International Business Competing in the Global Marketplace 11th edition Hill Solutions Manual

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National Differences in Political, Economic, and Legal Systems

2

Learning objectives

- Understand how the political systems of countries differ.
- Understand how the economic systems of countries differ.
- Understand how the legal systems of countries differ.
- Explain the implications for management practice of national differences in political economy.

This chapter discusses differences in national political, economic, and legal systems, highlighting the ways in which managers in global settings need to be sensitive to these differences.

Political differences are described along two dimensions: collectivist vs. individualist and democratic vs. totalitarian. Economic systems are explored in terms of market characteristics: market economies, command economies, and mixed economies. Legal systems are discussed in terms of the protections they offer for business: intellectual property, product safety, liability and contracts.

The opening case describes the effect of widespread political and economic corruption in Brazil. Once considered one of the world's most promising developing economies, Brazil has been rocked by a number of bribery and corruption scandals that have led to political instability and recession. The closing case explores the political and economic climate in Russia under President Putin and how this climate has affected foreign investment.

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OUTLINE OF CHAPTER 2: NATIONAL DIFFERENCES IN POLITICAL ECONOMY

Opening Case: Corruption in Brazil

Introduction

Political Systems
- Collectivism and Individualism
  - Country Focus: Venezuela under Hugo Chávez, 1999–2013
- Democracy and Totalitarianism

Economic Systems
- Market Economy
- Command Economy
- Mixed Economy

Legal Systems
- Different Legal Systems
- Differences in Contract Law
- Property Rights and Corruption
  - Country Focus: Corruption in Nigeria
  - Management Focus: Did Walmart Violate the Foreign Corrupt Practices Act?
- The Protection of Intellectual Property
  - Management Focus: Starbucks Wins Key Trademark Case in China
- Product Safety and Product Liability

Focus on Managerial Implications

Critical Thinking and Discussion Questions

Closing Case: Putin's Russia

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CLASSROOM DISCUSSION POINT

Ask students to think about the two dimensions used to describe political systems: Collectivist-Individualist and Democratic-Totalitarian. Begin by drawing the following scale on the board:

Individualist	Collectivist
Democratic	Totalitarian

Then ask students to provide some examples of what might describe a collectivist system —where does Canada's national healthcare system put it, which countries might be considered democratic, where should China be placed, and so on.

Finally, move to a discussion of how differences in political economy present both opportunities and threats for business. Managers must analyze each national market that they participate in and identify specific ways in which the political economy of that nation could support or threaten the company's business model.

If there are foreign students in the class or students with foreign experience, you might draw on their observations of differences these dimensions impose on the practice of business.

OPENING CASE: Corruption in Brazil

Summary

Although Brazil is the seventh largest economy in the world, many economists argue that widespread corruption prevents the country from reaching its true economic potential. Political favoritism and rampant bribery are among the major obstacles to economic development. One notable example was the 2005 scandal known as the *mensalao* (monthly payoff scandal), in which a number of politicians were found guilty of accepting bribes from influential business executives in exchange for their support on controversial government initiatives. Likewise, in 2014, the state-owned oil company Petrobas was discovered to have accepted bribes from construction companies. The resulting investigation led to charges of bribery, money laundering, and corruption against a number of officials, weakening the political power of Brazilian president Dilma Rousseff. Public outrage and high-profile prosecutions have spurred some efforts at reform, but corruption remains a significant issue affecting the Brazilian economy.

Discussion of the case can revolve around the following questions:

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QUESTION 1: How have a few highly publicized corruption scandals contributed to a stagnant economy in Brazil?

ANSWER: Countries with a developing economies, such as Brazil, often rely upon foreign direct investment (FDI) to build needed infrastructure and boost employment and tax revenues. Major scandals, such as the *mensalao* and Petrobas affairs, have shaken the confidence of foreign investors, leading to double-digit declines in FDI inflows. Likewise, public outrage over the government's involvement in bribery and money-laundering scandals makes domestic businesses in Brazil hesitant to expand their operations until the political situation becomes more stable and predictable. Finally, dismantling the long-standing system of bribery and mutual benefit that was at the heart of Brazil's impressive economic growth around the turn of the twenty-first century has severely disrupted operations at the country's most profitable businesses. This disruption, in turn, has hindered the flow of money throughout the rest of the national economy.

QUESTION 2: Who or what is responsible for the current state of political and economic corruption in Brazil?

ANSWER: Student answers will vary. Some students may point to excessive greed on the part of political and business leaders and the pressure to generate excessive revenues to pay off rising levels of foreign debt. Others may suggest that the country lacks formal political institutions capable of enforcing of the country's anticorruption law and may also refer to Brazil's long history of colonial exploitation and military upheaval. Yet others may argue that voters are to blame for continuing to elect officials who have been accused of or who have even openly acknowledged taking bribes.

