1.	Icelandic people should always buy Icelandic-made products. Íslendingar ættu alltaf að kaupa íslenska framleiðslu í stað innflutnings.
2.	Only those products that are unavailable in Iceland should be imported. Aðeins ætti að flytja inn þær vörur sem ekki eru fáanlegar á Íslandi.
3.	Buy Icelandic-made products. Keep Iceland working. Kaupum íslenska framleiðslu. Höldum vinnu í landinu.
4.	Icelandic products, first, last and foremost. Íslenska vöru, fyrst, síðast og öðru fremur.
5.	Purchasing foreign-made products is un-Icelandic. Það er ó-íslenskt að kaupa erlenda framleiðslu.
6.	It is not right to purchase foreign products, because it puts Icelanders out of jobs. Það er ekki rétt að kaupa erlenda vöru, því það eykur atvinnuleysi Íslendinga.
7.	A real Icelander should always buy Icelandic-made products. Alvöru Íslendingur ætti alltaf að kaupa íslenska framleiðslu.
8.	We should purchase products manufactured in Iceland instead of letting other countries get rich off us. Við ættum að kaupa vöru sem er framleidd á Íslandi í stað þess að láta aðrar þjóðir græða á okkur.
9.	It is always best to purchase Icelandic products. Það er alltaf best að kaupa íslenska vöru.
10.	There should be very little trading or purchasing of goods from other countries unless out of necessity. Það ættu að vera mjög lítil viðskipti með, eða kaup á vörum frá öðrum löndum, nema þegar nauðsyn ber til.
11.	Icelanders should not buy foreign products, because this hurts Icelandic businesses and causes unemployment. Íslendingar ættu ekki að kaupa erlendar vörur, því það skaðar íslensk fyrirtæki og veldur atvinnuleysi.
12.	Curbs should be put on all imports. Það ætti að setja takmarkanir á allan innflutning.
13.	It may cost me in the long-run but I prefer to support Icelandic products. Það kann að kosta mig meira, þegar til lengri tíma er litið, en ég kýs að styðja íslenskar vörur.
14.	Foreigners should not be allowed to put their products on our markets. Það ætti ekki að leyfa útlendingum að setja sínar vörur á markaði okkar.
15.	Foreign products should be taxed heavily to reduce their entry into Iceland. Það ætti að skattleggja erlendar vörur verulega til að takmarka innflutning þeirra í landið.

Exhibit 1. CETSCALE Statements in English and Icelandic	
16.	We should buy from foreign countries only those products that we cannot obtain within our own country. Við ættum eingöngu að kaupa frá útlöndum þær vörur sem við getum ekki framleitt heimafyrir.
17.	Icelandic consumers who purchase products made in other countries are responsible for putting their fellow Icelanders out of work. Íslenskir neytendur sem kaupa vörur framleiddar í öðrum löndum bera ábyrgð á að auka atvinnuleysi meðal samlanda sinna.

To test the CETSCALE's reliability and construct validity four separate area studies were conducted. Results indicated strong support for the instrument as a valid and reliable index of consumers' ethnocentric tendencies. With the development of a reliable scale established, Shimp and Sharma examined the question of whether ethnocentric tendencies operate uniformly across all consumers or whether certain population segments are disproportionately more or less likely to possess them. They were able to establish the link between observed differences in consumer ethnocentrism scores and the perceived threat that foreign-made products represented to an individual's quality of life and economic livelihood (Shimp and Sharma 1987).

Further research on consumer ethnocentrism was undertaken by Netemeyer, Durvasula, and Lichtenstein (1991). Their research extends the discussion by addressing one of the perceived weaknesses of Shimp and Sharma's original work; namely that the scale was developed and validated in the United States alone. Employing a university-based student sample, a four-country study involving the U.S., France, West Germany, and Japan was undertaken to assess the cross-national psychometric properties and nomological validity of the CETSCALE. The researchers found that the scale indeed was a reliable and useful instrument beyond the original U.S. sample.

RESEARCH QUESTION

The past research discussed here presented the CETSCALE in the subject's native language. Of interest in the current study is whether language plays a role in how subjects respond and therefore the measurement of consumer ethnocentrism. Given evidence that ethnocentrism affects other constructs such patriotism and views toward international trade, it is hypothesized that for multi-lingual individuals, presentation of the CETSCALE instrument in their native language will elicit higher consumer ethnocentrism scores than either a multi-language presentation or one in a non-native language.

Hypothesis: *Subjects responding to the Icelandic-only presentation of the CETSCALE will report higher levels of consumer ethnocentrism than subjects in either the English-only or the side-by-side Icelandic-English experimental conditions.*

SURVEY METHODOLOGY

Reykjavik University is a private institution of post-secondary education located in Reykjavik, Iceland. Its student population of over 1,300 is enrolled in undergraduate and non-doctoral graduate programs in business, law, and computer science. Permission was obtained to contact the entire student population via their e-mail accounts and invite them to visit a website where the survey was being conducted. Over the subsequent 4 week period two follow-up e-mails were sent to those who had not at the time responded.

Subjects were randomly assigned to one of three experimental conditions: an Icelandic language only presentation of the CETSCALE, an English language only presentation, or a side-by-side Icelandic and English language presentations (see Exhibit 1 for an example of the side by side presentation). Survey questions and instructions were first translated into Icelandic by a bilingual Icelander, then back-translated into English by a different bilingual Icelander. The resulting survey was subjected to a second round of translation and back translation to eliminate any final issues.

The survey asked respondents to assess their degree of agreement with the 17 CETSCALE statements. Seven point Likert scales (1 = strongly disagree, 7 = strongly agree) were used. Subjects were also asked a number of classification questions. The responses of those students for whom Icelandic was not their native language (e.g. foreign students studying at the University) or those who did not report a working knowledge of English were excluded from the analysis.

RESULTS AND DISCUSSION

Over 25% of the student population participated in the online survey (see Exhibit 2). While the response rate varied by experimental category the minimum response rate was 22%. On gender there were roughly comparable numbers of men and women who responded. Overall undergraduate students comprised a larger share of respondents than graduate students although all programs were represented.

Given the 17-item CETSCALE instrument and 7-point Likert scales used, each individual's score can range from 17 (representing very low ethnocentric tendencies) to 119 (representing very high ethnocentric tendencies). If the hypothesis is supported, the averages should be statistically different across the three experimental conditions; and highest for the Icelandic-only condition.

The CETSCALE average for respondents in the Icelandic-only condition is 38.25. In the English-only condition the average is 37.05. From the dual-language presentation the average is 41.83. An ANOVA analysis at the 5% level suggests no statistically significant difference between the three conditions ($F_{2,315}$=1.568846, P-value= 0.209908). As a consequence it is concluded that native language presentation did not have an effect on assessment of consumer ethnocentrism.

Exhibit 2. Respondent Characteristics			
	Icelandic-Only Language Version	Dual English-Icelandic Language Version	English-Only Language Version
Sample:			
Sample Size	437	436	434
Respondents	132	109	96
Response Rate	30.2%	25.0%	22.1%
Demographics:			
Male / Female	54% / 46%	36% / 64%	51% / 49%
Undergraduate / Graduate	89% / 11%	85% / 15%	90% / 10%
Average Age in years	28.0	31.7	30.1
Age Range in years	21 – 54	20 – 52	21 – 53
Affiliation:			
School of Business – undergraduate BS	44.3%	40.7%	41.1%
School of Business – undergraduate diploma	6.9%	10.2%	15.6%
School of Computer Sci – undergraduate BS	16.0%	19.4%	12.2%
School of Computer Sci – undergraduate diploma	3.1%	1.9%	6.7%
School of Law – undergraduate BA	18.3%	13.0%	14.4%
School of Business MBA or MSC	10.7%	13.9%	8.9%
School of Computer Science MSC	0.8%	0.9%	1.1%

STUDY LIMITATIONS

Iceland is a country of surprising contradictions. A small country, geographically (approximately the size of Ohio or Kentucky) and in population (approximately 300,000 in 2006) it is home to a dozen foreign embassies including those of the United States, China, and many other European countries. The result is a fairly cosmopolitan atmosphere, particularly in the capital, Reykjavik.

Students in the educational system learn Icelandic as their first language. English and Danish are also taught in the primary school system, although at a later stage. While there is some friction concerning the issue of requiring the study of Danish (Iceland gained home rule powers from Denmark in the early 20th century and formal independence in 1944) there is no such friction concerning English. With the exception of the very old, a very high percentage of Iceland's native population is bilingual.

At Reykjavik University, a private institution, there is likely some self-selection bias concerning enrollment. Almost all respondents to the survey reported working knowledge of at least one language beyond Icelandic and English – in some cases several. Additionally, many reported travel to other countries. This exposure to other cultures, and perhaps a more extensive world view based on personal experience, likely explains at least in part the relatively low CETSCALE averages observed and reported. Lastly, Iceland imports a considerable amount of its goods from European and other countries, exposing them to more world brands and products. It is possible that these factors give pause for extending the result that native language does not effect consumer ethnocentrism to other countries. Further study, including replication in other countries, including subjects who possess different levels of fluency, will more definitively resolve this issue.

The potential of this line of inquiry to the conduct of international survey efforts, particularly where issues or products hold an affective component or dimension of national pride (see the extensive literature involving country-of-origin effects) is significant.

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GLOBALIZATION EFFECTS AND FIRM PERFORMANCE

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ABSTRACT

This paper advances prior knowledge on globalization and business by empirically investigating how this phenomenon affects firm performance. Building on environment-organization literature, this study explores globalization-performance relationships. The results of the analyses provide considerable support for literature arguing that globalization acts as a two-edged sword, one that can be beneficial and detrimental to business. Therefore, innovative and effective strategies should be designed and implemented to enable firms to capitalize on global market opportunities while carefully managing its inherent threats in order to attain long-term victory in today's globalized business environment.

INTRODUCTION

In the past two decades, the world has gone through the process of globalization, one that causes increasing economic, financial, social, cultural, political, market, and environmental interdependence among nations. Yet, limited empirical studies have been conducted to investigate how globalization actually affects firms. International business scholars (e.g., Clark & Knowles, 2003; Eden & Lenway, 2001) point out the need to explore further the effects of globalization on firms. Therefore, we aim to investigate the effects of globalization on firm performance. In this study, globalization is defined as the process of increasing social and cultural inter-connectedness, political interdependence, and economic, financial and market integrations (Eden et al., 2001; Molle, 2002). At the macro level, globalization is found to undermine autonomy in domestic airline competition policy (Clougherty, 2001). At the micro level, globalization (operationalized as trade liberalization) is found to improve the performance of U.S. multinational enterprises (Oxley & Schnietz, 2001). From these two studies, we have learned that globalization is a multi-faceted construct. Therefore, the classification of its effects into different dimensions and the study of their impact on firms prove to be worthwhile.

Based on the aforementioned discussion, the purpose of this study is twofold. We aim to classify and define the effects of globalization based on a review of globalization-related literature. Furthermore, we operationalize such effects and conduct an empirical test on the relationships between each of the key globalization effects and the performance of exporting firms in two distinct economic contexts, the developed markets (the U.S.) and the emerging markets (Thailand). Hence, this research attempts to answer two research questions: 1) Does globalization affect firm performance? and 2) Is the relationship between global market opportunities and performance stronger than the relationship between global market threats and performance?

GLOBALIZATION EFFECTS

According to Harvey and Novicevic (2002), various factors that drive increasing globalization can be grouped under four broad categories: 1) Macro-economic factors, 2) political factors, 3) technological factors, and 4) organizational factors. Macro-economic factors include, for example, an acceleration of technology transfer among countries and a rapid increase in populations in emerging economies (Harvey & Novicevic, 2002). Political factors refer to privatization, deregulation and trade liberalization of many nations in favor of free flows of trade and investments (Eden et al., 2001; Hafsi, 2002). Technological forces such as advance development in communication and transportation technologies, which promote growth in international business transactions, are also key drivers of rapid globalization (Graham, 1996; Knight, 2000). Organizations such as multinational enterprises are another major agent of this process (Eden et al., 2001; Harvey et al., 2002). Shifting organizational strategic attention towards a more global mindset is an example of organizational forces of globalization. Consequently, these forces have inevitably caused changes in the global marketplace. Such changes can be viewed as effects of globalization, which ultimately have impact on firms. These effects are discussed in detail in the following sections.

Since the 1980s, we have witnessed dramatic changes in the international and global marketplace. Liberalization of world trade and capital markets led by globalization has created a new and challenging competitive arena for all firms (Nolan & Zhang, 2003). With the trend towards more interdependence among nations, several changes in the business environment have emerged. There has been an emergence of global markets for goods, services, labor and financial capital (Deardorff & Stern, 2002; Hansen, 2002). Consumers' demands around the world have converged (Fram & Ajami, 1994; Levitt, 1983). Increasing trade and investment liberalization evoked by advances in transportation and communication technologies has resulted in larger volumes of international business transactions (Deardorff et al., 2002; Fawcett, Calantone, & Smith, 1997; Fawcett & Closs, 1993). These aforementioned trends have brought about two key effects of globalization, global market opportunities and global market threats (Hitt, Keats, & DeMarie, 1998;

Molle, 2002; Sanchez, 1997). It is obvious that globalization not only presents more opportunities to firms, but also higher levels of threats (D'Aveni, 1994; Jones, 2002; Oxley & Yeung, 1998). While opportunities can arise from globalization, competition and uncertainty are inevitable. Although frequently mentioned in past literature, empirical studies relating these effects to firm performance are still scarce. This calls for a need to study globalization-performance relationships. These two dimensions along with our theoretical framework and hypotheses are discussed next.

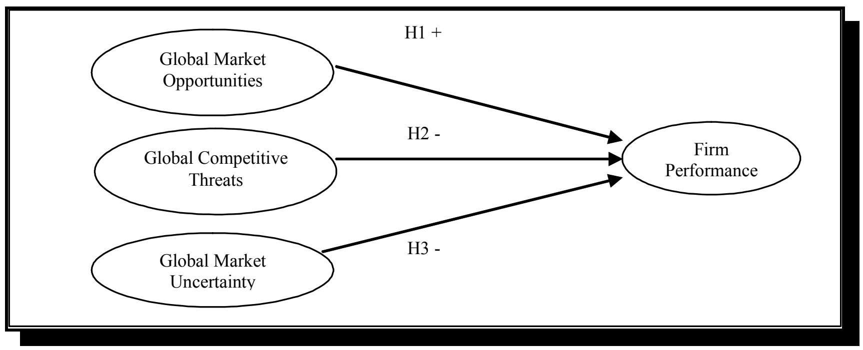
THEORETICAL FRAMEWORK AND HYPOTHESES

We draw from environmental organization literature since our study attempts to establish the link between the external environment (i.e., globalization effects) and firm performance. Due to the multi-level and multi-dimensional nature of the environmental construct, the level and dimension of the environment to be studied must be clearly specified to minimize conceptual ambiguity and overabstraction (Castrogiovanni, 1991). Among the five levels of environmental conceptualization (i.e., resource pool, subenvironment, task environment, aggregation environment, and macro environment), this paper focuses on investigating the macro environment (i.e., globalization), which is the highest level of environmental conceptualization and encompasses all the other lower levels of environmental construct mentioned above. It is the context containing forces, which significantly influence organizational characteristics and outputs (Osborn & Hunt, 1974).

The environment in which firms operate provides resources that influence their survival and growth and the ability of new entrants to join the environment (Randolph & Dess, 1984). This refers to one of many environmental dimensions, the environmental munificence, which can be defined as the scarcity or abundance of critical resources needed by firms operating within an environment (Castrogiovanni, 1991; Dess & Beard, 1984a; Pfeffer & Salancik, 1978). Three sub-dimensions of environmental munificence include: 1) growth/decline, 2) capacity, and 3) opportunities/threats. Amid globalization, firms are affected by the changes in both market opportunities and threats (Frenkel & Peetz, 1998; Hitt et al., 1998; Kulmala, Paranko, & Uusi-Rauva, 2002). These opportunities and threats are two dimensions of the macro environment emphasized in this study. They can also be regarded as forces, which affect organizational outputs, i.e., firm performance. Hence, we hypothesize that there is a direct relationship between these two dimensions of globalization effects and firm performance (see Figure 1).

Global market opportunities can be defined as increases in market potential, trade and investment potential and resource accessibility resulting from globalization (Contractor & Lorange, 1988; Fawcett et al., 1993; Jones, 2002; Levitt, 1983). Developments in information technology, removal of trade and investment barriers, privatization, and deregulation of trade and investment policies have provided firms seeking international markets with tremendous opportunities (Scully & Fawcett, 1994). Such changes in the business environment enable firms to not only access new markets but also lower costs by relocating their operations and exploiting cheap resources around the world (Czuchry & Yasin, 2001). Firms can outsource their production in various locations to lower their costs (Chimerine, 1997). Market transactions have also become more efficient due to globalization of technology (Peterson, Welch, & Liesch, 2002). These new market opportunities have eventually fostered rapid growth in various economic sectors in many regions around the world (Graham, 1996). A large volume of cross-border flows of trade, investment, and technology during the 1990s and early 2000s is excellent evidence of increasing opportunities driven by globalization (UNCTAD, 2003).

Figure 1: A Model of Globalization Effects and Firm Performance



As discussed earlier, globalization increases market potential, trade and investment potential and resource accessibility of firms. It has become easier for firms to outsource their production to different locations to gain benefits from location advantage since less trade and investment barriers are present in today's global marketplace (Chimerine, 1997; Czuchry et al., 2001). Firms are able to reach out and serve many new untapped markets around the globe. Liberal movements of financial and human capital also facilitate their business transactions. Moreover, advances in communication technology and information systems also lower search costs and improve efficiency (Peterson et al., 2002). Hence, it is clear that globalization makes resources necessary for a firm's growth and success more abundant. Given that these opportunities are likely to enhance the firm performance, the first hypothesis of this study can be stated as:

H1: Firm performance is positively influenced by global market opportunities.

Global market threats can be further categorized into 1) global competitive threats and 2) global market uncertainty. Global competitive threats are defined as the intensified competition in global markets resulting from larger numbers of competitors in the global marketplace (D'Aveni, 1994; Hafsi, 2002). Along with higher competition, another threat posed by globalization is global market uncertainty, which refers to the increasing complexity and demand uncertainty in the market (Burgers, Hill, & Kim, 1993; Chimerine, 1997; Courtney, 2001; Oxelheim & Wihlborg, 1991). These two types of global market threats and their hypothesized relationships are discussed in detail in the following sections.

Although globalization enhances a firm's market opportunities, it also increases the amount and level of competition faced by such firms. Trade liberalization, technological developments, and convergence of governmental macroeconomic policies associated with globalization have made it easy for firms around the globe to enter different geographic markets, and thus, intensify the competitive atmosphere for firms around the world (Hafsi, 2002; Harvey et al., 2002). Globalization has dramatically changed the competitive terrain faced by firms from both developed and emerging economies (Nolan et al., 2003; Scully et al., 1994). Firms operating at different levels—domestic, regional, international and global—are now competing against one another. Hence, it is obvious that globalization has brought about a new competitive landscape referred to as "hypercompetitive markets" (Hitt et al., 1998, 24), one that presents enormous threats to firms in every economic sector since it makes a firm's relative competitive advantage very time-sensitive (Harvey et al., 2002).

In addition, globalization also enables consumers to gather information easier, faster, and at lower costs. Thus, they become well aware of alternative products, and are ready to switch. Given a growing number of competitors, resources are becoming increasingly scarce (Castrogiovanni, 1991; Dess et al., 1984a; Porter, 1980). Such hypercompetitive situations coupled with scarce resources is harmful to firm performance (Beard & Dess, 1981). Firms are now faced with less pricing flexibility due to intensified competition and buyers' resistance, which have led to a lower rate of return (Chimerine, 1997). Therefore, we hypothesize that there is a negative relationship between global competitive threats and firm performance.

H2: Firm performance is negatively influenced by global competitive threats.

Global market uncertainty, which refers to the increasing complexity and demand uncertainty in the market (Burgers et al., 1993; Courtney, 2001; Oxelheim et al., 1991) is another threat confronted by firms operating in the global marketplace. Firms are faced with increasing difficulties in planning and making decisions (Chimerine, 1997; Hitt et al., 1998). Demand has become hard to forecast for various reasons. Since a growing number of firms now participate in the global marketplace, forecasting demand and/or competitors' responses has become increasingly difficult. Moreover, technology is changing at a rapid pace and information about new products is easily accessible by consumers. This has enabled consumers to shift between producers, making demand become less predictable and uncertain (Chimerine, 1997). Since operating in the global marketplace increases the level of uncertainty encountered by firms, their performance is affected. In addition, past studies found a negative relationship between perceived uncertainty and firm performance

(Downey & Slocum, 1982; Gerloff, Muir, & Bodensteiner, 1991; Waddock & Isabella, 1989). Thus, global market uncertainty is hypothesized to affect firm performance negatively.

H3: Firm performance is negatively influenced by global market uncertainty.

RESEARCH CONTEXT

The two countries selected as the research settings for this study are Thailand and the U.S. These countries provide rich research contexts due to differences in terms of their degree of globalization (Foreign Policy, 2005), level of economic development, and national competitiveness (Porter et al., 2005). While the U.S. is highly globalized, Thailand is considerably less globalized. According to a survey conducted by AT Kearney in cooperation with Foreign Policy Magazine (2005), Thailand is ranked 46th, and the U.S. is ranked 4th on the globalization index. Thailand is classified as a lower-middle-income economy, one in which the Gross National Income (GNI) per capita is between $826 and $3,255, while the U.S. is considered a high-income-economy whose GNI per capita is above $10,066 (The World Bank Group, 2006). Furthermore, the national competitiveness of these two nations differs dramatically. The U.S. is the second most competitive country in the world whereas Thailand is ranked number 36 on the national competitiveness index (Porter et al., 2005). Given those sharp contrasts, it is perhaps worthwhile to examine whether the relationships between globalization effects and firm performance are similar or different. Moreover, using sample groups from two countries allows us to focus on the generalizability of this study in order to provide useful information for further research.

METHODOLOGY

The electronics and chemical industries were found to have a large number of exporters in both Thailand and the U.S. due to lower manufacturing costs in the former and more advanced technology in the latter. For this reason, firms in these two industries were selected as the population base of this study. Recent lists of exporting firms in Thailand were identified from two sources: 1) Export-Import Bank, Thailand (2001-2003) and 2) Department of Export Promotion, Thailand (2003). These two sources are reliable and legitimate because they represent the authorities that oversee and support exporters in Thailand. Therefore, these sources provide the most complete set of exporting firms in Thailand classified by industries. A total of 1,050 firms (450 electronic exporters; 600 chemical and pharmaceutical exporters) are included in the sampling frame. The sample in the U.S. consists of firms in manufacturing sectors having the first three digits of the North American Industry Classification System (NAICS) of 334- and 325-. Lists of qualified firms were obtained from Harris InfoSource's (2001) database and Ward's Business Directory of U.S. Private and Public Companies by Gale Group (2001). We relied on these two directories because they classify firms based on the NAICS and provide information regarding a firms' export activity, necessary information for this study. Therefore, we randomly selected our samples from these lists. This yielded the final sample size of 692 U.S. exporters.

