

International Business
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Lecture – 18
Political Environment, Beliefs, Types of Democracy

Welcome everyone, to the course of International Business. So, in the last class we had started on international business environment and where we discussed the effect of culture on business right. So, we realized that how different cultures can be very complicated for firms who do not understand them well.

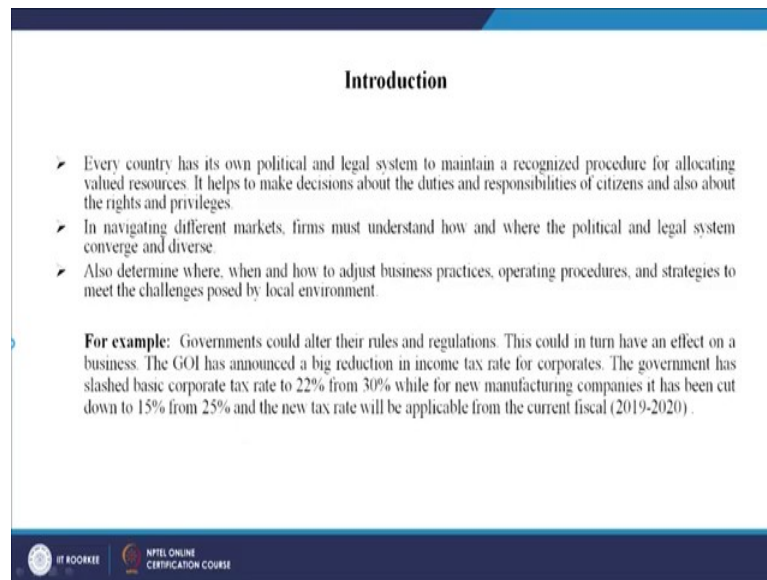
So, for example, we gave the examples of countries like India where we have a different culture from for example, any western country and where food habits and religion and even our day to day habits are very different right.

So, there we also talked about the PESTEL analysis, where political, economic, social, technological, such kind of you know issues should be well understood by the firms before they enter into any country right.

So, today we will be talking similarly on a new issue which is very important the political and the legal factors and how they affect the international business right. So, there is you know is nothing great in understanding that the political climate of any country can have a devastating effect or a very good effect on the firms you know performance, correct.

Similarly, and why political and legal come in tandem; is because they are well connected. So, the rules that are made and then the abiding the rules these two come hand in hand. So, that is why we always talk political and legal factors together right.

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The slide is titled "Introduction" and contains the following content:

- Every country has its own political and legal system to maintain a recognized procedure for allocating valued resources. It helps to make decisions about the duties and responsibilities of citizens and also about the rights and privileges.
- In navigating different markets, firms must understand how and where the political and legal system converge and diverse.
- Also determine where, when and how to adjust business practices, operating procedures, and strategies to meet the challenges posed by local environment.

For example: Governments could alter their rules and regulations. This could in turn have an effect on a business. The GOI has announced a big reduction in income tax rate for corporates. The government has slashed basic corporate tax rate to 22% from 30% while for new manufacturing companies it has been cut down to 15% from 25% and the new tax rate will be applicable from the current fiscal (2019-2020).

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So, let us start with it. So, as it says every country has its own political and legal system to maintain a recognized procedure for allocating the valued resources right.

So, how do you allocate the resources? So, you have to have a legal system for it and there has to be a proper political climate ok. It helps to make decisions about the duties and responsibilities of citizens and also about the rights and privileges.

So, in every country it is very important that the people understand what are the duties and responsibilities they have to hold and similarly what are the rights and responsibilities. For example, we talk about fundamental rights in India and we also have fundamental duties right.

So, the political climate of the country decides what are the fundamental rights for example, the right to education for example, in India the right to freedom of speech. So, these are some of the rights we have and what are our duties? For example, we have some duties for the country. So, every citizen of the country should understand it right.

