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A Message from the Publisher

The current issue of the newsletter focuses on the European Union (EU), looking at the turmoil that has surrounded the Greek debt crisis, as well as an invited article on negotiating with the EU by contributor Mona Pearl. This issue of the newsletter also inaugurates a new short feature, "OF NOTE", which briefly talks about a hot button international issue.

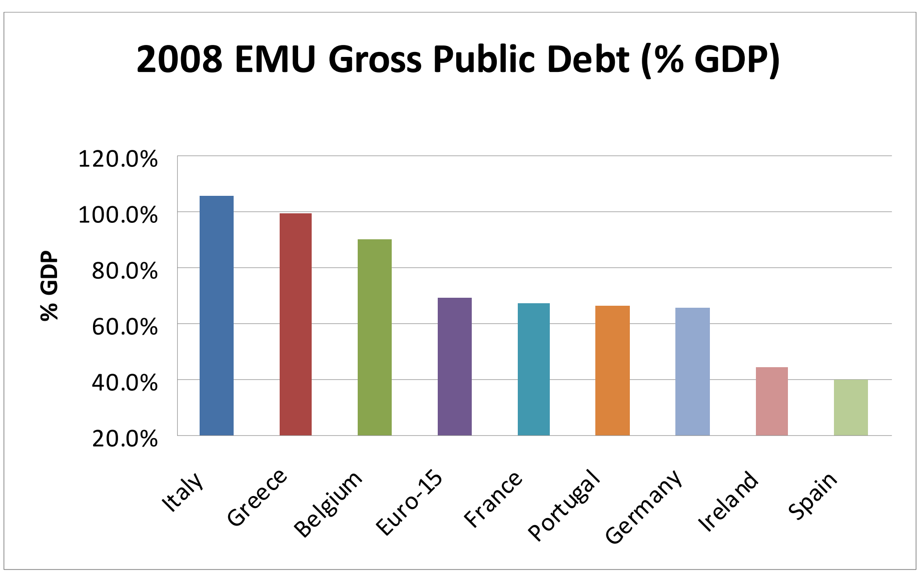
Happy Spring!

Mike Nall, Founder

OF NOTE:

Tensions between the United States and China over the Chinese exchange rate policy are on the rise. Economists estimate that the Chinese yuan, which is de facto pegged to the US dollar—it has traded at CNY6.8/USD since July 2008--is undervalued by 25-40%. The US and China's main trading partners consider that this undervaluation and the refusal of the Chinese authorities to allow the currency to appreciate are giving China a significant and unfair competitive advantage. Nevertheless, in a recent speech to the Chinese legislature, Prime Minister Wen reiterated the "stable exchange rate" policy. In response, the US Congress is demanding tough retaliatory measures and President Obama has reiterated the need for a level playing field in trade. The Treasury, in its semi-annual report to Congress (due in mid-April), could act by declaring China a "currency manipulator", something it has been loath to do in the past. This action would automatically trigger punitive tariffs on imports from China and could lead to a trade war. So stay tuned!

Graph of the Month



Editor's Macroeconomic Color: The Greek Crisis and the Euro

The Greek sovereign debt crisis has been the first test for the eleven-year old Economic and Monetary Union (EMU), and so far it is clear that the EMU was not prepared for a severe crisis, and its grade is at best a C-. The financial crisis has been contained and a European solution is being cobbled together, but the turmoil has raised serious structural questions about the EMU and the euro. Before we address these questions, we should address a number of fundamental issues that have been raised in the markets. First, should Greece leave the euro, and if so, is there a mechanism in the EMU Treaty for such a possibility? Second, what are the disciplinary mechanisms within the EMU? Finally, what are the flaws in the EMU that have been underscored by the Greek crisis?

Greece joined the euro one year after the 11 original countries, and was clearly unprepared for the discipline of an EMU. For years, if not decades, the country has suffered from an inability to control its chronic fiscal deficits and public debt problem, and was able to fulfill some of the EMU requirements only by fudging the numbers on the extent of its economic problems. Nevertheless, the successive Greek governments were committed to the EMU, which not only anchored inflation and reduced interest rates, but most importantly gave the government political cover for trying to bring runaway public finances under control. However, the depth of the global crisis, a deep recession and creative accounting undermined the credibility of the Greek governments' efforts and the resulting crisis of confidence brought the country to the brink of default. In turn, this led to calls for either Greece leaving the euro, (permanently or temporarily), or to be expelled from the euro.

