***International Business***

**Chapter 3 The Political and Legal Environments Facing Business**

1) Which of the following is a true statement about China?

A) The Chinese government's shift from communism to capitalism has led to an increase in FDI.

B) China attracts FDI because the government has eliminated elaborate bureaucracies.

C) The Chinese government manipulates market activities for political purposes.

D) China lacks an educated pool of employees due to slowly developing industrialization.

Answer: C

Learning Outcome: Describe how differences in political economy influence economic development

2) Which of the following problems in China is blamed for the annual loss of $250 billion by American MNEs?

A) intellectual property violations

B) environmental hazards

C) child labor violations

D) embezzlement

Answer: A

Learning Outcome: Explain the implications of foreign direct investment for both host and home country

3) Which of the following countries has an individualistic orientation?

A) Venezuela

B) Japan

C) Egypt

D) Canada

Answer: D

4) Which of the following ideas holds that a government should NOT interfere in business affairs?

A) collectivism

B) laissez-faire

C) the rule of man

D) pluralism

Answer: B

5) The principle that an individual has the freedom to pursue his or her interests is called \_\_\_\_\_\_\_\_.

A) socialism

B) totalitarianism

C) individualism

D) collectivism

Answer: C

6) Proponents of \_\_\_\_\_\_\_\_ argue that individual interests are not as important as the welfare of the group.

A) pluralism

B) capitalism

C) collectivism

D) individualism

Answer: C

7) In a country that emphasizes collectivism, \_\_\_\_\_\_\_\_.

A) the interests of the individual are more important than the interests of the state

B) one person or political party exercises absolute control over the political and economic systems

C) the needs of society and the needs of individuals are treated as equally important

D) the needs of society take precedence over individual freedoms

Answer: D

Learning Outcome: Describe how differences in political economy influence economic development

8) Which of the following countries has a collectivist orientation?

A) Canada

B) Australia

C) Japan

D) Netherlands

Answer: C

9) Political systems based on the \_\_\_\_\_\_\_\_ paradigm, such as those of Japan and China, accept the principle that government may intervene to ensure that business practices benefit society.

A) individualistic

B) collectivistic

C) pluralistic

D) laissez-faire

Answer: B

10) Although there are different views about the purpose of a political system, most analysts agree that an essential task of a political system is to \_\_\_\_\_\_\_\_.

A) integrate the different elements of a society into a functioning unit

B) allocate scarce resources among competing users

C) develop reasonable attitudes and outlooks within the population

D) protect individuals within the country from foreign threats

Answer: A

11) In a practical sense, the term *political system* is meant to signify the \_\_\_\_\_\_\_\_.

A) organization of military power in a country

B) working government in a country

C) philosophical orientations in a country

D) cultural values in a country

Answer: B

12) The distinguishing feature of political ideologies along the political spectrum is \_\_\_\_\_\_\_\_, with some emphasizing its primacy and others opposing it.

A) capitalism

B) socialism

C) freedom

D) liberalism

Answer: C

13) A(n) \_\_\_\_\_\_\_\_ ideology is the system of ideas that expresses the goals, theories, and aims of how society should work.

A) technological

B) economic

C) legal

D) political

Answer: D

14) Which of the following statements best describes a pluralistic society?

A) Multiple segments of society adhere to the same political philosophy.

B) Two dominant political parties rule local and federal governments.

C) Different ideologies are held by different segments of society.

D) Various ethnic groups belong to the official political party.

Answer: C

15) \_\_\_\_\_\_\_\_ refers to a political system in which government is organized by and accountable to the people.

A) Totalitarianism

B) Fascism

C) Socialism

D) Democracy

Answer: D

16) In a democracy, \_\_\_\_\_\_\_\_.

A) citizens have the right to participate in the decision-making process

B) the opportunity to truly participate in the political process is restricted to a select few

C) the court system is directly supervised by the political system

D) the rights of the individual are merged with the state

Answer: A

17) In a totalitarian political system, \_\_\_\_\_\_\_\_.

A) political power resides with the citizens of the country

B) governments direct most economic activity but few social ones

C) an individualistic outlook shapes political debate and policy formation

D) one agent monopolizes political power

Answer: D

18) Which of the following would most likely be used in a totalitarian system to promote unconditional support for the official ideology?

