THE CULTURAL, POLITICAL AND LEGAL ENVIRONMENT OF INTERNATIONAL BUSINESS

by

Christopher T. Selvarajah

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C.T. Selvarajah

Abstract

A study of the elements of a domestic market and those of an international market may reveal many crucial differences, especially political, legal and cultural differences. For example, the "rules of the game" of business in the international market are diverse, changeable and often unclear. The international firm may have to content with different legal and ethical standards in different host countries. In this paper the parameters of the political, legal, and the cultural environment of international business will be considered. The paper also relates how political, legal, and cultural incidents or situations may become roadblocks to the smooth operation of business ventures in foreign countries. Misunderstandings and breakdown in communication often arise from differences in perception by executives who are not from the same cultural, legal and political background.

International investors need to know what elements in a foreign culture have the greatest influence over consumption patterns in general and particularly the consumption behaviour to their specific product. By reflecting on the language, religion, demography, climate, values and beliefs, education, labour, roles of women, family, ethnic groups and other similar elements, the international business person will be able to, not only participate in the international economy with a better perception of the situation, but also be able to cater for the needs of the international buyers.

INTRODUCTION

International business is not just an economic activity involving the exchange of goods and services. It is also a cultural as well as a economic phenomenon. There is a tendency for business organisations to be culture-bound. Many Australian and New Zealand companies are strongly inward looking. They are weary about stepping outside of the existing culture of their business. For example, one of the stated investment strategy objective of Coles-Myers is to develop new business in the "English speaking" world. On the other hand, the Japanese company Daimaru, has a philosophy of global expansion that transcends cultural spheres. To succeed in international business, one must break through this cultural barrier by acquiring a knowledge of the diverse cultural, legal and political constraints together with the economic aspects of the environments in which we wish to do business.
Business firms considering entry into a foreign market must first make the same determinations as they would in a domestic market. The primary consideration is the product. Without attractive features that will satisfy foreign customers or users in terms of quality, price, performance or efficiency, decisions taken in all other areas will be meaningless. The next major considerations are the degree of involvement and the length of commitment by the firm. Having decided on the degree and proposed duration of an investment, the firm should evaluate where the proposed foreign venture fits into their global marketing plan. They must make provisions for any variations in operating procedures required in the new market. Figure 1 illustrates some of the differences between the domestic and the international markets.

Figure 1: A comparison of different elements encountered in the domestic and the international environment,

<table>
<thead>
<tr>
<th>Domestic Environment</th>
<th>International Environment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Common business language</td>
<td>1. Multilingual</td>
</tr>
<tr>
<td>2. One nationality</td>
<td>2. Multinational</td>
</tr>
<tr>
<td>3. Common customs</td>
<td>3. Customs of a multicultural society</td>
</tr>
<tr>
<td>4. Single major religion</td>
<td>4. Diverse religious beliefs and practices</td>
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<td>5. Uniform political and legal culture</td>
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<td>7. Stable business environment</td>
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The price of success in international trading is an endless readiness to adapt to changes required of the firm by the demands of the international economy. The challenge is for multinational enterprises (MNE’s) to transcend blinders imposed by their home cultures. This is a formidable but essential task if operations in foreign cultures are to succeed. MNE executives stationed overseas have to coordinate and assist marketing programs as well as personnel in different countries. Therefore, they need to be sensitive to foreign cultures, politics and legal constraints and acquire
some understanding of them. This empathy is necessary, not only for personal relations, but even more so for understanding and assisting operations in foreign markets.

THE NATURE AND CONCEPT OF CULTURE

Many local firms in Australia and New Zealand have the potential of globalising their product, if not for their fear of stepping outside of their existing cultures. Disctronics, a small South Melbourne firm took the first step in 1986 and within 18 months had established successful manufacturing concerns in the UK, US and Europe. They are now an acknowledged leader in the production of quality disc records internationally.

Often the biggest barrier to international business is the cultural situation. Why is this so? Basically the answer lies in people taking culture for granted. Culture is a concept which everyone thinks they know but few can define. This is because culture is an intangible element and the parameter are not very clear. It is said to mean the total way of life of a society. Yet when we look at the way the literature is organised in most books on the environments of international business, we see the separation of the political, legal and the socio-economic environment from the cultural environment. Does this mean that the political-legal and the socio-economic conditions in a society are not the result or reflection of the society's total way of life. What do you think? Is this done for convenience of understanding issues that pertains to the environment? This judgment is left to you.

