



## The International Legal Environment

### Educational Objectives

After learning the content of this assignment, you should be able to:

1. Describe each of the methods a company can use to engage in international business, including key issues involved in each method:
  - Foreign trade
  - Foreign contractual relationships
  - Foreign direct investments
2. Describe the characteristics of these predominant legal systems:
  - Civil law (including Roman-French, German, and Scandinavian)
  - Common law
  - East Asian
  - Hindu
  - Islamic
  - Socialist-Communist
3. Distinguish between public international law and private international law.
4. Summarize the roles and/or responsibilities of these multinational organizations and agreements in influencing the direction and development of world business:
  - United Nations
  - World Trade Organization
  - The North American Free Trade Agreement
  - European Union
  - Association of Southeast Asian Nations



## Educational Objectives, continued

- Asia-Pacific Economic Cooperation
- 5. Explain how a U.S. company's international business can be affected by these U.S. laws:
  - Internal Revenue Code
  - Foreign Corrupt Practices Act
  - Patriot Act
- 6. Explain how each of the following financial considerations can affect a company engaged in international business:
  - Currency and foreign exchange markets
  - Expropriation
  - Accounting standards
  - Taxation
  - Tax havens
- 7. Describe these factors affecting companies involved in international business:
  - Language
  - Culture
  - Time differences
  - Distance and space
  - Types of government

## Outline

- ▶ **Methods of Engaging in International Business**
  - A. Foreign Trade
    1. Export Controls
    2. Import Controls
    3. International Sales Contracts
    4. Selling Terms
    5. Methods of Payment
  - B. Foreign Contractual Relationships
    1. Product Licensing
    2. Franchising
  - C. Foreign Direct Investment
    1. Subsidiaries
    2. Joint Ventures
- ▶ **Legal Systems**
  - A. Civil Law
    1. Roman-French Law
    2. German Law
    3. Scandinavian Law
  - B. Common Law
  - C. East Asian Law
  - D. Hindu Law
  - E. Islamic Law
  - F. Socialist-Communist Law
- ▶ **International Law**
  - A. Public International Law
  - B. Private International Law
- ▶ **Multinational Organizations and Agreements**
  - A. United Nations (UN)
    1. General Assembly
    2. Security Council
    3. Economic and Social Council
    4. International Court of Justice
    5. Secretariat
  - B. World Trade Organization (WTO)
  - C. North American Free Trade Agreement (NAFTA)
  - D. European Union (EU)
  - E. Association of Southeast Asian Nations (ASEAN)
  - F. Asia-Pacific Economic Cooperation (APEC)
- ▶ **United States Laws Affecting International Business**
  - A. Tax Code
  - B. Foreign Corrupt Practices Act
  - C. The Patriot Act
- ▶ **Financial Considerations in International Business**
  - A. Currency and Foreign Exchange Markets
    1. Supply and Demand
    2. International Assets
  - B. Expropriation
  - C. Accounting Standards
  - D. Taxation
  - E. Tax Havens
    1. Types of Corporate Tax Structures
    2. Information Privacy
- ▶ **Non-Legal Factors Affecting International Business**
  - A. Language
  - B. Culture
  - C. Time Differences
  - D. Distance and Space
  - E. Types of Government



If you are not sure that you have the current materials for the exam you plan to take, please contact The Institutes.



For each assignment, you should define or describe each of the Key Words and Phrases and answer each of the Review and Application Questions.

## Educational Objective 1

Describe each of the methods a company can use to engage in international business, including key issues involved in each method:

- Foreign trade
- Foreign contractual relationships
- Foreign direct investments

## Key Word or Phrase

Business risk

## Review Questions

- 1-1. Describe the key issues related to regulatory compliance and sales contracts for organizations involved in foreign trade.
- 1-2. Explain how insurers participating in worldwide insurance markets can insure global risks without violating United States sanctions laws.



- 1-3. Explain how licensing is used to regulate goods imported into the U.S.
  