However, the Maastricht Treaty, which created the EMU, does not envisage such an outcome, and in order to exit from the euro, Greece would have to give up its membership of the European Union, clearly out of the question. Moreover, while an exit (voluntary or otherwise) from the euro would give a country a short-term competitive advantage with a sharp devaluation of its currency, that benefit would be quickly undone by higher inflation, capital flight, rising interest rates and further currency depreciation. Furthermore, it would lead to a Europe-wide financial crisis, as the markets would turn against what was perceived as the weakest EMU members (Italy, Spain, Portugal and possible Ireland). From there, we would be a step away from a global meltdown.

The EMU suffers from being only a monetary union, not a fiscal one. The EMU Treaty has a disciplinary clause, the Stability and Growth Pact, which in theory should keep the member countries on a fiscal straight and narrow path by enforcing the EMU fiscal limits (deficits of less than 3% of GDP, public debt of less than 60% of GDP). However, member countries have routinely flouted its provisions and the Pact's sanctions have never been enforced. In conjunction with the Greek crisis, different approaches have been suggested. Germany, the EU's largest and strongest economy, has proposed the creation of a European Monetary Fund (EMF) along the lines of the IMF, which would be able to impose strong macroeconomic medicine on deficit countries in exchange for financial aid. Other remedies include new sanctions, such as withholding regional funds from Brussels or suspending voting rights in the European Commission. The problem is that none of these proposals have garnered enough political support. Moreover, they are not possible within the framework of the EMU. Given the deep divisions in Europe that were laid bare in the multi-year negotiations on a new European charter, renegotiating a revised EMU would be next to impossible.

Apart from the Greek people, the main casualty of this fiasco has been the euro, which has hit a 10-month low against the dollar and lost 11% of its value against the US dollar in the past three months. The European currency has also has been knocked off, for the time being as a serious contender against the US dollar in international financial markets. In the short term, the core countries of the EMU (in particular France and Germany) need to come to agreement on a financial package for Greece (probably new loans and loan guarantees--no bail out is allowed under the EMU Treaty) in exchange for a credible macroeconomic stabilization program by Greece. In the longer-term, me of the doomsday scenarios seen in the markets—in particular the demise of the euro—are unlikely to take place. However, the eurozone needs to rebuild the credibility of the euro and the EMU by dealing with the macroeconomic imbalances within the common currency area (large German surpluses vs. large deficits in the periphery countries), as well as constructing an effective fiscal discipline framework to replace the toothless Stability and Growth Pact (which has proven to do neither). The crisis has also undermined the appetite of EMU-in-waiting members of the EU to rush in joining the single currency and should delay any new membership by at least 5 years.

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The Art of Cross-Border Negotiations: Bridging the National Divide between the EU and the US

By Mona Pearl

After months of preparation to enter the global market place including extensive due diligence and market analysis that identified your targets, it's finally time to seal the deal! But, not so fast. Sealing that deal successfully will require tremendous finesse in terms of international negotiation skills. The fact is, cross-cultural negotiations can make or break even the most carefully executed global expansion efforts. Not to mention, Latin, Middle East, Asian and European countries have, as a matter of survival, developed expertise in negotiating with an international marketplace and are light-years ahead of the U.S. in this proficiency. Fortunately, with heightened awareness and proper training, U.S. business leaders can successfully negotiate abroad and greatly improve the probability of long-term success.

Negotiation: It's About People, Customs and Relationships

The European Union is a diverse, complex and challenging group of countries, that although may seem unified, the national cultures, languages and styles are unique for each country.

Negotiation, as it is understood in the U.S., is the process by which interested parties resolve disputes, agree upon courses of action, bargain for an individual or collective advantage and attempt to craft outcomes that serve mutual interests. Internationally, however, negotiating has much more to do with understanding people, their customs and developing relationships. Unfortunately, many U.S. executives are unfamiliar with this dance and mistakenly launch directly into the technical phase of negotiations. Such short circuiting of the negotiating process will lead to frustration, disappointment, squandered resources and lost opportunities.