A) privately owned media outlets

B) a parliamentary system

C) state control of the education system

D) a representative legislative body

Answer: C

19) Under the \_\_\_\_\_\_\_\_ form of totalitarianism, the regime confines itself to political control of the state. It does not regulate the economic and social structure of society.

A) fascist

B) communist

C) theocratic

D) authoritarian

Answer: D

20) All of the following countries have a totalitarian political system EXCEPT \_\_\_\_\_\_\_\_.

A) China

B) Russia

C) South Korea

D) Saudi Arabia

Answer: C

21) Which of the following is most likely a characteristic of a "partly free" country, such as Guatemala, Kenya, or Malaysia?

A) strict religious constraints

B) fair election procedures

C) respect for civil liberties

D) weak rule of law

Answer: D

22) In which of the following countries would business activity, given its status as a "not free" marketplace, be under the greatest government control?

A) Vietnam

B) Pakistan

C) India

D) Brazil

Answer: A

Learning Outcome: Describe how differences in political economy influence economic development

23) Which of the following was a notable trend in political systems during the second half of the 20th century and beginning of the 21st century?

A) A wave of democratic transformations occurred as countries around the world moved away from totalitarian systems.

B) A wave of theocratic revolutions occurred as people around the world looked to spirituality to guide them.

C) Socialistic revolutions swept the world as countries aspired toward greater social justice.

D) A totalitarian revolution swept the world as people looked to strong state leadership in uncertain times.

Answer: A

24) Recently, the Economist Intelligence Unit investigated the status of democracies around the globe. Relying on 60 indicators that focus on the performance of free elections, civil liberties, government functioning, political participation, and political culture in a country, the study found that \_\_\_\_\_\_\_\_.

A) almost all of the world's democracies are full democracies

B) nearly half of the world's democracies qualify as "full" or "flawed" democracies

C) less than a quarter of the countries studied are outright authoritarian regimes

D) most democracies are hybrid political systems that share theocratic and totalitarian characteristics

Answer: B

25) The march toward greater political freedoms and more expansive civil liberties, beginning in the 1970s, strongly fueled a sense of \_\_\_\_\_\_\_\_.

A) less predictable operating conditions for companies

B) the inevitability of democracy

C) different rules for domestic versus international competition

D) weaker property rights

Answer: B

Learning Outcome: Describe how differences in political economy influence economic development

26) Which of the following is a condition that powered the worldwide spread of democracy from 1970 onward?

A) Totalitarian regimes delivered acceptable economic progress to their populations.

B) Economic advances caused contentment among the working class and minimized the need to push for democratic reforms.

C) Many groups were able to successfully challenge the legitimacy of democratic systems.

D) Information and communications technologies broke down the ability of the state to control access to uncensored information, especially that from foreign sources.

Answer: D

27) \_\_\_\_\_\_\_\_ is the chance that political forces may change a country's business environment in ways that lead investors to lose some or all of the value of their investment or be forced to accept a lower-than-projected rate of return.

A) Governmental risk

B) Operating risk

C) Transaction risk

D) Political risk

Answer: D

Learning Outcome: Describe how differences in political economy influence economic development

28) Which of the following types of political risks often is caused by ethnic conflict or civil disorder and includes those random political developments that adversely affect the operations of all companies in a country?

A) systemic political risk

B) procedural political risk

C) catastrophic political risk

D) distributive political risk

Answer: C

Learning Outcome: Describe how differences in political economy influence economic development

29) \_\_\_\_\_\_\_\_ political risks arise from political actions, such as public corruption or a partisan judicial system, that interfere with transactions between sellers and buyers and that can significantly raise the costs of getting things done.

A) Systemic

B) Procedural

C) Catastrophic

D) Distributive

Answer: B

Learning Outcome: Describe how differences in political economy influence economic development

30) Select the correct order, going from low to high total impact on an MNE, of the following types of political risk: (1) procedural political risks, (2) systemic political risks, (3) distributive political risks, (4) catastrophic political risks.

A) 3, 2, 1, 4

B) 1, 2, 3, 4

C) 2, 3, 4, 1

D) 2, 1, 3, 4

Answer: D

31) Which of the following statements about approaches to political risk management is NOT true?

A) Passive political risk management discourages managers from fully or partially hedging their bets against exposure to political hazards.

B) Passive political risk management assumes that it is difficult, if not impossible, to systematically model political risk.

C) Active political risk management assumes that positive and negative political events in any country are neither independent nor random events.

