

International Marketing



Chapter 2

The Political and Legal Environment



- **The political environment**
- **The legal environment**



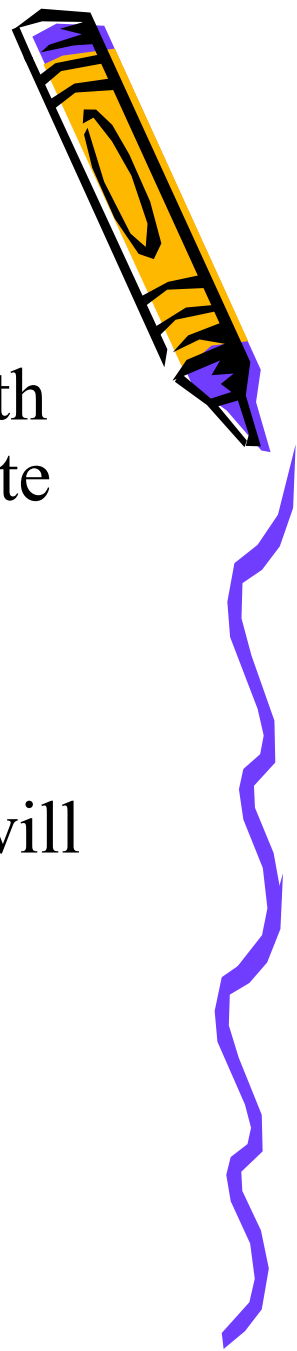
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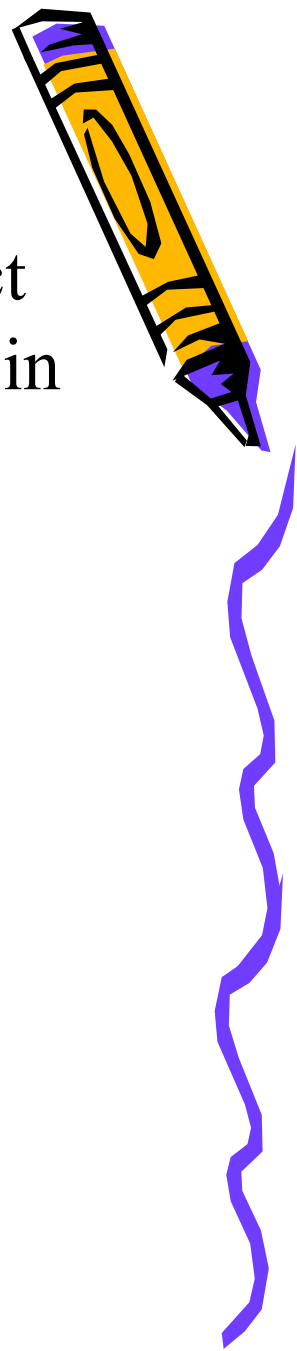
A. Political Environment

Political environment is defined as the state, government, institutions and laws together with the public and private stakeholders who operate and influence that system.

Companies will pay attention to the political environment to see how government actions will influence their company.



- Government affects almost every aspect of business life in a country. National politics affect business environment directly, through changes in policies, regulations, and laws.
- The political stability and mood in a country affect the actions a government will take.



- The political environment in international business consists of a set of political factors and government activities in a foreign market that can either facilitate or hinder a business' ability to conduct business activities in the foreign market.
- There is often a high degree of **uncertainty** when conducting business in a foreign country and this risk is often referred to as political risk.

Home country VS Host country



- The political environment in which the firm operates (or plan to operate) will have a significant impact on a company's international marketing activities.
- Changes in government often result in changes in policy and attitudes towards foreign business.





- a foreign company operates in a host country at the discretion of the government concerned, the government can either **encourage** foreign activities by offering attractive opportunities for investment and trade, or **discourage** its activities by imposing restrictions such as import quotas, etc.
- An exporter that is continuously aware of shifts in government attitude, will be able to adapt export marketing strategies accordingly.



Political factors



1. Type of government

□ Republicanism

a country without a king or queen, usually governed by elected representatives of the people and a president.

□ Constitutional monarchy

It is a form of government in which a monarch acts as head of state within the guidelines of a constitution, whether it be a written, uncodified, or blended constitution.



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2. Party system

- ◆ One-party system

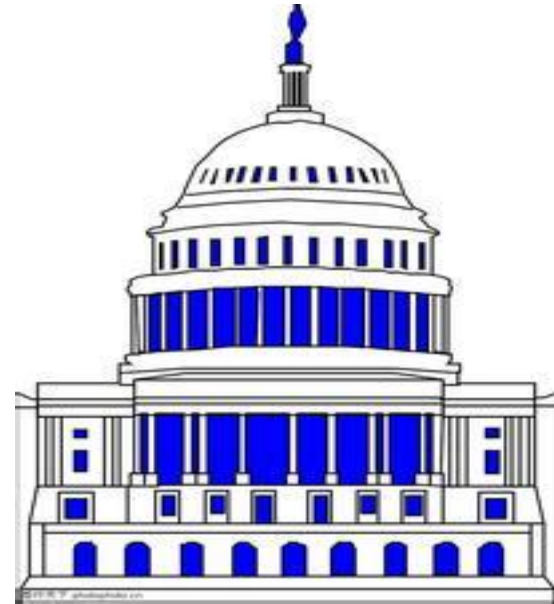
China. Viet Nam. North Korea...

