

# National Differences in Political Economy

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1. Understand how the political systems of countries differ.

2. Understand how the economic systems of countries differ.
3. Understand how the legal systems of countries differ.
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 that focuses on legal systems includes a discussion of intellectual property including patents, copyrights, and trademarks. Protecting intellectual property is a particularly problematic issue in international trade. Finally, the chapter ends with a discussion of the managerial implications of differing political, economic, and legal systems of a country.

## Opening Case: Ghana: An African Dynamo

### Summary

The opening case explores the changes in Ghana's political system that have helped the country achieve one of the fastest growth rates in sub-Saharan Africa and indeed the entire world. After Ghana gained its independence from Great Britain in 1957, the country suffered from high levels of corruption and a series of military coups that limited the development of a stable political system. In 1981, a coup put Jeremy Rawlings in power. Over the next 20 years, Rawlings worked to eliminate corruption and eventually to implement democratic policies. Under Rawlings' watch, some 300 state-owned enterprises were privatized. The recent discovery of oil has further benefited Ghana. Today, there is an effort underway to upgrade the country's infrastructure. Discussion of the case can revolve around the following questions:

### Suggestion Discussion Questions

QUESTION 1: Discuss the implications of corruption on the development and growth of a country. How did corruption affect Ghana?

ANSWER 1: For more than 20 years after its independence from Great Britain, Ghana struggled to establish any sort of economic growth. In fact, at the time Ghana was one of the poorest countries in the world. A major factor contributing to this state was the country's high level of corruption. Most students will probably recognize that corrupt behavior by government officials makes it very difficult for a country to gain traction. Indeed, Ghana was able to turn the corner only after Jerry Rawlings claimed power and began to put an end to government corruption.

QUESTION 2: Today, Ghana is working to upgrade its infrastructure. What does a modern infrastructure and stable government have to do with a country's ability to attract investment?

ANSWER: Just a few decades ago, Ghana was one of the poorest countries in the world. Today, thanks to the discovery of oil, as well as increased demand for gold and cocoa, Ghana's economy is booming.

Now, government officials are scrambling to bring the country's infrastructure up to date. Already, the country has upgraded its electrical grid, built new roads, and expanded the main airport. Students should recognize that these efforts to modernize the infrastructure should help Ghana attract new investment. 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.

**Teaching Tip:** Information on doing business in Ghana is available at <http://www.doingbusiness.org/data/exploreeconomies/ghana/> and <http://www.ghanaembassy.org/index.php?page=advantages-for-doing-business-in-ghana>.

## Chapter Outline with Lecture Notes, Video Notes, and Teaching Tips

### INTRODUCTION

A) Different countries have different political systems, economic systems, 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.

C) The opening case on Ghana's changing political system illustrates how economic growth in a country can be affected by its politics. After Ghana's independence from Great Britain in 1957 until the 1990s, the country operated under socialist principles. Only after democratic policies were introduced, and the corruption that was rampant during the socialist era was eliminated did the country show real signs of economic growth. Today, Ghana is one of the fastest growing economies in the world, and one of the most dynamic countries in Africa.

### 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

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 revolution and totalitarian

dictatorship, while **social 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. Protected from significant competition by their monopoly position, and guaranteed governmental financial assistance, many state owned enterprises became increasingly inefficient. 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) Individualism, while advocated by Aristotle, in modern days was encouraged by David Hume, Adam Smith, John Stuart Mill, and most recently, Hayek and Milton Friedman. Individualism focuses on i) guaranteeing individual freedom and self-expression, and ii) letting people pursue their own self-interest in order to achieve the best overall good for society. The U.S. Declaration of Independence and the Bill of Rights embody the spirit of individualism.

G) 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: Chavez's Venezuela

#### Summary

This feature explores the political and economic situation in Venezuela since Hugo Chavez was elected president in 1998. When Chavez, who ran on a platform against corruption and economic mismanagement, initially took office, Venezuela's economy was in a deep recession. Once in office, Chavez consolidated his hold over the government by drafting a new constitution that put him in power until 2012, and perhaps longer since new elections are unlikely to be free and fair. As a result, Venezuela is now considered to be only "partly free." Economically, things have also remained difficult for Venezuela. Unemployment is high, and poverty continues to rise. Corruption is rampant, and there is a move to take certain industries into state ownership, with the oil industry being a particular target.