D) Active political risk management assumes that political events unfold in observable patterns that statistical methods can detect.

Answer: A

32) Barkely Enterprises, a U.S. manufacturer, received assistance from the Overseas Private Investment Corporation when it expanded operations into Saudi Arabia. Which of the following types of support did Barkely most likely receive from OPIC?

A) financial capital

B) cultural training

C) legal guidance

D) political risk insurance

Answer: D

33) The \_\_\_\_\_\_\_\_ of a country specifies the rules that regulate behavior, the processes by which laws are enforced, and the procedures used to resolve grievances.

A) political system

B) political philosophy

C) philosophical orientation

D) legal system

Answer: D

34) A system of \_\_\_\_\_\_\_\_ law sets the framework for the system of government and defines the authority and procedure of political bodies to establish laws and regulations.

A) criminal

B) constitutional

C) civil

D) commercial

Answer: B

35) Which of the following is NOT a component of modern legal systems?

A) constitutional law

B) criminal law

C) commercial law

D) private law

Answer: D

36) Ian, a financial manager, is preparing to transfer to Germany where he will serve as an expatriate manager of his employer's European office. With which type of legal system will Ian most likely have to deal with in Germany?

A) mixed

B) common

C) civil

D) theocratic

Answer: C

37) A(n) \_\_\_\_\_\_\_\_ law system is based on a systematic and extensive codification of laws and puts political officials in charge of specifying accessible, detailed, and written law that applies to all citizens.

A) customary

B) common

C) civil

D) theocratic

Answer: C

38) A \_\_\_\_\_\_\_\_ law system is based on tradition, judge-made precedent, and usage and assigns a preeminent position to existing case law as a guide to dispute resolution.

A) theocratic

B) common

C) customary

D) civil

Answer: B

39) A U.S. firm with manufacturing facilities in Nigeria will most likely be faced with a \_\_\_\_\_\_\_\_ legal system.

A) civil

B) common

C) customary

D) mixed

Answer: D

40) The pushback against democracy has powered a rise in totalitarianism, a situation that is likely to include which of the following?

A) increasing adoption of the principles of the rule of law

B) growing demands worldwide for greater fairness and justice in legal proceedings

C) increasing adoption of the principles of the rule of man

D) suppression of state-control in the direction of legal activities

Answer: C

41) Which of the following is most likely a true statement regarding the rule of law? The rule of law is a hallmark of \_\_\_\_\_\_\_\_.

A) a totalitarian government

B) a democratic government

C) societies that place ultimate power in the hands of one person

D) countries that are considered "partly free"

Answer: B

42) The largest percentage of nations, within a contiguous geographic region, that adhere to the rule of man are located in \_\_\_\_\_\_\_\_.

A) Central Africa

B) Northern Africa

C) Eastern Europe

D) Central America

Answer: A

43) Skinner Electronics plans to expand into foreign markets. Top executives want the firm to focus only on locations where the rule of law prevails. Which of the following should most likely be considered by Skinner?

A) wealthier, westernized countries

B) developing, non-Western countries

C) emerging economies experiencing rapid growth

D) countries inclined toward totalitarian-style government

Answer: A

Learning Outcome: Describe how differences in political economy influence economic development

44) Rockwall Enterprises is planning to expand the firm by establishing operations outside of the U.S. In which of the following countries would Rockwall most likely be able to establish operations most quickly?

A) Japan

B) Brazil

C) Germany

D) Australia

Answer: D

45) Premium Manufacturing is planning to expand operations overseas. Executives at the firm are considering a number of different countries. Which of the following countries would most likely have the lowest start-up costs?

A) India

B) China

C) Japan

D) Guatemala

Answer: B

46) Countries with a \_\_\_\_\_\_\_\_ legal system tend to encourage precise, detailed contracts, whereas countries with a \_\_\_\_\_\_\_\_ legal system tend to encourage shorter and less specific contracts.

A) theocratic; mixed

B) common; civil

C) civil; customary

D) customary; common

Answer: B

47) Elite Manufacturing seeks a foreign location with a highly favorable business environment and a comprehensive legal code. Which of the following countries would be most suitable for Elite?

A) Japan

B) Canada

C) Singapore

D) United Kingdom

Answer: C

Learning Outcome: Describe how differences in political economy influence economic development

48) Local content regulations are primarily intended to \_\_\_\_\_\_\_\_.