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QUESTION 3: What does Brazil need to do to reduce corruption and improve economic growth? What steps should the country take to make it a more attractive destination for investment and economic partnerships?

ANSWER: In general, holding corrupt politicians and executives accountable for their crimes may help to restore investor confidence and contribute to an economic turnaround in Brazil. This prospect, however, will require a long reform process that entails not only establishing institutions capable of upholding the law but also establishing the political will among voters to elect representatives who place free markets and the rule of law before their own self-interest. The investigations authorized by Brazil's Supreme Court and the public protests held in response to the Petrobas scandal suggest that the country may be making strides in this direction, but significant changes must occur in order to restore investor confidence.

Another Perspective: To learn more about popular efforts to reform the Brazilian political system, go to {http://www.economist.com/news/americas/21646272-despite-epidemic-scandal-region-making-progress-against-plague-democracy}.

LECTURE OUTLINE

This lecture outline follows the Power Point Presentation (PPT) provided along with this instructor's manual. The PPT slides include additional notes that can be viewed by clicking on "view," then on "notes." The following provides a brief overview of each Power Point slide along with teaching tips, and additional perspectives.

Slides 2-3 and 2-4 Political Economy
The political, economic, and legal infrastructure of a nation has a major influence on the way managers make decisions. Political systems have two dimensions: the degree of collectivism versus individualism, and the degree of democracy versus totalitarianism. These dimensions are interrelated; systems that emphasize collectivism tend towards totalitarianism, while systems that place a high value on individualism tend to be democratic.

However, a large gray area exists in the middle. It is possible to have democratic societies that emphasize a mix of collectivism and individualism. Similarly, it is possible to have totalitarian societies that are not collectivist.

Slides 2-5 through 2-7 Collectivism and Individualism

Collectivism refers to a political system that stresses the primacy of collective goals over individual goals. Advocacy of collectivism can be traced to the ancient Greek philosopher Plato. In modern times the collectivist system is largely the domain of nations that have embraced socialism.

Individualism is the direct opposite of collectivism. Its central tenet is that individual economic and political freedoms are the ground rules on which society is based.

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Slides 2-8- through 2-10 Democracy and Totalitarianism

Democracy, as originally practiced by several city-states in ancient Greece, is based on a belief that citizens should be directly involved in decision making. Most modern democratic states practice **representative democracy** in which citizens periodically elect individuals to represent them. **Totalitarianism** is a form of government in which one person or political party exercises absolute control over all spheres of human life and opposing political parties are prohibited (**Communist, theocratic, tribal, right wing**).

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Totalitarianism denies its citizens all of the constitutional guarantees asserted by representative democracies.

Slide 2-11 through 2-14 Economic Systems
There is a connection between political ideology and economic systems. In countries where individual goals are given primacy over collective goals, we are more likely to find free market economic systems. In contrast, in countries where collective goals are given preeminence, the state may have taken control over many enterprises, while markets in such countries are likely to be restricted rather than free.

There are three broad types of economic systems: the market economy, the command economy, and the mixed economy.

A **market economy** is an economy in which all productive activities are privately owned, as opposed to being owned by the state. Production is determined by the interaction of supply and demand and signaled to producers through the price system.

A **command economy** is an economy in which the goods and services that a country produces, the quantity in which they are produced, and the prices at which they are sold are all planned by the government.

A **mixed economy** is an economy in which certain sectors of the economy are left to private ownership and free market mechanisms while other sectors have significant state ownership and government planning. India has a mixed economy.

Mixed economies were once very common throughout much of the world, although they are becoming much less so. There was a time not too long ago when Great Britain, France, and Sweden were mixed economies, but extensive privatization has reduced state ownership of businesses in all three.

Slide 2-15 and 2-16 Legal Systems
Legal systems are the systems of rules or laws that regulate behavior along with the processes by which the laws are enforced and through which redress for grievances is obtained.

There are three main types of legal systems – or legal traditions – in use around the world: common law, civil law, and theocratic law. **Common law** is based on tradition, precedent, and custom. **Civil law** is based on a very detailed set of laws organized into codes. **Theocratic law** is based on religious teachings.

Slides 2-17 and 2-18 Contract Law
A **contract** is a document that specifies the conditions under which an exchange is to occur and details the rights and obligations of the parties involved. **Contract law** is the body of law that governs contract enforcement.

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Since common law tends to be relatively ill specified, contracts drafted under a common law framework tend to be very detailed with all contingencies spelled out. In civil law systems, contracts tend to be much shorter and less specific because many of the issues typically covered in a common law contract are already covered in a civil code.

