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SKU: 9781259686696-SOLUTIONS

National Differences in Political, Economic, and Legal Systems

Chapter Outline

OPENING CASE: Economic Transformation in Vietnam

INTRODUCTION

POLITICAL SYSTEMS

- Collectivism and Individualism
- **Country Focus:** **Putin's Russia**
- Democracy and Totalitarianism

ECONOMIC SYSTEMS

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- Mixed Economy

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- **Management Focus:** **Starbucks Wins Key Trademark Case in China**
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FOCUS ON MANAGERIAL IMPLICATIONS: The Macro Environment Influences Market Attractiveness

KEY TERMS

SUMMARY

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CRITICAL THINKING AND DISCUSSION QUESTIONS

globalEDGE Research Task

CLOSING CASE: Venezuela Under Hugo Chavez and Beyond

Learning Objectives

2.1 Understand how the political systems of countries differ.

2.2 Understand how the economic systems of countries differ.

2.3 Understand how the legal systems of countries differ.

2.4 Explain the implications for management practice of national difference in political economy.

Chapter Summary

This chapter focuses on the different political, economic, and legal systems that are influential in the world. It is made clear to the reader that these differences are significant, and must be clearly understood by the managers of international firms. The section focusing on legal systems includes a discussion of intellectual property including patents, copyrights, and trademarks. Protecting intellectual property is a particularly problematic issue in international trade. Finally, the chapter ends with a discussion of the managerial implications of differing political, economic, and legal systems of a country.

Chapter Activity

In this activity, students will research and reflect on legal and political systems in several countries. Use www.globalEDGE.com to research the legal and representative political systems in the United States, Canada, Britain, and other advanced economies. The basic tenet of the U.S. system is preservation of individual rights, and this may be grounded in America's passion with individualism. Explain that the US scores very high on Hofstede's individualism vs. collectivism dimension of cultural differences (more on this in Chapter 4). Suggest that individualistic cultures value:

- Individual responsibility for decisions
- Individual freedoms and achievement
- Decisions can be rapid
- Importance of nuclear family

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- Rewards given to those who venture into business alone – the entrepreneur

Cultures including Russian, Chinese, and Indian may be more collectivist and may employ more authoritarian political systems and planned economic systems. Suggest that collectivist cultures value:

- Group and shared responsibility for decisions
- Decisions may be slow, consensual, and consultative
- Group nurtures individual.
- Importance of extended families and in-group priorities
- Recognition of collective business ventures, with family and friends

As students work through this chapter, ask them to research the evolution of political and legal systems in a country they are familiar with (not the US) by using www.globalEDGE.com. Some traditionally authoritarian countries are transitioning towards representative governments: suggest that this may be in response to changes driven by globalization and technology.

Economic Transformation in Vietnam

opening case

Summary

The opening case follows the development of the Vietnamese economy from 1986. Vietnam has become a country that liberalized many aspects of its economic activity over the past three decades. This allowed the country to increase its gross domestic product from $100 per person in 1986 to $5,700 in 2014. Rather than rely solely on state-owned enterprises, a series of efforts at liberalization began starting in 1986. Agricultural lands were turned over to private ownership and state farm collectives were dismantled. Then, after the success of these reforms, some forms of private enterprises were allowed and many price controls were removed. Despite these economic advancements, democratization has not occurred and corruption is a recurring problem. A discussion of the case can involve the following questions:

Discussion Questions

QUESTION 1: Evaluate the relative success of economic liberalization efforts in Vietnam. How have these actions improved life for everyday citizens in the country? What prospects may allow Vietnam to continue on its path of economic development?

ANSWER 1: In a comparison of 1986 to 2014, economic liberalization has increased the standard of living in Vietnam. Gross domestic product has increased from $100 to $5,700 per person, the country's agriculture infrastructure has been privatized, and market-oriented enterprises have been

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allowed to develop. Based on these changes, Vietnam is now in a position to take part in the Trans Pacific Partnership which would further open the country's economy and provide greater access to the global economy for both companies as well as consumers.

QUESTION 2: How has Vietnam balanced the economic reforms with the social and cultural changes that result from such actions? What are some of the challenges that the country's leaders will face if it continues as a more market-based economy?

ANSWER 2: The Communist Party has focused on the development of the economy almost exclusively. In fact, any effort of democratization has not taken place. Country leaders have maintained firm control over the political and judicial systems. Also, corruption continues to be a problem in Vietnam. As a result, if the country continues on a market-based path, the Communist Party may need to address not only the increased choice that is offered by such an effort, but also deal with corruption in the country as it tends to reduce the ability of a country to be driven by market forces.

Teaching Tip: Students can examine Vietnam in greater detail at the CIA's World Factbook website at {https://www.cia.gov/library/publications/the-world-factbook/geos/vm.html}.

Lecture Note: To extend the discussion, consider the growth and expansion of Vietnam's economy. To learn more, go to {http://www.bloomberg.com/news/articles/2016-01-18/vietnam-growth-makes-it-emerging-market-standout-in-shaky-world} and {http://www.bloomberg.com/news/articles/2016-07-24/as-japan-grays-retailers-covet-youthful-masses-in-vietnam}.

Chapter Outline with Lecture Notes, Video Notes, and Teaching Tips

Introduction

A) Different countries have different political, economic, and legal systems. Cultural practices can vary dramatically from country to country, as can the education and skill level of the population. All of these differences have major implications for the practice of international business.

B) This chapter explores how the political, economic, and legal systems of countries differ. Together these systems are known as the **political economy** of a country.

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C) The opening case on the changing economic landscape in Vietnam illustrates how economic growth in a country can be driven by necessity for growth within a command economy structure. A series of market-based reforms introduced by the Communist Party beginning in 1986 brought about unprecedented growth in the economy. However, more recently, some command economy tools such as price controls have been reinstituted to a degree. Today, the country faces the potential for continued economic growth with the initiation of the Trans Pacific Partnership.

Political Systems

A) By **political system** we mean the system of government in a nation. Political systems can be assessed according to two related dimensions. The first is the degree to which they emphasize collectivism as opposed to individualism. The second dimension is the degree to which they are democratic or totalitarian.

COLLECTIVISM AND INDIVIDUALISM

B) **Collectivism** refers to a system that stresses the primacy of collective goals over individual goals. When collectivism is emphasized, the needs of the society as whole are generally viewed as being more important than individual freedoms. Advocacy of collectivism can be traced to Plato, in modern times the collectivist mantle has been picked up by **socialists**, and their champion, Karl Marx.

Socialism

C) **Communists** generally believed that this could only be achieved through violent revolution and totalitarian dictatorship, while s**ocial democrats** worked to achieve the same goals by democratic means.

D) While state owned firms might have been intended to promote the public interest, experience suggests that this is not always the case. In many countries, the performance of state owned companies has been poor. Protected from significant competition by their monopoly position, and guaranteed governmental financial assistance, many state owned enterprises became increasingly inefficient. Consequently, a number of Western democracies voted social democratic parties out of office and moved toward free market economies by selling state-owned enterprises to private investors, a process known as **privatization**.