While getting into different markets which the firms must understand; how and where the political and legal system converge and where they diverge. That means what? The country from which these companies are coming from there whatever political and legal climate they have is, right. How different or how similar it is with the

country where they are now going to start their business. So, that is very important suppose there is a lot of similarity it becomes easy for the firms to do their business.

For example somebody is comes from let us say U.S to Canada it is very easy somebody goes from India to one of our neighbouring countries it becomes simpler because we understand the culture the rules much better. But it becomes difficult when we move from a very different culture where from a different system altogether to another one.

It also determines where, when and how to adjust the business practices right. By not doing it there has been several cases, several popular case studies where firms have been not able to adjust to the local climate and condition the political climates and they have suffered badly.

Some of the cases we will discuss for example, the Vodafone case which had happened in India which is a part of a legal you know case and how the companies many of the foreign companies got threatened out of it right they were scared. So, there are several such examples. So, the adjusting how to adjust with the business practices the operating procedures and strategies to meet the challenges posed by the local the environment.

Let us take an example; recently you know the government now since I say the here it is said the governments could alter their rules and regulations. The any government for example, changes it is rules and regulations according to it is need looking at the need of the country right. But this could in turn have an effect on the business. So, the foreign firms who are coming they might not be able to understand it as good as the local players, so it becomes difficult for them.

Now, recently the Government of India has announced a big reduction in income tax rate for the corporates right. So, the government has slashed the basic corporate tax rate to 22 percent from 30 percent. While for new manufacturing company it has been cut down to 15 percent from 25 percent. And this tax rate will be applicable from the current fiscal. Now, this looks very promising kind of a policy which the government has done so this is very encouraging. But the condition is it is encouraging, but one has to be ready to take advantage of these policies right.

Suppose somebody does not understand, then it becomes tough right; this is a positive still a positive policy. On the negative side maybe for example, recently the government

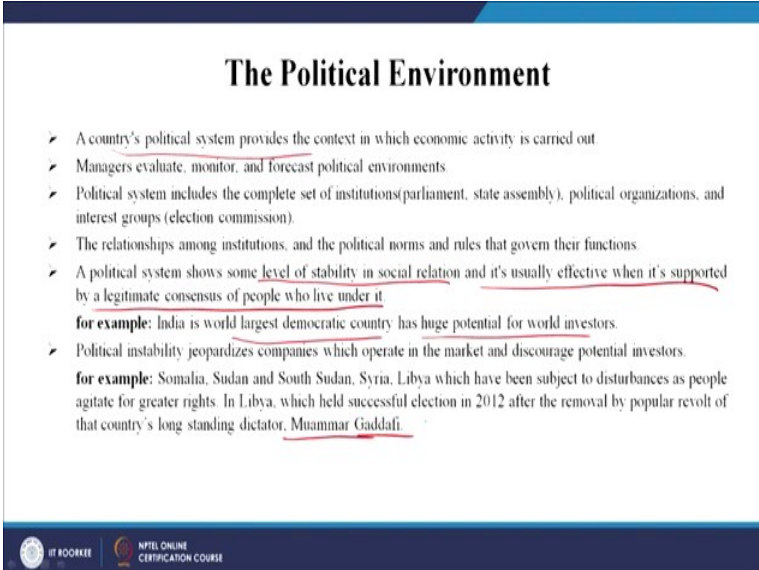
to wanted to catch up with these companies who were trying to avoid taxes. So, they came up with a policy called the general anti avoidance rule.

So, this rule was to find out those companies who were trying to maybe not paying the taxes maybe and avoiding taxes. So, the government started this rule that they could find out the business practices that was being done since 1962 onwards whoever have come and whatever the businesses they have done. And if they have paid their taxes properly or not so they could check it.

Now, this is this looks good from the outside, but it was it is really a very scary scenario for the business firms who have who are who have entered into the Indian market. So, these are some of the things that can happen when the with the change in political climate. Now for example, another issue that is happening in the political situation is now the Indian government is highly against corruption with the new government. And it has started finding out the different people who have got the accounts in you know Swiss banks and all.