When contract disputes arise in international trade, there is always the question of which country's laws apply. Many countries including the United States have ratified the **United Nations Convention on Contracts for the International Sale of Goods** (**CIGS**). The CIGS establishes a uniform set of rules governing certain aspects of the making and performance of everyday commercial contracts between sellers and buyers who have their places of business in different nations.

Another Perspective: The United Nations Commission on International Trade Law provides a detailed overview of the United Nations Convention on Contracts for the International Sale of Goods at {http://www.uncitral.org/uncitral/en/uncitral_texts/sale_goods/1980CISG.html}.

Slides 2-19 through 2-22 Property Rights
Property rights refer to a resource over which an individual or business holds a legal title; that is, a resource that they own.

These rights can be violated through private or public action. **Private action** refers to theft, piracy, blackmail, and the like by private individuals or groups. **Public action** violations occur when public officials, such as politicians and government bureaucrats, extort income or resources from property holders.

Another Perspective: The U.S government's web page on intellectual property rights, {http://www.uspto.gov}, contains a wealth of information on intellectual property rights including information on international intellectual property rights treaties and protecting trademarks.

In the United States the **Foreign Corrupt Practices Act** makes bribing a foreign government official in order to obtain or maintain business over which that foreign official has authority a violation of United States law, and requires all publicly traded companies to keep audit records.

Slides 2-23 and 2-24 Intellectual Property Rights
Intellectual property is property that is the product of intellectual activity, such as computer software, a screenplay, a music score, or the chemical formula for a new drug. Ownership rights over intellectual property are established through **patents**, **copyrights**, and **trademarks**.

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Another Perspective: The World Intellectual Property Organization's web site contains extensive information on various treaties and agreements between countries regarding the protection of intellectual property. The site is {http://www.wipo.int/portal/index.html.en}.

Another Perspective: The World Intellectual Property Organization offers suggestion on how exporters can avoid common pitfalls when exporting intellectual property. More details can be found at {http://www.wipo.int/sme/en/documents/wipo_magazine/9_2004.pdf}.

Slide 2-25 Think Like a Manager: Open-Source Software

Slides 2-26 and 2-27 Product Safety and Liability
Product safety laws set safety standards for products and manufacturing processes. **Product liability** involves holding a firm and its officers responsible for product safety standards.

Slide 2-28 Determining a Market's Overall Attractiveness
All else being equal, countries with democratic political institutions, market-based economies, and legal systems that protect property rights and limit corruption will be more attractive than nations that lack these characteristics.

CRITICAL THINKING AND DISCUSSION QUESTIONS

QUESTION 1: Free market economies stimulate greater economic growth, whereas state-directed economies stifle growth. Discuss.

ANSWER 1: In a market economy, private individuals and corporations are allowed to own property and other assets. This right of ownership provides a powerful incentive for people to work hard, introduce new products, develop better advertising campaigns, invent new products, etc., all in the hopes of accumulating additional personal capital and wealth. In turn, the constant search on the part of individuals and corporation to accumulate wealth enriches the entire economy and creates economic growth. In contrast, in a command economy, private individuals and corporations are not allowed to own substantial quantities of property and other assets. The objective of a command economy is for everyone to work for "the good of the society." Although this sounds like a noble ideal, a system that asks individuals to work for the good of society rather than allowing individuals to build personal wealth does not provide a great incentive for people to invent new products, develop better advertising campaigns, find ways to be more efficient, etc. As a result, command economies typically generate less innovation and are less efficient than market economies.

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QUESTION 2: A democratic political system is an essential condition for sustained economic progress. Discuss.

ANSWER 2: Although you can always find examples of totalitarian regimes that have achieved rapid economic growth, it seems fair to say that sustained, decades-long periods of economic growth are quite rare under totalitarianism. There is a widespread belief in the West that democratic principles are more conducive to long-term economic growth than are totalitarian ones. One of the contributing factors is that democratic systems allow for the stable transfer of power through elections, and thus provide political stability, which is an essential prerequisite for rapid economic growth.

QUESTION 3: What is the relationship between corruption in a country (i.e., bribe-taking by government officials) and economic growth? Is corruption always bad?

ANSWER 3: In the United States we show public contempt for the practice of bribery although evidence suggests that bribery is not uncommon in the United States. When government officials engage in corruption, they subordinate the interest of their country to their personal gain. They also reduce the level of transparency in business interactions. Many nations with rampant bribery appear to be among the most economically underdeveloped, yet the inflexible generalization that corruption is always bad oversimplifies the role of culture and its influence on meaning-giving. There are many cultures that accept the role of bribes far more openly than we do in the United States. That managers are aware that some countries – France, Germany and Japan for example – recognize that bribes play an important role in some parts of the world and allow their corporations to expense bribes (deduct bribes as a legal corporate expense) is important.