Individualism

E) **Individualism** refers to a political philosophy that an individual should have freedom over his or her economic and political pursuits. In contrast to collectivism, individualism stresses that the interests of the individual should take precedence over the interests of the state.

F) Individualism, while advocated by Aristotle, in modern days was encouraged by David Hume, Adam Smith, John Stuart Mill, and most recently, Friedrich von Hayek, James Buchanan, and Milton Friedman. Individualism focuses on 1) guaranteeing individual freedom and self-expression, and 2) letting people pursue their own self-interest in order to achieve the best overall good for society. The U.S. Declaration of Independence and the Bill of Rights embody the spirit of

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individualism.

G) While collectivism asserts the primacy of the collective over the individual, individualism asserts the opposite. This ideological difference shapes much of recent history and the Cold War. Individualism is usually associated with democratic political systems and free markets.

country FOCUS: Putin's Russia

Summary

This feature explores the state of the Russian economy since the collapse of the USSR, and in particular under the leadership of Vladimir Putin. While Russia's economy has grown rapidly in the so-called pseudo-democracy that now exists, the country is heavily dependent on oil and gas exports—both industries that are still largely state controlled. Indeed, the presence of the government remains an issue for the economy as a whole. Currently, roughly half of the total economy is still controlled by the state, a situation that could hamper future growth. Even private enterprises are dealing with considerable red tape and corrupt government officials. Both the World Bank and Transparency International have highlighted these problems as factors preventing commerce from flourishing in Russia.

Discussion Questions

QUESTION 1: Discuss the implications of corruption on the development and growth of a country. How can Russia's current political system best be described? What conclusions can you draw regarding Russia's economic prospects?

ANSWER 1: Since the collapse of the USSR, Russia has struggled to get its economy on track. Today, under the leadership of Vladimir Putin, Russia's economy is growing; however, there is considerable concern that the government's involvement in the business sector combined with high level of corruption could hamper future economic growth. Both the World Bank and Transparency International have raised the issue of corruption, giving the country poor rankings for ease of starting a business and outright corruption levels. Most students will probably recognize that corrupt behavior by government officials makes it very difficult for a country to gain traction. Some students may also wonder whether Putin's recent invasion of the Ukraine could signal an end to the country's pseudo-democracy.

QUESTION 2: Discuss the pros and cons of investing in Russia. As a CEO of a company in the oil industry would you invest in Russia? How does a stable government affect a country's ability to attract investment?

ANSWER: In general, companies exploring the opportunity to expand into foreign markets will be more attracted to countries where it is easy to conduct business as compared to locations where it is not. That being said, many students will probably suggest that the situation in Russia today is a tricky one. Corruption in the country is high, and the World Bank ranks Russia poorly on ease of

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doing business. Moreover, many students will probably advise caution given that the oil industry is still largely under the control of the government. Some students may also wonder whether sanctions by the United States and/or the European Union could further complicate matters if Putin's aggressive stance towards the Ukraine continues to persist.

Lecture Note: To extend this discussion, consider {http://www.bloomberg.com/news/articles/2016-01-13/a-fallen-russia-oligarch-sends-warning-to-rest-of-putin-insiders}.

Teaching Tip: Information on doing business in Russia is available at {http://www.doingbusiness.org/data/exploreeconomies/russia} and {http://moscow.usembassy.gov/business-russia.html}.

DEMOCRACY AND TOTALITARIANISM

H) Democracy and totalitarianism are at different ends of a political dimension**. Democracy** refers to a political system in which government is by the people, exercised either directly or through elected representatives. **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.

Democracy

I) Democracy in its pure state, with each individual voting on every issue, has generally been replaced by **representative democracy**, where elected representatives vote on behalf of constituents.

Totalitarianism

J) Under totalitarianism, a single political party, individual, or group of individuals monopolize the political power and do not permit opposition. There are four major forms of totalitarianism: **communist totalitarianism**, (a form of totalitarianism that advocates achieving socialism through totalitarian dictatorship), **theocratic totalitarianism**, (a form of totalitarianism in which political power is monopolized by a party, group, or individual that governs according to religious principles), **tribal totalitarianism** (a form of totalitarianism found mainly in Africa in which a political party that represents the interests of a particular tribe monopolizes power), **right wing totalitarianism** (a form of totalitarianism in which individual economic freedom is allowed but individual political freedom is restricted in the belief that it could lead to communism). There has been a general trend away from communist and right wing totalitarianism and towards democracy.

Video Note: Yum! has expanded its locations to include Myanmar. To learn more about how the company is approaching the market, consider the video in the International Business Library at http://bit.ly/MHEIBVideo called *Yum! To Bring First KFC to Myanmar in 2015.* Click "Ctrl+F" on your keyboard to search for the video title and access teaching notes.

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Additionally, our McGraw-Hill Education International Business Video Library at http://bit.ly/MHEIBVideo provides on ongoing stream of updated video suggestions correlated by key concept and major topic. Every new clip posted is supported by teaching notes, discussion questions.

Please feel free to leave comments in the library that you feel might be helpful to your colleagues.

Pseudo-Democracies

K) The political system in many nations of the world can best be described as imperfect or pseudo-democracies—lying somewhere between a pure democracy and complete totalitarianism.

Economic Systems

A) There is a connection between political ideology and economic systems. In countries where individual goals are given primacy over collective goals, a free market system is more likely to exist. In contrast, in countries where collective goals are dominant, enterprises may be state-owned, and markets may be restricted. Three broad types of economic systems can be identified—a market economy, a command economy, and a mixed economy.

MARKET ECONOMY

B) In a pure **market economy,** the goods and services that a country produces, and the quantity in which they are produced, is not planned by anyone. Rather price and quantity are determined by supply and demand. For a market economy to function, there must be no restrictions on either side— no monopolistic sellers. In a market economy, government encourages free and fair competition between private producers.

COMMAND ECONOMY

C) In a pure **command economy,** the goods and services that a country produces, the quantity in which they are produced, and the price at which they are sold are all planned by the government. Resources are allocated "for the good of society." The government owns most, if not all, businesses.

MIXED ECONOMY

D) A **mixed economy** includes some elements of each. Until recently, Great Britain, France, and Sweden were all considered mixed economies. Today, however, as a result of extensive privatization, these countries function as market economies. In contrast, in recent years Russia and Venezuela have seen an increase in state-owned business.

Legal Systems

A) The **legal system** of a country refers to the rules, or laws, that regulate behavior, along with the processes by which the laws of a country are enforced and through which redress for grievances is obtained.

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B) The legal environment of a country is of immense importance to international business because a country's laws regulate business practice, define the manner in which business transactions are to be executed, and set down the rights and obligations of those involved in business transactions. Differences in the structure of law can have an important impact upon the attractiveness of a country as an investment site and/or market.

Teaching Tip: To learn more about international law and the legal systems of the countries of the world consider {http://www.doingbusiness.org/law-library}.