A) address cultural differences between local employees and expatriates

B) encourage MNEs to increase production activities in a country

C) address contract negotiation difficulties

D) assess local tax rates on MNEs

Answer: B

49) Countries often use local content regulations to determine the proportion of the product that must be made in the local market versus made outside of the local market in order to \_\_\_\_\_\_\_\_.

A) maximize product safety

B) ensure a cultural fit

C) favor domestic companies

D) relieve production pressures on local companies

Answer: C

50) \_\_\_\_\_\_\_\_ refer(s) to the creative ideas, innovative expertise, or intangible insights that give an individual, company, or country a competitive advantage.

A) Proprietary goods

B) Exclusive ownership

C) Restrictive goods

D) Intellectual property

Answer: D

51) ION Software is the registered owner of a program designed to help sort and organize incoming and outgoing e-mail. Which of the following legal conventions does ION most likely have?

A) intellectual property right

B) trademark credential

C) patent certificate

D) TRIPS permit

Answer: A

52) Most counterfeit goods are made in markets in which \_\_\_\_\_\_\_\_ is the basis of the legal system.

A) the rule of man

B) the rule of law

C) religious doctrine

D) corporate precedent

Answer: A

53) Which of the following statements referring to intellectual property rights and violations is INCORRECT?

A) Richer countries claim looser regulation of intellectual property rights will hinder innovation.

B) Companies can register a global patent, trademark, or copyright through the World Trade Organization (WTO).

C) The International Anti-Counterfeiting Coalition estimates international trade in counterfeit products at $600 billion a year.

D) Developing markets claim tougher regulation of IPRs will slow, if not halt, their economic development.

Answer: B

54) All of the following are reasons piracy has occurred EXCEPT \_\_\_\_\_\_\_\_.

A) technology allows copyrighted material to be reproduced cheaply without much loss of quality

B) some countries offer little protection for certain products

C) in some cultures, people see little morally wrong in buying counterfeit goods

D) the protection of intellectual property rights varies little from country to country

Answer: D

55) The vigor of IPR protection is highly related to a country's stage of \_\_\_\_\_\_\_\_.

A) economic development

B) cultural heterogeneity

C) natural resource development

D) standardization of patent regulations

Answer: A

56) Garnet Footwear suffered significant financial losses and had to close its foreign operations. The dissolution process took six months and cost four percent of the firm's estate. Where was Garnet's foreign operations most likely located?

A) Ecuador

B) France

C) Japan

D) China

Answer: C

57) Logan Electronics has a production facility in Bolivia. Recently, the firm was taxed at a significantly higher rate than a local electronics company. Which type of political risk is Logan most likely experiencing?

A) systemic

B) procedural

C) distributive

D) catastrophic

Answer: B

58) Harmon Clothing has a production facility located in Venezuela. Recently, Harmon has been unable to arrange for overseas loans due to the burdensome regulatory policies of the Venezuelan government. Which type of political risk is Harmon most likely experiencing?

A) catastrophic

B) distributive

C) procedural

D) systemic

Answer: D

59) Wharton Enterprises, a U.S. firm, manufactures small kitchen appliances. The firm has recently developed an innovative blender design that Wharton executives anticipate being very profitable. Currently, Wharton has production facilities in the U.S. and China. Wharton executives are trying to determine where the new product should be manufactured. Which of the following best supports a decision to manufacture the new product in the U.S. instead of China?

A) Intellectual property rights are strongly protected by U.S. patent laws.

B) A strategic marketing plan can be quickly developed in the U.S.

C) Contract enforcement is a simple process in the U.S.

D) The U.S. is experiencing an economic recession.

Answer: A

60) Wharton Enterprises, a U.S. firm, manufactures small kitchen appliances. The firm has recently developed an innovative blender design that Wharton executives anticipate being very profitable. Currently, Wharton has production facilities in the U.S. and China. Wharton executives are trying to determine where the new product should be manufactured. Which of the following questions is most relevant to the decision?

A) What selection procedures would be best in China?

B) Should expatriates or locals manage the Chinese facility?

C) How can the firm guard against counterfeiting in China?

D) How would China's individualistic system affect the firm?

Answer: C

61) The term collectivism refers to a system that stresses the primacy of societal goals over individual goals.

Answer: TRUE

62) Societies that emphasize collectivism place the interests of individuals over the interests of the state.

