Global Business Today 11th edition Hill Solutions Manual

SKU: 9781260088373-SOLUTIONS

National Differences in Political, Economic, and Legal Systems

Table of Contents

Learning Objectives

Chapter Summary

Chapter Opening Activity

Chapter Outline

- Opening Case: Transformation in Saudi Arabia
- Introduction
- Political Systems
- Economic Systems
- Legal Systems
- Focus on Managerial Implications: The Macro Environment Influences Market Attractiveness

End-of-Chapter Resources

- Critical Thinking and Discussion Questions
- globalEDGE™ Research Task
- Closing Case: The Decline of Zimbabwe

Continuous Case Concept

Additional Readings and Sources of Information

Copyright © 2020 by McGraw-Hill Education. All rights reserved. No reproduction or distribution without the prior written consent of McGraw-Hill Education.

Global Business Today 11th edition Hill Solutions Manual

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 particularly challenging 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 Opening Activity

In this activity, students will research and reflect on legal and political systems in several countries. Use globaledge.msu.edu 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 U.S. scores very high on Hofstede's individualism versus 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
- 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:

Copyright © 2020 by McGraw-Hill Education. All rights reserved. No reproduction or distribution without the prior written consent of McGraw-Hill Education.

Global Business Today 11th edition Hill Solutions Manual

- 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 U.S.) by using globaledge.msu.edu. Some traditionally authoritarian countries are transitioning towards representative governments: suggest that this may be in response to changes driven by globalization and technology.

Copyright © 2020 by McGraw-Hill Education. All rights reserved. No reproduction or distribution without the prior written consent of McGraw-Hill Education.

Global Business Today 11th edition Hill Solutions Manual

Chapter Outline

Transformation in Saudi Arabia

opening case

Summary

The opening case explores the political economy of Saudi Arabia. For decades, Saudi Arabia's political system has relied on religious teaching for direction. The state controls much of the country's economic activity, and while per capita income is not unlike that of the United States, its distribution is uneven, unemployment is relatively high, and the potential for social unrest is a concern. The country saw some changes recently when King Salman bin Abd al-Aziz Al Saud came to power following the death of his brother. The new king immediately gave his son, Muhammad bin Salman, significant power. Crown Prince Muhammad bin Salman is using his new power to undertake significant economic and political reforms in the country—reforms designed to help better position the country in today's world.

Discussion Questions

1. Evaluate the economic reforms Crown Prince Muhammad bin Salman has proposed for Saudi Arabia. Do you agree with the vision he sees for his country? What are some of the challenges that the country's leaders will face as Muhammad bin Salman new vision is put into action?

Many students will probably suggest that the new vision for Saudi Arabia represents an important shift for the country. Students taking this perspective will likely point out that the country has been constrained by tight government control over economic activities and the associated limited foreign investment. Implementing Crown Prince Muhammad bin Salman's vision will put Saudi Arabia in a better position to be a player in the modern global economy. The changes should make the country a more attractive destination for foreign investment—investment that would help diversify the country's economy and reduce its dependency on a single industry, and at the same time, bring much-needed jobs.

2. Saudi Arabia has traditionally closely followed religious teachings, but now Crown Prince Muhammad bin Salman is loosening the strict moral codes dictated by those teachings in favor of a more open Islamic society. Discuss this notion. How might it change Saudi Arabia for younger people? What will it mean to older generations?

This question should generate some interesting debate among students. Some students will probably suggest that loosening the country's moral code and allowing basic rights such as

Copyright © 2020 by McGraw-Hill Education. All rights reserved. No reproduction or distribution without the prior written consent of McGraw-Hill Education.

Global Business Today 11th edition Hill Solutions Manual

women drivers is important if Saudi Arabia wants to curb the potential for social unrest that seems to be brewing among the younger generation. That being said, many, especially older generations, will not embrace the changes and a more divided population could emerge. Some students may wonder whether important traditions that define Saudi Arabia will be lost forever. Other students may argue that by loosening the moral code, Crown Prince Muhammad bin Salman could prevent younger people, who are frustrated by the current situation and seeking to leave, to reconsider.