- ◆ Two party system

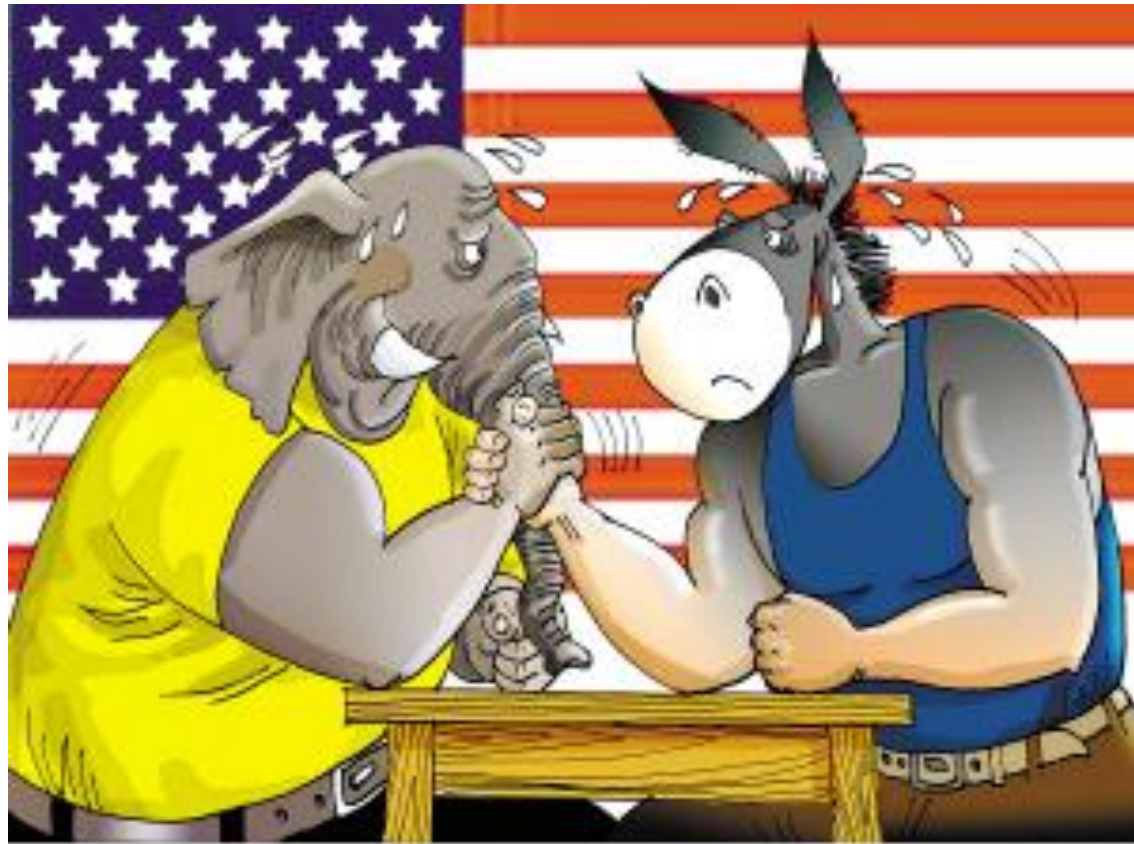
US.UK. Canada...

- ◆ Multipartism

France. Argentina

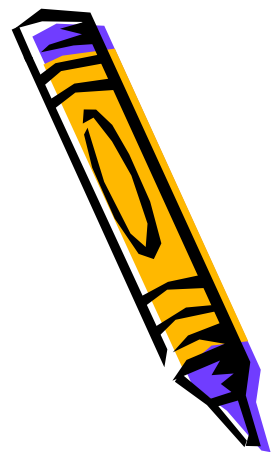


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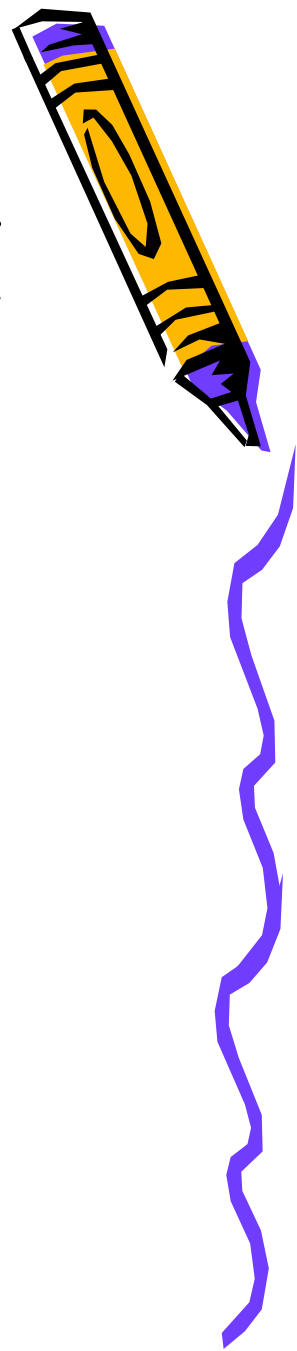


四年大战一场 两年小战一次

Republican VS Democratic

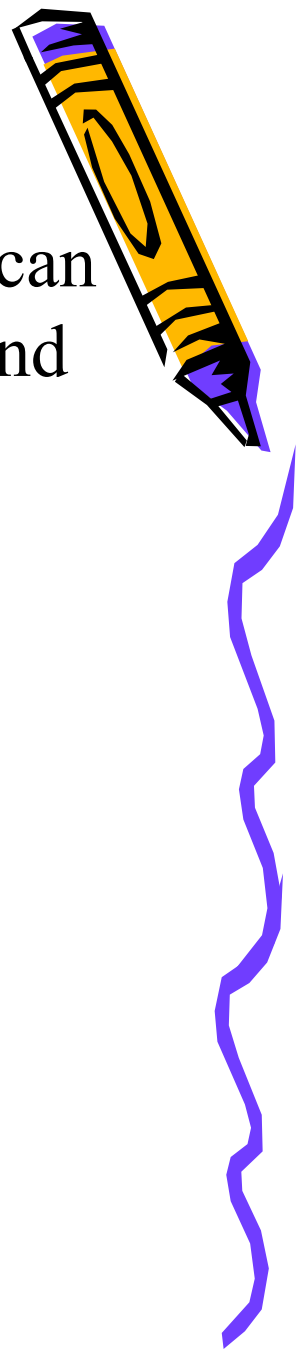
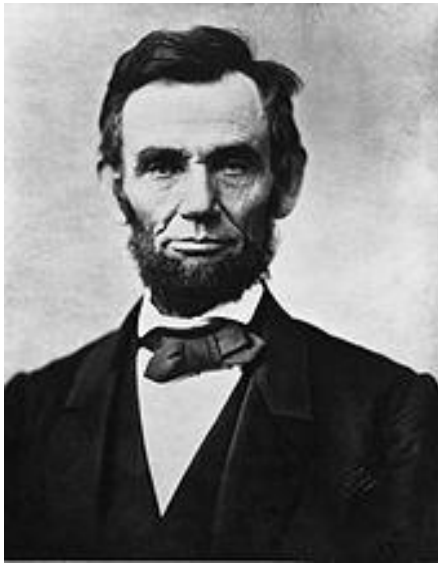


- In the United States, the sense of two party system describes an arrangement in which all or nearly all elected officials only belong to one of the two major parties



□ Republican Party:

Founded in 1854. There have been 18 Republican presidents, the first being Abraham Lincoln. and the most recent being George W. Bush



□ Democratic Party :

Founded around 1828. It has elected 15 presidents.
The first was Andrew Jackson, the most recent is the current president, Barack Obama.