DIFFERENT LEGAL SYSTEMS

C) There are three main types of legal systems in use around the world: common law, civil law, and theocratic law.

Common Law

D) The **common law** system (based on tradition, precedent, and custom) evolved in England over hundreds of years. It is now found in most of Great Britain's former colonies, including the United States.

Civil Law

E) A **civil law** system is based on a very detailed set of laws organized into codes. Over 80 countries, including Germany, France, Japan, and Russia, operate with a civil law system.

Theocratic Law

F) Islamic law is the most widely practiced **theocratic law** system (based on religious teachings) in the modern world.

DIFFERENCES IN CONTRACT LAW

G) **Contract law** is the body of law that governs contract enforcement. 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. The **United Nations Convention in Contracts for the International Sales of Goods (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. By adopting CIGS, a nation signals to other nations that it will treat the Convention's rules as part of its law.

PROPERTY RIGHTS AND CORRUPTION

H) Control over **property rights** (the bundle of 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 source) are very important for the functioning of business. Property rights can be violated by either **private action** (theft, piracy, blackmail, Russian Mafia) or **public action** (governmental bribery and corruption, nationalization).

Private Action

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I) Private action refers to theft, piracy, blackmail, and the like by private individuals or groups.

Public Action and Corruption
J) Public action to violate property rights occurs when public officials extort income or resources from property holders using various legal mechanisms including excessive taxation, requiring expensive licenses or permits from property holders, or taking assets into state ownership without compensating the owners.

K) In some countries, corruption is kept to a minimum while in others corruption is rampant.

Foreign Corrupt Practices Act
L) The **Foreign Corrupt Practices Act** makes it a violation of the United States law to bribe a foreign government official in order to obtain or maintain business over which the foreign official has authority, and requires all publicly traded countries to keep detailed records so that it is clear whether a violation of the act has occurred or not.

management FOCUS: Did Walmart Violate the Foreign Corrupt Practices Act?

Summary
This feature explores corruption at Walmart's Mexico division where managers allegedly bribed Mexican government officials to obtain permission to build the San Juan Teotihuacan store in the early 2000s. After leaders at Walmart's headquarters were alerted of the situation, Walmart launched an internal investigation. However, the investigation was turned over to Walmart Mexico to complete and only after a 2012 *New York Times* article again raised questions about the situation did Walmart reopen the investigation. Today, the company has spent more than $300 million on lawyers looking into the issue and Walmart is also facing scrutiny by the SEC and the U.S. Department of Justice.

Discussion Questions
Please see Critical Thinking Question 5 for discussion of this feature.

Did You Know Video Clip:
The video clip asks: "Did you know that it's illegal for Americans to bribe public officials to gain business in a foreign country, even if bribery is commonplace in that nation?"

Suggested Questions
Question 1: What does the FCPA prohibit U.S. business leaders from doing in other countries?

Answer 1: It makes it illegal to bribe a foreign government official to obtain or maintain business

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over which that foreign official has authority, and it requires all publicly traded companies to keep detailed records that would reveal whether a violation of the act has occurred.

Question 2: Do you agree with some people who say that that bribery is justified as normal compensation in other countries for public officials who earn low wages?

Question 3: Do you agree with people who say that bribery may be justified to grease the wheels so that business can be done in some countries?

Learn more about bribery around the world from the world's largest companies:

https://www.washingtonpost.com/news/wonk/wp/2014/12/03/how-the-worlds-biggest-companies-bribe-foreign-governments-in-11-charts/

country FOCUS: Corruption in Brazil

Summary

This country focus segment examines the extent of corruption in the country of Brazil. Even though the country is the seventh-largest economy in the world and considered to be a moderately free market economy, the corruption which exists in Brazil typically involves political connections. This is reflected in the relatively high perception of corruption in international surveys on the subject by Transparency International and the World Economic Forum. Known to exist for decades, the *mensalao* ("monthly payoff") and Petrobras scandals underscore the pervasiveness of the problem in Brazil.

Discussion Questions

QUESTION 1: What is the nature of the *mensalao* scandal? How extensive was it? What was the reaction in Brazil to its occurrence?

ANSWER 1: Even though a midlevel postal worker was caught taking a bribe for government contract favors, the awarding of such contracts and the backing of specific government programs in the Brazil's National Congress involved about 25 politicians and business executives. Bribery, money laundering, and corruption were the charges on which they were found guilty. Even though the *mensalao* case became known in 2005, the public outcry was significant through the time this case was resolved in the courts in 2012.

QUESTION 2: What was the extent of the Petrobras scandal? Who did it impact? What made this case such a problem for Brazil?

ANSWER 2: The Petrobras scandal became known in 2014, although it had been taking place

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since 1997. Construction firms would pay bribes to the state-owned company's executives which were typically politically appointed. A three percent fee was assessed to contracts and subsequently shared by Petrobras executives, construction industry executives, and politicians. As the Brazilian president, Dilma Rousseff, was chair of Petrobras at the time, her presidency was suspended and she awaits an impeachment trial.

Teaching Tip: Students can explore past and present information concerning Transparency International's Corruption Perceptions Index at {http://www.transparency.org/research/cpi/overview}.

Lecture Note: To extend the discussion to include the economic impact of corruption in Brazil, consider {http://www.bloomberg.com/news/articles/2016-08-22/brazil-s-corruption-probe-causing-paralysis-ge-s-rice-says}.

THE PROTECTION OF INTELLECTUAL PROPERTY

M) **Intellectual property** refers to property, such as computer software, a screenplay, or the chemical formula for a new drug that is the product of intellectual activity. Intellectual property rights include **patents** (documents giving the inventor of a new product or process exclusive rights to the manufacture, use, or sale of that invention); **copyrights** (exclusive legal rights of authors, composers, playwrights, artists, and publishers to publish and dispose of their work as they see fit); and **trademarks** (designs and names, often officially registered, by which merchants or manufacturers designate and differentiate their products).

Teaching Tip: For information on intellectual property rights and policies go to the World Trade Organization's web page at {http://www.wto.org/english/tratop_e/trips_e/trips_e.htm} and the United States Patent and Trade Office's web page {http://www.uspto.gov/ip/}.

N) The protection of intellectual property rights differs greatly from country to country. While many countries have stringent intellectual property regulations on their books, the enforcement of these regulations has often been lax.

Lecture Note: The U.S. Department of Commerce has made intellectual property protection a priority. To learn more about what the Department is doing go to {http://www.stopfakes.gov/about}.

Teaching Tip: For more information on U.S. Trademark law go to {http://www.law.cornell.edu/topics/trademark.html}.

O) Over 185 nations are part of the **World Intellectual Property Organization.** These countries have all signed an international agreement to protect intellectual property rights known as the **Paris**

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Convention for the Protection of Industrial Property. In addition, an agreement known as the Trade Related Aspects of Intellectual Property Rights (TRIPS) requires WTO members to grant and enforce patents lasting at least 20 years and copyrights lasting 50 years.