In the process of travelling in foreign lands, travellers come face-to-face with cultural differences - between what they are used to in their homeland and what they encounter in foreign countries. Culture being an abstract and an intangible element, few can truly define it. Though culture can be seen as a total way of life of a society, it rarely becomes an issue between Australia and New Zealand because of its close and similar pattern of economic, social and political development since the landing of Captain Cook. There may be some differences and one that may be dominant in New Zealand is the strong cultural contribution of the Maori and the Pacific Islanders to the overall New Zealand culture. Cultural manifests as social behaviour of communities, and unless we understand it, we may not be able to in marketing, identify the type of products and the forms of promotions that are culturally acceptable to people of diverse cultures.
The classic case in history of cultural apathy was the Indian Mutiny of 1857. The mutiny started due to the insensitiveness of the British when they ordered that future enlistment of Indians in the army was to carry with it an obligation overseas. Crossing the seas was forbidden under severe religious penalties to high-cast Hindus, who formed a large portion of the sepoy army. To this was added the blunder of ordering the issue of greased cartridges in which the fat of pigs and cows had been used. Pork is forbidden to the Muslims, and the cow is a sacred animal to the Hindus.

The above case is a lesson in history. Cultural environment and its social implications can seriously hamper the progress of success in international business if proper study and understanding of this factor is not undertaken prior to the commencement of international trade.

Apart from physical appearance we know that people are different because they may speak different languages, they may profess to have a religion different to what we generally believe, they may have laws and political systems quite different to ours. Their values and attitudes to issues on morality, ethics and everyday habits may be unacceptable to our way of life. They may be unaccustomed to our material culture and modern technology. The system of education may be different. Their social patterns may be unique and considered undesirable to our way of living. Are these differences, dimensions of the cultural environment? We believe they are if we accept the definition of Edward Taylor.

"Culture is the complex whole which includes knowledge, belief, art, morals, law, custom and any other capabilities and habits acquired by man as a member of society". (p.1)

The various facets of this ‘complex’ whole are interrelated in such a way that they operate as a system, that is, if a single aspect is changed it will affect the other parts and cause changes in the whole system.

This systems perspective of culture is important and the interrelated nature of culture should be understood. Cultural differences affect the way business is done, the type of products people buy and the forms of promotion which are acceptable. Hence the cultural environment can seriously hamper the progress or success of international business if prior study and understanding of this factor is not undertaken. In other words, it is imperative for foreign marketers to learn the intricacies of cultural differences from their own if they are to be effective in foreign markets.
Customs are outward appearance of culture. Customs are based on tradition, that is, when a group adopts a certain way or procedure, it becomes custom. Many customs in societies are lost in antiquity, but succeeding generations are taught to respect and accept the customs as a necessary fabric of the society. Customs can have their origins from, religion, politics, legal, social or any other cultural factors of a community. Do we question why the Westerners handshake hands, when the Indians and Thais clasp their hand in reverence, the Arabs bow while touching their forehead and then the chest with their right hand and the Japanese bow, when greeting people? Why is it impolite to receive or give anything with the left hand in many asian societies? We may find the answers to these habits and many more if we tried, but we do at most times take them as the done thing.

CULTURAL ENVIRONMENT: A SYSTEMS PERSPECTIVE

The cultural environment of international business consists of a number of major components. Some of these components are found in Figure 2. There may be other elements that could be considered important but the components described in the figure are seen as the major subsystem elements of the cultural system. All these cultural elements may be important to an MNE’s operation but some of them are likely to be more important than others. Therefore to understand culture, we have to know its contents, how the system operates and how its parts are interrelated.

Figure 2: The Cultural Environment on International Business
CROSS-CULTURAL COMMUNICATION

children who grow up in two or more ethnic background can become bi-cultural or multicultural without fear of the complexities of any one of them. However this may not be the case with older people. Misunderstandings and breakdown in communication resulting in operational problems, often arise from differences in perception by expatriate executives who work in a foreign environment. Cross-cultural communication assumes that, though this may not be totally possible for adults, as most are not exposed to foreign cultures and are encultured (culture bound) into their own culture, even they can learn about, adapt to and assimilate to a certain extent another culture.

