

Week 1 – Introduction

International Business- Any firm that engages in international trade or investment

-the study of trade theory and the environment faced by firms as they look to internationalise

Differs from domestic:

- national culture
- political, economic, legal systems
- labour and environmental standards
- foreign exchange

Political Economy:

How the political, economic and legal systems of a country are interdependent

- interact and influence each other
- affect the level of economic well-being in the nation

Political Systems

System of government in a nation:

- collectivism vs. individualism
- democratic vs. totalitarian

1. Collectivism

Stresses the primacy of collective goals over individual goals

- advocate state ownership of basic means of production, distribution, exchange
- benefit society as a whole, **not** individual capitalists (**socialism**) →

Communism

- Socialism can only be achieved through violent revolution + totalitarian dictatorship (USSR)

Social Democrats

- Socialism is achieved through democratic means (France, Germany)
- **Retreating=** countries moving toward free market economies state-owned enterprises privatised

2. Individualism

An individual should have freedom in his own economic and political pursuits (USA, GB)

- pursuit of individual economic-interest
- democratic political systems + free market economies (**capitalism**)

3. Democracy

A political system in which government is by the people, exercised either **directly** or through elected **representatives**

Direct = citizens directly involved in decision making

Representative = citizens elect individuals to represent them

(continued below)

Ideal Criteria of Democratic State =

- individual right to free expression and organisation
- free media
- universal adult suffrage and regular elections
- limited terms of elected representatives
- fair and independent court system

4. Totalitarianism

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

- **communist totalitarianism**= the communist party monopolises power (North Korea)
- **theocratic totalitarianism**= political power is monopolised by a party, group or individual that governs according to religious principles
- **tribal**= a political party that represents the interests of a particular tribe monopolises power
- **right-wing**

Economic Systems advantages + disadvantages

1. Market economies (capitalist):

- 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 (**individualist, democratic**)

2. Command economies (communist/socialist):

- Government plans the goods/services that a country produces, the quantity that is produced and the prices at which they are sold
- All businesses are state-owned and government allocates resources for the “good of society” (**collectivist, totalitarianism**)

3. Mixed economies:

- Mixture of private ownership + free market and state ownership + government planning
- Government tends to own firms important to national security (**Australia**)

Week 2 – International Business Environment

Legal Systems

Rules that regulate behaviour along with the processes by which the laws are enforced and through which redress for grievances is obtained

- common law:** based on tradition, precedent, custom
- civil law:** based on detailed set of laws organised into codes
- theocratic law:** based on religious teachings

Common Law:

- based on cumulative wisdom of judges and precedent
- judges act as neutral referees and have power to interpret law so it applies to circumstantial cases
- supplemented by statutory laws (**USA, Canada, Australia**)

Civil Law:

- most common form of law** in 80 countries (**Germany, France, Russia**)
- based on codification of a very detailed set of laws
- judges have less flexibility
- apply law rather than interpret for best fit

Theocratic Law:

- based on official religious teachings
- based upon moral behaviour that governs faith and practice (**Islamic law**)

4 Important Issues for International Business

- contract law
- property rights and corruption
- protection of intellectual property
- product safety and liability

Transition Economies

Those economies which have been characterised by a move towards greater democracy and economic liberalisation

Centrally planned economic systems → market based

Reasons for Transition:

- totalitarian regimes failed to deliver economic progress
- advances in telecommunications technology
- rising middle class

Shift toward market-based system involves:

- **Deregulation**
removing legal restrictions to the free play of markets, the establishments of private enterprises and the manner in which private enterprises operate
- **Privatisation**
transfers the ownership of state property into the hands of private investors
- **Legal system**
the creation of a legal system to safeguard property rights

Benefits

- do the long term benefits outweigh the risks?
- size of market, wealth of consumer?
- first mover advantages?

- predictors of future economic well-being of country?
 - *economic system
 - *property rights regime

Costs

- potential to pay off individuals to do business (bribes)
- sophistication of economy – infrastructure
- legal factors
 - *contract/property law
 - *laws for labour, product safety etc.

Transition Economies Risks:

- **Political**
political forces causing drastic changes in a country's business environment which will affect the profit and other goals of a business enterprise
- **Economic**
economic mismanagement causing drastic change in a country's business environment which will affect the profit and other goals of enterprise
- **Legal**
trading partner may break a contract or expropriate property rights