### Suggested Discussion Questions

Please see Critical Thinking Question 5 for discussion of this feature.

**Lecture Note:** In late 2012, Victor Chavez was reelected as President of Venezuela. To extend the discussion of this feature by exploring the implications of Chavez's reelection, consider {<http://www.businessweek.com/ap/2012-10-01/chavez-vows-much-stronger-socialist-drive>}.

### Democracy and Totalitarianism

H) 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 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. There are four major forms of totalitarianism in the world today.

#### Democracy

I) 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.

**Video Note:** A central theme in President George Bush's administration is a focus on spreading democracy around the globe. To learn more about this, consider the iGlobe *Experts Discuss Global Democracy*.

#### Totalitarianism

J) 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**, (form of totalitarianism that advocates achieving socialism through totalitarian dictatorship), **theocratic totalitarianism**, (form of totalitarianism in which political power is monopolized by a party, group, or individual that governs according to religious principles), **tribal totalitarianism** (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** (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.

### ECONOMIC SYSTEMS

A) There is a connection between political ideology and economic systems. 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. For a market economy to function there must be no restrictions on either supply or demand - no monopolistic sellers or buyers.

### 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. Until recently, Great Britain, France, and Sweden were all considered mixed economies. Today, however, as a result of extensive privatization, these countries function as market economies.

## 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.

B) The legal environment of a country is of immense importance to international business because a country's laws regulate business practice, define the manner in which business transactions are to be executed, and set down the rights and obligations of those involved in business transactions. Differences in the structure of law can have an important impact upon the attractiveness of a country as an investment site and/or market.

**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

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

#### Common Law

D) 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

E) 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

F) Islamic law is the most widely practiced **theocratic law** system (based on religious teachings) in the modern world.

## Differences in Contract Law

G) **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 in 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. By adopting CIGS, a nation signals to other nations that it will treat the Convention's rules as part of its law.

## Property Rights and Corruption

H) 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, Mafia) or **public action** (governmental bribery and corruption, nationalization).

## Private Action

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

## Public Action and Corruption

J) 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.

K) In some countries, corruption is kept to a minimum while in other corruption is rampant.

## Foreign Corrupt Practices Act

L) 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.

## **Country Focus: Corruption in Nigeria**

### Summary

This feature describes the corruption that has characterized Nigeria's economy over the last 50 years. When the country initially gained its independence from Britain in 1960, expectations were high that Nigeria would become an economic heavyweight in Africa. With abundant natural resources and a large population, it seemed the stage was set for success. However, despite earnings of more than \$550 billion from oil sales during the period 1970 to 2009, the country still suffers from extreme poverty, illiteracy, and high debt. Several factors have been blamed for Nigeria's troubles including political instability and corruption. Furthermore, in 2011 Transparency International still ranked Nigeria one of the most corrupt countries in the world.

### Suggested Discussion Questions

1. What is meant by corruption? Explain how a corrupt political system affects the well being of a country. What are the implications of corruption for Nigeria?

Discussion Points: Corruption in Nigeria involves open and systematic plundering of the nation's state treasury. Bribery is also a regular part of business. In fact, the situation in Nigeria is so dismal that Transparency International ranked Nigeria one of the most corrupt countries in the world in 2011. When a country experiences this sort of activity, returns on business investments are lower, and there is less incentive for inward foreign direct investment. Most students will recognize that this then negatively affects economic growth.

2. With its huge oil reserves and large population, Nigeria was expected to emerge as a major player in Africa. Yet today the country is extremely poor with little expectation for an economic turnaround any time in the near future. Explain how Nigeria came to be in such a sad state.

Discussion Points: Studies show that countries with high levels of corruption have lower inward foreign direct investment, lower levels of international trade, and poor levels of economic growth. Nigeria is a perfect example of this type of country. Political strife resulting from in-fighting between the various tribes and ethnic groups within the nation has led to instability and questionable legitimacy in the government. Military dictatorships were inept and corrupt. Because the country is viewed so poorly thanks to its level of corruption and political instability, investors are reluctant to bring in the kinds of funds that could help the economy grow.

3. Clearly, Nigeria's corrupt government has been a major factor in the country's demise. In contrast, other countries including Finland and Canada expressly prohibit corruption. In your opinion, would Nigeria be better off following the example of countries like Finland and Canada? Why or why not?