QUESTION 4: You are the CEO of a company that has to choose between making a $100 million investment in Russia or Poland. Both investments promise the same long-run return, so your choice is driven by risk considerations. Assess the various risks of doing business in each of these nations. Which investment would you favor and why?

ANSWER 4: When assessing the risks of investment, one should consider the political, economic, and legal risks of doing business in both Russia and Poland. The political risk in Russia is still high but it is undergoing continual governmental changes under Putin's leadership, and courting foreign investment. Relatively, Poland is more stable, but it may have less potential. On the economic front, both countries have inflation and economic turmoil as unproductive factories are still struggling in Russia, and migrant workers returning from Western Europe are swelling Poland's ranks of the unemployed. From the legal perspective, Poland is making steady progress, while the situation in Russia is unclear. Thus at this time, the risk in Russia would clearly be higher. (For discussion or to modify this question, you might want to substitute other countries into this question depending on current events and the countries with which your students will be most familiar.)

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QUESTION 5: Read the Country Focus on Venezuela under the leadership of Hugo Chávez, then answer the following questions:
a. Under Chávez's leadership, what kind of economic system was put in place in Venezuela? How would you characterize the political system?
b. How do you think that Chávez's unilateral changes to contracts with foreign oil companies will impact upon future investment by foreigners in Venezuela?
c. How will the high level of public corruption in Venezuela impact future growth rates?
d. Currently Venezuela is benefitting from a boom in oil prices. What do you think might happen if oil prices retreat from their current high level?
e. In your estimation, what is the long run prognosis for the Venezuelan economy? Is this a country that is attractive to international businesses?

ANSWER 5:
a. Chávez claimed to be a democratic socialist. During his 1998 presidential campaign, Chávez blasted the notion of global capitalism. Most students will probably agree that Chávez followed his ideals since winning the election in Venezuela. Chávez ensured that his powers as president were stronger than before, and he extended government control of the media. In addition, Chávez made a number of moves to increase state ownership of key industries like oil, and turned ranches and farms into workers' cooperatives. Chávez also used some of the profits from the country's oil revenues to increase government spending on various social programs, some of which are modeled after programs in Cuba.
b. In the oil industry, which the country depends on for some 70 percent of its exports, Chávez pushed out foreign companies and expanded the hold of the state run company. Most students will recognize that by making it more difficult for foreign investors to do business in the country, in the oil industry or otherwise, Chávez threatened the country's future economic growth. In fact, the country's dependency on oil and lack of diversification into other industries has already had an impact: Inflation is running at more than 25%, and the country has had to expand its budget deficit as the government spent heavily to support its social programs that were once funded by oil revenues. The country's future without Chávez remains unclear.
c. Corruption in Venezuela is rampant. In 2012, Transparency International ranked the country to 165 out of 174, making it one of the most corrupt countries in the world. Government officials are permitted to demand bribes in return for permission to expand operations or enter new lines of business. Many students will recognize the challenges of operating in an environment like the current situation in Venezuela. Some students will probably suggest that firms may reassess their investments given the new political and economic risks present in the country. Many students will probably conclude that a market that is considered to be only partly free, with rampant corruption and privatization taking place, is no longer a worthwhile destination.

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d. During the years when oil prices were rising, Venezuela, one of the world's largest producers of oil, became very rich. Chávez funded various social programs using the oil profits. Most students will probably recognize that the recent drop in oil prices probably spells trouble for these programs. Some students may wonder whether falling oil prices could spell disaster for Venezuela's oil industry. Chávez maximized the state's share of oil revenues by pushing out foreign companies and increasing the hold of state-run Petroleos de Venezuela SA.

e. A recent World Bank study puts Venezuela as being one of the most regulated economies in the world. The move to take various enterprises under state control is also impeding economic growth. In the oil industry, for example, Chávez reduced the stakes owned by foreign companies to give the state run company a bigger position. Most students will probably conclude that given the levels of corruption and regulation, the country is just too risky to consider as a destination for international companies. Some students may also note that Freedom House's 2012 assessment that the country was only "partly free" would also deter potential investors.

Another Perspective: The U.S. Department of State maintains a web site covering the political and economic situation in Venezuela. For more details, go to {http://www.state.gov/r/pa/ei/bgn/35766.htm}.

QUESTION 6: Read the Management Focus feature: Did Walmart violate the Foreign Corrupt Practices Act? What is your opinion? If you think they did, what do you think the consequences will be for Walmart?

