STEP INTO BOOTS, STEP INTO PARAGUAY: A FEASIBILITY ANALYSIS OF MANUFACTURING HIKING BOOTS IN PARAGUAY

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ABSTRACT

The investment potential of a hypothetical U.S. shoe manufacturing company, Timber Wolf, in Paraguay was analyzed from various perspectives, including physical geography, political environment, economic environment and social-cultural environment. This research allowed Timber Wolf to identify possible success in the foreign investment before committing a large amount of resources. The result shows Paraguay is not a suitable country in which Timber Wolf should make an investment.

CLIENT COMPANY DESCRIPTION

In 1985, hiking enthusiast Tommy Blodgett founded a specialized mountain shoe manufacturing company, Timber Wolf, in Colorado. In the beginning, Timber Wolf targeted only professional climbers. The products were sold in the U.S. through retailers that specialized in mountain gear. By 1989, Timber Wolf became a well-known brand for outdoor enthusiasts. In 1992, Timber Wolf made a license agreement with a Chinese manufacturing plant in order to reduce production costs. Since then, Timber Wolf has concentrated on design, distribution, and marketing. Although there was a license agreement with the Chinese manufacturing plant, Timber Wolf's shoes were sold only in the U.S. In late 1999, Tommy decided to expand Timber Wolf's product line to increase company growth. Specifically, it lacked a line of light duty shoes for amateur hikers. As a result, Tommy designed two styles of light duty hiking shoes, G-Max and Timber. Timber Wolf's competitive advantage has been the quality of its products. However, for G-Max and Timber, Tommy wants to lower the price as well, because the shoes are marketed for amateurs. In order to capitalize on inexpensive labor, he wants to assemble all parts of the shoes in Paraguay though the shoes would be sold only in the U.S. market. G-Max will use leather for its outer and inner layer. Timber will use synthetic fibers for its outer layer and leather for its inner layer. Both styles will use synthetic rubber for the soles. Tommy thinks he can acquire some materials in Paraguay while importing the rest from the countries nearby, such as Brazil and Argentina. If this new Paraguay manufacturing plant operation is profitable, Tommy wants to terminate the license agreement with the Chinese manufacturing plant because of the closer geographical proximity of Paraguay to the U.S. Moving the manufacturing plant to Paraguay will save time and cost in the transportation of the shoes. Also, in the future, Tommy wants to expand Timber Wolf's target market from the U.S. to Latin America. In order to determine the profitability of manufacturing shoes in Paraguay and the country's market potential, Tommy hired our international business consulting company. The following analysis presents the research result about Paraguay's suitability for Timber Wolf's business. The analysis is divided into four sections-- Physical Geography, Political Environment, Economic Environment and Social-Cultural Environment-- in order to investigate the country in a comprehensive way.

PHYSICAL GEOGRAPHY

Paraguay is a landlocked country located in the center of South America surrounded by Brazil, Bolivia, and Argentina (odci). This will be a big advantage for import reasons. Timber Wolf can easily acquire some of the raw materials, such as synthetic fibers, from the countries around Paraguay. Paraguay is also closer to the U.S. than China. Therefore, moving the manufacturing plant there would reduce the length

* This article is based on a group project to which Kaliah Ligon and Brandon Fozo also contributed.

of time Timber Wolf's management spends in the air traveling from the U.S. headquarters to its manufacturing plant abroad, as well as reducing the cost of transporting the finished shoes to the U.S.

The size of Paraguay would not be an issue in the decision to locate Timber Wolf's manufacturing plant in the country. If the company decided to sell its hiking boots in Paraguay, however, the population density would be a major consideration to determine the size of the possible market. Paraguay's population density is relatively low compared to that of the U.S. market. In fact, Paraguay's physical size is 157,047 square miles, (odci) which is similar to the size of California, which is 158,693 square miles (pe.net). Yet, the country's population is only 5,585,828 (odci) compared to California's 48,977,000 inhabitants (notfrisco). This low population density of Paraguay indicates that Timber Wolf would not be able to achieve economies of scale in the country. On the other hand, about half of the country's people live in cities or towns. Asuncion, the capital city, is far larger than the other cities with about a half a million people (WE 15:146). If Timber Wolf decided to build its own factory in the country, building it in Asuncion would ensure a sufficient labor pool is available.