3. Economic policy of the government

Economic policy refers to the actions that governments take in the economic field. It covers the systems for setting interest rates and government budget as well as the labor market, national ownership, and many other areas of government interventions into the economy.





- Trade policy is a collection of **rules** and **regulations** which pertain to trade. Every nation has some form of trade policy in place, with public officials formulating the policy which they think would be most appropriate for their country.
- The purpose of trade policy is to help the nation's international trade run more smoothly.



- Some governments attempt to protect their local industries with trade policy which place a heavy burden on importers.

eg. **Trade barrier** is simply anything that makes it harder for a company to export products to a foreign country. Formal trade barriers include **tariffs** and **product quotas** that limits the number of products imported into the country.



- Also. governments may impose regulations that aren't primarily promulgated as barriers to trade but have the same effect.
- eg. specific **product standards** and **health and safety standards** that businesses will be required to meet before the products can be sold.



CASE 1

Carbon Tariff

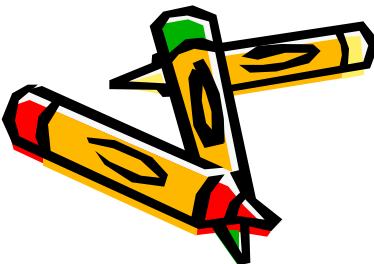
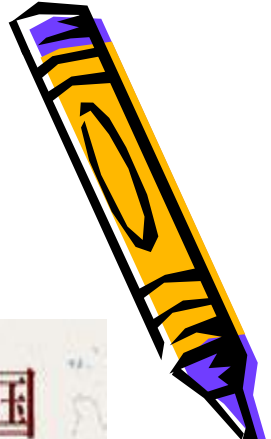




- A carbon tariff is a tax imposed on imported goods from countries that do not curb their emissions of greenhouse gases.
- Chinese officials and analysts said the US move was another kind of "trade protectionism". they are using it as a means to pressure developing countries.



CASE 2

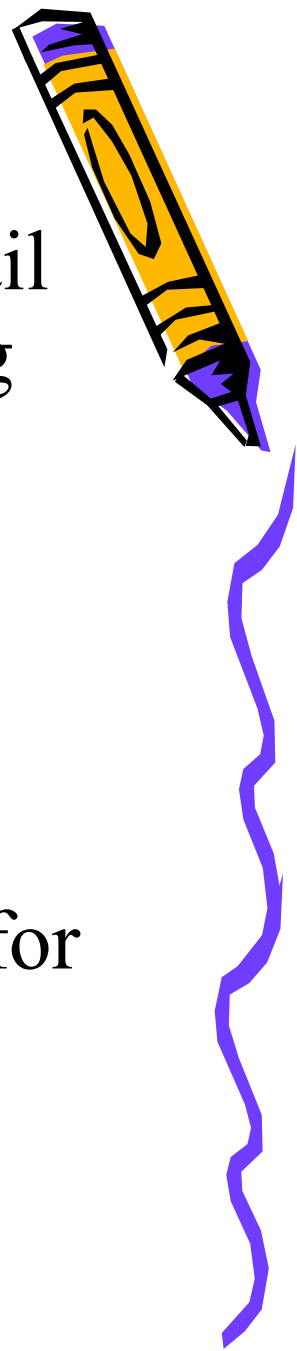


CASE 3

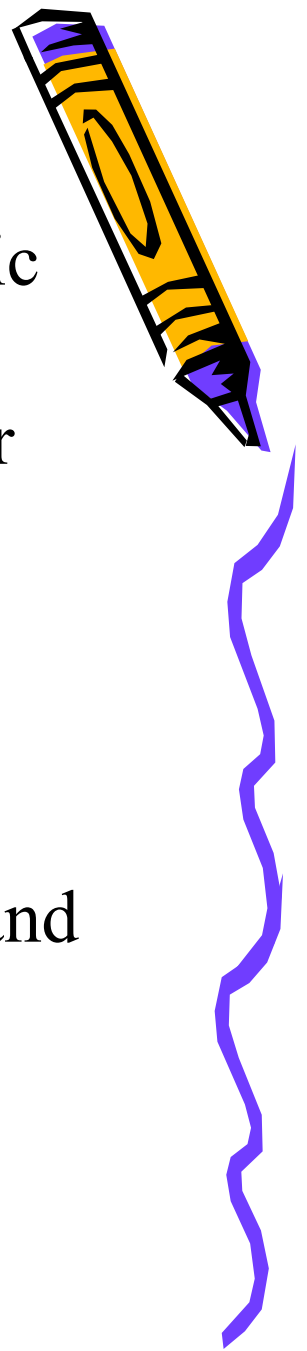


More than **30 countries** refuse to allow Chinese mooncakes sent through the mail to pass their borders, essentially banning the delicacy which symbolizes the Mid-Autumn Festival celebrated by the Chinese globally.

Those countries have strict inspection standards for imported food, especially for stuffed baked goods like mooncakes.



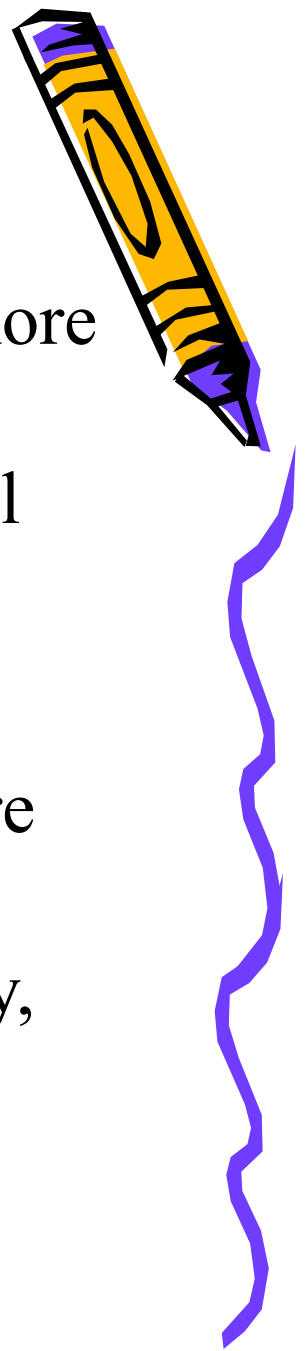
- On the other hand, some nations eschew trade barriers, promoting **free trade** in which domestic producers are given no special treatment, and international producers are free to bring in their products.
- Besides, if the country has entered into a **trade agreement** with another country, conducting business in that country will usually be easier and less risky because the trade agreement will provide some predictability and protection.