ANSWER 6: Student opinions will vary on this topic. Despite spending more than $230 million on its own internal investigation so far, Walmart still may incur a substantial fine from the US Department of Justice. The case is still pending. For more details, go to {http://www.forbes.com/sites/nathanvardi/2012/04/22/why-wal-mart-is-in-big-trouble-for-hushed-up-mexican-bribery-allegations/}.

CLOSING CASE: Putin's Russia

Summary

The closing case describes the process of transitioning from a centrally planned economy to a market-based economic system in Russia following the collapse of the Soviet Union in 1991. Attempts at political reform resulted in a strong presidency that has in many cases undermined the country's transition to a democratic government, while the economic reform process often ended up benefitting a select few private investors with strong ties to the former Soviet government. Corruption and organized crime have proven to be a major obstacle to economic growth in Russia into the twenty-first century. Despite significant growth in the early part of the century on the strength of Russia's booming oil and gas export industry, the country failed to diversify its output and was severely affected by the collapse of oil prices beginning in mid-2014. The presence of a highly

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bureaucratic government (one of the many vestiges of the Soviet system in present-day Russia) has also resulted in a number of barriers to investment and business growth, while political favoritism continues to benefit businesses that have allied themselves with the government.

Russia's current president, Vladimir Putin, has also curtailed civil liberties and expanded the power of the presidency to the point that the country now closely resembles an autocracy rather than a democracy. Political opponents are regularly imprisoned, while the country's constitution and legal system have been revised to place more power in the hands of the president. In 2014, despite international condemnation, Putin led Russia to annex the Crimea region of neighboring Ukraine, leading to the imposition of strong economic sanctions by Western countries. Despite the damaging economic effects of the sanctions, combined with falling oil prices, Putin's grip on the Russian political and economic system shows no signs of weakening.

A discussion of the case can revolve around the following questions:

QUESTION 1: Why did the Russian economy perform well during the 2001–13 period? Why did it run into trouble in 2014? What does this tell you about the efficacy of post-communist economic and political reforms?

ANSWER 1: Russia's economy is primarily based on its oil and gas industry. As oil prices rose between 2001 and 2013, Russia became one of the world's leading providers of crude oil, resulting in significant economic growth. When oil prices collapsed in 2014, the country faced a dramatic decline in oil revenues, resulting in a sustained economic downturn. These events suggest that Russia failed to develop a diverse, market based economy in the post-communist era and instead focused its resources on a few favored industries that left the country vulnerable to unexpected price shifts.

QUESTION 2: How has Vladimir Putin been able to accumulate so much political power in Russia?

ANSWER 2: Putin benefitted from a lingering culture of bureaucracy and political cronyism left over from the Soviet era. He capitalized on long-standing political relationships to win the positions of Prime Minister and later President, and has since pursued reforms intended to silence critics and neutralize political opponents. A lack of effective checks and balances means that Putin now faces little opposition from within the Russian political system, while a crackdown on free speech has led to a general lack of popular protest against his rule.

QUESTION 3: At this point, how secure do you think Putin's hold on power is? What might change things?

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ANSWER 3: Although Putin maintains a firm grip on the Russian political system, much of his influence is based on the strong economic growth experienced between 2001 and 2013. While he may face little danger of a popular uprising removing him from power in response to his authoritarian tendencies, a sustained decline in the Russian economy may severely affect his standing with other influential figures and result in a significant loss of power or a complete removal from office.

QUESTION 4: After the collapse of communism, many Western businesses started to invest in Russia. How do you think the current political and economic climate is impacting the profitability of those investments?

ANSWER 4: Following Russia's annexation of Crimea and the imposition of sanctions by Western governments, many Western companies invested in the region began to worry that Putin would retaliate by curbing imports of foreign goods or making it more difficult to do business in Russia. However, the collapse of oil prices and subsequent decline in the Russian economy ensured that Russia would continue to encourage Western investment, despite deteriorating political relationships with the United States and European Union. Investors, however, were reluctant to commit to new ventures in Russia for fear that profitability would be affected by the existing sanctions.

QUESTION 5: Given what is happening in Russia today, what do you think will happen to foreign direct investment in Russia going forward? Is this a country where a Western enterprise would want to do business?

The political climate in Russia is a significant concern to Western investors. However, the potential for profit in Russia is high despite the recent downturn, and many businesses remain willing to invest there as soon as the economy shows signs of improvement.

Another Perspective: For more information on the potential risks and rewards of investing in Russia go to {http://www.strategic-risk-global.com/what-are-the-business-risks-of-investing-in-russia/1414403.article} and {http://www.reuters.com/article/2015/04/23/russia-crisis-western-companies-idUSL6N0X30GX20150423}.