Paraguay's topography is another important factor in analyzing the location of Timber Wolf's manufacturing plant and the market potential of the country. The country's topography is largely divided into two conditions by the Paraguay River, which runs through the center of the country from north to south. The western half of Paraguay is called Chaco region, and it consists mostly of low, marshy land near the river and dry forest and thorny scrub over the rest. The eastern half of Paraguay is full of grassy plains and wooded hills (odci). Though the type of terrain is different between the eastern and western regions, the terrain of both regions is rough and suitable for hiking boots. As a result, people's desire for Timber Wolf's products would potentially be high. Since less than one fifth of Paraguay's roads are paved, rivers serve as an important means of transportation in the country (WE 15:148). These rivers would be a primary way of moving materials locally as well as importing components from surrounding countries. Therefore, it would be beneficial for Timber Wolf to build a new manufacturing plant near rivers. The main river is the Paraguay River. Since the Paraguay River runs through the capital, Asuncion, locating Timber Wolf's manufacturing factory near the river in the city would promise the greatest benefit for the operation.

The climate is also a factor that may alter the success of Timber Wolf's operation in Paraguay. Paraguay has a subtropical climate. The average summer and winter temperatures are 78 and 57 degrees Fahrenheit respectively (4th). The Chaco region (the western half of Paraguay) is relatively dry and arid. There is also a rainy season in that part of the country during the winter months, which are usually accompanied by powerful electrical storms. The eastern half of Paraguay usually experiences cooler temperatures, and frosts are common (4th). As a result, if Timber Wolf decides to sell its hiking boots in Paraguay, it should consider waterproofing its boots for the western region market and increasing the insulation for the eastern region market. Additionally, the violent electrical storms in the western region could cause power outages, resulting in downtimes or damages to Timber Wolf's manufacturing plant. In terms of Paraguay's resources, hydroelectric power plants on the Acaray and Paraguay rivers provide the country with plentiful electricity. In fact, the Itaipu Dam power plant, which was built by Paraguay and Brazil on the Paraguay River, is one of the world's largest hydroelectric power plants, generating about 12 ½ million kilowatts (WE 15:148). Consequently, as will be discussed in more detail in the Economic Environment section, the cost of the country's electrical energy is low. In order to take advantage of this circumstance, Timber Wolf should use electrical power as the main energy for its manufacturing plant. Also, farming is one of Paraguay's major industries. As a result, the country has abundances of beef products, including hides (usatrade.gov), which Timber Wolf would be able to buy at a lower cost as a material for its boots.

POLITICAL ENVIRONMENT

For the first 180 years of its independence from Spain, Paraguay experienced periodic turmoil, including wars. During most of the period, the country was under the control of dictators, such as Alfredo Stroessner. After the consecutive elections of the president chosen from multi-candidates in 1989 and the first civilian president in almost 50 years in 1993, the country seemed to be moving toward democracy (JM). Yet, the assassination of the vice-president, Luis Argana, in 1999 again proved the volatile character of Paraguay's politics (Nickson). This political characteristic of the country tells Timber Wolf the sensitive nature of Paraguayan politics. The best way for Timber Wolf's management to deal with this sensitivity is to take a neutral political position. Though the U.S. government backs up the faction of the current president, Luis Gonzalez Macchi (usatrade.gov), supporting one side may provoke opposition from another. For example, the former army commander and the suspect of directing Argana's murder, Lino Oviedo, was arrested by Brazilian police in June 2000 following a failed coup by his supporters in May (Nickson). However, the political leader still retains strong support from the rural population and the political elites. As a result, there is a possibility that some of Timber Wolf's employees or suppliers might be Oviedo's supporters. In such situations, the management of Timber Wolf should avoid interfering in those people's political ideas. Timber Wolf's management must keep in mind that they are in Paraguay to make shoes, not to do politics.

Paraguay's government consists of three primary powers: executive, legislative and judicial branches. The executive branch is exercised by the President, who must be Catholic and is elected for a period of five years. The legislative power is represented by a Congress with two Houses, the Senate and the House of Representatives. Members are elected by popular vote. The Colorado Party is the major party and heads the National Unity Coalition government appointed in April 1999 (JM). Currently, there are two primary factions within the Colorado Party: the one now in power was formed by the late vice-president, Argana, and the other was formed by Lino Oviedo. This split makes the Paraguay government unstable. The current president, Luis Gonzalez, is from the Argana faction (usatrade.gov). The Judicial Power is conducted by the Supreme Courts and the Courts of Justice (4th).

