

Answers to Assignment 10 Questions

NOTE: These answers are provided to give students a basic understanding of acceptable types of responses. They often are not the only valid answers and are not intended to provide an exhaustive response to the questions.

Educational Objective 1

- 1-1. Export and import controls imposed by the United States government are important regulatory concerns, while international sales contract concerns include terms of sale and methods of payment.
- 1-2. Insurers participating in worldwide insurance markets through global insurance policies can insure global risks without violating U.S. sanctions law by inserting policy language that explicitly excludes risks violating U.S. sanctions laws.
- 1-3. By requiring a license to conduct business, the government ensures that goods will be imported into the country on more favorable terms than if domestic companies competed for the goods for use or resale.
- 1-4. CISG facilitates international trade by providing rules for writing international contracts and for the transfer of goods under the contracts.
- 1-5. An open account is a rotating charge account under which the buyer settles the account at determined intervals. With a letter of credit, the buyer establishes credit with a local bank, which then contacts a bank in the seller's country, establishing a credit line in favor of the seller. The seller then receives a letter of credit in confirmation of the credit.
- 1-6. Before entering into any agreement, the domestic company assesses the trustworthiness of the foreign company it is dealing with and the foreign company's ability to meet the financial requirements of the licensing agreement.
- 1-7. An important aspect of franchising is the control over the use of the company's name and the quality of the product or service.

Educational Objective 2

- 2-1. The two major legal systems in the majority of countries are the civil-law system and the common-law system.
- 2-2. The three stages of a typical civil-law case are these:
 - The preliminary stage
 - The evidence stage
 - The decision stage
- 2-3. In the common-law legal system, a judge interprets the facts of a case, examines precedents, and makes a decision based on the facts in the current case.



- 2-4. Private-sector business legal principles, such as contracts, commercial law, torts, property, and bankruptcy, are of little use within a socialist system. Public law replaces private-sector legal principles. For example, because the government owns all property and production, all contract law is public. In a socialist country, the socialist political party controls and influences the entire legal system, including the courts. All decisions from the courts, although independent in nature, are subject to party control or revision.

Educational Objective 3

- 3-1. Public international law concerns the interrelation of nation states and is governed by treaties and other international agreements, while private international law involves disputes between individuals or corporations in different countries.
- 3-2. Comity is the practice by which one country recognizes, within its own territory or in its courts, another country's institutions.
- 3-3. Courts in international cases must determine whether they have jurisdiction over the person or entity (*in personam* jurisdiction) and over the subject matter (*in res* jurisdiction) and if they have jurisdiction to render the particular judgment in the case.

Educational Objective 4

- 4-1. The UN's purposes are these:
- To maintain international peace and security
 - To develop friendly relations among nations
 - To cooperate in solving international economic, social, cultural, and humanitarian problems
 - To promote respect for human rights and fundamental freedoms
 - To be a center for harmonizing the actions of nations in attaining these goals
- 4-2. The three primary WTO agreements are these:
- The General Agreement on Tariffs and Trade (GATT)
 - The General Agreement on Trade in Services (GATS)
 - The Agreement on Trade-related Aspects of Intellectual Property Rights (TRIPS Agreement)
- 4-3. NAFTA applies to Canada, Mexico, and the United States.
- 4-4. NAFTA eliminated nearly all tariffs between the U.S. and Canada by 1998 and nearly all tariffs between the U.S. and Mexico by 2008.
- 4-5. ASEAN's purposes are twofold:
- Accelerating the economic growth, social progress, and cultural development of the region through joint endeavors in the spirit of equality and partnership to strengthen the foundation for a prosperous and peaceful community of Southeast Asian nations
 - Promoting regional peace and stability through respect for justice and the rule of law in the relationship among countries in the region and adherence to the principles of the UN Charter



- 4-6. APEC has attempted to facilitate economic growth, cooperation, trade, and investment in the Asia-Pacific region and is the only intergovernmental body that operates on the basis of nonbinding commitments, open dialogue, and equal respect for the views of all participant countries.