The main research instrument in this study was a questionnaire, initially designed based on previous studies. The questionnaire was designed in English and revised after discussing with fifteen experts and managers and a pretest with twenty firms. It was then translated into Thai and back-translated by two independent bilinguals using the method suggested by Douglas & Craig (1983). This involved original translation, back-translation, and extensive refinements until the translated instruments possessed both conceptual and functional equivalences (Cavusgil & Das, 1997; Mintu, Calantone, & Gassenheimer, 1994). The key informant technique (Campbell, 1955) was used to collect data. The targeted key informants included the presidents, owners, or middle-level managers (general managers or marketing managers) who are typically top decision makers of the firms and are most knowledgeable about the firms' overall activities. The questionnaires were mailed to 1,050 and 692 firms in Thailand and the U.S., respectively. In both countries, three waves of mailings were sent to the key informants in our sampling frame. In addition, a telephone follow-up was conducted one week after each of the mailings to request and encourage participation. After eliminating undelivered mail and firms that are no longer exporting or out of business, the total valid mailings were 767 in Thailand and 359 in the U.S. A total of 223 completed surveys were returned, and 208 were usable. The overall response rate was 20%.

Firm performance was measured using four self-reported items that reflect the level of a managers' satisfaction in terms of return on investment, sales goals, profit goals, and growth. These items were adopted from Grewal & Tansuhaj (2001) and were rated on a seven-point scale (1 = very unsatisfactory and 7 = very satisfactory). We used subjective performance measures in this study for two major reasons. First, past studies indicate that both perceptual and objective measures of performance yield consistent results (Dess & Robinson, 1984b; Hart & Banbury, 1994; Naman & Slevin, 1993). Next, the secondary financial data indicating the expenses and revenues of firms from emerging markets is either unavailable or difficult to obtain due to the size and non-public nature of their businesses (Sapienza, Smith, & Gannon, 1988).

Global market opportunities are defined as increases in market potential, trade and investment potential and resource accessibility resulting from globalization. Global market threats can be further categorized into 1) global competitive threats and 2) global market uncertainty. Global competitive threats refer to the intensified competition in global markets resulting from a larger number of competitors in the global marketplace. Global market uncertainty is defined as the increasing complexity and demand uncertainty in the market. Based on these dimensions of globalization effects, measurement items were generated based on a review of past literature (e.g., Archibugi & Michie, 1997; Fawcett et al., 1997; Morrissey & Filatotchev, 2000; Zou & Cavusgil, 2002). All items were rated on a seven-point Likert scale. Scale items anchored by "strongly disagree" (1) to "Strongly Agree" (7).

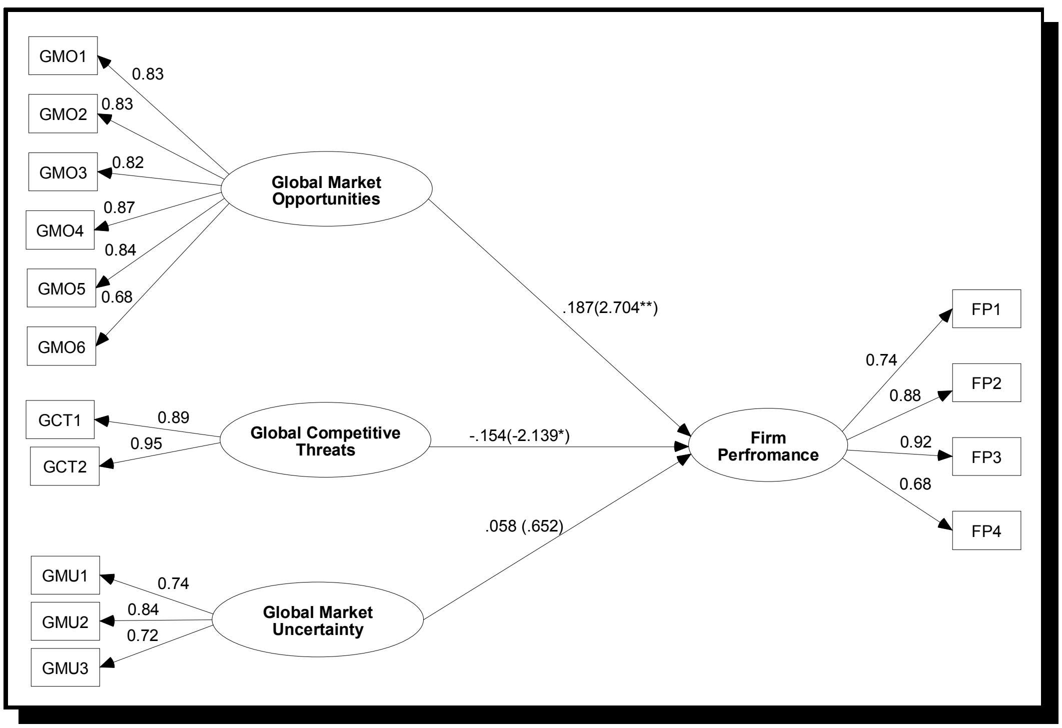
Given the scarcity of prior empirical research, the scale to measure the effects of globalization was newly generated. Since observed variables were manifestations of underlying construct, reflective measures were used to assess the constructs of interest in this study (Bagozzi & Baumgartner, 1994). Therefore, confirmatory factor analysis by means of AMOS 4.01 (Arbuckle, 1999) was used to assess the psychometric properties of the scales to validate the measures (Anderson & Gerbing, 1988; Fornell & Larcker, 1981). Before merging two national sub-samples for measurement validation, an assessment of measurement invariance was conducted to ensure cross-cultural equivalence of the constructs (Steenkamp & Baumgartner, 1998). Following the procedure suggested by Steenkamp and Baumgartner (1998), configurational invariance and metric invariance must be achieved. While the former refers to the cross-cultural equivalence in the factorial structure underlying a set of observed measures, the latter implies equivalence in the scale intervals. Applying multiple group confirmatory factor analysis, the results revealed full configurational invariance and metric invariance. Hence, it can be concluded that merging the two national sub-samples is valid. The chi-square (x^2) of the measurement model was 104.278 (degree of freedom = 82). The comparative fit index (CFI), normed fit index (NFI), non-normed fit index (NNFI), and goodness of fit index (GFI) were .98, .95, .98, and .94, respectively. These fit indices of above .90 are considered acceptable (Bentler, 1992; Byrne, 2001; Diamantopoulos & Siguaw, 2000; Jöreskog & Sörbom, 1993). Root mean square of error approximation (RMSEA) was .036. This value of RMSEA is indicative of good fit since it is less than .05, which is commonly regarded as the threshold (Browne & Cudeck, 1993; MacCallum, Browne, & Sugawara, 1996). Construct reliabilities were assessed using squared multiple correlation (R^2), Cronbach alpha and composite reliability (α_c). Every indicator was a reliable measure of its designated construct since each squared multiple correlation was substantial, i.e., greater than 0.5 (Diamantopoulos et al., 2000). The Cronbach alphas of all constructs were greater than 0.7, the minimum acceptable level suggested by Nunnally & Bernstein (1994). In addition, the composite reliabilities of the constructs exceeded 0.6, the benchmark recommended by Bagozzi & Yi (1988).

RESULTS AND DISCUSSION

We initially assessed the differences in the mean of the dependent variable—firm performance—between two national sub-samples and two industry sub-samples by using one-way ANOVA. The result revealed that there is no difference in the mean of firm performance between Thai and the U.S. exporters (F-statistics = 2.226 at $p > .10$) or between electronics and chemical industries (F-statistics = 0.336 at $p > .10$). Therefore, there is no significant difference in firm performance between firms from these two countries and industries. This is not unexpected since the performance of firms in similar industries (i.e., high-tech industries such as chemical and electronics) may be very similar.

Since there is no difference in the mean of dependent variable across industries and countries and the results of measurement invariance have confirmed equality in the constructs across these two countries, data were pooled for model estimation. Maximum Likelihood Estimation (MLE) was used to fit the structural model presented in Figure 2. Fitting the structural model after the measurement model has been purified is the procedure suggested by Anderson and Gerbing (1988) and is commonly practiced by many academic scholars such as Li and Calantone (1998) and Zou and Cavusgil (2002). The estimates were computed using AMOS 4.01 (Arbuckle, 1999). The structural proposed model of globalization effects and firm performance is presented in Figure 2 along with parameter estimates and fit statistics.

Figure 2: MLE Estimation for Model



As shown in Figure 2, the x^2 of 145.889 (degree of freedom = 84) is significant at .05 level. However, x^2 is very sensitive to sample size (Marsh, Balla, & McDonald, 1988). Larger sample size tends to yield significant x^2. Therefore, it should not be used alone in evaluating model fit (Bollen, 1989). Other fit indices included goodness of fit index (GFI), normed fit index (NFI), non-normed fit index (NNFI), and comparative fit index (CFI). The GFI of .915, NFI of .931, NNFI .961, and

CFI of .969 were above .90, the minimum desirable level recommended by Bentler (1992), Byrne (2001), Diamantopoulos and Siguaw (2000) and Jöreskog and Sörbom (1993). Moreover, all the standardized residuals were small. Thus, we conclude that the model fits data well.

To test the hypothesized relationships between globalization effects and firm performance, we used the estimates of the path coefficients. The path coefficients in Figure 2 indicate that firm performance is affected positively and significantly by global market opportunities ($t = 2.704$, $p < .01$). As hypothesized, global competitive threats negatively influence the firm performance. The path coefficient between the global competitive threat and firm performance is positive and significant ($t = -2.139$, $p < .05$). Thus, H1 and H2 are supported. Nonetheless, we found no support for H3 since firm performance is not significantly influenced by global market uncertainty ($t = .652$, $p > .5$). Overall, the structural model fits the data adequately, and the hypothesized relationships between two effects of globalization—global market opportunities and global competitive threats—and firm performance are significant, and supported by the findings. The insignificance of hypothesis 3 suggests that there is no direct relationship between global market uncertainty and performance. This is not surprising since the causal relationship between uncertainty and performance has been debatable (Khatri & D'Netto, 1997). As alluded to by Khatri and D'Netto (1997), it is the complex nature of the uncertainty construct per se that obscures the causal relationship between uncertainty and performance. Frequently, studies have treated uncertainty as a moderator because it is difficult to establish a direct causal link between uncertainty and performance. However, we did not find a significant moderating effect of global market uncertainty on performance when the variable was added as an interaction term in the model. Another possible way to establish an indirect relationship between uncertainty and performance is by including some mediating variables. As shown in a recent study, the relationship between uncertainty and performance can be indirect, i.e., mediated by networking activities (Sawyerr, McGee, & Peterson, 2003). The results of their study show that as uncertainty increases, firms engage more in networking activities, which finally enhances firm performance. This implies that uncertainty alone can be harmful for firm performance unless certain strategies, such as networking activities and alliance participation, are implemented to mitigate its negative impact. Therefore, the investigation of an indirect relationship between global market uncertainty and performance in future research proves to be worthwhile.

CONTRIBUTIONS AND FUTURE DIRECTIONS FOR RESEARCH

Despite a large volume of literature discussing the effects of globalization, there is a scarcity of empirical research investigating its effects on business performance. We advance the literature by categorizing the effects of globalization into different dimensions, and develop a model to test the relationships between these effects and firm performance. The findings from this study support the argument that globalization not only benefits firms in terms of increasing opportunities, but also hurts business performance due to higher competitive threats (e.g., Contractor and Lorange, 1999, D'Aveni, 1994, Jones, 2002). In addition, we expand literature on globalization and environmental-organization interface by developing valid and reliable measures of globalization effects, and testing the scale across two distinct cultures. The measures were confirmed equivalent across cultures. We hope that these constructs generate venues for future research on globalization and related topics. The findings of our study have several implications for managers in the global marketplace. This study elaborated on the different effects that globalization has on business. The results indicate that such effects are not significantly different across cultures. This study also confirms that globalization is a universal phenomenon and that firms are inevitably affected. Globalization can affect firm performance positively and negatively. While global market opportunities are likely to enhance firm performance, global competitive threats tend to worsen it. Therefore, managers must be aware of such double-edged effects, and try to capitalize on opportunities while converting threats into opportunities. Appropriate strategies, such as developing networking relationships with other firms, must be carefully designed and implemented in order to take advantage of global market opportunities and minimize the threats from increasing competitive intensity.

LIMITATIONS AND DIRECTIONS FOR FUTURE RESEARCH

Our study is among a very few empirical studies of globalization effects. Although the scales to measure globalization effects were developed from a careful literature review, they are new, and thus need further verifications and applications. Moreover, the model presented here is limited to the effects of globalization on business but not on society. In the short run, intense global competition may be deemed harmful for firm performance. However, in the long run, such competition will provide a healthier economy that benefits the overall society. Higher competition will eventually encourage firms to aim for continual improvements, which are good for both the firms and society. Therefore, the results of this study must be viewed with these limitations. Future research may attempt to find theories to explain the effects of globalization and investigate the role of different strategies and organizational structures in mediating the effects of globalization on firm performance. Alliance formation and strategic flexibility have been recommended as effective means to maneuver firms through globalization (Contractor et al., 1988; Hitt et al., 1998; Spekman & Sawhney, 1990). A study examining such relationships would provide useful information for managers operating in global industries on how to manage the effects of globalization more effectively. Furthermore, research on how the fit among different organizational structures (e.g., mechanistic vs. organic) and strategies (e.g., cost leadership, differentiation, diversification, etc.) may enhance firm performance in the presence of globalization effects and offers another fruitful venue for future studies.

CONCLUSION

In this paper, we have advanced our knowledge of globalization phenomenon by defining its effects and categorizing them into opportunities and threats. In doing so, we addressed the question of how globalization affects firm performance by empirically examining the influence that each globalization effect has on business performance. This study provides considerable support for literature arguing that globalization acts as a two-edged sword, one that can be beneficial and detrimental to business. Managers should be prepared to cope with such effects and try to capitalize on global market opportunities while carefully managing its inherent threats. Innovative and effective strategies should be designed and implemented to enable firms to gain competitive advantage and attain long-term victory. Building on our theoretical framework, further research should focus on how different strategies help firms navigate successfully through today's increasingly globalized condition.

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EUROPEAN MONETARY UNION (EMU) AND THE SINGLE CURRENCY: ITS CURRENT STATUS

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ABSTRACT

Under the Maastricht Treaty of 1992, a single currency called the "euro" was adopted, and economic criteria for membership in the European Monetary Union were established. The objectives of the Maastricht Treaty were to eliminate the costs connected with several European currencies, increase both currency and international stability, and stimulate economic growth and employment with a more efficient single market and European integration. The individual Member States and the European Union as a whole would benefit with free circulation of goods, services, people, and capital among the Member States ("What is," n.d., p. 2-3).

On January 1, 1999, eleven of the fifteen existing European Union (EU) Member States joined the EMU: Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, Netherlands, Portugal, and Spain. In 2000 Greece joined. On January 1, 2002, the EMU began using the euro as its only currency.

This paper will provide a brief history of the European Monetary Union (EMU), motives for its creation, the expected effects that the single currency would have on the EMU economies, and its current status--both the benefits the EMU has enjoyed and the challenges it continues to face.

INTRODUCTION

In 2002 the euro was formally adopted as the only acceptable currency in twelve participating European Union (EU) Member States. The individual Member States known as the European Monetary Union (EMU) and the EU as a whole would benefit with free circulation of goods, services, people, and capital among the Member States. The expectations were high: Costs connected with several European currencies would be eliminated; currency and international stability would be increased with a more efficient single market; and European integration, economic growth, and employment would be stimulated.

It has been four years since the formal introduction of the single currency. Have these expectations been realized?

HISTORY OF THE EMU & EXPECTED OUTCOMES

The groundwork for a single European economy was laid in 1957 when the Treaty of Rome established the European Economic Community. Under the treaty, six European nations agreed to eliminate customs duties and certain restrictions on the import and export of goods among Member States and adopt a common commercial policy.

Over the next thirty years, additional efforts were made to achieve economic unity in Europe, but it was not until June 1988 that the European Council (made up of the 15 European Union Heads of State or Government) submitted the Delors Report. This report defined new monetary union objectives, became the foundation for the Maastricht Treaty that the European Council signed and ratified in 1992, and established the European Central Bank.

Because inflation makes economies less competitive, undermines public confidence, and reduces purchasing power, the European Central Bank (ECB) was established to ensure the stability of the single currency. The ECB would be located in Frankfurt, Germany, would be politically independent, and would assume responsibility for the stability of the common currency for the EU as a whole.

Under the Maastricht Treaty, the European Economic Council officially became the European Union (EU) comprised of 15 Member States: Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Greece, Denmark, Sweden, and the United Kingdom. Also under the Treaty a single currency, the euro, was adopted; and economic standards for membership in the European Monetary Union (EMU) were established. To become members of the EMU, EU Member States were required to practice economic and financial discipline by meeting specific convergence criteria:

Inflation rate must be within 1.5 percentage points of the average rate of the three states with the lowest inflation.

The long-term interest rate must be within 2 percentage points of the average rate of the three states with the lowest interest rates.

The national debt must be either already below 60% of GDP or heading for this level.

The national currency must not have been devalued for two years.

Five years after the signing of the Maastricht Treaty, the European Council adopted the “Stability and Growth Pact” which committed the EMU countries to maintaining their budgetary discipline. In fact, fines would be imposed on countries that did not continue meeting the convergence criteria after becoming EMU members (Europa, 2006, para. 2-3).

On January 1, 1999, the euro was launched as an electronic currency and accounting unit among eleven of the fifteen existing EU Member States: Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, Netherlands, Portugal, and Spain. Three EU Member States--Denmark, Sweden, and the United Kingdom--elected not to participate at that time; the remaining member state Greece met the criteria to join the EMU in 2000.

Euro notes and coins entered circulation on January 1, 2002, and during the three-year transitional period (1999-2001) the former national currencies (referred to as "legacy" currencies) continued to circulate. Although during the three-year transition period, economic enterprises were able to use the euro, they were not required to do so until January 1, 2002; transactions in national denominations ceased July 2002.

ECONOMIC AND POLITICAL MOTIVES

The motives for European integration were both economic and political. The enormous political changes in Europe after World War II led to important changes in the political culture and thinking of Europeans. Unification of Europe seemed to be the only way to ensure peace on the continent and strengthen the EU economically. Political motives behind European integration included:

> ***The desire for a new self-comprehension.*** *A new democratic Europe would be an alternative to the nation-state (individual countries acting alone) principle, which was rejected because it had been responsible for all the wars in the previous century.*
>
> ***The desire for peace and security****. The nation states were too small and not militarily strong enough to be able to prevent wars. The unification of Europe would create a community of peace. At the same time, a unified Europe would act as a bulwark against the expansion of communism.*
>
> ***The desire for freedom.*** *In the years of war, people suffered under national restrictions, which limited the freedom of traveling, commerce and capital. European integration would ensure freedom and mobility of persons, goods, and capital.*
>
> ***The hope for economic welfare****. European unification would lead to an era of economic stability and prosperity. A common market would promote interstate commerce.*

The hope for regaining common power. *The loss of power in the two World Wars would be compensated with political unification of the West European states (Kiessling, 2001b).*

A result of these political motives was the binding together of the European economies. Although the Maastricht Treaty failed to introduce political instruments supporting EMU, a single currency "would force Member States to harmonize their economic priorities and act in a convergent manner" (Kiessling, 2001a).

The euro's adoption would complete the European Single Market by increasing cross-border mergers, improving price transparency, and eliminating exchange rate risk. With trade between Member States accounting for 60 percent of total EU trade, it seemed only logical that a single currency would improve economic stability among them and stimulate economic growth and employment with a more efficient single market and European integration. Because reducing inflation and keeping prices down were goals of the EMU countries, Member States would have to cooperate more closely on an increasing number of economic issues to avoid harmful effects to each other. Therefore, they were encouraged not to introduce any new programs that would result in inflation.

POSITIVE ECONOMIC CONSEQUENCES OF EMU

As intended, the adoption of the euro and the establishment of the European Central Bank have streamlined monetary policy in the EMU. According to ECB President Jean-Claude Trichet (2006a) the euro has, "inherited the high level of credibility achieved by the most stable national currencies." In other words, the ECB has managed to bring German's D-Mark stability to Italy and Greece.

The ECB has earned additional credibility with its management of area-wide inflation by being able to control inflation near its stated goal of "below but close to 2 percent," resorting at times to interest rate hikes to achieve the goal--even when faced with declining economies in parts of the region (Trichet, 2006b). Trichet (2006b) points out, however, that although short term inflation has breached the 2 percent barrier, long-term expectations are in the 1.8 - 1.9 percent range.

In the area of interest rates, the introduction of the euro has led to interest rate convergence in the EMU. The cross-country standard deviations of the average overnight lending rates among euro countries has decreased from 130 basis points (one hundredth of a percent) in January 1998 to 3 basis points in early 1999 and further to 1 basis point in 2006 (Trichet, 2006a). Also, since its adoption, the euro's exchange rate with respect to its main "rival," the U.S. dollar, has been strong, eliminating exchange rate risk among Member States.

In terms of bonds, yields on government bonds have converged, having significantly decreased in previously volatile countries and reaching overall the lowest levels since the World

War I (”The Euro,” 2005). Corporate bond yields have converged across Member States as well, with econometric models suggesting that any differences in bond yields are mainly due to industry sectors and/or company-specific risk with a company’s country of origin playing virtually no role in bond yield differences (Trichet, 2006a).

Beyond monetary policy issues, the euro is rapidly gaining ground as an international currency, an area traditionally dominated by the U.S. dollar. Being an international currency means that non-EMU countries are holding euros as reserves, pegging their currency to the euro, and/or conducting their international invoicing in euros. In short, being an international currency means that euros are circulating outside the EMU, as in the United States where approximately 55 percent to 70 percent of its outstanding currency is circulating outside the United States (Gross, 2004).