The constitution adopted in 1992 provides a democratic form of government for the country. However, Paraguay's political arena has not completed its transformation from the former dictatorship to democracy, and the government still possesses strong control over the country's business activities (WE 15:144). Therefore, Timber Wolf should make connections with local political leaders. The current president, Luis Gonzalez, began to form a coalition government based on the three major political parties: Colorado, Liberals and National Encounter (usatrad.gov). As a result, making connections with the political representatives of these parties would give Timber Wolf a strong advantage in managing its political risks, such as getting permission for setting up its factory and making connections with government owned suppliers. In addition, the non-transparent judicial system impedes the enforcement of property rights (usatrad.gov). Therefore, Timber Wolf must take the possibility of expropriation into account before making a commitment to invest large amounts of resources in the country.

The Paraguay government has open attitudes to foreign direct investment and guarantees investors' rights (JM). This provides a significant advantage for Timber Wolf to conduct business in the country. For example, since Timber Wolf's management would be allowed to control the operation of their manufacturing plants, the company would be able to maximize the quality of products and the efficiency of production by the use of U.S. style management. Because the country does not require import licenses (CR), Timber Wolf would be able to easily import the necessary materials, such as synthetic rubber, from other countries. Due to Paraguay's membership in Latin America's largest custom union, MERCOSUR, and the World Trade Organization (WTO) (CR), Timber Wolf would be able to expect low trade barriers and consistent trade regulations from the member countries of those organizations as well. Paraguay's MERCOSUR member status also gives Timber Wolf a future possibility of expanding its market from the U.S. to Latin American countries. Due to the preferential trade agreements, the company would easily be able to export shoes manufactured in Paraguay to countries that are members of MERCOSUR. In addition, the country guarantees full repatriation of capital and profit.

There are three trade and investment laws that would have significant impacts on Timber Wolf's Paraguay operation. The first law is 117/91. This law guarantees national treatment for foreign investors (usatrade.gov). It allows international arbitration for the resolution of disputes between foreign investors and the government. Since the law protects rights of foreign investors, theoretically, Timber Wolf's management can commit a large investment for its manufacturing plant in Paraguay from the beginning. However, as already mentioned above, in reality, Paraguay's judicial system is highly corrupt, and expropriation is still possible. Furthermore, the poor financial condition of the government may not guarantee the compensation.

The second law is 194/93. This law requires that, in order to break a contractual relationship with its Paraguayan distributor, the foreign company must prove a just cause in a Paraguayan court. Otherwise, the foreign company must pay a large amount of indemnity (CR). This law would increase Timber Wolf's business risks if the company expanded its market to Paraguay. Because of 194/93, once Timber Wolf established a contract with a local distributor for marketing its shoes in the country, it would be very difficult for the company to terminate the relationship even if Timber Wolf found the distributor to be inefficient. In addition, since the law cannot be waived as a part of the contractual relationship, after the establishment of a contract, even an efficient distributor may lose incentive to perform at optimal level. As a result, Timber Wolf should establish its own distribution channels before marketing its shoes in Paraguay.

The third law is 60/90. This law includes a 95 percent tax exemption for the first five years of business operation and duty free import of capital goods. These provisions are available for all foreign investors (usatrade.gov) and would give Timber Wolf a significant reason to begin operations in Paraguay. The 95 percent tax exemption would last for the first five years of business operation (usatrade.gov), which would result in a higher net income after taxes. The savings could be reinvested for further expansion and growth since the tax rate on reinvested profits is only 10 percent. In addition, because of 60/90, the high quality machines imported from the U.S. into Paraguay would be duty free (usatrade.gov).

In terms of tariffs, Common External Tariff system would have significant effects over the operation of Timber Wolf. Due to the system, if the exporting country is a member of MERCOSUR (Argentina, Brazil, Uruguay and Paraguay), there is no tariff on its imported raw materials. On the other hand, there are up to 20 percent tariffs for importing raw materials from non-MERCOSUR countries. Importing raw materials from non-MERCOSUR countries would increase the cost of raw materials (usda.gov), resulting in a higher price of shoes and a lower profit. Therefore, to fully utilize the advantage of the Common External Tariff system, Timber Wolf should first search for suppliers of raw materials in MERCOSUR member countries.

In September 2000, two suspects of the vice-presidential assassination in 1999 escaped from a prison in Argentina.

Since the prison guards did not fire their weapons during the escape, there is a possibility that Oviedo's supporters helped in the escape, bribing the prison guards (Valente). The prisoners' escape infused hostility between the two major political parties--one group is a supporter of the current presidential regime and the other group is Oviedo's supporters. If this hostility grows, there might be another coup, centering on those two major political opponents. If this happens, there would be a good possibility that Paraguay would lose its trade advantages within MERCOSUR due to the protests from the other member countries.