The following pages describes how different cultures can be categorised within a high to low context depending on explicit or implicit behaviour generally of individuals in different countries,

High and Low context cultures

Every manager who works in a foreign environment confronts problems in adapting to the host country because differences in economic and political and cultural environments complicate every decision. However, among these the most troublesome often stems from largely hidden factors, that is, cultural factors. Executives of MNE's improve their management policies, and strategies only by understanding the differences between their own home environment and the foreign environment in which they must operate.

Distinct cultural differentials exist not just between Asia and Europe, but even among the different countries of Asia and Europe. Many countries, like Singapore and Malaysia where there are major ethnic groups (Malays, Chinese and Indians), also exhibit cultural diversity. This is definitely a problem to an expatriate who is accustom to an environment that exhibits cultural convergence.

Therefore creating business opportunities in one environment can be turned into failures in another by distinct societal differences. For example, when the internationally acclaimed Nissan Pajero was introduced into South America, it was not received with great enthusiasm, in all of the South American countries. The slogan "Have an affair with a Pajero" translated in a local dialect meant "Have an affair with a gay". On the other hand, recognising variations in the different societies will not automatically guarantee winning undertakings in that particular country. The importance of recognising, variations in practices due to differences in culture will lead to the development of more effective approaches in market penetration.
Studies have shown that cultures can be categorised within a high to low context, depending on the cultural reliance on verbal versus non-verbal cues for meaning and interpretation of a situation. This measure is only a comparative study to give a guideline to the understanding of personal relationships in broad categories of societies. Therefore when we compare one culture with another it may be either more or less, high or low context. Figure 3 shows a rough interpretation of the contextual relationship of different countries.

Figure 3: Contextual background of various countries


Low context cultures: In low context cultures, for example, Germany, personal relationships do not play such a vital role. In business, contracts carry more weight than on an agreement based on implied terms. Low context culture tend to exhibit the following characteristics:

- communication is written down as in contracts or is explicitly verbalised;
- less reliance on non-verbal cues for understanding factual meanings, except as support or reinforcer;
- speed is the essence of business negotiation;
. relationship is basically on a contractual basis;

. Change is essentially good, and fast at adapting to change,

High context culture: In high context countries, like Japan and the Middle-east countries, personal relationships are paramount in business dealings, Written contracts are often 'statements of future undertaking and will be realised depending on circumstances at that particular time. For example, the Pilbura project in north Western Australia had a written contract to supply natural gas to Japan. Japan has been reluctant to honor the multibillion dollar contract as it believes the circumstances have changed since signing the contract. The current situation is that there is a glut in the supply of natural gas world wide with depressed prices. The following characteristics are generally exhibited by high context culture:

. communication is implied in a physical context or internalised in the person;

. reliance on verbal cues for understanding factual meaning;

. deliberation and not speed is the essence of business negotiation;

. relationships are personal and based on trust;

. change is slow and change only if essential;

. seniority is respected and the meaning and understanding come from looking at the position of the person in the company or relationship,

There are many stories that one hears of western managers who have failed or did poorly in a foreign country, especially in Asia where they have tried to apply their encultured standards. It is not unusual in countries like India, Malaysia, Japan, and Korea to name a few, to lavishly entertain business persons before considering any contractual obligations. This process of 'understanding' and exchanging views can be lengthy and during this period there may not be any discussion about business in a direct sense. In India, for example, patience is a must in any negotiation, whether it is with a government official or a business person. Time sense in India is more fluid. Australian business persons are definitely at a disadvantage when they are unable to claim for entertainment expanses and other fringe benefits that are available to other international business persons in foreign countries as a tax allowance. Perhaps the Australian Government is encultured in western business values that are not applicable in the asian context.
CULTURE SHOCK

An understanding of culture shock and its impact on individuals and the family is important to any business person who considers a posting to a foreign country. Culture shock is stress related and can manifest either in physical or in psychological health of the person or both. Culture shock can cause stress, but culture shock in itself is not an illness. It is a process that most individuals go through when exposed to a different culture and environment. The tangible differences of the environment like, the appearance of people, the ecological environment, the material appearance of houses, the congestion in living space, the smell and taste of food, sounds, climate, transport services and the like can cause physical stress. On the other hand the intangible differences, attributable to culture, like the the attitude and value systems, religious beliefs, customary habits, inability to understand the language and non-verbal communication can contribute to psychological stress.