Regional specifics aside, skillful negotiation is universally recognized as paramount to long-term business success. To illustrate the significance of negotiating, consider the often cited analogy of the orange. Two equally interested parties are locked in a negotiation for one remaining orange. The most agreeable solution, and the most reasonable, is to carve the orange in half allowing both sides a fair arrangement. Instead, the two parties engage in a process of information exchange and determine that their intended use of the orange differs greatly. One party wants only the juice while the other party wants only the rind. Consequently, both sides achieve more than a typical win-win. It gets better. Later, the two parties embark on a collaborative effort to plant an orchard that will yield future rewards and profits.

Such successful negotiations only occur when both sides understand and trust each other and are willing and able to engage in a process of meaningful information exchange. Although it may sound simple, it isn’t. In fact, rarely are such remarkable terms achieved within the U.S., and negotiating overseas is significantly more complicated due to cultural differences. While words alone speak volumes in the U.S., it's the non-verbal communication that demands attention in many other parts of the world. For example, the U.S. is a very cerebral culture, while others are a bit more intuitive and less predictable. Consequently, interpreting unfamiliar body cues, adhering to local protocols and customs and anticipating time frames are just a few of the virtual minefields negotiators will traverse during international negotiations. Many would agree that these potential minefields are, in fact, the trigger for such high failure rates as U.S. companies attempt to expand internationally.

Tune In: Culture, Language and Time

Beware: the requisite skills to negotiate successfully in the U.S. do not necessarily translate to success abroad. In fact, past strengths can be future weaknesses on the international stage. The key for executives is to identify which skills cross over, which skills require retooling, and which skills are simply missing from the tool-box. Most importantly, business people should never assume that knowledge and understanding of the business operations and finance, no matter how in-depth, will compensate for lack of cultural understanding in the negotiating process. It won't. Cultural awareness is no longer a nice skill to have; it's essential for sustainable success overseas.

Culture, at its basic level, is the collective mental programming of people in an environment. It refers to the conditioning of a group of people which will influence a lifetime of thought processes, behavior, and actions. Ultimately, culture is the determinant of beliefs, thoughts, perceptions and emotions and is defined by the sum of these parts. Thus, culture is a major determinant of how negotiations will play out. It influences how groups make decisions and how groups approach, evaluate, and negotiate opportunities. Culture, in fact, becomes the backdrop for every interaction from the seemingly obscure initial phone call to the subsequent face-to-face meeting and all subsequent negotiation proceedings. Contracts are short and general. In some cases, written contracts are nonexistent and sealed only by word of honor. So, when U.S. business people show up with a lawyer to draft detailed contracts at the first meeting, their future business partners are mightily offended.

Every region around the globe has a unique orientation to time. Some cultures will negotiate in a very fast paced and intense environment. Others may spend days, weeks or months just getting to know a prospective partner and building the necessary rapport and trust before true negotiations even begin. The U.S. mindset that "time is money" is not universal. In many countries, deals are not even discussed until the second or third time prospective business partners have met socially, shared a meal and developed a cordial relationship. Only then can business be conducted. In many other countries, it is important for U.S. business people to take time in order to respect certain traditions and formalities.

The French are past masters in the art of stage management. Where the Germans rely on substance and the British on style, the French rely on effect. In negotiations they will often play along the opposition, almost for the fun of it, and then make a theatrical last-minute concession. The most important thing is that they should not be seen to be giving up.

The Italians, of course, have their own inimitable way of negotiating. As many business people have noted, they do what they want to. They will argue at length, disagree theatrically, appear to compromise, leave the negotiating table and then rethink their whole strategy in front of the coffee machine. But they still get it right in the end – honoring their own interests and, as often as not, those of the others as well.

Greece has a long history of philosophic debates, thus negotiations include tough bargaining at many levels. Greeks generally employ a polychromic work style. They are used to pursuing multiple actions and goals in parallel. When negotiating, they oft en take a holistic approach and may jump back and forth between topics rather than addressing them in sequential order. Negotiators from strongly monochromic cultures, such as Germany, the United Kingdom, or the United States, may find this style confusing, irritating, and even annoying. In any case, do not show irritation or anger when encountering this behavior. Instead, keep track of the bargaining progress at all times, oft en emphasizing areas where agreement already exists. (L. Katz)

Romania, who has been under communist regime for many years looks at negotiations more as an exercise in team problem solving. However, the focus is on two different teams, as sharing information comes with time, and still maybe an impediment to building trust. There is usually more emphasis on the short-term, building long-term relationships. There is no drama, and in case of dispute the focus is on facts. Business is hierarchical. Decision-making power is held at the top of the company. Most decisions require several layers of approval. At times it may appear that no one wants to accept responsibility for making the decision.