ECONOMIC ENVIRONMENT

Paraguay's mixed economic system reveals that the government still plays a major role in the economy (odci). In fact, as stated in the political section, Timber Wolf must be aware that expropriation is possible without just compensation, because of the poor state of the economy. In addition, privatization is delayed in several business sectors including utilities and petroleum products (townhall). As mentioned in the Physical Geography section, Timber Wolf has a good chance of using electricity as its main power source for the manufacturing plant in Paraguay. Also, petroleum products are necessary for producing the synthetic rubber used to make soles of Timber Wolf's shoes. However, since the government controls the price of electricity and petroleum products and eliminates competition in these markets, Timber Wolf would not be able to exercise its bargaining power to obtain these inputs at lower than regulated prices.

Economically, Paraguay is a less developed country, as shown by its low GDP per capita, $1,781 (townhall). This figure indicates that the country is in the lower-middle income category established by the World Bank. As a result, only a small percentage of Paraguay's population would be able to afford Timber Wolf shoes. This would make it increasingly difficult for the company to achieve economies of scale in the country because of the low population density.

Currently, agriculture is Paraguay's chief economic sector with 45 percent of the total labor force (odci). This indicates the country has a lower level of industrialization. To move up the stages of industrialization and to improve its economy, Paraguay needs to strengthen its manufacturing sector and service sector. The country also has a high unemployment rate of 12 percent (odci). As a result, a positive response could be expected from Paraguay's government toward Timber Wolf's planned investment into the country. Timber Wolf would have a large labor pool for its manufacturing plant because of the high unemployment rate.

Paraguay's inadequate infrastructure represents a serious disadvantage for business operations. The country has poor roads and railway systems. There are only 29,500 kilometers of total highway length, 14,500 kilometers of which are unpaved. There are only 971 kilometers of railways in the entire country. Out of 937 airports, only 10 have paved runways (odci). As we mentioned in the Physical Geography section, rivers serve as an important means of transportation. Yet, the 3,100 kilometers of waterways and 4 ports at Asuncion, Villeta, San Antonio, and Encarnacion (odci) are not enough to accommodate distribution of Timber Wolf's shoes in a wide area of the country, not to transport the materials for the company's products from various locations to its manufacturing plant. Also, communication by telephone between the home country and the host country may be difficult because there is only 1 Intelsat satellite earth station located in Paraguay (odci). Communication via the Internet and email may also be difficult because there are only four Internet service providers (odci).

Competition in the shoe manufacturing industry within Paraguay would not be a major concern for Timber Wolf because there are no major competitors. Presently, Bata and Timberland, which manufacture hiking boots similar to Timber Wolf's, do not operate in Paraguay (bata.com/ timberland). However, since they operate in other MERCOSUR countries, those companies may begin manufacturing operations in Paraguay as the country's economy becomes stronger. Therefore, before Bata and Timberland make direct marketing to Paraguay's consumers, Timber Wolf needs to establish its brand name in the market. Otherwise, Bata and Timberland, both of which already have operation experiences in South American markets, would gain the majority share of Paraguay's market.

Paraguay's currency, the guarani, is subject to a managed float. In recent years, the guarani has continually depreciated in value. In fact, while 2,177.9 guaranis equaled US $1 in 1997, it took 3,332.0 guaranis to do so in 2000 (odci). These characteristics of the guarani have negative implications for Timber Wolf. Since the guarani is a soft currency, it would be difficult to convert the company's profit made in guarani in Paraguay to the home country's currency, the US dollar. Since the guarani is depreciating, holding the currency would automatically reduce Timber Wolf's profit in Paraguay from the perspective of the company's U.S. headquarters.

Paraguay's large foreign debt and negative balance of payments could potentially cause difficulties for Timber Wolf's operation in the country. When there is a large deficit account that is not improving, the government may introduce actions in order to decrease the amount of imports into the country, such as imposing import quotas, raising duties, and requiring import permits. Another step the government could take is slowing down economic growth by raising interest rates. If these actions were taken, foreign investors would suffer. Import restrictions would make it hard to obtain materials from other countries. Slowing down the economy would also have a negative effect on the consumer demand for Timber Wolf's products. On the positive side, Paraguay's budget deficit is low enough to meet the European Union Target for a budget deficit (countrywatch.com). Therefore, it would not have a major impact on Timber Wolf's operation in the country.