Teaching Tip: Students can explore Saudi Arabia's political economy in greater detail at the CIA's World Factbook website at https://www.cia.gov/library/publications/the-world-factbook/geos/sa.html.

Lecture Note: To extend the discussion, consider the potential for Saudi Arabi under Crown Prince Muhammad bin Salman's vision. To learn more, go to https://www.forbes.com/sites/ellenrwald/2018/08/12/instead-of-tesla-saudi-arabia-should-invest-in-battery-tech/#72f052dc1f4f and https://www.forbes.com/sites/dominicdudley/2018/07/12/are-the-wheels-coming-off-saudi-arabias-ambitious-economic-reform-program/#3e6d145e1b5f.

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.

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

Copyright © 2020 by McGraw-Hill Education. All rights reserved. No reproduction or distribution without the prior written consent of McGraw-Hill Education.

Global Business Today 11th edition Hill Solutions Manual

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. 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) 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. Freedom House ranks Russia low for civil and political liberties, a ranking that was confirmed by Putin's 2014 decision to annex the Crimea region of neighboring Ukraine.

Discussion Questions

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?

Copyright © 2020 by McGraw-Hill Education. All rights reserved. No reproduction or distribution without the prior written consent of McGraw-Hill Education.

Global Business Today 11th edition Hill Solutions Manual

Since the collapse of the USSR, Russia has struggled to get its economy on track. Today, there is considerable concern that the government's involvement in the business sector combined with high level of corruption could hamper future economic growth. High levels of corruption and Putin's authoritarian approach to governing create an uncertain environment for foreign investors. In addition, the sanctions brought about by the annexing of the Crimea region of Ukraine have further disrupted economic growth

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?

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 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 Ukraine continues to persist. Students may also wonder how the relationship between Donald Trump and Vladimir Putin will evolve.

Lecture Note: To extend the discussion of Russia's economy under Vladimir Putin, consider https://www.bloomberg.com/view/articles/2018-08-29/russia-s-economy-is-stuck-in-a-putin-trap.

Teaching Tip: Information on doing business in Russia is available at http://www.doingbusiness.org/data/exploreeconomies/russia.

Video Note: The relationship between the United States and Russia has been under significant scrutiny as a result of Russia's meddling in the 2016 Presidential election. To learn more, consider *Tech Companies Set to Tell Congress About Russian Election Meddling* in the International Business Library at http://bit.ly/MHEIBVideo. Click "Ctrl+F" on your keyboard to search for the video title.

Additionally, our McGraw-Hill Education International Business Video Library at http://bit.ly/MHEIBVideo provides an ongoing stream of updated video suggestions correlated by key concept and major topic. Every new clip posted is supported by teaching notes and discussion questions. Please feel free to leave comments in the library that you feel might be helpful to your colleagues.

DEMOCRACY AND TOTALITARIANISM

G) 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

Copyright © 2020 by McGraw-Hill Education. All rights reserved. No reproduction or distribution without the prior written consent of McGraw-Hill Education.

Global Business Today 11th edition Hill Solutions Manual

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
H) 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
I) 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.

Pseudo-Democracies
J) 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.

CONNECT

Click and Drag

Differences in Political Systems

Summary

This activity focuses on differences in political systems. Political systems can be assessed according to two dimensions: the degree to which they emphasize collectivism as opposed to individualism and the degree to which they are democratic or totalitarian. International businesses need to be aware of the differences in political systems and appreciate the significance of these national differences.

Activity

Students are asked to match various political systems to the country where they are in place.

Copyright © 2020 by McGraw-Hill Education. All rights reserved. No reproduction or distribution without the prior written consent of McGraw-Hill Education.

Global Business Today 11th edition Hill Solutions Manual

Class Discussion

A country's political system shapes its economic and legal systems. Discuss the different types of political systems, how they are reflected in a country's economic and legal systems, and what they mean for companies doing business in those countries.

Economic Systems

A) 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.

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.

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.

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

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

Copyright © 2020 by McGraw-Hill Education. All rights reserved. No reproduction or distribution without the prior written consent of McGraw-Hill Education.

Global Business Today 11th edition Hill Solutions Manual

Common Law
C) 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
D) 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
E) Islamic law is the most widely practiced **theocratic law** system (based on religious teachings) in the modern world.