So, this kind of activities can be quite you know scary and business players can get scared of right when they come into the Indian market. So, the policies, the taxes, the you know the rate cuts, all these things can have several different kinds of effects on the business firms right.

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The Political Environment

- A country's political system provides the context in which economic activity is carried out
- Managers evaluate, monitor, and forecast political environments
- Political system includes the complete set of institutions (parliament, state assembly), political organizations, and interest groups (election commission).
- The relationships among institutions, and the political norms and rules that govern their functions
- A political system shows some level of stability in social relation and it's usually effective when it's supported by a legitimate consensus of people who live under it

for example: India is world largest democratic country has huge potential for world investors.

- Political instability jeopardizes companies which operate in the market and discourage potential investors.

for example: Somalia, Sudan and South Sudan, Syria, Libya which have been subject to disturbances as people agitate for greater rights. In Libya, which held successful election in 2012 after the removal by popular revolt of that country's long standing dictator, Muammar Gaddafi.

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So, what is this political environment? A country's political system provides the context in which economic activity is carried out. So, economic activity can be easy or will be easy to do or difficult to do basis on depends on the political system right. So, the managers who are part of the firms they evaluate monitor and forecast the political environment.

So, what change? For example, when there is a change in government right you we I have observed that whenever there is a change in government there is a change in the you know economic outlook right. For example, recently when the BJP government came to power in India; so that time we saw the stock market rallying like anything right, it went up like anything right.

But after some time when after a few months the government the people realized well the change is not so great as it would have been as they had expected. Now, it started again there has been a fall; yes that is not because only maybe the governments the expectations were very high one of the reason and maybe there is an international gloom in the economic condition. So, these are various affects that effects right the various factors that affect. The political system includes the complete set of institutions what does it comprise of?

For example the parliament, the state assemblies, the political organizations for example, we have different parties in India; India is a multiparty system the BJP, the Congress the some of the regional parties so there are parties. And the interest routes for example, the election commission who regulates the entire election process in India. So, taking all this together you form the political system ok.

Now, the relationship among institutions and the political norms that; govern their functions right. So, how is the relationship, what is the relationship, how is the relationship among these different agencies; is the most important factor. A political system shows some level of stability in social relation and it is usually effective when it is supported by a legitimate consensus of people who live under it. So, if it is a stable government, then automatically the economic condition also looks much rosy much better right.

If there is a instability in the country, then that also shows it through you know lot of problems an economic crisis and all. Example India is world's largest democratic

country and has huge potential for world investors. So, now, the government has been regularly holding you know sessions for example, investors meet and all across in different states of India.

And there is like a competition for example, the Gujarat government does, the Punjab government does, the Madhya Pradesh government does, the Orissa government does. So, they want invest attract the investors to come to their states and run start their own ventures right.

So, to bring in the FDI has become one of the challenges for the governments even. And when there is a political instability it jeopardizes the companies it, it hampers the companies which operate in that market and discourage the potential investors.

So, the climate of the country the political climate of the country is very important. A stable government because you see when the BJP government took power for example, the effect was that they are getting a large majority seats.

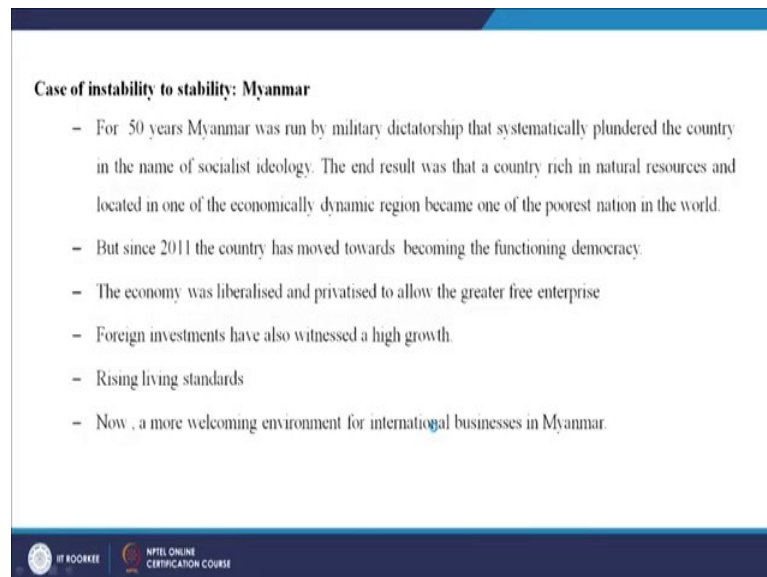
So, people were very happy that there is at least a stable government, but whenever there is a government and which can, which is instable. For example, you know they have not got majority votes in that condition the investors are scared that one day might be they might you know with a group of other parties they might form the government, but if this parties do not if their parties do not support tomorrow then the government would break. And if the government breaks then again a new government might be formed and again new policies and this might again affect them.