4. Political stability

Once a country is stable, more investment opportunities will be realised, thus attracting more and more investors. This will reflect positively and directly on local businesses, as citizens will be able to have full confidence in them.

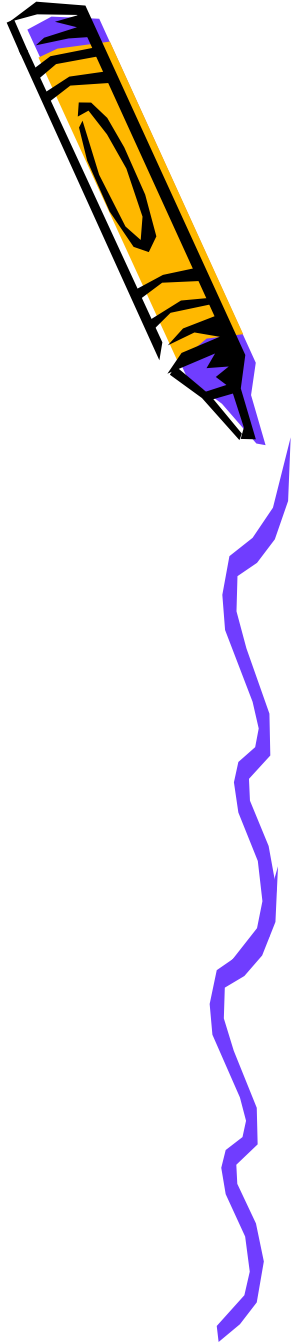
Some countries are not politically stable and are subject to civil unrest and even violence. Civil unrest can make conducting business very risky, including the possible loss of property and life.



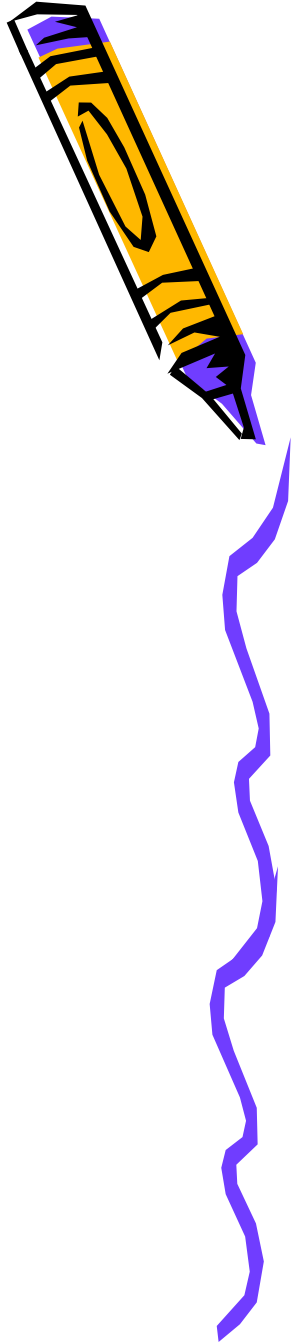
CASE 1



CASE 2



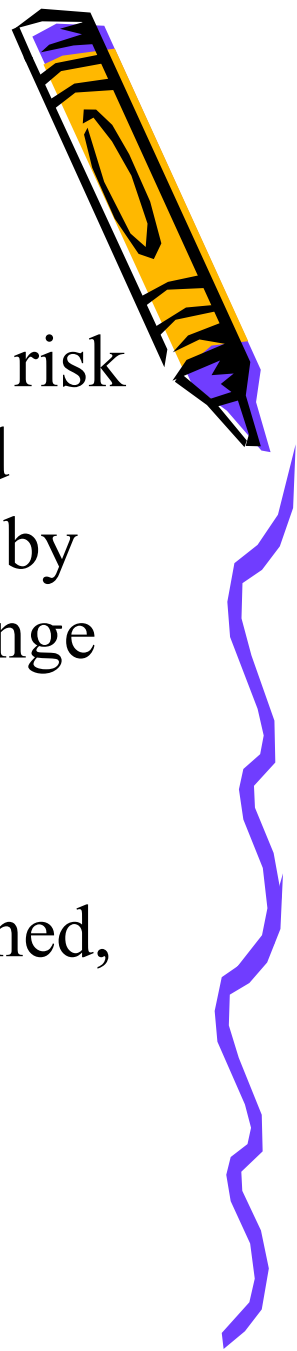
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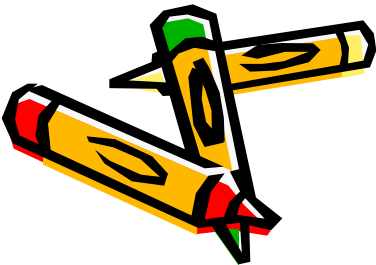
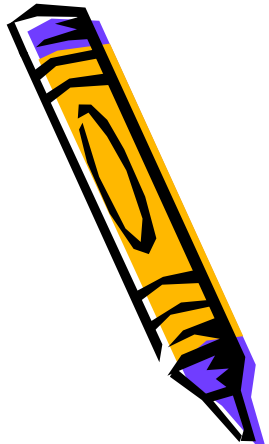
5. Political relations between home and host countries

Political relations often determine the relative risk of entering a foreign country. Obviously, good relations will reduce risk and encourage trade by private companies, but circumstances can change rapidly.

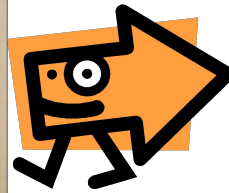
Host and home country relations may be strained, affecting business affairs .



CASE 1







CASE 2



Let's have a talk...

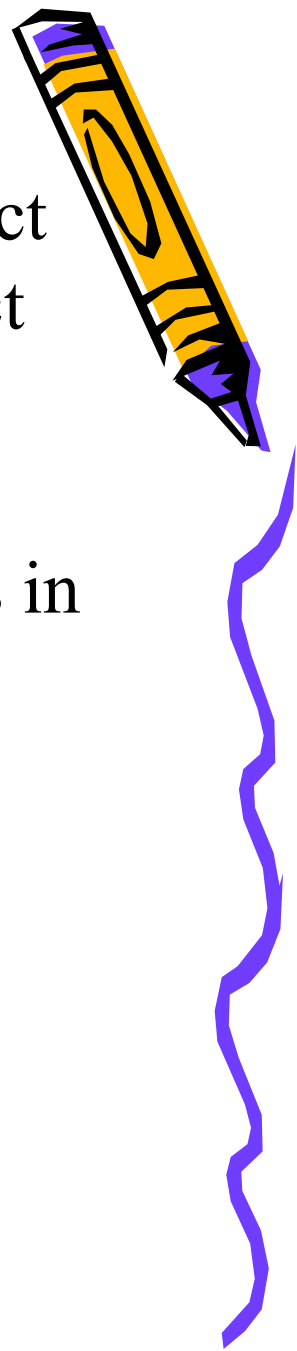


B. The legal environment

Firms operating internationally face major challenges in conforming to different laws, regulations and legal systems in different countries.