  
  
  
  
  
  
  
  
  
- 1-4. Explain how the United Nations Convention of Contracts for the International Sale of Goods (CISG) facilitates international trade.
  
  
  
  
  
  
  
  
  
  
- 1-5. Distinguish between the open account and letter of credit methods of payment.
  
  
  
  
  
  
  
  
  
  
- 1-6. Explain how a domestic firm considering granting a product license to a foreign firm can protect its assets.
  
  
  
  
  
  
  
  
  
  
- 1-7. Identify an important aspect of franchising as a method of conducting international business.



## Educational Objective 2

Describe the characteristics of these predominant legal systems:

- Civil law (including Roman-French, German, and Scandinavian)
- Common law
- East Asian
- Hindu
- Islamic
- Socialist-Communist

## Review Questions

2-1. Identify the two major legal systems.

2-2. What are the three stages of a typical civil-law case?

2-3. Describe the common-law legal system.



- 2-4. Explain why private-sector business legal principles, such as contracts and bankruptcy, are of little use within the socialist legal system.

### **Educational Objective 3**

**Distinguish between public international law and private international law.**

### **Key Words and Phrases**

Public international law

Private international law

### **Review Questions**

- 3-1. Contrast public and private international law.



3-2. Define comity, as it relates to private international law.

3-3. Explain the three areas of jurisdiction that courts in international cases must determine before presiding over a particular case.

## Educational Objective 4

**Summarize the roles and/or responsibilities of these multinational organizations and agreements in influencing the direction and development of world business:**

- **United Nations**
- **World Trade Organization**
- **The North American Free Trade Agreement**
- **European Union**
- **Association of Southeast Asian Nations**
- **Asia-Pacific Economic Cooperation**

## Key Words and Phrases

Dumping

Common Market







4-5. Describe the two purposes of the Association of Southeast Asian Nations (ASEAN).

4-6. Describe the purpose of Asia-Pacific Economic Cooperation (APEC).

## **Educational Objective 5**

**Explain how a U.S. company's international business can be affected by these U.S. laws:**

- **Internal Revenue Code**
- **Foreign Corrupt Practices Act**
- **Patriot Act**

## **Review Questions**

5-1. What is repatriation of earnings?



5-2. Describe the characteristics of the Foreign Corrupt Practices Act (FCPA).

5-3. Explain how the following sections of the Patriot Act affect businesses:

a. Section 215

b. Subtitle B (Sections 351-366)

c. Section 352



## Educational Objective 6

Explain how each of the following financial considerations can affect a company engaged in international business:

- **Currency and foreign exchange markets**
- **Expropriation**
- **Accounting standards**
- **Taxation**
- **Tax havens**

## Key Words and Phrases

Pegged currency

Transfer price

Tax haven

Bearer share

Registered share



## Review Questions

- 6-1. Identify situations in which currency can lose value, relative to other currencies.
- 6-2. What are the financial considerations in the international insurance market?
- 6-3. Contrast expropriation and eminent domain.
- 6-4. Identify the different approaches to taxing a corporation's earnings in the context of international commerce.



6-5. What should a business consider when establishing a subsidiary in an offshore tax haven?

6-6. Identify the four types of corporate tax structures that a tax haven country may have.

## Educational Objective 7

**Describe these factors affecting companies involved in international business:**

- **Language**
- **Culture**
- **Time differences**
- **Distance and space**
- **Types of government**

## Key Words and Phrases

Democratic rule

Nonparty democracy

Parliamentary democracy



Presidential democracy

Multiparty democracy

Junta

Martial law

Monarchy

Absolute monarchy

Constitutional monarchy

Single-party government

Theocratic government

Transitional government



## Review Questions

7-1. Identify the challenges facing companies engaging in international business.

7-2. Describe the four forms of modern democratic government.

7-3. Contrast absolute monarchy and constitutional monarchy.

## Application Question

7-4. FIC, a United States corporation, is investigating doing business in Peru and Liberia. Identify the challenges FIC might face in each of these countries.