Answer: FALSE

63) In some collectivist systems, such as Venezuela, politicians control media outlets and limit individual property rights in order to acquire power in the business environment.

Answer: TRUE

Learning Outcome: Describe how differences in political economy influence economic development

64) As exemplified in China, the government in a collectivist society is highly connected to and interdependent with business.

Answer: TRUE

Learning Outcome: Describe how differences in political economy influence economic development

65) A political ideology is the collection of ideas that expresses the goals, theories, and aims that constitute a sociopolitical program.

Answer: TRUE

66) Democracy and totalitarianism fall on the same end of the political spectrum.

Answer: FALSE

67) The fundamental element of democracy is justice.

Answer: FALSE

68) A democracy grants the voting citizenry the power to alter the laws and structures of government.

Answer: TRUE

69) Totalitarianism is a political ideology that typically involves constant indoctrination of the population by agents of the government to eliminate dissent.

Answer: TRUE

70) Totalitarian countries are favored by MNEs because state governments typically favor foreign investors over local companies.

Answer: FALSE

Learning Outcome: Describe how differences in political economy influence economic development

71) The Third Wave of Democratization was partially triggered by improved communication systems.

Answer: TRUE

72) Research indicates that democracy is declining around the world and that totalitarian regimes are increasing.

Answer: TRUE

73) According to EIU research, 37% of the world's population live in full democracies.

Answer: FALSE

74) The Washington Consensus promotes democracy, freedom, the rule of man, and human rights.

Answer: FALSE

75) Civil strife, tax discrimination, weak legal systems, and terrorist actions are political risks faced by MNEs operating in foreign countries.

Answer: TRUE

76) Managers who take an active approach to political risk management are likely to rely on statistical modeling to quantify the precise degree of political risk.

Answer: TRUE

77) Political risk insurance is more likely to be purchased by MNEs that apply an active approach to political risk management.

Answer: FALSE

78) Multilateral development banks encourage development in risky environments through financial incentives.

Answer: TRUE

Learning Outcome: Describe how differences in political economy influence economic development

79) The political system of a country refers to the laws that regulate actions, along with the processes by which those laws are enforced and by which redress for grievances is acquired.

Answer: FALSE

80) A common law system is based on tradition, judge-made precedent, and usage in which the courts assign a preeminent position to existing case law to guide dispute resolution.

Answer: TRUE

81) A civil law system anchors itself in the wisdom of daily experience or, more intellectually, great spiritual or philosophical traditions.

Answer: FALSE

82) The rule of man, a practice that has been in play for millennia, presumes that the law is the will of the ruler, whether the king, czar, raj, or emperor.

Answer: TRUE

83) The rule of law holds that governmental authority is legitimately exercised only in accordance with written, publicly disclosed laws that have been appropriately adopted and which are enforced in keeping with established procedure.

Answer: TRUE

84) Laws on local business activities directly influence the operations of domestic and foreign companies in areas such as hiring and firing workers.

Answer: TRUE

85) Countries with a theocratic legal system encourage precise, detailed contracts whereas countries with a common legal system encourage shorter and less specific contracts.

Answer: FALSE

Learning Outcome: Describe how differences in political economy influence economic development

86) International law takes precedence over national laws in determining permissible practices in pricing, distribution, advertising, and promotion of products and services in a particular country.

Answer: FALSE

Learning Outcome: Describe how differences in political economy influence economic development

87) International companies often must customize products to comply with local standards if they are to do business in a particular country.

Answer: TRUE

Learning Outcome: Describe how differences in political economy influence economic development

88) Intellectual property refers to the creative ideas, innovative expertise, or intangible insights that give an individual, company, or country a competitive advantage.

Answer: TRUE

89) The International Anti-Counterfeiting Coalition estimates that international trade in counterfeit products runs less than 5 percent of the value of total world trade.

Answer: FALSE

90) The protection of intellectual property rights is very similar from country to country.

Answer: FALSE

91) What is the difference between individualism and collectivism? What is the relationship between government and business under each orientation?

Answer: The doctrine of individualism emphasizes the primacy of individual freedom, self-expression, and personal independence. Individualism values the individual's ambitions and opposes external interference by the government that constrains individual choice. Under individualism, the role of the government is to protect the liberty of individuals to act as they wish, so long as they do not infringe upon the liberties of others. Countries with an individualist orientation typically have an economy shaped by the idea of laissez-faire, meaning that the government should, for the most part, not interfere with business.