Currency circulating outside an issuing country brings tangible benefits to that country. For example, the only way that someone can get his/her hands on a $100 bill is to sell some goods or services to someone in the United States for $100. However, if that $100 bill continues circulating outside the United States, the United States has managed to trade a piece of paper for a $100 worth of goods and/or services. It is not until the bill reappears in the United States (that is, someone from the United States sells $100 worth of goods and/or services abroad), that the United States has exchanged any real resources in return for the initial goods and/or services received. Therefore, the longer period of time a currency stays outside its issuing country, the better.

Although the euro has risen as an international currency, it still lags behind the dollar in terms of global reserves and international invoicing (Posen, 2005). (The dollar accounts for 60 percent of global reserves and international invoicing.) In 2002 the euro accounted for about 25 percent of foreign exchange transactions and 18.7 percent of reserve currency holdings (Noyer, 2004).

Interestingly, the euro has been gaining ground on the dollar as the currency of choice in the underground economy (Gross, 2004; Posen, 2005). In fact, between 2002 and 2004 the “percentage of private Russian currency transactions employing the dollar fell from 94.1 percent to 84 percent, while the euro’s share rose from zero to almost 15 percent” (Gross, 2004). Adam Posen (2005) from the Institute for International Economics points to the practicality of using euros for underground activities, given that the largest euro denomination in circulation is 500€ ($631 on June 20, 2006), while the largest dollar denomination is $100 . In simple terms, a smuggler would have to hide six times as many dollar bills as euro bills to accomplish the same transaction.

CHALLENGES FACING EMU

Although the benefits of the euro in terms of lower inflation and more stable monetary policy as well as financial integration in the form of convergence of interest rates, more stable exchange rate, and the increased use of the euro as international currency are not disputed, the distribution of those benefits is very much a subject of debate. For example, Germany, whose currency and policies already resembled those of EMU and ECB prior to the adoption of the single currency, did not gain nearly as much in terms of stability as the more volatile Spain and Italy.

Also, the use of the euro as an international currency has not necessarily benefited all Member States the same. If one country has increased imports (sends euros out), and another country has increased exports (takes euros in), it is conceivable that the use of the euro as an international currency will benefit the first country at the expense of the second.

Moreover, not all countries gain the same from a fixed exchange rate, nor is the exchange rate truly fixed across the EMU due to varying rates of inflation. In fact, from 1999 to 2005 the real exchange rate in Italy appreciated 20 percent relative to Germany--making German exports more attractive than Italian exports and resulting in Germany's export growth and Italy's export decline ("The real picture," 2005).

Also, in terms of interest rates, the equal nominal interest rate does not translate into equal real interest rate. Due to lower inflation in Germany, the real interest rate in Germany is higher than in France (where inflation is higher), causing higher savings and lower consumption in Germany ("The fit," 2004).

Additionally, different rates of home ownership across the EMU result in different effects of interest rate changes across the region. In countries with relatively high home ownership rates (e.g. Italy & Spain), the presence of lower interest rates have lead to the U.S.-like effect of increasing real estate prices and home values which, in turn, lead to a boom in consumer spending. This increased consumer spending has not been the case in Germany which has a traditionally low rate of home ownership ("The fit," 2004).

The disparity of exchange rates, interest rates, and growth across the region would traditionally be addressed through an individual country's monetary policy; however, EMU countries have surrendered their monetary policy-making ability to the ECB. A situation such as lower bond yields would typically encourage borrowing in the countries with lower growth rates; but if such borrowing leads to deficits in excess of the 3 percent ceiling required in EMU countries, the Stability and Growth Pact forbids it.

While ECB policies have different effects on different Member States, there is a lack of mitigating central influence to smooth them out. In other words, there is no central government whose fiscal policy would help distribute the effects of ECB's monetary policy more equally across the Member States as the Federal government does in the United States. In the United States the federal budget acts as an stabilizer by collecting higher tax revenues from the booming parts of the country and distributing them to the struggling parts in the form of increased welfare payments, unemployment benefit payments, etc. The EMU has no such mechanism, and it is not very likely to develop one, given the strong feelings of nationalism in Member States ("Can this union," 2005).

In addition, while the United States enjoys near total mobility of capital and labor, the EMU (and throughout the EU for that matter) still experiences serious hindrances to the mobility of labor. (Capital is much more mobile.) Most EMU workers do not speak the language of other Member

States, and differences in social welfare systems make it even less likely for workers to move to another country when they become unemployed ("Can this union," 2005). This lack of mobility makes recessions in specific EMU countries tougher to combat; and once a recession sets in, it becomes easy for populist politicians to blame the ECB or other Member States for its individual country's economic woes.

Finally, a general agreement exists among economists and policy makers that Europe is in dire need of structural reforms to combat its low growth rate, high unemployment rate, and high cost of social insurance programs (Bernstein, 2006; (Trichet, 2006b).). As these reforms are initiated and enacted, they often face fierce opposition, as evidenced by recent student protests in France. Governments are not able to use monetary or fiscal policy to soften the short-term blow of the reforms, and it is very likely that political opportunists will blame the ECB, EU, or other Member States (especially the new members) for causing their economic suffering. After all, it was the fear of the "Polish plumber" that figured strongly in the French rejection of the EU constitution.

Nationalism is alive and well in the EU, and it represents a major threat to the euro and the EU as a whole. Such feelings were once again recently demonstrated with the defeat of the EU constitution at the polls in the Netherlands and in France. In addition, as structural reforms are made, nationalism is likely to only grow stronger and play an ever-increasing role in European politics.

In addition to these challenges--lack of labor mobility, disparity of interest and exchange rates, strong feelings of nationalism--major political challenges remain as well. One such challenge is the enlargement of the EU. On May 1, 2004, ten new Member States joined the EU; and new Member States will continue to join, resulting in the EU becoming more heterogeneous--politically, culturally, and economically.

Before any of the new Member States can adopt the euro, they must fulfill all the conditions or convergence criteria that had to be met by the "old" Member States. Most of the Eastern and Middle European countries, which have joined and will continue to join the EU, do not have the economic standards of the Western European countries; and they are unable to reach the same stage of economic development in the next few years. With regard to the EMU, this means that a considerable number of EU Member States would not be able to take part in the monetary integration in the long run, which could lead to a two-class membership that could produce serious tensions in the EU.

CONCLUSION

Since its introduction, the euro has pleased both its proponents and its critics. It has demonstrated staying power, as evidenced by its exchange rate with respect to its main "rival," the U.S. dollar; but it has also highlighted the difficulties of banding a culturally and economically heterogeneous set of countries into a common currency area.

As expected, the euro has brought about the benefits of a more stable monetary policy, lower inflation, decreased transaction costs among the countries using it; and it has given the dollar stiff competition as the international currency of choice. However, the euro has also removed a cornerstone economic policy tool, monetary policy, from the hands of EMU Member States and transferred it to the European Central Bank.

At the same time, the euro has curtailed the national governments' fiscal policies through the imposition of the deficit ceilings through the Stability and Growth Pact. The imposition of the currency area, coupled with the rigidities of the European Central Bank and Stability and Growth Pact, has left national governments, and indeed the national economies, less able to deal with country-specific shocks. Thus, the "one size fits all" monetary policy of the European Central Bank has been too loose for some countries and, at the same time, too tight for others. The fiscal policy provisions of the Stability and Growth Pact have left individual countries without the ability to adjust accordingly.

This inability to adjust has been the root cause of criticism concerning the euro, and it provides fodder for political attacks against the common currency. In fact the former Italian welfare minister Maroni called for Italy's abandonment of the euro and its return to the lira, and a 2005 survey by the German Weekly *Stern* showed that 56 percent of Germans polled favored a return to the D-mark ("The euro," 2005)

Additionally, the euro suffers from the lack of a strong central government backing it with a fiscal policy that distributes gains from monetary policy more evenly across the region. In short, the biggest threat to the euro is not really economic or technical in nature, nor does it come from lack of clarity as to how to properly manage it. The main challenge to the euro comes from political processes in the region and the lack of strong feelings of homogeneity in the region's population.

The question then is not whether the euro was a good idea and whether it accomplished its economic goals. It was and it did, and the ECB has done a superb job of managing the EMU economy. The real question is whether the euro will survive politically. The jury is still out on that one.

GLOSSARY

ECB, European Central Bank. Created by the European Council and situated in Germany, it serves as the central bank of the EU and has the primary task of maintaining price stability. It works closely with the European System of Central Banks (ESCB), and its basic tasks are to (1) define and implement the monetary policy for the euro area (2) conduct foreign exchange operations (3) hold and manage the official foreign reserves of the participating Member States (4) promote the smooth operation of payment systems (The European, n.d., para. 3-6).

EMU, European Monetary Union. Consists of twelve Member States: Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, and Greece. The remaining three EU countries--Denmark, Sweden, and the United Kingdom may choose to participate in the future.

EU, European Union. Consists of 15 Member States: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, and Spain, Sweden, and the United Kingdom.

Euro. The EMU's new continent-wide currency. Its value is to match the value of the national currencies of those Member States with the best economic track records--those that would meet specific convergence criteria in the areas of inflation, interest rates, exchange rate stability, and government deficits. The International Standards Organization (ISO) code for the euro is "EUR".

European Commission. Consists of one commissioner from each Member State, it was created to represent the European interest common to all Member States of the Union. Its role is to serve as the originator or source of EU policy initiatives--charged with making proposals for all new legislation. It is also responsible for implementing common policies. It administers the budget and manages the Union's programs, and it works for the good of the EU as a whole and not for any specific Member State or interest group. Decisions are made by simple majority (Europa, n.d.b, Basic Facts section, para. 1, 4-7).

European Council. The Council is the main decision-making body of the European Union. It coordinates the broad economic policies of the Member States and it passes laws, usually legislating jointly with the European Parliament. The Council consists of the Heads of State or Government of the 15 Member States of the EU and the President of the European Commission. Meeting at least twice a year (generally in June and December) for the last 25 years, it is hosted by and takes place in the Member State holding the Presidency of the Council (Europa, n.d.a, para. 2-5).

Stability and Growth Pact. Adopted by the European Council five years after the passage of the Maastricht Treaty, it committed the EMU countries to maintaining their budgetary discipline. The pact was intended to ensure sound finances in the Union in order to prevent actions in one Member State from negatively impacting another Member State. It seeks to encourage continued convergence of the economies of the EMU Member States (Europa, 2006, para. 2-3).

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WTO RULES ON INVESTMENT: FUTILITY MANIFOLD

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ABSTRACT

A prime factor of trade liberalization, investment, eludes a comprehensive coverage in the multilateral rule based regime under the World Trade Organization. The Agreement on Trade Related Investment Measures, though one exclusively concentrated on investment, has proved to be insufficient as regards various barriers facing liberalization of cross-border investment flows are concerned. The proposed Multilateral Investment Agreement of Organization for Economic Co-Operation and Development Group of countries also having failed to come up as planned, the field remains unoccupied even today. Therefore, it is high time that a consensus emerges at the multilateral level as regards basic rules of fair-play and liberalization of host-country measures towards foreign investment flows.

INTRODUCTION

Perhaps the first concepts, which each student of economics is exposed to, are the factors of production. Traditionally classified as land, labor, entrepreneur and capital, they have come to be expanded generously with the advancement of science and technology. Nevertheless, defying these parameters, the modern industrialists have been able to work without land such as through the World Wide Web (or Internet as it is popularly known as), state-of-art machinery has made the need for labor obsolete in many areas and with the rise in self-employed and like, the need for entrepreneur skills may also not be that essential. However, what every project requires is finance. The need for capital goes unsaid in all undertakings and is indispensable. Thus we arrive at investment as an underlying pillar of trade. This relationship is sufficient to trespass trade as one merely confined within the national frontiers to take it across the corners of globe, as the WTO Working Group on Relationship between Trade and Investment has noted (WT/WGTI/W/7). Thus a need to arrive at an understanding on investment related aspects of trade within the framework of the rules of the multilateral trading system, with an aim to incorporate a decisive agreement on investment, was felt. Further, to secure a legally binding commitment from the host countries from the long-known fears of discriminatory treatment and expropriation, it was considered necessary to lay down rules of the games, ones which would ensure fair play in investment matters (UNTS1869, 1999) The outcome was an agreement on investment under the WTO or more popularly the Agreement[1] on Trade Related Investment Measures. (Koul, 2006) However, owing to lack of consensus on various contentious issues, the agreement remained an inadequate one with limited coverage of the state of affairs.

Thus the issue of investment haunts the World Trade Organization. An effective governance mechanism on investment issues dealing the practical realities of international trade and addressing the nuances of the complex issue is the need of the hour. In the present paper, provisions dealing with investment under WTO are analyzed and attempts have been made to address the various issues facing the organization in this regard. The aim is to highlight the anomalies in the existing system which may be worked upon in the course of future negotiations. The approach, therefore, is to begin by exposing the reader with the concepts that are of *prima facie* significance for the understanding of the issues dealt with in the paper. Thereafter we analyze the Agreement on Trade Related Investment Measures of the World Trade Organization, which is also the principal Agreement dealing with investment directly and exclusively. Other agreements of the WTO, having a nexus with investment are also referred to the extent they have a bearing on the issue at hand. A relationship is also sought to be drawn between the bilateral and multilateral investment treaties and their effect on investment, as should have been covered under the Agreement under the WTO

TRADE RELATED INVESTMENT MEASURES: AN INSIGHT

It is peculiar to note that while the entire multilateral system of international trade, i.e. trade under the aegis of the WTO, is meant to promote free and fair trade, nowhere the rules of the Organization define exactly what ‘trade’ is. Similarly ‘investment’ evades a definition. In such a situation one may wonder as to how exactly business is transacted at the WTO level in the absence of clear-cut definitions. As a panacea, the approach that has been adopted at the Organization to deal with such anomalies is by taking a notional/conceptual definition of certain principal terms such as trade, investment, etc. and to base further commitments upon such conceptual understanding. (WT/WGTI/W/108) In fact, this lack of exact definitions, has served the Organization well by having two advantages. First, lack of a formal/exhaustive definition keeps the ambit of the policy makers sufficiently large and they do not find their hands tied while dealing with such matters. Secondly, with open-ended definitions, there is scope for unforeseen situations to be brought within the periphery of the existing rules of the game. The entire Agreement on Trade Related Investment Measures, one of the multilateral agreements annexed to the agreement establishing the WTO, is based upon such an approach. The Agreement does not define issues which are considered as the touchstone for examining the Members’ commitments. For example, what is investment, what are trade related investment measures, etc. and such other minute details lack a definitional mention under the Agreement. Thus, to fill in this understanding gap, this part seeks to facilitate the reader in his comprehension of certain terms which evade a proper definition but may nevertheless be illustrative. Thus this part gives a conceptual understanding of certain terms, the underlying notions of which provides the key towards deciphering the issues facing the investment related affairs at the multilateral level.

(A) What are Trade Related Investment Measures?

Stated simply, Trade Related Investment Measures (TRIMs) are measures imposed by a government on a foreign investor as a condition for investing in the host country. (Kennedy, 2003) Thus TRIMs are government measures that require or encourage specific behavior by private foreign investors (Edwards & Lester, 1997). For example, a government may require an investor manufacturing goods in the host country to purchase a minimum percentage of inputs from domestic sources, known as a 'domestic content' requirement. Alternatively, the government may give the investor an incentive to purchase from domestic sources by granting a subsidy for such a purchase. Such measures are designed to alter the operating environment of foreign direct investors, and thereby encourage decisions that are beneficial to the host country.

The objective of the domestic content requirements and incentives described above is to promote domestic production to the disadvantage of foreign imported products. Such policies, therefore obviously, represent a departure from the free market paradigm that ideally governs investment decisions. In the absence of TRIMs, foreign direct investors rely on market signals to determine where and how to invest, procure inputs, and sell products. TRIMs, however, change the factors influencing these decisions. If an investor that would otherwise source its inputs from a more efficient foreign producer is forced to buy from a domestic company, its cost structure may be altered.

Thus we may conclude that (a) TRIMs are measure imposed by host governments, (b) such measures apply on trade transactions and have investment implications, (c) such measures affect commercial considerations of the investors/traders, and (d) the imposition of such measure is subjective to the policy of the host countries and may vary from country to country.

(B) Why TRIMs?: The Underlying Rationale

Various reasons have been advanced as to why countries impose such measures on investment. Primarily the rationale behind imposition of TRIMs lies in the belief that government intervention in the economy is required for the purposes of promoting domestic industry and/or simultaneously increasing national income levels. (World Bank) Thus the governments adopt an approach towards industrial promotion policy so as to allow them to (i) protect the infant industries (Krugman & Obstfeld, 1991) (ii) promote domestic economy, (iii) provide a level playing field, and (iv) shift the terms of trade in favour of, the domestic industry. Besides these domestic industry concerns, TRIMs may also be imposed in order to, (v) to achieve economic growth rates, (vi) to extract greater economic benefits from foreign investors investing in the country, by levying economic sanctions upon foreign flow of funds (Edwards & Lester, 1997), (vii) to combat the restrictive business practices employed by transnational corporations, (Moran & Pearson, 1988), (viii) to realize the desired gains expected by opening up of markets for foreign investors and, (ix) to screen the investments flowing in their country towards attainment of their policy objectives (Salacuse, 1985) etc.

Thus TRIMs are advocated by host countries to act as a mechanism to advance their trade policy. This argument is particularly prominence in the case of developing countries which require following up a sustained policy towards development of their domestic markets. Nevertheless it may be noted that the purpose for imposition of TRIMs must not be restricted to the ones stated above. There may be multifarious other motivations as well which prompt the host countries to impose TRIMS, the identification of all of which is beyond the scope of this paper.

(C) Types of TRIMS

Despite a growing multilateral concern about the increased use of TRIMs, there is no exact formula for identifying them[2]. This uncertainty exists in part because the term itself reflects a political judgment that a certain measure reduces economic welfare and should therefore be prohibited. Thus, countries with different policy objectives may disagree as to which measures should be classified as TRIMs. In addition, evaluating the effect of a measure on trade flows is essential to identifying it as a TRIM. However, it is difficult to isolate the effect of a particular measure, because the investment environment in many countries is defined by a variety of measures, only some of which actually affect trade flows (Edwards & Lester, 1997). For example, United Nations recognises four categories of TRIMs: performance requirements, investment incentives, corporate measures (restrictive business practices), and home-country measures. (U.N. Doc. ST/LTL/120) However there are two types of classification possible in case of TRIMs;

1) Classification of TRIMs on the basis of their dominant requirement

a) TRIMs related to performance (‘Performance Requirements’): These include those TRIMs which impose upon the foreign investor certain requirements to be performed. Thus ‘performance requirements’ are mandates that are imposed by a government on an investor, compelling the investor to take certain actions e.g. make certain purchasing, sales, or manufacturing decisions.

b) TRIMs imposing use of domestic inputs (‘Local Content Requirements’): Such TRIMs impose a necessary condition upon the foreign investor that while establishing his enterprise/during the course of the operation, a certain quantity/percentage of the domestically produced/available inputs are to be used/consumed for the purposes of production. Thus the investor may be divested of better/cheaper inputs, which may be available for import, and he has to be satisfied with the price and quality of the inputs that are available locally. These local content requirements were bone of contention between Canada and United States, which lead to the FIRA case decided by the GATT panel in 1984. (Canada – FIRA case)

c) TRIMs rendering operation contingent upon exports ('Export Performance Requirements'): Export performance requirements are conditions placed by host countries on foreign direct investment requiring that certain percentages of the products of the direct investment be exported. This in turn have the objective of earning foreign exchange for the host country. A similar situation persisted in a WTO dispute (India – Automobiles case) wherein the car manufacturers importing parts were required to proportionally export final manufactured cars.

d) TRIMs requiring an investor to manufacture a specific product ('Product Mandate Requirements'): Such measures may be imposed if a particular country wishes to specially/progressively develop a particular economic/industrial sector. Therefore it may be mandated that foreign investment is allowed only in select segments and only for production in identified industries (similar to the 'negative list' concept). Thus not only the local demands would be sufficiently met by the increased production in the sector, but also this would lead to exports of the surplus production in desired areas. The Chinese concept of Special Economic Zones (SEZs) since the mid 1970s can be cited as a typical example to this regard wherein special concessions have been granted upon investment in these SEZs.

e) TRIMs requiring local investors to hold a certain percentage ownership right in the foreign investment ('Local Equity Requirements'): The host country may impose upon the foreign investor the requirement that it shall be allowed to invest only when a particular percentage of the ownership rights are held by the local/citizens of the host country. This may be for the reasons of majority control or screening of management decisions or for other motives such as local entrepreneurship building etc. However, the impact of local equity requirement on the management decisions would depend upon various factors such as the percentage of ownership of the local investor, the ability of the local investor to pursue their cause amongst the dominance of the foreign investors etc.

There may be other TRIMs as well which a particular dominant requirement. However the above five types of TRIMs are the ones generally resorted to by the host countries.

2) Classification of TRIMs on the basis of their effect on investor.

a) TRIMs providing incentive for investment ('Promotive TRIMs'): Investment incentives are fiscal contributions intended to influence investment location decisions. Therefore governments employ such TRIMs to encourage multinational companies to locate manufacturing and other operations in their countries. Such measures include cash grants and other direct fiscal contributions by the government to the potential investor as well as tax holidays and other measures exempting the investor from otherwise applicable taxes. Further, they act as an incentive for flow of investment as these measures decrease the costs associated with Foreign Direct Investment (FDI) in a particular host country.

b) TRIMs regulating investment ('Regulative TRIMs'): Regulative TRIMs are those which have a negative incentive for investment by the foreign investor. Thus these investment measures have an effect of regulating investment. The illustrations to these types of TRIMs are local equity requirements, licensing requirements, profit remittance restrictions, foreign exchange restrictions, transfer-of-technology requirements, domestic sales requirements, trade-balancing requirements, local-content requirements, export requirements, import-substitution requirements, etc. These necessarily have the effect of regulating the activities of foreign investors operating in the host country and therefore are classified as regulatory or prohibitory, depending upon the level of restrictions imposed and compliances sought. The 'Import & Export Policy' of India for April 1988-March 1991 is a classic illustration of these types of TRIMs.

Thus it may be said that TRIMs are of various types[3] (UNCTAD/ITE/IIT26, 2001) and each may carry a distinct and subtle effect that so far as its choice is concerned, *there may be an interplay of various factors that lead to the choice of a TRIM while a host country decides to impose a TRIM*.

(D) Effect of TRIMs

Trade Related Investment Measures or TRIMs; the term itself entails a dominant feature of their effect. A TRIM necessarily has an effect on investment decision, which consequently has a trade distorting, or a trade-promoting effect. Thus a measure, which does not affect investment, cannot come within the periphery of TRIM. The effect of each TRIM varies according to its nuances and the field on which it applies. Nevertheless various aspects of affects caused by TRIMs may be enumerated as follows:

1. TRIMs affect investment decision of investors,
2. TRIMs may increase/decrease the efficiency of operations,
3. TRIMs carry a cascading effect on other aspects of trade,
4. TRIMs affect commercial considerations,
5. TRIMs distort market forces artificially,
6. TRIMs affect cost-benefit analysis, etc.

