

## 5.1: The Economic and Political Environment Summary

### Summary

The economic environment is a major determinant of global market potential and opportunity. In today's global economy, capital movements are the driving force, production is uncoupled from employment, and capitalism has vanquished communism. Based on patterns of resource allocation and ownership, the world's economies can be categorized as market capitalism, centrally-planned capitalism, centrally-planned socialism, and market socialism. The final years of the twentieth century were marked by transitions toward market capitalism in many countries that had been centrally controlled. However, there still exists a great disparity among the nations of the world in terms of economic freedom.

The political environment of global marketing is the set of governmental institutions, political parties, and organizations that are the expression of the people in the nations of the world. In particular, anyone engaged in global marketing should have an overall understanding of the importance of sovereignty to national governments. The political environment varies from country to country, and political risk assessment is crucial. It is also important to understand a particular government's actions with respect to taxes and seizure of assets. Historically, the latter have taken the form of expropriation, confiscation, and nationalization.

When global managers explore how to expand, they start by looking at the world. Knowing the major markets and the stage of development for each allows managers to determine how best to enter and expand. The manager's goal is to hone in on a new country—hopefully, before their competitors and usually before the popular media does. China and India were expanding rapidly for several years before the financial press, such as the *Wall Street Journal*, elevated them to their current hot status.

It's common to find people interested in doing business with a country simply because they've read that it's the new "hot" economy. They may know little or nothing about the market or country—its history, evolution of thought, people, or how interactions are generally managed in a business or social context. Historically, many companies have only looked at new global markets once potential customers or partners have approached them. However, trade barriers are falling, and new opportunities are fast emerging in markets of the Middle East and Africa—further flattening the world for global firms. Companies are increasingly identifying these and other global markets for their products and services and incorporating them into their long-term growth strategies.

The legal environment consists of laws, courts, attorneys, legal customs, and practices. International law is comprised of the rules and principles that nation-states consider binding upon themselves. The countries of the world can be broadly categorized in terms of common-law legal systems or civil-law legal system. The United States and Canada and many former British colonies are common law countries; most other countries are civil-law. A third system, Islamic law, predominates in the Middle East. Some of the most important legal issues pertain to jurisdiction, antitrust, and licensing. In addition, bribery is pervasive in many parts of the world; the Foreign Corrupt Practice Act (FCPA) applies to American companies operating abroad. Intellectual property protection is another critical issue. Counterfeiting is a major problem in global marketing; it often involves infringement of a company's copyright or trademark ownership. When legal conflicts arise, companies can pursue the matter in court or use arbitration.

Savvy global managers realize that to be effective in a country, they need to know its recent political, economic, and legal history. This helps them evaluate not only the current business opportunity but also the risk of political, economic, and social changes that can impact their business.

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