DIFFERENCES IN CONTRACT LAW

F) **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 on 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.

PROPERTY RIGHTS AND CORRUPTION

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

Public Action and Corruption
I) 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.

CONNECT

Click and Drag

Property Rights and Corruption

Summary

Copyright © 2020 by McGraw-Hill Education. All rights reserved. No reproduction or distribution without the prior written consent of McGraw-Hill Education.

Global Business Today 11th edition Hill Solutions Manual

This activity focuses on differences in legal systems. Firms need to understand the differences between private actions such as blackmail and public actions such as corruption. While both pose a threat to international businesses, how that threat is addressed depends on the action in question.

Activity

Students are asked to match various scenarios to the type of legal action they represent.

Class Discussion

A country's legal system regulates the business environment, defines how business transactions take place, and details the rights and obligations of parties to a contract. Discuss the different types of legal systems and what they mean for companies doing business in those countries. Discuss how companies can protect themselves from risk associated with property rights violations and corruption.

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 that 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

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

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.

Copyright © 2020 by McGraw-Hill Education. All rights reserved. No reproduction or distribution without the prior written consent of McGraw-Hill Education.

Global Business Today 11th edition Hill Solutions Manual

2. What was the extent of the Petrobras scandal? Who did it impact? What made this case such a problem for Brazil? Discuss why the scandal might help prevent further corrupt behavior by government officials.

The Petrobras scandal became known in 2014, although it had been taking place since 1997. Construction firms would pay bribes to the state-owned company's executives who 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, in 2016, Rousseff was impeached and removed from the presidency. Students should recognize that the highly public nature of the scandal as well as its resolution should act as a warning sign to others who may be flirting with corrupt behavior.

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.

Foreign Corrupt Practices Act

J) 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 $612 million on legal fees and paid a $283 million settlement to the U.S. Department of Justice.

Copyright © 2020 by McGraw-Hill Education. All rights reserved. No reproduction or distribution without the prior written consent of McGraw-Hill Education.

Global Business Today 11th edition Hill Solutions Manual

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?"

Discussion Questions

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

It makes it illegal to bribe a foreign government official to obtain or maintain business 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.

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?

Student answers will vary.

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?

Student answers will vary.

Teaching Tip: 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.

Copyright © 2020 by McGraw-Hill Education. All rights reserved. No reproduction or distribution without the prior written consent of McGraw-Hill Education.

Global Business Today 11th edition Hill Solutions Manual

THE PROTECTION OF INTELLECTUAL PROPERTY

K) **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 at http://www.wto.org/english/tratop_e/trips_e/trips_e.htm and the United States Patent and Trade Office at http://www.uspto.gov/ip.

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 https://cyber.harvard.edu/metaschool/fisher/domain/tm.htm.

L) 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 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.

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 breakthrough 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.

Copyright © 2020 by McGraw-Hill Education. All rights reserved. No reproduction or distribution without the prior written consent of McGraw-Hill Education.

Global Business Today 11th edition Hill Solutions Manual

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?

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?

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 and explore Starbucks' current position in China, consider https://money.cnn.com/2018/05/16/news/companies/starbucks-in-china-store-expansion/index.html.

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

PRODUCT SAFETY AND PRODUCT LIABILITY

M) 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 the U.S. companies in the global marketplace.

Copyright © 2020 by McGraw-Hill Education. All rights reserved. No reproduction or distribution without the prior written consent of McGraw-Hill Education.

Global Business Today 11th edition Hill Solutions Manual

CONNECT

Video Case

Turmoil in Venezuela

Summary

This activity focuses on the political and legal situation in Venezuela where an unpopular president is failing to adequately address the needs of the country. Many foreign companies have left the troubled country as doing business there has become increasingly challenging.

Activity

Students are asked to watch a video on the political and legal situation in Venezuela and then respond to a series of questions related to the video.

Class Discussion

A country's political, legal, and economic systems have important implications for international businesses. Discuss the situation in Venezuela and how the policies being pursued by the current government have changed the business environment. How should companies respond? Can a company be successful in Venezuela today?

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.

Copyright © 2020 by McGraw-Hill Education. All rights reserved. No reproduction or distribution without the prior written consent of McGraw-Hill Education.

