National Differences in Political Economy 2

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

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

The opening case describes the economic growth in Poland since the global recession. Unlike many of its neighbors and the rest of the world, Poland survived the recession with little difficulty. The closing case explores the reasons why Indonesia is falling behind its Southeast Asian neighbors. The country is plagued by high levels of corruption and excessive red tape making it difficult to attract foreign investment.

Learning objectives

- Understand how the political systems of countries differ.
- Understand how the economic systems of countries differ.
- Understand how the legal systems of countries differ.
- Explain the implications for management practice of national differences in political economy.

OUTLINE OF CHAPTER 2: NATIONAL DIFFERENCES IN POLITICAL ECONOMY

Opening Case: The Polish Surprise

Introduction

Political Systems
- Collectivism and Individualism
- Democracy and Totalitarianism

Country Focus: Chavez's Venezuela

Economic Systems
- Market Economy
- Command Economy
- Mixed Economy

Legal Systems
- Different Legal Systems
- Differences in Contract Law
- Property Rights and Corruption
- The Protection of Intellectual Property
- Product Safety and Product Liability

Country Focus: Corruption in Nigeria

Management Focus: Starbucks Wins Key Trademark Case in China

Implications for Managers

Critical Thinking and Discussion Questions

Closing Case: Indonesia – Asia's Stumbling Giant

CLASSROOM DISCUSSION POINT

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

Individualist ______________________________ Collectivist

Democratic ______________________________ Totalitarian

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

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

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

OPENING CASE: The Polish Surprise

<u>Summary</u>

The opening case describes Poland's economic success story. Poland, unlike most countries in Europe, weathered the recent global recession better than most countries. 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:

1. How did Poland's political and economic policies during the last decade help the nation prosper during the recent global recession? What does this mean for existing and potential investors in the country?

2. How important is Poland's membership in the European Union to its current economic success?

3. What does Poland need to do to ensure that it continues to prosper? What steps should the country take to make it a more attractive destination for investment?

Another Perspective: Poland recently decided to delay its possible entry to the Euro Zone believing that it might better off with its own currency. To learn more go to {http://www.businessweek.com/magazine/content/11_03/b4211010041985.htm}

LECTURE OUTLINE

This lecture outline follows the Power Point Presentation (PPT) provided along with this instructor's manual. The PPT slides include additional notes that can be viewed by clicking on "view", then on "notes". The following provides a brief overview of each Power Point slide along with teaching tips, and additional perspectives.

Slides 2-3-2-4 Political Economy
The political, economic, and legal infrastructure of a nation has a major influence on the way managers make decisions. Political systems have two dimensions: the degree of collectivism versus individualism, and the degree of democracy versus totalitarianism.
These dimensions are interrelated; systems that emphasize collectivism tend towards totalitarianism, while systems that place a high value on individualism tend to be democratic.

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

Slides 2-5-2-7 Collectivism and Individualism

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

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

Slides 2-8-2-10 Democracy and Totalitarianism

Democracy, as originally practiced by several city-states in ancient Greece, is based on a belief that citizens should be directly involved in decision making. Most modern democratic states practice **representative democracy** in which citizens periodically elect individuals to represent them. **Totalitarianism** is a form of government in which one person or political party exercises absolute control over all spheres of human life and opposing political parties are prohibited. (**Communist, theocratic, tribal, right wing**)

Totalitarianism denies its citizens all of the constitutional guarantees asserted by representative democracies.

Slide 2-11-2-14 Economic Systems

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

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

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

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

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

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

Slide 2-15-2-16 Legal Systems

Legal systems are the systems of rules or laws that regulate behavior along with the processes by which the laws are enforced and through which redress for grievances is obtained.

There are three main types of legal systems – or legal traditions – in use around the world: common law, civil law, and theocratic law. **Common law** is based on tradition, precedent, and custom. **Civil law** is based on a very detailed set of laws organized into codes. **Theocratic law** is based on religious teachings.

Slides 2-17-2-18 Contract Law

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

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

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

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

Slides 2-19-2-22 Property Rights

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

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

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

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

Slides 2-23-2-24 Intellectual Property Rights

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

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

Another Perspective: The World Intellectual Property Organization offers suggestion on how exporters can avoid common pitfalls when exporting intellectual property. More details can be found at {http://www.wipo.int/sme/en/documents/wipo_magazine/9_2004.pdf}.

Slides 2-25-2-26 Product Safety and Liability
Product safety laws set safety standards for products and manufacturing processes. **Product liability** involves holding a firm and its officers responsible for product safety standards.

Slide 2-27 Determining a Market's Overall Attractiveness
All else being equal, countries with democratic political institutions, market-based economies, and legal systems that protect property rights and limit corruption will be more attractive than nations that lack these characteristics.