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INCORPORATING globalEDGE™ EXERCISES

Use the globalEDGE™ site {http://globalEDGE.msu.edu/} to complete the following exercises:

Exercise 1
The definition of words and political ideas can have different meanings in different contexts worldwide. In fact, the *Freedom in the World* survey published by Freedom House evaluates the state of political rights and civil liberties around the world. Provide a description of this survey and a ranking (in terms of "freedom") of the world's leaders and laggards. What factors are taken into consideration in this survey?

Exercise 1 Answer
Search phrase: *Freedom in the World* or *Freedom House*
Resource Name: Freedom House Surveys
Website: http://www.freedomhouse.org/reports
globalEDGE Category: Publications

Additional Info:
Published annually since 1972, the survey ratings and narrative reports on 195 countries provide insight into an assessment of global political rights and civil liberties in each country. Political rights ratings are based on an evaluation of three subcategories: electoral process, political pluralism and participation, and functioning of government. Civil liberties ratings are based on an evaluation of four subcategories: freedom of expression and belief, associational and organizational rights, rule of law, and personal autonomy and individual rights.

Exercise 2
As the chapter discusses, differences in political, economic, and legal systems have considerable impact on the benefits, costs, and risks of doing business in countries around the world. It also has a considerable impact on how easy it is to do business in these countries. The *World Bank Doing Business Indicators* measures the extent of business regulations in countries around the world. Compare the United States, France, Japan, Brazil, and Nigeria in terms of how easily contracts are enforced, how property can be registered, and how investors can be protected. Identify in which area you see the greatest variation from one country to the next.

Exercise 2 Answer
Search phrase: *World Bank Doing Business Indicators*
Resource Name: World Bank: Doing Business Indicators
Website: http://www.doingbusiness.org/
globalEDGE Category: Statistical Data Sources

Additional Info:

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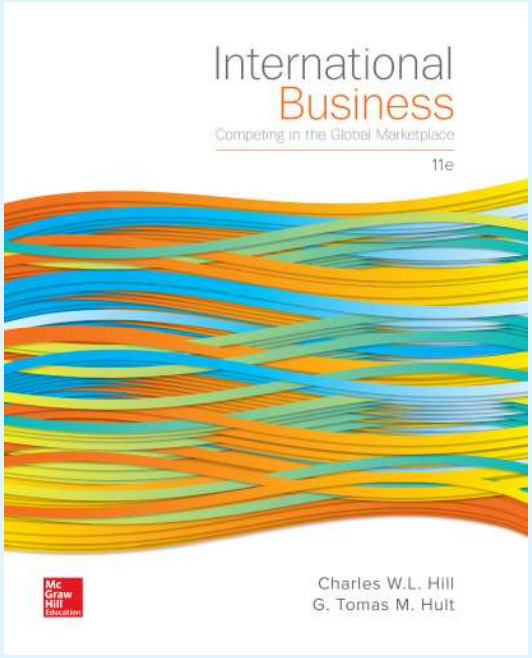
The World Bank's Doing Business Project provides objective measures of business regulations and their enforcement across 189 economies and selected cities at the subnational and regional level. To construct the indicators, two types of data are utilized: First, the relevant laws and regulations in each country are reviewed in detail. Second, official fee schedules and expert respondents' estimated of time each procedure takes is taken into account.

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International Business

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Chapter 2

National Differences in Political, Economic, and Legal Systems

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What Is A Political Economy?

- Political economy of a nation - how the political, economic, and legal systems of a country are interdependent
  - they interact and influence each other
  - they affect the level of economic well-being in the nation

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What Is A Political System?

- Political system - the system of government in a nation
- Assessed according to
  - the degree to which the country emphasizes collectivism as opposed to individualism
  - the degree to which the country is democratic or totalitarian

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What Is Collectivism?

- Collectivism stresses the primacy of collective goals over individual goals
  - can be traced to the Greek philosopher, Plato (427-347 BC)
- Today, collectivism is equated with socialists (Karl Marx 1818-1883)
  - advocate state ownership of the basic means of production, distribution, and exchange
  - manage to benefit society as a whole, rather than individual capitalists

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How Does Modern-Day Socialism Look?

- In the early 20th century, socialism split into
  1. Communism – socialism can only be achieved through violent revolution and totalitarian dictatorship
     - in retreat worldwide by mid-1990s
  2. Social democrats – socialism is achieved through democratic means
     - retreating as many countries move toward free market economies
     - state-owned enterprises have been privatized

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What Is Individualism?

- Individualism refers to philosophy that an individual should have freedom in his own economic and political pursuits
  - can be traced to Greek philosopher, Aristotle (384-322 BC)
    - individual diversity and private ownership are desirable
  - individual economic and political freedoms are the ground rules on which a society should be based
  - implies democratic political systems and free market economies

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What Is Democracy?