- The domestic laws of your home country
- The domestic laws of each of your foreign markets
- International law in general



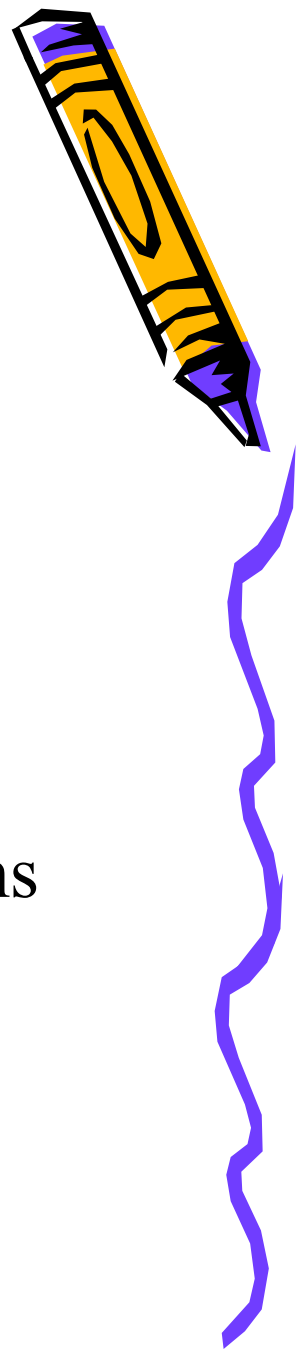


- Domestic laws govern marketing within a country, e.g. the physical attributes of a product will be influenced by laws (designed to protect consumers) relating to the purity, safety or performance of the product.
- Domestic laws might also constrain marketers in the areas of product packaging, marking and labelling, and contracts with agents. Most countries also have certain laws regulating advertising, e.g. Britain does not permit any cigarette or liquor advertising on TV.



The implications of law on marketing operations are legion:

- **Product decisions** - physical, chemical, safety, performance, packaging, labelling, warranty
- **Pricing decisions** - price controls, resale price maintenance, price freezes, value added systems and taxation

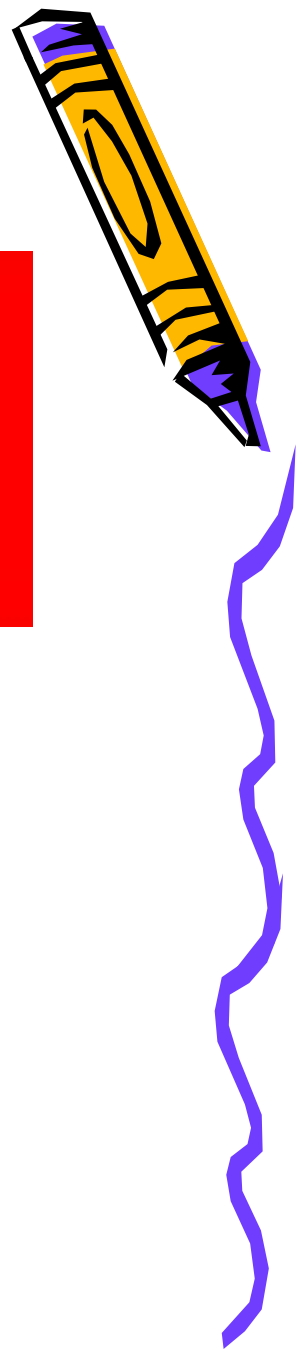




- **Distribution** - contracts for agents and distribution, physical distribution, insurance
- **Promotion** - advertising codes of practice, product restriction, sales promotion
- **Market research** - collection, storage and transmission of data



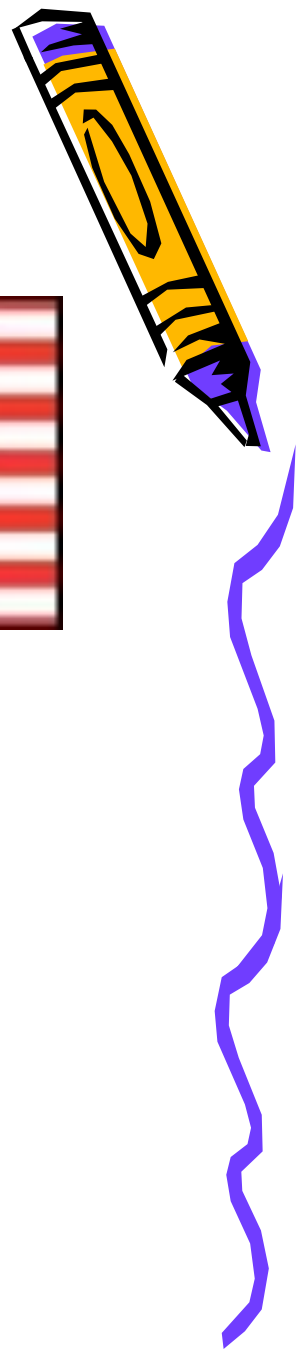
what taxation schemes will be faced abroad?



CASE 1



WAL★MART
沃 尔 玛





The controversy arose over a US embargo forbidding US business to trade with Cuba and concerned whether or not the embargo could be enforced in Canada.

Wal-Mart was selling Cuban made pajamas in Canada. When Wal-Mart officials in the United States became aware of the origin of manufacture, they issued an order to remove all the offending pajamas because it is against US law (the Helms Burton Act) for a US company or any of its foreign subsidiaries to trade with Cuba.



Canada was incensed at the intrusion of US law on Canadian citizens. The Canadians felt they should have the choice of buying Cuban made pajamas.

Wal-Mart was thus caught in the middle of conflicting laws in Canada and the United States and Canada – US foreign policy feud over the extra territoriality of US law.