Thus one find that all TRIMs are bad in so far as they tend to distort the market forces of demand and supply from taking a complete hold of market and thus maximize trade[4]. However certain TRIMs may be justified on the touchstone of (i) promotion of under-developed sectors of economy, (ii) shield from unfair competition, (iii) need for a special and differential treatment of certain sectors etc.

A significant distinction that must be noted here is the differential impact of TRIMs vis-à-vis the type of investment. It primarily affects trade-motivated investment, the application of TRIMs upon the investor being contingent upon the factum of the foreign investment accentuating into operation in the host country. As a corollary, the effect on TRIMs on financial and other non-trade concern motivated investment is not of much significance.

To illustrate the above, let us take the example of a TRIM in the nature of local content requirement would require the foreign investor to procure the inputs from the host country in specified quantities. It is evident in this scenario that such TRIM would affect the trading pattern of the foreign investor. However it is also true that this TRIM would not serve as a determining factor for investment in secondary market where such a TRIM would cease to have any application.

This is true for most TRIMs and it being the case, any domestic or international rule based system governing TRIMs would not be able to serve purpose in case of financial investment, wherein domestically imposed TRIMs would not be of much avail. A practical analysis of NAFTA, MERCOUSER, and COMESA etc. would reveal the same. Therefore a significant shortcoming faced while dealing with TRIMs is their effect on a limited types of investment, the major one being trade investment

AGREEMENT ON TRADE RELATED INVESTMENT MEASURES

The multilateral rule based regime for international trade, as regulated for by the World Trade Organization, provides for an Agreement, which deals with trade related investment measures. The Agreement is presently the only Agreement under the WTO, which deals exclusively with investment measures. For an expedient understanding of the Agreement, this part has been divided into various sub-parts wherein each relates to and enhances our understanding of the Agreement.

(A) Genesis

Discussions on trade related investment measures might very well seem to have begun in the Uruguay Round of Trade Negotiations. (Stewart, 1995) Earlier similar measures of host countries were titled and treated as 'restrictive business practices'. They were dealt with under the International Trade Organization (or ITO) Charter[5] (or popularly the 'Havana Charter' of 1947) and an entire part was devoted to provide for these practices. (Part V Havana Charter, 1947) In 1955, the GATT Contracting Parties adopted a Resolution on International Investment for Economic Development, encouraging contracting parties to enter into bilateral agreements to protect foreign investments. (BISD 3S/49)

As a result, no specific guidelines were created to regulate investment measures as such under the GATT and TRIMs first came up as a distinct issue in 1981, in the context of GATT discussions on structural adjustment and trade policy wherein the Consultative Group (a committee set up to study the export potential of less-developed countries) had before it a study of TRIMs, undertaken jointly by the World Bank and the IMF, which had concluded that TRIMs produced trade-distorting economic effects. Then the Group reached no conclusions, but elected to keep the matter on the agenda for further discussion. (Stewart, 1995)

For the first time, the issue of whether TRIMs were allowed under the GATT was brought when the United States alleged that certain undertaking taken by Canada from foreign investors under its Foreign Investment Review Act of 1973 were violative of GATT and the matter was referred to a panel. (Canada – FIRA case) The GATT panel analyzed the permissibility of the purchase undertakings with respect to Article III:4 of the GATT (i.e. obligation on Contract Parties of 'National Treatment on Internal Taxation and Regulation' of imported products vis-à-vis domestically produced products) and concluded that "undertakings to purchase goods of Canadian origin without any qualification exclude the possibility of purchasing available imported products so that the latter are clearly treated less favourably than domestic products and that such requirements are therefore not consistent with Article III:4." However, the panel found that there was no provision in the General Agreement which prohibited requirements to sell goods in foreign markets in preference to the domestic market and thus declined to rule that export performance requirements were violative of GATT.

The FIRA controversy and subsequent Panel Report bringing TRIMs to the fore of GATT negotiations exposed the need for clarifying GATT's relationship with investment measures (Shenkin, 1994) relying upon which, the United States advocated (Civello, 1999) that TRIMs should be included within the scope of the proposed negotiations. The U.S. representative noted that "[t]he new round would be attempting to expand international discipline over investment measures which diverted trade and investment flows at the expense of other contracting parties, in contravention to every major objective of GATT … and at the expense of sustainable economic growth." (PREP.COM(89)SR/4) However the issue was contentious.

Many developing countries considered the proposed restrictions on the use of TRIMs as opposed to their developmental goals. In fact, India "reiterated that investment issues were not within the competence of GATT, and therefore that investment regimes could not be a subject for negotiations in the GATT, in the new round or elsewhere. Investment was not an appropriate issue to be raised in the proposed Ministerial Declaration." (PREP.COM(89)SR/4)

However the insistence of developed countries carried too much weight and in September 1986 the Punta del Este Declaration ratified the agenda on trade in goods, and provisions were set out for the inclusion of TRIMs in the negotiations. Thereupon the Negotiating Group on TRIMs was given a twin-fold mandate to (i) examine the operation of GATT Articles related to the trade-restrictive and trade-distorting effects of investment measures, and (ii) negotiate the elaboration of further provisions to avoid adverse effects on trade. (MIN(86)/6)

The negotiations were highly contested with the core theme revolving around two issues:

1) It was generally agreed that TRIMs to certain extent were covered under the existing GATT Articles like other issues such as intellectual property rights (IPRs), services, etc. Thus the scope of negotiations was to be (i) merely an examination as to how existing articles applied to TRIMs or (ii) whether that TRIMs discipline was to be substantially expanded as part of the Uruguay Round process. (MTN.GNG/NG12/4) The issue gained prominence as while the developing countries supported the former approach, the developed countries the latter.
2) The second issue related to the application of the proposed agreement on TRIMs i.e. (i) whether the targeted TRIMs should be prohibited outright, or (ii) be actionable on a case-by-case basis, taking into account the actual economic effects of the measure in question. The issue was substantive as while the first approach would have circumscribed the capacity of governments to employ investment measures per se (MTN.GNG/NG12/W/25) while the second approach would have merely prescribed a certain category of prohibited TRIMs which would have applied only in circumstances wherein its trade-distorting effect would have been shown.

The result of these Uruguay Round TRIMs negotiations was the Agreement on Trade Related Investment Measures (1868 U.N.T.S. 186) as one of the agreements annexed to the Agreement establishing the World Trade Organization wherein both the above issues were decided in favour of developing countries i.e. the Agreement neither expanded the scope of the existing GATT Articles nor prohibited TRIMS per se. In fact, the Agreement itself refers to the existing GATT

Articles and also only provides an illustrative list of TRIMs which shall not be applied by Members of the Organization.

(B) Appraisal of Provisions of the Agreement

The purpose of the TRIMs Agreement, as stated in the preamble, is “to elaborate . . . further provisions [beyond GATT] that may be necessary to avoid [the] adverse effects [of TRIMs] on trade” and “to promote the expansion and liberalization of world trade and to facilitate investment across international frontiers so as to increase the economic growth of all trading partners, particularly developing country Members, while ensuring free competition.” For an overview, it may be stated that the TRIMs Agreement contains several other provisions, many of which merely reaffirm GATT disciplines and reapply them to TRIMs such as, transparency requirements [Article 6], general exceptions [Article 3, 4], and dispute settlement procedures [Article 8] etc.

The Agreement prohibits WTO member countries from applying "any TRIM that is inconsistent with the provisions of Article III or Article XI of GATT 1994.” [Article 2]. Article 5 of the Agreement requires members to notify the Council for Trade in Goods of all TRIMs currently in use that do not conform to the Agreement. [Article 5.1] Further it is also provided that the prohibited TRIMs are required to be eliminated, wherein different time periods have been prescribed for the Members, based upon their level of development. The Agreement also establishes a Committee on Trade-Related Investment Measures, whose function is to monitor the implementations of the provisions of the Agreement and undertake such tasks as may be entrusted to it. [Article 7.1]

More particularly, an appraisal of the Agreement would reveal that it has three main features:

1) First, the Agreement *identifies certain types of investment measures that are inconsistent with GATT*. Article 2.1 mandates that “no Member shall apply any TRIM that is inconsistent with the provisions of Article III or Article XI of GATT 1994.” Thereupon Article 2.2 refers us to an illustrative list of TRIMs that are considered to be inconsistent with Articles III:4 and XI:1 of GATT 1994. However, an important qualification to be noted is that the TRIMs Annex provides that such measures shall only be covered if, (i) they are mandatory, (ii) enforceable under domestic law or under administrative rulings, or (iii) compliance with which is necessary to obtain an advantage. Thus measures, which are purely option, may not be covered. However, (iii) may be significant as may cover certain incentive TRIMs. For illustration, if a host country provides that a particular tax relief shall only be given if the foreign investors engage in the free distribution of goods to those living under under-nourished conditions; it may be challenged on the grounds of violation of Article 2 of the Agreement as the advantage (tax relief) is conferred only when

there is a compliance with a policy which applies only to foreign investors. However such disputes are yet been raised at the WTO platform.

2) Second, the *Agreement requires that all inconsistent TRIMs be notified and eliminated* in two years in the case of developed countries, five years in the case of developing countries, and seven years in the case of least-developed countries. [Article 5.2] A time extension is possible under Article 5.3 if a developing or least-developed country member "demonstrates particular difficulties in implementing the provisions of this Agreement." Further, in order not to disadvantage established enterprises that are subject to a TRIM relative to new investments that are exempt from it, under Article 5.5, members may apply the same TRIM to new investments during the transition period, where the existing and new investment produce 'Like Products'.

3) Third, the Agreement *provides for its own progressive liberalization* when it mandates the Council for Trade in Goods to review the operation of the TRIMs Agreement by the end of five years (i.e. 1999) of its operation. Therein the Council is to "consider whether the Agreement should be complemented with provisions on investment policy and competition policy." However a set back was incurred to this progressive liberalization clause when the Report submitted by the two Working Groups[6] established in the 1996 Singapore Ministerial Conference to examine the issues of (a) trade and foreign investment and (b) trade and competition policy was not considered with proper initiative. Further in the July Package (WT/L/579), in order to save the Doha Round of negotiations, the General Council of the WTO decided that "no work towards negotiations on any of these issues will take place within the WTO during the Doha Round." Therefore the aim of progressive liberalization of the Agreement on Trade Related Investment Measures has been given a temporary, *yet indefinite halt*.

(C) Salient Features of the Agreement

1) *The Agreement does not rest upon the nationality of the investor*. Thus measures applied by the host country irrespective of the nationality of the investor, if they violate Article III or XI of the GATT 1994, are prohibited under the Agreement. To put otherwise, a measure that applies equally to the domestic and foreign investors may nevertheless be violative of the Agreement.

For illustration, let us assume that a host country imposes a mandate that all producers (domestic or foreign) operating within its territory shall ensure fifty percent of inputs originate from the host country. Now in this case the measure equally applies to the foreign and the domestic producer. Nevertheless as the measure discriminates between domestic and imported input and is violative to the National Treatment obligation under Article III of GATT 1994, it is violative of Article 2 of TRIMs Agreement.

2) *No requirement to show injury*: The Agreement does not require the Member countries to prove/show a trade distorting effect being caused by the TRIMs or that an injury has been caused to investors of Member states owing to the said TRIMs. Once the TRIMs in question are found to be in violation of Article III and XI in principle, the Member imposing them is under the obligation to remove them even though they may not have a trade-distorting effect or may not have caused injury to the investors, which may have been a tedious exercise for the investors.

3) The Agreement extends the general mandate under the WTO of 'transparency' specifically. [Article 6] Thus the Members are obliged to perform all their activities and frame and administer their policies as regards investment measure, which have a bearing on trade, in a transparent manner, which has been interpreted to mean a non-arbitrary and trade-friendly manner.

4) The Agreement prohibits two types of significant and common measure per se: local content and trade balancing requirements, as illustrated under (a) and (b) of paragraph 1 of the "illustrative list" of prohibited TRIMs annexed to the Agreement[7].

5) The Agreement also grants a leeway to developing countries from temporarily deviating from Article 2 of the Agreement as far as Article 18 of the GATT 1994 i.e. for Balance of Payment reasons may permit them. [Article 4]

Further, this Agreement is hailed as the first direct provision upon issues related to investment under the multilateral trading regime whereas earlier there was no multilateral understanding exclusively on investment which entailed binding rules on Member nations.

(D) Shortfalls/Defects of the Agreement

While the Agreement adds minutely to the GATT jurisprudence by specifying certain TRIMs that are prohibited, it does so only in the context of existing GATT articles. Thus it is argued that the entire Agreement merely acts as an addendum to the existing provisions of the GATT. Further the Agreement is deficient on a number of other counts as well, which can be enumerated as follows;

1) The Agreement does not define what is 'investment'[8] and thus what amounts to a trade related measure is a contentious proposition even today. This also creates hassles in proving that a particular measure is an investment measure as no definite ingredients/tests are laid as to what may amount to an investment measure.

2) The Agreement does not prohibit all TRIMs outright. It merely states that certain TRIMs are prohibited if they are shown to be violative of Articles III and XI of the GATT. Thus a TRIM is required to be in violation of the two Articles to be declared as prohibited. Now, if a measure is violative of GATT Article III or XI, it is already subject to dispute settlement mechanism. Thus the role of the Agreement is one of merely re-specifying the existing commitments and not more.

3) The scope and coverage of the Agreement is very limited as the Agreement covers investment measures related to goods only. Thus its coverage is acutely limited as investment measures apply not only with respect to goods but also service, creation and transfer of intellectual property, etc. Thus the focus of the TRIM Agreement remains, therefore, only on trade in goods and not on the inducement or protection of foreign investment, which is the issue underlying the core of an investment agreement[9].

4) A further limitation is self-imposed when only two of the general principles under GATT 1994 i.e. National Treatment (Article III) and Quantitative Restrictions (Article XI) are extended by this Agreement. Thus if the alleged measures are not clearly brought within the periphery of these two principles, no matter how significant the trade distorting effect the TRIM may have, it shall not be covered atleast under the Agreement.

5) The Agreement only deals with certain categories of TRIMs that are prohibited[10]. It is silent as to the aspect of incentive TRIMs i.e. TRIMs, which are designed to act as an incentive for the foreign investment to invest and operate in the host country offering the TRIMs. Therefore, the Agreement being silent, there is no legal obligation upon the Member countries to offer incentives towards foreign investment and consequently, the Agreement does not advance the cause of the foreign investors.

6) The Agreement does not clarify as to whether the TRIMs covered under the Agreement are prohibited outright or that its actual trade-distorting effects are required to be shown to be brought within the coverage of the Agreement.

7) The Agreement permits the general exception under GATT 1994 to be extended to this Agreement. [Article 3] Thus the permitted deviations under the GATT continue be automatically permitted under this Agreement as well.

8) The Agreement contains no plan or procedural framework for moving toward investment liberalization and shies away from innovation or experimentation (Civello, 1999) except for directing the Council to examine the matters in future.

9) The TRIMs Agreement does not explicitly address performance requirements falling outside Articles III and XI of the GATT 1994, such as export requirements per se,

de-linked from imports. (Mosoti, 2003) Thus the Members may contravene their commitments by disguising their restrictions into other permitted forms.

10) The Agreement does not provide for a different procedure for settlement of disputes but subjects the disputes to the normal dispute settlement procedure under the WTO. As under the Dispute Settlement Understanding, only the Member States can raise disputes, the differences between the host country and an affected investor cannot be agitated at the WTO and thus the investors are without any remedy under the WTO unless their country decides to take the matter to WTO, which happens rarely owing to the reciprocal trade considerations as well as political linkages and pressures.

11) The TRIMs Agreement does not address key FDI issues, such as the right of establishment of business in foreign countries, repatriation of profits, technology transfer, compensation in cases of expropriation etc. (Kennedy, 2003)

12) By establishing uniform obligations for both developed and developing countries (including the Least Developed countries), the Agreement fails to take into account the structural inequalities and disparities in the level of development between Members. Thus despite the fact that the Agreement calls for Special and Differential treatment of the developing countries, it does not provide any mechanism to that regard (G/TRIMS/W/25, 2002)

Thus it is clear that the existing WTO Agreement on Investment presents more anomalies and lacunae than the solutions it presents to deal with the twin-fold problem of investment liberalization and protection. It is no doubt clear that the road ahead for an Agreement, which seeks to address the above and other problems, is not only tardy but also full of obstacles. It needs to clear a number of issues before it may truly be hailed as one for progressive liberalization of investment.

(E) Disputes Raised under the Agreement and Their Implications

The smaller the objective, the lesser is the achievement. The mandate of the Agreement on Trade Related Investment Measures and its practical implications cannot be described otherwise. As we have noted above as to the exact nature of commitments for the Members flowing from the Agreement, the results too have not been extraordinary. This observation is also strengthened by an analysis of the disputes raised upon the implementation of the Agreement.

Consequently, for a wider understanding, this sub-part seeks to discuss the disputes that have been raised under the Dispute Settlement Understanding of the WTO vis-à-vis the TRIMs Agreement. To this regard it is pointed out, on the cost of repetition, that the fact that the TRIMs Agreement refers to the GATT 1994 for its substantive commitments has also been the prime reason for its death knell. It shall also be seen that most Members have chosen to apply GATT 1994 and sought to allege violations of commitments therein rather than under the TRIMs Agreement. It is no doubt true that the TRIMs Agreement is more specific as regards investment. However, the ambit of GATT 1994 being wider, the majority of disputes to this regard have involved TRIMs Agreement as an ancillary ground only. This shall be evident from the discussion below as well.

(1) *European Communities – Bananas – III* (DS27): Perhaps the first dispute raised under the Dispute Settlement Understanding (DSU) of the WTO which related to investment (though in a ancillary manner) saw the European Communities' regime for importation, sale and distribution of bananas being alleged as inconsistent with GATT Articles I, II, III, X, XI and XIII as well as provisions of the Import Licensing Agreement, the Agreement on Agriculture, the TRIMs Agreement and the GATS. The fact situation in the case related to the preferential regime of importation and also levy of lesser tariffs upon importation of Bananas from ACP countries (African, Caribbean and Pacific), which was seen as discriminatory by other countries.

The Panel accepted the contentions of violation and declared the EC's banana import regime, and the licensing procedures for the importation of bananas in this regime as inconsistent with the GATT provisions. However, what was consequential was that the Panel did not give any specific importance to the provisions of the TRIMs Agreement while testing the validity of the regime for, 'what was inconsistent with GATT was also necessarily inconsistent with the TRIMs Agreement.' Therefore the TRIMs Agreement was sidelined to give way to GATT provisions, which would perhaps also seem to the obvious interpretations, given the historical setting of the Agreement and the obligations flowing therefrom.

(2) *Indonesia –Automobiles*: The Car Programme of Indonesia of 1993 and 1996 and also the conferment of 'Pioneer' status on manufacturers who were established in Indonesia and were using local inputs, for the purposes of exemption from customs duties and luxury taxes on imports of "national vehicles" and components thereof was alleged by the EC, Japan and the United States as violative of Indonesia's obligations under Articles I and III of GATT 1994, Article 2 of the TRIMs Agreement and Article 3 of the SCM Agreement.

Not following the approach adopted by the earlier Panel in the EC – Bananas III Case, the Panel in this case noted a number of significant facets of the TRIMs Agreement. Declaring that Indonesia was in violation of Articles I and II: 2 of GATT 1994, Article 2 of the TRIMs Agreement and Article 5(c) of the SCM Agreement, the Panel noted as follows:

- ♦ TRIMs Agreement, despite the fact that it refereed to Articles of GATT 1994, was a separate and autonomous Agreement, capable of *sui generis* enforcement.

- ♦ The TRIMs Agreement was not merely a sequel of the GATT 1994 but had its own substantive obligations such as that of notification and termination of inconsistent TRIMs etc.
- ♦ That the approach for determining whether a particular Member had violated its commitments, was first to test upon the touchstone of TRIMs Agreement, since it was more specific to the issues at hand i.e. investment measures.

Thus the Dispute Settlement Body, in categorical terms, established the importance and substantive nature of the Agreement, however only to dilute later, as we see hereon.

(3) *Canada —Automotives*: This case witnessed the allegations of the Canadian Car policy as being violative of, *inter alia*, Articles I:1, III:4 and XXIV of GATT 1994 and Article 2 of the TRIMs Agreement. In the instant case, Canada was implementing an automotive products agreement between the US and Canada wherein only a limited number of motor vehicle manufacturers were eligible to import vehicles into Canada duty free and to distribute the motor vehicles in Canada at the wholesale and retail distribution levels. The European Community and Japan challenged this as discriminatory, being unduly affected by the arrangement.

After two years of dispute settlement process, the decision no doubt went in the favour of the Complainants but what was consequential was the fact that the Panel in this case went obtuse and paid little heed to the observations in the Indonesia case as to the approach to be adopted for determining the validity of such investment measures. Merely observing that the TRIMs Agreement was not specific to the measures at hand, the Panel chose to test the validity first under the GATT 1994 provisions and thereon ruled that there was no need to test the validity under the TRIMs Agreement for, 'the measures suggested to rectify the inconsistency with the GATT 1994 provisions would automatically rectify the inconsistencies with the TRIMs Agreement, but not vice versa'. Therefore the Panel was quick to add over the Indonesia ruling that the GATT 1994 being a broader and comprehensive Agreement, the TRIMs Agreement could be given a secondary position. Perhaps this also reiterated the opinion in EC – Bananas III case.

Similar was the outcome in the cases of *India – Automobiles* wherein the various measures under the Export and Import Policy 1997 – 2002 of India and upon importation of certain automobile parts and components related thereto were challenged, and in the *Brazil –Automotives* wherein similarly certain automotive investment measures taken by the Brazilian government were challenged as violative of the TRIMs Agreement Article 2, GATT Articles I:1, III:4 and XI:1 and other provisions.

However, in both the above cases as well as the in other disputes, the Panels adopted the path laid down by the Canadian – Automobiles case. This not only withered away the importance of the TRIMs Agreement, as laid by the Indonesia Panel, but also defaced the commitments underlying therein as the Dispute Settlement Body has sought to test the validity of the Member's measures under the larger ambit of the GATT 1994, rather than under the 'specific Agreement' under the multilateral regime.