Teaching Tip: The World Intellectual Property Organization provides extensive information on various treaties and agreements between countries regarding the protection of intellectual property. Go to {http://www.wipo.int/portal/index.html.en} and click on About WIPO, and then on How WIPO Works, and on Treaties.

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management FOCUS: Starbucks Wins Key Trademark Case in China

Summary
This feature focuses on intellectual property laws in China. When Starbucks entered China in 1999, the company was quickly challenged by a look-alike competitor, Shanghai Xing Ba Ke Coffee Shop. Not only did the name Xing Ba Ke mimic the Starbucks name, but Xing Ba Ke's stores were virtual replicas of those operated by Starbucks. In 2003, Starbucks sued Xing Ba Ke for trademark violations. In 2006, Starbucks won its case, and Xing Ba Ke was fined $62,000 and ordered to stop using its name. The case was seen as a break through of sorts, a signal that China was finally caving to pressure from other nations and the World Trade Organization to respect intellectual property rights. Today, Starbucks operates over 400 stores in China and expects the market to become second only to the U.S.

Discussion Questions
1. Discuss the concept of property rights protection and why it is so important to companies. What does the court ruling against Xing Ba Ke mean for other companies that are already doing business in China, or are considering entering the market?

Discussion Points: Most students will recognize that firms that depend on proprietary property, such as a brand name or technology for their competitive advantage, probably also rely on property rights protection to ensure that competitors cannot benefit from their efforts. The finding against Xing Ba Ke is a symbol that property rights protection should be taken seriously, and that blatant violations of property rights will not be tolerated.

2. How important is the Chinese market to Starbucks? Does the presence of look-alike companies like Xing Ba Ke deter firms from entering the market?

Discussion Points: With its growing middle class, the potential in the Chinese market is vast. Some students might argue that the presence of Xing Ba Ke is actually a positive force for Starbucks in that the coffee shop helps to promote the idea of coffee consumption in the Starbucks' way. Most students however, will probably suggest that companies like Xing Ba Ke are a nuisance because they could potentially damage the reputation of Starbucks if customers have a negative experience at the stores, and because they require constant monitoring, are a drain on profits.

Lecture Note: To extend this discussion, consider {http://www.businessinsider.com/how-starbucks-is-different-in-china-2014-8}.

Teaching Tip: To explore Starbucks in more depth, go to the company's web site at {http://www.starbucks.com/}. Click on "International" to explore individual country sites.

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PRODUCT SAFETY AND PRODUCT LIABILITY

P) Different countries have different **product safety laws** (safety standards to which a product must adhere). In some cases, businesses must customize products to adhere to local standards if they are to do business in a country, whether these standards are higher or just different. **Product liability** involves holding a firm and its officers responsible when a product causes death, injury, or damage. Some executives believe that the high cost of liability insurance in U.S. hampers the competitiveness of U.S. companies in the global marketplace.

Q) When product standards are lower in other countries, firms face an important ethical dilemma. Should they produce products only of the highest standards even if this puts them at a competitive disadvantage relative to other producers and results in not maximizing value to shareholders? Or should they produce products that respond to local differences, even if that means that consumers may not be assured of the same levels of safety in different countries?

FOCUS ON MANAGERIAL IMPLICATIONS: The Macro Environment Influences Market Attractiveness

A) The material discussed in this chapter has two broad implications for international business. First, political, economic, and legal systems of a country raise important ethical issues that have implications for the practice of international business. Second, the political, economic, and legal environments of a country clearly influence the attractiveness of that country as a market and/or investment site.

B) 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.

C) In general, a country with democratic political institutions, a market-based economic system, and strong legal system that protects property rights and limits corruption will be more attractive to companies than a country that lacks democratic institutions, where there is strong government regulation of economic activity, and where the level of corruption is high and the rule of law is not respected.

Critical Thinking and Discussion Questions

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

Answer: In a market economy, private individuals and corporations are allowed to own property

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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 corporations 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.

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

Answer: This question has no clear-cut answer. In the West, we tend to argue that democracy is good for economic progress. This argument is largely predicated upon the idea that innovation is the engine of economic growth, and a democratic political system encourages rather than stifles innovation. However, there are examples of totalitarian regimes that have fostered a market economy and strong property rights protection and experienced rapid economic growth. The examples include four of the fastest growing economies of the past 35 years—South Korea, Taiwan, Singapore, and Hong Kong—all of which have grown faster than Western economies. However, while it is possible to argue that democracy is not a necessary precondition for the establishment of a free market economy, it seems evident that subsequent economic growth leads to establishment of democratic regimes. Several of the fastest-growing Asian economies have recently adopted more democratic governments.

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

Answer: Economic evidence suggests that high levels of corruption significantly reduce the economic growth rate in a country. By siphoning off profits, corrupt politicians and bureaucrats reduce the returns to business investment, and hence, reduce the incentive that both domestic and foreign businesses have to invest in that country. The lower level of investment that results has a negative impact on economic growth. However, while most students will probably agree that corruption is bad, some may point out that the United States, despite its Foreign Corrupt Practices Act, does allow "grease payments" to expedite or secure the performance of a routine governmental action. According to Congress, "grease payments," while technically bribes, are not being used to obtain or maintain business, but rather are simply made to facilitate performance of duties that the recipients are already obligated to perform.

4. You are the CEO of a company that has to choose between making a $100 million investment in either Russia or Poland. Both investments promise the same long-run return, so your choice of

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which investment to make 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: When assessing the risks of investment, one should consider the political, economic, and legal risks of doing business in either Russia or Poland. Today, the risk in Russia would probably be considered higher than the risk in Poland. Poland has recently been accepted as a member of the EU, and as such gains the benefits and stability offered by the EU. Russia, by contrast, is still many years away from even being in a position to be considered by the EU for membership, and the recent actions of President Vladimir Putin, particularly in the Ukraine, have been alarming to many.

Lecture Note: Vladimir Putin may not be popular in the United States or Europe, but many Russians support him. Even so, Russian consumers have cut spending, threatening continued economic growth. To extend the discussion, consider exploring this interesting phenomenon with {http://www.bloomberg.com/news/articles/2014-08-28/putins-popularity-up-russian-economic-prospects-down}.

5. Reread the Management Focus feature: Did Walmart Violate the Foreign Corrupt Practices Act? What is your opinion? If you think it did, what do you think the consequences will be for Walmart?

Answer: The Foreign Corrupt Practices Act prohibits companies from bribing foreign government officials to obtain or maintain business over which that foreign official has authority. Most students will probably agree that Walmart clearly violated the Act when it bribed Mexican officials to redraw the zoning area so that Walmart's San Juan Teotihuacan store could be built outside the commercial-free zone rather than inside it. Students will probably suggest that Walmart is likely to face significant fines if it is indeed found guilty of violating the Foreign Corrupt Practices Act.