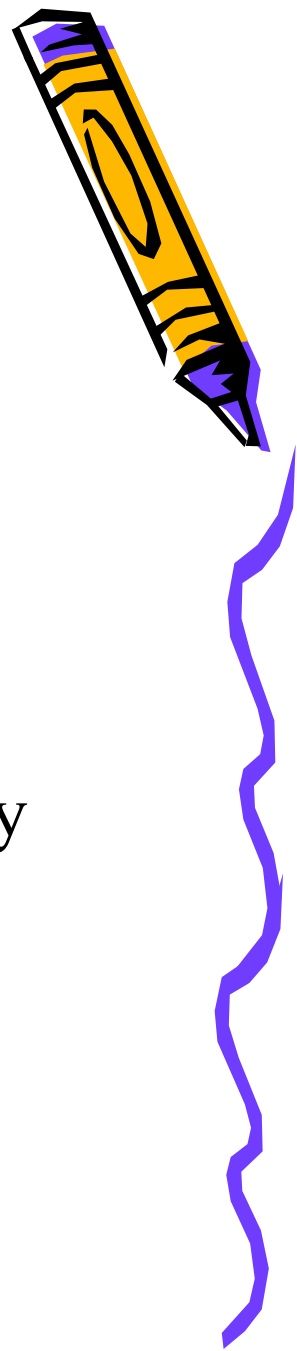
A) Wal-Mart Canada would be breaking US law if it continued to sell the pajamas, and it would be subject to a million dollar fine and possible imprisonment of its managers.

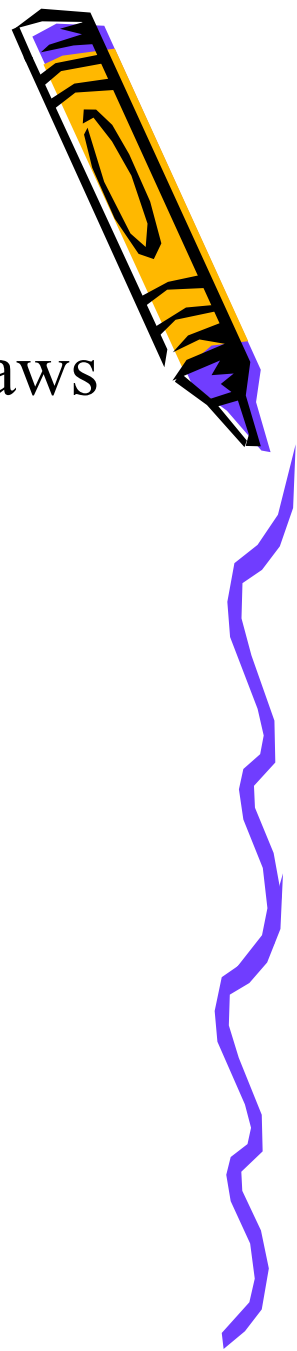
B) However, if the company pulled the pajamas out of Canadian stores as the home office ordered, it would be subject to a \$ 1.2 million fins under Canadian law.



After discussion with Canadian authorities,
Wal-Mart resumed selling the pajamas.

Canada was upset with the United States for attempting to impose its laws on Canadian companies (Wal-Mart Canada is a subsidiary of Wal-Mart US) while the United States says that Wal-Mart was violating its laws in not abiding by the boycott with Cuba.





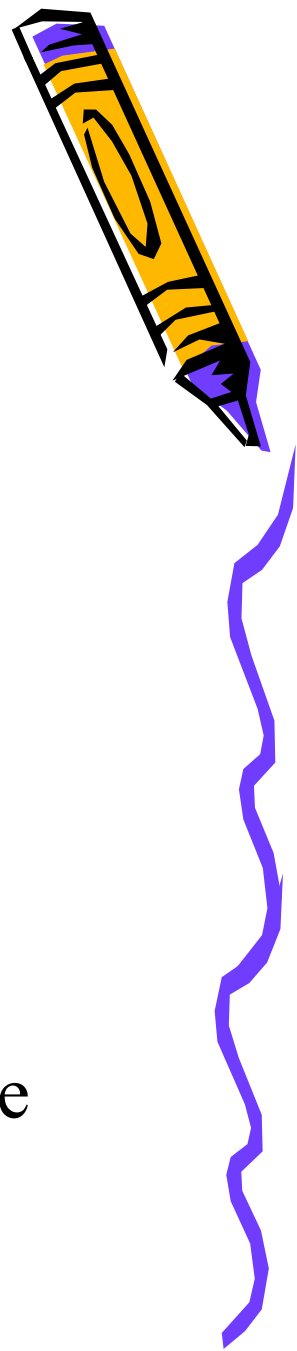
- The situation illustrates the reality of the legal environment and international marketing companies are subject to both home country laws and host country laws when doing business in another country.
- The federal government finally settled with Wal-Mart in 2003 and the pajama caper was finally **closed**.