Nevertheless, be it independently or under the guise of the GATT 19994, the Dispute Settlement Body has tried to give full effect to the obligations under the Agreement wherein investment measures violative of national treatment or quantitative restrictions obligations have been sought to be removed from the trading regime. In any case, however, the disputes have been less and the though it has been declared that such investment measures distorting trade may no longer be validly imposed under the WTO regime, owing to the cumbersome dispute settlement process, the remedial actions have been delayed and in many cases not resorted to. Thus despite the categorical ban, such measures still seem to be imposed. Further, in the light of limited obligations, other similar trade distorting measures are continuously being applied legally. Therefore the future of investment liberalization under the present regime under the WTO is bleak and does not promise much.

OTHER PROVISIONS OF WTO DEALING WITH INVESTMENT

Besides the Agreement on Trade Related Investment Measures, there are other provisions under the different agreements concluded under the World Trade Organization which relate to investment. These are:

(A) GATT 1994

The prime agreement of all Agreements on trade in goods, the General Agreement of Tariffs and Trade (GATT) 1994 precedes the WTO in the sense that it is based upon the original GATT as in effect from 1947. Though originally the GATT (1947) was meant for providing a rule based regime for international trade in goods, with the passage of time and growing acknowledgement of the enlargement of rules, it was being increasingly referred to for the purposes of settlement of disputes on trade related matters. It was through this process of dispute settlement that a GATT panel had a chance to engage itself in declaring that though GATT did not contemplate investment measures within its fold yet, in so far as these investment measures came in conflict with the GATT rules, they would be declared as violative of the obligations of the Members (then 'Contracting Parties'). This happened in the Canada – FIRA case. This not only laid the foundation of bringing about trade related investment measures within the fold of the multilateral regime (despite not be specifically provided for as such) but also provided the background upon which future negotiations upon trade related investment measures would be based upon.

The Panel in FIRA case had noted that Article III (relating to National Treatment) clause 4 and Article XI (relating to Quantitative Restrictions) clause 1 of the GATT were the two requirements that all measures had to be in conformity with. Thus the Panel, while declaring 'local content requirements' and 'performance requirements' to be in contradiction with the said two Articles, laid that investment measures imposing such prohibited measures were impermissible under the GATT regime.

Thus we find that the General Agreement, which does not specifically refer to investment measures anywhere in the Agreement, became the basis for repelling trade related investment measures. As it has already been noted, despite the Agreement on Trade Related Investment Measure, it is still these two Article of GATT which occupy the field as regards trade related investment measures under the WTO are concerned. In fact it is even suggested that the Agreement on Trade Related Investment measures merely adds value to the GATT rules on trade related investment matters (Matsushita, 2003) and not more. Thus GATT rules primarily form the touchstone for testing the validity of trade related investment measures even today.

(B) General Agreement on Trade in Services (GATS)

Entailing the various means in which supply of services may take place, Article I:2 (c) of the GATS specifies four modes of supply wherein Mode three covers a supply of service "by a service supplier of one Member, through commercial presence in the territory of any other Member." Therefore, through this mode of service, the GATS covers certain aspects of the entry, establishment, and treatment of foreign investors who provide services in the host country by means of a commercial presence. For illustration, a Bank incorporated in India opening up a branch in China. Thus, the bank shall be eligible for and entitled to the Most-Favored-Nation treatment, market access, and national treatment under this services Agreement. Thus investment is indirectly covered under GATS as well.

As noted by the United States in a submission to the WTO Working Group on the Relationship Between Trade and Investment, investment under the commercial presence mode of supply can not only supplement open international trade, but it can also introduce or increase competition where open trade has not yet reached. (WT/WGTI/W/55)

However the coverage of investment under GATS is limited. This is for the reason that it extends only certain provisions with respect to investment while the rest have to be sought elsewhere. For illustration, GATS does not contain provisions on investment protection against expropriation. In such cases, therefore, the remedy has to be sought under other provisions and GATS *per se* would not be of any aid to the victim investor.

Besides the above, the GATS also provides room for the host countries to impose certain limitations. These are, restrictions on payments and transfers [Article XI para 1], restrictions on market access, including limitations on the total value of inward direct investment [Article XVI, para

2(f)], and the type of entity undertaking the direct investment. etc. Thus while GATS covers an aspect of investment liberalization, it is beset with other limitations of its own.

(C) Agreement on Subsidies and Countervailing Measures (SCM Agreement)

It has been opined that SCM Agreement "is relevant to foreign investment as a result of the relatively broad definition of the term 'subsidy' set forth in Article 1." (Mosoti, 2003) The SCM Agreement defines the concept of 'subsidy' and establishes disciplines on the provision of subsidies. Now, certain types of investment measure (such as fiscal incentives, financial incentives and indirect incentives, etc. advanced by a Member country to promote investment by its nationals aboard) may constitute subsidies as defined in the Agreement. This is for the reason that they may involve a financial contribution by a government or public body, and confer a benefit, which is sought to be prohibited under the SCM Agreement. Thus, it is argued that the "definition may cover certain incentives frequently used by countries to attract foreign investment. Such incentives could be contrary to provisions of the SCM Agreement on prohibited and/or actionable subsidies when linked, for example, to export performance or the use of domestic over imported products, or when they cause injury or serious prejudice to other WTO members." (Mosoti, 2003)

Further, owing to the generic nature of investment and its importance in all aspects of trade, be it goods, services or even intellectual property, it may be seen that the issues related to investment may be covered under other Agreements of the WTO depending upon the fact situation and the application of the provisions of the other Agreements.

BILATERAL AND MULTILATERAL INVESTMENT TREATIES AND THEIR RELATIONSHIP WITH WTO

As we have seen above, while the issues of investment measures vis-à-vis trade have been multidimensional and peculiar, their coverage under the Agreement on Trade Related Investment Measures or under GATT is not substantial so as to cover them fully. Owing to this lacuna, nations have entered into bilateral and multilateral commitments outside the WTO to protect the foreign investors against discriminatory treatment or to liberalize investment flows, as the case may be. The reason for resorting to such agreements as the bilateral and multilateral level is predominantly the advantage and leverage they offer to the Contracting parties. An analysis of their chief characteristics would reveal that such agreements are better suited to the peculiar needs of the nations, any other arrangement to the contrary.

(A) Bilateral Investment Treaties and Their Advantages

Bilateral Investment Treaties (BITs) are treaties signed between two nations wherein the conditions for flow and protection of foreign investments are stipulated. The fact that the agreement is between two nations, the approach is more customized and suited to meet the peculiarities of the Contracting Parties. The first BIT was entered into between the Federal Republic of Germany and Pakistan about five decades ago[11] and at present there are more than 2200 BITs in operation[12,13] The reason for the sharp rise of such BITs is primarily on account of the multifold advantages they offer to the Contracting Parties, which may be enumerated as;

- ♦ BITs are capable of being tailored to the specific circumstances of the parties involved and can address issues of specific concerns, such as development, political issues, etc.
- ♦ BITs can also be concluded more quickly than regional or multilateral agreements and also yield improvements in bilateral economic and political relations.
- ♦ BITs have a minimum impact on the ability of host countries to follow their own FDI policies in light of their unique needs and circumstances.
- ♦ Owing to the fact of suiting to their specific requirements and needs, BITs offer to the Contracting Parties the leverage to modify the terms without many hassles and without need for approval from others.

Thus one would note that BITs offer customized advantages to the Contracting Parties. Trends have also shown the more BITs have been concluded in the last decade than ever before. (UNCTAD/ITE/IIA/2) This clearly reveals the falling inclination of the nations to adopt a multilateral treaty on investment. They are better off with BITs.

(B) Multilateral Investment Treaties and Their Advantages

Similar to BITs, where there are two parties, Multilateral Investment Treaties or MITs are agreements between more than two nations, dealing with investment issues and rules. Though at present there are few multilateral treaties which directly deal with investment, nevertheless existing multilateral agreements on trade and related concerns deal with investment as a specific subject. Popular illustrations are North American Free Trade Agreement (NAFTA), Southern Cone Common Market (MERCOUSER), Common Markets for Eastern and Southern America (COMESA) etc. which also carry investment rules. This also illustrates that MITs are preferred to address regional concerns rather than bilateral ones.

Other advantages which multilateral rules on investment provide over those advanced by bilateral arrangements can be enumerated as:

- While the negotiation of a bilateral investment agreement, especially an agreement between a developing country and a developed country might be affected by the unbalanced political and economic power relations between the countries in question, this risk was reduced in multilateral negotiations.
- A multilateral approach could enable countries to take a progressive approach to liberalization with more nations agreeing on binding rules on investment.
- A multilateral agreement would also provide more scope for harmonizing rules and, since changes to the rules would need to be agreed by all parties, it would result in the greater predictability of rules.
- A multilateral agreement could resolve the problem of inconsistencies between bilateral investment agreements. Furthermore, a multilateral agreement on investment negotiated in WTO would ensure consistency of multilateral investment rules with GATS, the TRIMs Agreement and other WTO provisions.
- Multilateral rules would enshrine the principle of non-discrimination in international investment relations.

Thus one would note that MIT offers greater opportunity and advantage towards investment liberalization as the basic fact of multiple parties being involved, the scope of coverage is larger and also upon a reciprocal basis.

(C) OECD's MAI

Owing to the advantages enumerated above, there have been various attempts towards conclusion of a multilateral treaty exclusively on investment amongst the nations and developed nations in particular. This has been more so in lieu of the fact that the WTO Agreement on Trade Related Investment Measures is not a worthwhile one. One such consorted and significant attempt towards this regard was undertaken by the Organization for Economic Co-operation and Development (OECD) member countries wherein they attempted to arrive at a multilateral rule based regime on investment. A bird's eye view of the attempted multilateral treaty would reveal that it has been rightly hailed as the first true multilateral agreement on investment. However the failure of the members to arrive at a consensus is really woeful.

The 'Multilateral Agreement on Investment' (MAI) was proposed by OECD in mid 1990s, which focused directly on FDI, eschewing the indirection of the TRIMs Agreement and was an acknowledgement that the TRIMs Agreement has failed. (Civello, 1999) The MIA sought to provide MFN obligation [Article III:1.2] and a national treatment obligation [Article III:1.1] for investment while also providing for explicit prohibitions on performance requirements and regulations on investment incentives. The MAI also enumerated specific prohibited measures. [Article III] A special provision was made for investor protection. [Article IV] The Agreement had its own dispute settlement provision [Article V], exceptions and safeguards, [Article VI] Country-specific exceptions, [Article IX] provision on Taxation, [Article VIII] etc.

Thus one would find that the proposed Multilateral Agreement on Investment was meant to be a complete code in itself wherein the Agreement was to provide for a secure and fair regime for the flow and operation of foreign investment and therefore was a genuine attempt towards progressive liberalization of the investment agreement. Further, as the membership to the MAI was open to all the countries irrespective of the membership of OECD, the intent was to bring within its fold the major portion of foreign investment within the fold of the proposed Agreement.

However, owing to the inability of the parties to accede to MAI (on sovereignty concerns and otherwise), negotiations on it were abandoned with no positive outcome. (Fedorchuk, 2002) Nevertheless, the proposed negotiated text of MAI continues to serve as the background for negotiations upon an agreement on investment at the multilateral level. (Correa & Kumar, 2003)

(D) BITs Principles on Investment: Lessons to be Learnt

Having noted that BITs are the most preferred means for dealing with investment flows today, it would be in the overall interests of the multilateral trading regime to draw lessons from these BITs as far as rules for the proposed multilateral agreement on investment are to be decided upon.

1) ITs are designed to regulate investment flows between contracting parties. They also entail incentives for attract foreign investments by providing security to foreign investors, primarily in developing countries where fear of expropriation might otherwise deter investment. Thus the rules of a multilateral agreement need to be so designed that (a) cross-border investment flows are facilitated, (b) protection to investors in foreign countries is entailed, (c) effective and faster means of dispute settlement are provided, etc.
2) BITs envisage security and protected treatment for foreign investors in the host countries in several ways; (a) by regulating the conditions under which a valid expropriation can occur and setting a standard of compensation in the event of expropriation, (b) by providing detailed terms for capital repatriation, national treatment requirements for investors, and MFN requirements etc., (c) by establishing dispute settlement procedures that provide for international arbitration rather than local courts to resolve disputes and therefore the apprehensions of the national courts being naturally inclined towards their nationals being ruled out. (Salacuse & Sullivan, 2005) These features can be sought to be extended under the multilateral regime.

An insight into the provisions of BITs and MAI above clearly reveals the lacunae facing the WTO TRIMs Agreement. Such provisions are not only required to ensure a stable and transparent regime for investment but also add a different varied and significant dimension for progressive liberalization of investment flows by providing for investor protection, MFN obligations, provisions for compensation etc.

To elucidate further, a comparison of the Dispute Settlement procedure under the BITs and the existing WTO framework on investment exemplifies our understanding as to how the two differ widely. While dispute resolution under the WTO forum is exclusively sovereign and influenced heavily by diplomatic negotiation, dispute resolution within BITs provides for both sovereign negotiation also simultaneously allows private parties to directly challenge injurious sovereign conduct. Therefore it is often argued that "private rights should eventually be expanded within the GATT dispute settlement system", which shall be the "the logical next step towards synchronizing the international commercial system by protecting foreign investment in a comprehensive Multilateral Investment Treaty". (Shenkin, 1994)

Thus we find that the existing BITs and the failed MAI offer us avenues and show us the path for reform whereupon the negotiation exercise has to be directed upon if we finally decide to expand the coverage of the investment agreement under the WTO framework, which would be in the overall interests of one and all.

CONCLUSION

"While it may be true that the TRIMs Agreement will neither add nor detract from GATT provisions until review and a subsequent decision by the Council to amend or complement it, the Agreement has the potential to do more than confess its own shortcomings. Article 9 of the Agreement displays foresight similar to that displayed in GATS as to the movement toward protection of foreign investment … The question is when and to what extent will the TRIMs Agreement be amended and complemented by the WTO." (Quillin, 2003)

If one were to contemplate the situation which prevailed at the time the original GATT came into force in 1947, one could not have conceived, given the state of affairs and the imminent failure of ITO, that it would come such a long way so as to establish binding rules for international trade. Nevertheless, the economic realities and national interests demanded such a situation wherein the need to part with economic sovereignty was to be accepted in order to realize the gains from freer international trade.

Providing basic rules, GATT gradually evolved to transform itself into international rules governing the treatment of foreign companies. The GATT Panel decision in FIRA case perhaps could not have come at a better time then just prior to the Uruguay Round negotiations wherein it formed the base for a multilateral agreement on investment related issues. Today we may see the Agreement on Trade Related Investment Measures as a framework drastically short of substance but in a situation where none else was forthcoming; the Agreement symbolized great victory towards the direction of liberalizing foreign investment and providing foreign investors a protective framework, however insufficient it may have been.

Thus the present situation calls us not to look back but forward and instead of criticizing the insignificant application of the Agreement, must instead treat it as a platform for the reform process. Therefore, where originally the GATT rules imposed obligations on governments only in respect of foreign goods and were not concerned with issues such as the treatment of foreign persons, legal or natural, operating in their territories, etc. which form the heart of investment policy today, we need to mature and understand the advantages of offering a protection laded regime for the flow of foreign investment.

To take the case of India in particular, it was thought that with the opening up of borders and economic sectors the foreign players coming to operate in India would ensure plundering as during the East India Company regime but the reality speaks otherwise. Liberalization called on India Inc. to compete and through its sustained effort, its GDP has witnessed a growth rate of 7-8%, standing in a much better competitive position than others. Thus providing a protective and guarantee binding regime for foreign investors would, to the incorrect apprehension of the developing countries, not amount to invasion of their economic sectors but would instead lay the foundations of a competitive regime for their own investors to invest abroad, provided they are regulated well.

It is with this perspective that the negotiations upon investment related matter should re-start at the WTO platform. This presupposes that the success of the World Trade Organization also lies in providing a successful rule based regime for flow of foreign investment. However this must not occur unmindful of the fact that developing countries do require certain screening and approval mechanism for inflow of foreign investment so that they may mould the profit-motivated inflows into opportunities for growth. A secured regime, thus, would undoubtedly lead to greater flow of funds across the borders and each country being the best judge of its economic situations, the Members would be able to derive the maximum benefit out of these increased venues for growth and development.

Nevertheless the present stance of the Member do not indicate an agreement of such caliber in the near future atleast, with negotiations having stalled on even critical issues such as agriculture and services. The road to reform does not seem imminent.

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WT/WGTI/W/7: WTO document WT/WGTI/W/7, 18 September 1997.

ENDNOTES

1 See UN General Assembly Res. S-18/3 dated 1.5.1990 titled '*Declaration on International Economic Co-Operation, in particular the Revitalization of Economic Growth and development of Developing Countries*' and UN General Assembly Res. 3201 (S-VI) dated 1.5.1974 titled '*Declaration on the Establishment of a New International Economic Order*'.

2 Even the joint study conducted by the WTO and UNCTAD Secretariats could only come out with an 'inventory of definitions of trade-related investment measures and performance requirements' as used internationally to deal with TRIMs. The Report of Committee on Trade-Related Investment Measures on "*Trade-Related Investment Measures and other Performance Requirements*". G/C/W/307 dated 1st October 2001.

3 For an "Illustrative list of Host-Country Operational Measures", see the Report of the United Nations Conference on Trade and Development (UNCTAD) on "*Host Country Operational Measures. UNCTAD Series on issues in international investment agreements"*. (UNCTAD/ITE/IIT/26, 2001) pp. 8-9.

4 Carrying an exhaustive study over the multifarious impact of TRIMs on investment and otherwise, see the Report of the Council for Trade in Goods on Joint study of the WTO and UNCTAD Secretariats on *Trade-Related Investment Measures and other Performance Requirements* carrying "The impact of Trade-related Investment Measures and other Performance Requirements", G/C/W/307/Add.1, dated 8th February 2002, pp. 21-31.

5 Part V of the Havana Charter for an International Trade Organisation dealt with 'Restrictive Business Practices' (Articles 46 – 54). Article 46 to 54 dealt with the Restricted Business Practices as such. A consultation procedure was provided against such practices (Article 47) which was coupled with an investigation procedure (Article 48) and studies related to restrictive business practices (Article 49). The Charter also imposed certain obligation upon the Members (Article 50) and also stipulated a 'General Policy towards Restrictive Business Practices' (Article 46). There was a provision for co-operative remedial arrangement (Article 51) and also domestic measures against such practices (Article 52) while Article 54 provided for 'interpretation and definition'.

6 The substantive work performed by the Working Group for Trade and Investment includes (1) studying the relationship between trade and investment for development and economic growth; (2) studying the economic relationship between trade and investment; and (3) conducting a stocktaking and examining the implications of existing international instruments and activities regarding trade and investment. [WTO Working Group on the Relationship between Trade and Investment, Report (1997) to the General Council, WT/WGTI/1/Rev.1 (Dec. 9, 1997)]

7 The various measures prohibited under the Agreement, as covered under the Illustrative List are:

Para 1(a): Local Content Requirements
Para 1(b): Trade Balancing Requirements
Para 2 (a): Limits on importation by Quantitative Restrictions
Para 2 (b): Limits on importation by foreign exchange balancing requirements

8 It is argued that at least 'investment' should be defined in the Agreement if not investment related measures. To this regard an author has proposed certain characteristics of investment:

An investment has a certain duration;
An investment involves a certain regularity of profit and return;
An investment typically involves an element of risk for both sides;
An investment normally involves a substantial commitment or contribution;
An investment should be significant for the host state's development.
Calvin A. Hamilton & Paula I. Rochwerger, *Trade and Investment: Foreign Direct Investment through Bilateral and Multilateral Treaties*, 18 N.Y. Int'l L. Rev. 1 (2005) at p. 13.

9 It has been illustrated that the Agreement fails to cover various types of TRIMs such as:
nontrade-related TRIMs (they are covered in part by GATS);
other types of TRIMs except local content requirements and performance requirements (such as equity requirements or remittance restrictions);
Political risks, such as expropriation, nationalization, requisition;
Repatriation of profits

10 David R. Adair, *Investor's Rights: The Evolutionary Process of Investment Treaties*, 6 TULSA J. COMP. & INT'L L. 195 at p. 199 (1999). Also see Eric M. Burt, *Developing Countries and the Framework for Negotiations on Foreign Direct Investment in the World Trade Organization*, 12 AM. U. J. INT'L L. & POL'Y 1015 at p. 1038 (1997) who argues that the TRIMs Agreement does not require repatriation of capital.

11 To this regard a Joint proposal by India and Brazil to the Council for Trade in Goods (G/C/W/428, dated 9th October, 2002) and also to the Committee on Trade-Related Investment Measures (G/TRIMS/W/25, dated 9th October, 2002) calls for a change in the TRIMs rules whereby developing countries are allowed to use TRIMs in order to:
(i) promote domestic manufacturing capabilities in high value-added sectors or technology-intensive sectors;
(ii) stimulate the transfer or indigenous development of technology;
(iii) promote domestic competition and/or correct restrictive business practices;
(iv) promote purchases from disadvantaged regions in order to reduce regional disparities within their territories;
(V) stimulate environment-friendly methods or products and contribute to sustainable development;
(vi) increase export capacity in cases where structural current account deficits would cause or threaten to cause a major reduction in imports.
(vii) promote small and medium-sized enterprises as they contribute to employment generation.

12 November 25th, 1959. *Investment Treaties in the Western Hemisphere: A Compendium*, Available at <http://www.ftaa-alca.org/Wgroups/WGIN/English/bit_inte.asp> (Last Visited August 5th, 2006)

13 *Symposium on Transparency and Consistency in International Investment Law: Is There a Need for a ReviewMechanism?*,<http://www.cpii.columbia.edu/documents/Final_Symposium_Program_2006Apr04v2.pdf> (Last Visited, August 5th, 2006)

EFFECT OF MANIFEST NEEDS, RELIGIOSITY AND SELECTED DEMOGRAPHICS ON HARD WORKING: AN EMPIRICAL INVESTIGATION IN TURKEY

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ABSTRACT

The purpose of this study is to examine the influence of different facets of manifest needs (i.e. need for achievement, need for power and need for affiliation), religiosity and some demographic characteristics on hard working. Data were collected from a sample of 211 Turkish MBA and other business- related graduate students from 7 different universities in three cities: Istanbul, Kocaeli and Ankara. Results showed that there is a positive and significant correlation between hard working and the need for achievement (nAch) and also between hard working and religiosity. Any connection, however, between hard working and need for affiliation (nAff) or between hard working and need for power (nPow) could not be found. The research also displayed that nAch is a factor that has a positive impact on women but not men, and there is no significant correlation between age and all the other variables. In addition to this, it was found that single people have a significantly higher level of nAff compared with married people, and people born and living in rural regions have a significantly higher amount of religiosity than people from urban regions. The implications are discussed.