Venezuela Under Hugo Chavez and Beyond

closing case

Summary

This closing case explores the political and economic situation in Venezuela under Hugo Chavez and, after Chavez's death, Nicolas Maduro. When Chavez, who was elected president in 1998, ran on a platform against corruption and economic mismanagement, Venezuela's economy was in a deep recession. Once in office, Chavez consolidated his hold over the government by drafting a new constitution that put him in power until 2012. Chavez died in 2013, but during his presidency Venezuela was considered to be only "partly free." Economically, things were also difficult for Venezuela. Chavez did achieve some gains. Unemployment, though still high, fell to 7.6 percent in 2013 from its high of 14.5 percent in 1998. Similarly, poverty remained a problem despite falling from 50 percent to 28 percent in 2012. Yet, corruption was rampant, and there was a move to take certain industries into state ownership, with the oil industry being a particular target. Following his

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death, the situation for his successor, Nicolas Maduro, became worse. The decline in the price of oil resulted in economic collapse with inflation reaching 275 percent, the poverty rate above 30 percent, and considerable value reduction of the Venezuelan currency, the bolivar. The result was heavy loses in December 2015 parliamentary elections which saw the opposition gaining a majority of seats over the ruling United Socialist Party.

QUESTION 1: Under Chavez's leadership, what kind of economic system was put in place in Venezuela? How would you characterize the political system?

ANSWER 1: Most students will probably agree that under Chavez, Venezuela moved toward a socialist regime. Numerous enterprises were taken over by the state, and other companies were forced into reorganizing as "workers' cooperatives." The government also extended its reach into rural areas, where it seized farms and turned them into state-owned cooperatives. Chavez also used some of the profits from the country's soaring oil revenues to increase government spending on various social programs, some of which were modeled after programs in Cuba.

QUESTION 2: How do you think that Chavez's unilateral changes to contracts with foreign oil companies affected future investment by foreigners in Venezuela?

ANSWER 2: In the oil industry, which the country depends on for some 70 percent of its exports, Chavez pushed out foreign companies, and expanded the hold of the state run company. Chavez announced in 2005 that the state would increase its royalties on oil sales from 1 percent to 30 percent, and that in 2006, the tax rate of oil sales would also increase from 34 percent to 50 percent. 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, Chavez threatened future economic growth. Indeed, oil production in the country has fallen by one third since 2000.

QUESTION 3: How will the high level of public corruption in Venezuela impact future growth rates?

ANSWER 3: Corruption in Venezuela is rampant. In 2012, Transparency International lowered its ranking of 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 nationalization taking place, is no longer a worthwhile destination.

QUESTION 4: Venezuela relies on oil as a main source of economic income. How did the

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collapse in the price of oil impact the country's economy?

ANSWER 4: When Nicolas Maduro took office after Chavez's death, the same policies were continued. Then, the country fell into a recession in 2014. From that, the drop in oil prices in 2015 shrunk the Venezuelan economy by 10 percent. Shortages became commonplace and unemployment rose. Inflation reached 275 percent, poverty was at 30 percent, and the bolivar (Venezuela's currency) reduced in value considerably. In all, it appeared that the economy was going to collapse.

QUESTION 5: 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 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, Chavez 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 may be too risky to consider as a destination for international companies. However, with the changes occurring at the parliamentary level after elections in 2015, it remains to be seen whether long-term changes will be instituted to encourage foreign investment.

Teaching Tip: Information on doing business in Ghana is available at {http://www.doingbusiness.org/data/exploreeconomies/venezuela/} and{https://caracas.usembassy.gov/doing-business-local.html}.

Continuous Case Concept

Recent sanctions by the United States and Europe against Russia are posing problems for global automakers. The sanctions, imposed in response to Vladimir Putin's policy decisions are creating challenges not only for Russian citizens, but also for U.S. and European companies. France's Renault is likely to be hit hardest. It is the most dependent on the Russian market followed by South Korea's Kia and Hyundai, and Japan's Nissan, and German automakers VW and Mercedes. If these sanctions persist, the companies could experience considerable production issues. Already, General Motors is offering buyouts to its workers in Russia as sales slump in the country.

- Ask students to consider the impact of the sanctions relative to the overall attractiveness of the Russian market. What are the political and economic costs of doing business in countries like Russia where political problems threaten economic growth?

- Then, ask students to consider what strategic alternatives are open to companies like Renault that depend on the Russian market.

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- Finally, ask students to consider the tradeoffs of operating in an emerging market like Russia where political uncertainty is high as compared to a more established market.

This exercise could be used at the beginning of the discussion of this chapter's material, and/or again at the end. To take the discussion into greater depth, ask students read the pertinent selections in the *additional readings* section below. The exercise also works well at the beginning of the *implications for managers* section.

globalEDGE Exercises

The resources for each exercise can be easily located by using the search box at the top of the globalEDGE website at http://globalEDGE.msu.edu

Exercise 1

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

Additional Info:
Published annually since 1972, the survey ratings and narrative reports on 193 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

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

Additional Info:
The World Bank's Doing Business Project provides objective measures of business regulations and their enforcement in over 180 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'

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estimated of time each procedure takes is taken into account.

Additional Readings and Sources of Information

Vietnam's Economy Is an Emerging Market Standout
http://www.bloomberg.com/news/articles/2016-01-18/vietnam-growth-makes-it-emerging-market-standout-in-shaky-world

Vladimir Putin: Russia's Action Man President
http://www.bbc.com/news/world-europe-15047823

Vladimir Putin: The Rebuilding of "Soviet" Russia
http://www.bbc.com/news/magazine-26769481

Why U.S.-Russia Trade Is Stuck in the Cold War
http://www.bloomberg.com/news/articles/2012-07-12/why-u-dot-s-dot-russia-trade-is-stuck-in-the-cold-war

Engulfed by Corruption Probe, Brazil's House Speaker Resigns
http://www.bloomberg.com/news/articles/2016-07-07/engulfed-by-corruption-probe-brazil-s-house-speaker-steps-down

Brazil Building Execs Accused in Carwash Corruption Scandal
http://www.bloomberg.com/news/articles/2015-07-24/prosecutors-accuse-top-brazil-building-executives-of-corruption

Why Wal-Mart Hasn't Conquered Brazil
http://www.bloomberg.com/news/articles/2014-05-08/why-wal-mart-hasnt-conquered-brazil#p1

Wal-Mart Probe in Final Lap With Scant China Findings
http://www.bloomberg.com/news/articles/2016-03-18/wal-mart-probe-said-to-be-in-final-lap-with-scant-china-findings

Grounds Zero: A Starbucks-Free Italy
http://www.bloomberg.com/news/articles/2012-02-09/grounds-zero-a-starbucks-free-italy

To Stop the Coffee Apocalypse, Starbucks Buys a Farm
http://www.bloomberg.com/news/articles/2014-02-13/to-stop-the-coffee-apocalypse-starbucks-buys-a-farm

Can Starbucks Sell Espresso Back to Italians?
http://www.bloomberg.com/news/articles/2016-06-15/starbucks-finds-itself-late-for-once-to-a-

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market-it-created

Costa Takes on Starbucks in Battle for China
http://www.bloomberg.com/news/videos/b/839ce164-4105-4dfe-832f-a9d2bd9b9fcb