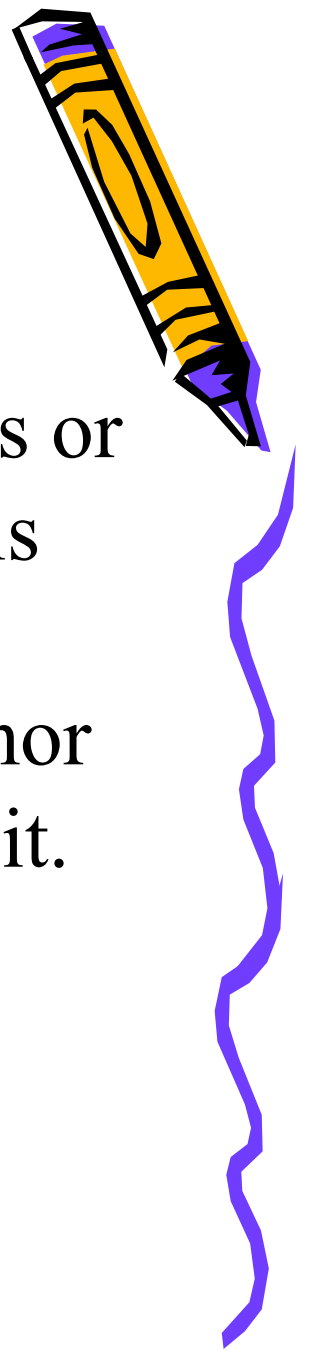


CASE 2



Google has closed its Chinese-language search engine Google.cn

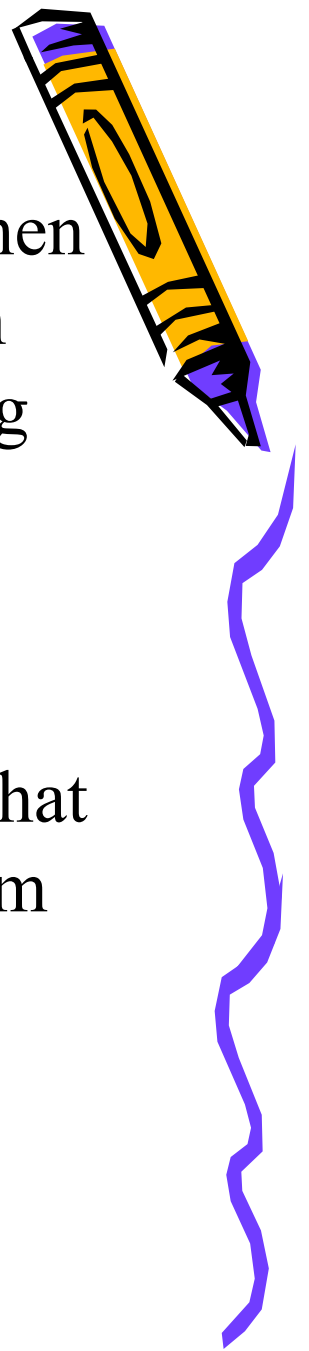




- **International Law**

It defined as that body of rules which regulates relationships between countries or other international legal persons. There is neither an 'international parliament' empowered to create international law; nor an 'international police force' to enforce it.

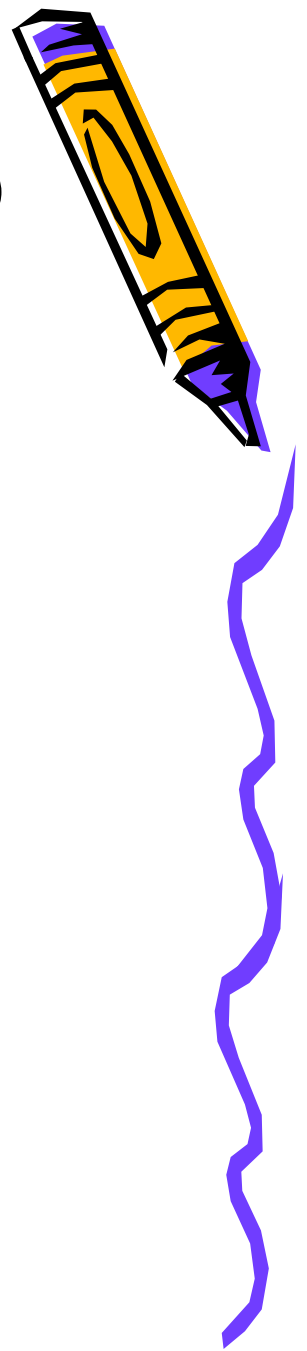




- The principal sources of international law are treaties and conventions. These are created when several countries reach **agreement** on a certain matter and bind themselves to it by authorising their representatives to sign a document embodying that agreement.
- Essentially, they have entered into a contract that obliges them to do something or to refrain from doing something. Failure to comply is the equivalent of breach of contract.



- a) **FCN** (Friendship, Commerce and Navigation)
- b) **IMF** and **GATT**
- c) **UNCITRAL (UN)** international trade law commission
- d) **ISO** (International Standards Organisation)
- e) **IATA** (International Air Transport Authority)



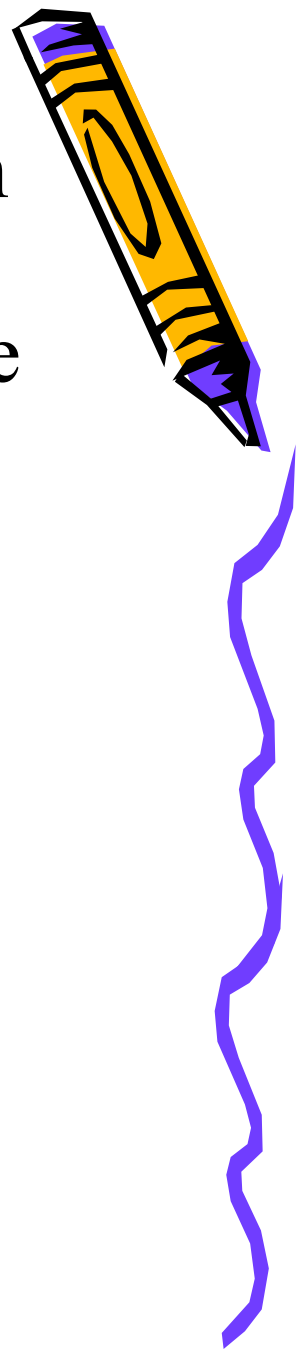
CASE



- The World Trade Organization (WTO) is the only global international organization dealing with the rules of trade between nations.
- At its heart are the **WTO agreements**, negotiated and signed by the bulk of the world's trading nations and ratified in their parliaments. The goal is to help producers of goods and services, exporters, and importers conduct their business.
- **159 members** on 2 March 2013



- The WTO is a rules-based, member-driven organization — all decisions are made by the **member governments**, and the rules are the outcome of negotiations among members.
- It deals with the global rules of trade between nations. Its main function is to ensure that trade flows as smoothly, predictably and freely as possible.