- Democracy - a political system in which government is by the people, exercised either directly or through elected representatives
  - usually associated with individualism
  - pure democracy is based on the belief that citizens should be directly involved in decision making
  - most modern democratic states practice representative democracy where citizens periodically elect individuals to represent them

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What Is Totalitarianism?

- Totalitarianism - form of government in which one person or political party exercises absolute control over all spheres of human life and prohibits opposing political parties

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What Is Totalitarianism?

- Four major forms of totalitarianism exist today
  1. Communist totalitarianism – found in states where the communist party monopolizes power
  2. Theocratic totalitarianism - found in states where political power is monopolized by a party, group, or individual that governs according to religious principles
  3. Tribal totalitarianism - found in states where a political party that represents the interests of a particular tribe monopolizes power
  4. Right-wing totalitarianism - permits some individual economic freedom, but restricts individual political freedom

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What Is The Link Between Political Ideology and Economic Systems?

- Political ideology and economic systems are connected
  - countries that stress individual goals are likely to have market based economies
  - in countries where state-ownership is common, collective goals are dominant

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What Is An Economic System?

- There are three types of economic systems
  1. Market economies - all productive activities are privately owned and production is determined by the interaction of supply and demand
     - government encourages free and fair competition between private producers

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What Is An Economic System?

2. Command economies - government plans the goods and services that a country produces, the quantity that is produced, and the prices as which they are sold
   - all businesses are state-owned, and governments allocate resources for "the good of society"
   - because there is little incentive to control costs and be efficient, command economies tend to stagnate

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What Is An Economic System?

3. Mixed economies - certain sectors of the economy are left to private ownership and free market mechanisms while other sectors have significant state ownership and government planning
   - governments tend to own firms that are considered important to national security

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What Is A Legal System?

- Legal system - the rules that regulate behavior along with the processes by which the laws are enforced and through which redress for grievances is obtained
  - the system in a country is influenced by the prevailing political system
- Legal systems are important for business because they
  - define how business transactions are executed
  - identify the rights and obligations of parties involved in business transactions

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What Are The Different Legal Systems?

- There are three types of legal systems
  1. Common law - based on tradition, precedent, and custom
  2. Civic law - based on detailed set of laws organized into codes
  3. Theocratic law - law is based on religious teachings

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How Are Contracts Enforced In Different Legal Systems?

- Contract - document that specifies the conditions under which an exchange is to occur and details the rights and obligations of the parties involved
- Contract law is the body of law that governs contract enforcement
  - under a common law system, contracts tend to be very detailed with all contingencies spelled out
  - under a civil law system, contracts tend to be much shorter and less specific because many issues are already covered in the civil code

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Which Country's Laws Should Apply In A Contract Dispute?

- The United Nations Convention on Contracts for the International Sale of Goods (CIGS)
  - establishes a uniform set of rules governing certain aspects of the making and performance of everyday commercial contracts between buyers and sellers who have their places of business in different nations
- Ratified by the U.S. and about 70 countries
  - but, many larger trading nations including Japan and the U.K. have not agreed to the provisions of CIGS and opt for arbitration instead

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How Are Property Rights And Corruption Related?

- Property rights - the legal rights over the use to which a resource is put and over the use made of any income that may be derived from that resource

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How Are Property Rights And Corruption Related?

- Property rights can be violated through
  1. Private action – theft, piracy, blackmail
  2. Public action - legally - ex. excessive taxation or illegally - ex. bribes or blackmailing
     - high levels of corruption reduce foreign direct investment, the level of international trade, and the economic growth rate in a country

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How Are Property Rights And Corruption Related?

- The Foreign Corrupt Practices Act makes it illegal for U.S. companies to bribe foreign government officials to obtain or maintain business over which that foreign official has authority
  - facilitating or expediting payments to secure or expedite routine government action are permitted