Starbucks Facing Tough Test as It Tries to Sell Tea to China
http://www.bloomberg.com/news/articles/2016-03-23/starbucks-facing-tough-test-as-it-tries-to-sell-tea-to-china

KFC Thinks It Can Out-Coffee Starbucks in China
http://www.bloomberg.com/news/articles/2015-03-04/kfc-thinks-it-can-out-coffee-starbucks-in-china

Venezuela Oil Exports Seen Falling as Economic Woes Worsen
http://www.bloomberg.com/news/articles/2016-08-16/venezuela-oil-exports-seen-falling-as-economic-woes-worsen

Venezuelan Pride Keeps Cheap Oil Flowing as Economy Collapses
http://www.bloomberg.com/news/articles/2016-08-03/venezuelan-pride-keeps-cheap-oil-flowing-as-economy-collapses

Venezuela Raises Wages 50% as Oil Tour Seeks to Lift Prices
http://www.bloomberg.com/news/articles/2016-08-13/venezuela-raises-wages-50-as-oil-tour-seeks-to-lift-prices

Venezuela's Oil Output Decline Accelerates as Drillers Go Unpaid
http://www.bloomberg.com/news/articles/2016-06-27/venezuela-s-oil-output-decline-accelerates-as-drillers-go-unpaid

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Chapter 2 – NATIONAL DIFFERENCES IN POLITICAL, LEGAL, AND ECONOMIC SYSTEMS

The resources for each exercise can be easily located by using the search box at the top of the globalEDGE website at http://globalEDGE.msu.edu

Exercise 1

Search phrase: *Freedom in the World* or *Freedom House*
Resource Name: Freedom House Surveys
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Exercise 2

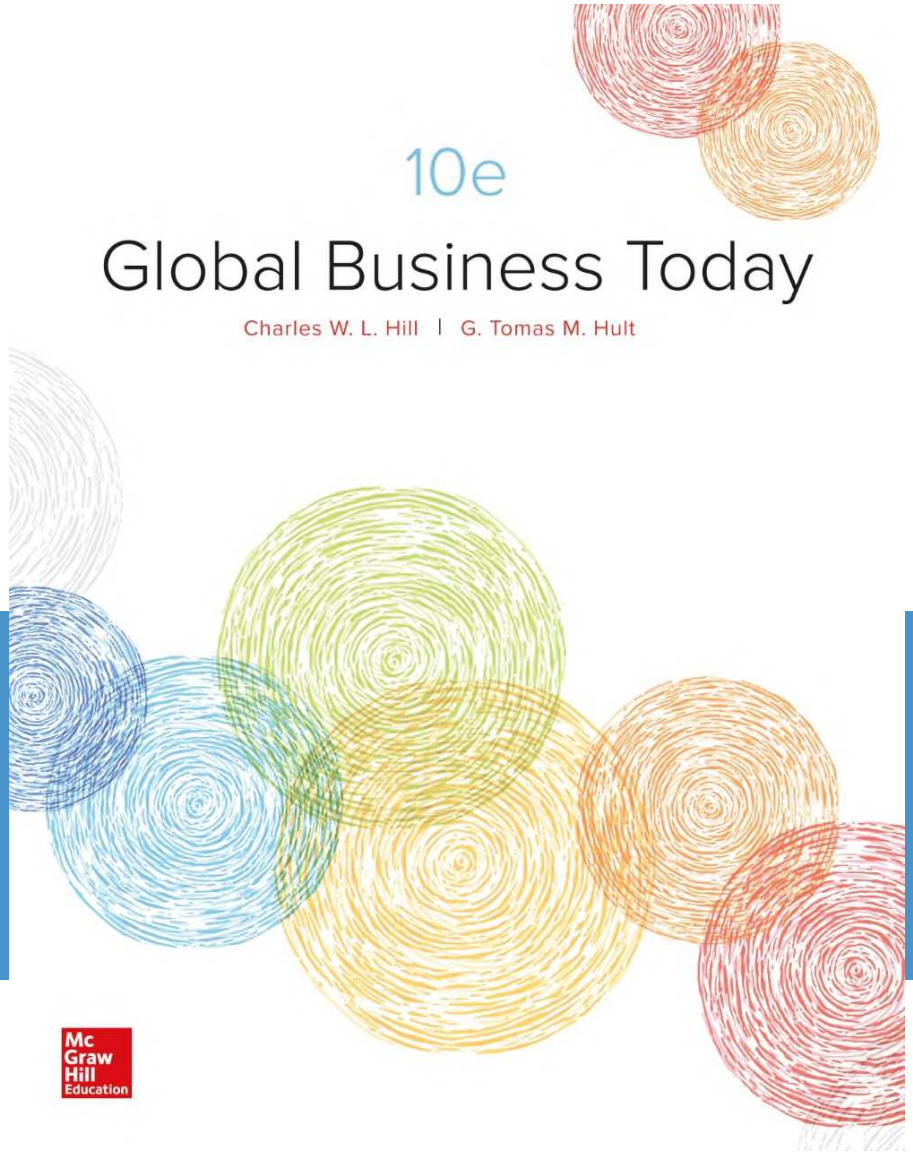
Search phrase: *World Bank Doing Business Indicators*
Resource Name: World Bank: Doing Business Indicators
Website: http://www.doingbusiness.org/
globalEDGE Category: Statistical Data Sources

Additional Info:
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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Global Business Today 10e

by Charles W.L. Hill and G. Tomas M. Hult



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National Differences



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Chapter 2: National Differences in Political, Economic, and Legal Systems

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Learning Objectives

LO 2-1 Understand how the political systems of countries differ.

LO 2-2 Understand how the economic systems of countries differ.

LO 2-3 Understand how the legal systems of countries differ.

LO 2-4 Explain the implications for management practice of national differences in political economy.

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Opening Case: Economic Transformation in Vietnam

- Moving from centrally planned socialist economy to a more market oriented system
- In 1986, Vietnam one of poorest countries in the world
- Agricultural land privatized; state farm collectives dismantled
- Farm productivity surged, price controls removed, barriers to FDI lowered
- Today, living standards have surged
- State-owned enterprises now only 40% of total output
- Country too-dependent on commodity exports
- Communist party still in power

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Introduction

International business more complicated than domestic

- ✓ Countries vary in economic development
- ✓ Cultural, education, and skill levels vary
- ✓ The political, economic, and legal systems are known as the political economy
- ✓ Societal culture affects the political economy and the political economy shapes societal culture

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Political Systems 1 of 9

- **Political system**: the system of government in a nation
- Political systems can be assessed in terms of the degree to which they:
  - ✓ Emphasize collectivism as opposed to individualism
  - ✓ Are democratic or totalitarian

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Political Systems 2 of 9

- Collectivism and Individualism
  - ✓ **Collectivism**: a system that stresses the primacy of collective goals over individual goals
    - Can be traced to the Greek philosopher Plato
    - Today, socialists support collectivism
  - ✓ When collectivism is emphasized, the needs of the society as whole are generally viewed as being more important than individual freedoms

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What About People's Future Rights?