Educational Objective 5

- 5-1. Repatriation of earnings is the process by which a U.S. parent company moves earnings from its foreign-based affiliates back to the U.S. to the parent company or its stockholders.
- 5-2. In general, the FCPA prohibits payments to foreign officials to obtain or keep business. Congress enacted the FCPA to stop these acts and to restore public confidence in the integrity of the U.S. business system. The FCPA also requires companies who list their securities in the U.S. to meet certain accounting provisions.
- 5-3. The selected sections of the Patriot Act affect businesses in these ways:
- a. Section 215 revises the Foreign Intelligence Surveillance Act (FISA) to allow the FBI to subpoena all business records for foreign intelligence and international terrorism investigations.
 - b. Subtitle B (Sections 351-366) amends the banking and finance laws to permit the government access to information from banks that might relate to terrorism. Additionally, Section 351 allows the Secretary of the Treasury to impose sanctions, including cutting off all dealings with U.S. financial institutions or banks in foreign nations whose bank secrecy laws deny information to U.S. agencies.
 - c. Section 352 prohibits financial institutions from knowingly becoming involved in unlawful financial transactions with suspected terrorists and requires that companies establish and maintain written, anti-money-laundering programs that, at a minimum, do the following: (1) incorporate internal policies, procedures, and controls based on the company's assessment of its money-laundering risks; (2) designate a compliance officer; and (3) establish ongoing employee-training programs as well as independent audit functions to test programs.

Educational Objective 6

- 6-1. A currency tends to lose value, relative to other currencies, if that country's inflation level is relatively high, if the country's level of output is expected to decline, or if a country is troubled by political uncertainty.
- 6-2. Financial considerations in the international insurance market include these:
- Currency and foreign exchange markets
 - Expropriation
 - Accounting issues
 - Taxation issues
 - Tax havens
- 6-3. Expropriation is a government's lawful acquisition of property without the owner's consent, and often without fair compensation. The government acquires property rights and the owner loses them. Eminent domain is a government's power to confiscate private property for public use. The U.S. Constitution requires just compensation for property taken by eminent domain.



- 6-4. The different approaches to taxing a corporation's earnings in the context of international commerce are these:
- Territorial tax systems
 - Worldwide tax system
 - Border tax adjustments
 - Earnings stripping
 - Inversion (or expatriation, or reincorporation)
- 6-5. A business should consider these factors when establishing a subsidiary in an offshore tax haven:
- The country's tax structure
 - The country's level of enforcement of its privacy laws
 - The country's language
 - The type of judicial system in the country
 - The country's political stability
 - The country's independence from the parent company's home country
 - The costs of establishing the new subsidiary in the country
- 6-6. A tax haven country may have one of these four types of corporate tax structures:
- Low or minimum taxes
 - No corporate taxes
 - No taxes on foreign income
 - Special tax concessions

Educational Objective 7

- 7-1. The challenges facing companies engaging in international business include the language barrier, cultural differences, time differences between countries, physical distance and space between countries, and government structure.
- 7-2. These are the four forms of modern democratic government:
- A nonparty democracy is a form of government in which elected representatives have no political party affiliation.
 - A parliamentary democracy is ruled by a prime minister and an elected parliament.
 - A presidential democracy is governed by a president directly elected by the citizens.
 - A multiparty democracy is a form of government in which representatives may be elected from several or many political parties.
- 7-3. In an absolute monarchy, the leader rules alone and selects advisers for assistance. In a constitutional monarchy, a parliament, or democratic legislative body, replaces absolute monarchical rule.



7-4. In Peru, FIC could face these challenges: language, culture, and physical distance and space. Time differences probably would not be a problem because Peru is in a similar time zone.

In Liberia, FIC could face these challenges: distance and space, culture, and time differences. The company should research what language problems might arise as well as the stability of the form of government.