In contrast, the doctrine of collectivism emphasizes the primacy of the group—class, society, or the nation—over the interests of the individual. The group as a whole is greater than the sum of its individual parts. Individuals define themselves in connection with the group. Under collectivism, activities in the marketplace must improve the welfare of society. Systems that feature a collectivist orientation, then, hold that government should intervene in business situations to ensure that business practices benefit the group.

92) What are the differences between democratic and totalitarian political systems? What does current research suggest about the spread of democracy and totalitarianism in the world?

Answer: Democracy basically involves wide participation by citizens in a decision-making process. Or as the text notes, Abraham Lincoln, the sixteenth president of the United States, saw democracy as a government "of the people, by the people, and for the people." Practically speaking, a democracy is a political system that endorses the rule of law and grants the voting citizenry the power to alter the laws and structures of government, to make all decisions (either directly or through representatives), and to participate in elections that express their decisions. These are the principles and practices that enable a democracy to institutionalize political freedoms and civil liberties. As a result, democracy is typically represented by a high level of civil liberties, such as freedom of opinion, expression, and the press.

In a totalitarian system, a single agent—whether an individual, group, or party—monopolizes political power and tries to mobilize the population toward two ends: unquestioning support for the official state ideology and opposition to activities that run counter to the goals of the state. The ideological standards of totalitarianism require agents of the government to eliminate dissent within the system. In dramatic contrast to the democratic ideal of freedom, totalitarianism enforces restrictions that subordinate the day-to-day life of people—including occupation, income, personal interests, religion, and even family structure—to the interests of the state through the use of persecution, surveillance, propaganda, censorship, and violence. Consequently, there is little to no political freedom and few, if any, civil liberties.

Current research suggests that there is a slowing momentum of democracy in the world. Trends throughout the world also signal a surge in authoritarianism especially in the Middle East and the former Soviet Union.

, 2

93) What is political risk? What is the relationship between political environment and political risk?

Answer: Investing overseas exposes a company to the risks that arise from the quirks of international politics or, as commonly called, political risk. Generally, political risk is the chance that political decisions, events, or conditions in a country will affect the business environment in ways that lead investors to (1) lose some or all of the value of their investment or (2) be forced to accept a lower than projected rate of return. Although political risks can occur in democratic as well as totalitarian political regimes, they tend to be more prevalent in totalitarian regimes.

, 3

94) Identify the three common components of modern legal systems and explain their relevance to managers.

Answer: Unquestionably, legal systems differ from country to country, primarily because of differences in tradition, precedent, usage, custom, or religious precepts. Even so, the purpose of every legal system is to establish a comprehensive legal network to regulate social activities. As such, modern legal systems share three components to achieve this goal, specifically:

1. A system of constitutional law designed to guarantee an open and just political order

2. A system of criminal law designed to safeguard the social order

3. A system of civil and commercial laws designed to ensure fairness and efficiency in business transactions.

Aspects of all three components bear on the decisions made by managers and foreign investors. Certainly, differences in each will adjust how managers see the legal system in a particular country. When the legal system is functioning well, no matter how it blends these three components, it ensures that a society can pursue economic and social development and, when disagreements arise, resolve them without collapsing into anarchy.

95) Contrast common law, civil law, customary law, and theocratic law.

Answer:

a. Common law—The United States and the United Kingdom are examples of countries with a common law system. Common law is based on tradition, precedent, custom, and usage. The courts fulfill an important role in interpreting the law according to those characteristics. In a common law country, contracts tend to be detailed, with all contingencies spelled out.

b. Civil law—Civil law is based on a detailed set of laws that make up a code. Rules for conducting business transactions are a part of the code. More than 70 countries, including Germany, France, and Japan, operate on a civil law basis. In a civil law country, contracts tend to be shorter and less specific because many of the issues that a common law contract would cover already are included in the civil code.

c. Customary law—A customary law system anchors itself in the wisdom of daily experience or, more intellectually, great spiritual or philosophical traditions. Few countries in the world today operate under a legal system that is wholly customary. Still, customary laws sometimes play a significant role, namely in matters of personal conduct, in many countries with mixed legal systems.

d. Theocratic law—A theocratic law system relies on religious and spiritual principles to define the legal environment. Religious leaders hold ultimate legal authority, applying religious law to govern social transactions. The best example of this system is Islamic law, which is prevalent in Muslim countries.