Global Business Today 11th edition Hill Solutions Manual

CONNECT

Video Case

Bribing Public Officials

Summary

This activity focuses on differences in legal systems between countries and specifically on the issue of bribery. While bribery is considered illegal in many nations, in others, it is part of doing business. International companies must be aware of the legal system in the countries in which they operate and how bribery is treated under that system.

Activity

Students are asked to watch a video on how U.S. firms are prohibited from paying bribes in foreign countries and then respond to a series of questions related to the video.

Class Discussion

A country's legal system can have important implications for international businesses and how they do business in that country. Discuss how U.S. companies can compete in a country where bribery is part of everyday business. Are U.S. firms, prohibited from paying bribes under U.S. law, at a competitive disadvantage in these countries?

CONNECT

Video Case

Google Plans a Censored Version in China

Summary

This activity focuses on differences in political and legal systems between countries, and specifically on Google's plans to offer a limited version of its search engine in China. Google has been prohibited from offering its full search engine in China, and so is now considering offering a variation of its products that meets the requests of the Chinese government.

Activity

Copyright © 2020 by McGraw-Hill Education. All rights reserved. No reproduction or distribution without the prior written consent of McGraw-Hill Education.

Global Business Today 11th edition Hill Solutions Manual

Students are asked to watch a video on Google's plans to offer a limited version of its search engine in China and then respond to a series of questions related to the video.

Class Discussion

A country's political and legal systems can have important implications for international businesses and how they do business in that country. Discuss the strategy that Google is planning for China. Should Google go forward with its plans or stay out of China until it is permitted to offer an unrestricted product? Consider Google's plans from the perspective of various stakeholders including customers and investors.

Copyright © 2020 by McGraw-Hill Education. All rights reserved. No reproduction or distribution without the prior written consent of McGraw-Hill Education.

Global Business Today 11th edition Hill Solutions Manual

End-of-Chapter Resources

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 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 the 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

Copyright © 2020 by McGraw-Hill Education. All rights reserved. No reproduction or distribution without the prior written consent of McGraw-Hill Education.

Global Business Today 11th edition Hill Solutions Manual

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 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 Ukraine, have been alarming to many.

5. Reread the Management Focus "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.

globalEDGE™ Research Task

Use the globalEDGE™ site (globaledge.msu.edu) to complete the exercises in the text.

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

Copyright © 2020 by McGraw-Hill Education. All rights reserved. No reproduction or distribution without the prior written consent of McGraw-Hill Education.

Global Business Today 11th edition Hill Solutions Manual

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' estimated of time each procedure takes is taken into account.

The Decline of Zimbabwe

closing case

Summary

This closing case explores the political and economic situation in Zimbabwe since its independence from Great Britain. In 1980, Zimbabwe, with its vibrant agricultural sector, strong economy, and abundant natural resources, was considered the jewel of Africa. Robert Mugabe was elected prime minister, an office he continued to hold, despite accusations of corrupt elections, for the next 37 years. Corruption under Mugabe became endemic, prompting Transparency International to rank Zimbabwe as one of the most corrupt nations in the world. The country's economic performance really began to deteriorate in 2000 following the imposition of a fast-track land reform that essentially took land from farmers and gave it to Mugabe's supporters. The country's economy suffered another blow when foreign investors pulled out following the 2008 Indigenisation and Economic Empowerment Act requiring 51 percent local ownership of all businesses. After so many disappointing years, Zimbabwe's future suddenly looks brighter. In 2018, Mugabe was forced out of office by his own party and replaced by his vice president, Emmerson Mnangagwa. The World Bank also issued a report suggesting that with its natural resource endowment, Zimbabwe has the potential for economic growth.

Case Discussion Questions

1. Why has Zimbabwe's economic performance been so poor?

Copyright © 2020 by McGraw-Hill Education. All rights reserved. No reproduction or distribution without the prior written consent of McGraw-Hill Education.

Global Business Today 11th edition Hill Solutions Manual

Several factors are associated with Zimbabwe's poor economic performance. Chief among them is the high level of corruption that has been part of the country's government for decades. Many students will also focus on policies like the fast-track land reform that led to the collapse of Zimbabwe's agricultural sector and the 2008 Indigenisation and Economic Empowerment Act that prompted many foreign investors to pull out of the country.

