



Chapter 2

National Differences in Political Economy

What Is A Political Economy?

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

What Is A Political System?

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

What Is Collectivism?

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

How Does Modern-Day Socialism Look?

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

What Is Individualism?

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

What Is Democracy?

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

What Is Totalitarianism?

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

What Is Totalitarianism?

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

What Is The Link Between Political Ideology and Economic Systems?

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

What Is An Economic System?

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

What Is An Economic System?

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

What Is An Economic System?

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

What Is A Legal System?

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

What Are The Different Legal Systems?

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

How Are Contracts Enforced In Different Legal Systems?

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

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

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

How Are Property Rights And Corruption Related?

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

How Are Property Rights And Corruption Related?

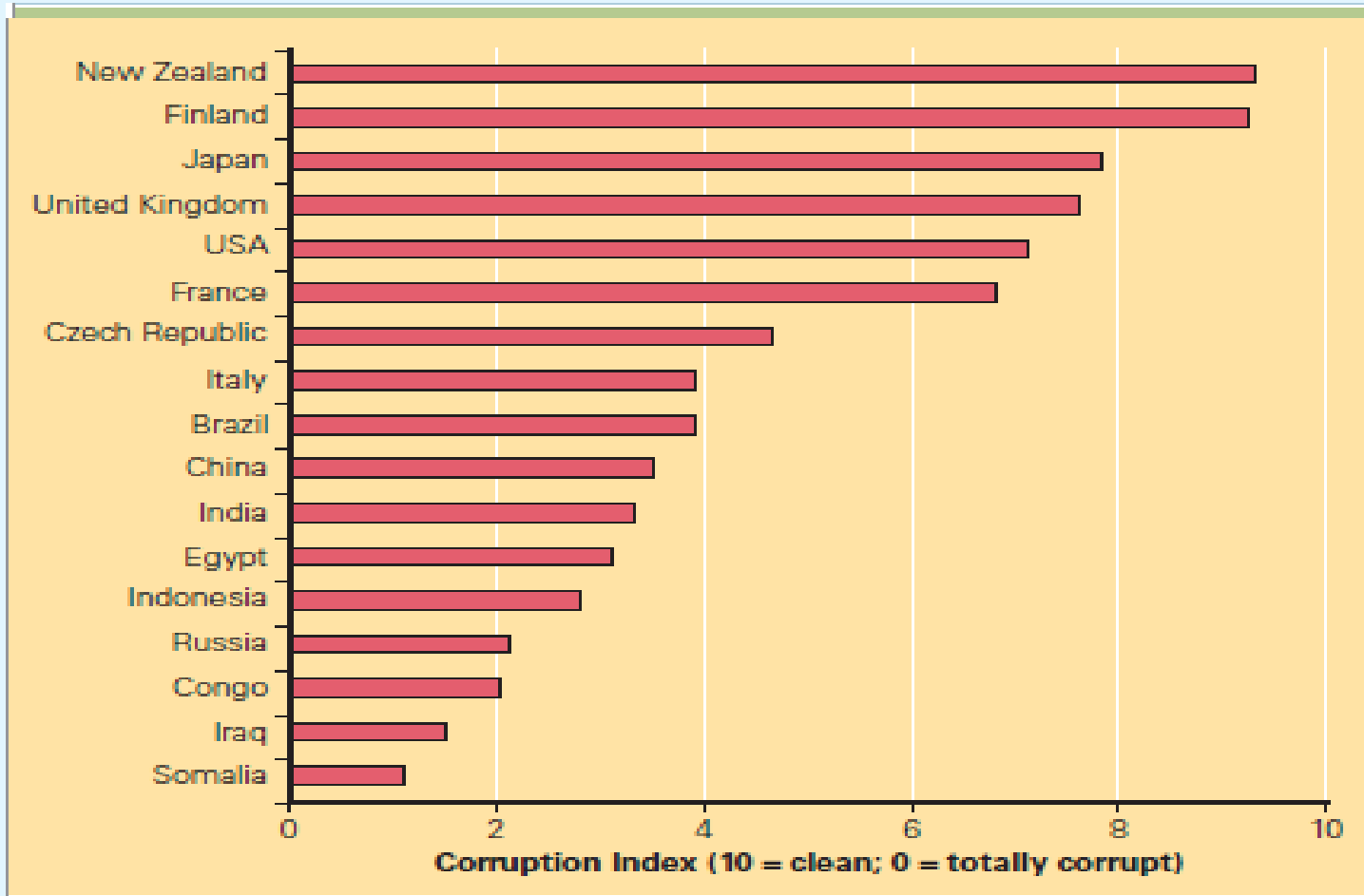
- Property rights can be violated through
 1. **Private action** – theft, piracy, blackmail
 2. **Public action** - legally - ex. excessive taxation or illegally - ex. bribes or blackmailing
 - high levels of corruption reduce foreign direct investment, the level of international trade, and the economic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

How Are Property Rights And Corruption Related?

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

Which Countries Are Most Corrupt?

Rankings of Corruption by Country 2010



How Can Intellectual Property Be Protected?

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

How Can Intellectual Property Be Protected?

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

What Is Product Safety And Liability?

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

Why Is Product Safety And Product Liability Important?

➤ Question:

- Does the high cost of liability insurance in the U.S. make American companies less competitive?

➤ Question:

- Is it ethical to follow host country standards when product safety laws are stricter in a firm's home country than in a foreign country?

➤ Question:

- Is it ethical to follow host country standards when liability laws are more lax in the host country?