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National Differences in Political, Economic, and Legal Systems

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Learning Objectives

- LO2-1: Understand how the political systems of countries differ.
- LO2-2: Understand how the economic systems of countries differ.
- LO2-3: Understand how the legal systems of countries differ.
- LO2-4: Explain the implications for management practice of national differences in political economy.

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

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

The opening case explores economic growth in Ireland. Following its independence from the United Kingdom in 1922, Ireland embarked on a period of nationalism, erecting high barriers to trade, and adopting a policy of import substitution. This agenda was eventually abandoned in the 1980s and replaced with a series of reforms designed to spur economic growth and encourage foreign investment. Foreign companies attracted by the country's new agenda, its membership in the European Union, and its well-educated workforce, invested in Ireland bringing capital, jobs, and training. Today, Ireland enjoys an economic growth rate comparable to that of the United States and superior to many of its European Union partners. The closing case explores China's political economy. In the late 1970s, China abandoned its strict Marxist model that prohibited private enterprise and embraced central planning and state-owned companies. Launching market-based reforms, China began to encourage private enterprise and foreign trade and investment. Today, while still a one-party state, China pursues what it calls a "socialist market economy." Under this system, China has become one of the world's largest economies. As part of its commitment to growing its economy, China has invested in certain sectors, providing low costs loans and other assistance. This has prompted other countries including the United States to accuse China unfair practices.

OUTLINE OF CHAPTER 2: NATIONAL DIFFERENCES IN POLITICAL, ECONOMIC, AND LEGAL SYSTEMS

CLASSROOM DISCUSSION POINT

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

Individualist	Collectivist
Democratic	Totalitarian

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

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

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

OPENING CASE: Ireland's Economic Transformation

Summary

Ireland's economic growth over the past 35 years has been remarkable. The country boasts one of the highest sustained economic growth rates among developed nations and currently has a Gross National Income (GNI) per capita of $64,000, a number that is comparable to the United States and significantly higher than that of the United Kingdom and Germany. However, Ireland's economic transformation has not always been easy. Following its independence from the United Kingdom in 1922, Ireland adopted a nationalistic agenda, with a policy of high trade barriers and import substitution that threw its economy into stagnation. The situation in Ireland was so bad that many people left hoping to build better lives elsewhere. In 1987, Ireland admitted defeat and moved in a new direction, deregulating business, lowering corporate and individual tax rates, cutting public spending, and encouraging private enterprise. Ireland's transformation was facilitated by its young well-educated workforce and its membership in the European Union. Under its new agenda, Ireland became a magnet for foreign technology companies including Intel, Microsoft, Google, and Apple. The country's private sector grew substantially supporting a sustained period of economic growth. The 2008 great recession revealed a property bubble that eventually forced Ireland to seek financial assistance from the European Union and the IMF. However, today, despite a temporary slowdown related to the COVID-19 pandemic, Ireland's economy is back on track. Discussion of the case can begin with the following questions:

QUESTION 1: Following its independence from the United Kingdom in 1922, Ireland embraced nationalistic policies. Why did the country choose this path?

ANSWER 1: Ireland's decision to embrace nationalistic policies following its independence from the United Kingdom in 1922 was the result of a desire to stimulate economic growth. Ireland implemented a series of protectionist policies designed to keep foreign goods out of the country and encourage domestic production and the jobs that would go with it. High barriers to trade were erected and the country adopted a policy of import substitution. However, closing itself off to the rest of the world proved to be a disastrous choice for the country. While the rest of Europe experienced rapid economic growth, Ireland's economy stagnated.

QUESTION 2: How did economic and political reforms in the early 1980s help Ireland achieve its current economic growth trajectory?

ANSWER 2: By the early 1980s, it became increasingly clear that the policies Ireland had adopted following its independence from the United Kingdom in 1922 were no longer working. With marginal tax rates as much as 60 percent of income for middle income earners and high unemployment, many people left the country hoping for a better life elsewhere. Finally, in 1987, Ireland implemented a series of reforms designed to turn the economy around. Corporate and individual tax rates were lowered, business was deregulated, and public spending was cut. In addition, Ireland worked to encourage private enterprise, eventually attracting various U.S. tech companies including Intel, Microsoft, Google, and Apple. Ireland's new direction, together with its membership in the European Union and young well-educated workforce, proved to be successful as the country embarked on a sustained economic growth trajectory. While the COVID-19 pandemic set Ireland back in 2020 and 2021, the country is well-positioned to regain its pre-pandemic growth.

QUESTION 3: Many U.S. tech companies have invested in Ireland. How was Ireland able to attract these companies and what do they mean to future economic growth in the country?