So, adjusting to these new policies time and again is a very difficult feature. You see for example, Somalia, Sudan, Syria, Libya, which have been subject to disturbances right has as people agitate for greater rights has always been and you know has created an negative effect right.

In Libya which held successful elections in 2012 after the removal of Muammar Gaddafi; Gaddafi was a very popular leader, but and when he was removed there was a lot of unrest in that time. Recently we have seen such crisis in Fiji, we have seen in some in Maldives right in some small nations which are our neighbouring countries.

So, there has been lot of political tension in Pakistan for example, there is always a you know fight between the, the democratic parties the army and there is a tension all the time. So, investors would think twice before entering into such countries.

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Case of instability to stability: Myanmar

- For 50 years Myanmar was run by military dictatorship that systematically plundered the country in the name of socialist ideology. The end result was that a country rich in natural resources and located in one of the economically dynamic region became one of the poorest nation in the world.
- But since 2011 the country has moved towards becoming the functioning democracy.
- The economy was liberalised and privatised to allow the greater free enterprise
- Foreign investments have also witnessed a high growth.
- Rising living standards
- Now, a more welcoming environment for international businesses in Myanmar.

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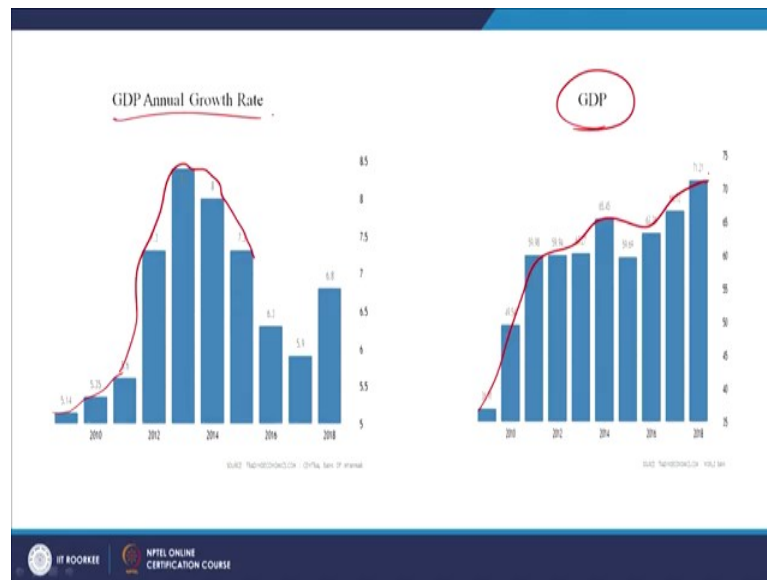
Now, this is an example where we have seen how a case of instability to stability, how Myanmar in example which moved from a instable conditions to a stable condition.

So, for the 50 years Myanmar was run by military dictatorship most of you must be knowing and it plundered the country in the name of socialist ideology. The end result was that the country which was rich in natural resources and located in a very dynamic region became one of the poorest nation in the world, right.

But since 2011 the country moved towards with a new change in the government become a functioning democracy, the economy was liberalized and privatized to allow the greater free enterprise. So, although I am not saying all the time that liberalization and globalization works, but yes in most of the time it has been found to be working right.