Key words: PWE, hard working, manifest needs, need for achievement (nAch), need for power (nPow), need for affiliation (nAff) and religiosity.

INTRODUCTION

Despite a great deal of interest in the topic of Protestant work ethic there is a lack of clarity in the organizational behavior literature on just how much a high level of hard working can be identified with a dimension of PWE. From a management point of view, PWE can be perceived as a cultural input into an organizational structure which can affect companies' values, norms and their effectiveness (Arslan, 2000). Individuals with a high work ethic tend to work very hard (Tang & Baumeister, 1984) and to seek to be as diligent as possible in all aspects of their careers: they will therefore be very productive workers (Weber, 1958). PWE adherents clearly regard hard work as meaningful, worthwhile and rewarding. Persons without a strong work ethic, on the other hand, will possibly be lazy, unethical and suffer from a weakness of character. At macro level, an absence of hard work brings social problems (Mudrack, 1999).

The evident importance of the work ethic inspired the researcher to investigate the question of whether some personal traits — McClelland's manifest needs (focuses on three categories of needs, viz "Achievement", "Power" and "Affliation"), religiosity and some demographic variables (e.g. gender, age, marital status, place of birth and residence) — are useful predictors of hard working. McClelland's theory of needs suggests that individuals may have varied levels of the above needs. This variation motivates them to pursue one goal instead of another. The major aim of this research is to find an answer to the question "What kind of people will have the stronger hard working orientation?".

In order to test the above question, three cities (Istanbul, Ankara and Kocaeli) were selected from one country-Turkey. Data were collected from a sample of MBA and other business-related graduate students from 7 different universities located in these three cities. Results showed that there is a positive and significant correlation between hard working and need for achievement (nAch) and also between hard working and religiosity.

The study is organized as follows: the next section reviews the relevant literature on PWE, hard working and manifest needs. The third section introduces the focus of this article, and formulates hypotheses. Tests of these hypotheses are described in the fourth section. After an explanation of the methodology, empirical findings are presented: the paper ends with a discussion of the research findings, its limitations and recommendations for future research and practical implications.

THE PROTESTANT WORK ETHIC (PWE)

Examination of the theoretical foundation of the work ethic construct makes it necessary to look at the translation of Weber's original work. The Protestant Work Ethic factor includes the characteristics of industriousness, individualism, asceticism, community involvement and an overall valuing of work as the most beneficial way to spend one's time (Weber, 1904-1905/1958).

PWE — also known as the "Puritan work ethic" or just "work ethic" — is based on the necessity for hard work, perfection and the virtue of labor. PWE is said to represent ''. . . the degree to which individuals place work at or near the center of their lives . . .'' (Mudrack, 1997, p. 217). PWE is commonly regarded as one's belief in the importance of hard work and frugality (Morrow, 1993) and "industriousness" (Wayne, 1989).

In Weber's original work Die Protestantische Ehtik und der Geist des Kapitalismus (The Protestant Ethic and the Spirit of Capitalism) (1904/05) Weber considered the following elements to be characteristic of the Protestant work ethic (PWE): work is a central, religiously legitimated fact of life; it is man's duty to work hard; a rational attitude to life and good time- management serve man's diligence; success is important; consumption and leisure should be treated with a degree of suspicion; caring for others and good citizenship are civic duties. According to Weber's definition, work ethic is a multidimensional construct. Some investigations have sought to determine the factor structure of PWE and typically found at least four factors (Furnham, 1990a, 1990b; McHoskey, 1994; Mudrack, 1997; Tang, 1993). For example, McHoskey identified these four factors: (a) Success; (b) Asceticism; (c) Hard Work; and (d) Anti-Leisure. Similarly, Mudrack classified these factors: (a) Hard Work; (b) Asceticism; (c) Negative Views; and (d) Anti-Leisure. Tang identified: (a) Hard Work; (b) Internal motive; (c) Asceticism; and (d) Attitudes towards leisure. Furnham (1990a, 1990b) identified five readily interpretable factors: (a) Respect for, admiration of and willingness to take part in hard work; (b) Disdain for leisure; (c) Religion and morality; (d) Independence from others; and (e) Asceticism and the danger of having too much time and money.

PWE is related to several individual different variables. One such variable is locus of control. Mirels and Garrett (1971) posited that belief in the PWE correlated significantly positively with measures of morality-conscious guilt, but negatively with external locus of control beliefs. Job satisfaction is a second variable that, in theory, should be related to the work ethic. Stone (1975, 1976) reported a positive relationship between job scope and job satisfaction, but not the PWE: nor did any of its subscales appear to moderate this relationship. Organizational citizenship behaviors (OCB) are other variables which should be related to PWE. Ryan (2002) analyzed the relationship between the PWE and organizational citizenship behaviors, using two separate survey data samples.

Furnham (1982) was one of the first researchers to take on a more carefully planned investigation into PWE beliefs and attitudes towards unemployment. He examined whether people who strongly endorsed the Protestant work ethic stressed negative individualistic explanations for unemployment and were more against welfare payments than those who did not strongly endorse PWE beliefs. According to him, a high PWE scorer is likely to explain poverty in terms of idleness and poor money management; wealth in terms of hard work, honesty and saving; unemployment in terms of laziness; and is likely to be opposed to both taxation and social security.

The PWE has been studied as both the cause and the consequence of behavior, with particular emphasis on its influence in the workplace, and some of the studies have examined PWE beliefs and various demographic factors. Many studies report that education is not correlated with the PWE (MacDonald, 1972; Aldag & Brief, 1975; Buchholz, 1977, 1978), while Tang & Tzeng (1988, 1992), Furnham (1982, 1987), Ma (1986) and Wentworth & Chell (1997) found that PWE is related to low education levels. Thus, education seemed to be negatively correlated with work ethic. Wollack et al. (1971) and Goodale (1973), however, decided that the educational level of subjects was positively correlated with a strong work ethic in that individuals with higher levels of education showed strong work ethic values. Several researchers found no proof of a gender impact on PWE (Goodale, 1973; Buchholz, 1978; Beit-Hallahmi, 1979; Gonsalves & Bernard, 1985; Wayne, 1989; Ma, 1986; MacDonald, 1972; Mirels & Garrett, 1971; Tang & Tzeng, 1988; Tang, 1989; Tang & Tzeng, 1992). Other researchers reported that work ethic varied by gender (Ali & Azim, 1995; Boatwright & Slate, 2000; Wentworth & Chell, 1997), with males demonstrating stronger work ethic values than females. Still other researchers stated that women were more committed to PWE than men were (Wollack et al., 1971; Allender, 1993; Baguma & Furnham, 1993; Furnham & Muhiudeen, 1984; Furnham & Rajamanickam, 1992; Hill, 1992, 1996, 1997; Petty & Hill, 1994; Boatwright & Slate, 2002). Rim (1977) discovered that men who scored high on the PWE scale were more intelligent, less extroverted and less neurotic than men scoring low on the PWE scale. Work ethic comparisons relative to age levels of participants also produced mixed results: Aldag & Brief (1975) and Goodale (1973) found that older individuals were committed to PWE, whereas MacDonald, 1972; Buchholz, 1977, 1978; Furnham, 1982, 1987b; Hill, 1992; Wayne, 1989 and Ma, 1986 found no significant correlations between age and PWE. On the other hand, Tang & Tzeng (1988, 1992); Wentworth & Chell (1997) Furnham & Rajamanickam (1992) showed that young people were more oriented toward PWE than older people. The results are mixed. That is, subjects in the early stage of their career score higher on the scales designed to measure tendency to work hard and delay gratification. Another study has also reported that single people tend to have stronger commitments to the PWE than other groups. One conceivable interpretation was that unmarried persons might be involved in more activities than the married (Tang & Tzeng, 1988).

HARD WORKING

Miller, Woehr and Hudspeth (2002) said that “hard working is a belief in the virtues of hard work”. According to them, an individual espousing a high work ethic would also place great value on hard work.

Although work ethic is most often viewed as a single construct, according to several researchers (Weber, 1958; Furnham, 1990a and 1990b; McHoskey, 1994; Miller, Woehr & Hudspeth, 2002) work ethic is actually a multidimensional construct. For example, Weber (1958) emphasized four dimensions comprising a secular work ethic construct: “belief in hard work”, “non-leisure”, “independence” and “asceticism; some other important aspects of work ethic were, however, absent. Furnham (1990b) identified five factors, which were: “belief in hard work,” “leisure,” “religious and moral beliefs,” “independence from others” and “asceticism.” McHoskey (1994) factor-analyzed Mirels and Garrett’s Protestant Ethic scale. His analysis named four factors: “success,” “asceticism,” “hard work” and “anti-leisure”. Perhaps the most comprehensive effort to reach a multidimensional construct of PWE was that of Miller, Woehr, and Hudspeth (2002). They constructed a new scale to measure work ethic. It was a multidimensional inventory, originated by Weber. Their instrument, “Multidimensional work ethic profile measure (MWEP)”, was composed of seven subscales: “self reliance”, “morality/ethics”, “leisure”, “hard work”, “centrality of work”, “wasted time” and “delay of gratification”.

In this paper the reason for taking one dimension (hard work) of PWE over a one-dimensional construct of PWE is that a shared multidimensional measure of work ethic can make comparisons in PWE research easier. Mudrack (1997) examined the dimensions of the PWE in connection with work-related variables. He was interested in understanding those relationships and whether only some dimensions of the PWE were linked to the work-related variables under investigation. The analyses were consistent with theoretical expectations and underscored the benefit of examining the dimensions of the PWE separately. The hard work constituent of the PWE was connected to multiple dimensions of time structure and purpose but none of them was connected to compound PWE scores. Mudrack (1997, p. 222) argues that "Such findings might have defied easy explanation in the absence of analyses involving PWE dimensions" (Hassal, 2005). This is the one of the most significant reasons for choosing only one dimension (hard work) of PWE. According to Becker, (1992) belief in hard work and non-leisure should be more strongly related to job performance and extra role behaviors than to independence and asceticism. Consequently a multidimensional measure of work ethic was selected; because a multidimensional work ethic measure may lead us to stronger connections than a single, overall score.

RELIGIOSITY

According to Ferm (1963, p.647), "Religion is explained as a set of behaviors or meanings which are connected to the action of a religious person". Social scientists have endeavored to develop acceptable explanations of religiosity and religious belief; an exact definition is, however, lacking (Barnett, Bass & Brown, 1996). Religiosity is commonly explained in connection with cognition (religious knowledge, religious beliefs), affect, which has to do with emotional attachment or emotional feelings about religion, and/or behavior, such as church affiliation and attendance, Bible reading, and praying (Cornwall et al., 1986). King and Crowther (2004) have said that psychology literature reports that religion can be measured and studied. This in itself should be encouraging to organizational researchers who are awakening to the significance of this construct.

Findings of the many researches about the effect of religiosity on work behavior have been varied. For instance, some studies indicate that religiosity has positive effects on work-related attitudes (McClelland, 1961; Simmons, 2005; Weaver & Agle, 2002), and some studies found no effect on work-related attitudes (Chusmir & Koberg, 1988; Ford & Richardson, 1994).

According to Sherkat and Ellison (1999), women are more religious than men correspondingly: education is a predictor of religiosity. Higher education tends to be associated with fewer traditional religious beliefs but it may encourage greater joining of religious organizations (Sherkat & Ellison, 1999). For Gaede (1977), as persons acquire higher education they become less religious. A great number of studies have pointed out that older individuals tend to be more religious than younger persons (Hout & Greeley, 1990; Sherkat & Ellison, 1999).

RELIGIOSITY AND MANIFEST NEEDS

There is some evidence clearly linking religious affiliations with various job attitudes, including motivation (Weber, 1958; McClelland, 1961). According to McClelland (1961) Protestant beliefs and values lead to a certain way of bringing up children, which then leads to those children possessing high levels of need for achievement.

Ray (1982), on the other hand, tested Protestant and Roman Catholic subjects and found no significant differences in the level of achievement or power motivation. He did, however, find major differences between Protestant believers and Protestant unbelievers, with unbelievers higher in nAch and Machiavellianism but lower in authoritarian tendencies (Chusmir & Koberg, 1988).

Chusmir and Koberg (1988) found positive and significant correlation between religious conviction and nAch but only for managerial employees. The negative correlation with nPow was found in both non-managerial employees and the total sample, and the negative correlation with nAff found for a non-managerial employee was not expected.

In terms of motivational needs, Furnham (1984) stated that those with no religious affiliation had higher need for power than Protestants, Roman Catholics or affiliates of Eastern religions.

Because previous researches generally support the links between degree of religious conviction and manifest needs, it was expected that:

H1: *There is a positive correlation between religiosity and need for achievement.*
H2: *There is a negative correlation between religiosity and need for power.*
H3: *There is a negative correlation between religiosity and need for affiliation.*

HARD WORKİNG AND RELIGIOSITY

Historically, religion was thought to have supplied effective shaping forces for a set of cultural beliefs and practices, i.e., the "Protestant Work Ethic", by many philosophers and theologians (Mirels & Garrett, 1971; Atieh, Brief & Vollrath, 1987; Mudrack & Mason, 1996). Weber (1930, 1958) mentioned that the Protestant ideas and beliefs, especially, Calvinism, encouraged being hardworking, productive, self-disciplined, economical, prudent and sober.

Mayer and Sharp (1962) support the PWE hypothesis. Results imply that belonging to a Protestant denomination encourages hard work and diligence. It makes members more likely to achieve success. It is observed that successful individuals have converted to high prestige Protestant sects after they have achieved success. A study by Merrens and Garrett (1975) reported that the high PWE group spent significantly more time working on the task and produced significantly more. It is deduced that the kind of work behavior studied is a constituent of the Protestant ethic personality variable.

MacDonald (1972) reported positive correlations between PWE scores and church attendance, locus of control, authoritarianism and attitudes to the poor. Ray (1982) also found a positive relationship between PWE and church attendance and religious belief.

Arslan and Chapman (2001) said that hard work brings success and that British managers had higher scores than Irish managers. Furthermore, their results also showed that British managers were slightly more work-oriented than Irish managers. They hypothesized that Irish managers were moving away from traditional values and adopting PWE values. The researchers also suggest that traditional collectivist and anti-industrial Irish attitudes are being transformed into a more individualistic and Protestant-type work ethic. They hypothesize that Roman Catholic social ethic and lay movements mean that the anti-work ethic character of the Roman Catholic Church in Ireland is disappearing. The results of their research suggest that the Weberian critique of Roman Catholicism is not valid in present Irish lay society. According to the research findings based on literature, practicing Roman Catholic Irish managers are becoming more work-oriented: in other words, they are adopting historical Protestant work ethic values.

Although the ideology of the PWE developed in the West, the virtues of industriousness and the ascetic life that condemns laxity and laziness (Weber, 1958) are also strong values in the Islamic culture and can be traced back to the Koran and the sayings and practice of the prophet Mohammed, who preached that hard work caused sins to be absolved (Abdalla, 1997). Ali (1987) constructed scales to measure the Islamic work ethic and individualism. Some of the characteristics of Islamic work ethic are that work is a compelling activity and a virtue from the standpoint of the needs of man and the necessity to establish balance in one's individual and social life. Work makes it possible for man to be self-reliant. Success and advancement in the job are supported by hard work and commitment to that job.

In Muslim Turkey, Arslan, Alpkan and Elçi (2003) demonstrated that religiosity is a factor that has a positive impact on the morality and hard working of men but not women. It was also found that married people have a significantly higher level of morality and hard working than single people. Any connection, however, between the marital status and the personal traits, e.g. external locus of control and religiosity, could not be found.

Arslan (2001) also researched the work ethic distinguishing the qualities of Protestant, Roman Catholic and Muslim managers in Britain, Ireland and Turkey. He revealed that there was a significant difference between Muslim and other groups in terms of PWE characteristics. The Muslim group exhibited the highest PWE degree, while the Protestant group was placed second and the Roman Catholic group third. The Protestant group showed a slightly higher of PWE degree than the Roman Catholic group.

Ali (1986) discovered that Arab managers scored higher than their American or Scandinavian counterparts on work ethic. From the Arab managers' psychological aspects and the cultural relativity of the work ethic, one might conclude that Ali's Arab managers were more productive than Western managers.

Early Jewish thinkers studied the nature and meaning of work, and the contribution of work to an organization and to the lives of its members (Snir & Harpaz, 2004). In a comparative study of Israel and Switzerland, Levy and Guttman (1985) discussed a significant positive correlation between the importance attached to a belief in God and the significance of hard working among the Swiss individuals but not among the Israelis. The Israeli population demonstrated similar characteristics in a previous investigation executed by Levy and Guttman (1981).

It can be concluded that work ethic is applicable across all religious affiliations (Cohen, 1985) and, as Pascarella (1984) contends, that all major religions have supported the importance of work. Previous researches lead one to expect that the degree of religiosity would have a behavioral demonstration concerning hard working:

H4: Religiosity has a positive effect on hard working orientation.

MANIFEST NEEDS

Need theories (e.g. Maslow's Hierarchy of Needs, Alderfer's ERG Theory, Herzberg's Two-Factor Theory and McClelland's Manifest Needs Theory) support the argument that people are motivated by their needs. David McClelland's Manifest Needs Theory assumes that behavior is driven by the desire to satisfy manifest (easily perceived or most current) needs. These needs assume that there is no hierarchy among the needs, needs are learned, they are not instinctive and needs are never completely satisfied. Murray's (1938) identification of such needs, including Achievement, Affiliation and Power, provided the theoretical basis for the later research of McClelland (1961). According to McClelland, needs are driven by one of these categories: need for achievement, need for power and need for affiliation.

McClelland (1961, 1962) explains that people with strong need for achievement tend to be characterized by acceptance of personal responsibility, being goal-oriented by setting moderate, realistic and attainable goals, seeking challenges and excellence, and they are also willing to do better jobs, accomplish tasks and work hard. For that reason, such individuals will attempt boost their achievements as much as possible by winning competitive situations in their desire to be superior to their peers and rivals.

Schultheiss and Brunstein (2001) and Pang and Schultheiss (2005) obtained some evidence that degrees of manifest needs, especially n- ach, are lower in older participants.

People with high power needs were characterized by their willingness to control and affect others. Such individuals are control and influence-oriented and have the tendency to seek leadership opportunities (McClelland, 1987). Need for power means having a relationship with managerial performance. They need power to win arguments, persuade others, to prevail, and to obtain positions where they can exert influence (McClelland & Steele, 1973). Ragins and Sundstrom (1989) studied why there are fewer women than men in powerful positions, explained as upper-level management positions. They discovered that a sense of duty and interest in others act to moderate the relationship between power motivation and behavior in business life. The nAff gender difference reflects social expectations.

McClelland's theory holds that people with strong affiliation needs will search for close relationships with others and the sense of belongings to groups, and they enjoy social activities. Individuals with a high need for affiliation tend to think often about the quality of their relationships (McClelland, 1987). Atkinson and Reitman (1956) implied that, generally, people with high affiliative needs were not concerned with task performances unless they were instrumental in building relations between individuals. Studies have shown that people with a moderate need for affiliation tend to be more effective and efficient managers and helpers than those with high and low affiliation (Lee, 1996). Previous research provides some evidence suggesting higher levels of affiliation motivation (Pang & Schultheiss, 2005; O'Connor, 2001), but not of power or achievement motivation, in women compared with men (Stewart & Chester, 1982; McAdams et al., 1988 and Schultheiss & Brunstein, 2001). This may be connected to the fact that they may look for achievement in roles which are related to their family and homes (Ragins & Sundstrom, 1989). Women seem to associate helping others with achievement while for men helping others frequently includes controlling and leading them (Jenkins, 1987).

HARD WORKING AND NEED FOR ACHIEVEMENT

The PWE has been used by many researchers to define motivation to achieve, which is about finding fulfilment in the performance itself and having 'the desire to work hard' (Spence & Helmreich, 1983): it is observed as a motivational characteristic of the individual which influences attitudes, values and behaviors (Mirels & Garrett, 1971; Furnham, 1984).

Beit-Hallahmi (1979) found that the PWE is not clearly related either to achievement motivation or to work attitudes. Furnham (1987a, 1987b) established empirical evidence that people who endorse the PWE tend to be those high in achievement motivation.

Cassidy and Lynn (1989) suggested that work ethic is one of the six basic factors of achievement motive found in the literature.

Miller, Woehr and Hudspeth (2002) also found that the mean correlation between the seven work ethic dimension scores is larger than the mean correlation of the work ethic scores with the manifest needs variables. In addition, the work ethic dimension scores were related significantly to need for achievement.

According to Chusmir and Koberg (1988) work ethic beliefs tend to be associated with self-reported achievement needs.

The theoretical rationale leads one to expect:

H5: Need for achievement has a positive effect on hard working orientation.

HARD WORKING AND NEED FOR POWER

Miller, Woehr and Hudspeth (2002) discovered that the hard working score is significantly positively related to the need for power. Chusmir and Koberg (1988) used both Protestant and non-Protestant work ethic scales in their work, and they found that the scales both correlated positively with nPow for the total sample (managerial employees and non-managerial employees). The Protestant work ethic scale also correlated positively with nPow for non-managerial employees. There was little or no correlation with nAff.

There is a common point between nPow and PWE. PWE believers are independently-minded, hardworking and highly individualistic, competitive than co-operative (Furnham, 1990). Individuals with high need for power are also competitive rather than co-operative. Hence, there should be a positive relation between PWE and nPow.

According to the above theoretical rationale, the following hypothesis can be constructed:

H6: Need for power has a positive effect on hard working orientation.

HARD WORKING AND NEED FOR AFFILIATION

Miller, Woehr and Hudspeth (2002) reported that the work ethic dimension score is significantly negatively related to the need for affiliation. Chusmir and Koberg (1988) used both Protestant and non-Protestant work ethic scales in their work. They found that there was little or no correlation with nAff and PWE.

The following hypothesis can therefore be formulated:

H7: Need for affiliation has a negative effect on hard working orientation.

METHODOLOGY

Sample and participants

In order to test the hypotheses about hard working, manifest needs and religiosity, survey data from a sample of students were gathered. The total sample of this study was 211 Turkish MBA and other business-related graduate students from 7 different universities in Istanbul, Kocaeli and Ankara. The questionnaires were completed during lectures, with the assistance of the researcher or the lecturer. It was a convenience sample and participation was entirely voluntary and anonymous. Since data were not collected by mail or web, all respondents fully completed the questionnaire. Refusal rates were zero, so it can be said that the probability of the respondents representing the non-respondents is very high.