Recently Paraguayan banks have gone through a serious crisis (townhall). Therefore, if Timber Wolf needed to seek financial loans from a Paraguayan bank, it would be forced to pay usurious interest rates and the company would not receive the loan amount that it desires. In addition, Paraguayan banks are only offering up to twelve-month loans (usatrade.gov). As a result, Timber Wolf should seek the financial services from an international bank, like Citibank.

SOCIAL-CULTURAL ENVIRONMENT

Over 90 percent of people in the country are Roman Catholic (WE 15:147). This would be an advantage for Timber Wolf's operation in Paraguay because Christianity is also a popular religion in the United States. The company would need only small operation adjustments in order to accommodate employees' religious practices in the manufacturing plant. Because the main language spoken in the country is Spanish (odci), Timber Wolf's U.S. expatriates could run into some communication problems with local employees. To overcome this potential problem, Timber Wolf should select U.S. expatriates who speak Spanish for the Paraguay operation. Hiring local translators who are familiar with both English and Spanish would be essential in order to run the manufacturing plant smoothly and to market shoes in the country.

The education system is a definite benefit for locating a manufacturing factory in Paraguay. People in Paraguay have a very high literacy rate of 92.1 percent, and the country has a secondary education system that concentrates on technical training (odci). This means it would be easy to hire semi-skilled laborers who can operate machinery. Timber Wolf should also consider forming a partnership with a nearby school because the company could offer co-op jobs to the students in exchange for providing school facilities. Furthermore, the fact that most people in Paraguay can read means marketing would be a lot easier.

In terms of social structure, for Paraguayans of all social strata, family and kin—not the community—are the center of the social system. The concept of family members is broad and even includes godchildren and godparents. Nonetheless, most people live in nuclear families consisting of spouses and their unmarried offspring. The father is the formal head of a household and the main breadwinner. Yet, in many cases, women work as well in order to improve family income (loc). This indicates that childcare would be one of the major problems for Paraguayan workers. Because of the low standard of living, most couples cannot afford to hire babysitters while they are working. Also, there are few intergenerational households, in part, because most Paraguayans' earnings can support only immediate family members (loc). As a result, Timber Wolf should provide a childcare facility in the manufacturing plant in order to attract and keep more qualified workers who, otherwise, might give up working outside the home in order to look after their children.

Historically, Paraguay was an overwhelmingly rural country. The 1950 census found only about one-third of the population to be city dwellers (loc). However, in fifty years, this tendency changed dramatically. Today, about half of the people in Paraguay live in cities and towns. Asuncion, the capital, is the largest city by far with a population of half a million. The cities have better schools, cultural events and recreational activities (WE 15:146). This current situation indicates that people in cities are more liberated and feel more attraction for the products made by manufacturers from developed countries than do people in rural areas. Also, since urban dwellers have a higher standard of living, more people in cities would be able to afford Timber Wolf's shoes than would people in rural areas. Therefore, Timber Wolf should focus its marketing efforts in major cities. Furthermore, locating a manufacturing plant in cities, especially Asuncion, would promise that a large labor pool is available.

The Constitution allows both private and public sector workers (with the exception of armed forces and the police) to form and join unions without government interference. Approximately 12,000 workers, or 15% of the workforce, are organized in approximately 1,600 unions (usis). Unions are independent of the government and political parties, although the case of the Confederation of Paraguayan Workers is linked with the ruling Colorado Party (usis). Timber Wolf's management should be aware of unionization of local employees in its manufacturing plant in Paraguay. Dealing with a union's collective bargaining could be costly, including establishment of rigid operation standards and periodical shutdowns of the plant because of strikes. Timber Wolf would be able to avoid unionization in the plant by providing good working conditions, reasonable work schedules, and above average wages. Timber Wolf should keep in mind that high standards in Paraguay, a less developed country, may be what Americans consider minimum at best.

FINAL RECOMMENDATION

To evaluate the feasibility of Timber Wolf's investment in Paraguay, a numerical score between 1 and 10 is given to each major factor (Physical Geography, Political Environment etc.). On this scale, a factor with score 1 means the factor is not attractive for the company's investment. On the other hand, a factor with 10 means the factor is very attractive. Based on those evaluations, an average score between 1 and 10 will be determined representing Paraguay's overall country attractiveness for the investment there. Next, the company's strengths to conduct the operation in Paraguay will be defined, and a numerical score between 1 and 10 will be determined for company strength. On this scale, 1 means Timber Wolf is not capable of making foreign investment in Paraguay, on the other hand, 10 means the company is very capable of doing it. After the numerical values of Paraguay's country attractiveness and Timber Wolf's company strength are determined, they will be plotted on the country attractiveness/company strength matrix. This matrix is a common strategic tool for evaluating the fit between a company's capabilities and a country's attractiveness for foreign investment. On the matrix, a plot on the top left hand corner characterizes high fit between them, therefore, desirable for operation. On the other hand, a plot on the bottom right hand corner is the least desirable.