So, there has been criticisms against them also. Foreign investments have also witnessed a high growth. There has been a rise in the living standard of the people and now a more welcoming environment for international business in Myanmar is found. So, what has been the effect let us see in the next slide through some graphs.

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So, if you see the GDP annual growth rate right from 2012, was the time when they changed 11-12. So, in between here and before that you can see how low was the GDP right which increased tremendously to reach a height.

And after that there has been some fall, but then we cannot count it because of the government policy. It there could be some other reasons like the international climate also right economic climate.

And you see look at the, if you look at the GDP this was the growth rate and if you look at the absolute GDP of Myanmar. So, it has again it has tremendously grown right. So, that is a very nice sign which talks about how stability in a country can bring in economic positivity.

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Now, what are the factors related to the political environment? First of all what kind of a country it is? We talk about individualism versus collectivism. Now, are the people more individual in nature, are the people do they behave in a collective manner, are the policies individual friendly or more friendly for collective goals?

So, what it is basically? What are the beliefs and ideology for being followed in the in a particular country? So, is it like a democracy is it like a totalitarianism right or which you say absolutism or authoritarianism? Right. So, where there is a like a ruler a dictator kind of a person who is running the show like North Korea.

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Individualism vs. Collectivism

What is better for a country 1. guaranteeing individual freedom for economic self-interest or 2. giving importance to collective goals?

Individualism: primacy of the rights and role of the individual (United States)

- Individualism is a belief that everyone needs to look after themselves and support themselves.
- Countries with the individualistic orientation encourage business to support the good of the community by promoting fair and just competition.
- Follow the rule of law - (Adam Smith)

Collectivism: primacy of the rights and role of the community (Japan)

- Collectivism is a value or belief where you think of society first and what societies needs are. You make sacrifices for the benefit of society as a whole instead of thinking only of yourself.
- ensure that business practices benefit society.

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What are the trends in the political systems and what is political risk how they are measured? So, before let us go to one by one. So, the first question is there has been always debates among economics and like you know Milton Friedman, Adam Smith you know and others like and many all the economist you can see you can talk about.

So, the great economist the Keynes economy. So, what is better for a country? Is it guaranteeing individual freedom for economic self interest right or giving importance to collective goals? So, what is a better? Should we give individual freedom more importance? And so that people for example, in a capitalist nation where we say that a person who has got the intelligence, the resource and he can he is he or she is more smart, then he can achieve higher success. Or should we give him more importance to the collective goals instead of the individual freedoms?

So, individualism says primacy of the rights and roles of the individual. It is a belief that everyone needs to look after themselves and support themselves. Countries with the individualistic orientation encourage business, to support the good of the community by promoting fair and just competition right, it follows the rule of law.

So, United States has always advocated individualism and individual centric rules they have made. So, where the it is a capitalist economic well the individual can use his knowledge his understanding and take advantage and grow in stature right.

So, this is this can be said to be supported by Adam Smith's very popular you know work where he says about the law of invisible hand. So, a law of invisible hand where it says that every individual when he tries to do good for itself it automatically helps in the growth of the nation ok.

And the second is the collectivism where we say the primacy of the rights and role of the community. So, here we are saying about the individual here we are talking about the community right example would be Japan for example.

So, it is a value or belief where you think of the society first right and what societies needs are. And one makes sacrifices for the benefit of society as a whole instead of thinking only of the individual; it ensures that business practices benefit society right.

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Political beliefs

- The system of ideas that expresses the goals, theories or principles, and aims of a sociopolitical program
- It ranges from communism and socialism to capitalism *Co - So - Cap*
- Single, dual and multiparty system
 - Single: North Korea, Mexico had institutional revolutionary party for last seventy years (case of Pepsi)
 - Dual party: U.S and U.K
 - Multiparty: India, Canada etc.
- Most modern societies are **pluralistic** which asserts that both public and private groups are important in a well-functioning political system
 - different groups champion competing political ideologies
 - Democrats vs. Republicans in the United States
 - Democratic Party vs. Liberal Party in Japan
 - NDA vs UPA in India

Handwritten notes: 'Co' for communism, 'So' for socialism, 'Cap' for capitalism. A diagram shows 'Co' - 'So' - 'Cap' with arrows indicating a spectrum. There are also checkmarks next to several items.