Individualism versus collectivism is a century-old debate topic and an inherently interesting issue. **For example, does an individual's life belong to him or her or to the community, society, or country in which he or she resides?** Most people have a direct and immediate answer, but there is no consensus on which answer depending on which country you reside in or which personal "compass" you subscribe to. Everyone has tendencies toward being both individualistic and collectivistic but prefers one way more than the other. **So, which of these ideas— individualism or collectivism—do you think is correct, and which cultural belief do you prefer and why?**

Source: Objective Standard, March 3, 2014. www.theobjectivestandard.com



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Political Systems 3 of 9

Collectivism and Individualism continued

- ✓ **Socialism**
  - Modern socialists trace their roots to Karl Marx
  - Advocated state ownership of the basic means of production, distribution, and exchange
  - The state then manages the enterprises for the benefit of society as a whole

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Political Systems 4 of 9

Collectivism and Individualism continued

- ✓ In the early 20th century, socialism split into communists and social democrats:
  - **Communists** - socialism could only be achieved though revolution and totalitarian dictatorship
  - **Social democrats** worked to achieve the same goals by democratic means
- ✓ Many state-owned enterprises failed to succeed, and many nations implemented **privatization** programs

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Political Systems 5 of 9

Collectivism and Individualism continued

- ✓ **Individualism**: suggests individuals should have freedom over their economic and political pursuits
  - Can be traced to Aristotle who argued that individual diversity and private ownership are desirable
- ✓ Individualism stresses:
  - Individual freedom and self-expression
  - Letting people pursue their own self-interests to achieve the best overall good for society
  - Democratic systems and free markets

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Political Systems 6 of 9

Democracy and Totalitarianism

- ✓ **Democracy**: political system in which government is by the people, exercised either directly or through elected representatives
  - Most common form today is **representative democracy**- elected representatives vote on behalf of constituents
- ✓ **Totalitarianism**: 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

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Political Systems 7 of 9

Democracy and Totalitarianism continued

- ✓ In most totalitarian regimes:
  - There is widespread political repression
  - There are no free and fair elections
  - Media is censored
  - Basic civil liberties are denied
  - Challenges to the regime are prohibited

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Political Systems 8 of 9

Democracy and Totalitarianism continued

Four major forms of totalitarianism today:

1. **Communist totalitarianism**: advocates achieving socialism through totalitarian dictatorship
2. **Theocratic totalitarianism**: political power is monopolized by a party, group, or individual that governs according to religious principles
3. **Tribal totalitarianism**: a political party that represents the interests of a particular tribe monopolizes power
4. **Right wing totalitarianism**: individual economic freedom is allowed but individual political freedom is restricted in the belief that it could lead to communism

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Political Systems 9 of 9

Pseudo-Democracies

- ✓ Many nations lie between pure democracy and complete totalitarianism
  - Authoritarian elements capture much of the machinery of state and use this in an attempt to deny basic political and civil liberties
  - Russia under Vladimir Putin

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Economic Systems 1 of 4

- Political ideology and economic systems are connected
- There are three types of economic systems: the market economy, the command economy, and the mixed economy
  - ✓ A market-based economic system is likely in countries where individual goals are given primacy over collective goals
  - ✓ State-owned enterprises and restricted markets are common in countries where collective goals are dominant

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Economic Systems 2 of 4

Market Economy

- ✓ In a pure **market economy** the goods and services that a country produces, and the quantity in which they are produced is determined by supply and demand
  - Supply must not be restricted by monopolies
  - The role of government is to encourage free and fair competition between private producers

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Economic Systems 3 of 4

Command Economy

- ✓ In a pure **command economy** the goods and services that a country produces, the quantity in which they are produced, and the price at which they are sold are all planned by the government
  - All businesses are state-owned, and have little incentive to control costs and be efficient
  - Because there is no private ownership, there is little incentive to better serve consumer needs
  - Dynamism and innovation are absent

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North Korea’s Command Economy

Kim Jong-un, the leader of the Democratic People's Republic of Korea, inspecting a factory. North Korea functions as a centralized, single party, and tightly controlled dictatorial command economy.



Source: © AFP/Getty Images

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Economic Systems 4 of 4

- Mixed Economy
  - ✓ A **mixed economy** includes some elements of a market economy and some elements of a command economy
    - Governments take over troubled firms considered vital to national interests
  - ✓ The number of mixed economies in the world today is falling

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Legal Systems 1 of 11

- The **legal system** of a country refers to the rules, or laws, that regulate behavior, along with the processes by which the laws of a country are enforced and through which redress for grievances is obtained
- A country's legal system is important because laws:
  - ✓ Regulate business practice
  - ✓ Define the manner in which business transactions are to be executed
  - ✓ Set down the rights and obligations of those involved in business transactions

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Legal Systems 2 of 11

Different Legal Systems

- ✓ **Common law**: based on tradition, precedent, and custom
  - Found in most of Great Britain's former colonies, including the United States
- ✓ **Civil law**: based on detailed set of laws organized into codes
  - Found in more than 80 countries, including Germany, France, Japan, and Russia
- ✓ **Theocratic law**: based on religious teachings
  - Islamic law is the most widely practiced

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Legal Systems 3 of 11

Differences in Contract Law

- ✓ They approach **contract law** (the body of law that governs contract enforcement) differently
  - A **contract** specifies the conditions under which an exchange is to occur and details the rights and obligations of the parties involved
- ✓ In a common law state, contracts are very detailed with all contingencies spelled out
- ✓ In a civil law state, contracts are shorter and much less specific

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Legal Systems 4 of 11

Differences in Contract Law continued

- ✓ The **United Nations Convention on Contracts for the International Sales of Goods (CISG)** 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
  - Countries that adopt CISG signal to other nations that they will treat the Convention's rules as part of their law

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Legal Systems 5 of 11

Property Rights and Corruption

- **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
- **Private action**: theft, piracy, blackmail, and the like by private individuals or groups
- **Public action**: public officials extort income or resources from property holders
  - Excessive taxation, requiring expensive licenses or permits from property holders, or taking assets into state ownership without compensating the owners