CRITICAL THINKING AND DISCUSSION QUESTIONS

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

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

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

ANSWER 2: Although you can always find examples of totalitarian regimes that have achieved rapid economic growth, it seems fair to say that sustained, decades-long periods of economic growth are quite rare under totalitarianism. There is a widespread belief in the West that democratic principles are more conducive to long-term economic growth than are totalitarian ones. One of the contributing factors is that democratic systems allow for the stable transfer of power through elections, and thus provide political stability, which is an essential prerequisite for rapid economic growth.

QUESTION 3: What is the relationship between corruption in a country (i.e., bribe-taking by government officials) and economic growth? Is corruption always bad?
ANSWER 3: In the United States we show public contempt for the practice of bribery although evidence suggests that bribery is not uncommon in the United States. When government officials engage in corruption, they subordinate the interest of their country to their personal gain. They also reduce the level of transparency in business interactions. Many nations with rampant bribery appear to be among the most economically underdeveloped, yet the inflexible generalization that corruption is always bad oversimplifies the role of culture and its influence on meaning-giving. There are many cultures that accept the role of bribes far more openly than we do in the United States. That managers are aware that some countries – France, Germany and Japan for example – recognize that bribes play an important role in some parts of the world and allow their corporations to expense bribes (deduct bribes as a legal corporate expense) is important.

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

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

QUESTION 5: Read the 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 benefitting 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 5:
a. Chavez claims to be a democratic socialist. During his 1998 presidential campaign, Chavez blasted the notion of global capitalism. Most students will probably agree that Chavez seems to have followed his ideals since winning the election in Venezuela. Chavez has ensured that his powers as president are stronger than before, and he has extended government control of the media. In addition, Chavez has made a number of moves to increase state ownership of key industries like oil, and turned ranches and farms into workers' cooperatives. Actions like these have allowed the government's share of Venezuela's GDP to increase to nearly 40 percent in 2008. 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. In fact, the country's dependency on oil and lack of diversification into other industries may become problematic in the near future. Many of Venezuela's social programs are funded by oil revenues. These programs may soon be threatened by the drop in oil prices that began in 2008.
c. Corruption in Venezuela is rampant. In 2011, Transparency International ranked the country to 164 out of 178, 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 privatization taking place, is no longer a worthwhile destination.

d. During the years when oil prices were rising, Venezuela, one of the world's largest producers of oil, became very rich. Chavez funded various social programs using the oil profits. Most students will probably recognize that the recent drop in oil prices probably spells trouble for these programs. 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. Between mid 2006 and mid 2008, oil production in the country fell for eight successive quarters.

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. Some students may also note that Freedom House's 2009 assessment that the country was only "partly free" would also deter potential investors.

Another Perspective: The U.S. Department of State maintains a web site covering the political and economic situation in Venezuela. For more details, go to {http://www.state.gov/r/pa/ei/bgn/35766.htm}.

CLOSING CASE: Indonesia – Asia's Stumbling Giant

Summary

The closing case explores the reasons why Indonesia has failed to keep pace with other Southeast Asian nations including China, Malaysia, and Thailand. Unemployment in Indonesia remains high, the country's infrastructure is poor, and perhaps most troubling is that excessive red tape and high levels of corruption that are preventing foreign investors from considering the country as an attractive destination for investment. A discussion of the case can revolve around the following questions:

QUESTION 1: What political factors explain Indonesia's poor economic performance? What economic factors? Are these two related?

ANSWER 1: Indonesia's economic growth has been hampered for decades, first because of the dictatorship of former President Suharto and the massive debts that were accumulated during his regime and more recently because of the country's excessive red tape and corruption that make it difficult to start a business. Transparency International ranks Indonesia among the most corrupt nations in the world. Economic growth is also hindered by the country's poor infrastructure and low level of labor productivity. Students will probably agree that Indonesia's problems are interrelated. Students may note for example that the red tape and corruption that scare off potential foreign investors also mean that the country loses the jobs and the capital that could improve its economy and infrastructure.

QUESTION 2: Why do you think foreign firms exited Indonesia in the early 2000s? What are the implications for the country? What is required to reverse this trend?

ANSWER 2: In the early 2000s Indonesia experienced a significant drop in foreign direct investment. Most students will probably suggest that foreign companies pulled out of the country to avoid its red tape, corruption, and generally uncertain economic and political future, and also to take advantage of higher labor productivity elsewhere. Students may also note that the country's poor infrastructure also probably contributed to the drop in investment. The consequences of the lower level of foreign direct investment have been significant. Unemployment in the country is high and infrastructure problems persist. Moreover, the country is now importing oil, a resource it once exported. Students will probably agree that in order to reverse this trend, the country must make substantial efforts to attract new investors by greatly reducing red tape, cleaning up the corruption problem, and making much needed investments in the country's infrastructure.