So, these are the two different kinds of thoughts right. Now, when we come to talk about political beliefs, so what are they? The system of ideas that expresses, the goals, the theories or principles and aims of socio political program. So, what is the political belief, what does the government believe the present government believe, what it wants to do? Right.

So the political beliefs of the people and the governments can range from communism at one end, to capitalism and having socialism in between right. So, communism; so then we have socialism in between and then we have capitalism. So, this is an extreme case

individual of an individual centric right. Communism is where you know capitalism says every individual can grow and it is a freedom is there.

Communism is directly is highly controlled by the government of the state right, but socialism is in between. So, it is we say it is always said that socialism is sandwiched between communism and capitalism it is neither communism nor capitalism.

So, it talks about the sovereignty the freedom of the nation and all, but it looks for the social welfare, but also encourages the individuals to grow, so it is in between. In terms of party systems there are three types of party systems; the single party system, the dual party system and the multi party system. So, countries different countries according to that political systems they have different kinds of you know party systems. For example, this is a case of first one is single, single party system.

Now, North Korea which is basically like a dictator right, Mexico in the past in around 1994 they had a party they had many parties, but for 70 years this party institutional revolutionary party lasted for 70 years, and it became as good as a single party system at during those times.

But in 1994, when this what happened was when this party was became weak. So, at that condition Pepsi which had done great work in Mexico and gone deep, understanding the political relationships and they had built you know spent lot of money in building those relationships.

And through good or bad ways whatever they had done, but once when this party became weak in 1994 Pepsi who had a disastrous time and they the sales of Pepsi the business of Pepsi fell dramatically right.

So, what happens is in single party systems a company the companies I have a orientation towards this party. And when the other parties come suppose in case there is a change, then it becomes very difficult for the others right to control. In dual party basically countries like US and UK for example, we talk about the republican and the democrat in US right.

So, what happens is uh here there are largely two parties right. So, it is a like a bi party system right. So, the again everything has it is own weakness and strengths right and

these two bi parties that the different parties they have their own manifestations and they advocate different kind of policies right.

The third case is of a multi party. Now, here in such a country there are large number of parties. So, first of all for example, look at India, Canada etcetera. India has a federal structure where you have central government state government and central you know there are some national parties.

And then you have a regional parties in national parties you have again many and in regional parties you have again a lot of regional parties. So, the what kind of a party system does the government have and why it is done? Basically it is done looking at the you know with the according to the people of the country. So, if the people in the country are you know following want to follow a two party mechanism ultimately it is done for the people right.

And multi-party is where we say let us give more importance more freedom to every people and every party that is possible that can come up, but it has difference you know difficulties also. So, when you have a multi party maybe the problem of governance becomes an issue right.

So, every time you have to have you know you have to have very good relationship with every party that sounds good, but then it becomes very difficult to you know to make policies right because you have to keep so many people, so many regional parties happy right.

Most modern societies are pluralistic which assess that public and private groups are both important right in a well functioning political system. So, for example, the democrats versus republicans in the United States, the democratic party versus the liberal party in Japan, the NDA versus UPA in India there is some examples of pluralistic situations right. So, how they follow?

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The Political Scope

- In practice, purely democratic and totalitarian governments are extremes. Rather, looking around the world, one finds, there are variation to each approach.
- For example, democratic governments range from a radical on one side (advocates of political reform) to reactionary (advocate of a return to past conditions).
- The vast majority of democratic political system, however, lie somewhere in between.

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Then we talk about the political scope in practice purely democratic and totalitarian governments are extremes. So, neither there is a perfect democratic which you do find not a purely totalitarian government right. Rather looking around the world one finds there are variations to each approach ok. So, most of the time it is a variant in between which lies right.