ANSWER 3: The success of Ireland's economy can be attributed to its membership in the European Union which gives it access to a vast market, its young well-educated workforce, and its focus on encouraging private enterprise, keeping corporate tax rates low, and limiting public sector spending. Foreign companies, attracted by the country's relatively low corporate tax rates, strong workforce, and access to the European Union, have invested in the country, bringing with them jobs, capital, and training. Indeed, students might note that creating a desirable business environment designed to attract foreign investment can be important to economic success. Some students may also point out that now that the United Kingdom is no longer part of the European Union, Ireland, as an English speaking country, may be well-positioned to attract additional investment from U.S. companies seeking access to the vast European Union marketplace.

Another Perspective: To learn more Ireland's business environment and economic growth projections, go to https://www.trade.gov/country-commercial-guides/ireland-market-overview and https://www.independent.ie/business/irish/irish-economy-growing-at-the-fastest-rate-in-eu-40825275.html.

CONNECT
Case Analysis
Ireland's Economic Transformation

Summary
This activity focuses on Ireland's economic transformation. Ireland has one of the highest sustained economic growth rates in the world. Ireland's road to economic success saw the country abandon the nationalistic agenda it had adopted following its independence from the United Kingdom and move toward market-based policies.

Activity
Students are asked to read a short case exploring Ireland's economic transformation and then respond to a series of questions related to the case.

Class Discussion
A country's economic system can have important implications for international companies and how they do business in that country. How has Ireland's move toward a market economy created an environment that is attractive to foreign companies? What are the benefits of investing in Ireland? Do you see any drawbacks?

LECTURE OUTLINE

This lecture outline follows the PowerPoint Presentation (PPT) provided along with this instructor's manual. The following provides a brief overview of each PowerPoint slide along with teaching tips and additional perspectives.

Slide 2-4 Political Economy
The political, economic, and legal systems of a nation have a major influence on the way managers make decisions.

Slides 2-5 – 2-10 Political Systems
Political systems have two dimensions: the degree of collectivism versus individualism, and the degree of democracy versus totalitarianism. These dimensions are interrelated; systems that emphasize collectivism tend toward totalitarianism, while systems that place a high value on individualism tend to be democratic.

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

Collectivism and Individualism

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

Socialists believe in public ownership of the means of production for the common good. Those who embrace socialism can be split into two camps:

1. **Communists**, who believe that socialism can only be achieved through violent revolution and totalitarian dictatorship, and
2. **Social democrats**, who are committed to achieving socialism through democratic means.

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

Democracy and Totalitarianism

Democracy, as originally practiced by several city-states in ancient Greece, is based on a belief that citizens should be directly involved in decision making. Most modern democratic states practice **representative democracy** in which citizens periodically elect individuals to represent them.

Totalitarianism is a form of government in which one person or political party exercises absolute control over all spheres of human life and opposing political parties are prohibited (**communist, theocratic, tribal, right-wing**). Totalitarianism denies its citizens all of the constitutional guarantees asserted by representative democracies.

Many nations fall somewhere between a pure democracy and a pure totalitarian state. These countries are known as imperfect or pseudo-democracies.

CONNECT

Click and Drag *(A keyboard navigable alternate version of the Click and Drag exercise is available in Connect for students with accessibility needs.)*

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.

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.

Slides 2-11 – 2-13 Economic Systems
There is a connection between political ideology and economic systems. In countries where individual goals are given primacy over collective goals, we are more likely to find free market economic systems. In contrast, in countries where collective goals are given preeminence, the state may have taken control over many enterprises, while markets in such countries are likely to be restricted rather than free.

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

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

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

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

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

Slides 2-14 – 2-23 Legal Systems
Legal systems are the systems of rules or laws that regulate behavior along with the processes by which the laws are enforced and through which redress for grievances is obtained.

Different Legal Systems
There are three main types of legal systems—or legal traditions—in use around the world: common law, civil law, and theocratic law.

1. **Common law** is based on tradition, precedent, and custom.
2. **Civil law** is based on a very detailed set of laws organized into codes.
3. **Theocratic law** is based on religious teachings.

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

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

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

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

CONNECT
Video Case
Javabucks in China

Summary
This activity focuses on differing legal systems and specifically on intellectual property rights and their enforcement. From a legal perspective, the term property refers to a resource over which an individual or business holds a legal title—that is, a resource that it owns. Intellectual property refers to property that is the product of intellectual activity. Patents, copyrights, and trademarks establish ownership right over intellectual property.

Activity
Students are asked to watch a video on the legal issues of a hypothetical foreign-owned coffee shop opening in China 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 purpose of intellectual property rights and the enforcement of those rights. Have the intellectual property rights of Javabucks been violated? How can companies like Javabucks protect their intellectual property?