Discussion Points: Many students will probably suggest that even if Nigeria explicitly prohibits corrupt



behavior, it is unlikely to have little effect on the real way of doing business in the country. Other students however, may note that Nigeria's newly elected president, Goodluck Jonathon, has promised to put an end to corruption in the country, and is being seen by voters as a force for the future.

**Teaching Tip:** The CIA's World Factbook on Nigeria {<https://www.cia.gov/library/publications/the-world-factbook/geos/ni.html>} provides a wealth of information on the country.

**Teaching Tip:** To learn more about Transparency International's corruption ranking of Nigeria and general perspective of the country go to {<http://www.transparency.org/country>}.

### The Protection of Intellectual Property

M) **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 including information on international intellectual property rights treaties and protecting trademarks go to the U.S. government's web page on intellectual property rights at {<http://www.whitehouse.gov/omb/intellectualproperty/>}.

N) The protection of intellectual property rights differs greatly from country to country. While many countries have stringent intellectual property regulations on their books, the enforcement of these regulations has often been lax.

**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:** Protecting intellectual property abroad is a key concern for many companies. The U.S. government maintains a web site devoted to helping companies understand their rights on intellectual property. To learn more, go to {[http://www.export.gov/regulation/eg\\_main\\_018818.asp](http://www.export.gov/regulation/eg_main_018818.asp)}.

**Teaching Tip:** For more information on U.S. Trademark law go to {<http://www.law.cornell.edu/topics/trademark.html>}.

O) An international agreement signed about 170 nations to protect intellectual property rights is known as the **Paris Convention for the Protection of Industrial Property**. Over 183 nations are part of the **World Intellectual Property Organization**. 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, and then on How WIPO Works, and on Treaties.

## **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 break through 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 500 stores in China and expects the market to become second only to the U.S.

### Suggested 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?

Discussion Points: Most students will recognize that firms that depend on proprietary property such 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?

Discussion Points: 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.

**Teaching Tip:** To explore Starbucks in more depth, go to the company's web site at {<http://www.starbucks.com/>}. Click on "International" to explore individual country sites.

### Product Safety and Product Liability

P) Different countries have different **product safety laws** (safety standards to which a product must adhere). In some cases U.S. 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.

Q) When product standards are lower in other countries, firms face an important ethical dilemma. Should they produce products only of the highest standards even if this puts them at a competitive disadvantage relative to other producers and results in not maximizing value to shareholders? Or should they produce products that respond to local differences, even if that means that consumers may not be assured of the same levels of safety in different countries?

## IMPLICATIONS FOR MANAGERS

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 environment of a country clearly influences 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.

## 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 establishment of democratic regimes. Several of the fastest-growing Asian economies have recently adopted more democratic governments.

3. What is the relationship between corruption (i.e., bribe taking by government officials) in a country 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 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 considerations of risk. 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.

5. Read the Country Focus on Chavez's Venezuela, then answer the following questions:

- a. Under Chavez's leadership, what kind of economic system is being put in place in Venezuela? How would you characterize the political system?
- b. How do you think that Chavez's unilateral changes to contracts with foreign oil companies will impact upon future investment by foreigners in Venezuela?
- c) How will the high level of public corruption in Venezuela impact future growth rates?
- d) Currently, Venezuela is benefiting from a boom in oil prices. What do you think might happen if oil prices retreat from their current high level?
- e) In your estimation, what is the long run prognosis for the Venezuelan economy? Is this a country that is attractive to international businesses?

Answer:

- a) It would appear that Chavez is moving toward a socialist regime. Numerous enterprises have been taken over by the state, and other companies have been forced into reorganizing as "workers cooperatives". The government is also extending its reach into rural areas, where it has seized farms and turned them into state-owned cooperatives. Chavez has also used some of the profits from the country's soaring oil revenues to increase government spending on various social programs, some of which are modeled after programs in Cuba.
- b) In the oil industry, which the country depends on for some 70 percent of its exports, Chavez has pushed out foreign companies, and expanded the hold of the state run company. Chavez announced in 2005 that the state would increase its royalties on oil sales from 1 percent to 30 percent, and that in 2006, the tax rate of oil sales would also increase from 34 percent to 50 percent. Most students will recognize that by making it more difficult for foreign investors to do business in the country, in the oil industry or otherwise, Chavez is threatening future economic growth. Indeed, oil production in the country has fallen by one third since 2000.
- c) Corruption in Venezuela is rampant. In 2012, Transparency International lowered its ranking of the country to 172 out of 183, making it one of the most corrupt countries in the world. Government officials are permitted to demand bribes in return for permission to expand operations or enter new lines of business. Many students will recognize the challenges of operating in an environment like the current situation in Venezuela. Some students will probably suggest that firms may reassess their investments given the new political and economic risks present in the country. Many students will probably conclude that a market that is considered to be only partly free, with rampant corruption and nationalization taking place, is no longer a worthwhile destination.
- d) Oil prices are currently high making Venezuela, one of the world's largest producers of oil, very rich. So far, Chavez has been using the oil profits for various social programs. Most students will probably recognize that if oil prices begin to retreat, these programs will probably suffer. Some students may wonder whether falling oil prices could spell disaster for Venezuela's oil industry. Chavez has been maximizing the state's share of oil revenues by pushing out foreign companies and increasing the hold of state-run Petroleos de Venezuela SA. Consequently, if prices do fall, this organization will be more significantly affected.
- e) A recent World Bank study puts Venezuela as being one of the most regulated economies in the world. The move to take various enterprises under state control is also impeding economic growth. In the oil industry, for example, Chavez has reduced the stakes owned by foreign companies to give the state run company a bigger position. Most students will probably conclude that given the levels of corruption and regulation, the country is just too risky to consider as a destination for international companies.

**Lecture Note:** In late 2012, Victor Chavez was reelected as President of Venezuela. To extend the discussion of this feature by exploring the implications of Chavez's reelection, consider {<http://www.businessweek.com/ap/2012-10-01/chavez-vows-much-stronger-socialist-drive>}.

## Closing Case: The Polish Surprise

### Summary

The closing case describes Poland's economic success story. Poland, unlike most countries in Europe, survived the recent global recession, with little trouble. Decisions made early in the decade and during the 1990s helped Poland develop a stable economic policy and a stable political system. The country has benefitted from its free market and free trade policies as well as its efforts to privatize state-owned businesses. Today, Poland is working to make the country even more attractive to foreign investors by simplifying tax laws, reducing tax rates, and removing bureaucratic barriers to doing business in the country. Discussion of the case can revolve around the following questions:

**QUESTION 1:** How was Poland able to avoid the worst effects of the economic crisis that gripped most of Europe during 2008-2009?

**ANSWER 1:** Several factors played into Poland's escape from the worst of the 2008-2009 financial crisis that wreaked havoc on so much of the world. One key reason Poland was able to survive the crisis was its tight monetary policy from the early 2000s. The policy was meant to help Poland control inflation and gain admittance to the European Union. In the end, these objectives were achieved, and in addition, the policy also helped Poland avoid the asset price bubble that brought down many other countries. Moreover, the country's relatively stable political and economic environment acted as a magnet to attract new investment during the troubled time.

**QUESTION 2:** What lessons can be derived from the Polish experience during 2008-2009?

**ANSWER 2:** Many students will probably suggest that one of the most important lessons from Poland's experience during 2008-2009 is the benefit of maintaining a stable economy. During this time period, Poland continued to emphasize exports, avoided debt, and worked to create an attractive environment in which to do business. These policies helped the country avoid the highs and lows that challenged many other countries.

**QUESTION 3:** From the perspective of international business, what is attractive about the Polish economy? What are the weaknesses and risks associated with doing business there?

**ANSWER 3:** Poland's relatively stable government and strong economic growth are both attractive features to international companies. In recent years, Poland has made great strides in creating an environment that promotes and facilitates business. In 2009 for example, Poland passed the Entrepreneurship Law to make it easier to start a new business in the country. In addition, Poland's membership in the European Union is attractive to international companies because of the access to larger markets it provides. Some students may also note that relative to other countries in the European Union, labor rates in Poland are low, making it an attractive location for investment. Despite these advantages, there are some drawbacks to doing business in Poland. Two key problem areas concern excessive bureaucracy and high tax rates. Poland has committed to fixing these problems though, and appears to be on the right track. The World Bank now rates the country at 76<sup>th</sup> when it comes to ease of doing business.

**QUESTION 4:** Even though Poland has been committed to liberalizing its economy since the collapse of communism in 1989, significant vestiges of the old system still remain. Why do you think it has taken Poland so long to transform its economic, political, and legal system?

