

# INTERNATIONAL POLITICAL AND LEGAL ENVIRONMENT

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# POLITICAL AND LEGAL FORCES

- The most important considerations for global business firms are the political and legal forces operative in the countries in which they plan to conduct business. Some foreign governments are unstable, that is, there may be frequent, dramatic and unpredictable regime changes. When this occurs industries may be nationalized; private property may be seized or destroyed; normal business operations may be suspended, the workforce may go on strike.

# MULTIPLICITY OF POLITICAL ENVIRONMENTS:

- ◉ Multiplicity of Political Environments The political environment that MNCs face is a complex one because they must cope with the politics of more than one nation. That complexity forces MNCs to consider the three different types of political environment:  
FOREIGN
- ◉ DOMESTIC
- ◉ INTERNATIONAL
- ◉ Regardless of whether the politics are foreign, domestic, or international, the company should keep in mind that political climate does not remain stationary.

- ◉ The political relationship between the USA and a long-time adversary, China, is a prime example.
- ◉ In the case of India, the country was a highly regulated, closed economy which discouraged foreign investment. It was not until 1991 that a new government began a reform program which could transform India into one of the world's most dynamic economies.
- ◉ On the other hand, serious problems can develop when political conditions deteriorate. A favorable investment climate can disappear almost overnight. In one case, the USA withdrew Chile's duty-free trade status because of Chile's failure to take "steps to afford internationally recognized worker rights."

# LEGAL ENVIRONMENT

- ◉ Legal system refers to the rules and laws that regulate behavior of individuals and organizations.
- ◉ A country's laws regulate business practice, define the manner in which business transactions are to be carried out and set down the rights and obligations of those involved in business deals.
- ◉ The legal system in a country is also influenced by its political system

# THE LEGAL ENVIRONMENT

- ◉ Commenting on Contract Law

***“In China, the old joke goes, a contract is a pause in the negotiation.”***

# EXAMPLE

- ◉ Some governments specify certain standards for the products (including packaging) to be marketed in the country; some even prohibit the marketing of certain products.
- ◉ In most nations, promotional activities are subject to various types of controls.
- ◉ Media advertising is not permitted in **Libya**.
- ◉ **Several European countries** restrain the use of children in commercial advertisements.
- ◉ In a number of countries, **including India**, the advertisement of alcoholic liquor is prohibited. Advertisements, including packaging, of cigarettes must carry the statutory warning that “cigarette smoking is injurious to health”.
- ◉ Similarly, advertisements of baby food must necessarily inform the potential buyer that breast-feeding is the best.