For example democratic governments range from a radical in one side advocates of political reform to reactionaries. So, who advocate of a return to the past conditions. So, whatever was in the past that was good, so they would like to go back to that condition. The vast majority of democratic political system; however, lies somewhere in between as I said. So, democracy and the other is totalitarian and in between lies the political systems of most countries.

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Authoritarianism	versus	Democracy
Power determines law; constitution on paper only	Rule of law	Constitutional framework; equality before law
Detention without charge; few rights for accused; imprisonment for political dissent	Civil rights	Right to a fair trial; no detention without charge; torture prohibited
Restrictions on association, expression and any activity contrary to the official line	Political rights	Right to vote and stand for office; freedom of association and expression
Elections with little or no choice of the candidates	Elections	Regular elections; one person/one vote; monitoring for irregularities, intimidation
Courts are an administrative arm of government	Court system	Independent judiciary; transparent process
Press controlled by the state; restricted reporting	Freedom of the press	Editorial and reporting independent from government

Now, let us see this difference between these two, now when we talk about authoritarianism or is which is a part where the totalitarianism right. So, there is an absolute kind of a dictator and he who rules by his own and you know have fall makes his own policies and all. And on the other side we have something like a democracy, which as Abraham is said was said by you know for the people by the people and of the people right.

So, where the people are very important and they create the representatives they relate the representatives and they exercise that power. And then they send them to the higher institutions of like parliament and these people then make the rules. So, indirectly the people only make the rules through their representatives, right.

So, what it is happening, how they are different? When it comes to rule of law in case of a authoritarianism government, the power determines the law the constitution is only paper is on the paper.

So, the power of a individual is so high that other things are only on paper and actually in reality that they would do not exist. In terms of civil rights they could detain anybody without charge few rights for accused and imprisonment for political dissent. So, somebody does not listen to the majority party or the political leader, then they could easily be put behind bars right.

Restrictions on association expression and any activity contrary to the official line so, if somebody does not follow the office the conditions the rules made by the government, then they would go behind bars right.

So, there is no freedom of expression mostly in here elections with little or no choice of the candidates. Courts are an administrative arm of the government so, they are mostly supporting the government. The press is controlled, so we say the press which is called the 5th pillar of any democracy right is also controlled right.

On the other hand if you look at the same things like the rule of law, civil rights, political rights, elections court system and freedom of the press and you come to the democracy, here this is constitutional framework equality before law everything is same right. Right to a fair trial no detention without charge torture is prohibited.

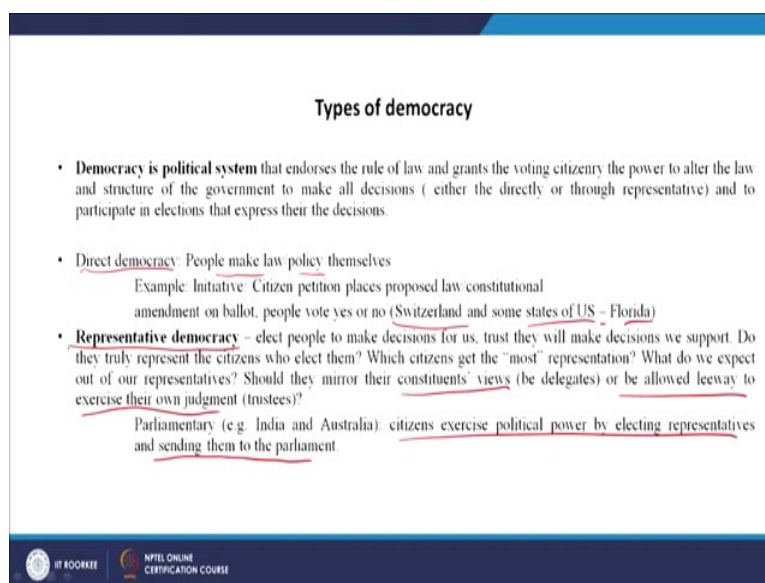
So, the people have a right to exercise to say something. Political rights right to vote and stand for the office. So, if tomorrow I want to stand for the office maybe I am in a government job, so I have to resign, but then I can stand for a political position right. So, somebody is a private operator player or a is a in a private job he can easily stand for any election right. Regular elections one person only one vote monitoring for irregularities is done right.