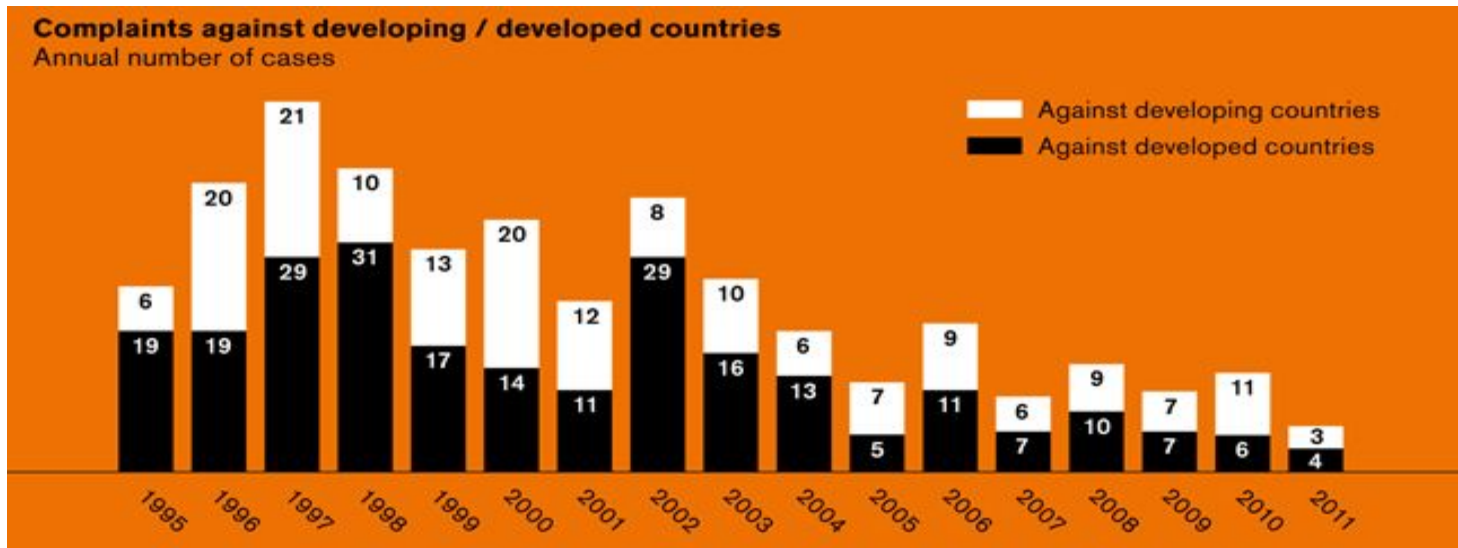
- 1 Cut living costs and raise living standards
- 2 **Settle disputes and reduce trade tensions**
- 3 Stimulate economic growth and employment
- 4 Cut the cost of doing business internationally
- 5 Encourage good governance
- 6 Help countries develop
- 7 Give the weak a stronger voice
- 8 Support the environment and health
- 9 Contribute to peace and stability
- 10 Be effective without hitting the headlines



- More trade, more traded goods and services and more trading countries — they bring benefits but they can also increase the potential for friction. The WTO's system deals with these in two ways.
- One is by **talking**: countries negotiate rules that are acceptable to all. The other is by settling disputes about whether countries are playing by those **agreed rules**.

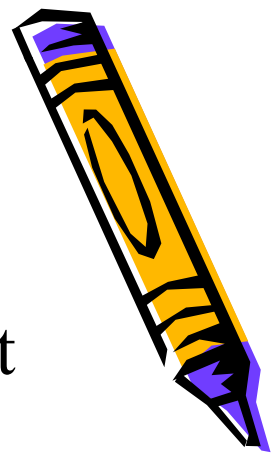


The fact that the disputes are based on **WTO agreements** means that there is a basis for judging who is right or wrong. Once the judgement has been made, the agreements provide the focus for any further actions that need to be taken.



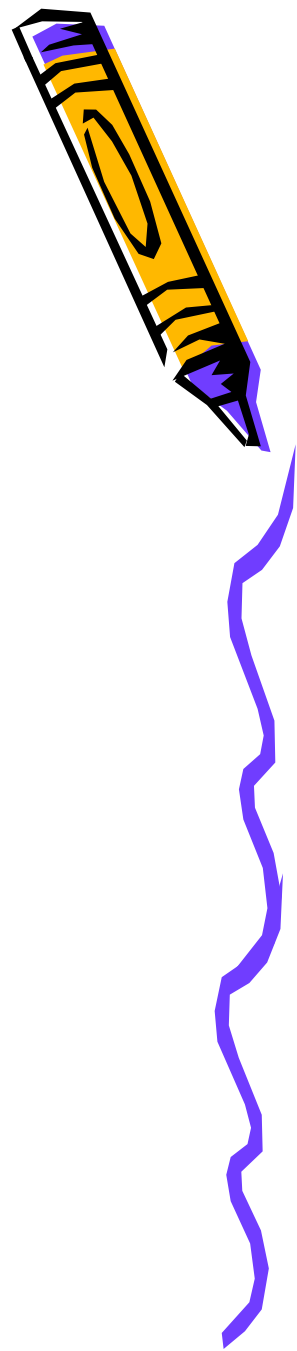


- on September .2009. the United States International Trade Commission had recommended additional tariffs 35-30-25 percent over three years.
- China announced a **WTO** challenge to the tires safeguard decision within days.



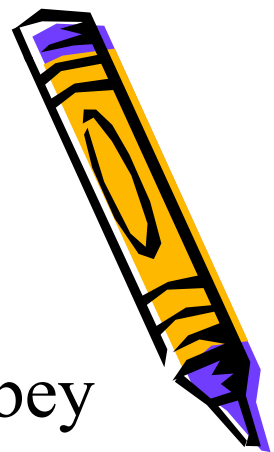
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Haier bought Sanyo's washing machine and refrigerator operations in Japan and home appliance businesses in four other countries in Southeast Asia



What to do?

- ✓ Do research before go abroad
- ✓ Respect other countries' political system and obey the rules
- ✓ Keep Flexible
- ✓ Connection with home country



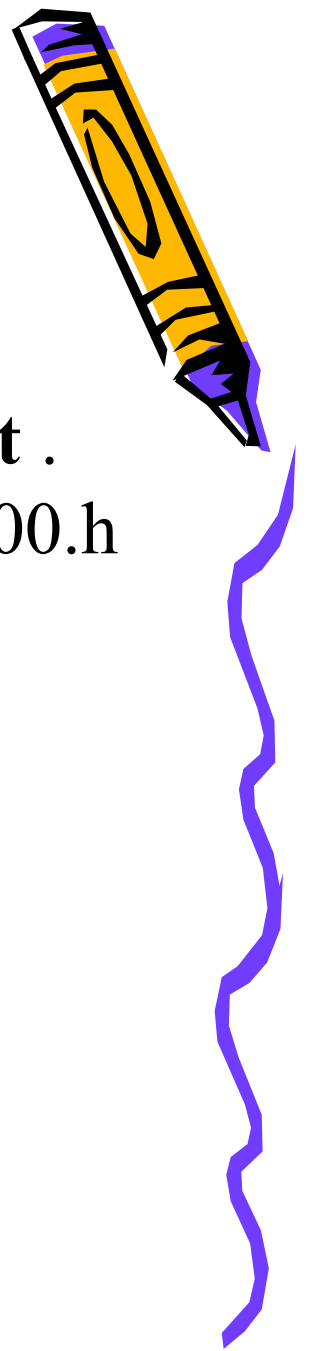
Summary



- **The political environment:** Type of government. Party system. Economic policy of the government. Political stability. Political relations between home and host countries
- **The legal environment:** The domestic laws of your home country. The domestic laws of each of your foreign markets. International law in general



Reference



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