

DBA 304

International Business Finance



Week 14

Legal, Technological and Political

Forces



# The Legal Environment

- Differences in Legal Systems

- Role of lawyers

- Laws

E.g. USA, Belgium, South Korea, India, Portugal



# Common Law

- Former British Colonies
  - Cumulative wisdom of judges through cases history
  - Legal precedents/standards judges use to decide similar cases



## Problems

- Defective products in USA more vulnerable to lawsuits compared to UK
- Plaintiff and defendant rule differs in the UK and USA

# Civil Law

- Originated in biblical times with the Romans
- Based on detailed listings of cases



## Difference between Common Law and Civil Law

- Role of judges and lawyers

# Religious Law

- Officially established rules governing faith and practice of a particular religion called theocracy.
- In Iran, a group of mullahs determine legality and illegality through the interpretation of Quran
  - Interest charge is unfair to the poor
  - Leasing is encouraged; bank profit shared instead of interests

E.g. Saudi Arabia

# Bureaucratic Law

- Whatever the country's bureaucrats say regardless of the formal law of the land
- Contracts can be made or broken with power
- Seek expertise of local lawyer to avoid costly misunderstandings
- Protections such as the right of attorney may be ignored by government officials if inconvenient

# Domestically Oriented Law

- Some laws are designed to regulate domestic environment
- May indirectly affect the ability of domestic firms to compete internationally by increasing cost thus reducing price
- E.g. France, Germany and Belgium
- E.g. Grupo Herdez of Mexico-sweet sauce made from chocolate and chilly peppers

# Laws Directly Affecting IB Transactions

- Sanctions – Restraints against commerce with a second country to change an undesirable policy
- Embargo – a comprehensive sanction against all commerce with a given country
- Extraterritoriality
- E.g. UN with Iraq & India with Nepal in 1990

# Laws Directed Against Foreign Firms

- Expropriation – the host government compensates the private owners' losses
- Confiscation – the host government offers no compensation to the private owners' losses

# Laws Directed Against Foreign Firms

- Privatization - Conversion of state-owned property to private-owned property
- Became popular in the 80's
- Resulted competitive pressures for the national government

# Laws Directed Against Foreign Firms

- Constraints of foreign ownership
  - Limit foreign ownerships of domestic firms to avoid being controlled by foreigners
  - Countries can also impose restrictions to repatriate their profits earned in their host countries
  - E.g. Canada

# Laws Directed Against Foreign Firms

- Impacts of MNC's in host countries
  - Establishing operations beyond home country is affected by the PEST of host country
  - MNC to recognize how to interact with host national requirements
  - E.g. Carrefour entering Chinese market

# The Technological Environment

- Transfer technology condition to operate in host
- E.g Chinese government and GM Motors
- Reason being to protect its patents, copyrights, trademarks and brand names
- Weak intellectual property protection discourages FDI's
- E.g. Star Wars Episode 1

# The Technological Environment

- Japan files numerous patents for minor modifications
- Cyber Optics and Yamaha in Minneapolis
- “First to file” approach against “First to invent”
- E.g. J C Penney
- Administrative delays hurt the rights of intellectual property owners

# The Political Environment

- Expropriation
- Confiscation
- Campaigns against foreign goods
- Mandatory labour benefits legislation
- Kidnappings, terrorist threats and other form of violence
- Civil wars

# The Political Environment

- Inflation
- Currency devaluations
- Increased taxation
- Overseas Private Investment Corporation (OPIC)
  - To promote private investment in overseas projects, especially in developing countries