Another country that rose after communism was defeated is Poland. Make sure you are equipped with lots of patience to accept delays, change of direction and maybe even at some point the feeling that they are not interested in doing business with you. These are some of the wearing you down tactics that most US business people are not used to and in a very naive way, are received with disbelief.

Language, even when negotiations are conducted in English, can pose a number of unanticipated issues. Although many foreign business executives speak in English, they do not think in English like their American counterparts. Also, their English words can have very different meanings.

While culture, time and language may seem like obvious matters, these considerations represent just the tip of the iceberg, the visible tip. Underneath the water and hidden from view is where real danger lurks. For example, there are a myriad of less known social norms including methods of communication, chain of command, power, distance, ethics, and pace of life to name just a few. Even the appropriate people to participate in the negotiation can vary greatly by region. In many cultures, it's important to understand seniority and to whom questions must be addressed. With so much at stake, it's worth the investment of resources to prepare, train, and develop those who will be conducting negotiations abroad. Better yet, engage an expert to help anticipate probable issues so that advanced preparations are completed and surprises are eliminated.

Bridging the Divide - Education, Training and Recalibrating Expectations

While experience is always the best teacher, global expansion is too costly an endeavor to leave anything to chance. Consequently, bridging the gap between negotiating domestically and negotiating abroad requires an applied program of education, training, and personal development. It requires a global mindset, a collaborative attitude and a panoramic view of the competitive landscape. Training enables business people at all levels of the organization an opportunity to learn and develop sensitivities to cultural differences, especially when they are assessed individually and trained according to their needs. Once the nuances of other cultures are understood, greater success can be achieved when dealing with people from many different backgrounds.

The first lesson is straightforward. Taking American ideas and products into other countries without first considering cultural differences is a prelude to disaster, no matter how great and relevant the idea may seem at the time. While this concept is difficult for many American executives to accept, here is a fundamental truth that must be genuinely recognized: There are other ways of conducting business that have worked for centuries outside the U.S. In order to grow and prosper in this new global economy, U.S. business people must learn to think globally, work collaboratively, learn from other cultures, and remain acutely aware of various practices and viewpoints.

Also, it's important to recognize how American business people are perceived outside of the United States: informal, punctual, orderly, arrogant, abrupt, impatient, ignorant and predictable. Not only are these traits offensive to certain cultures, they often cause U.S. business people to impose unreasonable expectations on international business dealings. For example, approaching a meeting with detailed agendas and predetermined start and stop times will not always work in paving the way to successful negotiations. Instead, U.S. business people need to learn how to function and live with flexibility and ambiguity that exists in so many other regions of the world.

Cultural sensitivity is a soft skill but at the end will help you with a hard sell. Empathy, personal integrity and sharing of knowledge are also important aspects in global training. Looking ahead, multinational teams are more common than in the past. As such, executives are regularly dealing with people from various cultures, recognizing that both understanding and being understood are essential to success. "I think we need to stop looking at companies that are global companies as American companies or companies that have a nationality based on where they have headquarters. My management team and most of my executive committee are from all over the world. We throw our passports on the table and forget the original nationality of them and transcend nationalism", explains Rick Goings, Chairman and CEO of Tupperware.

In a world packed with business persons of various cultural backgrounds, it's important to impart a corporate wide sensitivity to culture. Building that sensitivity is imperative to any business expanding globally. At the same time, this sensitivity and need to compromise must be balanced with the need to preserve personal, corporate and national integrity.

Walk the Walk, Talk the Talk

U.S. companies have lost the luxury of picking and choosing where they are willing to conduct business and where they will not. Like all other nations, the U.S. needs to be prepared, ready and willing to get in the game wherever opportunity presents itself. Once there, get in tune with the culture. Be ready to learn, willing to observe, and accepting of new ways of conducting business. Inevitably, this new dynamic will put U.S. companies up against businesses from other nations with far more international experience. But, that's no reason to hold back. As U.S. companies gain experience and master the ability to analyze, assess, evaluate, understand and negotiate with other cultures they will be a fierce competitor in the world market place. After all, the U.S. is still the most competitive nation in the world, for now.

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