The sample was 64.9%. The average respondent was 26.6 years old (std. dev. 3.9) and ages ranged from 21 to 45 years. 168 (80.1%) participants identified themselves as single, 42 (19.9%) as married. The average work experience in years was 1.5 (std. dev. 0.6). 55.5% of respondents were master/doctorate graduates and 44.5 % of them were graduates.

INSTRUMENT

Dependent variable

Hard Working

Participants completed the hard working scale which is one of the facets of the Multidimensional Work Ethic Profile (Miller et al., 2002). The MWEP is a 65-item inventory that measures seven conceptually and empirically distinct facets of the work ethic construct. Strong evidence for the validity of the MWEP was found across student, military and organizational samples. Responses to each item were made on a 5-point Likert scale (1=strongly disagree, 5=strongly agree). It should be noted that the entire hard work scale has 10 items and high scores on the subscales indicate a strong hard work factor. Test–retest reliability estimate for the hard work was 0.92 (Miller, Woehr & Hudspeth, 2002).

Individual variables

Manifest Needs

The manifest needs questionnaire (MNQ) (Steers & Braunstein, 1976) is a 15-item paper-and-pencil measure of three needs: achievement, affiliation and power. Each scale consists of five items which are measured by a 5-point Likert-type format. The scale score is the mean of its component item scores. Steers and Braunstein (1976) report coefficient alphas and 2-week test–retest correlations of 0.66 and 0.72 (achievement), 0.56 and 0.75 (affiliation),and 0.83 and 0.86 (power).

Religiosity

A six-item measurement of religiosity was developed by modifying and integrating that of Banett et al. (1996) and Alkhazjari and Gardner (1997) and using Alpkan and Elçi's (2007) unpublished working paper. Religiosity is analyzed in this paper using different measurements, such as self-perceived religiosity, the role of religiosity in decision- making at work, frequency of performing religious obligations, the importance of religion in a person's life (e.g. in drinking, eating, wearing particular clothing, etc.). Analyzing all these different factors helps create a picture of the degree of a person's religiosity reflecting the overall personal self-perception of the importance and the influence of religious beliefs and practices on one's daily decisions and activities, leading to an inner feeling of peace, relaxation and goodness. Factor analysis revealed that these items form a single construct with an internal consistency of 0.87. Higher scores indicate greater degrees of religiosity.

Demographic Variables

Demographic variables included gender, age, marital status, place of birth and residence.

FINDINGS

Measurement of the Validity of the Instrument and Factor Structure

Each scale was subjected separately to exploratory factor analysis. The factor structure was total items (25 items) of the five measures, in other words, hard working, nAch, nPow, nAff and religiosity, and each scale separately produced clearly interpretable dimensions.

Table 1 shows the items and factor loadings. Means and standard deviations for each variable were also calculated and a correlation matrix created of all variables used in hypothesis testing. Mean scores, standard deviations, reliabilities and correlations between all variables used in the analyses are shown in Table 2. The model is depicted in Fig. 1. The hypotheses were tested using correlations (Table 2) and regression analysis (Table 3).

Figure 1: Model of the Study's Hypothetical Relations

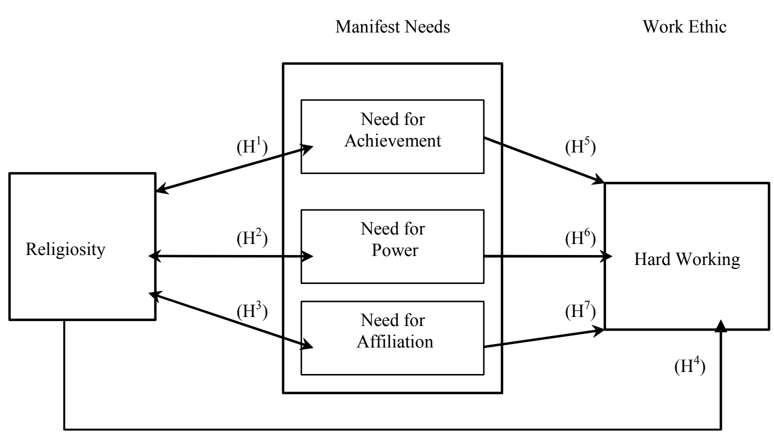

Table 1: Factor loadings for the items					
			Manifest needs		
	HW	Rel.	nAch	nPow	nAff
By working hard a person can overcome every obstacle that life presents	.821				
If one works hard enough, one is likely to make a good life for oneself	.746				
By working hard a person can overcome every obstacle that life presents	.742				
Working hard is the key to being successful	.741				
Hard work makes one a better person	.694				
By simply working hard enough, one can achieve one's goals.	.687				
Nothing is impossible if you work hard enough	.544				
How important is religion in your day to day activities?		.878			
To what extent do you practice your religion?		.841			
How much does religion give you feeling of power, relaxation (inner peace)?		.790			
How much your religious beliefs influence your decision at work?		788			
How important are your religious beliefs and practices for you?		.694			
How religious do you feel yourself?		.569			
I enjoy the satisfaction of completing a difficult task			.703		
I enjoy setting and achieving realistic goals			670		
I want to know how I am progressing as I complete tasks			.553		
I enjoy a difficult challenge			.482		
I often work to gain more control over the events around me				.792	
I enjoy influencing other people to get my way				.730	
I confront people who do things I disagree with				.687	
I enjoy being in charge				,534	
I tend to build close relationships with co-workers					.704
I want to be liked by others					.641
I enjoy working with others more than working alone					.633
I often find myself talking to those around me about nonwork matters					.602
Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization. A Rotation converged in 8 iterations. Total variance explained: % 60.06. The elements in questions are listed in appendix.					

Cronbach's alpha reliability test measures the internal consistency of a research instrument. The subscale reliabilities in the current study (Table 2) were as follows: Hard Working (0.85), Religiosity (0.87), nAch (0.61), nAff) (56) and nPow (0.70). The reliabilities are adequate. Even the low reliabilities 0.56 (nAff), 0.61 (nAch) are sufficient. (Nunnally, 1978) assumes that 0.50 to 0.60 are the lower bounds of reliabilities for an early stage of research).

Table 2: Means, Standard Deviations, Correlations and Scale Reliabilities for the variables used in the analysis.							
	Mean	SD	1	2	3	4	5
Hard Working	3.6376	.71491	.85a				
Nach	4.2883	.51571	.289(**)	.61 a			
Npow	3.7360	.70477	.116	.350(**)	.70 a		
Naff	3.7018	.62170	.141(*)	.310(**)	.222(**)	.56 a	
Religiosity	2.4738	.94168	.157(*)	-.62	-.172(*)	.044	.87 a
Age	26.6522	3.94806	.119	.035	.014	-.015	.046

** Significant at the 0.01 level,
* significant at the 0.05 level,
a = Cronbach's Alpha

The correlation matrix relevant to the data gathered from these respondents is located also below the diagonal in Table 2. As predicted, hard working was significantly associated with nAch (r=.28), nAff (r=.14) and religiosity (r=.15). In common with other research (Steers & Braunstein, 1976; Steers, 1977), nAch yielded significant and positive correlations with nPow (r=.35). The resulting significant and positive relations between nAch and nAff are not consistent with Chusmir and Koberg's (1988) work. They had found that nAch yielded a significant and negative correlation with nAff. Hypothesis 1 suggested that there is a positive correlation between religiosity and need for achievement and Hypothesis 3 stated that there is a negative correlation between religiosity and need for affiliation. Significant relationships were not found either between religiosity and need for achievement (r =-.06) or between religiosity and need for affiliation (r =.04). These results did not support H1 and H3. Also as predicted, nPow was significantly negatively associated with religiosity (r=-.17). Hypothesis 2 proposed that there is a negative correlation between religiosity and need for power. This result supported Hypothesis 2 (r =-.17). NPow was associated with nAff. Contrary to our prediction, age was not associated with any variables.

Table 3: Regressions of Manifest Needs and Religiosity on Hard Working			
The Dependent Variable: Hard Working			
Independent variables	Standardized Coefficients	t	Sig.
Nach	.274	3.741	.000
Npow	.035	.488	.626
Naff	.041	.576	.565
Religiosity	.153	2.265	.025

R^2 = .109; F = 6.209; p-value = .000

The major purpose of this study was to examine the influence of different manifest needs and religiosity on hard working. Table 3 presents regression results. The regression model was significant (F= 6,209; p=, 000). Hypothesis 4 posited that religiosity has a positive effect on hard working orientation. This hypothesis (H4) was supported in the study (p=.025). The hypothesized need for achievement has a positive effect on hard working orientation. This hypothesis (H5) was also supported (p=.00). Hypothesis 6 stated that need for power has a positive effect on hard working orientation. Hypothesis 7 proposed that need for affiliation has a negative effect on hard working orientation. The results did not support either H6 or H7.

Following investigation of the relationships between the variables, an attempt was made to find the differences in demographic factors that may affect these variables. A correlation and variance analysis was conducted to compare the means for each variable with regard to differences of age, gender, marital status, place of birth and residence. As can be seen in Table 2, there is no significant difference between age and all the other variables.

Table 4: t-test for Gender Groups' Statistics

Variables	Gender	N	Mean	SD	t-Value
Hard Working	female	73	4.3219	.43993	-0.707
	male	135	4.2759	.55084	
Nach	female	73	4.3219	.43993	0.614**
	male	135	4.2759	.55084	
Npow	female	73	3.7009	.79189	-0.562
	male	135	3.7586	.65658	
Naff	female	73	3.6735	.65965	-0.560
	male	135	3.7241	.59872	
Religiosity	female	73	2.4253	.93468	-.615
	male	135	2.5094	.94467	

*** Significant at the 0.01 level,
** Significant at the 0.05 level,
* significant at the 0.10 level.

It was preferred to t-test independent samples of items having only two possible answers, namely gender, marital status, place of residence and place of birth. As a result of the t-test for the gender groups' differences in level of nAch (see Table 4), it was seen that women's mean was significantly (at 0.05) higher than men's; as far as the other three variables were concerned, men-women differences were not significant.

Table 5: t-test for Marital Status Groups' Statistics

Variables	marital status	N	Mean	SD	T-Value
Hard Working	single	168	3.6031	.70028	-1.400
	married	42	3.7755	.76388	
Nach	single	167	4.2829	51158	-0.298
	married	42	4.3095	.53764	
Npow	single	167	3.7275	.68103	-0.346
	married	42	3.7698	.80032	
Naff	single	167	3.7360	.57906	1.595*
	married	42	3.5655	.76122	
Religiosity	single	167	2.4045	.94197	-2.139
	married	42	2.7492	.89940	

*** Significant at the 0.01 level,
** Significant at the 0.05 level,
* significant at the 0.10 level.

Table 5 shows that single people have a significantly (at 0.05) higher level of nAff compared with married people. Any connection, however, between marital status and the other variables, in other words, nAch, nPow, hard working and religiosity, cannot be found.

Results of the t-test for the place of residence and place of birth are summarized in Tables 6 and 7. According to Table 6, people living in rural regions have a significantly (at 0.10) higher amount of religiosity than people from urban regions.

Table 6: t-test for Place of Residence Groups' Statistics

Variables	Place of birth	N	Mean	SD	T-Value
Hard Working	urban	183	3.6352	.7332	0-.127
	rural	27	3.6540	.58738	
Nach	urban	182	4.2830	.52848	-.386
	rural	27	4.3241	.42638	
Npow	urban	182	3.7683	.71093	1.727
	rural	27	3.5185	.63141	

Table 6: t-test for Place of Residence Groups' Statistics					
Variables	Place of birth	N	Mean	SD	T-Value
Naff	urban	182	3.7001	.63258	-.100
	rural	27	3.7130	.55341	
Religiosity	urban	182	2.4196	.95639	-2.178*
	rural	27	2.8389	.75337	
*** Significant at the 0.01 level, ** Significant at the 0.05 level, * significant at the 0.10 level.					

According to Table 7, people born in rural regions have a significantly (at 0.05) higher amount of religiosity compared with those born in urban regions.

Table 7: t-test for Place of Birth Groups' Statistics					
Variables	Place of living	N	Mean	SD	T-Value
Hard Working	urban	197	3.6253	.72400	-.971
	rural	13	3.8242	.54758	
Nach	urban	196	4.2781	.51935	-1.113
	rural	13	4.4423	.44668	
Npow	urban	196	3.7173	.71124	-1.501
	rural	13	4.0192	.54449	
Naff	urban	196	3.7011	.61566	-.058
	rural	13	3.7115	.73489	
Religiosity	urban	197	2.4541	.95580	-1.222**
	rural	12	2.7958	.60845	
*** Significant at the 0.01 level, ** Significant at the 0.05 level, * significant at the 0.10 level.					

DISCUSSION

This study investigated whether manifest needs (i.e. achievement, power and affiliation needs), religiosity and some selected demographic characteristics were practical forecasters of hard working. When the responses of all the participants were considered, it could be seen that there was support for the hypothesis that need for achievement has a positive effect on hard working. This result is similar to previous research results (Miller, Woehr & Hudspeth, 2002). Furnham (1987a, 1987b) found empirical support that people who endorse the PWE tend to be those high in achievement motivation. The study also analyzed whether religiosity shapes moral values such as hard working. Evidence provided by this study suggests that religiosity is related to hard working but not all kinds of religious beliefs are necessarily tied to hard working. Findings of the research into gender difference show that nAch is a factor that has a positive and significant effect on women but not men. The gender difference, however, seems not to produce a difference concerning hard working, nAff, nPow and religiosity in the general data.

On the other hand, the analysis showed that compared with married people single people have a significantly higher level of nAff. One final important result is that people who both live and were born in rural regions have a significantly higher amount of religiosity than people from urban regions. No significant correlation between age and PWE (as shown in the findings of MacDonald, 1972; Buchholz, 1977, 1978; Furnham, 1982, 1987b; Hill, 1992; Wayne, 1989 and Ma, 1986) and the other variables was found.

Although this paper investigates in some detail the role of manifest needs, religiosity and some demographic variables on hard working, it has several limitations. Firstly, it is based on a university student sample. Evidence providing support for the relationship between hard working, manifest needs and religiosity in non-student samples is missing. Secondly, only one of the seven dimensions of PWE was investigated. The way is still open for researchers to examine the effects of manifest needs and religiosity on the other six dimensions of PWE. Thirdly, observation of the relationship between other types of need on PWE or on hard working would also seem desirable. Finally, from the regression results it is evident that need for achievement is an antecedent of hard working. A reverse relationship may exist, and this should be investigated in future research.

As for the further research implications, these findings and limitations may open new avenues for future research on the investigation of all the PWE dimensions and their links to religiosity and other related factors on a larger sample of respondents having different professions titles, and even religions.

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APPENDIX

Religiosity Measurement

How important is religion in your day to day activities?
To what extent do you practice your religion?
How much does religion give you feeling of power, relaxation (inner peace)?
How much your religious beliefs influence your decision at work?
How important are your religious beliefs and practices for you?
How religious do you feel yourself?

Hard Working

Nothing is impossible if you work hard enough.
Working hard is the key to being successful.
If one works hard enough, one is likely to make a good life for oneself.
Hard work makes one a better person.
By working hard a person can overcome every obstacle that life presents.

Any problem can be overcome with hard work.
If you work hard you will succeed.
Anyone who is able and willing to work hard has a good chance of succeeding.
A person should always do the best job possible.
By simply working hard enough, one can achieve one's goals.

Need for Achievement

I try very hard to improve on my past performance at work.
I enjoy a difficult challenge.
I want to know how I am progressing as I complete tasks.
I enjoy setting and achieving realistic goals.
I enjoy the satisfaction of completing a difficult task.

Need for Power

I enjoy competition and winning.
I enjoy being in charge.
I confront people who do things I disagree with.
I enjoy influencing other people to get my way.
I often work to gain more control over the events around me.

Need for Affiliation

I often find myself talking to those around me about nonwork matters.
I want to be liked by others.
I tend to build close relationships with co-workers.
I enjoy belonging to groups and organizations.
I enjoy working with others more than working alone.

NEGOTIATION CONCESSION PATTERNS: A MULTI-COUNTRY, MULTI-PERIOD STUDY

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ABSTRACT

Research has shown that managers spend a significant amount of time negotiating and that this trend will likely escalate in the future. Cross-cultural studies of negotiation tactics are needed as instances of international negotiations increase geometrically. This study analyzes the concession patterns of over 10,000 executives from 21 different nations over a 15 year period. Significant differences are found in the most and least preferred methods of concession. Implications for practicing managers are discussed in light of the results.

INTRODUCTION

There has been an increasing trend toward cooperative arrangements as companies engage in cross-product, cross-industry and/or cross-border alliances. There are many reasons for this phenomenon, but the two most prominent are: 1) technological advancements which have created a new division of thought with the power of combining the best minds in the world at the push of a button and 2) trade agreements have largely eliminated national boundaries making cooperation among people of varying nations of utmost importance. The first step in any cooperative arrangement involves negotiation of roles, expectations, time commitments, etc. Consequently, negotiation skills are crucial and becoming more so every day. This paper seeks to answer the question, are negotiation strategies and tactics similar in different nations?

The heart of negotiation is the concession process. This is the stage where individuals give up some things to ensure that they get what they really want. One of the goals of this paper is descriptive – to highlight differences in the way executives from 21 nations on six continents make one specific concession: price. More specifically, practitioners will gain knowledge of what to expect when negotiating with executives from these nations.

The rough hypothesis is that people from the same nation employ similar negotiation strategies. Alternatively, people from different nations employ different negotiation strategies. Data was collected from 10,424 executives attending negotiation seminars over a 15 year period (1985-1999). The results confirm the hypotheses that executives in different nations employ different negotiation strategies. There is little agreement among nations regarding the most preferred negotiation strategy. There is however much more agreement regarding the least preferred negotiation strategy. Asians appear to dislike one style much more than Westerners and consequently it should be avoided if possible. International negotiations will become increasingly more important in the future. This paper provides insights into strategies to employ and tactics to avoid given the nation of origin of the other person/company involved.

LITERATURE REVIEW

The Importance of Negotiation Skills

The rapidly changing nature of business has resulted in the emergence of new organizational forms to deal with the oft chaotic business landscape of today. These new organizational forms (international joint ventures, self-managed work teams, virtual groups, etc.) have created unprecedented pressure on managers to be effective communicators (Roy & Dugal, 1998; Brett, Northcraft, & Pinkley, 1999; Byrne, Brandt, & Port, 1993; Kanter, 1991). More specifically, some researchers boldly claim that the process of negotiation is essential for managers (Butler, 1999, Mintzberg, 1973). Bazerman and Neale (1992) argued that organizational negotiations are becoming not only more frequent but also more complex and crucial to corporate survival. Conditions driving these trends include: (1) an increased foreign presence in the nation with the world's largest economy, the USA; (2) the many dramatic changes within Europe, ranging from the reunification of Germany to the introduction of the Euro; (3) Japan's dependence on exports for survival; (4) the rapid development of what were called Asia's *tiger nations* before the economic turmoil of 1997; (5) more internationally focused MBA degrees offered by universities in many nations; (6) increased seeking of the so-called *best deal* anywhere in the world because of shorter planning horizons at many companies and the accompanying emphasis on short-term profits; and (7) more multinational alliances in the fast-growing high-technology industrial sector as a result of the difficulty of one firm controlling critical elements of production (Hendon and Hendon, 1989). Possibly the most important reason is based on a unique effect of information technology (IT). IT is obliterating the isolation that used to hurt small nations and companies. The economic success of such smaller nations as Ireland, Malta, Iceland, Estonia, Singapore, the Netherlands, Botswana, and others in the late 1990s results from the same kind of innovation in business and social organizations that, in an information age, gives small corporations the edges over larger ones. Smaller nations and entrepreneurs often can more easily adjust to shocks and take advantage of new opportunities than can larger nations and larger companies. (Lynch, 1999; Zachary, 1999)

A continuation of these trends means that more and more negotiating will be done between executives from different ethnic groups, cultures and nationalities. Cross-national, cross-cultural, and cross-ethnic negotiations will become even more common throughout the world. Americans may be at a disadvantage here. They are very ethnocentric and somewhat naïve about what happens outside the boundaries of United States. For example, a 1999 Harris Poll reported that the average

American believes 52 percent of the world speaks English., whereas actually only about 20 percent of the world's population speaks that language. Most American over the age of 24 do not meet or interact daily with a non-English speaker (*USA Today,* 1999).

Mintzberg (1973) identified negotiation as one of the primary decision making managerial roles. Negotiation has been defined as a process by which two or more parties decide what each will give and take in an exchange (Rubin & Brown, 1975). Negotiation occurs at, and across, all levels and types of organizations. Negotiations may involve a formal process or informal and subtle cues. It is estimated that managers spend as much as 20% of their time in negotiations (Baron, 1989). This information would appear to support Mintzberg's claim that negotiating is a fundamental skill that must be acquired by any individual seeking to occupy a position of responsibility.

Despite the frequency of negotiation as a practical form of interaction, managers pay little attention to the growing body of research and analysis on how the process of negotiation drives outcomes (Spector, 2000). On one hand, this is to be expected as the literature has yet to offer definitive approaches to negotiation that will produce favorable outcomes. On the other hand, the pervasiveness and importance of negotiation skills warrants a serious look at the literature. Druckman (1993) provides a comprehensive review of the research findings directly applicable in practices. Among the more commonly accepted findings are: deadlines produces large concessions, informality enhances cooperation, reciprocity is key (concessions beget concessions and stonewalling begets stonewalling), disaggregating package deals and fractioning issues facilitates agreement, and public negotiations tend to harden positions.

Consistent with these findings, research shows that negotiators that use cooperative strategies (such as information sharing) and build relationships achieve higher joint gains (Olekalns & Smith, 2000). One of the most well accepted truths in negotiation is that sharing information increases the likelihood and the quality of negotiated agreements (Murninghan, Babcock, Thompson, & Pillutla, 1999). Numerous researchers have found that negotiators who frequently use competitive strategies engender a feeling of mistrust and fail to optimize outcomes.

Most of this research has been done with a distinct Western bias. In other words, these "truths" of negotiating may not be truths in another context. Few if any businesses are not affected by international dimensions today. The once formidable boundaries of space and time have been overcome creating a global village. That being the case, managers will be under ever increasing pressures to increase their awareness of and ability to interact in cross cultural and international negotiations.

Cross-cultural Differences in Negotiation

Certainly in today's business environment, managers must be able to negotiate successfully with buyers, sellers, suppliers, etc. from other cultures. Unfortunately some evidence suggest that cultural differences may stand in the way of negotiator communication. Recent research indicates that the lack of appreciation of cultural differences may mean that cross cultural negotiations are less successful than either party perceived (Brett & Okumura, 1998).