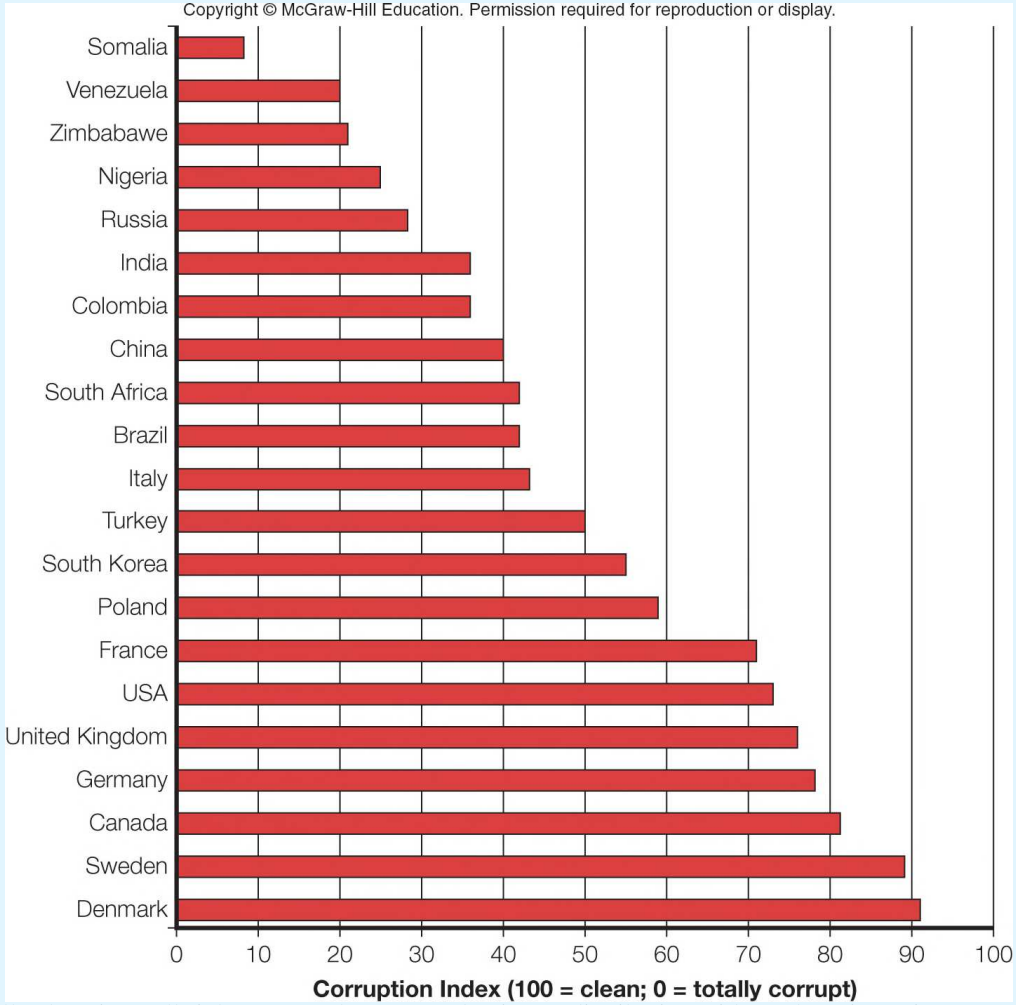
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Which Countries Are Most Corrupt?

Rankings of Corruption by Country 2014

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How Can Intellectual Property Be Protected?

- Intellectual property - property that is the product of intellectual activity
- Can be protected using
  1. Patents – exclusive rights for a defined period to the manufacture, use, or sale of that invention
  2. Copyrights – the exclusive legal rights of authors, composers, playwrights, artists, and publishers to publish and disperse their work as they see fit
  3. Trademarks – design and names by which merchants or manufacturers designate and differentiate their products

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How Can Intellectual Property Be Protected?

- Protection of intellectual property rights differs from country to country
  - World Intellectual Property Organization
  - Paris Convention for the Protection of Industrial Property
- To avoid piracy, firms can
  - stay away from countries where intellectual property laws are lax
  - file lawsuits
  - lobby governments for international property rights agreements and enforcement

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Think Like a Manager

Intellectual property theft is a major issue in the global software industry. One method that software companies use to avoid the threat of piracy is to develop "open source" software – software that is distributed free of charge and with part or all of the source code available to other programmers. Users may alter or improve the program as they see fit, so long as they share their improvements with the rest of the open source community.

What are some potential advantages and disadvantages to developing open source software? As the head of a promising software startup, would you consider developing an open source product?

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What Is Product Safety And Liability?

- Product safety laws set certain standards to which a product must adhere
- Product liability involves holding a firm and its officers responsible when a product causes injury, death, or damage
  - liability laws tend to be less extensive in less developed nations

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Why Is Product Safety And Product Liability Important?

- Question:
  - Does the high cost of liability insurance in the U.S. make American companies less competitive?
- Question:
  - Is it ethical to follow host country standards when product safety laws are stricter in a firm's home country than in a foreign country?
- Question:
  - Is it ethical to follow host country standards when liability laws are more lax in the host country?

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How Can Managers Determine A Market's Overall Attractiveness?

- The overall attractiveness of a country as a potential market and/or investment site for an international business depends on balancing the benefits, costs, and risks associated with doing business in that country
  - Other things being equal, more attractive countries have democratic political institutions, market based economies, and strong legal systems that protect property rights and limit corruption

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