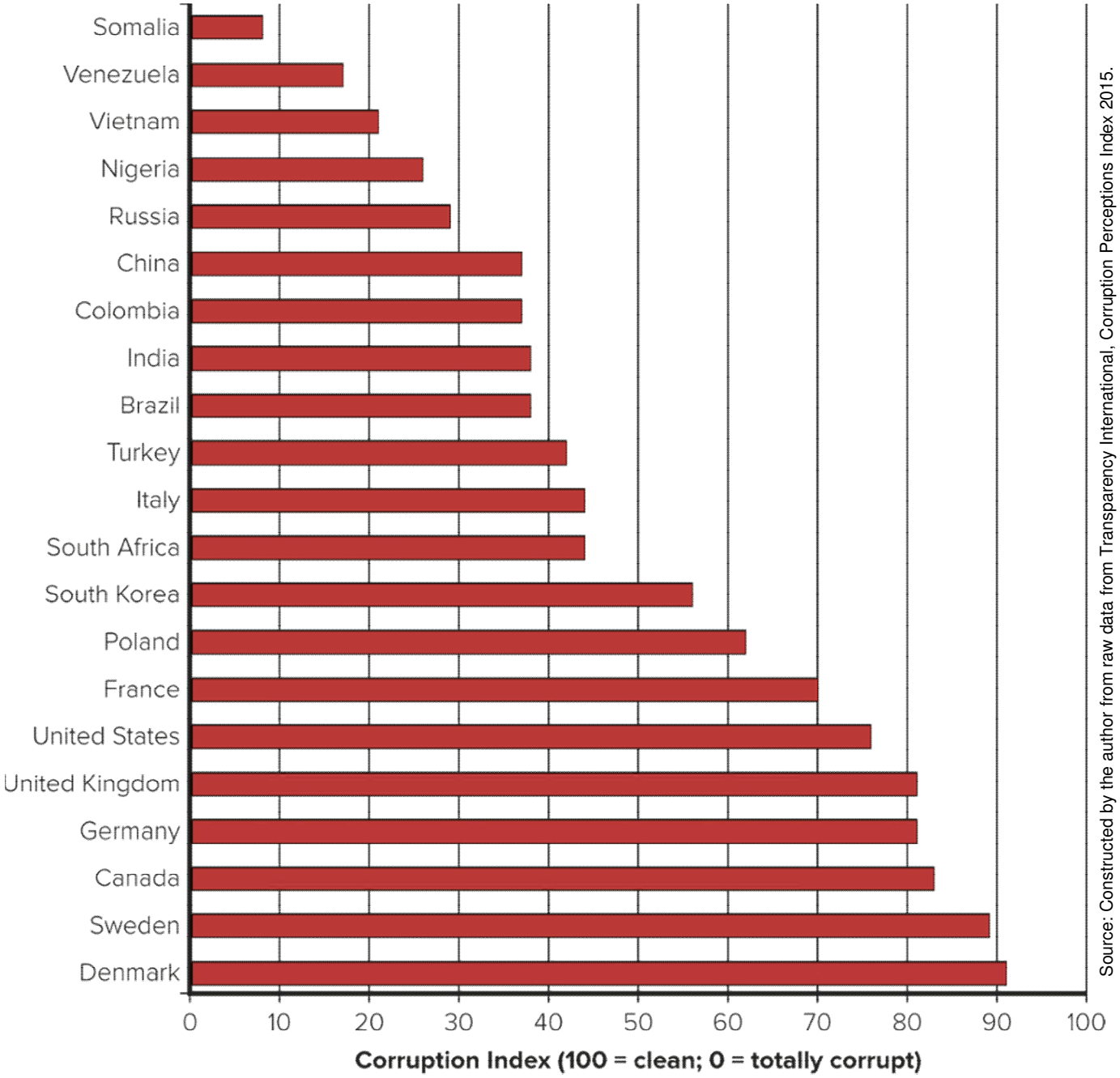
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Legal Systems 6 of 11

Property Rights and Corruption continued

- ✓ Corruption is present in all countries to some degree, however when a country has a high level of corruption:
  - Foreign direct investment falls
  - International trade falls
  - Economic growth falls

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Source: Constructed by the author from raw data from Transparency International, Corruption Perceptions Index 2015.

Figure 2.1 Rankings of Corruption by Country

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Legal Systems 7 of 11

The **Foreign Corrupt Practices Act** limits corruption in the U.S

- ✓ It is illegal to bribe a foreign government official in order to obtain or maintain business over which the foreign official has authority
- ✓ All publicly traded companies must keep detailed records so that it is clear whether a violation of the act has occurred
- ✓ Facilitating or expediting payments to secure the performance of routine government actions are permitted

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Did You Know?

Did you know that it's illegal for Americans to bribe public officials to gain business in a foreign country, even if bribery is commonplace in that nation?



Click to play video

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Legal Systems 8 of 11

The Protection of Intellectual Property

- ✓ **Intellectual property**: property that is the product of intellectual activity
  - **Patents**: give the inventor exclusive rights to the manufacture, use, or sale of that invention
  - **Copyrights**: exclusive legal rights of authors, composers, playwrights, artists, and publishers to publish and dispose of their work as they see fit
  - **Trademarks**: designs and names, often officially registered, by which merchants or manufacturers designate and differentiate their products

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Legal Systems 9 of 11

The Protection of Intellectual Property continued

- ✓ The protection of intellectual property rights differs greatly from country to country
- ✓ 185 nations are members of the **World Intellectual Property Organization**
  - **Paris Convention for the Protection of Industrial Property**: agreement signed by 170+ countries to protect intellectual property rights
    - Enforcement is lax in many nations especially in China and Thailand

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How Important are Intellectual Property Rights?

Burundi is a landlocked country in the Great Lake region of Eastern Africa. Neighboring countries include Rwanda, Tanzania, and the Democratic Republic of the Congo. Burundi is hilly and mountainous, with access to Lake Tanganyika. The government system is a republic, with the chief of state and head of government being the president. Burundi has a traditional economic system in which the allocation of available resources is made on the basis of primitive methods, and many citizens engage in subsistence agriculture. At the same time, Burundi was last of the 131 countries ranked in the 2013 International Property Rights Index (IPRI). The IPRI is conducted by a partnership of 74 international organizations. The IPRI takes into account legal and political environment, physical property rights, and intellectual property rights. **How much should companies focus on intellectual property rights in deciding where to (1) produce their products and (2) sell their products? Does it differ if you produce or sell in the country?**

Source: www.internationalpropertyrightsindex.org.



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The Protection of Intellectual Property continued

Response to violations of intellectual property

- Lobbying governments for better laws and enforcement of those laws
  - Trade Related Aspects of Intellectual Property Rights (TRIPS) - requires WTO members to grant and enforce patents lasting at least 20 years and copyrights lasting 50 years
- Filing lawsuits
- Avoiding countries with poor intellectual property laws

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Product Safety and Product Liability

- ✓ **Product safety laws** set certain safety 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 are usually least extensive in less developed countries
- ✓ Firms must decide whether to adhere to the standards of the home country or the standards of the host country

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Focus on Managerial Implications

THE MACRO ENVIRONMENT INFLUENCES MARKET ATTRACTIVENESS

- The political, economic, and legal systems of a country raise important ethical issues that have implications for the practice of international business
- The political, economic, and legal environments of a country clearly influence the attractiveness of that country as a market and/or investment site
- A democratic country with a market-based economy, protection of property rights, and limited corruption is a more attractive place to do business.



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Summary

In this chapter we have

- ✓ Explored how the political systems of countries differ.
- ✓ Explored how the economic systems of countries differ.
- ✓ Explored how the legal systems of countries differ.
- ✓ Explained the implications for management practice of national differences in political economy.

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