Property Rights and Corruption
Property rights refer to a resource over which an individual or business holds a legal title, that is, a resource that they own.

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

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

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

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

Enforcement of intellectual property regulations is lax in many countries, even in many of those that have committed to the **World Intellectual Property Organization** and the **Paris Convention for the Protection of Industrial Property**.

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

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

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?

Another Perspective: Coca Cola is just one in a long line of companies withdrawing from Venezuela. To learn more, consider *Coca Cola Halts Production in Venezuela* in the International Business Library at http://bit.ly/MHEIBVideo. Click "Ctrl+F" on your keyboard to search for the video title.

Slide 2-24 360° View: Managerial Implications
The Macro Environment Influences Market Attractiveness
All else being equal, countries with democratic political institutions, market-based economies, and legal systems that protect property rights and limit corruption will be more attractive than nations that lack these characteristics.

CONNECT
Video Case
Did You Know? Video Case: Venezuela Drops to One of the Worst Performing Economies in the World

Summary
This activity focuses on how the benefits, costs, and risks associated with doing business in a country are influenced by the country's political, economic, and legal systems. As a result of widespread corruption, limited property rights protection, and a lack of democratic institutions, Venezuela has gone from an attractive market to a highly risky one.

Activity
Students are asked to watch a video exploring how Venezuela, once a promising economy, has become one of the worst performing economies in the world thanks to rampant corruption, limited property rights, and a lack of democratic institutions, and then respond to a series of questions related to the video.

Class Discussion
A country's economic, legal, and political systems can have important implications for international businesses and how they do business in that country. Discuss how, if at all, U.S. companies can operate in a country where bribery is part of everyday business, where property rights are unclear, and

where democratic institutions have seemingly ceased to exist.

CRITICAL THINKING AND DISCUSSION QUESTIONS

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

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

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

ANSWER 2: This question should generate some debate among students, especially as they consider economic progress in China. Many students, however, will likely agree that although there are examples of totalitarian regimes that have achieved rapid economic growth, sustained, decades-long periods of economic growth are quite rare under totalitarianism. There is a widespread belief in the West that democratic principles are more conducive to long-term economic growth than are totalitarian ones. One of the contributing factors is that democratic systems allow for the stable transfer of power through elections, and thus provide political stability, which is an essential prerequisite for rapid economic growth.

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

ANSWER 3: Most students will agree that in general, corruption does not lead to positive economic outcomes. Many countries including the United States have laws against bribery and corruption although it continues to occur. Some countries including France, Germany, and Japan see certain types of bribes as a regular part of business. Students should recognize though, that when government officials engage in corruption, they subordinate the interest of their country to their personal gain. They also reduce the level of transparency in business interactions, increasing the risk for companies doing, or considering doing, business in the country. Many nations with rampant bribery such as Venezuela and Zimbabwe appear to be among the most economically underdeveloped.

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

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

QUESTION 5: Read 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 5: Responses to this question will vary by student, but many will probably agree that Walmart did indeed violate the Foreign Corrupt Practices Act when its executives bribed local officials to redraw zoning maps so that the company could gain approval to build a new store in Mexico. Many students will suggest that the attempts by Walmart's corporate headquarters to hide the situation indicates that Walmart was also concerned that its executives in Mexico had broken the law. While some students may contend that at times facilitating payments may be necessary to speed up zoning approvals, they will probably suggest that this transaction appears to be a very different situation.

Another Perspective: Further information on investigations into Walmart's actions in Mexico are available at https://www.bloomberg.com/news/articles/2017-05-09/wal-mart-said-close-to-resolving-bribery-probe-for-300-million and https://www.reuters.com/article/us-walmart-fcpa/walmart-to-pay-282-million-to-settle-seven-year-global-corruption-probe-idUSKCN1TL27J.

CLOSING CASE: China's Mixed Economy

Summary

The closing case explores the political economy of China. Over the past four decades, China has transformed from a one-party state where private enterprise was banned, and all economic activity was centrally planned to a thriving economy blending state-owned enterprises with privately held corporations. The transformation began when it became apparent that the

Marxist model that had been in place was not working. Following a series of reforms, China embarked on its path as one of the world's fastest growing economies. Today, the country boasts the world's second largest economy as measured by nominal GDP, and the largest when measured by GDP on a purchasing power basis. A discussion of the case can begin with the following questions:

QUESTION 1: How would you describe China's economy prior to the market-based reforms of the 1980s and 1990s. This system failed to deliver rising living standards to the bulk of China's population. Why?

