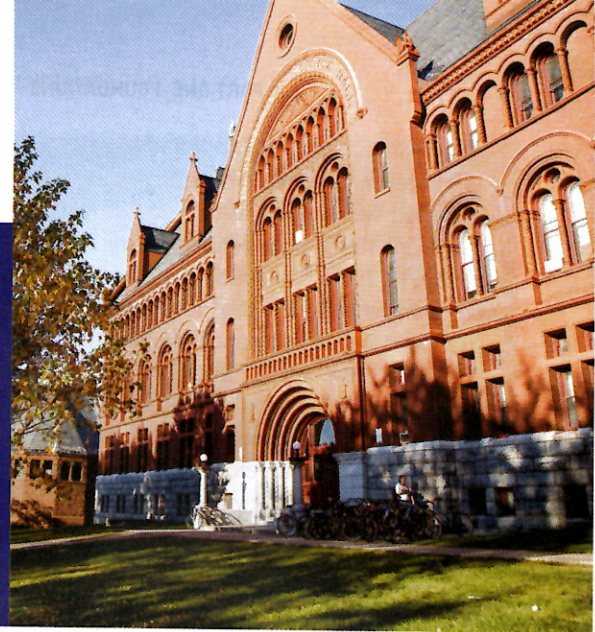


CHAPTER TWO

FORMAL INSTITUTIONS: POLITICAL, ECONOMIC AND LEGAL SYSTEMS



LEARNING OBJECTIVES

After studying this chapter, you should be able to

- 1 Explain the concept of institutions and their key role in reducing uncertainty
- 2 Explain the basic differences between political systems
- 3 Explain the systemic differences between economic systems
- 4 Explain the basic differences between legal systems
- 5 Participate in three leading debates on institutions in international business
- 6 Draw implications for action



OPENING CASE

Managing business risks in Turkey

Throughout the 20th century, Turkey has been iterating between military and democratically elected governments that varyingly pursued protection of national industries and economic liberalization. Since the 1980s, the trend has been towards more stable democracy, liberalization of foreign trade and formalization of a legal framework facilitating the operations of local and foreign businesses. A major

milestone was an agreement in 1988 with the European Union (EU) to reduce and then phase out import tariffs, which resulted in a customs union in 1996. With protective barriers removed and industry exposed to dramatically more intensive competition, Turkish exports and imports took off. Some Turkish businesses, such as Beko (see Integrative Case), were able to use the customs-free access to the EU to develop major market positions in EU countries.