QUESTION 3: Why is corruption so endemic in Indonesia? What are its consequences?

ANSWER 3: Some students may link Indonesia's corruption problems to the low salaries earned by government bureaucrats. Others may also contend that there is probably a sense of entitlement among government officials and a feeling that since bribes have been a way of business for so long they are almost a "legitimate" part of doing business in the country. However, Indonesia's seeming unwillingness to eliminate corruption make it an unattractive destination for foreign investors and a generally difficult location to open any sort of business.

QUESTION 4: What are the risks facing foreign firms that do business in Indonesia? What is required to reduce these risks?

ANSWER 4: Most students will probably agree that the biggest risks facing foreign investors in Indonesia are its problems with corruption, its excessive red tape, and its poor infrastructure. Companies considering investing in the country must be prepared to face significant paperwork and demands for bribes, as well as deal with infrastructure problems like brownouts and poor roads.

Another Perspective: Information on doing business in Indonesia is available at {http://www.doingbusiness.org/data/exploreeconomies/indonesia} and {http://www.worldbiz.com/indonesia-c-66.html}.

INTEGRATING iGLOBES

There are several iGLOBE video clips that can be integrated with the material presented in this chapter. In particular, you might consider the following:

Title: At G-20, Loose Goals Set For Trade Imbalances, U.S. Prods China On Currency

Run Time: 9:28

Abstract: This video explores the issues on the agenda at the recent G-20 meeting and the effort to set guidelines for the global economy.

Key Concepts: currency values, global competition, balance of trade, globalization, national trade policy, trade agreements, exports, imports, current account, balance of payments

Notes: The recent G-20 meeting in South Korea ended without any real resolutions to the problems that have plagued the global economy for the last few years. The United States had hoped to forge a free trade deal with South Korea that would open South Korea's market to U.S. beef and automobile exports. In addition, U.S. officials had hoped to come to some agreement over trade imbalances, especially the country's enormous trade deficit with China, and get China to agree to allow its currency to appreciate. While President Obama expressed frustration at the lack of progress, he also noted that the meeting was not entirely unsuccessful pointing out that some broad guidelines had been reached that could lead to more specific agreements down the road.

Obama had hoped to get countries to agree to limit the size of trade deficit or surplus any country could run. The motivation for current account limits is to reduce the potential for dangerously large build-ups of capital that could result in a financial crisis similar to the one that occurred in 2008. China, which runs a large trade surplus with the United States, was firmly against such limits, but did broadly agree that trade imbalances should be brought under control. For now however, the country did not agree to any specific details or timetables. The United States had also hoped to get South Korea to eliminate the non-tariff barriers that are making it difficult for U.S. companies to export beef and automobiles. The two countries had negotiated an agreement in 2007 under President Bush, and Obama had hoped to push the agreement forward, but was unable to get Korea to go along with the reductions in tariff and nontariff barriers to trade it wanted.

For the moment, Obama has to be content with reassurances that the G-20 countries will not engage in a trade war, that there will be more discussion on reducing trade imbalances at some point in the future, and that there will be a move toward exchange rates that are driven by market forces rather than government intervention. In all, a far cry from the specific agreements the President had hoped to gain from the summit. Indeed, while many countries support the U.S. position that China needs to allow its currency to appreciate, they also criticized the United States for its recent decision to inject billions of dollars into the U.S. economy. Obama defended the move arguing that it was designed not to bring the value of the dollar down, and by doing so giving U.S. exporters the same type of competitive advantage as Chinese exporters, but instead to help grow the economy. Despite the lack of progress on achieving his agenda, Obama did not walk away from the meeting empty handed however. According to Sewell Chan of the *New York Times*, the United States still controlled the discussions and made its issues the central topics of discussion.

Discussion Questions:

1. Explain the relationship between the value of a currency and the trade balance of a country. What is a trade deficit? What is a trade surplus?

2. How does a weak currency help China's exporters? Why did President Obama make the value of China's currency a central issue at the G-20 meeting?

3. Why is the United States pushing for limits on trade imbalances? What would such limits imply for countries that run trade surpluses? How would limits on trade imbalances affect countries with trade deficits?

4. The United States came under fire at the G-20 meeting for its decision to inject billions of dollars into the economy. Critics believe this is an effort to lower the value of the U.S. dollar. Do you agree? Why or why not? How could a weaker dollar help the United States?

INTEGRATING VIDEOS

There are also several longer video clips that can be integrated with the material presented in this chapter. In particular, you might consider the following from *International Business DVD Volume 6*:

Title: Counterfeiting

Learning Objectives
The purpose of this video is to help you:
- Understand the nature of intellectual property.
- Explore the growth of counterfeiting and why it is more rampant in some countries.
- Examine the implications of counterfeiting and product piracy on companies.
- Recognize why it is important for firms to protect their intellectual property and identify how to limit the potential for product piracy.