To overcome culture shock or to reduce the prolonged effect, many expatriates avoid contact with foreign culture and its surroundings unless absolutely necessary. Most of the time is spent with their own country persons and there is very little social contact with the host country’s people. This attitude can be very detrimental to the company in the long run, apart from having wasted an opportunity to learn about a different culture and some aspects of the complexities of the global world.

To avoid posting people on foreign assignments who may experience extreme culture shock, the company should set up procedures to screen individuals. It may not be possible to identify encultured individuals and the effect the foreign culture may have on them, however it is possible to reduce the effect by preparing them well beforehand for the assignment. It is also possible to avoid posting people who are known to be unstable or have serious problems with alcohol, drug abuse, unhappy marriage, and so on. For example, avoid posting a person with a high preference for alcohol to a strict Islamic country.
The following are some of the recognisable stages of culture shock that a person may go through when the person goes to live in a different culture:

**Stage 1:** There is certain amount of excitement and keenness to absorb the uniqueness of the culture and environment.

**Stage 2:** The excitement and keenness turns to frustration when the absorption of the uniqueness of the culture and environment is in direct conflict with the person’s own cultural heritage.

**Stage 3:** Frustration leads to resentment and avoidance of the culture.

Stage 3 is the critical point. At this stage, the person has virtually three options; either quit, seek the comforts of home culture among one’s own country persons or try again and persevere to understand and cope with the new culture shock process.

The cultural shock process can repeat a number of times, before the person feels relatively comfortable and competent in the new environment. Persons who have sought the comforts of their own home culture in the foreign environment may exhibit either negative feelings towards the host nationals or indifference.

In the following pages some of the cultural differences that may be considered as obstacles to the smooth operation of business in the international environment are considered. In particular we will look at religion, language, ethnic mixture, literacy, customs, body language (non-verbal communication) and class structure.

**RELIGION**

In a Muslim society, religion is considered not just as one aspect of life but it encompasses all things. Most countries with predominantly Muslim population have entrenched Islam as the official religion. The leaders of government, business and communities in Islamic countries approach Islam as an all-embarrassing, grand system containing its own political, legal, economic, technological, social and cultural subsystems. However, in countries where there is a presence of large minority ethnic groups, like Malaysia for example, Islamic laws and laws based on the English judicial system are found to operate side by side. Islamic laws are only for the Muslim population while the non-Muslim population of Malaysia come under the jurisdiction of the English legal system as found in Malaysia. An example will illustrate the uniqueness of this situation. When a Muslim woman and a non-Muslim man or vice versa are found in close approximately, the Muslim person can be charged in the Islamic Courts while the non-Muslim person goes free without
any conviction of a legal breach. Therefore in a single country morality can be based on the faith one professes to have.

When trading with Islamic nations, one should respect Islamic holidays, which include major holy days. Long weekends as in Australia and New Zealand are unusual in the Islamic, or for that matter in most Asian countries. In these countries not all holy days are holidays either. For example during the month of Ramadan (Islamic holy month when Muslims observe day–time fasting) and the fifteen days after Chinese New Year are slow periods. In 1985, a large delegation of educators from a Melbourne education institution found themselves in the midst of Chinese New Year celebrations when they arrived in Hong Kong to promote their education export program. They returned soon after arrival, since it would have costed them too much to stay till 'Chap Goh Mei', the fifteenth day (last day) of the new year.

Morality is tied to religious beliefs and customs as illustrated above. It is not unusual for a Muslim to have four wives, all at the same time. Muslims are also prohibited from consuming alcohol. In Saudi Arabia, the expatriate population are allowed consumption of alcohol in restricted areas away from the local population. It is also illegal for Muslims to gamble. In Indonesia and Malaysia where there is a greater desire for liberalisation, it is only illegal for a Muslim to consume alcohol or to exhibit anti-Islamic habits in public.