ANSWER 4: After decades under communist rule, Poland elected its first democratic government in 1989. Since then, the country has been working to privatize state-owned businesses and open the country to international trade and investment. However, much remains to be done. Poland's tax system needs to be modernized for example, and there are still many state businesses to be privatized. Many students will probably suggest that the transformation to a market economy is a gradual one. Some students may also note that Poland's progress may have been slowed by the global financial crisis of 2008-2009.

**Teaching Tip:** Leaders from Poland recently met with China to discuss new trade ties between the two countries. For more information and to extend this case discussion, consider

{<http://www.businessweek.com/ap/2012-04-25/chinese-leader-visiting-poland-for-trade-talks>}.

**Teaching Tip:** Information on doing business in Poland is available at

{[http://www.buyusa.gov/poland/en/doing\\_business\\_in\\_poland1.html](http://www.buyusa.gov/poland/en/doing_business_in_poland1.html)}.

## Continuous Case Concept

Global automakers are generally optimistic about future sales, especially in emerging markets like China, India, and Russia. China, the largest, now accounts for some 20 percent of Honda's global sales and Mitsubishi is exploring options to open a new plant in the country. Volkswagen sees Russia as one of its most promising markets and recently committed to expand its operations in Kaluga. Auto production in India's Chennai region is growing so quickly that it is being called the Detroit of India. In all of these markets an emerging middle class could hold the key to future growth. However, the markets could also be considered risky both politically and economically.

- Ask students to consider the overall attractiveness of these markets for the auto industry. What are the economic costs of doing business in countries like China, Russia, and India?
- Then, reflect on the political or legal issues that could threaten the success a firm entering the markets.
- Finally, ask students to consider the tradeoffs of operating in an emerging market 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 read the pertinent selections in the *additional readings* section below. The exercise also works well at the beginning of the *implications for managers* section.

## globalEDGE Exercises

Use the globalEDGE Resource Desk {<http://globalEDGE.msu.edu/ResourceDesk/>} to complete the following exercises.

### Exercise 1

Coface's Country Risk and Economic Research results can be found using the search phrase "country risk and economic research" at <http://globaledge.msu.edu/Reference-Desk>. This resource is called "Coface:



Country Risk and Economic Research" and is found under the globalEDGE categories of "Country Level" and "Rankings". This exercise may be completed by using the "Consult the country risk map" link on the right side on the webpage.

Search Phrase: "country risk and economic research"

Resource Name: Coface: Country Risk and Economic Research

Resource Link: <http://globaledge.msu.edu/global-resources/resource/165>

globalEDGE Categories: "Country Level" and "Rankings"

## Exercise 2

The *Market Potential Index* is an annual ranking study exclusive to the globalEDGE website. It uses the list of emerging markets as identified by The Economist magazine, and analyzes them for their attractiveness to U.S. exporters. It is located under the globalEDGE Resource Desk and can be found under the "Rankings" section.

Search Phrase: "Market Potential Index"

Resource Name: MSU-CIBER: Market Potential Index

Resource Link: <http://globaledge.msu.edu/Knowledge-Tools/MPI>

globalEDGE Categories: "Country Level" and "Rankings"

## Additional Readings and Sources of Information

Why U.S.-Russia Trade Is Stuck in the Cold War

<http://www.businessweek.com/articles/2012-07-12/why-u-dot-s-dot-russia-trade-is-stuck-in-the-cold-war>

Grounds Zero: A Starbucks-Free Italy

<http://www.businessweek.com/magazine/grounds-zero-a-starbucksfree-italy-02092012.html>

Starbucks plans to brew a stronger profit in 2013

<http://www.businessweek.com/ap/2012-11-01/starbucks-plans-to-brew-a-stronger-profit-in-2013>

The Post Emerging Market World

[http://www.businessweek.com/managing/content/jan2010/ca20100126\\_764524.htm](http://www.businessweek.com/managing/content/jan2010/ca20100126_764524.htm)

Is Poland Too Cocky About Its Economy?

[http://www.businessweek.com/globalbiz/content/apr2010/gb2010048\\_192248.htm](http://www.businessweek.com/globalbiz/content/apr2010/gb2010048_192248.htm)

Chavez: Rival trying to destabilize Venezuela

<http://www.businessweek.com/ap/2012-07-09/chavez-rival-trying-to-destabilize-venezuela>