The court system has a independent judiciary and very transparent process right. Freedom of the press, the press is a very important pillar in the democracy because it has a voice to even make the absolutely powerful people look small because, it makes it transparent.

For example, the press in India today has been able to speak so fluently against the present government against the past government without any fear right. So, this is a situation this kind of political climates are very encouraging for the you know business firms. Because they feel they would not be tortured, they would not be harassed and it would do it would be good for their business right.

Now, coming to the types of democracy right. So, when we are talking about democracy there are basically what is democracy let us understand, as I said by the people for the people and of the people right.

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Types of democracy

- **Democracy is political system** that endorses the rule of law and grants the voting citizenry the power to alter the law and structure of the government to make all decisions (either the directly or through representative) and to participate in elections that express their the decisions.
- **Direct democracy:** People make law policy themselves
Example: Initiative: Citizen petition places proposed law constitutional amendment on ballot, people vote yes or no (Switzerland and some states of US - Florida)
- **Representative democracy** – elect people to make decisions for us, trust they will make decisions we support. Do they truly represent the citizens who elect them? Which citizens get the “most” representation? What do we expect out of our representatives? Should they mirror their constituents’ views (be delegates) or be allowed leeway to exercise their own judgment (trustees)?
Parliamentary (e.g. India and Australia): citizens exercise political power by electing representatives and sending them to the parliament.

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So, democracy is the political system that endorses the rule of the law and grants the voting citizenry, the power to alter the law and structure of the government to make all the decisions ok. Either directly or through the representative and to participate in elections and express their decisions. So, when you talk about democracy; that means, the democracy India is the world’s largest democracy right, we have a lot of you know people who exercise their votes. That means the votes are nothing, but the power to change the government right, the change the policies.

So, when we talk about democracy we have direct democracy and we have representative democracy. Now, what is direct democracy? The people make the law and the policies themselves. Although this was there in the earlier days in the Roman Empire and all it was Greece and Roman Empire, it is still there in some places also today.

For example citizen petition places proposed law constitutional amendment on ballot people vote yes or no. And today also in Switzerland and in some states of the US, Florida and all they exercise this power. So, in the direct democracy the people directly are involved in making the policies. So, they say yes or no for example, should we go stay in business with some countries or not? Should we exercise, should abortion be there in this country or not?

So such kind of decisions will be taken by the people right through a ballot. The second is the representative democracy where every time may not be it is not possible for to

involve the people. So, what it is happening is we let people to make decisions for us trust, they will make decisions, we support right. So, trust is a very important factor when it comes to a representative democracy and if this trust is misutilized or exploited, then it is bad for that particular country, in India also it has happened.

So, we have been a representative democracy some of our representatives have exploited their power and situation and the people have suffered there has been lot of corruption, I would not mince my words it is very straight. So, they have done lot of corruption and the country's growth which could have been excellent has not been to that extent as it could have been.

So, what it says is we let people to make decisions trust they will make decisions we support, do they truly represent the citizens who will elect them? Which citizens get the most representation? What do we expect from our out of our representatives? So, these are the questions which are connected. Should they mirror their constituents views or be allowed to exercise their own judgment?

So, in a representative democracy the fundamental thing is that we are electing somebody helping in you know somebody is getting elected. And this person would represent our views in a let us say in the parliament for example.

So, you see in India it has a parliamentary system, citizens exercise political power and by electing the representatives and sending them to the parliament. And in this the head is the prime minister of this country right, when we talk about the parliament. So, this is something we talk about the types of democracy. So, today we will wind up here and we will continue from here in the next lecture.

So, thank you very much.