LANGUAGE and UNDERSTANDING

Knowing how to speak the same language as the nationals in a desired foreign country is important for establishing a communication channel. However effective communication depends on understanding the metaphysical as well as the literal meaning of the language. There are clear differences which exists between Westerners and Orientals in language and its interpretation of its meaning, for example, the Chinese, Japanese, and Korean manner of receiving and understanding reality. To a Westerner a problem can be conceptualised in a logical sequential set of connections based on abstract terms to express understanding and explanation. The Chinese, Japanese, and Korean languages are not capable of expressing abstract concepts. The oriental thinking is characterised by emphasis on the concrete or on the particular rather than on the universals. Practicality and seeking reconciliation, harmony and balance; the Yin and the Yan concept is a central force. The oriental perception suggests that a unique order presides over all life creating universal harmony. This is in contradiction to the western concept of rationalism and individualism.
The spoken and the written languages may also be different in many societies. This is very true in the Indian, Malay and the Indonesian languages. There are separate sets of words that may be spoken but never used in a written document. Also for example, in the Tamil language, language of South India, the level and standard of commonly spoken tamil is quite different to the official stage tamil.

Though Language is necessary for communication, what is not so obvious is that some degree of common behaviour and way of thinking are necessary. In cross-cultural communication language is only one part, though an important one. The way it is expressed, and how the language expresses the attitudes, beliefs etc. are just as important.

ETHNIC COMPOSITION

In a foreign environment it is important that a 'blanket' cover to the understanding of culture of a particular country is not given. For example to understand an Indonesian individual and to know his basic character it is essential that one knows his ethnic origin. In Indonesia for example, it is generally accepted that the Javanese are refined, cultured in speech and manner and avoid open confrontation with others. They are able to hide their emotions and feelings. On the other hand, the inhabitants of northern Sumatran, the Batak people are generally thought to be uninhibited and forthright in voicing opinions, People from Madura and Ujung Pandang are considered to be high tempered and quick to react to insults or threats.

In 1988 the author on a visit to India had the opportunity of talking to an American student who was researching for a Phd. in the Gandhian philosophy of non-violence. His impression of India was that the concept of non-violence was embodied in the south Indians more so than the north Indians. It is also generally accepted in India that the south Indians are more docile and reserved than their northern counterpart.

The characteristics mentioned above will vary from individual to individual and ethnic group to ethnic group. Overlaying these cultural characteristics in the individuals of a particular country may be the influence of contact with western living and modern standards and habits.

In establishing viable trading relationships with a foreign country one should attempt to understand the ethnic background and also the level of modernisation of the people with whom successful business dealings are to be established.
LITERACY

At the turn of the century, the British imported labour from India, China and Sri Lanka (Ceylon as it was then) to work the plantations, the tin mines and build the transportation network to service the Malayan economy. The Sri Lankan’s and the Malayalee’s from the state of Kerala in India were specially brought in to supervise the labour force because of their higher literacy. Therefore at any point in time we may be able to observe differences in literacy rate among ethnic groups in a country. Also we may be able to observe predominance of a particular ethnic or sex group in professions. In Malaysia, for example the legal and medical professions are dominated by Indians and Sri Lankans (The Indian and Sri Lankan population in Malaysia is 11% out of 16 million people). In Australia and New Zealand, there are more women than men in clerical, secretarial and the teaching professions. In India, women out number men in the medical profession.

Many MNE’s may select countries to base their manufacturing concerns because of the availability of a literate workforce. Literate workforce could mean less in training cost and easier for the expatriate managers to communicate and to be understood.

CUSTOMS

Most societies are controlled by their customs which determines the acceptable social behaviour. Adat (customs) governs the actions and behaviour of each and every Malay and Indonesian, Adat can vary from one region to another within the same country but it is strictly observed by the members of that region, To a Malay or an Indonesian who observes a custom but does not know why, he calls it adat and there is no need for an explanation. Adat includes, ceremonies and duties for the dead, ownership of land, profit making, familial relationships, marriage customs, the way guests will be treated, body language and so on, These customs are strictly observed and foreign business persons should understand and not transgress them.

Adat also defines class structures and leadership. In Sumatra, for example, there are two different structures based on sex. The Minangkabau of central Sumatra are matrilineal society – power and wealth are passed down through the female line. The Batak’s of north Sumatra are a patrilineal society, with men having all rights. The Minangkabaus who have settled in large numbers in Malaysia have taken their customs along with them and practice it strictly.
The above illustrations are only an example of the diverse customs and practices in the international environment. It is therefore important that the foreigner understands the importance of customs and its special role in uniting communities. Customs and practices of diverse groups in a country can also be destructive, if unity is not sought. Indonesia found the answer in Pancasila (five tenets) and Malaysia in the Rukunegara (pillars of society). Both the Pancasila and the Rukunegara are principles based on social cohesion, for the purpose of unifying the country, which has a divergence of culture. The Pancasila was developed by the late President Sukarno prior to the declaration of independence in 1947, and it set out five basic ideals for the new republic to follow. These five criteria were developed after careful analysis of ancient customs and traditions of the country and considerations for uniting the future of the country. The five principles are:

Belief in God: This is the keystone to the Pancasila. It decreed total religious freedom should exist and so attempted to remove the possibility of religious persecution from the new nation.