Geographically, the country is located in the center of key trading partner countries. Timber Wolf would be able to expect demand from Paraguayans for its hiking boots because of the country's rough terrain. Despite severe climate in particular seasons for parts of the region, Paraguay's large subtropical climate provides a favorable condition to operate a manufacturing plant. The country also offers electricity and hide, major resources for Timber Wolf's shoe manufacturing operation, at lower costs due to the abundance of hydropower and beef products. Taking these factors into consideration, the Physical Geography section receives a score of 5.

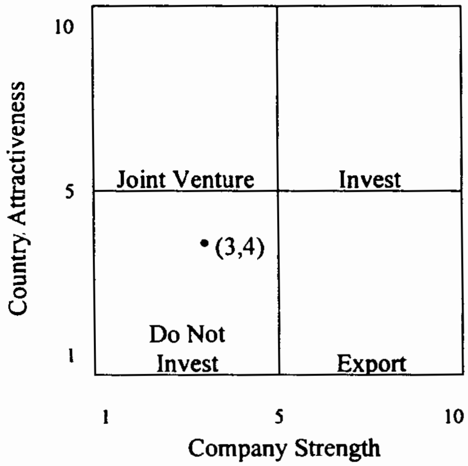
Politically, Paraguay offers many incentives to attract foreign direct investment and has laws to protect the rights of foreign investors. In addition, the country's MERCOSUR membership would provide Timber Wolf with many advantages over trade with other member countries. However, the political risks of the country outweigh these opportunities. In fact, Paraguay's transition to democracy has not been completed. The leading political party is split into two oppositional factions, creating an unstable government. Also, the corrupted judicial system impedes the enforcement of property rights, and that makes expropriation a possibility. As a result, the Political Environment section receives a score of 3.

The economic ideology of Paraguay suggests that the government still plays a major role in the economy, and the situation does not seem to change in the near future. The country's privatization efforts are still in their infancy. There has been declining annual growth, increased foreign debt, continuous currency devaluation, and a negative balance of trade. In addition, Paraguay's infrastructure is weak. Taking these factors into consideration, the Economic Environment section receives a score of 2.

For the social-cultural environment, most people in Paraguay have a basic education, making the marketing effort easier. A large population in Asuncion would provide a sufficient labor pool of potential employees, and they would also be a target market for Timber Wolf's shoes. Labor unions exist, but it would not be difficult to prevent the unionization. Taking these factors into consideration, Paraguay's Social-Cultural environment receives a score of 6. Thus, Paraguay's overall score on country attractiveness is 4.

Timber Wolf's strength as a company is shown in its willingness to do extensive research on Paraguay. The company had experience in operating a manufacturing plant before it entered the license agreement with the Chinese factory. However, the company does not have its own experience in operating a manufacturing plant or marketing its products in a foreign country. Based on these factors, Timber Wolf receives a company strength score of 3. The scores of Paraguay's country attractiveness and Timber Wolf's company strength are plotted in the matrix below. According to the country attractiveness/ company strength matrix, we do not recommend that Timber Wolf invest in Paraguay.

Country Attractiveness/Company Strength Matrix



At the very least, if the company still wants to have a manufacturing plant in Paraguay, Timber Wolf should avoid having ownership in the factory. This would protect the company somewhat from Paraguay's political and economic instability. Accordingly, it is recommended that Timber Wolf choose the buyback mode of entry. In a buyback, Timber Wolf would build a plant, install machinery and train local personnel to manage the factory, and the company would receive mountain boots manufactured in the factory as payment for its services. By the use of buyback, the company could exploit Paraguay's cheap labor and materials to lower the price of its shoes. At the same time, this mode of entry would minimize the political and business risks, since the company would have no ownership of the manufacturing plant. One disadvantage of using the buyback method is that, if Timber Wolf released its shoe making technology to a local manufacturing plant in Paraguay, the local manufacturer might become a strong competitor of the company. This situation would likely occur if Timber Wolf decided to market its shoes in Paraguay after an extended period of time.

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