96) Compare and contrast the rule of law and the rule of man.

Answer: The rule of man has been around for millennia, in the sense that for much of history, the ruler and the rule were synonymous. The law was the will of the ruler, whether in the person of the king, czar, raj, caliph, or emperor. Regardless of the title used today, such as chairman, general, or supreme leader, the principle places ultimate power in the hands of one person, making his (or her) word and will (and whim) law, no matter how unfair, unjust, or nonsensical. Because it grants inherent authority for the ruling party to act without being subject to checks and balances, the rule of man principle is a keystone of totalitarian government.

The rule of law, in contrast, rejects the notion of an omnipotent leader arbitrarily ruling society. Instead, the rule of law, a hallmark of democracy, holds that governmental authority is legitimately exercised in accordance with written, publicly disclosed laws that have been appropriately adopted and are enforced in keeping with established procedure. Ideally, the rule of law institutes a just political and social environment, guarantees the enforceability of commercial contracts and business transactions, and safeguards personal property and individual freedom. Everyone who lives under it expects every legitimately enacted law, code, and statute to be grounded in and validated by the principles of the rule of law. No individual—whether public official or private citizen—stands above the law.

97) In a brief essay, describe the political and legal systems in China and their effect on MNEs doing business in China.

Answer: China applies state capitalism whereby the government manipulates market activities to achieve political goals. Consequently, MNEs doing business in China often find themselves at a disadvantage. Incorporating in China requires telling the government–in excruciating detail–who you are, what you want to do, how you plan to do it, how much you intend to invest, and how many jobs you will create. China's political and legal systems impose many time-consuming tasks on MNEs. Moreover, China tends to stack the odds against foreigners who are bold enough to forge ahead in the face of an elaborate government bureaucracy and a fledgling legal system.

Learning Outcome: Describe how differences in political economy influence economic development

, 4

98) How has intellectual property theft affected China's economy? What is the relationship between China's legal environment and intellectual property theft?

Answer: MNEs complain that the relentless, widespread, and sophisticated theft of their intellectual property fuels China's economic surge. Aggressive estimates attribute nearly a third of the Chinese economy to piracy. In the United States, the FBI estimates that American companies lose up to $250 billion annually to counterfeiting, half of it because of China's illegal practices. Most analysts point to the mix of China's quest to catch the west, collectivist orientation, rule-of-man legacy, and dubious enforcement of ambiguous laws. These conditions create an unprecedented political and legal morass. Officially, China has a battery of laws that comply with international standards for market access, nondiscrimination, and transparency. However, many Chinese citizens and officials naturally question the legitimacy of laws passed by foreign governments. Hence, foreign made laws are inconsistently enforced in the local marketplace. This gap between domestic traditions and foreign standards, explained a Chinese jurist, means that intellectual property laws exist to protect Chinese intellectual property from foreign intellectual property.

Learning Outcome: Describe how differences in political economy influence economic development

, 6

99) How does a nation's legal environment affect an MNE's marketplace behavior, especially when the rule of man prevails?

Answer: National laws stipulate permissible practices in all forms of business activities, including sourcing, distributing, advertising, and pricing products. MNEs adjust their manufacturing configuration, supply chain coordination, and marketing strategy accordingly. In countries where the rule of man is the basis of law, acceptable marketplace behavior is unpredictable. MNEs often complain of trumped-up charges, solicitation of bribes, and favoritism for local rivals. Especially controversial in legal systems where the rule of man prevails is the issue of the protection–or lack thereof–of intellectual property.

Learning Outcome: Describe how differences in political economy influence economic development

, 6

100) What is procedural political risk? How does a nation's political and legal environment influence procedural risk for MNEs?

Answer: Procedural risk is associated with moving people, products, and funds from point to point in the global market. Each move creates a procedural transaction between companies or countries. Political actions sometimes impose frictions that slow or stop transactions. The repercussions of, say, public fraud or a partisan judicial system can raise business costs; corrupt officials, for instance, might pressure a foreign firm to pay additional monies to clear goods through customs or obtain a permit to open a factory. Politically motivated interference escalates expenses, thereby lowering returns. Procedural political risk is often classified as a micro risk–that is, it affects some but not all companies.

Learning Outcome: Describe how differences in political economy influence economic development

, 4