National Identity: National identity was to be established through the commonality of the Pancasila. This would be reinforced through a common language (Bahasa Indonesia), a common flag and a common national anthem. These common elements were to assist the development of a national spirit which will be reinforced through common tasks (eg. education, sports etc.)

Social Justice: This stated that all persons must be equal in such things as opportunity, in the eyes of the law, and also that no one should be deprived of their needs, whether they are physical or mental.

Humanitarianism: The philosophy of humanitarianism existed within the adat. This preserved the local customs, traditions as unwritten laws, The pancasila was to be supreme when there are conflicts between local customs and national interest.

Democracy: This principle looked to the future and strived to recognise the need for all people to have a say in the running of the new republic.

It can be argued that not all criteria of the Pancasila have been equally applied since Merdeka (independence) when viewed from the outside. Despite this the ideals of the Pancasila have influenced Indonesia’s changes over the past 43 years.

Malaysia likewise adopted the Rukunegara as an effort to unite the people after the racial riots of May 13 1969. It too after much deliberation decided that it needed a charter to create national unity and a culture for the nation.
In Australia and in New Zealand, the population is tending to become more and more multi-racial. In Australia the Ministry for Ethnic Affairs was established in 1973 and recently the concept of 'Multiculturalism' has surfaced as a policy of the current Labour Government. What are the implications of these moves? Perhaps Australia, too believes that there has to be an official government directive for creating a "united" Australia.

THE POLITICAL AND LEGAL ENVIRONMENT OF INTERNATIONAL BUSINESS

The discussion so far in this paper has been on the cultural aspects of the international environment. This section does not address the issue of whether the political and legal dimensions of international business is part of the cultural environment or whether it stands alone. There is such a thing as political culture, which then suggest that politics and culture are either related or that politics is a part of culture. Perhaps instead of an academic debate on the current state of the art of the place of political environment in international business, it may be far more valuable to consider the relationship of politics and law to culture and perhaps the economic environment and how they influence decisions of international business persons.

Culture has been establish as the foundation on which the behaviour of a society can be ascertained. It then determines the way in which the members of a society behave and conform to a set of unwritten rules. Political philosophy of a society must then also be related to the social and cultural behaviour of its members. The question now is whether a political philosophy of a society can influence changes in the cultural and social values as well as vice versa.

The answer to this lies in history. The cultural and social values of Imperial Russia, changed over the years after the Russian Revolution of 1917 and similarly of Imperial China after the Chinese Revolution of 1947. The cultural and social values of these two countries are definitely different now compared to pre-revolution. One may argue that the desirable socio-cultural changes that may have taken place in these two countries in the normal course of cultural evolution was suppressed by oppressive regimes and that the revolution was only a catalyst.

It can be said with some justification that revolutions are not the normal pattern of cultural evolution except in societies were their values attitudes and social behaviours are suppressed. Therefore in most democratic countries where there is freedom of expression, assembly and opportunities, the political climate and the political institutions reflect the aspirations and expectations of the people.
The implication for the international marketer of what we have related so far is that, the cultural and social harmony of a society need not always be the key measure of a stable environment. What happened in Iran in 1979 is a lesson that no international person can forget. A study of the political environment of Iran pre-revolution would have, on paper shown a stable and liberal western type government, an ancient monarchy, and an obedient civil service. The cultural scanning of the environment would have shown a cultural and social system that had its roots in ancient Persia. A very stable environment with abundance in oil was indeed a strategic and a useful ally for many industrialised nations of the west. The revolt of the Islamic clergy was a surprise to the rest of the world and changed all of this.

**POLITICAL SYSTEMS OF THE INTERNATIONAL ECONOMY**

It is indeed a dangerous and a futile exercise to categorise nations according to a set of political guidelines. There are as many different political systems as there are countries. There may be common features or characteristics that may group political entities with these similarities as countries professing to have a certain political ideology. The two major systems of the world that can be grouped in this manner are the democratic systems and the socialist systems.