Culture has been defined as accepted beliefs, behavior patterns, values, and norms of a collection of individuals identifiable by their rules, concepts, and assumptions (Salacuse, 1991). Janosik (1987) describes the various research traditions for understanding cultural influences on negotiations. The most frequently employed tradition is the culture as a shared value approach. This suggest that a unique negotiating style is the result of underlying shared values such as individualism-collectivism (Hofstede, 1980). Tactics may differ because of historical perspectives, individualism versus collectivism, sense of time, and/or power distance. For example, the recent United States/China conflict concerning the downed U.S. spy plane has led to negotiations and a discussion of the differences in negotiation tactics. Former United States Secretary of State Henry Kissinger sums it up:

> *"Americans think in terms of concrete solutions to specific problems. The Chinese think in terms of process that has no culmination. Americans believe that international disputes result from either misunderstandings or ill will; the remedy for the former is persuasion, for the latter, defeat or destruction of the evildoer. The Chinese approach is impersonal, patient and aloof... To Americans, Chinese leaders seem polite but aloof and condescending. To the Chinese, Americans appear erratic and somewhat frivolous."* (Kissinger, 2001, p.37.).

Brett and Okumura (1998) find similar differences between U.S. and Japanese executives. U.S. negotiators were significantly more individualistic and egalitarian than their Japanese counterparts. And, the resultant negotiations yielded significantly less joint gains than intracultural negotiations.

Cultural differences may lead to different information sharing perspectives. Researchers have found that U.S. negotiators tend to communicate more directly, and disclose information as a negotiating strategy to gain information. In contrast, Japanese are more likely to communicate indirectly. As a result information may be misinterpreted or lost. Another potential outcome is that negotiations may be terminated prematurely or the focus of negotiations may be too narrow.

Negotiation skills are becoming more crucial daily. Inter-cultural negotiations are perceived as more difficult and at the same time they are growing geometrically. Our research pursues two goals. First, we examine how country of origin affects choice of concession strategy in intercultural negotiations. Second, we provide advice to practicing managers on the use of this information both as a concession tool and to develop future negotiation strategies.

METHODOLOGY

Focusing on price concession tactics, seven methods of conceding $100 to the other person (TOP) were presented to 10,424 executives from 21 nations on six Continents. Respondents were from the U.S., Canada, the U.K., Australia, New Zealand, South Africa, Kenya, Thailand, Hong Kong, Taiwan, Singapore, Malaysia, Indonesia, India, the Philippines, Papua New Guinea, Mexico, Peru, Chile, Uruguay, and Brazil. In a series of exercises, they delineated their favorite and least-favorite concession patterns.

The heart of negotiation is the way that both sides make concessions to get what they really want. The first purpose of this paper is to highlight the differential preferences that business executives from 21 nations have concerning price concessions. Karrass (1994), among others, stresses the importance of price concession behavior. Our hope is that negotiating practitioners and scholars will gain knowledge of what to expect when negotiating with executives in these 21 nations. The second purpose is to test the hypothesis that people from different nations negotiate differently. In other words, choice of concession strategy is a function of national origin.

Whereas such popular scalar devices as those of Kipnis and Schmidt (1982), Frazier and Summers (1984) and Anglemar and stern (1978) have been used to measure negotiating/influence tactics in organizational behavior, marketing, and international marketing respectively, the present study's methodology is quite different. The sample of executives was obtained in a seminar setting over a 15-year period, 1985-1999. The sample attended seminars and talks about negotiations in their own nations. Table 1 shows the total sample size in each nation, along with how many men, women, buyers, and sellers were in each group.

Table 1: Sample in 21 Nations, by Sex and by Buyers vs. Sellers

Nation	Total	Men	Women	Sellers	Buyers
U.S.A	2,044	1,519	525	1,098	946
Canada	233	138	95	143	90
U.K.	101	53	48	57	44
Australia	860	732	128	439	421
N. Zealand	182	119	63	105	77
S. Africa	87	71	16	57	30
Kenya	80	76	4	54	26
Thailand	404	278	126	212	192
H. Kong	928	528	400	592	336
Taiwan	979	703	276	589	390
Singapore	651	337	314	364	287
Malaysia	426	325	101	222	204
Indonesia	735	593	142	458	277
India	211	184	27	123	88
Philippines	1,316	1,028	288	772	544

Table 1: Sample in 21 Nations, by Sex and by Buyers vs. Sellers					
Nation	Total	Men	Women	Sellers	Buyers
PNG	92	84	8	64	28
Mexico	360	271	89	214	146
Peru	293	199	94	166	127
Chile	196	112	84	103	93
Uruguay	132	94	38	80	52
Brazil	114	93	21	64	50
Total	10,424	7,537	2,887	5,976	4,448

The majority of participants were men (72.3 percent). The largest percentage of men was in Kenya, while the sexes were almost equally represented in Singapore. The exercise involved asking participants to play one of two roles- that of a seller or that of a buyer (if a participant's job was in sales or in purchasing, s/he was instructed to continue in the role expected of him or her on the job. If their job did not involve either selling or buying, the participants chose the role they wanted to play). More than half (57.3 percent) were sellers and/or decided to be sellers for the purpose of the exercise.

Table 2 displays the sample of 21 nations into five geographical categories: (1) *Most of North America*: U.S. and Canada; (2) *Mostly British Commonwealth*: U.K, Australia, New Zealand, South Africa, and Kenya. (3) *More developed nations of southeast Asia, and India:* Thailand, Hong Kong, Taiwan, Singapore, Malaysia, Indonesia, and India. (4) *Less developed nations of south east Asia:* Philippines and Papua New Guinea (PNG). and (5) *Latin America:* Mexico, Peru, Chile, Uruguay, and Brazil. This is, of course, an arbitrary breakdown by regions. Some may argue with the manner in which nations were combined but our central purpose was to group according to homogeneous cultural dimensions.

Table 2: Sample in Five Regions of the world, by Sex and by Buyers vs. Sellers					
Region	Total	Men	Women	Sellers	Buyers
North America	2,277	1,657	620	1,241	1,036
Brit. Common.	1,310	1,051	259	712	598
Adv. Asia	4,334	2,948	1,386	2,560	1,774
Phil,-PNG	1,408	1,112	296	836	572
Latin America	1,095	769	326	627	468
Total	10,424	7,537	2,887	5,976	4,448

This paper is based entirely on the role-playing exercise done exactly the same way in each seminar. Participant instructions included the following:

> "Let us assume your boss has told you that you can give away $100 during your next negotiation session. The other person (TOP) does not know how much you have to give away, or even if you have anything at all to give away. And you do not want TOP to know. We shall assume that the negotiation session begins tomorrow morning at 10:00, and it will last one hour only. It will be over at 11:00. We will also assume that during that hour, you will have four opportunities to give away *all* of the $100, *part* of the $100, or *none* of the $100. Let s assume that these four opportunities occur 15 minutes apart. One at 10:15, the second one at 10:30, the third one at 10:45, and the last one at 11:00. You *must* give away the entire $100 by 11:00-you *cannot* give away *less* than $100."

Participants were instructed to act as they normally would on the job. They were then shown seven different ways of conceding $100 and instructed to choose their most and least preferred methods of concession.

Table 3: Transparency shown to Participants
Which one of these 7 ways of giving away $100 worth of concessions do you like the best? Dislike the most?

Pattern	10:15	10:30	10:45	11:00
1	$25	$25	$25	$25
2	50	50	0	0
3	0	0	0	100
4	100	0	0	0
5	10	20	30	40
6	40	30	20	10
7	50	30	25	-5 (take 5 back)

RESULTS

The results are presented in tables 4, 5, and 6. The results in Table 4 show the most favored concession patterns by geographical region. Conversely, the results in Table 5 show the concession patterns most disliked by region. An examination of the tables indicates that very few participants picked patterns 1 and 2. In an effort to be efficient, we will only discuss the patterns that are most significant. Therefore, the analysis of *most liked* concession patterns focuses on pattern 3, 5 and 6, while the analysis of *most disliked* concession patterns focuses on patterns 4 and 7.

Table 4: Concession Patterns: Most Favored by Five Regions (%)							
Region	1	2	3	4	5	6	7
Total	2.7	1.5	7.9	3.6	34.3	37.7	5.0
North America	2.0	0.4	37.5	5.3	30.4	19.2	8.6
Brit. Common.	1.3	0.6	6.5	3.6	28.5	57.7	1.7
Adv. Asia	4.0	1.9	8.3	3.0	37.2	41.8	3.8
Phil,-PNG	1.6	3.2	9.1	2.6	44.6	34.4	4.7
Latin America	1.9	0.7	14.9	3.3	31.7	40.4	7.1

Table 5: Concession Patterns Most Disliked by 5 Regions (%)							
Region	1	2	3	4	5	6	7
Total	3.4	0.8	5.8	50.3	6.1	6.1	27.4
North America	3.8	0.5	2.9	58.7	7.1	2.	25.1
Brit. Common.	1.8	0.5	4.3	64.6	8.3	2.8	17.7
Adv. Asia.	3.6	0.7	7.4	43.1	5.5	7.4	32.3
Phil.-PNG	3.1	1.1	7.7	45.9	3.8	12.9	25.6
Latin America	4.0	1.6	5.4	50.0	7.2	5.0	26.7

Most Liked Concession Patterns

North America seemed to prefer pattern 3 the most and, to a lesser extent, pattern 5. The latter was also the favorite of the two least advanced Asian nations, Philippines and PNG. Pattern 6 was the favorite of the British Commonwealth nations, Latin America, and the advanced Asian nations. However, a closer examination of the last group indicates that they liked pattern 6 the most (41.8 percent), but their second favorite was pattern 5 (37.2). The difference of 4.6 percentage points was not significant.

Most disliked concession patterns:

There was much more agreement among the five regions here than there was for the favorite patterns. Pattern 4 was overwhelmingly disliked (choice 1 in each region), while pattern 7 was also heavily disliked (choice 2 in each region). It is useful to look at Table 9 for more insight into what the choices mean. Pattern 4 was more disliked than pattern 7 in all five regions; however, an examination of the percentage point differences between the two patterns in each region tells us more. In ascending order, they are: (1) Advanced Asia 10.8 (2) Philippines-PNG 20.3 (3) Latin America 23.3. (4) North America 33.6.and (5) British Commonwealth 46.9. This smaller difference between patterns 4 and 7 in the advanced Asian nations indicates their dislike of pattern 7 is almost as much as their dislike of pattern 4. While the British Commonwealth and North America also dislike pattern 7 less than pattern 4, the much greater difference in percentage here shows that they do not attach as much importance to pattern 7 as they do to pattern 4. The authors feel that the reason Philippines-PNG's 20.3 is so distant from Advanced Asia's 10.8 is the greater Western influence on these two nations- the Philippines was a Spanish colony for 300 years and an American colony for 50 years, and PNG has a very strong Australian influence.

What all this seems to indicate is that Asian's dislike pattern 7 much more than Westerners dislike it. Westerners sometimes use it, even if they do not really like to use it very often; but Asians very seldom use it. Notice that pattern 7 was picked as the favorite tactic only 3.8 percent of the time in the advanced Asian nations, while North America picked it as their favorite tactic 8.6 percent of the time. Discussions with seminar participants, on the other hand, indicate western executives do not attach much importance to losing face. Western negotiators need to learn how negatively Asians perceive the use of Pattern 7. The authors advise that westerners seldom (or, better yet, never) use it when negotiating with Asians.

Table 6 shows the results of the Chi-square test of significance used to make all possible comparisons.

Table 6: Results of Comparisons by Region Significance of differences of percentages

Comparison	Pattern 3 (favorite)	Pattern 5 (favorite)	Pattern 6 (favorite)	Pattern 4 (dis-like)	Pattern 7 (dis-like)
N. America vs. British Common	37.5 vs. 6.5*	30.4 vs. 28.5	19.2 vs. 57.7*	58.7 vs. 64.6*	25.1 vs. 17.7*
N. America vs. Adv. Asia	37.5 vs. 8.3*	30.4 vs. 37.2*	19.2 vs. 41.8*	58.7 vs. 43.1*	25.1 vs. 32.3*
N. America vs. Philippines-PNG	37.5 vs. 9.1*	30.4 vs. 44.6*	19.2 vs. 34.4*	58.7 vs. 45.9*	25.1 vs. 25.6
N. America vs. Latin America	37.5 vs. 14.9*	30.4 vs. 31.7	19.2 vs. 31.7*	58.7 vs. 50.0*	25.1 vs. 26.7
British Common vs. Adv. Asia	6.5 vs. 8.3	28.5 vs. 37.2*	57.7 vs. 41.8*	64.6 vs. 43.1*	17.7 vs. 32.3*
British Common vs. Philippines-PNG	6.5 vs. 9.1	28.5 vs. 44.6*	57.7 vs. 34.4*	64.6 vs. 45.9*	17.7 vs. 25.6*
British Common vs. Latin America	6.5 vs. 14.9*	28.5 vs. 31.7	57.7 vs. 31.7*	64.6 vs. 50.0*	17.7 vs. 26.7*

Table 6: Results of Comparisons by Region Significance of differences of percentages					
Comparison	Pattern 3 (favorite)	Pattern 5 (favorite)	Pattern 6 (favorite)	Pattern 4 (dis-like)	Pattern 7 (dis-like)
Adv. Asia vs. Philippines-PNG	8.3 vs. 9.1	37.2 vs. 44.6*	41.8 vs. 34.4*	43.1 vs. 45.9	32.3 vs. 25.6*
Adv. Asia vs. Latin America	8.3 vs. 14.9*	37.2 vs. 31.7	41.8 vs. 31.7*	43.1 vs. 50.0*	32.3 vs. 26.7*
Philippines-PNG vs. Latin America	9.1 vs. 14.9*	44.6 vs. 31.7*	34.4 vs. 31.7	45.9 vs. 50.0	25.1 vs. 26.7
* indicates significance at alpha = .05					

Of the 50 possible comparisons, 38 differences were significant at the alpha = .05 level. The analysis indicates the following: First, the British Commonwealth, Philippines-PNG group, and the advanced nations of Asia pick pattern 3 roughly as often (7 to 9%). Second, North America, the British Commonwealth, and Latin Americans pick number 5 as their favorite pattern about the same amount (29-32%). Third, when picking pattern 6 as their *favorite* , Philippines-PNG picks it about as much as Latin America does. Fourth, when picking pattern 4 as their most *disliked*, Philippines-PNG picks it about as much as the advanced Asian nations and Latin America do. Fifth, when picking pattern 7 as their most *disliked,* North America picks it about as much as Philippines-PNG and Latin America do; and Philippines-PNG picks it about as much as Latin America does. The rest of the differences among regions *are significant,* and so the regions table has very different like and dislike patterns for all possible combinations except those just mentioned.

It is safe to conclude that all five regions are quite different in the way they make price concessions. Looking again at Tables 4, 5, and 6, negotiators should be aware of three findings:

- ♦ The favorite pattern of North America is 3, and none of the other four regions picked this as their favorite.
- ♦ The favorite pattern of the British Commonwealth, advanced Asian nations, and Latin America is 6. It was not the favorite of North America or of Philippines-PNG.
- ♦ The favorite pattern of the Philippines-PNG is 5, and none of the other four regions picked this as their favorite.

MANAGERIAL IMPLICATIONS

Each pattern has a meaning that may not be apparent to the inexperienced practitioners of negotiating. Here is the underlying meaning of each of the seven patterns:

Pattern One—Stable: This is a consistent pattern of giving away $25 each time an opportunity presents itself. When negotiator A chooses this pattern, negotiator B can very easily detect A's predictability-if B is keeping score. The authors do not recommend this pattern because it is too predictable. Experienced negotiators usually keep score of the concession made by TOP and by themselves. An experienced counterpart will likely think "Every time I raise an issue, I get another $25 from that person. It is in my interest to prolong the negotiation as long as I can because I will get more and more concessions. This is almost like playing a broken slot machine in Las Vegas- I get a payoff every time."

Pattern Two—Honest: This pattern reflects a negotiators great generosity in the first half, so much so that s/he has no more concessions to give in the second half of the session. This pattern is some what similar to Pattern four, the extreme expressions of generosity. It is used very seldom in any nation. Pattern Two will be discussed in more detail in conjunction with Pattern Four.

Pattern Three—Tough: Some experts have called this the *hard-nosed* negotiating style, in which one concedes totally and begrudgingly at the very end, only after everything else one has tried has failed to work. It is the favorite pattern in North America. Nevertheless, this pattern is not recommended, because it is too tough on TOP. Concessions should be made from time to time, to get some momentum going in the negotiation. No concession indicates a deadlock.

Pattern Four-Too Honest: This is the polar opposite of pattern 3. Several authors have called it the *naïve* negotiating style, in that negotiators lay all their cards on the table in the beginning and then make no more concessions because there is no more to give. In other words, negotiators here reveal their bottom line at the very beginning. This style should be adopted only when both sides are long-time negotiating partners and have achieved over the years an extremely high level of mutual trust. Here, the parties do not waste their time playing games with each other- they get down to serious business immediately. This pattern will work only if TOP also reveals his/her bottom line at the beginning. However, if this does not occur, the negotiator who revealed his/her bottom line first has made himself/herself too vulnerable. In theory, this is the best negotiating pattern to use because of reciprocity. If negotiator A is open and honest, negotiator B will usually be open and honest, too. If A uses unfair negotiating tactics, B usually will reciprocate. However, who will make the first move? The first person who reveals the bottom line is very vulnerable, and negotiators may not wish to be that vulnerable. This is why pattern Two is useful substitute for pattern Four at times-one is being honest and up-front early in the negotiating process, but one has not revealed the bottom line yet.

Pattern Five-Escalation: This is an escalating pattern, and it is not recommended because it tends to make TOP greedy. If TOP is keeping score, they will stall and not reach an agreement because they feel they will get more and more as time goes on. It is their interest to prolong the negotiations for as long as possible, just as in pattern one. It is interesting to note that pattern 5 was the favorite of the two less advanced Asian nations (Philippines and PNG), and it was the second favorite pattern in each of the other four patterns. Therefore, in spite of its limitations, it is used quite often in many nations. One should watch for it and take advantage of it when it occurs.

Pattern Six-De-escalation: This is the polar opposite of pattern five. It is a de-escalating pattern, with generosity at first, tapering off to very few concessions later. One is telling TOP that *the well is getting drier and drier.* Again, if negotiator B is an experienced negotiator, s/he will detect this pattern and try to get the most from negotiator A early in the negotiation process. This pattern was the one liked best in the British Commonwealth, advanced Asian nations, and Latin America.

Pattern Seven-Re-negotiation: This is similar to Pattern six, in that it is de-escalating for the first three time periods, again making it easy for negotiator B's score-keepers to discover negotiator A's tendency. However, at the very end, A takes back $5 worth of concessions, to stay within the $100 given to him/her by his/her boss. A can use this pattern to indicate that *the well is very, very dry now*—that is, A gave away far too much earlier, expecting that B would respond commensurately. But B did not. So, to keep from getting in trouble with the boss, A has to regain the $5 previously given away. Pattern seven is more effectively executed if A shows some pain and disappointment at failing to gain the concessions one had expected from B. Again, this pattern should not be used very much with Asians, if at all.

CONCLUSIONS AND DIRECTIONS FOR FUTURE RESEARCH

What, is the best way to make concessions? Here are 12 of the more important guidelines/recommendations which have resulted from discussions with participants.

First, negotiators should give themselves enough room to make price concessions, by starting off with a high figure if they are selling, or by starting off with a low offer if they are buying.

Second, negotiator A should try to get negotiator B to open up at first while A keeps his/her objectives, needs, and demands hidden as long as possible. If this event occurs, A gains a longer-lasting advantage. Knowledge is power-the more one knows about oneself, TOP and the situation, the more powerful one is; and vice-versa. A should try to obtain knowledge about B and keep knowledge about A from B, especially if A is not in a *win-win* situation and does not want to move toward that ideal situation. Examples of adversarial negotiation situations include dealing with the

IRS, or dealing with a hostile attorney. These are zero-sum games, and a *win-win* situation is usually not possible.

Third, it is better not to be the first one to concede on a *major* issue; however, it is usually productive to be the first one to concede on a *minor* issue.

Fourth, negotiators should make concessions that are not very important to them. At the same time, they should use their acting ability to make TOP think these concessions are very valuable to the negotiators.

Fifth, negotiator A should make negotiator B work hard for every concession that A makes, so B will appreciate each one even more.

Sixth, the use of trade-off's is recommended. In other words, negotiators should always get something in return for each concession made. The author defines *concession as anything that raises TOP's expectations.* In other words, if negotiator A says, "I will think about it," A actually is making a concession. A should not even tell B "I will think about it" without getting a concession from B in return for even deciding to think about it. Recommendation: A should say instead, "What will you give me if I even decide to consider it in the first place?

Seventh, when negotiators concede, it is probably best to concede slowly, a little at a time, with long time intervals between concessions. However, there are a few times when rapid and substantial concession- making is appropriate, as when a deadline is approaching.

Eighth, if negotiators have deadlines, they should never let TOP know what their deadlines are; and if they have a deadline, they should make certain it is flexible enough so that the negotiator can change it. Most price concessions are made just before the deadline, and so if negotiator B learns negotiator A's deadline, B may stall the negotiating process until just before A's deadline.

Ninth, negotiators should say *no* from time to time. They should not be afraid to say *no,* and so if negotiator A says *no* often enough, negotiator B will believe A. Negotiators need to be consistent here, though. On the other hand, most people cannot take *no* for an answer very well, and so a negotiator who says *no* may lose momentum early in the negotiations; therefore, one must time this negative response precisely so as not to turn TOP away completely.

Tenth, unless one is negotiating *with* Asians (or *is* Asian), one should not be too overly concerned about taking back concessions if one has not yet signed to contract. Negotiators should remember the advantages of pattern seven. Negotiator A must be careful about using this pattern, however, even with non-Asians, since taking back concessions could give negotiator B the impression that A is not dependable. A good negotiator must choose the right situation in which to use this pattern; for example, it may be appropriate to do so when TOP reneges on a promise.

Eleventh, negotiators should keep a record of their own concessions, as well as those made by the TOP, to see if there are discernible patterns. By identifying patterns, negotiators can respond to TOP's future moves more appropriately.

Twelfth, good negotiators should continually keep TOP's expectations low by not giving in too often, too soon, or too much.

The aforementioned discussion provides 12 general guidelines for negotiators. The results provide some specific reasons for using a contingency approach to negotiation. The cultural nuances of our 5 geographical areas provide significant differences which practicing managers should consider. Ethnocentricity could kill a negotiation process before it begins. This paper has provided readers with information to help develop concession strategies and anticipate the others strategy based on country of national origin.

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