Key Words
- Intellectual property
- Product piracy
- Counterfeiting
- Legal systems
- Globalization

Synopsis

Shoppers in New York City's Canal Street or Santee Alley in Los Angeles have their choice of a host of designer goods all at rock bottom prices. The only problem is that the goods are all fakes. Business in counterfeit goods like Coach purses, Louis Vuitton bags, Ray Ban sunglasses, and more is booming. Today, the market in counterfeit goods is a multi billion dollar international business that affects every industry and most products. Caroline Joiner, an executive with the U.S. Chamber of Commerce claims that product piracy and counterfeit goods is a $250 billion per year problem for the U.S. economy. Furthermore since counterfeiters are focused on profits, and not the welfare of buyers, it is an industry that can put consumers at risk. Joiner notes for example that today's producers of fake purses could be producing fake car parts or airplanes tomorrow. In fact, counterfeit car parts are already a big problem for the auto industry. Counterfeit break pads made of sawdust are being sold on the market as the real thing, and could be unknowingly used in taxi cabs, school buses, or semi trucks. Ford estimates that product piracy costs the company about $1 billion per year.

The pharmaceutical industry has also been a frequent target for counterfeiters. Fake drugs are being sold over the Internet and have even made their way into mainstream outlets like pharmacies. The World Drug Organization estimates that about 10 percent of all drugs sold worldwide are counterfeit. At a government warehouse, shelves are crowded with confiscated products like fake Lipitor, fake surgical mesh, fake razor blades, and even fake toothbrushes. While the counterfeit drugs look the same as the real thing, they often lack active ingredients or are watered down versions of the real drug. These pirated products can cause allergic reactions or worsen a patient's medical condition. In some cases, they are toxic.

Counterfeiters have even infiltrated markets for everyday household products. Products like electrical cords and surge protectors are readily available, but like counterfeit drugs, they can be dangerous. A counterfeit iron for example burst into flames when it was tested in a lab. Identifying exactly which product is a fake and which is real can be difficult for consumers. To protect themselves, consumers should pay attention to prices. Prices that seem too low could be a warning signal that the product is a fake. Consumers should also try to shop at reputable businesses and avoid buying at flea markets. In addition, consumers should inspect product packaging. Products that lack a serial number or do not have a country of origin label could be counterfeit.

Discussion Questions

1. Discuss the explosive growth of the counterfeit goods industry in recent years. What factors have facilitated its expansion?

2. Reflect on the implications of product piracy for companies. How can companies protect themselves from counterfeiters?

3. Consider the challenges involved in stopping product piracy. Why is it so difficult for countries to crack down on counterfeiters?

4. Product piracy is especially prevalent in the global pharmaceutical industry. Reflect on why intellectual property rights are so important to pharmaceutical companies.

INCORPORATING globalEDGE™ EXERCISES

Use the globalEDGE™ site {http://globalEDGE.msu.edu/} to complete the following exercises:

Exercise 1

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

Exercise 2

One way that experts analyze conditions in emerging markets is through the use of economic indictors. The *Market Potential Index* (MPI) is a yearly study conducted by the Michigan State University Center for International Business Education and Research (MSU-CIBER) to compare emerging markets on a variety of dimensions. Provide a description of the indicators used in the index. Which of the indicators would have greater importance for a company that markets laptop computers? Considering the MPI rankings, which developing countries would you advise such a company to enter first?

Answers to Exercise Questions

Exercise 1

The report can be accessed by search for the term "Freedom in the World" at http://globaledge.msu.edu/ResourceDesk/. Using this search, the first link will lead the user to the Freedom House website and to the *Freedom in the World* report. This resource is found under the globalEDGE category "Research: Multi-Country". Be sure to click on the Resource Desk link to search this area of the globalEDGE website.

Search Phrase: "Freedom in the World"
Resource Name: Freedom House Surveys
Website: http://www.freedomhouse.org/template.cfm?page=5
globalEDGE Category: "News & Periodicals: Publications"

Exercise 2

The report can be accessed by searching for the term "Market Potential Index" at http://globaledge.msu.edu/ResourceDesk/. Using this search, the link will lead the user to this report. This resource is found under the globalEDGE category "Research: Rankings". Be sure to click on the Resource Desk link to search this area of the globalEDGE website.

Search Phrase: "Market Potential Index"
Resource Name: MSU-CIBER: Market Potential Index
Website: http://globaledge.msu.edu/resourceDesk/mpi/
globalEDGE Category: "Research: Rankings"