**Democratic systems**

It would be improper to group all countries whose economies are based on free trade or having elected governments, as countries with similar democratic principles and observing them to the same degree. For example, countries like Australia, New Zealand, Malaysia, India, and Singapore may be grouped as countries that have the Westminster type of parliamentary system. Obviously there are differences in all of them. For example, the Australian Federal Government and all Australian states except for Queensland have bicameral parliamentary systems (two parliamentary chambers eg. the Senate and the House of Representatives) while New Zealand and Queensland have unicameral parliamentary systems (a single parliamentary chamber, that is, only the House of Representatives). Malaysia professes to have a ‘guided’
parliamentary democracy. Among the reasons why countries like Malaysia and Indonesia have chosen the path of the guided democracy concept, two of the following are considered important:

1. Recourse to the general public for mandate is not guaranteed for all major political decisions because of the lack of, and the sophistication of the economy.

2. Equitable participation of all sectors of the population in the development of the economy is not possible or desirable in the short term. The reasons for this seemingly unfair distribution of justice is often based on the desire to redress improper development of the different sectors of the national economy. In other words equity participation is for a latter date when imbalances in such matters as the distribution of wealth, education, occupation, health care has been redressed.

Singapore is considered by many observers as a totalitarian government with all political power vested in a parliamentary system where the ruling party has been in power for the last 30 years with Mr Lee Quan Yew as the Primer during all that time. It may be that the media was unfair to Mr Lee in the early years of nationhood. From a tyrant he is now acknowledged as an able statesman. The media now fondly refer’s to him as the ‘benevolent dictator’.

India is often mentioned as the most democratic country. Not many democratic countries are tolerant to all political leanings. Even the USA has a communist phobia. Australia and New Zealand have isolated effectively the communist parties from the main stream of political power. In India the communist operate within the democratic system and at most times are the ruling parties in at least one, often two states in India. In jest, an Indian autotaxi driver said that India is too democratic for its own good. Everyone wants to have a say and nothing gets done because either everyone is listening or talking and there is no doing. As an observer from the outside perhaps there is some wisdom in his statement.

In order to give a broader view to the term democracy, the following specifications are essentials

- The nationals of a state either directly or indirectly elect their rulers based on majority rule.

- The right to rule is decided through periodic public mandate.

- Basic rights of freedom of movement, speech, and participation are observed.
The specifications identified above can be applied to a spectrum of different democratic systems. At one end of the spectrum we have elected governments that are basically totalitarian. South Korea certainly has a totalitarian political system but champions free enterprise and trade. Likewise, Thailand has a stable and a successful economy based on the concept of free enterprise, and to all extent and purpose, exhibits a democratic system. However, military dictatorships in Thailand are not uncommon. On the other extreme end of the spectrum we have countries like Australia and New Zealand where governments are elected and the ‘real’ power is with the people.

A democratic parliamentary system has the potential to elect any party to power whatever the political philosophy may be, This is demonstrated in India where the states of Kerala and West Bengal are often in the hands of communist parties.

Socialist systems

Like the democratic parliamentary systems the socialist systems also have their differences, The distinction between communist and non-communist is important in international business because of the ramification it has on global trading patterns. Communist nations by virtue of their socialist philosophy are centrally planned economies. In the field of international business, trade is more or less restricted to trading within either the communist or non-communist sphere of influence.

The restrictions imposed on intertrade between the two spheres of control based on political ideology are basically due to distrust of each other and to decrease the others global influence. The democratic society believe that the communist systems have a basic philosophy of taking over the rest of the world and making it communist, while the communist believe that the capitalist society that the democratic systems represents are for the rich and the minority at the expanse of the greater population, These ideological differences have hampered the growth of global trade and have restricted it to either side of the political ‘camps’.

International investors hesitate to commit resources to locations where they may have little or no control over aspects of business operations. Frequently ownership or investment in a communist country is discouraged or even prohibited. Until recently direct investment was virtually nonexistent because of these restrictions, There are some changes taking place on a global scale with both Soviet Russia and China liberalising on their 'closed doors' policies.
The consequences of the isolationist policies of many communist countries, especially the Soviet bloc and until recently China, has been that the trade figures are guesstimates only. Although the communist world comprises approximately one-third of the world population and one in five human being is a Chinese, the approximate total world trade between communist and non-communist is less than 6% and approximately 10% of world trade is generated from centrally planned economies.