ANSWER 1: Prior to the market-based reforms of the 1980s and 1990s, China was a one-party Communist state in which private enterprise was prohibited, all economic activity was centrally planned, and huge state-owned enterprises dominated the country's economy. Because the approach ignored the influence of supply and demand in determining what products should be produced and in which quantities, and instead relied on government officials to determine the products to be produced and consumed, the standard of living in China did not improve. Students should recognize that because state-owned companies have no competition, there is little incentive to increase efficiency levels or even the quality of the products being produced. Indeed, the competition that emerges among privately held companies typically results in greater efficiency, lower prices, higher quality, and products and services that better suit the needs of buyers.

QUESTION 2: How would you describe China's current economic system? What are the benefits of this system? What are the potential drawbacks?

ANSWER 2: As a one-party state ruled by the Communist Party, China clearly does not enjoy the freedoms of other large economies like the United States. Instead, China, with its mix of private sector companies and state-owned enterprises, operates as a mixed economy. Indeed, in China, the economy is described as a "socialist market economy" dominated by large multinational tech companies such as Alibaba, Tencent, Baidu, and Huawei. Certain sectors of China's economy remain the domain of state-owned enterprises. In banking for example, nearly 90 percent of value added is attributed to state-owned corporations. However, regardless of ownership, the influence of the state is felt across all sectors of the economy and is central to economic growth in the country. For companies considering doing business in China, understanding this dynamic is essential. Huawei, for example, may have received as much as $75 billion in state-support, making the playing field for tech companies anything but level.

QUESTION 3: Would China be better or worse off, economically, if it privatized more of its substantial state-owned sector?

ANSWER 3: The presence of the visible hand in driving economic growth in China is evident across numerous sectors, and especially in industries related to the development of infrastructure. While government assistance typically leads to greater inefficiency and productivity, for China, the biggest issue may be its impact on trade relations with other countries. The United States and other nations have made it clear that China's assistance to its companies gives them an unfair advantage in global trade. Donald Trump attempted to force China's hand on the issue when he levied hefty tariffs on steel imports from China. So far, however, China seems to be unwilling to back down. Going forward, it is expected that the Biden administration could work together with European counterparts and present a united front to China on trade, something that could prompt China to reassess its policies.

QUESTION 4: Do you think the Chinese enterprises that received substantial funds at below-market interest rates from state-owned banks, such as Huawei, should be allowed to compete in international markets against private companies that received no such assistance? What policy remedies, if any, would you suggest here?

ANSWER 4: Most students will probably agree that Chinese companies receiving funds at below-market rates certainly have a competitive advantage over their rivals. Students may suggest that policies to limit the ability of these companies to conduct business outside of China would help to level the playing field, although they might also result in retaliatory measures from China. Some students may point out that the Obama administration targeted some industries in China for tariffs while the Trump administration engaged in an all-out trade war. Both policies were designed to get China to play by the rules of international trade, but so far, China has largely resisted. The Biden administration has left many of the tariffs initiated during the Trump era in place suggesting that the United States is likely to continue to push China on the issue.

Another Perspective: Students can explore China's political economy in greater detail at https://www.worldbank.org/en/country/china/overview#1 and https://www.reuters.com/world/china/china-q3-gdp-growth-hits-1-year-low-raising-heat-policymakers-2021-10-17/.

Another Perspective: To learn more about the subsidies received by Huawei, consider https://www.wsj.com/articles/state-support-helped-fuel-huaweis-global-rise-11577280736.

Another Perspective: To extend this discussion, consider *Tech Decoupling: China's Race to End Its Influence on the U.S.* in the International Business Library at http://bit.ly/MHEIBVideo. Click "Ctrl+F" on your keyboard to search for the video title.

CONNECT
Case Analysis
China's Mixed Economy

Summary
This activity focuses on differences in political and economic systems between countries, and specifically on China's mixed economy. Described by China as a "socialist market economy", China blends a vibrant private sector with a significant state-owned sector.

Activity

Students are asked to read a short case exploring China's mixed economy and then respond to a series of questions related to the case.

Class Discussion

A country's political and economic systems can have important implications for international businesses and how they do business in that country. Discuss the situation in China. What does it mean for companies looking to do business in the country? How does China's blend of public and private enterprise create opportunities and challenges for foreign companies?

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INCORPORATING globalEDGE™ EXERCISES

Use the globalEDGE™ website {globaledge.msu.edu} to complete the following exercises:

Exercise 1

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

Exercise 2

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

Answers to Exercises

Exercise 1 Answer

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

Website: http://www.freedomhouse.org/reports
globalEDGE™ Category: Publications

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

Exercise 2 Answer

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

Additional Info:
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 the amount of time each procedure takes and that is taken into account.