2. Do you think that Zimbabwe's economic performance would have been better under a different system of government? Which one? Explain your reasoning.

Responses to this question will vary by student. Many will suggest that a market-based economy following democratic ideals would have prevented the implementation of some of former President Mugabe's disastrous policies such as the fast-track land reform. Students may also point out that in a less corrupt government, Zimbabwe's natural assets such as its diamond and platinum reserves could have been better managed.

3. What steps need to be taken now to improve the economic outlook for Zimbabwe?

Many students will probably contend that by removing President Mugabe from power, Zimbabwe has already taken the first step toward economic recovery. His replacement, Emmerson Mnangagwa, has vowed to eliminate his predecessor's more ruinous policies. Some students will likely point out that for this to be effective, Mnangagwa will have to take a firm stance against all corrupt government officials. Students will probably suggest that Zimbabwe focus on rebuilding its once-thriving agricultural sector and work to attract foreign investment to jump-start its troubled economy.

Teaching Tip: Information on doing business in Zimbabwe is available at http://www.doingbusiness.org/data/exploreeconomies/zimbabwe and http://www.zim.gov.zw.

CONNECT

Geography

Summary

Copyright © 2020 by McGraw-Hill Education. All rights reserved. No reproduction or distribution without the prior written consent of McGraw-Hill Education.

Global Business Today 11th edition Hill Solutions Manual

This activity is designed to test the student's knowledge of geography. Questions related to chapter material are asked, requiring students to understand the topics and the locations of the countries involved.

Activity

Students are asked to respond to a series of question related to the geographic location of several countries.

Class Discussion

Understanding the geographic location of countries is essential to the understanding of international business. Ask students to discuss the implications of the geographic locations of the countries in this exercise on the subject matter.

Copyright © 2020 by McGraw-Hill Education. All rights reserved. No reproduction or distribution without the prior written consent of McGraw-Hill Education.

Global Business Today 11th edition Hill Solutions Manual

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.

- 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 to read the pertinent selections in the Additional Readings section below. The exercise also works well at the beginning of the Focus on Managerial Implications section.

Copyright © 2020 by McGraw-Hill Education. All rights reserved. No reproduction or distribution without the prior written consent of McGraw-Hill Education.

Global Business Today 11th edition Hill Solutions Manual

Additional Readings and Sources of Information

Vladimir Putin: Russia's action man president
http://www.bbc.com/news/world-europe-15047823

What Will It Take to Fix the Mess in Zimbabwe?
https://www.bloomberg.com/news/features/2018-01-04/what-will-it-take-to-fix-the-mess-in-zimbabwe

What Investors Need to Know About Zimbabwe After Mugabe
https://hbr.org/2017/12/what-investors-need-to-know-about-zimbabwe-after-mugabe

The Worst May Be Over for the Saudi Economy
https://www.bloomberg.com/news/articles/2018-07-02/worst-may-be-over-for-saudi-economy-as-oil-brightens-outlook

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

Political Corruptions Enters a New Golden Age

https://www.theatlantic.com/politics/archive/2017/11/a-golden-age-for-corruption/546143

Walmart Is Reportedly Getting Reading to Settle a Bribery Probe for $300 Million

http://fortune.com/2017/05/10/walmart-bribery-investigation-settlement

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

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

Can Starbucks Sell Espresso Back to Italians?

Copyright © 2020 by McGraw-Hill Education. All rights reserved. No reproduction or distribution without the prior written consent of McGraw-Hill Education.

Global Business Today 11th edition Hill Solutions Manual

http://www.bloomberg.com/news/articles/2016-06-15/starbucks-finds-itself-late-for-once-to-a-market-it-created

Looking back at nearly 20 years of Starbucks in China
https://news.starbucks.com/news/looking-back-at-nearly-20-years-of-starbucks-in-china

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

Copyright © 2020 by McGraw-Hill Education. All rights reserved. No reproduction or distribution without the prior written consent of McGraw-Hill Education.

Global Business Today 11th edition Hill Solutions Manual