The communist countries (excluding China) regional organisation is the Council for Mutual Economic Assistance (CMEA or COMECON) which was formed in 1949 under the leadership of the Soviet Union. The purpose of this Council was to provide economic assistance to the war-torn communist countries of eastern Europe, but also in part as retaliation against the establishment of the Organisation for European Economic Cooperation (OECD), formed in 1948. All the members of OECD countries are non-communist.

COMECON has made efforts to bring members under one centralised plan to coordinate long-term production goals. This effort is being frustrated by the divergent views of the members and their reluctance to become mere suppliers of raw materials for the Soviet Union. The intrazonal trade within the Comecon is about 60%. This however is not purely due to any successful intrazonal trade negotiations but due to the strong control by the Soviet Union and the lack of currency convertibility.

Another serious hindrance to international business is the poor relationship between China and the Soviet Union. Though the severing of relationship began as a border dispute it was ideological differences that has virtually destroyed all relations between the two. One major difference was the approach taken by the countries towards economic development. China took the path of agriculture whilst the Soviet Union was more interested in industrialisation as the major thrust in economic development.

The easing of US and other western democratic nation's diplomatic ties with many communist countries, notably the Soviet Union and Vietnam, and the reopening of China to international trade have increased prospects for better global trade.

Legal systems

In every legal system, the law of the land functions within the particular social and cultural context of the country and cannot be treated separately. For example, to understand the role of law in Japanese business their view of litigation has to be understood.
The annual rate of litigation trials in Japan is significantly lower than that of industrialised countries. The US is said to have ten times as many litigation, the UK three times as many and West Germany twice as many on a comparable population. This remarkable lack of litigation can be traced to the social and cultural factors that have historically led the Japanese to prefer informal means of dispute settlement. It is true to say that the Japanese are not renowned for their frequent court appearance. This is reflected by the very small number of lawyers in the country.

The legal framework of any country reflects the social values of the country. For example, in criminal law, the Indian Penal Code was adopted by the British for her colonies like Malaya, Singapore and Burma because of the similar social and cultural values of the inhabitants. There are occasions when the judicial processes have been transplanted, like trial by jury or trial by judge from one country to another. The British system of justice and its mechanics are now part of many of its former colonies. After World War II, Japan cut its ties with feudal laws and adopted a legal system based on the democracies of western Europe and the United States. The system comprised of a various mixture of civilian and common law components. For example, the criminal procedure was heavily influenced by US constitutional principles, the criminal law was modelled closely on nineteenth century German concepts, and the Japanese political system is generally speaking, a Westminster style known as the Diet.

The Japanese social system values harmony, compromise and stable interpersonal relationships as of the utmost importance, and there is strong belief that open conflict should not occur. Antithesis to the Japanese is the western values based on the egalitarian ethos. The emphasis is one of individual worth and equality with little or no emphasis on communality. The legal systems of the west definitely reflects this philosophy, especially when we consider the litigation process.

REVIEW

The understanding and adapting to the cultural, political and legal environment is important in any international operation or transaction. Changing perceptions and adapting to a foreign environment may cause problems and lead to culture shock. If the international business person is encultured and exhibits attitudes that may either offend or show insensitiveness to foreign culture and social customs the consequences may be grave to the company and to the person. The choice and screening of persons for an international assignment is very important.
The dimensions of the cultural environment may well be the single most important factor to a foreign business person in the preparations of plans and strategies. MNE’s may be able to control the product offered to a market - its promotion, price, and distribution methods, but may not have any control over the cultural environment within which these plans must be implemented. Therefore foreign business persons must attempt to anticipate the eventual effect of uncontrollable elements and the planning of marketing strategies should take account of this. The success of business in the international environment basically depends on how the individuals of the company are able to relate to the environment. Being comfortable and adapting to the differences are essential.

In this paper there has been a conscious effort to emphasise the cultural, social, political, and legal environment of Australia’s and New Zealand’s immediate neighbours. The west pacific countries are growing in importance and are predicted to become major trading partners for Australia and New Zealands. Hopefully this shift in emphasis will also counter balance the lopsidedness of current literature heavily biased towards the European and the American environments.
REFERENCES


